



恒生銀行

HANG SENG BANK

Press Release

27 April 2005

DEREGULATION HOLDS THE KEY TO SOLVING SUPPLY-SIDE BOTTLENECKS IN CHINA

Further deregulation in China's upstream industries would help to overcome the supply-side bottlenecks that are impeding the development of the economy, according to the latest issue of the *Hang Seng Economic Monthly*.

The report says that World Trade Organisation (WTO) accession, housing market deregulation and greater autonomy in the banking sector have transformed the landscape of China's economy and accelerated its growth momentum by injecting new dynamics into many deregulated industries. But this wave of deregulation has yet to spread to many upstream sectors like coal, electricity, oil and transport.

China's WTO accession has lowered resistance to deregulation and resulted in the amendment of many rules to allow non-state enterprises to compete with the state-owned enterprises (SOEs) on a more level playing field. As a result, private and foreign enterprises have experienced tremendous growth over the past few years.

Foreign and private companies have found it increasingly convenient to export or source products in China after being granted the trading rights. Consequently, the share of exports by foreign-invested companies rose from 50% in 2001 to 57% in 2004, while exports by domestic private companies surpassed those of the SOEs in 2004.

Housing ownership deregulation in the urban area was another milestone in China's road to deregulation.

Since the late 1990s, housing reform has turned the capital frozen in the SOE-owned housing sector into privately-owned and tradable assets. Together with subsidies granted to urban residents for their purchases of self-occupied apartments and the unification of various types of property titles, housing market deregulation has contributed to a housing boom and vibrant investment in the real estate sector. Such investment totalled RMB3,100 billion between 2002 and 2004, an increase of 105% from the preceding three year period.

Greater autonomy in the banking sector is also an important factor contributing to the recent economic boom. Since 1998, around USD90 billion has been injected into the state banks as capital, and NPLs of around RMB1,700 billion have been transferred to asset management companies.

...more

新聞稿

Deregulation Holds The Key To Solving Supply-Side Bottlenecks In China / 2

The banking sector's increasing openness to foreign players after the WTO entry has stimulated competition, helped the transfer of modern banking technology and expertise into the country. The number of cities in which foreign banks are allowed to conduct renminbi businesses rose from two before the WTO entry in 2001 to 18 in 2004. Many domestic banks have also teamed up with foreign banks as strategic shareholders.

More relaxed regulation on bank lending has given the banking sector increasing autonomy to seek new areas for loan growth such as consumer finance and loans for small and medium-sized enterprises. New renminbi loans granted by banks totalled RMB6,500 billion during 2002-2004, 150% higher than the preceding three years.

The report also says that despite the rapid growth in the downstream industries, development of the still tightly-controlled upstream industries lags behind the deregulated industries. This is the major reason why macroeconomic control has to be introduced to restrain the fast-expanding economy.

Expansion in the upstream industries has not been flexible enough to meet fast changing market conditions, as entry of new players is restricted and approval from regulators is usually required for new investments to expand. In addition, price controls have sometimes acted as a disincentive for producers in boosting output, since they cannot pass on their costs to customers.

The report concludes that the many benefits of deregulating the downstream industries together with the progress that has been made in introducing more competition in certain strategic industries such as telecom and banking should encourage the government to further deregulate the upstream industries.

#End#