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Implementing China's WTO Commitments in Chinese Financial Services Law

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Abstract

To further open up China's banking, insurance, securities and auto financing markets was one of the commitments China made on accession to the World Trade Organization in December 2001. By examining China's implementation of these commitments in the past few years and the reform of China's law and regulations in banking, insurance, securities and auto financing, this article attempts to explore, first, some of the issues raised in the WTO annual transitional reviews of China's implementation, second, the economic impacts that the reform of China's financial services law and regulations has brought about, and third, future reforms of China's financial services law and regulations. The discussion includes different views from scholars and commentators and covers the approach taken by the Chinese government and financial regulators. The article points out that future reform of China's financial services law and

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> regulations depends upon, on the one hand, China's continuous implementation of its WTO commitments and, on the other, the reforms in such other areas as foreign exchange, taxation, and the personal credit information network.

On accession to the World Trade Organization (WTO) in December 2001, China made a series of commitments to further open up its banking, insurance, securities and auto financing markets. The commitments are stated in detail in section 7 of the *Schedule of Specific Commitments on Services*,[1] supplementary to China's general commitments stated in the *Protocol on the Accession of the People's Republic of China*[2] and the *Report of the Working Party on the Accession of China*.[3] Since then China has embarked upon the process of implementing these commitments and reforming its financial services law and regulations. This article attempts to examine some of the issues and problems raised in the WTO annual transitional reviews of China's implementation.[4] It then discusses the economic impacts that the reform of China's financial services law and regulations has brought about. Finally it looks at perspectives of future reforms of China's financial services law and regulations in the post-WTO context.

Banking

China's WTO commitments on banking cover a wide range of banking services, including deposit services, lending of all types, financial leasing, all payment and money transmission services, guarantees and commitments, and foreign exchange trading for own account or for customers. In summary, China has made a commitment that upon accession foreign financial institutions are permitted to provide foreign currency services without client or geographical restrictions; that within two years after accession foreign financial institutions can provide local currency services to Chinese enterprises and within five years to all Chinese clients; that geographical restrictions to local currency business are to be phased out within five years; and that any existing non-prudential measures restricting ownership, operation, branching and licences are to be eliminated within five years after accession.[5]

Upon accession, China promulgated the *Regulations on Administration of Foreign-invested Financial Institutions* on 20 December 2001, effective as of 1 February 2002 (hereinafter, *2001 Regulations*). On

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29 January 2002, the *Implementing Rules for the 2001 Regulations* were issued by the People's Bank of China (PBOC) (hereinafter, *2002 Implementing Rules*). This set of regulations and implementing rules became a direct source of implementation of China's commitment on banking services. The *2002 Implementing Rules* was soon amended in July 2004 and new implementing rules came into effect on 1 September 2004 (hereinafter, *2004 Implementing Rules*).

In April 2003, the China Banking Regulatory Commission (CBRC) was established to take up the regulatory functions formerly exercised by the PBOC. In December of the same year the Law on the Regulation of Banking Industry was adopted, which set out general principles as well as specific regulatory requirements for the banking industry, and which conferred on the CBRC the powers to issue rules and measures and to authorize establishments of domestic and foreign banking financial institutions.[6] Since its establishment, the CBRC has played an active role in day-to-day implementation of China's WTO commitments. The *Announcement on Further Opening-up of Renminbi Business to Foreign-invested Financial Institutions* announced on 24 October 2003, for example, was one of the WTO implementation documents issued by the CBRC, which added Jinan, Fuzhou, Chengdu and Chongqing to the list of cities opening up for local currency business as of 1 December 2003.

Requirements for Foreign-invested Financial Institutions

The *2001 Regulations* define foreign-invested financial institutions as those financial institutions that have been authorized to establish and operate in China in accordance with Chinese law and regulations in one of five forms, namely, a wholly foreign-owned bank the headquarters of which are in China, a branch of a foreign bank, a joint venture bank established by foreign financial institutions and Chinese parties, a wholly foreign-owned finance company the headquarter of which is in China, and a joint venture finance company established by foreign financial institutions and Chinese parties.[7]

A key requirement complained about by the WTO member states was the so-called one-year waiting rule for branching. According to Articles 14 and 15 of the *2002 Implementing Rules*, if foreign banks, joint venture banks and wholly foreign-owned banks apply to increase the number of their branches in China, they have to wait for one year to submit their applications to the PBOC from the date they received their last approval to

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open up a branch. This rule was criticized, first, as being inconsistent with China's commitment in the *Schedule of Specific Commitments on Services* to retain prudential restrictions only in its licensing regime for banking[8] and second, as constituting a very significant barrier to market access, which had not been scheduled by China in its WTO commitments.[9]

In response to the complaints of the WTO member states, China amended this one-year waiting rule in the *2004 Implementing Rules*. Articles 16 and 17 of the *2004 Implementing Rules* have now replaced Articles 14 and 15 of the *2002 Implementing Rules*, in which the one-year waiting rule has been deleted. Foreign banks, joint venture banks and wholly foreign-owned banks can now submit applications for branching without waiting for one year. But there is one situation where the one-year waiting rule still applies. That is when applicant banks fail to contact the local department of the CBRC within 15 days after the CBRC has accepted their application and notified them.

There were debates among Chinese scholars about whether the market entry requirements set out by the *2001 Regulations* and the *2002 Implementing Rules* were consistent with China's WTO commitments. Some scholars compared the requirements for domestic banks and foreign-invested banks and pointed out that there were restrictive requirements that were inconsistent with China's WTO commitments, citing as an example the requirement prescribed in Articles 4 and 5 of the *2002 Implementing Rules* that the sole shareholder or the largest shareholder of a wholly foreign-owned bank or sole foreign shareholder or the largest foreign shareholder of a joint venture bank must be a commercial bank.[10] Other scholars looked at the restrictive requirements from a prudential point of view, arguing that some of the restrictive requirements, such as the capital requirement for foreign-invested banks, were not inconsistent in substance with China's WTO commitments.[11]

The *2004 Implementing Rules* made some changes, such as the deletion of the one-year waiting rule, but other restrictive requirements remained the same, justified from China's point of view by prudential principle. As it is arguable that prudence is not an absolute term and prudential measures could be various, the prudential principle could be used by China as a counter-argument to justify unnecessarily restrictive rules that constitute market barriers and are thus inconsistent with China's commitment. The argument China put forward to justify the one-year waiting rule now deleted, for example, was based simply on prudential argument.

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Economic Impacts of the Changes in Banking Law and Regulations

Since 1979 when the first representative offices of foreign banks were set up in China, China's banking services market has been gradually opening up to foreign financial institutions. The opening-up process has moved from the cities of special economic zones and coastal regions to cities in other parts of China, and from foreign currency business to local currency business. China's WTO accession and related changes to banking law and regulations have promoted this opening-up process to a new level. By the end of October 2004, as shown in Table 1, 62 foreign banks from 19 countries and regions had established 204 businesses in China, among which 105 were permitted to provide local currency business; the number of cities opened up for local currency business had increased to 18; and a total of 223 representative offices had been set up.[12]

Before China's WTO accession, the customers of foreign banks were multinational companies operating in China and Chinese-foreign equity and cooperative joint ventures. The banking regulations have now implemented China's WTO commitment to allow foreign banks to provide local currency business to Chinese enterprises, which has intensified competition between foreign banks and domestic banks. The increased foreign participation and competition resulting from the relaxation of banking regulations has highlighted the urgent need to reform Chinese state-owned commercial banks.

Tang Shuangning, deputy chairman of the CBRC, said in a speech at the 2004 APEC Finance and Development Program Forum that, unless the competitiveness of Chinese commercial banks was improved, the gap between foreign banks and Chinese banks would increase when the Chinese banking market fully opens up in 2006, and this would have a huge impact on the banking sector and also affect the sustainable development of the national economy.[13] The decision China made at the end of 2003 to restructure the Bank of China and China Construction Bank

Table 1. Foreign Bank Establishments in China by the End of October 2004

Business established by foreign banks	Licences for local currency business	Cities opened up for local currency business	Representative offices
204	105	18	223

Source: Based on figures given by Liu Mingkang, chairman of the CBRC, in his speech. (See Note 12)

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by injecting an unprecedented US$45 billion foreign exchange reserve reflected this urgent need to reform Chinese state-owned commercial banks in the post-WTO context.

By the end of 2004 the total assets of foreign banks in China reached US$65.9 billion, 1.8% of the total assets of all banking institutions in China.[14] Martin Fish, the head of China operation of Standard Chartered Bank commented in an interview that the market share of foreign banks in China was not yet large, but the role they played in moving the market forward was much greater than their market share.[15] As new measures and regulations are being adopted to further open up China's banking services market, there is no doubt that the market share of foreign banks and their impact on China's banking industry and national economy will increase.

Among the measures implemented by the CBRC at the end of 2004, a green channel was initiated to speed up the approval process for foreign financial institutions to set up business in the west and north-east regions of China. In addition, if these institutions were to apply for local currency business in those regions, their applications would be favoured with a relaxed requirement for profits. Instead of taking into account only the profit of the applicant branch, all the profits the applicant bank made from all its branches in China would be taken into account when approving the application.[16] These measures will encourage foreign banks to move into the poorer west and north-east regions, but on the other hand, such preferential policies designed to speed up economic development in certain regions will create unequal treatments among foreign banks as well as between Chinese domestic and foreign banks.

Future Changes of Banking Law and Regulations

In the process of gradually opening up China's banking services market in the past twenty years, China has promulgated a series of banking regulations. The first was the *1985 Regulations on the Administration of Foreign Banks and Chinese-foreign Joint Venture Banks in Special Economic Zones*. This was followed by the *1990 Measures on the Administration of Foreign Financial Institutions and Chinese-foreign Joint Venture Financial Institutions in Shanghai*, the *1991 Measures on the Administration of Representative Offices of Foreign Financial Institutions*, the *1994 Regulations on the Administration of Foreign-invested Financial Institutions*, and the *1996 Provisional Measures on the Administration of*

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Renminbi Business Trial by Foreign Financial Institutions in Shanghai Pudong.

It is apparent that the pattern of these regulations and measures was closely associated with the economic reform and opening-up policy implemented in China since 1979. They reflected different stages of the economic reform and opening-up policy, starting first from special economic zones and then extending to the rest of China. In line with the government's overall policy to attract foreign investment, a combined policy of restrictions and preferential treatment was implemented in banking regulations. On the one hand, there were numerous restrictions for foreign banks including those on entry requirements, business scope, locations and branching, but on the other hand, preferential treatment was employed to attract foreign banking investment, such as preferential income tax rates implemented in special economic zones.

The evolution of banking law and regulations in the past twenty years indicates that the future changes in banking law and regulations will be guided by the economic reform and opening-up policy in the post-WTO context. A central theme running through the reform of banking law and regulations at present is the implementation of China's WTO commitments. One can see that China is implementing its WTO commitments on banking services stage by stage and some positive reforms are being introduced. But in the meantime, various restrictions are still in place, which need to be reviewed and changed in the future.

As banking law and regulations continue to implement China's commitments, it is anticipated that foreign participation in China's banking industry will steadily increase. It is natural for foreign banks to wish to expand their business in China. They would like to have a more relaxed legal and regulatory environment and a wider scope of business including, for example, local currency futures business.[17] From China's point of view, national financial security is a paramount concern. Some scholars have advocated an effective control of foreign financial institutions and their participation in China's banking industry through legislation on banking takeover activities in order to prevent Chinese banks from falling into the hands of foreign banks.[18] It seems that an appropriate approach is to strike a right balance between the need to further relax the legal and regulatory environment for foreign participation in China's banking industry and the need to safeguard national financial security.

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Insurance

China's WTO commitments on insurance cover a wide range of insurance services including life insurance, health, pension and annuities insurance, non-life insurance and reinsurance. A distinction is made between foreign non-life insurers and life insurers. In summary, non-life insurers are permitted to establish as a branch or as a joint venture with 51% foreign ownership and within two years after accession as a wholly-owned subsidiary; life insurers are permitted upon accession 50% foreign ownership in a joint venture with the partners of their choice; non-life insurers are permitted to provide a full range of insurance services to both foreign and domestic clients within two years after accession and within three years health insurance, group insurance and persons annuities insurance to both foreigners and Chinese.[19]

Immediately after accession, China promulgated the *Regulations on the Administration of Foreign-invested Insurance Companies* on 12 December 2001 (hereinafter, *2001 Regulations*) to implement China's commitments on insurance services. This set out the regulations for the establishment and operation of three types of foreign-invested insurance companies, namely, joint ventures with Chinese partners, wholly foreign-owned insurance companies, and foreign insurance branch companies. The *Implementing Rules for the 2001 Regulations* was promulgated by China Insurance Regulatory Commission (CIRC) two and half years later on 15 March 2004, effective as of 15 June 2004 (hereinafter, *2004 Implementing Rules*). This set of regulations has become a primary source of rules for the implementation of China's commitments on insurance services.

China's insurance law was first enacted in 1995. It was amended in accordance with China's WTO commitment in October 2002, effective as of 1 January 2003. It applies equally to Chinese domestic and foreign-invested insurance companies. In accordance with the amended Insurance Law 2002, the CIRC has issued a number of implementing documents. One of them is the *Procedures on the Establishment of Reinsurance Companies*, which was issued on and effective as of 17 September 2002, and is applicable to both domestic and foreign-invested reinsurance companies.

Requirements for Foreign-invested Insurance Companies

Subject to the commitment China made, foreign insurers can choose to take the form of a joint venture insurance company with Chinese partners,

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a wholly foreign-owned insurance company, or a foreign insurance branch company.[20] The establishment of foreign-invested insurance companies has been approved by the CIRC in accordance with the requirements and procedures prescribed in the *2001 Regulations* and *2004 Implementing Rules*.

A key requirement which was challenged by the WTO member states is the capital requirement. The *2001 Regulations* require foreign-invested insurance companies to have an initial minimum paid-up capital of 200 million ("million" refers to RMB unless otherwise indicated) for the establishment of the company and an additional 50 million for each branch of the company to be established.[21] This requirement was challenged by the WTO member states in annual transitional reviews. Canada, for example, expressed serious concern in the first annual review in October 2002, arguing that the application of such capital requirements on a branch-by-branch basis was very high by international standards.[22] During the second annual review in December 2003, Canada voiced the same concern and requested China to ensure that the entry regime was efficient and not overly burdensome for foreign insurance firms.[23] China replied that these requirements apply equally to both domestic and foreign insurers and are an integral part of a prudential regulatory framework.[24]

In January 2000, before accession to the WTO, China promulgated the *Regulations on the Administration of Insurance Companies*, which primarily applied to domestic Chinese insurance companies. A distinction was made between a national insurance company and a regional one. A minimum registered capital of 500 million was required for national insurance companies and 200 million for regional companies. National companies could establish up to three and regional up to two branches without adding more registered capital, but for any further branches an additional 50 million per branch was required. When the capital of a national insurance company reached 1.5 billion and regional companies 500 million, no further capital was required for establishing new branches.[25]

In response to the concerns of the WTO member states, the *2004 Implementing Rules* have lowered the capital requirements substantially.[26] A joint venture insurance company or a wholly foreign-owned insurance company, having paid up a minimum capital of 200 million for the initial establishment, shall add additional capital of no less than 20 million when applying for a branch at provincial level outside their residence. When the registered capital of the joint venture insurance company or wholly foreign-owned insurance company reaches 500 million, no further capital

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is required for establishing new branches. The amendment was welcomed by the WTO member states as a positive step.[27]

Economic Impacts of the Changes in Insurance Law and Regulations

In the early 1980s, foreign insurers began to establish representative offices in China. On 11 September 1992, the PBOC promulgated the *Provisional Measures on the Administration of Shanghai Foreign-invested Insurance Institutions*, which allowed foreign insurance companies to establish in Shanghai branch companies or joint ventures with Chinese insurance companies or other Chinese financial institutions. It required that foreign insurer applicants should have been in the insurance business for over 30 years; they should have had a representative office in China for three consecutive years and they should have total assets of more than US$5 billion at the end of the year prior to their application.[28] In September 1992, AIA Shanghai Branch, the first foreign insurance company in China since 1949, was established in Shanghai.

The implementation of China's commitment by the insurance law and regulations has moved China's insurance services market towards a full opening-up to foreign insurers, and this has brought about a significant increase in the number of foreign-invested insurance companies and representative offices. AIA, for example, now has five branches, in Shanghai, Beijing, Guangzhou, Shenzhen and Suzhou. By June 2005, there were 41 foreign-invested insurance companies and 188 representative offices located in 15 cities across China, as shown in Table 2.[29]

China's insurance services industry is one of the fastest-growing industries in the Chinese economy, with an average annual rate of increase

Table 2. Foreign Insurance Establishments in China as of June 2005

Foreign-invested insurance companies	41	Located in 9 cities: Beijing, Shanghai, Guangzhou, Tianjin, Dalian, Shenzhen, Chongqing, Suzhou and Haikou
Foreign insurance representative offices	188 (representing 124 companies)	Located in 15 cities: Beijing, Shanghai, Guangzhou, Tianjin, Dalian, Shenzhen, Chongqing, Suzhou, Wuhan, Chengdu, Xiamen, Qingdao, Nanjing, Hangzhou and Fuzhou

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of 30%, yet it is at an early stage of development and much improvement is needed.[30] Fully opening up China's insurance services market would create more opportunities for foreign insurers to participate and contribute in this process of development and improvement. Most authors look at both positive and negative impacts on China's insurance market as a result of the changes to insurance law and regulations made in accordance with China's WTO commitments. On the one hand, advanced management and quality services are brought into China, but on the other hand, competition for market shares and professionals becomes more intense.[31]

The development and improvement of China's insurance services industry will be important to the success of reforms in other areas as well. Reform of the social security system is one of these areas. Pensions, annuities, medical and health insurance make an important contribution to a social security system and as such would play an important role in the reform of China's social security system. In other areas, such as aviation and transportation insurance, the relaxation of insurance law and regulations in accordance with China's WTO commitments would provide more opportunities for foreign insurers to participate in the economic development of these industries, and help develop these specific insurance services to their full ranges and strengths.

Future Changes of Insurance Law and Regulations

Wu Dingfu, chairman of the CIRC, said at the 2005 China Insurance International Forum that China would implement its WTO commitments seriously, would further open up China's insurance market and actively adopt advanced international insurance experience and technologies. He also said that China's modern insurance regulatory system should be developed towards a rule-based, market-based and information-based regulatory system.[32] There seems little doubt about the seriousness of China's intention to continue to implement its commitment on insurance services. The action needed is to review and change those unnecessarily restrictive rules for the establishment and operation of foreign-invested insurance companies.

In accordance with Article 8 of the *2001 Regulations*, foreign insurers have to satisfy three key requirements for foreign-invested insurance companies. First, they should have been in the insurance business for over 30 years, second, they should have had a representative office in China for two consecutive years, and third, they should have total assets of more than

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US$5 billion at the end of the year prior to their application. These requirements first appeared in the *1992 Provisional Measures on the Administration of Shanghai Foreign-invested Insurance Institutions*. Later, in 1995, the requirement for the establishment of representative office was reduced from three to two consecutive years. In the negotiation process with WTO member states these requirements became part of China's commitment. More than ten years on, China should go beyond its current WTO commitments to lower these qualification requirements for small and intermediate foreign insurers.

Similarly, the current position of foreign life insurers needs to be reviewed. Article 3 of the *2004 Implementing Rules* implements China's commitment that life insurers are permitted 50% foreign ownership in a joint venture upon accession. No further commitment has been made by China to allow life insurers to establish as a wholly-owned subsidiary. Compared with non-life insurers, who are permitted to establish as a branch or as a joint venture with 51% foreign ownership and within two years after accession as a wholly-owned subsidiary, life insurers are in a more restricted position.

On a more general level, future changes to insurance law and regulations would depend upon changes in other areas of law. Tax law is an example. In order to attract foreign investment, Chinese tax law and regulations have been implementing a preferential tax policy for foreign investment for many years. Foreign-invested insurance companies, like other foreign investment enterprises have benefited from this preferential tax policy. Some authors argue that while Chinese domestic insurance companies are subject to a heavy tax which affects their development and competitiveness, foreign-invested insurance companies are benefiting from preferential tax rates, and these should be changed in accordance with the principle of national treatment.[33]

Securities

In section 7 of the *Schedule of Specific Commitments on Services*, China pledges that, first, upon China's accession, foreign services suppliers, will be permitted to establish joint ventures with foreign investment of up to 33% in order to conduct domestic securities investment fund management business and within three years after China's accession, foreign investment may be increased to 49%; second, within three years after China's accession, foreign securities institutions will be permitted to establish joint

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ventures with a foreign minority ownership not exceeding one third of the equity to engage directly in underwriting A-shares and underwriting and trading B and H shares as well as government and corporate debts, and launching investment funds.[34]

To implement these commitments, the China Securities Regulatory Commission (CSRC) in June 2002 promulgated the *Rules on the Establishment of Fund Management Companies with Foreign Equity Participation* (hereinafter, *2002 JV Fund Company Rules*) and the *Rules on the Establishment of Securities Companies with Foreign Equity Participation* (hereinafter, *2002 JV Securities Companies Rules*). The *2002 JV Fund Company Rules* was later replaced by the *2004 Measures on Administration of Fund Management Companies for Securities Investment* (hereinafter, *2004 Measures on Fund Companies*). On 16 October 2002, Guo An Fund Management Co. Ltd, the first Chinese-foreign joint venture fund management company, was approved for establishment, which marked an important step taken by China in implementing its commitments in the securities services sector.[35] At the end of 2004, there were 52 fund management companies in China, 14 of which were Chinese-foreign joint ventures, being one third of all the fund management companies in China.[36]

Another important development in opening up China's securities market in the context of China's WTO accession is the introduction of what is known as the QFII scheme (Qualified Foreign Institutional Investors scheme). In November 2002, the CSRC and PBOC jointly promulgated the *Provisional Measures on Administration of Securities Investment in China by Qualified Foreign Institutional Investors* (hereinafter, *2002 QFII Measures*), which allow selected QFIIs to invest in China's securities market. By the end of March 2005, 26 foreign financial institutions had been approved as qualified QFIIs, for which a total of US$3.7 billion foreign exchange quota had been allocated by the State Administration of Foreign Exchange (SAFE), shown in Table 3.[37]

Joint Venture Fund Management Companies and Joint Venture Securities Companies

The *2002 JV Fund Company Rules* define the "fund management company with foreign equity participation" as a fund management company that is transformed when foreign shareholders are assigned, or subscribe to, the equity in a domestic fund management company, or a joint venture fund

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Table 3. Approved QFIIs by the End of March 2005

No.	QFII	Custodian bank	Investment quota	RMB special account
1	UBS Limited	City Group Shanghai branch	$800m	Opened
2	Nomura Securities Co., Ltd	City Group Shanghai branch	$50m	Opened
3	Citigroup Global Markets Limited	Standard Chartered Shanghai branch	$400m	Opened
4	Morgan Stanley & International Limited	HSBC Shanghai branch	$400m	Opened
5	Goldman Sachs & Co.	HSBC Shanghai branch	$50m	Opened
6	The Hongkong and Shanghai Banking Corporation Limited	China Construction Bank	$200m	Opened
7	Deutsche Bank AG	City Group Shanghai branch	$300m	Opened
8	ING Bank N.V.	Standard Chartered Shanghai branch	$50m	Opened
9	JP Morgan Chase Bank	HSBC Shanghai branch	$50m	Opened
10	Credit Suisse First Boston (Hong Kong) Limited	China Industry and Commerce Bank	$150m	Opened
11	Nikko Asset Management Co., Ltd	Transportation Bank	$250m	Opened
12	Standard Chartered Bank Hong Kong	Bank of China	$75m	Opened
13	Hang Seng Bank Limited	China Construction Bank	$50m	Opened
14	Daiwa Securities SMBC Co., Ltd	China Industry and Commerce Bank	$50m	Opened
15	Merrill Lynch International	HSBC Shanghai branch	$75m	Opened
16	Lehman Brothers International Europe	China Agriculture Bank	$75m	Opened
17	Bill & Melinda Gates Foundation	HSBC Shanghai branch	$100m	Opened
18	ABN AMRO Bank N.V.	HSBC Shanghai branch	$75m	Opened
19	Societé Generale	HSBC Shanghai branch	$50m	Opened
20	Barclays Bank PLC	Standard Chartered Shanghai branch	$75m	Opened
21	BNP Parisbas	China Agriculture Bank	$75m	Opened
22	Dresdner Bank Aktiengesellschaft	China Industry and Commerce Bank	$75m	Opened
23	Fortis Bank	Bank of China	$100m	Opened
24	Power Corporation of Canada	China Construction Bank	$50m	Opened
25	CALYON S.A.	HSBC Shanghai branch	$75m	Not yet opened
26	INVESCO Asset Management Limited	Bank of China	$50m	Not yet opened

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management company set up by foreign and Chinese parties. The foreign equity in a fund management company is limited to 33% and within three years after China's accession, this limit would be increased to 49%.[38] There is no provision in the *2002 JV Fund Company Rules* about what happens after three years. The *2004 Measures on Fund Companies* provide that the ratio of foreign equity shall not exceed the commitment made by the government on the opening-up of China's securities industry,[39] which makes this limit flexible in line with the government's future commitment and policy.

Under the *2002 JV Fund Company Rules*, Chinese and foreign parties are required to have a minimum of 300 million or equivalent paid-up capital to qualify as partners in joint venture fund management companies.[40] This requirement effectively limits the number of Chinese companies which could be chosen by foreign partners to form a joint venture. The representatives of WTO member states have raised concerns about this, questioning whether this limitation is compatible with the commitment undertaken in paragraph 314 of the *Report of the Working Party on the Accession of China* in which China promises a free choice of Chinese joint-venture partners, subject to prudential and specific sector requirements.[41]

In October 2003, the Law of the PRC on Securities Investment Fund was enacted. It provides that only main shareholders of fund management companies are required to have a minimum of 300 million registered capital.[42] Accordingly in the *2004 Measures on Fund Companies* the 300 million requirement has been reduced to 100 million, except for the main Chinese partner who holds no less than 25% of the shareholding of the company.[43] Now foreign partners have a wider choice of Chinese partners except for the main Chinese shareholder. But, the 300 million requirement has not been reduced for foreign partners. Any foreign partner has to have a paid-up capital equivalent to 300 million.[44] This unequal treatment of foreign and domestic partners means that Chinese partners have less choice of foreign partners to form a joint venture fund management company.

In accordance with the *2002 JV Securities Companies Rules*, a joint venture securities company can engage in a range of securities business including, first, underwriting A shares, B and H shares as well as government and corporate debts, second, brokerage for B shares and H shares, third, brokerage and self dealing of government and corporate bonds, and fourth, other business as approved by the CSRC.[45] Chinese and foreign parties can set up a joint venture securities company either by

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converting a Chinese domestic securities company when foreign parties accept or subscribe for the equity of the Chinese securities company, or by setting up a new joint venture.[46] Either way, as a key restriction in line with China's commitment, foreign shareholders are not allowed to hold more than one third of the equity of the joint venture.[47] It is noticeable that the scope of business prescribed in the *2002 JV Securities Companies Rules* is narrower than what China committed to the WTO. The trading in B and H shares and launching of investment funds are not expressly included in the *2002 JV Securities Companies Rules.*

Qualification Requirements for QFII Scheme

The *2002 QFII Measures* define qualified foreign institutional investors as those foreign institutions who have satisfied the requirements prescribed in the *2002 QFII Measures* and who have been authorized by the CSRC to invest in China's securities market with allocated foreign exchange quotas from the SAFE. The foreign institutions include fund management companies, insurance companies, securities companies, and other asset management companies.[48]

To qualify for the QFII scheme, foreign institutional investors have to satisfy a series of high requirements. Fund management companies have to have been in the fund business for over five years and the assets under management in the most recent financial year should be above US$1 billion; insurance companies have to have been in the insurance business for over thirty years, with a registered capital of US$10 billion and the securities assets under management in the most recent financial year should be above US$1 billion; securities companies have to have been in the securities business for over thirty years, with a registered capital of US$10 billion and the securities assets under management in the most recent financial year should be above US$1 billion; commercial banks should be among the 100 largest commercial banks in the world in terms of total assets in the most recent financial year and the securities assets under management should exceed US$1 billion.[49]

The applicants have to go through a multi-tier and multi-stage approval process. They have first to designate a custodian bank to apply on their behalf. The custodian bank submits required documents to the CSRC and the SAFE and upon approval from the CSRC an investment licence is issued, with which the custodian bank can apply to the SAFE for a foreign exchange quota. In order to act as a custodian bank for a QFII, banks have

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to satisfy the requirements prescribed by the *2002 QFII Measures* and submit relevant documents to the CSRC, PBOC and SAFE for approval. Once approved, QFIIs open a special RMB account with the custodian bank which within five working days files the account information to the CSRC and the SAFE.[50] Through a designated local broker, QFIIs are allowed to invest in the shares, government bonds, convertible bonds and enterprise bonds listed on the stock exchange, and other financial products approved by the CSRC.[51] Each single QFII in a listed company can hold no more than 10% of the total shares of the company and the total QFIIs in the company can hold no more than 20% of the total shares of the company.[52]

China's QFII scheme is modelled on the QFII schemes of some other markets, in particular Taiwan, which introduced a QFII scheme in 1991. Professor Li Chong, the College of Economic and Business Administration, Beijing Normal University argued that China's current QFII scheme is a more restricted system than that of other countries in terms of qualifications, supervision, investment and administration of funds.[53] Taiwan's QFII scheme at its early stage, for example, required that commercial banks wishing to participate should be among the 500 largest commercial banks around the world. China currently requires them to be among the 100 largest commercial banks. The combination of a multi-tier and multi-stage approval process and highly restrictive requirements means that only a selected group of large international fund management companies, insurance companies, securities companies, and commercial banks can qualify for the QFII scheme.

Economic Impacts of the Changes to Securities Law and Regulations

In the 1980s, foreign securities companies started to set up representative offices in China. In 1991 B-shares were introduced and this was followed by H-shares in Hong Kong. Since then foreign investors have been able to invest in China's B-share market and H-share market through a Chinese broker or a foreign broker. But the opening up of China's securities market has been limited. China's WTO commitment on the securities market has started a new chapter in opening up China's securities market. The implementation of the commitment by the securities law and regulations on the QFII scheme, joint venture fund management companies and joint venture securities companies will have an unprecedented impact on China's securities market and economy.

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On 9 July 2003, UBS, through its QFII agent Shenyin & Wanguo Securities Co. Ltd., completed the first purchase of A-shares, which marked the official entry of QFII funds into China's A-share market.[54] As Table 3 shows, a total of US$3.7 billion foreign exchange quota had been allocated to 26 qualified QFIIs by the end of March 2005. The investment of such a large amount of funds in shares and various government and enterprise bonds has increased the supply of capital to the market. Two thirds of UBS's investments, for example, had been invested by the end of 2003 in 35 shares, 11 convertible bonds and 10 securities investment funds which covered over 10 industries ranging from electricity and steel to transportation.[55]

China's securities market has for a long time been dominated by individual investors and speculative investments. Introduction of the QFII scheme will improve the current structure of China's securities market and help regulate investment behaviour. Antony Neil QC, chief advisor of the CSRC and former chairman of the Hong Kong Securities and Futures Authorities, believes that the introduction of the QFII scheme is likely to help change the market from being dominated by individual investors to being dominated by institutional investors.[56] Zhou Xiaochuan, former chairman of the CSRC from February 2000 to December 2002 and current governor of the PBOC emphasizes that at the heart of the introduction of the QFII scheme is the aim of promoting medium and long-term investments and to limit short-term speculation.[57]

The establishment of joint venture fund management companies and joint venture securities companies between foreign and Chinese partners will help improve standards of service and increase the competitiveness of Chinese companies. Chen Xuerong, chairman of the board of directors of Xiangcai Securities, whose company formed the first joint venture securities company after the promulgation of the *2002 JV Securities Companies Rules*, commented that the main purpose of having foreign partners was to improve China's current management standards, introduce mature management ideas and increase competitiveness.[58]

Future Changes to Securities Law and Regulations

In January 2004, the State Council issued a "9-point blueprint" for the future development of China's capital market, which states: "[We must] strictly fulfil China's WTO commitments on opening up the securities services sector, to encourage qualified foreign securities institutions to

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invest in securities companies and fund management companies, and to continue trials of the QFII scheme."[59] It looks certain that the policy of opening up China's securities market will not be changed. The issue is when and to what extent the current restrictive law and regulations on the QFII scheme, the joint venture fund management companies and securities companies will be further relaxed.

Taiwan's QFII scheme, which has evolved in several stages over the years since 1991, is regarded by Chinese policy-makers and scholars as a success.[60] In 1991, for example, Taiwan commercial banks wishing to join the scheme had to be among the 500 largest commercial banks around the world, but this restriction was relaxed to 1000 in 1993 and was completely lifted in 2000. As China's QFII is modelled on Taiwan's experience in many ways it is expected that China will follow a similar approach and relax the controls step by step.

But the future changes to the current law and regulations on the QFII scheme are not restricted to the QFII scheme itself. On the one hand, it relates to China's WTO commitments and on the other hand it depends upon the progress of some other important reforms, such as the reform of China's foreign exchange control, which started in 1994. Zou Lin, director of the Capital Account Department of the SAFE commented in an interview that the reform on the convertibility of capital accounts is gradually stepping up and once it is liberalized there will be no need for the QFII foreign exchange quota.[61]

A paramount concern about the securities market is security and its impact on the national economy and society. Zhao Xijun, deputy director of the Finance and Securities Research Centre, Renmin University of China, argues that because the QFII is currently based on a very strict regulatory policy the risks linked with the scheme are not apparent. But as the QFII is gradually relaxed and the reform of China's foreign exchange system deepens, the issue of how to effectively prevent the risks brought about by the QFII will be very much a concern.[62] Professor Li Chong has argued that there is a need to tighten the regulations in order to effectively control outflow of QFII capital.[63] The 1997 Asian financial crisis was a lesson to Chinese government policy-makers and legislators, and what they learned from this crisis will influence future changes in securities law and regulations.

Auto Financing

According to the commitment made in section 7 of the *Schedule of Specific*

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Commitments on Services, China should have opened up the motor vehicle financing market to foreign non-bank financial institutions upon accession to the WTO. But because the regulation that was intended to implement this commitment was not put in place until October 2003, it was not possible in the first and second year after China's accession for foreign non-financial institutions to apply to establish a commercial presence in China in order to engage in automotive financing business. The WTO member states complained about this delay in the annual transitional reviews.[64]

The *Measures on the Administration of Automotive Financing Companies* and the *Detailed Implementing Rules for the Measures on the Administration of Automotive Financing Companies* were finally issued by the CBRC in October and November 2003 respectively (hereinafter, *2003 Measures on Auto Financing Companies* and *Implementing Rules*). In August 2004, having obtained a final approval from the CBRC, GMAC-SAIC Automotive Finance Co. Ltd. became China's first non-bank joint venture financial institution to conduct automotive financing services.[65] By the end of May 2005, four foreign-invested automotive financing companies had been set up and one had started preparation for establishment. The details are shown in Table 4.[66]

In August 2004, the PBOC and CBRC jointly took a further step to promulgate the *Measures on the Administration of Automotive Loans*,

Table 4. Foreign-invested Auto Financing Companies in China by the End of May 2005

Company	Type	Commencement of business
GMAC-SAIC Auto Financing Co. Ltd.	Joint venture	August 2004
Volkswagen Auto Financing (China) Co. Ltd.	Wholly foreign-owned	September 2004
Toyota Auto Financing (China) Co. Ltd.	Wholly foreign-owned	December 2004
Ford Automotive Finance China Ltd.	Wholly foreign-owned	Granted final approval in May 2005 and will start business at the beginning of the third quarter of 2005
DaimlerChrysler		Granted initial approval for preparation pending final approval from the CBRC to start business

Sources: Based on information given in a news report. (See Note 66)

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effective as of 1 October 2004 (hereinafter, *2004 Measures on Auto Loans*). Thus, together with the *2003 Measures on Auto Financing Companies* and the *Implementing Rules*, a regulatory framework has now been established to regulate automotive financing services in the context of China's WTO accession.

Requirements for Establishment and Operation of Auto-Financing Companies

Although the WTO member states welcomed the *2003 Measures on Auto Financing Companies* and the *Implementing Rules* as a step towards implementing China's commitment on automotive financing, they raised various questions about those provisions that set out restrictive conditions and high requirements.[67] These restrictive requirements include, first, that shareholders of an automotive financing company must have total assets of more than 4 billion, an annual business revenue above 2 billion, registered capital above 300 million and that it must have been profitable for the last three years; second, the minimum registered capital of the automotive financing company must be 500 million; third, direct branching from abroad is not allowed and no automotive financing company can set up any branch or subsidiary, and fourth, operations of the company may be stopped if it makes a loss in a single year of more than 50% of the capital or an accumulated loss in three consecutive years representing more than 30% of the capital.[68]

China argues that the minimum capital requirements and other requirements imposed on automotive financing companies are of a prudential nature, based on the fact that the automotive financing market in China is still at an early stage and the regulatory body lacks risk control capacity and supervision experience. Besides, all these requirements are non-discriminatory and apply to both foreign and domestic automotive financing companies.[69]

Some Chinese scholars argued in support of the complaint of the WTO member states. They submitted that there are rules in the *2003 Measures on Auto Financing Companies* and the *Implementing Rules* that create barriers for large-scale development of foreign-invested automotive financing companies in China.[70] First, the scope of business is restricted. Hire-purchase, an important business for foreign automotive financing companies is not included in the scope of business; second, the ways in which a foreign-invested automotive financing company could raise

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capital are restricted. They are only allowed to take deposits from shareholders in China, transfer and sell auto loan receivables, and borrow from financial institutions; third, loan rates are restricted. They may only be floated between 10–30% of the base rate set by the central bank; and fourth, branching is restricted. No branch or subsidiary is allowed. Others argued in favour of China's stand, taking into consideration the position of domestic companies. Jia Xinguang, chief analyst of China Automobile Industry Consultant Development Company submitted that few domestic companies could meet such very high capital requirements at present, and without these requirements foreign investment would be likely to capture China's automotive financing market.[71]

Economic Impact of the Auto Financing Regulations

The auto financing market is a newly emerged market in China. In September 1998, the PBOC promulgated the *Measures on the Administration of Automotive Consumer Loans* (hereinafter, *1998 Measures on Auto Consumer Loans*), which formally marked the beginning of a consumer automotive financing market in China. The PBOC at that time limited the business of automotive consumer loans to selected branches of just four state-owned commercial banks and loans were applicable only to vehicles manufactured in China.[72] In the same period of time, foreign automotive financing companies began to show an interest in China's market. GMAC started preparatory work in 1998, with a view to providing auto financing services later in China.[73] As early as December 1996, Ford Credit set up a representative office in Beijing and carried out certain activities, such as sponsoring an auto financing research project led by the State Planning Commission.[74]

China's young auto financing market is seen as a market with a huge potential. It is estimated by General Motors that by 2010 China will become the third largest car market in the world, after the US and Japan.[75] At present, auto financing in China covers only about 20–30% of car sales, which is in sharp contrast with about 70% globally and 80–85% in the US.[76] Some scholars regard auto financing as a "golden key" which will open up a sustainable consumer car market in China.[77]

To develop China's young auto financing market, China has much to learn from the experience of those countries where auto financing has existed for many years. One of the important impacts of bringing foreign automotive financing companies into China is that they can help China

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introduce new ideas and services. Yang Zaiping, deputy director of the Research Bureau of the CBRC has commented that the introduction of auto financing into China has actually created three new things, that is, automotive financing companies, new products, and a new system.[78] The *2003 Measures on Auto Financing Companies* and the *Implementing Rules* have provisions regarding second-hand vehicle financing and financing for vehicle parts, which are new services and products in China. By virtue of their experience in developing professional services over many years in their home countries, the foreign automotive financing companies can play an important role in helping China in this learning process.

Since 1998 China's auto financing market has been dominated by domestic commercial banks. The entry of foreign professional players into China following the *2003 Measures on Auto Financing Companies* and the *Implementing Rules* has changed the structure of this market. Foreign automotive financing companies are regarded as having several advantages over Chinese commercial banks. First, they have natural connections with car manufacturers and the two forces could jointly provide preferential benefits to consumers. Second, unlike banks where auto credit business is only one of their businesses, foreign automotive financing companies carry out auto financing as their core business and thus have specialized experience. Third, foreign automotive financing companies can provide customized loans and repayment plans according to the different needs of customers.[79] All of these advantages could contribute to the development of a diversified auto financing market in China. Ultimately, such a diversified development would bring more benefits to Chinese car consumers.

Some scholars, however, see the promulgation of the *2003 Measures on Auto Financing Companies* and the *Implementing Rules* and the subsequent entry of foreign automotive financing companies into China as a threat to domestic commercial banks and auto financing companies. They argue that once the market is opened up, any efforts made by Chinese financial institutions would fail, as foreign automotive financing companies such as GMAC could, for example, use the scope of price discount on their own brand cars to offer preferential loans, and therefore it would be a win-win situation for both the sale of their cars and auto loans.[80] But what this view has failed to see is that the competition resulting from the entry of foreign automotive financing companies is actually good for domestic banks and auto financing companies. Such competition would

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put pressure on Chinese auto financing providers to improve their services. In fact, before the promulgation of the *2003 Measures on Auto Financing Companies* and the *Implementing Rules*, Chinese auto financing providers had already started to improve their services to prepare for the forthcoming competition. In 2002, for example, the Nanjing branch of Pudong Development Bank set up a one-stop service centre for the convenience of customers in dealing with all the formalities involved in car purchase and financing.[81]

Future Changes in Auto Financing Regulations

As discussed above, the *2003 Measures on Auto Financing Companies* and the *Implementing Rules* are in many ways restrictive for foreign-invested automotive financing companies. Liu Yingyi, the finance director of the GMAC-SAIC Auto Financing Co. Ltd. was quoted as commenting that "present auto financing law and regulations seriously restrict our development."[82] Such remarks were echoed by Chinese policy-makers and scholars. Xu Hongyuan, for example, the director of the development department of the State Information Centre commented that lack of operational capital was the main reason why automotive financing companies were left without competitive advantages.[83] Although China has generally implemented its WTO commitment to open up the auto financing market to foreign automotive financing companies, restrictive requirements for their establishment and operation are making the operation of their business difficult.

To lift restrictive provisions in the *2003 Measures on Auto Financing Companies* and the *Implementing Rules* will therefore be a focal point for the future changes of auto financing regulations. When the *2003 Measures* and the *Implementing Rules* were promulgated, they were welcomed by foreign automotive financing companies, who had been anxiously awaiting their promulgation. It was no surprise that GMAC and SAIC reacted immediately and submitted their application to the CBRC in November 2003, to set up the joint venture GMAC-SAIC Automotive Finance Co. Ltd.[84] But because of the restrictive rules, coupled with other negative elements of the market, the reality for the GMAC-SAIC and other foreign providers was not so promising. It was reported that by the end of 2004, the total deals done by the GMAC-SAIC and Volkswagen Auto Financing (China) Co. Ltd. amounted to fewer than a thousand.[85]

High entry requirements, restriction on the scope of business,

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particularly hire-purchase, and limited channels for capital are highlighted as several pressing issues that need to be reviewed. There is clearly a substantial gap between what the *2003 Measures on Auto Financing Companies* and the *Implementing Rules* stipulated and the normal practice of those countries where auto financing has been around for many years. In May 2004, the State Commission for Development and Reform, with approval from the State Council, issued an important policy document, the Development Policy for the Automobile Industry, which replaced the 1994 Development Policy for the Automobile Industry. On the one hand, the document states generally that the government encourages the adaptation of "international mature ideas and experiences" about auto sales, management, services by auto manufacturers, financial institutions and other service providers,[86] but on the other hand, a cautious and conservative tone appears when it comes to specific issues, such as hire-purchase business.[87] Judging from the mixed signals from the Development Policy for the Automobile Industry, it seems no radical changes can be expected in the near future for the *2003 Measures on Auto Financing Companies* and the *Implementing Rules*.

A positive note, however, emanated from the *2004 Measures on Auto Loans* which amended the *1998 Measures on Auto Consumer Loans*. Among other positive changes, new provisions are introduced to allow loans to be issued for second-hand car purchases.[88] Considering that the *1998 Measures on Auto Consumer Loans* were on a trial basis and selected branches of only four state-owned commercial banks were allowed to carry out auto consumer loan business at that time, the *2004 Measures on Auto Loans* is indeed a solid step forward. But in the meantime, contrary to the high expectations of commentators, certain crucial restrictive provisions remain the same as in the *1998 Measures on Auto Consumer Loans*. The maximum term for loans, for example, remains unchanged at five years.[89]

The emergence of foreign automotive financing companies in China is a result of the implementation of China's WTO commitment, but is also due to market forces. It is estimated that between 2000 and 2005, the demand for cars in China has kept increasing at a rate of 20–25%.[90] It would be unhelpful if the auto financing regulations were to continue to create unnecessary barriers and restrictions to the participation of foreign auto financing companies in the fast growing automobile market in China. The 2004 Development Policy for the Automobile Industry clearly states that the government "supports" the development of an auto credit consumer market,[91] but what is lacking in the current auto financing

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regulations is a more open and relaxed approach instead of the current conservative and cautious attitude. In addition, future changes to the regulations will also depend upon the establishment of some other relevant systems, such as an effective and reliable credit information system in China.

Conclusion

In the past few years, China has promulgated and amended a series of laws, regulations and implementing rules in banking, insurance, securities and auto financing to implement its WTO commitment to further open up these financial services markets. The banking, insurance and securities regulators, CBRC, CIRC and CSRC, have played an important day-to-day implementing role in issuing detailed implementing rules and measures and authorizing foreign financial institutions. The legislative effort China has made has been impressive, as has the efforts made by the financial regulators.

But on the other hand, questions and complaints were raised by the WTO member states in the annual transitional reviews about various restrictive rules and requirements, such as the one-year waiting rule in banking regulations, capital requirements in insurance regulations and branching restrictions in auto financing. Amendments have since been made to some of these restrictive rules and requirements, but others remained unchanged. China argues that these rules and requirements were made in accordance with prudential principles and were non-discriminatory and therefore not inconsistent with China's WTO commitments. Different views have been expressed by Chinese scholars and commentators on the implementation of China's WTO commitments in financial services law and regulations, some of which were liberal in support of further lifting restrictions while others were protective in support of a cautious and restrictive approach.

Since 1979 China has opened up banking, insurance and securities markets to foreign investments in line with its overall economic reform and open-door policy. The implementation of China's WTO commitments on financial services and the reform of China's financial services law and regulations have brought this opening-up process to a new stage, which in turn has had significant impacts on each of these sectors and on the national economy as a whole. The number of foreign financial institutions has increased, more cities have been opened up for local currency business, a new auto financing market has been promoted, a new QFII scheme has

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been implemented, new management systems and quality services have been introduced which have intensified competition and brought benefits to customers. Some see these developments as positive for China's reform programme while others see them as threats to the development of the domestic financial industry.

Central to the current drafting of financial services law and regulations is a cautious and step-by-step approach from the government and financial regulators, as the financial services market is viewed as being sensitive to national financial security and vulnerable to crisis. Some scholars and commentators are calling for changes to current high entry requirements and other restrictive barriers while others advocate stricter control in some areas such as banking takeover activities and outflow of QFII funds, in order to safeguard national financial interests and stability. It is necessary to strike the right balance between further opening up in line with market forces and safeguarding national financial security. Future changes to China's financial services law and regulations depend upon China's continuous implementation of its WTO commitments and further opening up of financial markets and also upon the progress of the reforms in some other areas, such as foreign exchange, taxation, the social security system and personal credit information network.

Notes

1. WTO document WT/ACC/CHN/49/Add.2. This and other following WTO documents can be found at http://www.wto.com.
2. WTO document WT/L/432.
3. WTO document WT/ACC/CHN/49.
4. The first annual review was held on 21 October 2002, the second on 1 December 2003 and the third on 23 November 2004.
5. See section 7 of the *Schedule of Specific Commitments on Services.*
6. Arts. 15 to 32.
7. Art. 2.
8. See para. 5 of the Communication from Canada for the first annual review. WTO document S/FIN/W/20.
9. See paras. 15 and 16 of the Communication from the European Communities for the second annual review. WTO document S/FIN/W/32.
10. See He Xiaoyong, "Xin waizi yinhang shichang zhunru biaozhun yu Zhongguo rushi chengnuo de bijiao yanjiu" (A Comparative Study of New Market-entry Criteria for Foreign Banks and China's WTO Commitments), *Guoji shangwu yanjiu* (International Business Research), No. 5 (2004), p. 31.

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11. Ibid., p. 34.
12. Liu Mingkang, "Xinwen fabuhui shang de jianghua" (Speech at a Press Conference), 1 December 2004, www.cbrc.gov.cn.
13. Tang Shuangning, "APEC jinrong yu fazhan xiangmu luntan shang de fayan" (Speech at the APEC Finance and Development Programme Forum), 28 November 2004, www.cbrc.gov.cn.
14. Liu (Note 12).
15. See "Fang Zhada Yinhang Zhongguoqu zongcai Mai Tianhui (Martin Fish)" (Interview with Martin Fish, the Head of China Operations of Standard Chartered Bank), *Zhongguo waihui guanli* (Foreign Exchange), Nos. 1–2 (2004), p. 109.
16. Liu (Note 12).
17. See the interview with Martin Fish (Note 15), p. 109.
18. Meng Bin and Du Kuanqi, "Waizi yinhang yu woguo de jinrong anquan" (Foreign Banks and the Financial Security of Our Country), *Shichang zhoukan* (Market Weekly Economics), No. 9 (2004), p. 66.
19. See section 7 of the *Schedule of Specific Commitments on Services.*
20. Art. 2, *2001 Regulations.*
21. Ibid., Art. 7.
22. See para. 37 of the minutes of the review. WTO document S/FIN/M/37.
23. See para. 8 of the Communication from Canada for the second annual review. WTO document S/FIN/W/33.
24. See the statement made by China's WTO representative, para. 51 of the minutes of the first annual review and para. 32 of the minutes of the second annual review. WTO documents S/FIN/M/37 and S/FIN/M/43.
25. Arts. 7(1) and 13.
26. Art. 28.
27. See, for example, para. 2 of the Communication from the United States for the second annual review. WTO document S/FIN/W/35.
28. Arts. 2 and 5.
29. The figure was published on the CIRC's website www.circ.gov.cn (last accessed 24 June 2005).
30. Wu Dingfu, "Zhongguo baoxian guoji luntan shang de jianghua" (Speech at the China Insurance International Forum), 23 May 2005, www.circ.gov.cn.
31. See, for example, Xiong Zhengde, "Waizi baoxian gongsi dui woguo baoxianye de yingxiang jiqi duice" (The Impact of Foreign-invested Insurance Companies on the Insurance Industry of Our Country and Countermeasures), *Caijing lilun yu shijian* (The Theory and Practice of Finance and Economics), No. 2 (1997), pp. 57–58.
32. Wu (Note 30).
33. See Peng Jinbin and Li Yujian, "Woguo yinjin waizi baoxian gongsi de guanli celüe" (Tactics on the Administration of Introducing Foreign Insurance

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Companies to Our Country), *Fujian jinrong* (Fujian Finance), No. 12 (2000), p. 30.
34. See section 7 of the *Schedule of Specific Commitments on Services.*
35. See "China Approves First Joint Venture Management Firm," *People's Daily Online* (English), 18 October 2002.
36. See Liu Hongru, "Zongjie guoqu kaichuang weilai: tuidong Zhongguo jijin de jiankang fazhan" (Reflecting on the Past and Creating the Future: Promoting the Healthy Development of China's Fund Industry), *Zhongguo jinrong* (China Finance), No. 1 (2005), p. 22.
37. The information was published on the State Administration of Foreign Exchange's website www.safe.gov.cn (last accessed 15 June 2005).
38. Arts. 2 and 8.
39. Art. 10.
40. Arts. 6 and 7.
41. See para. 63 of the minutes of the second annual review. WTO document S/FIN/M/43.
42. Art. 13 (iii).
43. Arts. 7 and 9.
44. Art. 9 (iii).
45. Art. 5.
46. Art. 2.
47. Art. 10.
48. Art. 2.
49. Art. 7, *2002 QFII Measures.*
50. Ibid., Arts. 8, 9, 10, 12, 13, 14, and 23.
51. Ibid., Art. 18.
52. Ibid., Art. 20.
53. Li Chong, "QFII: woguo xian jieduan kaifang jinrong shichang de heshi moshi" (QFII: A Suitable Model to Open Our Financial Markets), *Huanan jinrong yanjiu* (South China Financial Research), No. 5 (2003), p. 37.
54. See the Annual Report 2003 of Shenyin & Wanguo Securities Co. Ltd., p. 28.
55. See Zhu Huacheng et al., "Shui shi QFII de xinchong" (Who Is QFII's New Favourite?), *Zhengquan daokan* (Securities Guide), No. 14 (2004), p. 44.
56. See Zhang Quanru, "Zhou Xiaochuan: woguo jubei QFII tiaojian" (Zhou Xiaochuan: Our Country Fulfils QFII Conditions), *Zhengce yu guanli* (Policy and Administration), No. 9 (2002), p. 57.
57. Ibid., p. 56.
58. See, "Quanshang jiakuai zujian waizi cangu zhengquan gongsi" (Securities Companies Step up Establishing Securities Companies with Foreign Participation), *Shanghai zhengquan bao* (Shanghai Securities News), 11 June 2002.

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59. Point 9, *Opinions on Promoting Reform, Opening up, and Stable Development of the Capital Market*, the State Council.
60. See, for example, Ba Shusong, "Lun Zhongguo ziben shichang de kaifang lujing xuanzhe" (On the Choice of Route for Opening up China's Capital Market), *Shijie jingji* (World Economy), No. 3 (2003), p. 69.
61. See "QFII zhengce yiru jiwang" (QFII Policy Will Be the Same as Before), *Zhongguo waihui guanli* (China Foreign Exchange), No. 7 (2004), p. 16.
62. See Zhao Xijun, "QFII qidong zheng dangshi" (QFII Starts up Just at the Right Time), *Zhongguo waihui guanli* , Nos. 1–2 (2004), p. 67.
63. See Li (Note 53), p. 39.
64. See, for example, para. 10 of the Communication from Japan for the first annual review. WTO document S/FIN/W21.
65. See "GM Obtains Approval for Auto Finance," *People's Daily Online* (English), 6 August 2004.
66. See Yang Xiwei and Gu Qianjiang, "Waizi qiche jinrong gongsi: jinrong kaifang xin liangdian" (Foreign Auto Financing Company: New Light Spot for Financial Opening-up), *Guoji jinrong bao* (International Finance News), 1 June 2005, www.people.com.cn.
67. See, for example, paras. 21 and 22 of the Communication from European Communities for the second annual review. WTO document S/FIN/W/32.
68. Arts. 5, 7, 14 and 29.
69. See the statement made by China's WTO representative, para. 35 of the minutes of the second annual review. WTO document S/FIN/M/43.
70. See Wang Ping and Cao Mengfei, "Woguo fazhan waizi qiche jinrong gongsi ruogan wenti tanxi" (An Inquiry on Several Issues Regarding the Development of Foreign-invested Auto Financing Companies in China), *Fujian jinrong*, No. 6 (2004), p. 20.
71. See Zhang Wenqiang, "Fute huozhun jinru, qiche jinrong waizi yongdong" (Ford Obtains Approval to Enter, Auto Finance Foreign Investment Surges), *Zhengquan shibao* (Securities Times), 6 August 2004.
72. See the PBOC's notice of promulgation of the *1998 Measures on Auto Consumer Loans*.
73. See Si Wanfang, "Tongyong de xia yige zhanchang" (GM's Next Battleground), *Xin caijing* (New Finance and Economy), No. 12 (2003), p. 80.
74. Ibid.
75. See Yao Hui, "Qiche xindai dazhan yichu jifa" (Auto Financing Battle Could Break Out at Any Moment), *Guoji jinrong bao*, 28 June 2002.
76. See Si (Note 73), p. 82.
77. See Cao Jianhai, "Zhongguo de qiche xiaofei shichang he xiaofei huanjing" (China Auto Consumer Market and Consumer Environment), *Shangye jingji yu guanli* (Business Economics and Administration), No. 7 (2003), p. 12.
78. See Yang and Gu (Note 66).

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79. See Yao (Note 75).
80. See Si (Note 73), p. 81.
81. See Yao (Note 75).
82. See "Qiche jinrong zai Zhongguo kaiju buli" (Auto Financing Had a Difficult Start in China), *Zhongguo qiche bao* (China Automobile News), 3 January 2005, www.people.com.cn.
83. See "Rongzi qudao yu huoli shouduan kunrao qiche jinrong gongsi" (Channels for Raising Capital and Means to Make Profits Trouble Auto Financing Companies), *Zhongguo qiche bao*, 28 May 2005, www.people.com.cn.
84. See Si (Note 73), p. 80.
85. See Note 82.
86. Art. 33.
87. Art. 65 requires that foreign investors go through a verification process before they can engage in leasing business.
88. Arts. 2, 4, 6, 22 and 26.
89. Art. 6.
90. See Yao (Note 75).
91. Art. 65.

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