



COMMISSION OF THE EUROPEAN COMMUNITIES

DIRECTORATE GENERAL XV

Internal Market and Financial Services

General matters and coordination, free movement of persons and direct taxation

External dimension of the internal market and financial services

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People's Republic of CHINA

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Introduction

In 1993, GDP in People's Republic of China was 3.1 trn of Yuans (RMBY). (484 bn ECU¹). Real GDP growth was 11%). With a population of 1.19 bn this represented a per capita GDP of 2,637 RMBY (407 ECU).

CREDIT INSTITUTIONS

Establishment

Foreign banks may establish subsidiaries or branches in the following 13 regions : Shanghai, Shenzhen, Zhuhai, Hainan, Xiamen, Shanton, Guanzhon, Fuzhou, Tianjin, Nanjing, Qingdao, Dalian and Ningpo. Establishment outside these zones may only take the form of representative offices - which cannot participate in any profit-making activities. Foreign banks must have had a representative office for more than two years in either case. The home bank must hold assets of more than US\$ 10 bn at the end of the year prior to the application for "establishing a subsidiary. It must hold total assets of more than US\$ 20 bn to establish a branch;

Investment banks are prohibited from opening branches.

Joint venture banks may open in the above mentioned 13 regions. The paid-in capital must be RMBY 300 mn (47 mn ECU) in freely convertible currencies. The same requirement applies to subsidiaries of foreign banks. Each branch of foreign bank must have a paid-in capital of no less than RMBY 100 mn in freely convertible currencies.

The domestic banking market in the People's Republic of China is dominated by the state-owned banks. Under China's Central Bank, the People's Bank of China (PBC), there are four specialised state-owned banks and nine commercial banks in which the major shareholders and clients generally are big states enterprises. The largest specialised bank, the Industrial and Commercial Bank of China (ICBC), primarily provides working capital loans to urban industries and businesses. The People's Construction Bank of China (PCBC) provides commercial loans for investment in fixed assets and funds Ministry of Finance infrastructure projects. The Agricultural Bank of China (ABC) provides financing in rural areas, including the funds needed for crop procurement by the State. The Bank of China (BOC) is the PRC's main foreign exchange bank.

Of the nine commercial banks, the Bank of Communications and the CITIC Industrial Bank are by far the most important. Total asset of the commercial banks, some of which are collectively owned or are joint stock enterprises, was over 200 bn RMBY (28.3 bn ECU) at the end of 1992.

Total asset of the banking system were RMBY 4.7 trn (700 bn ECU) at the end of 1992.

¹ Exchange rates :
 At 1993 year end 1 ECU = 6.482 RMBY
 Annual average 1 ECU = 6.747 RMBY.

Detailed statistics on the assets of the state-owned banks are not available. The following table summarises available information :

Table 1 - Banking Sector Indicators Year 1992			
	Nr of banks	Assets (in bn RMBY)	Deposits (in bn RMBY)
State-owned banks	5	4564	2151
Commercial banks	9	200	115
TOTAL	14	4764	2266

Source : People's Bank of China, annual reports.

At the end of 1993, in Shanghai, there were 26 foreign bank branches and about 55 representative offices. In the special economic zones, there were 98 foreign-founded financial institutions, 295 representative offices and 3 joint-ventures banks.

Activity

Foreign banks are not allowed to carry out business in local currency and they may only participate in wholesale banking in such areas as letters of credit, export credit and commercial loan syndication.

A subsidiary of a foreign bank, joint venture foreign finance company must draw 25% of the net profit after tax each year as reserve until the total amount of its paid-in capital plus reserve funds equals to its registered capital.

A branch of a foreign bank must keep 25% of its after tax profit in China to supplement its operating funds until the kept profit is equal to its operating funds.

The total amount of loans and other facilities granted by a foreign bank, branch of a foreign bank, joint venture bank and foreign finance company to any enterprises shall not be more than 30% of its paid-in capital plus total reserves, unless otherwise specially approved by the People's Bank of China.

The total amount of investment by a subsidiary of foreign bank, a branch of a foreign bank, a venture bank and foreign finance company shall not be more than 30% of its paid-in capital plus its total reserves, unless approved by the People's Bank of China.

The total assets of a financial institution of the five types shall not be more than 20 times of its paid-in capital plus total reserves.

INSURANCE

Establishment

Foreign insurance companies are not allowed to establish in People's Republic of China except for the city of Shanghai in the form of a branch or a joint venture insurance company during an experimental period. Representative offices are allowed to be established outside the city of Shanghai.

The foreign insurance company wishing to establish must have acted as insurance company of more than 30 years, it must have had a representative office more than three consecutive years in China and it must have total assets of more than US\$ 5 bn at the end of the year prior to application.

Activity

A foreign insurance company must pay the equivalent of US\$ 4 mn in convertible currencies to the branch of the People's Bank of China in Shanghai.

The registered capital of a joint insurance company underwriting either life or non-life insurance shall be US\$ 20 mn or equivalent in other convertible currency.

Paid-in capital of a joint insurance company shall be no less than 50% of its registered capital.

A joint insurance company must draw 25% of the net profit after tax each year as reserve funds until the total amount of its paid-in capital plus reserve funds is twice as its registered capital.

The responsibility for each perilous unit in non life insurance underwritten by a foreign insurance institution shall not exceed 10 percent of its total net assets, the exceeded portion shall be transacted as reinsurance to other insurance institutions.

The investment of the branch of a foreign insurance company and the joint insurance company are subject to following limitations :

- . purchasing bonds issued by enterprises not exceeding 10% of its total investment ;
- . trust lending in foreign currencies (it shall have collateral or guarantee by financial institutions ; to each unit of equity its lending shall not exceed 5% of its total investment, the whole sum of its lending shall not exceed 30% of its total investments) ;
- . equity investment (not exceeding 15% of its total investment) ;
- . other business operations ratified by the People's Bank of China ;
- . the foreign insurance institution shall not conduct the compulsory insurance business.

	Life	Non-life	Total
Premiums (bn RMBY)	7.0	17.0	24.0
Premiums as % of GDP	0.3	0.7	1.0
Premiums per capita (in RMBY)	6.0	14.0	20.0

Source : SIGMA

The People's Insurance Company of China (PICC), which writes 98% of the country's insurance business, reported overall income in 1993 of RMBY 49.9 bn.

Shanghai has become China's top insurance market, with business amounting to 1.2 bn RMBY written during the first half of 1993, an increase of 54.7% over the same period in 1992.

SECURITIES

Establishment

Foreign securities firms may establish representative offices but are not allowed to establish subsidiaries or branches. Opening a representative office requires approval of the PBOC.

There are currently two securities exchanges in China, the Shanghai Securities Exchange and Shenzhen exchange. Both have grown rapidly since 1990. At the end of 1994 there were 2,554 seats on the Shanghai Securities Exchange and 163 listed shares were traded. At the Shenzhen exchange 76 listed shares were traded.

There is no domestic mutual funds market. Foreign banks may not sell foreign mutual funds or any other form of foreign securities to Chinese citizens or institutions.

Pension funds remain under government control.

Activity

Representative offices are limited to off-shore activities and, for stock exchange members, to transactions in "B" shares only.

They cannot underwrite "A" shares, government securities or non-government bond issues, nor can they purchase or act as dealers in the secondary markets for any form of RMBY denominated security.

Foreign firms are allowed to purchase seats on both the Shanghai and Shenzhen Securities Exchanges to broker "B" shares but they must work with domestic brokers for all of their transactions on the basis of a shared Commission.

Publicly offered stocks are segregated into two types of shares : "A" shares and "B" shares. "A" shares are issued by Chinese companies for sale exclusively to Chinese individuals and Chinese legal persons. "B" shares, which are denominated in Renminbi (RMBY) but must be purchased with foreign currency, are issued by Chinese companies for sale exclusively to non-Chinese. Aggregate market capitalisation of shares available for purchase by non-Chinese as of October 1994, was approximately \$ 1.95 bn ("B" share statistics are reported in US dollars).

Foreign investors seeking to purchase "B" shares must open an account with a foreign clearing house through an approved foreign broker. The overseas broker can then pass customers' orders to traders on the exchange floors or to a related local broker. In Shanghai all qualified domestic brokers can now trade "B" shares. Eighty "franchise B share brokers" currently trade in Shenzhen, of which 10 are foreign firms.

In addition to the two officially recognised exchanges, there are "securities exchange centres" in 18 of China's larger cities and two electronic trading systems, the National Electronic Trading system (NET)- and the Securities Trading Automated Quotation system (STAQ). Trading at "securities exchange centres", in Wuhan, Shenyang, Tianjin and other cities, is limited to government and corporate bonds only.

Turnover (in bn US\$)	13.3
Turnover as % GDP	3.1
Capitalisation (in bn US\$)	18.3
Nr of listed companies	53.0

Source : IFC (International Finance Corporation) Shanghai, Shenzhen Stock Markets

The two stock exchanges in China, in Shanghai and Shenzhen, grew explosively in 1993. The total number of listing on the exchanges more than doubled during the year, to 192 A-shares and 38 B-shares. A-share transactions totalled RMBY 3.27 trn, and the gross market value of B-shares traded amounted to RMBY 77.3 bn.