

## The G2 War: Fight for Economic Hegemony Forum

Speakers:

- ◆ Dr. Eswar Prasad, Professor at Cornell University and a Fellow at the Brookings Institute
- ◆ Sihai Lei, Chief Commentator on China Radio International
- ◆ Dr. Liping He, Professor at Beijing Normal University

Andrew Stone, Reporter

The forum was titled “The G2 War: Fight for Economic Hegemony,” but the discussion was less about the economic struggle between the United States and China and instead focused on the short, medium, and long term reforms that China’s financial system needs to make. Like many other speakers here at the 2015 World Knowledge Forum, the panelists at this forum seemed to be cautiously optimistic about the future of the Chinese economy.

Eswar Prasad, Professor at Cornell University and a Fellow at the Brookings Institute, played down the short-term concerns about the Chinese economy, but was more worried about the long-term future of the economy. He pointed out that the Chinese manufacturing sector, which traditionally has been the prime driver of the Chinese economy, is suffering. However, he noted that the services industry is doing much better.

Dr. Prasad was most concerned with the lack of reforms in parts of the real or institutional sides of the economy. He also expressed concern about the Chinese stock market.

“Investors getting into this stock market are taking a very big gamble,” he said.

Liping He, Professor at Beijing Normal University, echoed Dr. Prasad’s call for reforms, but said it is not an easy task.

“Institutional reform is a much more complicated thing and would take a long time,” Dr. He said, adding that China may need more time than a country like Japan.

Fellow Chinese economic forecaster Sihai Lei, the chief commentator on China Radio International, agreed with Dr. He that reform would take some time.

“We have 1.3 billion people in China and it is painful and not easy to carry out reforms in all sectors because even a small change can bring about big consequences,” he said.

Mr. Lei rejected Dr. Prasad’s pessimism about reform.

“We have many measures that will drive aggressive reforms,” Mr. Lei said, pointing out some recent reforms that have actually occurred, including the implementation of a Fintech system. With this system, Chinese entrepreneurs should have more access to capital needed to start new businesses. Access to this type of money has not always been so available.

The panelists also confronted the issue of the Renminbi (RMB) becoming an international reserve currency.

“Sitting behind all this is the discussion of currency,” as Dr. Prasad put it. He believes that the RMB will be a reserve currency, but not a safe-haven currency until it makes economic institutional reforms over the next decade or two.

Dr. He said China will have to do a number of things to make the RMB attractive to investors. This includes making the financial system more open, the economy more sound, and the currency itself more or less stable. But again, these reforms take time.

“The time for the Chinese yuan to compete with the USD is remote, not in the near future,” Dr. He said.

The panelists reiterated that all of these economic reforms will take time. Dr. Prasad described the Chinese economy as an adolescent trying to grow into its awkward body. But, he added, “You have to get used to treating that child like an adult.”