The SWOT Effects and Strategies of the Openness of the Financial Market After China's Entry to WTO

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Abstract

For the purpose of improving the international competitive powers of the financial industry after China's entry to the WTO (World Trade Organization), the paper elaborates the process and scope of the openness of China's financial market and analyzes the SWOT effects of the internal and external factors impacting the market. On the basis of the above SWOT analysis, the paper poses two strategies for the further development of financial industry.

Keywords: *WTO, China's financial market, SWOT, effect, strategy*

1. Introduction

*S*ince China formally become the member country of WTO (World Trade Organization) on December 11, 2001, China's financial industry has conducted positive reforms in the fields of system, market, technology, business and management according to the financial services frameworks which were formulated by the " "the Agreement" of entry to WTO of People's Republic of China" ("the Agreement"). And these reforms have showed significant effects. However, in 2004, the degree of openness will be the largest since China enters WTO. According to the commitment of the agreement, more than ten industries, including financial industry, will be widely open to the foreign capital. It is the beginning of test for China. In particular, with the close of the five- year post- WTO protective period, the openness of China will enter a brand new stage. Under such situation, how to promote the reforms of domestic financial industry to meet the new opportunities and challenges? How to improve their international competitive advantages to come up with the foreign counterparts? These issues have become the focus of the financial participants. Therefore, the research on the post –WTO openness of China's financial industry, which covers the process and scope, the internal and external environments, the measures and strategies, has become an important project for the financial institutions, scholars and professionals. Based on the SWOT effect analysis, this paper would provide some suggestions on the openness of post WTO financial markets in China.

2. The process and scope of openness of China's post-WTO financial markets

After China's entering WTO, the domestic financial industry will completely implement the financial services commitment in accordance with the Appendix nine of "the Agreement". While the three major sectors, which have been committed to open, are banking, insurance and securities. The opening process and scope of China's financial industry can be attributed to four perspectives: sector or sub-sector, market access, national treatment and additional commitment. As regard to the perspective of market process, the commitments are described as follows.

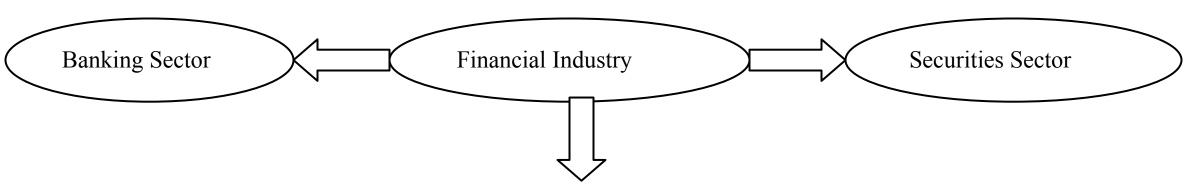


Figure 1: the three sectors of China's financial industry

2.1. The market access of China's banking sector

After China's entering WTO, the domestic banking services will be deregulated as follows. Firstly, the limitations on the georgraphic coverage will be cancelled gradually. For foreign currency business, there will be no geographic restriction upon accession. For local currency business, the georgraphic restriction will be phased out as follows: upon accession, Shanghai, Shenzhen, Tianjin and Dalian; within one year after accession, Guangzhou, zhuhai, Qingdao, Nanjing and Wuhan; within two years after accession, Jinan, Fuzhou, Chengdu and Chongqing, within three years after accession, Kunming, Beijing and Xiamen; within four years after accession, Shantou, Ningbo, Shenyang and Xi'an. Within five years after accession, all geographic restrictions will be removed. Secondly, the restrictions on clients will also be cancelled gradually. For foreign currency business, foreign financial institutions will be permitted to provide services without restriction as to clients upon accession. For local currency business, within two years after accession, foreign financial institutions will be permitted to provide services to all Chinese clients. Foreign financial institutions licensed for local currency business in one region of China may service clients in any other region that are been opened for such business.

2.2. The market access of China's insurance sector

After China's entering WTO, the domestic insurance services will be deregulated as follows. Firstly, upon accession, foreign life and non-life insurers, and insurance brokers will be permitted to provide services in Shanghai, Guangzhou, Dalian,Shenzhen and Foshan; within two years after accession, foreign life and non-life insurers, and insurance brokers will be permitted to provide services in the following cities:Beijin, Chengdu, Chongqing ,Fuzhou,Suzhou, Xiamen, Ningbo, Shengyang, Wuhan and Tianjin. Within three years after China's accession, there will be no geographic restrictions. Secondly, the restrictions on business scope will also be removed gradually. Upon accession, foreign life and non-life insurers, and insurance brokers will be permitted to provide "master policy" insurance/ insurance of large-scale commercial risks, which has no geographic restrictions. In accordance with national treatment, foreign insurance brokers will be permitted to provide " Master policy " no later than Chinese brokers, under conditions no less favorable. Foreign life and non-life insurers, and insurance brokers will be permitted to provide insurance of enterprises abroad as well as property insurance, related liability insurance and credit insurance of foreign- invested enterprises in China upon accession. Within 2 years after China's accession, foreign life and non-life insurers, and insurance brokers will be permitted to provide the full range of non-life insurance services to both foreign and domestic clients. Foreign insurers are permitted to provide individual (not group) insurance to foreigners and Chinese citizens; within three years after accession, foreign insurers will be permitted to provide health insurance, group insurance and pension/ annuities insurance to foreigners and Chinese.

2.3. The market access of China's securities sector

After China's entering WTO, the domestic securities services will be deregulated as follows. Firstly, foreign securities institutions may engage directly (without Chinese intermediary) in B share business. Secondly, upon accession, Foreign Service suppliers will be permitted to establish joint ventures with foreign investment up to 33 per cent to conduct domestic securities investment fund management business. Within three years after China's accession, foreign investment shall be increased to 49 per cent. Meanwhile, foreign securities institutions will be permitted to establish joint ventures, with foreign minority ownership not exceeding 1/3, to engage (without Chinese intermediary) in underwriting A shares and in underwriting and trading of B and H shares as well as government and corporate debts, launching of funds.

After China entered WTO, the domestic financial industry has positively implemented the commitments in accordance with "the Agreement" and achieved the significant effects. However, the openness of China's domestic market will face both positive and negative environmental factors, leading to the so-called SWOT effects.

3. The SWOT effects of the openness of the post WTO financial markets in China

Obviously, the overall environments of China's financial industry would change continuously with the deepening of openness and the close of transitional period after China entered the WTO. These changes include internal strengths and weakness, external opportunities and threats, resulting in the so- called "SWOT" effects.

3.1. Internal environmental factors

After more than 20 years of reforms, China's financial systems have been improved significantly. However, with the globalization of China's economy, we should realize that in comparison with foreign counterparts, China's financial industry has both strengths and weakness in their internal environments.

3.1.1 strengths

3.1.1.1 localization and abundant customer resources

Since they are located in the domestic markets and have centuries-old history, China's financial institutions have accumulated abundant customer resources due to their awareness of the situation of the country, particularly of culture background. While the foreign competitors might have a gradual process in understanding such situation and culture after they enter China's financial markets. Worse still, they might even have some misunderstanding. Therefore, these competitors might not attract plenty of domestic customers in a certain period.

3.1.1.2 unique brand name and steady customer relationship

China's financial industry has weaved an intensive network after years of operation. Although such naturally monopolistic position would shrink after China joined WTO, the unique brand names of domestic financial institutions have already been established. On the other side, foreign competitors might be at a disadvantage in the network distributing as the fund they could absorb in China's markets are limited. Furthermore, China's stated owned commercial banks have accumulated rich customer resources and established profound emotional relationship with them. Such relationship can only tie with one or two generations of managers, but it will still save the valuable time for the banks in the post WTO transitional period. During this period, they can turn the emotional relationship into the steady customer base by the Customer Relationship Management System.

3.1.1.3 networks covering both urban and rural areas

After more than 20 years of information construction, China's banking sector have set up large national computer network and their business subsidiaries cover both urban and rural areas. Before September 2003, banks that issue banking cards have amounted to 61, the cards issued amounted to 619 million, among which, visa card reached 183 million, and the customers amounted to 250 thousand. Despite of the rapid development of financial information construction, the dominant services provided by the domestic banks are still counter services. So the competitive advantages of the domestic banks are still the physical business subsidiaries all over the country, which can absorb customers. The foreign competitors cannot establish numerous subsidiaries and powerful networks in a short period after they enter China's market. Instead they would set up regional networks gradually. Therefore, they cannot be the fundamental threats to the domestic banking sector.

3.1.1.4 national reputations as strong support

China's banking sector has the national reputation as the strong support and has gained a favorable public credit standing. In comparison with foreign competitors, the domestic commercial banks are more steady and credible with the national fund as the capital resources and the national finance as the backup force. In the context, they can maintain a constantly developing tendency. The national reputation of domestic commercial banks is much higher than any commercial credit as it is a sense of self –identity in concomitancy with the ethical culture mentality. While the foreign competitors cannot establish such reputation in public, instead the domestic customers might be cautious to the foreign financial institutions for some political and economic reasons.

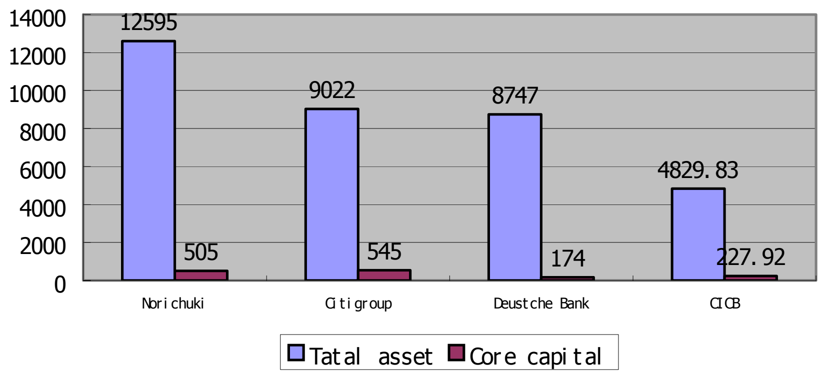
3.1.2 weakness

3.1.2.1 the lag system and low operation ratio

The innovations of financial system still kept lagging although China has promoted systematical reforms after its entry to WTO. Till this stage China's domestic banks have not transited into the international recognized commercial banks. Banks must consider both national policies and commercial benefits in the operations because of regular governmental interventions. On the contrary, foreign banks, which are independent artificial person, can operate according to the international routines to achieve the objective of profit maximization. Consequently, their operation will be efficient and flexible.

3.1.2.2 the inadequate size of assets and capitals

The foreign banks that enter China's market would be those of world renown, some of which are the conglomerate companies. Generally, they have unconditional competitive advantages in both assets and capitals. For instance, the total assets of Norichukin in Japan have reached 1 trillion of U.S. dollar, which equal the summation of the four largest domestic banks of China.(CICB, CAB, Bank of China and CCB). Statistic indicated that at the end of 2001, according to the core capital, the world's five largest banks were Citigroup ($ 54.5 billion), Norichukin , America bank ($46.5billion), JP. Morgan Chase ($37.6billion). While CICB, which is the largest one in China, ranked merely No. seven with the core capital of $22.792 billion. (Figure 2) Neither the total asset nor the core capital of the CICB has reached the half of the Norichukin. Not to mention other small and medium sized domestic banks.

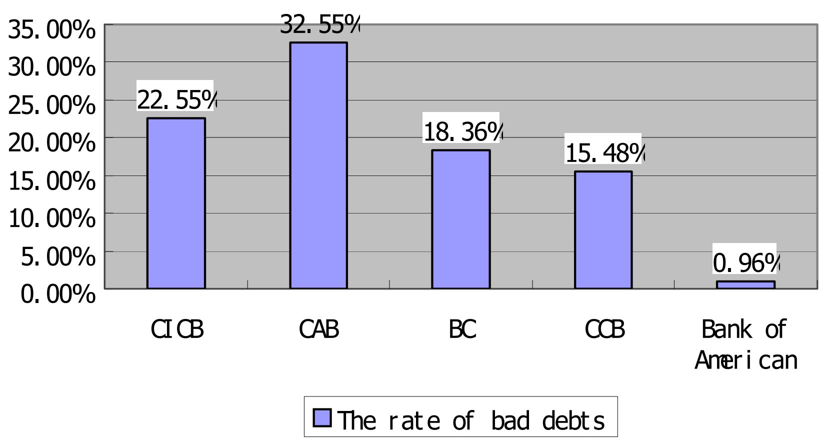


Resources: Chen, L.L. " Beijing Youth Daily", Dec.3, 2001

Figure 2: The Comparison of total assets and core capital between domestic banks and foreign banks (Year: 2001)

3.1.2.3 the relatively high leverage of bad debts

China's financial industry has not adopted scientific and effective measures to settle the bad debts, resulting in the relatively high leverage of bad debts. For example, the leverage of bad debts of American banking sector is estimated to be 0.96%, while the four domestic commercial banks in China have the much higher ratios, equaling 22.55%, 32.55%, 18.36% and 15.48% respectively. (Figure 3)

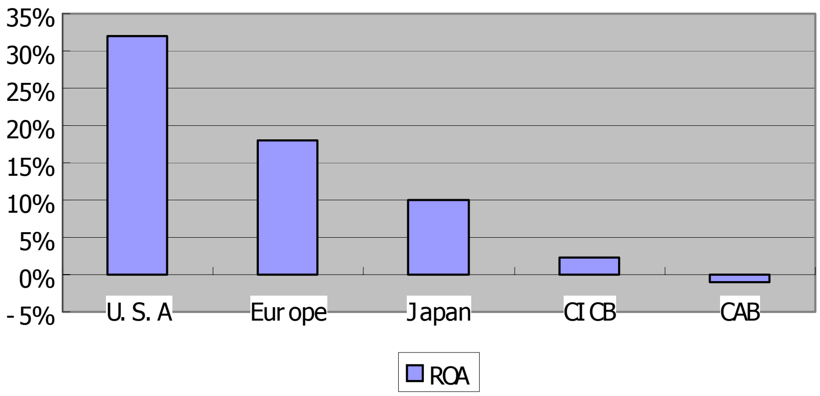


Resources: Ma, Y. " China WTO Reporting 2003", April, 9, 2003

Figure 3: The Comparison of bad debt ratios between domestic banks and U.S. banks

3.1.2.4 the low return ratio of capital (ROA)

The ROA of China's banking sector is as low as one tenth of that in developed countries. For example, the average ROA of American banking sector is the highest and amounts to more than 32%. The average ROA of seven European banks amounts to more than 17.9% and ranks the second. The average ROA of seven Japanese banks amounts to more than 10% and ranks the third. While among the 100 largest banks in China, the ROA of CICB is the highest and amounts to 2.3%, and that of CAB are negative. (Figure 4). It indicates that there is huge gap between the ROA of the domestic banks and that of the foreign banks. Meanwhile, the foreign competitors have accumulated many experiences and formed a mature system.



Resource: China National Statistics Bureau, "China Statistics Annual Year Book 2002", China Statistics Publishing House, Jan, 2004

Figure 4: The list of ROA of banks (Year 2004)

3.1.2.5 Poor performances in the human resource management

In comparison with foreign counterparts, China's financial industry has not conducted effective measures to improve the quality of employees. In addition, incentive systems have not been set up. Unless domestic financial institutions formulate and perform a set of human resource management system, numerous of outstanding professionals might float to the foreign invested institutions. Thus increasing the gap of the human resources between China's financial industry and their foreign competitors.

3.1.2.6 weakness in the risk control abilities

China's financial industry has not developed and completed a set of risk protection and control systems, which are operating effectively in the foreign financial industry. The weak risk control abilities of domestic industry can be attributed to two features: firstly, there might be some problems in the risk appraising; secondly, the lagging legal system results in the lagging financial administration.

3.1.2.7 the slow development of financial innovation

Financial innovations have been developed rapidly in the financial industry of western countries during the past ten years. The foreign financial institutions have conducted innovations and reforms in the fields of financial channels, techniques, and tools for the purpose of competitiveness and profitability. On the contrary, many domestic financial institutions lack of the sense of innovation, particularly in the field of technology innovation. For instance, the new concepts such as ATM, Phone banks, Home Banks, Network Banks and Electronic Currency have been popular in the foreign countries. However, China's counterparts seem to be out of date in these fields.

3.1.2.8 Low degree of business internationalization

The competitive advantage of foreign financial institutions also lies in the business internationalization. The losses in the certain markets can be supplemented by the profits in the other markets, such as the investment portfolio, market segmentation, human resource management, and the fund allocation of these institutions are operating on the global basis. Therefore, in general, foreign institutions have extremely strong anti-risk ability of surviving in the changing market, and the expected returns of them are normally steady and credible. Conversely, most of the domestic financial institutions have been strongly relied on the local market, with very low degree of internationalization.

3.2 External environmental factors

It can be described as a sharp anelace for China's financial industry to enter the WTO. They will face not only the internal strengths and weakness, but also opportunities and threats from external environments. Furthermore, the new opportunities and challenges will emerge with the deepening of WTO and the close of the transitional period.

3.2.1 opportunities

3.2.1.1 facilitating the reforms in the financial markets

China's entry to WTO would facilitate the marketing reforms of financial industry, impulse the financial operation and administration towards the international criteria, establish an international recognized financial services system, enhance the market sensitivities of commercial banks, strengthen currency policies, and accelerate the marketing process of interest rate. Meanwhile, it would also speed the further regulations of China's securities industry according to the international standard. Moreover, the insurance industry would also develop on an even keel.

3.2.1.2 facilitating the financial capital inflows

China's entry to WTO would facilitate the domestic financial institutions to learn the advanced management experiences of their foreign counterparts. It would also absorb foreign capitals, techniques and management know-how. In particular, the inflows of foreign capitals can overcome the "bottle-neck "of fund scarcity for the infrastructure constructions at the current stage. Simultaneously, It can enhance the international competitiveness of China's financial industry to achieve the final objective of building a well-to-do society.

3.2.1.3 facilitating the oversea expansions of financial institutions

China's entry to WTO would facilitate the domestic financial institutions to explore foreign markets and develop oversea business. Obviously, the oversea expansions of financial institutions would highly promote the international trade of China. And as a consequence, it might boost marketlizaton and internationalization of other domestic industry.

3.2.1.4 facilitating the participation of formulation of the trade regulations

China's entry to WTO would facilitate the country to play a more important role in the WTO. In detail, China could strive for its own benefits by participating the formulation of the trade regulations. And this would also fortify the cooperation of developing countries in the multilateral negotiations. Meanwhile, China could seek for essential protections in the field of financial services according to the exceptional rules for the developing countries, which are recorded in the articles of "the Agreement".

3.2.2 Threats

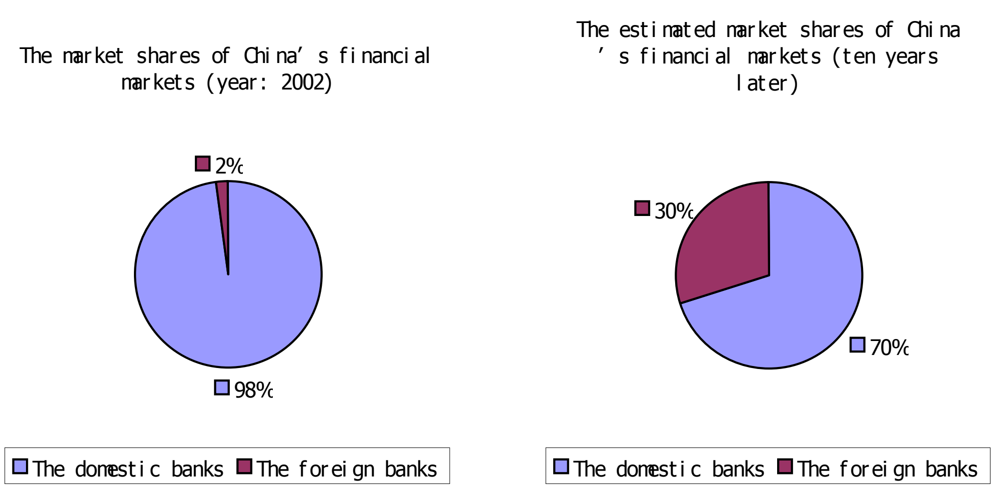
China's entry to WTO has brought not only the above opportunities, but also rigorous challenges. The foreign invested financial institutions would enjoy the national treatment, and several limitations would be removed gradually. Thus the original advantages of " market barriers" that domestic institutions possess would disappear. Instead, foreign competitors might capture the developing opportunities from the following perspectives.

3.2.2.1 the phenomena of "job-hopping" would deteriorate

After China entered WTO, the domestic financial institutions would face the crisis caused by the "job-hopping" of talents, because the foreign competitors might attract the outstanding colony in the domestic financial institutions by their competitive incentive systems and much higher level of salaries. As a consequence, the essential customers would lose, and the profitable business would attribute to the foreign competitors, leaving the money-losing business to the domestic ones. Therefore, the leverage of money-losing business would increase, which might drag the domestic institutions into puzzle dom.

3.2.2.2 the market share would shrink

After China entered WTO, the expansion spaces for the domestic financial institutions would be continuously compressed, and the market shares would shrink. Firstly, the foreign currency deposits might be transferred to the foreign ones. Secondly, the intermediary proxy business would become the target of competitions for its nature of " low risk, high profit ", and the competitors might also inrush the retailing market. Thirdly, the commercial credit and private credit business might be nibbled gradually. Fourthly, the foreign institutions would largely increase their market shares of RMB deposits. Fifthly, the foreign institutions might take their advantages of financial derivative products to compete against the domestic ones. In particular, the foreign institutions would rush into China's market with the close of transitional period. They could combine their advanced network with the physical subsidiaries of the domestic institutions, and concentrate on a few high-grade customers and projects with high return, to capture the shares of China's financial market in a short period. For example, the foreign banks occupied merely 2% of China's financial market in 2002. However, it was estimated, by the scholars at Shanghai Asia Banks Annual Conference, that the foreign banks would occupy more than 30% of China's financial market in the future ten to fifteen years. Therefore, the five years of post WTO protective period has become the final time schedule for China's banking sector to promote reforms, reducing the gaps between the two parties.



Resource: Ma, Y. " China WTO Report 2003", Economy Daily Publishing House

Figure 5 The comparison of market share between domestic banks and foreign banks

(current and 10 years later)

3.2.2.3 the financial risk would increase

After entry to WTO, the financial risk of China's banking sector would increase. Firstly, the risk protection and administration system are not mature enough. In the context, the free flow of capitals would bring some new issues of the marco economic control and financial administration to Chinese government with the deregulation of the China's capital market, currency market and foreign exchange market deregulate. Secondly, driven by the objective of profit maximization, the foreign institutions would chose the low risk, low cost and high return business. The fierce competitions between the two sides would inevitably increase the risk faced by domestic institutions.

3.3 The evaluation of internal and external factors

3.3.1 SWOF Matrix Effects

In order to evaluate the internal and external environmental factors that impact the openness of China's financial markets, the internal factor evaluation (IFE) Matrix and external factor evaluation (EFE) Matrix can be adopted. According to the degree of importance, the scores of various essential factors can be divided into 1,2,3,4. " 1 "stands for "normal level", "2" for "important ", " 3" for "very important" and "4" for "extraordinary important". (Table 1), (table 2)

Table 1 The scorecard of internal environmental factors impacting the openness of China's financial market

Internal Environmental Factors		Weights	Score	Weighted score	No.	Total Score
Strengths	1.localization and customer resources	0.14	4	0.56	1	1.88
	2 brand names and customer relationship	0.1	4	0.4	3	
	3 networks covering both Urban and rural areas	0.13	4	0.52	2	
	4national reputations as Strong support	0.1	4	0.4	3	
Weakness	1 lag system and low operation ratio	0.09	4	0.36	5	1.75

	2 the inadequate sizes of Assets and capital	0.08	3	0.24	8	
	3 high level of bad Assets	0.07	4	0.28	7	
	4 low ROA	0.09	4	0.36	5	
	5 low input in Human resource	0.07	3	0.21	9	
	6 low anti risk abilities	0.05	2	0.1	11	
	7low degree of financial innovation	0.04	2	0.08	12	
	8 low level of Internationalization	0.04	3	0.12	10	

Table 1 shows that the general scores of strengths are 1.75 more than those of weakness. It can be concluded that the internal environmental factors impacting the openness of China's financial market would be positive.

Table 2 The scorecard of external environmental factors impacting the openness of China's financial market

Internal Environmental Factors		Weights	Score	Weighted score	No.	Total Score
Opportunity	1 marketing reforms	0.18	4	0.72	3	2.1
	2 capital inflows	0.21	4	0.84	1	
	3 oversea expansion	0.10	3	0.3	6	
	4 formulating the Business regulations	0.08	3	0.24	7	
Threat	1.the phenomena of " job-hopping"	0.19	4	0.76	2	1.58
	2 The increasing Degree of risk	0.14	3	0.42	4	
	3 The shrinking market	0.10	4	0.40	5	

Table2 shows that the general scores of opportunities are 2.1 more than those of threats. It can be concluded that the external environmental factors impacting the openness of China's financial market would also be positive.

3.3.2. SWOT matrix matching

The key internal and external factors (strengths, weakness, opportunities and challenges), which impact the openness of China's financial markets, can be analyzed through SWOT matrix effects and SWOT matrix matching. The following strategic portfolios can be achieved.

Table 3 The SWOT matrix matching of the openness of China's financial market after china enters WTO

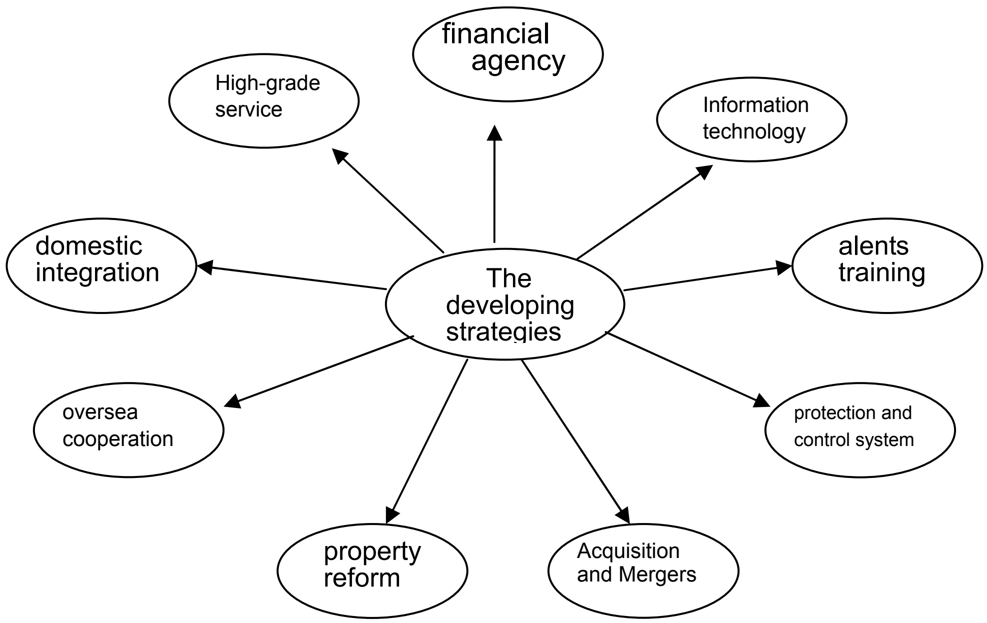
<table>
<tr><td colspan="2" rowspan="2">Internal
strategy
external</td><td colspan="2">Internal Factors</td></tr>
<tr><td>Strengths
1. Localization and customer resources
2. Brand names and customer relationship
3.networks covering both urban and rural areas
4 national reputations as strong support</td><td>Weakness
1 lag system and low operation ratio
2 the inadequate sizes of assets and capital
3 high level of bad assets
4 low ROA
5 low input in human resource
6 low anti risk abilities
7low degree of financial innovation
8 low level of internationalization</td></tr>
<tr><td rowspan="2">External Factors</td><td>Opportunities
1 marketing reforms
2 capital inflows
3 oversea expansion
4.formulating the Business regulations</td><td>1.Developing Intermediary proxy business
2.Strengthening Foreign cooperation</td><td>1. Reinforcing property reforms
2. Promoting acquisition & merger
3. Fortify information techniques</td></tr>
<tr><td>Threats
1. Job-hopping Phenomena
2.The increasing Degree of risk
3.The shrinking market</td><td>1. Providing high-Quality financial services
2. Deepening the Domestic financial integration</td><td>1. Completing protective and Control system
2. Improving the training of talents</td></tr>
</table>

It is obvious that with the entry to WTO and the close of transitional period, the domestic financial industry will have their own strengths and weakness, and face both new opportunities and challenges, thus resulting in the SWOT effects of internal and external environmental factors. Therefore, China's financial industry should formulate the effective and reasonable strategies for the development.

3. The developing strategies of the openness of China's financial markets after the entry to WTO

With the entry to WTO and the close of transitional period, China's financial industry should take sound measures to enhance the competitiveness of the whole industry, maintain the securities of national economy and finance, and promote the steady development of national economy. The measures could be based on the following strategies. (Table 6)

Table 6 the developing strategies of the openness of China's financial markets



4.1 The strategies of maximizing the strengths

With the advantages of localization, China's financial industry can make the best of the current intensive networks, initiating the financial innovations and new business on the basis of current financial services. The following measures could be adopted.

4.1.1 providing high quality financial services

China's financial institutions can take the advantage of intensive subsidiaries to provide innovative financial services. During the transition period, the financial markets have not been completely opened. The domestic institutions can capture the market of intermediate proxy business because they are of low cost, low risk and high profit. For example, the banking sector should go on with the private credit business, including house mortgage loan, automobile mortgage loan and private mortgage loan. The special private banking department or financing service department should be set up, to provide the customers individual and multiplex financial and consulting services. In summary, the domestic institutions should provide the customers the full-scale and high-grade services, according to their demands.

4.1.2 developing the financial agency business

The financial agency business comprises the following contents: collection and payment business on a commission basis (salaries, and fee collection etc.) Security agency business (IPO, securities trading and cashing, dividend and interest payment, etc.); insurance agency business, the agency business of foreign exchange trading, financing, accounting and coffer renting, and the agency business of negotiable credit, etc.

4.1.3 reinforcing the integration among the domestic financial institutions

In order to enhance the competitiveness of the whole industry, each financial department should strengthen cooperation, improve intercommunication, and reconstruct the resources among them. Firstly, the banks should be combined with the securities companies. The state-owned banks should make use of their good reputations and intensive networks to expand the business to the security industry. For example, providing funds for the business of IPO, seasoning offering, and acquisition and mergers. According to Li, Zhqoqing, the time schedule for the listing of four state owned domestic banks have been determined: the CCB, Bank of China, CICB and CAB will be listed in 2004,2005,2006 and 2007 respectively. On the other side, the banking business should be integrated with insurance business from three perspectives. The first perspective is capital integration. China's insurance companies should transfer part of their capital to the four domestic commercial banks for the purpose of diversification. So the banks should take advantage of this opportunity, promoting the capital integration with the insurance companies by the means of deposit agreements. The second perspective is the business integration. Banks can develop the private financing business in the fields of insurance products innovations. The third perspective is the technology integration. Many domestic insurance companies have established cooperation with foreign counterparts, because of the early openness of the insurance industry. So banks could obtain the advanced management and marketing know-how from foreign counterparts via the assistance of domestic insurance companies. They could promote technology innovations, developing the new business such as phone banks, electronic banks and so on. Through these innovations, the customer resources of both sides can be stabilized, and the long-term relationship of multi-cooperation can be achieved.

4.1.4 fortifying the financial cooperation with the foreign counterparts

China's domestic financial institutions could take advantages of localization, unique brand names, intensive networks and national reputations, to seek for the co-operations from the foreign counterparts. Through such co-operations the domestic institutions could not only get the advanced management know-how, but also avoid the direct competition from the foreign counterparts to some extent. Moreover, the foreign customers could also accept the brand names of China's finical institutions through such co-operations. In fact, the domestic banks have contacted with the foreign counterparts since China joined WTO. Some practical progresses have been achieved. For instance, the cooperation between Shenzhen Development Banks PLC and American New Bridge Capital implied the beginning of foreign mergers. On October 16, 2002, Guoan Fund Co., the first foreign investing fund company, was approved by the China's Securities Regulatory Committee. The Huabao Trust Investment Co. also planned to set up Huabao Xingye, a joint venture with BNP Paribas Asset Management Co.Ltd. The Zaoshang Securities Co. and Dutch International Corporation planned to establish Zaoshang Fund Co. The Haitong Securities Co. and Belgium Fortis Co. planned to launch Hai Fortis Fund Co. The oversea acquisitions and mergers have become the hot concept in the China's securities market.

4.2. Strategies for changing weakness

In order to change the current weakness and improve international competitiveness, China's financial industry should implement the following strategies.

4.2.1. Accelerating the financial property reforms

The essential part of systematic reforms of domestic financial industry is to establish and complete the modern service system, to accelerate the financial property reforms. The key competitiveness of domestic commercial banks is to conduct property reforms according to the requirements and regulations for the modern enterprises, realizing the multiplex of property entities. The property entities of limited companies should comprise states, corporations and individuals, particularly the qualified foreign investors. Therefore, China's state owned enterprises should take the opportunity of joining the WTO, accelerate property reforms, and establish and complete the modern financial services systems. For instance, the state council has decided to provide 45billion US dollars of foreign reserves to Bank of China and CCB as their supplemental capital, to implement the reforms. This can be described as a brand new practice for China's financial industry and the aim is to change the state owned banks into modern commercial banks with international competitiveness.

4.2.2 strengthening the financial acquisition and mergers

For the purpose of improving the competitiveness of the domestic financial industry, a class of large sized and qualified financial institutions should be established through acquisition and mergers. In particular, some leading institutions should form the financial conglomerate to realize the economies of scale. According to Li, Zhaoqing, the State

Council will input more than 120 billion US dollars for the reconstruction of four domestic commercial banks. The CCB, Bank of China, CICB and CAB will finish reconstruction in 2004, 2005,2006, and 2007. It will be undoubtedly that the four state-owned commercial banks will follow the way of incorporation and internationalization.

4.2.3 establishing the financial risk control systems

China's financial industry calls for the long-term, flexible, and objective risk control and appraising system. Firstly, an effective and comprehensive financial control system should be established. According to the basic principles of WTO and the promise for financial services, which have been regulated in "the Agreement", the domestic financial industry should edit the related financial laws and regulations to establish the international recognized information disclosing policies. Meanwhile, the financial transparency of the domestic financial institutions must be encouraged, achieving the transparency in both the operation and administration. Moreover, according to the international tendencies, the banking, insurance and securities industry should be administrated separately. In addition, the reforms of personal and incentive policies of financial industry should be accelerated, so do the interest rate and exchange rate reforms. Through these measures, the administration systems could be further consummated and the effective financial control system could also be established, Secondly, the financial appraising system should be established and perfected to decrease the size of bad assets. In particular, the protection and administration of the high- risk projects must be strengthened. The effective bad debt canceling system must be set up, to minimize the leverage of bad debt. The financial information system must be established. The innovations of financial organizations should be encouraged. The innovations of financial organizations should be implemented. The organizations can be designed at the vertical level. The grass roots should be enriched, the top management should be simplified and the middle-level should be increased, thus decreasing the operation cost.

4.2.4 reinforcing the training of financial talents

Currently, China's financial industry is facing two major problems. One is short of modern financial management talents; the other is the low level of finical electrification. Therefore, it has become an urgent task to enhance the management and technology standards, reinforce the training of financial talents, and improve the level of financial electrification. Firstly, the input of human resource should increase. Through the part-time and full- time training and oversea training, a team of senior managers, who are familiar with both international finance and operations, could be formed. Secondly, the concept of " everything should be based on the human being " must be established and the project of training and absorbing talents must be implemented. Therefore, the outstanding management culture of China could be combined with the advanced management know-how of foreign countries. This can motive the creativeness of the financial talents. Consequently, the innovations of concept, technology, organization, quality and services of the financial industry can be realized.

4.2.5 fortifying the financial information technology

With the economic globalization, more and more multinational corporations have entered China's markets. In order to meet their demands for the financial products, China's financial industry should establish the innovative systems of financial products with Chinese features on the basis of financial innovation and electrification. However, the electrification of the domestic financial industry still stays at a comparably low level. Take an example of the using of ATM in China's banking sector. Till September 2003, the sum of the special customers was 250,000, accounting for 2.5% of the whole customers. While the number of ATM amounts to 54,600, equaling one fifth of that of US. In China, every one million citizen own merely 240 desks of ATM. Even in the big cities like Shanghai and Beijing, every one million citizen own not more than 900 desks of ATM. While in the developed countries, every one million citizen own more than 1200 desks of ATM. In comparison with the average level in China, it is estimated to be 5 times and 1.33 times as many as that of the whole country and that of big cities respectively. (Figure 7). The reason is that following the tendency of the combination of financial business and information technology, the foreign financial institutions have turned the former diversified, computer systems into the new generation of centralized computer application systems with great power. Currently, such systems have become the core fundamental appliances and the most essential competitiveness for the financial administration and operation. For instance, the Shanghai Data Settlement Center of HSBC PLC was operating on July 14, 2002, providing data settlement for the global business of HSBC. Therefore, it is the primary task for the domestic financial industry to integrate the information fundamental appliances and business system, take advantage of current information resources, and absorb the advanced management know- how and technology from the foreign counterparts. Thus the standard of electrification can be improved and the core competitiveness can be enhanced.

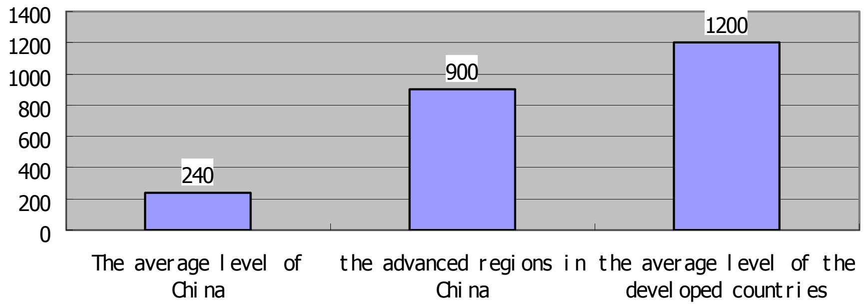


Figure 7 the comparison of the number of ATMs between the domestic and foreign financial intuitions (every one million)

5. Conclusion.

After China's entering the WTO, the domestic financial industry, which are pillared by the banking, insurance and securities industry, have been transiting steadily, and have achieved tremendous success. However, with the close of transition period, the domestic financial industry would completely drive into the process of economic globalization. The internal and external environments faced by the domestic financial institutions would continuously change and SWOT effects would emerge. Firstly, there are more strengths than the weakness. The strengths of internal environments can be attributed to four perspectives: localization and the abundant customer resources, unique brand names and steady colonies, networks covering both the urban and rural areas, and national reputations as the strong background. However, the weaknesses lie in the following perspectives: lagging organizational systems and low operating efficiencies, relatively small size and frail strength, high percentage of bad assets and low return rate of assets, low input in human resources, low anti-risk abilities, low level of financial innovations and internationalization. Secondly, there are also more opportunities than threats. And the threats lie in the following perspectives: demission of professional talents, high risk and shrinking market. Based on the above SWOT analysis, we have two strategies: firstly, the openness of China's financial market requires the development of intermediary business, improving the quality of financial services, strengthening integration of domestic financial industry and enhancing the international co-operations. Secondly, it also requires the speeding up the reform of property rights, promoting the acquisition and mergers, building risk control systems, bringing up professional talents and improving informational technologies in China's financial constructions.

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