

Consensus Builds for Reform of China ' s Financial Sector

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- China could liberalize its capital account by as early as 2015
- Shadow banking system is the financial sector ' s biggest risk said BOC head.
- For more information about the Annual Meeting of the New Champions 2012, please visit: <http://www.weforum.org/newchampions>

Tianjin, People ' s Republic of China, 12 September 2012 China could liberalize its capital account by as early as 2015, said Dai Xianglong, Chairman, National Council for Social Security Fund, People's Republic of China, and ex-president of the People ' s Bank of China, although he cautioned that the international community influences the pace of reform. " Financial reform should focus on internationalization of [China ' s currency] the RMB and reform of the interest rate, " he added.

Participants agreed on the need for reform in the financial sector; and " the consensus is there " for the internationalization of the RMB, said Fang Xinghai, Director-General, Office for Financial Services, Shanghai Municipal Government, People's Republic of China, although structural problems have delayed the process. The eventual reform of the interest rate " will definitely have a big effect on the banking sector, " said Xiao Gang, Chairman of the Bank of China. Previously, " we provided lots of loans to big companies but, in the future, we ' re more motivated to support development of SMEs " and to engage more in business overseas, he said.

China ' s stock market has consistently grown slower than the economy. " The equity market has not brought much benefit to investors, " said Fang, who suggested that it is because the government intervenes too much in the market. As a result, he bemoaned, tech companies like Sina, Tencent and Baidu, which could bring profit to the domestic Chinese market instead decided to have IPOs internationally.

Li Daokui, Director of the Center for China in the World Economy (CCWE), People's Republic of China, blames China ' s social system for the poor performance of China ' s stock market, and warned that the slumping stock market is not only an economic issue, but a political one as well. Because stock market governance is weak and local governments often interfere to protect local champions, Li proposed the creation of a securities court based in Shanghai and Beijing " following the most strict securities law, " he said, to boost the confidence of both international and domestic investors.

Fang sees the possibility of a dramatic drop in economic growth as the biggest risk to the financial system over the next five years. The biggest risk to China ' s financial system according to Xiao, who runs one of the world ' s largest banks: " The shadow banking markets " .

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