現代社会文化研究 No.37　2006 年 12 月

China's State-owned Commercial Banks:
Reform and Foreign Capital Participation

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要　旨

近年、中国の金融改革は国有商業銀行の改革を中心に進んでいる。国有商業銀行の改革のプロセスは三つの段階が制定されている。すなわち、 不良債権処理、株式制銀行への転換と株式上場である。そこで、国有商業銀行は改革目標を達成するため、さまざまな方法を推進しており、特に、外国資本の役割に注目している。外国資本の中国国内銀行への参入は、すでに 10 年前から動き出していた。それは、中国政府が政策として推進してきたことである。その狙いは、中国の国内銀行と外国金融機関との協力を通じて、ウィンウィンを実現することである。本論文の目的は外国資本参入の歴史的経緯とその参入形式を明らかにすることである。まず、外国資本が中国の国内銀行へ参入する三つの時期の特徴を考察する。次に、中国の国内銀行と外国金融機関のそれぞれの戦略的動機を分析する。さらに、その戦略的動機を基に、外国資本が中国の国内銀行への参入形式を分析する。最後に、近年の動きとして、中国四大国有商業銀行の外国資本参入の現状を概観する。

Keywords: Foreign Capital Participation, Strategy motivations, Forms of foreign capital participation

Table of Contents

Introduction

Through examining the process of foreign capital participation in Chinese domestic banks and the feature of each period, to classify the strategy motivations of Chinese domestic banks and foreign strategic investors, and analyze the main forms of foreign capital participation in Chinese domestic banks are the main objective of this paper.

Because Chinese banks inviting the foreign strategic investors has not been long, and foreign capital participation in the four state-owned commercial banks' (henceforth, SOCBs) is in last year, not so many literatures can be found on this subject. Asiamoney (Sep 2005), gives four strategies of the foreign investors; Hope and Hu [2006] points out the foreign strategic investors' strategic fit; Wang, Jia, Zhang [2003] only gives the forms of foreign capital participation. However they haven't classified and analyzed them minutely. In this paper, the author will do that, using some related matters.

Lagging significantly behind those in the real economy, China's financial sector reform has been proceeding in the past two decades. After the Asian financial crisis in 1997～1998, the reform accelerated to aiming at improving the health and the safety of the banking system. In the year 2001, China joined World Trade Organization (WTO), and as a result, China committed that by the year 2006, the country's entire banking system would be subject to fair market competition. However, China has been confronted with serious structural problems, such as the accumulation of non-performing loans (henceforth, NPLs) in the financial institutions, lack of modern credit-risk management techniques and corporate governance, undeveloped legal system.

In China, at present, the total loans of banking industry accounts for over 90% in the whole Financial market; furthermore, the four SOCBs- Bank of China (BOC), China Construction Bank (CCB), Agricultural Bank of China (ABC) and Industrial and Commercial Bank of China (ICBC), continue to dominate China's banking sector, with the market share of 53.45% of loans and 59% of deposits corresponding to entire China's banking sector in the year 2004[1]. Under such a financial structure, if the reform of SOCBs cannot achieve a big breakthrough, it is disadvantageous for the development of the entire national economy.

Therefore, the reform of SOCBs is most important in China's financial reform. In recent years, the financial reforms have advanced centering on the reform of SOCBs. Li Ruogu, vice president of the People's Bank of China (PBC), points out three steps of the SOCBs' reform: the first step, solving the NPLs and internal management structure problems; the second step, following the principle of corporate governance, carrying on the joint-stock system transformation; the third step, going listing. To achieve the target, a variety of methods were propelled[2]:

In 1998, Renminbi (RMB, Chinese currency) 270 billion ($32.6 billion) worth of special government bonds were issued to recapitalize the four SOCBs. In 1999, RMB1.394 trillion (US$168 billion) worth of NPLs off-loaded from the four SOCBs at book value to respective asset management companies (henceforth, AMCs). At the end of 2003, the CPC (Communist Party of China) Central Committee and the State Council, through the Central Huijin Investment Company, which is a separate component company of PBC, injected US$22.5 billion worth of foreign exchange reserves into BOC and CCB respectively, whom were selected as the pilot banks to test the viability of transforming the state-owned banks into internationally competitive joint-stockholding banks. In June 2004, the second off-load of NPLs was done from the two banks to Cinda AMC, with a face value of RMB 278.7 billion (US$33.7 billion). In April, 2005, a total of US$15 billion of the country's foreign exchange has been allocated to the ICBC for its reform. And then, BOC and CCB back and forth in August and September, 2004, ICBC in October 2005, were converted into joint-stock banks.

With the advancement of the SOCBs' reform, the role of the foreign capital is attracting attention. Foreign capital participation in Chinese domestic banks has already started about 10 years ago. However, for the first 6~7 years, there were only some financial institutions trying to seek out high-potential investment opportunities. Since 2003, the powerful European banks and American banks have been coming one after another, cooperating with Chinese domestic banks, to build their platforms in mainland China.

In the progress of the reform of SOCBs, foreign investor's functions have been being gradually valued. The government entertains some restrictions to impel the cooperation between Chinese domestic banks and foreign financial institutions and to realize a win-to-win result. Chinese domestic banks take a fancy to the advanced managerial experience, the foreign currency superiority, abundant experiences on human resources management and so on. They anticipate that the participation of foreign capital will improve the structures of shareholding and corporate governance. Therefore, entering 2005, foreign capital eventually, began to participate in the four SOCBs. Up to now, three of the four SOCBs have found foreign partners. The objects chosen by foreign investors spread from small-scale local commercial banks and joint-stock banks, to large-scale commercial banks including listed banks, nationwide joint-stock banks and SOCBs rapidly.

After a series of joint-stock reforms and establishment partnership with foreign strategic investors, came to the year 2005, state-owned banks' first initial public offering (IPO), Bank of Communications' (BOCOM) US$2.17 billion on the Hong Kong Stock Exchange was realized in June. And soon after that, CCB attained its listing on the Hong Kong Stock Exchange in November. An effect of the listing is that, as producing the diversification of the financing method, the bank is always exposed to foreign investors' monitoring.

Joint-stock reforms, foreign capital participation, and IPO on the international stock exchange, are the consequence that SOCBs' reform keeps deepening. However, now, SOCBs are still on the first stages to establish a modern corporate system. Though the reform took the first step aiming at the success, the road of the future is still long.

After the listing of SOCBs, the government should grip the appropriate chance to release the state-owned stakes of the banks gradually. As a result, it might be an improvement of the shareholding structure and the internal corporate governance mechanism in SOCBs further. In short, SOCBs' reform is to realize privatization in the end.

This paper is organized as follows:

The first section, studies the transition of regulations about foreign banks' entry into China, and examines the process of foreign capital participation in Chinese domestic banks and the feature of each period. The second section, analyzes the strategy motivations of Chinese domestic banks and foreign strategic investors. The third section, classifies and analyzes the main forms of foreign capital participation in Chinese domestic banks. The forth section, current news is collected to examine the state of foreign capital participation in SOCBs.

Ⅰ Foreign institutions' entry into China

1. China's banking liberalization process

1-1 Before China's entry into WTO

After the founding of the People's Republic of China (PRC) in 1949, PBC gradually became the sole bank. Banks owned by the old government were taken over by PBC; private banks were turned into banks jointly owned by private shareholders and the state; and most foreign banks left China. Only four foreign banks remained in Shanghai. They were the Hong Kong and Shanghai Banking Corporation, the Chartered Bank, the Bank of East Asia and the Overseas-Chinese Bank (Wang [1998]).

The Chinese government has been very conservative in allowing foreign bank entry until the adoptability of the policy of economic reform and opening up. In the late 1970s, the central government began to be conscious of the requirement of developing a competent banking system to satisfy the demand of the economic reforms and took immediate steps. In this period, in order to introduce foreign capital, employing foreign banking services could not be avoided. At the same time, foreign banks also needed to promote economic and financial relations between China and Western countries.

Representative offices became the initial investment vehicle for foreign banks coming to China. However, representative offices are only allowed to provide introductions, contracts and service promotion for their head offices' cross-border supply of banking services and they are prohibited from undertaking profit-making activities, though they can eventually help their head offices set up branches, subsidiaries or joint ventures in China (Chen [2000]).

In 1979, the Export-Import Bank of Japan was approved to set up one of its representative office in Beijing. After that, up to 1982, 31 foreign financial institutions had been allowed to set up representative offices in China to facilitate the growth of foreign trade and direct investment.

Since 1982, foreign banks have been allowed to open operational branches in Special Economic Zones (SEZs). In the same year, the Nanyang Commercial Bank (Hong Kong) opened the first foreign bank branch in Shenzhen. In the following years, many foreign bank branches, foreign bank subsidiaries and banks jointly-funded by Chinese and foreign investors were registered in China.

In 1985, foreign banks were further allowed to operate branches to attract foreign investment, with limited operational scope, in the four SEZs set up in Shenzhen City, Zhuhai City, Shantou city, and Xiamen City in southern China. In 1990, Shanghai was also formally opened to foreign banks.

In August 1994, China further opened 11 inland cities to foreign financial institutions: Beijing, Shenyang, Shijiazhuang, Xi'an, Chengdu, Chongqing, Wuhan, Hefei, Hangzhou and Kunming. During this period of greater market orientation, there has been an influx of foreign banks into China.

By the end of 1996, there were a total of 64 foreign banks, from 15 countries, with branches and a further 72 foreign banks, from 13 countries, which had established representative offices only (Leung, Rigby and Young [2003]). The transition of the number of foreign banks, branches and assets was showed in Table 1.

Table 1 Number of foreign banks, branches and assets during 1985 to 1996

Year	Banks	Branches	Assets (US$ million)	Assets per branch (US$ million)
1985	6	6		
1986	12	14		
1987	14	17		
1988	16	19		
1989	17	20		
1990	18	24		
1991	23	37	4290	115.9
1992	29	52	5530	106.3
1993	42	79	7580	95.9
1994	50	95	11840	124.6
1995	56	113	19140	169.4
1996	64	129	26000	201.6

Sources: Leung, Rigby and Young [2003].

Afterwards, the geographical limitations and business restrictions were relaxed. Foreign banks were first permitted to make deposits and loans in local currency Renminbi in the Shanghai Pudong New Zone in 1996, and later in Shenzhen Special Economic Zone on individual application basis. In 1998, PBC permitted eight foreign licensee banks to obtain local currency funding. In 1999, foreign banks were further allowed to conduct local currency business in neighboring regions.

By the end of 1999, 19 foreign banks in Shanghai and six in Shenzhen had permission to conduct local currency business, eight of which had also been given access to the Renminbi inter-bank market (Chen [2000]). The 25 foreign banks had totals of 21,813 million yuan in assets, 11,341 million yuan in loans, and 15,100 million yuan in deposits; and the total assets of all foreign banks in China reached US $32,844 million (nearly RMB 272 billion) by 1999 (Berger, Hasan, Zhou [2005]).

1-2 Transition of regulations about foreign banks' entry into China (after China's entry into WTO)

China's WTO entry further prompted openings in the banking sector to foreign banks. Immediately before China joined WTO, the PBC promulgated formally *Contents and Time of Chinese Financial Institutions Opening after Entering WTO*[3] on Dec.1st, 2001. Then in December, the same year, the State Council has promulgated the instruction, *People's Republic of China Ordinance on Management of Foreign Capital Institutions*[4] (henceforth, Ordinance). Soon after that, PBC promulgated *Detailed Rules on implementing the "People's Republic of China Ordinance on Management of Foreign Capital Institutions"*[5] on Jan.30th, 2002. In these rules, the administration interference was decreased, and foreign banks' sphere of management in China was expanded. They loosened the limitation on foreign institutions entering into China in certain respects.

Ever since China jointed WTO, China started to relax its banking industry rules and regulations to allow foreign banks to invest directly in domestic banks. PBC set a 15% limit on shareholding for any single foreign financial institution and 20% for all overseas financial institutions in a Chinese financial institution.

In 2003, China's banking supervisory authority - China Banking Regulatory Commission[6] (CBRC) - was established to oversee reforms and regulations. In order to encourage foreign share purchases, it promulgated the *Administrative Rules Governing the Equity Investment in Chinese Financial Institutions by Overseas Financial Institutions*, on December 8th, 2003, to updated guidelines. The new rules raised the rate to 20% for any single foreign financial institution and 25% for all overseas financial institutions[7], still leaving the state to be the biggest shareholder.

Presently, the Chinese banking industry's opening is experiencing two transformations: from capital introduction to technology introduction; from capital participation to business cooperation. In order to adapt the financial situation, the government entertains foreign strategic investors positively in order to impel the cooperation between Chinese domestic banks and foreign banks and to realize a win-to-win result.

Liu Mingkang [2004], the chairman of CBRC points out: "…foreign participation, besides bolstering banks' capital base, will help promote diversified shareholding structure of Chinese banks, big or small. Most importantly, it will be instrumental in improving banks' corporate governance and overall management at an accelerated pace." He also said, the inflow of foreign capital will help promote China's banking reform and sharpen the competitive edge of Chinese banks[8].

2. Process of foreign capital participation

Regulatory permission for foreign investors to hold minority stakes in domestic banks was forthcoming more slowly. As of now, the ways of the foreign institutions entering the banking marketplace in China, there are chiefly four forms:

i. establishing the foreign capital banks;
ii. establishing branches;
iii. having the shares of the Chinese domestic banks;
iv. establishing joint-capital banks.

Up to now, the main form of foreign institutions' entry was the second one. The number of foreign financial institutions in China reached 218 in 2004 (see Table 2). Since Asian Development Bank (ADB) paid 1.9 million dollars to get 3% of the China Everbright Bank's stocks in 1996, the cases of foreign capital participation in Chinese domestic banks has been increasing. Especially, after China joined WTO, the capital participation became the best alternative of the foreign large-scale bank groups entering China.

Table 2 Foreign Financial Institutions in China

	Foreign Bank	Subsidiary	Joint Venture Bank	Foreign Finance Company	Total
Subsidiary		14	10	3	27
Branch	162				162
Subsidiary Branch		9	4		13
Sub-Branch	15		1		16
Total	177	23	15	3	218

Data source: China Bank Regulatory Commission [2004].

Beginning from ADB's Capital Participation in Everbright Bank, the capital participation of foreign financial institutions in Chinese domestic banks has already started about 10 years ago (Table 3). These 10 years can be divided into three periods according to the attitudes of foreign investors.

Table 3 List of Chinese Banks with a Foreign Ownership

Chinese Bank	Foreign Institutions	Date	Deal Size (UB$ million)	As % of the Chinese Bank
China Everbright Bank	ADB	October, 1996	19	3.03
Bank of Shanghai	IFC	1999	22	7
		November, 2001	25	
	HSBC		62.6	8
	Shanghai Commercial Bank (Hong Kong)			3
Nanjing City Commercial Bank	IFC	November, 2001	27	15
Xi'an Commercial Bank	Bank of Nova Scotia	September, 2002	7	5
	IFC		19.9	12.5
Shanghai Pudong Development Bank	Citigroup	December, 2002	67	4.6
Nanchang Commercial Bank	DEG	January, 2003		
Fujian Industrial Bank Co. Ltd.	Hang Seng Bank	December, 2003		15.98
	IFC			5
	The Government of Singapore Investment Corporation (4.0%)			4
Shenzhen Development Bank	Newbridge Capital	May, 2004	149	17.9
Bank of Communications	HSBC	August, 2004	1,747	19.9
China Minsheng Banking	Temasek	Octorber, 2004	106	4.55
	IFC		24	1.2
	Hong Seng Bank			8
Ji'nan City Commercial Bank	Commonwealth Bank of Australia	December, 2004	17	11
Bank of Beijing	ING(19.9%)	March, 2005	215	19.9
	IFC(5.0%)	May, 2005		
Hangzhou City Commercial Bank	Commonwealth Bank of Australia	April, 2005	76	19.9
Bohai Bank	StanChart	September, 2005	76	19.9

Source: made by the author, using available evidences of news released.

2-1　1996-2001

The first period is from the year 1996 to 2001. As purchasing stock in Chinese commercial banks was prohibited, each equity investment in a Chinese commercial bank has been undertaken pursuant to case-by-case approvals of the State Council acting on the advice of China’s central bank and commercial banking regulator, PBC (Howson and Ross [2003]).

Some typical examples of this period are:

Asian Development Bank (ABD) owned 3% stake of China Everbright Bank[9] in 1996;

International Finance Corporation (IFC) acquired 5% stake of Shanghai bank[10] in 1999;

ADB purchased 15% stake of Nanjing City Commercial Bank[11] with 27 million dollars in 2001, setting the highest record of foreign equity proportion at that time.

Hongkong and Shanghai Banking Corporation Ltd. (HSBC), the world's local bank, acquired 8% stake of Shanghai Bank in 2001.

However, this capital participation was so few, not only in the amount of capital, but also in the ratio of stocks.

We can say that, in this period, total equity investment by foreign investors in the domestic banks was minimal due to stringent license granting policies and regulations. On the other hand, foreign investors knew the Chinese market was very large, but they didn't know how large the risk was. Therefore, there were no business discussions of cooperation, but some non-profit international organizations who were trying to seek out high-potential investment opportunities.

2-2 2002-2003

The second period is from the year 2002 to 2003. The current phase changed in 2002 as China joined WTO at the end of 2001. China committed to open up its banking industry and decide a timetable: five years from 2002 to 2007 are transition periods, and after 2007, the foreign capital bank can enjoy the same treatment as a domestic bank.

Foreign banks have been establishing their presence by setting up branches, joint-venture banks or wholly owned banks in China since China opened its door in 1979. However, they are still not permitted to conduct banking business in the same scope as domestic banks. Though gaps are gradually narrowing, foreign banks still face difficulties in reaching new customers. Acquiring minority equity stakes of domestic banks and establishing business cooperation becomes a shortcut for foreign banks planning to enlarge market shares.

Foreign investment in domestic banks became intensified in 2003. The most typical example is: through one year's negotiation, Citigroup purchased 4.6% stake of Shanghai Pudong Development Bank[12] (SPDB) with 67 million dollars in January, 2003. Then in November, 2003, its share increased to 5%. The business cooperation between them started from the credit card. They also promised that Citigroup had the right to raise the share of the stocks to 24.9% by 2008. Citigroup became the first foreign bank that participated capital to Chinese domestic banks as a strategy investor.

Afterwards, the powerful European banks and American banks came one after another, investing in the

Chinese banks, and building their platforms in mainland China (Table 3). At this time, the foreign banks have not only been the roles of financial investors any longer but partners of the business cooperation.

2-3　2004-present

The third period is from the year 2004.

In May, 2004, after several twists and turns, the US firm Newbridge Capital Group[13] paid US$ 150 million for a 17.89% stake in Shenzhen Development Bank[14] (SDB), and became the largest shareholder of the bank. Foreign capital participation entered a new stage due to this event. The foreign capital came to be the largest and controlling stockholder of a national domestic bank in China for the first time and moreover, the bank is also the national listed commercial bank.

In August, 2004, HSBC agreed to purchase 19.9% stake of Bank of Communications[15] and it secured the right to double this share when regulations allow. However, after the investment, the Ministry of Finance increased its shares so that it remains the largest shareholder, potentially a sign that that the Chinese government remains caution about foreign investment in banking (Berger, Hasan, Zhou [2005]).

Afterwards, a few of the 12 JSCBs, as well as three of the SOCBs– CCB, BOC and ICBC have invited to foreign strategic investors.

The objects chosen by foreign investors spread from small-scale local commercial banks and joint-stock banks, to large-scale commercial banks including listed banks, nationwide joint-stock banks and SOCBs rapidly, in a hope to be well-positioned for the eventual full opening of the banking industry to foreign competition in late 2006. Chinese banks are being encouraged to seek such partnerships to help build up capital and improve management.

Ⅱ Strategy motivations of Chinese domestic banks and foreign strategic investors

1.　What attracts foreign investors to Chinese banks?

China's huge potential is attracting the world's banks, but at the same time various problems still exist. The first one is the NPLs problem. Though NPLs as a proportion of the total loan portfolio continues falling, it concerns not an improvement in the banks' operating environment and lending practices, but an increase in the total number of loans made during the period. Standard Chartered Bank (StanChar) estimates that only 25% of the decline in the NPL ratio is due to loan growth in 2004, while 75% is attributable to a decline in

NPLs (*Emerging Markets Monitor* [2005]).

Moreover, some Chinese banks still lack modern credit-risk management techniques; On top of that, the government allows them to keep lending to unprofitable SOEs in order to keep tens of millions employed to maintain political stability. So the possibility is high that they may continue to offer loans to questionable borrowers, which could potentially lead to new rounds of defaults in the future. According *Economist* (4/23/2005), between the start of 2001 and early 2004, China went on an almighty credit binge: at the state's behest, banks lent enormous sums for new factories, roads and airports, many of which will never make money. Moreover, it gives other reports' suggestion that RMB 95 million of banks' car loans, or 50%, are overdue.

Beside those above, the roadblocks to foreign-bank penetrations are numerous geographical and deposit limitations, high regulation fees, a lack of rule or law, due diligence and corporate governance, an undeveloped legal system, no central registry to track consumer credit, and anticompetitive laws can be enumerated (Karen [2002]).

Brennand, Tang, and Beal [2005] addressed five basic imperatives that for foreign financial institutions considering entry into China: Invest the time effort to learn about the Chinese market; Build "China capabilities" institutionally and culturally; Develop a full set of strategic options; Explore the growing importance of linkages between banking and other financial services, such as insurance; Think through a path to profitability in China, considering various market scenarios.

While considering the existence of the above-mentioned roadblocks, most foreign investors investing in China have the expectation that the huge Chinese consumer market is to be generated in the future. That is why they know China's market is full of element of the unknown, the strategic intentions of foreign investors came one after another and have been launching out into the investment of Chinese domestic banks. For them, to expand franchise and increase the scale of management in short time, cooperating with Chinese domestic banks is the best way.

First, foreign investors know that, in China, networks are indispensable for making a large-scale development matter in the future. Chinese banks usually have long-standing relationships with local clients, and even government officials[16]; they have achieved a considerable market share; they always have their branches distributed in nationwide various places and know domestic market well, so they have strong distribution capacity and perfect ability to ensure financial resources for RMB capital source.

Secondly, though geographical restrictions on RMB business by foreign branches are to be removed completely by December 11, 2006, foreign banks will still face burdens in establishing branches in China, including onerous representative office seasoning requirements; branch-level capital reserve, liquidity, and deposit requirement; foreign exchange deposit/ foreign asset ratio limitations; and lengthy branch application procedures (Howson and Ross [2003]). With the time limit of Chinese market's opening approaching, first come, first served. As a result, the foreign investors realize that partnering with a Chinese institution could give it access to a larger network of branches in a much broader range of geographic markets.

One more, in recent years, that "middle class" expands rapidly in China, especially in big cities and coastal areas. Using the partnership established with domestic banks, the foreign investors aim at the profit by the retail banking, such as credit card business, which can be operated only by domestic banks.

Thirdly, the report of JCIF London Representative Office [2005] gives the reason why many European banks started to invest in Asian region, especially in China. It is that the bank sectors in Europe have been mature and in a saturated condition. It is not easy for the banks to achieve the integration advantage, because the custom is different in banking business and the use of bank service between each country of EU. So they turn their ayes to the Asian market, especially to the Chinese market where growth potential is high.

2.　Purposes of Chinese domestic banks inviting foreign investors

In order to become the winners in the competitive against foreign banks, Chinese domestic banks must establish a modern corporate system as soon as possible and connect with the international standard, carry out a wide, rigorous reorganization of internal operation mechanism. The foreign capital banks can provide the specialized technology and consulting service for this kind of omni-directional reorganization. Chinese domestic banks, through transferring a minority of stockholder's right to the foreign banks, may obtain their more determined and long-term consent to the reorganization. To put it concretely, there are three advantages:

First, it is advantageous to Chinese domestic banks in reinforcing inter-management and improving corporate governance.

It is always viewed as a highly cost-effective way to obtain an expert review of the subject bank's business capacity. Before taking an equity position in a Chinese bank, the foreign strategic investors will want to review the bank's financial position, analyze the scope and nature of its operations, and assess how it incurs and manages the risks in its portfolio. "It will form a view of the expertise of the bank's officers and extent to which the bank's performance can be improved through better training of the existing staff or by hiring people with better skills (Hope and Hu [2006])"

Increasingly, especially in corporate governance, the principle and the experience of advanced international banks are insufficient. In China, the joint-stock commercial bank system is still a new thing, and it doesn't have a history as long as the western countries. Therefore, it is necessary to learn and enrich the experience to construct the modern commercial banks. Establishing partnership with strategic investors, especially the international finance institutions with complete corporate governance, abundant management experience, and excellent management and company performance, will help promote Chinese banking industry's reform in corporate governance and management system.

Secondly, in China, as the financial market is undeveloped yet, the financial service cannot satisfy needs in providing financial instruments and technology. There are two reasons:

One is, being experienced a long-term of financial regulation, the commercial banks have not an enough motive of innovation. The foreign strategic investors can supply knowledge of how to measure the performance of the bank's personnel, and how to structure incentives to introduce and to reward better performance.

As for another, new products' development capacity of the commercial banks is limited. Financial products are few besides the deposit, and some areas are still blanks. Foreign strategic investors' entry can help domestic banks improve the development in this field. At the same time, they can supply expertise to help implement recommended new information systems and technology, and techniques for managing risk, and improve the management of the bank's human resources.

Thirdly, foreign capital participation helps the domestic banks enhance their public images in IPO, even in the whole banking industry reform. In major international capital markets, there are no Chinese domestic banks are well known. Foreign strategic investors' entry helps domestic banks win more credibility and reputation markedly. At the same time, as a result, the investment value of the listed banks will be raised, too.

Additionally, market demands for the risk evasion of the interest rate and the foreign currency exchange rate's fluctuations will increase day by day as the process of market interest rate and RMB' free exchange accelerates. It will lead to the development of derivative financial instruments based on RMB. The foreign strategic investors are able not only to offer global network of the agencies abroad, but also to offer advanced technology of new product development and employees with considerable experience. Through establishing partnership with them, learning the advanced management experience, and at the same time, seizing the opportunity of financial product innovation in the domestic market, Chinese domestic banks can promote and enhance their global management skills.

In short, the foreign participation was view as a potential source of valuable assistance in the following four respects (Hope and Hu [2006]):

i. promoting bank restructuring, such as, improving overall governance, control and management of operations, etc;

ii. enhancing banking skills through business cooperation, such as, introduction and marketing of new products, enhancement of asset quality, comprehensive, timely and accurate compilation of management information, better management of risk, stronger capital positions and better returns on equity, rehabilitation of the banks' reputations, etc;

iii. supplementing equity capital, without recourse to the fiscal budget, and

iv. boosting the status of Chinese financial institutions in domestic and foreign capital markets.

CBRC evaluates the introduction of foreign strategic investor high. Liu Mingkang [2004] said: "In fact, over the years, foreign financial institutions have been instrumental in changing the landscape of banking industry, bring in the new banking technology and expertise. Their presence has also provided impetus for the banking sector reform and restructure in China."

Regarding the Criteria for Chinese domestic banks in selecting foreign investors, in order to choose the proper strategic partners to offering a wide range of expertise, Chinese banks typically will use a range of criteria, including the categories: profile, strategic fit, management/cultural fit, core competencies, appetite for acquisition, and ability to pay (Table 4; Hope and Hu [2006]).

Table 4 Criteria Commonly Used by Chinese Banks in Selecting Potential Investors

Categories	Criteria	Relevancy/Benefits
Profile	• Asset size • Market cap • Financial Strength/credit ratings	• Strong world-class profile and powerful endorsement of Chinese banks • Financial strength provides long-term stability
Strategic Fit	• Strategic focus: Product, Customer, Geography • International revenues/profits as share of total revenues/profits • China strategy and presence • Expansion strategy (organic vs. mergers and acquisitions)	• Strategic fit as foundation for exploring and reaping benefits • Level of interest in Chinese banks • Only a subset of investors have an inter -national mindset and knowledge of Asia
Management/ Culture Fit	• Vision and capabilities • Cohesive management culture and disciplined management system • Interest in working with partners	• Willingness and ability to help Chinese bank to reinvent itself by committing management resources
Core Competencies	• Business mix: retail banking, corporate banking, risk control, wealth management • Cross-selling capabilities • Infrastructure • Distribution: IT, MIS, back office, operating and financial performance	• Availability of international best practices • Tangible benefits to Chinese banks in its execution of strategy
Acquisition Appetite	• Mergers and acquisitions Experience in financial services industry • Experience in minority stake investments	• Interest in committing to an investment in Chinese banks; willingness to negotiate reasonable terms
Ability to Pay	• Market cap • Impacts of potential investment on capital adequacy and earnings • Accounting treatment	• Indication of ability to pay for an investment • Impact on transaction structure (composition of investors)

Source: Hope and Hu [2006].

III Forms of foreign capital participation

Asiamoney (Sep 2005), gives four focuses of the foreign investors: product focus, narrow-based focus, private equity focus, and broad-based focus. Therefore, the forms of foreign capital participation are different depending on these strategic focuses.

The forms of participation are given 3 types: technical assistance, mutual advantage and stock-market speculation (Wang, Jia, Zhang [2003]).

Besides these above, looking over the process of foreign capital participation in Chinese banks, it is thought that there is an additional type: the strategy capital participation for the acquisition of management right in the future. So here, this paper will mention four forms of foreign capital participation.

1. Technical assistance

The first type is "twinning", an arrangement where a foreign financial institution contributes capital and helps identify and implement operating management changes in a weak domestic bank (Li and Mehta [2001]). The capital participation of IFC to Nanjing City Commercial Bank (NCCB) in 2001 can be seen as the case.

NCCB was established in 1996 through a merger of 40 urban credit cooperatives in the city of Nanjing and in 2001, it had 56 branches covering the city of Nanjing. 36% of NCCB was owned by the Nanjing City government and several state-owned enterprises, and the remaining 64% is held by private and non-state enterprises and individuals (including the 1,200 employees of NCCB). As one of China's 112 city banks, it has the same problems: no national banking license, localized bad loans, mounting losses, endemic corruption and a parochial attitude to outsiders (Asiamoney, Sep 2005). IFC's deal happened soon after China entering WTO in December, 2001. At that time, there was an urgent need to modernize the Chinese banking industry through the introduction of international banking standards and best practices. The IFC investment is up to US$30 million for an equity stake of up to 15% in NCCB, which was to date the highest percentage of shareholding by a foreign institution in a Chinese domestic bank. Two years later, the investment was singled out for special praise by Liu Mingkang.

The proposed project is intended to strengthen NCCB's capital base and assist the bank in its efforts to improve corporate governance, adopt international banking best practices, and become one of the best-managed commercial banks in China for emulation by other Chinese banks[17]. In the speech of Peter Woicke [2001], IFC Executive Vice President, the investment "demonstrates IFC's commitment to China's banking sector reform and modernization. … What is more important is that through the cooperation with IFC, NCCB will introduce international standards and banking best practices. Through technical assistance we hope we can help NCCB develop into a benchmark Chinese bank. The management of NCCB, with the support of their Board of Directors, has demonstrated their prudent management and risk control. This has been reflected in NCCB's good asset quality, high capital adequacy, and profitability in comparison with other Chinese banks.”

Besides this deal, the capital participation of the IFC to Bank of Shanghai in 1999, ADB to China Everbright Bank in 1997 and etc. can be seen as the case.

2. Mutual advantage

The second type is cooperation: the foreign investors obtain the considerable economic benefit through developing their own business operations and the profit space; at the same time, output their managerial experiences and offering technical assistance to the Chinese domestic banks. Citigroup’s capital participation in SPDB is this case. The main cooperation areas are those only opening to China while foreign banks want to enter early, such as, credit card business.

China started having a credit business when BOC became the agent of East Asia’s Credit in 1979. However, the country’s first bankcard was issued by BOC in 1985 and the first credit card was in 1995. According to the statistical data of PBC, by the end of 2004, China have already issued 762 million bankcards, 98 million of them are credit cards. The 2008 Olympics Game in Beijing, the 2010 World Expo in Shanghai, and the 2010 Asian Games in Guangzhou will bring unprecedented growth to these areas and China will need a modern, international payment system for the expected multitude of visitors (Peng, Pierrepont, Long [2005]).

Though foreign financial institutions have been allowed to invest directly in domestic banks since China has been relaxing its banking industry rules and regulations after joining WTO, the only way for them to issue credit cards in the Chinese market is to partner with a domestic bank.

The major U.S. card companies, Citigroup Inc. and American Express Co. have signed deals with Chinese banks. Citi’s deal is with SPDB, made in February, 2004. Citibank and SPDB launched their first credit card in China and became the first foreign lender to get a license to offer foreign-branded credit cards in China. These cards were first issued in four major coastal cities, Shanghai, Hangzhou, Guangzhou and Shenzhen.

Since 1996, American Express has been aggressively pursuing a strategy of opening its merchant network and card product portfolio to third party issuers around the world. In China, American Express’ deal is with ICBC, made in March, 2004. It began to issue dual-currency credit cards in December and its services were introduced in the major business central cities of Beijing, Shanghai, Guangzhou and Shenzhen. On the other hand, American Express gave ICBC American Express Card holders access to its worldwide merchants network.

Dutch banking and insurance group ING, a global financial institution of Dutch origin offering banking, insurance and asset management, paid a total of RMB1.78 billion (US$215 million) in March, 2005 for a 19.9% stake in Bank of Beijing, one of the largest city commercial banks in China. The total assets of Bank of Beijing at the end of 2004 were RMB209 billion (about 25.7 billion US dollars). ING was keen to adapt its regional insurance products to the Chinese capital's middle-class. ING said: "This investment will allow ING to deepen its penetration into the Beijing market and provide us with a platform to sell a range of insurance and investment products to an increasingly affluent customer base" [18]. And Yan Bingzhu, the bank's president said the introduction of overseas shareholders will not just bring abundant capital to the bank, but advanced technologies and management know-how as well which will help enhance its presence in Beijing and across China, and cement ties with its overseas partners[19].

One more case in this type is to gain a foothold in China, like Allianz collaborating with Goldman Sachs to take a 10% stake of ICBC. Allianz Group, one of the world's leading insurers and financial services providers, provides its more than 60 million customers in more than 70 countries worldwide with a comprehensive range of services in the areas of property and casualty insurance, life and health insurance, asset management and banking. Allianz offers ICBC retail banking knowledge and provides leading bank assurance products and services to the Bank's clients.

The capital participation of BofA in CCB and RBS in BOC is also this case. Though the investment is large, they are only as minority stockholders of the large SOCBs. BofA and RBS have no enough experience in Chinese market, so they selected the business strategy of obtaining an advantage by uniting with the state-owned banks that have a big network in China.

3. Stock-market speculation

In the third type, the foreign investors are always risky investment institutions. Their final purpose is to acquire the profit by selling the stocks they bought. Newbridge Capital Group, Goldman Sachs Group are seen as this type.

Newbridge Capital Group, a strategic financial sponsor, its investment in Shenzhen Development Bank Co., Ltd., is thought as this case. Although Shenzhen Development is a relatively small operation in terms of capital, it has established an operation network throughout major cities on the mainland and authorized to operate all banking businesses. Newbridge takes a fanvy to its huge expansion potential. As a success of investments in the banking sector, it turned the First Bank of Korea, which had been losing more than US$1 billion annually, into a lucrative operation with a net profit of over US$300 million just a year after it bought 51% of the bank's shares[20].

Goldman Sachs Group, Inc is one of the oldest and largest leading global investment banking, securities and investment management firm, with its headquarters in New York. It provides a wide range of services worldwide to a substantial and diversified client base that includes corporations, financial institutions, governments and high net worth individuals. According to Goldman Sachs' investment in ICBC in 2005, Asiamoney (Sep2005) said: "in tandem with Allianz, also marks a seismic shift for Goldman's private equity arm- away from the technology micro-investment of the 1990s, and back toward the sort of high-risk jumbo investments they used to do so well".

4. Acquisition of management right

In the fourth type, the foreign investors are always those who have already had a constant experience and managerial expertise in the Chinese market. Their capital participation is near to the permissible limits for a single overseas financial institution's equity investment proportion (20%) in a Chinese financial institution. They aim at the acquisition of management prerogative when the foreign investment limitation is eased in the future. The capital participation of HSBC (19.9%) in BOCOM and StanChar (19.9%) in Bohai bank, apply to this type.

StanChart has been in China for 150 years, but has little to show for its fervor or its patience. Although it is the second biggest foreign bank in China after HSBC, StanChart has just eight branches and five representative offices on the mainland (Economist, 11/20/2004). StanChart's profits have grown quickly in the past three years and its shares are riding high. With most of the world's top lenders entering one after another to gain a foothold in China, it is no wonder that StanChart is eager to do a deal with a Chinese bank. While as a middle-sized bank with shallow pockets, to keep rising, it always risks losing out on the largest and most attractive deals, so what it needs to do is something bold but not rash.

StanChart is to acquire 19.9% to help set up Bohai Bank. The controlling shareholder in Bohai Bank is TEDA Investment Holdings, a company controlled by the government of Tianjin. StanChart will become the first foreign bank to help set up a Chinese bank since 1949. It is also the bank's first investment on the Chinese mainland. StanChart will be the sole strategic investor and the only one, and it will participate in managing the bank.

Besides StanChart, Citigroup and HSBC belong to this type.

Ⅳ Foreign investors in the SOCBs[21]

In the progress of the reform of SOCBs, foreign investor’s functions have been being gradually valued. Entering 2005, foreign capital eventually, began to participate in the four SOCBs. Up to now, three of the four SOCBs have found foreign partners (Table 5). Details as following:

Table 5 Major Foreign Investments in China’s SOCBs
(As of June 2006)

SOCBs	Investor	Amount (US$ Million)		% of Total Stakes
CCB	Bank of America (US)	3000		9
	Temasek (Singapore)	2400		7
BOC	Royal Bank of Scotland (UK)	1600		5
	Merrill Lynch (US)	750		2.5
	Li Ka-shing Foundation (Hong Kong)	750		2.5
	Temasek (Singapore)	3600	(+)	10
	USB (Switzerland)	500		1.6
	Bank of Tokyo-Mitsubishi UFJ (Japan)	180		0.6
ICBC	Goldman Sachs (US)	3000		10
	Allianz (Germany)			
	American Express (US) & others (*)			

Source: Chris [2005], p41; Kwan [2006]; Xinhua, Http://www.xinhua.org
Notes: (+) includes US$500m investment at IPO
(*) preliminary terms only

1. CCB: Bank of America (BofA) and Temasek holdings

BofA, one of the world’s leading financial services companies, invested US$ 2.5 billion in CCB in June, 2005, and earmarked an additional US$ 500 million to maintain its ownership level when CCB proceeds with the planned IPO, for a roughly 9% stake in it. BofA received an option to increase its stake in the coming few years to 19.9% at the price of the shares in the CCB’s IPO, approaching to the ceiling set by China’s banking regulator for investment by a single foreign bank.

For CCB, BofA is an example to learn from for his bank in establishing a commercial bank culture "with customers as the center and market as the orientation", said GuoShuqing, chairman of CCB, and Chang Zhenming, CCB's president said he believes that the partnership will turn the CCB into a modern commercial bank with strong competitiveness globally[22].

While for BofA, the huge distribution network (14,500 bank branches and 12,500 ATMs), the retail accounts (136 million), and the relationships (with 92 of the top 100 business enterprises in China) are attractive. "We are looking toward future opportunities in the consumer market, such as a joint venture among CCB, Bank of America and our new partners at MBNA to provide credit cards in China. And, … , we believe the relationships we make in China today will reveal new opportunities in the future.", said Kenneth D. Lewis, Chairman and Chief Executive Officer of BofA[23].

Then after, Temasek Holdings, the investment arm of the Singapore government, bought into CCB in August, 2005, spending US$1.47 billion (S$2.5 billion) for 5.1%. In October, it bought another 3.67 billion shares during the bank's initial public offer at HK$2.35 apiece - a total investment of HK$8.63 billion (S$1.87 billion) or US$1.11 billion. Temasek helps CCB improve corporate governance and will be able to nominate candidates for election to the board of directors[24].

2. BOC: Royal Bank of Scotland Group (RBS), Merrill Lynch, ADB, Li Ka-shing, Temasek and UBS Investment Bank

RBS, one of the world's leading financial services providers and one of the oldest banks in the UK, acquired a 5 % stake in BOC - for US$1.6 billion in August, 2005. It enters into broad cooperation in a range of areas in the development of financial products, including credit cards, wealth management, corporate banking and personal insurance. In addition, they intend to establish a close relationship in major banking managerial areas, including corporate governance, risk management, financial management, and human resources management and information technology. "BOC will provide infrastructure and a customer base, while RBS will offer product and market knowledge," said Fred Goodwin, RBS chief executive officer[25].

For BOC, "RBS is an ideal partner," said Xiao Gang, chairman of BOC, the establishment of partnership is "a substantial step in BOC's joint stock reform, crucial to transforming operational structure, enhancing internal management, improving competitiveness and promoting profitability."[26]

For RBS, the investment gives RBS an entry ticket to China. "The RBS Board believes the size and growth of China represents an important opportunity. The combination of BOC's brand, distribution and customer base with RBS' product and operational strengths and experience will be powerful in the Chinese market," said RBS chairman Sir George Mathewson[27].

RBS, Merrill Lynch and the Li Ka-shing Foundation bought US$750 million (HK$5.85 billion) stake to acquired 10% in BOC for a combined 3.1 billion dollars.

UBS, Switzerland's largest bank, acquired a US$ 500 million for around 1.6% stake in BOC in September, 2005, as part of a strategic partnership between the two banks. They form a mutually beneficial strategic cooperation in various investment banking and related securities business areas in China and for Chinese clients, and in addition cooperate in operational matters relating to these business areas.

UBS regards the partnership is natural development of its long-term relationship with Bank of China. UBS said, "The combination of Bank of China's brand, distribution and customer base with UBS7s products, services and experience will be powerful and the investment is part of UBS's strategic approach of pursuing a number of ventures in the China markets aiming to capture growth potential."[28]

Besides the foreign investors above, in February, 2006, Temasek paid US$1.52 billion for its 5 % stake in BOC.

Merrill Lynch Investment Managers (MLIM) became the first foreign institution to list a mutual fund on China's exchanges. The venture, called Bank of China International Investment Managers was established with BOC International China Limited (BOCICL) and BOC International Holdings (BOCIH). Merrill owned 16.5% of the venture, BOCIH owns 67% of the venture. Hongkong-listed BOC (Hong Kong) owns the remaining 16.5%.

MLIM will contribute management expertise to the joint venture and will provide technical assistance and fund management know-how. This will cover all aspects of running a fund management business ranging from investment process through sales and marketing and product development to compliance, training and IT. The joint venture company will be based in Shanghai.

3. ICBC: Goldman Sachs Group, Inc., Allianz Group and American Express Company

ICBC became a joint-stock company in October, 2005, assuming all business and relevant assets and debts of the former solely state-owned bank. The Ministry of Finance (MOF) and Central Huijin Investment Co. Ltd.[29], each hold a 50% stake in the new ICBC.

ICBC announced strategic investment and partnership agreement with the three foreign investors on Jun.27th, 2006, which include investments totaling US$3.78 billion, a 10% stake in ICBC and wide ranging strategic cooperation initiatives. The strategic investments will be made through the subscription to newly issued ordinary shares in ICBC. Under the agreements[30], each of the strategic investors will cooperate with ICBC across a range of business and management areas.

Goldman Sachs, one of the oldest and largest global investment banking, securities and investment management firm, with its headquartered in New York, will assist ICBC to develop further the bank's corporate governance, risk management and internal controls, as well as to provide expertise to enhance ICBC's capabilities in treasury, asset management, corporate and investment banking, non-performing loans disposal and product innovation.

Mr. Henry M. Paulson, Jr., Chairman and Chief Executive Officer of Goldman Sachs, said: "Today's agreement strengthens our long-standing commitment to ICBC and to China and its financial sector reform. This represents the beginning of what I am sure will be a long and successful relationship between our organizations".

Allianz Group (German), one of the world's leading insurers and financial services providers, will cooperate with ICBC to provide leading banc assurance products and services to the Bank's clients.

Mr. Michael Diekmann, Chairman of Allianz Group, said: "China is a strategic market for Allianz and this partnership emphasizes our long-term commitment to the market. This is an excellent investment opportunity that also offers a platform for our strategic expansion in China. Through this agreement, Allianz will become one of ICBC´s most important insurance and investment product providers".

While American Express, a diversified worldwide travel, financial and network services company, and also a world lender in charge and credit cards, Travelers Cheques, travel, and business services, will continue to develop their existing strategic cooperation with ICBC in the bank card business. American Express will provide technical and operational expertise. And most importantly, it gives ICBC American Express Card holders access to its worldwide merchants network.

"ICBC has been an excellent card issuing partner for American Express, and we are delighted to deepen our strong, strategic relationship," said Kenneth I. Chenault, Chairman and Chief Executive Officer of American Express. "This investment is a reflection of our confidence in our partner, ICBC, our strong interest in the Chinese market, and our deep commitment to support this market through quality products and services for Chinese consumers that satisfy their growing needs".

Mr. Jiang Jianqing, Chairman of ICBC, assesses the partnership "marks a new beginning for ICBC's corporate governance reform and business development".

From the cases of the above-mentioned three SOCBs, we can see a remarkable feature. Most small and medium-sized domestic banks always have the foreign partners like international famous multinational commercial banks. On the contrary, the SOCBs' cooperating partners are large-scale investment banks or unremarkable foreign commercial bank in their district.

The author thinks that the feature reflects the senses of the government and Chinese banks. That is "Aversion of Competition". After 2006, Chinese banking industry will open up thoroughly. At that time, the international famous multinational commercial banks can develop their business directly in China, and compete with SOCBs. Therefore, if the SOCBs share their precedence, the local network to the strong foreign partners and take the cooperation, they are likely to fall into a weak position to confront the direct competition in the future.

Conclusions

In order to promote a "win-to-win" result, Chinese domestic banks' positively introducing the foreign capital should choose suitable strategic partners, as considering their strategic motivation. In short, the introduction of foreign investors is to achieve three targets: firstly, raising efficiency and profit. After foreign capital participating in Chinese domestic banks, the two will form a "joint interest group", sharing both benefits and risks. Therefore, foreign investors will prevent the Chinese domestic banks' non-marketplace conducts so that the domestic banks' cooperate governance structure will be improved. Secondly, maintaining a long-term cooperation and avoiding pursuing a short-term profit, to achieve a long-term stable development of the banks. Thirdly, clarifying the commercialization management, and establishing and completing a modern banking system to realize a long-term stable development of national economy.

Up to now, three of the SOCBs, BOC, CCB, and ICBC have transformed from state-owned banks into joint-stock commercial banks. CCB attained its listing on the Hong Kong Stock Exchange in November, 2005. CCB's IPO on the Hong Kong Stock Exchange not only show signs of Chinese banks going out of the country and beginning to run to international, but also give indications of the state-owned banks' reform accelerating. The development of CCB in the future will be an important example that the state-owned banks' reform will succeed or fail.

Up to the present, though the transformation of joint-stock system, and SOCBs' IPO have been favorablely advancing, SOCBs only take a step forward, not reaching the end of the reform. China has advanced the transformation from the Centrally Planned Economy to the Socialist Market Economy under the policy of reform and opening up from the end of 1978. The movement accelerated since 1992 when Deng Xiaoping visited the south and made his speech. Socialist Market Economy means intending the management of a market economy, while maintaining in a public shareholding system and the socialism system.

However, as the financial reforms are promoted, it is impossible to run away from the conflict of the public ownership system and proprietary right. From the perspective of corporate governance and risk management, the separation of ownership and management is indispensable. Therefore, after the four SOCBs complete their listing, the government should see a good opportunity to withdraw the state-owned capital from the bank gradually. As a result, stockholder structure will be improved and the domestic and foreign strategic investors, who attach great importance to the profit acquisition and risk aversion, will become the large shareholder of the bank. Moreover, the money from releasing a part of state-owned stocks can be used to defray the NPLs off-loaded from the SOCBs. In short, the state-owned bank reform ultimate objective localization should be privatization.

This paper pays attention to the details of foreign capital participation in SOCBs, and the main strategic investors' administrative actions, to sound out their strategic motivations. However, the concrete methods that Chinese domestic banks grasp the motivations to achieve the "win-to-win" result have not been discussed. Moreover, the performance has not appeared clearly because it has not been long since the foreign capital participation. Hereafter, the SOCBs' business showings should be paid more attention to. Furthermore, the methods of state-owned stocks releasing and privatization would become the center of attention.

Appendix

Timetable of Chinese banking industry opening	
1. Operation Licenses	
	Within 5 years after China's accession, all current unnecessary measures regarding the ownership, the operation and the establishment of foreign banks, as well as those concerning their branches and restrictions on issuing licenses, will be cancelled.
2. Foreign Exchange Business of Foreign Banks	
	All restrictions on the target customers to foreign banks in dealing foreign exchange business are supposed to be already cancelled. Foreign banks may immediately offer comprehensive foreign exchange services to Chinese enterprises and Chinese citizens, without examination and approval of individual cases and may be permitted to develop the business of foreign exchange, inter-bank loan, the issue of foreign exchange credit cards and foreign credit cards agency.
3. Renminbi Business of Foreign Banks	
	Foreign banks are permitted to develop the business of cheque clearing, collections and payments and safe deposit boxes.
	Geographical restrictions on renminbi business of foreign banks will be cancelled in stages:
①	The opening of Shenzhen, Shanghai, Tianjin and Dalian
②	On 1/1/2003, to open Guangzhou, Zhuhai, Qingdao, Nanjing and Wuhan
③	On 1/1/2004, to open Jinan, Fuzhou, Chengdu and Chongqing
④	On 1/1/2005, to open Kunming, Beijing and Xiamen
⑤	On 1/1/2006, to open Shantou, Ningbo, Shenyang, Xi'an;
⑥	And on 1/1/2007 all geographical restrictions will cancelled.
	At the same time, since January 1, 2002 restrictions on operation in different locations have already been relaxed. Foreign banks, which have been approved to operate renminbi business in one specific city, in principle are permitted to provide services to customers of other cities open for renminbi business.
	Gradually, restrictions on target customers of renminbi business will be cancelled in stages:
①	Within 2 years from access (1/1/2002) to permit foreign banks to provide renminbi services to Chinese enterprises;
②	Within 5 years from access, to permit foreign banks to provide services to all Chinese customers (national treatment).
4. Outlets in the Same City	
	Foreign banks will be permitted to set up local outlets in the same city. The approving criteria will be the same as those for Chinese banks.
5. Car Loan Services	
	Since accession, foreign invested non-bank financial institutions are permitted to enter into the car loan market of China and develop their business. There are no restrictions on market entry and national treatment is granted.
6. Financial Leasing Business	
	Upon approval from the Central Bank, foreign invested financial leasing companies may, in accordance with the same conditions for Chinese financial leasing companies, provide financial leasing services.

Source: Serrado and Sabadell [2003].

Notes

1 Homepage of CBRC: <Http://www.cbrc.gov.cn>
2 For details, see Hanbing (2005).
3 Translated by the author. The Chinese original is “加入 WTO 后中国金融业对外开放的内容与时间”。
4 Translated by the author. The Chinese original is《中华人民共和国外资金融机构管理条例》, State Council Instruction No.340, Dec.20th, 2001.
5 Translated by the author. The Chinese original is 《中华人民共和国外资金融机构管理条例实施细则》。
6 China Banking Regulatory Commission is the main banking supervisory authority under the State Council of the government now in China. It is officially launched on Apr.28th, 2003, to take over the supervisory role of the PBOC, and PBOC is now an authority focusing on making monetary policy and regulating the money market and clearance and settlement system.
7 “…the equity investment proportion of a single overseas financial institution in a Chinese financial institution shall not exceed 20 %, and the activities shall be granted the approval of China Banking Regulatory Commission (CBRC), and under its regulation and supervision. Where proportion in a listed Chinese financial institution is equal to or exceeds 25 %, the listed Chinese financial institution shall still be treated as a Chinese financial institution by the regulatory authority. Where the combined equity investment proportion of all overseas financial institutions in a non-listed Chinese financial institution is equal to or exceeds 25 %, the non-listed Chinese financial institution shall be treated as a foreign-funded financial institution by the regulatory authority, and shall be subject to the regulation of the Law of the People’s Republic of China on Chinese-Foreign Equity Joint Ventures, compiled in early 1979 and last revised in March, 2001.”
8 Xinhua, Http://www.xinhua.org , December 1, 2004.
9 A national shareholding commercial bank, majority state-owned.
10 A municipal commercial bank, 30% stake held by Shanghai municipal government.
11 A majority state-owned city commercial bank.
12 A Shanghai-based commercial bank, about 40% state-owned.
13 A U.S. investor group.
14 A national Shenzhen-based listed bank.
15 The fifth-largest bank in China, 23.76% owned by Ministry of Finance of China.
16 In China, establishing and maintaining good relationship with local and national financial authorities, sometimes make the foreign banks gain a priority as differentiating their products and services to various market segments.
17 “Summary of Project Information”, International Finance corporation, 2001 Http
18 *Daily Times*, http://www.dailytimes.com.pk/ , March 27, 2005
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20 http://www.chinaembassycanada.org/eng/xwdt/t127990.htm (2004/6/7)
21 This section is using news release of Xinhua, Http://www.xinhua.org , homepage of available banks and other available evidences.
22 *Xinhua*, Http://www.xinhua.org , June 18, 2005.
23 Remarks to Bank of America Global Leaders Breakfast, International Monetary Fund Conference, September 26, 2005, Washington, D.C. <Http://www.bankofamerica.com/newsroom/speeches>
24 *Xinhua*, Http://www.xinhua.org , July 5, 2005.
25 Http://www.thestandard.com.hk/stdn/std/Front_Page/GH19Aa01.html
26 *Xinhua*, Http://www.xinhua.org , August 19, 2005.
27 *ibid*.
28 http://www.chinadaily.com.cn/english/ , September 27, 2005
29 The company was established as a central government investment arm, which holds the equity in BOC and CCB as its only asset. Its board comprises officials are from the PBC, State Administration of Foreign Exchange and the Ministry of Finance.
30 According to http://www.allianz.com/azcom/dp/cda/0,,1034017-44,00.html

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