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Further Opening Up of China's Financial Sector

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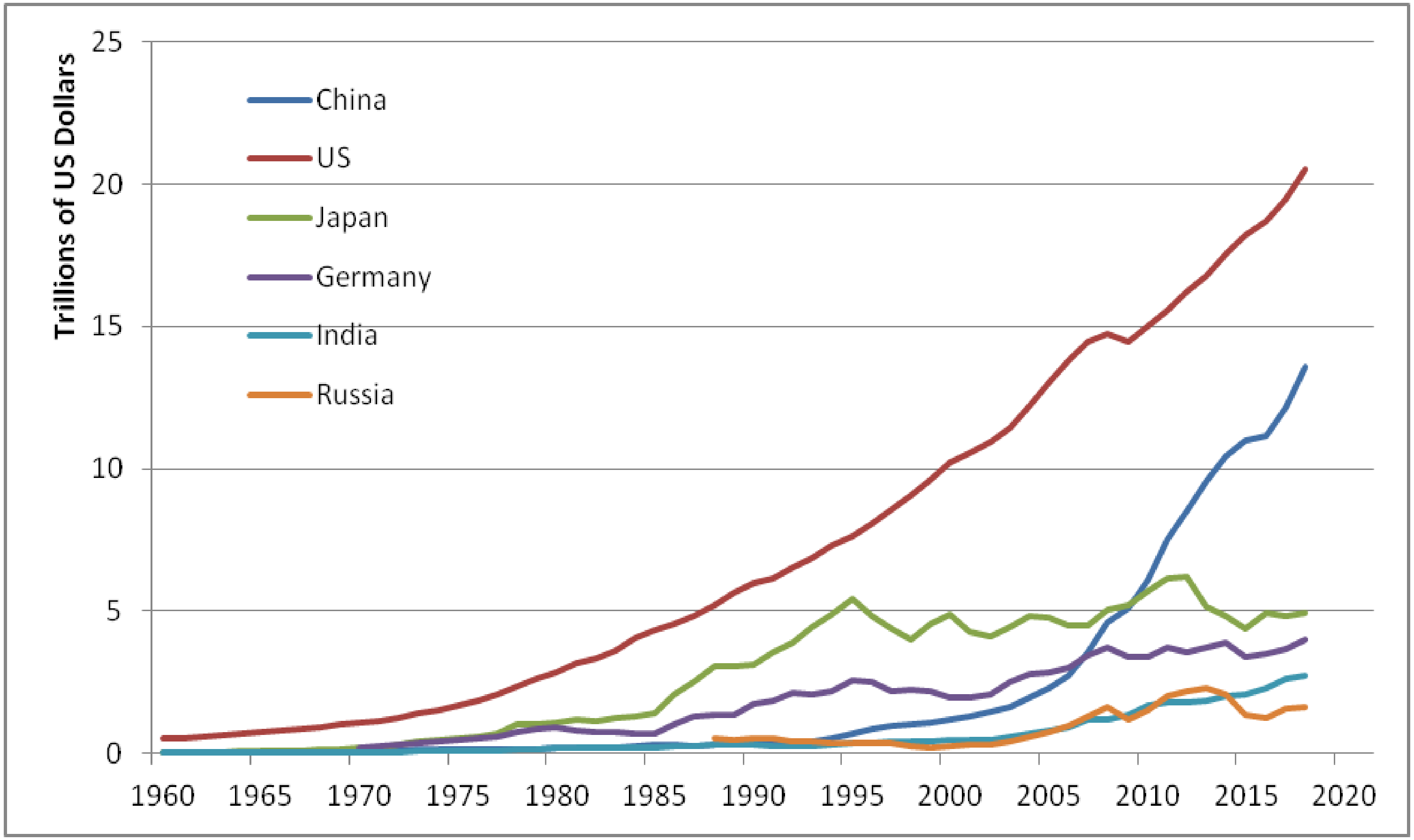
Outline

- The reform and opening up is the major driving force behind China's rapid growth over the past 40 years
- A new round of continuous opening-up measures & policies are in operation
- Conclusions: Further deepening reform and opening up is an optimal choice for addressing the Sino-US trade friction

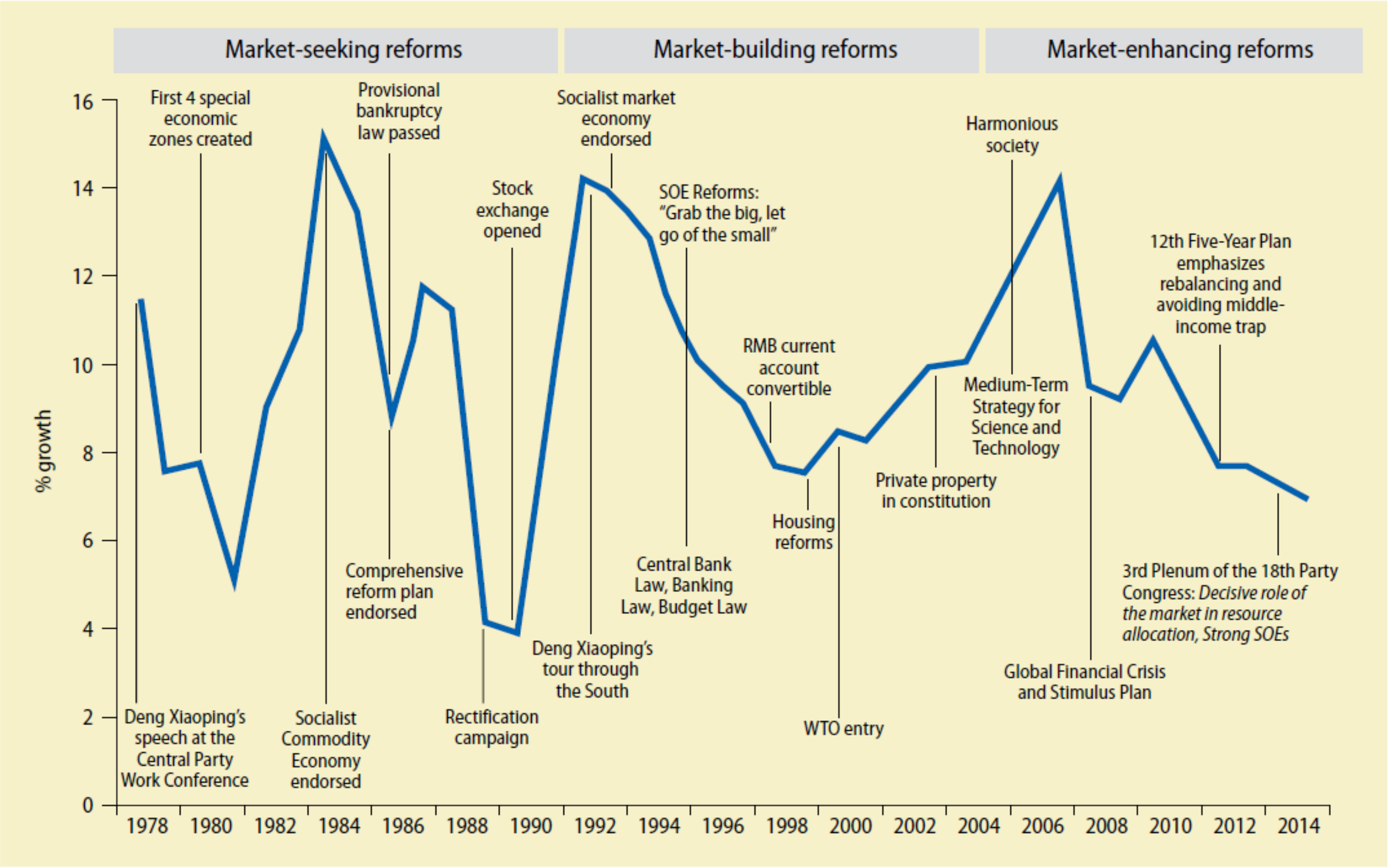
I. The economic reform and opening up to the outside world is the major driving force behind China's rapid growth during the last 40 years

GDP Growth Trend from 1960-2018



Source: World Bank

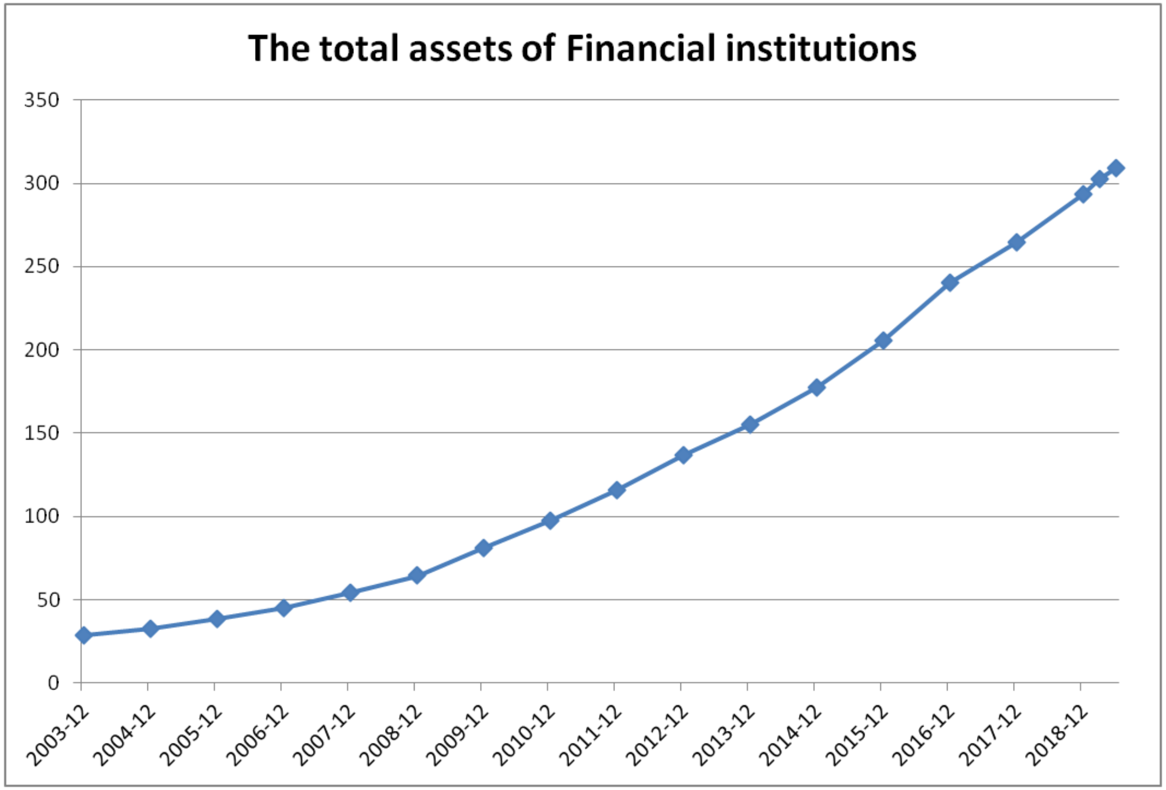
The Path of Economy Reforms and GDP Growth in China, 1978-2014



Source: Hofman 2018.
Note: SOE = state-owned enterprise. RMB = renminbi. WTO = World Trade Organization.

China's Opening Up of the Financial Sector Makes Great Achievements

- Financial institutions' total assets reached 308.96 trillion yuan at end-Q2 2019



Source: PBC, CBIRC

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II. A new round of continuous opening-up measures & policies are in operation

2.1 Further opening up measures of the financial sector has been launched

- In July 2019, the State Council's Office of Financial Stability and Development Committee issued 11 measures for further opening up the financial sector:
  - 1. Foreign-funded institutions will be permitted to conduct credit rating business on all types of bonds in China's inter-bank and exchange bond markets.
  - 2. Overseas financial institutions will be encouraged to participate in the establishment of and equity investment in asset and wealth management subsidiaries of commercial banks.
  - 3. Overseas asset management institutions will be permitted to co-establish foreign-controlled asset management companies together with subsidiaries of Chinese banks or insurers.

- 4. Overseas financial institutions will be permitted to invest in the establishment of or make equity investment in pension management companies.
- 5. Foreign capital will be supported in wholly-owned currency brokerage establishment and equity participation.
- 6. The transitional period for raising the foreign ownership cap on life insurers from 51 percent to 100 percent will be brought forward to 2020 from 2021.
- 7. The requirement that the total share of an insurance asset management company held by domestic insurers shall be no less than 75 percent will be removed, and the foreign ownership will be permitted to exceed 25 percent.

- 8. Access conditions of foreign insurers will be eased by removing the requirement of over-30-year operation.
- 9. The removal of overseas ownership limits on securities, fund management and futures companies will be advanced by one year to 2020.
  - On October 11, 2019, the China Securities Regulatory Commission (CSRC) announced that ownership limits in futures companies will be scrapped on January 1, 2020; limits on foreign ownership of securities firms will be removed on December 1, 2020, while such limits will be scrapped for mutual fund companies on April 1, 2020.
- 10. Foreign institutions will be permitted to obtain Type-A lead underwriting licenses in the inter-bank bond market.
- 11. China will further facilitate the investments of overseas institutions in the inter-bank bond market.

- On Sept. 10, 2019, the State Administration of Foreign Exchange (SAFE) decided to remove the investment quota limitations for qualified foreign institutional investors (QFII) and RMB qualified foreign institutional investors (RQFII).

- On Oct. 15, 2019, the State Council announced the revision of regulations on foreign banks and insurers to relax market access rules. The new policy also liberalized requirements on stakeholders that plan to set up foreign-invested banks and insurance companies in mailand China.

- For more information please refer to the PBC English website at http://www.pbc.gov.cn/en/3688006/index.html

2.2 Other polices for further reform & opening up are also in operation

- Further reducing tariffs (even cutting to zero within FTZ)
- Green light to overseas investment in services sectors such as training and education, medical and health care, tourism, culture (film, digital video, animation, internet literature) and sports activities, etc.
- In line with the request of WTO, striving to improve the business environment
  - Pre-establishment national treatment
  - Negative list management
  - Intellectual property protection
  - Ecological and environmental protection
  - Labor rights protection
  - Introduce the neutral principle for enterprise competition
  - Gradually opening up digital trade

2.3 The new road map of further reform and opening up has been clearly re-marked

- Establishing pilot free-trade zone in Shanghai and applying nationwide (17 cities)
- Supporting Shenzhen to build a demonstration pilot zone for socialism with Chinese characteristics (close to Hong Kong)
- Approving a plan for the China-Shanghai Cooperation Organization demonstration zone in Qingdao
- Hainan Island free-trade port project
- Hengqin new area of Zhuhai (near Macao)
- The inland cities along the BAR initiative opening up programme.
- Integrated development of three important economic regions in China: Yangtze River Delta, Guangdong-Hong Kong-Macao and Beijing-Tianjin-Hebei

China's new road map of further reform and opening up

III. Conclusions

Deepening economic reform and opening up to the outside world is not only an important force to promote the high-quality development of China's economy and financial industry, but also an optimal choice for addressing the Sino-US trade friction.

Conclusions

- There are arguments that China-US trade friction has gone beyond the scope of trade and is a conflict between two systems, while others regard it as a dispute between two civilizations
- However, most of us still insist that 40 years of reform and opening-up have made China the world's second-largest economy
- Next, if China continues creating more domestic and international demand by opening our markets wider in more ways, it is possible to ease the friction with the United States and make due contributions to the recovery of the global economy and financial sector while maintaining China's high-quality economic growth

Thanks！