FOREIGN BANKS IN CHINA

CHEN Chien-Hsun

EAI Background Brief No. 899

Date of Publication: 27 February 2014

Executive Summary

1. As Chinese government policy has evolved, so have the models adopted by foreign banks for developing their branch networks in China.

2. By acquiring a stake in a Chinese domestic bank, foreign banks can get round some of the restrictions that are currently imposed on foreign banks in China, and get a head start on developing the Chinese market.

3. Since China joined the WTO, foreign banks have been actively seeking to penetrate the Chinese market with equity investments in Chinese banks.

4. By encouraging foreign banks to set up locally incorporated subsidiary banks, the Chinese government also hoped to avoid importing risks from multinational banks' other international operations.

5. In 2012, the total assets of foreign banks amounted to RMB2.38 trillion, up by 10.66% from 2011.

6. The branches of foreign banks within China are normally located close to the China operations of multinational corporations.

7. Foreign banks are able to leverage on their universal banking model to provide Chinese customers with a wide range of financial services.

8. They are attracted to the huge China market and the rapid growth of China's financial services market.

9. Foreign banks that have extensive assets (compared to other banks) will tend to be more enthusiastic about the idea of entering the China market.

10. Asian banks were found to be more likely to be operating in China than non-Asian banks. Foreign banks enter the China market to serve important customers that are already operating in China.

11. Burdensome regulation and unequal treatment compared to those for Chinese banks have impeded the speed and scope of foreign banks' operation.

12. In November 2013, the Third Plenum of Chinese Communist Party's 18th Central Committee unveiled a bold agenda for continued financial reforms. China's deepening financial reforms could provide a fair and competitive environment for foreign banks penetration, offering openings for foreign banks to participate more thoroughly in the Chinese economy.