Chinese New Leadership and New Policy Challenges

Steadfast sailing in Turbulent Seas

Andrew Sheng
President
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Distinguished Lecture Forum (DLF)
Section 1

The New Leadership

Tested team dedicated towards reform
Xi Jinping – Secretary General and President

• Age: 59 years
  Princeling: but conciliator
  Mentors: Jiang Zemin and Zeng Qinghong

• Born in 1953 in Fuping County, Shaanxi Province, Xi worked in agricultural commune, before being trained in Tsinghua University in chemical engineering (1975).

• Served as personal secretary to then-Minister of Defense Geng Biao, which strengthened his PLA ties. Moved from there to Hebei and later Fujian, where he served as vice governor in 1999, before being promoted to governor a year later.

• In 2002, Xi was promoted to Zhejiang, one of the richest coastal provinces. He entered Standing Committee of the Politburo in 2007 and in 2008 became the country’s vice president, effectively being groomed to take over. In 2010, he was promoted to vice chairman of the CPC Central Military Commission. He is also president of the Central Party School.

• Xi’s father, Xi Zhongxun, was a top leader who was imprisoned during the Cultural Revolution. After his release, Xi senior was elected to the Politburo and served as vice premier. He was known as a economic reformer and as Party Secretary in Guangdong, instrumental in creating China’s Special Economic Zones in Shenzhen and Zhuhai.
Li Keqiang – Premier of the State Council

• Age: 57 years
  Leader of Youth League
  Mentor: Hu Jintao

• Vice Premier Li Keqiang will replace Premier Wen Jiabao in March 2013

• Born in Dingyuan County in 1955, he spent four years doing manual labor with the Dongling Production Brigade in his native Anhui Province. In 1978, he went to Peking University, where he graduated with degrees in law and economics.

• In the 1980s and '90s, Li served as secretary-general of the All-China Students Federation, then rose in the Communist Youth League Central Committee. In 1999, he was promoted to governor of Henan Province and later became chairman of the Standing Committee of the Henan’s Provincial People's Congress.

• From there, he moved to Liaoning before being made a member of the Politburo Standing Committee in 2007. Li is considered a core member of President Hu Jintao’s "Tuanpai group." As Vice Premier, he looked after Ministry of Finance and housing reform. He is first Politburo member to have doctorate in economics.
Zhang Dejiang – Chairman of National People’s Congress

- Age: 66 years
  Princeling
  Mentor: Jiang Zemin

- Zhang Dejiang was Vice Premier of China's State Council in charge of industry and energy policies, until suddenly moved to replace disgraced party chief Bo Xilai as leader of Chongqing in March 2012.

- Born in Tai'an, Liaoning province, was in his early 20s when he was sent to countryside to work at the Luozigou Commune in Wangqing County, Jilin Province.

- In the early 1970s, Zhang worked in the county propaganda department before studying Korean at Yanbian University. He served as secretary of the local Communist Youth League branch in Liaoning before crossing the border to North Korea to study economics at Kim Il Sung University in Pyongyang.

- In the ‘80s, Zhang returned to Yanbian, where he held senior Party positions before taking a role as Vice Minister of Civil Affairs.

- Senior party positions followed in Jilin until Zhang moved south to Zhejiang to become Party Secretary in the Province.

- In 2002, he entered the Politburo of the CPC Central Committee and become secretary of the Guangdong Provincial Committee. Promoted to Vice Premier in 2008.
Yu Zhengsheng – President of the Chinese People's Political Consultative Conference

- Age: 67 years
  Princeling
  Mentor: Deng Xiaoping and Jiang Zemin

- Born in 1945, Yu majored in ballistic missile automatic control at the Harbin Military Engineering Institute before working as technician in radio factories in Hebei Province.

- In the late 1970s, Yu started working his way up the promotion scale in the Fourth Ministry of Machine-Building Industry and later joined the Ministry of Electronics Industry.

- He spent some time working as the president, vice chairman and member of the Leading Party Members' Group of the China Welfare Fund for the Handicapped before taking a political position in Shandong Province. There he became close to Deng's handicapped elder son.

- Yu rose to become mayor of Qingdao, a major city in Shandong, before being appointed Minister of Construction (1998-2001). As the current Party Secretary in Shanghai (2007-2012), Yu presides over China's largest city for finance and business.
Liu Yunshan – Vice President

- **Age:** 65 years  
  Party technocrat  
  Mentor: Hu Jintao

- Served on the Politburo for the last ten years during which time he has served as a member of the secretariat and director of the Central Committee’s Propaganda Department

- Born in 1947 in Xinzhou, Shanxi Province, Liu Yunshan worked as a teacher in Inner Mongolia, before taking a party position with the Communist Youth League Committee in the autonomous region.

- In the mid-1980s Liu took his first position in the Propaganda Department within Inner Mongolia before moving to Beijing in 1993 to serve as the Deputy Director of the Central Committee’s Propaganda Department for nearly ten years before being appointed director of the department in 2002.

- He is known for prudent stance on media.
Wang Qishan – Secretary of the Central Commission for Discipline Inspection

- **Age:** 64 years
  - **Princeling Mentors:** Jiang Zemin and Zhu Rongji
  - Served on the Politburo for the last ten years. Wang most recently served as the Vice Premier in charge of the financial sector, trade and foreign economic relations

- Born in 1948 in Tianjin, he graduated from Northwest University with a degree in history. Wang was sent to work at the Fengzhuang People's Commune in Yan'an County, Shaanxi Province, before taking a job at the Shaanxi Provincial Museum.

- Wang is considered a crisis-tested leader with a strong background in finance and banking having served as Vice Governor of China Construction Bank (1989 to 1993), Vice Governor of the People's Bank of China (1993 to 1994), and governor of China Construction Bank (1994 to 1997).

- He was then transferred to Guangdong Province in 1997 to serve as Vice Governor, where he handled one of China’s biggest debt restructuring projects, the failure of GITIC.

- Wang also served in a number of key positions in Beijing Municipality from 2003 to 2007 including as Mayor and Deputy Party Secretary and Executive Chairman of the Beijing Olympic organizing committee. He dealt decisively with the SARS crisis in Beijing.
Zhang Gaoli – Executive Vice Premier

- **Age:** 66 years
  Technocrat with enterprise background
  Mentors: Jiang Zemin

- Elected to the Politburo in 2007 at the 17th Party Congress and served as the Party Secretary of Tianjin from 2007 to 2012.

- Born in 1946, in Jinjiang City, Fujian province, He studied planning and statistics at Xiamen University.

- Zhang started his career in the oil industry, at the Guangdong Maoming Petroleum Company.

- He spent around 12 years working his way up the political ladder in Guangdong Province, including a stint as party secretary in the special economic zone of Shenzhen, which borders Hong Kong. Zhang has built his career within coastal areas that have benefited from economic reform and he is understood to be an advocate of pro-market economic policy.

- In 2001, Zhang became governor and later Party Secretary of Shandong Province before moving to Tianjin in 2007, a bustling city of around 13 million people and one of China’s four municipalities.
Section 2  China: Recent economic developments

*Secular slowdown with ample fiscal space*
GDP and industrial production slowing towards 12th FYP target of 7.5% p.a.
Current Account surplus narrowing towards 2-3% of GDP

China: Balance of payments

Source: Oxford Economics/CEIC
Interest rates still negative in real terms for deposits

China: Interest rates

Source: Oxford Economics/CEIC
China: Post-bubble investor confidence still not revived

China: Stockmarket

Source: Oxford Economics/CEIC
China expected to maintain slower growth with ample fiscal space

<table>
<thead>
<tr>
<th>FORECAST FOR CHINA (ANNUAL PERCENTAGE CHANGES UNLESS SPECIFIED)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<tr>
<td><strong>Domestic Demand</strong></td>
</tr>
<tr>
<td>Private Consumption</td>
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<tr>
<td>Fixed Investment</td>
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<tr>
<td>Stockbuilding (% of GDP)</td>
</tr>
<tr>
<td>Government Consumption</td>
</tr>
<tr>
<td>Exports of Goods and Services</td>
</tr>
<tr>
<td>Imports of Goods and Services</td>
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<tr>
<td>GDP</td>
</tr>
<tr>
<td>Industrial Production</td>
</tr>
<tr>
<td>Consumer Prices</td>
</tr>
<tr>
<td>Government Budget (% of GDP)</td>
</tr>
<tr>
<td>Trade Balance (Sbn)</td>
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<tr>
<td>Current Account (Sbn)</td>
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<tr>
<td>Current Balance (% of GDP)</td>
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<tr>
<td>Short-Term Interest Rates (%)</td>
</tr>
<tr>
<td>Exchange Rate (Per US$)</td>
</tr>
</tbody>
</table>

*Source: Oxford Economics*
China’s 12th Five-Year Plan for restructuring and re-balancing economy, with more inclusive and environmentally more sustainable development (2011-2015)

- The Plan will focus on “inclusive growth”, which means ensuring the benefits of economic growth are spread to a greater proportion of Chinese citizens.

- To achieve steady economic development with 7% annual GDP growth target

- To restructure economy and speed up urbanization, 4% expansion of urbanization annually; 4% expansion of the service sector annually, targeting 47% of GDP by 2015

- To stress education and scientific development as primary objectives, nine-year compulsory education enrollment, 93% by 2015 from 89.7% in 11th FYP, and increase R&D as percentage of GDP from 1.75 in the 11th FYP to 2.2 in the 12th.

- To improve general well-being and livelihood, increasing annual urban disposable income to >26,810 RMB (USD 4,143) and annual rural disposable income to >8,310 RMB (USD 1,284) by 2015. For the first time, this increase would be greater than projected GDP growth.

- To emphasize Green growth, maintaining farmland reserves at 1.818 billion mu (R), cutting water consumption per unit of value-added industrial output by 30%, use of non-fossil fuel resources to 11.4% of primary energy consumption in the 12th FYP, also energy consumption per unit of GDP decreasing 16% and CO2 emissions per unit of GDP decreasing 17%.
Section 3  China 2030

The World Bank and DRC study

“China’s economic model is Unsustainable, Uncoordinated, Unbalanced, and Unstable”.

Wen Jiabao, China’s Premier
2007

Source: “China 2030 - Building a Modern, Harmonious, and Creative High-Income Society
The World Bank; Development Research Center of the State Council, the People’s Republic of China
Impressive economic performance since 1979
China contribution to Real GDP Growth

Source: DSGAsia, October 2012
Emerging Markets will lead growth in run up to 2030

FIGURE 1  Growth trends

((5-year moving average annual GDP growth)


FIGURE 2  Growing share of developing countries in global growth (5-year moving average)

China’s Capital-output ratios less efficient, but will catch up like other emerging economies

**FIGURE 5** Capital-output ratios will further rise, especially in emerging economies

*Source: World Bank calculations, derived from low-growth scenario.*
Although investing heavily, China capital stock still below Japan and US
China still on high growth path but slowing towards 2020-2030 due to higher income levels and aging population

**TABLE 1  Past and future growth trends**

<table>
<thead>
<tr>
<th>Average annual GDP growth (in percentages)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Low and Middle Income Countries</strong></td>
</tr>
<tr>
<td>-------------------------------------------</td>
</tr>
<tr>
<td>1990–2000</td>
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<tr>
<td>2000–2010</td>
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<tr>
<td>2010–2020*</td>
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<tr>
<td>2020–2030*</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Average annual per-capita GDP growth (in percentages)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Low and Middle Income Countries</strong></td>
</tr>
<tr>
<td>--------------------------------------------------------</td>
</tr>
<tr>
<td>1990–2000</td>
</tr>
<tr>
<td>2000–2010</td>
</tr>
<tr>
<td>2010–2020*</td>
</tr>
<tr>
<td>2020–2030*</td>
</tr>
</tbody>
</table>

*The lower and upper bounds reflect average growth rates in the low-growth and high-growth scenario.
China’s growth slowing down both cyclically and secularly

- China’s growth is likely to slow, due to Lewis Turning Point and global environment will become less favourable as advanced economies adjust. Euro-crisis will impact on export performance.

<table>
<thead>
<tr>
<th>TABLE 1</th>
<th>China: Projected growth pattern assuming steady reforms and no major shock</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP growth (percent per year)</td>
<td>9.9</td>
</tr>
<tr>
<td>Labor growth</td>
<td>0.9</td>
</tr>
<tr>
<td>Labor productivity growth</td>
<td>8.9</td>
</tr>
</tbody>
</table>

Structure of economy (end of period, %)

|Investment/GDP ratio | 46.4 | 42 | 38 | 36 | 34 |
|Consumption/GDP ratio | 48.6 | 56 | 60 | 63 | 66 |
|Industry/GDP ratio | 46.9 | 43.8 | 41.0 | 38.0 | 34.6 |
|Services/GDP ratio | 43.0 | 47.6 | 51.6 | 56.1 | 61.1 |

Share of employment in agriculture

|Share of employment in agriculture | 38.1 | 30.0 | 23.7 | 18.2 | 12.5 |
|Share of employment in services | 34.1 | 42.0 | 47.6 | 52.9 | 59.0 |

Source: DRC.
Manufacturing Sector still dominant over Services

**FIGURE 2.8** Services, value added, as a share of GDP (2010)

Notes: *Agriculture* corresponds with ISIC Rev. 3.1 divisions 1–5, covering forestry, fishing, livestock production, and the cultivation of crops; *industry* includes divisions 10–45, covering mining, manufacturing, construction, and utilities; *services* are defined as divisions 50–99, which cover wholesale, retail trade, transport, government, financing, professional services, education, healthcare, and real estate. Data for France and Japan are from 2009. Source: World Bank, World Development Indicators (2011).
Dealing with Income Inequalities – Doubling per capita income

• At the 18th Party Congress, President Hu sets the benchmark to doubling China’s GDP and per capita income by 2020 compared with 2010. In past three decades, personal income growth has fallen behind economic growth.
Finding New Growth drivers out of Middle Income Trap

- Middle-income trap – need reform policies to address the root structural cause of the slowdown, with new growth drivers
Addressing Social Inequity and High Pollution

• The risk of sharply lower growth rates include China’s relatively high income and asset inequality, low consumption, and high environmental costs
China’s Rise Comes With Challenges to Global Sustainability

An atlas of pollution: the world in carbon dioxide emissions

Fiscal Federalism reforms necessary to tackle incentives to boost real estate at local levels

• Government revenues are highly centralised, but local governments responsible for 80% of government expenditure and receive roughly 40% of tax revenues from transfers, hence they rely on land sales and help drive higher prices
Share of sub-provincial government spending in total government spending

### Table 4: Share of sub-provincial governments in total government

<table>
<thead>
<tr>
<th></th>
<th>Developing Countries</th>
<th>OECD Countries</th>
<th>Transition Countries</th>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sub-provincial share of</td>
<td>9.27</td>
<td>19.13</td>
<td>16.59</td>
<td>34.2</td>
</tr>
<tr>
<td>Government Tax Revenues</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sub-provincial share of</td>
<td>13.78</td>
<td>32.41</td>
<td>26.12</td>
<td>59.3</td>
</tr>
<tr>
<td>Government Expenditure</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Dollar and Hofman (2006), staff calculations
Addressing External Imbalance

- China’s high savings and investment levels account for its current and capital account surplus in the BOPs. Record foreign exchange reserves incur risk of large capital losses in the face of currency appreciation and distortion in monetary management.

**Figure 2** Savings in China compared to other countries

Real GDP Growth, Profits and Real Growth Indicators
Population and labor force peaking around 2025-2030

FIGURE 1.5 Total population and labor force, 1980–2050

Natural resource depletion and serious environmental pollution

- Bad environment could be a serious constraint on future growth
Highest environmental and natural resource degradation, 2008 (% of GNI) around 9+%, compared with less than 2% for Korea and Japan

**TABLE 3.1 A Greener China**

<table>
<thead>
<tr>
<th>Environmental depletion and degradation, all number are % of GNI</th>
<th>2009 value</th>
<th>“Greener” value, reachable by 2030</th>
<th>Net improvement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy depletion</td>
<td>2.9</td>
<td>1.9</td>
<td>1.0</td>
</tr>
<tr>
<td>Mineral depletion</td>
<td>0.2</td>
<td>0.2</td>
<td>0.0</td>
</tr>
<tr>
<td>PM$_{10}$ health damage</td>
<td>2.8</td>
<td>0.1</td>
<td>2.7</td>
</tr>
<tr>
<td>Air pollution material damage</td>
<td>0.5</td>
<td>0.1</td>
<td>0.4</td>
</tr>
<tr>
<td>Water pollution health damage</td>
<td>0.5</td>
<td>0.1</td>
<td>0.4</td>
</tr>
<tr>
<td>Soil nutrient depletion</td>
<td>1.0</td>
<td>0.1</td>
<td>0.9</td>
</tr>
<tr>
<td>Carbon dioxide damage</td>
<td>1.1</td>
<td>0.2</td>
<td>0.9</td>
</tr>
<tr>
<td><strong>Total depletion &amp; degradation</strong></td>
<td>9.0</td>
<td>2.7</td>
<td>6.3</td>
</tr>
</tbody>
</table>

Poor urban air quality has high costs in terms of healthcare and happiness.

FIGURE 3.2 Urban Air Pollution Trends in China, 2003–2009

Trends in PM$_{10}$ concentrations, urban population weighted

Total value of excess mortality and morbidity linked to PM$_{10}$ exposure, billion 2000 yuan


FIGURE 3.3 Average annual SO$_2$ (left) and NO$_2$ (right) concentrations observed for the 10 largest cities in Japan and China, 1970–2009 (µg/m$^3$)

Notes: Includes ten largest cities in Japan by population in 1970; 10 largest cities in mainland China by downtown population in 2009 (excluding Dongguan city, Guangdong). Sources: NIES database, Japan Ministry of Environment (1989), Kawasaki Air Pollution Monitoring Center; NBS, China Environmental Statistical Yearbook, various years; city statistical yearbooks for Beijing, Tianjin, Shenzhen, Chongqing, and Nanjing, various years.
Income Inequality could lead to social unrest

- Income inequality, measured by the Gini, rose to 0.45 by the mid-2000s, reflecting great disparities between urban and rural areas, and within rural and urban areas.

FIGURE 1.2 The evolution of income inequality in China since the start of reforms (Gini index of income inequality from 1981 to 2005)

Equal Opportunity and Basic Security for All

- China has pension coverage well below that expected of a country with its per capital income.

**FIGURE 7  Pension coverage rate of the active labor force, various countries, mid-2000s**

Source: Holzmann, Robalino, and Takayama 2009.
Growing Old before Growing Rich

- Rapid demographic transition is economic and social vulnerability – with rising life expectancy, sharp fall in total fertility, aging population demands better healthcare and pension rights
- Share of people aged 60+ will accelerate from 12% in 2010 to almost one quarter by 2030

**FIGURE 1.4** Number and share of population 60 and over, 1950–2050

Rebalancing between SOE and private enterprise to drive innovation and employment creation

- A vibrant and increasingly efficient enterprise sector is key for sustaining growth and maintaining global competitiveness
Sustainable Growth means managing long-term volatility

- As wage, income and asset price are converging with those of advanced economies, China needs a proper financial architecture that can help minimise disruptive boom and bust.
Dynamic Interaction between State, Market and External Forces

PERFORMANCE
- Production & jobs
- Volatility and risks
- Environment
- Distribution of income and wealth
- Values and norms
- Consumption and living standards

MARKETS
- Labor
- Land & Property
- Capital
- Products
- Technology and knowledge
- Natural Resources

STATE
- Infrastructure
- Law and order
- External affairs
- Industrial policy
- Macroeconomy
- Public finance & services

Households
- Firms

EXTERNAL ENVIRONMENT
- Central-local affairs
- Administration
- Institutions
- Civil Society
- External relations

* Elements within each cluster are non-exhaustive
Research Areas and Projects

Asia Finance 2020
Risk mitigation, resilience, and support for a growing real sector

Global Supply Chains
Shifting jobs, growth and wealth in a changing global environment

Evolving Growth Models
Understanding the dynamics of states and markets in China and India

Asia’s Sustainable Development
Re-casting growth models to better meet human needs and environmental priorities

Asian Perspectives  Global Issues
China-based “world factory” built by MNCs + SMEs

China infrastructure network, driven by SOEs

Government services supply chain

Logistics (Infrastructure and transport networks)

Government

Production

Finance

Consumption
Top-Down Governance Architecture - how to achieve trade-offs between competing policy imperatives
Overview of FGI Global Supply Chains Project

Market factors
- Supply & Demand
- Profitability
- Exchange rates
- Cost of capital, labor, land, material inputs, transportation, etc
- FDI

Policy factors
- Infrastructure
- Legal regime
- Investment climate
- Intellectual property
- Taxation
- Immigration
- Trade barriers
- Public policy

Contextual factors
- Natural resources
- Location
- Environment
- Technologies
- Accumulated capital
- Labor skills

Businesses & the Larger Community

Asian Perspectives Global Issues
Countries must compete in capturing the value chain.

Source: Fung Global Institute, adaptation of the “smiling curve” by Stanley Shih.
Asian Finance 2020:

Efficient, stable, inclusive financial architecture that supports the real sector in terms of resource allocation, price discovery, risk management and corporate governance.

- Asia’s financial architecture will determine whether finance serves as an engine of growth, or an engine of bubble creation.
- The objectives of Asia Finance 2020 are to design a new financial architecture that will:
  - Foster sustainable economic growth in an inclusive manner
  - Meet the needs of the real economy
  - Minimise and withstand systemic risks
China’s 12th Five-Year Plan – Financial Sector Reform and Development

Key Objectives to be achieved during the 12th five-year plan period (2011-2015)

• Higher growth in financial services: valued-added in financial services of 5% of GDP, with moderate growth in public financing

• Substantial progress in financial restructuring: the share of direct funding of non-financial enterprises as a proportion of public financing has surpassed 15%

• Improve allocation in financial resources: reform in interest rate policy; use of RMB for cross-border trades; RMB convertibility

• Enhance global competitiveness: improve quality of large financial institutions; enhance risk management capability; improve regulation of securities and futures industry

• Intensified inclusive finance: ensure financial institutions perform basic services to serve the real sector

• Improve financial safety net: higher quality of capital and low level of non-performing loans; improve risk management in the securities industry; enhance capital solvency in the insurance industry; establish deposit insurance system
TABLE A1  Size of sectors/markets

<table>
<thead>
<tr>
<th>Year</th>
<th>Assets of banking institutions</th>
<th>Assets of insurance companies</th>
<th>Assets of securities companies</th>
<th>Government bonds outstanding</th>
<th>Financial bonds outstanding</th>
<th>Corporate bonds outstanding</th>
<th>Stock market capitalization</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>137.0</td>
<td>2.9</td>
<td>-</td>
<td>11.8</td>
<td>7.2</td>
<td>0.9</td>
<td>29.5</td>
</tr>
<tr>
<td>2000</td>
<td>138.5</td>
<td>3.4</td>
<td>-</td>
<td>13.1</td>
<td>7.4</td>
<td>0.9</td>
<td>48.5</td>
</tr>
<tr>
<td>2001</td>
<td>145.4</td>
<td>4.2</td>
<td>-</td>
<td>14.2</td>
<td>7.8</td>
<td>0.9</td>
<td>39.7</td>
</tr>
<tr>
<td>2002</td>
<td>169.8</td>
<td>5.3</td>
<td>-</td>
<td>14.8</td>
<td>8.2</td>
<td>0.5</td>
<td>31.9</td>
</tr>
<tr>
<td>2003</td>
<td>179.7</td>
<td>6.7</td>
<td>3.6</td>
<td>18.0</td>
<td>8.7</td>
<td>0.7</td>
<td>31.3</td>
</tr>
<tr>
<td>2004</td>
<td>175.0</td>
<td>7.5</td>
<td>2.1</td>
<td>22.4</td>
<td>9.1</td>
<td>0.8</td>
<td>23.2</td>
</tr>
<tr>
<td>2005</td>
<td>175.2</td>
<td>8.3</td>
<td>-</td>
<td>27.3</td>
<td>10.8</td>
<td>1.7</td>
<td>17.5</td>
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<tr>
<td>2006</td>
<td>204.0</td>
<td>9.1</td>
<td>-</td>
<td>28.9</td>
<td>12.1</td>
<td>2.6</td>
<td>41.3</td>
</tr>
<tr>
<td>2007</td>
<td>179.6</td>
<td>10.9</td>
<td>6.5</td>
<td>32.4</td>
<td>12.7</td>
<td>3.0</td>
<td>123.1</td>
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<tr>
<td>2008</td>
<td>204.3</td>
<td>10.6</td>
<td>3.8</td>
<td>31.3</td>
<td>13.4</td>
<td>4.1</td>
<td>38.6</td>
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<tr>
<td>2009</td>
<td>237.8</td>
<td>11.9</td>
<td>6.0</td>
<td>29.3</td>
<td>15.1</td>
<td>7.1</td>
<td>71.6</td>
</tr>
<tr>
<td>2010</td>
<td>241.6</td>
<td>12.7</td>
<td>4.9</td>
<td>28.1</td>
<td>15.0</td>
<td>8.6</td>
<td>66.7</td>
</tr>
</tbody>
</table>

Source: CBRC, CIRC, CSRC, Securities Association of China, BIS
Note: All figures are expressed as a percentage of GDP. Government bonds outstanding include both MOF securities and central bank bills/notes.
Banking less concentrated, but foreign participation still small

**TABLE A2  Share of banking sector assets by type of bank (2003–2009)**

<table>
<thead>
<tr>
<th>Group of Institutions</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large State-owned</td>
<td>58.03</td>
<td>56.91</td>
<td>56.06</td>
<td>55.12</td>
<td>53.25</td>
<td>51.03</td>
<td>50.89</td>
<td>49.2</td>
</tr>
<tr>
<td>Policy banks</td>
<td>7.68</td>
<td>7.63</td>
<td>7.82</td>
<td>7.90</td>
<td>8.13</td>
<td>9.05</td>
<td>8.82</td>
<td>8.0</td>
</tr>
<tr>
<td>City bank</td>
<td>5.29</td>
<td>5.40</td>
<td>5.44</td>
<td>5.90</td>
<td>6.35</td>
<td>6.62</td>
<td>7.21</td>
<td>8.2</td>
</tr>
<tr>
<td>Rural banks</td>
<td>0.14</td>
<td>0.18</td>
<td>0.81</td>
<td>1.15</td>
<td>1.16</td>
<td>1.49</td>
<td>2.37</td>
<td>2.9</td>
</tr>
<tr>
<td>Rural coop.</td>
<td>0.73</td>
<td>1.06</td>
<td>1.23</td>
<td>1.61</td>
<td>1.62</td>
<td>1.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Urban credit coop.</td>
<td>0.53</td>
<td>0.57</td>
<td>0.54</td>
<td>0.42</td>
<td>0.25</td>
<td>0.13</td>
<td>0.03</td>
<td>0.0</td>
</tr>
<tr>
<td>Rural credit coop.</td>
<td>9.58</td>
<td>9.74</td>
<td>8.39</td>
<td>7.85</td>
<td>8.26</td>
<td>8.35</td>
<td>6.97</td>
<td>6.7</td>
</tr>
<tr>
<td>Non-bank fin. Inst.</td>
<td>3.29</td>
<td>2.76</td>
<td>2.71</td>
<td>2.41</td>
<td>1.85</td>
<td>1.89</td>
<td>1.97</td>
<td>2.2</td>
</tr>
<tr>
<td>Postal savings bank</td>
<td>3.25</td>
<td>3.43</td>
<td>3.68</td>
<td>3.67</td>
<td>3.36</td>
<td>3.55</td>
<td>3.43</td>
<td>3.7</td>
</tr>
<tr>
<td>Foreign banks</td>
<td>1.50</td>
<td>1.84</td>
<td>1.91</td>
<td>2.11</td>
<td>2.38</td>
<td>2.16</td>
<td>1.71</td>
<td>1.8</td>
</tr>
</tbody>
</table>

Source: China Banking Regulatory Commission annual report 2009
Addressing Financial Repression and Financial Inclusivity

- Chinese financial system remains repressed, unbalanced, costly to maintain and potentially unstable. Level of state ownership and government intervention in the financial system are much higher than in other countries at similar stage of economic development.

**Figure 6** Ownership structure of the banking sector, 2005

**Figure 7** Financial system structure in comparison, 2009

*Source: World Bank Financial Regulation and Supervision database. Note: The figure shows the share of banking sector assets held by majority-foreign, private domestic, and state owned banks.*

*Source: BIS, CSRC, IMF International Financial Statistics, WDI*
RMB internationalization as FDI and trade becomes regional in emphasis

**FIGURE 9** The renminbi is increasingly being used as the currency for cross-border trade settlement

**Source:** People’s Bank of China.
**Note:** China’s total exports 2010: $1.75 trillion; China’s total imports 2010: $1.52 trillion.
Key Questions for Asian Finance 2020 Project

Indicators of Japan's economic performance

<table>
<thead>
<tr>
<th>Year</th>
<th>Use of Yen as invoicing currency in Japan's trade</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>0.90% 17.50% 23.40% 36% 37.50% 36% 36.10%</td>
</tr>
<tr>
<td>1975</td>
<td>0.90% 17.50% 23.40% 36% 37.50% 36% 36.10%</td>
</tr>
<tr>
<td>1980</td>
<td>0.90% 17.50% 23.40% 36% 37.50% 36% 36.10%</td>
</tr>
<tr>
<td>1985</td>
<td>0.90% 17.50% 23.40% 36% 37.50% 36% 36.10%</td>
</tr>
<tr>
<td>1990</td>
<td>0.90% 17.50% 23.40% 36% 37.50% 36% 36.10%</td>
</tr>
<tr>
<td>1995</td>
<td>0.90% 17.50% 23.40% 36% 37.50% 36% 36.10%</td>
</tr>
<tr>
<td>2000</td>
<td>0.90% 17.50% 23.40% 36% 37.50% 36% 36.10%</td>
</tr>
</tbody>
</table>

Source: Bank of International Settlements; World Bank; Ministry of Finance, Japan

Real GDP growth rate in Japan (LHS)
Inflation (CPI) in Japan
Real effective exchange rate (yen to US dollar, 2005=100) (RHS)

Question: What are the benefits and risks of internationalisation of renminbi and rupee?

Global investment banking sources of revenue by region

<table>
<thead>
<tr>
<th>Year</th>
<th>Asia</th>
<th>Europe</th>
<th>Americas</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>50</td>
<td>57</td>
<td>50</td>
</tr>
<tr>
<td>2000</td>
<td>57</td>
<td>50</td>
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</tr>
<tr>
<td>2001</td>
<td>42</td>
<td>34</td>
<td>42</td>
</tr>
<tr>
<td>2002</td>
<td>34</td>
<td>41</td>
<td>34</td>
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<tr>
<td>2003</td>
<td>41</td>
<td>46</td>
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</tr>
<tr>
<td>2004</td>
<td>46</td>
<td>53</td>
<td>46</td>
</tr>
<tr>
<td>2005</td>
<td>53</td>
<td>69</td>
<td>53</td>
</tr>
<tr>
<td>2006</td>
<td>69</td>
<td>84</td>
<td>69</td>
</tr>
<tr>
<td>2007</td>
<td>84</td>
<td>59</td>
<td>84</td>
</tr>
<tr>
<td>2008</td>
<td>59</td>
<td>66</td>
<td>59</td>
</tr>
<tr>
<td>2009</td>
<td>66</td>
<td>66</td>
<td>66</td>
</tr>
</tbody>
</table>

Source: Freeman Consulting Services

Question: What will be the investment banking needs of rising Asian and global corporates?

Size of banking sector, equity and bond markets (% of GDP)

<table>
<thead>
<tr>
<th>Country</th>
<th>Year</th>
<th>Bank Assets</th>
<th>Bond Outstanding</th>
<th>Equity Market Capitalisation</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>2001</td>
<td>134</td>
<td>20</td>
<td>44</td>
<td>198</td>
</tr>
<tr>
<td></td>
<td>2009</td>
<td>145</td>
<td>54</td>
<td>75</td>
<td>274</td>
</tr>
<tr>
<td>India</td>
<td>2001</td>
<td>47</td>
<td>27</td>
<td>55</td>
<td>129</td>
</tr>
<tr>
<td></td>
<td>2009</td>
<td>71</td>
<td>49</td>
<td>189</td>
<td>309</td>
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<tr>
<td>Japan</td>
<td>2001</td>
<td>199</td>
<td>117</td>
<td>49</td>
<td>365</td>
</tr>
<tr>
<td></td>
<td>2009</td>
<td>249</td>
<td>228</td>
<td>65</td>
<td>542</td>
</tr>
<tr>
<td>Korea</td>
<td>2001</td>
<td>76</td>
<td>82</td>
<td>36</td>
<td>196</td>
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<tr>
<td></td>
<td>2009</td>
<td>128</td>
<td>134</td>
<td>105</td>
<td>367</td>
</tr>
<tr>
<td>Indonesia</td>
<td>2001</td>
<td>21</td>
<td>11</td>
<td>5</td>
<td>37</td>
</tr>
<tr>
<td></td>
<td>2009</td>
<td>18</td>
<td>7</td>
<td>18</td>
<td>43</td>
</tr>
<tr>
<td>Malaysia</td>
<td>2001</td>
<td>156</td>
<td>72</td>
<td>127</td>
<td>355</td>
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<tr>
<td></td>
<td>2009</td>
<td>140</td>
<td>91</td>
<td>140</td>
<td>371</td>
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<tr>
<td>Thailand</td>
<td>2001</td>
<td>129</td>
<td>29</td>
<td>30</td>
<td>188</td>
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<td></td>
<td>2009</td>
<td>123</td>
<td>67</td>
<td>66</td>
<td>256</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>2001</td>
<td>145</td>
<td>27</td>
<td>299</td>
<td>491</td>
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<td></td>
<td>2009</td>
<td>199</td>
<td>48</td>
<td>1104</td>
<td>1351</td>
</tr>
<tr>
<td>Singapore</td>
<td>2001</td>
<td>132</td>
<td>53</td>
<td>126</td>
<td>311</td>
</tr>
<tr>
<td></td>
<td>2009</td>
<td>155</td>
<td>69</td>
<td>295</td>
<td>519</td>
</tr>
</tbody>
</table>

Source: Asian Development Bank

Question: How can capital markets become better at allocating resources?

Pension coverage in selected Asian countries 2011

<table>
<thead>
<tr>
<th>Year</th>
<th>Coverage ratio relative to working age</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>JAPAN</td>
</tr>
<tr>
<td>2009</td>
<td>US</td>
</tr>
<tr>
<td>2001</td>
<td>MALAYSIA</td>
</tr>
<tr>
<td>2009</td>
<td>KOREA</td>
</tr>
<tr>
<td>2001</td>
<td>THAILAND</td>
</tr>
<tr>
<td>2009</td>
<td>CHINA</td>
</tr>
<tr>
<td>2001</td>
<td>INDONESIA</td>
</tr>
<tr>
<td>2009</td>
<td>INDIA</td>
</tr>
</tbody>
</table>

Source: World Bank

Question: How can finance help ensure provision for old-age and adequate protection against adversity?
Emerging Growth Model Project:
How can China and India reform towards high income economies?

- What institutional and policy stumbling blocks stand in their way for sustainable growth?
- How to reform their governance structure for better policy formulation and implementation?
- How will the role of the state and the market evolve?

GDP per capita (Constant 2010 US$)

Source: World Bank World Development Indicators
A Vision for Sustainable Development in Asia

How can Asia drive global growth without compromising the environment and social cohesion?

- **Economic**
  - Growth & Prosperity;
  - Innovation;
  - Productivity

- **Environmental**
  - Resource efficiency;
  - Ecosystem resilience;
  - Ecological balance

- **Social**
  - Distributional equity;
  - Social justice;
  - Equality of Opportunity
ECONOMIC CHANGE
Global growth is shifting, and Asia’s growth is rebalancing towards domestic demand. How can Asia successfully manage the transition?

ENVIRONMENTAL PRESSURES
Global climate change and ecosystem pressures present the need for more sustainable growth and development. The next few years are critical. What will the solutions look like?

SOCIAL CHANGE
Asia now has a rising middle class and a growing consumer class. How can we ensure that opportunity and prosperity are shared across society (and not just at the top)?

BUSINESS RESPONSE
Asia’s companies recognize society’s changing expectations. How can business catalyze the transition towards sustainable development?

TECHNOLOGY:
Technologies to smooth the transition to sustainable growth are available and Asia is a clear site for testing. How can we expedite their introduction where most needed?
Fung Global Institute

• **Convening Power** to bring best minds on global economic issues with 3-5 year time frame

• **A Global 21st Century** Think Tank, with innovative website for interactive engagement

• Bridge between Asia and the World – interface with top Asian and Western think tanks

• **Business-relevant Research** - “learning by doing and leading by action”

• **Common Analytical Framework**
  – Developing a common and systematic analytical framework to better understand and act on critical global issues
FGI Core leadership

Our Founding Experts

Asian Perspectives  Global Issues