



Mr Chen Jiulin's Speech for Global Entropolis Singapore

29/10/03

Good morning, ladies and gentlemen. It is a great honor and privilege for me to address this distinguished gathering. I would like to thank the Economic Development Board of Singapore for giving me the opportunity to share my thoughts with you today.

I have been invited to discuss the recent deregulations in China and the opportunities they present.

First of all, please allow me to give a few statistics to show the results of these efforts:

- Chinese GDP grew at an annual average rate of 9.4% between 1978 and 2002. Third-quarter 2003 GDP growth was 9.1% year-on-year, and full-year estimates are for at least 8.5% growth.
- Exports grew at a 22% rate in 2002 and are estimated by the Asian Development Bank to rise 25% in 2003. Imports, meanwhile, were up 21% in 2002, and ADB forecasts as much as 36% growth in 2003.
- Foreign direct investment reached US\$52.7 billion in 2002 and is expected to reach US\$60 billion in 2003.

There have been many efforts at reform and deregulation in China, corresponding with its reform and open-door policies. For example, since China entered into WTO, China has lowered import duties on over 5,000 goods and allowed the average tariff to drop from 15.3% to 12%. China's legal system is also undergoing rapid change, with some 2,300 legal documents having been reviewed since reform started, including 830 cancelled outright and 325 revised.

Among the biggest deregulations are those in financial services, telecommunications, utilities, state-owned enterprises and civil aviation.

In the case of state-owned enterprises, China's government has taken many measures toward reform. For example, this past March, it set up the State Assets Supervision and Administration Commission (or SASAC), which supervises and manages 181 central government-owned enterprises, with total assets valued at Rmb6.9 trillion. Gradually all provinces will have similar organizations to manage their provincial and municipal state-owned enterprises. The Third Plenary Session of the 16th Party Congress, which has just finished, has clearly stated that it wishes to make the multiple-shareholder form of corporate ownership the major form for state-owned enterprises. SASAC has recently recruited senior managers for five large state-owned companies from the international markets. It hopes to form 30-50 mega-corporations with core competencies. With this reform, total profits of enterprises under the supervision of the Central Government increased by 68% to reach 120 billion yuan from January to May this year.

Also, in the case of civil aviation, there has been a radical restructuring of the sector, involving a divestment of the powers of the Civil Aviation Administration of China. For instance, the ten airlines and multiple supplier enterprises have been merged into three airlines and three aviation logistics companies, including our parent, China Aviation Oil Holding Company. Nearly all the airports, except Beijing and the Tibet airports, have been transferred from CAAC to local governments. There have been significant relaxations on foreign ownership of airlines and airports.

This deregulation has created many opportunities for investment. To briefly mention a few, there are the development of Western China, ongoing sales of SOE stakes, education, the securities markets including debt markets, urban residential development, and others. Since time is short, I want to mention just two particular issues - the domestic private sector and overseas Chinese-funded enterprises. I believe these are China's two major drivers for growth.

First, private companies lead the way in terms of innovation and initiative in domestic markets. It is because of China's fast-developing private sector that the government learns which areas to deregulate, and how. The private sector

encourages entrepreneurship and allocates capital efficiently. Because of this, private-sector growth is extremely high, and opportunities for profit are large.

Second, overseas Chinese enterprises have grown significantly in scale in recent decades. At present there are more than 7,000 such enterprises operating in over 160 countries around the world. China Aviation Oil (Singapore) Corp Ltd (or CAO) is an example of this trend. Despite entering the international marketplace with an initially unsuccessful business model in its first four years, CAO was able to adapt and grow into its current form over time, and thereby to achieve business success.

Businessmen wishing to benefit from deregulation in China may do so in several ways. They may, for instance, take advantage of the government's current policy of selling down stakes in state-owned enterprises, particularly those in Northeastern China. Many are overstaffed, with outdated infrastructure, and state ownership at too high a level, leading to overall inefficiency. Investment by foreign companies is particularly helpful, with the ultimate goal of restoring productivity to businesses in this region. This will allow for Western business practises to infiltrate the management culture and boost overall effectiveness. Advantages to foreign investors are plentiful. In addition to the enormous size of the Chinese market, the workforce is well-educated, and foreign direct investment is strongly supported by the government.

Regarding the private sector, the very things Chinese private enterprises lack - capital and technology - are the advantages a foreign investor can provide. In exchange, the Chinese private company can offer immediate access to its market and possibly influence toward further deregulation. This suggests the potential for tremendous synergy.

Foreign companies can form joint ventures with Chinese domestic partners to establish an initial market position. They can also cooperate with or buy into overseas Chinese companies, such as the recent Kim Eng Ong and Temasek acquisitions of 3% and 8% stakes, respectively, in COSCO Investment.

Finally, I'd like to offer a few suggestions for foreign investors eager to grasp the opportunities that China offers. Most importantly, look long-term. Do not expect that problems will resolve themselves immediately, particularly as regards the pace of deregulation. On the other hand, a long view will give you the perspective to address the important issues.

In addition, please remember that working with local talent will ensure success far more than bringing in foreign management unfamiliar with local customs. Local expertise is as important as international expertise, in its own way. Rather than simply trying to take advantage of the Chinese market, it makes better sense to establish your business as a part of the local economy, and in that way to gain much greater credibility with your partners and customers.

Thus China's ongoing deregulation offers great opportunities to foreign investors, while at the same time being an engine of growth for the economy, and a catalyst to improve the lives of all of China's citizens. Thank you.