



2nd Draft

November 21th, 2010

For the purpose of the conference held by Forum for the 21st Century on 29th November 2010

The People's Republic of China on Global economic issues, with regards to the proposals of Forum for the 21st Century,

would like to thank Forum for the 21st Century for the initiative made to conduct the conference and to bring to the table the important actors of world trade and economy to respond to the issues which should dominate each country's agenda as they require to be taken very cautious approach, analysis and to be tackled properly in order to make current system not only further sustainable but also better functioning and bringing benefits for all involved.

PROPOSAL 1

Forum for the 21st Century calls for quick finalization of the Doha Development Round. With the agriculture sector being one of the most problematic issues on the worldwide scale as well as in the Doha Development Agenda, Forum sees the earliest possible agreement highly essential. In the time span of seven forthcoming years, the tariff restrictions on agricultural products import from the developing countries should be minimized so that even the countries not being in the WTO's Generalized System of Preferences will have the access to the world agricultural markets without the current disadvantages. Already benefiting from extensive subsidies (doubled in the case of EU member countries), agricultural production from developed countries holds twice the advantage on the world markets. As the world food prices soar, Forum considers the suspension of subsidies and removing tariff restrictions as one of the most reasonable ways to stop the steep increase in food price levels that endangers the already troublesome access to nutrition in the poorest regions of the world. Furthermore, it would provide developing countries vital incomes to spur their progress and at the same time cheaper food in developed countries. Moreover, according to research from organizations such as OECD, suspension of subsidies would greatly contribute to increase the world's GNP output.

Besides withdrawing from using free market-deforming instruments, the Forum calls for research activities to be carried out by participating countries in order to identify new means of aid to the countries suffering from the lack of food. The Forum expects the reports to be presented by the end of year 2013. Until the policies resulting from the research are adopted, participating countries should direct the development aid into the technical assistance, mainly the irrigation facilities that will enable developing countries to raise their food sovereignty.

Standpoint of China:

China agrees with the proposal of Forum and says that the problem is in the lack of movement by the developed countries in terms of early removal of distortions caused by huge subsidies and significant market access barriers in developed countries. China is both a developing country and a trade giant and that's why it has a perfect understanding of how





other developing countries and developed countries feel in the talks. Due to this unique status, China can work as a bridge and communicator between the developing and developed world.

PROPOSAL 2

Of the main imbalances present in the world economy, the Forum finds **China's long-term trade surpluses** and, on the other hand, **US trade deficits** the most pressing one. **Yuan, China's national currency is still considerably undervalued compared to US dollar as well as other ones.** Taking this into consideration, it is apparent that **China's exports hold unfair advantage in the world trade.** Moreover, **the amount of Chinese monetary reserves in US dollars** creates the unprecedented situation when the exchange rate of the main world reserve currency, that US dollar still remains, could be **significantly influenced by the economic policy of China.** Therefore, the Forum recommends that China, as well as other countries, namely Japan and South Korea; **stop intervening** in favour of keeping the exchange rates at artificially low levels and gradually level their **present value with the real ones.** This process should be finalized by the end of the year 2015 so that the domestic exporters will be given sufficient time for accommodation.

Standpoint of China:

Concerning the the topic about the China's trade surpluses, this is not one sided problem. It is often used by the United States to argue why China should allow its currency to rise. But most US officials ignore a very important fact: a majority of China's exports to the US are produced by US-funded companies and huge profits go back into American pockets. According to statistics provided by the Ministry of Commerce, 55.9 percent of China's exports were produced by foreign companies last year. And, over 90 percent of high-tech products exported to the US were made by foreign enterprises.

On the other hand, the country's trade imbalance would be much smaller if the US would approve more high-tech exports to China. The US government unveiled new export control regulations in 2007, which blocked the export of 20 categories of products to China, including airplane engines, lean oil, lasers and avionics devices. Statistics showed that 18.3 percent of China's high-tech imports came from the US in 2001. The figure dropped to eight percent in 2008, partially reflecting harsh US export controls to China.

"On one hand, the United States asks Beijing to reduce its trade surplus. On the other hand, it refuses to sell high-tech commodities to China. What really does it want?" said Zhang Yansheng, director of the Institute of Foreign Trade of the National Development and Reform Commission.

China is rejecting the criticism that China is keeping its currency undervalued in order to boost exports. Keeping the yuan stable was an important contribution to global recovery from the economic downturn. The Forum should look as well at the problem of the USA, where the





dollar issuance in the U.S. is "out of control" which in turn is leading to an inflation assault on China.

The media and especially the USA are pushing on the China to devalue the yuan. But China says that this step would cause much damages not only on the economy of China, but on the countries tied to her economy, to endanger the employment and it will rise the social pressure. China wants to devalue the yuan but step by step and in the horizon of more years. China emphasises that the value of yuan is on the few years maximum.

PROPOSAL 3

With its value falling due to its long-term depreciation, the **unique position of US dollar** slowly but steadily deteriorates. The Forum proposes that the use of the International Monetary Fund reserve currency shall be augmented. The Forum recommends the **SDR currency basket to be composed of five to six currencies** based on the respective countries' share in the world trade as well as the amount of their currency reserves that would provide stability in the times of general monetary instability. Both these prerequisites would amount to 50% of SDR's value (based on the weighted average). At the same time, it should be revaluated every two years in order to reflect the economic reality with no currency being granted an automatic share. It is clear that even the augmented use of SDR cannot completely replace traditional currency reserves. Taking this into account, the Forum suggests **that the currencies of regional economic leaders were to be used more on the intra-regional level. Besides diversifying monetary reserves themselves, this would lower foreign exchange losses.**

Standpoint of China:

China fully agrees with the Forum in the question of augmenting the position of IMF and the SDR currency basket. As well, the Chinese central bank suggests it's soon time for China to peg the yuan to a basket of foreign currencies, rather than the U.S. dollar alone. Compared with pegging to a single currency, the exchange rate regime with reference to a basket of currencies will help adjust exports and imports, current account, and balance of payment in a more effective manner.

China proposes to replace the US dollar as the international reserve currency with a new global system controlled by the International Monetary Fund.

This would create a reserve currency "that is disconnected from individual nations and is able to remain stable in the long run, thus removing the inherent deficiencies caused by using credit-based national currencies". To replace the current system, China suggest expanding the role of special drawing rights. Today, the value of SDRs is based on a basket of four currencies – the US dollar, yen, euro and sterling – and they are used largely as a unit of account by the IMF and some other international organisations. China's proposal would expand the basket of currencies forming the basis of SDR valuation to all major economies





and set up a settlement system between SDRs and other currencies so they could be used in international trade and financial transaction.

PROPOSAL 4

As the examples from the past showed, countries' currencies, and thus countries themselves, can become victims **to speculative capital** originating from uncontrolled sources, such as hedge funds. As means of protection, the Forum advises countries **to adopt legal provisions limiting the flow of their currencies**. The amount of currency that could be bought and sold by a single investor, with the exception of national banks and Greenfield investments, should be restricted to 0.5% of a country's monetary base per month and 4% per year. This kind of precaution will prevent the speculative attacks on currencies and so protect countries' economies on the whole.

Standpoint of China:

China agrees with the idea of this article. But the numbers are too high. For China, this wouldn't help to prevent the Chinese economy. China proposes that the amount of currency that could be bought and sold by a single investor (as mentioned) should be restricted to 0,1% of a country's monetary base per month and 1% per year.

This is the topic which China is concerned about right now. China's economic fundamentals mean that the yuan should strengthen. The central bank will find it harder to manage liquidity and inflation when a flood of speculative funds returns, betting on the yuan's appreciation.

China will need to be very careful. It needs to communicate to the market that yuan appreciation will be limited to about 5 percent to 6 percent a year. The danger in the past was that expectations of appreciation attracted hot money. China's financial system is already flooded with cash from a record \$1.27 trillion in new lending this year, the trade surplus, foreign direct investment, and inflows of speculative capital, or so-called hot money, adding to the risk of bubbles in stocks and property.

PROPOSAL 5

Similarly to the volume restriction of foreign exchange trade, the Forum calls for adoption of legal provisions in order to protect vulnerable countries against the outflow of speculative capital in form of portfolio investment. To ensure protection, the outflow should be restricted to 5% of country's GDP.

Standpoint of China:

PROPOSAL 6

To counterbalance drawbacks caused by the **“brain drain” phenomenon**, the Forum recommends the adoption of measures that would guarantee the return of funds invested in





education of individuals who do not contribute to the gross domestic product. As a possible solution, the Forum **proposes using remittances to help the least developed countries in their progress**. Remittances frequently represent the key component of income for people living in the least developed countries. On the other hand, gathering resources for the improvement or construction of infrastructure presents a difficult challenge for countries. Utilizing remittances as a source of funds provides a unique option to hasten the development. As income from remittances is mostly used for consumption and not supplementing much-needed investments. Imposing **a 12% tax on them** could be an adequate way to gather required financial resources. New funds under the supervision of the World Bank would be created to guarantee effective use of money, with each country being in possession of one. Funds could be used only for projects improving country's infrastructure (road network, construction of schools, sanitary facilities, research facilities etc.) that would create healthy and sustainable basis for future growth.

Standpoint of China:

China doesn't agree with this article. However, China currently sends more students abroad than any country in the world. Between 1972 and 2009, about 1.39 million Chinese went for further studies, according to official data. The issue of "brain drain" is a big topic of discussion in China. As China's best students are offered opportunities to study and work abroad, the nation is finding they often don't choose to return, and the national resources used to raise and educate them are, in essence, wasted. A 2007 survey suggested that 70% of Chinese students who study abroad don't ever move back to China, and while some suggest that the situation is not that dire, it is certainly clear that China wants ways to attract overseas talent. And these days, they're not just after study abroad kids who got green cards and never came back, they're also looking to lure purely foreign talents to Chinese soil.

But China has other means how to solve this problem and not to put a tax on remittances. The policy of China is to find talents - people with the managerial, technical and creative savvy who can adapt to the country's distinct culture and working environment. They find them at home, but they are not sufficient to meet the growing demand. They also find them among Chinese returning from overseas. It's going to take a lot more than that to attract high-level foreign talents to China, although making navigation of the immigration system easier is probably a good first step.

PROPOSAL 7

Forum for the 21st Century recommends that, in the global dispute over **the sources of energy**, greater space is given to scientists who oppose pessimistic scenarios concerning the depletion of conventional sources of energy. Existing scientific studies, which question the pessimistic scenario accepted worldwide without contradicting voices being heard, provide us with a different perspective regarding the future use of energy resources. Using financial resources and scientific capacities to further improve efficiency of already existing facilities





is substantial. **Funding the development of alternative sources of energy should be done based on both environmental and economic arguments.**

Standpoint of China:

This article is for China already crucial. China can help the other countries with research and show them how could this work because it is a world leader in building and research of alternative sources of energy, especially solar and wind. As China's economy continues to grow, its demand for electricity is anticipated to grow. Hence, China is expected to promote the development of renewable energy technology. The country promotes the development of renewable energy technology via combination of laws, feed-in tariff mechanism, programs, and policies. These encourage the development and utilization of renewables for electricity generation. Beijing aims to cut carbon intensity as much as 45 percent from 2005 levels by 2020 and increase the share of renewables to 15 percent of primary energy consumption. That is nearly double the current ratio and would make the country a leader in green energy manufacturing and use.

PROPOSAL 8

The Forum suggests that the countries re-evaluate their spending on the economically ineffective energy sources and, by the end of the year 2012, prepare reports measuring the efficiency of the particular sources in their respective conditions. Based on these reports, the countries ought to **ensure that the share of the most efficient energy source, except the ones producing greenhouse gases, will rise by at least 10% by the end of the year 2020.** The Forum regards reopening the debate on the **use of nuclear energy highly essential.** To make nuclear energy even safer, creating a scientific team consisting of the world's best experts is advised to be done by the end of the year 2011 with its focus being to **find environment-friendly way of disposal of the nuclear waste** which remains one of the few negative sides to the nuclear energy.

Standpoint of China:

What concerns the share of the most efficient energy sources, China plans to increase the share of renewables to 15 percent of primary energy consumption. The nuclear energy is for China essential and it has a lot of experience in this area. China has now 13 nuclear power reactors in operation, 25 under construction and more about to start construction soon. China is rapidly becoming self-sufficient in reactor design and construction, as well as other aspects of the fuel cycle. That's why this topic is crucial for China. China wants to cooperate with Forum to find environment-friendly way of disposal of the nuclear waste.

Forum for the 21st Century concludes all the 8 problems offered for discussion and negotiations in the economic section as global in scope. Therefore it is essential for them to be





The Model Conference Global Economic Issues

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acted upon and that a document binding all participants would represent the outcomes of the conference. All the issues discussed should become part of the national development processes that are included in the national development strategies.

