

 GLOBAL FINANCE CHAIR

Chinese delegation from the State Finance Ministry, State Power Corporation, and Electric power companies  
December 2001



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**Welcome** to the Chinese delegation from the State Finance Ministry, State Power Corporation, and Electric power companies



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**What?** Competence cluster in finance and economy  
**Who?** Ten finance professors with strong academic and market background  
**Why?** Enhancing quality of teaching, applied research, and finance industry network  
**How?** Promoting international exchanges, organizing conferences, and providing training and advisory services



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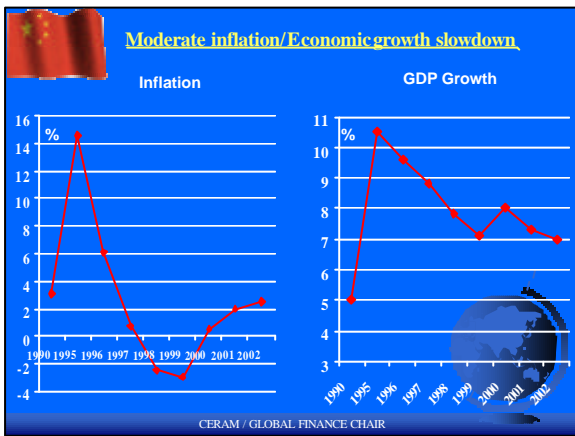
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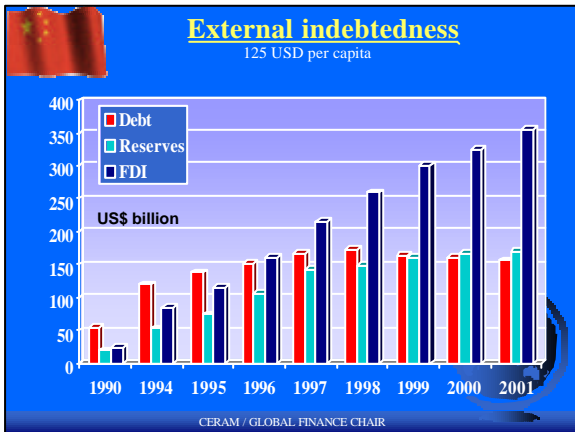
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### China in the WTO era: Five main challenges of systemic transition

1. Sustaining dynamic growth in a context of global crisis, rising domestic debt and budget deficit?
2. Accelerating financial sector reform?
3. Institutional strengthening to support privatization and market-driven management?
4. Tackling ageing population and employment skills restructuring?
5. Reducing infrastructure bottleneck?



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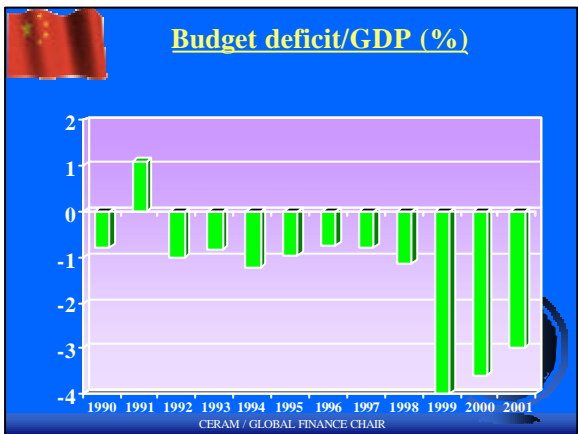
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### 2. Financial Sector Reform

- ☞ Restructuring of 4 main state-owned banks (= > 1/3 of non-performing claims!)
- ☞ Discounted sale of Huarong's claims (based on 90% discount on claim sales of Industrial and Commercial Bank of China to Morgan Stanley, potential state losses > \$225 billion!)
- ☞ 75% of all bank claims on state-owned corporations
- ☞ Need to boost private savings with efficient, competitive financial intermediation



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### 3. Institutional strengthening to support privatization and market-driven management?

- \* Pressure on training and education
- \* Improving tax, legal and regulatory framework
- \* Improving governance and transparency



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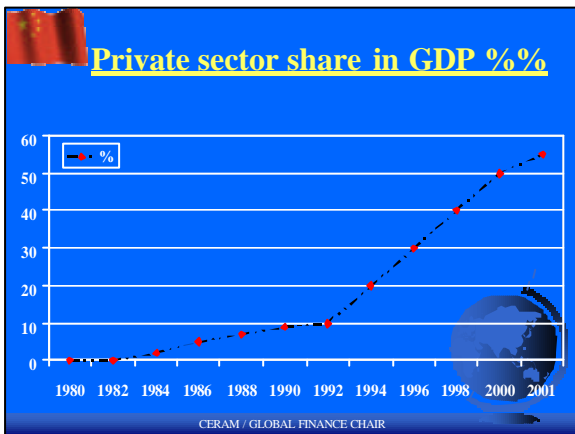
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
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#### 4. Tackling ageing population and employment skills restructuring?

- \* WTO ⇨ lower agricultural trade tariffs from 22% to 15% ⇨ lower grain production ⇨ larger unemployment ⇨ larger peasant migration ⇨ Need to increase productivity
- \* ratio of working/retired population will drop from 10 to 3 by year 2050!
- \* two-fold risk: (A) larger state retirement plan deficit, (B) drop in private savings with negative impact on spending and investment
- \* Solutions? Private retirement plans and pension funds (Chile?)



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
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#### 5. Infrastructure bottleneck pose threat to future growth -hardware of environment

- Need to boost investment in transport, telecom and energy
- FDI targets: Telecom infrastructure
- Internet companies
- Biotech companies
- Electronic industry
- Automotive industry



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
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HDI	2001	Transparency
• Romania : 58	• <b>China : 57</b>	• Philippines : 65
• Philippines : 70		• Senegal : 65
• <b>China : 87</b>		• Romania : 69
• Bolivia : 104		• Bolivia : 84
• Nigeria : 136		• Nigeria : 90
• Senegal : 145		



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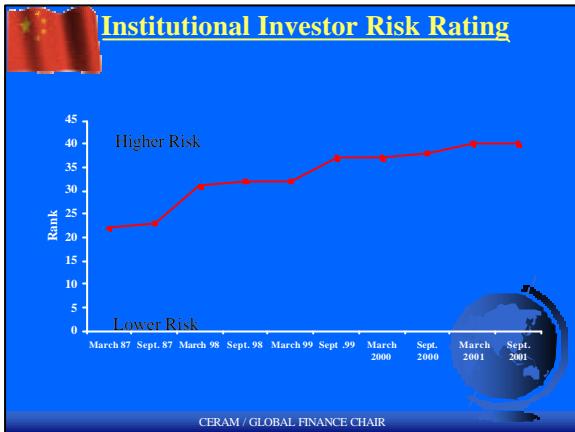
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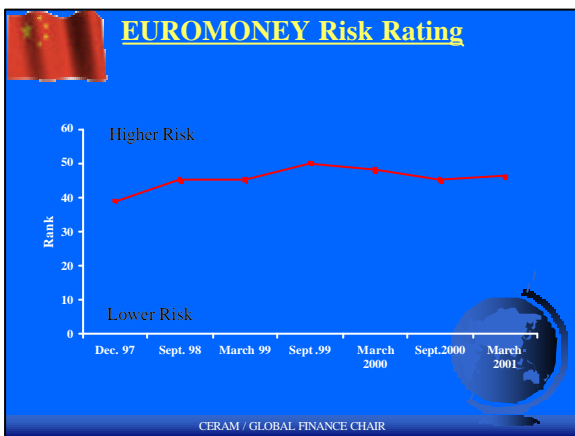
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### The World Competitiveness Yearbook

Country	Rank	Score
Hong Kong	6	79,55
Japan	26	57,52
China	33	49,53
Argentina	43	37,51

April 2001

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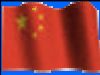
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## RATING AGENCIES

CDC Rating= 10 (out of 42) as of 12/2001  
 S&P= BBB  
 Moody's = A3  
 COFACE = A3



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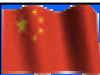

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## IV. Conclusion

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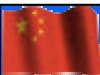


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**WEAKNESSES**

- Central planning
- SOE's (employs 2/3 of urban work force)
- social tensions related to economic liberalization
- governance
- banking sector
- unemployment
- structural weaknesses and aging population

**STRENGTHS**

- gradual modernisation
- social market economy
- market size
- international influence
- large FX reserves
- good solvency ratios
- privatization program
- WTO entry speeds up reform program



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