

New Silk Road – New Possibilities – Report on the Boao Forum for Asia Financial Cooperation Conference*

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The Boao Forum is a non-governmental, non-profit organisation, which organises conferences attended by prominent representatives of national governments and business life, as well as by Academy members and researchers from Asia and other continents. Its mission is to strengthen regional integration and facilitate the implementation of development objectives in the Asian countries, as efficiently as possible. Since its establishment in 2001, the Forum has earned great recognition and become an intellectual workshop on issues related to international (primarily Asian) economic and financial cooperation. The central topic of the event organised in London on 8–10 November 2015, entitled „Boao Forum for Asia Financial Cooperation Conference”, was the strengthening of the economic and financial cooperation between Asia and Europe, focusing on „A New Vision of Financial Connectivity”.

The author of this conference report, as a banking expert from Central Europe, had the opportunity for the first time – and alone of our region’s banking associations – to attend this prestigious event at the invitation of the Chinese Banking Association. The organisers of the conference also implied in the subject of strengthening financial cooperation – quite rightly – the commercial relations, fixed investments, as well as cultural and personal cooperation. The individual sections analysed the ways to balance the management of global financing better, the new, medium-term work plan of the G-20, the innovative financing of infrastructure development, as well as ways to diversify and connect the Asian and European financial systems.

In professional terms, one of the interesting and exciting events of the conference was the round table discussion of financial managers, where the author of this paper made a panel presentation on behalf of the Hungarian Banking Association. The round table discussion addressed the following key topics on its agenda: the varying „landscape” of the banking system of the future in light of technological revolution and the related risk management; strengthening the financial relations

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between Asia and Europe, and innovative opportunities for financial cooperation; the conditions for developing the financial cooperation mechanism between Asia and Europe in the perspective of global regulation; the bi-directional opening of the Asian and European financial and capital markets; tasks for capitalising on new opportunities such as the „Belt and Road” strategy, facilitating cooperation between Asia and Europe; strengthening pragmatic cooperation between Asia and Europe and sustainable economic growth; exploring the prospects of and opportunities for financial cooperation between Asia and Europe.

The organiser and intellectual leader of the 20-person financial round table was the Chinese Banking Association, while the moderator of the discussion was Yang Zaipin, Chairman of the Chinese Banking Association. The lecturers came from various economic and financial areas. They included the former Prime Minister of Pakistan, the Deputy Chairman of the Chinese Banking Association, the Chairman of the Dagong Global credit rating agency, the General Manager of Bank of Tokyo-Mitsubishi, the Chairman of Ginkgo International, the Chairman of HSBC RMB Global Development, the Chairman of International Banking Federation and the CEO of the European Banking Federation. With the participation of these lecturers, the thoughts that may promote the financial cooperation between Asia and Europe from the perspective of Central Europe – and more importantly of Hungary – were articulated in the fifth topic of the round table, bearing in mind throughout the discussion the potential financial and economic interests that may enjoy priority in the region, also based on the principle of reciprocity. Within the strict time limits, the message focused – in line with the title of the panel – on the opportunities offered by the latest developments in international economic and financial relations, which should be seized and capitalised upon to achieve sustainable growth, with special regard to the „Belt and Road” strategy announced by the Chinese government. As a starting point, it was worth emphasising that in our view the Boao Forum is an extremely topical event, as it searches for the answer to one of the greatest challenges of our days, namely: how to achieve sustainable economic growth. This is not only a global question, but also a challenge for national economies and regional integrations. After the 2008-2009 crisis there was an international consensus that a new economic paradigm is necessary, where the Asia-Pacific region and most importantly China has a primary role. The presentation of the author of this conference report focused on the following topics. (i) The Boao Forum for Asia Financial Cooperation Conference is a very important event since it addresses the most crucial challenge of our days: how to achieve sustainable economic growth. This is a global question and a challenge for national economies and regional integrations. (ii) One of the most inevitable answers to this question is that a new economic paradigm is necessary, where the Asia-Pacific region and most importantly China plays a primary role. (iii) On the global scene, the great economic integrations and economic collaborations must contribute to

the establishment of this new paradigm, such as the European Union, the Asia-Pacific Economic Cooperation or the ongoing negotiations between the EU and the USA to create the Transatlantic Trade and Investment Partnership. The outcome of the two Asia-Pacific economic integration initiatives, i.e. the US-led Trans-Pacific Partnership and the Chinese-led Regional Comprehensive Economic Partnership will also have an important impact on this global process. (iv) In this respect, the declared strategy of China, called „going global” or „going out” is an important development and is an integral part of the „One Belt and One Road Programme” (also known as The New Silk Road project), where we are again confronted with the fundamental question: What actions do we need to take advantage of the new opportunities? And this is the major theme of our present panel discussion. (v) Analyses of the following preconditions are important: favourable trade relations and conditions, overseas direct investments, common major projects (such as infrastructure), which are not only welcomed by a nation but also by the economic integration, which it belongs to (in Hungary’s case this is the European Union) and finally, and most importantly, the establishment of the proper financing conditions. (vi) The European Union and the Central Eastern European region, which is seen by many as the growth engine of the EU for the next decade or so, can meet all of these preconditions for China. In our well-integrated region, and particularly in Hungary, foreign investments, development projects and financing facilities are crucial for sustaining economic growth, On the other hand, we can say that we are one of the best gateways to the European Union’s large market, which is important for China and the Asian region. As far as financial conditions are concerned, we consider the internationalisation of the RMB an important device. On October 2nd of this year, the People’s Bank of China and the National Bank of Hungary officially announced that the Budapest-based regional branch of the Bank of China received the authorisation to open the Hungarian Clearing Centre for RMB. Since this office acquired a regional competence, this means that the RMB Clearing Centre will serve the whole Central Eastern European region, following Hong Kong, Taiwan, Paris, Frankfurt, Sidney and Kuala Lumpur. Furthermore, Bank of China Hungary also received the authorisation to issue „One belt, One road” bonds. (vii) To summarise: the new opportunities are there and we must seize them, through the means of close cooperation and open dialogues.

On the global scene, the large economic integrations and the regions of economic cooperation must take an active role in the development of this new paradigm. Naturally, these must include the European Union, the Asia-Pacific Economic Cooperation and the Transatlantic Trade and Investment Partnership (TTI), expected to be created as a result of the ongoing negotiations between the EU and the USA, which will establish a trade area also impacting the global economy. Apart from the TTIP negotiations conducted with the USA, it is the key interest of the European Union to participate in this process. Last year, at the start of its mandate,

the Commission of the European Union – led by President Juncker – determined the ten most important, priority tasks of the Union. Sustainable economic growth and employment creation are the first on this list.

In parallel with this, in the Asian region – as mentioned before – the series of negotiations aimed at the strengthening of the Asia-Pacific Economic Cooperation achieved major progress and development. This region is dominated by the strength of the Chinese economy and banking system, as well as the recent strategic decision of the Chinese government – officially referred to as „going global, going out” – which symbolises the fact that the government supports and encourages foreign direct investments by Chinese enterprises and financial institutions – in addition to enhancing internal demand – to strengthen and ensure the sustainability of Chinese economic growth. This process forms an integral part of the globally known comprehensive plan of China, i.e. the One Belt, One Road Programme.

As is clear from the foregoing, both the European Union and the Asian region, and particularly China, have a vested interest in the cooperation. The question to be answered is which opportunities are to be seized mutually. And also, whether the means and conditions of this process can be established.

The efforts aimed at the integration, the free trade regions and the mutual opening of the markets have already been mentioned, both in the Asia-Pacific region and in respect of the negotiations being conducted between the EU and the USA. Let us narrow the examination of the available opportunities down to the European Union and China. The primary interest of the European Union is to boost economic growth and make this growth sustainable. However, the fact that this is the key priority of the European Commission is a necessary but not sufficient condition. The means to achieve this goal must also be specified. In financial terms, one of the European Union’s most important decisions was the completion of the Monetary Union in the coming period. The Commission announced the specific plans and phases for strengthening the Monetary Union at the end of October, shortly before the Boao Conference in London. In Stage 1, which covers the period between 2015 and 2017, the foundations for the smooth operation of the Monetary Union must be laid down.

It is an interesting point – and we note it here, due to the importance for external financial relations – that the strengthening of the euro area’s external representation also forms part of this action plan. In the opinion of the Commission, the external representation of the euro area has not kept pace with the increased economic and financial weight of the currency area. While the US dollar has a single, strong representation in the financial world, the euro area Member States do not speak the same language. According to the Commission’s proposal, the euro area needs a single representation on the global scene and in the IMF, in such a way that the

President of the Eurogroup would represent the euro area in the latter. Another important element of completing the Monetary Union is to conclude the building of the Banking Union.

In terms of the international financial relations and capital investments, the next plan of the European Union – being introduced and implemented – is the creation of the Capital Markets Union. This is a key element of the Commission's investment plan: the action plan of the implementation was approved by the Commission also before the conference in London. The purpose of the capital market union is to broaden the diversified sources of finance available for the business enterprises, to provide the regulatory environment for the financing of long-term, sustainable EU-wide infrastructure investments and for raising private and foreign capital to achieve the objectives of the European investment plans.

Comparing these EU processes to the strategic goals of the Chinese government, we see that opportunities for cooperation do indeed exist, or may evolve, which serve the interests of both parties and must be seized.

From the perspective of China, this cooperation opportunity may be summarised, in a somewhat simplified manner, as follows. In recent years the Chinese government introduced a number of reforms (price reform, agricultural reform, rural industry development reform, etc.), but now it must move on. According to the programme announced by the government, an excessive economic growth rate is unsound, but a certain growth rate – at present determined as 6 per cent – must be maintained. Several decisions were made to support this, from boosting internal demand and consumption to stopping the ageing of the population; however, what is interesting for us is the international aspects of addressing the problem. The first – and probably most important – task of the developed strategy is to reverse the mass capital inflows of several decades and instead the substantial accumulated industrial surplus capacity and capital reserves must be „utilised” abroad. They developed the economic, commercial and financial conditions that facilitate the implementation of this concept.

The „One Road, One Belt” programme was elaborated and announced, which creates the contractual and infrastructural conditions for transferring Chinese goods to the West through Central Asia to Europe and the EU markets (this is the so-called Green Road) or by sea, through South-East Asia and South Asia to Africa and Europe (the Blue Road).

The concept focuses on trade, and particularly on the expansion of export opportunities. The Asia-Pacific Economic Cooperation has been mentioned already before. On 5 October 2015, after a series of negotiations for seven years, finally the Trans-Pacific Partnership (TPP) agreement was concluded, which was also joined by

– in addition to some thirty countries – by the USA and Canada. The official objective of the agreement is worthy of attention in terms of our topic: „the objective is to promote economic growth, preserve jobs, support employment creation, strengthen innovation, productivity and competitiveness, improve the standard of living and reduce poverty“. This objective corresponds almost word for word to the first part of European Commission’s ten priorities mentioned before.

The „One Belt, One Road“ and the „Going Global“ programmes must provide not only the commercial routes, but also the financial and financing scheme thereof. As mentioned before, China has substantial liquidity and capital available for investment abroad (as well). In addition, China initiated the establishment of the Asian Infrastructure Investment Bank (AIIB), an international financial institution that plans to finance primarily the infrastructure investments of the Asia-Pacific region. In September 2015 the process of the establishment reached the stage when more than thirty future participants approved the bank’s Memorandum of Association and the subscription of the bank’s capital commenced. This bank is regarded by many as the competitor of the IMF, the World Bank and the Asian Development Bank (ADB), hence the USA, Japan and Canada are not among the signatories.

In terms of the financing and financial conditions, the internationalisation of the RMB and the applicability thereof in daily business relations is an important issue. For this very reason, the Chinese government made serious efforts to have the RMB accepted globally, and so far it has succeeded pretty well. 30 November 2015 will be an important day, when the Board Meeting of IMF will decide whether the RMB can be admitted to the IMF’s prestigious currency basket, the SDR (Special Drawing Rights). The SDR currency basket so far has comprised the US dollar, the British pound, the Japanese yen and the euro. The admission of the RMB would also mean that it becomes one of the world’s reserve currencies. In order to achieve this it must satisfy at least two basic conditions of the three: on the one hand the RMB „must be widely used“ and on the other hand, it must be „a freely usable currency“. Since China is managing one of the highest, if not the highest, trade turnover in the world, according to the IMF economists the RMB satisfies both of the above conditions. The third condition, i.e. „convertibility“ is no longer a disqualifying cause when the first two conditions are satisfied. Thus, a positive decision at the end of November is quite predictable, which will be a breakthrough for China.

In the foregoing, we tried to provide a brief summary of the international processes in the background that make the Boao Forum in London really significant.

As we see, China and the Asian region, as well as the European Union and the United States determined – since the outbreak of the economic and financial crisis – the programme, means and schedule of the potential ways to address the situation.

Initially it appeared that these economic great powers and regions had set out on two parallel paths. The milestones of the two paths are mostly similar and the number of concurrences is striking. By now – knowing the interests of these large economic units – it has become clear that these paths, driven by their interests, do meet.

One of the meeting points of these two paths – not only in the geographic sense – is Hungary. Hungary and the Central European region is an important gateway for the Asian and Chinese export when directed to the market of the European Union. There is great demand for the foreign – i.e. Chinese – capital investments and the support of infrastructure development. It is worth mentioning the planned modernisation of the Belgrade-Budapest railroad, with the participation of China, which hopefully will become an important section of the „green road”.

It is difficult to evaluate the events of a large-scale conference, attended by more than 300 opinion leaders, decision makers, government representative and Academy members from 22 countries. The presentations, technical discussions and the round table forum of financial managers searched for comprehensive, holistic answers to key questions in the global economy: how to achieve sustainable economic growth and how to establish strong financial relations between the Asian region and Europe. The evident lesson learnt is that cooperation is essential for Asia and Europe, financial links between the continents must be reinforced, and the opportunities that may boost and strengthen the maintenance of economic growth are starting to take shape.

It is a common interest to improve the conditions of international trade and financial operation, overseas capital investment opportunities must be facilitated and it is necessary to define those major – primarily infrastructure – projects, the implementation of which is a common interest and supported by not only the national states, but also by economic communities. In this environment, Hungary is open and interested in the support of investment and capital inflow, and in the creation of appropriate financing conditions.

Thus our interests coincide to a great degree, the new opportunities are there and we must seize them.