Emerging Markets Forum

2018 Global Meeting of the Emerging Markets Forum

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SUMMARY OF THE EMERGING MARKET FORUM

October 28 to October 30, 2018

New Otani Hotel, Tokyo, Japan

MONDAY, OCTOBER 29, 2018

08:30-10:00 **ECONOMIC OUTLOOK OF ASIA AND THE IMPLICATIONS FOR THE WORLD ECONOMY**

Chair: **Hiroshi Watanabe**, Co-Chair, Emerging Markets Forum; President of Institute for International Monetary Affairs
Speaker: **Takehiko Nakao**, Co-Chair, Emerging Markets Forum; President, Asian Development Bank (ADB)
Discussants: **Isher Ahluwalia**, Chairperson, the Indian Council for Research on International Economic Relations; **Manu Bhaskaran**, Chief Executive, Centennial Asia Advisors Pte Ltd.

INTRODUCTION

Harinder Kohli called the meeting to order and thanked the participants and organizers. He established the theme of this year's forum as issues facing both emerging and developed countries. He then asked co-chair and host, **Hiroshi Watanabe** to start the first session.

REMARKS FROM KEYNOTE SPEAKER

Watanabe stated that the first session is about the economic outlook of Asia. The present global economic situation is challenging, uncertain, and showing signs of a slowdown; however, Asian economies are likely to remain at the very core of growth during the next three decades. Asian markets are doing better than Latin American, African and even European markets. He asked how to respond to ongoing attacks on economic progress from America, questioning if the

‘America First’ policy is even good for America, let alone its trading partners. With this introduction, he invited, co-chair and ADB President **Takehiko Nakao** to speak.

Nakao indicated that he would be discussing the Asian economy and the trade dispute between China and the US. First about Asia, based on his attendance at the IMF meeting in Bali, he expressed caution about global economic prospects due to lower productivity gains in Asia and world markets overall. At the same time, he expressed doubt about a perception of stagnation. In his view, current economic data had difficulty in capturing real capital and labor productivity increases including quality, pointing out that at present. China’s actual growth is 6.5% per annum, which means a doubling of real income growth in eleven years. While noting that this is not the 10% growth seen before the crisis, this is “not bad at all”. Past rapid development in China and other parts of Asia, combined with automation and globalization has made many goods and services much cheaper all over the world. (As an example, good quality TVs in Japan are now around $100 where as just a few years ago, they were at least $500.)

Asia at 6.5% growth refers to 45-member states of the ADB including India, Bangladesh, and recently Myanmar (with the exclusion of Korea, Taiwan, Singapore, and Hong Kong). Positive integrations are happening in Asia, for example, real estate companies in the Philippines and Indonesian are cross-investing. Also, Asian-based companies are now investing in foreign markets like those in Europe and America, thus becoming more multilateral.

China is keen to develop new technologies. It remains to be seen if its innovations will lead to Nobel prizes in Physics or Chemistry. Still, a recent visit to Beijing University demonstrated this drive for innovation. Furthermore, an extensive network of interconnected Chinese researchers helps to promote China’s economic development.

As for the impact of the ‘Trade War’ between China and US, at present about half of all Chinese exports are under US tariff. The outlook if tariffs were leveed on all of China’s products would reduce Chinese GDP by about 1%; whereas the US would see about 0.2% of its GDP reduced if retaliatory tariffs were imposed. However, sentiment about the trade dispute might have further reaching negative impact for future global investment should expenditures and consumption be reduced, and this would create greater impact on multilateral trade and global economic growth. As for Asian markets, the trade dispute in China might increase other countries’ production. For example, the displacement of Chinese factories or the rerouting of supply chains might boost the GPD of other Asian countries. China importing of US-grown soybeans via neighboring countries in Asia is one such example of how trade is being rerouted.

The ‘2030 Report’ published by ADB highlights many other issues for Asia including climate change adaptation and mitigation, gender equality, urbanization, aging populations and health, how to modify education systems for the upcoming 4th industrial revolution.

In the Philippines (and India) there is serious contemplation on how AI technology might replace business process outsourcing. For example, call centers in Manila are devoted to the US mortgage service industry. How much of this business process outsourcing might be replaced by AI remains to be determined, but for the moment, the negotiation of dynamic transactions like mortgage payments is too complicated for AI. Additionally, AI technology implementation might replace some traditional jobs while creating new jobs that previously did not exist.

Last April [2018], ADB issued a major report "The Impact of AI and Other Technologies on Jobs". This report concluded that overall, the impact of new technologies in Asia is likely to be favorable because while all previous industrial revolutions resulted in some workers being replaced, new technologies will also create new job opportunities, thereby expanding the overall workforce. A second determination of this report was that although it might be technically possible to replace human workers completely with AI, the cost to do this will be prohibitive. A case was made in Bangladesh where a sewing factory already incorporates some AI technology to check products but replacing all workers with AI would be too expensive. A third point was, in general, that if we make products more efficiently, there will be more demand due to greater income to spend on these products.

Much like the automobile industry was tiny and elitist in the early 1900 before exploding into one of the biggest industries worldwide, the kind and scale of industries that will develop in the future is unknown. However, currently many of the Pacific island countries of the ADB are rapidly developing tourism to cater to wealthy Chinese and Australian. Other services industries like private tutoring and coaching have also been established. These industries were created around wealth being spent on services as opposed to material goods.

Coming back to Asia's largest economy China, **President Nakao** noted that China is not anymore just a country with low wages, but now seeks innovations with assertive initiatives like 'Industry 2025'. Accordingly, Chinese authorities frequently under play that they are a developing country. He suggested that China is attempting to regain world power after its defeat in the Opium Wars and other humiliations during the mid-1800s. There is also a perceived notion by the rest of the world that China is not a developing country; moreover, its huge gap between extreme poverty and extreme wealth is apparent, and this generates questions regarding its motivative and means for economic development.

<u>DISCUSSANTS' REMARKS</u>

Isher Ahluwalia concurred with most of the remarks by **Nakao**. She was reassured by the reservations expressed by **Nakao** regarding estimates of lower productivity growth and development for Asian markets, reinforcing that inaccurate measurements of labor and capital can mislead analysis. Additionally, a perception that globalization has led to a loss of jobs in developed countries was stated. This perception fails to observe that globalization and technology advancement are happening concurrently (some jobs are replaced by new technologies) and is fueled by a 'win-win' economic theory that is now being popularized in business schools. This theory is misleading; overall a 'winning' economy has growth, but there are still *winning and losing sectors*. She noted that we put blame on President Trump for many of the current economic problems, however we neglect that there were deep, pre-existing factors that made way for his support. She noted that globalization had been a settled topic of discourse because the theory of open trade appeared to be working; however, recent challenges to this theory have reopened this topic for debate where before there was agreement.

She thinks that Japan as the new leader of the G20 can make a difference by resetting the meeting agenda to focus on current trade issues. The G20 represents developing and developed economies, and together with successful Asian economies could help bring resolutions to economic issues. She also stressed a need to strengthen other multiliterate governing institutions, citing that, the WTO is at risk of collapses due to attrition of the membership of dispute resolution panels. She cautioned that WTO's collapses would be calamity; trade disputes would be settled like they were before the 1970s, by brute force. Despite this foreshadowing, **Ahluwalia** closed with optimism stating that "it will all work out in the end", and that if things are still not right, then that means we have not come to the end just yet.

Manu Bhaskaran shared the optimistic views of **Nakao** and **Ahluwalia** noting a confluence of factors contributing to the significant rise in the investment rates in Asia. These factors included public sector infrastructural projects (such as those in Indonesian, the Philippines, Thailand, and Malaysia); a renewal of foreign investment in many Asian countries (excluding China due to higher costs and present uncertainty due to the 'trade war'); growing economic synergy and integration among Asian countries; and, improvement in supply-side gains and ease of doing business. Potential risks to this growth include military clashes between US and China, threats to global trading organizations, and delayed reform to domestic policies that favor trade.

<u>COMMENTS FROM THE FLOOR // PANEL RESPONSES</u>

1) Social programs might be in jeopardy because governments lack resources for the transference from old to new employment sectors // **Nakao** stated pension system, equality in education, and the uniform tax collection as compounding issues to social programs and domestic reform.
2) Specific to **Nakao** and the ADB, what assistance for the integrate of North Korea into the world economy might be provided in the future? // ADB and The World Bank see the necessity of support should North Korea prove ready, but South Korea would grapple with a huge burden, larger than the unification of Germany, because of a much greater level of disparity. Additionally, geopolitically speaking, China would raise concerns over having a US-allied country right on its immediate border.
3) How much leadership can come from Asia for reforming [economic] systems? (When considering that the US, China, India, and Europe are presently not demonstrating leadership towards reform.) // Yes, Japan looks to support a greater framework for trans-pacific trade. **Ahluwalia** mentioned the leadership that Japan showed during CTPPP negotiations. **Bhaskaran** reminded the audience that Asia itself is not unified as a single entity, but rather a collection of very different countries and cultures; none-the-less, leadership from countries like Japan is still being fostered.

<u>IN CONCLUSION</u>

Watanabe predicted that Japan will deliberate on the topic of worldwide inequality at global leadership summits, considering that current political attitudes are inclined to dismiss this pressing issue. **Kohli** restated the beneficial contributions of the ADB report on AI citing that it was illuminating to see balanced and thoughtful consideration of how AI will improve economic outlook and growth. He built on this indicating that the so called 'Industrial Revolution 4.0' will be positive for worldwide economics (not just those emerging in Asia but developed economies as well). To quote "…for every job lost, there will be more jobs created, they will be different. There will be major implications for the education system, there will be need for retraining…but it will be a better world…". He closed the session urging India, the fifth largest economy and soon to have the highest world population, to step-up to the plate and assume its position in world leadership.

10:30-12:30 **AGING SOCIETIES**

Chair: **Shigeo Katsu**, President, Nazarbayev University; Former Regional Vice President, World Bank
Presentation: **Claudio Loser**, Director, Centennial Group; **Jose Fajgenbaum**, Director, Centennial Group
Discussants: **Pablo Garcia**, Member of the Board, Central Bank of Chile; **Jean-Daniel Gerber**, Chairman of the Board, Swiss Investment Fund in Emerging Markets (SIFEM); Chairman, Swiss Sustainable Finance; **Hidehiro Konno**, President, The Foundation for International Trade and Industrial Cooperation; Former Vice Minister for International Affairs of METI; **Jean-Louis Sarbib**, Chief Executive Officer, Development Gateway, Former Senior Vice President, World Bank; [Last-Minute Addition] **Ieva Vilkelyte**, Senior Research Analyst, Centennial Group

INTRODUCTION

Shigeo Katsu indicated that **Ieva Vilkelyte** was a last-minute addition to the panel representing both youth and female, two factors rare to this forum. **Katsu** introduced the session by stating that the topic of aging and inter-generational dialogue is currently not being discussed in part due to an unwillingness to face the implications of an aging global societies in the future. Aging in society effects the personal, communal, national and international level, and all transections should be considering. He invited the main authors of the background paper—Claudio Loser and Jose Fajgenbaum—to present their paper.

PRESENTATIONS

Claudio Loser introduced the paper he co-authored stating that over the next few decades there will be a major shift in demographics worldwide to 65+ age group (from current 12% to 16%) with notable exceptions in Africa. Using this other UN statistics, Centennial Group's model suggests that per capita income growth will decline significantly (with projection to 2050) on average worldwide due to a higher proportion of depend elderly vs. working population. However, the extent of change will vary among geographic regions. For example, in emerging Asian countries the decline of GPD is sharp overall; whereas in sub-Saharan Africa, GPD will increase due to augmentation from a young workforce. For Latin America and the Middle East, earlier gains in GDP will be off-set after a 10-year period resulting in decline. Overall, the rates of personal saving in the US and Europe will decline within the next few decades as well. Without intervention by governing bodies, over the next 20 years, there will be serious consequences to worldwide finances in all developed and most emerging markets. [The visual aids that illustrate the issues of an aging society are available in the report, and in a PowerPoint presentation that was used by **Loser**.]

Jose Fajgenbaum continued the presentation by addressing what kinds of interventions are necessary to avert financial consequences. There is a need to facilitate the elder and especially females into the workforce, to increase personal savings, make enhancements in technology (especially in service-related sectors), and improve skills among the young workforce in Africa. Awareness and cooperation among multilateral institutions is a key requirement. Thus, a global initiative is suggested by the authors of the paper to exchange ideas and polices. Finally, countries especially at risk because of aging population are China, Brazil, Indonesian, India and Iran.

DISCUSSANTS' REMARKS

Pablo Garcia first declared that he does not speak on behalf of the Central Bank of Chile but as an individual. In contrast to the report summarized previously, he added a few positive prospects regarding an aging population: a shift in aging demographics means that people are living longer, longer-lived people will recognize the importance of saving for retirement, and an older population worldwide may present a more peaceful, democratic society (suggesting a theory that civil unrest and world conflicts were more pronounced during youthful demographic periods). For Latin America specifically, he mentioned that Brazil and Argentina lack supportive pension systems and need serious reform. **Garcia** then focused on the Chilean pension system stating that it has been fully funded since 1980, but that still some changes are being made due to an aging population. One such adjustment is to change the individual contribution percent from 10% to 15%, another would be to raise the minimum age of retirement.

Jean-Daniel Gerber mentioned changing technology and voluntary (benevolent) work regarding the elderly, two topics not specifically addressed within the study. As for changing technology, the emphasis was on new technology presenting new employment opportunities for the young, but not as much for the elderly generation. Benevolent work such as grandparents looking after children is generally not included in GPD, but one study done in Switzerland found that when this kind of work was including, the rise in GPD might be as high as 10%; such contributions to GPD stand to increase due to an aging population.

Jean-Louis Sarbib sobering depiction focused on the demographics of Africa. The urbanization of Africa as youth move from rural to urban areas (internal migration) is the most common migration occurring in Africa today, and this is compounding by wide-spread unemployment and the creation of urbanized areas incapable of dealing with sudden rises in population. Furthermore, Africa is woeful unprepared for a vast increase to its workforce. 21st century skill development for the next generation of young workers remains categorially unfulfilled. Desperation for better living situations caused the current wave of migration from Africa to Europe. These immigrants are, by and large, unwelcome and are not receiving better, long-term options—a 'lose, lose' scenario for both Africa and Europe (considering that Europe needs more workers). An increase in young population in Africa under the current situation of marginal governments unable to provide employment to present-day citizens will be exacerbated with predictions of a pending population explosion.

Hidehiro Konno testified that Japan has the highest percent of elder citizens (65 years and above) in the world at 28% in comparison to the global average of 12%; by 2036, the estimate is for ~33% of its population. In 2010, the population of Japan peaked at 128 million, and in the year 2055, the population is estimated to go below 100 million. These demographics will be catastrophic for Japan in terms in productive, financial assets, burden on social welfare and dislocation of communities. **Konno**'s personal account of how to cope with this looming problem include: initial unwillingness and then slow acceptance that there is even an issue, regular revisions of guidelines for how to address the problem, policy changes in favor of encouraging higher birthrates, revision of the education system to accommodate more primary school-aged children, extension of the retirement age with provisions for worthy employment after age 60, and acceptance that the younger generation will need to work for multiple employers (the erosion of the 'life-time employment system'). In hopeful conclusion, he converged the aging demographic crisis as being potentially mitigated by an era of technology revolution.

Ieva Vilkelyte called into question suggestions on increasing women and elder in the workforce as contradictory when attempting to augment birthrates (The inability for women to raise children and work simultaneously, especially when grandparents are working as well and unavailable to assist.) She also gave testimony for people of her generation (20s and 30s in the US) having no faith in the government's social security system, with plans to save more and work longer in life to compensate.

<u>COMMENTS FROM THE FLOOR</u>

- What kind of policies exist for women to be mothers, wives, and equal members of the workforce? (One response was that in the developing countries the current trend improves these opportunities for women.)
- How do governments of advanced economies design reforms to healthcare system for dealing with the aging population crisis?
- The current issue of populist governments that favor the demands of an elder generation for establishing policies. This may skew even further due to the reality that older people represent a stronger voice in voting and the electoral process.
- There is a strong link between aging in a population and inequality, which will be explored in an upcoming session.
- The Japan delegation plans for making aging demographic issues a primary agenda item at subsequent G20 summits.
- Lessening cultural tension in societies may lead to adaption and a shift in demographics as they both related to aging and migration.
- More urgency for addressing migration in terms of demographic shifts was also stressed. [Editorial note: Throughout the session, the topic of migration with emphasis on the effects of historical migrations, the current crises in Europe, Africa, and Asia, skilled verses unskilled immigrants, internal migration and urbanization, and legal verses illegal immigration, were all introduced; a separate session to addressing these issues might prove beneficial for elaboration.]

14:00-16:00 **AFRICA RESET: A NEW WAY FORWARD**

Chair: **Hiroshi Kato**, Vice President, Japan International Cooperation Agency (JICA)
Presentation: **Theodore Ahlers**, Senior Associate, Centennial Group
Discussants: **Mamadou Lamine Loum**, Former Prime Minister of Senegal; **Jean-Louis Sarbib**, Chief Executive Officer, Development Gateway, Former Senior Vice President, World Bank

INTRODUCTION

Harinder Kohli introduced the session stating that Africa presently has the fastest growing demographics in the world and it faces issues that are critically important for understanding in a broader, global context. Africa could be considered the "last frontier of development" in the world". It requires everyone's attention. He then called on **Hiroshi Kato** to chair the session.

Kato began by introducing the publication of Africa: Reset [2017], which is now available in three languages: English, French, and Japanese. (He personally worked on the Japanese edition as a co-author and translator.) The focus of the session was to discuss many key issues found in the book. He invited Theodore Ahlers to make a brief presentation.

PRESENTATION

Theodore Ahlers, a primary author of Africa: Reset [2017], commenced with findings in the book that have continued into 2018. The second topic relates to '3+1' issues for Africa. [A PowerPoint presentation with supporting visual materials was referred during the presentation.]

One of the main findings and the reason why the book's title includes *reset* is that since 2011, Africa's per capita growth income is diverging from the rest of the world. Before 2011, the average per capita income of Africa was catching up; unfortunately, this catch-up period has stopped, and currently the average per capita is falling behind the economies of other regions. For example, in 2018, per capita growth in Africa lags four times behind the rest of the world. When compared to other emerging/developing economies, this lag amounts to five times.

The second finding from the book is while the per capita growth for the entirety of Africa falls below levels found in the rest of the world, this represents an average, and is not the case for every country within Africa. Since 2010, neither oil exporting nor other resource-rich countries have been driving growth in Africa. In contrast, resources-poor countries are now driving economic growth. A point made in detail within the book is that regardless of geographic location (coastal vs. landlocked), size of a given country, or resource endowment, how each country manages its economy creates the greatest impact on growth. This trend is continuing into 2018. The panel selected will share prospective into issues facing Africa beyond the publication of the book in 2017, and follow-up in an African EMF meeting may occur in 2019.

Next, '3+1' issues for Africa were introduced: the 1st issue concerns demographics and migrations with emphasis on the growing labor market and unequal income distribution, whereas Africa will see growth of its working age population to 800 million; the 2nd issue is about creating productive jobs, which will require much greater private investment; the 3rd issue relates to skills, education, and learning outcomes. (Notwithstanding, primary school enrollment in Africa is close to 100%; however, most students do not meet minimum requirements in reading or math.) The 'plus one' issue is on political leadership and is label as such because it different from the other three issues, yet it will determine the overall success of *any* intervention. Furthermore, success of African leadership depends on vision and accountable for the benefit of citizens.

<u>DISCUSSANTS' REMARKS</u>

Mamadou Lamine Loum concurred with **Alhers**' presentation, expressing the dire reality of Africa's situation today. In West Africa (including Nigeria), about 43 to 45% of the population is under 50 years old. Only about 4% of the total population of this region is over age 60. This is well below the world average of 12%, and in stark contrast to Japan with nearly 28% of its population over age 60. In 2050, there is will be a shift in demographics, doubling the working population while at the same doubling the over age of 60 category. These figures are quotes to emphasis the critical nature of the situation facing Africa in the future. The potential for crisis is compounded due to African countries' lack of social security for retirement. Beside retirement, this demographic shift will impact other social systems like education and healthcare. Additionally, productive employment for a growing working-age population needs to be fostered by governments. Agriculture output has decreased in rural areas as well, even while local populations have increased; increasing rural populations will decrease available space in agriculture areas.

As stated in the presentation, education systems require serious review. Government expenditure on education is high, while learning outcoming are exceeding low. Additionally, in western African countries 50 to 60% of eligible workers are employed as civil servants. This creates another barrier to changes of current systems, because negotiations with trade unions comprised of high numbers of civil servants must be done first before governments can reallocate funds.

Jean-Louis Sarbib focused his remarks on education because an educated population can: engage in more productive employment; suppress demographic pressures from population spikes by reducing fertility rates; and, hold government leadership more accountable. He encouraged participants to read the chapter on outcomes in the book noting that African governments have put significant investment in early childhood education, but generally have no systematic methodology for assess learning outcoming. He also faulted the World Bank (and the international community) for only now considering that education need to invest beyond primary school age. **Sarbib** stressed that teachers must have education beyond primary school; secondary and tertiary systems must be supported as well. (The entire education sector needs investment at all levels.)

Additionally, in too many countries, higher education offerings are out of alignment with the needs of the economy. Graduates of higher education institutions are unemployed because their skill sets do not match employment requirements. Thus, an education system that trains workers for in-demand employment is essential. New education system models backed by the private sector are necessary to product a skilled technical / vocational workforce. Another challenge is the re-educating and training of an existing workforce that has already gone through this inadequate system to increase productive employment in the economy (especially in the agricultural sector). Finally, a factor that hampers the improvement of education systems is exceptionally strong trade unions, unwilling to allow for meaningful changes to occur.

Despite the challenges associated with education system reform in Africa, **Sarbib** strongly believes improving education systems and learning outcomings in Africa is the best way to address the 3+1 issues mentioned by **Ahlers**. His closing point about an upcoming JICA conference on education system reform in Africa serves as another indicator of its significance in resetting Africa's outlook.

[Before opening the session to comments by the floor, **Kato** asked the panelists to comment:]

Ahlers considered what could done to change the current education shortcoming in Africa and reform the system noting that best practices and examples of successful schooling exist throughout Africa. Good teachers are behind all these successful examples, regardless of level of supporting resources. If it were only a matter of promoting these successful practices, then a solution would be at hand. However, political actions must also encourage this promotion, and often knowing the solution and putting the solution into practice do not correspond. **Loum** discussed the differences in fertility rates among African countries, stating that formal and informal education in support of the reduction of pregnancies is one of the best ways to reduce fertility rates throughout Africa. **Sarbib** provided complications with fertility education (family planning) in a few African countries. Niger, with an extremely high fertility rate, was singled out as an example of where previously Islamic practices were tolerate and open, but currently 'hardline' Islamic fundamentalism prevents consideration of the matter. **Ahlers** reinforced this example, stating that responsibility political leadership remains an essential part of the solution.

<u>COMMENTS FROM THE FLOOR // RESPONSES FROM THE PANEL</u>

- The Ambassador of Mali noted that among the presentation of **Ahlers**, the most important '3+1' issues was effective leadership. Demographics is also another significant topic due to the workforce age increase coming in the next few years; how can an increase in human capital benefit Africa? Education and women's reproductive rights are also important. Other challenges exist, but tackling the challenges is now critical. Japanese / Africa cooperation is most appreciated. [Interpreted from French]
- Of course, education is important, but how about infrastructural improvements? // Public funds are heavily in debt, so how to encourage private financing is now key.
- Good governance can create good business environments and practices. // This requires development of productive business with equal partnership.
- In the priority of issues, proper governance and institutional development are necessary first. // Good citizenship coupled with effective leadership is also required; an investment in good citizenship (based on intrinsic values) is vital to improvement. *Active citizenship* might be a solution that has been under-estimated, and this might support ongoing efforts.
- Africa's internal investment and saving rating are lower than Asia and other regionals. The business environment needs improvement for better investment. Foreign aid can no longer be depended on as source of revenue. Additionally, capital from Africa is outsourced and invested abroad as opposed to being returned to local economies. What can be done to foster

investment within Africa? // **Kohli** stated an increase of 6% savings domestically would support similar rates as those seen in emerging Asian economies.

- How do we insure skill formation for the workforce without seeing skilled labor migrate to areas with *perceived* better opportunities?
- What effect does a skilled African diaspora have on development within Africa? Why are the successful environment of the diaspora not created in the African homeland?
- The links between all these issues are interconnected; where should a solution be initiated?
- Africa must have stable, serious macroeconomic policies to support long-term development.

16:15-18:15 **MULTILATERALISM UNDER THREAT: DISRUPTION IN GLOBAL ECONOMIC GOVERNANCE**

Chair: **Enrique Garcia**, Co-Chair, Emerging Markets Forum; Former President & Chief Executive Officer, CAF - Development Bank of Latin America
Presentation: **Kurt Bayer**, Former Board Director, European Bank for Reconstruction and Development (EBRD)
Discussants: **Thierry de Longuemar**, Vice President and Chief Financial Officer, Asian Infrastructure Investment Bank (AIIB); **Roberto de Ocampo**, Chairman and CEO, Philippine Veterans Bank; Former Minister of Finance of the Philippines; **Gabriel Duque**, Ambassador of Colombia to Japan; **Nobumitsu Hayashi**, Deputy Governor, Japan Bank for International Cooperation (JBIC); **Alan Wolff**, Deputy Director-General, World Trade Organization (WTO); **Nobuo Tanaka**, President, Sasakawa Peace Foundation; Former Executive Director, The International Energy Agency (IEA)

INTRODUCTION

Enrique Garcia reflected on January 2016 being a time when the President of China advocated for globalization while the leader of US began his term reversing policies that advanced globalization since World War II. After his brief introductory remarks, he invited the author of the background paper, Kurt Bayer, to make a brief presentation.

PRESENTATION

Kurt Bayer commenced by remarking that the old order of western global governance was in decline, while the new world leadership had yet to get started. Three major issues were outlined: the causes of decline in global governance; why do we need global governance and cooperation; and, future issues related to multilateralism.

Some of the causes of crumbling and fragmentation of global governance are the following: withdraw of America in global cooperation (examples include withdraw from the Paris Agreement, the Iran Accord, TPP, and recently a UN speech by President Trump proclaiming his "America First" policy); 75 years of Western-dominated governance is now eroding due to shift in economic power (25 years ago nearly 2/3 of total world GPD was controlled by developed countries, now world GDP is ~50% for developed countries); several world financial crises has caused instability (from Latin America in the late 1970's, East Asian in the 1990, and the 2008 recessions in America and Europe); IMF, World Bank, and other world financial institutions have inadequately shifted to address changes in regional economic growth; the expansion from G7 to G20 presented promise for new policies and reorganized institutions, but little changed, instead competition to IMF (such as the AIIB) was created by countries that had little input within the G20 summits; and, there are many illusions in western countries that globalization favors enterprises as opposed to workers, income inequality has led to unemployment and stagnant wages, and has fueled rapid climate change due to more international trade—all these ideas are in protest to globalization and have caused the formation of stronger, nationalistic ideals with the election of populist leadership in America and Europe.

Global governance and cooperation is necessary to provide economic and social stability worldwide. If countries individually create their own policies without international cooperating, global public goods and services would become woefully inadequate. Furthermore, forums for dealing with international issues like climate change and other cross-border problems are necessary. Global rule setting is also fundamental to stability, so that weaker countries can be protected from the interests of stronger ones. Global mandates should be applied to new technologies that are developed as well.

The third topic, what will comprise the next order of global governance, has two key terms: substance and institutions. Substance can be summarized by the *Sustainable Development Goals* concluded and approved by all UN members only a few years ago. There are problems associated with the formulations of these goals; still, a wholistic approach is more productive than only examining economic policies. Thus, the inclusion of environmental and social issues within the context of economic gains affronts a better approach. Moreover, the general public needs a stronger voice in global governance. (This was introduced in the previous session **Africa: Reset** as the concept of *good citizenship*.) WTO should investigate ways to reduce the leverage that companies have due to foreign direct investment. Foreign multinational companies have huge incentives to outsource production into developing countries and these benefits vastly over-shadow gains made in local economies. As a final idea, perhaps a fund could be created where multinational corporations give some of their profits directly back to developing countries. For example, these funds could be used for the public good like social security or education in host countries.

In summary, polarity and multiple strands of world governances are now forecasted. These strands may be made of coalitions of governments willing to work together. Cohesive central rules will be lacking, but still transparency and good models of regional leadership are needed. Lastly, Western-centric ideals will need to give way to other cultural perspectives with the emergence of a new world order.

DISCUSSANTS' REMARKS

Alan Wolff stated that current form of WTO governance is completely transparency were all parties are involving in setting policies. (He referred to earlier times when select countries made decisions 'behind closed doors' without weighting input from others.) He described current scenarios were developed and developing countries work together to make proposals. On the subject of 'climate change', **Wolff** defined it broadly to include not only global warming, but also added the rise of China (whereas, it changes the climate in the WTO), income and equality, technology change, and migrations. As for *disruptions* as the title of the session indicates, the Trump administration was mentioned because of its deviance from world leadership; it supports bilateralism as opposed to multilaterals. However, he did indicate that the US remains very active in the WTO. He was elated during a recent WTO meeting in Buenos Aries because he observed the US making new proposals, which stimulated multinational discourse.

In term of environmental regulation, trade agreement related to food production and distribution need to be resilient in response to climate change, and the WTO already permits adjustment in this regard. Another environmental issue to be discussed within the next two years by the WTO is the reduction of substitutes for factory fishing in International waters.

Thierry de Longuemar refuted the misconception that the AIIB was founded to fund China's BRI. Founded in 2015, AIIB is a multinational initiative with the backing of 87 members. An AIIB projects require three fundamental conditions: must be financially viable; must be aligned with AIIB policies and strategies; and, must comply with the environment and social safe-guards of the bank. Thus far, AIIB has approved 36 projects none of which are labelled BRI. Additionally, AIIB has governance differences when compared to other IFIs such as a non-residential Board of Directors. AIIB is also faster in the approval of funding with average of six months as opposed to 18 to 24 months from the World Bank and other IFIs—efficiency and less bureaucratic can be attributed. There is a perception that environment standards of the bank are low; however, founding members of the bank sought to make certain that the highest standards were applied. Multilateral models for banking have not reached their end point; they can be improved and adjusted just like AIIB has done.

Roberto de Ocampo agreed that Western leadership of globalization is waning. The leadership did not assist during the Asian financial crisis of the 1990, and trust was further diminished by the 2008 recession. The US is undergoing a protracted civil war of identity with popularist idealism, which has ramifications that will continue beyond the Trump administration's nationalistic policies. Europe also has several major economic complications such as Brexit, the EU's unified currency lacking in a unified finance system, and how Europe will deal with immigration.

Despite this degradation, the West still has some strengths like the US dollar continuing as the major currency of reserves, English as the common language, and a strong military. The strength of military is most concerning to **Ocampo** because overt military presence in the places like the China Sea make for new flashpoints. Never-the-less, non-discriminatory, open trade values like those promoted by APEC are being encouraged in Asia. Other regional trade organizations in Asia are creating stronger interdependence among Asian countries as well.

In conclusion, he proclaimed an "Asian Century" where regionalism vs. globalism will be far more prevalent. This will direct the new world order to come.

Gabriel Duque pointed out that Latin America is heterogenous regarding trade. While anti-globalization sentiments exist in the region, there is also localized dissent caused by elitism, wealth inequality, corruptions, etc. However, politicians falsely label trade and globalization as the primary problem, equating it to a simple issue that they can fix.

Duque holds that globalization was catalyzed by technology that has made production, distribution, and communication far easier on a worldwide scale. He hesitates to offer resolution when this theory of globalization hinges on technology advancement. He also takes issue with blaming climate change (global warming) on globalization; domestic upsurge of food production is a far greater contributor to climate change. Regarding WTO, it is needed by Latin America as a regulator force for public good, so much so that if it did not exist, it would be recreated. Agricultural trade imbalances and lack of local enforcement of agreements demonstrate the importance of WTO regional regulations. Furthermore, current protectionist policies only delay the trend of free-trade and new technology implementation worldwide. Regional ‘coalitions of willing’ will provide future direction.

Nobumitsu Hayashi attributes President Trump for providing opportunity for Japanese trade and investment. All the same, Japan’s efforts are based on creating more open, free and rule-based investment in the Asian Pacific region, India and beyond. Even before BRI, Japanese companies together with JICA, ADB and JBIC contributed high-quality infrastructural projects throughout Asia. As a present example, JBIC has forged a transparent, sustainable project with the Chinese Development Bank for a third-party country. These examples indicate Japan’s desire to lead regional cooperative efforts and aid development.

He questioned whether President Trump is disruptive or representative of the new norm. He noted that current system of global governance is based on Western-centric (US) policies as opposed to a formalized system. However, whatever system is in place, it does need reform, and that in this way Trump is right to criticize it. How do we address global trade imbalances in support of developing economies, and reform tax codes to more fairly collect taxes on all citizens? He also questions our democratic process indicating that it does not have a methodology for change or even an opportunity to consider how to make changes. In conclusion, we should look at reinventing our democracy and market economies via active citizenship, a better approach than attempting to ‘patch-up’ the status-quo.

Nobuo Tanaka reflected that his work with IEA, the formation of an emergency reserve of oil in case of disruption. He said that he focused on getting China and India to join the reserve, and still to his knowledge efforts were unsuccessful. Presently, the world energy market is experiencing four revolutions: shale fracking in North America (leading to energy independence and dominance for the US); solar voltage cell (will become the cheapest form of new energy generation); China’s ‘green revolution’ (the replacement of coal with gas); and electrification (China is the leader using electric vehicles, digitalization, AI, etc.). Thus, current trends are based on US oil and gas dominance, and China’s renewable resource deployment to reduce dependence on the Middle East, Russia, and the US.

Since the US is no longer depend on the Middle East for oil and gas, its policies towards the region are now unpredictable. This can lead to serious problems for the region and the rest of the world that still depends its energy exports. He also pointed out the Kadaifi, the Libyan leader, heeded the request from the US to remove corruption from his country and was still killed by US forces later. This example sent a horrible message to North Korea and is one of the reasons why Kim Jong-un keeps his nuclear weapon program. The withdraw of the US from the Iran Accords reinforced the message, further supporting the stockpiling of nuclear weapons in North Korea. So, multinational frameworks must include plans of action, which are weighted against future consequences. This, too, is the case for energy and nuclear security.

<u>COMMENTS FROM THE FLOOR // RESPONSES FROM THE PANEL</u>

- IMF has returned to the forefront of governing institution for reasons of world security, and this will affect decision-making going forward.

- How do multinational corporations factor into world governance? // The private sector is more flexible than governmental organizations and will have greater ability to spread sustainable practices.
- A professor from China expressed that all countries have a voice in global affairs. She mentioned appreciation that Japan and China are working together. Also, she noted that BRI is China's way of contributing to global affairs.
- What kind of governance will be established in the new order that was mentioned? // The shift in global governance from known US policies to unknown Chinese policies is creating uncertainties worldwide.
- What influence will countries of 'middle power' have within global governance?

IN CONCLUSION

Bayer recapped with the point of his paper as stimulus for discussion, and that he did not have answers regarding the new directions that might come from the shift in world governance. He also interjected that the push for international trade can come at the expense of domestic markets, thus closer consideration of this issue is warranted. He asserted that multinational development organizations need to adapt to current world climate instead of conserving systems resistant to change. **Garcia** finalized with "It's clear we are in a changing world, and it's a time for inflection…". He hoped that this would improve the quality life for the world while reminding the participates that an open mind is a prerequisite to meaningful discussion.

TUESDAY, OCTOBER 30, 2018

08:30-10:30 **ECONOMIC AND SOCIAL INEQUITIES AND DISPARITIES**

Chair: **Rintaro Tamaki**, President, Japan Center for International Finance (JCIF); Former Deputy Secretary-General, OECD; Former Vice-Minister of Finance for International Affairs, Ministry of Finance
Message from **Michel Camdessus**, Co-Chair, Emerging Markets Forum; Governor, Emeritus, Banque de France; Former Managing Director, International Monetary Fund (IMF)
Presentation: **Montek Ahluwalia**, Former Deputy Chairman, the Planning Commission of India
Discussants: **Taotao Chen**, Professor, School of Economics and Management; Director, Center for China-Latin America Management Studies, Tsinghua University; **Sanjeev Gupta**, Head of Fiscal Practice, Centennial Group; **Bindu Lohani**, Distinguished Fellow, Emerging Markets Forum; Former Vice President, Knowledge Management and Sustainable Development, Asian Development Bank (ADB); **Megumi Muto**, Director General, Global Environment Department, Japan International Cooperation Agency (JICA)

INTRODUCTION

Rintaro Tamaki began by introducing a diverse, multinational panel and reflected on working closely with European counterparts on a program called JET (Jobs, Equality, and Trust) in 2013. He noted that especially for emerging economies, equality is of primary importance.

MESSAGE FROM MICHEL CAMDESSUS

Michel Camdessus expressed regret for his absence, while indicating that EMF is growing in stature. He paraphrased from a recent *Brooking Institution* report that half of the world's population is now middle class. This is due to significant progress from emerging countries notably China and India. This success for the world comes with new challenges including climate change, aging in society, and "…how to improve the human condition for the other half of the world?"

Inequality is a major issue facing half the world, especially the lowest 10% of world population, who fall below the absolute minimum poverty line. **Camdessus** stated that inequality appears as a failing of economic and social policies, so often it is unacknowledged. He urged action to address inequality because lack of progress threatens to erode public trust and destroy our collective democracy. While economic growth and globalization has reduced inequality between countries, domestic inequality has grown enormously in the last 30 years, looming as a crisis on the national level. (The top 1% of the world population controls 50% of its wealth.)

One key to reducing inequality is to invest in human capital. This can increase income potential and mobility within a country. Better access to healthcare and education are also improvements for the poorest segment of society. Tax reform and fiscal management are necessary to develop resources. Brazil was highlighted as one country where public policies yielded success. All the same, more action is needed worldwide via multilateral initiatives such as the UN sustainable development goals. To reiterate, EMF's growing stature can serve to raise awareness and urge action from world leadership. [Summarized from a video presentation.]

PRESENTATION

Montek Ahluwalia restated **Camdessus** key point, that globalization has reduced inequality between countries while allowing inequality to increase *within* industrialized and developing nations. An overstated and flawed solution for reducing domestic inequality is *not* to simply reverse globalization. Furthermore, he agreed with **Camdessus** in that more can be done to help people at the bottom 40% of income; however, the UN goal that the bottom 40% of the population should rise faster than the medium income in *all* countries is not realistic because it does not account for the actual growth rate of a given country.

Ahluwalia also noted the social impact associated with the stress that inequality creates. He pointed out that this stress due to inequality within a country can differ among the societies that comprise it. Again, only focusing on the bottom 40% of income neglects the entire income strata creating an unrealistic framework. In terms of the perception of inequality, he pointed out that from region to region within one country, local income level might be quite different, and that this can also create social / political conflicts. Gender equality and the social mobility between generations provide additional dimension to the issue. Moreover, higher quality data about inequality is vital to providing solutions.

As for inequality solutions, he stipulated that in developing countries the improvement of healthcare and education leads to less inequality. He suggested that China has done better than India in addressing inequality because of its investment in healthcare and education. Another point connects to governmental policies that clearly favor growth and continuity of a developing country's economy. These policies should incorporate technology advances especially in the areas of agriculture, small to medium-size business development, and the support of a skilled labor force.

In close, **Ahluwalia** contemplates tax reform. Using India as a model, he mentions having progressive taxation on personal income for the generation of revenue, the reintroduction of an inheritance tax, and higher tax rates on property, which is especially important at the local level. These reforms are focused on the redistribution of wealth, thus further reducing inequality, but still need firm grounding to maintain growth in the economy.

DISCUSSANTS' REMARKS

Taotao Chen stated that inequality issues are latent in China because increases in income and economic growth had to occur first. Before reforms started in 1978, China was equally improvised. Since this time of reform, poverty has reduced dramatically, from 770 million in 1978 to only 55 million as 2015. In 2016, awareness of inequality in China became a concern, and the government responded with a targeted poverty reduction plan.   Three groups were identified: elderly citizens without children, people without skills and training, and rural families where all resources are given to the education of their children. She also stated that empowerment of impoverished people via hard work is vital to stimulating their recovery and income growth.

As for the issue of globalization creating inequality, she questions why domestic inequality within industrialized countries is so high. She indications that globalization came about as an initiative of developed countries, with realization that not all sectors of their economies would benefit. Furthermore, perhaps governments of developed countries struggling with inequality need to reconsider internal policies. For example, taxation on multinational corporations that directly benefit from low-wage employment like that found in China.

Sanjeev Gupta added to **Ahluwalia's** presentation by noting that fiscal policies in developing and impoverished countries have had less impact on reducing income inequality because these countries collect less revenue for redistribution into social welfare programs. Moreover, incoming and property taxes collected in developing countries is far less that of advanced economies. Closer examination of the *Gini coefficient* for advanced vs. developing economies reveals significant decline in redistribution within developing countries. Overall, reforms in taxation (including income, inheritance, VAT and property taxes), transparency in tax concessions, improvements in compliance, and responsible fiscal policies for redistribution, all need consideration to resolve income inequality. [A slide presentation was used during his commentary.]

Bindu Lohani stated multilateral development banks could follow through by integrating their strategies for alleviating inequality into operative, multidimensional policies. As suggested previously, another helpful action would be to adjust the poverty line to account for the bottom 40% of income level. MDBs can also refocus on rising urbanization, since by 2050, 70% of world population will be living in cities, creating 80% of world's GDP. Currently, about one billion people live in urban slums that lack basic services; projects addressing this growing problem are virtually non-existing. Requirements of MDBs to be full-inclusive especial in urbanized areas should be mandated in accordance with policy-shifts as mentioned previously. Despite best intentions, governments often view equality as a global initiative, and fall short on how to realize these policies with their respective constituencies. For some countries, the burden of creating equality is just too great for limited resources, raising the question as to where additional fund will be generated.

Megumi Muto addressed the link between environment and social inequality reflecting on JICA's work in the DRC and Sudan, Africa as fundamental to global conservation and climatic change mitigation. She also noted environmental disaster recovery missions in urban areas such as a waste management site in Mozambique and the sewer system of Jakarta, Indonesia. She pointed out the dichotomy of cities as a source of innovation and human capital, while creating new environmental challenges. To paraphrase one of her central questions, are these environmental changes causes or consequences of inequality? In terms of sustainable 'green projects', they must have clear financing; however, the current political situation together with borderless environmental issues (involving multiple jurisdictions) makes their management extremely complicated. Finally, we must jointly considerate inequality together with global climate issues to successfully transfer our environment assets to future generations.

COMMENTS AND QUESTIONS FROM THE FLOOR

- Inequality is morally unaccepted.
- An increase in government taxation gives no guarantee that the additional revenue will be used to address inequality.
- A society where both the top and bottom income levels get richer does help alleviate inequality.
- In concurrence, the Word Bank and other IFIs need to do more when it comes to organizing policies for inequality reduction.
- As an example of taxation to reduce inequality, in the country of Georgia from 2004 to 2008, the simplification of its taxation structure resulted in better distribution of wealth. This example was extended to Africa as a region where drastic simplification of tax structure could be more beneficial than introducing progressive taxation alone.
- A salient question: Perhaps for emerging markets focusing on the issue of poverty as opposed to inequality would be more appropriate at this time?
- The stimulation of competition in emerging market economies could be another means to deliver equality.
- Would the privatization of healthcare and education in developing economies enhance human capital, thereby alleviating inequality?

IN CONCLUSION

Ahluwalia finalized with the following points:

1. The topics of growth, poverty reduction and inequality should be discussed concurrently.
2. In India, regional inequality is far more significant than the national inequality as characterized by the *Gini coefficient*.
3. The increase of inequality in industrialized nations is more a failing of policies within a country. As observed during the 2008 crash in the US, when no penalization was brought against the richest economic strata (who caused the crash in the first place), dissent broke out within society. However, so called "benign inequality" like that found in India where the top, middle and bottom all see an increase in wealth are far less detrimental.
4. Extreme inequality calls to question what is being done to moderate wealth accumulation at the very top.
5. Inequality in access to adequate healthcare and comprehensive education must also be addressed.

Tamaki ended the session articulating that more questions than answers had been proposed, indicating the need for continuation in future forums. **Kohli** took exception to the concept of "benign inequality" asserting that this might be acceptable for India, but that for Africa and Latin America where inequality is at its greatest extremes, it is malignant. Therefore, EMF will make inequality reduction an imperative for its future endeavors.

10:45-12:30 **BELT AND ROAD INITIATIVE**

Chair: **Gautam Kaji**, Chair of the Advisory Board, Emerging Markets Forum; Chair, Centennial Group; Former Managing Director, World Bank
Presentation: **Harinder Kohli**, Founding Director and Chief Executive, Emerging Markets Forum
Discussants: **Aktoty Aitzhanova**, Chairperson, National Analytical Center; **Hiroto Arakawa**, Former Vice-President, Japan International Cooperation Agency (JICA); **Rajat Nag**, Distinguished Fellow, Emerging Markets Forum; Former Managing Director-General, Asian Development Bank (ADB); **Djoomart Otorbaev**, Former Prime Minister of the Kyrgyz Republic; **Astrid Skala-Kuhmann**, Senior Advisor to the Board, GIZ

BACKGROUND

The Belt and Road Initiative (BRI) is a Chinese geopolitical initiative to enhance connectivity and cooperation across Eurasia. BRI encompasses 65 countries which account for 32% of global GDP, 39% of global merchandise trade, and 63% of the world's population. China has already disbursed $890 billion worth of BRI-related investments out of an expected total of $4 trillion. BRI's features five thematic areas: policy coordination, facilities connectivity, trade and investment, financial integration, and cultural exchange. [From the 2017, *Summary of Emerging Market Forum* written by Michael Whelan]

INTRODUCTION

Gautam Kaji stressed that BRI reporting and analysis remains a "work in progress", asking: What are the impacts for recipient countries? How is the initiative progressing? (Complexities in data collection make for ongoing challenges in organizing a concise overview of progress.)

PRESENTATION

Harinder Kohli recalled the announcement of BRI five years prior in Astana, Kazakhstan. EMF started work on BRI, nine months ago. EMF is focusing on the economic and social implications of BRI (as opposed to the geopolitical effects). This is the first report, "An Overall of BRI Globally", and comes from a planned series of reports being issued by EMF in January 2019. [The presentation was comprised of five slides.]

To start, "What are the potential contributions of BRI to the global community, particularly Belt and Road countries?" EMF notes six contributions:

1. China is providing significant amounts of capital to BRI countries. (Some reports estimate a staggering $2-4 trillion dollars by 2049 to emerging market economies.)
2. The focus of the BRI is in three areas: infrastructure, agricultural, and industry.

In terms of infrastructure: [Points 3-5]

3. BRI represents a significant reduction of cost for transportation to landlocked countries in central Asian and Africa.
4. The redesign of the current transportation centers into an Asian-centric system.

5. Relief to ‘choke-points’ in distribution (such as the Suez Canal) by developing new routes.
6. Finally, BRI assists in the recycling of China’s surpluses, both financial and production capacity.

BRI faces several challenges including:

1. Many BRI recipient countries are not considered credit worthy.
2. Since many recipients lack financial resources, how will debts generated from these projects be serviced?
3. Some BRI countries have fragile domestic governments.
4. Local capacity to evaluate viability of projects is often insufficient.
5. Instability in domestic business environments makes private investment unattractive.
6. Most BRI infrastructural projects are across country borders making logistics exceptionally complex.

After five years of implementation for BRI has passed, what do we know? For one, this massive, historic initiative is expanding, both geographically and in size. At the start of BRI, there were 65 recipient countries. As of September 2018, there are now 85 recipients. All 85 countries combine to account of 65% of world population. The most recent expansions have occurred in Africa and Latin America. BRI now covers all continents, except for North America.

Despite this major expansion, the fact remains that there is no master plan or a blue print for BRI projects. Furthermore, the world press skews its coverage of BRI to unsuccessful projects as opposed to those that have gone well. Most press stories focus on geopolitical aspects of the BRI, not its economic and social impact which our study is attempting to do.

EMF estimates that about $50 billion has invested in BRI yearly until 2017, so total investment could be roughly $200-300 billion between 2013-2017. Despite the nickname “The New Silk Road”, most of these investments are in southwest Asia and the Middle East (as opposed to Central Asia), and are in the oil and gas sector, not transportation. Perceptions about BRI vary dramatically between advanced countries (like US and Europe) and recipient countries.

Finally, seven broader questions identified by our work about BRI so far include:

1. To what extend do BRI projects align with domestic projects of recipient countries?
2. What impact will large BRI projects have on domestic debt and fiscal sustainability?
3. What is the financial viability and risk assessments of these projects domestically?
4. What environmental sustainability and social impact exists?
5. There are many outstanding questions about the transparency of BRI.
6. How much exposure to risk is China taking in countries with fragile governments and fledgling economies?
7. What refinements in financing will China need to make to proceed with BRI in the future?

DISCUSSANTS’ REMARKS

Aktoty Aitzhanova stated that Kazakhstan is a key member of BRI. There are many factors regarding Kazakhstan involvement including: close financial ties with China (whereas the country is the largest recipient of Chinese investment at $16 billion dollars); BRI for Kazakhstan remains mostly in the oil and gas industry (however, investment has diversified into sectors like agriculture, financial services, and transportation); formalization of BRI agreements occurred within the last year; BRI has allowed China to become one of Kazakhstan's partners in transportation and logistical improvement projects increasing trade in the oil and gas sector with neighboring countries including China, Iran, and Turkey; and finally, BRI led to joint ventures between Kazakhstan and China granting shared financial responsibility and debt reduction. Lastly, in her opinion, despite BRI investments currently being reduced because state-owned banks in China are unable to continue funding for projects with low profitable margins, the imminent US-China trade war and other geopolitical uncertainties, the BRI partnership between China and Kazakhstan has been *largely beneficial*.

Hiroto Arakawa reiterated that five years of BRI represents limited data for analysis, yet suggested improvements for implementation. For one, BRI projects present a "recycling of capital" larger in scale yet akin to projects Japan did during the mid-1980s to 90s. Another point was that Japan concurs with BRI projects as significant investments in essential infrastructure. Private investment in BRI is mixed; certainly, infrastructural enhancements are welcome, but financing conditions and debt management is uncertain. Also, lack of transparency regarding BRI continues to hamper the promotion of private investment. Accountability to BRI recipient countries together with involvement from International monetary organizations, domestic regulators and private investors should be reevaluated to assure better cooperation among stakeholders in BRI.

Rajat Nag quoted infrastructure demands in Asia over the next 15 years without climate adjustment as approximately $1.7 trillion dollars each year. Thus, BRI can be transformative in providing recipient countries lacking resources. However, challenges such as transparency, viability analysis, financing and debt management, etc. (mentioned previously by **Kohli** and **Arakawa**), clarify the need for MDBs to get involved. Involvement would be especially helpful in providing long-terms financing solutions for both China and burrowing countries and would also create transparency and accountability for BRI.

India's prospective on BRI is complex and multi-layered, but given the infrastructure demands in Asia, India welcomes BRI. Never-the-less, here are three concerns: BRI is seen by India as 'China-centric'; the potential for 'debt traps' casts doubt on the altruism of BRI; BRI stems from China, thus the infrastructural projects closest to India's borders infringe on its sovereignty (referred to as a "Panda Hug")—regional security and a diminishing sphere of influence are of real concern to India (case and point, a Chinese-leased port in neighboring Sri Lanka). These concerns all lead to India's support of multinational involvement in BRI. Above all, with the concession that China will soon be the world's largest economy and that India will become the most populated country, India would much prefer to partner closely with China to directly coordinate BRI.

Djoomart Otorbaev expressed disappointment with BRI as little progress has been seen since its inception five years ago. China's importance in world leadership is hinged on BRI, yet multinational cooperation is poor. The new charter of the Communist party of China mandates BRI, demonstrating its importance for years to come, and this is most valuable to Central Asia. Yet, there are many problems such as Europe's declining of partnership with China; furthermore, **Obtorbaev** believes a general lack of trust in Central Asia prevents BRI from being successful. China needs to improve its image and develop honest relations with BRI recipient countries. Historically, China has spread its culture around the world with little mixing from other cultures. China needs to showcase its culture and people (improve its "soft power" image) and build trust; only then will BRI be fully realized.

Astrid Skala-Kuhmann as an advisor to China's BRI developments shared three key points: the EU-centric viewpoint, interest and perspective of private industry, and foreign policy and international development / global governance. BRI has had positive impacts on transportation hubs in Germany, Spain and other locations in Europe. Still, EU politicians and academics generally hold a negative outlook of BRI because it is not a clear concept, has limited transparency and accountability, unclear leadership and regulation, China's potential for interference in the affairs of recipient countries, etc. On continuing challenges, she mentioned the inefficiency of a Chinese-European exchange platform started in 2015 where delegates meet *only once a year* to discuss projects, as well as a recent publication from the EU about building Euro-Asia conductive that is "as vague, as blurry, as the BRI initiative itself". She went on to indicate that the EU document is full of goodwill buzz words without any substantive actions and does not even specifically mention BRI.

Skala-Kuhmann stated that the European private sectors are very interested in BRI including large companies like Siemens and commercial banks. These sectors are pressing EU officials to develop a better working environment for BRI. In terms of international development much is undetermined; however, a 2030 agenda connects 23 UN organizations with BRI, a sign that efforts are being made. She closed by noting that BRI remains a Chinese-style initiative, and that attempting to hold it to western standards are difficult and may only sideline progress. The benefits of embracing BRI could be massive, a *win* for all parties involved.

<u>COMMENTS FROM THE FLOOR</u>

- A representative of Latin American banking and development expressed disagreement with minimal progress reported for BRI, citing examples of how China has previously made significant in-roads both on the governmental level and with commercial trade in Latin America. He was surprised by reports that BRI is in its early stages, making limited progress in Asia and Europe.
- Appreciation for the need of 'soft power' from China to assist BRI's growth was made. This was followed with phrasing that BRI is a political slogan for China as opposed to a directed economic vehicle—more of a national movement to mobilize Chinese investment abroad; therefore, it lacks structure, feasibility and transparency as described. Blanket acceptance or rejection of BRI should not be an economical goal; rather individual (one by one) analysis and evaluation of each project needs to be accomplished.
- An ambassador from India countered BRI productivity citing several failed projects, all devoid of business plans or financial sustainability, in East Africa, Indonesia, and southeast Asia. He added that Angola, Nigeria, DRC and Sudan are *not* classified as BRI recipient

countries because of failed pre-BRI projects associated with China, which lacked business sense and funding. He reiterated that BRI projects are opaque in their application, and seemingly done for their geopolitical benefit to China. He noted infrastructural projects where Chinese-involvement was successful, but that they were parsed out from the framework of BRI, and then became transparent.

- Suggestions for EMF's continued work on BRI included: continued focus on the economic outlook as opposed to geopolitical implications; both macro-economic as well as the financing conditions of individual projects (details) should be reviewed; and, the question of value to host countries since most BRI projects are oil and gas (power) related.
- A representative from China proclaimed that BRI is a world project, not just a Chinese initiative. He stressed that China has already invited the US and Japan to join, and that BRI needs partnership from the US, Japan, and Europe. While questions surrounding transparency, feasibility, and financing are apparent, he invited representatives of other countries including the forum participants to discuss these matters to find solutions together.
- An International business professor from China illuminated that China wants to work with partnering countries, recognizing that China is learning about partnership and how BRI can be mutually beneficial. She noted that, culturally, China has a very different way of doing business from other countries, and that even before BRI, China struggled to do business abroad. The multinational companies that have been successful in China learned how to bridge cultural gaps. Thus, BRI, including its analysis and discuss, presents another way for China to learn how to improve relations with other countries. She said that this opportunity to develop an understanding leads to a brighter future for all parties. [Participants applauded at the conclusion of her statement.]
- Questions about BRI's financial structuring (grants assistance?), technology capabilities, and environment impact (making projects 'green'?) were raised.

IN CONCLUSION

Kohli concluded that despite challenges and concerns as discussed, BRI has committed about $250-300 billion dollars in its first four years. This has made way for transformative projects like high-speed trains in eastern Africa—real accomplishments that the World Bank and African Development Bank had only discussed.

As suggested by many participants, economic impact and implications of BRI will stay the focus of EMF's work. The methodically for EMF's study is a 'bottom-up' approach, reviewing BRI projects and investments at the country-level to get a better understanding of how BRI is being implemented. Central Asia will be emphasized, and then expanding into three countries in the South Caucasus. This work will be completed by the end of this year with inputs and commnets from both the World Bank and IMF. Depending on the results, follow-up studies will be initiated.