

Economic, Finance And Insurance System In China

In the first 30 years after the founding of the PRC in 1949, the Chinese government carried out a system of planned economy, and targets and quotas for various spheres of economic development were set by the "planning committees" of the state. Factories produced goods according to state plans, and farmers planted crops also according to state plans. Commercial departments replenished and sold their stocks according to state plans, and the qualities, quantities and prices of the goods were all fixed by planning departments. This system contributed to the stable, planned development of China's economy, but it also limited the development of the economy and sapped its vitality.

China's economic reforms began first in the rural areas in 1978, when the household contract responsibility system was introduced there. Under this system, farmers got the right to use the land, plan farm work and dispose of products independently. Farmers had more choices for selling their agricultural products. State monopoly of the purchase and marketing of agricultural products was eliminated; the prices of the majority of farm products were freed; many policies restricting agricultural development were abolished; and farmers were allowed to engage in diversified business and set up township enterprises. All this greatly increased farm production.

In 1984, the economic restructuring shifted from the rural areas to the cities, and in 1992, after some 10 years of reform and opening-up and with a clearer orientation toward the implementation of reforms and establishment of a socialist market economic system, the Chinese government set forth main principles for economic structural reform as follows:

The development of diversified economic elements will be encouraged while keeping the public sector of the economy in the dominant position.

To meet the requirements of the market economy, the operations of state-owned enterprises should be changed so that they fit in with the modern enterprise system.

A unified and open market system should be established in the country so as to link the rural and urban markets, and the domestic and international markets, and to promote the optimization of the allocation of resources.

The function of managing the economy by the government should be changed so as to establish a

complete macro-control system mainly by indirect means.

A distribution system should be established in which distribution according to work is dominant while giving priority to efficiency with due consideration to fairness. This system will encourage some people and some places to become rich first, and then they may help other people and places to become rich, too.

A social security system, suited to China's situation, for both rural and urban residents shall be worked out so as to promote overall economic development and ensure social stability.

In 1987, the Chinese government set out a clear and definite economic construction objective: The first step was to double the 1980 GNP and ensure that the people have enough food and clothing. China attained this by the end of the 1980s. The second step was to quadruple the 1980 GNP by the end of the 20th century. This was achieved in 1995, ahead of time. The third step is to increase the per-capita GNP to the level of the medium-developed countries by the mid-21st century. At this point, Chinese people will have achieved a high standard of living and modernization basically will be realized.

In 1997, the Chinese government stressed that the non-public sectors of the economy were an important component part of the socialist economy of China, in which profitability was encouraged for elements of production, such as capital and technology. By 2002, reform in various fields was achieving remarkable results. A socialist market economic system has taken shape, and the basic role played by the market has been improved in the sphere of resources allocation. At the same time, the macro-control system continued to be perfected.

In March 2003, following the First Session of the 10th National People's Congress, China restructured these key economic ministries:

The State Development and Planning Commission ("SDPC") was renamed the National Development and Reform Commission ("NDRC") and absorbed the duties of the State Council Office for Economic Restructuring and some functions of other ministries;

The operations of the State Economic and Trade Commission ("SETC") and the Ministry of Foreign Trade and Economic Cooperation ("MOFTEC") were folded into a new Ministry of Commerce responsible for oversight of all domestic and foreign trade.

A new State Assets Management Commission ("SAMC") assumed responsibility for managing and restructuring state-owned enterprises ("SOEs").

A new China Banking Regulatory Commission ("CBRC") was given responsibility for supervision and regulation of the banking sector.

The pattern in which the public sector of the economy plays the main role and coexists with non-public sectors of the economy such as individual economy and privately owned economy for common development has basically been formed.

Financial System

In the past few decades, the People's Bank of China has exercised the central bank's functions and powers, as well as handling industrial and commercial credits and savings business. Therefore, it was neither the central bank in the true sense, nor a commercial entity conforming to the law of the market economy. But since the adoption of reform and opening-up in 1979, China has carried out a series of significant reforms in its banking system, and strengthened its opening to the outside world. Consequently, the finance industry has made steady development. By the end of 2003, the balance of home and foreign currency savings deposits stood at 22,036.4 billion yuan and the balance of home and foreign currency loans came to 16,977.1 billion yuan. Now China has basically formed a financial system under the regulation, control and supervision of the central bank, with the state banks as the mainstay, featuring the separation of policy-related finance and commercial finance, and the cooperation of various financial institutions, and mutual complementarities in terms of functions.

In 1984, the People's Bank of China stopped handling credit and savings business, and began formally to exercise the central bank's functions and powers by conducting macro-control and supervision over the nation's banking system. In 1994, the Industrial and Commercial Bank of China, the Bank of China, the Agricultural Bank of China and the Construction Bank of China were transformed into state-owned commercial banks; and three policy-related banks, i.e., the Agricultural Development Bank of China, the State Development Bank and the China Import and Export Bank, were founded. In 1995, the Commercial Bank Law was promulgated, creating the conditions for forming the commercial bank system and organizational structure, and providing a legal basis for changing the specialized state banks to state-owned commercial banks. Since 1996, the financial organizational system gradually has been perfected; the commercial banks wholly owned by the state have been transformed into modern financial enterprises handling currencies; over 120 share-holding medium-sized and small commercial banks have been set up or reorganized; and securities and insurance financial institutions have been further standardized and developed. In April 2003, the China Banking Regulatory Commission was formally established. Since then, a

financial regulatory system has been formed in which China Banking Regulatory Commission, China Securities Regulatory Commission and China Insurance Regulatory Commission work in coordination, with each having its own clearly defined responsibilities.

In January 2004, the State Council decided that the Bank of China and the Construction Bank of China would start the experiment of transforming into the share-holding system. The main tasks are to establish a standardized corporation management structure and an inner system of rights and responsibilities in accordance with the requirements for modern commercial banks; to restructure the financial system, speed up the disposal of non-performing assets and to reinforce minimum capital requirement to build up first-class modern financing enterprises.

The Renminbi and Foreign Exchange Control

The Renminbi (RMB), China's legal currency, is issued and controlled solely by the People's Bank of China. The exchange rates of the Renminbi are decided by the People's Bank of China and issued by the State Administration of Foreign Exchange. China operates foreign exchange in a unified way, with the State Administration of Foreign Exchange exercising the functions and powers of exchange control.

In 1994, China reformed the foreign exchange system, combined the Renminbi exchange rates, adopted the bank exchange settlement system and set up a unified inter-bank foreign exchange market. On this basis, China included the foreign exchange business of the foreign-invested enterprises in the bank's exchange settlement system in 1996. On December 1, 1996, China formally accepted Article 8 of the Agreement on International Currencies and Funds, and realized the Renminbi's convertibility under the current account ahead of schedule. Meanwhile, China has been active in promoting the bilateral currency exchange between the Association of Southeast Asian Nations, and China, Japan and the Republic of Korea (10+3). At the end of 2003, China's foreign exchange reserves reached US\$403.3 billion. China's share in international currency and funds organizations has risen from the 11th to the 8th place. The variety of financial businesses has been increasing steadily, and China has opened an array of new businesses to become integrated into the various aspects of modern international financial business, such as consumer credit, securities investment funds and investments linked with insurance.

Electronic Banking

In 1994, China started the "Golden Card Project," enabling cards issued by banks to be used all over the country through a network. To date, financial

institutions in China have issued 569 million cards, and installed 53,000 ATM, and 310,000 POS. The founding of the China Association of Banks has rapidly promoted the use of bankcards through the network. By the end of 2003, commercial banks wholly-owned by the state had adopted inter-bankcards through a network in more than 300 cities, and the inter-region and inter-bankcards of different kinds of banks in more than 100 cities. The introduction of the identification card of the China Association of Banks in more than 40 cities has created a full-scale inter-regional and inter-bank network.

Foreign-Funded Banks and Jointly Run Financial Institutions

In the past 20 years, China's financial institutions in the special economic zones, coastal open cities and inland central cities have approved a range of foreign-funded and Chinese-foreign jointly-run financial institutions. In 2002, China opened up a number of cities where foreign-funded banks were allowed to handle Renminbi business, and it will continue the practice in the coming few years. In five years, there will be no regional limitation on foreign-funded banks' handling Renminbi business in China. By the end of 2003, the total assets of foreign-funded operating financial institutions in China reached over US\$47 billion; foreign-funded banks were allowed to handle Renminbi business in 13 areas, and altogether 62 foreign-funded banks of 19 countries and regions set up 191 business institutions in China, among which 84 were approved to handle Renminbi business. There were 211 branches of foreign banks in China.

Foreign-funded banks have expanded their China-related business scope. In November 2003, the China Banking Regulatory Commission started implementing new policies such as allowing foreign-funded banks to provide Renminbi services to all kinds of Chinese enterprises in areas with open Renminbi business (before this, foreign-funded banks could only provide Renminbi services to foreign-funded enterprises, foreigners and personnel from Hong Kong, Macao and Taiwan in cities with open Renminbi business). The new policy also encourages qualified international strategic investors to join the restructuring and reforming of China's banking and financial institutions on a voluntary and commercial basis.

Meanwhile, all commercial banks in China have set up branches in foreign countries, and started an international credit business. The Bank of China ranks the first in the number and scale of overseas outlets. In 1980, China resumed its membership of the World Bank, and returned to the International Monetary Fund. In 1984, China started business contacts with the Bank for International Settlements; in 1985, China formally joined the African

Development Bank; and in 1986, China formally became a member of the Asian Development Bank.

Stock Market

In 1990 and 1991, China set up securities exchanges in Shanghai and Shenzhen. In the past decade, the Chinese stock market has grown to complete a journey that took many countries a hundred years or more to cover. Today, China's stock market has nearly 4,245.8 billion yuan in capital, 1,287 listed companies and 70.25 million investors.

The Chinese stock market has promoted the reform of state-owned enterprises and the change of their systems, and enabled a stable transition between the two systems. On the strength of the stock market in the past decade, many large state-owned enterprises have realized the change of their systems. The change also has stimulated medium-sized and small state-owned enterprises to adopt the share-holding system, thus solving the most important problem — the system problem — during the transition from a planned economy to a market economy. As for ordinary citizens, the stock market has joined bank deposit accounts to become one of the most important channels for investment. The methods of trade in stocks are constantly being improved. Today, a network system for securities exchange and account settlement has been formed, with the Shanghai and Shenzhen exchanges as the powerhouse, radiating to all parts of the country. In 2003, China issued 97 kinds of A share, and 24 rights issues, collecting a total of 82 billion yuan; and 24 kinds of B and H shares, collecting a total of 53.7 billion yuan.

Insurance

The insurance industry in China has come a long way since 1980 when China had only one insurance company. Today China has 54 insurance companies, 170 insurance intermediate companies, and over 70,000 insurance agencies. Also, 37 foreign-funded insurance agencies have been approved to do business in China, and 112 foreign-funded insurance companies from 19 countries and regions have set up 199 representative offices in 14 cities of China, ready to enter the Chinese insurance market.

In 1981, the People's Insurance Company of China — the first company after the end of 20-year suspension of the industry — was transformed from a government department into a specialized company, with branches in all the provinces, autonomous regions and municipalities and sub-branches in all the counties. The year 1988 witnessed the founding of the Ping An Insurance (Group) Company of China and the Pacific Insurance Company, which were mainly active in the coastal areas. In 1996, the People's Insurance Company of China made a big step forward in transforming its

administration system and operational mode, in setting up a modern enterprise system, and in integrating with the international market. The promulgation of the Insurance Law in 1985 and the founding of the China Insurance Regulatory Commission in 1988 have provided the legal basis and specific rules for the operation of the insurance market.