

reintegration into China in July 1997. Shanghai is expected to remain China's primary domestic financial services centre, taking on an increasingly international role in parallel with the opening and development of its economy.

China is committed to further opening and reform of its economy, including its financial services sector, as evidenced by the 1996 announcement on current account convertibility for its currency. Firms interested in the market have determined that establishment of an early presence is important to position for future opportunities.

### *Constraints*

Hong Kong presents a very open environment to foreign financial companies. Canadian chartered banks in Hong Kong have been attracted by the lack of constraints and the active trade finance and investment flows, including those related to emigration. In Asia, Hong Kong is now second only to Japan in holdings of Canadian currency and securities, amounting to an estimated \$20 billion.

China, by contrast, has only recently begun to open its market. Opening of the market is proceeding slowly and carefully, often on an experimental basis, effectively limiting the number of operations a given financial institution is permitted. In many cases, Chinese authorities are in the process of developing regulations, leading to additional uncertainties and challenges to financial services companies seeking to establish a presence in the market. The licensing process for both banking and insurance is long and often unclear, with

fierce competition from other international companies.

On the banking side, the People's Bank of China (PBOC) has made clear its preference for branches as opposed to joint-venture operations. On the insurance side, evolving regulations indicate that life insurance companies will be required to form joint ventures with qualified Chinese firms, while non-life insurance providers may establish wholly foreign-owned branches. Notwithstanding these challenges, the Canadian banking community has a strong presence in China (including the Bank of Montreal, Bank of Nova Scotia, Canadian Imperial Bank of Commerce, National Bank of Canada and Royal Bank of Canada) and Manulife has now become the third holder of an insurance licence.

### *Action Plan*

Trade commissioners will continue to carefully monitor and report on developments in the financial services sector and actively support individual Canadian firms seeking to establish or upgrade their presence in the market. Particular focus will be given to ensuring market access and improving coverage in regional centres.