Lessons for China from financial liberalization in Scandinavia

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This report identifies a set of policy lessons for China today from the experience of financial deregulation, financial crisis and recovery in Scandinavia during the period 1985-2000. Although there are considerable differences between the huge Chinese economy and the small Nordic countries, there are enough similarities to make lesson-drawing a worthwhile exercise. Based on the Scandinavian experience and the added complexity of China’s status as a transition economy, financial reforms should strike a proper balance between being gradual (to avoid costly mistakes) and substantive (to secure efficiency gains in the longer term) with due consideration being given to initial conditions concerning regulation, taxes and exchange rate arrangements. A well managed process of financial deregulation requires that policymakers and market participants fully understand the interlinkages between financial reforms and the rest of the economy. In addition, the supervisory and management systems in the financial sector should move in step with the liberalization process.