

H. Financial Services

Business Environment

China and Hong Kong represent widely divergent markets for financial services. Hong Kong's favourable regulatory environment, low taxes and excellent telecommunications have made it an international financial services centre. China has only recently embarked on a modest opening and reform of its financial services sector. Nonetheless, competition among foreign financial services companies is strong as they position themselves to participate in this potentially large market.

While Hong Kong is the base of operations for over 360 banks that operate internationally, China has about 130 foreign financial institutions and joint ventures, each restricted to one of 24 specifically authorized cities. Furthermore, foreign banks are currently forbidden from engaging in local-currency business and instead focus on supplying foreign-exchange loans, primarily to foreign-funded enterprises. China is currently engaged in reform of its domestic banking sector in the face of inadequate financial reporting and an inoperative legal system.

In 1995, China passed two important new laws, one strengthening the regulatory role of the People's Bank of China (the central bank) and the other setting out commercial principles for the domestic banking sector. Guidelines for the operation of foreign-funded financial institutions in China, including banking and insurance firms, also exist.

Hong Kong has among the most liberal rules in the world for foreign insurance companies and an expanding demand for insurance products, making it a very promising local market as well as a base for operations throughout Asia. Over 230 insurance companies are licensed to operate within and from Hong Kong.

Although the insurance market in China is a nascent one, it is reportedly growing at 30 to 40 per cent annually. Foreign participation in the sector is minimal; only three foreign companies have licences. Canada's Manulife and a U.S. insurance company, AIG, provide life insurance, and a third company, Tokyo Marine and Fire Insurance, specializes in non-life products. The only cities currently open to foreign insurers in China are Shanghai and Guangzhou. China is engaged in significant development of its domestic insurance sector, having recently ended the monopoly of the People's Insurance Company of China.

China's capital markets are generally underdeveloped and subject to strong government intervention. The securities and futures industries are extremely limited and largely at an experimental stage, although steps are being taken to develop appropriate regulations and enforcement organizations. Opportunities will emerge as capital markets develop and expand.

Market Opportunities

Hong Kong is expected to remain a global and regional financial services centre and a key player in China's international trade and finance after the territory's