

The Foreign Policy Centre

The European Think Tank with a Global Outlook



Roundtable on

**China's Financial Services Industry:
Opportunities and Challenges in the
Second Phase of WTO Implementation**

30th October, Beijing

Co-hosted with
China Council for the Promotion of
International Trade
and

China Chamber of International Commerce



An Executive Summary of the Roundtable on China's Financial Services Industry: Opportunities and Challenges in the Second Phase of WTO Implementation

This was a high-level roundtable discussion held in Beijing on 30 October. The Roundtable was sponsored by the China Council for the Promotion of International Trade and China Chamber of International Commerce. Among others, it was attended by Mr. Wan Jifei, President of CCPIT, Alderman Robert Finch, Lord Mayor of the City of London, Mr. Mark Leonard, Director, FPC, Professor Yu Yongding, Director of IWEP of CASS and Member of the Monetary Policy Committee of the People's Bank of China, and senior executives from Chinese and foreign banks and from the China Banking Regulatory Commission.

The Roundtable was held against the background of China's entering its second phase of implementing WTO commitments, particularly in anticipation of the full opening of China's financial services industry in 2006. The Roundtable was organized as a combination of presentations and discussions. The main issues discussed were:

- ❖ China's financial service industry has been progressively opening itself since China's entry into the WTO three years ago. Many barriers have been either lowered or removed. Thirteen cities are open to foreign banks to conduct RMB related business, and more than 100 foreign banks are now involved. International financial institutions such as Citibank and Heng Sheng Bank have also become shareholders of Chinese banks.

- ❖ Reforms of China's banking sector aim at turning four largest state-owned commercial banks into joint-stock companies. For example, the Bank of China has been recapitalized and reorganized for an IPO next year. Moreover, the China Construction Bank used to have one shareholder, the Ministry of Finance, and it has now five shareholders.
- ❖ One key component of these reforms is to introduce strategic investors, at least one from overseas, into each of these commercial banks. The overseas strategic investor brings not only capital, but world-class management expertise, technology and corporate governance experience. This will enhance the competitiveness of Chinese commercial banks when China's financial services industry opens itself up in 2006.
- ❖ The reform of the capital market in comparison is a weak link. There is no definite timetable in the WTO for China's capital market reform. One success is China's implementation of Qualified Foreign Institutional Investors (QFII) to allow foreign financial institutions to invest in domestic stock markets. UBS was one of such first institutions, which has been allocated \$800 million quota.



- ❖ The existing problems for China's capital market are
 - 1. there are different kinds of shares;
 - 2. the governance structure of the market is still quite confusing;
 - 3. the state is still the largest shareholder of many companies on the stock exchange; approximately 2/3 of all shares are not trade-able.
 - More involvement of foreign investment banks and fund management companies is recommended for the reform and construction of China's capital market.

- ❖ There is a consensus for creating a level playing field for Chinese and foreign financial institutions in China. Chinese financial institutions, however, continue to experience discriminatory practices, or more strict regulatory regimes, in other financial markets, including London and New York.
- ❖ The full opening of China's financial services industry will bring fierce competition in 2006. The participants were divided on where the Chinese and foreign banks have their respective advantages and in which way this competition will increase the market efficiency.
- ❖ One challenge that the Chinese commercial banks will have to face is to be able to offer a comprehensive range of financial services to its clients. These include not just commercial banking, but also investment banking, insurance, assets management and fund management. This is where foreign banks will have a competitive edge.
- ❖ The largest Chinese commercial banks are not equipped to do this as yet. To enable China's commercial banks to offer these services, however, some new legislation needs first to be instituted.
- ❖ The challenge of the full opening of China's financial services industry in 2006 is formidable. China's reform of its banking sector will be painful. Many Chinese banks will lose their clients to foreign competitors. Some will go bankrupt. However, it is critical for China's next stage of development, which will be investment-led. The second stage of China's implementation of its WTO commitment, which will focus on financial sectors, presents both challenges and opportunities for China's deepening reforms as well as for the international financial institutions and investors.



Attendees

International

1. Alderman Robert Finch, Lord Mayor of the City of London
2. Mr. John Dennis, Deputy Head of Mission, British Embassy, China
3. Mark Leonard, Director, The Foreign Policy Centre
4. David Brewer, Senior Advisor of IFSL and Treasurer of CBBC
5. He Di, Vice Chairman of Investment Banking, UBS
6. Jacques Kemp, CEO, Asia Pacific, ING
7. Mathew Welch, Regional Head of Financial Institutions, Standard Chartered
8. Lance Browne, Chairman of Standard Chartered in China
9. Dr. Christoph Weber, Dresdner Kleinwort Wasserstein
10. Samuel Zavatti, Senior Executive VP and Global Head, Financial Institutions and Public Sector, ABN AMRO Bank
11. Toi See Jong, General Manager, Heng An Standard Life Insurance
12. Karman Hsu, Managing Director, Head of Corporate Finance, Asia, Cazenove
13. Eric I. Chan, Managing Director, OI International Limited

China

1. Mr. Wan, Jifei, Chairman of CCPIT/CCOIC
2. Mr. Zhang, Wei, Deputy Chairman of CCPIT/CCOIC
3. Mr. Zhu, Xinqiang, Executive Assistant President of CEO of Bank of China
4. Ms. Liu, Shulan, Vice President of China Construction Bank
5. Ms. Wang, Lili, Vice President of Industrial and Commercial Bank of China
6. Agricultural Bank of China
7. Ms. Ying, Fenglan, Executive Assistant President of CEO of Bank of China
8. Mr. Lan, Yadong, Director of Strategic Planning of China Life Insurance Company
9. Mr. Philip Young, Chief Investment Officer of Ping An Insurance Company of China
10. Mr. Li, Quan, Boshi Fund Management Company
11. Mr. Gao, Chuanjie, Director General of Non-Banking Supervision Department of CBRC
12. Mr. Yang, Zaiping, Deputy Director General of Rules and Regulations Department of CBRC
13. Mr. Xiao, Yuanqi, Director of Banking Supervision Department III of CBRC
14. Mr. Li, Zhaojun, Director of Non-Banking Supervision Department of CBRC
15. Ms. Zhangqi, Banking Supervision Department I of CBRC
16. Mr. Xie, Shikun, Deputy Director General of International Department of CSRC

Agenda

Time	Agenda
8:30-9:00	Reception
9:00-9:10	Welcome Remarks by Wan Jifei, Chairman of CCPIT
9:10-9:20	Welcome Remarks by Alderman Robert Finch, Lord Mayor of the City of London
9:20-9:30	CCOIC FSIC Introduction: Desmond Shum
9:30-9:40	Presentation by Liu, Shulan, Vice President of China Construction Bank
9:40-9:50	Presentation by He Di, Vice Chairman, Investment Banking, UBS
9:50-10:00	Presentation by Zhu, Xinqiang, Executive Assistant President of Bank of China
10:00-10:10	Presentation by Dr. Christoph Weber of Dresdner Kleinwort Wasserstein
10:10-10:45	Discussion Moderated by Desmond Shum & Dr. Yu Yongding
10:45-11:00	Coffee Break
11:15-12:15	Discussion Moderated by Desmond Shum & Dr. Yu Yongding
12:15-14:00	Lunch with Keynote Speech by Yu Yongding
14:00	Close