

WT33 –The capacity of the economic and financial players to take a long-term view

Session 1

The Chinese vision

- State enterprises are still those that are the most in position to take long term investment decisions.
- Research and development outlays are in China relatively low as compared to the rest of the world and still mainly financed through state finances
- Chinese financial system has developed vigorously from “mono-bank system” before 1994 to a financial market based system in which the banks play still an important but diminishing role in financing the economic activity.
- Today 1% of Chinese households do have shares in their assets.
- Despite many trials the “bad dead problem” inherited from the planned economy has still not been solved and it weakens many Chinese banks.
- The problems the Chinese financial system is facing today are similar in many aspects to those that European post-communist countries have to cope with during the transition period.
- The Chinese economic system is moving from a long-term view only approach characteristic of the planned economy, to a short-term preference. This shift is at the centre of a political and economic debate.

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The European vision

- It seems that in Europe polluting activities are less regulated than depolluting ones.
- European financial system has been changing from a bank based system towards a market-based system. This shift has number of consequences for enterprises financial intermediaries and customers.
- Most European countries have taken active steps to put in place pensions schemes based on capitalisation. These schemes have today important liquidities that could be used in more innovative ways than index financial investments.
- European financial system is emerging for the time being much has been done in the all sales part of the system, but much remains to be done in retail segments and in common supervision.
- Large listed enterprises are tempted to shift the responsibility for a long-term investment to shareholders to whom they distribute an ever-growing portion of profits.

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Similarities

- Both in China and in Europe the level of financial education has to be increased but this should not be a pretext to shift all responsibility for the choice of pension and the long-term consequences on the individuals.
- Financial institutions, such as banks and insurance companies, and financial regulators have to take their share of responsibility and warrant the long-term viability of the pension schemes.
- Finance is not the best tool to help in long-term decisions. Through the use of discounted cash flow method the long-term consequences may be overly underestimated. Thus, long-term decisions should stay with actors able to look beyond strictly financial returns. This concerns is shared by China and Europe.

Differences

- In China, long term responsibilities and decisions still clearly remain with the central governments. Enterprises, local authorities and individuals are left with short and medium term decisions. In Europe, governments seem to avoid long term commitments for which large enterprises are asking, leaving the long-term perspective in the flax.
- Enterprises and individuals do not have neither the will nor the tools to take over this responsibility from the governments.
- The long-term perspective for the Chinese is social harmony, which means an inclusive society in which inequalities do not harm social cohesion. In Europe the notion of social harmony as a long term go seems less visible which is a cause of concern for many participants to the workshop.
- For Chinese participants the short-term development go seems to have a greater importance than long-term ecological concerns. An appropriate trade off has to be reached taking this into account. The European perspective does not separate ecology and growth. Looking at ecology rather as a source of advantage than a cost.

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How to enhance the dialogue between China and Europe ?

- To bring the role that finance plays in the future organisation of society, we agreed that it could make sense to bring into being a Chinese chapter of the Robin Cosgrove Prize for ethics in finance. Institutional supports could be expected from Chinese partners, and there was a framework agreement with the Fph to support such a project together with OF in the year 08 09.
- The public private partnership is base word with many meanings. The key question in a PPP is the source of trust between partners. In this respect, in China the emancipation of enterprises from public hands is still in progress, which prevents from the time being to put in place PPP has understood in Europe, where public and private bodies are on equal footing in front of a contract. In this field, much remains to be done. This being said, PPP seem to be an innovative way of tackling long term issues such as environment protection or infrastructure development.
- A special dimension of PPP is related to enterprises partnerships with international organisation, NGO or governments.
- During our discussion, a concept of “Bio China” label was articulated. in could be put in place in order to help Chinese enterprises to transfer additional costs incurred in environmental protection to the final western customers. The success of such a label stands very much on the willing of the westerns customers to pay a premium, and on the willingness of major corporations to propose such a level to their Chinese suppliers.