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INTERNATIONAL FINANCE FORUM

New Globalization, New Economic Situation

International Cooperation, The Belt and Road Initiative

Climate Change/Carbon Neutrality

Green Finance/Sustainable Development

FinTech, Financial Security

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Global Finance 20 (F20) Finance Serves the World

IFF 20TH INTERNATIONAL FINANCE FORUM

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NEW CAPITAL NEW VALUE NEW WORLD

国际金融论坛

INTERNATIONAL FINANCE FORUM

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International Finance Forum (IFF)
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ADDRESS

Floor 22, Mingzhu Development Building, Nansha District, Guangzhou

POSTAL CODE

511458

EMAIL / WEB

info@iff.org.cn / www.iff.org.cn

Finance is a crucial pillar of global economic development, and its fluctuations influence the world's peace and progress. When finance is active, the economy thrives; when finance is stable, the economy remains steady. The economy is the body, and finance is its lifeblood, coexisting and flourishing together. "A myriad of economic strategies, three policies for peace." Finance is also a vital core competitiveness of a nation, the heart of modern economies, and the fundamental issue concerning each country's economic development and security.

The International Finance Forum (IFF) serves as a long-standing high-level dialogue mechanism and multilateral cooperative institution in the global financial domain, known as the "F20" of the financial world. Since its establishment in 2003, over 2,000 world-renowned guests and more than 100,000 global industry professionals have participated in various activities organized by the IFF, including exchanges, cooperation, and academic research. While contributing their wisdom and valuable insights, they have also built the IFF into a world-class international academic think tank renowned for its high level, high standards, and internationalization. We spare no effort to collect, analyze, and interpret the latest information, data, and trends in global financial markets, meticulously editing and deeply interpreting them to showcase the panorama and development trends of the global economic and financial landscape to our audience amid the rapidly changing world.

We will continue to focus on new ideas, trends, practices, and driving forces in global financial development, concentrating on the world and China, reform and policies, academics and practices. Our commitment is to provide our audience with international, professional, and diversified cutting-edge financial content, creating an open, interactive, and deep learning platform that brings together industry professionals and scholars to explore new trends in financial industry development and promote financial innovation and cooperation.

We will uphold an objective and neutral stance, adhere to the principles of intellectualism and professionalism, and base ourselves on practical issues in the global financial domain. From both macro and micro perspectives, we aim to provide our audience with high-quality information and diverse perspectives that go beyond specific stances, addressing the "questions of the era" in the financial sector and truly serving our audience and looking towards the future. We believe that through our relentless efforts and the support of our vast audience, the "International Finance Forum Magazine" will become one of the most influential media outlets in the international financial industry.

Zhang Jizhong
CEO / Founding Secretary General
Director of Executive Committee
International Finance Forum (IFF)

IFF20 INTERNATIONAL FINANCE FORUM

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About IFF

The International Finance Forum (IFF) is an independent, non-profit, non-governmental international organisation founded in October 2003, and established by financial leaders from more than 20 countries and regions, including China, the United States, the European Union, emerging countries and leaders of international organisations such as the United Nations, the World Bank and the International Monetary Fund (IMF). The IFF is a long-standing, high-level platform for dialogue and communication and multilateral cooperation and has been upgraded to F20 (Finance 20) status.

Since its inception, the IFF has well positioned itself to promote international exchange, academic research and strategic dialogue in the financial realm, and obtained extensive global influence. Supported by more than 200 political and financial leaders around the globe, IFF has established partnerships with over 50 countries and regions as well as more than 50 international and regional organisations. IFF events, in particular annual meetings have invited more than 2,000 distinguished guests and 100,000 experts.

Mission

Upholding the spirit of "Comprehensive and sustainable development for "New Capital, New Value, New World", since the founding in 2003, the International Finance Forum (IFF) has been committed to building itself into a world-class academic think tank and multilateral dialogue platform with strategic insight.

Goals

The International Finance Forum (IFF) operation based on an open, transparent and fair mechanism to ensure its independence, objectivity, foresight and inclusiveness and to facilitate global financial co-operation and exchanges. Based on in-depth research on global finance, IFF is committed to promoting su stainable development of China and the world economy, and playing a greater role as:

1. International Financial Strategic Dialogue Platform
2. International Financial Cooperation & Exchange Platform
3. International Financial Innovation & Practice Platform
4. International Financial Strategic Think-Tank Platform
5. International Financial Talents Platform

Please note that this magazine mainly includes speeches at the IFF 2022 global annual meeting, not all of which are reviewed by the speakers.

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Financing for climate action should also work towards a just transition. For example, investing in universal social protection, creating decent employment opportunities, and implementing plans to build new skills for the new economy. We must increase transparency and strengthen accountability to measure progress in achieving sustainable development goals and net-zero, and any form of "greenwashing" is prohibited.

189 Expert Dialogue

During the IFF 2022 Global Annual Conference, a panel discussion titled "New Landscape of China's Economy: Prospects, Challenges, and Policy Responses" was held. The discussion was moderated by XIA Le, Chief Asia Economist of Banco Bilbao Vizcaya Argentaria, and featured several prominent economists: WANG Tao, Head of Economic Research, Chief China Economist of UBS Investment Bank; LU Ting, Chief China Economist of Nomura; ZHONG Zhengsheng, Director of China Chief Economist Forum; GAO Shanwen, Chief Economist at Essence Securities; DING Shuang, Head of Greater China & North Asia Economics Research, Standard Chartered. The panelists engaged in in-depth discussions and focused dialogues on various topics, including the real estate market in 2023, the exchange rate of the Chinese Yuan, and the long-term vision for 2035.

Opening speech

Imperative to Strengthen International Cooperation

■ Han Seung-soo / IFF Co-chairman, Chair of the Council of Presidents of the United Nations General Assembly, Former Prime Minister of the Republic of Korea

Han Seung-soo

The three major economies in the world - the US, China and the Eurozone economic growth are slowing, with the resulting negative spillover effects greatly affects developing countries. As central banks continue to raise interest rates, the global financial situation is tightening, and against the backdrop of a continued deterioration in the economic outlook, global financial asset prices are falling. The growth momentum in the U.S. is slowing, and higher inflation and rising interest rates are putting downward pressure on consumption and investment. China is suffering from the negative effects of the epidemic and its real estate market is becoming increasingly depressed. The reduction in natural gas supplies from Russia is also having a serious impact on the Eurozone and, more worryingly, geopolitical tensions are raising concerns about strategic competition and national security, which outweigh the common economic benefits of free flows of goods, capital, and technology and have overshadowed the medium-to-long term global economic growth prospects.

The concern is that technological and financial decoupling could take an even greater toll. That is why we need stronger international cooperation. Most importantly, countries should restart mutual communication and dialogue to avoid the worst kind of division.

At the same time, as central banks continue to raise interest rates, the global financial situation has tightened, and against the backdrop of a continued deterioration in the economic outlook, the price of financial products has fallen. Amid heightened economic and policy uncertainty, the global financial markets are showing tension and investors are more inclined to hedge risk. High levels of capital and adequate liquidity buffers are supporting the global banking sector. However, the real estate sector remains deeply affected in many countries, and there are concerns that risks could continue to expand and spill over into the banking sector and macro-economy.

At this critical juncture, there is no room for policy mistakes. Policymakers should adopt the right set of macro-level financial and structural policies to effectively respond to the shocks we face today. More importantly, we urgently need strong international cooperation to address the setbacks in global economic growth and the challenges of climate change.

Trade openness and the global trading system are now under enormous pressure, with trade restrictions, distorting subsidies and other industrial policies, and geopolitical divisions making these issues even more difficult to address.

In other words, trade policy could become a source of economic fragmentation rather than a key driver of growth and integration as it has been in past decades. Over the past few years, escalating trade tensions in major economies have taken a huge toll on the global economy.

Now, the concern is that technological and financial decoupling could take an even greater toll. That is why we need stronger international cooperation. Most importantly, countries should restart mutual communication and dialogue to avoid the worst kind of division.

2008 was the year when the international financial crisis broke out and I was the Prime Minister of Korea then, so I was able to witness global leaders working together to address the global financial crisis. At that time, the world was highly united in its response to the financial crisis, culminating in the creation of the G20. If global leaders were more open and took more action for global well-being, we could certainly repeat this glorious history of cooperation.

The International Financial Forum (IFF) provides a platform for exchange of a rich variety of topics. I sincerely hope that by pooling our wisdom and knowledge, we can help the world address the economic challenges we face today.

Strengthen International Financial Strategic Dialogue and Cooperation to Jointly Promote Economic Recovery

■ Ho Hau Wah / Vice Chairman of the National Committee of the CPPCC, Former Chief Executive of the Macao Special Administrative Region

Ho Hau Wah

Currently, the world is experiencing unprecedented and dramatic changes, with the Covid pandemic lasting nearly three years and having far-reaching effects. The mounted pressure of inflation, the threat of recession, the climbing global debt, and the energy crisis caused by geopolitical conflicts have brought the world into a new period of turbulent change and sluggish economic growth.

We are pleased to see that at the 20th National Congress of the Communist Party of China, the leaders of the Central Government repeatedly reaffirmed China's commitment to reform and opening up, actively promoting the construction of the Guangdong-Hong Kong-Macao Greater Bay Area and supporting Hong Kong and Macao to better integrate into the overall development of the mainland and play a better role in achieving the great rejuvenation of the Chinese nation. In the "Overall Plan of Guangzhou Nansha on Deepening Comprehensive Cooperation among Guangdong, Hong Kong, and Macao with a Global Perspective" promulgated by the State Council in June 2022, it is clearly proposed to "build a high-level gateway for opening up to the outside world", "build a new platform for international exchanges", and " The plan also includes specific requirements such as "to promote financial, scientific and technological innovation and other docking, further integrate into the regional and world economy, and become the frontier of international economic cooperation".

The Guangdong-Hong Kong-Macao Greater Bay Area is one of the most open and economically dynamic regions in China, and has an important strategic position in the overall development of the country. Modern financial services are the most powerful support for industrial transformation and innovative development in the Greater Bay Area, where an international financial hub is urgently in need.

Therefore, we need to participate more proactively in the global financial competition and the restructuring of the governance landscape, to promote the green transformation of global growth with finance, to promote sustainable development, and to achieve a harmonious coexistence between human beings and nature.

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The International Finance Forum (IFF) will celebrate its 20th anniversary in 2023. In the past 20 years, IFF has played an important role as a platform for international financial exchange, promoting international financial strategic dialogue, exchange and cooperation, innovative practices, and comprehensive sustainable development. In 2022, IFF has actively invited experts from home and abroad to advise on the development of the Guangdong-Hong Kong-Macao Greater Bay Area and to promote the implementation of the Nansha Plan of the State Council with practical actions.

It is hoped that IFF, based on Nansha, in collaboration with Hong Kong and Macao, and facing the world, will play a further role in providing a good communication platform for global economic and financial leaders to participate in dialogue and make new contributions to global economic recovery.

International Finance Forum (IFF) Boosts the Global Economy and Financial Development

■ Zhou Xiaochuan / Chairman of the IFF General Assembly, Vice Chairman of 12th National Committee of the CPPCC, Former Governor of the People's Bank of China

Zhou Xiaochuan

In the past few years, the downside risks of the global economy have increased, and the degree of divergence has worsened due to the multiple negative factors such as the Covid pandemic, geopolitical conflicts, the reshaping of the supply chain structure of the global industrial chain, as well as inflation, debt problems, energy and food crises. According to the latest forecast of the International Monetary Fund (IMF), the global economic growth rate will be 3.2% in 2022 and will slow down to 2.7% in 2023, while the average annual growth of the global economy in the past 40 years is about 3.5%. Therefore, how to promote the global economy to the right track of recovery and development, to achieve more balanced and resilient development, has become the focus of attention of all parties in the world at present.

The report from the 20th National Congress of the CPC proposes to promote a high level of opening up to the outside world and steadily expand system-based openness in rules, regulations, management and standards, once again clarifying to the world China's determination to open its doors only wider and wider, as well as its desire to continuously provide new opportunities for the world with China's new development and promote the building of an open world economy.

The IFF 2022 Global Finance and Development Report, released by the International Finance Forum (IFF) during its annual global meeting, provides a review of the various factors that will affect global economic development in 2022, a forecast of economic development in 2023, and a systematic interpretation of the digital economy that is developing rapidly around the world.

The International Finance Forum (IFF) organized the third IFF Global Green Finance Awards to encourage institutions that have made outstanding achievements and proposed innovative solutions in the field of global green finance to promote the process of global climate governance and sustainable development. The award has also received high praise from the United Nations and several international institutions.

In 2023, the International Finance Forum (IFF) will celebrate its 20th anniversary. We sincerely hope that the IFF, based in Nansha, working together with Hong Kong and Macao and facing the world, will further play its role as an international dialogue and exchange platform, continue to focus on the issues of global economic and financial development, and make new contributions to the participation of all parties in economic globalization and sustainable development.

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New Globalization

Stimuli Required to Achieve the Sustainable Development Goals

■ António Guterres / Secretary-General of the United Nations

António Guterres

Our world is at a precarious moment. The window to prevent climate catastrophe is fast closing. Countries are grappling with a cost-of-living crisis, rising interest rates and a looming recession. The Sustainable Development Goals (SDGs) are slipping out of reach. The most vulnerable are being hit the hardest. We need an unprecedented global investment push.

That is why I have called for an SDG Stimulus package: To provide countries of the Global South with adequate liquidity, including through increased funding from Multilateral Development Banks, and a wider reallocation of Special Drawing Rights; To ensure concessional financing to Middle Income Countries in distress;

And to create effective mechanisms for debt relief and restructuring.

Everyone must play their part and fully align their business models with the 2030 Agenda and climate goals. International financial institutions and development banks must adjust their approach to risk and systematically leverage private finance for developing countries at reasonable costs. Public and private investors must phase out fossil fuels and triple their investments in renewable energy, to reach $4 trillion annually by 2030.

Financing for climate action must go hand-in-hand with financing for a just transition – including through investments in universal social protection, decent job creation, and re-skilling programmes for the new economy. We must increase transparency and accountability to measure progress towards the Sustainable Development Goals and a net zero future. There is no room for any form of greenwashing.

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including through investments in universal social protection, decent job creation, and re-skilling programmes for the new economy. We must increase transparency and accountability to measure progress towards the Sustainable Development Goals and a net zero future. There is no room for any form of greenwashing.

As we look ahead, we must transform the international financial architecture to serve the needs of today, so that it contributes to reducing inequalities, and restoring trust between developed countries and emerging economies.

Together, we can meet this moment and build a sustainable, just and prosperous future.

Forging a Cooperative Future: Responding to the Great World Change Together

■ Kristalina Georgieva / Managing Director of the International Monetary Fund (IMF)

Kristalina Georgieva

Three years of shocks have pushed the prices of food and energy—and much else—up, and led to a tightening of financial conditions. And global growth has been going down. We project it at 2.7 percent next year, but there is a 25 percent probability that growth may actually fall below 2 percent.And at least 1/3 of the world economy is expected to be in recession in 2023.

The Asian Pacific region is holding better, but it does face multiple headwinds.

• First, financial conditions will continue to tighten as many economies continue raising rates to fight stubborn inflation—causing yields to rise and currencies to depreciate across Asia.

• Second, the war in Ukraine is disrupting energy and food markets, and dragging down growth in Europe—which will hurt external demand for Asia's exports.

• Third, activity in China is held back by ongoing COVID-19 lockdowns and challenges in the real estate sector.

Adding to this gloomy picture is the troubling trend of fragmentation—which will hit hard on Asia's open, trade-dependent economies. How can policymakers respond to this ever-changing world?

In most countries, reducing inflation is a priority. In China, however, the overarching inflation has remained subdued. And that leaves room for accommodative monetary policy. To reignite growth, fiscal support to vulnerable households and strengthening social safety nets would promote consumption. Further calibrating the COVID strategy to mitigate its economic impact will be critical to sustain and balance the recovery. Recent measures in the property sector are also welcome.

More action at the central government level can further help to safeguard financial stability.

Constructive engagement between policymakers around the world, including in multilateral fora, will be vital to avoid the sharpest and most harmful fragmentation scenarios. None of us can meet these challenges alone – but with every act of cooperation, we can help shape a future that is more sustainable, more inclusive, and ultimately bringing benefits to all.

But domestic policies alone are not enough—we must also counter fragmentation. Splitting the world into blocs that stop trading with each other would surely knock off trillions of global GDP. Just imagine how many people we could feed, how many electric cars we could make, how many trees we could plant with that money. The world simply cannot afford fragmentation. So how do we rebuild cooperation and reclaim our shared future?

By acting on challenges where working together benefits us all. Economic powerhouses like China have a leading role, and the constructive signals out of the G20 are a reason for hope. Here are three ways we can build momentum:

First, tackle food insecurity. It has increased dramatically over the last few years. And today more than 800

million people don't have enough to eat. Addressing it requires international cooperation. Also grants and concessional loans as well as removing barriers to trade in food and fertilizer. The IMF's new Food Shock Window contributes to these efforts.

Second, act to reduce the risk of debt crises. Large creditors such as China, the private sector have a responsibility to lead. The G20 Common Framework has made progress with Chad and Zambia, but it must become faster and more predictable.

Third, increase common efforts to address the climate crisis by reducing global carbon emissions and increasing resilience to climate shocks.

Again, China has an important role to play on both fronts. But it is also paramount that, globally, financing for climate action is mobilized to scale and that public institutions step in to leverage private funds. For our part, the IMF's new Resilience and Sustainability Trust is aiming exactly for that - long-term financing to vulnerable countries with the main objective to open up space and provide incentives for a massive increase in private financing.

Last but not least, we need active dialogue to resist fragmentation. Constructive engagement between policymakers around the world, including in multilateral fora, will be vital to avoid the sharpest and most harmful fragmentation scenarios. None of us can meet these challenges alone – but with every act of cooperation, we can help shape a future that is more sustainable, more inclusive, and ultimately bringing benefits to all.

Embracing Global Thinking: Navigating World Changes with Foresight

■ Tharman Shanmugaratnam / Senior Minister of Singapore

Tharman Shanmugaratnam

It comes at a very difficult time for the world in many respects. We have really entered a profoundly uncertain era – uncertain economically, uncertain with regard to our ability to deal with climate change, future pandemics, and the other challenges of the global commons, and uncertain geopolitically. It all comes together, but we have to find, amidst these uncertainties, new bases for optimism.

We have to create opportunities to compete and collaborate between nations at the same time. We have to find new bases for stability and for growth. And it can be done by working multilaterally to strengthen existing institutions and build new mechanisms of multilateral cooperation. We can address the challenges of the day.

We know what the problems are. We know that the global economy is going to go through a very difficult period. Even after what we've been through COVID-19 and over the course of last year, we know that the year to come is still going to be a very testing year. Inflation will be higher than normal for a period of time, possibly for quite some period of time. Growth will be weaker. And we will face a situation where financial conditions will be tighter.

Apart from central banks having to tame inflation, apart from us having to try to avoid a deep recession in many parts of the world, we also have to adjust to the fact that we have moved past an era of unusually low interest rates – in fact, negative real interest rates in a large part of the world – and excess liquidity. And whole economies and business models that have been based on low interest rates and excess liquidity will now need to unwind strategies, and that will see some instability, some pain, some casualties, and we'll have to manage that well.

But that's the economic dimension. Our

largest challenges have to do with the global commons.

We have to accelerate efforts because we are losing this race against climate change. And we are losing the race of preparing for the next pandemic, which will come and may very well be more dangerous than the COVID-19 pandemic that we have gone through and are still going through.

To address these challenges, we have to stop thinking nationally, and think internationally. We have to stop thinking short term, and think long term because the cost of inaction in tackling climate change and future pandemics is much larger than the cost of action today. The cost of inaction, because of future crises, future pandemics, is far larger than the cost of investing today to prevent these crises. And that requires a basic shift in mindset – thinking long term and not short term. But we also have to find a way of adjusting to a multipolar world, in ways that are not constantly unstable, and constantly full of friction. We have to avoid escalating tensions between nations. A multipolar world is irreversible. It's an achievement because it's how the global economic system has allowed for new poles of strength in the global economy. It is an achievement, but we have to prevent a more multipolar world from becoming a polarised world. That has to be our central challenge.

We have to make the best use of our multilateral institutions including the international financial institutions – the World Bank and the other multilateral development banks, and the IMF. These are valuable institutions. We have to strengthen them, resource them well and reform them so that they can perform their roles in a world that is very different from where we were when we first created those institutions.

Those reforms are doable, and our ability to provide them with strong, better resources is also doable when spread across countries in a fair and sustainable fashion. The constraints are not financial. The constraints are in our mindsets, and our ability to shift from short-term thinking to long-term thinking and to shift from national thinking to multilateral thinking.

We can achieve these shifts, we can build new bases for optimism, even in an uncertain world, and a profoundly risky world. We can in fact, solve problems if we work together.

International Cooperation

Uniting for Climate Crisis Response: International Cooperation in Action

■ Laurent Fabius / IFF Board Member, President of the Constitutional Council of the French Republic, Former Prime Minister of France, President of COP21

Laurent Fabius

Addressing climate change is one of the most critical issues of our time. As President of the historical Paris COP21, I am convinced that international action is indispensable and still possible in order to protect mankind and its future.

We cannot give up on the objectives set in Paris. It is therefore essential to act better and faster across all the sectors of human activities, not only with long-term commitments but also with short term, verifiable targets and evaluations.

All of us know that the climate situation is really concerning. According to the World Meteorological Organization (WMO), the last 8 years were the warmest ever recorded. This summer, catastrophic fires, intense heatwaves and droughts, record rainfalls have hit many regions of the world. China was hit by severe heatwaves. Floods in Pakistan have caused a large number of deaths. These tragedies are all signs of climate disruption. The most vulnerable populations and territories are the first affected. This is a situation that we are all facing, not in 10 or 30 years but now.

Almost two weeks after Sharm-el-Sheikh COP27, what conclusions can we draw? First, Some progress was made on the consequences of climate change with the creation of a fund for loss and damage in order to help the most vulnerable countries. The specifics – how much?, who funds it?, who receives it? – are still to be determined. Regarding the causes of climate change, i.e. emissions of greenhouse gases, the lack of progress is very concerning: no decision has been

taken to improve CO2 emissions reduction. In short, improvements have been registered so far as the consequences are concerned, but nearly nothing about the causes.

To be in line with the Paris agreement, we first need more ambition on mitigation. The catastrophes that we are already experiencing are the consequences of a 1.1-1.2°C warming above pre-industrial levels. According to the most recent studies, there is a 50% chance that global temperatures reach 1.5°C before 2030. And the UNEP tells us that we are on a path to +2.8°C by the end of the century. We cannot give up on the objectives set in Paris. It is therefore essential to act better and faster across all the sectors of human activities, not only with long-term commitments but also with short term, verifiable targets and evaluations.

Second, the needs for finance are immense. While the agreement reached in Sharm-el-Sheikh on loss and damage is positive, many key issues remain unsolved. Everybody knows here that thirteen years ago, in Copenhagen, developed countries promised to gather $100 billion a year by 2020 in order to help developing countries with the high cost of mitigation and the considerable investments required in terms of adaptation. This commitment, which only represents 0.1% of world's GDP, still has not been met. Even more worrying, these $100 billion are just a drop in the ocean of needs: a recent report commissioned by British and Egyptian governments shows that about $2 trillions per year would be needed by 2030 to help fund developing countries' mitigation and adaptation efforts. More efforts should be made, and they should be based on a fair transition in each country. It is crucial to invest in the transition, but also to disinvest from polluting sectors. Yet, today, activities detrimental to the climate situation are still massively funded. Since the Paris Agreement was signed, the world's biggest 60 banks have provided an estimate of more than $4 trillions of financing for fossil fuel companies. Carbon pricing is developing but more and more experts think- and I share this view- that a global reform of the international financial system is necessary since it has been built after the Second World War, in a moment where the problems were largely different and the situation of various countries too. Among the indispensable investments, financing innovation is crucial in various domains, and particularly in CCS (Carbon capture and storage) techniques, which will be an absolute necessity.

Third, it is crystal clear that there can be no efficient climate action without strong transnational cooperation. We know that at present, international relations are being badly deteriorated, for various reasons including the war in Ukraine, which led many countries to increase their use of coal. But climate change is inherently a transnational issue, which calls for global responses. It is in the interest of all to put aside disagreements and tensions when it comes to this subject. As UN Secretary General Antonio Gutteres clearly said, we are faced with a choice between "climate solidarity" or "collective suicide". We should keep these worlds in mind when preparing for COP28 in Dubai next year. It is particularly true regarding the main emitters: China, US, Europe, India. This reasoning also applies to other transnational environmental issues, like biodiversity with COP15, chaired by China in Montreal next week. Science shows that the fight against climate change and the protection of biodiversity are interconnected. COP15 is an opportunity to move forward. A success will be a success on climate.

Climate disruption kills many people every year. It cannot be the only serial killer whose identity is perfectly known but who remains free to act without being stopped. In this crucial domain of international climate cooperation, we should act more, better, and more urgently and avoid two pitfalls: paralysing pessimism and naïve optimism. We should discuss these issues with realism and ambition.

Adapting to Unprecedented Changes Facing the World

■ Jenny Shipley / IFF Board Member, Former Prime Minister of New Zealand

Jenny Shipley

The world is facing unprecedented times. The war in Ukraine has disrupted supply chains globally and unsettled the confidence internationally. The geopolitical environment between some of the major players, including China and the United States, has caused anxiety and has also disrupted what had been a very sustained period of global growth and global confidence. Of course, the pandemic, which was so unexpected, and yet many predicted it would happen, although it was only a matter when, has also meant everybody internationally had to think in a new way. And there's no precedent for how we should deal with this. It is worth of consideration of how we shape the future around such risks. Finally, there is the international financial environment, which because of these disruptions is facing unprecedented challenges.

All of these things together, over the last three years, have seen international monetary policy tightened within different economies and this has had a very significant collective effect, but also within nations as they've been confronted with the pandemic and other uncertainties, there's been significant fiscal stimulus delivered within these economies.

We are now dealing with the result of these two measures, albeit that they were well intentioned, and the world is now facing a very significant inflationary environment, which is again having impacts on poverty and equity issues, but also inter-country fairness and again all of the old arguments of the 80s, 90s and 2000s are re-emerging as to how we will come through this. It is an excellent moment for the International Finance Forum (IFF) to meet and consider what policies would be an appropriate response.

The G20, which has just been held, demonstrates that you can bring large- and medium-sized economies together to confront and discuss the issues of our time. It is very clear that an F20, where if we could bring the key players from globally influential economies together, to consider particularly what we can learn from the response to the pandemic and the other international pressures around monetary policy, government's fiscal policy and the flow-on consequences of inflation, so that in the future if we are confronted with these circumstances, we are well able to plan effectively. There will be lessons to be learned and there is a transition and a recovery to be made.

There is also another issue around what this environment has created. Here in New Zealand, and in other international economies, the human cost of this disruption is significant. The issues around mental health, the strain of having to suddenly deal with things they didn't understand, or haven't had to confront historically, have had a big impact on productivity, on people's mindsets around what their priorities will be in the future and in particular for children, who have had hugely disrupted learning experiences over the pandemic. We may well be facing a cohort of young people who are incurring an education deficit. These things will flow through our economy and potentially have a big impact on the future and so innovation and careful thought by leading people around how to compensate or reinvest in a social investment sense to offset this huge and significant deficit.

This issue is worthy of discussion from a finance forum, not simply a humanitarian forum, because these issues will both converge, and indeed, they are already converging in many economies. It's important to think through the policy implications, of what appropriate responses is, by the industry, by the education sector, by the private sector, and by the government.

Finally, I hope that we will again move into a period where the sharing of knowledge is borderless. We have enjoyed two decades where everything seemed possible, the international environment was collaborative, the internet of things was opening up new opportunities and yet here at the end of 2022, we find many of these assumptions that we were able to take for granted, are being challenged. This will have an impact on the way in which we feel we are connected globally and the way in which we share the future in a common sense.

We need to debate and discuss whether some of the behaviours we are seeing at the moment in the international settings, are anti-competitive or indeed just facing the competition of nations. Or indeed if there are genuine concerns there that need to be addressed. These are different issues that we faced in the 80s and 90s, but they are having the same consequence of slowing down the global economy and making people anxious about whether they can be confident that the benefits of globalisation that developed and developing economies have enjoyed for three decades are at risk at this moment.

I hope that this conference will not only focus on the geopolitical and regional opportunities that we have here but will find some of the levers that if we can get the correct leaders in the room, we may be able to re-establish confidence, to redesign the framework that is necessary to overcome the hurdles we have discussed, and to give people a deep sense of a shared future together.

Optimizing Resource Allocation for Global Challenges

■ Jin Liqun / President of the Asian Infrastructure Investment Bank (AIIB)

Jin Liqun

For a multilateral development bank like Asian Infrastructure Investment Bank (AIIB), the first thing is to promote global sustainable economic development or country-specific economic development; the second thing is to effectively promote the transition to net zero emissions, in addition to helping low-income countries cope with the debt crisis. Developing countries are relatively vulnerable, and with the impact of the Russia-Ukraine conflict on global production chains, these issues cannot be ignored. There is still a recurring epidemic of NCCP in some regions, but of course, because of vaccination, new drug development and corresponding actions taken by different countries to combat the epidemic, the NCCP epidemic is still a problem, but its impact is not as serious as it was three years ago.

These are arguably more difficult times for the AIIB, with the world facing multiple crises: food and energy security issues, a relatively fragile macroeconomic outlook, and high inflation, with millions returning to poverty. Geopolitical crises such as the Russia-Ukraine conflict have also hit the world economy hard. But we cannot ignore the burden of the global economy's transition to net zero, which has been deeply affected by the frequency of natural disasters caused by climate change.

In Asia, many coastal areas with large populations and concentrations of economic activity like Mumbai and Singapore are deeply affected by climate change. 2022 June-October floods ravaged Pakistan, submerging 1/3 of the country's territory and killing about 1,700 people. Keeping global warming within the 1.5°C agreed upon in the Paris Agreement and achieving the goals of the 2030 Agenda for Sustainable Development will require $4.5 to $5 trillion in annual financial support. It is estimated that developing countries in Asia will need to invest $1.3 trillion to $1.6 trillion per year in infrastructure development by 2030 to maintain the momentum of

economic growth and address the climate change crisis. These investments are likely to come from the public sector and, more importantly, from the private sector.

There has been a lot of focus on how to mobilize resources, but not enough on how to use those resources more efficiently. We've been satisfied with traditional financing, but the key is to use resources in a way that hasn't changed much from 20 or 30 years ago, so I think the way the multilateral development banks are working needs to be adjusted. In short, after we mobilize so many resources, we should use these resources in the most efficient way, and I think this is the most critical issue.

For the AIIB, there is no shortage of funds, but there are many development banks that are struggling because of financial constraints. Considering the growth rate of the demand for funds, I guess soon the AIIB will also encounter the problem of shortage of funds. So the ADB has developed different types of instruments in terms of raising funds to support development projects, especially for climate change projects. We should adopt a new approach because the old approach is no longer allowing us to get more benefits from it. We have to break the rules and use new ways after breaking the rules in order to do so, because things cannot be done if only the ideas are in place and the actions are not.

Mitigating Global Inflation: Balancing Globalization and Collaborative Solutions

■ Domenico Siniscalco / IFF Vice Chairman, Former Minister of Economy and Finance of Italy, Senior Advisor and Vice Chairman of Morgan Stanley

Domenico Siniscalco

I believe that the era of zero inflation and zero interest rates is over and inflation has become a real and present risk globally. The inflation situation in the world's major economies is different, for example, the inflation situation in the US and Europe is different, which reflects the different policies and responses adopted by each major economy.

Inflation in the U.S. is demand-side driven inflation, the result of previous expansionary economic policies and economic overheating leading to supply-side tightening. So for the U.S., it is possible to deal with inflation by raising interest rates. However, inflation in Europe is mainly supply-side driven (e.g., energy supply is affected by the Russia-Ukraine conflict), so it is not possible to solve the inflation problem in Europe simply by raising interest rates, but rather by addressing the root cause, i.e., the engergy supply problem.

However, the EU is not a single country, but a union of 27 European member states. There are some EU member states that have done a better job in dealing with the energy crisis, for example, France has a lot of nuclear power and is the world's number one country in nuclear power; Germany has a large energy reserve (energy storage) capacity, so they are less affected by the energy crisis compared to other EU countries, which are more affected by energy shocks.

Inflation in Europe is mainly supply-side driven inflation, and energy supply directly affects the inflation situation in the EU. And inflation varies across the EU depending on the energy supply-side situation. I am not particularly confident that inflation in the eurozone will achieve a soft landing.

In terms of liquidity and capital buffers, the European banking sector is doing

quite well. Although the capital adequacy ratio is not as good as that of the US and China, European banks are doing better in terms of capitalization level and liquidity buffers. Moreover, the real economy in Europe has made great progress in technological innovation, so the whole economic system of the EU is stronger than before.

Now the financial tightening is disorderly, to change this situation, I think we need closer coordination through international financial institutions such as the International Monetary Fund and the Bank for International Settlements, as well as national central banks. In addition, pro-cyclical tightening, i.e. quantitative tightening (QT), will certainly lead to financial risks if there is not enough coordination between the real economy and the money market, and it is pleasing to see that many central banks are now actively doing related coordination work.

In addition, the global supply chain is now severely damaged, leading to an increasingly serious trend of regionalized development or closed regionalization. Regionalized development will lead to a reduction in the growth rate of capital and will affect the inflation rate, for example, if some products have to be produced locally at high cost, it will affect the inflation rate more or less as costs and selling prices rise. What the maximum rate of inflation will be, I can't say, but the negative impact of inflation on economic growth is certainly significant. I hope that moderate globalization and coordinated cooperation among the major central banks will certainly contribute to the solution of the inflation problem.

Fostering Reciprocal International Cooperation and Exchange

■ Mark Edward Tucker / Group Chairman, HSBC Holdings

Mark Edward Tucker

I would like to talk about the importance of and the essential need for international cooperation, not only to overcome these common challenges but also to build shared prosperity. Without leadership and cooperation, global and regional solutions can neither be created nor delivered. In light of the constructive dialogue that has recently taken place at the G20 summit in Indonesia, including between President Biden, President Xi and other world leaders.

I will focus on the relations between China and the US, and between China and Europe. These are the most important in both geopolitics and geoeconomics. These three huge and influential economies are more interlinked and interdependent than ever. These links are forged by the millions of activities of people on a daily basis in trade, investment, science, education, and the arts.

I believe, in fact, I know from some 40 years of work in and with China, that we all have far more to gain by continuing to work together, continuing to strengthen the ties that bind us while making a concerted effort to avoid erecting barriers that serve only to make our people and our firms poorer. The most extensive links are in supply chains and manufacturing. As we saw during the pandemic and continue to see now, even slight disruptions to global supply chains have severe knock-on effects for all economies.

China remains the world's leading manufacturing center and is also increasingly a leading consumer of manufactured goods. Large manufacturers in Europe and the US, such as auto manufacturers and tech giants, earn a growing proportion of their profits through sales in China, and they create jobs in Asia through their regional hubs and supply chains. This East-West relationship is not limited to making cars or electronic devices. It extends from fashion to financial services. Maintaining open channels for investments brings significant benefits to all. For example, in recent years, Western pharmaceutical companies have established a consumer healthcare presence in China, directly creating tens of thousands of well-paid jobs. Research shows that for each of these direct jobs, a further four are created elsewhere in the Chinese economy.

As personal wealth in China increases with the continued growth of the middle class, connections with service-based Western economies will help them meet the growing demand for financial products, insurance, consumer loans, investments, and savings. Older, wealthier Chinese consumers with surplus savings increasingly want diversity in how they invest their money. This will benefit growth and common prosperity in China. History shows that middle-class investment tends to flow inwards, boosting domestic stocks, shares, and infrastructure projects rather than heading overseas. This will be crucial in tackling the greatest challenge that we face as a planet: climate change. Retooling entire sectors and businesses, building new sustainable infrastructure, and creating reserves of renewable power can only happen if we maintain investment flows across a globalized economy.

This profound change in the pace, pattern, and direction of human economic development is comparable and will, in time, be far greater than the construction of global railway networks in the second half of the 19th century and the first half of the 20th century. Take electric vehicles as an example. China currently has 15 million electric vehicles, the most for any single country by far. By 2040, that figure is expected to be 200 million. This expansion will be supported, in part, by investment from around the world. And the EV expertise developed in China can help, indeed is already helping, other countries to decarbonize their auto fleets. Electric buses and taxis are already on the roads in London, thanks in the main to Chinese firms.

To sum up, strong cooperation between China and the West is by far the most effective and indeed the only truly efficient way to drive mutual economic growth and to address our common concerns. The new dialogue between President Biden and other world leaders is a positive step. So was the German Chancellor's recent visit to China and the prospective visit by President Macron. All of us should welcome China's active diplomatic engagement led by President Xi with partners in Asia and beyond, in the G20, at ASEAN, and around the world.

I sincerely hope that we see more of this dialogue in the future, both bilaterally and through the G20 and other forums. Our focus must be on strengthening the links that exist between Eastern and Western economies and on strengthening an international system that allows goods, services, investment, as well as innovation and ideas to flow freely between them.

Therefore, in the end, it is on such mutually beneficial exchanges that the economic health, indeed the well-being, of all our peoples depends. As one of the great historic global economic connectors, the HSBC Group, straddling East and West, Asia, the Middle East, Europe, and North America, stands ready to support the system of global economic connectivity and to help prosperity across the globe.

Global Challenges: Green Transition, Inflation, and Unemployment

■ Alessandro Golombiewski Teixeira / IFF Board Member, Former Deputy Minister of Development Industry and Foreign Trade, Brazil, Former President of the World Association of Investment Promotions Agencies (WAIPA)

Alessandro Golombiewski Teixeira

We often say "the world has changed", but in fact it is now really changed. The G20 summit in Bali, Indonesia in mid-November 2022 will have more important and influential issues than the G7 summit, which once again validates that the world's political and economic landscape, including trade patterns, is changing.

Currently, the world is facing many challenges, including the Covid pandemic that is uncertain whether it has reached its end. In addition, global economic governance is in dire need of cooperation and global leadership. The International Financial Forum (IFF) report proposes to accelerate the green transition, but I think in some ways it is not that the green transition should be accelerated, but that it should be started. In his opening address to the UN General Assembly in New York in September 2021, UN Secretary-General Guterres noted that none of the 17 goals of the 2030 Agenda for Sustainable Development had been achieved. None of the commitments made by the world's countries when they signed the Kyoto Protocol and the Paris Agreement have been met either. So, we have a huge problem with global cooperation and leadership. The many challenges we now face are not the problems of any one country alone, but are worldwide problems and common challenges worldwide.

So, we have a huge problem with global cooperation and leadership. The many challenges we now face are not the problems of any one country alone, but are worldwide problems and common challenges worldwide.

The most important challenge facing the global macroeconomy right now is inflation and higher unemployment, especially in developing

countries, which remains high. We need to take a deeper look at what specific groups of people are pushing up the unemployment rate.

Global sustainable development means that our decisions and actions now will affect all aspects of the global economic, social and environmental future. This leads me to the following conclusions:

First, we are in a flattened world where, in addition to the effects of the New Coronavirus epidemic, there are huge inequalities caused by the divide between rich and poor, as well as problems such as poverty and hunger. Of course, globalization plays an important role in solving the above problems. Trade wars must be stopped, and economies should cooperate in a multilateral trading system like the WTO, and the role of multilateral mechanisms in solving crises should be fully utilized. Otherwise, people will lose confidence in the multilateral mechanism, such as the rise of protectionism in Europe and the United States, which is a global phenomenon. Despite the global crisis, there are opportunities in the crisis. What are the opportunities now? How should we improve the current situation? How can we make our future hopeful? We need to quickly understand the comparative advantages of the world's economies and give more countries access to world markets, something the WTO has been working hard to promote. We urgently need more free trade, including access to world trade markets for those least developed countries.

Second, on sustainable, inclusive finance. Inclusive finance was proposed by the United Nations in 2005, and it emphasizes the expansion of financial services to less developed regions and low-income groups in society at an affordable cost by improving financial infrastructure. At present, there are still many regions and populations in the world that are not covered by financial services. How to let these regions and people enjoy financial services? This is an important topic worth exploring.

Now the United States and the European Union are showing signs of economic recession, and even the world is facing the risk of economic recession. At this time, we should promote the healthy development of the local monetary system and not rely on the US dollar alone, especially now that we have entered the era of digital economy. The world is now in a state of imbalance, with developed economies needing to address high inflation by raising interest rates, but who will pay for the spillover effects of interest rate hikes? In particular, who will pay for the resulting shock to developing countries? As economists, we have to pay extra attention to the needs of developing countries, and we know very well that the credit and authority of the dollar economy is completely different from 30 or 40 years ago. In terms of economic volume, Asia is now the world's largest, but why has it not increased its share of the IMF's special drawing rights? Why has its voice in the United Nations not been raised? I believe that there should be a rebalancing according to economic volume.

Finally, in order to solve global problems, including debt and inflation, coordinated decisions should be made on a global scale, and the voices and voices of developing countries such as China, India, Pakistan, Mexico, Kenya and Nigeria should be heard and respected, and countries should sit at the negotiating table on an equal footing to propose solutions together. Because most of the common global challenges, including global warming and climate change, were actually caused by developed economies in the beginning. I am not here to provoke confrontation between developing and developed countries, but the core meaning I want to express is that the voices of developing countries must be heard and international cooperation is necessary to solve global problems. That's what I want to say, and that's what I heard at COP27 and the G20 Summit, and that's what I hope to hear at this IFF Global Conference.

Overall, there are many challenges facing the world today, including the uncertainty of the Covid, the need for cooperation and leadership in global economic governance, and more. The world economic landscape is changing, with new economic growth coming mainly from developing economies, indicating the growing position and influence of developing countries in the global economy. Solving global problems requires countries to work together and develop solutions through cooperation and consultation. At the same time, it is important to focus on sustainable development and inclusive finance, and to promote the transformation and improvement of the global economy in order to achieve sustainable economic, social and environmental development.

Driving Intercultural Communication for Mutual Development

■ YU Hongjun / IFF Advisory Committee Member, Former Ambassador Extraordinary and Plenipotentiary of the PRC to the Republic of Uzbekistan

YU Hongjun

It is a consensus that human society is a community full of contradictions and conflicts, but also interconnected and interdependent. Human civilizations with different characteristics both compete and learn from each other, and their impact on human progress and development is diverse. If we observe and consider the current international situation and the world development trend, if we overemphasize the contradictions and conflicts and unite and confront each other, and use them as the basis for dealing with foreign relations and international affairs, it will inevitably intensify the division and confrontation of human society.

The policy communication in the "Belt and Road" should be actively promoted not only at the high-level level of the state and government, but also at the level of local leaders and relevant enterprises.

Chinese leaders have been calling on the international community to strengthen the concept of the community with a shared future for mankind, advocating that all countries in the world should jointly participate in global governance, so that mutual appreciation of civilizations can become a bridge of friendship among peoples, a driving force for the progress of human society, and a link to maintain world peace. Of course, advocating mutual appreciation of civilizations and promoting the common building of a community of human destiny is never a historical process from concept to concept, but practice to practice. Therefore, when proposing the concept of the community with a shared future for mankind and advocating mutual appreciation of civilizations, President Xi Jinping proposed the construction of the Silk Road Economic Belt and the 21st Century Maritime Silk Road, also known as the "Belt and Road" initiative. This provides a broad space for the joint development of all countries in the world and a powerful motive for mutual appreciation of civilizations.

In the process of promoting the "One Belt and One Road", China has always taken Policy coordination, unimpeded trade, financial integration, facilities connectivity, and people-to-people bond as its core tasks, and has made great efforts to this end. Practice has proved that these "Five Links", as the five keys to mutual appreciation of civilizations in this era, have successfully opened the "five channels" for countries with different civilizations and different states of development to make common progress. Among these five keys, the role and significance of policy communication is particularly prominent. The essence of policy communication is that different development concepts, different management models and different growth styles are mutually agreed and dovetailed. Without active and effective policy communication, there is no "One Belt, One Road" project on the ground, there is no steady progress in infrastructure construction, there is no smooth trade and financial integration in full swing, the process of policy communication is a high level, high quality, efficient and effective process of mutual appreciation of civilization. The policy communication in the "Belt and Road" should be actively promoted not only at the high-level level of the state and government, but also at the level of local leaders and relevant enterprises.

Over the years, China has been promoting "One Belt, One Road" cooperation by insisting on a comprehensive, in-depth, and multi-faceted strategy as a systemic project, striving to realize the localization and popularization of people-to-people exchanges and cooperation between partners and joint livelihood projects, enhancing mutual understanding among the people. The social foundation of practical cooperation has been strengthened.

Today, China is the world's second largest economy and the world's largest trader in goods, and the "Belt and Road" cooperation projects promoted by China have spread all over the world, linking facilities, trade, and capital, with great success and solidity. The reason for this great pattern is the emergence of a new pattern of civilizational convergence in the world today, where development ideas are widely dovetailed, security interests are compatible with each other, different cultures are integrated, and people of all countries overcome difficulties together.

The story of cooperation between China and Ethiopia is a typical example of mutual appreciation of civilizations. In Addis Ababa, the capital of Ethiopia, highways, viaducts and skyscrapers built by Chinese enterprises can be seen everywhere, besides the African Union Conference Center, the most modern building in Africa built with China's assistance ten years ago, the 209-meter tallest building in East Africa, the new headquarters of the Commercial Bank of Ethiopia, is also the tallest building in the country. -The new headquarters building of the Commercial Bank of Ethiopia has also been erected. The headquarters of the Ethiopian Oil Company and the 265-meter Abyssinia Bank building are also under construction. Ethiopia invites Chinese companies to bid for these major projects because they trust Chinese companies, Chinese quality and Chinese standards, which is in a sense a mutual appreciation of civilization.

Over the years, China has opened its doors wider and wider to the outside world, and there are more and more invisible bridges connecting China and the world, with policy communication and people-to-people communication going hand in hand, economic and trade networks and cultural exchanges complementing each other, and scientific and technological cooperation and mutual appreciation of civilizations. The international community has a wider awareness and recognition of China's solutions and initiatives, as well as Chinese culture and civilization, which is the inevitable result of the integration and development of the Chinese nation and the outside world, and the tolerance and openness of Chinese civilization, as well as an important manifestation of the integration and inclusion of human civilization to a higher stage. The basic demands of human society are focused on development and security, and each country must coordinate its own development and security with the common security and development of the world. In view of this, President Xi Jinping has issued the Global Development Initiative and the Global Security Initiative to the world, which are particularly realistic and leading for all countries in the world to jointly address development and security issues.

In conclusion, in the current extremely complex international relations, all countries should uphold the concept and principles of mutual respect, equal treatment, expanded interaction and optimized cooperation, and continue to promote mutual appreciation of civilizations. Mutual appreciation of civilizations is a prerequisite and guarantee for the development and security of the world and the stable operation of enterprises, and a high level of development and security coordination helps human civilization enter a new and higher stage.

Mapping the Future of Globalization: Where Do We Go from Here?

■ Zhu Xian / IFF Executive Vice President and Secretary General, Former Vice President of the World Bank, Former Vice President of the New Development Bank

Zhu Xian

All economic uncertainties or risks are shrouded in the shadow of the confrontation between globalization and deglobalization. Therefore, I and many others are both worried and confused about where globalization will go in the next 5 to 10 years from a strategic perspective.

We should reach such a new consensus - to maintain the good values, as well as the norm and structure of the last round of globalization. In this way, regionalized cooperation of all kinds can go hand in hand with globalization and not let the narrow narrative of so-called "national interests" hinder the overall development of globalization.

First of all, let's briefly review the background of the last round of globalization. After the end of the Cold War in the early 1990s, liberal economics prevailed, and most mainstream economists and policy makers talked about removing trade barriers and promoting liberalization and reform of various economic policies, especially in emerging markets and developing countries. During this period, the global economy had strong dynamics and pushed the integration of the global economy a big step forward. Then, with the information technology revolution, the costs and prices of telecommunications and shipping fell, enabling the large-scale allocation of resources on a global scale, which further promoted globalization. Many countries have benefited greatly from globalization, and China has fully enjoyed the dividends of globalization. China's economic development has been integrated into the global supply chain, and today the Chinese economy has become a very important part of the global supply chain.

In fact, globalization has brought many complex economic, social and political problems, especially at the national and global levels. The last round of globalization was more efficiency-oriented, especially in order to achieve higher efficiency, the business and enterprise sectors allocated resources more efficiently on a global scale, a typical representative of which is the various initiatives of multinational enterprises. At the same time, this has brought about distributional inequalities and thus a larger problem of wealth disparity. In recent years, many people have expressed their concerns about globalization, and some politicians have taken advantage of people's dissatisfaction with globalization to promote protectionist and nationalistic policies.

Looking ahead, there are so many uncertainties and risks. How do we see the future of globalization? Will de-globalization come later, or will globalization be able to continue to march forward even after it has survived the current difficulties? No one can answer this question now, and we are troubled by the current situation.

While globalization faces many uncertainties and risks, the rise of nationalism, the consolidation of regions, and the conglomeration of trade and investment are also becoming increasingly evident. Some say that globalization is not dead; others say that it can no longer move forward in the same pattern as it has for the past 30 years. My answer to this key question is that no action should be taken against the current regionalized cooperation or regional groups. We should reach such a new consensus - to maintain the good values, as well as the norm and structure of the last round of globalization. In this way, regionalized cooperation of all kinds can go hand in hand with globalization and not let the narrow narrative of so-called "national interests" hinder the overall development of globalization.

If globalization and regionalization develop side by side and interconnect with each other, the principles of globalization can continue to survive, while regional integration can be further deepened, and in the process of deepening, the principles of globalization can be pursued, so that we will not be too worried.

According to research and observation, when I was working at the World Bank in the late 1980s and early 1990s, mainstream economists and policy-making departments of major economies looked at industrial policy with suspicion at that time, considering the introduction of industrial policy as a waste of resources and against the principle of marketization. But now the situation has been reversed, and the attitude toward industrial policy has been reversed. We now see that some major economies, such as the United States, are also introducing comprehensive industrial policies for state intervention. In fact, the U.S. approach is similar to the industrial policy approach we saw before, but I think this 180-degree turn seems to be very fast and sudden. We should look at these industrial policies with a rational eye and objective perspective.

In China, I have seen some successes in industrial policies, but I have also seen many failures, that is, the implementation and practice of industrial policies are not always very successful. So put in the context of globalization, it would not surprise us to see more and more interventions, but it is important to note that these corresponding interventions rely on taxpayer paid money. If we wish to further advance industrial policy, for example, innovative industrial policy, to avoid repeating the same mistakes, we need to make good use of taxes, transfer payments and other means, rather than continuing to use the very distorted means of resource allocation of the past. By doing so we can also reduce the problem of the gap between rich and poor.

However, the practice of industrial policy may face some challenges. The first is how to find the right policy instruments and the right policy framework. Industrial policy is not just about simple subsidies and incentives, but also requires a more systematic and long-term policy framework, including a sound regulatory and institutional environment, as well as the provision of various resources to support enterprise innovation and upgrading. Second, industrial policy needs to balance the relationship between the government and the market. The government needs to provide the necessary guidance and support, but it also needs to avoid excessive intervention and distortion of market mechanisms. In addition, industrial policy needs to be coordinated with other policy areas, such as education and science and technology innovation, in order to form a good industrial ecosystem.

In conclusion, the future of globalization depends to a large extent on how we balance globalization and regionalization and how we develop industrial policies that suit the needs of the present. We need to learn from the lessons of the past and develop policies with a long-term perspective and adaptability to meet the various challenges and changes facing globalization. Only in this way can we achieve sustainable, inclusive and just globalization development.

The Belt and Road

Practicing the BRI for 10 Years, Sino-Kazakhstan Relations Leaping into a New Era

■ Kairat Kelimbetov / Former Governor of Astana International Financial Centre, Former Vice Prime Minister of Kazakhstan

Kairat Kelimbetov

This year marks the 30th anniversary of establishing diplomatic ties between China and Kazakhstan. The next year will mark the tenth anniversary of the Belt and Road Initiative (BRI) proposed by President Xi in Astana.

China-Kazakhstan relations have progressed since then by leaps and bounds and reached a high level of permanent comprehensive strategic partnership. The recent visit of President Xi to Astana and fruitful bilateral meetings show both parties' commitment.

In 2021, Kazakhstan welcomed $18.7 billion US dollars of investment, a 50% increase compared with 2020. At the same time, investment in Kazakhstan from China almost tripled—this proves the importance of our strategic partnership

Despite the impact of the global pandemic in 2020, the permanent comprehensive strategic partnership translates into real commercial and economic outcomes. Let me share a few examples.

Our mutual trade has constantly increased to over $ 13 billion in 7 months of 2022, placing China as one of the Kazakhstan's largest trading partners. Astana International Exchange of Astana International Financial Centre,(AIFC) is among 20 completed BRI-linked projects – a world-class stock exchange providing its high-tech trading platform, jointly invested by AIFC, Goldman Sachs, Shanghai Stock Exchange, Silk Road Fund, and NASDAQ.

This joint project offers an opportunity for a better-connected common market. We are working on creating an off-shore renminbi market at the AIX and connecting our market to the financial market of the People's Republic of China, allowing access to post-trade activities on both sides. President Xi also mentioned this particular bridge during his visit to Kazakhstan earlier this year.

We see our contribution to the advancing

of the Belt and Road initiative.

Obviously, the Middle Corridor will play a constantly increasing role in BRI, connecting Asia and Europe.

China, Kazakhstan, South Caucasus countries, Turkee, and European Union, form an essential economic corridor that, in many ways, corresponds to the Ancient Silk Road.

The Middle Corridor and Transcaspian Route will be one of the cornerstones of Kazakhstan's development, and Astana International Financial Centre, the proverbial Buckle of the Belt, will help all parties to add and get value from this corridor.

We need multilateral intergovernmental and business agreements, a sound marketplace and capital market, and new instruments, especially fintech, — AIFC was built with the vision to provide a proper institutional platform and develop common markets by proposing innovative tools.

AIFC also contributes to green finance development.

We signed the Green Investment Principles for BRI in 2019 and are committed to further cooperation with the Secretariat of the GIP, the Beijing Institute for Finance and Sustainability (BIFS), and other participants.

So, with the effective integration of Kazakhstan's new economic policy targeting carbon neutrality by 2060, we will share common principles with other BRI countries. I believe that our joint work will allow us to reach our goals, while AIFC will continue to contribute to the BRI and help to make these financial flows more sustainable and valuable for the environment and people of the Belt & Road countries.

Balancing Global Long-Term and Short-Term Issues: Strategies for Effective International Governance

■ Mehmet Şimşek / IFF Board Member, Former Deputy Prime Minister of Turkiye

Mehmet Şimşek

There is no doubt that the world economy, especially the economies of developing countries, is currently facing many challenges and problems. I think it is important to distinguish sudden problems from long-term structural problems, because cyclical problems have long-term, lasting effects; sudden problems have temporary effects. We clearly know that climate and geopolitical issues as well as demographic issues are long-term structural issues.

Global monetary tightening is one of the effects of the current inflationary event, which may be relatively short-term cyclical in nature. I think the dire consequences include the impact of the epidemic, where, according to the latest World Bank data, one tenth of the world's population is already in extreme poverty, relying on as little as two dollars and five cents a day to make ends meet. Before the outbreak of the Covid pandemic, the world had been successful in reducing poverty, with a significant drop in extreme poverty. But now with the global economic downturn, and possibly even a recession, the number of people returning to poverty has increased globally.

Therefore, I believe that developing countries must be given help and assistance tools to help stabilize their fiscal and monetary policies and stabilize their national economies. In short, we must pay attention to those most vulnerable groups to avoid excessive expansion of fiscal policy and also to stabilize monetary policy to avoid prolonged inflation.

First of all, I would like to talk about the global monetary

tightening policy and its impact, and how developing countries should respond. The global inflation level is now very high and has lasted for a longer period of time, affecting many countries and regions. Among them, inflation in developed countries is mainly caused by the implementation of excessively loose fiscal and monetary policies, which in turn has pushed up the prices of food, energy and other products. Developing countries do not have much policy space to stimulate their economies, and there is no way to raise interest rates as drastically as in developed countries, so the way to control inflation in developing countries should not be quite the same. Because monetary policy in developing countries is not as fast and effective as in developed countries, even monetary policy adjustments alone cannot solve the problem.

To help those who are most vulnerable and most likely to be poor and face multiple risks, countries should have a series of fiscal policies, which are aimed at controlling inflation and helping central banks to do their job better. As you know, the main cause of this global ripple of inflation is the U.S. monetary tightening, but it is not only the U.S. that has been affected; many countries and regions of the world have been affected by its spillover effects. The financing shock in developed countries may cause a slowdown in the global economy as a whole, and developing countries will bear the brunt of it. Therefore, I believe that developing countries must be given help and assistance tools to help stabilize their fiscal and monetary policies and stabilize their national economies. In short, we must pay attention to those most vulnerable groups to avoid excessive expansion of fiscal policy and also to stabilize monetary policy to avoid prolonged inflation, which is the first policy recommendation I would like to make.

The second issue is geopolitical conflicts, which are mainly conflicts brought about by contradictions, tensions such as geopolitics. My concern is that the world is no longer the original, well-functioning multilateral trading system. In a multipolar world, countries or companies have to choose sides, whether to choose China or the United States, to make a choice. Now because there are restrictions in the field of technology exports, affecting some factories in the manufacturing industry, that is, outsourcing business, in the long run is going to affect AI, energy and other industries. Africa may not be as fortunate as Asia, which benefited from globalization quickly out of poverty. In the next decade, the global economic growth will face huge challenges. One of them is that Africa has $644 billion in foreign debt and that number is rising. For Africa, a world context of counter-globalization will certainly be detrimental to its development; the same is true for the growth and development of developing countries, where a world context of counter-globalization will certainly bring more challenges.

The third issue is about climate change. In the short term, the world is facing a big financing gap, both for affordable energy and for a clean energy transition. I would suggest that even developing countries should continue to focus on energy efficiency; we have to produce more output, but energy efficiency is also very important. I don't think subsidies are the best solution, even if energy must be subsidized, it has to be targeted and precise. Clean energy is very important for any developing country, and it can also bring high quality employment, promote the overall global economy, and avoid the world being more affected by climate change.

The last point is that the Fed's overly aggressive rate hikes are a cause for concern. The 1990s, for example, had thus caused the Latin American economic crisis, and the millennium brought the bursting of the dot-com bubble, and then a real estate crash in 2008. So, if monetary policy tightening is too aggressive, it will certainly lead to a collapse in one economic sector, and now that the global economy is in a slowdown, the appetite for risk should be chosen for risk aversion purposes. A radical tightening of monetary policy in developed countries will likely lead to capital outflows from developing countries. Therefore, international financial institutions such as the International Monetary Fund (IMF) and the World Bank should be prepared to support developing countries, especially emerging economies, as they will be more vulnerable to shocks.

Overall, in the face of the current challenges and problems facing the world economy, we need to focus on and distinguish between sudden problems and long-term structural problems and take policy measures accordingly. For developing countries, stabilizing fiscal and monetary policies, dealing with geopolitical conflicts, and paying attention to climate change are important aspects. At the same time, the international community should also strengthen cooperation and provide support and assistance to jointly address global economic challenges.

Fortifying BRI Cooperation: Ensuring Safety, Stability and Connectivity of the Global Industrial and Supply Chains

■ ZHANG Shenfeng / Vice Chairman, China Council for the Promotion of International Trade

ZHANG Shenfeng

In 2013, President Xi initiated the 'Belt and Road Initiative'. Nine years later, China has signed more than 200 cooperation documents with 149 countries and 32 international organizations to build the "Belt and Road", and a large number of infrastructure projects, such as the China-Laos Railway, Jakarta-Bandung High Speed Railway and Gwadar Port, have been fruitful. Keeping the global industrial and supply chain safe, stable and efficient is the foundation of a virtuous economic cycle. In the midst of a century of accelerated changes, the rise of anti-globalization thinking and the sluggish recovery of the world economy, the "Belt and Road" has shown great resilience and vitality. I would like to share four points on strengthening the international cooperation of "Belt and Road" and ensuring the safety, stability and smoothness of the international industrial chain and supply chains:

First, the global chains are under restructuring.

Since the 1990s, economic globalization has accelerated, and the global chains are interlocked, forming global clusters, systematization, balancing and maximizing efficiency. In 2008, after the international financial crisis, developed countries implemented re-industrialization and introduced a series of tax and subsidy measures to attract manufacturing industries to return, which has changed the original international division of labor system to a certain extent. 2018, the United States of America against China The economic and trade frictions initiated by the U.S. against China have intensified, with large-scale tariff increases on Chinese goods, export restrictions, and "cut-off" of key components and products, and even frequent economic and trade frictions against the EU, Japan and other allies, which have seriously affected the normal operation of multinational enterprises, and many industrial chains have been affected by the lack of sufficient flexibility. With increasing economic and trade frictions and increasingly difficult multilateral trade negotiations, more and more countries are turning their attention to bilateral and regional trade with higher openness and greater flexibility, eliminating trade barriers and promoting tariff reduction through negotiating FTAs, and promoting the development of global industrial chains in the direction of regionalization. After the outbreak of Coronavirus, global production and supply chain operations were severely hampered, with a large number of medical, semiconductor and other product supplies in the hands of a few countries, and key supply chains in certain areas showing vulnerability. The New York Fed's Global Supply Chain Stress Index shows that global supply chain stress continued to rise after the outbreak and peaked at 4.38 at the end of 2021, and has declined since then, with global supply chain bottlenecks expected to continue until 2023. Since the crisis in Ukraine, the prices of commodities such as energy, food and raw materials have risen rapidly, and the supply chain of the international industrial chain has been affected. In this context, the security and stability of the global industrial chain supply chain is receiving more and more attention and focus. The global industry chain is increasingly showing localization, supply chain diversification and regional division of labor. The trend of localization of industrial chain, diversification of supply chain and regionalization of industrial division of labor is becoming increasingly apparent.

Second, China has made important contributions to stabilizing the global chains.

China is the largest engine of world economic growth and the hub of the global industrial supply chain. China is the world's largest engine of economic growth and the hub of the global industrial supply chain, and is the world's most comprehensive industrial sector and most complete supply chain under UN standards. China is the world's most comprehensive and complete industrial sector by UN standards, and the second largest consumer market in the world. It is also the second largest consumer market in the world. China has successfully entered the ranks of innovative countries.

China has successfully entered the ranks of innovative countries, ranked 12th in the global innovation index, made great progress in intelligent manufacturing, and flourished in artificial intelligence and digital economy, The country is at the forefront of the world in image recognition, voice recognition, and 5G mobile communication technology. 5G mobile communication technology is the first to be applied on a large scale, forming new comparative advantages, and is moving towards the middle and high end of the global industrial chain. The global market-driven, efficiency-driven and resource-driven capital is more optimistic about China, Global market-driven, efficiency-driven and resource-driven capital is more optimistic about China. China relies on the integrity, resilience and elasticity of its own supply chain.

In 2020, China became the only major economy in the world to achieve positive economic growth. In 2020, China became the only major economy in the world to achieve positive economic growth. In 2020, China became the only major economy in the world to achieve positive economic growth. The total volume of trade in goods has ranked first in the world for five consecutive years, and its contribution to world economic growth has remained at around 30 percent for many years. Its contribution to world economic growth has remained at around 30 percent for many years. China has not only taken practical actions to maintain China has not only taken practical actions to maintain the stable and smooth supply chain of the global industrial chain, but also contributed to the promotion of the global economic global economic cycle, help the world economy recover, and enhance the well-being of people from all countries. It has also injected valuable confidence and solid strength to promote the global economic cycle, help the world economy recover and enhance the well-being of people from all countries. China has been, is and will be China has been, is and will be the "ballast" and "stabilizer" of the global industrial supply chain.

Third, maintaining the security and stability of global chains requires full cooperation of the international community.

Maintaining the stability and smoothness of the global chains are not only priorities for maintaining the security and stability of the supply chain of global industrial chains, but also a priority for the international community. It is also the most urgent task to maintain the security and stability of the global industrial chain supply chain. The international community needs to cooperate fully to maintain the stability and smoothness of the supply chain. It is the common responsibility of the international community and is in line with the common interests of people all over the world. The global fight against the epidemic has once again shown that in the turbulent waves of the global crisis, it is important to stand together in the same boat. In the midst of the global crisis, the only correct path is to work together, have confidence and support each other. The Covid pandemic will not in the last public health crisis facing humanity. Therefore, we need to strengthen global public health governance, build a We should strengthen global public health governance, build a community of human health, and contribute to the stability and smoothness of the global industrial chain supply chain and the sustainable and healthy development of the world economy. We need to strengthen global public health governance, build a human health community, and lay the foundation for the stable and smooth supply chain of the global industrial chain and the sustainable and healthy development of the world economy. Deepening international economic and trade exchanges is an important way to maintain the security and stability of the global industrial chain supply chain. It is an important way to maintain the security and stability of the global industrial chain supply chain. Countries should support the multilateral trading system with the WTO as the core, and adhere to the principles of the WTO. The multilateral trading system with the WTO at its core, adhere to free trade and fair trade, and increase the production and supply of bulk commodities and key components, enhance the supply capacity of important supply capacity, promote the smooth flow of international logistics, and promote trade and We should implement global development initiatives, dovetail with the global trade policy, and promote the development of the global economy. We should implement global development initiatives and dovetail with the United Nations 2030 Sustainable Development Goals. We should implement global development initiatives, dovetail with the United Nations 2030 Sustainable Development Goals, promote the construction of "Belt and Road" for high-quality development, and implement the United Nations 2030 Sustainable Development Goals. The government should implement global development initiatives, dovetail with the United Nations 2030 Sustainable Development Goals, promote the high-quality development of the "Belt and Road", implement the Regional Comprehensive Economic Partnership Agreement, and jointly expand international trade. We should implement global development initiatives, dovetail with the UN's 2030 sustainable development goals, promote high-quality development of the "Belt and Road", implement the Regional Comprehensive Economic Partnership Agreement, work together to make the international economic and trade cooperation pie bigger, and promote We will work together to expand the international economic and trade cooperation pie and promote stronger, greener and healthier global development. To maintain We must safeguard the global public goods attribute of the supply chain of industrial chain and resolutely oppose the politicization and instrumentalization of the supply chain of industrial chain. We should safeguard the global public goods attribute of the industrial chain supply chain, resolutely oppose the politicization, instrumentalization and weaponization of the industrial chain supply chain, and fully utilize the G20, the Asia-Pacific Economic Cooperation (APEC), and the Asia-Pacific Economic Cooperation (APEC). The role of multilateral platforms such as the G20, APEC and the International Monetary Fund and other international economic and financial institutions should be fully utilized. The government should give full play to the role of multilateral platforms such as the G20, APEC and international economic and financial institutions such as the IMF, and work together to construct to build a safe, stable, smooth and efficient, open and inclusive, mutually beneficial and win-win relation.

Fourth, the business community is an important force in promoting the stability and smoothness of the global chains.

Enterprises are the main force in building "Belt and Road", and they are also the core of the supply chain. We need to support enterprises in accordance with macroeconomic situation and policies, combined with their own technology and resource endowment. We should support enterprises to actively build "Belt and Road" industry chain supply chain according to the macroeconomic situation and policies, and combine their own technology and resource endowment. Encourage enterprises to actively lay out overseas markets, establish overseas production bases, and realize value chain optimization and upgrading, integration and extension for mutually beneficial and win-win development. International production capacity cooperation helps to form a comprehensive and sustainable international capacity cooperation helps to form a comprehensive and sustainable network and pattern of industry chain cooperation, and has become a key factor in promoting "Belt and Road". It has become an important link to promote "Belt and Road" for mutual benefit and win-win development of co-construction countries. We should support enterprises to We should support the role of enterprises in the construction of BRI, carry out high-quality international capacity cooperation, realize overseas production bases, supply chains and domestic We should support the role of enterprises in the "Belt and Road" construction, carry out high-quality international capacity cooperation, realize the comprehensive linkage of overseas production bases, supply chains and domestic industry chains, and further connect regional and global markets. To support upstream and downstream enterprises in the industrial chain and enterprises with complementary advantages to form "Go Global" strategic cooperation alliance, to realize the group of small and large enterprises to dive in the international market, the whole industry chain will go global. Practice "two-country double park" and "multi-country multi-park" The new cooperation paths such as "two-country double park" and "multi-country multi-park" will make the overseas industrial park into an international at the same time, we should improve the risk management of the industrial chain supply chain. At the same time, we should improve the risk monitoring system of the industrial chain supply chain and help enterprises to enhance the ability of timely identification and detection of risks, accurate and effective disposal, and Strengthen the weaknesses exposed by the "Belt and Road" project during the epidemic We need to strengthen the weak links exposed by the "Belt and Road" project during the epidemic, and effectively guarantee the safe and stable operation of the important industrial chain supply chain. Expanding cooperation in science and technology innovation is a solid support to maintain the security and stability of the global industrial supply chain. We must work together to explore innovative growth. We should make joint efforts to explore the innovation growth potential, strengthen the protection of intellectual property rights, and create rules that are universally accepted and effective. We should work together to explore the growth potential of innovation, strengthen the protection of intellectual property rights, create rules that are universally accepted and effective, and create an open, fair, equitable and non-discriminatory environment for scientific and technological development. We should create an open, fair, equitable and non-discriminatory environment for the development of science and technology. We should promote the integration of the innovation chain with the industrial chain and the supply chain, and establish the main body of enterprise innovation. We should promote the integration of the innovation chain with the supply chain of the industry, establish the status of enterprises as the main body of innovation, build more science and technology. We should promote the integration of the innovation and industrial supply chains, establish the main role of enterprises in innovation, build more platforms for exchange and cooperation in science and technology innovation, support enterprises to carry out technology cooperation on their own. We should deepen cooperation in the "Belt and Road" digital industry chain and green industry chain, and thus promote the achievements of science and technology innovation to benefit more countries and people.

China-Pakistan Economic Corridor Development Outlook

■ Zafar Uddin Mahmood / IFF Executive Member, Special Advisor (ministerial level) to Prime Minster of Pakistan, First Special Envoy for China-Pakistan Economic Corridor

Zafar Uddin Mahmood

Since the 1990s, globalization has been a popular term in the international economic and political discourse. Generally speaking, it indicates that geographical borders and divisions in the world are becoming less significant, while the flow of capital, ideas, personnel, goods, standards, and values is increasingly merging and intersecting. Multilateral agreements have been the primary driving force behind post-World War II globalization, promoting global trade and giving rise to numerous currency areas, trade blocs, and multilateral cooperative regions such as ASEAN and the Eurozone.

However, we have encountered many challenges in the process of globalizing, such as the global financial crisis in 2008, the COVID-19 pandemic in 2020, and the Russia-Ukraine conflict, all of which posed severe challenges to global policies. Currently, there is a trend towards deglobalization, which refers to reducing interconnections among nations.

The deglobalization policies and measures adopted by the United States and its allies have hindered the smooth flow of goods, services, labor, and capital. These policies aim to protect domestic employment, suppress competition from other countries, and have resulted in increased quotas and tariffs, seriously impacting the financial and economic order established after World War II. Faced with these challenges, the

Facing the current gloomy prospect of a divided world and the trend of deglobalization, the Chinese government is actively building railway networks, energy networks, pipeline networks, and high-speed networks, hoping to achieve connectivity both to the East and the West, transcending borders. Such networks can also allow the international community to benefit more from China's development experience, technology, currency, and other advantages.

United States and its allies have chosen inward-looking deglobalization actions, while China has put forward corresponding confrontational propositions advocating for free trade, economic connectivity, and shared prosperity. In the face of the current wave of deglobalization, we should take a different approach and establish an open economic development model with mutual connections, from which multinational corporations and various stakeholders can benefit.

Central Asia has always been an important hub connecting the markets of the East and the West, as well as a major melting pot of Eastern and Western cultures. Chinese jade and spices have been sold to the West through Central Asia, while ivory, glass products, and precious metals have been transported from Central Asia to China. The Roman Empire and the Byzantine Empire engaged in trade with China through Central Asia.

After China's accession to the World Trade Organization in 2001, it actively participated in the wave of global economic development. The rapid development of international trade has transformed China from a low-income country into the world's second-largest economy. Facing the current gloomy prospect of a divided world and the trend of deglobalization, the Chinese government is actively building railway networks, energy networks, pipeline networks, and high-speed networks, hoping to achieve connectivity both to the East and the West, transcending borders. Such networks can also allow the international community to benefit more from China's development experience, technology, currency, and other advantages.

Pakistan is the largest beneficiary of China's Belt and Road Initiative, and the China-Pakistan Economic Corridor (CPEC) began construction in 2014. At the time of the launch of CPEC, Pakistan was facing a series of serious challenges such as power shortages, which were nationwide and affected road and rail connectivity. Since then, Chinese and Pakistani enterprises, under the framework of the Belt and Road Initiative and CPEC, have been engaged in the construction of power stations and power networks throughout Pakistan. Through joint efforts, Pakistan's power shortages have been alleviated in a short period of three years, and interconnectivity from the south to the north has been achieved. These construction and development efforts have brought prosperity not only to Pakistan but also to the regions along the China-Pakistan Economic Corridor, further enhancing mutual understanding and cultural exchanges between the two countries. Therefore, China's Belt and Road Initiative not only helps developing countries solve their infrastructure construction problems but also accelerates the industrialization process of these developing countries.

For emerging economies, e-commerce is an opportunity they must seize. Currently, countries along the Belt and Road are learning from China's successful experiences and technologies in e-commerce and building their own e-commerce platforms. China has also introduced a series of laws, regulations, and regulatory rules to better regulate the e-commerce industry, which can serve as a good reference for other developing countries.

In addition to infrastructure construction, the continuous advancement of the Belt and Road Initiative can also promote communication, energy, networks, and cross-border multi-currency connectivity, enabling the Renminbi to be used for more trade settlements. In summary, globalization currently faces a series of challenges, but through the Belt and Road Initiative, these challenges can be offset, and mechanisms for connectivity can be established, bringing more inclusive development opportunities to developing countries.

Indonesia's Pivotal Role in Fostering Trade and Investment Cooperation

■ Ben Perkasa Drajat / Consul General of the Republic of Indonesia in Guangzhou

Ben Perkasa Drajat

Cooperation between Indonesia and China

Indonesia is one of the countries that established formal diplomatic relations with China earliest after the founding of New China in 1949. In 2013, the cooperation between the two countries further upgraded to a comprehensive strategic partnership. The two countries actively promote the alignment of Indonesia's "Global Maritime Fulcrum" (GMF) strategy and China's proposed "Belt and Road" initiative (BRI). Under the frameworks of GMF and BRI, they accelerate the construction of the "Four Great Economic Corridors". The four economic corridors in Indonesia are: 1. North Sumatra Island, which is the economic and trade hub of ASEAN; 2. Bali Island, which is the high-tech and creative economic hub; 3. North Sulawesi, which is the Pacific Economic Belt; 4. North Kalimantan Island, which is the mining industrial belt. The President of Indonesia and the Chinese President Xi Jinping, in their meeting held in Bali in November 2022 during the G20 Summit, proposed to jointly strengthen the development of GMF and BRI. Currently, the two countries have launched practical cooperation in many fields such as infrastructure, transportation, etc., and have achieved fruitful results. For example, the Jakarta-Bandung high-speed railway, which is scheduled to start operation in June 2023.

China is Indonesia's largest trading partner. The bilateral trade reached 123.4 billion US dollars in 2021, and China's investment in Indonesia reached 3.2 billion US dollars. From January to September 2022, the total bilateral trade between the two countries reached 110.2 billion US dollars, and China's investment in Indonesia from January to September 2022 reached 1.6 billion US dollars.

Indonesia actively promotes the signing of the Regional Comprehensive Economic Partnership (RCEP).

The RCEP, initiated by the ten ASEAN countries, was signed in November 2020 after eight years of negotiations. It is the largest trade agreement in history, covering one-third of the world's GDP and population. The RCEP members include the ten ASEAN countries and 15 other countries, including China, Japan, South Korea, Australia, and New Zealand. The signing of the RCEP indicates the expectations of the countries, governments, and businesses in the region for future regional cooperation. They hope to play a greater role in the global value chain through deepening and strengthening economic integration.

Indonesia played a very important role in this, as it was the country that first proposed the RCEP concept. Indonesia is the world's seventh-largest economy and the largest in ASEAN. Indonesia has made a lot of efforts to facilitate the conclusion of the RCEP agreement because it is also in Indonesia's interest. Currently, multilateralism faces great challenges, and the global value chain and global trade have suffered setbacks. Through the RCEP, ASEAN countries can fully utilize the regional value chain and better connect with the global value chain. Indonesia and other ASEAN countries want to work together with China to enhance the competitiveness of their economies through structural policy adjustments. Indonesia's structural policy adjustments are mainly reflected in the Employment Act, which is one of Indonesia's most important policies and can help Indonesia attract new investments from different countries, including China.

G20 Summit in Bali, Indonesia

In November 2022, Indonesia hosted the G20 Summit on the island of Bali as the rotating chairmanship of the group. The leaders' declaration, titled "G20 Bali Leaders' Declaration," was issued after the summit. The Indonesian president emphasized in his speech at the G20 Summit that cooperation brings G20 countries closer to the people. He emphasized the cooperation among G20 members, including the cooperation between China and Indonesia, which can effectively ensure global security. The world is facing humanitarian crises, as well as challenges in energy, finance, oil, food, supply chains, and other areas. Especially for developing countries.

The G20 holds many events every year, including ministerial meetings, working group meetings, and other activities, all organized and convened by the rotating chairmanship country. Indonesia held the chairmanship in 2022, and India will hold it in 2023. During its chairmanship, Indonesia organized discussions on finance and economics, covering arrangements related to finance, fiscal policies, and taxation. Representatives from the Indonesian Ministry of Finance, the central bank, and other relevant departments participated in these activities. The finance-related discussions mainly covered six topics: 1. Achieving economic recovery by easing policies related to pandemic control; 2. Overcoming the impact of the pandemic on the economy and striving for sustainable development; 3. Strengthening the payment system in the digital field; 4. Developing systemic financial instruments; 5. Actively promoting inclusive finance; 6. International tax agenda. Indonesia's chairmanship of the G20 proves that it is an excellent platform for international cooperation.

Cooperation between ASEAN and the Guangdong-Hong Kong-Macao Greater Bay Area in China

The Guangdong-Hong Kong-Macao Greater Bay Area in China has excellent geographical advantages, with multiple airports and important ports. Guangdong is the fastest-developing province in mainland China, while Hong Kong and Macao are outstanding economic regions. The Greater Bay Area has strong development vitality and maintains comprehensive economic and trade relations with ASEAN countries, especially Indonesia, which is the largest trading partner of the Greater Bay Area.

We hope to attract more Indonesian companies to settle and develop in the Greater Bay Area, and companies in the Greater Bay Area also hope to strengthen connections with global partners, including ASEAN countries. We hope that cross-border investment and trade activities can quickly rebound after the pandemic, and we hope that industry participants can seize the opportunity to reestablish connections with overseas companies and partners.

Looking Ahead: Prospects and Discussions for the 10th Anniversary of the BRI

■ Johnson MA / Director of Risk & Compliance, Dow Jones

Johnson MA

Combining the BRI initiative, let us together envision and explore the new changes and ideas in 2023.

Topic 1: Transitioning from High-Speed Development to High-Quality Development — Jointly Building the Belt and Road Initiative (BRI)

The construction of the BRI will shift from high-speed development to high-quality development. In conjunction with international policies, certain principles and ideas need to be upheld.

1. Principle of extensive consultation, joint contribution and shared benefits. This forms the foundation as the construction of the BRI requires adherence to multilateralism. All parties should voluntarily participate and reach consensus through consultation to ensure policy alignment, project cooperation, shared responsibilities, and mutual benefits. Regardless of the country's size or wealth, all nations are equal and should collaborate to leverage their respective strengths in order to create practical outcomes that benefit all.

2. Adhering to the Principles of Openness, Greenness, and Integrity. The construction of the BRI is not intended to create an exclusive circle but welcomes the participation of interested partners. Within an inclusive and cooperative trade environment, efforts should be made to promote international economic cooperation, facilitate cross-border trade and investment, foster an open world economy, jointly develop green technologies and green finance, address challenges related to environmental protection and climate change, encourage the construction of a culture of integrity, combat corruption, and adopt a zero-tolerance policy towards corruption. Only by doing so can the objectives be better achieved.

3. Striving for High Standards, Benefiting People's Livelihoods, and Ensuring Sustainability. The BRI is a long-term goal that respects the laws and regulations of each country and encourages the alignment of different rules and standards. By prioritizing people-centered development, the focus should be on eradicating poverty, increasing employment, improving people's livelihoods, and emphasizing sustainability. Throughout this process, the goals of the BRI align with the United Nations Sustainable Development Goals - UN Secretary-General António Guterres highlighted during the 2nd Belt and Road Forum that the goals of the Belt and Road Initiative, such as policy coordination, infrastructure connectivity, unimpeded trade, financial integration, and enhanced people-to-people exchanges, are fundamentally consistent with the 17 Sustainable Development Goals under the 2030 Agenda. Achieving these goals will benefit the global community.

Topic 2: From China's Initiative to Global Consensus — Jointly Discussing the BRI

Joint discussion entails equal participation, full consultation, and voluntary collaboration to achieve common development. This is reflected in the following three aspects:

1. Reflecting Global Consensus Establishing an internationally inclusive platform and cooperative mechanisms for joint consultation is crucial. For instance, the Belt and Road Forum for International Cooperation has become a significant platform for promoting mutual trust and closer interactions among nations. Similarly, events such as the 5th China International Import Expo in Shanghai witnessed enthusiastic participation from large corporations and small enterprises alike, attracting participants from Asia to African countries. These instances fully exemplify the importance of international cooperation platforms for the Belt and Road Initiative. Additionally, the China-Arab States Summit, the Silk Road Expo, and the China-ASEAN Expo are essential platforms for the joint consultation and cooperation among countries along the Belt and Road.

2. Strengthening the Role of Multilateral Mechanisms in Joint Consultation Equality, consultation, openness, and inclusiveness require collective participation in jointly discussing the BRI. For instance, countries participating in the Belt and Road Initiative should adhere to a multilateral cooperation mechanism, which involves mutual respect, trust, and cooperation. The principle of extensive consultation, joint contribution, and shared benefits should be promoted, enabling various stakeholders, including international organizations, non-governmental organizations, and the private sector, to actively participate in the process. This will ensure that the construction of the BRI is not just a Chinese initiative but a global consensus.

3. Advancing Cooperation and Win-Win Outcomes The BRI initiative aims to achieve common development and prosperity through cooperation. By promoting connectivity in policy, infrastructure, trade, finance, and people-to-people exchanges, it is possible to build a community with a shared future for mankind. Countries should strengthen policy coordination, jointly build infrastructure networks, deepen trade and investment cooperation, enhance financial connectivity, and foster people-to-people exchanges. This will lead to win-win outcomes for all parties involved, creating a more inclusive, open, and balanced international economic order.

On summary, as we enter 2023, the BRI

initiative continues to evolve, transitioning towards high-quality development and emphasizing global consensus through joint consultation. By adhering to the principles of joint consultation, contribution, and shared benefits, as well as openness, greenness, and integrity, the initiative strives to ensure sustainable development and improve people's livelihoods. Furthermore, by promoting equal participation, full consultation, and voluntary collaboration, theBRI aims to establish a global consensus and achieve common development through strengthened cooperation.

New Economic Situation

China's New Economic Landscape: Challenges and Responses

■ Han Seung-soo / IFF Co-chairman, Chair of the Council of Presidents of the United Nations General Assembly, Former Prime Minister of the Republic of Korea

Han Seung-soo

The ongoing pandemic and challenging external environments have slowed growth prospect of the Chinese economy. China had weathered the pandemic crisis with the minimum health costs compared to other countries.

However, more transmissible variants have led to more frequent and persistent lockdowns to keep the virus contained, leading to higher economic costs over time in particular by delaying a sustainable recovery of private consumption.

China's remarkable recovery from the early stages of the pandemic in early 2020 allowed it to meet the sudden, increased demand for durable goods as households around the world shifted their consumption away from contact-intensive services.

However, as these pandemic-specific factors fade and global growth decelerates, these external tailwinds are dissipating. Ongoing strains in the real estate sector also add pressure on near-term growth with a slump in private investment in China.

As there remains a slack in the Chinese economy and inflation remains low, the authorities need to continue to provide macro policy support for a balanced recovery. A fiscal effort that shifts the composition of support toward vulnerable households would support private consumption and lift growth.

Just as important to lift consumption will be to start working to pave the way for a safe exist from the zero-COVID strategy, including by adding to China's successful vaccination campaign by re-accelerating the pace of vaccinations and making full use of vaccines, especially for the under-vaccinated elderly.

Additional action is also needed to contain risks from the ongoing property sector tress and ensure financial stability. In that regard, efforts to ensure competition of unfinished pre-sold projects must be expanded and paired with restructuring of troubled property developers. The authorities should also strengthen efforts to guard against spillovers by readying additional policy support and improving risk monitoring.

Medium-term growth prospects are also clouded with a trend decline in productivity growth and a shrinking working age population amid mounting geo-economic fragmentation pressures. Hence China should accelerate market-based reforms to achieve a sustainable and higher-quality growth over the medium to long term.

China has made steady progress in structural reforms over the past decade. For example, China has opened up its financial sector to foreign investors and adopted a negative list approach for the access of foreign investment. Intellectual property protection has been strengthened to improve market competition and hukou reform that increase labor mobility and improved resource allocation.

However, the pandemic has inevitably stalled this progress, so renewed efforts are urgently needed to cope with headwinds to medium-term growth arising from a shrinking workforce and lower productivity growth. Accelerating market-based structural reforms – such as a further opening up of domestic markets, reforming SOEs, ensuring competitive neutrality between SOEs and private firms, and removing local protectionist barriers while promoting green investment - will help revitalize productive growth and boost potential growth over the medium to long term.

Another key aspect of high-quality growth relates to climate, and China should play an important role in the global fight against climate change. China has submitted its updated emissions reduction commitment, the Nationally Determined Contributions (NDCs), which include its main goal to reach peak carbon emissions before 2030 and become carbon neutral before 2060. To reach these targets, China will have to implement a range of climate policies.

The rollout of a national emissions trading system for the power sector is a good start, but the system can be made more effective, for example, by extending its coverage beyond the power sector. Reforms that make the power sector more integrated and market-oriented would also help by incentivizing an efficient use of energy resources.

An important, continued efforts to rebalance the economy by shifting away from investment-heavy to consumption-led growth and supporting the expansion of services and high-tech sectors will reduce energy demand and carbon intensity of growth.

An escalation of global trade tensions is a concern for Asia and the world, not least because Asia is a major hub for global value chains and knowledge diffusion. In this context, multilateral cooperation remains critical, and China should continue to play its role to build a more open, stable and transparent trading system.

This session is important for directing the future of Chinese economy and I hope that you would discuss many feasible policy alternatives for the future of Chinese economy.

Challenges of the International Economic Environment and China's Future Economic Development

■ Lin Jianhai / IFF Executive Vice President, Former Secretary of IMF

Lin Jianhai

The discussion of the prospects for China's economic development cannot be separated from a consideration of the general global economic environment. In the medium to long term, the global economy faces many new challenges and high uncertainty; in the short term, there are several challenges to consider.

First, the global economy will face a more difficult situation in the short term. 2023 may see a substantial, widespread and extensive decline in the global economy, in which economies accounting for two-thirds of the global economy may experience a recession, which will have a direct impact on China's short-term economy.

Second, high inflation in developed economies has triggered a relatively drastic monetary tightening by the world's major central banks, with interest rate hikes far more intense and rapid than in the 1980s. While the developed economies are seriously affected, it will also have a serious impact on emerging market countries and developing countries. In addition, the slowdown and lowering of global economic growth, rising interest rates, the appreciation of the U.S. dollar and the tightening of financial markets have increased the difficulty of financing and raised the cost of financing for emerging market countries and developing countries. High energy and food prices may lead to economic crisis and even social unrest.

For many emerging markets and developing countries, I think the four major problems of low growth, high prices, high debt and energy and food shortages are the pressing problems they face. In the medium and long term, the global economy may experience long-term stagnation in growth and weak labor productivity growth. If we add to this the decline in the working population, the pressure from coping with climate change and the problem of income inequality, emerging market and developing countries will face more difficulties and greater difficulties to catch up with the income levels of developed countries.

At the global level, the voices of counter-globalization are rising and falling, bringing great difficulties and uncertainties to global economic development cooperation. since the 1980s, economic globalization has brought tangible benefits to all economies and most people in the world. The renewal of old and new industries, the dissemination and sharing of knowledge and technology information have promoted the flourishing of international trade and international financial activities, and have greatly improved the living standards of the common people. the IMF study shows that economic globalization has promoted stable price levels, and in developed economies, the convenience of globalization has reduced the cost of living of 1/3 of high-income households and 2/3 of low-income households. It can be said that an important factor for the relatively low inflation rate in developed countries in the previous decade was economic globalization.

Past textbooks or practices led us to believe that the free movement of hired labor and capital could reduce costs and improve efficiency, thereby promoting sustained economic growth and raising people's living standards. Now it is proposed to enhance business among allies and reduce dependence on non-allied countries to ensure the reliability of supply of critical goods. This shift in thinking will have unpredictable implications and consequences for future international trade and international financial activities.

In addition, geopolitical risks have intensified in recent years and represent a significant challenge. In a recent report, the IMF noted that Asian countries are subject to geopolitical risks and global economic "fragmentation" due to their close trade ties with the rest of the world. The impact of "fragmentation" of the global economy is also more prominent. For example, nearly half of the U.S. and nearly 1/3 of the EU's imports come from Asian countries. In addition, Asian countries also account for more than half of total global demand for key commodities. The report's scenario analysis shows that if energy and technology decoupling occurs between the world's two largest trading blocs, it will have a huge and long-lasting damage to the world economy, and may reduce 1.5% of the world's GDP and 3% of Asia's GDP.

In addition, addressing climate change and promoting the green transition is both a challenge and an opportunity. The green transition will not only involve capital and investment issues, but will also bring about a transformation of the labor market. The research and development of global digital technology, especially the widespread application of new financial technology, brings broad prospects for global economic development, but also brings new risks to financial stability, as well as new challenges and requirements for financial regulation.

In the face of all the uncertainties and new challenges, I believe that China's economy needs to develop both quality and quantity simultaneously, one without the other. Achieving sustained high-quality development is the key for China to gradually move into the ranks of high-income countries. Based on the experiences and lessons learned from the world and China's economic development, I believe the following aspects are very important:

First, a stable macroeconomic environment is a prerequisite for high-quality economic growth. High-quality growth is a long-term goal, and reaching that goal requires a stable macroeconomic environment that avoids excessive fluctuations in key economic variables and reduces uncertainty in the economy. The government should adopt an appropriate mix of fiscal, monetary and financial policies and promote economic transformation by advancing structural reforms, optimizing resource allocation and improving institutional efficiency.

Second, a high level of openness to the outside world is a necessary condition for high-quality economic growth. Studies have found that during the 20 years of rapid trade development, more people were lifted out of poverty, both in absolute terms and as a percentage of the global population, than in any other period of human history. A high level of openness to the outside world is multifaceted and includes not only trade exchanges but also financial, investment, and humanistic exchanges, as well as active participation in international economic and financial affairs and decision-making.

Third, transforming development dynamics and improving productivity are at the core of high-quality economic growth. In recent years, China's total factor productivity (TFP) has grown relatively fast, but there is still much room for improvement. There are several aspects to think about, one is to think about what level of annual GDP growth should be to achieve the 2035 vision, if it should be between 4.5% and 5%, then what is the potential growth rate? The key to increasing the potential growth rate is the growth rate of total factor productivity. In order for China to cross into the ranks of middle and high-income countries, labor productivity and factor productivity must develop greatly. Second, you can think about how to improve labor productivity by analyzing the labor productivity differences between private and state-owned enterprises. This aspect involves the relationship between private and state-owned enterprises and the so-called "competitive neutrality" principle. Thirdly, we can think about the structural reform of labor market. For example, in view of the increasingly serious aging of the population, seriously consider how to extend the retirement age.

Fourth, improve the financial system and develop the service industry, which is a bridge to high-quality growth. China's financial share in international finance is relatively low, so there is a lot of room for development. The share of service industry in GDP is about 2/3 of GDP on average globally, and the share of service industry in GDP of some developed countries is as high as about 80%, and China has developed relatively fast in recent years, and the share of service industry in GDP is over 50%.

Fifth, to promote inclusive, inclusive, green growth and improve people's well-being is the ultimate goal of high-quality growth. This includes many elements, such as green growth, environmental protection, social security, and strengthening the development of the health care sector. In particular, the new crown pneumonia epidemic has brought to light the importance and urgency of strengthening the development of the healthcare sector, which includes infrastructure construction, research and development of drugs and vaccines, and elderly recreation, all of which are areas of great concern for future investment.

Economic Developments in China and Japan

■ Takehiko Nakao / Chairman of Mizuho Research Institute, Former President of Asian Development Bank (ADB)

Takehiko Nakao

I will mainly talk about some aspects of the world economy, especially China and Japan, and we cannot let the world today fall into several blocs of division as it did in the 1930s.

China, the United States, Japan and Europe, had a very friendly trade relationship. Especially since China's reform and opening up in 1978. Countries have benefited a lot from the free trade exchange of goods, services and technology, and we need to make sure that such trade exchange can be maintained. Regardless of the grievances or ideological differences between us, we should put our common prosperity and peace first, and no one should lose his or her life because of conflict, as in Ukraine. Although it is difficult to go back to the past, we still have to do our best to work in a good direction, which is the first point.

The second point is about inflation and interest rate hikes. Of course we want to keep inflation stable and on the low side, so that there is a consensus in the demand market. In the late 1970s and 1980s there was hyperinflation, even hyperinflation. Especially in Latin America at that time, in order to cope with inflation, the major economies carried out rapid and sharp interest rate hikes, thus disturbing the market and causing capital outflows from emerging economies, and some emerging economies had to follow suit. The next US may fall into some degree of recession, which is based on the continuation of inflation, other factors remain to be seen. And the trend and causes of inflation in the United States is also debatable, there are many subtleties, I think the Fed should pay attention to the measures they take for emerging economies debt problems brought about by the impact.

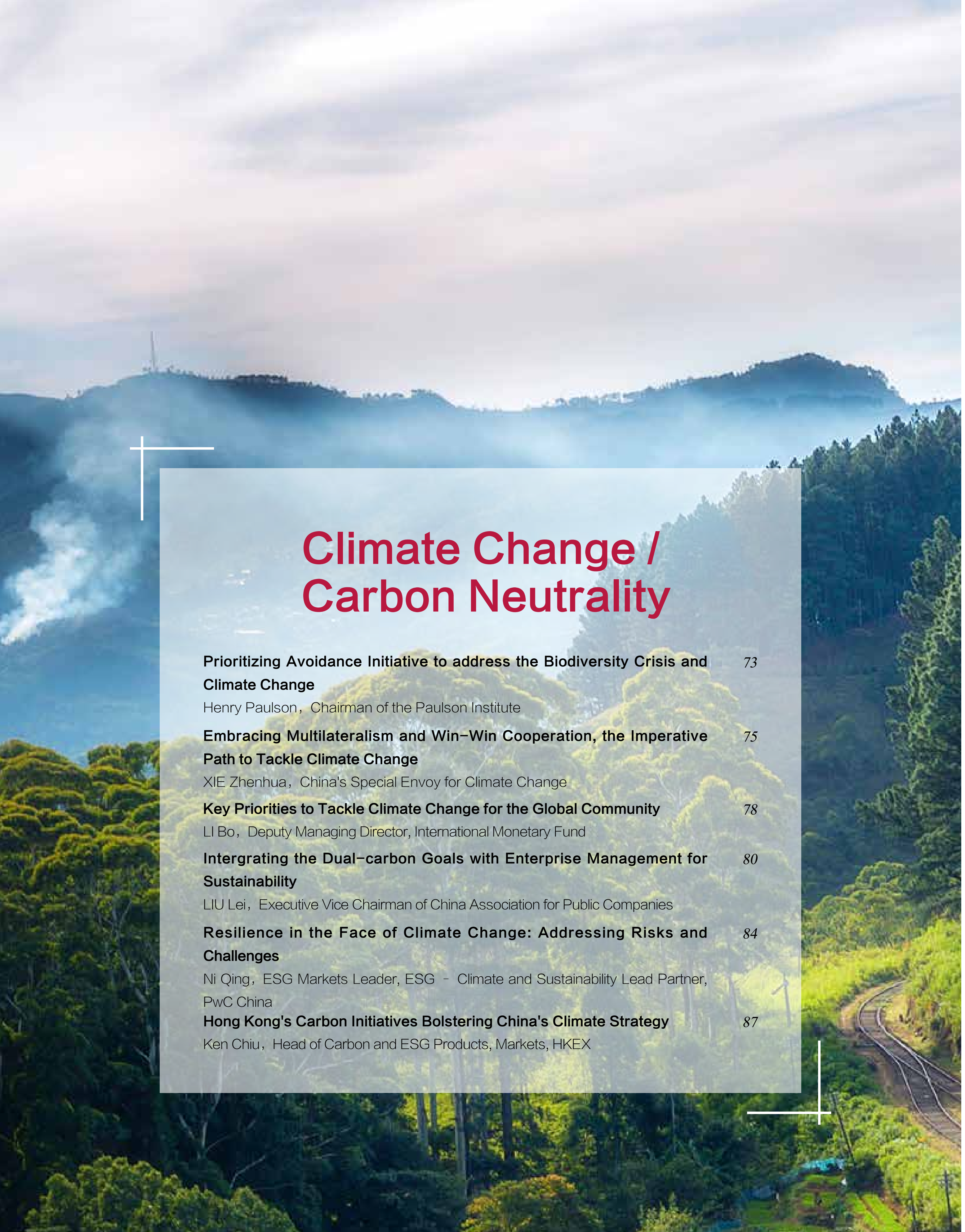
Japan has been in economic decline for 30 years in a row. Japan experienced an economic bubble in the 1990s, and after the bubble burst, it was the "lost 30 years". Why did this happen? Because after the bursting of the bubble, Japan experienced a balance sheet recession, that is, through the income side, the asset side continued to shrink to reduce liabilities, which led to an unfavorable wealth effect. This means that when there is a decline in commodity prices, it actually generates an unfavorable wealth effect.

In addition, Japan's demographic structure has entered an aging society, with negative population growth, and the percentage of Japanese over 65 years old has now reached 29%, which is twice as high as that of the United States. So in Japan there is not only a supply-side problem, but also a demand-side problem. Japan is putting more resources into old age, care and medical treatment for the elderly, rather than putting these resources into support and R&D work for young people, which is also a structural problem in Japan. Japan also faces competition from South Korea and some emerging economies. Countries and regions such as South Korea and China (including Chinese Mainland and Taiwan) pose strong competition to Japan, and they are constantly displacing Japanese companies in areas where Japan was once competitive, such as Samsung. Currently, the U.S. continues to lead in the high-tech field. In short, Japan's economy is relatively weak, if not stagnant.

Prices in Japan are low and deflation has been a major factor over the past 30 years. In terms of purchasing power parity, the yen should have appreciated to offset low inflation through appreciation. However, over the past 30 years, the deflationary factor has kept the yen's exchange rate stable and has not appreciated, which has also kept the overall price level in Japan low. For various reasons, it is difficult to sell products produced in Japan at high prices. Japan's environment is not bad in terms of production, but for prices and values, the situation is not so ideal.

In short, deflation in Japan has been going on for 30 years. Japan wants to reach 2% inflation, and if it wants to get out of deflation, Japan has to do quantitative easing. But Japan has kept interest rates low for a long time, and the 10-year government bond has been close to zero interest rates. Japan hopes to stimulate the economy through low interest rates, but it seems that such a low interest rate policy has not played the expected effect, but also produced side effects, resulting in quantitative easing policy can not be sustained. And now the bank spreads are too small, which is not good for the development of the banking industry. Now the yen is depreciating, and of course the depreciation has made Japanese assets and exports cheaper. In short, everything related to Japan is now cheap, and in some ways Japan is already like an emerging economy.

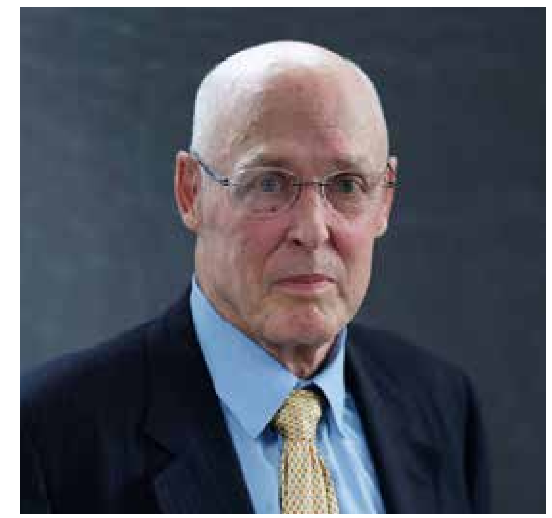
The last point, which is a very difficult one to solve, is that Japan has to restructure. But it is difficult for me to answer who should step in to make such an adjustment and whether it is necessary for the Japanese Ministry of Finance to intervene in the exchange rate mechanism. The yen once appreciated to 75 yen to the dollar, and the Japanese authorities intervened at that time, and this kind of intervention can be quite effective if it is done properly. If Japan's monetary policy is still low interest rates, it is necessary to intervene in the exchange rate to prevent further depreciation of the yen. Of course each policy must be precise and targeted at each specific goal, and it is important to ensure that these policies do not contradict each other.



Climate Change / Carbon Neutrality

Prioritizing Avoidance Initiative to address the Biodiversity Crisis and Climate Change

■ Henry Paulson / Chairman of the Paulson Institute



Henry Paulson

The main point of my talk today is about the importance of biodiversity, the crisis of which is very directly related to climate change. Compared to the current tense geopolitical conflicts, the risks associated with the environment are submerged in a myriad of issues that do not attract much attention. But the issue of environmental risks is critical to the future of the planet and the survival of humanity, and to effectively address environmental issues, it is imperative that China and the United States work closely together.

In November 2022, global leaders gathered at COP27 to promote efforts to advance progress on climate change, and in December, the world will convene in Montreal for the COP15 conference on biodiversity. In short, there is growing momentum to address these transnational risks, and to offer solutions that can scale at the global level.

But properly valuing nature is arguably the most important task for governments over the next decade. There is a clear economic, health and climate case for protecting nature. But just as important, there is an overwhelming case for preserving nature for its own sake.

Climate change and the biodiversity crisis are locked together in a cycle of destruction. Climate change is accelerating and exacerbating the biodiversity crisis - and in a vicious circle, biodiversity loss is exacerbating the climate change crisis. The global demise of coral reefs offers one example. Scientists predict that 70 to 90 percent of coral reefs will disappear within the next 20 years due to warming sea temperature, acidic water and pollution. This will put at risk 4,000 species of fish and approximately a half billion people globally who depend on coral reef ecosystems for food, coastal protection and employment. While these challenges are interrelated, the biodiversity crisis is even more alarming than climate change. There's much more we don't know about the dangers of throwing a complex system like Mother Nature out of balance.

There are no technological fixes to restore species that go extinct, nor are there cost-effective, man-made replacements for natural systems like wetlands which provide protection against floods, replenish groundwater reserves and filter the water that flows through them. Ultimately, it is far more cost-effective to prevent environmental damage in the first place than to clean it up afterwards. And many measures are not costly. For one, reforming harmful agricultural subsidies for forestry, fisheries, and farming would cost little or nothing. These perverse subsidies could be changed to still incentivize production while limiting our damage to natural capital. A second step is to improve our infrastructure planning. Given the trillions of dollars invested in infrastructure, it's important to mainstream biodiversity-related risk management practices in ways that mitigate the damage to biodiversity. Third, financial investors and lenders should also be required to do more to disclose the positive and negative environmental impacts of their financing and lending decisions.

To summarize, in the areas where we can make the biggest difference, we don't need to spend a lot of money—it just takes political will. Political leaders want to keep their jobs, so it is difficult for them to adopt policies which require sacrifices and pain in the short term in order to achieve longer term prosperity, particularly when it means changing long established economic models and practices supported by entrenched, vested interests. Changing long-established economic patterns and practices, which are based on deeply entrenched vested interests, is particularly difficult. Instead, the tendency is to prioritize immediate economic gains. But properly valuing nature is arguably the most important task for governments over the next decade. There is a clear economic, health and climate case for protecting nature. But just as important, there is an overwhelming case for preserving nature for its own sake. It is a source of much that is good about life: beauty, inspiration, innovation and intellectual curiosity.

I have always believed that a healthy planet is good for business. And for much of my career, this was a lonely position in the corporate world. But in recent years, something has changed. I've seen a new sense of urgency around nature conservation issues, a rapidly growing interest in the field of green and sustainable finance, and a renewed sense that collective effort can make a difference. So, I am optimistic that protecting and investing in nature can and will move into the mainstream of the financial world. The Paulson Institute and I look forward to working together with many of you to make a difference in the years ahead. We are pleased to be part of the US-China-EU Green Finance working group looking at transition financing.

Embracing Multilateralism and Win-Win Cooperation, the Imperative Path to Tackle Climate Change

■ XIE Zhenhua / China's Special Envoy for Climate Change

XIE Zhenhua

The world is facing a series of global challenges , such as the Covid-19 pandemic, geopolitical conflicts, energy and food shortages, economic slowdown and various crises triggered by climate change.At this moment, the international community should stick to multilateralism, strengthen international exchanges and cooperation, work together to create a policy environment conducive to sustainable development and cultivate new dynamics. By implementing and promoting green and low-carbon technologies, we will be able to accelerate transformation and encourage innovation in multiple areas, including economy, society, security, energy, food, health, environment and climate, to achieve synergistic development. This is particularly important to address the current multiple challenges effectively.

Among the various global crises and challenges, climate change has turned from a future challenge to an immediate one. Moreover, it has become increasingly urgent day by day. This year, extreme weather such as heat waves, droughts, floods and typhoons have occurred in many continents, seriously threatening the survival and development of all people and the well-being of future generations.

Faced with the challenge of global climate change, no country can be immune to it. Multilateralism and win-win cooperation are the only options.Therefore, it is important to join hands to work jointly on immediate development and long-term transition by all the concerned parties. Every country needs to take concrete action to implement the 2030 Intended Nationally Determined Contributions and medium- and long-term carbon neutrality targets. Strengthening the implementation of the United Nations Framework Convention on Climate Change and the Paris Agreement to accelerate green and low-carbon transition innovation and build a Community with a Shared Future for Mankind.

Some developed countries, affected by the Russia-Ukraine conflict and the energy crisis, swung back their policies and actions to address climate change,

and went back to fossil energy, such as coal, and increased carbon emissions. I hope these are only temporary measures for dealing with the immediate difficulties. I believe the general trend of the global green and low-carbon transformation and innovation set by the Paris Agreement and the 2030 United Nations Agenda for Sustainable Development is irreversible.

The world has already witnessed a new industrial revolution and technological change featured by green and low carbon emission. I hope all countries will not change because of the immediate difficulties. Please, continue adhering to the objectives of green and low-carbon transformation and innovation, fulfilling your responsibilities and obligations respectively, enhancing political mutual trust, creating a friendly diplomatic environment and opening trade and financial order for international cooperation.

China has always maintained its strategic determination and actively addressed climate change, taking steady actions to achieve the goals for peaking carbon emissions by 2030 and carbon neutrality by 2060. China has also decided not to construct new coal power projects in overseas markets. The country also set up a leading agency to achieve carbon emission peak and carbon neutrality goals, formed the 1+N policy system and actively promoted low-carbon development and green transformation.

Over the past decade, China's green and low-carbon transformation and innovation have been remarkably effective. In 2021, its carbon dioxide emissions per unit of GDP has dropped by about 34.4% compared to 2012, and energy consumption per unit of GDP decreased by 26.3%, with cumulative energy savings of about 1.4 billion tons of standard coal, equivalent to 3.7 billion tons less carbon dioxide emissions. The cumulative installed capacity of new energy generation reached over 1.12 billion kilowatts. The cumulative installed capacity of hydropower, wind power, and photovoltaic power generation reached and exceeded 300 million kilowatts, ranking first in the world. China plans to build 450 million kilowatts of large-scale wind power and photovoltaic bases in deserts, the Gobi areas and uncultivated lands. The construction of the first batch of 95 million kilowatts has already started. China accounts for one-third of the global installed renewable energy capacity, and 50% of the wind power and 80% of photovoltaic equipment components come from China. The country's investment in renewable energy has ranked first in the world for seven consecutive years. The number of new energy vehicles has reached 10.99 million, accounting for more than half of the global fleet. Forest stock has reached 19.493 billion cubic meters, making it the largest in the world in terms of forest resources. Moreover, China aims to plant 70 billion trees within ten years.

The report on the 20th CPC National Congress clearly states that China should actively and steadily promote carbon peak and carbon neutrality. And China should do so by basing on its energy resource endowment, and adhering to the principle of establishing before breaking, implementing peak carbon actions in a planned and step-by-step manner, promoting the energy revolution, strengthening the clean and efficient use of coal, accelerating the planning and construction of a new energy system, and actively participating in the global governance of climate change actions. The statement again demonstrates a firm determination to promote green, low-carbon and sustainable development and the harmonious co-existence of man and nature. It also shows that China will continue to take action to achieve the goals of addressing climate change, achieving carbon peak and carbon neutrality, regardless of the difficulties ahead.

China has made a historic contribution to the conclusion, signing, entry into force and implementation of the Paris Agreement. And at a critical moment when global climate governance is facing twists and turns and difficulties, China has called on all parties to jointly adhere to the Paris Agreement and not to give up lightly. China has boosted confidence and given a strong impetus to the international community's cooperation in addressing climate change. China will continue to work with other parties in the international community, to strengthen dialogue and exchange, and practical cooperation, promote continued positive progress in the multilateral process of addressing climate change, build a fair and reasonable global climate governance system with win-win cooperation; and make positive contributions to accelerate the global green and low-carbon transformation and innovation, therefore to protect the shared home of the all the people.

With the support of the United Nations and other relevant parties in the international community, the IFF has been actively promoting "One Belt, One Road" and green development for a long time, founding the Silk Road International Association (SRIA) and the IFF Global Green Finance Award. The IFF and Goldman Sachs also jointly organized the Sino-US Green Finance Work Group, which included 20 global enterprises. The IFF has also established a Global Carbon Pricing Conference Mechanism with the Paulson Institute and the European Carbon Pricing Task Force. Together with 45 international institutions, including the WRI, the UNDP, the UN Office for Climate Change, the UNEP, the World Bank, the IMF and the AIIB, the IFF launched the Global Joint Initiative on the Partnership of Biodiversity and Finance (PBF). The IFF has contributed to green economic recovery and sustainable development.

I hope the IFF will continue its efforts to give full play to its influence and create a new platform for international engagement. I believe the IFF will play an even greater role in promoting the global green and low-carbon transition and international cooperation in related fields.

Key Priorities to Tackle Climate Change for the Global Community

■ LI Bo / Deputy Managing Director, International Monetary Fund

LI Bo

The global economy is facing multiple challenges. Focusing on climate change, there are three key priorities for the global community.

The first is carbon pricing. The carbon price globally is now too low. IMF research shows that a 25% to 50% reduction in carbon emissions by 2030 is required to meet the goals set in the Paris Agreement. To achieve this level of emission reduction, the global average carbon price must reach $75 per ton, and the current global average carbon price is $6 per ton. So, there is a huge gap. Progress has been made. 22% of global carbon emissions in 2021 and 30% of global carbon emissions in 2022 have been covered by some schemes of carbon pricing. It shows that by working together, we can make progress and fill this gap. To do that, a combination of policies need to be introduced, including carbon tax, emissions trading, regulatory approach, fee-based approach and so forth. That is the first priority in response to climate change.

The second priority is climate finance. In order to achieve net zero, it is estimated that $3-5 trillion investment in green and climate projects is needed every year. In fact, the actual investment in those fields is less than half of the required amount, so there is $1-2 trillion shortage every year. As to filling this funding gap, we need to make good use of the existing resources and also mobilize more private capital. Given the huge gap, public funds will never be enough. In order to mobilize large-scale participation of private capital, it is necessary to create an appropriate policy environment, such as carbon pricing. We need to further improve the capacity of emerging markets and developing countries in public financial management, public investment management, and maintaining environmental and social standards. Finally, to mobilize private capital, blended finance, public-private partnership, is needed. The public sector needs to take the first loss and provide credit enhancement and de-risking instruments so that private sector investors can have a better risk-return calculation..

The third priority is just transition. Countries need to introduce fiscal policies, employment policies and social policies to help support population and regions adversely affected by climate transition. The International Monetary Fund (IMF) are incorporating climate into every aspect of its operation: conducting policy research and advice, proposing international carbon price floor for large emitters so as to bring up the carbon price to$75 per ton by 2030. The IMF is also incorporating climate into its bilateral and multilateral surveillance. The Article IV consultation and the World Economic Outlook look at climate risks on the world economy.

The IMF incorporates climate into its capacity development and conduct Climate-Sensitive Management of Public Finances (“Green PFM”), green Public Investment Management Assessment (PIMA), and green public debt management. In terms of lending activities, the IMF just launched the first long-term instrument “The Resilience and Sustainability Facility” to support members’ long-term structural efforts to tackle challenges such as climate change and pandemic preparedness.

The IMF will work with MDB partners to help support member countries in their fight against climate change.

Intergrating the Dual-carbon Goals with Enterprise Management for Sustainability

■ LIU Lei / Executive Vice Chairman of China Association for Public Companies

LIU Lei

The report of the 20th National Congress of the Communist Party of China pointed out that promoting green and low-carbon economic and social development is the key link to achieving high-quality development. Listed companies (public companies) have the cornerstone of the capital market and the functional advantages of a "converter" of economic development momentum, which provides some inspiration for how enterprises can seize historical opportunities to achieve green transformation and achieve the carbon peaking and carbon neutrality goals (dual-carbon goals).

Under the leadership of the China Securities Regulatory Commission, focusing on the goal of "creating a standardized, transparent, open, dynamic and resilient capital market", the China Association for Public Companies (CAPCO) based on the new development concept actively promotes and assists listed companies to fulfill corporate responsibility under dual-carbon goals to promote the improvement of the quality of listed companies. Let me share a few points of view:

First, listed companies deepen the concept of green transformation in their development and actively respond to the national "dual-carbon" strategy.

The green development of enterprises is the foundation of economic green development and the basis of the comprehensive green transformation of society. Realizing the dual-carbon goals is a complex and long-term task, which provides huge opportunities and challenges for listed companies. In the past two years, the international situation has been complicated, the domestic epidemic situation has recurred, and the downward pressure on the economy has increased. Still, the overall operating performance of listed companies maintains a growth trend. As of November 22, 2022, the number of listed companies in China's domestic stock market has exceeded 5,000, with a total market value of about 80 trillion yuan. According to the third-quarter performance report of the CAPCO, in the first three quarters of 2022, listed companies achieved a total operating income of 52.37 trillion yuan, a year-on-year increase of 8.51%; realized net profit of 4.75 trillion yuan, a year-on-year increase of 2.46%. As the "vanguard" of economic development, listed companies' implementation of the carbon peaking and carbon neutrality goals is not only a conscious action to promote the high-quality development of China's economy and realize green transformation but also a responsibility to deeply participate in global environmental governance.

In practice, many listed companies have seized unprecedented opportunities by accelerating technological research and development innovation, product low-carbon transformation, and green model innovation in production and operation. At the same time, listed companies have taken multiple measures to address the challenge of climate change and promote the reduction of greenhouse gas emissions. A number of listed companies have built internal carbon emission management platforms to monitor and manage carbon emissions and quantify and evaluate carbon footprints. Some companies have established a top-down climate change response system to improve climate risk management capabilities. Some listed companies have formulated specific carbon reduction commitments, specifying the proportion of reduction in carbon emission intensity. The pace of low-carbon and green transformation of listed companies continues to accelerate, and assisting the carbon peaking and carbon neutrality goals is becoming a must for more and more companies to sustain high-quality development.

Second, the level of ESG practice and information disclosure of listed companies has improved significantly under the "Dual-carbon" goals.

Strengthening ESG information disclosure is generally considered to be an important starting point for promoting listed companies to actively implement the dual-carbon strategy and promote sustainable development. ESG integrates environmental, social, and governance factors, and expands investment decision-making criteria and focus factors from traditional financial performance to sustainable development, public interests, and good corporate governance. In addition, China's Dual-carbon goals and the global development concept are closely consistent, providing a consensus standard framework for listed companies to implement the carbon strategy.

China's carbon strategy and high-quality development goals also provide a favorable policy soil for the vigorous development of ESG-responsible investment. In recent years, the asset management scale of global ESG funds has increased from US$1.28 trillion at the end of 2019 to US$2.74 trillion at the end of 2021, and the scale of ESG-related funds in China has also exceeded RMB 300 billion. Improving ESG performance will help listed companies gain recognition from domestic and foreign investors. While deeply practicing the concept of sustainable development, they will also gain support from the capital market, further enhance corporate value creation, and accelerate the pace of becoming better and stronger.

Listed companies are improving and strengthening ESG management levels to improve the understanding of ESG concepts and the country's carbon goals from all walks of life. We found that the group of listed companies has continuously established and improved the ESG management structure and institutional system, strengthened external exchanges, and promoted the implementation of practice and work. Especially in terms of ESG information disclosure, from 2011 to 2022, the number of A-share listed companies disclosing ESG-related reports has increased from 565 to more than 1,400, and the initiative to disclose ESG information has increased year by year. A number of listed companies have released social responsibility reports or sustainable development reports for 10 consecutive years or more, and have accumulated rich experience in ESG reporting.

At the same time, ESG information disclosure forms are also diversified, internationalized, and electronic, effectively expanding the scope and influence of ESG information disclosure. In terms of ESG rating improvement, as domestic and foreign ESG indexes and data rating agencies gradually strengthen their coverage of A-shares, more and more listed companies are striving to improve their rating performance, communicate with major domestic and foreign rating agencies in depth, and improve ESG ratings. Oriented to form improvement items, through the establishment of a normalized communication mechanism or active participation in questionnaires, etc., to understand its core concerns and obtain improvement suggestions, the rating structure continues to improve. For example, the distribution of ESG ratings among constituents of the MSCI China Index continues to rise, with the proportion of rating laggards falling from 59% in 2019 to 46% in 2021. The rating performance of some excellent companies has also been greatly improved. In international mainstream indexes such as S&P, Dow Jones, MSCI, and FTSE Russell, their ratings even surpass those of international excellent peer companies, which has continuously improved the recognition of Chinese companies in the international capital market.

Third, the CAPCO gives full play to the role of a self-regulatory service organization and guides listed companies to implement the vision of dual-carbon goals.

The CAPCO actively guides listed companies to promote the implementation of sustainable development-related work, guides listed companies to pay attention to the coordinated development of green innovation, and actively assumes the responsibility of promoting the realization of the dual-carbon goals. At the IFF global annual meeting, Ping'an Bank, China Construction Bank, Shenwan Hongyuan, Bank of Beijing, Sinopec, LONGi Green Energy, Industrial and Commercial Bank of China, Bank of China, Guodian Electric Power, China CITIC Bank and other member units of the CAPCO stood out in the selection of the Global Green Finance Award, winning the Annual Award as well as the Innovation Award.

Since 2022, the specific measures of the CAPCO are as follows: First, CAPCO holds special activities and build a communication platform. The ESG Professional Committee was established, the members of which are mainly listed companies involving regulators and professional institutions to build consensus and form synergy. By holding ESG-themed salons, conducting surveys and research, and advocating best practices, etc., a communication platform has been established for regulatory agencies, listed companies, investment institutions, domestic and foreign rating agencies and other ESG entities to guide and support ESG-related work of listed companies, to promote the formation of an ESG management system with Chinese characteristics and international recognition. The second is to make full use of the advantages of being close to listed companies, spreading the voice of China by telling China's ESG story of listed companies. At the same time, CAPCO dedicates to increaing the understanding of listed companies by domestic and foreign investment institutions and rating agencies. CAPCO compiled and published the "Outstanding ESG Practice Cases of Listed Companies" to enhance the awareness of Chinese listed companies by all market players. Hence, we guided listed companies to benchmark and continuously improved ESG capacity building. The third is to carry out relevant research and publish relevant research results. The CAPCO will continue to compile and publish the annual "White Paper on ESG Development of Listed Companies in China", "ESG Reports of Listed Companies by Industry", etc., to provide references for all sectors of society to fully understand the ESG development of listed companies.

We must insist on combining the general laws of the capital market with the reality of the Chinese market, and with the fine traditional Chinese culture, so as to accelerate the construction of a modern capital market with Chinese characteristics. The ESG development of China's listed companies is still at the incipient stage. In the future, CAPCO will proceed with a leading role with capacities of platform, position, bridge, and window, to gather wisdom and strength, and actively implement national strategies. Together, we can better shoulder the historical mission of China's carbon strategy.

Resilience in the Face of Climate Change: Addressing Risks and Challenges

■ Ni Qing / ESG Markets Leader, ESG – Climate and Sustainability Lead Partner, PwC China

Ni Qing

As we all know, climate-related risks have become the most significant medium- to long-term risks faced by the world, and the resulting natural disasters and economic losses have significantly increased in recent years. According to the World Economic Forum's "Global Risks Report 2022," five out of the top ten global risks in the next decade are climate and environment-related. According to a United Nations report, the number of natural disasters caused by climate change and the resulting economic losses have almost doubled in the past 20 years compared to the previous 20 years. Therefore, addressing climate change and achieving low-carbon transformation has become a consensus and trend for global economic sustainability. Currently, the GDP of countries that have made carbon neutrality commitments accounts for over 90% of global GDP.

Although countries have made carbon neutrality commitments, the actual progress in decarbonization is far from sufficient. According to the latest "Net Zero Economy Development Index 2022" released by PricewaterhouseCoopers, the global average decarbonization rate from 2000 to 2021 was only 1.4%. To achieve the temperature control goal of 1.5℃ under the Paris Agreement, the global average decarbonization rate needs to reach 15.2% by 2030.

Countries around the world should strengthen coordination and cooperation under the United Nations Framework Convention on Climate Change, fully leverage the role of markets and governments, and accelerate the transition of economies towards green, low-carbon, and sustainable development. Specifically, there are three recent trends worth noting: First, further improvement of green and sustainable finance frameworks. For example, the framework recommendations proposed by the Task Force on Climate-related Financial Disclosures (TCFD) established by the Financial Stability Board (FSB) have become an internationally

recognized framework for climate-related financial disclosure. Regulatory agencies in multiple countries and regions have explicitly required financial institutions, and even listed companies, to disclose information in accordance with the TCFD framework. Currently, there are over 4,000 TCFD-supporting organizations involving over 100 countries and regions. The ultimate goal of promoting disclosure is to achieve better resource allocation. According to the "Emissions Gap Report 2022," at least $40-60 trillion of investment is estimated to be needed annually to achieve global low-carbon transformation. Such a massive investment cannot rely solely on governments; it requires fully mobilizing the private sector and leveraging the power of the market. Of course, establishing frameworks is also crucial. China, for example, has established a green finance framework and built the world's largest green credit market in just over six years, with a credit balance exceeding 20 trillion. However, apart from purely green projects, there are still many projects that belong to the brown sector or do not meet the definition of green, as well as financial demands for overall decarbonization transformation by enterprises, which need further improvement in policies.

In November 2022, at the G20 Leaders' Summit held in Bali, the G20 approved the "2022 G20 Sustainable Finance Report" submitted by the G20 Sustainable Finance Working Group, which includes the "G20 Transition Finance Framework." With this framework as a guide, G20 members will be able to develop specific policies for transition finance based on their own circumstances, including transition finance standards and disclosure requirements. It is believed that soon, G20 member countries, including China, will timely launch their own transition finance frameworks and guidelines to accelerate the transformation of existing entities in response to market demand.

The International Sustainability Standards

Board (ISSB) was officially announced by the International Financial Reporting Standards Foundation (IFRS) at the COP26 conference in November 2021. The ISSB aims to provide high-quality disclosure standards related to climate and other sustainability issues for the global financial market. Currently, the draft International Sustainability Disclosure Standard (ISDS) published by the ISSB has received a lot of positive feedback and has the potential to become a global unified ESG sustainable disclosure standard. This is because the sister organization of the ISSB, the International Accounting Standards Board (IASB), has already established broad influence in global financial accounting standards. The accounting standards system introduced by the IASB is already implemented in over 140 countries and regions worldwide. In the future, ESG sustainable development reports will be as important as financial reports, with non-financial and financial information complementing each other, fully meeting the needs of investors and capital markets.

Currently, some economies have started to gradually establish laws and regulations and propose mandatory disclosure requirements. The European Union (EU) is at the forefront of legislation on corporate sustainability information disclosure. In 2021, the European Commission issued the proposal for the Corporate Sustainability Reporting Directive (CSRD). In November 2022, the European Parliament and the Council of the EU successively reviewed and approved the proposal. Subsequently, after being signed by the President of the European Parliament and the President of the Council, the CSRD will be published in the Official Journal of the EU and officially take effect 20 days later. The CSRD will replace the current Non-Financial Reporting Directive (NFRD) rules, and the scope of application of the CSRD will be expanded fivefold based on the NFRD, affecting over 50,000 companies. It will cover all EU-market-listed companies, defined large companies, and non-EU companies with significant business in the EU. The CSRD sets higher requirements for sustainable disclosure, not only requiring companies to regularly disclose reliable and quantifiable information on social and environmental impacts but also mandating the audit of the reported content, with regulatory and quality requirements equivalent to those of corporate financial statements.

To better promote the sustainable transformation and development of the real economy, governments and markets need to jointly promote the development of sustainable finance frameworks, sustainable information disclosure requirements, and sustainable regulatory legislation. Governments can strengthen legislation, establish framework requirements, establish financial support systems, and prevent "greenwashing" risks through strict enforcement. Market entities, on the other hand, can continuously improve their ESG management levels through higher-quality information disclosure, better showcasing the long-term sustainable development value of companies to capital markets and investors.

Hong Kong's Carbon Initiatives Bolstering China's Climate Strategy

■ Ken Chiu / Head of Carbon and ESG Products, Markets, HKEX

Ken Chiu

There is growing global concern about the worsening climate crisis, and countries are committed to mitigating climate change by reducing greenhouse gas emissions and contributing positively to keeping temperatures within 1.5°C relative to pre-industrial increases. Tackling climate change is a global task that can only succeed if all countries in the world work together.

First, let me introduce the background and status quo of the carbon market. The carbon market is mainly divided into a mandatory market and a voluntary emission reduction market. The mandatory market has three main functions: first, by managing the total greenhouse gas allowances of specific industries and enterprises, it can achieve the effect of managing overall emissions. Second, the mandatory market facilitates allowance redistribution, providing a convenient way for the resale of allowances among emission-controlling enterprises. The third function is price discovery. Through the free or paid allocation of allowances and the sale and purchase in the market, a carbon pricing mechanism based on market mechanism is formed. As the transition to a low-carbon economy accelerates, the global carbon market is growing in its scale and significance, and Asia is no exception. According to MSCI, the size of the global mandatory market has reached US$270 billion. In detail, the EU ETS is one of the most flexible and soundest ETS in the world, with the EU ETS market accounting for approximately 90% of carbon allowance trading in 2021. China launched its first national carbon emissions trading market, also known as the "national market," in July 2021, which currently runs in parallel with eight other pilot carbon markets that have been operating for years. The national market will eventually cover eight sectors, including electricity, chemicals, building materials, steel, non-ferrous industries, paper, petrochemicals, and aviation, and China's ETS market will become one of the largest carbon markets in the world.

Next, I will introduce the voluntary emission reduction market. The voluntary emission reduction market aims to channel and invest different global resources, including funds,

into projects that enhance environmental protection, such as carbon capture and storage technologies (CCUS), and the effective and fair operation of this market is inextricably linked to the development of relevant international standards and the implementation of standards. For businesses in general, sustainability initiatives such as environmental protection and carbon neutrality are no longer optional, but rather mandatory. Multinational companies, for example, are demanding that their supply chain companies become carbon neutral, and more organizations are therefore seeking tools, technologies, and funding to support their business to successfully reduce carbon or transition to carbon neutrality. The VEM is therefore an international marketplace and can positively influence the private sector to invest resources in carbon reduction. According to a report published by Eco Marketplace, an international initiative, in August 2022, the value of the global voluntary emissions reduction market quadruples to $2 billion in 2021 compared to 2020. The rapid growth of the voluntary emissions reduction market can be attributed to the UN Climate Change Conference in 2021, the focus on corporate social responsibility and the increasing number of companies and countries setting carbon neutrality targets.

In general, we need to understand the different market mechanisms designed to enable them to operate properly in an orderly and effective manner in accordance with the expected goals and requirements, including the interaction between mandatory and voluntary markets, the development of standards for issuing carbon rights related to voluntary markets, the impact of related market operations on cross-border regulation mechanisms and NDCs, and effective mechanisms for risk avoidance.

By understanding the decisions and trends in investment and financing, we can see the increasing influence of ESG in the financial sector. According to Reuters Reuters, the size of the green finance market in HKSAR in 2021 has increased five times to US$32 billion compared to the same period in 2020. With the backing of the motherland, an international orientation and favorable policy drivers, the HKSAR is well positioned to expand Hong Kong's carbon market and help the country achieve the "double carbon" target and the HKSAR's 2050 carbon neutrality goal.

Based on its unique positioning, the HKSAR has played an active role in promoting the healthy and rapid development of the domestic and international carbon markets, promoting the use of RMB in the international carbon market, and assisting different enterprises and organizations to achieve carbon neutrality. This is mainly reflected in the following four areas:

First, in the latest Policy Address of the HKSAR in 2022, it is mentioned that we will vigorously develop green and sustainable finance, which specifically points out the need to develop an international carbon market in Hong Kong.

Second, as one of the world's leading international financial centers, many international financial institutions have been rooted in the HKSAR and have a large pool of talent and extensive expertise in different industry sectors, while the HKSAR has a sound and trustworthy regulatory environment that is in line with international standards.

Third, the HKSAR is familiar with domestic and international carbon market certification standards and has good green certification and financial services, which can play an important role in promoting national related mechanisms, such as the internationalization of China's certified voluntary emission reduction product CCER.

Fourth, as one of the largest offshore RMB centers, Hong Kong SAR can play an active role in the international carbon market in Hong Kong SAR to promote the international carbon rights to be denominated in RMB, which can laterally help RMB internationalization.

In addition, there are several highlights in the development of Hong Kong's international carbon market as follows:

First, there is no mandatory emission reduction market in HKSAR, nor is there any carbon tax arrangement, so it is a logical choice to create a voluntary emission reduction market first. The Hong Kong international carbon market is the first and only international carbon market in China, which can be an effective complement to the current national and local pilot carbon markets.

Second, the Hong Kong International Carbon Market is the only carbon exchange in the world that uses both RMB and HKD as the international currency for carbon rights pricing and settlement.

The Hong Kong International Carbon Market can effectively address the pain points of the carbon market, including the trading-related risks faced by some enterprises, and seek voluntary emission reduction credits with credit and high quality.

The launch of the Hong Kong international carbon market can meet the current demand for international carbon rights in the real economy, including meeting the carbon neutral requirements of other countries for enterprises in related industry chains and the requirements for ESG carbon footprint disclosure of listed companies.

Green Finance / Sustainable Development

World Bank's Role in Facilitating Global Economic Recovery

■ Mari Elka Pangestu / Former World Bank Managing Director of Development Policy and Partnerships

Mari Elka Pangestu

To promote the economy development of developing countries is a long-time focus of the World Bank. The world is facing a poly-crisis and the challenges faced by developing countries are really huge. From the World Bank perspective, what we have been doing is twofold. One is, how do you erase the immediate and urgent crisis, which is still ongoing? And at the same time, we have to also look at the longer-term recovery and growth path ahead, which needs to be green, resilient, and inclusive.

Developing world is facing an exceedingly challenging global context with the multiple overlapping crisis, the slowing down of the global growth prospects, including the potential of a recession. On Top of the fact that we have tightening financial conditions, strong dollar, and a debt overhang in many developing countries. Those are the description of the current challenging global economy that developing countries are facing.

I want to emphasize the reversals of development that developing countries are facing. We are calling it a crisis of development. Just to give you two numbers. One of the most important one is the reversal of progress in extreme poverty. Our most recent poverty projection show that we have the largest 1-year increase in extreme poverty in 2020 of 70 million. And we expect this is also going to be happening in 2022. At the moment we have 719 million people are living in extreme poverty. And half of the world is also at below $6.85. So this is also not just a low income country problem, but also a middle income country issue.

The other number is the reversal in human capital. It came really a crisis because of the pandemic. Give you one number. Learning poverty, which is the ability of a 10-year-old to read and understand a simple text, went up from 54% to 70% of the population. This is 14% of lifetime earnings losses, a 13% of GDP lifetime earning losses. So there's a huge loss generation if we don't address the human capital losses. So that's just a reveal of the real challenges that developing countries are facing. In the short term, the

risk of financial stress, how to navigate the need for averting deeper economic downturn with that of restoring price stability and fiscal sustainability, and all the high inflation challenges and managing fiscal policies.

What we need to do is twofold, how do we deal with the immediate and urgent response to the multiple crises? The World Bank, and regional development banks and other multilateral development banks, all we have been doing for the last 2 years, is immediate and urgent response. World Bank had $130 billion unprecedented response to the pandemic. And now we have $170 billion, a global crises response package, which focuses on all these issues, especially and including a 30 billion part of it is the food crisis, which is not over yet. We have to address also the fertilizer issue, for instance, and so on. So That's the big picture and really working with the developing countries on their macro policies to manage the fiscal and the monetary policies so that they can face this challenging situation.

But now turn to the longer-term issue, which is, all the meetings that we've been having in the last few months, starting with annual meetings and then going into COP and going into G20, all of them have the same message that we really need to focus on the longer term recovery and growth and how to address what's called the global public goods issue.

How do you deal with the climate crisis? How do you deal with the pandemic? And how do you deal with fragility? These are issues that are cross border that we have not been able to address, but they have a huge impact on development. So just three key messages. One is that the key action that policy makers need to prioritize is to support recovery. And this is based on a big and urgent investment in all forms of capital, human, capital, physical, social, and natural because of the climate crisis supported by innovation and technological in a diffusion.

This big investment push needs scale of concessional and multilateral financing, which will hopefully catalyze other flows of financing. And this will need international cooperation as well as innovative approaches to mobilize capital. All of the meetings that we've had in the last few months is calling for an evolving role for the multilateral development banks. And we have to expand our support. We are working to expand donor guarantees, grant resources and climate related funds and review increasing lending capacity for the World Bank.

All the MDBs are doing this. And WB, and other MDBs, are having discussions with our shareholders, as well as credit rating agencies. How can we push further lending based on our existing balance sheet? How can we come up with innovative instruments? But going further, we must address the issue of the evolving role. What is the role of multilateral development banks for addressing the global public goods crisis? We have to provide concessional resources, and it has to be on a large scale. Estimation for financing for climate is between US$ 1 to 2 trillion. That's huge. It can't just come from multilateral development banks, but multilateral development banks can provide the concessional financing plus the policy support and institutional strengthening support that will crowd in the private capital.

And I think that's really the crux of how we should we need to evolve. We have to do more on the concessional side plus the policy coordination and institutional strengthening to crowd in what will be needed. It will be all other sources of finance, which also can come from the financial sector, from the private sector investment, grants from philanthropy and other sources. And I think the role of coming up with a green financial architecture is also a key part of this, because I know that's one of the priorities for IFF and I think all of us will be working together on this.

The Role of Green Finance in Achieving the Dual-carbon Goals

■ WU Xiaoqing / Member of the Standing Committee of the 13th CPPCC National Committee, Deputy Director of the Committee on Agriculture and Rural Affairs of the CPPCC National Committee

WU Xiaoqing

Currently, the crisis of economic recession looms like a sharp sword, and climate change has become a new threat to financial stability. At the G20 Bali Summit, leaders from various countries reaffirmed their commitment to cooperation in addressing global economic challenges. Sustainable energy transition was listed as one of the three key priorities of the summit, further highlighting the need to address environmental and ecological challenges to overcome the global development dilemma. The 20th National Congress of the Communist Party of China emphasized the need to accelerate the green transformation of development modes, improve fiscal, tax, financial, investment, and pricing policies and standards that support green development, develop green and low-carbon industries, establish a sound system for optimizing the allocation of resources and environmental factors in the market, accelerate the research, development, and promotion of energy-saving and carbon reduction advanced technologies, promote green consumption, and promote the adoption of green and low-carbon production and lifestyles. This not only sets the direction for China's green development but also contributes China's wisdom to global sustainable development.

China has entered a new stage of development, and advancing the "dual carbon" goals is an urgent need to solve prominent resource and environmental constraints and achieve sustainable development. It is also an urgent need to keep up with technological progress, promote economic structural transformation and upgrading, meet the increasing demand of the people for a beautiful ecological environment, promote harmonious coexistence between humans and nature, and proactively assume the responsibilities of a major country to promote the building of a community with a shared future for mankind. China has issued the "Opinions of the CPC Central Committee and the State Council on Fully Implementing the New Development Philosophy and Doing Well in Carbon Peak and Carbon Neutrality" and the "Action Plan for Carbon Peak Before 2030". These two documents incorporate

carbon peak and carbon neutrality into the overall framework of economic and social development. The "Opinions" point out the need to actively develop green finance to help achieve the "dual carbon" goals.

In the first three quarters of 2022, Chinese banking institutions have increased their investment in green credit, maintaining a high-speed growth overall. According to data released by the People's Bank of China, by the end of the third quarter of 2022, the balance of green loans in both domestic and foreign currencies reached 20.9 trillion yuan, of which loans for projects with direct and indirect carbon emissions amounted to 8.3 trillion yuan and 5.56 trillion yuan, accounting for a total of 66.4% of green loans. The attractiveness and influence of China's green finance market on a global scale are continuously increasing.

While making progress and achievements, we must not ignore the difficulties and challenges. For the financial industry, promoting green transformation in the manufacturing industry, relying on new technologies to incubate new financing models, requires not only internal dialogue and cooperation within the financial sector but also the collaboration of financial institutions, enterprises, and government agencies, as well as the input of numerous experts to jointly address challenges and provide more diversified and diverse products to meet production needs. Correspondingly, international cooperation on green finance also needs to be upgraded. First, it is necessary to actively participate in the carbon pricing mechanism and macro coordination of international green finance standards, jointly improve the evaluation mechanism of green finance with relevant parties, and promote green and low-carbon transformation. Second, cooperative development of green and low-carbon financial products and services should be carried out in an orderly manner, establishing effective currency policy tools for linking carbon emissions reduction between China and foreign countries, vigorously developing financial instruments such as green loans, green equities, green securities, green insurance, and green funds, and guiding banks and other financial institutions of all countries to provide long-term, low-cost funds for cross-border green and low-carbon projects. Third, support eligible enterprises in domestic and overseas listings and refinancing for the construction and operation of green and low-carbon projects, and expand the depth and breadth of the global green securities market. Fourth, explore the establishment of intergovernmental funds for low-carbon transformation, support the green transformation of key traditional industries and resource-rich regions, and encourage the establishment of green and low-carbon industrial investment funds by social capital of various countries.

In June 2022, the State Council issued the "Overall Plan for Deepening Comprehensive Cooperation among Guangdong, Hong Kong, and Macao with a World Orientation in Nansha, Guangzhou," which emphasizes the need to strengthen bottom-line thinking, respect history, culture, and ecology, strengthen risk prevention and resolution, and ensure the healthy, orderly, and sustainable development of Nansha, Guangzhou. On the other hand, it is necessary to strengthen cooperation with the European Union and developed economies in North America, promote integration in areas such as financial technology innovation, further integrate into the regional and global economy, and promote the formation of green and low-carbon production and lifestyles. We must build a high-level open gateway in Nansha, promote innovative development, fully leverage the key role of finance, and always adhere to an international orientation.

The International Financial Forum (IFF) will celebrate its 20th anniversary in 2023. Over the past 20 years, the IFF has played a role as a new platform for international exchanges, actively promoting global strategic dialogues, exchanges and cooperation, and innovative practices, and has made many effective contributions to promoting comprehensive sustainable development and strengthening international cooperation in green finance. In particular, the IFF has actively invited international and domestic experts to provide advice and strategies for the sustainable development and green finance practices in the Guangdong-Hong Kong-Macao Greater Bay Area, actively implementing the State Council's "Nansha Plan" with practical actions. It is hoped that the International Financial Forum (IFF), based in Nansha and coordinated with Hong Kong and Macao, will provide a high-end international platform for dialogue on global economic sustainable development and make new and greater contributions to promoting global economic sustainable development together.

Green Finance Flourishes in China: Nurtured by Top-Level Design and Pilot Exploration

■ SONG Min / IFF Academic Committee Member, Dean of the IFF Institute, Dean of Economics and Management School of Wuhan University

SONG Min

Although China's green finance started relatively late, it has become one of the world's largest green finance markets with strong policy support. Currently, China has initially formed a multi-level green finance product and market system, including green loans, green bonds, green insurance, green funds, green trusts, carbon finance products, etc. By the first half of 2022, the overall size of China's green finance market has exceeded 20 trillion yuan. This rapid development is attributed to China's excellent design and continuous improvement of green finance policies. China is one of the first countries to establish a systematic green finance policy framework. The combination of "top-down" top-level design and "bottom-up" pilot exploration constitutes the overall framework of China's green finance policies.

I. China's Green Finance Policies

The central government has provided guidance for the continuous improvement of the top-level design of green finance, while local governments have provided replicable and scalable development experience through various green finance reform pilot projects. The model of "top-level design + pilot exploration" has facilitated the vigorous development of green finance in China. In addition, considering the limitations of green finance in supporting high-polluting and high-emission enterprises to achieve a soft landing for pollution reduction and carbon reduction, China further encourages the development of transition finance.

I.1 Continuously improving the top-level design of green finance

The "top-down" top-level design, starting from a strategic perspective, deploys comprehensive and unified plans for the development of green finance, which is conducive to optimizing resource allocation, promoting the development of green finance business, and facilitating green finance innovation. In August 2016, the People's Bank of China and six other departments jointly issued the "Guiding Opinions on Building a Green Finance System," establishing the top-level framework for the construction of China's green finance system. In 2021, the People's Bank of China established the development concept of green finance, which includes the "Three Functions" (resource allocation, risk management, and market pricing) and the "Five Pillars" (green finance standards system, financial institution supervision and information disclosure requirements, incentive constraints mechanism, green finance product and market system, international cooperation in green finance), further improving the top-level design and institutional arrangements for green finance. Currently, the three major functions of green finance are emerging, and the five pillars are gradually taking shape. They play an increasingly important role in supporting China's low-carbon transformation and high-quality development. Specifically, they have established a domestically unified, internationally aligned, and clear and executable green finance standards system; made significant progress in financial institution supervision and information disclosure; gradually improved incentive constraints mechanisms for green finance; formed a multi-level green finance product and market system; and deepened international cooperation in green finance.

I.2 Exploring green finance development models through pilot reforms

The "bottom-up" pilot exploration, through practical discoveries and experience summaries, is conducive to the development of locally applicable green finance that aligns with local characteristics. China is the only country in the world to establish green finance reform and innovation pilot zones. Since 2017, the State Council has approved the establishment of green finance reform and innovation pilot zones in nine cities of six province-level regions. These pilot zones serve as the "fortresses" of China's green finance development, promoting the emergence and application of new models, technologies, and formats, stimulating innovation, and providing new impetus for the development of green finance. In addition to the pilot zones, in 2021, the Ministry of Ecology and Environment, the National Development and Reform Commission, and other nine departments jointly issued the "Notice on Carrying out Climate Investment and Financing Pilot Work," which identified 23 localities as climate investment and financing pilot areas, actively cultivating key projects with significant climate benefits, and striving to explore climate investment and financing development models within 3 to 5 years to help achieve the dual-carbon goals.

I.3 Promoting transition finance development

Transition finance is an important supplement to the green finance system and an inevitable path for implementing the national dual-carbon goals. Traditional green finance focuses on supporting "pure green" or "close to pure green" projects, while economic activities in high-carbon industries transitioning to low-carbon activities do not receive sufficient financial support. This "decarbonization" of finance is detrimental to the overall low-carbon transformation of society. To help high-polluting and high-emission enterprises achieve a soft

landing for pollution reduction and carbon reduction, China actively encourages the development of transition finance. Currently, the People's Bank of China and the National Development and Reform Commission are studying the definition standards, relevant policies, and guidance documents for transition finance.

II. Recommendations for further incentivizing the development of green finance

Promoting the development of green finance requires comprehensive and comprehensive policy support. It is necessary to establish a sound policy system for green finance, coordinate the relationship between central and local policies, economic policies, and administrative measures, and stimulate market vitality and the enthusiasm of financial institutions.

II.1 Improve institutional and data infrastructure.

For example, improve green finance standards and information disclosure guidelines, optimize green finance assessment criteria, and utilize information technology to enhance green finance management. Incorporate provisions encouraging the development of green finance into environmental protection laws and regulations to clearly require relevant institutions to fulfil environmental protection responsibilities in financial activities.

II.2 Enhance policy incentives for green finance.

In terms of monetary and regulatory policies, further broaden the scope and duration of the application of policies related to the People's Bank of China's carbon emission reduction support tools, promote the inclusion of green finance performance in macro-prudential assessment, increase the proportion of high-standard green bonds as eligible collateral for monetary policy, reduce the risk capital occupied by bank investments in credit bonds of green companies, and further stimulate investment vitality in the green sector. In terms of fiscal policies, relevant departments can provide financial and tax preferential measures to financial institutions actively participating in green finance, including tax incentives, interest subsidies, and appropriate rewards, encouraging financial institutions to actively participate in the design, issuance, and investment of green finance products, explore the establishment of financial risk-sharing mechanisms, and improve benefit compensation mechanisms to address the current issue of high financing costs in green finance. In terms of industrial policies, use market access policies to restrict the expansion of high-carbon industries, and use government industry funds to support the green and low-carbon transformation of high-carbon industries. Finally, further incentivizing the development of green finance requires substantial investment, and therefore, the power of the carbon market can be utilized to make carbon-neutral investments have predictable and measurable reasonable returns, encouraging financial institutions to actively participate in green finance.

II.3 Strengthen international cooperation in green finance.

Countries should adopt a global perspective, abandon vicious competition, promote the common development of green finance through competition and cooperation, strengthen policy coordination in the field of green finance, promote the construction of international standards systems for green finance, and actively build a global data sharing platform for green finance.

The combination of "top-down" top-level design, "bottom-up" pilot exploration, and the complementary development of transition finance will create a bright future for China's dual-carbon goals in terms of excellent design and continuous improvement of green finance policies.

Expediting Green Investment and Financing for China's Green Transformation

■ WANG Dan / Chief Economist, Hang Seng Bank (China)

WANG Dan

Over the past decade, China has had the highest investment in economic and green transformation, making it the world's largest carbon emitter as well. This is due to both the traditional economic structure and the inevitable difficulties encountered during the economic transition. A significant part of China's green transformation is carried out through industrial policies, where the government sets plans and limits investments by companies in certain traditional high-energy-consuming industries. The aim is to guide capital into emerging industries that are green and low-carbon through market mechanisms.

China's green investment can be divided into two parts: domestic and international. Domestically, China's greatest advantage lies in new energy, particularly photovoltaic industry and wind power. Since 2005, investments in photovoltaic and wind power have grown exponentially, which has been a process of rapid growth as well as fierce competition and natural selection. Through this process, China has developed a number of globally competitive photovoltaic energy companies, showcasing the determination of the Chinese government in industrial policy. Driving climate transformation and implementing ESG principles involves not only environmental protection, biodiversity, and green finance, but also determines the way China will develop its economy over the next 20 years.

Since the year 2000, developed countries have been leading in green investments. However, since the outbreak of the COVID-19 pandemic and due to energy crises, the growth rate of green investments in developed countries such as Europe and the United States has declined. In contrast, emerging market countries like China, India, and Brazil have accelerated their efforts in implementing climate commitments and increasing green investments.

Why does China demonstrate such determination and exert such great efforts in the field of green investment?

Firstly, China has committed to achieving carbon neutrality by 2060, which is a binding target that needs to be reflected in annual economic growth and economic transformation. Initially, when the carbon neutrality target was proposed, China implemented a carbon reduction drive that resembled a movement. However, it was quickly realized that this approach was not feasible as it had a significant impact on China's energy supply to rapidly decarbonize, close coal-fired power plants, and reduce coal production. This led to energy shortages in 2020 and 2021. Subsequently, significant adjustments were made, and the Chinese government proposed to promote clean and efficient utilization of coal based on the actual national conditions. Investments in clean coal technologies such as coal-to-oil and coal-to-gas gained renewed attention. Additionally, China has a special need to develop clean energy and undergo green transformation due to its domestic electricity demand.

China's economic structural transformation used to rely mainly on investment and consumption-driven growth, but in the next 20 years, it will increasingly rely on automation and high technology. The successful transformation of China's economic structure implies an exponential increase in electricity demand, which cannot be met solely through traditional coal-fired power generation.

China's investments in photovoltaic (PV) power generation, as of the end of 2022, are approximately three times the amount invested in 2021. Following this trend, by 2030, China aims to reduce the proportion of coal-fired power generation in its electricity mix to below 40%, while significantly increasing the share of PV power generation. In terms of outbound investments, particularly in the context of the Belt and Road Initiative, in September 2021, China announced that it would no longer build new overseas coal-fired power projects. This reflects the overall trend of major countries phasing out coal-fired power and has a significant impact on the energy transition in developing countries. China has been the largest provider of funds and technology for coal-fired power projects globally. Since the announcement, at least 15 coal projects have been directly canceled.

In terms of financing, the main credit support comes from China Development Bank and China Export&Credit Insurance Corporation, which employ various methods to support the transition away from coal-fired power. Since 2016, the share of fossil fuels in overseas energy projects under the Belt and Road Initiative has been declining. The requirement for green transition in overseas projects has led to significant changes in financing methods. In the past, Chinese coal and hydro-power projects relied heavily on overseas contracting, with financing provided based on sovereign guarantees from host countries. This approach was successful over the past 20 years. However, in the field of renewable energy, independent project financing has become the mainstream approach. China not only needs to attract private capital but also needs to collaborate with third parties to accelerate the learning process.

The highlight in terms of financing is the green bond market, where China is constructing the world's largest green bond market. In 2021, around 90% of green bond issuance in China was allocated to renewable resources, low-carbon transportation, and green buildings. The largest financial support comes from China Development Bank, State Grid Corporation of China, and State Power Investment Corporation. However, there is still a significant gap between China's green bond market and those in Europe and the United States. The European green bond market has lower human resource and financing costs compared to other bonds due to the willingness of investors, driven by economic or corporate needs, to invest in green bonds. In China, the market is mainly driven by banks, with lower premiums and higher costs for green bonds compared to other conventional bonds. Although both China and Europe have policy-oriented green bonds, Europe has stronger market-driven forces.

Furthermore, despite the large issuance volume of green bonds in China, the definition of green bonds is not as strict as international standards due to the early stage of ESG development in China. While foreign green bonds primarily focus on carbon neutrality, China's green bonds cover a wide range of areas, including pollution reduction, environmental protection, and even biodiversity. This makes it difficult for investors to differentiate between green bonds and general bonds. In terms of financing through green bonds, China's definition is also broad. The additional funds obtained from green bonds should be used for carbon reduction-related activities. However, China's green bonds can also be used for infrastructure projects such as airport construction and highway development, which may raise controversies when it comes to bonds specifically targeting carbon neutrality. Although China attaches great importance to the green bond market and has made significant progress, the central bank acknowledges that there is a risk of some high-risk borrowers taking advantage of this opportunity, leading to defaults in green bonds. Therefore, there is still a long way to go in terms of green transformation, especially in terms of financial support.

However, China's financial market, especially in green transformation, will undoubtedly witness a new landscape over the next 20 years, and both companies and banks need to fully recognize this.

HSBC China aims to be an industry leader in ESG and adopts a target-driven approach. Different attempts are being made by banking institutions, including HSBC China, in various product structures. However, these attempts are still in the early stages of practice and their wider adoption still relies on the market's ultimate choice. To enhance liquidity in the financial market for green bonds and green finance, efforts and collaboration from all sides are required.

ESG Implementation: Challenges and Future Prospects

■ ZHAO Yonggang / General Manager of ESG Department of China Securities Index

ZHAO Yonggang

At the very beginning of my speech, I will introduce how to view the implementation of ESG concepts by listed companies from a broader perspective.

The implementation of ESG concepts by listed companies is not only a response to global climate change but also a requirement for serving the development of Chinese-style modernization. The Chinese Communist Party's 20th National Congress Report puts forward several key points about Chinese-style modernization, including common prosperity for all people and harmonious coexistence between humans and nature. These two points are highly compatible with environmental protection and social responsibility in ESG. The report also mentions the construction of a high-level socialist market economy and the improvement of China's modern enterprise system, which aligns with the important connotations of corporate governance. Therefore, the implementation of ESG concepts by listed companies, especially central and state-owned enterprises, is not only in line with the requirements of the national "dual carbon" strategy but also the requirements of Chinese-style modernization.

Furthermore, the implementation of ESG concepts by listed companies is also an important requirement for seeking high-quality development, especially in serving the construction of China's unique valuation system. ESG represents a category of non-financial information that reveals the impact of environmental, social responsibility, and corporate governance on business operations. There have been some misunderstandings about the ESG concept in the market, which we have also encountered in practice. For example, whether ESG is just a buzzword? Why are there only three letters? Can we add or remove one? In fact, the ESG concept is not a contrived concept. The World Economic Forum has concluded that most risks can be attributed to environmental, social, and economic issues based on the degree and probability of risk occurrence. Therefore, ESG is a major risk factor that companies may face in their future operations. From an investment theory perspective, is ESG compatible with existing investment theories? In fact, we can find the concept of utility functions in investment. Previously, we simplified some analysis in order to maximize economic benefits. However, under the influence of utility functions, companies have more goals and can pursue the maximization of economic and social benefits. Therefore, from this perspective, ESG differs from traditional investment concepts that only pursue economic benefits. It aims to achieve the maximization of both economic and social benefits. This is the first point: to view the implementation of ESG concepts by listed companies from a more multi-dimensional perspective.

Then, let's look at some of the issues that listed companies face when implementing ESG concepts.

First, there is a slight misunderstanding of the ESG concept among various market participants. For example, some listed companies may believe that implementing ESG concepts may lead to economic losses, requiring more investment and affecting the level of profits. These phenomena are undeniable. However, at the same time, we should see that when companies implement ESG concepts, it can bring about the formation of a brand moat or new competitive advantages, especially in the transformation process of green industries, which can seize new opportunities. Some investors may think that ESG is not a short-term sprinter, and if the short-term performance of investing in ESG products is not good, they may become anxious. In fact, this may be a misunderstanding of ESG. It advocates a long-term and sustainable investment concept. So when facing ESG, it is crucial to understand that ESG does not force investors to play the role of philanthropists in irrational investments, but rather it aims to guide investors to allocate assets more rationally and reasonably. This is a problem of misunderstanding the ESG concept.

Second, we need to recognize that the infrastructure of ESG in the market is not sound, especially the poor quality, weak standardization, and low comparability of ESG data in China. This is a real problem. There is an important issue of lacking authoritative, consensus-based ESG standards that align with the national context. This may also cause confusion for companies. Companies may not fully understand what information should be disclosed. What constitutes key ESG information, especially regarding greenhouse gas emissions, the specific information calibre and disclosure standards adopted by companies may not be uniform. There is more qualitative information and less quantitative information, which may also lead to some companies not performing well in domestic and international ratings.

Lastly, the investment ecosystem of ESG is not complete. There are indeed some cases of "greenwashing," where the behavior of "greenwashing" can affect the effective allocation of social resources and funds to listed companies with excellent ESG performance. The essence of "greenwashing" is to attract attention by exaggerating or falsely promoting investment products and raise funds to induce clients to invest. However, this behavior indeed affects the effective allocation of resources. Therefore, compared to actively managed investment products, ESG index products with transparent and open rules clearly indicate the evaluation methods applied to the index, allowing investors to understand the ESG attributes of the companies they invest in. This is the second issue that listed companies face when implementing ESG.

Lastly, let's look at the future prospects for the implementation of ESG by listed companies, which may have three important development directions.

ESG data and evaluation standards. In the ESG ecosystem, their importance is becoming increasingly prominent because the implementation of ESG by listed companies is not just about publishing a social responsibility report; it requires a complete ESG ecosystem. Within this ecosystem, ESG evaluation standards can help listed companies have a reference for information disclosure and benchmark their ESG governance against their peers. ESG index and ETF products can provide important tools for investors to implement ESG concepts and guide resources to flow into well-performing and high-level listed companies. ESG data products can also support asset management institutions in managing portfolio credit risks. This forms a comprehensive ESG ecosystem.

Establishing ESG disclosure standards that align with the national context under an international consensus framework has become extremely important. In recent years, global ESG disclosure standards have gradually moved towards authoritative consensus, although the standards may converge and be compatible, it does not mean they are unified. This is because countries are at different stages of development, especially emerging markets, which have differentiation and imbalances in development. Listed companies vary in size, industry attributes, and stages of development. Therefore, ESG disclosure standards should be adapted to the current stage of enterprise development and the current stage of development in China.

In the field of ESG investment, institutional investors will play an important leading role. Internationally, institutional investors are important leaders in the field of ESG investment. Recently, China's social security funds have started to invite bids for ESG investment portfolios, and it is believed that social security funds will play an increasingly important leading role in ESG investment, driving the vigorous development of the entire domestic ESG investment field.

Digital Economy

Rise of the New Monetary System: A Defining Turning Point

■ Gloria Macapagal Arroyo / IFF Board Member, Co-chair of Silk Road International Association (SRIA)
Former President of the Philippines

Gloria Macapagal Arroyo

We are currently at an inflection point in international finance - certain international factors and forces that continue to advance and influence the world may also dramatically change our currency transactions, decisions and institutions. The first is the growing competition between the United States and its European and Asian allies, and China and Russia. It is impossible for open competition among these great powers and economic blocs not to affect trade, finance and investment throughout the world. Western economic and financial sanctions against Moscow have changed energy trade flows and pushed Russia to develop its own payment mechanism, sidestepping the SWIFT system, which already bans transactions by Russian banks. The growing rivalry between the U.S. and China has been an important driving force behind China's replacement of the U.S. as most countries' top trading partner over the past decade. In addition, if there is a conflict in the South China Sea region, China may suffer economic sanctions similar to those currently adopted by Western economies against Russia.

Of course, smart economists, and their data science expert mates, may be making some contingency plans for the imminent rise of yet another international payments system. This international payment system may be established by the BRICS countries, or it may be established by "OPEC+". Because the latter has been threatened by some Western countries after the oil exporting bloc decided to cut production by 2 million barrels per day.

Another important factor is the rise and promotion of digital currency. The rise of digital currencies has been accelerated by the explosion of e-commerce during the COVID-19 lockdown and frenzied speculation on cryptocurrencies. That pace may slow as economies reopen and cryptocurrencies collapse. However, the convenience, speed, and security of electronic payments (despite some cybercrime), as well as people's demand for financial secrecy and freedom, may promote digital currencies to replace today's paper money. Even without geopolitical friction, alternative payment systems have emerged, notably cryptocurrencies. Cryptocurrencies have been adopted to varying degrees by some central banks, as well as major international banks such as Goldman Sachs, and the Bank for International Settlements has been setting standards for their use in mainstream finance.

The digital economy will be further fuelled by the rising number, economic and cultural influence of tech-savvy young people. From businesses to corner stores, sellers of all forms use social media and other online channels to conduct instant and secure transactions with anyone, anywhere, anytime. Virtual goods are the fastest-growing products, and they not only require digital payments, but can also become financial assets that also require digital finance to store, evaluate, secure and trade. How big is the market for virtual goods? The Adroit market research company estimated the global market at US$32 billion five years ago, and it is expected to reach nearly US$190 billion in 2025, with a compound annual growth rate of more than 22%. Investors see the Asia-Pacific region as the largest market right now, which is likely to maintain its lead with greater growth until 2030.

When it comes to the younger generation, demographics determine finance, as young people are not only more keen to explore and use new technologies, but also more willing to invest in assets that are relatively less mature, such as cryptocurrencies, emerging markets and currencies, and NFTs and other virtual projects. Two-thirds of millennials believe bitcoin is a safer investment than precious metals. Six percent of Americans own or have used virtual currencies, compared with about 10 percent in India and 32 percent in Nigeria. Additionally, digital currencies offer the poor and young who are not normally served by big banks the opportunity to gain access to the banking system through electronic cash. This is why the Philippine central bank has been promoting digital finance, including online microloans. Surprisingly, the group that is rapidly expanding the use of e-money are women in the Philippines. They are currently far ahead in Asia in terms of online and telephone transactions. As emerging economies with young populations expand, so will the use of e-finance.

A fourth factor driving the development of an alternative monetary system is green investment. I will discuss green investment and financing of renewable energy more fully at the Green Investment Conference.

The last dominant factor is supplying chain enhancements. The disruption of the pandemic to industry and logistics has wreaked havoc on major global industries such as automobiles, home appliances, agriculture and construction. Geopolitical conflicts have also led to increasing economic sanctions and trade barriers. As a result, buyers, suppliers, and shippers are looking for a more stable, reliable, and undisturbed supply chain. This means that people want to have alternative financial channels to ensure that all transactions in the entire supply chain can be completed smoothly, including transactions with buyers, sellers, financing parties, transportation parties, logistics parties. Given the cross-border global production and logistics networks required to produce and build a wide variety of goods, equipment, facilities, and infrastructure, the financial community must devise new monetary mechanisms that can Provide funding for businesses. Even within a single country, supply chain payments pose challenges. A B2B payments forum estimates that there is a daily receivables gap of more than $3.1 trillion, as “vendors still don’t have much leverage in setting payment terms, You can’t even get buyers to pay on time with the payment method the supplier prefers.” Invoice reconciliation and the lack of a supplier portal are two deceptively simple but in fact complex payment issues. Abroad, payment issues are compounded by cross-border controls and agreements, anti-money laundering regulations, technology incompatibilities, other glitches, and fraud. The above was before the West imposed sanctions on Russia due to the Russia-Ukraine conflict and before it imposed sanctions on China due to the Hong Kong incident. Clearly, alternative monetary and financial mechanisms must increasingly play a key role in the global struggle to correct supply chain disruptions.

The November 22 issue of InternationalBanker.com cites "three key payment trends for 2022". The first is the “normalization of digital wallets” such as Apple Pay in the US and Alipay in Asia, which are expected to be used by 4.4 billion consumers in 2023—more than half of the planet’s 7.8 billion people and will cover all more than half of the transactions. The second is the "continued maturity of the buy-now-pay-later market", where digital finance will drive more and more unbanked low-income people and youth into the banking system, as seen in the Philippines. The third is the "increasing global acceptance and development of Central Bank Digital Currency (CBDC)", which provides citizens with a risk-free form of fiat digital currency backed by central bank assets and is the most important digital payment ever progress.

Digital Payments, Alternative Global Currencies, Virtual Assets - Welcome to this emerging, rising new financial world! Here, money will take on a whole new meaning.

Addressing Public Trust and Regulatory Challenges in Digital Currency Adoption

■ Richard Berner / Clinical Professor of Finance & Co-Director of the Stern Volatility and Risk Institute of NYU Stern School of Business

Richard Berner

Will the development of digital currencies, including central bank digital currencies (CBDCs), bring about a more efficient and inclusive financial system? I believe that the innovation we need to pursue should be responsible and regulated, as only such innovation can truly and effectively drive financial development. Many new technologies have been applied in the financial industry for decades, and high technology can indeed improve efficiency, reduce costs, and provide convenient experiences for users. People are disappointed with the efficiency and lack of innovation in traditional finance, especially since the payment system has lagged behind the potential of technological advancements. Digital currencies can fully leverage technology and new business models to address these issues, better manage operational risks, and further enhance the transparency and accessibility of financial services.

Decentralized finance (DeFi) has emerged now, represented by cryptocurrencies like Bitcoin and Ethereum, as well as blockchain and smart contracts. Critics argue that the promises of DeFi have not been realized, and it poses challenges to traditional finance because it exists outside the regulatory framework and lacks the characteristics of currency. Many users do not trust digital currencies, especially Bitcoin, as they see it as solving problems through algorithms or fund allocation. Users also question the stability of the assets behind DeFi and believe that these virtual currencies may engage in illicit activities in the absence of transparency. While relying on technology to replace regulated intermediaries has its advantages, it also has some loopholes.

The scale and interoperability of cryptocurrencies and digital currencies we currently discuss are not large enough to impact financial stability, and recently their prices have been decreasing. However, it is worth paying attention to whether digital currencies will once again make waves in the future. Central bank digital currencies (CBDCs) can address these shortcomings as they are public currencies that combine trust in official currencies with new technologies effectively.

An effective CBDC should adhere to three principles: first, it should not impact currency or financial stability; second, it must coexist and complement existing currencies; and third, it should promote innovation and efficiency improvements. It is indeed challenging to simultaneously meet these principles. Ultimately, people trust private digital currencies because they can easily be exchanged for public currencies. China is actively developing CBDC to create a trusted currency asset and enhance its leadership in the global digital financial field, reducing its dependence on the US dollar. Therefore, those who support the establishment of CBDC in the US believe that it is necessary to establish a CBDC to counter China's growing financial influence.

Cryptocurrencies are currently experiencing a crypto winter due to improper behavior and even fraud from some cryptocurrency companies and exchanges. Some believe that regulation and legislation in the cryptocurrency field should be strengthened, while others argue that there is no need for regulation or legislation and that it should be left to self-regulate. I believe that appropriate regulation of digital assets is necessary to protect consumers and investors, stabilize fair and efficient markets, and prevent financial crimes.

Cryptocurrencies and decentralized finance need regulation, and the principles of regulation mainly include responsible innovation, equal regulation for equal risks, and results independent of technological goals. Regulation is necessary, but it is not enough. In fact, we lack governance of cryptocurrency issuers and exchanges, and mutual trust among them is crucial.

The financial services industry needs appropriate regulation, conduct guidelines, and culture, which should be integrated into our best practices and codes of conduct. While complete regulation may not be feasible, we can work towards achieving the aforementioned goals.

The improvement and healthy development of the financial system require responsible innovation to meet the requirements of consumers, businesses, and governments. Personally, I believe that for the successful promotion and development of digital currencies, it is necessary to implement the regulatory principles mentioned earlier through cooperation on a global scale, thereby gaining the trust of users in digital currencies.

Artificial Intelligence Revolution: Fueling Digital Economy with Lower Production Costs and Renewed Vitality

■ XU Li / Executive Chairman of the Board and CEO of SenseTime

XU Li

From the perspective of artificial intelligence, what new vitality and changes does artificial intelligence technology inject into the development of the digital economy?

Firstly, every few decades, the world enters a new starting point of an economic cycle. These cycles are often driven by new technologies, which bring about new ways of resource allocation, changes in productivity, and shifts in production relationships, driving the overall transformation of the era. Interestingly, many of the eras we have experienced have been named after technology, such as the steam age, electrical age, information technology age, and the upcoming intelligent age. In these transitions, it is often the new productive forces that bring about non-continuous changes in the economy, rather than simply enhancing savings and labor. It is a new way of natural configuration and innovation brought about by new technologies.

According to Accenture's report, we have already seen the value of artificial intelligence in vertical industries such as automotive, logistics, industry, energy, and healthcare. We also see that in these industries, artificial intelligence may bring about $600 billion of economic value annually over the next decade. With this development trend, more vertical sectors are expected to integrate artificial intelligence into their construction.

After eight years of development at SenseTime, we have identified three stages of artificial intelligence development.

The first stage, which began in 2014, focused on bringing artificial intelligence into industry use and crossing the industrial red line. We called it the "single-point breakthrough." It aimed to exceed the Turing test for vertical domains, where the level of artificial intelligence reached a point where humans could not distinguish between machine-generated and human-generated outputs. However, single-point breakthroughs often face challenges when promoting industrial digitization, with the biggest obstacle being the inability to solve the value loop problem for clients. The reality is that overall efficiency improvement is extremely difficult. For example, in the construction of smart cities, there are numerous long-tail application scenarios that, when applied in the industry, need to be connected and solved one by one before forming a closed loop of value. In practice, the bottleneck still lies in the human element.

Thus, while single-point breakthroughs have been achieved, the formation of value loops still depends on how to solve the long-tail problem. These long-tail problems are often complex and require significant investment. In such cases, it is challenging to form a value loop, which is why we need artificial intelligence to bring new production pipelines. In many vertical fields, artificial intelligence technology has already surpassed the long-tail problem and formed points of value closure.

The second stage involves comprehensive digitization and extensive promotion. It requires a crucial prerequisite: whether the cost is low enough to achieve industry-wide coverage. For example, in many industrial production lines today, artificial intelligence can already relatively comprehensively solve the value loop problem on certain production lines. However, due to high production and deployment costs, it is challenging to achieve a cost-effective ratio under high-cost constraints.

The third stage involves modularizing, standardizing, and reducing the cost of artificial intelligence, providing high-quality, large-scale artificial intelligence technology. This is the core standard for transitioning from small-scale, single-point breakthrough production to large-scale mass production, which has been the standard for all technology promotion since the beginning of the industrial revolution. Currently, we can see that artificial intelligence has brought about many standardized modules, including data annotation, model production, and large-scale infrastructure, enabling cost reduction through economies of scale.

Today, artificial intelligence can be categorized into standardized process flows. Similar to the standardized processes in woodworking, such as felling, sawing, planning, and carving, artificial intelligence includes basic computing facilities, mid-term data annotation, pre-trained models, and industry-specific fine-tuned models. These components are almost standardized production processes for every digital artificial intelligence enterprise, completed through the production of standardized AI models. Based on this, industrial refinement and industrial-scale manufacturing, along with unified cost reduction and efficiency enhancement, can be achieved, enabling the development of artificial intelligence to follow a toolchain logic.

Our own artificial intelligence super factory is undergoing such capacity ramp-up. In 2020, we produced just over 10,000 models using artificial intelligence. However, after two years, we have now reached over 50,000 models through iterations. Although these models appear to belong to completely different vertical industries such as urban, commercial, lifestyle, and automotive, their standardized model processes and the standardization of infrastructure enable model reuse and overall research and development efficiency improvements. The efficiency improvements we have witnessed over these years have led to a cost reduction of possibly several orders of magnitude.

To illustrate this, let's take the example of empowering leading lithium battery companies in the manufacturing industry, covering various scenarios and large-scale industrial bases. In just over six months, we built 80 production lines. Firstly, in the vertical direction, single-point breakthroughs were necessary. For example, breakthroughs were required in defect detection and other single points beyond the human eye's discernible capability. Secondly, it not only solved high-frequency defects but also provided long-tail solutions for low-frequency, small data, and even full-scale long-tail problems. Subsequently, deployment had to go through a cost optimization process to make digitalization of the entire production line more realistic.

We will witness a large number of such new industrial sectors in the future because their development exceeds the pace of traditional industrial development. These emerging industries will outpace existing industrial manufacturing in their comprehensive digitalization.

When it comes to intelligent automobiles and transportation, they are still in the second stage we discussed, where they are working on perfecting the value loop. In terms of single-point breakthroughs, such as perception within vehicles, artificial intelligence has already surpassed human performance. However, achieving true autonomous driving requires solving numerous long-tail problems. Currently, most automated driving systems are still human-driven, with artificial intelligence as an assistant. Nevertheless, I believe it can transition from single-point breakthroughs to complete value chain construction.

In the era of artificial intelligence, the intelligent initiation of the digital economy may lead to significant transformations in the near future. The value of an industry lies in the overall market capacity multiplied by market penetration rate multiplied by market share.

To make the digital economy bigger, better, and stronger, the overall market capacity needs to be expanded. From the perspective of the overall trend, despite the changing domestic and international environments, crises bring opportunities, and new input directions will inevitably increase the overall market capacity.

With artificial intelligence now being able to achieve industry value closure by addressing long-tail problems, once the commercial value loop is completed, the market penetration rate can further increase. The digitization of infrastructure has taken the first step towards data-driven processes, but the key lies in achieving intelligence-driven processes throughout the value loop, thus further enhancing the market penetration rate.

For individual companies, the standardization and modularization of artificial intelligence help reduce production costs, gradually enhancing their market competitiveness. Leading companies will also enjoy the benefits of lower prices, reduced production factors, and cost reduction. When these three factors are multiplied together, the intelligent era of the digital economy may not be far away.

In the construction of the overall digital economy, artificial intelligence plays a core role, and we need to jointly promote the standardized development of artificial intelligence, thereby driving the overall advancement of the industry.

Seamless Software-Hardware Integration: Fueling the Thriving Cloud Computing Era

■ REN Yan / Senior Expert, Alibaba Cloud Research Institute

REN Yan

How can cloud computing support the digital transformation of the financial industry? First, let's briefly review the previous technological revolutions. From the history of economic cycles and the evolution of industrial revolutions, we can see that each revolution is divided into two halves. The first half is characterized by the emergence of new technologies and the application of innovative scenarios, gradually increasing the value of technology. It's similar to a breakthrough in a specific area along with the accompanying technologies. The industry environment gradually matures, leading to mass production, cost reduction, and entering the second half. In the second half, mainstream technologies can be combined with more diverse fields, especially traditional industries, becoming the foundation of society's infrastructure.

Cloud computing, like computers, has also undergone a long period of development. In the 1960s, the concept of a "field model" was proposed, followed by grid computing, parallel computing, and then the formal introduction of cloud computing in 2006. China entered the field of cloud computing in 2009. Since then, after years of development, the cloud industry chain has gradually unfolded. Cloud computing has played a more significant role in various sectors, including upstream data centers, core devices, component production and research and development, midstream services such as PaaS and SaaS, as well as downstream areas like autonomous driving and intelligent manufacturing. In the core development process, hardware used to be the focus, with software adapting to it. However, with the widespread use of cloud computing, it has gradually transitioned to a software-defined, software-hardware collaborative model. Only through full collaboration between software and hardware can computing power be maximized, costs gradually controlled, and the widespread adoption of cloud technology facilitated to serve more domains.

During the process of migrating to the cloud, there are various new service categories, including pre-migration consultations, migration support, and post-migration operations and optimization services. Cloud computing has played a significant role in various fields, including artificial intelligence. For example, in the field of genetic sequencing in biopharmaceuticals, a single-cell gene file may exceed 100GB. Running such a large computational task in conventional modes and computing power could take several days. However, with cloud-based supercomputing support, the same task can be completed in just two hours, reducing costs by 65%, making gene sequencing technology more accessible.

Another example is in smart agriculture, where many financial institutions use remote sensing technology or satellite imagery to monitor crop conditions. Analyzing historical satellite imagery data requires the support of cloud computing. In the field of green development, coordinating several processes in traditional waste incineration is challenging. Irregular fuel distribution can cause uncontrolled furnace temperature. However, by implementing cloud-based intelligent waste incineration systems, the overall operational efficiency of waste incineration significantly improves. The heat can be controlled within an appropriate range, enabling secondary utilization. Alibaba cloud supports approximately 100 waste incinerators in 30 cities, generating an additional 320 million kilowatt-hours of green electricity annually, which contributes significantly to China's green development.

Overall, cloud computing provides more support to the upstream, midstream, and downstream sectors of the industry chain. Simultaneously, various industries also have increased demands for cloud computing, which promotes the development of cloud computing and related technologies. Cloud computing is more than just traditional SaaS or PaaS platforms. It encompasses digital technologies such as big data, artificial intelligence, blockchain, and the Internet of Things, creating a process of integration and collaboration. It plays a significant role in two main directions: network collaboration, enabling more connections, resource sharing, and higher efficiency communication, and data intelligence.

Research on the socioeconomic impact of cloud computing, both domestically and internationally, shows that cloud computing significantly promotes individual customer development, regional economies, and overall GDP. Focusing on the financial sector, Alibaba Cloud has approximately seven to eight years of experience serving the industry. Starting with clients such as Zhong'An Insurance and Nanjing Bank, we have witnessed the comprehensive embrace of cloud computing and digital technology by financial institutions of all sizes. The depth and breadth of our services have significantly evolved. Initially, we primarily supported retail and internet finance businesses. Over time, our support expanded from management and office-related functions to core business operations in internet finance, including core banking and credit services. We are encouraged by the completion of projects such as the migration of "mainframe" systems and the domestication of core databases for financial institutions. These achievements represent not only project deliveries but also indicate new development trends.

Additionally, we can observe the depth of our services. On one hand, we continuously enhance the technical foundations to make cloud computing more efficient, cost-effective, and secure. On the other hand, we collaborate with financial customers to build new architecture systems, including technology, business, and data architecture, helping financial institutions achieve architectural transformation and business innovation. Through summarizing our experiences over the years, we have identified several typical paths for the digital transformation of the financial industry.

Some banks adopt cloud computing to enhance customer experience. For example, during the pandemic, some banks launched vegetable-selling mini-programs within 48 hours, delivering financial services at the speed of the internet. In 2022, we explored interactive audiovisual virtual scenarios with financial institutions, aiming to bring financial services to customers in a more vivid and active manner, drawing inspiration from platforms like Xiaohongshu and Tiktok The goal is to increase the frequency of low-frequency transactions.

Another typical path is through the lens of data. Financial institutions store massive amounts of data, including customer behavior data and incoming government data. The challenge is how to leverage these data assets, extract and process them into data products and services layer by layer. We are working with our customers to build a management system, operation system, and technical assurance system. By constructing a data middle platform, we aim to better support front-end innovation.

Currently, financial institutions face the question of how to serve the real economy. We strongly support financial institutions in constructing an industry cloud through introduction or building their own capabilities to serve specific industries, such as healthcare, education, or other targeted sectors. Alternatively, financial services can be extended to more extensive industry internet platforms built by other participants. Many application scenarios are supported by a distributed architecture, which forms a panoramic view of digital finance, helping financial institutions achieve high-quality growth. The path to digital transformation is all-encompassing, including full scenarios, comprehensive connections, complete data utilization, and holistic architecture.

The Alibaba Cloud Research Center hopes to collaborate with our management departments, researchers, and practitioners to explore technological trends and methods for digital transformation.

Fintech

Monetary Policy in the New Era Should Focus on Resilience, Sustainable Development and Efficiency

■ Siddharth Tiwari / IFF Vice President, Former Chief Representative for Asia and Pacific of Bank for International Settlements

Siddharth Tiwari

For the last 20 years, the challenge wasn't high inflation. The challenge was low inflation, the repeated inability of central banks and the official sector to achieve the inflation target. What happened last year surprised a lot of people, and there has been quite a huge amount of work to act and make adjustments, involving the official sector at the BIS and IFF. So, I'm going put some of these emerging parts together to provide a way forward in understanding what happened and where to go.

We will not return to the past; instead, we will need to embrace a new form of multilateralism, which I will try to define at the end. In the last two decades. There were four tailwinds that made aggregate supply highly responsive: two shifts in aggregate demand, stable geopolitics, technological advances, and globalization for favorable demographics. In terms of stable geopolitics, free markets were key, and trade agreements brought more countries into the trading system. Domestically, strengthened markets led to privatization, deregulation of labor and product markets, financial market improvements, more secure property rights, and liberalization of global markets. Importantly, disciplined policymakers spread best practices like inflation targeting. The gears of financial regulations and monetary policy frameworks were further strengthened, providing more leeway to the financial sector.

Technological advances pushed down costs and reduced the time and physical distance between countries, thereby increasing productivity. Globalization expanded world markets, giving firms access to a larger consumer base, a wider pool of resources, including labor and capital, and the ability to proceed with specialization according to international law. Financial globalization alleviated financial constraints, and the increased productive capacity led to efficiency gains and cost reductions exploited on a global scale.

So, we ended up in an era of growth with

low inflation due to three reasons. First, there was a loose link between domestic activity and inflation. Second, the pricing power of firms and the bargaining power of labor considerably weakened. Third, domestic supply constraints, which are usually the first factor in inflation, were significantly less binding. These supply tailwinds produced a business cycle that was very distinct from the past in three respects. First, monetary policy had less need to tighten during expansion compared to the past. Second, during a recession, central banks could provide more forceful stimulus than they could in the past. Third, nominal and real interest rates fell to record lows, giving fiscal policy more room to maneuver.

Total factor productivity (TFP) has been declining for 50 years and fell dramatically during the global financial crisis. The productivity boom that emerged from global integration in emerging markets began to decline, weakening growth-enhancing structural reforms. Plentiful global supply and low inflation concealed the costs. As productivity declined, economies had to rely on other sources of growth, such as expanding financial systems and debt-driven growth, until the global financial crisis hit. Economies became more and more fragile as sovereign and private sector debt levels rose. The room for maneuvering was eroding for policymakers, forcing them to do even more to revive economies.

The pandemic and the war served as a rude awakening. The tailwinds that were advantageous for the last 20 years became headwinds. The supply side could not be stretched, and demand side policies became harder to calibrate. In retrospect, the way we could switch the demand side on and off is not possible on the supply side. We cannot take the availability of aggregate supply for granted. The same global supply chains that adjusted smoothly to aggregate demand broke down. Supply constraints rose, leading to inflation, and many of the historic tailwinds that kept a lid on inflation lost their power. Even before the war in Ukraine, globalization had been losing support due to structural factors, and this further weakened support for globalization. Lastly, the demographic tailwinds reversed. With baby boomers retiring, labor force participation declined, resulting in lost skills and a major factor that will decrease productivity in the next 40 to 50 years. There is also a reallocation towards climate concerns.

Regarding the impact on the dollar, when monetary policies are loose, capital is pushed towards emerging markets, making it easier for countries to fund themselves. We have always talked about low-for-long, where debt stock does not matter. However, a strong dollar will depress global trade since it is the dominant currency for invoicing and settling transactions. It makes the world poorer, reducing trade, and emerging markets become more dependent on it, weakening their creditworthiness and increasing debt servicing costs. I think the strong dollar is bad for China, just as it was bad for Asia.

But having said that, there are four or five things that are very different from the past in Asia. First, Asia is not running current account deficits at the level it was before. Second, since fiscal space was constrained, there was less fiscal expansion relative to the rest of the world. Third, the level of reserves or buffers to defend against shocks is much larger. Fourth, real exchange rates are more depreciated, so if countries fall, the fall will be less severe. And fifth, and most importantly, monetary policy frameworks are strengthened, and banks are better capitalized.

Looking forward, I think we need to move from a system focused on efficiency for the past 15 to 20 years into a new era of multilateralism that combines resilience, sustainability, and efficiency. The proportions in which these elements are combined is for global leadership to work out, but it should be done in a manner that sustains global growth.

The Shaking Dominance of the US dollar and Trend of Diversified Reserve Currencies

■ ZHANG Liqing / IFF Academic Committee Member, Director of Center for International Finance Studies at Central University of Finance and Economics

ZHANG Liqing

The US dollar, as a major world reserve currency, has been steadily declining in its dominant position over the past decade. In the international reserve currency system, the share of the US dollar is currently below 60%, which has significantly decreased compared to the 70% share 10 years ago. Looking ahead, the most likely scenario is that the share of the US dollar will continue to drop, but we do not know how much further it will continue to fall.

The first good news for the United States is that it will continue to maintain its position as the world's largest economy in the coming years. It is not yet certain when China's economy will surpass that of the United States. Some say it will be in 10 years, while others say it will be more than 10 years. I don't have an answer, but the ranking of the Chinese economy will definitely change in the future. The second good news is that the US financial market will continue to maintain the highest level of global liquidity and openness. The financial regulatory framework of the United States will continue to develop and improve, becoming increasingly mature, and will continue to be among the most mature regulatory systems in the world. At the same time, the United States still plays a leading role and influence in the global geopolitical landscape, although such influence is gradually decreasing.

However, the first bad news for the United States is that its share in the global economy will further decline, while the share of China and other emerging economies in the global economy will gradually increase. The second bad news is that the quantitative easing policy adopted by the United States since the outbreak of the COVID-19 led to high inflation. In order to make the inflation rate reach the target of 2%, the Federal Reserve has continuously raised interest rates by a large margin, leading to a large appreciation of the dollar. If this trend continues, it is possible to bring the US current account deficit to a historic high. The current account deficit, and the fiscal deficit, form a double deficit, which will lead to a weakening of the US dollar in the coming years. Ultimately, these measures will undermine the credibility of the US dollar in the world. The third bad news is that although it is still uncertain whether geopolitical conflicts will damage the status and credibility of the US dollar, if the United States continues to weaponize the US dollar, its position as the world's main reserve currency will be challenged by other currencies. The other currencies mentioned here not only include the euro and RMB, but also some non-traditional reserve currencies, such as the Special Drawing Rights (SDRs).

Undoubtedly, other currencies, such as the euro and renminbi will be the main competitors for the international reserve currency status of the US dollar. In the future, the shares of the euro and the renminbi in the international reserve currency will further increase. For the EU and China, it is very important to provide stronger support for the currency fundamentally, including maintaining vibrant economic growth and playing a more important role in international finance and trade, and earning higher credibility for their respective economic and financial systems, mechanisms, and environments. For the EU, it is necessary to reform its labor market to make it more flexible, and there is a need for greater convergence and coordination among EU countries in terms of fiscal policies and banking regulatory rules. For China, it is very necessary to further deepen market-oriented economic reforms, accelerate financial openness, and actively create a more friendly business and investment environment.

In addition to the euro and RMB, some other non-traditional reserve currencies are also joining the international reserve currency family, such as the Australian dollar, Canadian dollar, Swiss franc, Singapore dollar, Korean dollar, etc. According to the latest research, between 2010 and 2020, on the one hand, in the international reserve currencies, the share of US dollar decreased from 70% to 60% now, accounting for a 10% decrease; on the other hand, the share of non-traditional reserve currencies in the international reserve currency system has increased to 7.5%. This change reflects the trend of central banks diversifying their reserve currencies, thereby reducing the potential risks of a single currency. This trend will continue to deepen.

Finally, I believe that the US dollar will also face competition from Special Drawing Rights (SDRs), which will play a more important role in the global reserve currency system. Although SDR is not a sovereign currency, its proportion in the global reserve currency system has reached 8% after the substantial adjustment of SDR in 2021. So, the share of SDR in the future reserve currency portfolio is likely to rise further.

Fintech Development Needs to Improve Exit Mechanism and Enhance Ecosystem Building

■ WEI Chenyang / Associate Dean of the Institute for Fintech Research at Tsinghua University

WEI Chenyang

According to Professor Michael Spence, who won the Nobel Memorial Prize in Economic Sciences in 2001, digital globalization has great potential in the long run. Because the sectors have entered the digital development stage, and also the recent global epidemic has greatly accelerated the process by bringing many improvements and opportunities for innovation, and the process is irreversible. He also believed that China led the world in the application of financial technology in many areas. Indeed, China has made advances and cutting-edge breakthroughs the financial field.

Innovation isn't possible without investment and financing. In China, innovators include large financial institutions and many start-ups. Here are three reflections on innovation.

1. The “exit” mechanism for innovation in finance

The financial industry is seeing momentum in the investment and financing in fintech around the world. Spence's report provides a very good interpretation of the different investment cycles corresponding to different investment institutions. Some mid-to-late-stage investment of venture capital from large companies and PEs saw a significant decline in 2022, while angel investments or early-stage VC investments are actually comparable to 2021. It shows that due to the overall global economic downturn in 2022, coupled with expectations of rising interest rates and overvalued stocks, investors have become increasingly cautious in the later stages of the listing process. On the other hand, investment did not decrease in the early stages and its activity did not decrease, which was very important for technological innovation. From the perspective of capital, fintech or the digitization of the financial industry is still showing a very positive trend on a global scale.

Another very important distinction lies in the exit mechanism of investors. Why are these investment institutions close to the secondary market so cautious? In fact, IPOs significantly decreased in 2022. Also, the exits of non-listed companies through M&A has also been reduced but accounted for a bigger proportion, showing greater importance. Historically, mergers and acquisitions have been the most important exit mechanism for global investors in fintech and startups. At present, as the IPO becomes more conservative and decreases, the importance of non-listing mechanisms is actually increasing.

Most Chinese technology innovative companies aim to go public, but looking at the global market, the non-listing mechanism is actually a more important exit mechanism for investors of fintech and tech innovative companies. This also indicates that China is actively exploring the advantages of financial support for innovation and the real economy. We can consider how to encourage this non-listed mechanism from the regulatory and policy perspective to enhance its importance.

2. The innovation and implementation of application scenarios

Digitalization is carried out by either big financial institutions or startups. The digitalization of big financial institutions shows similar characteristics across the world as "top-down, internal and external".

Firstly, looking at various financial subsectors, the market has divided fintech into mainly seven segments. The traditional payment and banking account for the largest investment volume. Digital credit is an emerging field based on more agile, accurate, and customized access to credit. The other segments are wealth technology, insurance technology, capital market technology, and SME financial technology. These segments have all experienced varying degrees of slowdown in 2022, but are very active in the early investments of startups.

With large insurance companies, they adopt a top-down approach that takes into account both internal and external factors covering the whole process, from design to claim settlement. In this process, the top strategy level should be given first priority. All major insurers in China, including Ping An and China Life, have set up Chief Digital Officers and Chief Information Officers and digital committees. I have worked in the United States for over four years, and this structure is consistent with that of major global insurers. Overseas insurers started early, and China is showing a trend of surpassing the former.

Apart from the strategic level, insurers need to invest a large amount of resources in a series of fields, such as internal IT architecture or internal research and development, and the construction of its own cloud platform, including data capabilities, computing capabilities, and the use of AI technology. At the same time, technology subsidiaries are also established to create a digital ecosystem and empower the entire business chain. These are global trends as well.

Technology companies should attach great importance to the combination of innovation and application scenario implementation. Taking insurance technology as an example, there is space for technological empowerment in every aspect. In terms of specific segments, it can be seen that insurance technology companies and technology innovation companies have strong empowering potential, from product distribution to service and process optimization, to data analysis and other aspects. Regardless of the business link in the insurance or other financial subsectors, the underlying core technical considerations are similar, for example, the importance of artificial intelligence, cloud computing, databases, and blockchain. These are being actively explored by many financial institutions, especially the banking industry.

Many technology companies are using one or more technologies to demonstrate their advantages in technology empowerment, looking for a suitable business scenario. However, in actual business scenarios, technology is often insufficient to truly achieve empowerment. Technology needs to be applied to existing business processes, truly empowering and promoting digital application scenarios, and generating value. So technology innovation companies should support and facilitate more technological innovation and the implementation of business scenarios from the perspectives of the country's policies and the overall ecosystem.

3. Summary

Firstly, from the perspective of finance and investment, the exit mechanism can be further improved, whether through IPO or M&A. In fact, it requires enterprises and investors to bear the end in mind in the beginning, and designing their development strategies and paths with the final exit as the end, making it a sustainable process. Especially for strategic investment in enterprises, how to match external innovation and internal business growth within the whole enterprise should be attached great importance.

Secondly, the collaboration between large financial institutions and technology innovation companies should place special emphasis on identifying application scenarios for technologies. This involves actually building an ecosystem composed of very important factors such as government and exchanges, as well as exit mechanisms, mechanisms for accelerating the incubation, and research institutions and think tanks to promote the application of innovative technologies.

Scientific and Technological Innovation Provides Key Support for the Realization of Sustainable Development Goals

■ SUN Hong / Chief Engineer at the Administrative Center for China's Agenda 21

SUN Hong

Science and technology innovation provide key support for achieving the sustainable development goals. From the adoption of China's Agenda 21 at the United Nations Conference on Environment and Development in 1992, to the formulation of the Millennium Development Goals (MDGs) by the United Nations in 2000, to the adoption of the 2030 Agenda for Sustainable Development at the United Nations Summit on Sustainable Development in 2015, different development goals have been formulated at different stages, and these goals can't be achieved without science and technology. The role of science and technology in the realization of the SDGs is mainly reflected in the following aspects:

First, it provides support for decision-making in sustainable development. Sustainable development involves a wide range of areas, and the 2030 Agenda for Sustainable Development involves 17 sustainable development goals and 169 targets. In order to realize these goals, it is necessary to carry out research in relevant aspects, and put forward specific practices in terms of policies, laws and regulations, standards, and implementation, which should be systematic, coordinated and practical. So, there's a lot of work to be done.

To begin with, at different stages, the key issues facing sustainable development are different. In 1994, China formulated the world's first Agenda 21 at the national level, "White Paper on China's Population, Environment and Development in the 21st Century", focusing on population, environment and development. Now the focus is on the harmonious development of humanity and nature, high-quality economic development, and effective social governance, all of which aren't possible without strategic soft science research.

Second, science and technology provide key support for the solution of sustainable development issues. Over the years, science and technology has greatly promoted the coordinated development of the economy, environment and society. For example, in eradicating poverty and hunger and ensuring food security, agricultural technology solved a series of problems such as varieties, breeding and processing, etc. Especially in the past few years, the development in biotechnology, information technology, new energy technology and new material technology is changing the mode of production and way of life, greatly contributing to the environment, health, social governance, public security, disaster mitigation and prevention and industry. At present, more than 100 countries have announced carbon neutrality goals. The paths adopted by each country to achieve carbon neutrality are different, but all of them require research and the development of disruptive technologies in the areas of energy, industry, buildings, transportation and carbon sinks.

Based on China's actual situation, technological research and development should be enhanced in the low-carbon, zero-carbon and negative-carbon technologies, the source substitution, the abatement in the processes and the popularization at the ends, as well as the zero-carbon facilitation, zero-carbon decomposition of energy, fuel substitution, the abatement of greenhouse gases, and CCUS carbon sinks and carbon-negative technologies, so as to solve some of the major problems facing sustainable development.

Third, science, technology and innovation should provide solutions and development models for sustainable development.

Applying technological breakthroughs to solve sustainability issues is done through introducing policies and leveraging finance and other measures, in particular through experiments and demonstrations to examine the feasibility of technologies, policies and measures.

In this regard, as early as 1986, China launched a comprehensive pilot project on using science and technology to guide social development in response to economic and social development issues. By now, China has established more than 170 high-tech industrial development zones to promote industrial development with high-tech, more than 200 national agricultural high-tech parks and national agricultural science and technology parks, more than 20 national independent innovation demonstration zones to promote the protection of emerging industries, innovative industries and knowledge industries, as well as national ecological civilization demonstration zones, national agricultural sustainable development pilot zones, and national low-carbon pilot provinces and cities, etc.

In order to implement the 2030 Agenda for Sustainable Development, China has undertaken the construction of innovation demonstration zones for the sustainable development agenda. With the approval of the State Council, there are now 11 cities serving as innovation demonstration zones for sustainable development, including Shenzhen, Taiyuan, Guilin, Chenzhou, Lincang, Chengde, Xuzhou, Huzhou, Ordos, Zaozhuang and Hainan Tibetan Autonomous Prefecture. These innovation demonstration zones aim to innovate technology, policy, and institutional mechanisms according to different bottlenecks foreseen in sustainable development, and actively explore routes and systematic solutions for technology, so as to provide practical experience for the implementation of the 2030 Agenda for Sustainable Development.

These are the three aspects that science and technology should support for the realization of sustainable development goals. Currently, sustainable development is facing serious challenges, and the pace of realizing the goals in the 2030 Agenda for Sustainable Development is slowing down. I would like to put forward a few suggestions on the current situation: First, we should continue to increase investment in science and technology and build technological systems in areas related to sustainable development, and especially in the fight against climate change and in pursuit of the "dual-carbon" goals, build a carbon-neutral technological system. Secondly, we should strengthen financing in science and technology, and promote the application and industrialization of scientific and technological achievements. Thirdly, we should enhance international cooperation in science and technology to promote global sustainable development.

Financial Security

Guarding Against Debt Crisis: An Urgent Priority on the Global Agenda

■ Han Seung-soo / IFF Co-chairman, Chair of the Council of Presidents of the United Nations General Assembly, Former Prime Minister of the Republic of Korea

Han Seung-soo

The aftermath of COVID-19 pandemic has set up a challenging policy environment that will require careful handling and calibration of measures if we are to avoid debt crises in development economies. We were surprised that inflation surged in 2021 and 2022.

Even before Russia's invasion of Ukraine, inflation had begun climbing above central bank targets in most G20 economies as they reopened after the pandemic. Bottlenecks in supply chains, rising freight costs, and pent-up demand for goods and services all contributed. Energy prices soared as demand rebounded and food prices jumped. The invasion only reinforced these trends.

Pressures are expected to cool in 2023 and 2024. The IMF forecasts that global inflation likely to rise to 8.8% in 2022 from 4.7 % in 2021 but will decline to 6.5% in 2023 and 4.1% in 2024.

Sovereign borrowers should enhance efforts to contain the risks of high debt vulnerabilities, including through early coordination with their creditors, multilateral cooperation, and support from the international community. For countries in or near debt distress, bilateral and private sector creditors should find ways to coordinate on pre-emptive restructuring to avoid costly hard defaults and prolonged loss of market access.

External public debt in developing economies is at record levels today. Most of it is owed to private creditors and much of it involves variable interest rates that could spike suddenly. As global financing conditions righten and currencies depreciate, debt distress previously confined to low-income economies is spreading to middle-income countries.

Moreover, conditions in local currency bond markets have worsened materially, reflecting concerns about the macroeconomic outlook and rising debt levels. In corporate debt, credit spreads have widened substantially across sectors since April to date.

Profit margins at large firms have contracted amid higher costs, and observers are revising global earnings forecasts downward amidst a talk of recession. At small firms, bankruptcies are increasing in major advanced economies as rising borrowing cost and declining fiscal support hit these firms harder, while companies that rely on leveraged finance markets are facing tighter lending terms and standards.

As regards the housing market, much tighter monetary policy, soaring borrowing costs and stricter lending standards could hurt housing markets. Worst case is that real house price declines could be significant amid affordability pressures and deteriorating economic prospects. In particular, the housing market remains a potential source of macro-financial risk; authorities should assess the systemic effects of a correction in house prices through rigorous stress tests.

In China, the property sector downturn has deepened as a sharp decline in home sales during COVID-19 lockdowns exacerbated the liquidity stress of property developers, raising concerns about broader solvency risks. Property developer failures could spill over into the banking sector, affecting vulnerable small banks and domestic systemically important banks, given their lower capital buffers and higher property-related concentration risk.

Under the current situation., it goes without saying that policymakers are now facing very difficult choices. The IMF's Integrated Policy Framework for emerging markets suggests a carefully calibrated mix of tools including interest rate policy, macro-prudential actions, foreign exchange intervention and capital flow measures. Domestic policy measure, likewise, will need to be carefully calibrated given uncertainty about the growth outlook, the speech at which higher interest rates take effect and the potential spillovers from restrictive policies in other countries.

Then, how can we prevent a debt crisis in developing countries? Sovereign borrowers should enhance efforts to contain the risks of high debt vulnerabilities, including through early coordination with their creditors, multilateral cooperation, and support from the international community. For countries in or near debt distress, bilateral and private sector creditors should find ways to coordinate on pre-emptive restructuring to avoid costly hard defaults and prolonged loss of market access. Where applicable, the G20 Common Framework which considers debt treatment on a case-by-case basis, driven by requests from eligible debtor countries should be utilized. Enacting credible medium-term fiscal consolidation plans could also help contain borrowing and refinancing costs and alleviate debt sustainability concerns.

Moreover, globally coordinated debt relieve efforts, including the G20 Common Framework for debt treatments, are critical to helping countries where debt sustainability has sharply deteriorated. Further, debt relief needs to be rapid, comprehensive and sizable to minimize risks to growth prospects.

Last but not the least, strengthening domestic resource mobilization and its policy capacity are needed. These, together with fostering regional and global collaboration, and joint efforts between the public and private sectors in the economy will be instrument in deal with the risks of the debt crisis.

New Development Bank: New Context, New Solution

■ ZHOU Qiangwu / Vice President of the New Development Bank

ZHOU Qiangwu

The New Development Bank is perhaps the very first and the only international financial institution with the word 'new' in its name. It is a new institution operating in a new global context and exploring new solutions to fulfill our mandate. Now, this new institution is operating in the new global context. The funding cost associated with hard currencies has been rising, and this trend is likely to continue at least in a short or mid-term, given the persistent inflation, tightening monetary policies in major advance economies and volatile investors, sentiments towards emerging markets. At the same time, carbon evolving global macroeconomic environment and certain political trends are certainly adding to the complexities in finance.

Meanwhile, with dumping global growth outlooks and shrinking fiscal space in the member countries, NDB is expected to do more to play a more important role in terms of financing infrastructure, promoting green transition and safeguarding inclusive groups. NDB, like our peers, must rise to the challenges, and provide new solutions to better meet the demand of our times. In this context, I would like to highlight one of the major challenges that NDB, perhaps our other peers, are facing today. That is, to mobilize adequate financial resources at reasonable prices in an era where cheap financing in hard currency is less readily available.

One of the explorations that NDB has been conducting is to utilize the currencies and financial markets of emerging economies. With rising policy rates of the US dollar and euro, some currencies of developing countries are now offering lower funding costs as well as more stable, effective exchange rate dynamics. One properly managed financing and disbursements based on emerging market currencies will act as a key complement to those based on hard currencies, reducing both costs and foreign exchange exposures, and enhancing the security of funding when hard currency becomes scarce.

Meanwhile, better utilization of local financial markets can also help mobilize massive savings in developing countries,

improving the market depth and cutting more private sectors. Local currency financing has been one of the priorities of our bank since its founding, and NDB's familiarity with emerging economies provides the more competitive advantage in such exploration.

As of October 2022, NDB have established the borrowing programs in Chinese Yuan and the South African Rand, while emerging market currencies have made up more than 1/3 of our total borrowing. Taking CNY as an example, NDB has issued RMB 33 billion worth of securities at China inter-bank bond market, constituting the largest super national issuer of vendor bonds. From the lending side, as of October 2022, more than 1/5 of the projects are denominated in emerging market currencies. In our current general strategy, that is, 2022 to 2026, NDB will target 30% of the lending in local currencies in this cycle. We also aim to gradually develop our own practices in emerging market currency financing and lending into a set of solutions and benchmarks for both kinds and peer institutions.

China's Efforts toward Global Financial Stability

■ ZHOU Hanmin / IFF Vice President, Vice Chairman of the CPPCC Shanghai Committee

ZHOU Hanmin

China has played a very important role in global financial stability. From 2013 to 2021, China's contribution to global economic growth reached 38.6%, surpassing the United States by more than 20% and even surpassing the combined contribution of the Group of Seven (G7) over the same nine-year period.

Bills and laws passed by the U.S. Congress always prioritize the interests of the United States, but as the world's largest economy, the impact of U.S. policies cannot be limited to its domestic scope and will definitely have global repercussions. Therefore, while considering its own interests in policy-making, the United States should also consider coordination and cooperation with other countries.

There are three phenomena that have become the realities we must face. First, the currencies of many countries are depreciating, and the depreciation is quite significant. Second, some countries are experiencing capital outflows, especially hot money outflows, which further put pressure on their currencies. Third, global inflation is rising.

From January to September 2022, China's average inflation rate was 2%. The low inflation rate in China can be attributed to two factors: first, the abundant agricultural harvest in 2022, particularly the stability of pork prices; and second, the stability of energy prices (including oil, natural gas, and coal) as well as the development of green energy.

China has the world's largest potential for consumer development, but the growth of consumption in 2022 was not ideal. The consumption growth rate in the first three quarters of 2022 was only 0.9%. Therefore, China's GDP growth rate in 2022 could barely reach 3%, which is significantly lower than the 8.3% during the same period in 2021. Ensuring that the supply chain keeps up is an important issue, and there are two things we can do.

First, we hope that different economic driving forces can play their full role. Many regions in the Yangtze River Delta, Pearl River Delta, and northern China, especially

the Yangtze River Delta region, have done a good job in ensuring the continuity of the supply chain. Taking international trade as an example, China's exports grew by over 22% from January to September 2022. The export industry in China has played a significant role in employment and the development of related industries.

On this basis, we need to further open up and engage in more international trade as much as possible. For example, trade with ASEAN countries and the trade development with the other 14 member countries of the RCEP (Regional Comprehensive Economic Partnership). In terms of growth, RCEP has played a leading role in China's international trade development since currently 36% of China's international trade is conducted with RCEP countries.

China should play a leading role in stabilizing the world economy and addressing global inflation issues, and it should focus on three main tasks. First, it needs to increase the economic growth rate. A 3% growth rate is by no means China's ideal speed of growth. Second, it should stabilize the employment rate, which is one of the most important tasks in China currently. It is crucial to ensure that young people, especially recent graduates, can find employment. Third, it needs to stabilize its monetary policy. First, market interest rates need to come down, and second, monetary policy needs to support the development of agriculture and small and medium-sized enterprises to effectively promote overall economic development. Lastly, there should be increased investment in natural gas, oil, mining, and renewable green energy sectors.

China actively promotes the development of the green economy and clean energy. Currently, China ranks first in terms of green energy investment globally. For example, in 2021, the balance of green loans in China reached 15.9 trillion RMB, with infrastructure accounting for 46%, and 12% used to support the production of green-related products by enterprises. On one hand, green loans promote the sustainability of economic development, and on the other hand, China has issued multiple green bonds, which have now reached a scale of over RMB 400 billion. In the first half of 2022 alone, the issuance of green bonds amounted to nearly 14 billion USD.

The insurance industry, both at the enterprise and market levels, has provided strong support for the green economy. All these efforts can be considered as prudent monetary policies. These policies have proven to be effective through China's practices and can be referenced by other countries.

China is undertaking a large-scale and rapid green transformation, with the goal of achieving carbon neutrality by 2060. This goal is set quite high considering that China's current carbon emissions are among the highest in the world. Achieving substantial emissions reductions in a short period of time relies on three factors: first, the development of high technology; second, people's willingness to decarbonize; and third, international cooperation. China can achieve the first two points through its own efforts, but the third point cannot be accomplished by China alone. Since 2018, Shanghai has held the China International Import Expo (CIIE) annually, and it has been successfully held for five sessions so far. Seeing is believing, and through firsthand participation in the CIIE, I have witnessed at least four industries that have made remarkable achievements in renewable energy: first, the automotive industry, where the displayed products are mostly clean energy and new energy vehicles; second, the construction materials market; third, the increasing popularity of clean daily necessities; and fourth, significant progress in the development of clean energy. China is eager to engage in international cooperation in these areas and further develop green technologies. International cooperation in the green sector is not only beneficial to China or certain countries, but also to the survival and development of all humanity.

Strengthening Social Security: Accelerating the Construction of the Third Pillar of Pension System

■ ZHOU Yanli / IFF Vice Chairman, Former Vice Chairman of China Insurance Regulatory Commission

ZHOU Yanli

Pension is closely related to finance. Recently, the China Banking and Insurance Regulatory Commission and the China Securities Regulatory Commission have successively issued numerous opinions supporting the development of the third pillar of pension insurance. These opinions are highly valuable for promoting the development of the financial industry, pooling vast financial resources, developing wealth management services, and improving commercial insurance and financial services.

First, it is important to improve the social security system to address the challenges posed by population aging. General Secretary Xi Jinping stated in the 19th Party Congress report that efforts should be made to improve the nationwide unified system of basic pension insurance, develop a multi-tiered and multi-pillar pension insurance system, and accelerate the improvement of a unified national platform for social insurance public services.

The Seventh National Population Census revealed that the population aged 60 and above in China has exceeded 264 million, accounting for 18.7% of the total population, with 201 million individuals aged 65 and above, accounting for 14%. According to the United Nations' standards, a population is considered aging when the proportion of people aged 60 and above exceeds 10% and those aged 65 and above exceed 7%. Population aging is undoubtedly a social development phenomenon, but we need to pay close attention to its relationship with the economy. Many predict that by 2035, the proportion of China's elderly population will exceed 20% of the total population. By 2050, the elderly population is projected to reach 487 million, accounting for approximately 35% of the total population. Population aging will have far-reaching effects on economic and social development, and the financial industry will also face various risks and challenges.

China's basic conditions for addressing population aging are relatively optimistic. On one hand, China is the second-largest economy, and it is projected that by around 2026, per capita GDP will reach approximately $20,000, and by 2030, per capita GDP will reach around $25,000. Such an economic scale and development stage are a golden period for the development of the financial and insurance industries. It is expected that the completion of the third pillar of retirement insurance may create a financial scale of trillions of yuan, marking the arrival of a favorable period for the general public to purchase insurance and wealth management products. China has successively introduced economic, financial, and tax policies to support the construction of a multi-tiered and multi-pillar social security system. The active participation of the government, enterprises, and residents has provided a social foundation for basic pensions, enterprise pensions, occupational pensions, and individual pensions.

From the perspective of the social security system in addressing population aging, China began top-level design research in this area as early as 2013. In 2019, a comprehensive plan was specifically formulated to reform and improve the basic pension system. Document No. 35 of the Central Committee and the State Council clearly stated, "Based on China's national conditions and drawing on international experience, efforts should be made to construct a three-pillar pension insurance system that is based on basic pensions, supplemented by enterprise and occupational pensions, and interconnected with personal basic pensions, savings-oriented pensions, and commercial pensions." China continuously improves the social security system from an institutional perspective, highlighting the dual function of commercial insurance as an important part of the financial industry and social security. The focus is on building a multi-tiered and multi-pillar pension insurance system and enriching the product offerings of commercial pensions to meet the diverse pension insurance needs of different groups.

Based on the above situation, I have the following suggestions:

First, take multiple measures to promote the standardized development of China's third pillar of pension insurance. In the future, the Chinese retirement financial market should develop into a comprehensive pattern with diversified participation, a variety of financial product offerings, and the ability to meet diverse retirement needs.

· Further improve fiscal and tax policies. During the pilot phase of individual pensions, explore tax arrangements that allow different income groups to choose according to their needs. For example, individuals can receive pensions under tax-free conditions for securities investment income, adopting a phased tax model.

· At an appropriate time, the government should provide financial subsidies to certain vulnerable groups, especially those engaged in flexible employment and new types of employment (such as couriers and delivery personnel), to alleviate their payment burdens and encourage more people to participate in pension insurance. Additionally, the fiscal and tax authorities should establish specialized accounting standards for financial institutions participating in personal pension insurance, including value-added tax policies. Appropriate tax incentives should be given to the transaction process of personal pension insurance products.

Second, provide appropriate financial products.

· Increase product returns.

· Enhance the adaptability of retirement products by tailoring them to different customers with different risk characteristics, integrating investor protection and suitability considerations into every aspect of product design.

· Establish a system of default asset allocation rules that, while ensuring the autonomy of account holders' choices, can introduce some default asset allocation rules to guide account holders in scientifically allocating retirement assets, achieving a relative balance between risk control and returns.

Third, fully leverage the coordinating and guiding role of the government. Establish a dedicated project working group and improve cross-departmental coordination mechanisms. Set policies for the direction, scope, and upper limit of investment funds as differentiated incentive policies, guiding the investment of funds from personal pension accounts into national major projects and strategic industries, including new infrastructure and support for the development of the digital economy. This will enhance investment returns and ensure the safety of investment returns.

Fourth, enhance the effectiveness of financial supervision. Regulatory authorities and financial institutions should fulfill their respective responsibilities and clarify the division of labor and cooperation in the management of overall regulatory information platforms, dedicated bank accounts, and product management. The protection of the legitimate rights and interests of participants in individual pension insurance should be the top priority, with a focus on the legality and regulatory compliance of pension products, disclosure integrity, and appropriate liquidity. Efforts should be made to alert the elderly to guard against financial traps and promote the concept of value preservation and appreciation in retirement savings.

Debt Crisis Escalation: Liquidity Imbalance and the Need for Multilateral Debt Relief Coordination

■ Guillermo Ortiz / IFF Board Member, Former Governor of Banco de Mexico, Former Chairman of the Board of the Bank for International Settlements (BIS)

Guillermo Ortiz

Currently, international finance and the monetary system exhibit high volatility and interest rates, which affect the flow of funds in emerging markets. This is closely related to the interest rate cycles in the United States and has resulted in some issues in lending and borrowing. The academic community has extensively discussed the problems arising in international finance and the monetary system. It is evident that today's world economic system and individual economies are closely interconnected, and any shock in one country can quickly spread to other parts of the global system.

Additionally, there are structural issues involving regulatory authorities, intermediaries, and financial institutions. If these entities face risks, it becomes even more dangerous for the economic system. For instance, serious issues that are easily overlooked may be discovered during the regulatory process. The emergence of such crises emphasizes the importance of policy coordination and cooperation, which are also key topics in the G20 agenda. By promoting dialogue and discussions, we can strengthen the construction of the international financial and monetary systems. This includes active negotiations through international organizations like the International Monetary Fund, enhancing international cooperation in monetary policies.

The global financial crisis has not only impacted the economy but has also forced and stimulated cooperation among nations in fiscal, economic, and financial policy areas. The reform agenda of the G20 summit plays a crucial role in promoting financial system reforms, mechanisms for financial cooperation, and the regulation of transnational financial activities. The Financial Stability Board (FSB), formerly known as the Financial Stability Forum, also pursues similar agendas, emphasizing the need for capital requirements and risk reduction. However, some of these agendas remain unresolved,

with only a portion being implemented. For example, in capital transactions, the question of who has the authority to regulate foreign funds arises. This requires consensus during the signing of agreements and appropriate adjustments based on the jurisdiction of each country. Extensive research has been conducted worldwide on these issues, and practical experience has demonstrated that using multilateral governance systems and frameworks facilitates more effective risk management and promotes global economic growth.

Regarding the issue of liquidity imbalances, according to the specific guidelines of the International Monetary Fund, central banks act as the last line of defense and provide emergency assistance. This applies not only to emerging market countries but also to developed countries like the United States. Initially, the United States primarily focused on its domestic market and implemented certain policies in response to the strong global demand for the US dollar. However, during the COVID-19 pandemic, some unprecedented circumstances arose. It is crucial to recognize that during crises, central banks such as the Federal Reserve play the role of the last borrower in the international community. Therefore, central banks, especially the Federal Reserve, have become lenders capable of intervening in the international community and even influencing the international political landscape. This has sparked thoughts and considerations among experts, scholars, and policymakers.

The conflict between Russia and Ukraine has had a significant impact on the world economy. Some low- and middle-income countries have suffered losses equivalent to nearly a decade of economic growth. Countries that were just beginning to experience economic growth suddenly experienced setbacks due to political and social instability. The current global situation, which is increasingly tense, also affects the development of certain countries, raising the possibility of a financial crisis. Armed conflicts accelerate the development of crises and exacerbate food security crises in low-income countries. These issues spread rapidly in the most fragile countries worldwide, and it is essential for us to adopt effective methods to jointly address these problems.

Over the past three years of the pandemic, global coordination and cooperation in the fight against COVID-19 have been unsatisfactory, and there has been insufficient funding for the response efforts. The International Monetary Fund is the only organization providing support with a funding of $650 million, but even this support has been progressing slowly. In reality, more than half of this COVID-19 support fund remains in the accounts of the International Monetary Fund, without being disbursed. Furthermore, the influence of other international measures to address the pandemic, including debt payment suspension agreements and the Debt Service Suspension Initiative (DSSI) framework of the G20, has been limited.

Moreover, private creditors have been minimally involved in the global fight against the pandemic and have not shared the burden collectively. Due to the lack of participation from the private sector, many debtors have been unable to repay their debts in a timely manner, affecting the effectiveness of the efforts in this regard.

While approximately 144 countries are eligible for the DSSI, only 73 countries have applied, which is less than half. The DSSI mainly involves long-term debts that have become more challenging to repay due to the intensification of the pandemic. Countries such as Zambia, Ethiopia, and Chad in Africa have applied for debt reduction, but progress has been slow due to the difficulties in coordinating different government departments, institutions, and creditor nations.

Latin America has also been severely affected by the pandemic. Among the top 20 countries with the highest debt burdens globally, eight are from Latin America, and the impact of debt on economic activities is evident. There are positive signals, as Latin American countries have generally adopted countercyclical policies, including fiscal and monetary measures. However, looking ahead, the prospects for Latin America are not favorable. The pandemic has significantly limited the fiscal maneuvering space, and challenges have arisen in areas such as education and skill development.

Advancing Equity in Primary Public Services

■ LIU Shijin / Vice Director of the Committee on Economic Affairs of the 13th CPPCC National Committee, Vice Chairman of China Development Research Foundation

LIU Shijin

I would like to discuss some issues related to expanding demand, including some new characteristics of demand.

First, there has been ongoing discussion in China about increasing consumer demand and stimulating domestic consumption. I believe more attention should be given to basic public services. Of course, based on general logic, the foundation for increasing consumption lies in expanding production and increasing income. Especially now, the consumption level of low-income groups is relatively low, and some people have faced difficulties in their lives due to the three-year-long pandemic, leading to a decline in consumption. Therefore, to stimulate domestic consumption, it is necessary to first increase people's income, especially the income of low-income groups.

While China has achieved the eradication of abject poverty, for most people, especially a considerable number of middle- and low-income groups, the growth of consumption is increasingly related to the upgrading of consumption structure. Based on some data from 2021 and 2022, the areas where residential consumption has grown rapidly include education, healthcare, insurance, finance, and communication. As for government consumption, the areas that have grown rapidly are primarily education, followed by healthcare, social security and employment, scientific research, and other fields.

The current consumption structure is significantly different from the past. In the past, it mainly revolved around clothing, food, housing, and transportation, which were personal consumption expenditures. Now, it has expanded to include education, healthcare, social security, and other areas. After the addition of new components such as finance, a significant portion is directly related to public services. For example, for many years, we have been calling for equalization of basic public services. It has been many years since nearly 300 million rural migrant workers entered the cities in China, but their access to basic public services such as housing, education, healthcare, and social security is still inadequate. The areas of fastest-growing residential consumption mentioned earlier, such as education, healthcare, insurance, etc., are actually not shared significantly by the migrant worker population, although their demand for these areas certainly exists. It is limited by the lag in equalizing basic public services, which hampers their consumption in these sectors.

When many people talk about consumption, they still focus on basic consumption directly related to Engel's coefficient, such as clothing, food, housing, and transportation. However, for most people, their consumption now already covers areas such as education, healthcare, and social security, which are directly related to equalizing public services. Therefore, if reforms in education, healthcare, social security, and other fields are not in place, they severely restrict the growth of consumption.

Secondly, let's discuss the growth of investment. Real estate investment has been in a continuous decline since July 2021, but the deceleration of real estate investment is in line with long-term historical trends. Ten years ago, many people believed that China had already reached its historical peak in real estate investment demand. However, in the following years, the real estate sector still performed well. Even in the years starting from the outbreak of the pandemic in 2020 until the first half of 2021, the real estate sector showed strong resilience and played an important role in maintaining stable growth during that period. The strong demand for real estate investment is mainly concentrated in urban clusters and city clusters, where housing prices have generally risen. However, real estate investment demand has a cyclical nature. According to our observations, its peak has already occurred. Therefore, the continuous decline in real estate investment is influenced by policy factors, but more importantly, it is due to the fundamental changes in demand, especially the decline in structural demand from urban clusters and city clusters after reaching the peak.

Of course, I agree that adjustments should be made to the real estate sector through policies because the current rapid decline in the real estate industry is abnormal. If we look at the year-on-year change in real estate prices, it has dropped by nearly 20%, which is definitely not normal. It should at least maintain a growth rate of 5% to 6%. The current situation of the real estate industry needs to be improved, but we should also realize that the period of high-speed growth in the real estate sector has passed.

Infrastructure investment is also an important area of focus now, but its growth rate has been declining in recent years, which is also in line with the overall trend. Since 2022, infrastructure investment has experienced relatively fast growth, but in terms of structure, the areas with faster growth are related to environmental protection, information transmission, and other infrastructure sectors. This also reflects the current structural changes in infrastructure. However, even in this case, the recent acceleration in infrastructure investment is mainly driven by policy factors, and this growth rate may not be sustainable.

Manufacturing investment is relatively stable, but the sectors with rapid growth currently include computer technology,

electronics, machinery manufacturing, instrument manufacturing, and automobile manufacturing, among others. In general, there is faster growth in manufacturing investment in sectors with higher technological content.

In the field of service industry investment outside of infrastructure, there has been rapid and stable growth in recent years, especially in the past two years. Even when overall investment has declined, service industry investment has remained relatively stable, demonstrating strong resilience. Upon closer analysis, we find that it includes areas such as education, healthcare, scientific research, finance, and business services.

In China's investment ranking, manufacturing used to have the largest proportion, followed by infrastructure, and then real estate, referred to as the "three drivers of investment." However, after the changes in the past one or two years, the order has shifted. Manufacturing still holds the first position, followed by infrastructure, and the third position now belongs to the service industry outside of infrastructure. Real estate has been pushed to the fourth position. This trend is unlikely to change in the short term, so when discussing investment issues in the future, we should be aware that real estate no longer ranks among the top three.

Having discussed the characteristics of consumption and investment, it is necessary to clarify their relationship with high-quality development and the new stage of economic growth. The areas with rapid growth in residential consumption, such as education, healthcare, insurance, are closely related to investments in human capital. In other words, they represent both consumption and investment in human capital. Therefore, I want to emphasize the viewpoint that consumption is also an investment, and it is even more important than investing in human capital. In the past, including local governments, when talking about investment, it seemed to focus on infrastructure and real estate sectors. Going forward, more emphasis should be placed on investments related to human capital in areas such as education, healthcare, and insurance.

From the perspective of investment structure, there is faster growth in investments related to industrial structural transformation and upgrading, technological advancement, digitization, and green transformation. Additionally, service industry investment is largely related to human capital. Therefore, we will see two trends: one is the overall improvement and transformation of industries, the increase in technological content, and material investment; the other is related to consumption and service industry investment, which is primarily focused on human capital development. The improvement of these two trends is highly correlated, both from the perspective of consumers and service industry investors.

How should we view consumption in the future? I believe consumption is actually a form of investment, an investment in human capital. These are the new characteristics emerging in consumption and investment. After reaching a per capita GDP of over $10,000, China has gradually entered a new stage of growth where real estate, infrastructure, and other material-intensive sectors with relatively low technological content are gradually fading. It is crucial to pay more attention to investments with higher technological content that are closely related to human capital development and be more attentive to changes in investment structure.

The focus of future reforms should be clear, starting with accelerating the equalization of basic public services, especially for rural migrant workers. This issue has been discussed for many years, and we cannot wait any longer or delay it further because it is directly related to the growth of consumption and service industry investment. Additionally, reforms related to innovation-driven development, digitization, and green transformation need to be expedited.

China's Role in Debt Repayment Arrangement and Restructuring: Practices and Impact

■ ZHU Jun / Chairperson of Silk Road Fund

ZHU Jun

Regarding the concerns of the international community about debt restructuring, especially sovereign debt restructuring, I would like to address the following points:

1. The fallacy of the "China debt trap" narrative

The concept of the "China debt trap" was proposed by an Indian scholar in 2017, suggesting that China, as a developing country, excessively lends to gain strategic advantages. I personally disagree with this narrative because China rarely acquires assets through debt restructuring, as evident from the arrangements with 24 borrowing and indebted countries. The increase in China's creditor status in developing countries is driven by their need for greater development momentum. Furthermore, since 2017, China's lending to Africa has been on a declining trend. Research conducted by scholars such as Professor Kevin Gallagher from the Global Development Policy Center at Boston University indicates that China's overseas development financing genuinely benefits recipient countries, and the financing volume is on a downward trajectory until 2030. Similar analysis suggests that the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) can help member countries achieve an additional 1% economic growth rate before 2030. Countries supported by Chinese financing are projected to experience 3% to 4% GDP growth by 2030, lifting 32 million people out of poverty and increasing world trade by 6.2%. Furthermore, China's financial support to developing countries drives global income growth by 2.9%. These are the outcomes of China's foreign aid and financial assistance.

2. The role of Chinese financial institutions in debt restructuring

Some argue that Chinese policy banks and large commercial banks did not participate in the G20's Debt Service Suspension Initiative (DSSI) and the Common Framework. Many foreign observers perceive these banks as state-owned enterprises that enjoy government privileges, and they believe these commercial and policy banks should be treated as official creditors. However, I believe Chinese commercial banks operate based on market mechanisms, ensuring competition neutrality. Development banks in China, such as the China Development Bank, provide development financing based on market principles and commercial criteria without any government subsidies. Therefore, these two types of institutions should not be considered official creditors. Additionally, the China Export-Import Bank is the primary lender for preferential loans provided by China, and it has already joined the G20's DSSI Common Framework. As more private sector actors participate in debt relief processes, Chinese financial institutions will undoubtedly play their appropriate roles.

3. China's sovereign debt and concessional loans

Some criticize China for providing concessional loans when offering sovereign debt. The concessional sovereign loans provided by China are generally government-certified, and there are also export loans based on "gentlemen's agreements." It is worth mentioning that these "gentlemen's agreements" are voluntary actions, where developed countries voluntarily provide funds to China. Moreover, China is not yet a developed country, and its relationship with developing countries falls under South-South cooperation. The borrowing needs of developing countries are diverse, extending beyond purely commercial or concessional loans. Therefore, China hopes to expand financial cooperation in the field with countries along the Belt and Road Initiative.

4. China's approach to debt servicing arrangements or debt restructuring

Does China have any new approaches in debt servicing arrangements or debt restructuring, whether multilaterally or bilaterally? The World Bank, International Monetary Fund (IMF), and the Paris Club have indeed played a significant role in ensuring debt servicing for some countries by restructuring their debts. However, China considers a bilateral approach because, as an emerging creditor country and sometimes the largest creditor, bilateral debt negotiations allow its institutions to have greater independence and set the pace for debt restructuring. However, China also acknowledges that using a bilateral approach has certain disadvantages. For example, debtor countries may continuously negotiate for better treatment, hoping for improved conditions, while creditors have no means to demand appropriate and necessary reforms to transform their domestic economies. Therefore, the future probability of risks emerging in debt servicing is significant. China is currently discussing various potential issues within the G20 framework, as well as in coordination with the IMF and World Bank, to combine multilateral debt arrangements, debt arrangements, and bilateral arrangements. The key is to protect the interests of both creditors and debtors. If the conditions for debt restructuring are comparable and feasible for all relevant parties, timely financial restructuring will be carried out.

5.Three additional points

First, is it necessary to establish a bilateral official creditors' club and invite Paris Club members to join? When China held the G20 presidency in 2016, there were discussions on whether China should join the Paris Club, but until now, China has not become a member. Concerns arise as to whether China's financial institutions or even government departments, as the largest emerging creditor country, would make decisions on debt relief. The current extent of debt relief should not assume that China is obligated to reduce debt after receiving funds. Second, regarding the DSSI and the Common Framework, China is particularly concerned about the early involvement of the private sector and multilateral development banks, especially in terms of private sector participation. We do not want the private sector to free-ride and directly benefit from the work done by the public sector. China will certainly show great concern if the private sector participates in negotiations and consultations based on comparable conditions. Third, cooperation and coordination between the public and private sectors, including the Paris Club, the World Bank, and the IMF, are essential. The IMF primarily coordinates with the private and commercial sectors. If we have ideas and suggestions concerning debt restructuring, how should we engage with these private and public sectors and the IMF at the earliest stage? This is also a matter of great concern to us.

China is currently the world's largest creditor country, and the Paris Club operates on the principle of reaching full consensus. If a small creditor country has a different stance from China, generally, major creditor countries have greater decision-making power and speaking rights. However, the decision-making principles of the Paris Club are not as straightforward.

Regarding the necessity of the G20's Debt Service Suspension Initiative (DSSI), I believe it is crucial and necessary. Of course, there may be disputes and disagreements regarding specific indicators, but the overall framework is feasible and essential. It is essential for both creditor and debtor countries. I am aware that the IMF has made significant contributions to the entire debt restructuring process.

Creating a National Financial Security Index for the Management of Financial Risks

■ ZHOU Daoxu / Director, Research Center for Finance Security, Institute for Fintech Research (IFR), PBC School of Finance, Tsinghua University

ZHOU Daoxu

The research I'm sharing is the latest achievement of our Financial Security Research Center, which is the creation of the National Financial Security Index.

First of all, why did we develop the National Financial Security Index? What is its significance and purpose? National financial security refers to a country's (or region's) financial industry, including financial institutions and markets, having the ability to resist and counteract interference and shocks from adverse factors both domestically and internationally during its development, while maintaining normal operation and steady growth.

In order to better reflect the dynamic changes of national security in the new era, prevent systemic risks, and maintain financial security and stability, the Financial Security Research Center of Tsinghua University's Institute of Financial Technology has adopted the principles of "reflecting the essence of financial security, emphasizing financial risk orientation, focusing on risk identification measurement, and providing forward-looking warning value". Through a multi-level analysis of the financial security of typical economies worldwide, we have conducted research and created the National Financial Security Index.

The index is an intuitive, reliable, and leading signal system, with its value directly reflecting the trends in financial security changes. The National Financial Security Index can display the current status, historical development, and future trends of a country's financial security, as well as its reference position globally.

Below is a summary of the financial security index for 15 major economies worldwide. In October 2017, the index was set at 100, with a higher value indicating better security conditions. A value below 40 indicates extremely poor financial security, while a value above 200 indicates excellent financial security. The 15 economies included in the index are China, the United States, Japan, India, South Korea, Russia, Brazil, Turkey, South Africa, Thailand, Canada, Australia, the United Kingdom, Germany, and France. Let's take a look at the trend. In recent years, there has been a downward fluctuation trend, indicating a systemic decline in global financial security.

From the results of the index's operation, the financial security of countries exhibits two main characteristics. On one hand, global financial security stability forms a community of shared destiny, with a situation of "prosperity or decline together." From the base year of 2017 for the national security index, the financial security levels of various countries are mutually affected by the global environment, and the interconnectedness of financial security disturbances among countries has become increasingly close. For example, since 2020, when the COVID-19 pandemic occurred, the financial security index of European and emerging economies has shown a relative decline. This indicates that the financial security of countries worldwide is closely interconnected, forming a true "community of shared destiny."

Additionally, looking at the past three years, China's financial security level has been relatively high, with smaller fluctuations compared to other economies. China's financial security appears more stable, with index values around 100. Although there has been a downward trend since 2021 in line with the global situation, there have been positive signs in China's relative ranking since the second quarter of 2022.

There are six main reasons for the positive signs in China's financial security index:

First, the overall stability of the RMB exchange rate, with smaller fluctuations compared to other currencies. For example, the depreciation of the RMB against the USD has been smaller than that of the Japanese Yen and Korean Won.

Second, despite a downward trend, China's composite stock index, as an indicator of economic performance, has shown relatively small fluctuations, demonstrating stability.

Third, the overall range of risk-free return represented by government bond rates has been maintained between 2.45% and 3.35%, with high credit ratings for national bonds.

Fourth, in terms of core assets, while housing prices in China have experienced a downward trend distinct from the upward trend in Europe and the United States, the extent of decline has been relatively low. Overall, the price index for newly-built residential properties in 70 large and medium-sized Chinese cities has only entered a range of -1% in year-on-year declines.

Fifth, looking at changes in external debt, China's external debt has increased, but our foreign exchange reserves have also grown, indicating good quality of external debt. China has been able to sustain the inflow of foreign capital and has attracted significant foreign direct investment, bringing financial resources to China while directly promoting the growth of Chinese production capacity, output, and employment.

Sixth, in terms of the conditions supporting financial security, China's high foreign exchange reserves provide a solid foundation for the stability of the RMB exchange rate. The ample domestic safeguards and self-sufficiency capabilities have avoided the import-driven inflation experienced by the United States and Europe. The year-on-year growth rate of the Consumer Price Index (CPI) has also remained relatively stable, with overall prices ranging from 1.6% to 3%, without a trend of runaway inflation. This indicates that the cross-cyclical, countercyclical, cross-market, and counter market regulatory measures implemented by the central monetary authority have effectively played a role in stabilizing the economy.

The comparison of the index shows that China currently has a strong ability to safeguard financial security. Looking ahead, China has relatively greater room for manoeuvring in terms of monetary policy, fiscal policy, industrial policy, and resource support compared to other countries.

In terms of monetary policy, there is still room to further reduce the required reserve ratio by more than 5% and interest rate cuts, with greater policy space compared to negative or zero interest rates in Japan and Europe. In addition, China's foreign exchange reserves are much larger than those of Japan and other countries, effectively allowing for the management of exchange rate fluctuations and shocks. China also has significant reserves of IMF Special Drawing Rights and other reserve assets, providing effective support for national financial security.

In terms of fiscal policy, the low fiscal deficit allows for a larger space for implementing developmental financial policies. At the same time, the high savings rate provides strong support for maintaining capital accumulation stability. Compared to wealth inequalities in Europe and the United States, China's relatively balanced wealth distribution is conducive to social stability and contributes to a higher level of financial security.

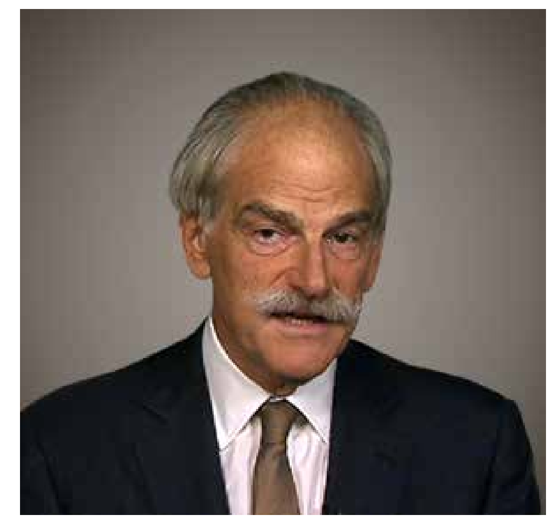
A third respect is that China still has significant room for the deepening of its capital markets. The number and valuation of Chinese listed companies have great potential for growth.

Taking all these factors into account, China possesses resource advantages in maintaining financial security in multiple aspects and has a range of policy tools and policy space to address challenges. Of course, China's financial security also faces some areas that need improvement and urgent attention, which requires us to continue deepening reforms and enhancing the level of financial security.

International Trade

Fostering Multi-Stakeholder Coordination: Combating Trade Protectionism within the G20 Framework

■ John Lipsky / Vice Chairman of the Bretton Woods Committee (BWC), Former First Deputy Managing Director of the IMF



John Lipsky

The international system is facing challenges, and what kind of changes are needed to achieve real progress and avoid crises in development? The geopolitical challenges and increasing trade protectionism have disrupted the international financial system and affected the potential for sustained global economic growth. My main conclusion is that we need a more consistent multilateral cooperation model and the establishment of macroeconomic policies to achieve shared economic success.

The Bretton Woods system established after World War II was intended to create a rules-based international monetary system with a stable and flexible policy environment and member agreements to support the development of international trade. In terms of governance, it is necessary to create new international multilateral institutions that reflect the respective economic powers of their members, with corresponding voting rights to be reconsidered every five years. This establishes a multilateral system that promotes international trade as a key factor in global economic growth.

In terms of international support, there are two crucial points. First, we need to reduce past restrictions on trade and establish the General Agreement on Tariffs and Trade (GATT) to promote more cooperation in international trade and open it up. Second, it is necessary to reform the International Monetary Fund (IMF), which was created based on the gold standard, to make it more durable and reliable.

According to the IMF's Articles of Agreement, once IMF members reach an agreement, restrictions on the use of other relevant currencies can be lifted under certain conditions for payments. However, nearly 100% of IMF members currently maintain restrictions on the use of foreign currencies. Therefore, I believe that IMF members have actually created obstacles to global financial flows, even though their initial intention and main approach were to promote world economic development and international trade. The IMF members' agreement also mentions the establishment of a multilateral payment system to facilitate transactions between member countries and the elimination of foreign exchange controls, as these controls hinder the development of international trade.

Through decades of efforts since the establishment of the IMF, foreign exchange controls have been significantly reduced worldwide. At the same time, tariffs and other trade barriers have also decreased, and international trade is gradually becoming a major driving factor for economic growth. Global trade volume continues to grow rapidly, with growth rates surpassing those of global GDP.

After World War II, the main economic challenge for the world was to rebuild the international trade system and establish a comprehensive financial channel to support trade. However, there were no clear rules for cross-border capital flows at that time, as there was no significant cross-border capital movement in the immediate post-war period. With the development of world trade and cross-border capital flows, a series of crises affecting capital markets emerged. In the 1990s, efforts were made to establish an efficient, open, rule-based international trade payment system, driven by the Bretton Woods Committee and actively promoted by the World Trade Organization (WTO). Subsequently, the global system expanded further, with significant growth in cross-border trade and capital flows, leading to the development and growth of international capital markets.

The Financial Stability Board of the International Monetary Fund sought to play a long-term systemic role in supporting international capital flows. However, in 1997, the Asian financial crisis broke out, leading to currency devaluations in Asia and temporarily putting this idea on hold. Many people also realized that enhancing international financial stability requires strengthened cooperation and the promotion of consistency and compatibility between national regulatory and supervisory mechanisms. As a result, the Financial Stability Forum was established in 1999.

From 1995 to 2007, global capital flows grew significantly, with growth rates surpassing those of trade. However, systemic flaws emerged in global capital flows, such as unclear boundaries of regulation and even lack of supervision, which were among the causes of the 2008 global financial crisis. The international community recognized these flaws and other systemic risks, leading to the emergence of the Group of Twenty (G20). Subsequently, based on G20 summit resolutions, the Financial Stability Board was established in 2009, replacing the previous Financial Stability Forum. China is also a member of the Financial Stability Board, further strengthening the resilience and reform of the financial system. G20 leaders agreed to promote new trade liberalization through the WTO and reduce trade barriers.

Now, more than a decade has passed since the first G20 summit. Through the extensive and active work of the Financial Stability Board, significant progress has been made in enhancing the stability of the banking sector. However, progress in capital market regulation has been relatively small. For example, the establishment of the European Banking Union and a capital market alliance has not yet been realized. New non-bank financial institutions are growing, meaning those institutions with significant systemic importance are increasingly outside the current regulatory boundaries. These issues need our attention, especially after experiencing financial crises.

The G20 Debt Service Suspension Initiative (DSSI) has made some progress as a common framework inherited from the Paris Club. However, a series of defaults have occurred in vulnerable economies, indicating minimal progress in joint efforts to address debt issues. New geopolitical frictions have emerged on the international political stage, increasingly manifesting as new trade restrictions and financial sanctions. Currently, global economic growth is slowing down, and the risks of recession are gradually rising, posing challenges that we are facing. We need to build a more consistent and cooperative mechanism to formulate macroeconomic and financial policies to avoid the risks of protectionism and improve the efficiency of global basic markets from a medium-term perspective. Of course, there is still a possibility of a recession in the near term. More importantly, we need to ensure the success of the common framework for G20 debt treatment.

From a medium-term perspective, it is essential to promote sustainable and inclusive growth. However, in coordinating economic and policy aspects, we need a more effective mechanism compared to the current one. Our goal is undoubtedly to avoid the risks of new trade protectionism and expand global trade within the framework of multilateralism. It is with this intention that we actively promote cooperation in the global payment system. If new trade protectionism and financial sanctions prevail, it could threaten the rules-based international system and the fundamental path to our past success, shaking the foundation of global growth. will take on a whole new meaning.

World Economy at Risk: Recession and Deglobalization Looming, Trade Protectionism Undermining Market Economy

■ YI Xiaozhun / Former Deputy Director-General of the World Trade Organization (WTO)

YI Xiaozhun

Acting against the market principles of industrial division and violating multilateral trade rules, abusing security exceptions, and forcefully promoting unilateral trade protectionist measures will not only disrupt the global market system and cause turmoil in global supply chains but also severely distort the foundation of global economic governance based on multilateral trade rules, which can be considered a disaster for market economy.

By the end of 2022, the heads of the International Monetary Fund (IMF) and the World Bank issued warnings, pointing out that the global economy is facing the risk of recession, and the extent of the recession may be deeper than anticipated by many. Inflation rates in Europe, the United States, and emerging economies have all exceeded 8%. Extreme weather conditions are wreaking havoc globally, and the number of people suffering from hunger and malnutrition continues to increase by 13 million on top of the 770 million in 2021. The combination of high inflation, high debt, high interest rates, low growth, stagflation, and the recurring impact of the COVID-19 pandemic, along with the escalation and prolongation of the Russia-Ukraine conflict, could potentially trigger a massive global economic crisis.

In addition to economic and trade crises, humanity is also facing global public health crises, food crises, energy crises, debt crises, refugee crises, climate change crises, environmental crises, as well as crises of decoupling and disruption of supply chains. We all know that the rise of China and the Asian economy

is inseparable from the dividends brought about by economic globalization. However, since the 2008 financial crisis, economic globalization has gradually declined, especially as the economic and trade policies of major developed countries have shifted from traditional trade liberalization to unilateralism and trade protectionism. Combined with the global outbreak of the COVID-19 pandemic and geopolitical struggles, the process of deglobalization has been further accelerated. The Russia-Ukraine conflict is likely to mark the end of the wave of globalization experienced in the past 30 years. The energy crisis and food shortages resulting from the conflict will force a further restructuring of global supply chains, leading to chain disruptions, regionalization, and even countries moving towards self-sufficiency.

Multinational corporations in Europe and the United States, under the pressure of political correctness, have had to shift their focus from prioritizing low cost and high efficiency to considering supply chain security and values-based trade. According to WTO statistics, during the peak of globalization from 1995 to 2008, global trade volume grew at an average annual rate of 9.4%. However, in the decade from 2008, after the global financial crisis, until 2018, this number plummeted to 1.7%. It is expected that after the end of the COVID-19 pandemic and under the influence of the Russia-Ukraine conflict, the annual growth rate of global trade volume will further decrease. Asian economies, including China, with a high degree of trade dependence, will be the first to be negatively affected by this trend.

We need to recognize that deglobalization comes with a high cost for consumers. Currently, to some extent, the high inflation worldwide is also a cost of deglobalization.

I do not believe that economic globalization will regress to the level of the Cold War era because consumption is ultimately an economic behavior, and the basic logic of business competition has not changed. In the process of deglobalization, consumers will still seek products that are both of high quality and low price, and companies whose costs are pushed up may eventually be eliminated. Therefore, the geopolitically driven process of deglobalization is also likely to encounter bottlenecks. Multinational corporations will have to seek a balance between values-based trade, supply chain security, cost reduction, and maintaining competitiveness.

Overall, in international trade and the division of transnational industries, it is difficult to sustain a long-term approach that deviates from economic principles and emphasizes ideology and political correctness. Openness, non-discrimination, and adherence to multilateral rules are important guarantees for the healthy operation of market economy and global supply chains. Acting against the market principles of industrial division and violating multilateral trade rules, abusing security exceptions, and forcefully promoting unilateral trade protectionist measures will not only disrupt the global market system and cause turmoil in global supply chains but also severely distort the foundation of global economic governance based on multilateral trade rules, which can be considered a disaster for market economy.

China has long been deeply embedded in the global industrial and supply chains, highly integrated with the world economy, and playing an increasingly important role in global trade and production systems. China has become the world's largest trading nation in intermediate goods. The proportion of China's manufacturing industry in global intermediate goods trade has reached about 20%. As an emerging major country, China faces complex security situations and significant development pressures. China should balance security and openness, as well as development, rationally, to prevent falling into the trap of generalized security.

I believe that sticking to reform and opening up is the key for China to break free from the adversity of trade protectionism. As the saying goes, "A distant view of others' horses is not as good as one's own steed." As long as China remains committed to reform and opening up without wavering, as long as we can continuously improve the business environment, the stability and cost-efficiency of the Chinese economy and society will enable China to firmly remain in the global supply chain. We can continue to engage in fair and healthy market competition with other countries.

Globalization and Digital Transformation: Catalyzing Rapid International Trade Growth

■ JIANG Zengwei / President of the Global Alliance for Trade in Services, Former Chairman of the China Council for the Promotion of International Trade

JIANG Zengwei

Currently, the world is experiencing unprecedented and accelerated changes. Changes in the world, the era, and history are unfolding in unprecedented ways, leading to profound adjustments in the balance of international power. Meanwhile, the far-reaching impact of the global pandemic has weakened global economic recovery. The restructuring of industrial and supply chains on a global scale continues, and local conflicts and instability are frequent. The world has entered a new period of turbulent transformation, once again standing at a historical crossroads.

At the same time, a new round of technological revolution and industrial transformation, particularly the rapid development of modern information technologies represented by big data, cloud computing, artificial intelligence, and blockchain, has accelerated the pace of economic and social digitization. Information and digital transformation as well as artificial intelligence have become important trends in global economic development and positive forces driving global economic growth.

1. The digitalization of global trade is an irresistible trend.

In recent years, the global digital economy has made significant progress and plays an increasingly important role in driving world economic growth. It has become a key force in reshaping global resource allocation, restructuring the global economic structure, and changing the global economic competition pattern. According to data, in 2021, the value-added scale of the global digital economy in 47 countries reached 38.1 trillion US dollars, a nominal year-on-year increase of 15.6%, accounting for 45.0% of GDP. The rapid development of the digital economy has effectively promoted the digital transformation of trade, integrating traditional trade into the wave of digital development and driving the rapid rise of e-commerce. In particular, cross-border

e-commerce has become an important force in stabilizing global trade volume, promoting trade transformation and upgrading, and driving the development of industries related to the industrial chain. It has also given rise to new forms of trade such as digital services trade.

In 2021, the global cross-border e-commerce market exceeded 5.3 trillion US dollars in transaction volume, and cross-border digital service trade approached 3.9 trillion US dollars, a year-on-year increase of 14.3%, demonstrating strong growth momentum and enormous development potential. Looking ahead, the inherent advantages of trade digitalization, such as improving trade efficiency, reducing trade costs, and expanding trade channels, will be further unleashed, driving the scale and quality of trade digitalization to a higher level.

2. Amid the digital transformation of trade, the adjustment of industrial and supply chains should still adhere to globalization.

In recent years, protectionism has been on the rise globally, particularly accelerated by the global pandemic of COVID-19, which has led to adjustments in industrial and supply chains in various countries. Global industrial and supply chains have shown a trend towards regionalization and localization, and non-tariff trade barriers have increased, weakening the principle of efficiency in resource allocation to some extent.

With the steady progress of trade digitalization, the information chain in production, circulation, distribution, and consumption has significantly shortened, making "buying globally," "selling globally," and "producing globally" easier to achieve. Under these conditions, the global industrial and supply chains should follow the principles of each country's resource endowment and market mechanisms, which can accelerate the pace of the reconstruction of industrial and supply chain systems. It can effectively enhance the development resilience of enterprises in various countries, accelerate global economic recovery, bring tangible benefits and improvements to people in all countries, and continue to deepen the world economy in the direction of globalization.

3. Multilateral cooperation should lead the global digital transformation of trade.

The steady progress of global trade digitalization transformation requires the concerted efforts of the international community. First, it is necessary to adhere to the framework of the multilateral trading system with the World Trade Organization (WTO) at its core, coordinate the efforts of countries and relevant international organizations, strengthen planning and consultations in the field of digital trade, and reduce the institutional friction costs of trade digital transformation. Second, it is necessary to promote cooperation among relevant parties to bridge the digital divide between different countries and build a "global digital infrastructure" to enhance the level of interconnection of digital infrastructure. This will further consolidate the foundation for trade digital transformation. Third, in response to the need for deepening economic globalization, it is necessary to strengthen consultations among countries, improve global economic governance, and effectively reduce and eliminate various barriers faced by trade digital transformation.

Finance is the "lifeblood" of economic operation and an important support for trade activities. The digital transformation of trade places higher demands on the service capabilities of finance. The rapid development of digital technology and its integration with the financial industry have promoted the rapid development of digital finance. It has provided more convenient and efficient support for payment settlements, credit financing, and other aspects of trade digital transformation, raised the level of trade digital development, and contributed to the recovery of the world economy.

Over the years, the International Financial Forum (IFF) has actively promoted the United Nations Sustainable Development Goals with the support of relevant parties. It has also contributed significantly to innovation, development, and economic transformation and recovery on a global scale, including in the improvement of financial services for trade digital transformation. I hope that the IFF will continue to exert its unique influence, create a new platform for international exchanges, and play a greater role in escalating the global trade digital transformation, promoting international cooperation in relevant fields.

In April 2022, the Global Alliance for Trade in Services (GATIS) was established in Beijing. As an international open cooperation platform, the alliance adheres to the principles of neutrality, openness, inclusiveness, and innovation. It is willing to establish multi-level and diversified cooperative partnerships with service trade enterprises, business associations, professional institutions, and industry organizations from all countries and regions in the world. The alliance aims to continuously improve service trade rules,

accelerate the process of digitization, optimize the international business environment, and promote the open, innovative, and integrated development of the service industry and service trade. I also look forward to the enhanced cooperation between the GATIS and the IFF to make our due contributions to the prosperity and stability of the world economy.

Global Trade Battles Headwinds as WTO Dispute Settlement Mechanism Falters

■ Bert Hofman / Director of the East Asian Institute, National University of Singapore, Former Country Director for China of the World Bank

Bert Hofman

In the adversity of the Covid outbreak, global trade did experience some decline, but it rebounded in 2021, so the overall performance was still good. China quickly controlled the first wave of the pandemic in 2020, so China's trade performance was particularly strong.

Overall, the value added by global trade has been driving its expansion and effectiveness, and China has played an important role in this aspect since the early 1990s. The global value chain had already matured and established a global industrial chain before the pandemic, effectively reducing transportation costs. All these efficiency gains had actually been reaped before the outbreak of the pandemic.

The benefits of the World Trade Organization (WTO), especially China's accession and the benefits of other members joining the WTO, all these benefits and efficiency improvements were fully realized before the outbreak of the pandemic.

China has always had some special industrial policies, and now Europe and the United States are also implementing some special industrial policies. Additionally, there is no good platform for negotiating WTO rules. In fact, the WTO has been ineffective in this regard and is unable to fulfill its role. The WTO's dispute settlement mechanism is unable to arbitrate issues, disputes, and conflicts and is currently paralyzed.

Global trade suffered a heavy blow in the first half of 2020 but quickly recovered, especially in the case of manufacturing trade. China's accession to the WTO played an important role in stabilizing the global supply chain. Additionally, China has signed agreements and preferential trade arrangements to promote and facilitate trade. I believe that the conflict between Russia and Ukraine actually changed the course of the world and brought instability to global trade.

Furthermore, the policies toward China during the Trump administration and the crackdown on Chinese high-tech companies after Biden took office sent a clear signal that U.S. national interests and national security are paramount. In the past decade, there have indeed been some U.S. domestic policies focused on protecting national security interests, and Biden himself particularly emphasizes this in international trade policy, especially in the areas of cybersecurity and data security.

Factors such as data transmission security will certainly affect the outlook for future trade, but overall, there will not be significant changes. Cross-border handling of data is not just a matter of citizen privacy or general privacy. Our stance in Singapore regarding data management and digital trade is relatively liberal. We have reached agreements with Australia and hope that China can also participate, especially in the services trade, which will also affect goods trade. Currently, there are no clear rules in this regard, especially in WTO rules. In terms of regulation, especially international security, the rules are actually quite broad, allowing some countries to have more room for interpretation regarding national security, making it relatively weak in this aspect.

China has always had some special industrial policies, and now Europe and the United States are also implementing some special industrial policies. Additionally, there is no good platform for negotiating WTO rules. In fact, the WTO has been ineffective in this regard and is unable to fulfill its role. The WTO's dispute settlement mechanism is unable to arbitrate issues, disputes, and conflicts and is currently paralyzed.

Global trade has developed relatively well since the outbreak of the pandemic, but there are many uncertainties in the future, primarily depending on the business models that companies adopt. We previously mentioned the "China+" strategy and how Chinese companies should proceed. The decisions made by each company's board of directors, especially for multinational corporations that want to enter the Chinese market, must consider international security, national security issues, and the future prospects of the company's development. All of these factors will influence companies' decision-making. Indeed, some companies may relocate from China to Southeast Asia, and the United States may also take measures to regionalize trade. In the short term, this may be advantageous for certain regions, but in the long run, it is not beneficial for the global economy.

Ensuring Stable Growth of Export and Employment by Leveraging Labor Cost Advantages in Mid-to-High-End Manufacturing Industry

■ QU Hongbin / Former Chief Economist for Greater China, HSBC

QU Hongbin

The distribution of China's export products is extensive, reaching various regions around the world. Regardless of how they are classified, whether by product variety or by region, China's exports demonstrate a relatively balanced distribution. Despite the existence of a trade war, the United States remains one of China's three major export markets, along with the European Union and ASEAN. ASEAN has experienced significant growth in recent years, and these three regions serve as the primary destinations for China's exports. Additionally, countries such as Japan and South Korea, which are geographically close to China, also serve as important markets for Chinese exports.

During the three years of the pandemic, China's exports achieved double-digit growth rates, surpassing the expectations of many. This export performance played a vital role in supporting China's economic growth and income during the pandemic period. However, in 2022, inflation exceeded expectations, leading central banks worldwide to raise interest rates nearly simultaneously. While higher interest rates may gradually mitigate excessive inflation, they could also result in a significant slowdown in the global economy and demand.

The prevailing consensus suggests a substantial decline in average global growth rates in the coming years, particularly in Europe and the United States. This decline will have a significant impact on China's exports since the demand for Chinese exports from Europe and the United States will substantially decrease. Emerging market countries, such as ASEAN, are also expected to experience a noticeable slowdown in economic growth in 2023. The economic slowdown in the EU, the United States, and ASEAN, which are China's three major export markets, will directly affect China's export performance.

In summary, China's exports, as the most influential driver among the three major demand drivers, will face downward pressure in 2023. The impact of exports is not limited to the reduction of trade surpluses but also has second-round indirect effects. The manufacturing industry alone employs 120 million people, accounting for a quarter of China's total employment. When considering the service industries associated with trade and ports, this figure rises to 180 million jobs. The potential impact on these 180 million individuals, accounting for 40% of the overall urban employment population, could lead to a second round of economic pressure. Therefore, countermeasures need to be implemented, focusing on stimulating domestic demand, be it through consumption or investment.

Apart from domestic demand, exchange rates also play a role. In 2022, the depreciation of the Chinese yuan was primarily driven by the appreciation of the US dollar, rather than inherent yuan depreciation. Considering the downward pressure on exports, it is crucial to carefully evaluate the impact of renminbi appreciation and US dollar fluctuations on China's future exports, even if the US Federal Reserve slows down interest rate hikes in 2023 and the US dollar adjusts. From an export perspective, maintaining the renminbi at around 7 or slightly weaker could provide a subsidy to the export industry. Therefore, exchange rates are a significant factor to consider.

The third aspect to consider is export tax rebates. Export tax rebates are designed to avoid double taxation, and in theory, full rebates should be provided to the export industry. However, discounted tax rebates have been the norm. Given the challenging export situation, the consideration of full tax rebates could serve as a counter-cyclical measure, albeit in the short term.

In the coming years, Chinese exports may face an additional challenge: the reconstruction of the global industrial chain. Undoubtedly, this will directly impact China's core position in the global industrial chain that has been established over the past few decades. This medium- to long-term challenge should be treated with great attention since maintaining China's core position in the global industrial chain is vital to achieving a Chinese-style modernization.

To preserve China's core position and market share in the global industrial chain, efforts must be made to expand the global market share in the manufacturing sector and attract more individuals to the manufacturing industry. In the last decade, due to policy orientations, the manufacturing industry's ability to generate new jobs has declined, resulting in a reduction of over 20 million manufacturing jobs in China, while the service industry has added over 40 million jobs. The service industry has emerged as the primary force in absorbing new labor. However, this shift may hinder future improvements in labor productivity. Therefore, it is recommended to realign the focus on the manufacturing industry. Over the past decade, the proportion of the service industry in China's GDP has consistently expanded, which has been considered an achievement in structural adjustment. However, considering the goal of achieving Chinese-style modernization, it may be necessary to reassess this approach and re-emphasize the manufacturing industry.

This necessitates adjustments to previous policies and policy orientations, particularly at the local government level. Compared to the service industry, the manufacturing industry serves as an "elevator" for labor productivity, while the service industry can be seen as an "escalator." Both sectors contribute to improving labor productivity, but the manufacturing industry has a faster pace of improvement. Thus, China should focus on fostering more manufacturing industries and increasing the size of its manufacturing workforce.

With China's per capita GDP already exceeding $10,000, low-end manufacturing no longer holds a competitive advantage. Therefore, the focus should shift towards mid-to-high-end industries, where China can leverage its cost advantages, such as its large pool of engineers and university graduates. While wage levels in China's low-end industries are now higher than in countries like Vietnam and India, salaries for university graduates, particularly in science and engineering fields, remain lower than in countries like South Korea, Singapore, Japan, and Western nations. This cost advantage in mid-to-high-end industries combined with China's scale advantage should be considered. China produces over 10 million college graduates annually, with 45% of them specializing in science and engineering. This represents an annual increase of four to five million science and engineering graduates, surpassing the combined total of Europe, the United States, India, and South Korea. In the past 30 years, China's expansion in the global market share for manufacturing relied heavily on the low-cost advantage of over 10 million migrant workers annually. However, in the next five to ten years, the benefits brought by the relatively lower cost advantage and scale advantage of over 10 million college graduates annually will become increasingly important.

In conclusion, as external forces attempt to decouple and exclude China from the market and trade circles of developed and Western countries, engaging with them becomes even more crucial. This engagement is not only beneficial but also necessary for China to achieve its established goals of Chinese-style modernization.

U.S. Hight-Tech Transfer and Export Restrictions: Impact on China and Global Technology Landscape

■ LIN Guijun / Former Vice President of University of International Business and Economics

LIN Guijun

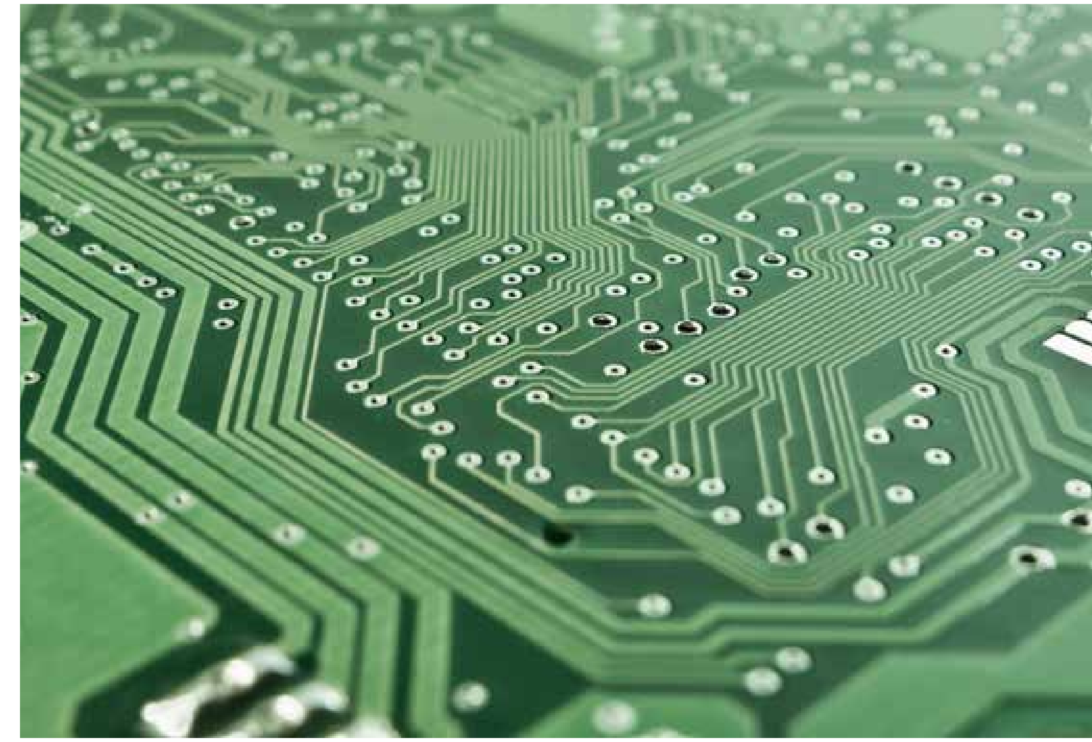
Today, I will talk about the issue of the United States imposing restrictions on the transfer of high-tech technology to China.

First, let's discuss the basic motivation behind the United States' implementation of high-tech export restrictions. Historically, the United States has had a steadfast policy of controlling high-tech exports, with the principle of "leap ahead keep the behind," which means running ahead and leaving competitors behind. The current contradictions between China and the United States in high-tech technology transfer may be a product of the overall U.S. strategy. The United States aims to stay at the forefront of the world and leave all its competitors, with China being the primary target.

Second, let's examine the characteristics of the U.S. high-tech policy implementation. In 2018, the U.S. Congress passed the "Export Control Reform Act," and measures implemented by both the Trump and Biden administrations revolve around this act.

What are the features of this act? It significantly tightens restrictions on technology exports compared to past U.S. policies, with a clear focus on China. However, while targeting China, it also has strong spillover effects that gradually impact other countries, as we can now see. Another important feature of the 2018 "Export Control Reform Act" is that it is the first time the United States includes economic security as part of national security within its legal framework. Therefore, U.S. high-tech export controls are not only aimed at achieving national security but have expanded to include economic security goals. Economic security means that the United States must win in competition, as its security would be compromised if it loses. The first target is to defeat China.

Why do I say it expands economic security into the realm of national security? Clearly, because it strengthens control over new and foundational technologies. The final



lists of new and foundational technologies are yet to be determined. The next step will be to control competitors in these areas. Therefore, I believe that U.S. export control measures will further deepen.

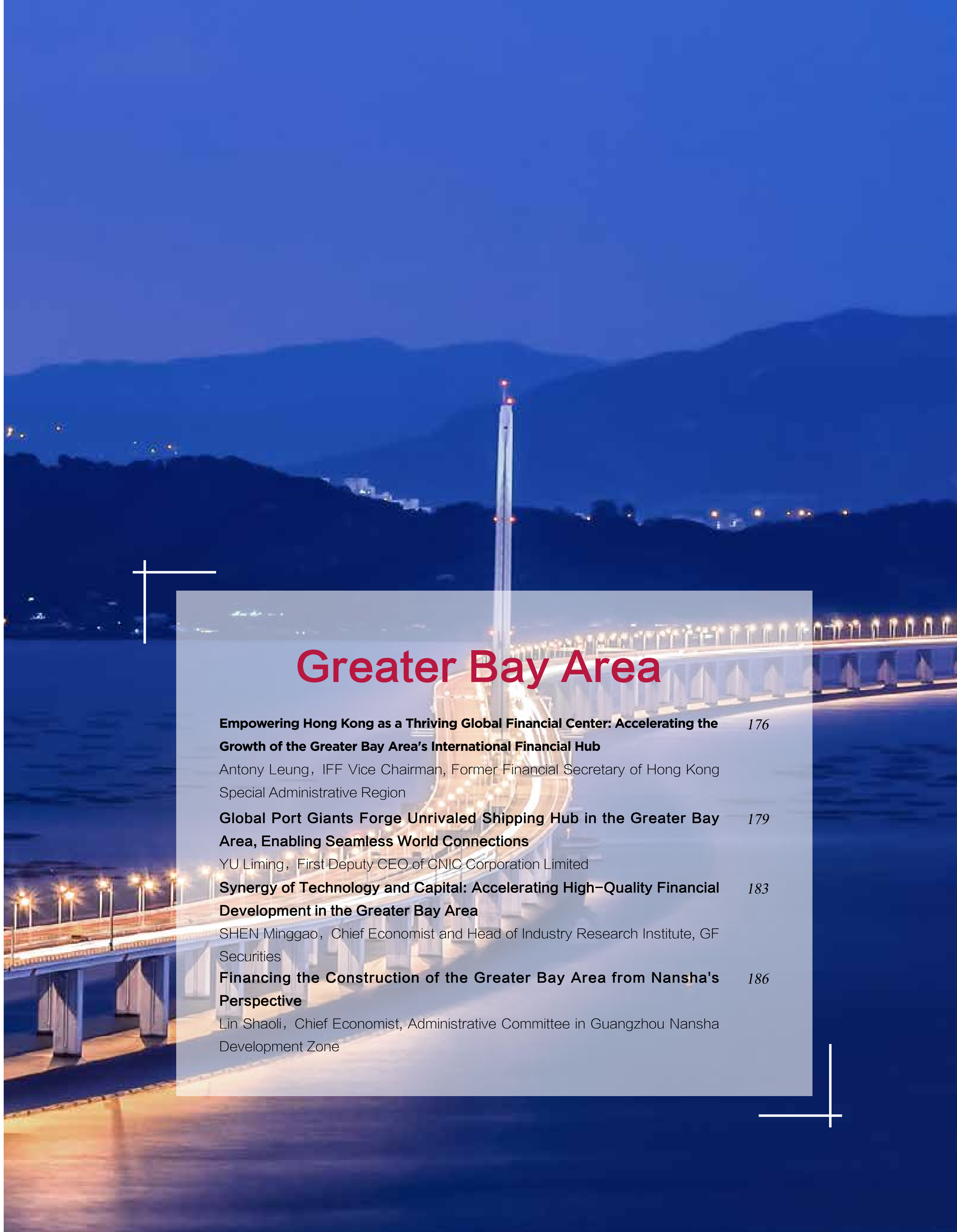
Third, it specifically targets China with its controls, with several notable characteristics: 1. Targeting Chinese military-industrial enterprises; 2. Targeting Chinese military-civilian integration enterprises; 3. Targeting telecommunications companies, particularly in the 5G domain.

The U.S. control system as a whole does not entirely refuse to trade with Chinese companies but rather selectively rejects trade with certain Chinese customers, users, and enterprises. Therefore, the United States has established a series of lists, with the most prominent being the entity list. The Trump administration implemented around 22 measures of export control on China, with more than 10 of them related to export lists. The Biden administration implemented approximately 16 measures of control on China, with about six or seven of them related to the entity list. In practice, it perceives Chinese enterprises as consistent and implements discriminatory policies towards them. The most favorable policy under U.S. export control would be for U.S.-invested enterprises in China, and the second category would potentially include some ally enterprises. However, it is difficult to determine the actual situation as these allies also pose significant threats to the United States' overall policies.

In terms of controlled products, in the 1990s, U.S. export controls on China mainly revolved around chips, telecommunications, supercomputers, and communication satellites. These categories have been the focal point of debate over the export of dual-use military-civilian products to China since the 1990s. The United States no longer trades satellite products with China, so they are no longer part of the discussion. What remains are semiconductors and telecommunications. Supercomputers have also been a product subject to export restrictions by the United States, which the Biden administration further strengthened. Therefore, only semiconductors, or specifically semiconductors and telecommunications, particularly China's 5G-related technologies, have been areas where the United States has not strictly controlled for a long time.

In terms of the overall U.S. strategy, it is gradually tightening technology transfer to China. Tightening technology transfer will have a significant spillover effect on the global stage. A characteristic of China's semiconductor industry is that while China exports a considerable number of chips, it also imports a significant number of chips. The most critical product in this regard is HS8542, with China importing over 300 billion dollars' worth of this product annually. However, of the 300 billion dollars, only 20-30 billion dollars come from the United States, while the rest come from other countries. It is evident that for the United States to impose export controls on this product to China, it undoubtedly requires the cooperation of other countries. Similarly, if the United States imposes controls on HS8542, it will create a shortage of this product in the global market, which will prompt manufacturers from other countries to enter this field, thereby presenting opportunities for other countries to some extent.

The actual impact of U.S. export controls is not yet entirely clear, but the most significant negative effect is the creation of an uncertain outlook. This uncertain outlook also includes negative spillover effects on other countries.



Greater Bay Area

Empowering Hong Kong as a Thriving Global Financial Center: Accelerating the Growth of the Greater Bay Area's International Financial Hub

■ Antony Leung / IFF Vice Chairman, Former Financial Secretary of Hong Kong Special Administrative Region

Antony Leung

The Greater Bay Area, which includes nine cities in Guangdong Province, Hong Kong, and Macau, has an economic output and population comparable to that of a large European country. The nine cities in Guangdong Province complement the industrial and economic functions of Hong Kong and Macau, and they have strong external connections. This aligns well with the development of the new pattern of domestic circulation as the mainstay and the dual circulation of domestic and international markets.

Hong Kong, as an internationally renowned financial center, can play a crucial role in building an international financial hub in the Greater Bay Area. Firstly, as we all know, the "One Country, Two Systems" policy grants Hong Kong the right to continue using the common law system inherited from the British legal system. In my opinion, this is important because major international financial centers, such as New York, London, Singapore, and the Hong Kong Special Administrative Region of China, all operate under the common law system, which is unique to Hong Kong within the Greater Bay Area. Secondly, the Hong Kong dollar is a freely convertible currency, which is vital for an international financial center. However, due to national security considerations, the full convertibility of the Chinese yuan in the capital market is not possible in the short to medium term. Thirdly, Hong Kong has a well-established and internationally familiar financial regulatory system, as well as abundant financial experience. Additionally, Hong Kong possesses a large number of international and domestic financial professionals and institutions.

The Hong Kong SAR Government has already introduced various favorable policies and plans to build an international financial hub in the Greater Bay Area, and I personally strongly agree with and support these efforts. It demonstrates China's intention to consolidate and enhance Hong Kong's position as an international financial center, strengthen its role as a hub for offshore renminbi (RMB) business, establish a center for international asset management and risk management, and promote the development of the financial and professional services industry towards high-end and high value-added directions.

To strengthen Hong Kong's position as a global hub for offshore RMB business, we hope to gradually expand the scale and scope of RMB cross-border usage within the Greater Bay Area. Banks within the Greater Bay Area can conduct RMB cross-border transactions, RMB forward foreign exchange business, RMB derivative business, and cross-selling of wealth management products in accordance with relevant regulations. Enterprises in the Greater Bay Area can issue RMB bonds according to regulations, support Hong Kong institutional investors in raising RMB funds for investment in the Hong Kong capital market, participate in domestic private equity and venture capital funds, and support Hong Kong in developing more offshore RMB commodities and other risk management tools.

In terms of strengthening the interconnectedness of financial markets within the Greater Bay Area, we need to continuously improve the Shenzhen-Hong Kong Stock Connect and Bond Connect programs, promote the interconnection of electronic payment systems in the Greater Bay Area, expand the space for cross-border investment by Hong Kong residents and institutions in the mainland, and establish stable and expanded channels for residents of both sides to invest in each other's financial products.

On the premise of legality and compliance, we will orderly promote cross-border transactions of financial products such as funds and insurance within the Greater Bay Area, continuously enrich the variety of investment products and channels, and establish mechanisms for capital and product flows. In terms of insurance business, the mainland and Hong Kong insurance institutions can engage in cross-border RMB reinsurance business, and Guangdong, Hong Kong, and Macau insurance institutions can cooperate to develop innovative cross-border motor vehicle insurance and cross-border medical insurance products, providing convenient underwriting, viewing, and claims services for cross-border insurance clients.

Regarding institutional business and opening measures, eligible Hong Kong banks and insurance institutions can establish operating entities in Qianhai, Shenzhen, Nansha, Guangzhou, and Hengqin, Zhuhai, implement the CEPA series of agreements between the mainland and Hong Kong, promote special opening measures in the financial industry in Hong Kong, and study further relaxation or easing of qualification requirements, shareholding ratios, and industry access restrictions for Hong Kong investors. In Guangdong, a one-stop service should be provided for Hong Kong investors and relevant personnel, better implementing the opening measures for Hong Kong under the CEPA framework. We will enhance the level of investment facilitation and study the introduction of further opening measures under the CEPA framework, allowing Hong Kong professionals and enterprises to engage in more fields in the mainland and enjoy national treatment in investment, business, and other aspects.

In addition, the mainland and Hong Kong should explore ways to enhance cooperation in emerging financial technologies and green finance, including virtual currencies and related services such as payments and asset management.

To further promote the development of the international financial hub in the Greater Bay Area, we can consider the following:

1. The relevant government departments and regulatory agencies of Guangdong, Hong Kong, and Macau jointly establish an expert group to regularly discuss and review the progress of the construction of the financial hub in the Greater Bay Area.

2. Different industry associations and civil organizations should also establish similar associations.

3. Regularly organize forums to solicit opinions and increase the attention and support of the entire society and the international community for the construction of the financial hub in the Greater Bay Area.

Global Port Giants Forge Unrivaled Shipping Hub in the Greater Bay Area, Enabling Seamless World Connections

■ YU Liming / First Deputy CEO of CNIC Corporation Limited

YU Liming

Regarding the construction of a world-class port cluster to promote the development of the Greater Bay Area and create a global super hub for maritime transportation, there are three main viewpoints.

Firstly, the symbiotic relationship between the world-class manufacturing center and the world-class port cluster in the Greater Bay Area.

Since the reform and opening-up, the urban cluster in the Greater Bay Area has been known as the "world's factory" and has become the center for China's manufacturing industry to connect with the global economy. The rapid development of the manufacturing industry has led to the construction of the world-class port cluster in the Greater Bay Area. Currently, the Greater Bay Area has formed a comprehensive and large-scale manufacturing and service system, with Hong Kong and Macau experiencing significant development in the service industry. Nine cities in the Greater Bay Area have achieved initial transformation and upgrading, with the industrial structure centered around strategic emerging industries and supported by advanced manufacturing and modern service industries. Industries such as information technology, home appliances, electronics, and green energy, which are worth trillions of dollars, have become the driving force behind the development of manufacturing in the Greater Bay Area. Companies like Huawei in the field of network communications and smart terminals, BYD in electric vehicles, DJI in civilian drones, Tencent in mobile internet, and BGI in life sciences continuously innovate and lead the development of industrial clusters in the Greater Bay Area, adapting to the changes in the global industrial and supply chain systems. Six ports in the Greater Bay Area, namely Guangzhou, Shenzhen, Hong Kong, Zhuhai, Dongguan, and Huizhou, have become world-class ports with an annual throughput of over 100 million metric tons. Among them, Shenzhen, Guangzhou, and Hong Kong are among the top ten ports globally in terms of container throughput. The international maritime network centered around Hong Kong, Guangzhou, and Shenzhen is continuously improving, enhancing the international competitiveness of the port cluster in the Greater Bay Area.

Secondly, the uncertainty in the future development of the port cluster in the Greater Bay Area is increasing.

The transfer of manufacturing industries to the port cluster has brought both market foundations and uncertainty for future growth. Geopolitical needs and financial crises have led to the promotion of manufacturing returning to the United States and some Western developed countries for reindustrialization. At the same time, the increase in labor costs in the Greater Bay Area has reduced the development space for labor-intensive industries, and the environmental problems caused by low-end industries have become unbearable. These objective factors have driven the continuous transformation and upgrading of industries in the Pearl River Delta region. The continuous transfer of large-scale manufacturing industries with production factors as their competitive advantage, and even forced loss of these industries, has led to Vietnam and Southeast Asia absorbing a significant portion of these medium and low-end manufacturing industries, resulting in the international fifth industrial transfer.

This industrial transfer has brought great uncertainty to the direct economic hinterland market foundation and future growth of the port cluster in the Greater Bay Area. Despite Hong Kong's leading position in shipping professional services such as ship registration, financing management, maritime insurance, maritime law, and maritime arbitration, its status as an international trade and shipping center remains stable. However, under the fierce competition from the transfer of port industries and surrounding ports, Hong Kong's container throughput has declined from its peak of 24 million TEUs in 2011 to 17.8 million TEUs in 2021. Singapore's competitiveness and systematic planning present long-term challenges to the future development of the port cluster in the Greater Bay Area. Singapore has been continuously innovating and actively promoting the large-scale, automated, and intelligent development of its ports, focusing on green port development and the construction of port and shipping ecosystems. As early as 2015, Singapore proposed the "2030 Next Generation Port" strategy to cope with the increasingly fierce global port competition. The core of this strategy is the construction of the intelligent port in Tuas, with an area of over 13 square kilometers and a water depth of at least 23 meters. Through the comprehensive application of next-generation technology facilities, Singapore aims to create a stable and sustainable future port. Once completed, the Tuas Port will become the world's largest automated container terminal, capable of handling up to 65 million TEUs annually. With this, Singapore can evolve into a super-modern smart logistics center and a comprehensive super deep-water port ecosystem integrating port shipping, nearby industries, and port ecology.

At present, in line with the historical opportunity of the transfer of the manufacturing industry to Southeast Asia and India, the first phase of Tuas Port has been put into use. However, whether it is Shenzhen, Guangzhou or Hong Kong, the Greater Bay Area currently lacks deep-water ports with a water depth of more than 23 meters, and it is difficult to unconditionally accept ultra-large container ships around the clock, and misses the international transit cargo source for the transfer of manufacturing industries.

The ports in the Greater Bay Area are difficult to coordinate due to the urban interface, and the contradiction between the port and the city has become increasingly prominent. Facing the huge port group in the Greater Bay Area, how to carry out structural adjustment will inevitably become a strategic issue and a long-term task. Although the Hong Kong port market has an obvious downward trend, the uncoordinated conflict between the port’s functional layout and urban development continues to be difficult to resolve. After the traffic function of the port and the arrangement of rear land use take a secondary position, focusing on high-end shipping business has become a key point for the transformation and development of the port and the city.

Shenzhen relies on its own good organizational and operational capabilities to achieve a dynamic balance between port growth and urban development. However, with the continuous advancement of the Qianhai plan to build a world-class waterfront interface, the coordination of the port city has become a top priority. Guangzhou's deep-water coastline is limited, the cost is high, and it is far away from the main channel. From a strategic point of view, it does not meet the prerequisites for the sustainable and stable development of the port.

Thirdly, it is imperative to plan and construct a global super hub for maritime transportation that radiates from the Greater Bay Area.

As the global manufacturing center and a strategic support area for China's domestic and international economic cycles, the Guangdong-Hong Kong-Macao Greater Bay Area needs to enhance its international shipping functions. This is not only necessary for the economic development of the Greater Bay Area but also a key factor in improving the country's global resource allocation capability. Hong Kong, Shenzhen, and Guangzhou, as a whole hub, do not have a large geographical span compared to the entire world and China. In the current and foreseeable future, considering that the lease for the Kwai Tsing Container Terminal in Hong Kong expires in 2047, planning Hong Kong, Shenzhen, and Guangzhou as a global super hub for maritime transportation is undoubtedly a combination of political and economic forces.

Therefore, the following planning and restructuring proposals are put forward:

Dividing the Greater Bay Area's ports into the inner bay and outer port based on the Hong Kong-Zhuhai-Macao Bridge, planning a comprehensive complex for the global super hub for maritime transportation in the outer port, and focusing on optimizing and coordinating the existing ports within 100 kilometers inside the bridge, in order to release space for further exploration of the potential of the resources in the Greater Bay Area and achieve complementary advantages and transformation and upgrading of industries, thus forming a gathering effect. For the outer port, located beyond 50 kilometers from the Hong Kong-

Zhuhai-Macao Bridge, we can draw upon the experience of Singapore's Yangshan Port and Shanghai's deep-water port and have the country lead in planning a global super hub for maritime transportation in the Greater Bay Area. After scientific verification, the super hub can be located at Guishan Island, Wanshan Islands, or formed through land reclamation in the South China Sea, connected to the Hong Kong-Zhuhai-Macao Bridge, and integrated into the Greater Bay Area's golden inner bay and the transportation channel system. The super hub should have an area of no less than 20 square kilometers, a water depth of no less than 20 meters, a design container throughput of no less than 100 million TEUs, and a cargo throughput of no less than 1 billion metric tons, forming a comprehensive super green maritime transportation hub integrating automated, intelligent, and super-modern port shipping, port-related industries, and port ecology.

The super shipping hub should be jointly owned by the port cities in the Greater Bay Area. Administratively, it is governed by the Hong Kong Free Port model, and its business relies on the market-oriented operation of the port operators in the Greater Bay Area. The joint ownership of the port cities in the Greater Bay Area avoids the conflict of land rights assigned to a single city. On the basis of the consensus of interests and rights reached by each city, the super shipping hub can be shared in the form of a joint-stock company. Administratively controlled by the Hong Kong Free Port model, mature market system and legal and business environment, low-cost offshore financial products and services, and the world's top city brand and influence, these Hong Kong's competitive advantages can be fully utilized.

In terms of business, relying on the market-oriented operation of port operators in the Greater Bay Area, the purpose is to promote the orderly transition, transformation and adjustment between the stock business of the port group and the incremental business of the super shipping hub in the Greater Bay Area. With the dynamic allocation of resources in the two port areas, the orderly optimization of operations will leave time and space strategically for the scale adjustment between the two port areas and the transformation and layout of the functions of the port city.

Synergy of Technology and Capital: Accelerating High-Quality Financial Development in the Greater Bay Area

■ SHEN Minggao / Chief Economist and Head of Industry Research Institute, GF Securities

SHEN Minggao

I would like to share some views on how "technology + capital" promotes high-quality financial development in the Greater Bay Area. There are three perspectives: new momentum, new finance, and new opportunities.

The report of the 20th National Congress of the Communist Party of China made it very clear that from the perspective of the overall national strategy, high-quality development is the top priority in order to realize Chinese-style modernization. From this perspective, it is necessary to implement the multi-channel promotion of economic development clearly stated in the report of the 20th National Congress of the Communist Party of China, so as to achieve effective improvement in quality and reasonable growth in quantity. So in general, quality improvement and increment is one of the main strategies for China to achieve modernization.

First of all, at the current stage, China has entered a critical period of the transformation of old and new growth drivers. In other words, we believe that the post-real estate economy period has arrived. An obvious feature of the post-real estate economy period is that the growth rate of real estate investment may continue to be lower than the growth rate of GDP in the future. This is contrary to the trend in the past. In the past, as a pillar industry, real estate has been growing faster than GDP.

In this context, I think the new kinetic energy mainly comes from two aspects: one is consumption, and the other is the upgrading of manufacturing industry. From the perspective of consumption, the key is to solve the problem of volume growth. A major feature of the current global economic slowdown is insufficient aggregate demand, including weak growth in developed countries. We have studied the ratio of final consumption to GDP 19 countries of G20, and found that many countries have great potential for growth in domestic consumption, while

China basically has the lowest ratio of consumption to GDP among G20 countries. That is to say, the incremental space for China's consumption upgrade is very large, and the space for policy support is also very sufficient.

From the perspective of improving the quality of growth, manufacturing upgrading is the general direction. Recently, we have focused on the advantages of Guangdong's industrial chain (cluster industry). We made a relative judgment on the scale of Guangdong's manufacturing industry chain based on the ratio of input to output, and found that Guangdong's industries with industrial chain scale advantages (from the perspective of manufacturing or hard technology) mainly include electronic information industry, mechanical equipment Industry, automobile industry, and energy and chemical industry also have certain advantages. Specifically, from the perspective of Nansha, I think we should think about the future positioning of Nansha in the Greater Bay Area, that is, how Nansha can participate in the development of the industrial chain of the entire Greater Bay Area.

Second, new finance is very different from traditional finance in four aspects, reflecting the four core capabilities of new finance: 1. Industrial research capabilities. From the perspective of technology + capital, technology must understand capital, capital must understand technology, and finance must first understand industry. Therefore, I think industrial research capability is a very critical core capability. 2. Pricing power. Because it is an innovation, a new format and a new model, the pricing is different from the traditional mature export industry, so the pricing ability of new assets or new products is very important. 3. Customer service capabilities. Compared with traditional customer service, what is more important in the future is how to integrate the financial chain and the industrial chain. 4. Trading capabilities. I think whether it is the entire Greater Bay Area or Nansha specifically, the ability to trade has very significant advantages. To promote the expansion of investment and transactions in the Greater Bay Area, it mainly includes two levels: domestic investment and transactions, and cross-border investment and transactions. The key is to accelerate the interconnection in the region.

From the perspective of new finance, science and technology innovation is an important direction. We recently conducted research on the characteristics of several major cities with relatively strong competitiveness in science and technology innovation, and found that the so-called private equity funds of venture capital technology innovation companies are relatively concentrated in different regions. The degree is relatively high. For example, 91.4% of venture capital institutions in Shenzhen are concentrated in Nanshan and Futian Districts, and Guangzhou is almost concentrated in Huangpu and Nansha, two important agglomerations. From this perspective, it is an important direction of thinking to build Nansha into an industrial cluster of venture capital or venture capital in the future and enhance its competitiveness.

From the perspective of improving growth momentum, the key to improving innovation capabilities and realizing industrial upgrading or strengthening and supplementing industrial chains is to increase the proportion of R&D investment in GDP. Generally speaking, the ratio of R&D investment to GDP in each venture capital cluster area is relatively high. From this perspective, I think Nansha has great growth potential. In the future, Nansha's competitiveness can be enhanced through the form of "technology + capital", especially to attract venture capital institutions to settle in.

Third, new kinetic energy. What kind of opportunities does new finance or "technology + capital" have? In this regard, we also made a comparison with the Yangtze River Delta. In terms of new energy, although the Greater Bay Area has its own advantages, compared with the Yangtze River Delta, the Greater Bay Area still has a relatively large gap in the following areas.

From the perspective of automobiles or new energy vehicles, the Greater Bay Area is generally a downstream vehicle assembly industry. The automobile industry is an important industry in Nansha, and its future development will definitely be in the direction of new energy, intelligence, and midstream parts configuration. Including lithium batteries and energy storage technologies are a new direction. Photovoltaic inverters related to new energy should be paid attention to in Nansha, and Nansha's regional advantages can be utilized by using technology and the characteristics of Guangdong's industrial development.

From the perspective of the sum of semiconductors and high-end technical components, we are now very concerned about several trillion-level circuits, including mid-to-high-end motors, as well as other molds, bearings, etc., which have a good foundation in the Greater Bay Area , but compared with the Yangtze River Delta, the overall scale of these industries is not large, and relatively speaking, the motivation for upgrading is not very sufficient. If these industries can achieve mid-to-high-end development on the basis of the existing ones, such as higher motor speeds and development in the direction of "motor + control", it will also drive the development of the entire industrial chain.

From the perspective of smart elderly care and biomedicine, generally speaking, the Greater Bay Area has relatively strong medical machinery, but the fields of innovative drugs and medical outsourcing still need to be further developed.

In conclusion, now that the momentum of new growth drivers across the country is very powerful, Nansha takes advantage of such an opportunity, and I think it is possible to catch up from behind. However, it is necessary to lay a solid manufacturing foundation, innovate financial development models, seize opportunities related to the industrial chain, and give full play to Nansha's geographical advantages.

Financing the Construction of the Greater Bay Area from Nansha's Perspective

■ Lin Shaoli / Chief Economist, Administrative Committee in Guangzhou Nansha Development Zone

Lin Shaoli

The Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area clearly supports Nansha in building a Guangdong-Hong Kong-Macau comprehensive cooperation demonstration area, and accelerates the construction of an innovative function bearing area for international shipping and financial technology in the Greater Bay Area, requiring efforts to develop shipping finance, technology finance, aircraft and ship leasing, etc. Featured finance.

A first is to develop characteristic financial business and serve the performance growth of the real economy. Based on Nansha's economic and social characteristics and industrial layout, the "eight characteristic" financial sectors of cross-border finance, shipping finance, green finance, financial technology, financial leasing, commercial factoring, equity investment, and futures trading have been formed. Since the implementation of the national high-level opening pilot for cross-border trade and investment, there have been 4241 transactions with a total trading volume of 10.4 billion USD. Six companies have been approved as Qualified Foreign Limited Partners (QFLP) pilot projects, with an approved quota exceeding 15.5 billion RMB. This has effectively established a model for the development of an eco-friendly financial services city and completed 238 aircraft and 90 ship leasing transactions, making it the third pole of national financial leasing and the largest aircraft and ship leasing base in the South China region. It has also attracted the establishment of 11 futures institutions, including Morgan Stanley Futures, the first wholly foreign-owned futures company in the country, and Huatai Futures, which ranks among the top five in the industry, gradually improving the futures industry ecosystem.

The second is to deepen the cooperation between Guangdong, Hong Kong and Macao, and the function of opening up to the outside world is highlighted. Accelerate the connection with the financial rules of Hong Kong and Macau. The cumulative proportion of financial companies settled in Hong Kong and Macau has reached 25%. It has helped 6 companies in the region to be listed on the Hong Kong Stock Exchange. A special working group for financial cooperation of the Guangzhou Nansha Guangdong-Hong Kong Cooperation Advisory Committee has been established. Established a good communication channel for Guangdong-Hong Kong financial cooperation and policy pilots, launched the pilot cross-border Wealth Management Connect business, and linked Hong Kong to successfully land a number of innovative businesses for cross-border transactions of aircraft and ships. Build an international financial exchange platform, relying on the International Finance Forum (IFF), the Greater Bay Area Science Forum, the New Fortune Capital Market Forum, CNBC Global Technology Conference and other major financial and industry exchange platforms to spread the voice of Guangzhou to the world's financial circles.

The third is to build an important platform for financial services, and the high-end resource agglomeration effect is remarkable. Landed the first mixed ownership exchange in China - Guangzhou Futures Exchange, the first trading product - industrial silicon has been approved by the China Securities Regulatory Commission and will be traded online in the near future. It has achieved a historic leap in Guangzhou's national financial infrastructure, and is planning to build a futures industrial park in conjunction with Nansha, creating the country's first international financial island and its first core project. The permanent venue of the International Finance Forum (IFF) has been fully capped and is expected to open in 2023 Put into use. Start the construction of the Pearl Financial Innovation Cluster, incorporate it into the key layout of Guangzhou's financial functions, and implement related projects such as the HSBC Global Training Center and the International Talent Financial Service Center to achieve sustainable talent development.

The fourth is to create a source of financial reform, and the innovative financial business will flourish. Taking the opportunity of the approval of innovative policy pilot projects in the fields of cross-border financial innovation, characteristic financial development, and business environment construction, we will accelerate the implementation of various policies and measures in the financial sector to support the construction of the Guangdong-Hong Kong-Macao Greater Bay Area, and solidly promote free trade accounts and foreign exchange management Pilot projects such as reforms, tax incentives for international shipping insurance, and cross-border investment by private equity investment funds have continued to stimulate the effectiveness of innovative policy pilots. At present, 80 financial innovation achievements have been implemented, and nearly 40 have been selected as national, provincial and municipal financial innovation cases or pilots.

In the next step, Nansha will center on the new positioning requirements and focus on four aspects: financial innovation policy pilots, Guangdong-Hong Kong-Macao financial cooperation, characteristic financial industry system, and major financial service platforms, to open up a path for Nansha's characteristic financial development that is about to play a leading role in the construction of the Guangdong-Hong Kong-Macao Greater Bay Area.

The first is to carry out pilot projects of financial innovation policies in depth. Accelerate the implementation of policies and measures in the financial field to support the construction of the Guangdong-Hong Kong-Macao Greater Bay Area, make good use of the financial innovation policy pilots that have been implemented, and explore more internationally competitive and a more open financial policy regime.

The second is to comprehensively deepen financial cooperation between Guangdong, Hong Kong and Macao. Give full play to the role of the Guangdong-Hong Kong Cooperation Advisory Committee in Nansha, Guangzhou, and explore the expansion of two-way open cooperation with Hong Kong and Macao in the fields of capital markets, technology finance, cross-border insurance, and green finance.

The third is to build a highland of characteristic financial industry clusters. Further optimize, strengthen and expand the "eight characteristic finance", focus on the high-level open pilot of cross-border trade and investment, combine the loosening of cross-border investment and financing measures in the reform pilot, accelerate the facilitation of cross-border trade, investment and financing, and deepen the green Financial reform and innovation, promote the innovation of products and services related to climate investment and financing, and create a demonstration sample of green financial innovation and development.

The fourth is a high-level project to build an international financial service platform. Relying on the construction of the Guangzhou Futures Exchange, comprehensively promote the construction of a futures industrial park, promote the linkage between futures and cash, make good use of innovative financial support policies, study and formulate special support policies, and accelerate the construction of a cross-border wealth management and asset management center in Guangzhou Nansha, Guangdong-Hong Kong-Macao Greater Bay Area, Strengthen exchanges and cooperation with high-end financial think tanks such as the International Finance Forum (IFF) and the National Finance and Development Laboratory, create a new highland for financial talents, and strive to hold the International Finance Forum (IFF) global annual meeting with a higher standard.

The introduction of the "Nansha Plan" is not only an opportunity for Nansha, but also an opportunity for the Guangdong-Hong Kong-Macao Greater Bay Area. I hope that the higher-level financial regulatory authorities will continue to give Nansha financial guidance and support. I also hope that all guests will find a point of cooperation and make full use of the policy bonus, sharing resources to better collaborate in the overall picture of Guangdong-Hong Kong-Macao cooperation.

Expert Dialogue

During the IFF 2022 Global Annual Conference, a panel discussion titled "New Landscape of China's Economy: Prospects, Challenges, and Policy Responses" was held. The discussion was moderated by XIA Le, Chief Asia Economist of Banco Bilbao Vizcaya Argentaria, and featured several prominent economists: WANG Tao, Head of Economic Research, Chief China Economist of UBS Investment Bank; LU Ting, Chief China Economist of Nomura; ZHONG Zhengsheng, Director of China Chief Economist Forum; GAO Shanwen, Chief Economist at Essence Securities; DING Shuang, Head of Greater China & North Asia Economics Research, Standard Chartered. The panelists engaged in in-depth discussions and focused dialogues on various topics, including the real estate market in 2023, the exchange rate of the Chinese Yuan, and the long-term vision for 2035.

Will China's Real Estate be able to Stabilize and Rebound in 2023？

Moderator：XIA Le，IFF Academic Committee Member, Chief Asia Economist of Banco Bilbao Vizcaya Argentaria (BBVA)

Guests：GAO Shanwen, Chief Economist of Essence Securities

WANG Tao, Head of Economic Research and Chief China Economist, UBS Investment Bank

LU Ting, Chief China Economist at Nomura

DING Shuang, Head of Greater China & North Asia Economics Research, Standard Chartered

ZHONG Zhengsheng, Director of China Chief Economist Forum

Xia Le (Moderator): After the exposure of risks in the real estate market, the government has continuously introduced policies to rescue the real estate market. What is your evaluation of the policies aimed at rescuing the real estate market? Can the current policies ensure a soft landing for the real estate market and even a rebound in 2023? Some people say that the current problems faced by China's real estate market are a repeat of the bursting of Japan's real estate bubble in the 1990s. What kind of policies can help China's real estate achieve a soft landing and avoid repeating Japan's real estate bubble bursting?

Gao Shanwen: Regarding the real estate issue, I will present two facts.

First, the bursting of Japan's real estate bubble in the early 1990s did indeed have a significant impact on the economy. However, there were two important background differences: 1. During the formation of the real estate bubble, when property prices surged in Japan, the majority of Japanese people believed that there was no real estate bubble in Japan. In contrast, for the past 20 years, from 2003 to the present, countless officials and scholars in China have been constantly warning and vigilant about the emergence of a severe real estate bubble. After 2011, policies to prevent or suppress the real estate bubble have been consistently implemented, which differs greatly from the background of Japan's real estate bubble formation.

Second, the proportion of real estate investment in Japan's GDP started to rise in 1985 and surged rapidly after 1987. Therefore, during the formation of Japan's real estate bubble, real estate investment also increased significantly. However, China's real estate investment as a proportion of GDP peaked in 2013 and has been declining since 2014. Especially after 2019, the proportion of real estate investment in GDP is lower than many other countries.

Xia Le (Moderator): Thank you, Chief Gao, for your insightful response. Chief Wang, what are your thoughts?

Wang Tao: The current adjustment in the real estate market is probably the deepest one in the past few decades. Currently, the seasonally adjusted monthly new construction is down by more than half compared to 2020, and sales are down by more than 35% compared to the first half of 2021, which is unprecedented. I think it has already experienced a significant decline, so it might be a bit late to talk about a soft landing in this situation.

As for whether the current policies can stabilize the real estate market and even lead to a rebound in 2023, my answer is that there is a high probability of a rebound in the real estate market in 2023. The reason is that the new construction and sales in the real estate market in 2022 have already experienced excessive decline due to the previous tightening policies and factors such as epidemic prevention and control. The introduction of the "16 financial policies" indicates that the government has already recognized this and has begun to take systematic measures to help the entire real estate industry. I think the government should ensure the flow of funds for real estate developers from various aspects, such as extending existing loans or even increasing loans, which can be achieved through issuing bonds, listing financing, trusts, etc. Support for some pre-sales funds, an increase in funds from policy banks and property exchange, and even allowing commercial banks to expand on this basis are also necessary.

In conclusion, the government should introduce more systematic policies to stabilize the real estate market from various aspects. In addition to focusing on the supply side, there will be more policies introduced on the demand side of the real estate market. The current mortgage interest rates have already dropped by about 130 basis points, and I believe there is still room for further reductions; local governments can also lower down payment ratios. Optimizing and adjusting epidemic prevention and control measures will also be very helpful for the stabilization of the real estate market.

I believe that in March-April 2023, sales and new construction areas will start to rebound, and the lowest point of growth on a month-on-month basis could be more than 20%. In 2023, the real estate sector may not play a significant role in driving the overall economy, but in 2022, it had a substantial negative impact on the economy. Is the current downturn in the real estate market China's Minsky moment? The Minsky moment refers to a spiral of credit contraction and significant asset price decline. China has the conditions to prevent such a vicious cycle. First, Chinese banks have ample liquidity, and while regulatory agencies and government departments require banks to continue lending, they cannot abruptly cut off loans. Thus, despite the economic and real estate downturn this year, credit in China can still grow against the trend.

On the other hand, a distinct characteristic of China is the monopolistic supply of land by local governments, which means they can control land prices and, consequently, the prices of real estate collateral. This prevents a significant decrease in real estate prices and serves as a means to avoid excessive drops in asset prices during crises. During the real estate adjustment in 2015, banks gradually wrote off bad debts of over 10 trillion yuan over the following 5-6 years. Therefore, I believe that the deep adjustment in China's real estate sector will not pose systemic risks to the economy and finance, as there are many ways to control the situation. From this perspective, the real

estate market is experiencing a soft landing, but in terms of its own adjustment, the real estate sector has already passed the soft landing stage.

Moderator Xia Le: I strongly agree with Chief Wang's remarks. It is possible that the real estate sector has already gone through the phase of soft landing, but with the right policies, it is still possible to ensure that the entire economy is not heavily burdened by the real estate market. Chief Lu, what are your views?

Chief Lu Ting: The real estate sector experienced a hard landing starting from the fourth quarter of 2021. The current real estate downturn is mainly due to four factors:

Firstly, it is a trend. As China's urbanization level rises, there is an aging population, a shrinking young population, and a particularly noticeable decline in the migrant worker population. Additionally, it is also related to the overall decline in China's potential economic growth rate, which already has a downward trend. Therefore, expecting high annual growth is unrealistic.

Secondly, it is cyclical. From 2015 to 2018, China implemented large-scale real estate stimulus policies, with monetary and shantytown renovation as the main policy tools, which led to significant real estate development in China's third, fourth, and fifth-tier cities, forming a real estate boom cycle. Even without the impact of the COVID-19 pandemic and the current financial tightening, the real estate sector would still have entered a downward cycle. This downward cycle began in 2018-2019, and in 2020, the impact of the epidemic accelerated the downturn. Subsequently, the stimulus policy helped to recover slightly, but it later returned to the downward trend.

Thirdly, it is impacted by the epidemic. The pandemic had a severe impact on the real estate market, especially in February and March of 2022.

Fourthly, it is due to contractionary policies. The main reason for this wave of real estate downturn is the intense contractionary policies on financial financing: the introduction of the three red lines in the fourth quarter of 2020, followed by the introduction of two more red lines by the end of 2022, making a total of five red lines.

Moderator Xia Le: Thank you, Chief Lu. I would like to invite Chief Ding to share further.

Chief Ding Shuang: From the previous scattered emergency measures to stabilize the real estate market to the recent introduction of the "16 financial policies," the measures have become more systematic, covering various aspects such as construction loans, developer loans, mortgage loans, and integrity loans. There is also a significant focus on organizational restructuring because resolving the real estate issue requires asset reorganization and acquisitions. Along with the "three arrows" - loans, bonds, and refinancing, it shows that the urgency of resolving the real estate issue is increasing. It also indicates that the real estate issue is increasingly becoming a systemic financial problem, meaning that if the existing policy measures are not sufficient, more policies will be introduced. So, I think we should be cautious about overcorrecting the situation.

In the short term, projects formed from the financing side, especially under-construction projects, will see considerable improvement. However, ultimately, the key lies in the demand side, particularly whether housing sales can pick up. In the short term, after resolving the issue of retaining buildings for completion, the focus will shift to property prices. Property prices will require some time for adjustment. If potential homebuyers see that property prices are stabilizing, they may enter the market and drive a significant improvement in demand.

Moderator Xia Le: Finally, Chairman Zhong, please share your thoughts on the differences between Japan's real estate bubble and the situation China is facing and what it means for China's economy and finance.

Zhong Zhengsheng: To begin with, let's talk about the lessons we learned from the early 1990s when Japan's real estate collapsed.

Firstly, on the policy side, Japan maintained loose monetary policies for too long before the real estate collapse. Looking back at the historical records, when Japan's real estate was already starting to collapse, the policymakers and economists seemed indifferent and continued to tighten fiscal policies, continuously striving for budget deficits and surpluses, exacerbating the situation. In contrast, China's policies to support real estate enterprises cover various aspects, with the three arrows of loans, bonds, and refinancing being fired simultaneously. At least on the financing side, it can be expected to stabilize after a period of adjustment.

Secondly, on the financial side, Japan implemented the "main bank system" (a system where banks had major dealings with particular companies). After the real estate collapse, it exposed issues of non-performing assets in financial institutions. Dealing with these issues was delayed for about 10 years until Prime Minister Junichiro Koizumi introduced the "Financial Revival

Plan" in 2001, which eventually resolved the non-performing asset problem. The lesson for China is that if it wants to adjust its real estate sector, financial institutions must have a clear understanding of the risks involved and appropriate disposal plans, and this cannot be prolonged indefinitely.

Thirdly, at the industrial level, the real estate collapse in Japan coincided with industrial hollowing out. In simple terms, because the returns on physical investments were poor, funds flowed into the highly profitable real estate industry, and these two issues were interrelated. After the real estate collapse in Japan, the problem of industrial hollowing out was not adequately addressed. As a result, even though the highly profitable real estate sector collapsed, the weakened real economy continued to struggle.

The lesson for China is that to break free from excessive reliance on real estate, new growth drivers must be explored. The current more optimistic prediction for real estate in 2023 is that the decline in real estate investment will narrow, or even see significant narrowing, but if there is a substantial decline, it will be detrimental to China's economy. Therefore, we hope that under this current round of policies, China's real estate market will not further disconnect from the country's economy.

Analyzing the policies, finance, and industrial aspects of Japan before and after the real estate collapse in the early 1990s can provide valuable insights for China's current real estate adjustment. First, policies should be more balanced and supportive. Second, the financial side should pay attention to the exposure of risks, and if there is a favorable time window, it is best to optimize the disposal of existing assets. Whether to increase exposure to real estate risks needs to be cautious. Third, at the industrial level, new growth drivers need to be discovered; otherwise, macroeconomic policies will be morally bound. After all, the real estate industry chain is extensive, involving many related industries, so how much support is enough?

The second aspect I want to talk about is real estate sales. In 2021, it was predicted that real estate sales would stabilize in the first quarter of 2022, and investment would stabilize in the second quarter. However, the Shanghai outbreak disrupted these predictions, leading to a lack of opportunities in the second quarter. Sales stabilized in the third quarter, and investment stabilized in the fourth quarter. After a wave of policies was introduced, there was no significant response, and the fourth quarter's sales were not stable. Can investment stabilize in the first quarter of 2023? Why is it that when mortgage rates decreased in the transmission chain, sales rebounded in one quarter, but investment didn't rebound in the next? Why is the effectiveness of this round of stimulus relatively poor?

I believe there are several main reasons. Firstly, China's household balance sheet is still deteriorating, with the debt-to-annual debt service and disposable income ratio at 15.7%, higher than major developed economies. Therefore, the balance sheet of China's middle-class families is not robust. Secondly, the uncertainty of the economy and employment in 2022 was high, leading to an increase in precautionary savings by residents. In the fourth quarter of 2022, the deposit rate of residents increased by 4.72 trillion yuan compared to the previous three quarters. Thirdly, there is an overshoot in

the commodity housing market. From 2016 to 2021, the actual sales area of residential housing exceeded the demand for just-needed and improved housing by a total of 1.6 billion square meters. This might be related to overshooting in the shantytown renovation projects in the previous years. The final reason is the frequent incidents of construction stoppages, which have eroded confidence in scheduled deliveries, especially considering that over 80% of sales in recent years are for properties under construction. All of these factors can explain the current weak sales phenomenon. Looking at recent stock market performance, it can be seen that the recovery and strengthening of the financing side are only necessary conditions; the full condition is a positive sales side, which can lift the entire real estate chain. Sales have not improved, and thus real estate investment has not picked up.

Our prediction is that in 2023, the decline in sales and investment will narrow, and the construction of completed buildings will accelerate, and the historical problems left over from the previous period will gradually be resolved. However, for real estate to truly recover, it still depends on real estate sales. Looking at the data for the first three quarters of 2022, property sales were about 1.1 billion square meters. What does this mean? In simple terms, there is no speculative demand in the current real estate market, and even some reasonable housing demand has been reduced, so it will take time for the real estate market to truly stabilize. If the internal cash flow of real estate enterprises cannot be restored for an extended period, the current relief policies will only serve as temporary measures to stop the bleeding. The inventories and debts of real estate companies may continue to accumulate, just postponing the timing of risks.

2023 Renminbi Exchange Rate Outlook: A Forward Perspective on Currency Trends

Moderator: XIA Le, IFF Academic Committee Member, Chief Asia Economist of Banco Bilbao Vizcaya Argentaria (BBVA)

Guests: DING Shuang, Head of Greater China & North Asia Economics Research, Standard Chartered

WANG Tao, Head of Economic Research and Chief China Economist at UBS Investment Bank

LU Ting, Chief China Economist at Nomura

GAO Shanwen, Chief Economist at Essence Securities

ZHONG Zhengsheng, Director of China Chief Economist Forum

Moderator Xia Le: The continuous interest rate hikes in the United States in 2022 have put significant pressure on the Chinese exchange rate. Meanwhile, the negative impact of the pandemic and other headwinds on the Chinese economy led to the Renminbi (RMB) exchange rate breaking 7 in the second half of 2022. However, with optimized pandemic control measures and some uncertainties fading away, the RMB has rebounded. Can this rebound continue in the near future? Will the RMB reverse below 7 and go to around 6 in 2023? How do you assess this possibility? First, let's hear from Chief Ding.

Ding Shuang: Everyone is paying close attention to the attitude of the Federal Reserve towards interest rate hikes. Although the Federal Reserve may slow down the pace of rate hikes, it is likely to raise rates by 50 basis points again in December 2022 and have 1 to 2 rate hikes in the first half of 2023. This diverges from China's policy stance since the Chinese economy's robust rebound will likely happen in the second half, despite adjustments in pandemic policies. There may be recent fluctuations in the pandemic, affecting economic activities, so the People's Bank of China's policy will remain relatively accommodative in the short term. Therefore, in the first half of 2023, the interest rate differential between the US and China will likely widen.

Although there are many factors influencing the exchange rate, considering this factor alone, the RMB might experience a relatively stagnant situation against the US dollar in the first half of 2023, fluctuating within the range of 7 to 7.2.

However, in the second half of 2023, if the Chinese economy stabilizes, the likelihood of the People's Bank of China raising interest rates will be small. China's inflation will remain moderate in such a scenario, and there will be no pressure on the RMB from the China-US interest rate differential.

Looking at the GDP trend, by the second half of 2023, the Chinese economy is likely to recover and rebound, while the US economy will probably be relatively weak in the early part of the year, and the growth rate is expected to be lower in 2023 compared to 2022. From the perspective of international balance of payments, if the pandemic improves by the second half of 2023, real estate will no longer be a major drag, and the capital outflow situation will improve. These two factors will have a significant impact on market sentiment and were important reasons for the massive capital outflows in most months of China in 2022. In addition, the exchange rate between the RMB and the US dollar is also influenced by the US dollar's own trend. If the Federal Reserve's interest rates peak, the US dollar is expected to weaken. Therefore, we predict that the RMB will appreciate against the US dollar in the second half of 2023, and by the fourth quarter of 2023, it will likely return to a level below 7, around 6.

Moderator Xia Le: Thank you, Chief Ding. According to your prediction, it is possible for the RMB exchange rate to reverse below 7 in 2023. Chief Wang, what is your view on the RMB exchange rate?

Wang Tao: The trend of the RMB exchange rate in 2022 was mainly influenced by the US dollar because the Federal Reserve's interest rate hikes were quite aggressive, causing the US dollar to rise significantly against other major currencies such as the yen and the euro. Consequently, the RMB depreciated but to a much lesser extent compared to other major international currencies. The future trend of the RMB depends on the pace of the Federal Reserve's rate hikes and the market's judgment on other major currencies, such as whether the US dollar has bottomed out. In December 2022 and the first two months of 2023, the US dollar may rise again. However, in the second half of 2023, with adjustments in pandemic policies and increased confidence in the Chinese economy due to its opening up, the RMB should appreciate, and there is a significant probability that it will reverse below 7 and reach around 6. In summary, the RMB in 2023 is expected to be relatively stable, and it should appreciate in the second half of the year.

Moderator Xia Le: Chief Lu, do you share the same optimistic view as the previous two experts regarding the RMB exchange rate? Will it reverse below 7 in 2023?

Lu Ting: Both a reverse below 7 and a break above 7 are possible, so I believe the RMB and the US dollar might be in a stalemate. The RMB experienced a significant depreciation for a period and has returned to around 7 from the low point of 7.35. It is possible for the exchange rate to remain in a stalemate at this level. "7" is like a crucial stronghold that might be contested back and forth. In 2023, the United States is likely to continue raising interest rates, with some more aggressive predictions suggesting rates could reach a range of 5.5% to 5.75%. We believe there is a high probability of rates reaching 5%.

Moderator Xia Le: The first three experts were all from foreign institutions. Now, I'd like to ask the two experts from domestic institutions for their views on the RMB's trend next year.

Gao Shanwen: I think a reverse below 7 for the RMB is highly probable and not much of a suspense. The factors that caused the rapid depreciation of the RMB in 2022 have significantly weakened and improved. I believe the RMB exchange rate is significantly undervalued relative to a long-term reasonable monitoring level. In other words, while various factors contributing to the RMB depreciation are justifiable, the RMB is in an obvious overshooting state and has a need to recover and oscillate towards a reasonable level. The RMB exchange rate involves many unpredictable factors, but I think the reverse below 7 is quite likely. What is worth discussing is the path of the RMB's appreciation and the level it will reach, such as going below 6 in 2023.

Moderator Xia Le: Chief Zhong, what is your view?

Zhong Zhengsheng: Indeed, it is challenging to predict accurately. When making forecasts for 2022 during 2021, many believed that the RMB exchange rate would continuously rise to 6, and the US dollar would directly enter a weakening cycle lasting 8 to 10 years. However, the US dollar proved to be quite strong in 2022. Therefore, predicting the exchange rate for 2023, standing at a new time node, involves many uncertainties. This is the preface I want to mention, but let's try to make some predictions and present some logic and perspectives.

First, I agree with the view that a reverse below 7 for the RMB is a highly probable event. This mainly depends on the US dollar index. In 2022, the US dollar reached its highest at around 114, and it might stay around 100 for the whole of 2023, which is within the range of our current prediction. Why does it perform like this?

When reviewing previous cycles of the US economy, when the US unemployment rate starts to rebound from its low point or when the pressures of economic recession or weakness in the US become evident, the US dollar index tends to weaken or fluctuate instead of strengthening further. So, now that everyone is predicting how high the US unemployment rate will rise, I have seen some Federal Reserve officials saying it will go above 5%. Under such conditions, it is challenging for the US dollar index to sustain continuous or strong gains.

Apart from some changes in 2022, the US dollar index had a highly effective indicator in the past, which is the difference between US economic growth and global economic growth. Usually, when the US economy performs strongly, the US dollar index strengthens, and when the US economy lags behind the world economy, the US dollar index weakens. However, in 2022, the US economy did not perform well compared to the global economy. Why did the US dollar index strengthen? It was because of a series of events such as the Russia-Ukraine conflict and the energy crisis, which enhanced global safe-haven demand and highlighted the safe-haven attributes of the US dollar. Traditional safe-haven currencies, such as the yen and the pound, lost their safe-haven properties, further emphasizing the safe-haven nature of the US dollar. So, I think in 2023, with the Federal Reserve raising interest rates and global risk preferences likely to return, safe-haven demand might weaken, reducing the demand support for the US dollar index. Of course, we also need to consider the fundamentals of relative economic performance.

In the past three cycles, when the 10-year US Treasury yield declined for about a quarter, the US dollar index also had a high-level pullback. I am just saying a high-level pullback, not necessarily a significant decline. Generally, the US dollar tends to go downward in the big picture. As for how much it will decline, it is difficult to predict at the moment. Under these circumstances, the pressure on the RMB exchange rate will likely be limited, and it might even turn into a support.

Additionally, I want to add two points: 1. The stable recovery of the Chinese economy is the strongest support for the RMB exchange rate. If the pandemic situation improves in 2023, and China's compensatory consumption exceeds expectations, while China's stable growth policies remain consistent, then the Chinese economy will perform even better, providing the strongest support for the RMB. 2. We have analyzed that the RMB's overshooting or depreciation is often closely related to the direction of China-US relations. When China-US relations improve, overshooting may occur, while during uncertain times in China-US relations, depreciation might occur. Now, the relations between China and the US are becoming stable, with both countries trying to avoid moving from competition to conflict, which is also one of the factors supporting the RMB exchange rate.

In conclusion, I believe a reverse below 7 is a highly probable event. The key factor is the US dollar, but more importantly, it is essential to handle our own affairs well and develop our economy, which is the most crucial guarantee for the RMB exchange rate.

On China's Objectives for 2035

Moderator: XIA Le, IFF Academic Committee Member, Chief Asia Economist of Banco Bilbao Vizcaya Argentaria (BBVA)

Guests: WANG Tao, Head of Economic Research and Chief China Economist, UBS Investment Bank

GAO Shanwen, Chief Economist, Essence Securities

Moderator Xia Le: The 20th CPA National Congress reiterated the 2035 vision, including the goal of achieving a per capita Gross Domestic Product (GDP) at the level of moderately developed countries. Let's do a rough calculation: to double the per capita GDP from 2020 to 2035, it would require an average annual economic growth rate of 4.5% to 5%. So, Chief Wang Tao and Chief Gao, does this goal align with our current potential output level?

Wang Tao: The 2035 vision mentioned at the 20th Party Congress aims to reach the level of per capita GDP seen in moderately developed countries, but specific data regarding this level was not given. Official documents only mention the possibility of doubling the per capita GDP by 2035 in the "14th Five-Year Plan." Assuming that the per capita GDP of moderately developed countries is $25,000 USD, I believe achieving nominal GDP doubling by 2035 is possible. However, achieving an actual GDP doubling with an average annual growth rate of around 4.7% over 15 years might be challenging. We have analyzed the potential growth level of the Chinese economy, and while there are many opportunities, there are also numerous challenges.

Firstly, there is the issue of an aging population. We can address this by increasing the retirement age, improving educational levels to enhance human capital, and implementing household registration reforms to increase labor force participation rates and mitigate the negative impact of an aging population. Regarding capital accumulation, there is ample room for improvement, such as upgrading technology and shifting industries towards higher value-added sectors. Our per capita capital ownership rate is still quite low, and we also need to deal with excess capacity in certain industries, like real estate, which will experience reduced investment in the coming years due to the recent adjustments. High capital depreciation rates in some industries and inefficient investments can also affect the future potential growth level.

Secondly, high-tech industries face various restrictions. While our country will increase investment in research and development (R&D) and strive to become self-reliant, the difference in the availability of foreign aid and access to advanced technology presents challenges. This means that more investment will be required, and progress will be slower and limited. The cost of innovation can slow down the overall improvement in productivity and potential growth. Our analysis indicates that the potential growth rate for the next 10 years might be around 4.4% to 4.5%. For the period of 2030 to 2035, it might be even lower, below 4%. Therefore, achieving an annual average economic growth rate of 4.7% from 2020 to 2035 is a considerable challenge, but reaching a per capita income of $25,000 USD by 2035 is still achievable.

Gao Shanwen: Let me add a few points:

Firstly, the current official documents indeed lack specific data about the level of moderately developed countries by 2035. Some scholars estimate it to be around $25,000 USD, but if we consider inflation, it could be much higher. However, this estimation is not officially confirmed.

Secondly, the goal of reaching the level of moderately developed countries is measured in USD, so when calculating economic growth from now until 2035, we need to consider the influence of the exchange rate of the Chinese Yuan. If the Yuan depreciates by 2% annually, an annual economic growth rate of 5% might not be enough. If the Yuan depreciates by 5% annually, even an annual economic growth rate of 10% would only be barely sufficient.

From the mid-1990s to 2020, after excluding inflation, the compound growth rate of the real effective exchange rate of the Yuan against a basket of currencies was approximately 1.3. Assuming that from 2020 to 2035, the US Dollar Index (DXY) against the main foreign currencies remains constant at around 100, and the real exchange rate of the Yuan continues to appreciate at an annual rate of 1.3, then an average annual economic growth rate of 3.5% could be achieved. However, there are uncertainties between 2020 and 2035, such as whether the Yuan can maintain a similar real appreciation rate as it has in the past 20 years and whether the DXY can remain around 100.

Regarding China's potential GDP growth rate between 2020 and 2035, experts have different estimations, and many factors involve "ifs." If China can replicate the economic development path of developed East Asian economies (e.g., Japan and South Korea), then a potential growth rate of over 4% and possibly up to 4.5% could be attainable. In this context, reaching the level of moderately developed countries should not be too challenging. The real question is whether China can repeat the path taken by these East Asian developed economies.

The future world is full of uncertainties, including factors like Sino-US relations and other economic influencers, some positive and others negative. Under these circumstances, it is possible to reach the goal of achieving China's per capita GDP level of moderately developed countries by 2035, but it will require significant effort, especially in improving total factor productivity, further expanding openness, and strengthening socialist rule of law and market-oriented reforms. There is a lot of practical work to be done.

Moderator Xia Le: Personally, I believe that if we can achieve sustained growth of around 4% annually over the next decade or so, the exchange rate will not be an obstacle to achieving the 2035 vision. Of course, it will require tremendous effort and hard work during this period.

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