Chinese Banks and their contribution to the global economic rise of China

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Abstract

In this thesis, we delve into the crucial role played by the Chinese banking sector in driving the country's economic growth. Our analysis takes a historical perspective building on and filling the gaps in existing literature on the banking sector in China and the West. Through this, we determine the extent to which Chinese banks have invested in the real economy or used their assets to finance it, thus contributing to the country's economic rise since 1980. Thus, our study examines the investment policies and official statistics of various Chinese banks, including policy banks, state-owned commercial banks, joint-stock commercial banks, and foreign banks, over the last 20-30 years.

The 'stagflation' crisis played a pivotal role in accelerating China's reform and opening-up process, Although the era of neo-liberal globalization and financialisation has created a downward spiral for the rate of profit of the real economic sector in Western countries, it has had the opposite effect on China's economy, effectively promoting growth. Manufacturing and the financial market in China have witnessed significant growth while also facing multiple challenges.

Policy banks in China play a vital role in facilitating economic development by providing affordable loans to projects that require more appeal to commercial banks, including infrastructure, agriculture, exports, and overseas investments. They have a unique loan purpose and a strong motivation to connect with Belt and Road Initiative (BRI). State-owned banks account for more than 50% of loans and advances and have maintained a stable investment in financial assets, while the proportion of other assets has declined. The primary loan fields are manufacturing, transportation, warehousing, and postal industries. Conversely, joint-stock commercial banks tend to focus more on financing small and medium-sized enterprises and personal mortgage loans.

With China's entry into the WTO, foreign banks have played an important role in providing capital and expertise. The investment policies of Chinese commercial banks have also evolved, and the entry of foreign banks into the Chinese market has also brought competition to China's banking sectors, prompting the reform of Chinese local banks. Foreign banks have made significant contributions to China's banking strategy by providing modern banking services and helping to modernise the sector. Thus, this thesis

also dwells on some normative matters, as it considers that China must establish a robust regulatory framework to ensure a rational development of its financial markets. China's careful adherence to the Basel accords has also won the trust of China's international investors and expanded China's global influence. "Red" banks alone are not good enough. Some Western rationalisation is needed, although this thesis is not arguing for an adoption by China of Western ways of banking.

Our findings reveal that the Chinese banking sector has significantly contributed to the development of China's manufacturing industry, which has propelled the growth of the country's economy. Moreover, the Chinese banking sector has had a significant impact on China's international status, primarily due to financing the Belt and Road Initiative.

Keywords: Financialization/Globalisation, Ordoliberalism/Neoliberalism, Chinese Banking Sector, Policy Banks, State-owned Commercial Banks, Joint-stock Commercial Banks, Shadow Banks, Investment Policy, BRI

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List of Abbreviation

ABC	Agricultural Bank of China
ABCP	Asset-Backed Commercial Paper
ACAP	Africa China Agent Program
ACEP	Africa-China Export Initiative
ADBC	Agricultural Development Bank of China
AFRE	Aggregate Financing to the Real Economy
AIIB	Asian Infrastructure Investment Bank
AGDB	Agricultural Development Bank of China
AML	Anti-Money Laundering
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
AVIC	Aviation Industry Corporation of China
BCBS	Basel Committee on Banking Supervision
BCHO	Bank of China Limited
BEA	Bank of East Asia
BRI	Belt and Road Initiative
CBA	China Banking Association
CBRC	China Banking Regulatory Commission
CBIRC	China Banking and Insurance Regulatory Commission
CCB	People's Construction Bank of China
CDB	China Development Bank
CFHI	China First Heavy Industries
CFTC	Commodity Future Trading Commission
CIB	China Industrial Bank Co., LTD
CIRC	China Insurance Regulatory Commission
CITIC	China International Trust Investment Company
CIPS	Cross-Border Interbank Payment System
CMB	China Merchants Bank
CNBM	China National Building Materials Group

CNNC	China National Nuclear Corporation
CNPC	China National Petroleum Corporation
COFCO	China Oil & Foodstuffs Corporation
COSCO	China Ocean Shipping (Group)Company
CPC	Communist Party of China
CPEC	China-Pakistan Economic Corridor
CRCC	China Railway Construction Corporation Limited
CSOT	China Star Optoelectronics Technology
CSRC	China Securities Regulatory Commission
ECB	European Central Bank
ECSC	European Coal and Steel Community
EEC	European Economic Community
ESCB	European System of Central Banks
EXIM Bank	Export-Import Bank of China
FDI	Foreign Direct Investment
FDIC	Federal Deposit Insurance Corporation
FRS	Federal Reserve System
FSA	Financial Services Agency
GDP	Gross Domestic Product
GNP	Gross National Product
HSBC	Hong Kong and Shanghai Banking Corporation Limited
IAC	Insurance Association of China
IBRD	International Bank for Reconstruction and Development
ICBC	Industrial and Commercial Bank of China
IMF	International Monetary Fund
ITO	International Trade Organization
LAC	Latin America and the Caribbean
LDR	Loan-to-Deposit Ratio
MBB	Market-Based Banking
MLF	Medium-term Lending Facility
MPA	Macroprudential Assessment

NCUA	National Credit Union Administration
NDRC	National Development and Reform Commission
NPC	National People’s Congress
NP	Nonperforming
NPLs	Nonperforming loans
NAFTA	North American Free Trade Agreement
OCC	Office of the Comptroller of the Currency
OECD	Organization for Economic Cooperation and Development
OPEC	Organization of Petroleum Exporting Countries
PBOC	People’s Bank of China
PICC	People's Insurance Company of China
PPP	Public-Private Partnership
PSL	Pledged Supplementary Lending
QDIE	Qualified Domestic Investment Enterprises
QDII	Qualified Domestic Institutional Investor
QDLP	Qualified Domestic Limited Partners
QFII	Qualified Foreign Institutional Investor
RCAP	Regulatory Consistency Assessment Project
RCPMIS	RMB Collection and Payment Information Management System
RMB	Renminbi
RQFII	RMB Qualified Foreign Institutional Investor System
RRR	Reserve Requirement Ratio
SAFE	State Administration of Foreign Exchange
SDR	Special Drawing Right
SEC	Securities and Exchange Commission
SEZs	Special Economic Zones
SIVs	Structured Investment vehicles
SLF	Short-term Lending Facility
SOEs	State-owned companies
SMEs	Small and Medium-Size Enterprise
SSE	Shanghai Securities Exchange

TAF	Short-term Tender Tool
TNC	Transnational Corporations
WTO	World Trade Organization

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Chapter 1: Introduction to the Research

1.1 Introduction

Over the past six decades, China's industrial configuration has undergone a profound metamorphosis, transitioning from an agricultural society to an industrial one and making progress towards a burgeoning service sector. This transformation trajectory reflects a pivotal shift in the country's economic orientation, and the evolution encompassed a change in ownership paradigms. In addition, after the reform and opening up, China's economic growth model shifted to a technological mode, and economic growth changed from a reliance on demand to a dependence on supply (Zhao, 2018). Globalisation has played a pivotal role in facilitating China's rapid integration into the global supply chain and fuelling its remarkable economic growth. **Figure 1.1-1.3** illustrate the GDP and GDP change trend in the U.S. and China during the period of 1960 to 2021. Since 1978, China's GDP has exhibited rapid growth, accompanied by continuous increases in per capita annual wages. Despite the significant difference between China's GDP and GDP per capita compared to that of the U.S., China's annual GDP growth rate surpasses that of the U.S.

Figure 1.7 shows the significant changes in the purchasing power of China and the U.S. from 1980 to 2020. China's purchasing power proliferated during this period, which reflects the country's strong economic development. In contrast, the purchasing power growth in the U.S. has been relatively stable. The changes in the data chart reveal China's economic exploitation over the past 40 years. An increase in purchasing power indicates an increase in per capita income (as shown in **Figure 1.7**) and an increase in consumption power, which reflects the gradual optimisation of China's economic structure and industrial upgrading. There are multiple factors behind China's growth in purchasing power, including opening-up and reform policies, increased foreign direct investment, and the success of its export-oriented economic model. These factors have all contributed to the rapid development of China's economy. A comparison between the purchasing power of China and that of the United States presents a clear picture of China's rise in the global economic stage. Increasing purchasing power has made China an increasingly important player in the global economy.

Moreover, there is the assertion that China's GDP stability, relative to that of other large economies such as the United States, Japan, and India, is due to its smaller reliance on exports as a proportion of GDP (Lau, 2019). China's competitive strength extends beyond manufactured goods, as evidenced by a shift in foreign trade towards core products such as rare earth elements, which are essential for microchips and electronic components (Fouskas et al., 2020). **Figure 1.1-1.6** provide a comparative analysis of trade and exports between the U.S. and China.

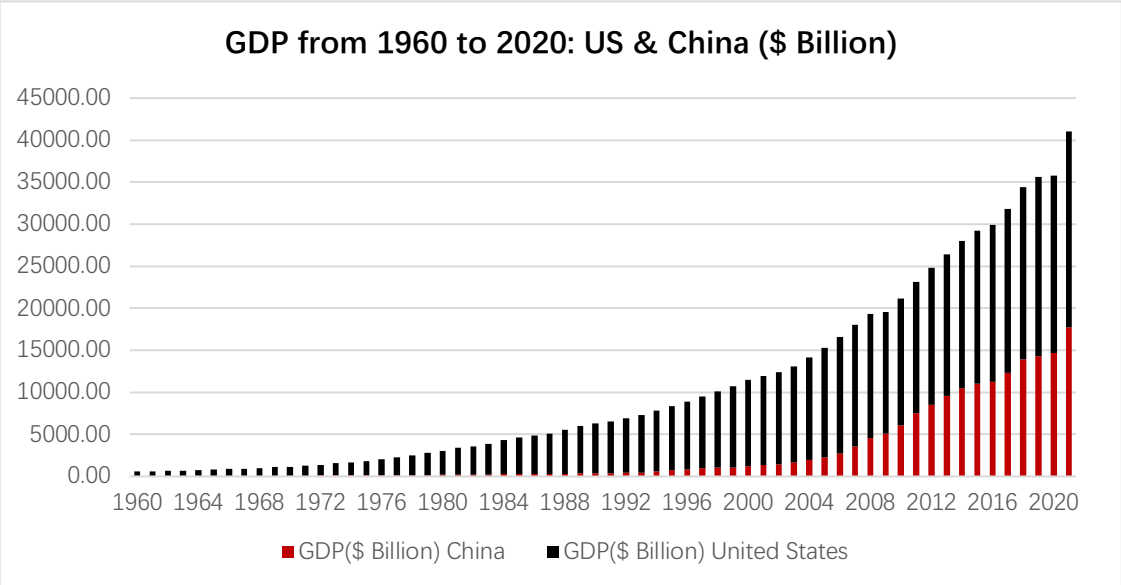
The narrative of China's economic surge finds resonance against the backdrop of Western industrial capitalism's zenith in juxtaposition with the ebbing fortunes of the American economic landscape. The metamorphosis of neo-liberal globalization/financialisation has played a dual role, both negatively impacting Western economies and bolstering China's trajectory. As China asserted dominance in the area of global trade deficits and became integrated into the international economic framework through its WTO membership, the simultaneous surge in China's economy stood in stark contrast to the waning fortunes of manufacturing industries in the West, notably that of the U.S.

China's remarkable economic growth has garnered global attention, propelled by the successful implementation of economic reforms and opening-up policies. This transformative approach has spurred overall economic development and catalysed rapid growth in China's banking sector. Since the 1980s, China has maintained a high national savings rate, making it one of the countries with the highest national savings rates globally (Zhang et al., 2018). The graph displayed in **Figure 1.8** depicts the evolution of Chinese savings from 1978 to 2019. In addition, the profound impact of the banking sector on the nation's economic landscape is evident in the noteworthy phenomenon observed in Forbes' 2023 ranking, where numerous leading Chinese enterprises represent key sectors of the country. (**Table 1.1.1**)

Table 1.1 Forbes' 2023 Global 2000 (China) Ranking

RANK	NAME	COUNTRY	SALES	PROFIT	ASSETS	MARKET VALUE
3.	ICBC	China	$216.77 B	$52.47 B	$6,116.82 B	$203.01 B
4.	China Construction Bank	China	$203.08 B	$48.25 B	$4,977.48 B	$172.99 B
5.	Agricultural Bank of China	China	$186.14 B	$37.92 B	$5,356.86 B	$141.82 B
12.	Bank of China	China	$158.23 B	$33.23 B	$4,421.76 B	$122.67 B
16.	Ping An Insurance Group	China	$166.37 B	$12.64 B	$1,598.49 B	$138.56 B
18.	PetroChina	China	$457.4 B	$22.18 B	$384.58 B	$122.91 B
26.	China Merchants Bank	China	$72.44 B	$20.56 B	$1,458.48 B	$129.84 B
27.	Postal Savings Bank Of China (PSBC)	China	$82.51 B	$12.78 B	$2,023.57 B	$110.18 B
32.	Sinopec	China	$453.56 B	$9.85 B	$283.3 B	$114.32 B
35.	Tencent Holdings	China	$82.41 B	$27.26 B	$227.01 B	$415.36 B
53.	Bank of Communications	China	$78.29 B	$12.9 B	$1,868.96 B	$51.58 B
54.	Alibaba Group	China	$128.26 B	$4.46 B	$254.93 B	$216.59 B

Figure 1.1[1] GDP from 1960 to 2020: U.S. & China ($ Billion)



[1] Figures 1.1-1.5 show the author's own elaboration of World Development Indicator data.

Figure 1.2 GDP per capita from 1960 to 2020- U.S. and China ($)

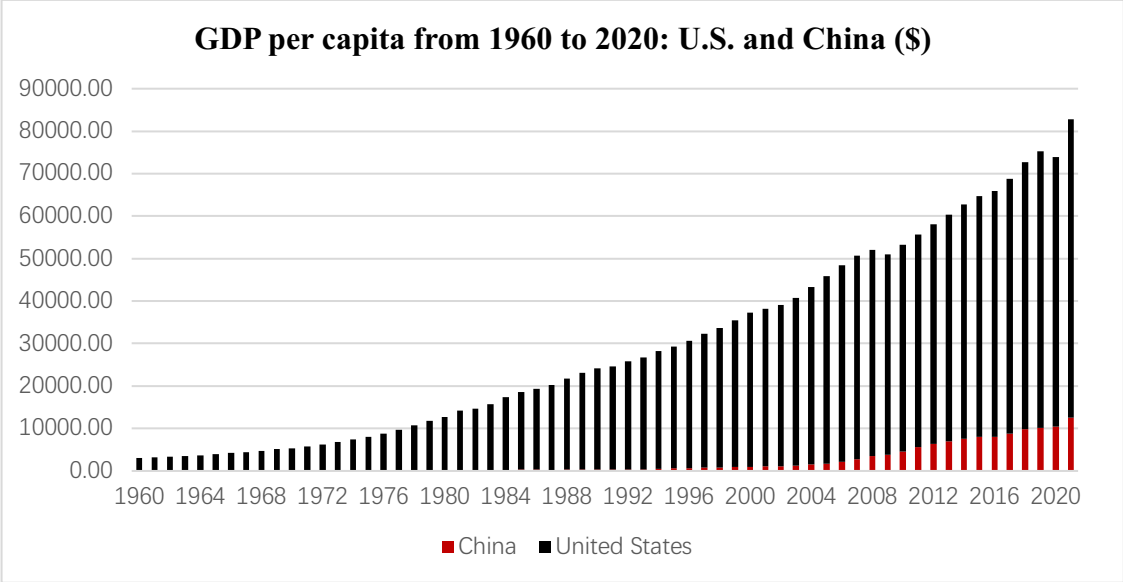


Figure 1.3 GDP Growth Rate (Annual %) from 1960 to 2021: US and China

Figure 1.4 Foreign Direct Investment Net Inflows From 1970 to 2020: US and China

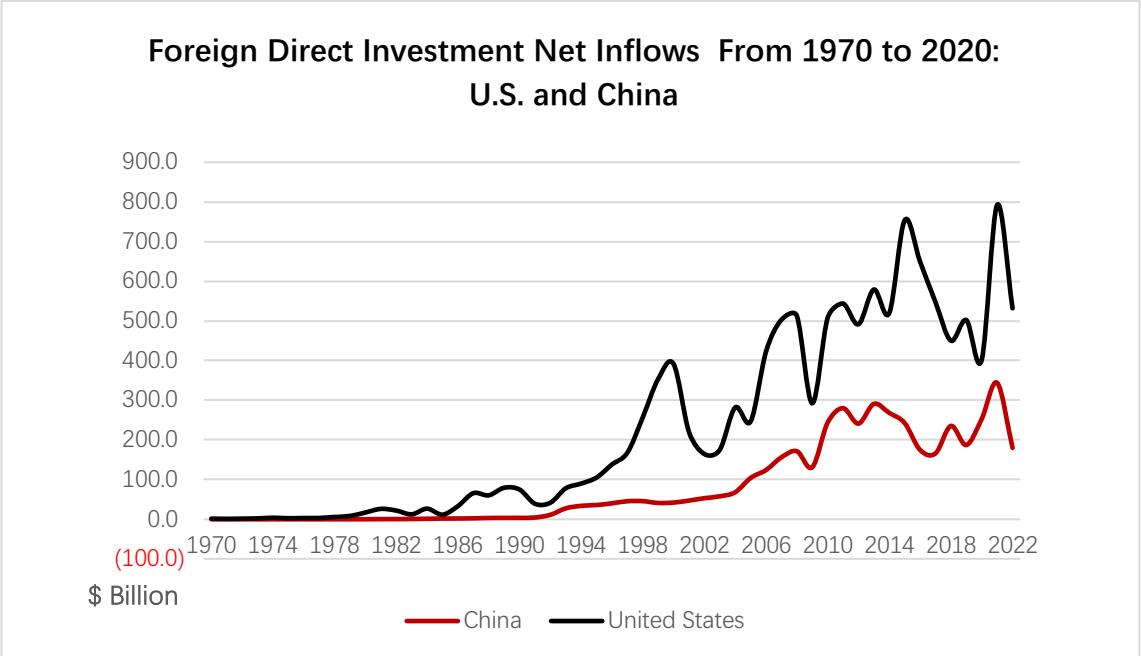


Figure 1.5 Net outflows of foreign direct investment From 1970 to 2020: U.S. and China

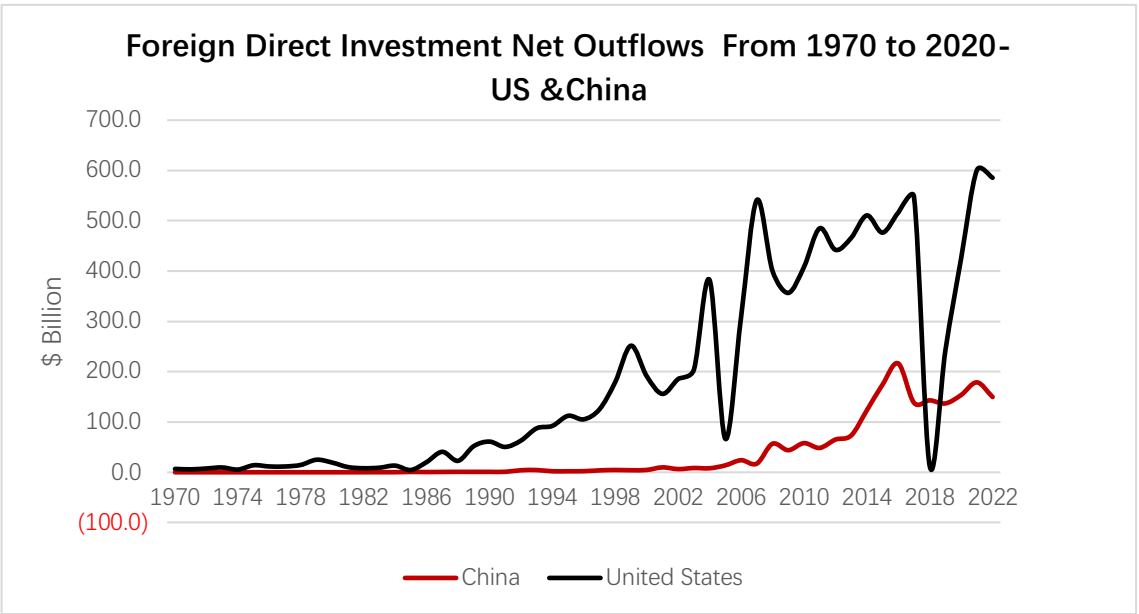


Figure 1.6[2] Volume of U.S. imports of trade goods from China

From 1985 to 2022 (billion U.S. dollars)

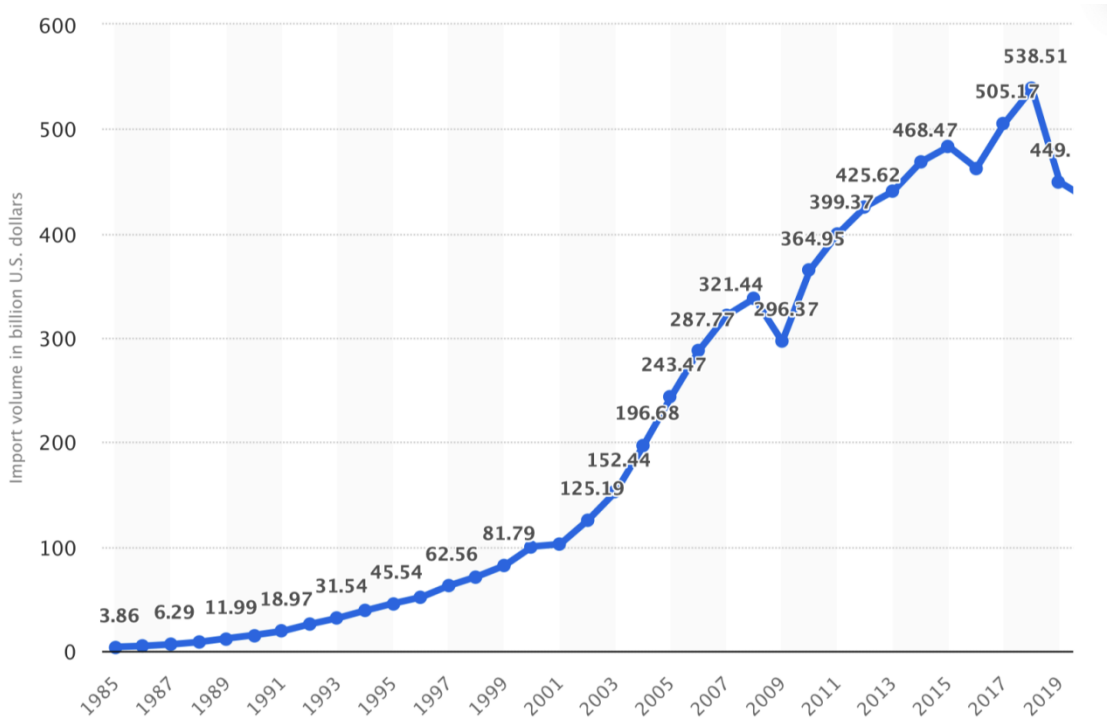
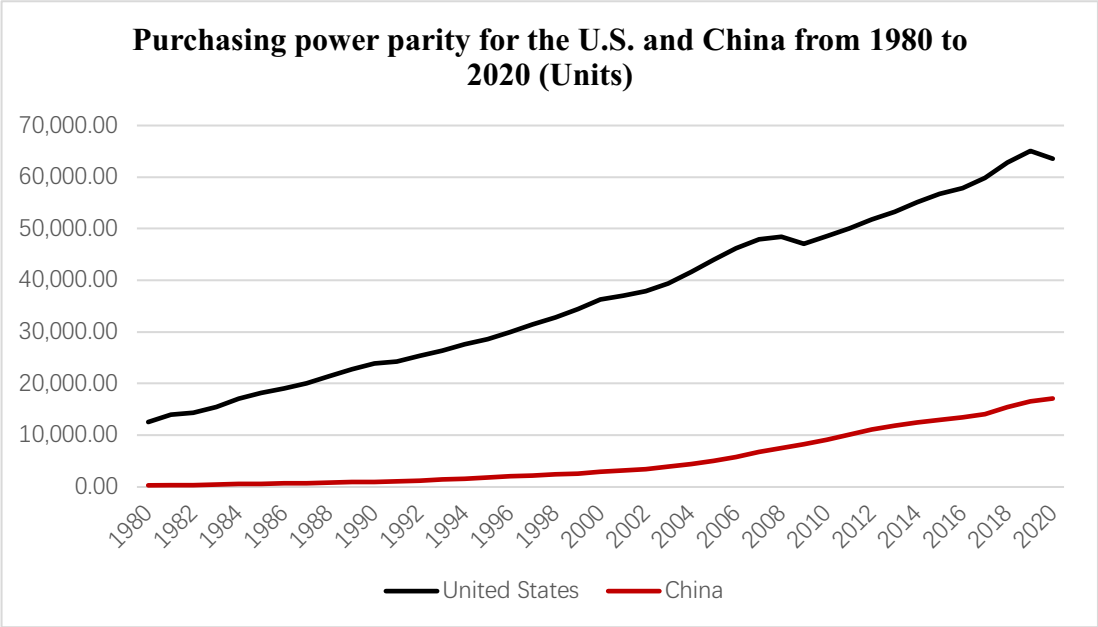


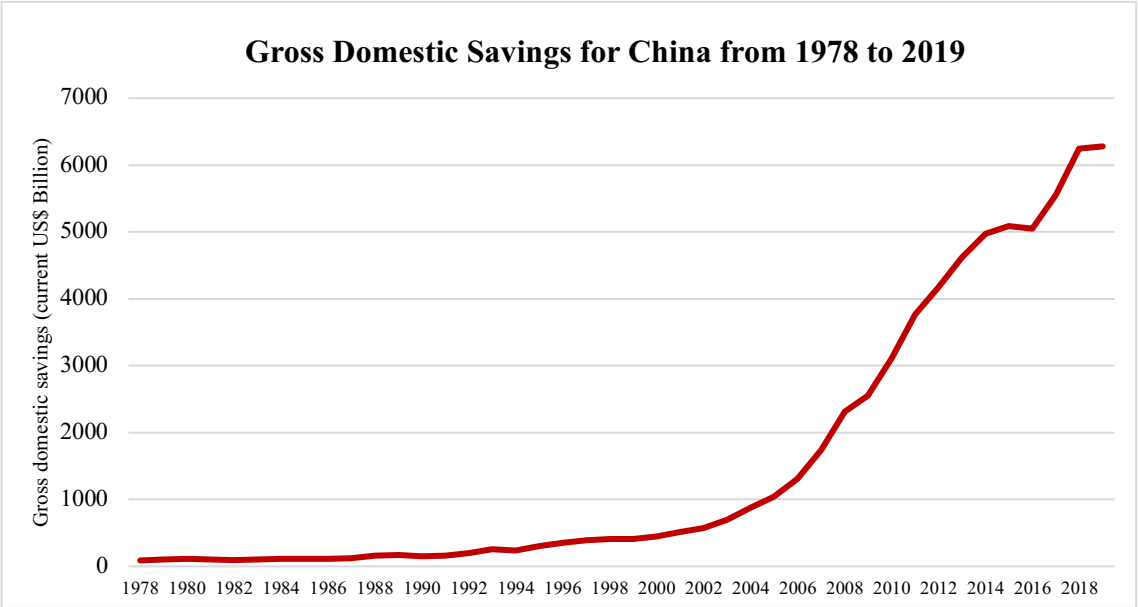
Figure 1.7[3] Purchasing power parity for the U.S. and China from 1980 to 2020 (units)



[2] Author's own elaboration of data from Statista.com

[3] Figures 1.7-1.8 show the author's own elaboration of data from the International Monetary Fund, World Economic Outlook Database

Figure 1.8 Gross Domestic Savings for China from 1978 to 2019



1.2 Research Objectives

We will dwell on the evolution of the roles played by banks in China from 1949 to 2019-2020, our main focus being the post-1980 period, which coincides the end of the Mao era in China and the launching of neo-liberal globalization project in the West as a response to the stagflation (stagnation accompanied by high inflation) of the 1970s. We will show that this exhibits a dynamic interplay between economic, political, and global factors. Culture and ideology also play an important role, but they will be addressed at the end when dealing with some normative elements of our thesis. China's socio-economic transformation and its distinct stages offer insights into the evolution of China's banking sector:

- **Centralised Planning Era (1949-1978)**

The banking sector assumed a fundamentally centralised role after the People's Republic of China was established. State-owned banks operated as extensions of the government's economic planning apparatus. Their primary function was to allocate resources for state-directed projects, which is a reflection of the era's focus on rapid industrialisation and infrastructure development. The banking sector served as a conduit for the implementation of national economic policies.

- **Reform and Marketization (Late 1970s-1990s)**

The reform era, ignited by Deng Xiaoping's policy changes, shifted from central

planning to market-oriented strategies. During this period, the role of banks began to diversify. State-owned commercial banks continued to facilitate government-directed projects, but reforms also introduced elements of competition through the establishment of urban and rural credit cooperatives. The evolving role of banks reflected China's attempts to balance state intervention with market forces.

- **Marketisation and Globalisation (2000s)**

As China became further integrated into the global economy, its banking sector underwent further reforms. In 2001, China's entry into the World Trade Organisation (WTO) accelerated the liberalisation of the financial industry. State-owned banks were recapitalised, and efforts were made to improve their efficiency and risk management. Commercial banking expanded beyond simple state-directed lending to encompass consumer banking, wealth management, and services for foreign trade. This period also witnessed the establishment of joint-stock banks and the emergence of more specialised financial institutions.

- **Financial Innovation and Regulation (After the 2010s)**

During this phase, China's banks embraced financial innovation and technology-driven services. Online banking, mobile payments, and digital banking platforms gained prominence. State-owned banks retained a significant role in financing government initiatives, infrastructure projects, and state-owned enterprises. Additionally, regulatory efforts aimed at controlling shadow banking and managing financial risks were implemented to ensure stability.

In recent years, the international influence of China's banking sector has continued to expand. Chinese banks continue to grow overseas businesses, actively participate in global financial markets, and promote international trade and investment facilitation. The Belt and Road Initiative has further enhanced the role of Chinese banks in supporting infrastructure construction and trade in countries along its route. Overall, the role of Chinese banks has changed from being primarily an instrument of central planning to a diversified financial intermediary that serves a more comprehensive range of economic functions.

Furthermore, China's financial development is closely related to its economic growth. The expansion of credit markets, mainly through investment and exports, has rapidly

developed China's infrastructure growth and provided Chinese exporters with better access to financing over the past 20 years, ultimately boosting export growth. With the rise of manufacturing, China's energy consumption has soared, and the development of its financial system has provided financial support for the development of its energy-intensive industries (Hao, Wang, & Lee, 2020).

This research is aimed at addressing the following research questions:

1. *What are the contributions of China's banking sector to China's integration into the global economy?*
2. *What has been the contribution of China's banking sector to China's economic growth under the global conditions of neo-liberal restructuring and globalization/financialisation, given the expansion of American TNCs into China?*

1.3 Research Background

The neoliberal shift began with the collapse of the Bretton Woods system, stagflation, two oil shocks in the 1970s, and dramatic increases in regional and global capital flows in the following decade (Wilkinson, 2021). Neoliberalism developed from classical economic liberalism, in which economic growth is prioritised over stability(Balaam, 2011). The state's function in neoliberalism is to establish and uphold an appropriate institutional framework (Harvey, 2007). However, the notion that the state has a constructive role to play beyond its coercive duties is rejected in neoliberalism (Kotz et al., 2008).

After World War II, Germany developed Ordoliberalism as a response to rebuilding its economic and social order. Ordoliberalism is a complementary development to neoliberalism. Although both fall under supply-side economics, ordoliberalism places a stronger emphasis on the rule of law and the anti-inflationary role of central banking compared to neoliberalism. As a result, ordoliberalism advocates for a consistent anti-wage increase policy and is less flexible than neoliberalism regarding wage issues.

Ordoliberalism represents a public policy that is rooted in the principles of a free-market economy implemented through a robust institutional framework, withthe state playing a central role. Ordoliberalism is strictly anti-inflationary and advocates a structured and standardised free market economy in which the state has institutional

authority and actively shapes economic activities to promote fair competition and prevent market failure (Fouskas & Gökay, 2019). Ordoliberalism posits that market mechanisms, such as property and contract laws, trade policies, and competition regulations, only uphold and advance liberal principles when the state implements suitable regulations for their governance (Balaam, 2011). Further, relatively opposed to neoliberalism, ordoliberalism advocates a rigorous separation of the central banking mechanisms from social struggles and politics. The central bank of a country is solely and technocratically responsible in setting our interest rates in order to tame inflationary trends.

Ordoliberalism emphasizes the state's role in addressing the economic governance challenges arising from globalization and financialization. As a result of globalization and financialization, there has been an increase in the cross-border flows of capital, goods, and services. This necessitates countries to uphold domestic market order and engage in global economic governance to ensure stability and fair competition in the global markets. Some scholars believe that neoliberalism and globalisation are themselves manifestations of finance and are closely related to the development of the derivatives market and the evolution of the international financial system (Peters et al., 2015). Other scholars believe that the globalisation and financialisation that followed the Bretton Woods era were propelled by Anglo-American neoliberalism (Fouskas, 2018).

Globalization arises from the interaction of national policies, microeconomic choices, and technological advancements (Conley, 2000). For example, Globalisation and global production networks fragment production processes representing a complex undertaking: one part of a car is produced in Germany, another in Ghana and the final car is assembled in China to be exported to international markets. Globalisation places nations under the authority of international treaty regimes, including the Bretton Woods System (General Agreement on Tariffs and Trade, International Monetary Fund, World Bank), the Maastricht Treaty, and the North American Free Trade Agreement (Wright,1999).

The implementation of neoliberal policies has often been accompanied by the liberalization and globalization of financial markets, leading to a proliferation of financial products and services and an influx of participants in the financial market. This expansion has elevated the financial sector's share of the economy and the intricacy and interconnectedness of financial activities. Financialisation is characterised by the growing

importance of financial markets and institutions and the increasing use of financial instruments and technologies by nonfinancial firms and households (Mader et al., 2020). The definition of financialisation illustrates a pattern of accumulation in which profits are obtained primarily through financial channels rather than through trade and commodity production, and, as such, it represents the "growing weight of finance in the U.S. economy" (Arrighi, 1994; Krippner, 2005). Financialisation is associated with the post-1980 era and various industrialised countries (Sawyer, 2013). Financialisation is marked by a decrease in the reliance of large corporations on banks, the transition of banking activities towards the facilitation of transactions with households in open financial markets, and a growing participation of households in financial operations (Lapavitsas, 2011).

From the late 1960s to 1982, the global economy experienced a profit decline and severe recessions in Western industrialised economies. This led to a shift in economic policies, with governments implementing neoliberal strategies such as Reaganism and Thatcherism in the North and structural adjustment policies in the South. This period also marked the start of financial liberalisation. In the 1980s, capitalist states accelerated economic globalisation and financialisation (Guillén, 2014).

Konings (2008) analysed the effects of financialisation on the conceptual position and connection between the European continent and the financial systems of Anglo and America. It highlights the financial model of Anglo-American capitalism as more "embedded." Neoliberal policies restructuring process required financialisation, resulting in the greater involvement of finance in the economy. The restructuring of neoliberalism has been the primary factor in developing the financialisation process over recent decades (Kotz et al., 2008).

The level of financialisation reflects the extent to which the financial sector and financial activities have become integrated into and exert an influence on the broader economy. It is a measure of the level of economic activity that is driven by financial considerations, such as investment, lending, and speculation, rather than by the production of goods and services, or the proportion of the financial sector's output to the total GDP. An increase in this proportion suggests increasing financialisation. By 2022, the share of value added by the finance sector to the GDP of the United States was 20.2%,

while that share of China's GDP was only 8%[4]. The U.S. has a highly developed financial sector that plays a significant role in the U.S. economy. The financial sector's contribution to GDP signals a high level of financialisation. A significant infusion of funds has flooded the financial market, which has led to an unprecedented surge of the financial sectors, this has been accompanied by a decline in the progress of manufacturing industries.

After World War II through the early 1970s, Western nations enjoyed a period of swift economic expansion, high employment rates, and relatively stable prices. However, the recession of the manufacturing industry led to the accelerated expansion of the U.S. trade deficit since the late 1970s. The decline in the proportion of the economy occupied by the manufacturing industry and the imbalance of payments means that the share of imported goods has increased substantially, replacing U.S.-produced goods domestically. The decrease in the manufacturing industry further hindered the manufacturing industry in the U.S. and decreased the competitiveness of the U.S. economy (Shen, 2019). This era gave way to stagflation in the 1970s, characterised by a decline in economic growth, a surge in inflation, and a rise in unemployment.

During this same period, China implemented the reform and opening-up policy in the 1980s, thereby fundamentally transforming its economic system. This policy involved the deregulation of private enterprises, the attraction of foreign investment, and the promotion of modern agriculture and industry. The stagflation and de-industrialisation of Western countries encouraged global capital to seek new investment prospects. Following China's reform and opening up, it became an enormous market characterised by a low-cost production environment, drawing in significant foreign direct investment (FDI). As manufacturing activities have moved from higher-cost countries to lower-cost countries such as China, such countries have become known as the "factories of the world," further bolstering industrialisation and economic growth (Sachs, 2009). The entry of foreign-funded enterprises brings capital, advanced technology, and management experience, which are all essential for improving China's production efficiency and product quality (Coco, 2021).

Since the implementation of the reform and opening-up policies, China's economy

[4] Data from https://www.statista.com/

has grown significantly, mainly due to the establishment of tangible assets, particularly in the infrastructure sector (Meng et al.,2022). However, China's approach to infrastructure investment for driving economic growth is not unique at the national level. Historically, Japan and the four Asian Tigers (Hong Kong, Taiwan, Singapore, and South Korea) also heavily invested in infrastructure during their economic development, similar to how China has done since its economic reform.

The extensive use of infrastructure investment as a policy tool for driving the economy during both upturns and downturns is another important consideration. This became evident in the 2008 global financial crisis when the Chinese government swiftly launched a 4 trillion yuan stimulus package, a significant portion of which was devoted to funding infrastructure projects (Liu & Liu, 2022).

In 1949, government of China gradually established a highly centralised planned economy and used this policy to stabilise the economy. Before the reform and opening up (1978) of China's economy, the structure was highly dependent on government agencies and administrative power for financial operations and resource allocation (Song, 2010). This market structure was similar to that of an oligopolistic competitive market, in which a few manufacturers are relied on to control production across the entire market (Dong, 2009). The Chinese government moved towards curtailing private ownership, thereby adopting the tenets of a socialist society. This initial phase further evolved into a socialist collective economy, which was followed by the emergence of a socialist state-owned economy (Wu & Sui, 2010).

In 1978, China implemented the reform and opening-up policy. Although Deng Xiaoping significantly turned to the market, the primary role of the state was clearly demonstrated (Steger & Roy, 2013). In the “neoliberalism with Chinese Characteristics” that marked Deng’s period, the state ownership structure was attempted to be kept intact. At the same time, administrative autonomy was liberated, and the capitalist class formation was suppressed. The term "neoliberalism with Chinese characteristics" describes the integration of market reform with state control and socialist principles, which is characteristic of China's approach. This shows that China has implemented some market-oriented reforms similar to neoliberal policies, such as the opening up to foreign trade and investment, the reduction of state control over certain sectors of the economy,

and the encouragement of private enterprise and at the same time, it has still maintained national influence and a commitment to socialist values (Harvey, 2007). China embodies a unique "neoliberalism with Chinese characteristics, " enabling global capital to leverage the country's extensive labour and consumer markets as a conducive space for ongoing capital accumulation(Sum, 2019). Through continuous reform, the Chinese government began to implement free market reform and ordoliberalism in the market economy to avoid the dangers of excessive liberalisation and market collapse to China's political and economic system, which has gradually developed a hybrid form of mixed Western and Chinese characteristics (Lagerkvist, 2015). During the Western stagflation period, the market was considered an economic system subject to government intervention and supply shocks. In contrast, during the process of economic liberalisation in China, the market was seen as a mechanism for enhancing the efficiency of resource allocation by reducing government intervention and fostering competition.(Lardy, 2003)

Ordoliberalism, which originated in the Freiburg School in Germany, underscores the significance of maintaining a stable currency, promoting free competition, and implementing a restrained yet impactful regulatory framework. This ideology has garnered interest within China's financial sector and has played a pivotal role in shaping European economic policies, particularly during the postwar era (Küsters, 2023).

Subsequently, China's integration into the global economic tapestry gathered momentum upon its accession to the World Trade Organization (WTO). This pivotal step paved the way for China's gradual assimilation into the global economic ecosystem. Intriguingly, China's rapid economic acceleration coincided with the disconcerting trend of steep unemployment that was afflicting the manufacturing sectors of developed nations, most notably that of the United States. As elucidated by Ebenstein, McMillan, Zhao, and Zhang (2012), the robust growth of China's economy unfolded alongside the stark contraction of manufacturing industries in advanced economies such as the United States. The exponential growth of China's economy is intricately intertwined with the evolution of Western industrial capitalism during its prime, as well as the concurrent decline witnessed within the American economic sphere. The United States' economic prowess underwent a downturn amid the ascent of West Germany and Japan that occurred during a pivotal juncture in the golden age of capitalism (1950-1970). This shift catalysed a

process of de-industrialisation in the U.S., thereby compelling their policymakers to seek novel economic paradigms.

Simultaneously, the emergence of global financialisation presented a dual-edged phenomenon. While it eroded the economic gains of Western nations, it catalysed China's economic ascent. Over numerous years, Japan had boasted the largest bilateral goods trade deficit with the United States. However, China's meteoric rise caused it to overtake Japan in 2000, as highlighted by Morrison (2018).

The process of globalisation has resulted in increased economic interdependence among countries. Participation in international trade and investment has contributed to China's rapid economic growth and integration into the global economy. China's growth is an essential contributor to global economic stability and growth rather than a threat (O'Neill, 2010). China has been a significant player in global capital flows by attracting foreign direct investment (FDI) and making outbound investments. Capital flows are a capitalism part of the global economic system and are governed by market forces. While some argue that China's capital flows disrupt specific sectors or economies, others see them as a regular part of economic competition and development. This competition is a capitalism part of the global economic landscape and can drive innovation and efficiency (Lall, 2000).

The Chinese banking sector studied in this research is divided into policy, state-owned commercial banks, and joint-stock commercial banks. In 1994, China implemented financial system reforms by establishing policy banks, including the China Development Bank, the Export-Import Bank of China and the Agricultural Development Bank of China. These institutions are professional financial institutions established by the government to carry out and implement government economic policies and conduct operations without accepting deposits or private loans; these institutions also support national infrastructure development, promote foreign economic and trade relations, and facilitate agricultural and rural growth. State-owned commercial banks are majority-owned by the Chinese state but also have private sector shareholders through their listings on the Hong Kong Stock Exchange(Turner et al., 2012). These banks maximise profits by commercialising their lending activities (Yeung, 2021). Joint-stock banks are established primarily as a means of introducing market mechanisms, promoting banking

competition and improving service efficiency. These banks are generally derived from the reform of state-owned commercial banks and attract social capital participation through the issuance of shares to achieve diversified ownership. In addition, Chinese joint-stock commercial banks' noninterest income is mainly intermediate (including traditional settlement, collection and payment services). According to the "Law of Commercial Banks"[5], joint-stock banks are prohibited from engaging in trust investment and securities business in China. Therefore, for funds, insurance, securities and other fields, Chinese commercial banks mainly engage in agency business and investment banking business, but they cannot engage in securities business or trust business.

Notably, in China, investment banks are referred to as "securities companies" (证券公司), as are those in Japan. These nonbank financial institutions are primarily established by large multinational corporations and engage in activities such as securities issuance, underwriting, trading, corporate restructuring, mergers and acquisitions, and investment analysis. The China Securities Regulatory Commission was established in 1992, and three major securities companies were subsequently established: Hua Xia Securities (华夏证券), Cathay Securities (国泰证券), and Southern Securities (南方证券). These companies were established through banks, with the ICBC establishing Huaxia Securities, the China Construction Bank establishing Cathay Securities, and the Agricultural Bank establishing Southern Securities (Wang, 2013). Currently, several of the major investment banks in China include the CICC (中金公司), China Merchants Securities (招商证券), Guoxin Securities (国信证券), Haitong Securities (海通证券), Guoyuan Securities (国元证券), Guangfa Securities (广发证券), Everbright Securities (光大证券), Huatai Securities (华泰证券), and Donghai Securities (东海证券).

1.4 Research Methodology

The main methodology utilized in this thesis involves qualitative research, allowing for a comprehensive exploration of the research question through a multifaceted

[5] According to Article 43 of the “Law of Commercial Banks” of China, commercial banks are not permitted to engage in trust investment and securities business, invest in nonself-use real estate, or invest in nonbanking financial institutions and enterprises, except as the government stipulates.

analytical approach. Initially, historical analysis examines economic policies and institutions, identifying long-term trends and their subsequent impacts. This methodological strategy reveals the intricate causal relationships and effects within the field of economic history.

Subsequently, content analysis is employed as a systematic evaluative tool for analyzing documents and texts. It offers a nuanced portrayal of how economic issues are represented in media and discourse, providing insights into prevailing narratives and their implications.

Finally, case studies are utilized to conduct an in-depth investigation of specific economic entities. These studies contribute to a contextual understanding of economic phenomena, with a particular emphasis on the investment and productive sectors. By focusing on these sectors, the research is able to delve into the complexities of economic dynamics and their interplay within a given context.

Qualitative research is preferred over quantitative and modelling approaches, particularly in the context of historical economic analysis. Qualitative research often delves into the underlying and context-dependent meanings of events, which can be crucial when using historical data detailing actions performed by agencies (Schreier, 2014). Bank policy reports are a valuable type of public record that can be used to obtain insights into economic events and their historical contexts (Merriam & Tisdell, 2015). Qualitative content analysis of these reports can help uncover the deeper meanings and contexts that could be overlooked in quantitative approaches. Additionally, qualitative analysis allows for a more flexible and interpretive exploration of historical economic data, which aligns well with the intricacies of historical research. Understanding historical economic analysis requires considering the broader historical context, including the influence of different times and places, historical backgrounds, and cultural differences. This method also involves examining economic policies and institutions, identifying long-term trends and impacts, and uncovering causes and effects in economic history. Quantitative methods such as panel data and regression analysis may not accurately capture these nuanced historical aspects, making qualitative methods more suitable for such research. In the past 20 years, the importance of historical analysis in broader economic majors has increased notably (Cantoni & Yuchtman, 2021).

This research uses a historical perspective to compare and contrast the economic development of the West and China, starting from the Mao era. By examining this period, we can better understand China's initial economic policies. The stagflation crisis in the West significantly accelerated China's reform and opening-up process, highlighting the different responses to economic challenges. This period of reform marked a critical transition in China's economic strategy. While neo-liberal globalization and financialization have led to a decline in the profit rates of the real economic sector in Western countries, these phenomena have conversely spurred economic growth in China. This contrast underscores the varying impacts of global economic trends on different regions.

This research also includes demonstrating the rise of the Chinese economy and studying bank policy documents to describe the banking sector's involvement in investment, particularly in the productive sectors of the economy. Then, the results are measured daily through the monitoring of developmental indicators. Then, we analyse official statistics from Chinese banking sectors to measure the level of financialisation in China and assess the banks' investment policy (state/commercial, etc.) by separately analysing the selected banks, including Chinese policy banks, Chinese state-owned commercial banks, Chinese joint-stock commercial banks and foreign banks in China.

1.5 Data and Measurements

The data contain macroeconomic data from reliable databases, such as the World Bank, the International Monetary Fund (IMF), the OECD and Eurostat. Moreover, this research is particularly focused on GDP (in aggregate terms), wage growth and the capitalisation of key Chinese banks over time, particularly since the 1980s. The Central Bank of China and the policy reports of Chinese banks are also assessed in this research, in which an attempt is made to establish the developmental stages of the banking sector in China, providing some aggregate historical data and a chapter-by-chapter breakdown of the thesis. Then, the contribution of the banking sector to economic development is assessed by measuring the level of financialisation among Chinese banks.

A thorough cross-referencing process has been employed to maintain academic rigour and ensure the accuracy and dependability of the data used in this study. The data has been carefully compared with datasets from the World Database and their equivalents

in China, which are acknowledged as reliable published sources. This dual-source verification is crucial to validating the data against established historical records and verified datasets. Additionally, the methodology includes a comparative and contrasting analysis of information obtained from these diverse sources. By employing this multi-source corroboration, the study aims to identify consistencies and reconcile discrepancies, thereby strengthening the reliability of the data. This approach reinforces the credibility of the findings and yields a more comprehensive understanding of the subject under investigation.

To investigate this matter, the qualitative method is taken as the primary method, and official secondary data are used to measure the impact of China's banking policy on management and investment over the years (which sectors that banks have invested in, their financialisation levels, etc.).

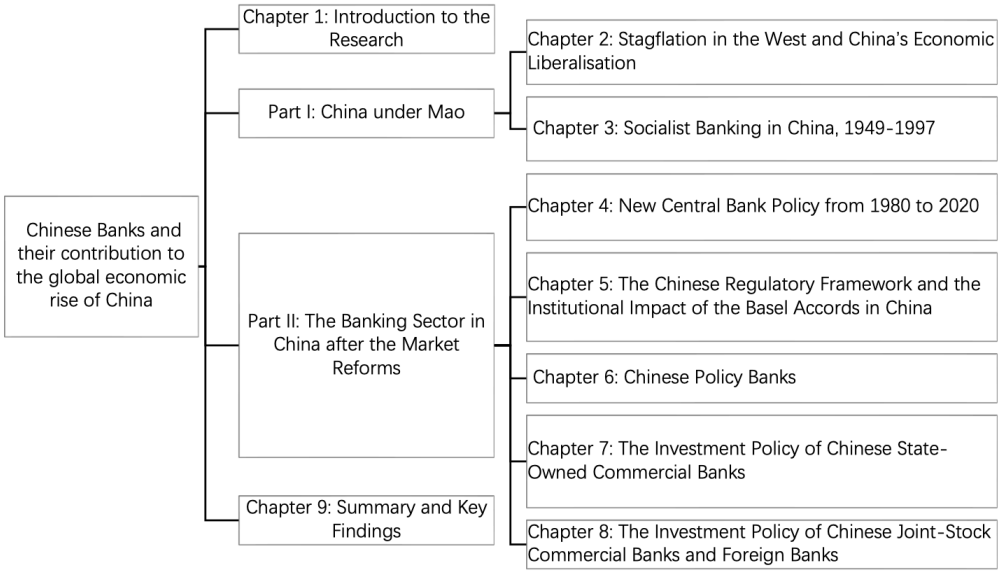
1.6 Thesis Structure

This research is structured in two parts and seven chapters. Part one comprises three chapters: Chapter 1 is the current Introduction, which presents the research background, methodology and framework of the thesis. Chapter 2 presents the background chapters for the Western countries and, Chapter 3 detailing the evolution of the Chinese economy beginning in the Mao era and highlighting the differences from Western economies during the same period.

The second part constitutes the core of the study, which is focused on the banking sector in China during post-Mao reforms. This section comprises five chapters: Chapter 4 elucidates the policy requisites that were established by China's central government and central bank in the aftermath of the reform and opening-up period. The primary objective is to analyse the impact of these policies on the reform and development trajectory of China's banking industry from 1949 to the present. The Chinese Regulatory Regime and Basel in China are described in Chapter 5, which illustrates the ongoing transformation of China's banking supervision system and introduces a more systematic and efficient regulatory framework for fostering the growth of the country's banking industry. Simultaneously, this initiative fortified China’s regulatory mechanisms, thereby providing a more stable operational environment for the banking sector.

The following three chapters represent the main body of this research, in which the

banking sectors are divided into three categories: Chapter 6 offers a discussion of the Policy Banks in China; Chapter 7 presents the Investment Policy of Chinese State-owned Commercial Banks; and Chapter 8 describes the investigation of Joint-Stock Commercial Banks, including foreign banks, in China.



1.7 Contributions to the Field and Limitations of the Research

In the research field of China's economic development, prior studies have predominantly been concentrated on assessing the impact of key indicators, such as GDP and FDI. on the nation's economic landscape and the impact of the financial system on the Chinese economy, as shown in (Lau, 2019). (He & Wei, 2023) discuss China's financial system and aggregate financing to the real economy (AFRE). (Duan et al., 2023) focused on the banking system arrangement and its impact on economic development.

Similarly, the investigations into China's banking industry have often emphasised the inherent benefits for the industry itself, evaluating the industry's independent growth and corporate implications. Ren et al. (2017) presented the Chinese Policy Bank's efforts to support sustainable foreign investment through various financial and policy measures. China's financial sector's growth trajectory, credit expansion, and shadow banking activities necessitate vigilant monitoring. While strides have been made in financial inclusion, the country still grapples with challenges related to universal access to financial services (Klapper et al., 2019).

The People's Bank of China (PBOC) and financial regulators have implemented policies to mitigate the epidemic's impact on financial institutions, particularly banks.

These include liquidity support, adjustments to the reserve requirement ratio, and re-lending and rediscount facilities. These measures aim to enhance financial institutions' credit supply capacity and risk resilience (Jiang et al., 2020). Meanwhile, Zhang et al. (2020) delve into the impact of shadow banking on credit creation in China and assess the potential effectiveness of monetary policy.

Zheng and Wang (2021) provide detailed insights into how the PBOC has gained momentum in areas such as monetary policy, financial stability, foreign exchange, and financial regulation. Despite its relatively low formal independence, the PBOC has wielded significant authority and autonomy in practice. These institutional changes are pivotal for comprehending the role of the PBOC in China's economic growth. Additionally, Ma et al. (2021) the results show that oil shocks do not affect state-owned banks, while nonstate-owned banks are more sensitive to oil shocks.

Liu et al. (2022) noted that the largest private shareholders have an information advantage, which facilitates greater lending by the banks to the industry. Li and He (2023) showed that the structure of China's banking industry is compatible with an industrial structure that is dominated by small and medium-sized enterprises, which have significantly contributed to China's economic growth.

These SMEs have played a substantial role in driving China's economic growth. Cerutti et al. (2023) pointed out that Chinese banks exhibit similarities to their counterparts in developed countries regarding global cross-border lending. This similarity is particularly evident in their interactions with emerging markets and developing economies (EMDEs).

However, a notable gap exists in the understanding of the specific contribution made by China's banking sector to the country's broader economic development. Regrettably, a comprehensive exploration of the nuanced relationship between China's banking industry and its economic development is lacking, particularly from the vantage point of political-economic dynamics. The intricate interplay between the banking sector and the broader economic framework, as shaped by political and economic forces, remains largely uncharted territory.

Addressing this gap, this research delves into this unexplored nexus to unravel the intricate web of connections, ultimately enhancing our understanding of the multifaceted

role played by the banking sector in China's ongoing economic development and its global impact.

This research provides a comprehensive overview of China's economic history from 1949 down to the death of Mao and focuses especially on the post-Mao period up to 2020 by way of exploring the contribution of the banking sector to the undisputable economic rise of China in the global political economy. However, certain limitations merit consideration. The dataset's lack of macroeconomic data before 1960 hinders the capacity to conduct a complete historical analysis. Specifically, banking sector data appear to commence with listing banks, thus potentially limiting a detailed examination of earlier banking dynamics. Furthermore, this research is focused primarily on pre-pandemic data up to 2019 because of the substantial economic shifts that have been driven by the global pandemic.

To address these limitations, future research endeavours should aim to fill data gaps before 1960, delve into the prelisting periods of the banking sector and consider incorporating post-2019 data to provide a more holistic analysis, thereby capturing the evolving economic dynamics as influenced by the pandemic.

Part I: China under Mao

Chapter 2: Stagflation in the West and China's Economic Liberalisation

To further examine the research question posed in this work, the development of the Chinese and Western banking systems is first compared. These systems in China and those in Western countries are compared because of the interactions (trade, reciprocal investments) between the North Atlantic area (including the USA and Europe, but also Japan) and China during industrial capital development in the West during the Golden Age of capitalism and development in China during, which was occurring during that same period. This interaction laid the ground for closer interaction to develop after the end of Mao's period and the beginning of globalisation, when China initiated its first liberal reforms. The Golden Age of capitalism and the interactions between the North Atlantic area and China that occurred during that time, as well as the subsequent globalisation and liberal reforms in China, have profoundly impacted the world's economic landscape. The evolution of China's economic policies and its integration into the global economy post-Mao are complex and crucial aspects for understanding modern global economic dynamics. In discussing these historical and economic developments, considering multiple perspectives and analysing various sources to comprehensively understand the events and their implications is essential.

2.1 Introduction

Globalisation has significantly interlinked worldwide economies, and the Euro-Atlantic region is no exception. Over the past 60 years, economic integration, trade agreements, and technological advancements have led to an increased interdependence among the nations in this region. Economic decisions made by one country or a single central bank can have ripple effects due to trade relationships, financial markets, and capital flows. Therefore, the differences in economic policies in the Euro-Atlantic region are small. For instance, when the Fed raises interest rates, global capital flows and exchange rates can be affected. To mitigate any potential disruptions and maintain relative stability, other central banks, such as the Bank of England and the ECB, may also comparably adjust their interest rates.

A consideration of the interconnectedness and interdependence of economies, especially within regions such as the Euro-Atlantic area, is crucial when analysing economic policies and their effects. The global economy is highly integrated, and

decisions made by major economic players such as China and the USA can have far-reaching consequences extending beyond their borders. Policies related to trade, finance, and investment can significantly impact both other regions and the world at large.

Coordination and collaboration among countries in response to economic changes and challenges are critical for maintaining stability and fostering sustainable growth. Moreover, aligning policies among major economies such as the USA, the European Union, and China has become increasingly important for mitigating adverse effects and ensuring a balanced global economic landscape. With its long history of integration and economic interdependence, the Euro-Atlantic area serves as a notable example of how closely linked economies can be. Analysing and understanding these dynamics is vital for the informed decision-making of policymakers and stakeholders to promote economic prosperity and stability on a global scale.

In light of this, discussing the Chinese and Western economic development backgrounds is necessary. Therefore, our examination begins with an assessment of the economic development background of both Western countries and China during the same period.

Chapter 2 specifically presents a discussion of three main topics. The first concerns the economic miracle experienced by Western countries after World War II, including the U.S., West Germany, and Japan; the second concerns the economic recession experienced by Western countries, which is mainly focused on the United States and the collapse of the Bretton Woods system; and the final topic deals with the neoliberal economic reforms that were instituted after the recession.

2.2 The Development of Capitalism in the West following World War II

2.2.1 United States

Because of the devaluation of currency and the disorder in trade after the war, Western countries used gold-based dollar assets as a reserve currency to counter postwar central bank liabilities and solve currency problems. Therefore, the new international monetary system, namely, the Bretton Woods system, which is controlled by the United States, was established in 1944. This system instituted the following framework. 1) The International Monetary Fund (IMF) established a new catalogue of international exchange rates and was responsible for managing the catalogue. The IMF made short-term loans based on

gold deposits or contributions from IMF members, and the credit limits were based on donations; 2) the International Bank for Reconstruction and Development (IBRD) provided long-term loans and other forms of capital help; and 3) the International Trade Organisation (ITO) used its powers to regulate world tariffs.

The essence of the Bretton Woods system was a multilateral, dollar-based international payment system. The Bretton Woods system set the global monetary system at a fixed ratio of dollars to gold (1 ounce of gold exchanged for 35 U.S. dollars), and the value of each member's currency was also pegged to the gold dollar. Simultaneously, a demand arose to trade other currencies with gold, but they needed to first be exchanged with the U.S. dollar.

Under this system, the central bank of the U.S. held reserves entirely in gold, while the reserve currencies of other countries were mainly held in U.S. dollars. This system formally established the U.S. dollar's dominant position in the international monetary system. The dollar became the powerful monetary unit that bound the capitalist world together (Fouskas & Gokay, 2005).

The economic growth of the domestic market slowed because of overcapacity and overproduction in developed capitalist countries, especially after the investment boom in the 1940s. Western countries strove to obtain greater profit, and they found more opportunities abroad. For example, the demand for military products plummeted in the U.S. after the war. These companies had no market to digest their vast production capacity for a while, and the saturation of the domestic market led to stagnant economic growth. In response to postwar economic transformation and overcapacity issues, the United States increased its exports in search of overseas markets (Shen, 2016). The U.S. government was more willing to support the free flow of goods and investment funds, allowing multinational companies and international bankers to make direct investments and loans abroad and thus enabling imports to flow back to the country.

Therefore, the United States implemented the Marshall Plan to resolve the severe overcapacity of heavy industry and foreign exchange reserves in the United States and to assist in reconstructing the Western European countries that had been destroyed by the war. The Marshall Plan was the largest capacity transfer operation at the time, and it profoundly impacted the development of European countries and the world's political

structure.

The U.S. can obtain more profit from this system than other countries. First, the international deficit of the U.S. can provide funding for its overseas military bases, foreign aid, and FDI by companies. US allies and economic opponents can control commodities and capital entry into their domestic market. These countries (including the U.S.) regard capital accumulation as the primary prerequisite for national financial stability, high employment, and social stability (Brenner, 2006).

The Marshall Plan was officially launched in July 1947, and the Western European countries that accepted this plan also accepted both U.S. investment and imported U.S. goods. During this period, by participating in the Organisation for Economic Cooperation and Development (OECD), Western European countries received $13.15 billion in assistance from the United States, which included finances, technology, and equipment, 90% of which were gifts and 10% of which were loans. The European economy was reconstructed by importing American funds and materials. The Marshall Plan enabled the United States to export its currency. The U.S. dollar was used for subsidies, while European countries used their own national currencies to buy American goods. In this way, the U.S. dollar became a stable tool for "monetary credit" (Shen & Chan, 2018).

This plan provided more benefits to Western countries and greater protection of their capital investments, which were mainly supported by export-oriented manufacturing. Western governments tried to provide undervalued currencies to manufacturing exporters, as well as providing subsidies and various degrees of protection from imports. They also ensured a "low pressure" macroeconomic environment and relatively tight credit for maintaining low levels of inflation to facilitate overseas sales.

Although the generous help of the Marshall Plan contributed indelibly to Western European countries, particularly to the transformation and growth of West Germany and Japan, we cannot ignore that the U.S. also experienced an economic transformation through its assistance of various countries (Shen, 2016).

The primary purpose of the Marshall Plan was to open European markets to the U.S. to release the overcapacity of heavy industry and foreign exchange reserves in the U.S. while conjoining operations between the European economy and the United States. This change to the global order led to the United States becoming the leading hegemonic power

at the core of global capitalism (Fouskas & Gokay, 2005).

By the end of the war, the U.S. accounted for almost two-thirds of industrial production worldwide (Hobsbawm, 1994). In 1950, the U.S. manufacturing output value accounted for as much as 40% of the world's total (Shen, 2019). From 1950 to 1958, the world's foreign exchange reserves increased by nearly $7 billion in U.S. dollars, making the U.S. dollar "the world's reserve currency and the United States as the world's central bank". During the 1950s, the United States accounted for 6% of the world's population, and almost 40% of its GDP was created during this period (Fouskas & Gokay, 2012). With the development of technology and the military, even with the strong position of the U.S. dollar in trade, the U.S. has become the capitalist world leader.

The main reason for this phenomenon is that since World War II, the U.S. has not only avoided any material damage but has also increased its gross national product (GNP) by two-thirds. In 1960, the GNP reached $503.7 billion, and the per capita income reached $1,883. In 1965, the growth rate of industrial production reached 9.9%. The scientific and technological revolution dramatically improved U.S. labour productivity, reduced production costs and increased output. Then, in 1970, the GNP policy reached $974.1 billion, and the per capita income increased to $2,579, a rise of 37.5% (Cui, 2000).

The economic growth of Western countries from World War II to the 1970s can be referred to as the "economic miracle" era. (Isaak, 1997) defines an economic miracle as an unusual positive annual change of at least 8.8% in gross domestic product (GDP) each year that lasts for at least three years. After World War II, many economic miracle countries were driven by the liquidity of U.S. loans, grants, and investments and were protected by the U.S. military security hegemony. In addition, millions of new homes, factories and fundamental infrastructures (such as highways, highways, water and sewage facilities, shopping centres, schools, and public buildings) had to be built, which signaled the prosperity of the U.S. After World War II, the U.S. became the most critical manufacturing centre.

To ensure the stability and security of the international capitalist system, the U.S. government provided benefits for the interests of its own multinational companies after World War II. The U.S. government allowed global companies and international bankers to engage in direct investments and provide loans abroad, which enhanced the status of

U.S. currency. In 1970, exports from the U.S. increased to $43.22 billion and their imports rose to $39.95 billion, representing a surplus of U.S. $3.27 billion (Hughes & Cain, 2007).

2.2.2 West Germany

After World War II, the reparations in Germany caused a vast budget deficit. Germany's actual national wealth also decreased by a full one-third and, there were no Marks in the exchange market because all foreign currency exchange in Germany had stopped, and Germany had almost no commercial exports (Barber & Carlstrom, 2020).

The Marshall Plan provided funds and resources to West Germany. Some scholars believe that Germany's economic recovery began prior to the Marshall Plan being instituted because aid accounted for less than 5% of West Germany's national income during the period of 1948 to 1949. Scholars have pointed out that the accumulated capital after the war led to the beginning of Germany's economic miracle. Other scholars argued that the Marshall Plan helped Germany increase its foreign trade and rebuild relations with other Western countries. (Barber & Carlstrom, 2020)

In addition, Germany needed to improve its foreign trade to recover its economy. Therefore, Germany found the opportunity to return to world markets through the Korean War in 1950. The products needed for the war boosted German manufacturing exports, and its output index increased by 32.3% (Muller, 2016).

Germany would not be a powerful economic country today had it not worked closely with the United States and other European countries following the institution of the Marshall Plan. With the help of the United States, West Germany gradually improved its development in the automobile, manufacturing, and chemical industries sectors. The plan aided nearly $3 billion in reconstruction in West Germany (Barber & Carlstrom, 2020), over 40% of which was coal, 20% was electricity, and 15% was steel investments from 1949 to 1951 (Carlin, 2010).

However, Western European countries were worried about becoming a vassal of the U.S. through their reliance on its assistance. In addition, Western European countries were also afraid of the expansion of the Soviet Union that occurred during the Cold War. Therefore, Western European countries hoped to unite to ensure their security and improve the international status of Western Europe. Because of a new pattern of international relations that followed World War II, the European countries that had been

weakened by the war began to develop mutual self-protection and self-reliance to counter the two hegemonies developing in the U.S. and the Soviet Union.

On April 18, 1951, France, West Germany, Italy, the Netherlands, Belgium, and Luxembourg signed the European Coal and Steel Community (ECSC) agreement, thereby establishing an organisation for the management of coal and steel. This organisation determines the production, investment, and prices of coal and steel and the allocation of raw materials across six countries, even for open or closed enterprises. The establishment of a coal and steel community is highly important to the processes of the European Union, which make the European Union a reality. The Coal and Steel Community operation promoted the reconciliation of France and West Germany as well as the economic development of the six affected countries.

The Marshall Plan assisted West Germany to become fast one of the largest economies in the world. Germany has enjoyed a surplus every year since 1952. The manufacturing production in West Germany grew by an average of 9.2%, which was faster than that in Britain, France, the United States, and Italy. In 1954, Coal production increased by 23%, and steel production increased by 14.5% in the six countries (Cui, 2000).

In 1955, Germany rebounded as the second-largest industrial country in the world. In 1957, the U.S. invested $580 million in West Germany (Cui, 2000). On March 25, 1957, France, West Germany, Italy, the Netherlands, Belgium, and Luxembourg signed a treaty establishing the European Economic Community (EEC) in Rome. The goal was " To develop harmonious economic activities within the entire community by establishing a common market, and the relationship between countries is getting closer and closer. " Among the EEC, the development of West is the most obvious.

In 1958, Germany's GNP average annual growth rate reached 7.6%, far exceeding the 2.2% growth rate of the United States. In 1967, West Germany surpassed the United States to become the world's largest trade surplus country. Germany's import and export trade value soared to $64.6 billion in 1970, and the average annual economic growth rate of West Germany reached more than 10%, thus qualifying as an economic miracle (Cui, 2000).

2.2.3 Japan

Japan’s industrial and financial system suffered devastating effects during World War II, especially by the dropping of two atomic bombs on its cities, Hiroshima and Nagasaki. Nearly half of its industrial and transportation industries were seriously damaged, and the economy was on the verge of collapse. In 1946, the proportion of industry to the total national income was as low as 26.3%. This loss in industry also caused a decline in the service sector, where the proportion of the service industry decreased to 34.9%, which was lower than that of agriculture (38.8%) (Guosen, 2019). Although Japan’s industrial production capacity was severely damaged in World War II, it already had a considerable industrial base before the war. In addition, many skilled labourers were retained and came to play a crucial role in the rapid recovery of the Japanese economy.

After World War II, the United States helped Japan and Europe recover. One of the significant financial aid sources from the United States to Japan was established to assist the cotton textile industry. Japanese companies borrowed money from the United States to buy equipment to produce cotton textiles. Japan exported cotton textiles to the United States and used foreign exchange to repay its debts. Light industries (food and textiles) served as the leading industries in Japan's economic recovery during World War II and for a long time thereafter.

Moreover, the U.S. aided Japan by offering it a series of low-interest loans. Most funds came from the World Bank, the Export-Import Bank of the United States, and the Bank of America. These funds were invested in Japanese utilities and heavy industry, thereby stimulating Japanese investment (Beckley et al., 2018).

In addition, the high level of development in the Japanese economy that occurred after World War II was due to the large number of orders emerging from the Korean War. In 1950, the United States needed many war materials and purchased not only war weapons but also cotton cloth from Japan during the Korean War, which led to 21.9% of Japan's total exports being exported to the United States (Fang, 2019). However, the demand in the U.S. decreased at the end of the war, while the inventory of Japanese cotton textiles sharply increased. Therefore, the manufacturers in Japan expanded the export market to the United States at a lower price, which resulted in a sharp increase in Japanese cotton textiles in the United States import market, with 17.4% in 1951. By 1953, war

revenues exceeded $2.3 billion in Japan, accounting for 38% of Japan's total foreign exchange income (JRJ.com.cn, 2015).

Based on Japan’s economic recovery policy, the GNP grew at an average annual rate of 9.2% in 1955. In that year, with the decreasing tariffs on textiles in the U.S., many cheap Japanese fabrics poured into the U.S., which initiated Japan-US trade friction. Japanese cotton textiles occupied more than 60% of the U.S. textile import market before 1956 (Guosen, 2019). After protracted negotiations, Japan was forced to accept a "voluntary export restriction" requirement and signed the Japan-U.S. Textile Agreement in 1957.

From 1945 to 1957, Japan’s economic recovery was based on the textile industry. Then, Japan changed its monetary policy due to restrictions imposed by the U.S.

In 1957, the Japanese government first proposed “optimising the industrial structure” as its primary policy. The rapid growth of heavy industry drove the rapid economic development of Japan during this period, and the real GDP per capita rose to 60% in the 1960s (Sato, 2002). In 1960, the Japanese government launched the "National Income Doubling Plan" (1961-1970) to develop the country's economic and industrial structure. During this period, Japan established a "complete industrial structure" with which to independently produce all its industrial products and thus reduce the need for imports for fundamental production. In 1963, the Japanese government published the document titled the "Long-term Outlook on Industrial Structure", which took the development of heavy industry as the core policy in developing the industrial structure. In 1967, Japan surpassed the United Kingdom and France, and it caught-up with West Germany, becoming the second-largest economy in the world in 1968.

Japan imported new technologies and gradually shifted to buying patents to develop its heavy chemical industry. Emerging technologies have led to a substantial investment demand in Japan. Japan's fixed-asset investment increased by more than 115 times in 1970, with a focus on electricity, steel, machinery, electronics, chemicals, and automobiles. By 1973, Japan's GNP per capita had risen to approximately 60% of that of the U.S., and the average annual growth rate of the Japanese economy remained above 10% because of the rapid growth in investment and exports that occurred during this period (JRJ.com.cn, 2015).

Therefore, from 1957 through the 1970s. Japan developed iron and steel, coal and other heavy industries.

Although Japan and the other seven developed countries (G7) have transitioned from fast to slow growth since the first oil crisis (1973), Japan's average annual growth rate remained at slightly above 4% during the period of 1975 to 1990 (Sato, 2002).

In sum, during the period of explosive growth in Western countries after World War II, Western countries, particularly the U.S., experienced an "economic miracle" era. However, the U.S. economy declined with the development of West Germany and Japan. The exponential growth in China's economy has been intricately intertwined with the evolution of Western industrial capitalism during its prime, as well as during the concurrent decline within the American economic sphere. The United States' economic prowess experienced a downturn amid the ascent of West Germany and Japan at a pivotal juncture in the golden age of capitalism. This shift catalysed a process of de-industrialisation in the U.S., thereby compelling the nation to seek novel economic developmental paths.

2.3 The Economic Decline of Anglo-American Economies

The main contradictions in the capitalist system are manifested at the financial and manufacturing levels (Fouskas & Gokay, 2012). In the 1950s and 1960s, the size of the financial sector gradually expanded. However, it still operated within the regulatory framework, and even in the late 1970s, the importance of domestic and international financing was still minor. The profit rates were still lower than those in the 1950s and 1960s. Unemployment rates had risen and persisted, and real wages had shown no upward trend of continuous growth (Lapavitsas, 2013).

The Bretton Woods system formally established the U.S. dollar’s dominant position in the international monetary system, causing the U.S. to become the new leader and rulemaker of the global financial system. However, the output of gold was minimal, and additional resources were needed to support large-scale international trade in the industrial age, whether as a reserve or a means of payment. In addition, the U.S. trade deficit increased, and the dollar subsequently depreciated. The U.S. external deficit and the downward movement of the U.S. dollar implied that the U.S. market’s ability to absorb the commodities of its allies and competitors had declined.

The Bretton Woods system had an inherent flaw at its establishment, i.e., insufficient international reserve assets. Under this system, gold and U.S. dollars were the only international reserve assets. During this period, world trade and international payments increased rapidly, national income increased, and the global demand for international reserves increased daily. Nevertheless, the supply of gold and U.S. dollars was limited. Natural production determines the level of gold reserves, and substantial growth in the short-term required work.

Because the U.S. dollar was tied to gold, the limited U.S. gold reserves meant that the growth of the U.S. dollar supply needed to meet the global demand for reserve assets. The economist Triffin once noted, “To ensure the dollar supply in the international market, the United States needs to maintain a balance of payments deficit for a long time. As time passes, the pressure on the dollar’s devaluation will increase, and the currency value needs to remain stable, which requires the United States to reduce the supply of dollars further”(Triffin, 1964).

The average yearly growth rate from 1950 to 1955 was 5.1% in the U.S. manufacturing industry, and the average from 1956 to 1960 was only 8.2% higher than that over the previous five years (Brenner, 2006). To fund the military in Vietnam, the United States caused global economic inflation through the production of more banknotes, which exacerbated the excess of U.S. dollars. The Western world went from a period of "dollar shortage" before 1958 to a period of "dollar glut" afterwards, and "dollar glut" became a significant problem in the global economy. At the beginning of the 1960s, the U.S. balance of payments showed persistent deficits. The United States increased its production costs to ease the domestic market deficit, thereby stimulating U.S. multinational companies to speed up overseas manufacturing investment further.

In the 1960s, the U.S. profit rate declined, especially in the industrial sector. The United States government believes that capital investment produces the best return, which is much greater than that of manufacturing. Overseas investment made by the U.S. led to the successful development of West German and Japanese manufacturing exports, while the competitiveness of the U.S. manufacturing industry declined in 1963. Direct investment by American companies in overseas manufacturing proliferated, which caused the percentage of FDI in the U.S. to fall to 17.5% in 1966 (Brenner, 2006).

This rapid decline in U.S. manufacturing led to decreased U.S. economic growth and a rising U.S. foreign trade deficit. After World War II, the United States maintained its leadership position as the largest surplus country for two decades. In 1968, the United States experienced a trade deficit for the first time. Exports in the U.S. accounted for approximately one-third of the total exports of the capitalist world during the postwar. However, with the economic recovery of European countries and Japan, U.S. exports dropped to 15.5% in 1970 (Hughes & Cain, 2007). However, the growth rate of the U.S. economy increased, reaching an average annual compound growth rate of 2.4% per capita real GDP, which was relatively slower than the rapid economic development of Europe and Asia (Qiu, 1998). The key industries in Germany and Japan caused the flood of low-priced goods into the U.S., which weakened American manufacturers' capabilities worldwide. This “symbiotic” relationship among countries was also the reason for the uneven development that occurred between 1965 and 1973 (Arrighi, 2007).

The uneven development of capitalism led to the rapid growth of other economic centres (Western Europe, Japan, and Southeast Asia), just as American businesses were facing a crisis in terms of international competitiveness, which led to the relative decline of the domestic economy in the U.S. (Arrighi, 2007). Manufacturing in countries outside the United States grew faster than that in the United States.

The recession of the manufacturing industry led to the accelerated expansion of the U.S. trade deficit since the late 1970s. The decline in the proportion of the economy occupied by the manufacturing industry and the imbalance of payments mean that the share of imported goods has increased substantially, replacing U.S.-produced goods domestically. The decrease in the manufacturing industry further hindered the manufacturing industry in the U.S. and decreased the competitiveness of the U.S. economy (Shen, 2019).

The critical purpose of Bretton Woods was to maintain the stability of the exchange rate of the U.S. dollar and gold, utilize the U.S. dollar as the world’s reserve currency and implement a fixed exchange rate system. West Germany and Japan became the world's largest trade surplus countries and critical manufacturing centres based on exports and dollarisation formed by the establishment of a fixed exchange rate system in Bretton Woods (Fouskas & Gokay, 2012). The capitalist government controlled the banks and

financial capital for the promotion of economic development, which was also required for the sustained growth of the U.S. economy.

When the U.S. economy stimulated inflation by increasing the federal deficit and loosening monetary policy to avoid cyclical recessions, the German and Japanese economies experienced severe recessions (from 1966 to 1967 in Germany and in 1965 in Japan). European manufacturers could not find profitable investment opportunities for their dollars, leading to an accumulation and causing a glut of dollars in the European market. As United States competitiveness declined, the number of dollars in Europe and Asia completely exceeded the number circulating in the United States. Europe and the United States raised commodity prices to offset profit losses, and inflation was inevitably aggravated. In the U.S., inflation rose from 1.5% in the early 1920s to 5.9% in 1970 (Fouskas & Gokay, 2012).

The United States claimed that Europe and Japan had failed to ease the payment imbalance through the revaluation of their currencies. Countries such as Europe and Japan claimed that the United States was responsible for reducing the persistent trade deficit. The increased demand in the U.S. could not stimulate a corresponding rise in domestic supply because of the expanding government deficit; rather, prices and imports rose faster than the domestic supply. US corporate profits began to decline in the face of competition from Germany and Japan. This situation aggravated the recession of the U.S. economy.

In the initial competitive struggle, the United States sharply depreciated the U.S. dollar in relation to the Japanese yen and the German Mark. The exchange rate between the U.S. dollar and the German Mark declined sharply, falling by 50% from 1969 to 1973, and the Japanese yen depreciated by 28.2%, falling from 1971 to 1973 (Arrighi, 2007). Simultaneously, uneven development was causing excess production capacity, which led to a general decline in U.S. profit rates between 1965 and 1973.

In 1971, after the Bretton Woods system had been in operation for nearly 30 years, French President Charles de Gaulle authorised the sale of dollar assets for gold due to declining confidence in the U.S. economy. Similarly, the Bank of England aimed to convert its dollar reserves into gold. These actions and others increased pressure on the dollar, leading to a "run on the dollar." This turmoil culminated in the breakdown of the Bretton Woods system (Eichengreen, 2011). Therefore, the United States announced the

decoupling of the U.S. dollar from gold, thereby ending the U.S. dollar-gold system. The collapse of the Bretton Woods system led the U.S. to find new international currency arrangements based on the U.S. dollar.

In 1974, the United States and Saudi Arabia signed a series of agreements to guarantee Saudi Arabia's homeland security. Saudi Arabia agreed to accept the U.S. dollar as the only currency for the pricing and settling of oil exports. In December 1974, the United States and other Organization of Petroleum Exporting Countries (OPEC) members also reached agreements concerning oil trade and production, and the system of "petrodollar hegemony" was officially established, fundamentally serving the United States as oil would be traded in dollars only and then invested in T-bills helping America to deal with her deficits.

Oil served as a "hard currency" in addition to gold, as it served as a vital energy source and primary chemical resource for the modern economic development of any country. Under the petrodollar hegemony system, oil-importing nations must first exchange dollars and hold dollar reserves to obtain oil, particularly after the U.S. and Saudi Arabia agreed that oil could only be traded in U.S. dollars. The rise in oil prices caused an increase in the cost of U.S. dollars, easing pressure on the U.S. economy and enabling the U.S. dollar to regain its status as a prime international currency.

Thus, the U.S. consolidated its dollar's position in the international monetary system by establishing control over oil transactions. To re-establish the global status of the U.S. dollar, the United States disintegrated the Bretton Woods system and linked the U.S. dollar to oil, creating a new dollarization model to consolidate the global position of the U.S. (Fouskas & Gokay, 2012).

By the late 1970s, the United States had adopted a series of neoliberal policies to restore the competitiveness and profitability of the U.S. manufacturing industry by increasing the federal deficit and loosening the monetary deficit. This policy enabled the United States to overcome the oil crisis recession from 1974 to 1975, but it led to an increase in inflation, followed by an increase in the U.S. deficit, during the period of 1977 to 1979. These deficits sharply devalued the U.S. dollar and threatened its status as an international currency. However, the development of the manufacturing industry cannot be stimulated through productivity growth and wage restrictions. The substantive aspect

of the recovery of the U.S. profit rate was the devaluation of the currency and the increase in the share of total profits in total national income that occurred at the expense of wages (Fouskas & Gokay, 2012).

In sum, the overall decline in the U.S. economy led to the devaluation of the U.S. dollar, which also caused a global crisis. The Bretton Woods system collapsed. To address this crisis, the U.S., among others, found a new way to rebuild its currency position in the world's international monetary system by linking the U.S. dollar to oil and by liberalizing its domestic market requiring, in a typical neo-imperial manner, from all countries to do the same.

2.4 Post-Bretton Woods System

In 1979, the U.S. inflation rate reached 13%. Paul Volcker, who was the chairperson of the Federal Reserve in 1979, began to raise interest rates to curb inflation, which also, however, led to a sharp rise in the U.S. dollar exchange rate and an increase in the U.S. trade deficit. The U.S. economy experienced two recessions, and the problem of economic stagflation became prominent. Since the overvaluation of the U.S. dollar, the deindustrialization process took up a massive proportion of the activity in the United States in the 1980s. The interest rates rose rapidly, followed by the cost of capital use. The production of goods and services in the U.S. gradually decreased, while the U.S. began to import more goods and services from Europe and Asia. By 1980, the proportion of the United States' GDP had fallen to nearly 22%. This transformation reflects a process that occurs under deindustrialization (Fouskas & Gokay, 2012).

Since 1980, the exchange between the U.S. dollar and the yen, the Mark, the franc, and the pound sterling increased by approximately 50%. The strengthening of the U.S. dollar tremendously pressured U.S. exports, while, as a newly emerging economic power, Japan's export-oriented economy further aggravated the U.S. deficit. The trade imbalance between the two countries marked Japan's high dependence on the U.S. market. Japan's trade surplus with the U.S. continued to expand, reaching a peak of 9,369.34 billion yen in 1985 and accounting for nearly 40% of the U.S. trade deficit (Fang, 2019). By 1985, the current account deficit accounted for 2.71% of the U.S. GDP (Jin et al., 2018).

The revival of the United States occurred mainly at the expense of its Japanese and Western European competitors. It had as of yet to take action to overcome the potential

overcapacity and overproduction in the global economy (Brenner, 2006). The growth of international capital flows was partly due to the instability of exchange and interest rates, which led to the financialisation of developing countries. (Lapavitsas, 2013)

"Under the leadership of the U.S. government and its central bank, the governments of various countries adopted a series of measures that came to be known as neoliberalism. The neoliberal measures to deal with recession were called *Reaganism* in the United States, and *Thatcherism* in Britain." (Fouskas & Gokay, 2012)

On September 22, 1985, at a meeting at the Plaza Hotel in New York, the United States worked with the finance ministers and central banks of Japan, Germany, France, and the United Kingdom to sign an agreement. The "Plaza Accord" was an important symbol of the maintaining of international monetary order and the implementation of coordinated policies among the G7. Although France, the Federal Republic of Germany, and the United Kingdom all made concessions, the agreement was hard-handed towards the Japanese economy.

Among the participants, Japan made the most compromises, which included the following: 1. to open up the domestic market to foreign goods and services; 2. to implement strong deregulation measures that give full play to the vitality of the private sector; 3. to implement a flexible monetary policy in regard to the yen exchange rate; 4. to liberalise the financial market and the yen exchange rate to provide a suitable environment for the private sector; 5. to expand its consumption and mortgage credit markets to stimulate domestic demand, private consumption and investment.

The main aim of these initiatives was to realise the yen's appreciation against the dollar to increase U.S. competitiveness worldwide and adjust the imbalance for the U.S. Therefore, after Japan accepted the Plaza Accord, a 71.3% appreciation of the yen against the U.S. dollar (Li, 2015) occurred. From 1985 to 1987, the yen appreciated by over 50% against the U.S. dollar. In the short term, the Plaza Accord quickly solved the overvaluation of the U.S. dollar.

The Japanese government was concerned that the yen's excessive appreciation would undermine their economic competitiveness. Therefore, the government maintained economic expansion through the relaxation of credit. However, from 1985 to 1987, the Bank of Japan lowered its benchmark interest rate from 5% to 2.5%, which led to an

extensive bubble in the Japanese stock and property markets.

In February 1987, the G7 held a meeting at the Louvre in which an "exchange rate target zone" on the U.S. dollar exchange rate was agreed on. The "Louvre Agreement" represents an essential step in the promotion of cooperation in international currency among G7 nations, and a consensus was reached that "the exchange rate should be stable". The exchange rate of the U.S. dollar against the yen and the German Mark was set at 153.5 and 1.825, respectively, thereby keeping the fluctuation range within 2.5%. (Li, 2015) The United States agreed to reduce the federal government deficit, while Japan and the Federal Republic of Germany agreed to stimulate their domestic demand. In this way, the United States pressures other countries to protect its economic interests and maintain the dollar's hegemony.

After the agreement was signed, the exchange rate remained stable. Starting on March 24, 1987, the USD/JPY exchange rate fell below 150. This situation triggered a reversal of expectations and caused the further depreciation of the U.S. dollar, which has caused an uproar in the international financial market, intensifying the United States' capital outflow.

Unlike West Germany, Japan maintained an ultralow base interest rate of 2.5% after 1987 to avoid excessive yen appreciation, which had the potential to damage exports. The Deutsche Bundesbank (the Central Bank of West Germany) immediately raised the base interest rate from 3% to 6% in 1989, after the Louvre Agreement, to prevent the occurrence of a large-scale asset bubble in West Germany (Shao & Chen, 2020). The primary reason that West Germany dared to raise its interest rates under the risk of the continued appreciation of the Mark was the independence of the Deutsche Bundesbank. Those Germans who experienced World War II hold a collective memory of hyperinflation, making them extremely sensitive to inflation.

By 1989, the Japanese government had realised that the economy was overheating and had raised interest rates to ease this problem, which was a radical action. From May 1989 to August 1990, the Bank of Japan's benchmark interest rate rose from 2.5% to 6% within a single year. The tightening of monetary policies sharply pierced the economic bubble (Jin et al., 2018). The appreciation of the yen did not immediately cause financial market and economic turmoil, and the Japanese economy maintained a high growth rate

until 1990.

After the Plaza Agreement, the sharp appreciation of the yen caused Japan's domestic economic bubble to accumulate rapidly and ultimately collapse, plunging Japan's economy into a downturn that lasted more than ten years. The United States was still experiencing rapid economic development during the 1990s. The U.S. trade deficit also improved significantly and returned to a surplus in 1991. However, these positive developments did not last long.

After the stagflation of the 1970s, there was a wave of financial liberalisation. The U.S. government relaxed financial controls and encouraged financial innovation. In an interest rate marketisation environment and with the rapid development of the financial sector, the banking industry faced increased competitive pressure, which forced them to invest in loans to risky industries, including in real estate and some underdeveloped countries and regions. However, these countries suffered losses because sufficient risk control measures were not implemented in real-time. The economic situation in some areas and industries of the U.S. declined, the prevalence of nonperforming loans (NPLs) increased, and the frequency of bankruptcies accelerated. For example, the oil crisis and the collapse of the real estate market caused banks in the U.S. to experience difficulties. The banking industry also underwent a downturn, and the number of bankruptcies increased sharply, reaching a peak of 531 in 1989. (Ren, 2017)

After the Bretton Woods system collapsed, countries worldwide selected a market-based exchange rate and interest rate mechanism that was characterised by free-floating. However, people realised that floating exchange rates cannot automatically return to equilibrium. Therefore, Reagan abandoned his stance of "noninterventionism" during his second term. What occurred from the Plaza Agreement to the Louvre Agreement was a rescue operation carried out through the leveraging of significant government powers to address the disorderliness of the world monetary order following the collapse of the Bretton Woods system. The international financial field experienced substantial changes, beginning with the development of a new financialisation structure. These changes have both positively promoted and negatively affected the financial market.

2.5 The Neoliberal Economic Reform

The economic strength of the European Community since the 1980s has been growing,

and the Japanese economic circle in Asia has also expanded rapidly. Facing this new international and domestic situation, the three countries of North America agreed on the North American Free Trade Agreement (NAFTA) on January 1, 1994. Clinton supported NAFTA and made free trade an integral part of his economic policy, promoting intellectual property rights in science and technology as a means of reducing the U.S. trade deficit.

The United States lowered wages and reduced taxes on capital to adjust its neoliberal structure. The Clinton administration pursued free trade agreements and sought a free market devoid of government regulation. After the slow recovery, which lasted from 1990 to 1991, the U.S.'s annual GDP surged to over 4% after 1995, which was a third of that during the period from 1991 to 1995. The IT revolution emerged in the U.S. during this period, and the investment in IT equipment exceeded 40% of the total investment in equipment (Kotz et al., 2003).

The globalisation of industrial/productive capital through global production networks underpinned a global industrial division of labour, and the world's industrial division of labour, in turn, has further promoted the expansion of world trade and directly promoted the globalisation of the world economy. Globalisation and the anti-inflation benchmark of the American Fed has helped U.S. economic expansion by curbing inflation. Capital outflows and inflows in the U.S. increased substantially, and U.S. foreign trade accelerated with the development of economic globalisation in 1995. Private capital outflows in the U.S. soared from 2% of GDP to nearly 6% of GDP, and private capital inflows increased by more than 9% of GDP in 1997 (Gamber & Hung, 2007). By 1999, stock prices had grown by 24% annually, and equity values had increased by $11.6 trillion. The total market value of American companies' outstanding shares rose to $17.1 trillion in 1999 (Kotz et al., 2003).

However, due to the rapid expansion of the asset scale of financial institutions, commercial banks urgently needed a comprehensive bank operation model that had the capability to infiltrate high-profit businesses such as securities. The business penetration trend of financial institutions in different fields became more apparent. By 1999, the total assets of U.S. financial institutions had risen to US $36,159.8 billion, while the share of assets of commercial banks had fallen from 31% to 16.6% (Ren, 2017). In the 1990s, the

total annual investment in finance, insurance and real estate increased to 25%, which caused the share of GDP in financial services in the U.S. to sharply increase and surpass that in the manufacturing industry (Fouskas & Gokay, 2015).

Moreover, the hegemony of the U.S. dollar allowed the United States to issue currency based on domestic economic goals without worrying about its balance of payment status and exchange rate level. The United States could promote the continuous depreciation of the U.S. dollar against its major trading partners' currencies to obtain more revenue. The United States' financial hegemony caused developing countries to become heavily dependent on the "dollar system", sacrificing their internal economic balance to maintain external equilibrium. Thus, other countries were forced to bear the pressure of balancing payment adjustments and actively preserving U.S. dollar exchange rate stability, which could not keep the country's currency sovereign and severely hindered its economic development and exacerbated global economic imbalances.

The overaccumulation crisis in the 1970s triggered the U.S. and other core economies to turn to financialisation and neoliberalism. The "Thatcher-Reagan Doctrine" not only realised the control of many Asian, African, and Latin American nations through the use of multinational capital but also included a plan to turn "countries into companies" and "companies into countries", which also caused the overall long-term interests of the country to often be overshadowed by short-term private interests. In this way, capital flowed smoothly from developed countries and the "global liberalism" goal of maximising global capital profits was realized. Extreme privatisation and marketisation depleted less advanced countries' interests and damaged those of some developed countries.

Here, the definition of financialisation is the pattern of accumulation in which profits are obtained primarily through financial channels rather than through trade and commodity production, which represents the "growing weight of finance in the U.S. economy" (Arrighi, 1994; Krippner, 2005).

The United States is the dominant economic power in global production and trade. Although the growth of its international capital flows is significant, this growth is characterised by exchange and interest rate instability, thereby leading to the financialization of developing countries (Lapavitsas, 2013). In addition, the impact of

financialisation on nonfinancial enterprises, especially on productive investment, is harmful. (Lazonick, 2013)

Financialization was a common theme in the post-1980 era in various industrialised countries (Sawyer, 2013). The increasing financialisation of the world economy led to greater imperial penetration into less developed economies and increased financial dependency, which is characterised by neoliberal globalisation policies (Foster, 2007). Neoliberal policies promoted by financial institutions and developed countries have increased economic interdependence and global market integration (Harvey, 2005). As emerging economies join the global financial system, they rely more on foreign capital, making them vulnerable to market fluctuations and international policies (Stiglitz, 2002). The increase in profit income was actually a result of the relocation of manufacturing activity (and associated income streams) outside the economic borders of the United States (Krippner, 2005).

The financial market in the U.S. was highly developed, and the U.S. dollar was the centre of the international monetary system, which enabled the U.S. to supply the world with low-risk, low-yield, and highly liquid assets (Huang & Xiong, 2009). However, contemporary capitalism is financialised, and the turmoil that began in 2007 was a financialisation crisis (Lapavitsas, 2013). The 2007 crisis involved speculative mortgage loans made to the most impoverished workers in the United States in the 2000s. Because most people rely on mortgage loans to purchase a house, the housing bubble price became the critical credit factor. Then, the government traded these loans in the global financial markets as "securitised". Once the housing bubble price had sharply decreased, people could not sell their houses to repay their mortgage loans, which caused losses to financial companies and other entities that bear mortgage-related assets and substantially reduced total household wealth, thereby causing damage to the real economy (Jarsulic, 2015).

Manufacturing is a key factor in the strength of the tradable sector and determines the global economic competitiveness of a country. However, the swift advance of global financialization has led to a further decline in the already waning manufacturing industry, causing economic growth to slow down (Atkinson, Stewart, Andes, & Ezell, 2012). The contribution of the service sector to GDP was augmenting by the day, yet sapping the productive capacity of the real economy. Globalisation seems to be making impossible

the avoidance of the development of a country's financial services, which include banks of all sorts, insurance, and accountancy companies, the list is long enough. As is always the case with capitalist development, neo-liberal globalization/financialization proved also to be a contradictory process. The liberalism of globalisation has not only harmed developing countries, former Eastern European bloc countries, and Russia, but also countries of the core, such as Britain, and the United States. Nevertheless, it has contributed to the economic rise of China. After China joined the WTO, it gradually became integrated into the global economic system. The rapid development of China's economy coincided with the rapid rise of unemployment in the manufacturing industry in developed countries such as the United States (Ebenstein, McMillan, Zhao, & Zhang, 2012).

2.6 Interaction between China and Western Economies

From 1958 to 1978, Western countries underwent significant changes: 1). Compared with the rapid economic development of Germany and Japan, the United States has experienced slower economic development due to a series of problems, such as a continuous decline in manufacturing growth and excessive accumulation. After the war, European countries signed the EEC treaty as a means of combatting the United States and the Soviet Union. However, because Japan was more dependent on the U.S., a series of trade treaties that Japan entered into with the U.S. needed to be more conducive to its own country; 2). To maintain its dollar status, the United States disbanded the Bretton Woods system and linked the dollar to oil, thereby consolidating its international position. Affected by the U.S. economy, Germany and Japan experienced economic downturns. During this period, the intervention of the United States government was mainly focused on fiscal, taxation, monetary, or government procurement. The enterprise ultimately determines the specific investment, production, and operation activities at play. Germany had a social market economy system, and Japan had planned economies and market economic systems in which medium- and long-term plans were applied as a means of intervening in macroeconomics.

During this era, the Chinese government pursued a development policy that was centred on industrialisation within a planned economy, which led to rapid industrial growth. State-owned enterprises that were focused on heavy industry became pivotal

contributors. During the period from 1953 to 1957, China initiated its first five-year plan, which had a primary emphasis on the development of heavy industry. However, while the planning goals were achieved, this approach led to agricultural neglect, resulting in a shortage of government funds due to excessive capital investment. This imbalance posed challenges for subsequent economic development.

This period also witnessed significant events such as the "great leap forwards" and the "Cultural Revolution". Additionally, strained relations with the Soviet Union contributed to a setback in China's economic development. Despite enduring heavy losses, China made notable progress. Aside from 1967 and 1968, positive growth was achieved in terms of the total output value of industry and agriculture. Food production was relatively stable, and the nation achieved significant milestones in industry, transportation, infrastructure, and science and technology. Overall, this era marked a period of tremendous achievements in the economic construction of the new China.

The 1970s were a time of economic hardship for Western economies, particularly the United States, as they faced stagflation—which is a situation of high inflation and unemployment. This economic environment has global implications. During Mao's era, China remained politically and economically isolated from the Western world, particularly from the United States. This was a result of ideological differences and Cold War dynamics. However, when Mao Zedong established the People's Republic of China, there was a significant policy shift towards industrialisation. Mao prioritised the development of industries in rural agricultural areas, aiming to collect and industrialise agriculture to promote the country's overall development. These policies changed the course of China's industrialisation, which had previously been centred primarily in coastal areas. Therefore, the manufacturing industry that grew during Mao's period laid the foundation for the subsequent reform and opening-up policy of Deng and the acceleration of globalisation in China.

The economic transformations witnessed over the past three decades, including the post-WW2 Economic Miracle, subsequent recessions, and subsequent economic reforms, are intricately linked to the evolving developmental needs of the Chinese economy. The Economic Miracle, characterised by rapid industrialisation and an export-oriented growth strategy. This era was marked by substantial investments in infrastructure, which formed

the basis for China's manufacturing prowess and export capabilities. The global economic growth after WWII set a precedent for rapid industrialization and modernization, which China observed and emulated in its own economic policies.

Moving to Deng Xiaoping's period in China, we can see that Deng's policies were aimed at opening up China to the global economy, attracting foreign investment, and stimulating economic growth. The "stagflation" crisis played a pivotal role in accelerating China's reform and opening-up process. Globally, the United States faced economic challenges that were marked by declining manufacturing growth and excessive accumulation. To sustain the dollar's status, the U.S. dismantled the Bretton Woods system, linking the dollar to oil to solidify its international standing. This economic downturn in the U.S. had a ripple effect, causing Germany and Japan to also experience economic downturns.

In addition, the success of the German economic miracle, driven by structural reforms and a focus on industrial output, influenced China's shift towards opening up and reform under Deng Xiaoping in the late 1970s. Inspired by the economic reforms in Western countries post-recession, China accelerated its own market-oriented reforms. These reforms were aimed at creating a more resilient and sustainable economic model that could withstand global economic fluctuations.

At this time, Western countries sought alternative strategies for enhancing profitability as a response to these challenges. In this context, China's opening-up policy emerged as a fitting solution. These reforms in China were propelled by the need to navigate and capitalise on the shifting global economic landscape under stagflation. As a result, China's proactive engagement with international trade and investment became a strategic response to the changing dynamics in Western economies. Overall, the stagflation crisis acted as a catalyst for China's transformative reforms and increased global integration.

In addition, although the development of global financialisation damaged the economic profits of Western countries, it has promoted the development of China's economy. Japan had the most significant bilateral goods trade deficit with the U.S. for many years until it was overtaken by China in 2000 (Morrison, 2018). After China joined the WTO, it was gradually integrated into the global economic system. The rapid

development of China's economy coincided with the rapid unemployment in the manufacturing industries of developed countries, such as the United States (Ebenstein, McMillan, Zhao, & Zhang, 2012).

Furthermore, Western countries had already perfected the development system and had carried out reforms, while China was still trying to explore the construction of an economic system. Technological innovation and industrial upgrading require expensive and high-risk R&D investment. The institutional innovation needed to adapt to new technologies and new potentials in industry generally involves a costly trial-and-error process, path dependence, and evolution (Lin, 2011). In contrast, a post-developed country eager to enter the forefront of global technology and industry can borrow technological, mechanistic, and industrial skills from advanced countries at low risk and cost. Therefore, if a developing country knows how to exploit the backwardness of its technology, industry, and socioeconomic systems, it can be several times faster than high-income countries in the first few decades before narrowing the income gap with these countries (Lin, 2011). China is a latecomer, so we look forward to understanding how China will develop in the future.

2.7 Conclusion

Western countries completed their industrial revolution reforms from 1949 to 1952. The Bretton Woods system, which was established by the U.S., established the status of the U.S. dollar in the international arena. During this period, U.S. manufacturing output led the world. However, after the war, the United States implemented the Marshall Plan to assist in the development of European countries. Nevertheless, it also solved the problem of its own excess production capacity and stabilised its international position.

The development of the U.S. economy was slower since its first signs of decline in the early 1960s when it first showed some substantive negative trends in its balance of payments. The economies of Germany and Japan, however, underwent rapid development. The U.S. signed the "Japan-U.S. Textile Agreement" to restrict Japan's economic growth and ensure a genuine interest in Japan-U.S. trade. Japan was forced to make considerable concessions, including the "voluntary export restriction".

The U.S. economy continued its decline and gradually lost market competitiveness. Therefore, to ease the deficit, the U.S., along with other countries (G7), signed the Plaza

Agreement to realise the yen's appreciation against the dollar to improve U.S. competitiveness and adjust the U.S. imbalance. However, this agreement caused Japan's domestic economic bubble to accumulate rapidly and ultimately collapse. Since 1990, the neo-liberal economy has been restructured through the cutting of public spending, the pursuit of free trade agreements, and the quest for a free market, which have helped the recovery of the U.S. economy. However, the U.S. stock market bubble also emerged because of excessive financial investment development.

The foundation of the construction of Western countries is the "inviolability of private property." In the U.S., the output value of state-owned enterprises and the employed population were approximately 2%. In Japan, state-owned enterprises maintain a primary focus on infrastructure, urban public utilities, resource and energy development, and the financial, insurance, and medical fields that are related to social security. This ratio has been between 5% and 10% since the World War. In Germany, the state-owned economy occupies an important position in the country, at more than 90%, particularly in terms of infrastructure construction, postal and telecommunications, communications, railways, water supply, and ports (Chen, 2009).

China's reforms during the period ranging from 1949 to 1997 are discussed in the next chapter, and we also discuss China's economic growth in the face of financialisation to reduce the risk of bubbles caused by the virtual economy of the future.

Chapter 3: Socialist Banking in China, 1949-1997

3.1 Introduction

Globalisation has significantly interlinked economies worldwide, and the Euro-Atlantic region is no exception. An iPhone, before exported from China, has its chips, batteries and parts produced in a variety of countries. Global production networks and their financialization have increased the complexity of global capitalism making its crisis ever more complex to be dealt with by policy-makers. Over the past 60 years, economic integration, trade agreements, and technological advancements have led to increased interdependence among the nations in this region. Economic decisions made by one country or central bank can have ripple effects across others due to trade relationships, financial markets, and capital flows. Therefore, the differences in economic policies within the Euro-Atlantic region are small. For instance, the raising of interest rates by the Fed can affect global capital flows and exchange rates. To mitigate potential disruptions and maintain relative stability, other central banks, such as the Bank of England and the ECB, might also adjust their interest rates in a comparable manner.

A consideration of the interconnectedness and interdependence of economies, especially within regions such as the Euro-Atlantic area, is crucial when analysing economic policies and their effects. The global economy is highly integrated, and decisions made by major economic players such as China and the USA can have far-reaching consequences beyond their borders. Policies related to trade, finance, and investment can significantly impact other regions and the world at large.

Coordination and collaboration among countries in response to economic changes and challenges are essential actions for maintaining stability and fostering sustainable growth. Moreover, aligning policies among major economies, such as those of the USA, the European Union, and China, has become increasingly important for mitigating adverse effects and ensuring a balanced global economic landscape. The Euro-Atlantic area, with its long history of integration and economic interdependence, is a notable example of how closely linked economies can be. Analysing and understanding these dynamics is vital to the ability of policymakers and stakeholders to make informed decisions that promote economic prosperity and stability on a global scale. In addition,

the evolution of China's economic policies and its integration into the global economy post-Mao are complex and crucial aspects in the understanding of modern global economic dynamics.

The speed of development in the Chinese economy had progressed more quickly than expected. In the last two decades, China's average annual GDP growth rate has been approximately 10% (Berger et al., 2010), and China has become one of the world's largest and fastest emerging economies. Some scholars predict that China is set to become the world's largest economy in the future. The reason for China's rapid development can be traced back to the U.S. globalisation program. Although the U.S. globalisation program served as its primary response to the crisis of excessive accumulation in the 1970s, it has ultimately benefited China more than the U.S. itself (Fouskas et al., 2020). Moreover, the policy of the Chinese government as it has become involved in global capitalism is based on claims of independence from, rather than dependence on, US capital and power. Therefore, the relationship between China and the U.S. differs from that between Japan and the U.S.

Because the stock market in China has been operating for 20 years and has only provided several minor services, Chinese banks play an essential role in providing financial resources, such as household savings, government deposits and transfers, and the financing of Chinese corporations (Berger et al., 2010). Banks are the decisive factor in the financialisation of capitalism and generate the characteristics of financialisation that are most closely related to the market (Lapavitsas, 2013). In addition, China's banking sector has also played a central role in China's financial intermediation. It has great global influence, so the development of China's banking industry has impacted countries outside of China (Cousin, 2011). Therefore, we cannot separate the research on Chinese banks when studying the economics of China.

In this chapter, the term "market" was employed to characterize the changing economic landscape during China's transition from a centrally planned economy to a more market-oriented system (Bao et al., 2023). We first introduce the economic reform of China and the development of the banking industry during Mao Zedong's period and then present the reform of the liberal economy and banking industry during Deng Xiaoping's period, as well as detailing the crisis that occurred during this period.

3.2 Overview of the Chinese Economy during Mao's Period

Before the founding of China in 1949, the long war destroyed the underdeveloped economy of China. After the People's Republic of China was founded in 1949, the primary task of the government was to restore and develop the national economy.

Mao Zedong proposed:

"We must quickly restore and develop production after the revolution so that China will steadily change from an agricultural country to an industrial country and build China into a great socialist country. The industrialisation problem can be solved only by establishing a socialist system. Our basic situation is poor, and our socialist economic system and political system can obtain its own relatively sufficient material basis (now, this foundation of material is still very inadequate) only through the full development of social productivity" (Sha, 2014).

Mao Zedong believed that China had to build a modern socialist country, guided by Marxism, to determine the direction and guidelines of the economic development of the new China.

China's new guidelines include an economic system that combines planning and market regulation based on multiple economic components. The primary policy was referred to as a planned financial system[6] based on Soviet experience in its economic

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[6] The definition of the planned economy in the "Encyclopedia of China" is as follows:

"The development law requires that the national economy be managed and regulated through mandatory and instructive plans. It was not only a system for managing the national economy but also an economical method, which was one of the basic characteristics of a socialist society" (Encyclopedia of China, 1999).

From the early days of establishing the planned economy, the Chinese government had seen the shortcomings of the planned economy. For example, Liu Shaoqi pointed out the failures of single-plan management as follows: "The characteristic of a socialist economy is a planned economy. However, the actual social and economic activities were complex. A national plan could not plan thousands, tens of thousands, or thousands of activities. " (Liu, 1985). However, the planned economy continued for more than 20 years and, in the 1950s, was gradually adapted to China's pursuit of high-speed industrialisation.

Although since 1956, Chinese leaders have presented many suggestions for improving the planned economy, the result was not impressive. There are two reasons that the government could not change the market economic system in the short term. First, the planned economy guaranteed a high accumulation rate that supported the accelerated economic growth under limited resources and established an industrial technology system based on the heavy industry (the Soviet Union provided assisted China in technology and planning management), as well as infrastructure systems such as transportation and water conservancy.

management system. However, this system encountered the issue of determining "how to deal with the relationship between the plan and the market". Therefore, in the 1950s, China's economic system gradually shifted its emphasis from planning and the market to a planned economy as characterised by separating market mechanisms from financial operations (Wu, 2014).

The planned economy during the first 30 years of the new China went through three stages: the first stage ranged from 1949 to 1952, and it was the stage in which conditions were created for the establishment of a planned economy; the second stage ranged from 1953 to 1957, and it was the stage in which the planned economy was formed; and the third stage ranged from 1958 to 1978, and it was the completion of the formation of the planned economy.

3.2.1 First Phase of Development (1949-1952)

Anon (1996) posited that if China wants to gain true independence, it must achieve its own industrialisation. This idea was similar to the perspective of Mao Zedong. Mao believed that the main reason for the backwardness of China was the absence of new industries. He also emphasised that the economic development of China should be focused on industrial production based on the current social and economic structure (Ouyang, 2016).

Before the founding of the new China, the proportion of industry in the Chinese economy was insufficient. According to the "September Conference" of 1948, industrial production accounted for almost 10% to 20% of the national economy, and the production volume of the machine industry accounted for up to 10% to 20% (Committee, 1993). At the Second Plenary Session of the Seventh Central Committee of the Communist Party of China, Mao Zedong conducted a conclusive analysis of the social and economic structure. He said, "The proportion of China's industry in the national economy was approximately 10%, and agriculture and handicrafts account for approximately 90%" (Anon., 1991).

Second, the people's essential life and social stability were guaranteed, except in a few abnormal periods. (Wu, 2014)

In the early 1950s, China set the development of heavy industry and industrialisation as its top priority. However, in the case of an extreme shortage of funds, China had to rely on the government for the allocation of resources. The government focused on industrial construction under the planned economy and distributed grain, cotton, steel, coal, cement, and electricity as a means of allocating limited resources to achieve maximum utilisation. (Wu & Sui, 2010)

The Communist Party created a relatively stable state-owned economy in 1949. The main economic policy of China was to "pay equal attention to public and private to benefit workers and enterprises" (Wu & Sui, 2010). However, the state-owned economy did not have an overwhelming advantage over the private economy. It was even smaller than the private economy. In 1950, the private economy still accounted for 52% of the total industrial output, 85% of total commercial retail sales, and 33.47% of the total foreign trade (Dong, 1996).

By the end of 1952, the output of China's major industrial products greatly exceeded its highest level of production before 1949. In 1952, steel production increased by 7.54 times compared with that in 1949, which was 46.3% higher than the highest level up to that point; pig iron increased by 6.72 times compared with that in 1949, which was a 7.2% increase from the highest level up to that point. Crude oil, cement, electric power, raw coal, etc., all exceeded their highest historical outputs (Dong, 1996).

However, the advantages of the state-owned economy were more evident due to the government’s control of strategic industries. When China first established its state-owned economy, it concentrated on heavy and high-end industries that private companies had been previously unable to set foot in for a long time. Therefore, by the end of 1952, the share of private enterprises in total industrial output had fallen to 39%, commercial wholesale sales had dropped to 36.3%, retail sales had fallen to 57.8%, and import and export trade had shrunk to 6.98% (Dong, 1996). The government made direct use of the state-owned economy's power to construct infrastructures, such as those for transportation, water conservancy, energy, raw materials, and machinery industries, through administrative orders. The state-owned economy gradually exhibited more eye-catching development.

With state-owned enterprises set as the main construction goal, China significantly

restored and developed its heavy industry during the period from 1949 to 1952. By the end of 1952, the proportion of the state-owned economy in the entire national economy had overwhelmed that of the private economy.

3.2.2 Second Phase of Development (1953-1957)

The primary goal of the "First Five-Year Plan" (1953-1957) was to focus on industrial construction, which included 694 large and medium-sized construction projects (156 of these construction projects were designed by the Soviet Union) (Gov. CN, 2005). To achieve this goal, China learned advanced technology from the Soviet Union in 1953 with which to achieve economic growth.

After 1955, Mao Zedong suggested that the government develop heavy industry at the top. China's industrialisation essentially followed the Soviet Union's precedents, from emphasising capital-intensive and concentrated heavy industries that took steel as their core to the single-person management of state-owned chemical plants. Moreover, the government has noted that China needs to develop collectively-owned agricultural production cooperatives as the basis for the socialist transformation of agriculture and handicrafts.

At the end of 1956, China had completed its socialist transformation of agriculture, handicrafts, the capitalist industry and commerce and established public ownership and a planned economic system. This financial situation marked the beginning of China’s stage of building socialism. On the one hand, China was already a socialist country according to its public ownership, planned economy, and labour distribution. On the other hand, China was still a large, unevenly developing country with a large population (Wu, 2014). Therefore, in March 1957, Mao Zedong proposed, "We must build a socialist country with modern industry, agriculture, and science and culture. "

During the "First Five-Year Plan" period, China's total industrial output value increased by 10.9% annually, and its national income increased by 8.9% (Wu & Sui, 2010). The proportion of the entire national income of state-owned, cooperative, and public-private partnership economies rose to 92.9%. In five years, China had completed 55 billion yuan in capital construction and added 46.05 billion yuan in fixed assets; the total industrial output value increased by 128.6%. Over five years, the total steel output

increased to 16.56 million tons, which was an increase of 218%. Coal production reached 131 million tons, showing an increase of 98%. (Gov. CN, 2005)

China launched large-scale economic construction from 1953 to 1957 and laid the preliminary foundation for industrialisation. These projects increased the productivity of China and have rapidly improved the technological level in China's industrial sectors. Like industrialisation, the government promoted the socialist transformation of cooperative and public-private partnerships for individual agriculture, handicrafts, and capitalist industry and commerce and gradually established a planned economic system (Dong, 2011). The first five-year plan was decisive in accelerating China's economic growth in the 20th century.

However, the socialist transformation of China was too brief and too fast, causing issues that lingered for a long time. The apparent problem in implementing the first Five-Year Plan was that agricultural production could not catch up with industrial output. The policy ignored the development of agriculture. Moreover, overall rash progress strained national finances. The total capital construction investment was 14.735 billion yuan, representing an increase of 70% over the previous year. The proportion of capital construction loans in fiscal expenditures increased from 30.2% to 48% (Gov. CN, 2005). In addition, the United States almost completely cut off trade, aid, and investment in China at the beginning of the Korean War. Therefore, China's first five-year plan relied heavily on technical assistance from the Soviet Union and Eastern Europe. This situation led to a catastrophic situation in China. (Selden, 1988)

3.2.3 Third Phase of Development (1958—1978)

"Three Red Flags" was the most far-reaching political term in China from 1958 to

1978. Its three main contents were the Great Leap Forward[7], the Cultural Revolution[8] and the People's Commune[9]. During this period, China experimented with taking its great leap forwards, which ultimately had painful consequences, subsequently forcing significant adjustments in the national economy.

In 1958, China launched both the "Great Leap Forward" and the "People's Commune" movements to rapidly accelerate its economy. The government used these movements to create the illusion that China had solved its economic problems. Based on this illusion, the government made a series of unfortunate decisions. One such decision was to put the work of the entire party into industry (iron and steel) (Bo, 1993). Due to the severe shortage of raw materials in China, the government relied on a large amount of labour to alleviate the poverty of capital and raw materials. Ultimately, China did not achieve the goal of steel production and much that work went to waste. The "Great Leap Forward" sets unrealistic industrial growth targets. (Wu & Sui, 2010)

In 1960, Sino-Soviet relations entered a period of extensive deterioration. The Soviet Union unilaterally tore up its economic contract and withdrew all its experts, which caused severe difficulties in China's construction. Then, the relationship between China

[7] With the “great victory of socialist transformation” arising from the First Five-Year Plan, the Chinese Communist Party set a goal of catching up with and surpassing Britain (in 15 years or less). China determined the values of high industrial and agricultural production indicators and proposed that the steel output should be doubled from 5.35 million tons in 1957 to 10.7 million tons in 1958. This goal was the primary step in achieving the "Great Leap Forward". At the same time, transportation and other initiatives also conducted extreme development campaigns, pushing the "Great Leap Forward" movement to a climax. It was not until the winter of 1960 that the Central Committee of the Communist Party of China and Mao Zedong began to correct the plan, and the "Great Leap Forward" was ended. The "Great Leap Forward" led to a severe imbalance in the proportion of the national economy and caused heavy losses to socialist construction (Gov. CN, n.d.(b)).

[8] The "Cultural Revolution" refers to the political movement initiated and led by Mao Zedong in China from May 1966 to October 1976. The two ideological trends appeared within Chinese political parties and eventually brought severe disasters to the country. The revolution is divided into three stages:

1) The "Cultural Revolution" began in May 1966, and it was characterised by "doubt about everything".

2) In the second stage (1966-1973), Zhou Enlai presided over the daily work of the Central Committee, which broke the Lin Biao counterrevolutionary group (During this period, Lin Biao, as the successor to Mao Zedong, issued an armed coup in an attempt to murder Mao Zedong).

3) From the tenth National Congress of the Communist Party of China in August 1973 to October 1976, the Communist Party of China smashed the "Gang of Four" formed by Jiang Qing, Zhang Chunqiao, Yao Wenyuan, and Wang Hongwen. (After Mao’s death, the “Gang of Four” attempted a coup.) In August 1977, at the 11th National Congress of the Communist Party of China, the Party Central Committee officially announced the end of the "Cultural Revolution" (Gov. CN, n.d.(b)).

[9] All property shall be handed over to the commune; “a grain supply system is implemented. Regardless of the number of labours in the household, all members can receive free grain supply by the food standards set by the state and the family population” (Gov. CN, 1995).

and the Soviet Union gradually began to deteriorate.

By 1961, natural disasters had caused a sharp fall in agricultural production, triggering great famine and many deaths. Moreover, the "Great Leap Forward" and the "People's Commune" movement also worsened the Chinese economy. Within three years, agricultural production had fallen by 22.8%. The excessively high accumulation rate caused resident living standards to drop by 4.9% annually, leading to a sharp increase in the national fiscal deficit (Wu & Sui, 2010). The industrial value decreased from 1961 to 1962, with a cumulative decline of 47% (Hu, 2007).

The Chinese government adjusted its agricultural, light, and heavy industry sectors to achieve more balanced development during the following years. After the Great Leap Forward, Mao Zedong and other leaders stopped implementing extreme economic measures (Selden, 1988).

At the Tenth Plenary Session of the Eighth Central Committee of the Communist Party of China in September 1962, Mao Zedong proposed the "agriculture-based and industry-led" idea. In 1963, he officially identified it as the "general policy for developing the national economy." He clearly stated that China should "build the country into a great socialist country with modernisation in agricultural, industrial, national defence, and science and technology." Accordingly, in December 1964, Zhou Enlai formally proposed the following task at the Third National People's Congress: "1) China needs to establish an independent industrial system and national economic system; 2) China also needs to fully realise the importance of agriculture, industry, national defence, and the modernisation of science and technology to place the Chinese economy at the forefront of the world" (Sha, 2014).

In 1965, the output value of agriculture increased by 42.2%, the output value of light industry increased by 27.5%, and the output value of heavy industry decreased by 37.2% (Wu & Sui, 2010). However, the Cultural Revolution began in 1966, and it further hindered China's economic development process. The average annual GDP growth rate was only 3.3%, which was lower than the level of 6.9% reported during the "First Five-Year Plan" period; productivity decreased from 4.1% to 1.2%, which was the lowest level in the history of the new China (Hu, 2007). The annual growth rate of the total industrial and agricultural output was 7.1%, which was lower than the 8.5% growth rate of the

previous fourteen years. In 1967 and 1968, there was negative growth in GDP, with the nadir of 5.7% occurring in 1967 (Li, 1984). The Cultural Revolution caused heavy losses in the Chinese economy and slowed its development.

Due to a lack of experience, the economic development of the new China underwent two severe setbacks during the "Great Leap Forward" and "Cultural Revolution" period.

Although the economy of China suffered heavy losses, the policies proposed by Mao during this period still led to some progress:

1. The relatively basic industrial projects were gradually completed, beginning in the "First Five-Year Plan" period. China has not only been able to design and mass-produce cars, aeroplanes, and tractors on its own but also successfully tested atomical and hydrogen bombs, as well as trial-producing and successfully launching medium- and long-range missiles and artificial satellites (Sha, 2014).
2. Aside from the years of 1967 and 1968, the total output value of industry and agriculture achieved growth, and food production maintained relatively stable growth (Wu & Sui, 2010).
3. Mao Zedong also proposed actively developing foreign economic relations in China: "Learning from foreign countries is a good thing. However, China cannot learn blindly or copy everything from foreign countries. This idea includes 1) developing foreign trade in China based on the “equality and mutual benefit” policy and 2) learning advanced foreign science and technology and analysing the economic development of foreign countries.

During this period, China's economic construction achievements were enormous. For example, the American historian Maurice Meissner said: The era of Mao Zedong is one of the greatest modern eras in the world. “China achieved the highest growth rate among all developing countries in the world in the same period” (Sha, 2014).

The modernisation of China began in earnest in 1953 with the first five-year plan of Mao. After nearly ten years of exploration, the Chinese government had summarized the goals and development strategies of socialist construction that were suitable for China’s conditions. Historically, China's industrialisation began early in coastal areas, and as a result of foreign trade, many modern industries developed in coastal cities. However, after the founding of the People's Republic of China under Mao Zedong's leadership, the state

adopted a policy of concentrating on industrialisation, with the aim of establishing a foundation for heavy industry in the agricultural hinterland. This period is referred to as the “Great Leap Forward” and the “People's Commune” period. In this way, Mao Zedong hoped to realise the collectivisation and industrialisation of rural agriculture to promote the country's overall development.

3.2.4 China and Western Countries during Mao’s Period

During the focal period, Western countries underwent significant industrial reforms. These changes solidified the U.S. dollar's international dominance via the Bretton Woods system, thereby profoundly impacting the global economic landscape. The U.S. led global manufacturing output, and they implementing the Marshall Plan to aid postwar European development while addressing their domestic excess production capacity. Despite continued U.S. economic growth, signs of decline began to emerge in the 1950s, marked by manufacturing contraction and excessive accumulation.

In contrast, Germany and Japan experienced rapid economic development. In the U.S., Japan's growth was restricted by the "Japan-U.S. Textile Agreement," which included "voluntary export restrictions." Simultaneously, European countries, and notably the constrained Japan, signed the EEC treaty to counterbalance U.S. and Soviet influence. The U.S. dismantled the Bretton Woods system to preserve the dollar's status, pegging it to oil and thereby reinforcing its international standing. The economic challenges facing the U.S. influenced Germany and Japan, causing economic downturns in those countries.

Notably, due to a lack of intricate connections, China's economic development was limited by Western stagflation during the last ten to fifteen years of the Mao era. The described geopolitical and economic shifts contributed to global dynamics but also constrained the direct effects on China's economy. During the Cold War era and ideological differences of the 1960s and 1970s, China's interaction with Western nations was limited. However, China maintained some level of engagement despite these restrictions. Initially, after the establishment of the People's Republic of China (PRC) in 1949, a close alliance with the Soviet Union and the socialist bloc was formed. However,

as the 1950s and 1960s progressed, the relationship between China and the Soviet Union became strained, leading to a more contentious approach.

During the 1970s, the global environment underwent positive changes in favour of China. Developed countries began to establish diplomatic relations with China, which led to China regaining its lawful seat in the United Nations in 1971. One significant highlight of this decade was the establishment of diplomatic relations between China and the U.S. in 1972, following an agreement between Henry Kissinger and Mao over the ending of the Vietnam war. Moreover, in 1975, China and the European Community established official economic and trade relations.

Moreover, China's economy was largely isolated from the West during this period, but it still strove to establish an independent foreign trade system. China's trade with Western countries, such as the United States, Germany, and Japan, was limited but not nonexistent. For instance, between 1972 and 1977, China imported more than 222 machinery and equipment items worth $3.96 billion from more than 10 developed countries, including the US and Japan. (Liu, 2019,9 30)

3.3 Overview of the Chinese Financial and Banking System under Mao

The Chinese banking sector gradually developed from 1949 to 1978. The development of the banking industry can be divided into three stages:

3.3.1 First Phase of Development (1949-1956)

In September 1949, the “Organic Law of the Central People’s Government of the People’s Republic of China” established the legal status of the People’s Bank of China (PBOC) as the National Bank. The function of the PBOC was not only to establish an economic organisation to operate the national financial business but also to undertake the responsibility of issuing currency and regulations for the institution. During this period, the establishment of the PBOC promoted the recovery of the national economy and served as preparation for large-scale economic construction. In 1952, the Bank of China and the Foreign Business Department of the PBOC were jointly operated, and the Bank of China retained only the brand. The Bank of Communications and the People’s Insurance Company of China were placed under the control of the Ministry of Finance from the PBOC. Furthermore, the newly established Agricultural Cooperative Bank was abolished.

During the “First Five-Year Plan” period ranging from 1953 to 1956, the financial

system became centralised, and the banking industry implemented the principle of credit concentration (Zhuo, 2019).

In 1954, the People's Construction Bank of China was established to manage fixed asset investment. In 1955, the Agricultural Bank of China was established. Due to business conflicts with the PBOC, this bank was abolished in 1957, when the PBOC established a rural financial management department to manage rural financial business. In 1956, public–private banking was incorporated into the PBOC system, thereby forming a "unified" banking system. In 1958, the Bank of Communications became a functional member of the financial department (Zhao, 2021). By 1957, China's economic system had developed into a highly centralised and unified "great unification" system[10].

3.3.2 Second Phase of Development (1958-1976)

In the second phase of development, China experienced the "Great Leap Forward," as well as three years of severe natural disasters that occurred from 1958 to 1962. During this period, the government put less of a focus on regulating the banking industry, which led to credit getting out of control and the government issuing excessive cash. The banking industry was destroyed, so the Central Committee decided to rectify the national economy. After rectification, the national economy returned to normal. However, from 1966 to 1976, China's banking industry was hit hard by the Cultural Revolution. In the ten years of the Cultural Revolution, the banking system was abolished, and banking could not occur normally. The commercial and financial institutions were also abolished, and the PBOC was merged with the Ministry of Finance.

3.3.3 Third Phase of Development (1976-1978)

The banking system began to recover during the third phase of development. In December 1977, the State Council held a national banking work conference and decided to restore the independent organisational system of banking and emphasise the importance of the role played by banks. The contents of the banking reform is described in detail in the section titled 'Reformation of the Chinese Economy during Deng's Period' (Zhuo, 2019).

[10] The main characteristics of the "great unification" financial system included the merging of all kinds of commercial banks and financial institutions into the PBOC system. The PBOC became a national credit centre, a settlement centre, and a cash cashier centre (Zhao, 2021). In summary, the PBOC was not only a central bank but also handled commercial banking business.

The “great unification” financial system suited the economic plan of the new Chinese government, and this banking system helped the economy recover. The data show that in the “First Five-Year Plan” period, the deposits received by the bank increased from 9.33 billion yuan at the end of 1952 to 16.55 billion yuan at the end of 1957, which played an important role in solving the shortage of funds needed for economic construction. In 1977, the total industrial output value increased by 14.3%, fiscal revenue increased by 12.6%, and the bank deposits and loans increased by 7.88%, thereby reversing the excessive currency issuance that had gone on for six years. (Zhang, et al., 2021)

The single, highly controlled financial model was reasonable for China's extreme capital shortage period. Strongly influenced by Marxism-Leninism, this financial system was conducive to the concentration of resources and funds for the construction of infrastructure and large industrial projects.

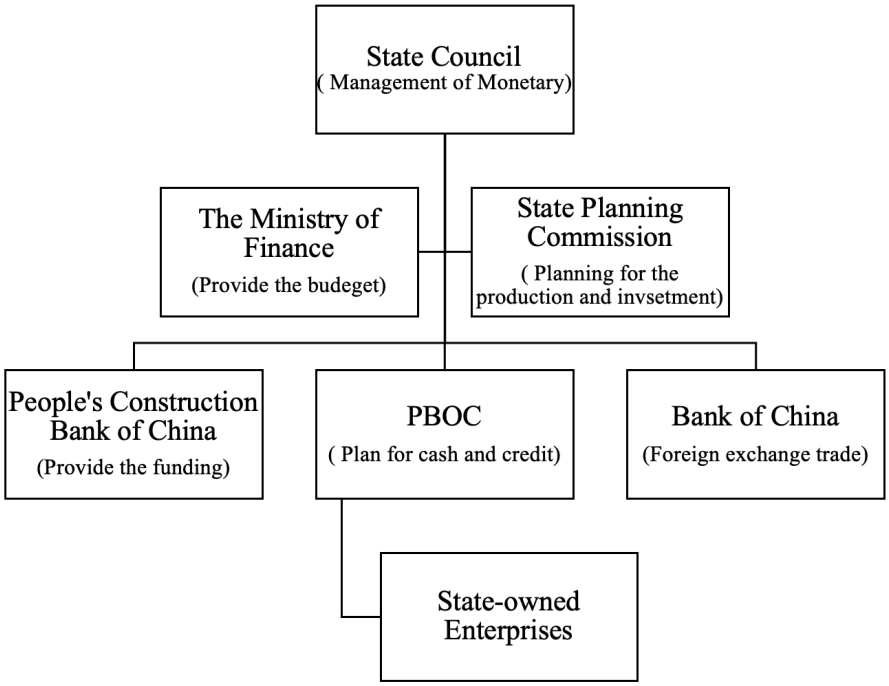
However, the system still had many shortcomings. As the only form of property, the Chinese government controls the distribution of social resources. Therefore, the PBOC, as an auxiliary institution of the Ministry of Finance, had no source or demand for loans. It was neither an actual central bank nor a real commercial bank. The 2018 Jingshan Report stated, “From 1949 to 1978, the PBOC was the only formal financial institution in China, accounting for 93% of the country’s financial assets” (China Finance 40 Forum, 2018).

Before the reform and opening up, banks were regarded as accounting, cashiers, and financial management organisations due to the limitations of the planned economic system. Deng Xiaoping noted that “the reform of the financial system should be enormous. Banks should become real banks to develop the economy and innovate technology” (Zhang et al., 2021).

Figure 3.9 shows the financial system in China from 1949 to 1977.

Figure 3.9[11] The Financial System in China from 1949 to 1977

[11] Author’s own elaboration of Data from iyiou.com



3.4 Reformation of the Chinese Economy during Deng's Period

3.4.1 China and the Western Countries

The "stagflation" crisis in the 1970s led to a sharp rise in global energy prices, which significantly impacted China's economy. At this time, China's planned economic system had several drawbacks, including the unreasonable allocation of resources and low efficiency. Additionally, China faced a series of internal challenges, such as population growth and employment pressure. These problems led the Chinese leaders to recognise the need to reform the economic system in response to external and internal pressures. In light of this, in 1978, China began to implement the "reform and opening-up policy"[12] led by Deng Xiaoping. The "stagflation" crisis accelerated the process of Chinese reform and opening up to a certain extent.

Globally, the United States has begun experiencing slow economic rates of growth because of a continuous decline in manufacturing growth and excessive accumulation of capital – a typical over-accumulation crisis as analysed by classic Marxist theory in Marx's *Capital*. The market condition was that of a devalued capital and labour pushing for declining rates of profit and valorisation (Marxists Internet Archive, 2007). To

[12] The "reform and opening-up policy" was initiated at the Third Plenary Session of the Eleventh Central Committee in December 1978. The policy includes two main concepts: 1). reforming the domestic economy, and 2). opening the "door" to the outside.

maintain its dollar status, the United States disbanded the Bretton Woods system and linked the dollar to oil to consolidate its international position. Affected by the U.S. economy, Germany and Japan experienced economic downturns. Western countries have tried to find another way to increase the value of profits. The rise of global financialisation has presented challenges for Western countries, impacting their economic gains. However, this phenomenon has positively contributed to the development of China's economy.

In addition, Deng Xiaoping recognised the inadequacies of China's economic model and drew inspiration from Western market-oriented approaches to overcome the challenges faced at the time. This was the context under which China's opening-up policy emerged. In his era, Xiaoping implemented policies to foster FDI, establish special economic zones (SEZs), and transition towards a more market-driven economy. These reforms were a significant departure from the centrally planned economy and were aimed at leveraging market mechanisms for economic growth and development. The objective was to modernise and revitalise the Chinese economy by incorporating market principles, which led to substantial economic growth and development.

3.4.2 Internal Reform Policy

The internal reform of China began with agriculture. There were two significant events in the early years of reform.

The first event was the collapse of the "people's communes", which were replaced by the "quotas for every household" policy. The people's commune system required that all capital be handed to the commune for unified distribution. Therefore, people's work was the same, which negatively affected people's motivation and made production extremely inefficient. This situation led to famine in China over the long term. A series of agricultural reforms, such as the "quota system", have been established to return responsibility and rights to people. People who contract state land can choose what to grow, and the surplus can be kept for themselves or traded in markets. The "more your work, the more you can obtain" quickly reversed the famine of China, and the emergence of a free market lifted millions of farmers out of poverty. During this period, the proportion of primary industry in China's gross national product rose rapidly. In 1984, the percentage of primary industry reached 32%, which represented an increase of 28% from that in 1978. (Development Planning Department of the National Development and

Reform Commission, 2005)

The Third Plenary Session of the 12th Communist Party of China (CPC) Central Committee, which was held in October 1984, adopted "The Decision of the CPC Central Committee on Economic Restructuring", thereby affirming that the economy of China was a planned commodity economy based on public ownership, and economic reform focused on cities officially began. This meeting marked the reform of the Chinese economy, which shifted from a rural to an urban economy (Gov. CN, n.d. (c)).

The second event was the emergence of self-employed individuals and the private economic sector. Towns that had undertaken agricultural reform began to encourage the establishment of self-employed and private economies. An increasing number of people chose to give up their steady jobs and go to cities to be self-employed. This added great vitality to the economy at the beginning of the Chinese reform. From 1978 to 1986, the number of individual companies grew gradually. The number of households grew from 140,000 in 1978 to 12.11 million in 1986, employing 18.46 million people and achieving registered capital of 18 billion yuan (Gov. CN, 2012).

Moreover, the 13th CPC National Congress report held in 1987 noted that a "diversified ownership economy should be developed under the public ownership that was the main structure". This practice demonstrated that developing the private economy was beneficial the promotion of production and activity in the market and the expansion of employment. This practice served as a necessary and beneficial supplement to the public sector of the economy (Lin, 2019). In August 1987, the Regulations on the Administration of Self-employed Industrial and Commercial Households in Urban and Rural Areas were promulgated, providing an essential policy and legal basis for the development and management of the self-employed private economy. The future of the private sector began to change. From 1987 to 1999, the individual economy grew at an average annual rate of 7.2%. From 13.73 million self-employed households, 21.58 million employees and 23.6 billion yuan of registered capital in 1987, the figure rose to 31.6 million households, 62.41 million employees and 343.9 billion yuan of registered capital in 1999 (Gov. CN, 2012).

A joint-stock system was created with individual, private, and foreign capital economic participation. In the early 1980s, joint-stock enterprises were just small

cooperative enterprises. From 1984 to 1986, some enterprises broke the boundaries of regions, departments, and ownership and set up various economic enterprises. Moreover, a few enterprises began to transform old state-owned businesses into share systems for the establishment of new shares. By 1988, there were more than 6,000 joint-stock enterprises in China, which represented more than 6 billion yuan. By the end of 1991, China had issued 4.6 billion yuan of shares, and the government-owned 59.9% of the claims, while the other 26% and 14.1% were owned by corporations and individuals, respectively (Lin, 2019).

3.4.3 Opening Up Policy

In addition, China comprehensively promoted its opening-up policy to attract foreign investment. To entice foreign investors, China implemented preferential policies such as exemption from import duty for machinery and equipment, spare parts, raw materials, and transportation used in production. These policies were first introduced in China's SEZs, coastal open cities, and coastal economic open zones between 1979 and 1988. On 15 July 1979, the central government officially approved Guangdong and Fujian to implement special foreign investment policies. Shenzhen, Zhuhai, Shantou and Xiamen continued to open up as SEZs in 1980. On 18 February 1985, the CPC Central Committee and the State Council decided to open up coastal economic zones in the Yangtze River Delta, the Pearl River Delta and the Golden Triangle of Southern Fujian. On 18 March 1988, the State Council expanded the scope of the coastal economic open zone and decided to open Hangzhou, Nanjing, Shenyang and 140 other cities, as well as the Liaodong Peninsula and the Shandong Peninsula. The First Session of the Seventh National People’s Congress (NPC) was adopted to establish Hainan Province as the Special Economic Zone in the same year. In 1990, the Shanghai Pudong New Area was established and opened, thereby initiating a new opening-up stage in China.

Due to the opening-up policy, the import and export volume in China expanded rapidly, exceeding $10 billion in 1979 and $50 billion in 1989. In 1978, the import value reached $10.89 billion, it exceeded $20 billion in 1980, and it exceeded $50 billion in 1988 (Stats. Gov. CN, 1999). From 1979 to 1991, China used a total of $82.6 billion in foreign capital, and two-thirds of that amount was used for various kinds of foreign loans (Liu, et al., 2007). Although the scale of imports and exports expanded during this period,

the role of foreign investment in China was not prominent prior to 1987. In 1981, the export value of foreign investment companies accounted for only 0.1% of the total export value, and the import value accounted for only 0.5% (Stats. Gov. CN, 1999).

During this period, China maintained a focus on the construction of its economy and continuously promoted the opening-up policy. At this stage, China gradually learned advanced management experience and technology from developed countries in Europe and the United States, attracting foreign investment in advanced equipment. The symbol for promoting the development of opening-up in China was Deng Xiaoping's Southern Talk[13], which occurred in 1992 (Cai & Li, 2019). This talk provided the political foundation for China to develop foreign investment and integrate into economic globalisation. Based on this discussion, the government implemented several economic policies regarding the opening-up initiative to encourage foreign investment and proposed strategies such as "winning by quality" (Wu & Sui, 2010). These policies opened a new chapter in the economy of China regarding foreign trade.

However, in the era of Mao Zedong, the country invested a large amount of resources in agricultural inland areas for industrialisation; due to various policy and economic problems, the actual effect did not occur as expected. Under the subsequent reform and opening-up policy, China gradually implemented a more open economic policy by allowing coastal areas and the mainland to participate in industrialisation and economic development, thereby achieving a more balanced development pattern. Over time, China's industrialisation has gradually been expanded nationwide.

3.5 Reforms of the Chinese Bank

After the Cultural Revolution, China began to rethink the role of banks. Since the reform of rural areas, most funds have been transferred from central to private areas, and the savings of rural people have increased. Moreover, enterprises expanded their

[13] At the beginning of 1992, Deng Xiaoping offered "one central task and two basic points" during his inspection in south China. One of the essential ideas of the South Talk was to change the traditional concept in China that a market economy is a capitalist economy and to increase the acceptance of a market economy in Chinese society. Deng Xiaoping pointed out: "To establish a socialist market economic system, we need to absorb from all the advanced operations in the world, including the developed capitalist countries" (Cai & Li, 2019).

autonomy in urban operation and left more money for their corporations. Therefore, difficulty was encountered in the government's financing efforts difficulties with available funds; thus, social funds had to be pooled through banks. Liu (2010) concluded that "There was more money after the economic system reform, but it was dispersed. Therefore, the financial institutions should be used to regulate it".

In November 1978, the Third Plenary Session of the Eleventh Central Committee proposed reforming the economic management system of China. Therefore, in February 1979, the State Council noted that "the PBOC is the hub of the national capital and the link of the national economy. China must pay more attention to improving the role of banks and learn how to use banks to promote the rapid development of the national economy" (Liu, 2013). At this point, China began to reform its financial institutions. The monopoly in the banking business of the PBOC initially changed. Moreover, in 1979, China approved the first foreign banking institution, the Bank of Japan Export and Import (which is now the Bank for International Cooperation), which agreed to establish a representative office in Beijing. This set a new precedent of foreign banks entering the Chinese financial market (EO intelligence, 2020), and a diversified financial system emerged.

With the approval of The State Council, the PBOC became independent of the Ministry of Finance and formally performed the functions of the central bank on 28 August 1979. In that same year, the Agricultural Bank of China was revived; the Bank of China was separated from the PBOC, and the People's Construction Bank of China was separated from the Ministry of Finance. These three banks were transitioned into specialised banks. On 17 September 1983, the State Council issued the Decision on the People's Bank of China to Exclusively Exercise the Functions of a Central Bank, thereby officially announcing the central banking system of the PBOC. The Industrial and Commercial Bank of China (ICBC) was officially listed on 01 January 1984 to undertake the industrial and commercial credit and savings business that was previously handled by the PBOC.

In a critical ordoliberal manner, the CPC Conference held in October 1985 stressed the position and independence of the PBOC as the central bank: 1) The PBOC should control the money supply and loan scale through credit plans, financial policies, foreign

exchange policies, credit interest rates, exchange rates and so on, as well as monitoring inflation and economic development; 2) All financial institutions became required to follow the leadership of the PBOC to promote the gradual formation of the capital market (Liu, 2013). A new financial system based on the economic planning system was formed. The businesses of four central professional banks (the Big Four)[14] were divided into rural areas, foreign exchange areas, capital construction areas and industrial and commercial enterprises.[15]

With the deepening reform of the Chinese financial system, the critical goal of the banking reform was to transform the "big four" into state-owned commercial banks. Therefore, joint-stock commercial banks were created to provide an external environment in which the "big four" could transform into commercial banks. In July 1986, the State Council approved the Bank of Communications as the first joint-stock Chinese commercial bank.

Before establishing the Bank of Communications, large banks were state-owned and were strictly divided in regard to their business scopes. The joint-stock Bank of Communications overcame the limitations of the traditional division of specialisation and provided new services for society. Moreover, unlike the head offices of major professional banks in Beijing, the Bank of Communications was located in Shanghai and positioned under the highly centralised banking management system. Changing banking industry areas became conducive to the formation of diversified competition patterns.

More joint-stock banks were established after the establishment of the Bank of Communications. In April 1987, the China Merchants Bank, founded by Hong Kong China Merchants Group Co., Ltd., was established in the Shenzhen Special Economic

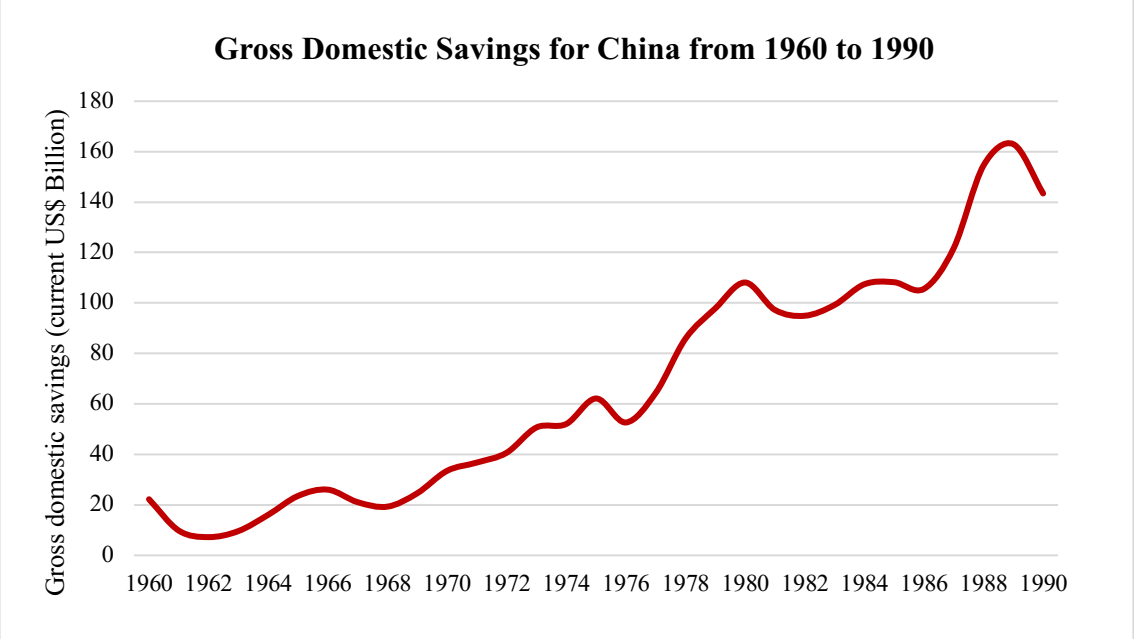
[14] The "Big Four" Banks: The Agricultural Bank of China; The Bank of China; The People's Construction Bank of China; and the ICBC

[15] The main job of the Big Four Banks was to collect deposits from individuals and companies and use those deposits to provide working-capital loans to state-owned companies (SOEs) (Wu & Sui, 2010). For instance, the main task of the Agricultural Bank of China is to unify the management of agricultural funds, centrally handle rural credit, lead rural credit cooperatives, and develop financial projects for rustic areas. The Bank of China was a professional foreign exchange bank designated by the state. The People's Construction Bank of China became a professional sponsor of fixed asset investment loans. ICBC undertook the commercial credit and savings business that was initially handled by the People's Bank of China.

Zone. Since then, 12 joint-stock commercial banks, including Minsheng Bank, China Guangfa Bank and China Everbright Bank, have gradually been founded (Meng, 2019). The rapid development of joint-stock commercial banks broke through the limitations of the regions, and the country began to transform from a "regional commercial bank" to a "national commercial bank" (Zeng, 2019).

Since the reform and opening-up, China's foreign exchange reserves have grown substantially, transforming China from a short foreign exchange reserve country to the world's largest foreign exchange reserve country. In 1978, China's foreign exchange reserves were only $167 million, ranking 38th globally, with only $0.17 per capita. From 1978 to 1988, the average annual growth rate of household savings deposits exceeded 30%. In 1988, the balance of household savings deposits reached 3802 billion yuan, which was 18 times that in 1978 (Wu, 1999). In addition, with the reform and development of the Chinese foreign economy, foreign exchange reserves exceeded 10 billion US dollars in 1990(Gov. CN, 2013). The first stage of changes in saving profiles occurred between 1988 and 1990 (Yang et al., 2012). As shown in Figure 3.10, China's savings continued to rise and reached $143.428 billion in 1990.

Figure 3.10[16] Gross Domestic Savings for China from 1960 to 1990



Moreover, China established a unified floating exchange rate system in the 1990s that allowed banks to use foreign exchange to settle and sell. With the reform of the

[16] Figure 3.9 shows the author's own elaboration of World Development Indicator data.

foreign exchange management system, the State Foreign Exchange, which was operated by the State Administration of Foreign Exchange (SAFE), and the Bank of China were transformed from specialised foreign trade banks to state-owned commercial banks, which were mainly engaged in commercial banking and the provision of financial services to individual and corporate customers on a global scale. For example, until 1992, the Bank of China raised a total of $16.84 billion in funds through foreign government loans that mixed government loans and commercial loans and through the issuance of international bonds. This accounted for approximately 88% of the actual use of foreign capital, which was 1.5 times the investment amount in China during the same period. The use of foreign exchange became the main channel for China's external financing at that time (Jia, 2012).

China also borrowed from the World Bank, Asian Development Bank, and other foreign concessional loans and used 80% of these loans for infrastructure, critical raw materials, environmental protection, and social development, covering almost all ports, roads, railways, and power projects. After 1992, China's utilisation of foreign investment made positive breakthroughs on an annual basis, ultimately attracting more foreign investment than any other developing country (Liu, 2019).

Although joint-stock banks provided an external environment for the “Big Four” reform, the government decided that the “Big Four” should focus more on commercial banking and separate policy businesses from other departments. The main policy businesses that needed to be separated were 1) annual loans for the purchase of agricultural products and rural poverty alleviation loans; 2) loans for critical national infrastructure projects (such as infrastructure and essential industry construction); and 3) credit for machinery exports (including both seller credit and buyer credit). (Sun, 2007)

Therefore, in 1993, depending on the Decision of the State Council on Financial System Reform, China delegated three policy financial institutions (the China Development Bank, the Export-Import Bank of China, and the Agricultural Development Bank of China) to handle policy-based credit business. These three policy institutions strengthened the central bank's macrocontrol capabilities and reinforced the commercial business of the "Big Four".

The China Development Bank (CDB) mainly provided long-term financial support

for national infrastructure, including basic industries, such as electric power, highways, railways, petroleum and petrochemical power; coal, post and telecommunications; agriculture; public infrastructure; forestry; and water conservancy. The Export-Import Bank mainly handled export credit, loans for overseas contracted projects and overseas investment, and loans from the Chinese government. The Agricultural Development Bank of China raised agricultural credit funds based on national credit and undertook agricultural business approved by the state. Moreover, the Agricultural Development Bank of China acted as an agency allocating the allocation of financial funds to develop the agricultural economy.

Furthermore, in 1994, the savings rate in China rose to 42.6%, which was higher than the 41.25% increase in the investment rate. A higher savings than investment rate became the typical situation in Chinese investment. This situation was manifested in the long-term rapid growth of domestic bank deposits, that of foreign exchange reserves, and the long-term surplus of current accounts (Li, 2018).

The financial reform that occurred during Deng's period became known as the process of lifting "financial repression": "With the deepening of financial reform, the interest rate, which had been suppressed at a low level for a long time, gradually increased and became an important factor in stimulating the rise of savings rate in China" (Li, 2018). During the 15 years ranging from 1978 to 1994, the banking system changed from being a monopoly held by the PBOC to a complete modern financial institution system[17]. China's increasingly broad channel for savings is based on the continuous enrichment of financial institutions, markets, products, and services.

In 1995, China promulgated the "Law of the People's Republic of China on Commercial Banks", which legally established that "wholly state-owned commercial banks should implement independent operations, bear risks, bear their profits and losses, and self-discipline" (NPC.Gov. CN, 1995). At this point, the "Big Four" development was formally transformed into the development of commercial banks. The establishment of

[17] Including central banks (national and regional), commercial banks, insurance companies, financial companies, urban and rural credit cooperatives, nonbank financial institutions (securities, trust, lease, funds, etc.), policy banks, etc. Additionally, the stock market and other financial markets gradually became familiar to the investors.

the three policy banks undertook the institution of the “Big Four” policy for financial business, and the “Big Four” became wholly state-owned commercial banks.

3.6 The 1997 Financial Crisis in SE Asia

Affected by the ultraloose monetary policy that followed the Louvre Agreement and the strong yen, the scale of investment by Japanese companies expanded rapidly in Southeast Asia, and the exchange rates of Southeast Asian countries all became focused on the U.S. dollar. However, Southeast Asia has begun to lose its comparative advantages in terms of labour and land prices due to the slow improvement in production efficiency. In 1995, the yen began to depreciate against the U.S. dollar. Because Japan is the primary export market in Southeast Asia, any economic turbulence in Japan ultimately impacts the situation in Southeast Asia. At that time, Southeast Asian countries began to rapidly expand their current account deficit, and domestic companies had difficulties making external payments. Due to the complex situation around Asian countries, the Asian financial crisis broke out in 1997[18].

China suffered a significant impact on its exports during the Asian financial crisis in 1997. For example, in 1997, Guangdong’s imports and exports were 150% of its GDP. Due to the rapid decline of orders from Asian markets in 1998, Guangdong’s exports fell sharply, declining to 82% for computers, 70% for auto parts, and 67% for ships (Xie, 2019). Simultaneously, the Chinese government decided not to devalue the RMB exchange to U.S. dollars to stabilise the economic situation in China and Asia. To relieve pressure on the Chinese economy, the Chinese government adopted expanding domestic demand to stimulate economic growth.

Moreover, corporate losses have increased sharply during the current economic slowdown, as bank loans are now based on government credit, resulting in the deterioration of the liquidity and payment capacity of corporate entities. The financial system was incomplete, so there were many NPLs in the Chinese banking system. In 1997, NPLs accounted for 16% of bank assets in South Korea, 7.5% in Indonesia, 15% in

[18] There are two fundamental explanations for the 1997 Asian financial crisis: 1. Thailand announced to abandon the fixed exchange rate system and implement the floating exchange rate system, which triggered a financial storm throughout Southeast Asia. 2. As Asia's largest economy, Japan tried to get rid of deflation, and the withdrawal of overseas loans to banks led to the East Asian economic bubble and a severe recession in Asia. This research will mainly focus on the impact of the Asian financial crisis on China's reform policies, so this research will not explain the 1997 Asian financial crisis in detail.

Malaysia, and 15% in Thailand, and the NPL estimates in China exceeded 20% (Hongying, 1999).

Therefore, the Chinese government prioritised the reform of the financial system after the Asian financial crisis. The National Financial Work Conference held in November 1997 noted that the "big four" are severely undercapitalised and hold an excessive proportion of NPLs. Thus, the NPLs should be cleaned up and the commercialisation reform of state-owned banks should be accelerated to prevent and defuse financial risks (Gov. CN, 2008).

The Central Committee of the Communist Party of China and the State Council convened the first federal financial work conference to maintain national economic security and ensure economic and financial stability. In this meeting, a series of reform measures for wholly state-owned commercial banks were introduced to address the crisis. In 1998, the government explicitly issued 270 billion yuan of outstanding treasury bonds to supplement capital so that the capital adequacy ratio of the four banks reached 4% according to the 1996 standard (China Finance, 2005). In 1999, the government established four companies (the China Asset Management Co., Ltd., Oriental Asset Management Co., China Huarong Asset Management Co., Ltd., and China Great Wall Asset Management Co., Ltd.) (Wu & Sui, 2010). These companies were established to purchase the NPLs of the "Big Four," which cost 1.4 trillion yuan (Gov. CN, 2008).

Moreover, the Asian financial crisis prompted the restructuring of the Chinese banking system. Since the end of 1998, the PBOC has established nine provincial branches (plus two operation offices) through the establishment of economic divisions across the country, thereby completely changing the framework of the branches in accordance with the administrative divisions in China. This reform reduced bank intervention and promoted the development of the regional economic and financial system. It also strengthened the PBOC's financial regulatory functions.

Furthermore, to strengthen supervision, China established the China Securities Regulatory Commission and the China Insurance Regulatory Commission for the separation and supervision of the PBOC in terms of the securities and insurance industries. The PBOC specialised in the supervision of the banking industry and focused on supervising banks' risks (China Finance, 2005). Operating performance evaluation and

risk internal control mechanisms were initially established for the four banks via the above reforms.

However, China's banking reforms have not gone far enough. As Amstad et al. (2020) noted, the Chinese government used "online repair" as its reform method based on U.S. experiences during the 1980s. These reforms were mainly focused on dealing with nonperforming (NP) assets and internal management but did not profoundly address institutional issues. Therefore, the reform of the Chinese banking system is discussed in subsequent chapters.

Part II: The Banking Sector in China after the Market Reforms

Chapter 4: New Central Bank Policy from 1980 to 2020

4.1 Introduction

Chapters 2 and 3 delve into the economic history of the West and China. Specifically, the post-World War II growth miracle of the Western economy, followed by the economic stagflation that led to neoliberal economic reforms, are explored. Moreover, China has transitioned from a planned economy to a free market economy, embracing and integrating globalisation into the global economy. In Part II, "market" denotes the financial markets operating under socialist policies, highlighting the prominent role of state-owned banks and the sub-involvement of private entities (Cheng, 2022).

The financial system in China also transitioned from a centralised "great unification" system to a market-driven model more in line with economic reforms. In September 1949, the PBOC not only functioned as an economic organisation responsible for operating the national financial business but also undertook the responsibility of issuing currency and regulations for the institution. Prior to the reform and opening up (1978), banks were regarded as accounting, cashiers, and financial management organisations due to the limitations of the planned economic system. Then, Deng Xiaoping noted that “the reform of the financial system should be enormous. Banks should become real banks to develop the economy and innovate technology” (Zhang et al., 2021).

Since 1978, China's economy has grown at an average rate of nearly 10% every year, and more than 800 million people have been lifted out of poverty. This growth was driven by various factors, including investment, low-cost manufacturing and exports (The World Bank in China, 2023). The Chinese government played a key role in this growth through the implementation of policies to support the development of the banking sector. In this chapter, we examine the central bank's reform policies at different stages following the reform and opening up in China, analyse how these policies promoted the growth of China's financial system and investigate the important role played by China's banking sector in contributing to its economic development.

4.2 Review of the Market Reform Development - Phase I (1980-1990)

The reform of the Chinese banking system began with the establishment of provincial bank branches on February 28, 1980. The PBOC began to reform the credit fund management system and gradually implemented a "Unified Plan, Hierarchical

Management" (Wu X., 2008). The separation of the main businesses of the banking and finance systems began after 1978 in China.

Moreover, the State Council and the PBOC encouraged regional banks and enterprises to open trust businesses to develop local economies.[19] Additionally, on April 1st, 1980, the State Council approved the Bank of China for issuing foreign exchange certificates, but China still banned the use of foreign currency. This set of policies marked the gradual opening of the Chinese economy to the global world, but government control remained dominant.

The State Economic Commission, Ministry of Finance, and the China Construction Bank jointly issued a notice to transform the loans from the State Economic Commission and Ministry of Finance to banks on November 12th. Then, on November 18th, the State Council noted in the "Report on Replacing Capital Construction Appropriations with Loans" that the construction bank of China's loans for capital construction investment should be paid a fee rather than providing such loans for free.

On December 18th, the State Council promulgated "The Interim Regulations on Foreign Exchange Administration of the People's Republic of China", noting that the SAFE operates foreign exchange and that the PBOC operates foreign exchange business in China.

On January 16, 1981, the State Council issued the "Regulations on Treasury Bonds of the People's Republic of China", to establish the use of Treasury bonds to compensate for the fiscal deficit. The regulations also stipulated that Treasury bonds should not be used as currency within five years. The government first issued Treasury bonds, for a total of 4 billion yuan, in 1981, and the actual payment of 4.665 billion yuan was in excess of the target.

At the same time, the business of commercial acceptance bills first appeared in Shanghai in 1981. In addition, the State Council promulgated the "Regulations of the People's Republic of China on Treasury bonds". In accordance with these regulations, the national debt was reissued on January 28th.

The "Implementation of the Balance of Credit Underwriting Method" was issued by

[19] For this Chapter, much of what follows is drawn from The State Council's policy papers.

the PBOC on February 20th, and the method detailed therein became an essential step in the reform of China's credit plan management system (PBOC, 1981).

Additionally, the reformation of the banking industry began. At the end of 1981, the China Investment Bank was formally established in Beijing. On April 20th, 1983, according to the "Report of The State Council and the Ministry of Finance on the structural reform of the Construction Bank", the People's Construction Bank of China (CCB) became a national professional bank responsible for managing capital construction and other investments and was under the leadership of the Ministry of Finance and the PBOC. The Agricultural Bank of China (ABC) was also under the supervision of the PBOC at that time (Wu Y., 2018).

Furthermore, the State Council promulgated the "Regulations of the People's Republic of China on the Control of Gold and Silver" to further strengthen the control of gold and silver and ensure the need for gold and silver in national economic construction on June 15th. The regulation stipulated unified state control over the purchasing and distribution of gold and silver. The PBOC was responsible for managing state gold and silver reserves, purchasing and allocating gold and silver and setting gold and silver prices with the State Commodity Price Authorities.

Since 1980, the banking reform strategy of China has involved separating government functions and commercial business between the central bank (PBOC) and state-owned specialised banks (ICBC, Bank of China, ABC and CCB). Therefore, on September 17, 1983, the State Council stipulated that the PBOC should function as a central bank and no longer handle industrial and commercial credit and urban savings. At the same time, the ICBC took over all the industrial and commercial credit services and urban savings services that were previously handled by the PBOC. The commercial business of the PBOC was successfully stripped. In January 1984, the ICBC was established to undertake the original commercial banking business of the PBOC. Aside from the PBOC, there were four state-owned specialised banks in China, namely, the ICBC, CCB, ABC, and the People's Insurance Company of China (PICC).

With the establishment of the central banking system, the PBOC had greater autonomy in formulating and implementing monetary policies. This approach served as the critical basis for the development of China's financial system. Thus, China broke

through its long-standing single-bank system and began to build a banking system that included the PBOC as the central bank and the four major professional banks.

On April 16th, the State Economic System Reform Commission held a meeting on the "Reform of the Urban Economic System". At this conference, it was proposed that the bank be preferential in terms of setting loan interest rates according to the specific situation of the enterprises. Moreover, the meeting pointed out that enterprises can allow employees to invest in shares to solve the problems of the lack of vitality and the blurring between corporate and government functions.

Moreover, the State Council approved a pilot reform of the banking system in which the banks were transformed from state-owned professional banks to corporations. The reform began in Shenzhen on May 7th.

On October 8th, the PBOC issued the "Measures on the Management of Credit Funds" stipulating the reform of the "credit balance" management system. Then, starting in 1985, the government required all banks to engage in the reform of the credit fund management system. Although the capital funds of each specialised bank should be first approved by the PBOC, the planned management method of the specialised banks began to change, and the banks began to engage in self-financing and independent management (Wu Y., 2018).

In 1986, the PBOC officially issued commercial paper acceptances and discount businesses to professional banks. Thus, commercial bills began to be widely used, especially in coastal provinces and cities, and became the primary means of settlement for enterprises. On May 19th, the PBOC issued the notice "concerning the linking of loans for technical transformation with urban savings deposits in five cities", in which it was stipulated that the urban savings deposits in the five cities should be increased by 35% and 5%, respectively, when used as loans for technical transformation (Wu, 2018). On August 18th, the PBOC and the State Commission for Restructuring convened the "Second Forum for Financial System Reform". The conference identified the second batch of 8 pilot reform cities, namely, Dalian, Nanjing, Dandong, Suzhou, Wuxi, Ningbo, Wenzhou and Baoji. The number of cities that underwent financial system reform increased from 5 to 13.

In addition to separating the functions of the PBOC from those of state-owned

specialised banks, in September 1986, the State Council approved the re-establishment of the Bank of Communications, which was the first joint-stock commercial bank in China. The reorganisation of the Bank of Communications achieved a significant breakthrough in the commercial reform of Chinese banks. The joint-stock banks in central coastal and riverside cities broke the traditional restrictions on specialisation in the banking industry.

In December 1986, Deng Xiaoping clearly noted, "The pace of financial reform should be bigger and China needs to make the bank a real bank." Then, beginning in 1987, the State implemented policies to prompt specialised banks to transform the basis of their internal management from an administrative mechanism to an enterprise-style mechanism, thereby allowing them to operate according to the principles of "self-management, self-responsibility for profits and losses, and self-responsibility for risks and self-development" (Wang & Luo, 2022).

On January 20th, 1987, with the approval of the PBOC, the Shanghai Jinshan Petrochemical Complex issued the first long-term corporate bonds in China, totaling 138 million yuan (over 3 years), for constructing a 300,000-ton ethylene project (Wu Y., 2018). Moreover, the discount bonds of the Shanghai ICBC and Jinjiang Joint Industrial and Commercial Bonds and the bonds of the Jinshan Petrochemical Complex were officially approved for issuance, marking the first bond trading business in Shanghai.

On April 8, 1987, the China Merchants Bank was established, which mainly dealt with the RMB and foreign exchange business notes. On September 16th, the China International Trust Investment Company (CIFIC) Industrial Bank (a state-owned comprehensive bank under CITIC Corporation) was allowed to open for business, which mainly dealt with foreign currency and the RMB deposit and loan business, export credit syndicated loan business, and domestic and international interbank loan and discount business.

Furthermore, according to the PBOC statistics, the balance deposits of rural credit cooperatives were 104.7 billion yuan, and loans reached 80.4 billion yuan per month, of which 34.6 billion yuan had been paid to township enterprises by the end of April 1987. On October 18th, the ICBC issued a total of 1 billion yuan of transferable progressive interest financial bonds and discount bonds (Wu X., 2008).

In 1987, the People's Construction Bank of China issued bonds for electric power

and other departments, which positively adjusted the investment structure and strengthened national construction. Therefore, on January 3rd, 1988, the State Council issued the "Notice on the Purchase of Bonds of Key Enterprises in a certain proportion of Self-raised Investment", which stipulated that the Chinese government could continue to issue critical corporate bonds, which professional banks issued on behalf of national professional investment companies.

Furthermore, in 1988, the State Restructuring Commission noted, "the reform policies should gradually transform state-owned professional banks and other financial institutions into commercialised management", which changed the monopoly position of Chinese professional banks (PBOC, 2007).

Additionally, due to the nonstandard financial system and rapid economic development that occurred in 1988, the market in China exceeded the money and credit supply, which led to significant inflation. Therefore, the government began to reform and control the financial market. The government raised the interest rate on Treasury bonds, shortened the maturity (from five years to three years), and allowed individual Treasury bonds that had been issued in 1985 and 1986 to be sold on the market. In June 1988, the second batch of 54 cities began experimenting with selling Treasury bills (Xinhuanet, 2008).

In September 1988, the Third Plenary session of the 13th Central Committee of the Communist Party of China decided to "control the total amount and adjust the structure of the financial industry" to strictly control the issuance of money and reduce the industrial growth rate to constrain the overheating economy (Gov. CN, 1988) .

In the process of reform and development, China's financial industry continued to open up; therefore, the SAFE promulgated the "Foreign Exchange Management Measures of Overseas Investment" on March 6th, 1989, to promote economic and technological cooperation with other countries and strengthen the foreign exchange management of overseas investment (SAFE, 1989).

On April 18th, 1990, the Central Committee of the Communist Party of China and the State Council agreed that Shanghai should accelerate the development of the Pudong area. The development of Pudong influenced China's reform and opening-up strategy. On August 24th, the Pudong Branch of ABC was opened, followed by CCB, the ICBC, the

Bank of Communications and the China Merchants Bank, which also successively opened branches in Pudong.

To expand the level of foreign economic cooperation and technological exchanges in the Pudong area, the Ministry of Finance issued the "Concerning the Reduction and Exemption of Enterprise Income Tax and Unified Industrial and Commercial Tax in Shanghai Pudong New Area for Encouraging Foreign Investment" on September 11th, 1990. The policy noted that if working capital exceeds US $10 million and the term of operation is more than ten years, then the income tax is reduced by 15%. Starting at the beginning of the profit year, the income tax can be exempted in the first year, and enterprises can pay half income tax in the second and third years (The Ministry of Finance, 1990).

Moreover, on June 26th, 1990, the SAFE promulgated the "Measures for the Administration of Foreign Exchange for Overseas Investment", which stipulated that the profits earned by domestic investors from overseas investment with foreign exchange funds must be settled, and all exchange quotas can remain with the enterprise for five years. After five years, 20% of these quotas go to the government and 80% to domestic investors (SAFE, 1990).

On November 26, 1990, the PBOC approved the establishment of the Shanghai Securities Exchange (SSE), which was the first securities exchange in China. The establishment of the SSE marked the beginning of Chinese securities and the Chinese stock market, and it promoted the construction of a diversified financial market in China (PBOC, 1990).

4.3 Review of the Market Reform Development – Phase II (1991-2001)

On July 3rd, 1991, the Shenzhen Stock Exchange was approved by the State Council and the PBOC and officially opened. By the end of 1991, the total market value of stocks was approximately 65 billion yuan, including both Shanghai and Shenzhen (PBOC, 1991).

In 1992, the financial industry in China developed rapidly after Deng Xiaoping's southern speech(南方谈话). The State Council approved several preferential policies for Shanghai Pudong development, authorised Shanghai to issue stocks and bonds within the quota approved by the central government and allowed all cities to issue shares traded in

Shanghai. On March 4, 1992, Shanghai United Textile Industrial Co., Ltd., published the first Sino-foreign joint venture shares. The State Council approved the issuance of special renminbi-denominated shares in Shanghai and Shenzhen for a face value of US $200 million. By June 1992, 13 companies had issued B-type stocks, for a face value of RMB 950 million, and seven of these were listed companies (Wu Y., 2018).

Moreover, there have been a variety of joint-stock commercial banks established. On August 18th, 1992, the China Everbright Bank was established; this national commercial bank is wholly owned by the China Everbright (Group) Corporation. On August 28th, the Shanghai Pudong Development Bank was approved for installation. In October, the Securities Commission of the State Council and the China Securities Regulatory Commission were established, marking a supervision system for the securities market.

Although the "1992 Southern Speech" initiative brought rapid economic development to China, the "overheated" state of financial investment and the inadequate regulatory system led to severe inflation in the Chinese economy. On December 25th, 1993, the "Decision of The State Council on Financial System Reform" marked the beginning of the financial system reform.

The financial system reform clearly defined the main functions of the PBOC, which include formulating and implementing monetary policies, maintaining financial stability, and establishing an independently implemented monetary policy system for central banks.

In addition, the reform noted that the policy-based banking system should be separated from the commercial banking system and prepared for establishing policy-based banks to conduct nonprofit financial business in specific fields for the implementation of government economic policies and to conduct operations without needing to accept deposits or private loans.

The policy banks include the CDB, the Agricultural Development Bank of China, and the China Import and Export Credit Bank. These three banks were operated according to the operation mechanism of commercial banks for the ICBC, Agricultural Bank of China, Bank of China, and People's Construction Bank of China.

Moreover, the State Council officially issued the "Notice on Further Reform of the Foreign Exchange Management System", which proposed the establishment of a unified national foreign exchange market. On January 1st, 1994, regulations were established to

enable enterprises and individuals to buy and sell foreign exchange services from banks. Then, these banks entered the interbank foreign exchange market to engage in transactions, thus forming market exchange rates. The central bank sets a specific floating range for the exchange rate and keeps the exchange rate stable by regulating the market. On April 1st, 1994, the PBOC established an office in Shanghai to buy and sell foreign exchanges on the interbank market. On April 4th, the approved banks began to trade foreign exchanges with customers at the exchange rate set by the PBOC (PBOC, 1993).

In February 1994, the "Regulations of the People's Republic of China on the Administration of Foreign-funded Financial Institutions" allowed foreign banks to operate in China as branches, with a minimum registered capital of 300 million yuan. The paid-in capital had to be less than 50% of the registered capital. Moreover, a foreign bank branch had to allocate working capital of no less than 100 million yuan from its head office. At this stage, the opening up of China's banking industry was limited to specific regions, and business for foreign banks in China faced greater restrictions.

Furthermore, the government gradually established three policy banks to undertake policy-based trust businesses, thereby separating policy-based finance from commercial finance. The government created policy banks to compensate for the lack of loans from commercial banks through long-term financing to achieve state support for particular industries.

On March 17, 1994, the CDB was established in Beijing to engage in a domestic development-oriented policy finance business. On July 1st, the Export-Import Bank of China (EXIM Bank) was established in Beijing to finance large amounts of mechanical and electrical equipment imports and exports. Then, on November 8th, the Agricultural Development Bank of China (AGDB) was established in Beijing to provide policy support for agriculture.

The year 1995 was known as the "Year of Financial Legislation" in China. The NPC and Standing Committee have successively promulgated the "Law of the People's Republic of China on the PBOC Commercial Banking"; "Law of the People's Republic of China Guarantee"; "Law of the People's Republic of China Negotiable Instruments"; "Law of the People's Republic of China Insurance"; "Law of the People's Republic of China"; and "Decision of the Standing Committee of the National People's Congress on

Punishing Crimes of Disrupting Financial Order". The promulgation and implementation of these laws marked the entrance of the financial industry of China onto the path of standardisation under the legal system.

In addition, on September 7, 1995, the State Council issued the "Notice on the Establishment of Urban Cooperative Banks", which promoted the construction of a multilevel banking system (Wang & Luo, 2022).

In January 1996, the national interbank lending market trading system was put into trial operation in Shanghai, with 12 commercial bank head offices and 15 financing centres participating in online transactions. By the end of March, these numbers had increased to 20 and 35, respectively; by the end of December, 20235 these transactions came to a total lending amount of 587.158 billion yuan (Wu X., 2008). This market developed from initial fund lending to bond issuance and trading, bond repurchase transactions, etc. It became the main money market in China and the main platform for the PBOC to carry out open market business operations.

On April 9th, 1996, China officially launched the open market business with national debt. The first batch of trading objects included 14 commercial banks and involved the Bank of China, ABC, ICBC, Construction Bank of China, and Bank of Communication. On December 1st, 1996, China announced the realisation of the RMB current account convertibility, which represented a breakthrough in the reform of China's foreign exchange system (PBOC, 1996).

On July 2, 1997, Thailand abandoned its fixed exchange rate system and adopted a floating exchange rate system, which led to the devaluation of the baht. The baht fell by 17% against the dollar, and foreign exchange was in turmoil. Japan, South Korea, and other Asian countries were quickly affected by the financial crisis, during which the crisis rapidly spread throughout Asia. To ensure the stability of the exchange rate, the Chinese government pledged not to devalue the RMB. From November 17 to 19, the Communist Party of China Central Committee and the State Council decided on a significant reform of the financial system, which included the following aspects:

1) Four major asset management companies were set up to deal with 1,393.9 billion yuan of nonperforming assets divided among the "Big Four" banks;
2) The government issues RMB 270 billion in special treasury bonds to replenish the

capital of the "Big Four" banks;

3) The Insurance Regulatory Commission of the China Securities Regulatory Commission was established to supervise the securities and insurance industries, while the PBOC managed the banking and trust industry (Gov. CN, 1997).

On November 15, 1998, the CPC Central Committee and the State Council decided to reform the management system of the PBOC by abolishing provincial branches and setting up nine interprovincial branches in their place. The provinces without PBOC branches established 20 financial supervision offices as PBOC branch offices (PBOC, 1998).

In 1999, four banks set up asset management companies to divest nonperforming credit assets; this began with the founding of the Construction Bank of China on January 1st, 1999. On April 20th, Cinda Asset Management Co., Ltd., the first nonperforming asset management company in China, was established. The government implemented a "debt-for-equity" policy to change the debtor-creditor relationship between banks and enterprises after the Fourth Plenary Session of the 15th Central Committee of the Communist Party of China (CPC), which took place in November. Most key national enterprises were in the plan, and the debt amount reached 459.6 billion yuan.

After China acceded to the World Trade Organisation (WTO) in December 2001, the Chinese government gradually relaxed its restrictions on foreign investment in China's banking, securities and insurance industries.

4.4 Review of the Market Reform Development – Phase III (2002-2011)

On February 5th, 2002, the Second National Financial Work Conference was held in Beijing, where the following goals were established: 1.) to develop banks into modern financial enterprises; 2.) to reform the state-owned commercial banks into joint-stock commercial banks; and 3.) to reform rural credit cooperatives (Gov. CN, 2012).

After joining the WTO, China gradually decreased its restrictions on foreign banks' RMB business and operating areas, thereby providing a relatively equal development environment for foreign banks in China. In February 2002, the revised version of the "Regulations of the People's Republic of China on the Administration of Foreign-funded Financial Institutions" abolished the requirement that the restriction on the paid-in capital of foreign banks should not exceed 50% of the registered capital and increased the

requirement that the capital adequacy ratio of foreign bank branches should not be lower than 8%.

In addition, in 2002, the Chinese government introduced the Qualified Domestic Institutional Investor (QDII) and Qualified Foreign Institutional Investor (QFlI) systems, thus establishing that domestic and foreign investment were allowed to perform securities businesses. Moreover, the government actively announced financial exchanges and cooperation with Hong Kong, Macao and Taiwan. At this point, domestic funds in China faced the opportunity to enter the global capital market, and China's cross-border asset investment market entered a new development stage.

On November 4th, 2002, Premier Zhu Rongji and the 10 Association of Southeast Asian Nations (ASEAN) leaders jointly signed the "China-ASEAN Comprehensive Economic Cooperation Framework Agreement". Trade in goods was the core content of this agreement. The tariffs and trade restrictions on all the other products aside from those permitted by the WTO and a few other sensitive products were gradually eliminated.

On December 16, 2003, the State Council approved the establishment of Central Huijin Investment Co., Ltd., which framed the government as the investor and the supervisor of large state-owned financial enterprises.

On January 6th, 2004, the State Council allowed the Bank of China and the China Construction Bank to initiate reform. The Central Huijin Investment Co., Ltd.[20], Ministry of Finance, and the Central Bank and Foreign Exchange Bureau leveraged $45 billion in foreign exchange reserves to help these two banks. On August 26th, the Bank of China's shareholding reform was completed, and the Bank of China Limited (BCHO) was established. The Central Huijin Investment Co., Ltd., held 100% of the BCHO shares for the government, and the BCHO ultimately inherited the assets, liabilities and all of the business of the Bank of China. On September 21st, the China Construction Bank completed the reform and established the China Construction Bank Co., Ltd. The

[20] Central Huijin Investment Co., Ltd., established on December 16, 2003, is a wholly state-owned company funded by the State in accordance with the “corporation law”, with a registered capital of RMB 828.209 billion. This served to authorise equity investments in key state-owned financial enterprises by the State and to mandate that the company can not carry out any other commercial business activities or interfere in the daily business activities of key state-owned financial enterprises under its control.

shareholders of the China Construction Bank Co., Ltd., were the Central Huijin Investment Co., Ltd., China Jianyin Investment Co., Ltd., State Grid Corp., Shanghai Baosteel Group Co., Ltd., and China Yangtze River Power Co., Ltd.

On July 21st, 2005, the PBOC announced that China would begin implementing the RMB exchange rate reform. The RMB exchange rate was no longer pegged to only the US dollar; rather, the RMB would select several significant currencies and establish a managed floating exchange rate system based on market supply and demand. The PBOC announced the closing price of the exchange rate in the interbank foreign exchange market at the end of each working day, which was used as the intermediate exchange rate price between the currencies and the RMB for the next working day (PBOC, 2005).

On November 11, 2006, Premier Wen Jiabao promulgated the “Regulations of the People's Republic of China on the Administration of Foreign-funded Banks” to open the RMB retail business to foreign banks, thereby encouraging foreign banks to register in China after the WTO. In addition, the government implemented unified supervision standards for foreign and Chinese banks, and the capital adequacy ratio requirement for foreign banks' branches was abolished. Foreign banks could obtain the entire RMB retail business, including banking card businesses and consulting services. Moreover, the geographical and customer restrictions for foreign banks operating RMB businesses in China and the restrictions on foreign financial institutions opening branches were cancelled.

In January 2007, the PBOC issued the “Provisions on the Administration of Market Makers in the National Interbank Bond Market”. This allowed more financial institutions to participate in the interbank bond market (Wu Y., 2018).

On March 20, 2007, the Postal Savings Bank of China was established by the China Post Group Corporation. The four major financial asset management companies further accelerated the commercialisation transformation in the same year. Cinda and Huarong took the lead in implementing the shareholding system transformation and were successively listed on the main board of the Hong Kong Stock Exchange. In addition, on September 29th, the State Council approved the establishment of the China Investment Corporation Limited (a state-owned investment company), which specialised in foreign exchange investment.

Because of the global financial crisis in 2008 (which was rooted in the Anglo-American financial and banking systems and then spread to the Eurozone and the rest of the world), the actual economy of China experienced a severe impact. Small and medium-sized Chinese enterprises faced operational difficulties. On November 24th, the State Council launched 4 trillion yuan to stimulate the economy. The central government allocated some of the money for investment and boosted other local investments. In December, the CDB was listed. This was a commercial policy bank. which is defined as a bank that mainly engages in medium- and long-term credit and investment and refrains from engaging in retail business (Gov. CN, 2008).

Although the central government issued relevant policies promptly and increased support to improve the business environment for small and medium-sized enterprises, some support policies had yet to be implemented due to difficulties in financing and guarantees. Therefore, on September 21st, 2009, the State Council proposed "Several Opinions on Further promoting the development of Small and Medium-Sized Enterprises", which stated that state-owned commercial and joint-stock banks should establish financial service institutions exclusively for small enterprises and enhance the efficiency of loan approval.

In November 2009, the Shanghai Clearing House was established to provide comprehensive central counterparty clearing services for the interbank market, improve clearing efficiency, and reduce the cost of clearing.

In January 2010, the State Council agreed to launch a trial of securities margin trading. Therefore, the China Securities Regulatory Commission selected six high-quality securities companies, such as Guotai Junan Securities and Guosen Securities, to participate in the first pilot of the margin trading business. In April, the pilot business of securities margin trading was officially launched. After June 2010, third-party payments were formally included in the supervision system, and the comprehensive governance of securities companies was strengthened. On July 15 and 16, 2010, the Agricultural Bank of China was listed on the Shanghai Stock Exchange and on Hong Kong's H-share market. At this point, wholly state-owned commercial banks realised listing transactions. The ICBC, Bank of China, Construction Bank, Bank of Communications and Agricultural Bank of China form the "state-controlled publicly listed banking sector", which serves as

the core component of the financial system.

4.5 Review of the Market Reform Development - Phase IV (2012-2020)

Premier Wen Jiabao established the Wenzhou City Financial Comprehensive Reform Pilot Zone at the State Council meeting on March 28, 2012. The implementation of the "Overall Plan of Wenzhou Financial Comprehensive Reform Pilot Zone of Zhejiang Province" was approved at this meeting. Then, on July 25, 2012, the PBOC, the National Development and Reform Commission (NDRC), etc., issued the "Overall Plan for the Construction of the Pearl River Delta Financial Reform and Innovation Comprehensive Experimental Zone in Guangdong Province" (PBOC & NDRC, 2012).This series of policies was similar to Deng Xiaoping's reform and opening up that was carried out as a pilot in the coastal areas of China.

An important manifestation of the innovation and development of the financial industry was the rise of new forms of financial business, namely, internet finance and financial technology. In June 2013, the internet fund product "Yue Bao" was jointly launched by the network technology enterprise Alibaba Group Alipay and the Tianhong Fund. The Baidu Financial Center Wealth Management platform was established in October. (Wu Y., 2018)

In addition, some Internet fund enterprises began using new internet tools, such as online payments, P2P network lending, and crowdfunding financing. These enterprises intensified the development process of China's financialisation. Internet finance has led to the innovation of financing and payment methods:

1) This approach breaks the mortgage lending practices of traditional financial institutions that rely on direct credit.
2) The popularisation of mobile payments has increased, and Alipay and WeChat payments have become two payment giants in China. With the development of the mobile internet, mobile payments are no longer limited to "payment". Nevertheless, this approach has been extended to many applications, such as innovative medical care, intelligent transportation, mobile e-commerce, taxi software, municipal services and the sharing economy.

Since 2013, the state has successively introduced a series of policies and regulations to encourage the establishment of private banks by private capital. On July 5th, the

"Guidance on Financial Support for Economic Structural Adjustment, Transformation and Upgrading" issued by the State Council and the "Decision of the Central Committee of the Communist Party of China on Several Major Issues Concerning Comprehensively Deepening Reform" passed by the Third Plenary Session of the 18th Central Committee further clarified that financial institutions, such as small and medium-sized bank financial leasing companies and consumer finance companies, could be established by private capital to further broaden the channels through which private capital could enter the financial service industry.

In October 2013, President Xi Jinping visited the ASEAN countries and proposed jointly building the "21st Century Maritime Silk Road". The "Silk Road Economic Belt" and the "21st Century Maritime Silk Road" together constitute the BRI. Implementing the "Belt and Road Initiative" stimulated greater market demand, and RMB internationalisation became the core of China's financial strategy.

In August 2013, the State Council formally approved the establishment of the China (Shanghai) Pilot Free Trade Zone. On December 2nd, the PBOC issued the "Discussions on Financial Support for the Construction of China (Shanghai) Pilot Free Trade Zone", which noted the following in regard to the pilot zone: 1.) It served the real economy and facilitated cross-border investment and trade; 2.) the opening up of the pilot zone should be expanded; 3.) the reform of the foreign exchange system and the cross-border use of the RMB should become the focus; and 4.) the establishment of foreign banks and Sino-foreign joint venture banks should be supported in the pilot zone (PBOC, 2013).

After 2013, the PBOC created a short-term lending facility (SLF), medium-term lending facility (MLF), pledge supplementary lending (PSL) and other tools to enhance the regulatory capacity of China’s monetary policy.

On March 11th, 2014, the China Banking Regulatory Commission established the pilot program for the first batch of private banks. On June 28th, the State Council approved the “Measures for Further Opening up the China (Shanghai) Pilot Free Trade Zone”. In December, the Shanghai Pilot Free Trade Zone was expanded from 28.78 square kilometres to 120.72 square kilometres.

On October 24th, 2014, finance ministers and authorised representatives of the 21 prospective founding members, including China, India and Singapore, signed an

agreement in Beijing to establish the Asian Infrastructure Investment Bank (AIIB). On November 9th, President Xi Jinping, at the opening ceremony of the Asia-Pacific Economic Cooperation (APEC) Business Leaders' Summit, noted: "China will also invest $40 billion in establishing the Silk Road Fund, which will provide financing support for countries along the 'Belt and Road' related to infrastructure construction, resource development, industrial cooperation".

In December 2014, the "Regulations of the People's Republic of China on the Administration of Foreign-funded Banks (First Revised Version)" established the following:

1) The restriction on representative offices for foreign banks in China was removed;
2) the working capital restrictions for setting up foreign bank branches were cancelled;
3) the qualifications for foreign banks to engage in RMB business were relaxed; and
4) the opening time was shortened from 3 years to 1 year, and the profit standard was not set.

On March 28, 2015, China released the "Vision and Actions on Jointly Building the Silk Road Economic Belt and the 21st Century Maritime Silk Road" to initiate the construction of a community of shared interests and a shared future. The Belt and Road Initiative runs through the Eurasian continent, connecting the Asia-Pacific Economic Circle East and the European Economic Circle West.

On April 22nd, the Shanghai Headquarters of the PBOC issued the "Notice on Launching the Foreign Currency Service Function of Free Trade Accounts", which states that financial institutions in the Shanghai Pilot Free Trade Zone can provide local and overseas entities with this service according to relevant requirements. The foreign currency-integrated free trade account financial service marks the official launch of the foreign currency service function of the free trade account (Gov. CN, 2015).

In June 2015, the State Council approved the "Guidelines on Promoting the Development of Private Banks". The first batch of five private banks was launched in Tianjin, Shanghai, Zhejiang and Guangdong, including the Shenzhen Qianhai Webank; Shanghai Huarui Bank; Wenzhou Minmercial Bank; Tianjin Jincheng Bank; and Zhejiang MyBank.

In November 2015, the IMF regularly reviewed the special drawing rights (SDR)

mechanism, and the RMB was successfully included in the SDR. The SDR basket became the third largest currency after the US dollar and the Euro. The entry of the RMB into the SDR showed that China substantially promoted the internationalisation of the RMB, and China began to enjoy the rights and interests of the SDR currency, such as the status of reserve assets. Additionally, the RMB became a new currency for the international monetary system (The Xinhua News Agency, 2015). The following month, on December 25, the Asian Infrastructure Investment Bank[21], with 57 founding members world-wide, was officially established.

Furthermore, as the Chinese government strengthened its supervision of internet finance in 2015, internet finance entered the field of fintech in China. The financial industry, as represented by banks, plays a significant role in indirect financing and lending for agriculture-related small and microenterprises.

In addition, private banks developed rapidly in 2016. On December 27th, the Sichuan New Internet Bank was established, which was the first private bank in Sichuan Province, the third in China after the Tencent Webank and Ali MyBank, and the first internet bank in central and western China. According to the data, by the end of 2016, the number of private banks surged to 17, and 12 had opened during 2016 (Wu Y., 2018).

Since 2016, investors have been more welcome in the fintech sector (including digital currency, smart investment and blockchain). Driven by traditional and emerging finance, the financial industry has made remarkable achievements. The extraordinary development of the financial sector has made up for the shortcomings of China's financial industry for a long time.

To forewarn and prevent risks, beginning in 2016, the PBOC upgraded the risk management system to a MacroPrudential Assessment (MPA) to establish a two-pillar financial regulation policy framework characterised by "monetary policy + macroprudential policy" (Wang & Luo, 2022).

On January 5, 2017, the China Banking Regulatory Commission (CBRC) officially

[21] The Asian Infrastructure Investment Bank (AIIB) is an intergovernmental, multilateral development institution that supports infrastructure construction in Asia. The founding purpose of the AIIB is to promote the process of building connectivity and economic integration in Asia and to strengthen the cooperation between China and other Asian countries and regions. It is based in Beijing, and the authorised capital for the AIIB is $100 billion.

issued the “Guidance on the Supervision of Private Banks”. The first five private banks achieved significant growth in revenue and net profit, and all of them benefited from losses in 2015. Moreover, 17 private banks were established in 2017, with total assets of 338.14 billion yuan, representing an increase of 85.22%. The private banks achieved a total net profit of 1.967 billion yuan. There are three types of private banks among the 17 banks:

1) Private banks with internet resources: Shenzhen Qianhai WeBank, Alibaba Netshang Bank, and Sichuan Xinwang Bank.
2) Private banks combining online and offline activity: Suning Bank, Shanghai Huarui Bank and Blue Ocean Bank.
3) Traditional private banks, such as Tianjin Jincheng Bank and Wenzhou Minsheng Bank (CBRC, 2016).

On May 14 and 15, 2017, the BRI Conference for International Cooperation was successfully held in Beijing. The meeting identified several critical projects under the Belt and Road Initiative, which totalled 76 large projects and more than 270 total projects across five categories. President Xi Jinping announced that the Silk Road Fund would increase its capital by 100 billion yuan and encouraged financial institutions to carry out overseas fund business in RMB, estimated at 300 billion yuan (Gov. CN, 2017).

On May 26th, 2017, the CBRC issued the "Implementation Plan for the Establishment of Inclusive Finance Business Units in Large and Medium-Sized Commercial Banks" to promote large and medium-sized commercial banks to establish institutions to focus on 1) minor enterprises and microenterprises; 2) agriculture, rural areas and farmers; 3) entrepreneurship and innovation groups; and 4) poverty alleviation (CBRC, 2017).

The Internet Clearing Platform, which was established by the PBOC, began trial operation in 2017. The Internet Clearing Platform mainly addresses payment services involving bank accounts initiated by nonbank payment institutions. In August, the PBOC issued the "Notice on Migrating the Online Payment Business of Nonbank Payment Institutions from the Direct Connection Mode to the Netlink Platform", which instituted the requirement that payment institutions' online payment department be cleared through the Netlink platform. By the end of 2017, 248 banks and 65 payment institutions had

access to the network clearing platform (Wu Y., 2018).

In June 2018, the PBOC revised the medium-term lending facility (MLF) issuance rules to include green bonds and green loan payments as collateral. At the end of June, the Industrial Bank's green financial financing balance had reached 758.9 billion yuan. These projects saved 29.51 million tons of standard coal, 83.9062 million tons of carbon dioxide emissions and 408.9084 million tons of water annually in China (Wu Y., 2018).

Moreover, the RMB overseas fund business supports the “Belt and Road” through various financial instruments. The Silk Road Fund received a capital increase of 100 billion yuan in 2018. With the continuous development of the "Belt and Road Initiative" and the increasing acceptance of the RMB overseas, the PBOC expanded the capacity of the overseas fund business in December of 2018. Moreover, Chinese financial institutions contributed more than $440 billion to the "Belt and Road", and they conducted RMB overseas fund business in excess of 320 billion yuan. China has provided more than 500 billion yuan of equity financing to relevant enterprises, and the countries along the “Belt and Road” have issued more than 65 billion yuan of panda bonds in China (PBOC, 2019). At the end of April 2019, the total amount of RMB investment exceeded 18 billion yuan, and the RMB overseas fund business scale reached more than RMB 300 billion. The scope of investment covered transportation, energy, finance, and manufacturing. After the capital increase, the Silk Road Fund provided an RMB loan and invested RMB to support the COSCO SHIPPING Group in completing the equity acquisition of Hong Kong Orient Overseas International Co., Ltd., which promoted the use of RMB for the international shipping business. In addition, the Silk Road Fund used convertible bonds to invest in the new energy platform company of the Saudi energy company ACWA to jointly develop new energy technologies in the Middle East and Africa (PBOC, 2019).

In addition, according to the "Decision and Deployment on Further Expanding Opening-up" of the Central Committee and the State Council, the Office of the Financial Stability and Development Committee of the State Council launched “opening-up measures for the financial industry” on July 20th, 2019 as a means of further enabling the authority of overseas financial institutions to participate in investing in domestic financial institutions (PBOC, 2019).

Moreover, the executive meeting of the State Council proposed “to quickly establish

a policy framework for implementing lower deposit reserve ratios for small and medium-sized banks and the incremental capital released can be used for loans to private and small and micro enterprises." From May 15th, 2019, the PBOC began implementing a lower deposit reserve ratio for small and medium-sized banks. Most rural commercial banks in China were providing services to small and medium-sized financial institutions by 2019. (Gov. CN, 2019)

In October 2019, "Regulations of the People's Republic of China on the Administration of Foreign-funded Banks (Second Revised Version)" was initiated to accomplish the following:

1) Relax the access scope of the shareholders of foreign banks;
2) Remove the asset limit of $10 billion for foreign banks and $20 billion for foreign bank branches;
3) Allow foreign banks to establish subsidiaries and branches in China;
4) Lower the minimum limit for the RMB deposit business to 500,000 yuan; and
5) Expand the business scope of foreign banks and cancel the approval process for foreign banks to conduct RMB business (Gov. CN, 2019).

In addition, the QDII serves as a unique wealth management product for foreign banks in China since foreign banks have advantages in understanding international funds and overseas markets. As of the end of March 2020, Chinese banking institutions had received a total QDII quota of US $14.84 billion, 15 of which were foreign banks and branches, for a total allocation of US $11 billion, which accounts for 74% of the total (EQ Intelligence, 2020).

4.6 Conclusion

Typically, prior to 1978, China operated under a planned, socialist economy characterized by stringent government control over prices. A pivotal shift occurred during the reform and opening-up period when the transition from a planned to an open-market economy was initiated. Beginning in 1978, the commencement of economic reforms marked a transition away from a planned economy and the embracing of the principles of openness and of market-driven policies. Then, from 1980 to 1990, the banking sector underwent significant reforms. During this period, the central reform policy strategically divided policy-related functions from state-owned specialised banks. This move laid the

foundation for initiating subsequent changes in the financial landscape. Following the restructuring of the banking system, the establishment of securities companies that specialise in underwriting and trading treasury bonds signaled a pivotal moment. This period saw the emergence of diversified nonbank financial institutions, which contributed to the financial market evolution of the new China. These developments underscore China's dynamic journey from a centrally planned economy to a more open and market-oriented economic system, in which the trajectory of the banking industry was shaped by reforms.

From 1991 to 2001, the rapid development of the Chinese financial industry led to a new view of the Chinese economy; state-owned and joint-stock banks underwent a transformative shift from state-owned enterprises to commercial entities, marking a pivotal period in the industry's structural metamorphosis. However, the rapid development of the Chinese financial industry also led to the "overheating" phenomenon in financial investment. Therefore, the government launched financial system reforms to separate banks from their established enterprises and separate the business functions of each financial industry. In addition, the PBOC carried out hierarchical reform and management, and the foreign exchange system made breakthroughs during this period.

In addition, establishing a socialist market economy system objectively necessitates the transformation of the regulatory mechanism of the PBOC from administrative direct regulation to market-oriented indirect regulation. Therefore, the PBOC abolished direct control over the credit scale of commercial banks and focused on indirect control through monetary policy (Wang & Luo, 2022).

After the Asian economic crisis, with the rapid growth of bank assets and liabilities, the NPLs of the four state-owned commercial banks seriously affected their levels of operational efficiency. Therefore, during this period, the Chinese government established a professional asset management company to separate out the NPLs of the four state-owned commercial banks.

From 2002 to 2011, China implemented significant reforms in its financial sector aimed at internationalisation, global integration, and achieving alignment with international financial markets. Key initiatives and policies during this transformative phase included notable changes to the banking system, particularly into the area of foreign

investments, and banks completing shareholding reform during this period. Moreover, policies such as the Qualified Domestic Institutional Investor (QDII) and Qualified Foreign Institutional Investor (QFII) systems were aimed at attracting foreign funds into Chinese financial markets.

In addition, the signing of the "China-ASEAN Comprehensive Economic Cooperation Framework Agreement" highlighted China's commitment to regional economic collaboration and integration. Additionally, the implementation of the RMB exchange rate reform was initiated, signalling a shift towards a more market-driven currency valuation.

These multifaceted policies and reforms served the overarching goal of positioning the Chinese banking system within global financial markets, fostering openness, enhancing competitiveness, aligning China's financial sector with international standards, promoting internationalisation, and integrating into the world’s economy and financial markets.

China's financial sector entered an innovative development reform stage from 2012 to 2018. During this period, the government strategically aligned China's financial policies to support the Belt and Road Initiative (BRI). Policies were tailored to facilitate the implementation of the Belt and Road Initiative, stimulate market demand and encourage economic cooperation along the BRI routes. The central focus of China's financial strategy was the internationalisation of the RMB. This effort saw the successful inclusion of the RMB in the Special Drawing Right (SDR) basket, thus elevating it to the status of the third-largest currency globally after the U.S. dollar and the Euro.

Moreover, recognising the rapid development of the financial system, China witnessed the swift evolution of the Internet Clearing Platform. The PBOC initiated trials involving this platform, which primarily dealt with payment services tied to bank accounts started by nonbank payment institutions.

In addition, acknowledging the inherent risks in a rapidly evolving financial landscape, the PBOC proactively upgraded its risk management system. The introduction of a macroprudential assessment (MPA) established a two-pillar financial regulation policy framework encompassing both monetary and macroprudential policies. These measures were aimed at mitigating risks, ensuring financial stability, and facilitating the

successful integration of China's financial system into the global economic landscape.

Chapter 4 of the research is focused on elucidating the policy requisites established by China's central government and central bank in the aftermath of the reform and opening-up period. The primary objective of the chapter is to analyse the impact of these policies on the reform and development trajectory of China's banking industry. This comprehensive exploration spans 40 years, delineating the evolution into four distinct phases:

Phase I: 1980-1990	The reform of the banking system involved the segregation of commercial operations from the central bank and the explicit definition of the professional commercial functions of state-owned banks.
Phase II: 1991-2001	State-owned and joint-stock banks underwent a transformative shift from state-owned enterprises to commercial entities, marking a pivotal period in the industry's structural metamorphosis.
Phase III: 2002-2011	With China's accession to the WTO, the banking sector underwent internationalisation. Chinese banks ventured abroad, which contributed to their emergence as global entities during this phase.
Phase IV: 2012-2020	China's banking industry entered an era of technological innovation, reflecting the broader digitalisation trend and technological advancements of the time.

This chronological division offers a nuanced understanding of the multifaceted developments that have shaped China's banking landscape over the examined period. The next chapter further discusses the reform of the Chinese Financial Regulator Structure.

Chapter 5: The Chinese Regulatory Framework and the Institutional Impact of the Basel Accords in China

5.1 Introduction

In recent years, the financial market in China has witnessed significant growth while facing multiple challenges, such as financial risks, lack of transparency, and inadequate regulation. China's financial system is one of the world's largest and much more advanced than most emerging market economies (Karacadag, 2003). Considering this, China must establish a robust regulatory framework to ensure the healthy development of the financial market. In short, the development of China's banking industry cannot be based solely on establishing and reforming China's financial system. At the same time, China's careful adherence to the Basel agreements has also earned the trust of international investors and expanded China's global influence. This chapter will specifically discuss the reform of China's financial supervision system since 1980 and the specific implementation of relevant policies affecting the banking industry's development.

5.2 Overview of the Chinese Financial Regulatory Structure

China's financial system has undergone significant reforms since the introduction of the economic reform and opening-up policy. During this time, state-owned banks dominated the market, and regulatory agencies were established to oversee the financial sector. The People's Bank of China (PBOC) was designated the central bank, responsible for monetary policy, while the State Administration of Foreign Exchange (SAFE) was established to oversee foreign exchange regulation. To regulate emerging nonbank financial institutions, including insurance and securities companies, the China Securities Regulatory Commission (CSRC) was established in 1992, followed by the China Insurance Regulatory Commission (CIRC) on November 18, 1998. In 2003, the China Banking Regulatory Commission (CBRC) was established to oversee the banking sector. The CBRC began to promulgate and implement the 'Administrative Measures for the Capital Adequacy Ratio of Commercial Banks', which followed the Basel I agreement and adapted to changes in specific regulatory requirements by Basel II and Basel III. These measures aimed to enhance the stability and resilience of the banking sector amidst evolving global regulatory standards. Post-reform, the financial regulatory system operates under central government vertical management, with local government financial

supervision serving as a supplementary role.

China's financial regulatory system operates under a vertical management structure, with the central government as the primary supervisor. Financial supervision by local governments is considered a secondary supplement to the central government's regulatory oversight, with the central bank's supervision being the direct regulatory authority. In developing nations, the optimal approach to bank supervision involves placing it within the purview of a central bank. Within these central banking institutions, regulatory bodies in such countries enjoy enhanced financial resources and greater autonomy, leading to heightened levels of professionalism and dependability (Goodhart, 2000).

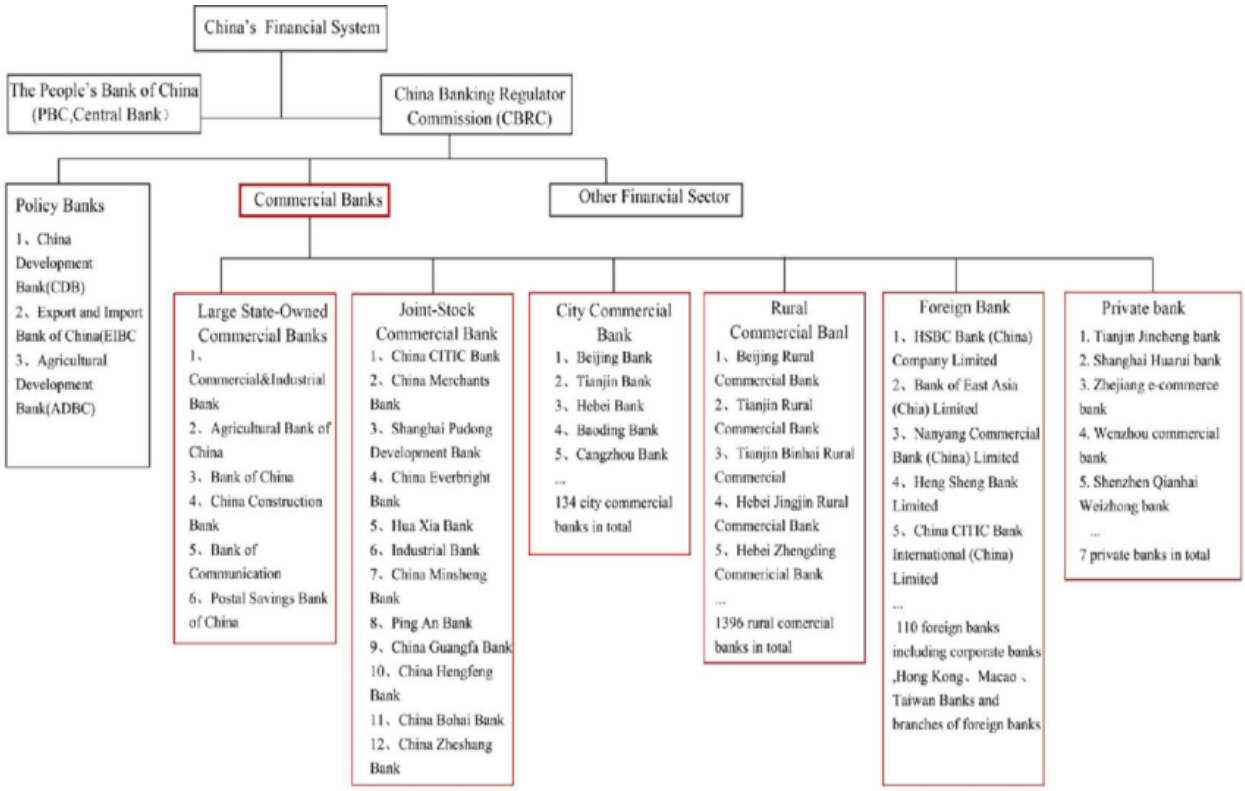
China's central financial regulatory system comprises a range of agencies and departments, including the PBOC (the Central bank), the CSRC[22], the CBRC[23], the CIRC, the SAFE, the China Banking Association (CBA), and the Insurance Association of China (IAC). The PBOC is primarily responsible for monetary policy, financial regulation, payment and clearing, among other functions. The CSRC oversees and manages the securities market, while the CBRC supervises and regulates the banking industries. The CIRC supervises and regulates the insurance industries, and the SAFE manages and supervises the foreign exchange market. The CBA and IAC represent the interests of the banking and insurance industries, respectively, and participate in self-discipline and standardised management. All these major regulatory agencies, along with China's policy banks, are under the direct control of the State Council. (**Figure 5.11**[24] shows the current structure of the financial system in China.)

[22] In March 2023, the 14th National People's Congress changed the institutional attributes of the CSRC, which is responsible for examining and approving the company's (enterprise's) bond issuance.

[23] On March 17, 2018, the first session of the 13th National People's Congress approved the 'Institutional Reform Plan of The State Council'. The plan states, 'The China Banking and Insurance Regulatory Commission (CBIRC) will be formed by integrating the responsibilities of the China Banking Regulatory Commission (CBRC) and the China Insurance Regulatory Commission (CIRC)'. In March 2023, the 14th National People's Congress abolished the CBIRC and set up the State Financial Regulation Administration, responsible for: 1.) Routine supervision duties of the former PBOC over financial holding companies and other financial groups; 2.) Regulation of the financial industry other than the securities industry; 3.) Responsibility for financial consumer protection; 4.) Investor protection responsibilities of the China Securities Regulatory Commission.

[24] Pattern Evolution and Localization of China's Financial Network Based on Different Types of Banks - Scientific Figure on ResearchGate. Available from: https://www.researchgate.net/figure/Structure-of-Chinas-financial-system_fig1_343237770 [Retrieved August 21, 2022]

Figure 5.11 The Current Structure of the Financial System in China



The Western financial regulatory system differs significantly from China's current financial regulatory system. For example, the United States operates a system in which both the central and local governments oversee local finance. The primary federal-level regulators in the financial regulatory system of the United States include the Federal Reserve System (FRS), the Office of the Comptroller of the Currency (OCC), the Securities and Exchange Commission (SEC), the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration (NCUA), and the Commodity Futures Trading Commission (CFTC). At the state level, each state in the United States has its regulatory agency responsible for supervising state banks and other financial institutions (Labonte, 2021). Additionally, the US banking system is market-oriented, with a strong emphasis on financial markets, particularly stock markets, and a mix of private and public banks (Allen et al., 2003).

Let us also consider the case of Japan. Japan implements a centralised financial supervision model. The Financial Services Agency (FSA) holds the highest financial supervision power and implements unified supervision over national and local finance.

Meanwhile, according to the 'Bank of Japan Law', the Bank of Japan, as the central bank, aims to 'regulate money and finance, ensure the normal settlement of funds among financial institutions, and maintain credit order'. Generally, the role of the FSA as a government department focuses on enforcing administrative penalties, while the Bank of Japan focuses on identifying, monitoring, and advising on systemic risk (Zhang & Wang, 2016). Despite the influence of financial capitalism and neoliberalism, Japan's financial system remains a traditional bank-based system, with major banks like Mitsubishi UFJ Financial Group and Sumitomo Mitsui Financial Group being prominent. Thus, Japan's level of financialisation is not as high as that of other developed countries (Hattori, 2020).

Germany is the hub of Europe's ordoliberal model of banking and finance. As the central bank of Germany, the Deutsche Bundesbank focuses on monetary policies, including the economic policies of the euro area. Additionally, it is one of the financial market supervisors and is responsible for maintaining the financial system's stability. In close cooperation with BaFin, the central bank shares overall supervision responsibility for the German banking sector. Germany has a bank-based financial system, with a strong presence of savings banks (Sparkassen) and cooperative banks, alongside large commercial banks (Tsang, 2016). After the financial crisis in 2008, the Financial Stability Board was formed by the German Central Bank, the Ministry of Finance, the Federal Financial Supervision Office, and the Financial Market Stability Office to strengthen financial supervision in Germany (Wen & Wang, 2020; Yin, 2018).

Unlike the United States and Japan, in addition to the Central Bank regulatory systems of individual European countries (such as Germany mentioned above), Europe also has a unified central bank supervision system, the European Central Bank (ECB) Regulatory Regime, to manage the euro, maintain price stability, and conduct EU economic and monetary policy. The ECB cooperates with the national Central Banks of all EU countries to form the European System of Central Banks (ESCB) and leads the cooperation between the eurozone's central banks. The ECB was established in 1998 under the Treaty of the European Union to operate within the ESCB, which includes the central banks of all member states. It followed strictly German central banking standards dissociating completely fiscal pressures from monetary undertakings at European level. In fat, the EU does not have a fiscal policy, its budget being smaller that 1% of the club's

GDP. The EU countries that are also members of the eurozone, and their central banks and the ECB comprise the so-called 'euro system' (European Central Bank, 2023).

The rise of U.S. financial dominance in the wake of stagflation has led to an uneven development of financial institutions and the distribution of financial resources. European banks are actively adopting market-based banking (MBB), which contributes to shaping a global financial system primarily focused on the U.S. monetary market (Beck, 2022). European banks are heavily involved in financialisation. However, the interdependence of European finance and European financial systems constrained U.S. monetary policy before the crisis, reducing U.S. monetary autonomy and power (Hardie & Thompson, 2021).

Before the 1990s, banks served as the sole financial market in China, and enterprises or individuals relied exclusively on borrowing from banks to sustain their business operations. In subsequent years, a series of reforms in China's financial market led to the gradual development and expansion of the securities, insurance, and trust industries. Despite the evolution and increasing complexity of China's financial system, it continued to be characterised as a bank-based financial structure, which was deemed advantageous for controlling financial risks and mitigating the occurrence of financial crises (Liu et al., 2022). Presently, China's financial system remains predominantly bank-based, aligning with the typical Marxist approach, with a primary objective of supporting the real economy. Consequently, credit money in China continues to be primarily directed towards production and financing (Subasat & Mavroudeas, 2023). The expansion of credit markets, mainly through investment and exports, has rapidly developed China's infrastructure growth. With the rise of manufacturing, China's energy consumption has soared, and the development of the financial system has provided financial support for the development of energy-intensive industries (Hao, Wang, & Lee, 2020). Subsequent chapters will provide further explanation on this point.

5.3 The Primary Financial Regulators for the Banking Industry

5.3.1 The People's Bank of China (PBOC)

Since January 1, 1984, with the reform of China's financial system, the PBOC has become the central bank, responsible for implementing monetary policies, providing financial services, and supervising the banking, securities, and insurance industries. In

December 1992, the Securities Commission of the State Council and the CSRC were established to jointly administer the securities industry with the PBOC. In 1995, the 'Law of the People's Republic of China on the PBOC' was promulgated and implemented, clarifying the nature and status of the PBOC in legal terms. The supervision of securities institutions and the national commercial insurance market was transferred to the CSRC and the CIRC in 1997 and 1998, respectively. In April 2003, the CBRC was established to supervise banks, financial asset management companies, trust and investment companies, and other financial institutions. The main functions of the PBOC were to 'formulate and implement monetary policies, continuously improve operational rules for financial institutions, and serve as the central bank in macroeconomic regulation and control, as well as in preventing and defusing systemic financial risks' (PBOC, 2003).

Previously, the PBOC primarily conducted examinations and approvals for the establishment of financial institutions, business approvals, and senior management qualification examinations, and provided supervision guidance. Now, its role has shifted to monitoring risks in the financial industries and financial instruments, promoting the development of banking, securities, and insurance industries, and strengthening research and policy formulation related to foreign exchange management.

Additionally, the PBOC has taken on two new functions: anti-money laundering (AML) management and credit investigation. It has established AML units within the financial industry to monitor funds and participate in international AML cooperation. The PBOC also oversees the credit investigation industry and promotes the establishment of a social credit system (PBOC, n.d.).

- **Functions of the PBOC**

The PBOC is China's central bank, responsible for setting and implementing monetary policy and guarding against financial risks under the State Council. Additionally, it serves as the lender of last resort, responsible for inspecting and supervising the use of the central bank's funding institutions to defuse financial risks (PBOC, n.d.).

To stabilise monetary and financial systems through indirect macroeconomic management primarily using macroeconomic control over financial markets, such as reserve requirements, rediscount rates, interest rates, and open market operations (Huang, 2010).

According to the 'Law of the People's Bank of China', the PBOC employs a diverse set of tools and systems to ensure financial stability, including:

1. Interest Rates: The central bank adjusts interest rates to stabilise bank deposits, preventing significant money flows during periods of financial instability.
2. Exchange Rates: Central banks establish a favourable exchange rate environment through policies to enhance financial stability.
3. Liquidity Support: Providing financial support to institutions posing systemic risks, ensuring overall financial stability.
4. Capital Account Management: Monitoring cross-border capital flows and implementing regulatory measures to address potential financial panics.
5. Payment System Support: Enhancing the payment and settlement system to facilitate the normal turnover of funds in the market (PBOC, 2005).

- **Key Policies and Initiatives Implemented by the PBOC**

In June 2003, the PBOC issued the 'Notice of the People's Bank of China on Further Strengthening the Management of Real Estate Credit Business', which warned of the risks associated with real estate credit and further standardised the development of the real estate credit market. After raising the Reserve Requirement Ratio (RRR) by 1% in September 2003, the PBOC increased the RRR by another 0.5% on April 25, 2004. Financial institutions' benchmark deposit and lending rates were raised on October 29, 2004, with the benchmark for one-year deposit and lending rates being increased by 0.27% (PBOC, 2005).

After adjusting the interest rate policy, the PBOC also created conditions for commercial banks to expand their profitability, accumulate assets through their profits, and improve their ability to resist financial risks. For example, the PBOC issued a circular on January 18, 2004, requiring commercial banks to take active and effective measures to strictly control loans to 'overheated' industries such as steel, electrolytic aluminium, and cement. This was aimed at establishing a credit risk warning system and improving the control system for critical regions and important sectors, effectively promoting economic and financial development (PBOC, 2005).

Moreover, in April 2004, with the approval of The State Council, the PBOC established the China Anti-Money Laundering Monitoring and Analysis Center to collect,

process, and analyse information on various large and suspicious transactions. Establishing an AML monitoring and analysis centre has promoted the progress of monitoring domestic and foreign currency and improved the efficiency and quality of analysing questionable transactions (PBOC, 2005).

In March 2005, with the approval of The State Council, the PBOC set up a pilot work of credit asset securitisation, which started pilot work of credit asset securitisation in China (PBOC, 2010).

With the continued increase in the funds outstanding for foreign exchange, the PBOC issued central bank bills to hedge and arrange the issuing method, term structure, and issue scale of central bank bills, which to some extent controlled the excessive growth and fluctuation of liquidity in the banking system. On May 23, 2005, the PBOC issued the 'Measures for the Administration of Short-term Financing Bonds', allowing qualified enterprises to issue short-term financing bonds to eligible institutional investors in the interbank bond market (PBOC, 2005).

In a pivotal move on July 21, 2005, the PBOC implemented strategic policies to fortify the RMB exchange rate, addressing crucial aspects of stability and adaptability in the global financial landscape. The introduced measures included:

1. Increased Flexibility: Transitioning from a single-dollar peg to a basket of currencies enhances the flexibility of exchange rates.
2. Reduced Administrative Controls: Easing controls on foreign exchange income and expenditure, exemplified by raising current account limits for enterprises and increasing foreign exchange purchase limits for individuals.
3. Market Infrastructure Enhancement: Accelerating the construction of market infrastructure to enhance the functionality of the foreign exchange market involved expanding the trading area, diversifying trading methods, and introducing new market trading products.

This strategic orchestration aimed to position the RMB as a resilient and adaptable currency globally. The comprehensive approach involved transitioning to a more flexible exchange rate regime, easing administrative constraints, and fostering an enriched trading environment. Ultimately, these initiatives aligned the RMB with the evolving dynamics of the international financial landscape, strengthening its role in the global economy

(PBOC, 2005).

From June to July 2007, the PBOC issued the 'Guiding Opinions on Improving and Strengthening Financial Services in the Field of Energy Conservation and Environmental Protection' and the 'Opinions on Implementing Environmental Protection Policies and Regulations to Prevent Credit Risks', requiring banking financial institutions to adjust and reduce loans for industries with 'high energy consumption and high pollution'. The 'Opinions' stressed that 'all commercial banks should support environmental protection and control credit to polluting enterprises as an important part of social responsibility' (PBOC, 2008a).

In 2007, the PBOC promulgated the 'Measures for the Management of Financial Institutions' Reporting Suspicious Transactions Suspected of Terrorist Financing', the 'Measures for the Management of Financial Institutions' Customer Identification, Customer Identification Data, and Transaction Records Preservation', the 'Implementation Rules of the PBOC on Anti-Money Laundering Investigation (Trial)', the 'Measures for the Management of Anti-Money Laundering On-site Inspection (Trial)' and the 'Measures for the Off-site Supervision of Anti-Money Laundering (Trial)'. These regulations clarified the procedures of the PBOC on AML and further improved China's AML system. On June 28, 2007, the FATF held the third plenary meeting of its 18th session in Paris and agreed to admit China as an organisation member (PBOC, 2008b).

In 2008, the PBOC closely followed the change in domestic and international economic and financial situations and guided banking financial institutions to strengthen risk management. The PBOC has coordinated efforts to solve the financing problems of individual foreign banks. Moreover, the PBOC established a regulatory coordination mechanism between foreign banks and small and medium-sized commercial banks in China to strengthen supervision and maintain financial stability. The PBOC also set up the Short-term Tender Tool (TAF) to issue short-term pledged loans with a term of less than three months to qualified domestic financial institutions (including foreign banks), which was an innovative way to provide liquidity support to banking financial institutions (PBOC, 2009a).

In 2008, the PBOC adjusted its interest rate policy in response to the financial crisis. On November 27, financial institutions' benchmark one-year deposit and lending rates

were cut by 1.08%; interest rates on repayments and rediscounts were decreased. On December 5, the Bank of China (BOC), the Industrial and Commercial Bank of China (ICBC), the Agricultural Bank of China (ABC), the Construction Bank, the Bank of Communications, and the Postal Savings Bank cut the RRR by 1% for large deposit-taking financial institutions and by 2% for small and medium-sized financial institutions. Moreover, the PBOC continued implementing preferential reserve requirements for financial institutions in the Wenchuan earthquake-stricken areas. On December 22, the PBOC decided to lower the one-year RMB benchmark deposit and lending rates by 0.27% from December 23, 2008. The RRR for financial institutions was cut by 0.5% on December 25 (PBOC, 2009b).

In March 2009, the 'Measures for the Management of Bond Registration, custody, and Settlement in the Inter-Bank Bond Market' were released to regulate the bond business further and prevent related business risks (PBOC, 2009c). In addition, in March and July, the PBOC successively issued No. 5 and No. 11 announcements, allowing unincorporated institutional investors to enter the interbank bond market, enriching the types of investors in the interbank bond, and further improving the market's liquidity (PBOC, 2009e; PBOC, 2009f).

On May 15, 2009, the PBOC promulgated the 'Operation Rules for the Management of Financial Bond Issuance in the National Interbank Bond Market' and the 'Announcement on Bond Issuance by Auto Financing Companies and Financial Leasing Companies', etc., to further standardise and improve the management of financial bond issuance. Moreover, the restriction on issuing outstanding bonds in the interbank bond market of not less than 500 million yuan has been lifted, creating favourable policy conditions for small and medium-sized enterprises (SMEs) to issue bond financing (PBOC, 2009d).

In March 2010, the PBOC issued the 'Interim Measures for the Management of Cross-border RMB Collection and Payment Information Management System (RCPMIS)' to ensure the smooth and effective operation of the system (PBOC, 2010d). In August, the PBOC issued the 'Administrative Measures on RMB Bank Settlement Accounts of Overseas Institutions', which allows non-resident accounts to be used for the settlement of all kinds of cross-border RMB business, providing a new settlement channel for cross-

border RMB settlement and adding tools to regulate the flow and price of overseas RMB funds indirectly (PBOC, 2010c).

In May 2010, the PBOC issued the 'Notice of the People's Bank of China on the Implementation of the Notice of the Ministry of Foreign Affairs on the Implementation of the Relevant Resolutions of the Security Council', which clarified the duties of financial institutions to take measures such as the list of concerns, transaction restrictions, and reporting (PBOC, 2011).

In response to the rapid rise of housing prices in some cities in 2010, the PBOC and the CBRC issued the 'Notice on Issues Related to Improving the Differentiated Housing Credit Policy' in September, requiring commercial banks to suspend the issuance of housing loans for the third set or above (PBOC, 2010e).

The PBOC formulated the 'Administrative Measures for the Pilot RMB Settlement of Overseas Direct Investment', the 'Administrative Regulations on the Inspection and Certification of Payment Service Business System of Non-Financial Institutions', and the 'Administrative Measures for RMB Settlement Business of Foreign Direct Investment', which have supported banking financial institutions and domestic institutions in conducting the RMB settlement business of overseas direct investment (PBOC, 2012).

On July 20, 2013, the PBOC released the control of the loan interest rate of financial institutions and the bill discount interest rate, abolished the lower limit of the loan interest rate of financial institutions, and no longer set the upper limit of the loan interest rate of rural credit cooperatives (PBOC, 2014).

In 2015, due to the impact of the Federal Reserve's interest rate and the changes in funds outstanding in foreign exchange, the PBOC decreased the RRR five times to close the long-term liquidity gap and used the Standing Lending Facility (SLF), Medium-term Lending Facility (MLF), Pledged Supplementary Lending (PSL), and other tools to provide liquidity to the banking system promptly and expanded the scope of trials to pledge credit assets for re-lending (PBOC, 2016a).

With the development of diversified financial assets in China, the PBOC established the Macroprudential Assessment (MPA) system for financial institutions in 2015. The MPA system focuses on seven aspects, including capital and leverage, assets and liabilities, liquidity, pricing behaviour, asset quality, foreign debt risk, credit policy

implementation, and the capital adequacy ratio, which is the core of the MPA system. In addition, to improve the macroprudential policy framework further, the PBOC added two indicators to the management scope: foreign exchange liquidity and cross-border fund flows (PBOC, 2016b).

In July 2018, the PBOC issued the 'Notice on Matters Related to the Guidance on Further Clarifying and Standardizing the Asset Management Business of Financial Institutions', specifying that public offerings can invest in non-standardised creditor assets and old products can be issued to invest in new assets during the transitional period (PBOC, 2018).

The PBOC has undertaken several reforms that have had a potential impact on the economy. These reforms include adopting the monetary policy, implementing preferential lending rates, improving the effectiveness of the monetary policy, guiding the housing market, and enhancing the international role of the RMB. The PBOC has worked to reduce financing costs for the real economy, provide financial assistance to the real economy sector, and strengthen monetary policy support for the real economy to facilitate policy transmission and align financial benchmarks with market realities (Gov.CN, 2022; Gov.CN, 2023).

The PBOC's reform reflects the efforts of China's financial system to adapt to changing economic conditions and promote a more effective monetary policy that is more in line with market demand. The reform aims to support economic growth, financial stability, and sustainability through policy adjustments, lending programs, and regulatory reforms. In summary, the reform of the PBOC has promoted the modernisation of the Chinese banking system, promoting linkages with various economic activities through technological advances and support for lending and development.

5.3.2 China Banking and Insurance Regulatory Commission (CBIRC)

After 1995, with the establishment of China's financial regulatory legal system and the deepening of banking reform, bank supervision gradually shifted from solely approving institutions and businesses to encompassing compliance and risk supervision. In 2003, the Chinese government made significant adjustments to the financial

management system. The CBRC[25] assumed the supervisory and regulatory powers formerly held by the PBOC over banks, financial asset management companies, trust and investment companies, and other deposit-taking financial institutions (PBOC, 2005).

Additionally, the CBRC is responsible for prudential and market supervision of financial institutions. It utilises prudential regulators, such as asset-liability requirements, capital adequacy ratios, and risk management, rather than the more interventionist approach seen in planned economies, such as loan quotas (Huang, 2010).

- **Key Policies Implemented by the CBIRC**

On March 1, 2004, the CBRC implemented the 'Measures for the Management of the Capital Adequacy Ratio of Commercial Banks' to strengthen the capital constraints of commercial banks (CBRC, 2004). In 2006, the legal framework for supervision in the banking industry continued to improve. The revised 'Law on Banking Supervision and Administration' and 'Regulations on the Administration of Foreign-Funded Banks' were implemented (PBOC, 2007).

In 2005, the CBRC formulated the 'Measures for the Supervision and Administration of the Pilot Securitisation of Credit Assets of Financial Institutions', which introduced a series of regulatory requirements for securing assets (CBRC, 2005). In 2011, following Basel III, the CBRC issued the 'Guidance on the Implementation of New Regulatory Standards for China's Banking Sector', which established regulatory policies on the capital and liquidity of commercial banks, as well as regulations on leverage ratio and loan loss reserves (CBRC, 2011b). In June, the 'Leverage Ratio Management Measures for Commercial Banks' were issued, setting the minimum regulatory standard of the leverage ratio at 4%, higher than the 3% requirement of the Basel Agreement (CBRC, 2011a).

In June 2012, the 'Measures for the Management of the Capital of Commercial Banks (Trial)' were promulgated. The measures standardised the requirements for common stock, tier 1 capital, and tier 2 capital, and raised the minimum regulatory capital requirements with core tier 1 capital requirements of 5%, tier 1 capital requirements of 6%, total capital requirements of 8%, and a reserve capital requirement of 2.5% (CBRC,

[25] In 2018, the CBRC was abolished and replaced by the China Banking and Insurance Regulatory Commission (CBIRC). In 2023, the State Financial Regulation Administration took over the functions of the CBIRC.

2012). In November, the CBRC issued a 'Notice on the Implementation of the Transitional Arrangement Requirements of the Measures for the Management of Commercial Banks' Capital (Trial)', which set a 6-year transitional period for 2.5% of the reserve capital requirement and required commercial banks to formulate annual capital adequacy target plans during the transitional period (PBOC, 2013).

In September 2014, the CBRC issued the 'Notice on Matters Related to Strengthening the Management of Deposit Deviation Degree of Commercial Banks', requiring that the deposit deviation degree of commercial banks should not exceed 3% to regulate the operational behaviour of commercial banks and promote the robust operation of commercial banks (CBRC, 2014). In 2016, the CBRC formulated the 'Guidelines on Comprehensive Risk Management of Banking Financial Institutions' and the 'Guidelines on Internal Audit of Commercial Banks' to enhance the banking system's ability to address risks (PBOC, 2007).

In 2017, the CBRC issued the 'Guidelines on Standardizing Banking Service Enterprises' Going Global and Strengthening Risk Prevention', which regulated the overseas operational behaviours of banking financial institutions and ensured the formation of a long-term 'Belt and Road' financial service system (CBRC, 2017a). In December, the CBRC formulated the 'Measures for Capital Management of Financial Asset Management Companies (Trial)' to strengthen capital supervision over financial asset management companies, guide companies to further focus on the main business of nonperforming asset disposal, and serve the real economy (CBRC, 2017e). Additionally, the CBRC issued 'Measures for the Supervision and Administration of China Development Banks', 'Measures for the Supervision and Administration of the Export-Import Bank of China', and 'Measures for the Supervision and Administration of the Agricultural Development Bank of China' to promote the comprehensive reform of China Development banks and policy banks and address the weaknesses in the supervision system of development financial institutions and policy banks (CBRC, 2017b; CBRC, 2017c; CBRC, 2017d).

In July 2019, the CBIRC issued the 'Measures for the Custody of Commercial Banks' Equity Holdings' and the 'Notice on the Implementation of the Measures for the Custody of Commercial Banks' Equity Holdings' to improve commercial banks' equity

information transparency (CBIRC, 2019a). In November 2019, the CBIRC issued the 'Measures for the Assessment of Corporate Governance of Banking and Insurance Institutions (Trial)' to standardise effective corporate governance and strengthen the supervision of corporate governance of banking and insurance institutions (CBIRC, 2019b).

The CBIRC's regulatory reforms have had a significant impact on China's financial system, resulting in a more resilient and secure environment. The banking sector's capital adequacy has been strengthened, risk management has been improved, and international standards have been met, enabling it to better support the nation's economic development while minimizing financial hazards. Additionally, these measures have propelled Chinese banks onto the global stage, promoting their participation in international financial markets.

5.3.3 State Administration of Foreign Exchange (SAFE)

- **Overview of SAFE**

China's free-market reforms began earnestly after Mao's era and prompted the reform and opening-up in 1978. In 1979, China started implementing foreign exchange management to support the reform of the foreign trade system and encourage enterprises to earn foreign exchange through exports. The SAFE was established in March 1979. During this period, China began implementing the foreign exchange retention system. The government centralised foreign exchange management, and export enterprises could purchase foreign exchange quotas according to a certain proportion. At this stage, the planned allocation of foreign exchange resources still dominated, but the foreign exchange management system was transitioning from a planned approach to market regulation.

In 1994, China began reforming the foreign exchange management system, abolishing the foreign exchange retention system and implementing the foreign exchange settlement and sale system through banks to establish a unified and standardised foreign exchange market. In 1996, China removed all restrictions on current international payments, making the RMB convertible under the current account. In 1997, the Asian financial crisis severely impacted China's economy. China promised not to devalue the RMB exchange rate to prevent the crisis from spreading further.

Since China acceded to the WTO in 2001, the balance of payments has been in large surplus for a long time. Foreign exchange management put forward the management of the international balance of payments and the supervision concept of 'balanced management', including the reform of RMB convertibility under the capital account. In 2002, the Qualified Foreign Institutional Investor System (QFII) was established, enlarging foreign investment in China. In 2003, the Central Huijin Corporation was established to inject capital into state-owned commercial banks and explore the diversified use of foreign exchange reserves. In July 2005, the RMB exchange rate began to be reformed, including abolishing the management of the current account quota for foreign exchange, implementing the management of the US $50,000 quota for individuals, launching the Qualified Domestic Institutional Investor system (QDII), and the RMB QFII (RQFII). In 2008, the Chinese government amended the 'Regulations of the People's Republic of China on Foreign Exchange Control', marking a new stage in foreign exchange management in China. After the global financial crisis, SAFE gradually introduced regulations to support enterprises and residents in holding and using foreign exchange, established entrusted loans and established foreign exchange reserve cooperation with BRICS countries.

In 2012, SAFE implemented the reform of the foreign exchange management system for trade in goods, abolishing the system of writing off foreign exchange receipts and expenditures in goods, and significantly improving trade facilitation. In 2013, China reformed the foreign exchange management system for trade in services and abolished all pre-approval procedures. After expanding the Two-way opening-up of the financial market, SAFE launched new mechanisms for cross-border securities investment, such as the Shanghai-Hong Kong Stock Connect (2014), mutual fund recognition between the mainland and Hong Kong (2015), the Shenzhen-Hong Kong Stock Connect (2016), and the Bond Connect (2017). SAFE actively set up funding platforms for the 'Belt and Road', including the Silk Road Fund, the China-Latin America Production Capacity Cooperation Fund, and the China-Africa Production Capacity Cooperation Fund. It looks as if China is aiming at becoming the key provider of financial resources to the global South. In 2015, SAFE significantly simplified foreign exchange management for foreign direct investment and achieved the basic convertibility of foreign direct investment. From 2016

to 2017, SAFE promoted the two-way opening of the interbank bond market. In 2018, SAFE increased the QDII quota and removed the limit on the proportion of QFII funds remitted and the lock-up period requirements for QFII and RQFII. SAFE also expanded the pilot programs for Qualified Domestic Limited Partners (QDLP) and Qualified Domestic Investment Enterprises (QDIE) (SAFE, 2020). In addition, SAFE provided a supporting capital account management system for RMB internationalisation. Now, the main functions of SAFE are drafting rules and regulations governing foreign exchange market activities and managing state foreign exchange reserves.

- **Key Policies Implemented by the SAFE**

In 2007, the SAFE issued the 'Notice on Issues Related to the Management of Short-term Foreign Debts of Financial Institutions'. This move was in response to the impending Global Financial Crisis and aimed at minimising the exposure of banking institutions to foreign debts (SAFE, 2007).

Continuing this trajectory, in May 2013, SAFE introduced the 'Measures for the Administration of Foreign Debt Registration'. This initiative sought to streamline the process of foreign debt registration and mitigate potential risks associated with foreign debt (SAFE, 2013). The year 2014 witnessed a series of pivotal foreign exchange regulations issued by SAFE to overhaul foreign exchange management. These regulations encompassed a range of aspects, including 'Further Improving and Adjusting the Foreign Exchange Management Policy for Capital Accounts', 'Regulations on the Management of Foreign Exchange through Cross-border Guarantees', 'Regulations on the Management of Foreign Exchange through Foreign Loans', 'Regulations on the Management of the Centralised Operation of Foreign Exchange Funds for Transnational Corporations (Trial)', 'Issues related to the management of foreign exchange Listed Overseas', and 'Issues related to the management of foreign Exchange through Overseas Financing and round-trip Investment by domestic Residents through Special purpose Companies' (Financial Supervision Research & Financial Law, 2015).

In February 2016, SAFE unveiled the 'Regulations on the Administration of Foreign Exchange in Domestic Securities Investment by Qualified Foreign Institutional Investors'. This move had the effect of relaxing the quota constraints on QFIIs in their domestic securities investment pursuits (SAFE, 2016). Building on this, in September of the same

year, the PBOC and SAFE jointly issued the ‘Notice on the Management of Domestic Securities Investment by RMB Qualified Foreign Institutional Investors’, which aimed at facilitating the remittance of RQFII funds (PBOC & CBRC, 2016).

Fast-forwarding to February 2017, SAFE issued the ‘Notice on Foreign Exchange Risk Management of Foreign Institutional Investors in the Interbank Bond Market’. This directive marked the opening of the RMB derivatives market, which means that China is not immune t financialization and its risks. By introducing RMB-based foreign exchange derivatives, the intention was to entice greater participation from foreign investors, contributing to the balanced and sustainable development of China’s financial market (SAFE, 2017).

The landscape continued to evolve in May 2019, as SAFE released the ‘Notice on Measures for Banks’ Foreign Exchange Business Compliance and Prudent Operation’. This guideline underscored using macroprudential tools and market-driven evaluation methods to assess the stability of banks’ foreign exchange operations (SAFE, 2019). Later in September, with the endorsement of The State Council, SAFE took the significant step of removing the investment quota limit for QFII/RQFII. This policy change meant that eligible foreign institutional investors could remit funds for securities investment in accordance with regulations, streamlining the process. This move aimed to enhance foreign investors’ ease of participation in the domestic financial market, which heightened international acceptance of China’s bond and stock markets (SAFE, 2019).

The measures enforced by SAFE have been instrumental in shaping China's economic progress. By promoting a secure, transparent, and interconnected financial system, these actions have not only mitigated potential risks and upheld financial stability but also established a conducive atmosphere for economic expansion and global collaboration.

5.4 The Basel Accords in China

In 1988, Basel I defined the capital composition of banks and stipulated that core capital should account for 50% of the total capital, with subsidiary capital not exceeding 50%. Banks engaged in international business were required to reach a target capital-to-risk-weighted-assets ratio of 8% by the end of 1992, with at least 4% being core capital. In 1996, market risk was included in the calculation of risk-weighted assets.

According to the Basel Agreement, China began its financial reform in the 1990s. The Chinese government adopted the Basel Agreement due to the country's rapid economic growth and emergence as a global economic powerhouse, necessitating a strong and stable financial system. The adoption of Basel regulations was viewed as enhancing risk management, strengthening banks' capital adequacy, and improving the overall stability of the financial sector. China recognised that aligning its banking practices with international standards would contribute to its economic development and financial market reforms. The Basel Agreements, developed by the Basel Committee on Banking Supervision (BCBS), are widely accepted global standards for banking supervision and risk management. By adopting these regulations, China aimed to integrate its financial system more closely with international norms, thereby increasing investor confidence and facilitating cross-border financial activities. This alignment also supported China's aspirations for its financial institutions to operate globally.

While adopting Basel, China did not blindly apply the rules. Chinese authorities tailored the implementation of these rules to the country's specific economic conditions, financial structure, and regulatory environment. This approach ensured that the regulations were appropriate to China's circumstances and that the pace of adoption could be effectively managed.

In 1993, the PBOC first published the capital adequacy ratio, including it within the scope of monitoring. In 1995, China promulgated the first 'Law on Commercial Banks', which stipulated that the capital adequacy ratio of commercial banks should not be less than 8%. In April 2003, the CBRC was formally established. In March 2004, the CBRC promulgated and implemented the 'Administrative Measures for the Capital Adequacy Ratio of Commercial Banks', which stipulated the calculation method of the capital adequacy ratio and the supervision and inspection measures of the capital adequacy ratio (PBOC, 2012).

The 'Measures for the Management of Capital Adequacy Ratio of Commercial Banks' promulgated by the CBRC included the core content of Basel I.

1. The capital was divided into core capital and subsidiary capital. Core capital consisted of paid-in capital, capital reserves, surplus reserves, undistributed profits, and minority shares, while subsidiary capital included revaluation reserves, general

reserves, preferred shares, and convertible bonds.

2. Assets were divided into four risk levels: 0%, 20%, 50%, and 100%.

3. The capital adequacy ratio of commercial banks should not be less than 8%, and the core capital adequacy ratio should not be less than 4% (Ba & Zhang, 2012).

In September 2008, the CBRC issued the first batch of five regulatory guidelines for the implementation of the New Capital Agreement, including 'Guidance on Classification of Credit Risk Exposure of Commercial Banks' Bank Accounts', 'Guidance on Supervision of Internal Rating System of Commercial Banks', 'Guidance on Measurement of Regulatory Capital for Professional Loans of Commercial Banks', 'Guidance on Measurement of Regulatory Capital for Credit Risk Mitigation of Commercial Banks', and 'Guidance on Measurement of Regulatory Capital for Operational Risks of Commercial Banks', to implement Basel II (PBOC, 2012).

In March 2009, the BCBS announced that the PBOC and CBRC officially joined the BCBS on behalf of China (PBOC, 2010). In April 2011, according to the new capital regulatory framework set up by Basel III, the CBRC issued the 'Guidance on the Implementation of New Regulatory Standards for China's Banking Industry'. The current regulatory requirement for China's core tier 1 capital is 5%, slightly higher than the Basel III standard of 4.5%. Moreover, the current regulatory minimum leverage ratio of 4% for China is also higher than the Basel III standard of 3%. In addition to the liquidity coverage ratio and net stable financing ratio stipulated in Basel III, China also includes the liquidity ratio, loan-to-deposit ratio (LDR), core liability dependency, liquidity gap ratio, customer deposit concentration, and interbank liability concentration (PBOC, 2012).

In January 2013, the BCBS began to carry out the Regulatory Consistency Assessment Project (RCAP) in China. In September, the BCBS officially released the 'Status Report on China's Implementation of the Basel Agreement' and 'the Regulatory Consistency Assessment Project (RCAP) on China's Implementation of the Basel Agreement'. The overall assessment of China was favourable, with the overall regulatory framework rated 'compliant' (PBOC, 2014).

Table 5.2 The Implementation of the Regulatory Requirement of China based on Basel III

	China	Basel III
Core tier 1 capital	5%	4.5%
Min leverage ratio	4%	3%

Implementing Basel III is a massive challenge for China. First, implementing Basel III for China involves restructuring and reforming the risk management structure and risk management process. Second, China's main banking activity is credit-based, particularly in state-owned enterprises and local governments. Other sources, such as debt securities and equity markets, are less developed than intermediate credit (Turner, Tan, & Sadeghian, 2012). China's financial sector has been facing the challenge of the rapid expansion of credit assets, making it difficult to maintain adequate capital reserves. This has compelled banks to issue debt to replenish capital, resulting in a potential decrease in money quality. Moreover, as banks in China hold a significant portion of these debts, implementing Basel III has heightened the risk of holding debts, posing a considerable challenge for China's banking industry (Yang, 2022).

China's existing financial supervision system operates under a separate supervision framework. Since establishing the CBRC in 2003, the PBOC has primarily focused on formulating and implementing monetary policies, ensuring payment security within the financial system, and playing a role in macroeconomic control and mitigating financial risks. Consequently, the central bank controls macroeconomics, while other regulatory agencies oversee micro-level regulations in specific industries.

On February 18, 2023, the draft version of the 'Commercial Bank Capital Management Measures' was jointly released by the CBIRC and the PBOC. According to statements from the CBIRC and the PBOC, these measures aim to enhance the capital supervision of commercial banks, encourage banks to improve their risk management capabilities, and enhance the effectiveness of banks in supporting the real economy. Furthermore, the proposed amendment aims to assist large banks in accurately assessing risks and reinforcing their risk management practices (CBNE, 2023).

Bank regulation in China adopts a macroprudential approach, prioritising the stability of the entire financial system rather than solely focusing on individual banks. This approach is influenced by the unique characteristics of China's banking sector, which is predominantly dominated by state-owned banks, with only a limited number of joint-stock and foreign banks operating there. As a result, macroprudential regulation is deemed essential to safeguard the stability of the entire financial system in China's banking industry landscape (Liu, 2014; Yuan et al., 2018).

The adoption of Basel regulation is seen as a mechanism to mitigate financial risks and enhance the resilience of Chinese financial institutions. By implementing capital adequacy requirements and risk management standards, China has sought to reduce the banking sector's vulnerability to shocks and crises to maintain financial stability. The adoption of the Basel Regulations also has an impact on China's diplomacy and international relations. By aligning itself with international standards, China aims to enhance its reputation as a responsible global player in the financial sector. Such an alliance could promote closer cooperation between China and international financial institutions and demonstrate China's commitment to financial stability on the global stage.

In essence, the adoption of the Basel rules by the PBOC and Chinese authorities is driven by a combination of the need for economic growth, alignment with global financial standards, and a recognition of the importance of financial stability. While the rules were not imposed on China, the decision to adopt the Basel Agreements was influenced by domestic and international factors, and political considerations also played a role in the context of China's broader economic and diplomatic strategy.

Currently, China's financial regulatory structure demonstrates a state of low risk due to its meticulously delineated classification within the banking regulatory framework. This is complemented by risk control metrics surpassing the standards set by the Basel Accords. Simultaneously, although China's financial landscape is under the governance of the national authorities, its banking industry thrives within a sheltered market environment (Cousin, 2011).

5.5 Conclusion

Ordoliberalism represents a public policy rooted in the principles of a free market economy, implementing these principles through a strong institutional framework, with

the state, especially the central bank, playing a central role. It advocates for a structured and standardised free market economy premised on the rule of law in which the state has institutional authority and actively shapes economic activities to promote fair competition and prevent market failure (Fouskas & Gokay, 2019). Ordoliberal theories are predicated on the assumption that the state is necessary for the functioning of the market, but its actions must conform to strict and clearly defined rules (Woodruff, 2016). In Germany and the EU, ordoliberalism involves a stringent separation of politics and the central banking mechanism. The Central Bank's decisions are exclusively technical, aligning with its anti-inflationary policy, and are not influenced by the spending inclinations of political parties or trade unions (Ptak, 2009; Schäfer, 2016; Fouskas, 2018; Bruno, 2023).

In China, the global neoliberal framework has expanded with Deng Xiaoping's complete endorsement of market economy principles. Under General Secretary Xi Jinping's leadership, China's economic strategy has evolved into a domestic neoliberal initiative intricately connected and deeply embedded in the cross-border dynamics of neo-liberalisation (Lagerkvist, 2015). China's economic strategy typically involves state-controlled and market-oriented reforms, allowing flexibility and adaptation to its unique socio-economic environment (Weber, 2021). The Chinese government has undertaken financial reforms aligning with elements of ordoliberalism, including bolstering the rule of law, improving corporate governance, and fostering a more market-oriented economy. However, China's distinctive state-led economic model and its gradual liberalisation approach not only distinguish it from Anglo-American neoliberalism but also necessitate adapting the very ordoliberal principles to the nation's specific conditions (Huang & Ji, 2017). The impact of these reforms on China's financial sector is manifold. Anticipated outcomes encompass heightened efficiency in capital allocation, enhanced financial stability, and the potential for increased growth rates. Nevertheless, accompanying risks, such as currency crises and banking sector instability, necessitate vigilant management and regulatory oversight (He, 2018).

In essence, ordoliberalism is being contemplated and implemented within China's financial landscape to cultivate a more stable and competitive market, concurrently addressing challenges from the digital economy and global economic integration. The success of these initiatives hinges on achieving a delicate equilibrium between market

liberalisation and maintaining financial stability, coupled with the adept adaptation of ordoliberal principles to China's distinctive economic milieu. Furthermore, the ongoing transformation of China's banking supervision system has introduced a more systematic and efficient regulatory framework to foster the growth of the country's banking industry. Simultaneously, this initiative has fortified regulatory mechanisms, enabling a more stable operational environment for the banking sector. Moreover, adequate financial supervision plays a crucial role in upholding financial stability and ensuring the robustness of the financial system. Over the past few decades, China has systematically adjusted its regulatory framework through gradual and targeted reforms. Adopting China's Basel regulation enhances collaboration between China and international financial institutions, showcasing China's dedication to global financial stability. Furthermore, subsequent reforms in China have streamlined the regulatory framework, aligning with the double peak concept and signifying a significant stride towards its adoption (Chorzempa & Véron, 2023).

Chapter 6: Chinese Policy Banks

6.1 Introduction

This chapter will examine the domestic and foreign investments of China's policy banks, with a focus on their contributions to China's economic development. It will investigate the investment policies of policy banks in both domestic and foreign markets and how these investments contribute to economic growth and structural adjustment. Building on the discussion in Chapter 5 regarding China's Financial Regulatory System, this chapter will explore how policy banks can implement domestic and foreign investments within the regulatory framework to achieve a comprehensive operation of the financial system. Through the analysis of policy banks' investments, we will unveil their role in driving China's economic development.

6.2 Overview of the Chinese Policy Banks

In 1994, China implemented financial system reforms by establishing policy banks, including the China Development Bank (CDB) (国家开发银行), Export-Import Bank of China (EXIM Bank) (中国进出口银行), and Agricultural Development Bank of China (ADBC) (中国农业发展银行). These institutions supported national infrastructure development, promoted foreign economic and trade relations, and facilitated agricultural and rural growth. The roles of the three policy banks differed around the 1990s. The EXIM Bank mainly dealt with export credit, foreign contract projects, overseas investment loans, and foreign preferential loans of the Chinese government. The ADBC collected agricultural policy credit funds based on state credit, undertook agricultural policies as stipulated by the state, engaged in agriculture-related commercial financial business, and acted as an agent for the allocation of financial funds to support agriculture, serving the development of agriculture and the rural economy. The CDB mainly provided long-term financial support for national infrastructure and basic industries such as power, road, railway, petroleum and petrochemical, coal, post and telecommunications, agriculture, forestry, water conservancy, public infrastructure, etc. Initially, the three banks made up for market credit, and allocating financial resources in some areas was difficult (China's Reform and Opening Up, 2010).

By the end of 2004, the total assets of the three policy banks were RMB 2.41 trillion,

with outstanding loans of RMB 2.22 trillion. The outstanding balance of financial bonds was RMB 1.42 trillion, and the three policy banks borrowed RMB 609.9 billion from the central bank. In 2004, the total profit was RMB 13.1 billion (PBOC, 2005). By the end of 2005, the total assets of the three policy banks had reached RMB 2.93 trillion, an increase of RMB 516.08 billion from 2004. The book profit in 2005 was RMB 27.406 billion, RMB 14.315 billion more than in 2004 (PBOC, 2006).

Chinese policy banks provided up to $110 billion in financing to developing countries in 2009 and 2010, compared with $100 billion from the World Bank over the same period (Dyer & Anderlini, 2011).

The policy banks play a crucial role in facilitating economic development by offering affordable loans to projects that often need more appeal to commercial banks, encompassing infrastructure, agriculture, exports, and overseas investments. Notably, since 2013, the CDB and the EXIM Bank have expanded their scope beyond their traditional functions and demonstrated a proactive approach to pursuing commercial transactions, including financing leveraged buyouts in foreign markets (Gallagher, 2013).

On April 12, 2015, the State Council approved the reform plan of the three policy banks that were not commercialised. The ‘policy banks’ were the ADBC and the EXIM Bank, while the CDB was positioned as a ‘development financial institution’.

The difference between development financial institutions and policy banks was that the former fully supported the national strategy with market-oriented operations and could intervene in any development project; the latter were directly engaged in policy financing, mainly serving specific fields such as foreign trade and agriculture (Gov.CN, 2015).

Policy banks are professional financial institutions established by the government to carry out non-profit financial business in specific fields, implement government economic policies, and conduct operations without accepting deposits or private loans. Furthermore, policy banks maintain close ties with relevant industrial sectors. The separation of policy finance from commercial banks, establishing policy banks, and the strict definition of policy business are crucial components of China’s financial system reform. The ‘Big Four’ banks (Bank of China (BOC), China Construction Bank (CCB), Agricultural Bank of China (ABC), and ICBC) separated from financing activities that

support state policy objectives through establishing policy banks.

The role of the policy banks, CDB, EXIM Bank, and the ADBC, is to undertake more financing activities to support government policy objectives that commercial banks do not typically address due to their long-term nature or higher risk profile. In addition, there is a slight difference between the CDB and the EXIM Bank. CDB issues loans to support the government's overall economic goals in the 'five-year plan' ('五年计划') to provide loans at or near market interest rates. In contrast, the EXIM Bank is authorised to provide loans on preferential terms (Skålnes, 2021).

Policy banks finance projects in sectors such as infrastructure, agriculture, and environmental protection, often at concessional rates. They are less concerned with immediate profitability and more focused on achieving social and economic development goals set by the government. Additionally, their funding comes from various sources, including government grants, special allocations, and the issuance of bonds that may carry government guarantees. These banks often have access to longer-term funds at lower costs, allowing them to support projects that require significant upfront investment and have longer payback periods.

Moreover, their primary objective is to fulfil the government's policy objectives. While they do need to operate within the bounds of financial sustainability, their decisions are often guided by the broader economic and social impact of their projects rather than purely financial considerations. They are also regulated within the Chinese financial regulatory system, but the regulatory focus may be more on ensuring that they effectively implement government policies and achieve their development goals. Given their role in supporting strategic projects, they may have more flexibility in risk-taking.

The reform made the 'Big Four' banks to become commercial. These commercial banks are profit-oriented financial institutions that provide a wide range of services to individuals, businesses, and other entities. Their primary functions include accepting deposits, extending loans, facilitating payments and settlements, and offering various financial products like credit cards, investment services, and insurance. They operate in a competitive market environment and are driven by the need to generate profits for their shareholders. They primarily rely on customer deposits, which are short-term and

demandable, as well as other market-based sources of funds like issuing bonds and borrowing from other banks or financial institutions. They must manage their liquidity carefully to meet their depositors' demands and fund their lending activities. They are subject to stringent regulatory oversight, which includes adherence to capital adequacy ratios, liquidity requirements, and risk management standards. The regulatory environment is designed to ensure financial stability and protect depositors' interests. While commercial banks have also invested in domestic and foreign manufacturing sectors, their scale and scope are small compared to policy banks.

Alongside policy banks and commercial banks, China features a significant presence of shadow banks, which, as we show earlier, means that China is not immune from financialization, which skims off real income in favour of unproductive and even parasitic economic activity. In Europe and the United States, shadow banks generally refer to raising short-term capital through asset-backed commercial paper (ABCP), financial intermediaries, and Structured Investment vehicles (SIVs) to invest in long-term assets and multi-leverage investment operation framework.

The People's Bank of China (PBOC), in its 'China Financial Stability Report 2013', defines China's shadow banking as a credit intermediary system. This system comprises entities outside the formal banking system with liquidity and credit conversion functions, posing potential systemic risks or regulatory arbitrage. The 2020 'China Shadow Banking Report' from the China Banking and Insurance Regulatory Commission (CBIRC) emphasises that China's shadow banking revolves around banks, manifesting as 'the shadow of banks'. The structure is inherently tied to China's bank-dominated indirect financing system, in which China's banking sector has always accounted for about 90% of total financial sector assets.

China's shadow banking sector has emerged as a vital alternative financing source, especially for small and medium-sized enterprises (SMEs), overcoming challenges posed by strict criteria and credit limitations from traditional banks. This alternative funding avenue has been pivotal in fostering economic growth by supporting investments and expansions across various sectors, contributing to the nation's overall development (Allen & Gu, 2021). However, by recognising the associated risks, the Chinese government has implemented new regulations for the shadow banking sector since 2018, aiming to

enhance asset quality and mitigate potential threats. Specific banking regulations, such as the loan-to-deposit ratio (LDR) and loan quota, have been introduced, impacting traditional banks exclusively. These regulations have significantly influenced the ascent of the shadow banking sector in China during the period from 2009 to 2016 (Yang et al., 2019).

6.3 China Development Bank (CDB)

CDB was officially established in March 1994. The registered capital was RMB 50 billion, fully allocated by the State Finance. CDB primarily raised funds by issuing financial bonds domestically and abroad in the market. These funds were utilised to support sectors in alignment with national policies, such as power, roads, railways, petroleum and petrochemicals, coal, postal services, telecommunications, agriculture, and related supporting industries in China.

6.3.1 Investing in the Chinese Domestic Market

With the approval of the State Council, Huijin injected $20 billion into the CDB on December 31, 2007 (PBOC, 2008). At the beginning of 2008, the reform plan of the CDB was approved by the State Council. The reform plan clarifies that the Ministry of Finance and Huijin Company as sponsors accounted for 51.3% and 48.7% of the shares, respectively. On December 16, China Development Bank Co., Ltd. was officially established (PBOC, 2009).

Additionally, within China, the CDB played a pivotal role in devising and implementing numerous local government financing vehicles (LGFVs) known as local investment companies (LICs). These platforms facilitated the arrangement of substantial loans, reaching tens of billions of dollars, to finance diverse projects in infrastructure, real estate, and urbanisation initiatives throughout the country (Sanderson & Forsythe, 2012).

In 2018, the CDB issued RMB 161.8 billion in loans to the power industry, of which RMB 76.9 billion of medium- and long-term loans were given to clean energy projects. In addition, CDB provided financing of nearly RMB 9 billion for the Jiqing high-speed railway project. At the same time, CDB issued RMB 3.89 billion in loans for the Dujiangyan-Yingxiu, Yingxius-Wenchuan Expressway Project in Sichuan Province. It is significant to change the backward traffic situation in Tibetan areas and help Tibetan areas get rid of poverty.

Furthermore, the CDB issued a total of RMB 8.2 billion in loans for civil airports, focusing on supporting the construction of international hub airports such as Chengdu Tianfu International Airport, Hangzhou Xiaoshan International Airport Phase III, and Ningbo Lishe International Airport Phase III expansion project. In terms of the urban rail transit industry, the loan balance in 2018 was RMB 502.1 billion, focusing on supporting the Hangzhou Metro Line 5 Public-Private Partnership (PPP) project, the Fuzhou urban rail transit Line 4 and Line 5 phase I project, and the Guangzhou Rail Transit Line 18 project.

In 2018, the balance of CDB in the water conservancy industry was RMB 431 billion, focusing on ensuring the capital needs of ongoing water conservancy projects, supporting major national projects such as Shaanxi Yinhan Jiwei, Guangxi Dtengxia Water Conservancy project, Xinjiang Altashe water conservancy project, as well as rural drinking water safety, key water source projects, and small and medium-sized river management projects.

Moreover, CDB lent RMB 6.9 billion to BYD to support its development in core areas such as batteries and chips; Committed RMB 1.34 billion for the encapsulation and testing project of Tongfu Micro Electricity in Xiamen to support the transformation and upgrading of enterprises; CDB issued more than RMB 6 billion of loans, gave RMB 5.3 billion of bonds, and provided more than RMB 1.1 billion of investment to the future Science City construction project in Beijing.

On November 15, 2018, Xiongan Group's first single interbank market debt financing instrument, which CDB independently underwrote, was successfully issued. The bond issue was RMB 600 million, the coupon rate was 4.4%, and the raised funds were used to construct infrastructure projects in the Xiongan New Area (CDB, 2018).

At the end of 2019, CDB's balance of loans to the railway sector was RMB 853.7 billion, which stood at RMB 951.6 billion in the electric power sector. The balance of loans in the urban rail transit sector was RMB 594.8 billion. The CDB granted RMB 378.5 billion in loans to the manufacturing sector during the year.

Beijing-Zhangjiakou Rail Line is an important basic project for the coordinated development of the Beijing-Tianjin-Hebei region and a critical transportation support facility for the 2022 Beijing Winter Olympics. CDB has provided the project's financing

support of RMB 8.4 billion, and the rail line began to be used by the end of 2019 (CDB, 2019).

6.3.2 Investing in Foreign Markets

From 2009 to 2011, the CDB significantly contributed to international economic partnerships by providing credit lines amounting to $85 billion to national energy companies and government entities in several countries, including Brazil, Ecuador, Russia, Turkmenistan, and Venezuela (Sanderson & Forsythe, 2012).

Meanwhile, CDB has been involved in Asia's biggest private equity deals, lending to e-commerce company Alibaba Group, Hong Kong Exchanges and Clearing, and Indonesia's PT Bumi Resources (Gallagher, 2013).

In 2015, the CDB supported a $338 million loan to produce 300,000 tons of nickel-iron annually in Morovali County, Nigeria, India. In 2017, the annual output of 1 million tons of stainless-steel continuous casting and its supporting 2 ×150MW power generation project, supported by the CDB of $559 million, was put into operation (CDB, 2018).

In 2016, China's policy banks also participated in supporting the Belt and Road project. CDB mainly focuses on medium- and long-term loans; its loan cycle is generally 10–15 years (Greenovation: hub, 2016).

The Shymkent Oil Refineries Upgrading Project was officially implemented in September 2018, effectively meeting the local demand for clean oil products by promoting the upgrading of oil quality. CDB provided $265 billion in trans-shipment financing for the project through the Kazakh Development Bank. In addition, CDB signed a $150 million loan contract with the Argentine Bank of Investment and Foreign Trade (BICE), and BICE transferred the money to local users to support Argentina's agriculture, new energy, and other fields. In 2018, CDB issued loans of $570 million for the HengyiPulau-Muara Besar (PMB) Petrochemical Project, which can achieve domestic refined oil self-sufficiency in Brunei (CDB, 2018).

By the end of 2018, CDB's international business balance in countries along the Belt and Road exceeded $105 billion, accounting for 34% of the bank's total international business (The Economist Corporate Network Asia, 2020).

In 2019, CDB committed a loan of $629 million for the Lekki Deep Water Port in Nigeria project. Moreover, the CDB supported the COSCO Piraeus Port Project, which

delivered profits for China and Greece, with a loan balance of €299 million at the end of 2019. The Amur Natural Gas Plant project was also a critical subsidiary of the China-Russia East Route natural gas pipeline. CDB, as a co-financial adviser and lead bank of the Chinese syndicate, provided a €2.5 billion syndicated loan for the project (CDB, 2019 Annual Report, 2019).

The CDB has provided a $750 million loan to help Cambodia build its first highway (190 km long), the Phnom Penh to Sihanoukville Highway, to help Cambodia promote tourism development. At the same time, CDB provided $333 million to support the construction of the Colombo South Port Terminal in Sri Lanka (CDB, 2018).

6.3.3 Subsidiaries of CDB

- **CDB Capital Co., Ltd.**

CDB Capital Co., Ltd., founded in August 2009 with a registered capital of RMB 62.155 billion, focuses on fund management, direct industrial investments, social welfare initiatives, international cooperation, and other significant business sectors.

- **CDB Securities Co., Ltd.**

CDB Securities Co., Ltd. was established in August 2010 and completed its shareholding transformation in August 2017, with a registered capital of RMB 9.5 billion. The business covers bond financing, equity financing, proprietary investment, asset management, credit trading, brokerage, international trade, and more. In 2019, the company underwrote 482 bonds of various types throughout the year, totalling RMB 124.899 billion. The company's total assets reached RMB 37.583 billion by the end of 2019.

- **CDB Leasing Co., Ltd.**

CDB Leasing Co., Ltd. was established in May 2008 and listed on the Main Board of the Stock Exchange of Hong Kong in July 2016 with a registered capital of RMB 12.642 billion. By the end of 2019, the company's total assets were RMB 261.301 billion.

- **China-Africa Development Fund**

Established in June 2007, the China-Africa Development Fund Limited is China's first equity investment fund focused on investment in Africa. In 2019, the China-Africa Fund participated in the first China-Africa Economic and Trade Expo, the Fifth Investment Forum in Africa, the China-Portugal Investment and Financing Cooperation

Promotion Conference, the China-Arab States Expo, and other diplomatic events, signing 18 cooperation agreements. By the end of 2019, the CDB had made a cumulative investment of more than $5.4 billion in 37 African countries and could leverage $26 billion Chinese investment in Africa in areas such as agricultural and mineral resources development (CDB, 2019).

6.4 Export-Import Bank (EXIM Bank)

The EXIM Bank was officially established in April 1994, with a registered capital of RMB 3.38 billion, fully allocated by the State Finance. The EXIM Bank primarily implements national industrial policies and foreign trade policies, supporting the foreign trade of Chinese enterprises and products, facilitating Chinese enterprises' access to overseas investment opportunities, and providing support for the import and export of mechanical and electrical products, complete sets of equipment, and other goods, as well as foreign contracting and engineering services (Greenovation: hub, 2016). Additionally, the bank provides export credit to Chinese enterprises, issues loans for overseas projects and investments, and offers preferential loans to foreign governments. Its funds are primarily raised by issuing financial bonds domestically and abroad through the market.

6.4.1 Investing in the Chinese Domestic Market

In 2009, the assets of the EXIM Bank totalled RMB 953.3 billion, with RMB 478.532 billion in contracts and RMB 368.404 billion in loans. In January 2009, the EXIM Bank provided RMB 500 million to the Dandong Port (Dadong Harbor Area) Berths Renovation Project for international logistics infrastructure construction. In April, the EXIM Bank and the Aviation Industry Corporation of China (AVIC) signed a strategic cooperation agreement with a total value of RMB 100 billion. The agreement aims to support AVIC's business of product export, overseas project contracting, overseas investment, technology introduction, and technical equipment import. Moreover, in November, the EXIM Bank provided about RMB 5 billion of fixed asset import credit to Heshan Nuclear Power Joint Venture Co., LTD., the loan used to support the construction of the Phase I Project of Taishan Nuclear Power Station and the import of related equipment, raw materials, and services.

By 2009, the EXIM Bank had issued RMB 1.315 billion Equipment Export Seller's credit to the Equipment Export Project of China First Heavy Industries (CFHI). Also, it

provided a $44.5 million seller's credit for exporting high-tech products to TPK Touch Solutions (Xiamen) Inc, a joint venture engaged in developing and producing touch panels for mobile phones such as iPhone and HTC (EXIM Bank, 2009).

In 2010, the EXIM Bank supported $115.3 billion in exports of mechanical and electrical products and high-tech products, overseas contracted projects, overseas investment projects, and $53.1 billion in imports. Furthermore, the EXIM Bank issued RMB 680 million to Xinjiang Tiansheng Industrial Co., Ltd. to support equipment import and construction of supporting projects. At the same time, the bank exported issued an equipment export seller's letter of RMB1.2 billion to XCMG Construction Machinery Co., Ltd., which is one of the largest construction machinery enterprises in China, and the products mainly exported to the Americas, Europe, Southeast Asia, the Middle East, and Africa (EXIM Bank, 2010).

2011 was the first year of the 12th 'Five-Year Plan', and the EXIM Bank signed contracts worth RMB 497.803 billion and issued loans of RMB 478.742 billion. EXIM Bank issued RMB 500 million to Beiqi Foton Motor Co., Ltd. For general mechanical and electrical products export seller credit and signed a strategic cooperation agreement (EXIM Bank, 2011).

In 2012, the EXIM Bank issued loans of RMB 646.218 billion, supporting a total of $165.906 billion exports of mechanical and electrical products and high-tech products, overseas engineering contracts, overseas investment projects, and $111.667 billion imports. In addition, the EXIM Bank provided overseas investment loans to Dalian Wanda Group Co, which was used to finance Wanda Group's acquisition of AMC Corporation of the United States (EXIM Bank, 2012).

In 2013, the EXIM Bank continued to maintain steady growth. It issued RMB 803.834 billion in loans, supported exporting mechanical, electrical, and high-tech products, and overseas contracted projects and investment projects of $250.628 billion. In addition, it helped import technical equipment and resource products worth $104.526 billion (EXIM Bank, 2013).

In 2014, the EXIM Bank issued RMB 921 billion in loans, supported exporting of mechanical, electrical, and high-tech products, and overseas contracted projects and investment projects with $292.448 billion. In addition, it helped import technical

equipment and resource products worth $139.936 billion. In 2014, the EXIM Bank financed the Qoros C parallel derivative vehicle research and development project. In addition, the EXIM Bank funded and supported the Storage Equipment Industrialisation Project of the All-Vanadium Redox Flow Battery of Rongke Power project, which represented the development direction of the field of energy storage equipment and is strong support for the development of new energy technologies (EXIM Bank, 2014).

In 2015, the EXIM Bank issued RMB 1,077.4 billion in loans, of which the balance of foreign trade loans reached RMB 994.428 billion in 2016. From 2015 to 2016, EXIM Bank supported several key projects, mainly involved New Energy Vehicles Built by King Long United Automotive Industry (Su Zhou) Co., Acquisition of SMD Company of Britain by Zhu Zhou CRRC Times Electric Co., Ltd., Changsha Maglev Express by Hunan Maglev Transportation Development Co., Ltd., and Container Terminal of Orchard Working Area in Chongqing Main City Port, etc. (EXIM Bank, 2015; EXIM Bank, 2016).

In 2017, the balance of the loans was RMB 2,876.8 billion, and the total assets on and off the balance sheet reached RMB 3,735.9 billion. The EXIM Bank continued to provide financial support to the manufacturing industry, such as supporting 38,000 dwt Stainless Steel Chemical and Oil Product Tanker by Hudong-Zhonghua Shipbuilding (Group) Co. Ltd., which is one of the most advanced stainless steel chemical vessels in the world. It is also an energy-saving and environmentally friendly ship integrating many advanced technologies. Meanwhile, the EXIM Bank supported the Shenzhen BGl Industrial Adjustment and Upgrading Project and the G6 Foldable LTPS-AMOLED Display Panel Project (EXIM Bank, 2017).

6.4.2 Investing in Foreign Markets

In 2009, the EXIM Bank provided RMB 900 million to the Equatorial Guinea Malabo Sewage Treatment Project, which was built by Gezhouba Group (EXIM Bank, 2009). In June 2010, the EXIM Bank signed an $800 million financing framework agreement with Pacific Shipbuilding Group and the French Bourbon Group to support the export of 62 Ocean Engineering Vessels for the SinoPacific Heavy Industry Group project. The commercial contract value of the project was $1 billion, making it the most prominent new ship order in the global market in 2010 (EXIM Bank, 2010).

In 2012, the EXIM Bank signed new export buyers' credit projects totalling RMB 13.279 billion. The balance of goods sold was RMB 158.671 billion. Among them, the export buyer's credit from the EXIM Bank supported the deep processing project of the Atrau Refinery in Kazakhstan (EXIM Bank, 2012). In 2013, the EXIM Bank financed the Ethiopian railway project, which initiated the cross-border railway network in Africa and became an essential international seagoing railway corridor in Ethiopia. Additionally, concessional loans from the EXIM Bank supported the construction project of the second North-South highway in Kyrgyzstan, which would become a road hub connecting the northern and southern regions of Kyrgyzstan (EXIM Bank, 2013).

In 2014, the EXIM Bank financed China Minmetals Corp's acquisition of the Las Bambas copper project in Peru. This project was China's largest overseas acquisition project in the metal mining sector until 2014. The EXIM Bank also financed and supported satellite projects in Laos and the Mombasa-Nairobi railway project in Kenya (EXIM Bank, 2014).

In 2015, the EXIM Bank assisted China and Guinea in the Kaleta Hydropower Project in Guinea, which was the largest project of China-Guinea cooperation. Additionally, the EXIM Bank helped Chinese enterprises implement the first overseas Wind Power Project, the Adama Wind Power Project in Ethiopia. The EXIM Bank financed the Port Qasim Coal-fired Power Project in Pakistan, an essential Belt and Road Initiative (BRI) 'China-Pakistan Economic Corridor (CPEC)' project (EXIM Bank, 2015).

Moreover, the EXIM Bank financed numerous projects during 2016, including the NO. 76 National Highway Extension Line in Cambodia; the Coca Codo Sinclair Hydropower Station Project in Ecuador; the Addis Ababa-Djibouti Railway Project; the Payra Ultra Supercritical Coal-fired Power Project in Bangladesh; and the National Telecom Network Project in Uzbekistan. The EXIM Bank also assisted in the acquisition of Edra Company of Malaysia by China General Nuclear Power Group and the acquisition of American Robbins Company by Northern Heavy Industries Group Co., Ltd. (EXIM Bank, 2016). With the development of the BRI, the EXIM Bank continued to provide financial support abroad in 2017, such as the Extension of the Southern Expressway in Sri Lanka, the Mombasa-Nairobi Standard Gauge in Kenya, the Budapest-Belgrade Railway, the Maputo Ka Tembe Bridge and Related Link Roads in Mozambique, and the

Jatigede Dam in Indonesia, etc. (EXIM Bank, 2017).

By the end of 2018, the total assets were RMB 4193.7 billion, and the net profit was RMB 4622 billion (EXIM Bank, 2018). The business development of the EXIM Bank continued to grow. The green credit of the EXIM Bank exceeded RMB 250 billion (about $35.6 billion). The EXIM Bank used these green credit products to support renewable energy projects belonging to BRI, such as the Karot hydropower project in Pakistan, the Adarna wind power project in Ethiopia, and the Daysun cell and solar module production lines in Penang, Malaysia. Meanwhile, by the end of April 2019, the EXIM Bank had provided more than RMB 1 trillion (with $149 billion) in financing BRI (The Economist Corporate Network Asia, 2020).

At the end of 2019, the total assets of the EXIM Bank were RMB 4.57 trillion, and the net profit was RMB 5.457 billion. Additionally, as the fourth-largest bond issuer in the domestic market, the EXIM Bank achieved steady growth in local and foreign currency bond financing. The RMB financial bonds issued domestically reached RMB 820 billion, an increase of 47.8% over 2018, and the stock of RMB bonds at the end of 2019 was nearly RMB 2.8 trillion. Overseas financing reached $5.2 billion, an increase of 73.3% in 2018 (EXIM Bank, 2019).

6.5 Agricultural Development Bank of China (ADBC)

The ADBC was formally established in April 1994, with a registered capital of RMB 20 billion, fully allocated by the State Finance, and directly under the leadership of The State Council, to raise funds for agriculture, rural areas, and farmers. In addition, ADBC also handles the allocation of central and provincial government financial funds for agriculture and opens special accounts for food risk funds established by governments. Major credit operations include grain and oil, cotton, payment for agricultural production, rural circulation system construction, agricultural small enterprises, new rural construction, water conservancy construction, rural infrastructure construction, etc.

In 2010, ADBC's total assets were RMB 1,758.16 billion. Among them, the balance of various loans was RMB 1,671.065 billion (ADBC, 2010). In 2011, ADBC's total assets were RMB 19,534.67 billion. The balance of loans reached RMB 1,875.55 trillion, mainly an increase of RMB 115.775 billion in reserve loans, RMB 130.437 billion in loans for the improvement of rural land and for the construction of towns and cities at the county

level, and RMB 85.562 billion in loans for the construction of centralised housing for rural residents (ADBC, 2011).

In 2012, the total assets of the ADBC reached RMB 2,293.08 billion, an increase of 17.4%. Of this total, the balance of loans was RMB 2,185.08 billion, with the primary increase loans for water conservancy and new rural construction, which increased by RMB 150.18 billion (ADBC, 2012). In 2013, the assets of the ADBC continued to grow steadily and rapidly, and the total assets reached RMB 2622.68 billion. Among them, the balance of the loan was RMB 2502.68 billion, mainly due to the RMB 157.54 billion increase in grain and oil loans, RMB 153.16 billion increase in water conservancy and new rural construction loans, and RMB 75.82 billion increase in grain and cotton reserve loans (ADBC, 2013). From 2014 to 2015, the assets of the ADBC increased from RMB 3142.210 billion to RMB 4183.132 billion. The loan balance also increased from RMB 2831.351 billion to 3441.037 billion (ADBC, 2014; ADBC, 2015).

In 2016, ADBC focused on supporting infrastructure construction such as water, electricity, and telecommunications in provinces involved in the BRI and issued infrastructure loans of RMB 406 billion. ADBC also disbursed RMB 43.9 billion in the Beijing-Tianjin-Hebei region's infrastructure projects and RMB 436.5 billion in the Yangtze River Economic Belt involves provinces (ADBC, 2016). In 2018, the Xiongan Branch of ADBC Issuance invested RMB 50 million in the forestry resource development and protection payment of the EPC contract to Beijing Sande Environmental Engineering Co., LTD., to support the construction landscape project in Xiongan New Area. Moreover, the Agricultural Development Bank of Guangdong Province Shantou branch issued a medium and long-term loan of 10 yuan to support the construction of the seawall project in the Shantou Port Guang-Macao Port area, a critical coastal port of the BRI strategy (ADBC, 2018). By the end of 2019, ADBC's total assets were RMB 7 trillion, an increase of 2.27%, and the annual loans reached RMB 1.79 trillion (ADBC, 2019).

The China Agricultural Industry Development Fund and the Modern Seed Industry Development Fund were formally established in 2012, jointly initiated by the ADBC and the Ministry of Finance. Three enterprises were established: China Agricultural Industry Development Fund Co., Ltd., the Modern Seed Industry Development Fund Co., Ltd., and Beijing Xiannong Investment Management Co., Ltd.

China Agricultural Industry Development Fund Co., Ltd. has a fund scale of RMB 4 billion, and the fund manager is Cinda Asset Management Co., Ltd.; while Modern Seed Industry Development Fund Co., Ltd. has a fund target size of RMB 5–8 billion, with the fund trustee being the ADBC; In 2013, Beijing Xiannong Investment Management Co., Ltd. currently had a registered capital of RMB 36.36 million. ADBC contributed RMB 33.36 million, with an equity ratio of 91.75%, and Zhongcai Quanxing Capital Management Co., Ltd. contributed RMB 3 million yuan, with an equity ratio of 8.25%.

6.6 Support in Africa

China launched the Belt and Road Initiative (BRI) to promote collaboration among countries along its route, many of which require substantial infrastructure investment. The partnership involves constructing railways, ports, highways, power grids, and energy infrastructure to facilitate direct trade and explore capital financing opportunities. Since its inception in 2013, the BRI has significantly driven infrastructure development in various regions, including Southeast Asia, South Asia, Central Asia, West Asia, North Africa, Mongolia, Russia, and Central and Eastern Europe. China's infrastructure investments in Africa cover railways, roads, ports, airports, and power facilities. This section will focus on the banking sector's role in supporting Africa within the BRI. Additional banking support projects along the Belt and Road will be explored in Chapters 7 and 8.

Compared to non-policy state-owned banks, China’s policy banks have a unique loan purpose and a strong motivation to connect with the BRI project. Therefore, the BRI is closely related to the lending practices of China’s Policy Banks (Chen et al., 2022). The BRI has increased the funds provided by China’s Policy Banks for renewable energy projects in Belt and Road countries, especially in hydropower projects and Southeast Asia (Cheng & Wang, 2023). Two policy banks, CDB and Exim Bank, provided most of the funds for the BRI. By the end of 2014, the outstanding loans provided to foreign borrowers were about $70 billion, of which CDB provided about $40 billion, and the rest came from Exim Bank (Kopiński & Sun, 2014).

In international investments, China has strategically undertaken numerous projects

abroad through its policy banks, with a notable focus on Africa. A compelling illustration lies in China's engagement with railway infrastructure on the African continent. A prominent instance dates back to 1975 when China inaugurated the Tazara Railway, a monumental aid initiative spanning 1,860.5 kilometres, connecting Dar es Salaam in Tanzania to Kapiri Mposhi in Zambia. This project was provided with interest-free loans by China.

Building upon this legacy, China continued to extend its overseas railway endeavours. A milestone in 2014 saw the completion of the Benguela Railway, an ambitious 1,344-kilometre undertaking originating from Lobito, an Atlantic port city in Angola, traversing vital urban centres like Benguela, Huambo, Cuito, and Luena, and culminating at the border town of Luau adjacent to the Democratic Republic of the Congo. Demonstrating prowess in modern urban transit, China Railway Co., Ltd. embarked on constructing the Addis Ababa Urban Light Rail in January 2012. This urban light rail system, spanning 34 kilometres, commenced operations in September 2015. In 2016, the Djibouti Railway brought transformative change by significantly reducing travel time between Ethiopia's capital, Addis Ababa, and Djibouti. This project curtailed the journey from three days to a mere ten hours and assumed a pivotal role as a crucial maritime transportation conduit for landlocked Ethiopia (Gov.CN, 2016).

The China-Nigeria partnership also yielded substantial dividends with the Nigerian Railway Modernisation Project. Launched in October 2006, this initiative covered 1,315 kilometres, connecting Lagos, Nigeria's economic epicentre, to Abuja, the capital, and Kano in the north. After its commencement in 2011, the railway commenced operations in July 2016, substantially bolstering Nigeria's transportation infrastructure. An emblematic feat, the Madaraka Express Railway, spanning approximately 480 kilometres, links the largest port in East Africa with Nairobi, Kenya's capital. This project was initiated in December 2014, culminating in its official inauguration in May 2017 (National Railway Administration, 2017).

The CPEC is a joint initiative between China and Pakistan, with the main route running from Urumqi-Kashgar-Khunjerab-Pakistan Soest-Honza-Gilgit-Peshawar-Islamabad-Karachi, and the port of Gwadar spanning 4,625 kilometres. The two countries have agreed to focus on cooperation in areas such as Gwadar Port, energy, transportation

infrastructure, and industrial development. Plans have been formulated for constructing roads, railways, oil and gas pipelines, and optical cables from Kashgar City in Xinjiang to Gwadar Port in southwest Pakistan. On November 5, 2019, the inauguration ceremony for Pakistan's PKM Expressway Project (Sukkur-Multan Section) was held in Islamabad. This project is a crucial transportation infrastructure project of the CPEC, running from Sukkur in Sindh Province to Multan in Punjab Province, totaling 392 kilometres. The project was undertaken by China State Construction Group, with a contract value of approximately US$2.889 billion. This project is a significant part of the BRI (Asian Financial Cooperation Association, 2019). BRI's CPEC project also positively affects China's agricultural trade with African and Middle Eastern countries (Lateef & Riaz, 2022). At the same time, Chinese policy banks have also participated in cooperative financing initiatives and regional funds in Latin America and the Caribbean (LAC), working with multilateral banks and commercial institutions to facilitate transactions in various initiatives, including telecommunications, the energy sector, and infrastructure projects (Myers & Ray, 2022).

The BRI primarily involves Chinese banks investing in infrastructure development projects spanning Asia, Central Asia, Africa, and Europe/Balkans. International borrowers are expected to repay the Chinese banks' funds as these projects generate profits from their diverse applications. Now, the BRI is turning to small-scale investment projects, which can quickly create benefits. At the same time, due to the reduction of China's lending funds, China is seeking global financing for the BRI project (The Economist, 2023). The concerted expansion of railway infrastructure abroad underpins China's strategic endeavours, enabling enhanced connectivity, economic growth, and regional integration while showcasing its diplomatic and economic influence. It also shows that Chinese banks contribute to development in China and abroad.

6.7 Conclusion

Chinese policy banks have played a pivotal role in supporting a substantial portion of China's domestic infrastructure projects and overseas infrastructure ventures, particularly those aligned with the BRI. While commercial banks have also invested in domestic and foreign manufacturing sectors, their scale and scope are smaller compared to policy banks.

Key disparities exist between China's policy banks and its commercial banks. The majority of capital for policy banks like the CDB and the ADBC originates from the government, which extended financial backing during their inception. In contrast, China's commercial banks, including the 'Big Four' banks, have adopted a shareholder-based model. Shareholders encompass individuals, corporations, and other financial institutions. These commercial banks are empowered to generate funds through share issuance, equity transfers, and alternative avenues to distribute profits among stakeholders.

Furthermore, policy banks typically operate with a narrower dependence on deposits. They secure funds through government sources, issuance of bonds within the international financial markets, and other financing mechanisms to support well-defined policy targets. Their primary objectives revolve around bolstering strategic national sectors and developmental aspirations such as infrastructure development, rural progress, and technological innovation.

Compared with commercial banks in China, policy banks have no advantage in capital costs. Their fundraising cost is alarmingly high. In this financial development model, the role of the Chinese state is to promote market financing for infrastructure projects rather than direct financing (Chen, 2020).

Nevertheless, a point of convergence exists between China's policy banks and commercial banks in the form of unified regulation under China's banking regulatory framework. (A more detailed description of China's banking regulatory regime is provided in Chapter 5.)

Chapter 7: The Investment Policy of Chinese State-Owned Commercial Banks

7.1 Introduction

On December 16, 2003, the State Council approved the establishment of Central Huijin Investment Co., Ltd., which assumed the role of a governmental investor and overseer for significant state-owned financial enterprises. Subsequently, the transformative reform of the prominent state-owned banks known as the 'Big Four' was set into motion. Despite the disparities discussed in the preceding chapter, China's financial system had not yet achieved complete alignment with established global capitalist norms. Consequently, the repercussions of the 2008 financial crisis were relatively muted within China's financial landscape.

This chapter will focus solely on the Chinese state-owned commercial banks, specifically the 'Big Four' banks (the Industrial and Commercial Bank of Chinazh 中国工商银行 (ICBC), China Construction Bank 中国建设银行 (CCB), Bank of China 中国银行(BOC), and Agricultural Bank of China 中国农业银行 (ABC)), as they are the largest banks in China in terms of capitalisation, profits/returns, productive investment, etc. (Sperber, 2023).

For example, in the Forbes 2023 top 100 global enterprises, ICBC ranked No.3, with a market value of $203 billion, assets of $6.12 trillion, and profits of $53 billion. It was followed by CCB at No.4, ABC at No.5, and BOC at No.12. Additionally, Table 7.3 presents the data for Leading Banks in China 2022.

Table 7.3 Leading Banks in China 2022, Based on Total Assets

Leading banks in China 2022, based on total assets

(in trillion U.S. dollars)

Industrial and Commercial Bank of China	5.52
China Construction Bank	4.75
Agricultural Bank of China	4.56
Bank of China	4.19
Postal Savings Bank of China (PSBC)	1.96
Bank of Communications	1.83

China Merchants Bank	1.45
Industrial Bank Co., Ltd.	1.35
China Citic Bank Corp.	1.26
Shanghai Pudong Development Bank	1.25
China Minsheng Banking Corp.	1.09
China Everbright Bank	0.93

Table 7.4[26] Profit Growth in the Banking Sector in China 2012–2021

Profit growth in the banking sector in China 2012–2021	
2012	19%
2013	14%
2014	10%
2015	2%
2016	4%
2017	6%
2018	5%
2019	9%
2020	-3%
2021	13%

Table 7.5 Total Assets of the Banking Sector as a % of China's GDP

(In trillion U.S. dollars)	Assets	% GDP
2007	6.55	185%
2008	8.26	180%
2009	10.4	204%
2010	12.94	213%
2011	16.14	214%
2012	19.16	225%

[26] Own elaboration of data from Fitch Ratings.

2013	22.27	233%
2014	24.41	233%
2015	26.96	244%
2016	28.97	258%
2017	31.04	252%
2018	32.9	237%
2019	35.3	247%
2020	41.6	283%
2021	46.38	262%

Table 7.5 provides a comprehensive overview of the development of the Chinese banking sector, showing that the total assets of the banking sector as a percentage of GDP increased from 185% to 262% during 2007 to 2021 in China. Notably, the total assets of the banking sector as a percentage of GDP in China exhibit a consistent upward trajectory, underscoring the sector's expanding influence (shown in **Table 7.4** and **Figure 7.14**). However, it is noteworthy that despite this growth, the profitability of the banking sector has experienced a decline from 2012 to 2021. In addition, **Figure 7.15** shows that salaries in the financial sector have increased significantly, reflecting the importance of the sector and the need for high-end talent.

Simultaneously, a significant milestone was reached when the ICBC, CCB, BOC, and ABC first appeared in Forbes' Top 2000 Global Companies list, notably within the Top 30, by the year 2011. It is within this context that the subsequent focus of this chapter shall centre on an exploration of the investment strategies adopted by these 'Big Four' state-owned banks, particularly post-2009.

This research will be conducted using a thorough analysis of the annual reports of the 'Big Four' state-owned commercial banks spanning 2009 to 2019. The primary emphasis will be directed toward their asset management initiatives. In conjunction with the banks' released reports, this investigation aims to unveil the salient investment policies pursued by the 'Big Four' state-owned banks during this period.

To analyse the contribution of China's major state banks to the economic rise of China, here, we focus on comparing the net income and tax data of China's four major state-owned banks, namely ICBC, ABC, BOC, and CCB, with China's GDP data. The

growth of net income and tax of the banks is observed to be relatively correlated with the rising trend of China's GDP, particularly from 2005 to 2014. This observation suggests a positive association between the profits generated by the four major banks in China and the country's overall economic development (Figures 7.12 and 7.13 provide detailed information on the data of the 'Big Four' and GDP in China).

Figure 7.12 Comparison in Net Income of the 'Big Four' and GDP of China

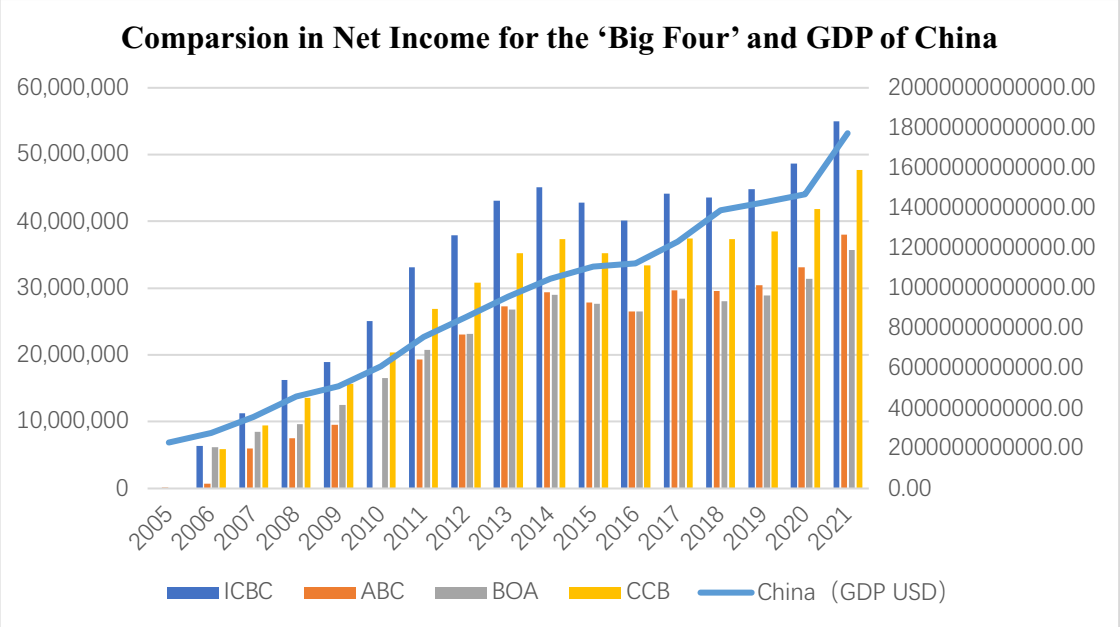


Figure 7.13 Comparison in Tax for the 'Big Four' and GDP of China

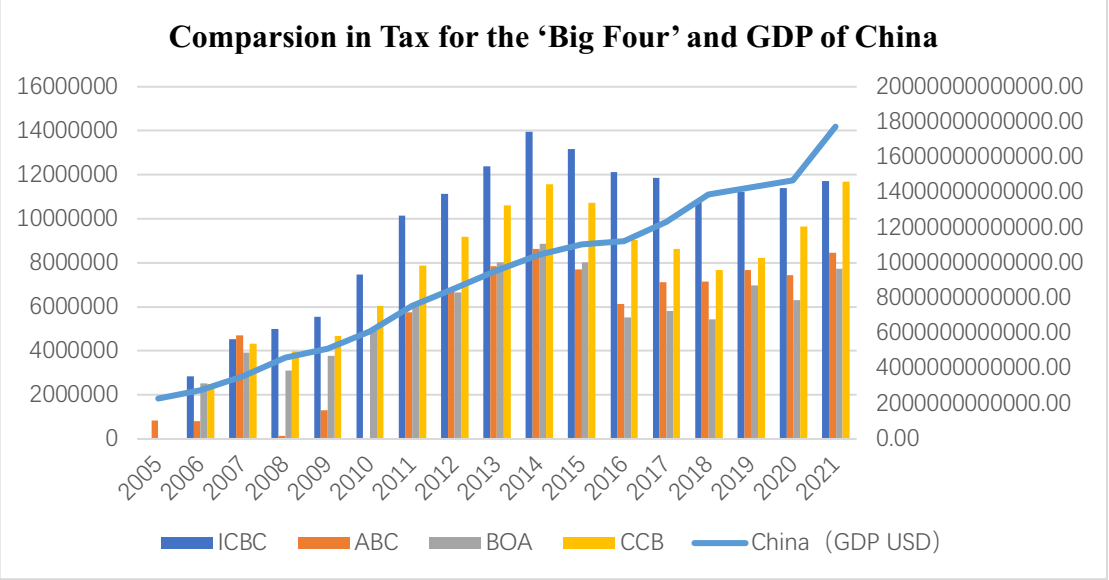


Figure 7.14[27] Total Assets of Banks in China (in Trillion U.S. Dollars)

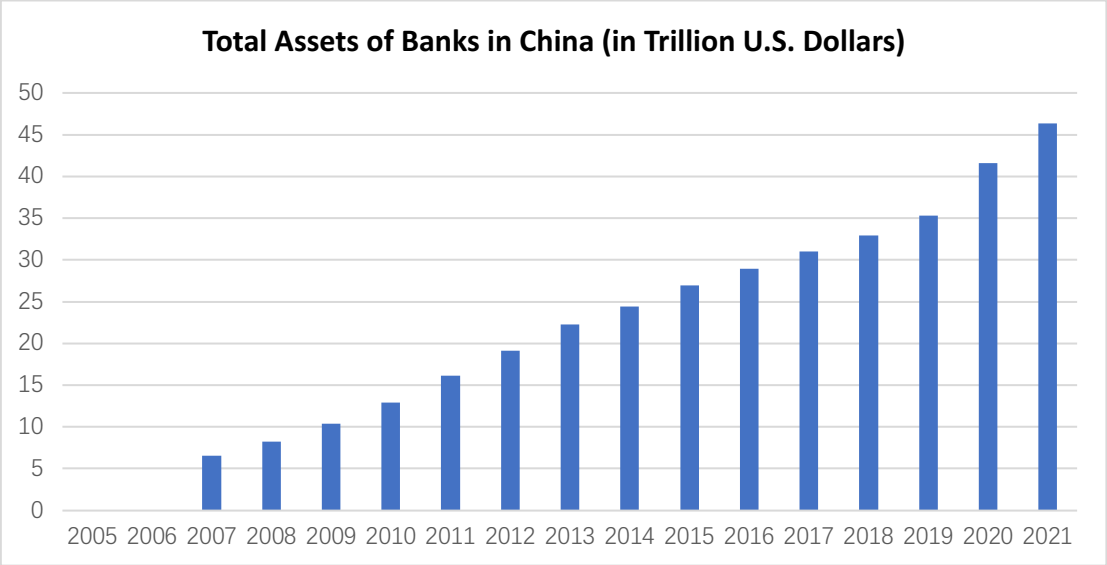
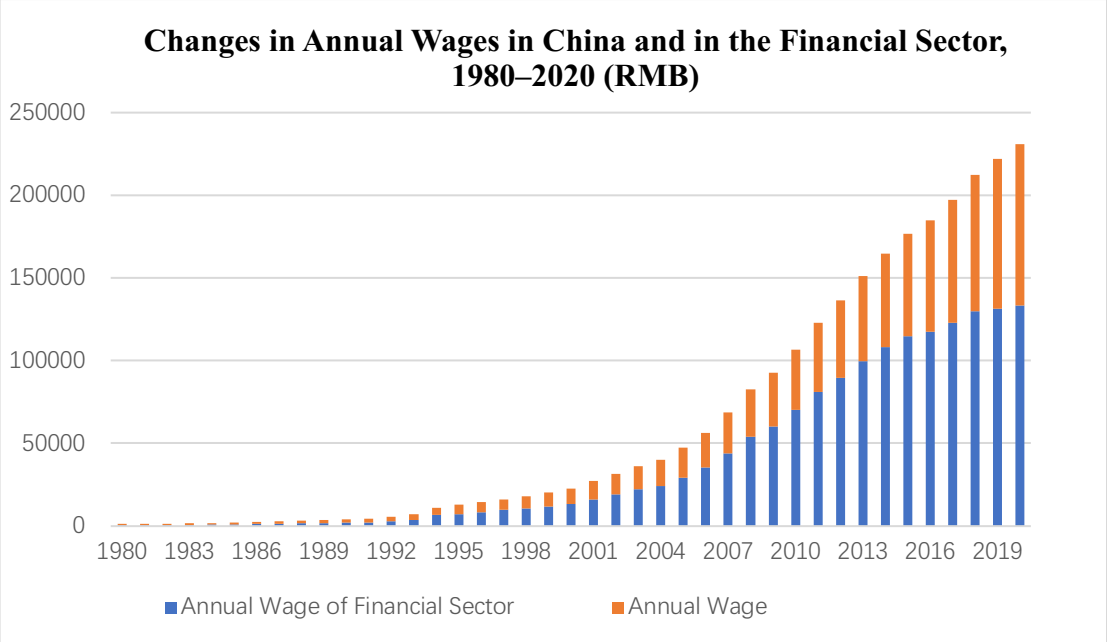


Figure 7.15[28] Changes in Annual Wages in China and in the Financial Sector, 1980–2020



[27] Own elaboration of data from Statista.com.

[28] Own elaboration of data from the National Bureau of Statistics.

7.2 Industrial and Commercial Bank of China (ICBC)

In January 1984, the ICBC was established to undertake the original commercial banking business of the PBOC. On April 12, 2005, The State Council officially approved the reform plan for ICBC's stock market. On April 28, Central Huijin injected $15 billion into ICBC, thus making the core capital of ICBC reach 248 billion yuan. On July 13, ICBC announced the completion of its financial restructuring. On October 28, ICBC LTD. was established.

In 2010, the loan amount of ICBC was 4.70 trillion yuan accounting for 69.2% of the total loans and advances to customers. Among them, the loan amount for transportation/warehousing/postal services was 0.99 trillion yuan, and that for the manufacturing industry was 0.94 trillion yuan accounting for 21.1% and 20%, respectively. By the end of 2010, the total assets of ICBC reached 13.46 trillion yuan, of which the total amount of customer loans and advances was 6.79 trillion yuan accounting for 49.2% of the total assets (ICBC, 2010).

In 2011, the total assets of ICBC increased by 15%, reaching 15.48 trillion yuan. The total amount of customer loans and advances was 7.79 trillion yuan, which increased by 14.7%. The fastest growth in loans of ICBC was in the manufacturing sector in 2011, up 19.2% from 2010 to 1.12 trillion yuan (ICBC, 2011).

The rapid growth of manufacturing loans for ICBC was due to the bank increasing its credit support for the advanced manufacturing industry in 2011. For example, ICBC officially signed a strategic cooperation agreement in Beijing with four major manufacturing enterprises: Shenyang Machine Tool Co., LTD., Liaoning Zhongwang Group Co., LTD., Shenyang Blower Group Co., LTD., and Shenyang Yuanda Aluminum Engineering Co., LTD.[29]. According to the agreement, ICBC would provide full financial services to the above companies, including deposits and loans, settlements, enterprise annuities, and investment banking, supporting the revitalisation of the old industrial bases in Northeast China (Dai, 2011).

In 2012, ICBC's total assets were 17.54 trillion yuan, an increase of 13.3% over 2011.

[29] These companies are involved in traditional manufacturing in Northeast China, producing products for applications including metal-cutting machines, aluminum processing products for R&D (transportation, mechanical equipment, and power engineering), the petrochemical industry, the coal chemical industry, natural gas, smelting, electric power, and building curtain walls.

The total loans and advances to customers increased by 13.0%. Manufacturing, transportation, storage, and postal loans increased faster, by 24.2% and 8.6%, respectively. By the end of 2012, the loans by ICBC to the domestic manufacturing industry reached 1.39 trillion yuan, with an increase of 24.2% and 12.2% higher than the growth rate of other corporate loans (ICBC, 2012).

In 2013, the total assets of ICBC reached 18.92 trillion yuan, with an increase of 7.8%. The loans for manufacturing increased by 6.9%. By the end of June 2013, loans to the domestic equipment manufacturing industry had reached 346.1 billion yuan (ICBC, 2013). ICBC supported many high-end equipment manufacturing enterprises, such as Dalian Shipbuilding Industry Marine Engineering Co., LTD., Shenyang Liming Aero Engine Group, and Guizhou Liyang Aero Power Co., LTD. Moreover, ICBC cooperated with many manufacturing enterprises in the old industrial base of Northeast China. Examples include Shenyang Machine Tool, Zhongwang Group, Shenyang Blower Group, and Shenyang Yuanda Aluminum Engineering, which have strongly supported the transformation and upgrading of the traditional equipment manufacturing industry (ICBC, 2013, 08 30). In addition, the loans for ICBC to emerging industries reached approximately 260 billion yuan by the end of 2013, with an increase of 21%, the fastest-growing credit area. In 2013, ICBC provided financing for China Aerospace Science and Industry Corp.'s overseas acquisition and provided loans for China Domain Automobile's purchase of a stake in a subsidiary of Yanfeng Visteon of the U.S. (ICBC, 2014).

At the end of 2014, ICBC had 20.61 trillion yuan in total assets, which increased by 8.9%. Customer loans and advances increased by 11.1%. Transportation, warehousing, and postal loans rose 9.5%. By the end of 2014, ICBC had provided financing support for 73 overseas projects under the 'Belt and Road', totalling $10.9 billion, covering industries such as electricity, transportation, oil and gas, mining, telecommunications, machinery, park construction, and agriculture (ICBC, 2014).

On February 15, 2015, ICBC and Pakistan Sakhar Energy Development Company officially signed a loan agreement for the Sakhar Wind Power Project in Beijing, providing $100 million export buyer's credit financing for this project (ICBC, 2015). On March 11, ICBC and Pakistan officially signed a loan agreement in Beijing for the DAWOOD wind power project in Pakistan, in which China Hydropower Consulting

Group International Engineering Co., LTD. Invested. ICBC supported this agreement (ICBC, 2015, 03 12). On April 20, ICBC and Pakistan signed a financing agreement for energy and power projects totalling $4.3 billion. The four energy and power projects under the financing agreement are located along the China-Pakistan Economic Corridor (CPEC). They are important infrastructure projects for cooperation between China and Pakistan under the 'Belt and Road' (ICBC, 2015, 02 16).

On June 8, 2015, ICBC, China Power Construction Group Co., Ltd., and Sichuan Electric Power Design & Consulting Co., Ltd. Jointly signed a financial service agreement for the Kenya Lamu Power Station project in Beijing. ICBC led in arranging export credit financing of approximately U.S. $900 million for the Lamu project and served as the financial adviser for the project (ICBC, 2015, 06 09). Then, on June 9, ICBC signed a financing agreement with Angola for the Soyo power factory. Under the agreement, ICBC supported $840 million for Angola's construction of the Soyo (ICBC, 2015, 06 10).

On June 23, ICBC signed a buyer's credit agreement with EXMAR to export floating natural gas platforms (FLNG) for $200 million, the largest export and the most high-tech project for China to Belgium (ICBC, 2015, 06 24).

In 2015, the domestic and overseas syndicated loan scale led by ICBC exceeded 490 billion yuan. ICBC organised more than 270 billion yuan in domestic syndicated loans to support significant projects such as the Lianghekou Hydropower Station Project of Yalong River Hydropower Development Company, the standby syndicate of Shanghai General Motors Corporation, and the new Golmud-Korla Railway Project (Xinjiang section). For overseas syndicated loans, ICBC provided more than $36 billion in financial support for several major projects, such as ChemChina's acquisition of Pirelli, the world's fifth-largest tire maker (ICBC, 2015, 04 21).

In addition, ICBC arranged financing of $5.1 billion for the China-Argentina nuclear power project, with nearly 30 billion yuan in loans underwritten by the China Export and Credit Insurance Corporation. The China-Argentina nuclear power project produced a nuclear power unit exported by the China National Nuclear Corporation (CNNC), which would require more than 80,000 sets of supporting equipment, with 200 enterprises participating in manufacturing and construction. The investment in a single unit was

approximately 30 billion yuan, and the lifetime of a single unit directly generates approximately 100 billion yuan. Meanwhile, the two nuclear power units would utilise over 50 billion RMB in cross-border loans, which will play an essential role in promoting the cross-border use of RMB (ICBC, 2015, 11 30).

On November 10, 2015, ICBC signed a financing agreement with the German shipping company F. Leiisz GmbH in Beijing. Under the agreement, ICBC provided $65 million in export buyer's credit for F. Leiisz GmbH's upgrade of two high-spec auto ro-ro ships at China Ocean Shipping (Group) Company (COSCO) in Dalian (ICBC, 2015, 11 11).

By the end of 2015, the total assets of ICBC were 22.21 trillion yuan, up 7.8% from 2014. There was an 8.2% increase in total customer loans and advances, and loans for transportation, warehousing, and postal services increased by 7.1%. The loans for the manufacturing industry reached 1.5 trillion yuan accounting for 21.6% of the total corporate loans (ICBC, 2015).

In 2016, ICBC focused on 'Made in China 2025' (中国制造 2025), supported the transformation and development of the old industrial base in Northeast China, and carried out comprehensive cooperation with several large manufacturing industries, such as Shenyang Machine Tool, Zhongwang Group, Shenyang Blower Group, and Shenyang Broad Aluminum Engineering. Meanwhile, ICBC issued 11.1 billion yuan in letters of guarantee (domestic and abroad) for Harbin Electric Group and Stara Railway Equipment Co., LTD. ICBC also provided $230 million of export buyers' goods for the South Asia project and $670 million of export goods services in Africa and Harbin Electric Group South Asia (ICBC, 2016, 09 28). Additionally, ICBC signed the Dubai Hasang Power Project with Harbin Electric International, Water Group, and Saudi International Power, with a total investment of $3.3 billion and financing of $2.5 billion. By the end of June 2016, ICBC had issued 706.8 billion yuan in loans in Northeast China (ICBC, 2016).

In June 2016, ICBC participated in 'The National Advanced Manufacturing Fund', led by the National Development and Reform Commission, with a total fund of 20 billion yuan. The funding project issued 38 bonds for 29 enterprises in 10 major industries, such as aerospace equipment and new energy vehicles, with a lead underwriting amount of

33.84 billion yuan; provided a 'letter of intent for the loan' of 100 billion yuan or equivalent foreign currency for the project of Commercial Aircraft Corporation of China; and organised 44 billion yuan syndicate loans for the world's largest coal-to-olefin project for Zhong Tian He Chuang Energy Co., LTD. Moreover, ICBC arranged €5 billion of merger and acquisition financing for Midea Group to buy Germany's Kuka Group, the world's leading robot manufacturer, and provided €116 million in financing support for the Aviation Industry of China's (AVIC) acquisition of the stake in the Spanish automation company Aritax (ICBC, 2017, 06 02).

At the end of 2016, ICBC had total assets of 24.14 trillion yuan, up 8.7% from 2015. Total customer loans and advances increased by 9.4%. The loans for transportation, warehousing, and postal services increased by 6.0%, with a total of 1.52 trillion yuan, higher than the loans in the manufacturing industry of 1.41 trillion yuan (ICBC, 2016).

In January 2017, ICBC successfully provided local financing services for Pakistan's first urban rail transit project, one of the CPEC projects, providing short-term funding support of 1.36 billion rupees ($13 million) for the construction of the project (ICBC, 2017, 02 07).

By the end of March 2017, the outstanding loan balance of the ICBC manufacturing industry exceeded 350 billion yuan, up 8.23% from the end of 2016, which was one of the fastest-growing areas of corporate loans (ICBC, 2017, 05 03).

On June 1, ICBC signed a ship financing loan agreement with Germany's Peterdule Shipping Company. Under the agreement, ICBC provided $200 million in financing for Peter Doole's order to build 10 containers and bulk carriers at China's Jiangsu Yangzijiang Shipyard and Hantong Shipyard (ICBC, 2017, 06 02).

At the end of 2017, the total assets of ICBC reached 26.09 trillion yuan, which rose 8.1% from 2016. Total customer loans and advances increased by 9.0%, and the loans to the transportation, warehousing, and postal sectors grew by 13.2%, mainly due to increased support for key national projects such as the 'ten vertical and ten horizontal' integrated transport corridors (ICBC, 2017).

At the end of 2018, ICBC had 27.70 trillion yuan in total assets, which increased by 6.2%. Customer loans and advances reached 15.42 trillion yuan, up 8.3%. Corporate loans increased by 5.4% over 2017, and transportation, warehousing, and postal loans grew by

10.4%. The reason for the high-speed growth of ICBC's corporate loans is that ICBC continued to support financing for high-end manufacturing enterprises and transport infrastructure based on major strategic plans such as the three support belts, Xiongan New Area, and Guangdong-Hong Kong-Macao Greater Bay Area. Loans to leasing and business services reached 1.05 trillion yuan, up 15.1%, mainly to provide financing support for improving people's livelihood and infrastructure projects and finance infrastructure construction in free trade zones (ICBC, 2018).

In 2019, ICBC participated in financing key enterprises such as BOE Technology Group and China Star Optoelectronics Technology Co., Ltd. (CSOT), and as the only Chinese bank, participated in the acquisition of the French chip manufacturer Linxens with a €200 million syndicated loan. Meanwhile, ICBC provided financing services of more than 50 billion yuan for several large-scale petrochemical projects led by Sinopec and Zhejiang Petrochemical. In addition, ICBC issued a 2.1 billion baht working capital loan to Shanghai Automotive Group Thailand and provided €200 million merger and acquisition loans for Geely's acquisition of Volvo Truck equity (ICBC, 2019, 03 04).

At the end of 2019, total assets stood at 30.11 trillion yuan, up 8.7% from 2018. Total customer loans and advances reached 16.76 trillion yuan, which grew 8.7%. Corporate loans rose 5.7%, and the loans for transportation, warehousing, and postal services reached 2.13 trillion yuan, which increased by 12.5%. The loans in the manufacturing industry were 1.45 trillion yuan in 2019, which increased by 4.3%. The main profit income of ICBC was RMB 707.40 billion for customer loans, an increase of RMB 67.369 billion or 10.5% over 2018. The interest rate was 4.45%. The main investment was bonds, which amounted to RMB 6862.85 billion, an increase of RMB 813.77 billion or 13.5% over 2018. The main lending regions were the Yangtze River Delta (18.6%), the Western region (17.8%), the Bohai Rim region (16.3%), and the Central region (14.7%) (ICBC, 2019).

Table 7.6 shows ICBC's assets from 2010 to 2019; all data are from ICBC's Annual Report.

Table 7.6 ICBC's Assets, 2010–2019

ICBC (Trillion Yuan)

	Total assets	Corporate loans	Top projects	Loans amount	% (Corporate loans)
2010	13.46	4.70	Transportation/Warehousing/ Postal Services	0.99	21.1%
			Manufacturing Industry	0.94	20%
2011	15.48	5.22	Manufacturing Industry	1.12	21.5%
			Transportation/Warehousing/ Postal Services	1.05	20.2%
			Manufacturing Industry	1.34	23.8%
2012	17.54	6.33	Transportation/Warehousing/ Postal Services	1.14	19.4%
			Manufacturing Industry	1.49	23.5%
2013	18.92	7.05	Transportation/Warehousing/ Postal Services	1.22	19.2%
			Manufacturing Industry	1.53	22.7%
2014	20.61	7.61	Transportation/Warehousing/ Postal Services	1.34	19.8%
			Manufacturing Industry	1.50	21.6%
2015	22.21	7.87	Transportation/Warehousing/ Postal Services	1.43	20.7%
2016	24.14	8.14	Transportation/Warehousing/ Postal Services	1.52	21.8%
			Manufacturing Industry	1.41	20.4%
2017	26.09	8.94	Transportation/Warehousing/ Postal Services	1.72	22.8%
			Manufacturing Industry	1.41	18.6%
2018	27.70	9.42	Transportation/Warehousi	1.89	23.8%

			ng/		
			Postal Services		
			Manufacturing Industry	1.39	17.4%
			Leasing/Business Service	1.05	13.2%
			Transportation/Warehousing/	2.13	24.9%
2019	30.11	9.96	Postal Services		
			Manufacturing Industry	1.45	16.9%
			Leasing/Business Service	1.19	13.9%

7.2.1 Shareholders of ICBC

By the end of 2019, ICBC's largest shareholder was Central Huijin Investment Ltd.[30] (34.71%). Huijin is a wholly-owned subsidiary of China Investment Corporation Limited. Huijin does not engage in any other commercial business activities and does not interfere in the daily operations of key state-owned financial enterprises under its control. Additionally, ICBC's second-largest shareholder was the Ministry of Finance (31.14%).

7.2.2 Subsidiaries of ICBC

- **ICBC Credit Suisse Fund Management Co. LTD.**

ICBC owns 80% of ICBC Credit Suisse's shares, and ICBC Credit Suisse Fund Management Co. LTD. is mainly engaged in fundraising, fund sales, asset management business, and business approved by the China Securities Regulatory Commission (CSRC). The company is one of the 'fully qualified' fund companies in the Chinese banking industry. ICBC Credit Suisse has two subsidiaries: ICBC Credit Suisse Asset Management (International) Limited and ICBC Credit Suisse Investment Management Limited. At the end of 2019, ICBC Credit Suisse had total assets under management of RMB 1.29 trillion, total assets of 11.042 billion yuan, and a net profit of RMB 1.54 billion.

- **ICBC Financial Leasing Co., LTD.**

ICBC Financial Leasing is a wholly-owned subsidiary of ICBC, primarily involved in the financial leasing business of large-scale equipment in aviation, shipping, energy and power, rail transit, and equipment manufacturing. Additionally, it offers various

[30] Table 7.6 shows the enterprise information for direct shareholding by the Huijin Company at the end of 2019, with data from the ICBC 2019 annual report.

financial and industrial services such as leasing asset trading, investment asset securitisation, asset management, and economic consulting. As of the end of 2019, ICBC Leasing had total assets of RMB 279.81 billion and a net profit of RMB 3.44 billion.

- **ICBC AXA Life Insurance Company Limited**

ICBC owns 60% of the shares in ICBC AXA Life Insurance Company. ICBC AXA operates various insurance businesses, including life, health, and accident insurance. As of the end of 2019, ICBC AXA's total assets amounted to RMB 160.762 billion, with a net profit of RMB 1.26 billion.

- **ICBC Financial Assets Investment Co., LTD.**

ICBC Financial Assets Investment Co., Ltd. is a wholly-owned subsidiary of ICBC and was among the first group of pilot bank debt-to-equity swap implementation institutions identified by the State Council. The company holds the franchise license of non-bank financial institutions and is mainly engaged in debt-equity swap and related businesses. In 2019, the total assets of ICBC Financial Assets Investment Co., Ltd. amounted to RMB 129.57 billion.

- **ICBC Wealth Management Co., LTD.**

ICBC Wealth Management, a wholly-owned subsidiary of ICBC, was China's first banking wealth management subsidiary. By the end of 2019, ICBC Wealth Management had total assets of RMB 16.397 billion and a net profit of RMB 330 million.

- **Standard Bank Group Limited**

Standard Bank is the largest bank in Africa, offering services in commercial banking, investment banking, life insurance, and other fields. In 2008, ICBC acquired 20% of the shares of Standard Bank Group, and by 2019, ICBC held 20.06% of its ordinary shares. In November 2019, Standard Bank launched the 'Africa-China Export Initiative' service (ACEP) to assist African exporters in exploring the Chinese market. Additionally, in 2019, the 'Africa China Agent Program' (ACAP) service was jointly launched by ICBC and Standard Bank and established in eight African countries, including Nigeria, Ghana, Kenya, and South Africa. In December, Standard Bank introduced the UnionPay electronic payment platform for customers in China and South Africa, facilitating economic trade and tourism exchanges between Chinese and South African customers (ICBC, 2019).

7.3 China Construction Bank (CCB)

In September 2004, CCB transformed from a wholly state-owned commercial bank into a joint-stock commercial bank controlled by the state, establishing China Construction Bank Co., Ltd. After the reform, the total assets of CCB reached 10.81 trillion yuan in 2010, reflecting a 12.33% increase compared to 2009. Customer loans and advances received 5.67 trillion yuan, constituting 51.12% of the total assets. Corporate loans amounted to 3.98 trillion yuan, representing 70.15% and increasing by 18.67%. Additionally, 1.77 trillion yuan of corporate loans were invested in the infrastructure industry; loans to the manufacturing sector reached 0.98 trillion yuan, comprising 17.27% of corporate loans, while loans to the transportation, storage, and postal sectors totaled 0.65 trillion yuan, accounting for 11.42% (CCB, 2010).

In 2010, CCB held shares in domestically listed companies such as Aluminum of China, Salt Lake Group, Gezhouba, China Citic Bank, Collon Pharmaceuticals, S.T. Construction Machine, China Metallurgical Engineering, Shenzhen Development, ST Shixian, Precious Department Store, Cofco Packaging, and Pacrim International Capital Inc. Shares held in foreign-listed companies were relatively minor, including Visa Inc. and Mastercard Inc. (CCB, 2010).

In June 2011, CCB completed the transfer of ING's 50% stake in Pacific Aetna, becoming the controlling shareholder with a 51.00% ownership stake and renaming it China Construction Life Insurance Co., Ltd. In 2011, CCB reduced its holdings in several companies to Aluminum of China, Salt Lake Group, Gezhouba, China Construction Engineering, S.T. Construction Machine, and ST Shixian (CCB, 2011).

In the same year, China Southern Power Grid signed a strategic cooperation agreement with CCB in Guangzhou, wherein CCB would lend 80 billion yuan to China Southern Power Grid, laying the foundation for building an innovative, efficient, and environmentally friendly modern power company as outlined in the '12th Five-Year Plan' (Xinhuanet, 2011).

In 2011, CCB's total assets amounted to 12.28 trillion yuan, a 13.61% increase, with customer loans and advances reaching 6.50 trillion yuan, a 14.59% increase, constituting 51.50% of the total assets. Corporate loans totalled 4.45 trillion yuan, representing 68.44%, an 11.80% increase. Loans to the infrastructure industry were 1.96 trillion yuan,

up by 10.98%, while loans to the manufacturing sector amounted to 1.10 trillion yuan, accounting for 16.92% of corporate loans, and loans to the transportation, warehousing, and postal sectors totalled 0.75 trillion yuan, comprising 11.6% (CCB, 2011).

In 2012, CCB's total assets reached 13.97 trillion yuan, a 13.77% increase. Subsequently, in 2013, total assets rose by 9.95% to 15.36 trillion yuan, and in 2014, they reached 16.74 trillion yuan, marking an 8.99% increase (CCB, 2012; CCB, 2013; CCB, 2014). From 2012 to 2014, customer loans and advances increased from 7.51 trillion yuan to 9.47 trillion yuan, representing a rise in total assets from 52.31% to 55.08%. Corporate loans and advances increased from 4.96 trillion yuan to 5.76 trillion yuan. Additionally, loans to the manufacturing industry increased from 1.28 trillion yuan in 2012 to 1.31 trillion yuan in 2014, and loans to transportation, warehousing, and postal services grew from 0.86 trillion yuan to 1.05 trillion yuan. Furthermore, in 2012, the list of companies held by CCB was reduced to Aluminum Corporation of China, Yanhu Group, Gezhouba, and construction machinery. By 2014, the holding enterprises were further reduced to two companies: Yanhu Stock and Huishang Bank (CCB, 2012; CCB, 2013; CCB, 2014).

Since the launch of the Belt and Road Initiative project in 2013, CCB has promoted various cross-border RMB financing innovations for enterprises. Examples include financing projects such as the Guangxi Fang Chenggang Nuclear Power Plant, Guangxi Hydropower Engineering Bureau, and China-Malaysia Qinzhou Industrial Park, totalling RMB 3.066 billion (Financial Times, 2016). Additionally, in April 2015, CCB and the Shaanxi Provincial government jointly hosted the Silk Road Economic Belt Investment Promotion meeting, facilitating Shaanxi Province's connection with institutions in trust, insurance, securities, and other sectors, with a scale of more than 100 billion yuan (People's Daily, 2017, 05 15).

In 2015, CCB's total assets reached 18.35 trillion yuan, a 9.59% increase, with total loans and advances reaching 10.49 trillion yuan, accounting for 55.78% of total assets, representing a 10.67% increase compared to 2014. Corporate loans and advances accounted for 5.78 trillion yuan, representing 55.11%; infrastructure industry loans accounted for 2.71 trillion yuan; manufacturing loans accounted for 1.23 trillion yuan, representing 11.61% of corporate loans; and transportation, warehousing, and postal sector loans accounted for 1.15 trillion yuan, representing a 9.5% increase and comprising

10.93% (CCB, 2015).

Historically, China's manufacturing cultivated supply chain networks with all ASEAN countries, integrating the ASEAN economies with China as a manufacturing hub. The connection between China and ASEAN became closer after the BRI. For example, CCB focused on supporting many transport infrastructure projects, such as the coastal ports of the Beibu Gulf, the South-Guangzhou high-speed railway, the Yunnan-Guangxi high-speed railway, and the new terminal of Nanning Airport. Moreover, CCB fully supported the construction and upgrading of the China-ASEAN maritime, land, and air corridors. CCB financed 11.2 billion yuan for the Guangxi Beibu Gulf Port project, which achieved a throughput of 128 million tons in 2015. Additionally, CCB formed a 47.4billion yuan syndicate for the Fang Chenggang nuclear power project and raised nearly 15 billion yuan through multiple channels (Financial Times, 2016).

On May 20, 2016, four subsidiaries of CCB (CCB Leasing, CCB Trust, CCB International, and CCB Futures) signed strategic cooperation agreements with nine enterprises in Yunnan province (Yunnan Dianzhong Industrial Development Group Co., LTD., Yunnan Energy Investment Group Co., LTD., etc.). They reached an intended financing amount of 35 billion yuan. The agreements involved provincial infrastructure construction, public-private partnership (PPP) projects, state-owned enterprises, nonferrous derivatives trading, and cross-border projects. Additionally, during the '12th Five-Year Plan' period (2011–2015), CCB financed nearly 60 billion yuan to support the development of the Lancang River and Jinsha River areas. CCB also supported several projects, including wind power, photovoltaic power sources and grid, Darui Railway, China Communications Construction, Kunming rail transit, and Kunming Changshui Airport (People's Network, 2016).

Moreover, the 'China-Malaysia Double Park' is a crucial project of the 'Belt and Road' promoted by the governments of China and Malaysia. It is also one of the essential projects of Guangxi. CCB provided $60 million in financing for Guangxi Beibu Gulf International Port Group to acquire the Kuantan Port in Malaysia. In May 2016, the international syndicated loan contract for the Kuantan Iron and Steel Base Project, the first project to enter the Malaysia-China Kuantan Industrial Park, was officially signed. CCB, as the colead bank, successfully formed a syndicate of nearly $1 billion, of which

CCB raised $300 million (Financial Times, 2016). On September 9, CCB signed a $2.3 billion syndicated loan with Dubai for the 'Ha Xiang Clean Coal Power Station' project. At the same time, CCB provided financial support for the Yanbu refinery project in Saudi Arabia and the Donggu LNG Third-line project in Indonesia (People's Daily(Overseas Edition), 2017).

In 2016, the total assets of CCB reached 20.96 trillion yuan, an increase of 14.25%, and the loans and advances of customers were 11.76 trillion yuan, accounting for 54.80%, with a rise of 12.25%. Additionally, corporate loans and advances received 5.86 trillion yuan, and infrastructure industry loans reached 2.90 trillion yuan. The manufacturing sector accounted for 1.18 trillion yuan, while the transportation, warehousing, and postal sectors received 1.21 trillion yuan (CCB, 2016).

In 2017, CCB was the only commercial bank to finance the second phase of the Nou Nan Jiang hydropower project in Laos. The Nou Nan Jiang II hydropower project in Laos was the first overseas project in which a Chinese company won the right to develop an entire river basin (People's Daily, 2017, 05 15).

By the end of the first quarter, CCB had provided financial support amounting to $9.8 billion for 50 major overseas projects in 18 countries along the Belt and Road, including Russia, Pakistan, Singapore, the United Arab Emirates, Vietnam, Saudi Arabia, and Malaysia. Among them, there were 25 major projects in the field of infrastructure construction, with an investment of approximately $47 billion, and the CCB signed contracts of $6.5 billion. The cumulative demand for financing reached nearly $110 billion, involving 40 countries and regions. More than half of the projects focused on infrastructure development, such as railways, highways, shipping, energy, and electricity (People's Daily(Overseas Edition), 2017).

From 2017 to 2019, the total assets of CCB rose from 22.12 trillion yuan to 25.44 trillion yuan, and customers' loans and advances increased from 12.90 trillion yuan to 14.54 trillion yuan. The loans in the infrastructure sector grew from 3.36 trillion yuan to 3.68 trillion yuan. Among them, loans for transportation, warehousing, and postal services increased from 1.30 trillion yuan to 1.40 trillion yuan. Otherwise, loans for manufacturing declined from 1.18 trillion yuan in 2017 to 1.08 trillion yuan in 2019. At the end of 2019, the total financial investment of CCB was 6,213.241 billion yuan, an increase of 498.332

billion yuan. Among them, bond investment increased by 586.072 billion yuan compared with 2018, an increase of 11.14%, accounting for 94.09% of the total financial investment. Additionally, in 2019, the total profit of CCB was mainly distributed in the head office at 29.78%, the Pearl River Delta at 16.67%, and the Yangtze River Delta at 16.20% (CCB, 2017; CCB, 2018; CCB, 2019).

7.3.1 Shareholders of CCB

Huijin is the controlling shareholder of CCB, holding 57.11% of CCB's shares and 0.20% of the bank's shares through its subsidiary, Central Huijin Asset Management Co., LTD. Hong Kong Central Clearing (Agents) Limited is the second-largest shareholder of CCB with 36.87% (CCB, 2019).

7.3.2 Subsidiaries of CCB

CCB has several subsidiaries, including CCB Fund Management Co., Ltd., CCB Financial Leasing Limited, CCB Trust Co., Ltd., CCB Life Insurance Company Limited, Sino-German Housing Savings Bank Limited Company, CCB Futures Co., Ltd., CCB Pension Management LLC, CCB Property and Casualty Insurance Company Limited, CCB Financial Assets Investment Limited, CCB Wealth Management Limited Liability Company, and CCB International (Holdings) Limited. In 2019, the subsidiaries' total assets were 603.687 billion yuan, and the net profit was 3.809 billion yuan (CCB, 2019).

7.4 Bank of China (BOC)

On August 26, 2004, the BOC's shareholding reform was completed, leading to the establishment of Bank of China Ltd.

In 2010, the BOC held shares in several listed companies: Dongyue Group (H.K.) at 5.2% with an initial investment of 200 million yuan, Phoenix Satellite T.V. (H.K.) at 8.3% with 331.64 million yuan, and Jilin Qifeng Chemical Fibre Co., Ltd. (H.K.) at 10.95% with 58.82 million yuan. Additionally, significant joint ventures of BOC in 2010 included Huaneng International Power Development Co., LTD. (20%), AVIC International Holding Corporation (16.31%), Ningxia Power Generation Group Co., LTD. (23.42%), Zhangjiagang Huahui Special Glass Co., LTD. (11.3%), and Hongkong Bora Holdings Limited[31] (19.5%).

[31] The company holds stakes in Shenyang Donghe Organic Chemical Co., Ltd., Panjin North Asphalt Fuel Co., Ltd., Liaoning Pola Bio-Energy Co., Ltd., Mudanjiang Shoukong Petrochemical Co., Ltd., and Singapore Bora Petroleum Co., Ltd.

By the end of 2010, BOC's assets totalled 10.46 trillion yuan, with customer loans reaching 5.67 trillion yuan. Business loans and advances amounted to 4.24 trillion yuan, representing 74.98% of customer loans. The primary areas for business loans were manufacturing loans at 1.18 trillion yuan and commercial and service loans at 0.81 trillion yuan, accounting for 20.78% and 14.37% of total customer loans, respectively (BOC, 2010).

In 2011, BOC's joint ventures with manufacturing companies included the addition of Walun Glass Industry Co., LTD. (11.3%), followed by Guangdong Homme Aluminum Co., LTD. (12.35%) in 2012 (BOC, 2012). The largest proportion of long-term equity investment was in Huaneng International Power Development Company, reaching 5.77 billion yuan in 2013.

On August 30, 2013, eight banks led by BOC signed a $4 billion syndicated loan agreement to support Shuanghui International Holdings Co., Ltd.[32] in its acquisition of Smithfield Co., LTD. Additionally, BOC facilitated Luoyang Luanzhou Molybdenum Industry Group Co., Ltd.'s acquisition of Rio Tinto Group's Australian copper and gold project; supported China National Offshore Oil Corporation's acquisition of Nexen Corporation of Canada; and assisted China International Marine Containers Group Co., Ltd. in issuing commercial paper in the United States (BOC, 2013).

From 2011 to 2013, BOC's total assets increased from 11.83 trillion yuan to 13.87 trillion yuan, marking a 17.2% increase. Total customer loans reached 7.61 trillion yuan, with business loans and advances amounting to 5.44 trillion yuan, representing 71.50% of customer loans in 2013. The business and service industry experienced faster growth, from 0.94 trillion yuan to 1.15 trillion yuan, followed by the manufacturing industry, which increased from 1.38 trillion yuan in 2011 to 1.56 trillion yuan in 2013 (BOC, 2011; BOC, 2013).

On January 13, 2015, BOC provided just less than 10 billion yuan of intended financing to HNA Group Co., Ltd. to support its business development (Peoples Network, 2015). Moreover, by the end of June 2015, BOC had established branches in 16 countries along the 'Belt and Road' to oversee 300 major overseas projects with a total investment

[32] Shuanghui International Holdings Limited changed its name to WH Group International Limited on January 21, 2014.

of more than $250 billion. BOC offered quotation and exchange services for 26 currencies against the RMB (Beijing News, 2015). Moreover, the BOC signed BRI cooperation agreements with Anhui Conch Cement Co., LTD., China Merchants Group, China National Petroleum Corporation, China National Offshore Oil Corporation, China Power Construction Corporation, and other large enterprises in 2015.

The total assets of BOC increased from 15.25 trillion yuan in 2014 to 16.82 trillion yuan in 2015, marking a 10.26% increase. Customer loans totalled 9.14 trillion yuan, up 7.69% from 2014. Loans to the manufacturing sector decreased slightly from 1.69 trillion yuan in 2014 to 1.68 trillion yuan in 2015 (BOC, 2015).

In 2016, BOC's total assets reached 18.15 trillion yuan, an increase of 7.93%. Loans to customers amounted to 9.97 trillion yuan, with a 9.17% increase. Loans in the manufacturing sector were 1.63 trillion yuan, while those in the commercial and service sectors were 1.31 trillion yuan, accounting for 16.37% and 13.17% of corporate loans, respectively (BOC, 2016). By the end of 2016, BOC had followed up on approximately 420 major overseas projects along the BRI, with a total investment exceeding $400 billion (People's Daily, 2017, 03 02).

In 2017, BOC's assets totalled 19.47 trillion yuan and reached 22.77 trillion yuan in 2019, while total customer loans grew from 10.90 trillion yuan to 13.69 trillion yuan. Corporate loans and advances amounted to 7.99 trillion yuan in 2019, accounting for 61.11% of total customer loans. Loans to the commercial and service sectors increased from 1.56 trillion yuan in 2017 to 1.71 trillion yuan in 2019 (BOC, 2017; BOC, 2019).

BOC's joint ventures related to manufacturing did not change significantly. In 2018, Yingkou Port Group Co., LTD. (8.86%) and Sichuan Lutianhua Co., LTD. (16.44%) were added (BOC, 2018). By 2019, the main joint enterprises with large investments were Bank of China International Securities Co., LTD., and Yingkou Port Group Co., LTD.

In 2019, BOC signed a bilateral loan agreement of €2 billion with Gazprom, marking the largest commercial bank loan between China and Russia. Additionally, BOC completed the most significant Chinese investment project in Saudi Arabia, the $4.7 billion cooperation between Sinopec and Saudi Aramco, the Yanbu refinery project. BOC, as a principal overseas agent comprehensive financial service provider, assisted in the overseas agency business of the Jakarta-Bandung high-speed railway, China's first

overseas high-speed railway project. Moreover, BOC led the preparation of the €1.95 billion syndicated loan project of the Czech EPH Group and organised the largest power plant project in Jordan - Jordan Atarat oil shale power plant - with a $1.582 billion syndicated loan (China Financialyst, 2019).

The three major shareholders of BOC are Central Huijin Investment Co., LTD. (64.02%), Hong Kong Central Clearing (Agents) Co., LTD. (27.83%), and China Securities Finance Company Limited (2.92%).

Additionally, BOC conducts investment banking, asset management, insurance, leasing, and direct investment business through its shareholding subsidiaries. For example, BOC operates investment banking through Bank of China International Holdings. In 2019, as the only Chinese investment bank selected in the global public bidding, it participated in the listing project of Saudi Aramco, the world's largest IPO. BOC operates property insurance business in mainland China through BOC Insurance and carries out overseas insurance business through BRI in more than 70 countries. It operates aircraft leasing business through BOC Aviation along the BRI (BOC, 2019).

7.5 Agricultural Bank of China (ABC)

In November 2008, Central Huijin Investment Co. Ltd. injected capital into ABC and became the bank's largest shareholder, just like the Ministry of Finance. On January 15, 2009, the Agricultural Bank of China Limited was established.

In 2010, ABC's total assets were 10.34 trillion yuan, and its loans and advances totalled 4.96 trillion yuan. Corporate loans received 3.60 trillion yuan, accounting for 72.6% of the loans and advances. Additionally, five major industries—manufacturing industries; production and supply of electricity, gas, and water; real estate; transportation, storage, and postal services; and wholesale and retail—accounted for 74.1% of the bank's total corporate loans. Manufacturing loans reached 1.05 trillion yuan, accounting for 29.3% of corporate loans. Moreover, in 2010, ABC held shares of listed companies: Jinjian Rice (20.62%) and ST Cheung Stock (5.09%) (ABC, 2010).

From 2011 to 2013, the total assets of ABC increased from 11.68 trillion yuan to 14.56 trillion yuan. Total loans and advances reached 7.22 trillion yuan in 2013, up 12.3% from 2012. Corporate loans grew from 3.99 trillion yuan in 2011 to 4.73 trillion yuan in 2013, but their share of total loans and advances decreased from 70.9% to 65.4%. The

manufacturing sector accounted for 1.37 trillion yuan or 29% of corporate loans (ABC, 2011; ABC, 2012; ABC, 2013).

On September 13, 2014, ABC and Agricultural Investment Bank, the largest bank in Tajikistan, signed the Agricultural Cooperation Agreement in Dushanbe. The agreement jointly provided financial support for trade and investment cooperation between the two countries. It also promoted using RMB in cross-border trade, investment, and financing between China and Tajikistan (Xinhua Finance, 2014).

From 2014 to 2016, ABC's domestic and overseas branches handled project loans, letters of guarantee, overseas bond issuance, and other 'going global' business totalling $92.5 billion in 117 countries and regions, including 42 countries involved in the BRI. ABC has mainly supported the implementation of significant projects along the BRI, such as Harbin International's Dubai Haxiang Clean coal-fired Power Station Project, Huaneng Ruyi Pakistan Coal Burning Power Station, and Guangxi Beibei Bay Port and Majumkuantan Industrial Park Combined Iron and Steel. Moreover, ABC provided financial support for national large-scale agricultural enterprises to promote the global industrial chain and trade network layout. For example, ABC provided financing support for China Oil & Foodstuffs Corporation's (COFCO) acquisition of Noble Agriculture Co., Ltd. and Dutch grain trader Nidera. ABC also helped the process of completing cross-border remittances. ABC also financially supported the New Hope Group and Shanghai Meilin Zhengguanghe to acquire international agricultural projects and establish overseas production, processing, and transportation. In addition, ABC granted loans to the Phase II Project in Tajikistan's Golden Valley Agricultural Construction, the first RMB project loan that ABC made directly to a foreign entity (Ourcecn, 2017).

The total assets of ABC increased from 15.97 trillion yuan in 2014 to 19.57 trillion yuan in 2016, and the total amount of loans and advances reached 9.72 trillion yuan in 2016, accounting for 47.6% of the total assets, an increase of 9.1% over 2015. Corporate loans grew by a small margin from 2014 to 2015, reaching 5.15 trillion yuan and 5.38 trillion yuan, respectively. However, corporate loans fell 0.2% to 5.37 trillion yuan in 2016. Loans to the manufacturing sector continued to decline, from 1.39 trillion yuan to 1.23 trillion yuan, accounting for 22.8% of corporate loans, down from 27%. Loans for transportation, warehousing, and postal services increased from 0.76 trillion yuan in 2014

to 1.01 trillion yuan in 2016, accounting for 18.8% of corporate loans. Meanwhile, ABC's loans grew by 22.5% from 2015 to 2016, reaching 3.34 trillion yuan in 2016, accounting for 34.4% of the total loans and advances. Personal housing loans accounted for 76.6% or 2.56 trillion yuan (ABC, 2014; ABC, 2015; ABC, 2016).

On April 18, 2017, the Ministry of Transport and ABC signed the 'Comprehensive Cooperation Framework Agreement' during the 13th Five-Year Plan Period. The agreement expected that ABC would provide no less than 600 billion yuan to support transport development, including 100 billion yuan for rural road construction projects. According to the agreement, the Ministry of Transport and ABC would further promote the development of transport infrastructure (The Ministry of Transport, 2017).

In addition, ABC signed agreements with China Railway Construction Corporation Limited (CRCC) and China Government-Enterprise Cooperation Investment Fund Management Co., LTD. (China PPP Fund), respectively. Based on the agreements, ABC provided 100 billion yuan for constructing the core area of the Xinjiang Silk Road Economic Belt and supporting major transportation infrastructure construction projects in Xinjiang (China Financial Times, 2018).

ABC's total assets in 2017 were 21.05 trillion yuan, up 7.6% from 2016. Loans and advances totalled 10.72 trillion yuan, an increase of 10.3%, accounting for 49.0% of total assets. Corporate loans reached 6.15 trillion yuan, up 14.5%, accounting for 57.4% of the loans and advances. Loans to the manufacturing sector and loans to the transportation, warehousing, and postal sectors increased slightly to 1.24 trillion yuan and 1.22 trillion yuan in 2017. Personal loans reached 4.0 trillion yuan, up 19.7% from 2016, accounting for 37.3% of the total loans and advances. Personal housing loans rose 22.5% to 3.13 trillion yuan in 2017 (ABC, 2017).

In 2018, ABC focused on supporting the 'Belt and Road', the coordinated development of the Beijing-Tianjin-Hebei Region, the Yangtze River Economic Belt, the Xiongan New Area, and the Guangdong-Hong Kong-Macao Greater Bay Areas, with new loans of 431.8 billion yuan. The balance of loans to support industrial transformation and upgrading was 52.2 billion yuan, with a growth rate higher than that of the whole bank. In 2019, ABC, Agricultural Bank of China Financial Asset Investment Co., LTD. (ABC Investment), together with Bank of Communications, Bank of Communications Financial

Asset Investment Co., LTD., and China Building Materials Group Co., Ltd. implemented debt-to-equity swaps of 1 billion yuan and 4 billion yuan, respectively, in South Cement Co., Ltd. and Southwest Cement Co., LTD., two subsidiaries of the China National Building Materials Group (CNBM) (Ourcecn, 2019).

From 2018 to 2019, ABC's total assets increased from 22.61 trillion yuan to 24.88 trillion yuan, an increase of 10.0%. Loans and advances totalled 13.36 trillion yuan in 2019, up 11.9% from 2018. Corporate loans reached 6.51 trillion yuan in 2018 and 7.10 trillion yuan in 2019. In addition, loans to the transportation/warehousing/postal industries and manufacturing industries were 1.64 trillion yuan and 1.20 trillion yuan, respectively, in 2019, accounting for 23.1% and 16.9% of corporate loans. In addition, loans to leasing and business services increased to 1.04 trillion yuan, accounting for 14.6%. In 2019, ABC's operating income was mainly concentrated in the Western Region of China (20.5%) and the Yangtze River Delta region (18.6%) (ABC, 2018; ABC, 2019).

As of 2019, the major shareholders of ABC are Huijin (43.88%) and the Ministry of Finance (41.76%). At the same time, like the other three major state-owned banks, ABC achieves financial investment by holding six financial subsidiaries (including ABC Huijin, ABC International, ABC Leasing, ABC Life, ABC Investment, and ABC Wealth Management) (ABC, 2019).

Historically, rural-to-urban migration has been driven by factors such as better job opportunities, higher wages, and improved living standards in urban and industrial areas. Various economic, social, and policy-related elements influence these factors. If the ABC were to invest in rural areas, it might contribute to local economic development, create jobs, and improve living conditions. These improvements could reduce the incentive for rural residents to migrate to coastal industrial areas. For example, the scale and effectiveness of investments by the ABC would play a crucial role. Significant investments in infrastructure, agriculture, and rural industries could boost economic opportunities locally and reduce the attractiveness of urban migration.

7.6 Conclusion

As shown in the annual report data above, the asset allocation of the 'Big Four' banks is skewed towards credit assets. Loans and advances accounted for more than 50% of the banks' portfolios, with investments in financial assets maintaining a stable proportion,

while the share of other assets declined. The primary loan fields are in manufacturing, transportation, warehousing, and postal industries. Consequently, the 'Big Four' banks provide more support for China's real economy and infrastructure construction compared to other commercial banks, albeit on a smaller scale and scope than policy banks. From this perspective, there is a sharp contrast with Anglo-American, primarily, and European, secondarily, banking and financial sector which Although the 'Big Four' banks are also involved in real estate and financial instruments, their balance in these areas is relatively modest. Moreover, infrastructure construction is the primary development focus in the BRI, followed by financial bonds and the overseas use of RMB.

The profitability of China's banking sector is significantly influenced by the level of nonperforming loans (NPLs) (Tan & Floros, 2012). According to Ozili (2019), non-performing loans (NPL) are negatively correlated with bank efficiency and banking system stability. An increase in NPL can decrease a bank's profitability by reducing interest income and increasing provisioning requirements (Qin, 2016). Therefore, in 2004, the Chinese government reformed the banking industry and divested the NPLs of the 'Big Four' banks. According to the 2020 annual report of the 'Big Four' banks, ICBC's NPL ratio was 1.58%, with a core tier 1 capital adequacy ratio of 18%. For CCB, the NPL ratio was 1.5% and the core tier 1 capital adequacy ratio was 13.62%. BOC had an NPL ratio of 1.46% and a core Tier 1 capital adequacy ratio of 11.28%. Finally, ABC had an NPL ratio of 1.57% and a core Tier 1 capital adequacy ratio of 11.04%.

A high proportion of bank lending can stimulate economic growth but can also lead to financial bubbles. In addition to increasing loans, Chinese banks also hold high deposit values to mitigate potential operational issues caused by loans. However, reforming China's banking sector is relatively complex because the direction of bank lending depends heavily on government policy (Bailey, Huang, & Yang, 2011).

Moreover, the level of financialisation of the 'Big Four' banks is low compared to Western countries, especially the United States, where financialisation, led by banks and financial institutions, primarily involves recycling and pricing up paper assets (e.g., bonds, derivatives, special vehicles, etc.), rather than investing in the real economy, resulting in financial profits without real economic productive development. The main assets of the 'Big Four' banks rely on loans to invest in the real economy, such as manufacturing. Due

to Chinese regulatory requirements, the financial investment of the 'Big Four' banks primarily involve establishing holding financial subsidiaries. Furthermore, the primary shareholder of the 'Big Four' is Huijin Company, a wholly state-owned enterprise funded by the state (Table 7.7 displays information on Huijin's direct shareholding enterprises by the end of 2019).

Table 7.7 Huijin's Direct Shareholding Enterprises by the End of 2019

As of December 31, 2019, the information of Huijin's direct shareholding enterprises is as follows:

	Institution	Shareholding ratio of Huijin Company (%)
1	CDB	34.68
2	ICBC	34.71
3	ABC	40.03
4	BOC	64.02
5	CCB	57.11
6	China Everbright Bank Co., Ltd.	19.53
7	Hengfeng Bank Co., Ltd.	53.95
8	China Everbright Group Co., Ltd.	55.67
9	China Construction Bank Investment Co., Ltd.	100.00
10	China Galaxy Financial Holdings Co., Ltd.	69.07
11	Shenwan Hongyuan Jiken Co., Ltd.	20.05
12	China Export Credit Insurance Company	73.63
13	China Reinsurance (Group) Co., Ltd.	71.56
14	Xinhua Life Insurance Co., Ltd.	31.34
15	China International Finance Co., Ltd.	44.32
16	CITIC Construction Investment Securities Co., Ltd.	31.21
17	China Construction Investment CITIC Asset Management Co., Ltd.	70.00
18	Guotai Junan Investment Management Co., Ltd.	14.54

Chapter 8: The Investment Policy of Chinese Joint-Stock Commercial Banks and Foreign Banks

8.1 Introduction

The previous Chapter 7 discussed the investment policies of China's state-owned commercial banks. The investment policies of China's joint-stock commercial banks and state-owned commercial banks are similar in that both aim to support economic growth by providing financing to businesses and individuals. However, there are some key differences between these policies. For example, state-owned commercial banks are often used to finance large infrastructure projects, while joint-stock commercial banks tend to focus more on financing small and medium-sized enterprises. Simultaneously, foreign banks have played a crucial role in China's economic growth over the past few decades. With China's entry into the WTO, foreign banks have assumed an important role in providing capital and expertise. The investment policies of Chinese commercial banks have also evolved, and the entry of foreign banks into the Chinese market has brought competition to China's banking sectors, prompting the reform of Chinese local banks. Foreign banks have made significant contributions to China's banking strategy by providing modern banking services and helping to modernise the sector.

This chapter will concentrate on the investment policies of Chinese joint-stock commercial banks and foreign banks in China. We will explore how these policies have evolved and how they have affected foreign banks' access to the Chinese market. We will also examine the role of Chinese joint-stock commercial banks and foreign banks in China's economic rise and their contribution to China's banking strategy. By examining the similarities and differences between these policies, we can provide readers with a better understanding of how China's banking sector has evolved and how it has contributed to China's economic rise.

8.2 Overview of the Chinese Joint-Stock Commercial Banks and Foreign Banks

This chapter primarily discusses the significant investment policies of Chinese joint-stock commercial banks and foreign banks in China. Here, two joint-stock commercial banks and two foreign banks are used as examples. The two joint-stock commercial banks selected are China Merchants Bank (CMB) and China Industrial Bank (CIB). The main reasons are as follows:

1. CMB ranks 26th in Forbes Global's top 100 companies in 2023, with a market value of $130 billion, assets of $1.45 trillion, and a profit of $20.5 billion.

2. CIB ranked 60th with a market value of $51.5 billion, assets of $1.43 trillion, and a profit of $13 billion[33].

Additionally, the two foreign banks selected are HSBC China and Bank of East Asia (BEA) for the following reasons:

1. According to the ranking of the number of foreign banking institutions in China in 2019, HSBC is the first, followed by BEA.

2. According to the regulations of the China Banking and Insurance Regulatory Commission (CBIRC), the registered capital of a wholly foreign-owned bank with legal person status shall not be less than RMB 1 billion. As of 2019, the wholly foreign-owned bank with the most significant registered capital is HSBC China (RMB 15.4 billion), followed by BEA China (RMB 14.16 billion) (EQ Intelligence, 2020).

8.2.1 Advancement of Chinese Joint-Stock Commercial Banks

Since 1978, to meet the requirements of economic system reform, China's banking sector broke the 'unity' pattern and began to explore the enterprise development of professional banks. Four major professional banks were established and operated independently. Joint-stock banks were established mainly to introduce market mechanisms, promote banking competition, and improve service efficiency. These banks usually stemmed from the reform of state-owned commercial banks and attracted social capital participation by issuing shares to achieve diversified ownership.

For joint-stock banks, the largest shareholders are legal entities other than the state. CMB, the first joint-stock commercial bank wholly owned by corporate legal persons in China, was founded on April 8, 1987, with Shenzhen as its headquarters. Its largest shareholder is the Hong Kong Merchants Group, which held 18.03% of shares.

From 1978 to 1993, due to the task of financial system reform, although joint-stock commercial banks had a certain autonomy in operation, their rights were limited. Financial products mainly comprised deposits and loans, and the varieties were relatively simple.

[33] Ranking data from Forbes 2023.

After the 14th National Congress, the 'Law of the People's Bank of China' and the 'Law of the Commercial Bank' were successively promulgated, providing a legal guarantee for commercial banks to operate independently. The four major banks began transforming and divesting bad assets at this stage. In contrast, commercial banks achieved rapid development and changed from 'regional commercial banks' to 'national commercial banks'.

Since entering the WTO, China has been committed to promoting and establishing a modern financial enterprise system, launching the shareholding reform of state-owned banks, and gradually forming a diversified and market-oriented financial system. At this stage, joint-stock banks gradually established their competitiveness through strategic investment introduction and domestic and foreign listing.

As the profit model of banks still relies on the traditional deposit and loan spread, product homogenisation among banks was severe, resulting in extremely fierce competition. The comprehensive cost of bank outlets to attract deposits was increasing. Since 2006, joint-stock banks, although still employing a similar profit method, have begun to change their approach.

Due to the development mode of the banking industry in the early stage, capital funds were more focused on collecting through nonstandard, interbank, financial management, and other nonreal investments, raising the possibility of a financial crisis. Therefore, since 2017, Chinese central supervision has increased the regulatory requirements of the financial industry, focusing more on the development of the real economy.

Additionally, Chinese joint-stock commercial banks' non-interest income business mainly consists of intermediate services (including traditional settlement, collection, and payment services). According to the 'Law of the Commercial Banks',[34] joint-stock banks are prohibited from engaging in trust investment and securities business in China. Therefore, in the fields of funds, insurance, securities, and others, Chinese commercial banks mainly engage in part agency business and investment banking but cannot engage in securities and trust businesses.

Some studies have proposed that Chinese joint-stock commercial banks can

[34] According to Article 43 of the 'Law of Commercial Banks' in China, commercial banks are prohibited from engaging in trust investment and securities business, investing in non-self-use real estate, or investing in nonbanking financial institutions and enterprises, except as otherwise stipulated by the government.

implement the business model of a 'financial holding group': banking, insurance, securities, and trust are relatively independent operations under the agreed main interest groups to achieve 'group mixing and business separation' such as CITIC Group and Ping An Group (Su, 2012).

Presently, there are 12 national joint-stock banks, including CMB, Industrial Bank, Shanghai Pudong Development Bank, Minsheng Bank, CITIC Bank, Huaxia Bank, Ping An Bank, Guangfa Bank, Everbright Bank, Bohai Bank, Zheshang Bank, and Hengfeng Bank.

8.2.2 Advancement of Foreign Banks in China

From 1978 to 2000, following China's reform and opening up and accession to the WTO, China's banking sector was only open in specific areas, and some businesses were carried out on a pilot basis. Most foreign banks operated as branches at this stage. After joining the WTO, China gradually opened up the RMB business of foreign banks and relaxed restrictions on their operating areas to provide an equal development environment for foreign banks.

Since 2006, China's domestic funds have finally had the opportunity to enter the global capital market. Compared with domestic funds, a Qualified Domestic Institutional Investor's (QDII) investment risk is relatively diversified, and the exchange rate risk caused by reliance on a single market is correspondingly reduced. Foreign banks have a natural advantage in international funds and an understanding of overseas markets, so QDII is a feature of foreign banks' wealth management products.

In 2007, the CBIRC relaxed the restrictions on foreign banks to set up wholly foreign-owned banks in China and agreed that branches of foreign banks could become wholly foreign-owned banks. Fifteen foreign banks became wholly foreign-owned banks with legal person status only in 2017. The business of foreign banks in China entered a stage of rapid development.

Since 2018, China's financial sector has entered the 'fast track' of opening up, providing new opportunities for foreign banks to develop in China. Government regulators issued a series of financial policies to encourage foreign institutions to invest in China's financial sector and capital markets (EQ Intelligence, 2020).

However, bank regulation in China adopts a macroprudential approach, prioritising

the stability of the entire financial system rather than solely focusing on individual banks. This approach is influenced by the unique characteristics of China's banking sector, which is predominantly dominated by state-owned banks, with only a limited number of joint-stock and foreign banks operating there. As a result, macroprudential regulation is deemed essential to safeguard the stability of the entire financial system in China's banking industry landscape (Liu, 2014; Yuan et al., 2018).

Foreign banks in China face stringent regulatory requirements that are not applied to domestic banks, hampering their profitability rankings. At the same time, barriers to foreign portfolio investment effectively limit the power of international financial capital over the Chinese state (Harvey, 2007).

Recent changes in China's regulatory requirements aim to create a competitive environment for foreign banks to operate in China. In October 2019, The State Council promulgated the 'Decision of The State Council on Amending the Regulations of the People's Republic of China on the Administration of Foreign-Funded Insurance Companies' and the 'Regulations of the People's Republic of China on the Administration of Foreign-Funded Banks'. The revised regulations eased restrictions on foreign ownership in the banking, securities, and insurance industries, relaxed restrictions on establishing foreign financial institutions, and expanded the scope of foreign financial institutions' business in China.

Additionally, in 2024, China's Financial Supervision Administration announced that restrictions on the proportion of equity in financial institutions subject to foreign equity participation, acquisition, or capital increase had been abolished, allowing foreign investors to hold 100% of the equity of banking and insurance institutions to achieve full control.

In general, the influence of foreign capital penetration and know-how on the management efficiency of Chinese banks is positive. Foreign capital penetration has led to increased competitive pressure in the banking market, forcing domestic banks to improve management efficiency and operational capacity (Gao et al., 2022).

However, the development of competition in the Chinese market is very fierce for foreign banks. When foreign banks entered the Chinese market, they focused on retail as their main business and targeted high-end customer groups. However, due to the fierce

competition in the retail industry of Chinese banks, many foreign banks chose to close their personal retail business in China (21st Century Business, 2021). The retail business of China's banking industry was highly competitive and full of competition, extending to online, and the market has been sceptical about how much role foreign banks can play in the retail market. In recent years, foreign banks have also accelerated the implementation of digital transformation at the retail business application level, not only in various forms but also gradually expanding to the whole business line (National Institution for Finance & Development, 2021).

The following will discuss the specific situation of China's joint-stock commercial banks and foreign banks, including asset analysis, investment, shareholders, and the level of financialisation. CMB and Industrial Bank will be discussed first.

8.3 Chinese Joint-Stock Commercial Banks

8.3.1 China Merchants Bank (CMB)

CMB(招商银行) was established on April 8, 1987, in Shenzhen Shekou, at the forefront of China's reform and opening up. It is the first joint-stock commercial bank in China wholly owned by a legal enterprise person. It is also the first pilot bank for the state to promote banking reform from outside the system. On April 9, 2002, CMB's A-shares were listed on the Shanghai Stock Exchange. In 2004, the bank proposed a 'transformation' strategy to develop its retail business, formally determining the dominant position of the retail business by adjusting the business structure (CMB, 2004).

In 2005, CMB's total assets were RMB 734.61 billion, of which RMB 458.67 billion were mainly loans, accounting for 62% of the total assets. Although CMB proposed the development of retail business, the primary loans were still enterprise loans, totalling RMB 298.62 billion (CMB, 2005). From 2006 to 2009, CMB's total assets increased significantly, from RMB 934.1 billion to RMB 2.07 trillion. During this period, assets were mainly loans, amounting to RMB 565.7 billion in 2016 and reaching RMB 1.19 trillion in 2009.

Moreover, the retail development goals proposed by CMB changed significantly. In 2006, corporate and retail loans were RMB 359.88 billion and RMB 101.98 billion, respectively. In 2009, corporate and retail loans were RMB 659.18 billion and RMB

368.59 billion, respectively. However, the manufacturing sector accounted for RMB 197.53 billion, and personal housing mortgages accounted for RMB 263.85 billion. It was also the first time CMB's housing mortgage loans exceeded manufacturing loans. In 2009, CMB further proposed retail business as a profit growth point. To this end, CMB deeply integrated retail banking resources, dug deep into high-value customers of retail banks, vigorously developed a wealth management business, and promoted the transformation of the credit card business (CMB, 2006; CMB, 2007; CMB, 2008; CMB, 2009).

In 2010, CMB's total assets were RMB 2.4 trillion, of which RMB 1.43 trillion were loans, accounting for 59.58% of the total assets. Corporate loans reached RMB 870.52 billion, mainly growing in the Bohai Rim and Yangtze River Delta regions. Retail loans continuously grew, reaching RMB 495.99 billion, and personal residential mortgage loans reached RMB 299 billion (CMB, 2010).

Since 2011, CMB has continued to refine industrial credit policies according to the central 'Twelfth Five-Year Plan', increased credit support for new strategic industries, and strictly controlled loans to real estate, local government financing platforms, industries with excess capacity, and non-advantageous traditional industries. Manufacturing loans grew, with RMB 307.97 billion in 2011, RMB 365.66 billion in 2012, and RMB 388.34 billion in 2013. Personal mortgage loans fell from RMB 323.64 billion in 2011 to RMB 319.72 billion in 2013 (CMB, 2011; CMB, 2012; CMB 2013).

Since 2013, CMB has focused more on small and microenterprise loans. In 2014, CMB's total assets amounted to RMB 4.73 trillion, including RMB 2.51 trillion in loans, RMB 1.47 trillion in enterprise loans, and RMB 971.33 billion in retail loans. Manufacturing, personal mortgage, and small and microenterprise loans were RMB 360.27 billion, RMB 329.18 billion, and RMB 338.81 billion, respectively (CMB, 2014).

Since 2015, CMB assets have become more diversified. In 2015, CMB's total assets were RMB 5.47 trillion, and its total loans were RMB 2.82 trillion, accounting for 51.59% of its total assets. Corporate and retail loans were RMB 1.51 trillion and RMB 1.23 trillion, respectively. Manufacturing, personal housing mortgage, small and microenterprise loans, and credit card loans were RMB 332.15 billion, RMB 499.46 billion, RMB 310.78 billion, and RMB 313.24 billion, respectively. At the same time, since 2015, investment securities and other financial assets have increased, accounting for 26.32% of the total assets,

totalling RMB 1.44 trillion. Investment in receivables[35] accounted for the largest proportion of total assets, with RMB 716.06 billion, followed by held-to-maturity investment and available-for-sale financial assets at RMB 353.14 billion and RMB 299.56 billion, respectively (CMB, 2015).

In 2016, corporate and retail loans were mainly equal, at RMB 1.57 trillion and RMB 1.54 trillion, respectively. Personal mortgage loans amounted to RMB 728.33 billion, and credit card loans amounted to RMB 409.2 billion, exceeding manufacturing loans of RMB 297.44 billion. Investment securities and other financial assets increased slightly in 2016, reaching RMB 1.46 trillion. Held-to-maturity investments and available-for-sale financial assets rose to RMB 477.06 billion and RMB 389.14 billion in 2016 (CMB, 2016).

From 2017 to 2019, CMB's total assets grew from RMB 6.3 trillion to RMB 7.42 trillion. The prominent increase was in the investment of personal residential mortgages and bonds. Personal housing mortgage loans rose from RMB 833.41 billion to RMB 1.11 trillion, and debt investment grew to RMB 907.47 billion. As of 2019, the main lending area of CMB is the Yangtze River Delta (CMB, 2017; CMB, 2018; CMB, 2019).

Since 2016, CMB has carried out the third transformation, putting forward the strategy of retail banking as the core and corporate finance and interbank finance as supplements to build a light bank. In 2017 and 2018, amid the general downturn of the banking industry, CMB achieved excellent and stable growth. The total nonperforming loans (NPLs) and NPL ratio fell, and the light banking strategy achieved apparent results (Yang & Yang, 2019).

At the same time, the continuous growth of total assets usually means that the bank has achieved good profits and business development during this period. It could also signal a strengthening of CMB's position in China's joint-stock banking market. The expansion of its market share could be attributed to increased customer trust in the bank's brand and the diversification of its business. Tables 8.8 and 8.9 show the specific CMB asset changes from 2005 to 2019.

[35] Investments in receivables include unlisted Chinese national certificate treasury bonds and other bonds held by China Merchants Bank, which have no public market price domestically or internationally.

Table 8.8 CMB Assets, 2005–2019

CMB RMB	Assets	Loans	Corporate	Manufacturing	Retail	Personal housing mortgage	Small/Micro business	Credit card
2005	734.61	458.67	298.62	75.73	74.04	64.61	--	--
2006	934.1	565.7	359.88	82.52	101.98	81.38	--	--
2007	1.31	673.17	445.87	132.65	175.03	131.14	--	--
2008	1.57	874.36	518.44	158.02	219.34	148.45	--	--
2009	2.07	1.19	659.18	187.53	368.59	263.85	--	--
2010	2.4	1.43	870.52	253.45	495.99	299	--	--
2011	2.79	1.6	994.04	307.97	571.21	323.64	--	--
2012	3.41	1.9	1.15	365.66	686.78	335.75	--	--
2013	4.02	2.2	1.33	388.34	800.25	319.72	--	--
2014	4.73	2.51	1.47	360.27	971.33	329.18	338.81	--
2015	5.47	2.82	1.51	332.15	1.23	499.46	310.78	313.24
2016	5.94	3.26	1.57	297.44	1.54	728.33	283.5	409.2
2017	6.3	3.57	1.66	--	1.79	833.41	312.72	491.38
2018	6.75	3.94	1.77	--	2.01	928.76	350.53	575.49
2019	7.42	4.5	1.9	--	2.36	1.11	405.78	671.1

Table 8.9 CMB Investment Assets, 2015–2019

CMB RMB	Invest Securities/Other Financial assets	Investment receivables	Available-for-sale financial assets	Held-to-maturity investment	Debt investment
2015	1.44	716.06	299.56	353.14	--
2016	1.46	528.75	389.14	477.06	--
2017	1.6	572.24	--	558.24	--
2018	1.71	--	--	--	903.27
2019	1.84	--	--	--	907.47

- **Shareholders of CMB**

As of 2019, the major shareholders of CMB were Hong Kong Central Clearing (Agents) Co., LTD. (18.03%), China Merchants Shipping Co., Ltd. (13.04%), and China Ocean Shipping Co., Ltd. (6.24%). **Table 8.10** lists the names and proportions of CMB's top ten controlling shareholders in detail, but it does not show the companies with consolidated holdings. The specific situation of consolidated holding companies is described in detail below.

China Merchants Shipping Co., Ltd., Shenzhen Zhaorong Investment Holdings Co., Ltd., Shenzhen Yanqing Investment Development Co., Ltd., Shenzhen Chuyuan Investment Development Co., Ltd., China Merchants Union (BVI) Limited, Best Winner Investment Limited, and China Merchants Industrial Development (Shenzhen) Co., Ltd. together hold 29.97% of CMB's shares.

Among them, China Merchants Shipping Co., Ltd. directly holds 13.04% of CMB's shares. It is the largest shareholder of CMB, with a capital of RMB 7 billion. The company not only engages in the cargo transportation business but also engages in investment and management of banking, securities, insurance, and other financial services related to transportation.

China Merchants Group Co., Ltd. directly holds 100% of the equity of China Merchants Shipping Co., with a registered capital of RMB 16.7 billion. China Merchants Group Co., Ltd. is a central enterprise supervised by the State-owned Assets Supervision and Administration Commission of the State Council. The predecessor of the company is the Ship Merchants Bureau. It was founded in 1872 during China's late Qing Dynasty Westernisation Movement. Its business mainly concentrates on the three core industries of comprehensive transportation, characteristic finance, and comprehensive development of cities and parks. It is transforming from the three primary industries to industrial operation, financial services, investment, and capital operation (CMB, 2019).

Although joint-stock commercial banks have attracted various types of shareholders, state-owned enterprises (such as China Merchants Shipping Co., Ltd.) remain the largest shareholders of CMB.

Table 8.10 CMB's Top Ten Shareholders

2019	Shareholder name	Proportion
1	Hong Kong Central Clearing (Agents) Co., LTD.	18.03%
2	China Merchants Shipping Co., LTD.	13.04%
3	China Ocean Shipping Co., LTD.	6.24%
4	Hexie Health Insurance	4.99%
5	Dajia Life Insurance Co., LTD.	4.99%
6	Shenzhen Yanqing Investment Development Co., Ltd.	4.99%
7	The Financial Holding Company of Shenzhen Recruitment Finance Investment Holding Co., LTD.[36]	4.55%
8	Hong Kong Securities Clearing Company Ltd. (HKSCC)	4.03%
9	Shenzhen Chuyuan Investment Development Co., LTD.	3.74%
10	China Securities Finance Corporation Limited	2.99%

- **Financial Companies Held by CMB**

As mentioned earlier, according to Article 43 of the 'Law of Commercial Banks' of China, commercial banks are prohibited from engaging in trust investment and securities businesses, investing in non-self-use real estate, or investing in nonbanking financial institutions and enterprises, except as otherwise stipulated by the government. However, Chinese banks have gradually expanded their reach over the past few years by acquiring stakes in several financial companies. These companies include securities, insurance, fund management, etc. The following are the financial companies currently owned by CMB.

To enhance its financial products and keep up with the evolving financial markets, CMB is actively involved in the capital markets through its securities and other financial subsidiaries. This involvement includes investment banking, securities underwriting, equity investment, and related businesses.

1) CMB Wing Lung Bank Limited

CMB Wing Lung Bank Limited is a Hong Kong-incorporated bank. Formerly known as Wing Lung Bank, it was established in 1933 in Hong Kong, China, and was one of the oldest Chinese-owned banks in Hong Kong. It was successfully acquired by CMB in 2008,

[36] The name was changed to 'China Merchants Financial Holdings Limited' in 2021.

becoming a wholly-owned subsidiary of CMB in 2009, and changed its name to CMB Wing Lung Bank in 2018. As of the end of 2019, the total assets of CMB Wing Lung Bank were HK$341.84 billion (CMB, 2019).

2) CMB International

CMB International, founded in 1993, was a wholly-owned subsidiary of CMB in Hong Kong. Its main business scope included investment banking, securities economy, and asset management. In 2002, China Merchants Fund was established as the first Sino-foreign joint venture fund management company approved by the China Securities Regulatory Commission (CSRC). The business was responsible for establishing and managing funds. By 2019, CMB held 55% of China Merchants Capital. The total capital of the China Merchants Fund was RMB 7.295 billion, and the net profit was RMB 803 million (CMB, 2019).

3) Cigna & CMB

Cigna & CMB was the first Sino-foreign joint venture life insurance company established after China joined the WTO in 2003. As of 2019, Cigna's total assets were RMB 58.752 billion, and its net profit was RMB 1.378 billion (CMB, 2019).

4) China Merchants Leasing

In 2008, CMB wholly owned the establishment of China Merchants Leasing, with a registered capital of 6 billion yuan. By the end of 2019, China Merchants Leasing's total assets were 188.718 billion yuan, and its net profit was RMB 2.501 billion. In 2012, CMB held $3.347 billion in foreign currency bonds, mainly issued by the Chinese government and Chinese companies (34.43%), overseas government and institutional bonds (9.11%), overseas bank bonds (39.22%), and overseas corporate bonds (17.24%) (CMB, 2019).

5) CMB Financial Management

In 2019, CMB established CMB Financial Management with a registered capital of RMB 5 billion, primarily to offer financial products and asset management services (CMB, 2019).

8.3.2 China Industrial Bank Co., LTD. (CIB)

In 1988, to implement the coastal economic development strategy, Fujian and Guangdong provinces requested to take the lead in carrying out comprehensive reform pilot projects to accelerate the development of the export-oriented economy. Subsequently, the State Council approved the expansion, opening up, and deepening reform in the two

provinces and agreed to establish regional joint-stock commercial banks to promote the reform of the banking industry.

With the support of the Fujian Provincial government and the People's Bank of China (PBOC), Fujian Fuxing Finance Company, as the main entity, together with Fujian Investment Enterprise Company and Fujian Huaxing Trust and Investment Company, initiated and offered shares to the public. Fujian Industrial Bank was established on August 26th. In 2003, Fujian Industrial Bank officially changed its name to China Industrial Bank Co., LTD (兴业银行 CIB). On February 5th, 2007, China Industrial Bank Co., LTD. was officially listed on the Shanghai Stock Exchange.

In 2007, the total assets of Industrial Bank were RMB 851.34 billion, mainly corporate loans and personal loans, which amounted to RMB 260.5 billion and RMB 132.4 billion, respectively. Loans were more concentrated in Fujian province (CIB, 2007). From 2008 to 2009, the total assets of the Industrial Bank grew from RMB 1.02 trillion to RMB 1.33 trillion. Corporate loans increased from RMB 312.92 billion to RMB 505.88 billion, and personal loans grew from RMB 128.94 billion to RMB 169.01 billion. Among these, individual housing mortgages were RMB 140.09 billion, surpassing manufacturing loans of RMB 107.48 billion (CIB, 2008; CIB, 2009).

In 2010, Industrial Bank's assets increased by RMB 374.01 billion in investment assets, including RMB 287.17 billion in bills, exceeding RMB 132.24 billion in manufacturing loans and RMB 178.27 billion in personal housing and commercial housing loans (CIB, 2010). From 2011 to 2014, the total assets of Industrial Bank continued to increase, reaching RMB 4.41 trillion in 2014. Investment increased from RMB 526.98 billion in 2011 to 921.1 billion yuan in 2013. Although it slightly decreased to RMB 712.76 billion in 2014, it remained higher than manufacturing loans (CIB, 2011; CIB, 2012; CIB, 2013; CIB, 2014).

Starting in 2015, the amount of personal housing mortgage loans from Industrial Bank began to exceed that of corporate loans such as manufacturing and continued to grow. In 2016, individual housing mortgage loans were RMB 517.6 billion, followed by RMB 630.05 billion and RMB 749.36 billion in the following years, reaching RMB 910.88 billion in 2019, much higher than manufacturing loans of RMB 354.79 billion.

Investment assets rose from RMB 2.6 trillion in 2015 to RMB 3.29 trillion in 2016, surpassing loan assets of RMB 2.08 trillion. In the following years, there was a decline, with investment assets of RMB 2.7 trillion in 2019, lower than loan assets of RMB 3.44 trillion (CIB, 2015; CIB, 2016; CIB, 2017; CIB, 2018; CIB, 2019).

CIB shifted from 'real estate profit' to developing interbank business, accelerating business transformation and upgrading, and continually seeking new market opportunities in the changing environment (Yang & Yang, 2019).

Tables 8.11 to 8.12 depict the specific changes in CIB's assets from 2007 to 2019.

Table 8.11 CIB Assets, 2007–2019

CIB RMB	Assets	Loans	Corporate	Manufacturing	Personal	Personal housing mortgage
2007	851.34	400.14	260.5	67.99	132.4	110.2
2008	1.02	499.39	312.92	82.76	128.94	112.16
2009	1.33	701.6	505.88	107.48	169.01	149.09
2010	1.85	854.34	619.6	132.24	225.01	178.27
2011	2.41	983.25	703.95	175.08	260.64	174.98
2012	3.25	1.23	912.19	261.46	299.94	172.94
2013	3.67	1.36	988.81	281.11	353.64	185.06
2014	4.41	1.59	1.18	293.74	385.95	198.77
2015	5.3	1.78	1.2	295.36	511.91	298.31
2016	6.09	2.08	1.27	310.3	750.54	517.6
2017	6.42	2.43	1.48	335.45	910.82	630.05
2018	6.71	2.93	1.61	359.59	1.17	749.36
2019	7.15	3.44	1.8	354.79	1.45	910.88

Table 8.12 CIB Investment Assets, 2010–2019

CIB RMB	Redemptory monetary capital for sale	Investment[37]	Investment in receivables
2010	374.01	--	--
2011	526.98	--	--
2012	797.8	--	--
2013	921.1	--	--
2014	712.76	--	--
2015	--	2.6	1.83
2016	--	3.29	2.1
2017	--	3.12	1.91
2018	--	2.89	1.39
2019	--	2.7	--

- **Shareholders of the CIB**

As of 2019, the three major shareholders of Industrial Bank were the Fujian Provincial Department of Finance, the People's Insurance Group Company of China Limited and its holding company, and the China National Tobacco Corporation and its subsidiaries.

The Fujian Provincial Department of Finance is the company's largest shareholder, holding 18.78% of Industrial Bank's shares.

The People's Insurance Group Co., LTD., People's Insurance Company of China (PICC) Property and Property Insurance Co., LTD., and PICC Life Insurance Co., LTD. together held 12.90% of the company's shares[38]. China's People's Insurance Group Company held 0.84% of CIB's shares. PICC held 5.91%, and China's People's Life Insurance Company owned 6.14% of the shares.

China National Tobacco Corporation, Fujian Tobacco Haisheng Investment Management Co., LTD., Hunan China Tobacco Investment Management Co., LTD.,

[37] It includes trading financial assets, debt investments, other debt investments, investments in other equity instruments, financial assets at fair value, available-for-sale financial assets, receivables, hold-to-maturity investments, and long-term equity investments.

[38] PICC Group Company Limited is the controlling shareholder of PICC Property Insurance Company Limited and PICC Life Insurance Company Limited, with the Ministry of Finance of the People's Republic of China being the controlling shareholder of both.

China Tobacco Corporation Fujian Province Company, and China Tobacco Corporation Guangdong Province Company together held 9.68% of CIB's shares[39]. China National Tobacco Corporation had 5.34%, and Fujian Tobacco Haisheng Investment Management Co., Ltd. held 2.13% of the company's shares. Hunan China Tobacco Investment Management Co., Ltd. held 1.09%, and China Tobacco Corporation Fujian Province had 0.64% of the company's shares, followed by China Tobacco Corporation Guangdong Province with 0.48% (CIB, 2019).

In light of this, the CIB's largest shareholder is the Fujian Provincial Department of Finance, which is controlled directly by local authorities. It is quite different from CMB because CMB's largest shareholder is a state-owned enterprise.

- **Financial Companies Held by CIB**

The principal subsidiaries of Industrial Bank include Industrial Financial Leasing Co., LTD., Industrial International Trust Co., LTD., Industrial Fund Management Co., LTD., Industrial Consumer Finance Co., LTD., and CIB Wealth Management Co., LTD.

1) Industrial Financial Leasing Co., LTD.

In 2012, the total assets of Industrial Financial Leasing Co., LTD. were 40.312 billion yuan, with a net profit of RMB 667 million. The investments were primarily in manufacturing (32.7%), water conservancy and other public facilities management (16.08%), leasing and business services (16.7%), and electricity, gas, and water production and supply (12.23%) (CIB, 2012). In 2013, the company continued to develop its aviation leasing business, expanding into the 'bonded leasing business of business aircraft' and 'group purchase business of business aircraft' (CIB, 2013). In 2014, Industrial Financial Leasing cooperated with the Asian Development Bank to establish the clean energy public transport financing leasing business. It also collaborated with the financial leasing companies of large pharmaceutical groups (CIB, 2014). In 2017, Industrial Financial Leasing Co., LTD. signed industrial leasing cooperation agreements with several large enterprises, totalling RMB 122 billion, covering new energy vehicles, clean energy, environmental protection services, medical care, etc. (CIB, 2017). The total assets of Industrial Financial Leasing Co., LTD. in 2019 were RMB 120.683 billion, of

[39] Fujian Tobacco Haisheng Investment Management Co., LTD., Hunan China Tobacco Investment Management Co., LTD., China Tobacco Corporation Fujian Province Company, and China Tobacco Corporation Guangdong Province Company are subsidiaries of the China Tobacco Corporation, which is controlled by the Ministry of Finance of the People's Republic of China.

which 112.307 billion yuan were financial leasing assets (CIB, 2019).

2) China Industrial International Trust Limited

Industrial Trust's business scope includes fund trust, movable property trust, real estate trust, securities trust, etc. In 2013, the assets of Industrial Trust were RMB 5.384 billion, and the net profit was RMB 1.106 billion (CIB, 2013). In terms of equity investment, as of 2013, Industrial Trust invested and participated in Zijin Mining Group Finance Co., LTD., Huafu Securities Co., LTD., Chongqing Electromechanical Holding Group Finance Co., LTD., and wholly-owned Industrial International Asset Management Co., LTD. In 2014, Industrial Trust was approved for QDII and successfully issued China's first green financial credit asset securitisation product. In 2019, Industrial Trust's assets reached RMB 42.145 billion (CIB, 2019).

3) CIB Fund Management Co., LTD.

CIB Fund Management Co., LTD. was established in 2013. Its total assets reached RMB 12.16 million, and the net profit was RMB 11.07 million yuan in 2014 (CIB, 2013; CIB, 2014). In 2016, CIB Fund Management Co., LTD. jointly established the 'China Major Scientific and Technological Achievements Transformation Fund' with the Ministry of Science and Technology of the People's Republic of China, China Development and Investment Corporation, China Life Insurance, and other institutions. It cooperated with the Fujian Provincial Department of Finance to establish the Fujian Provincial Government and Social Cooperation Development Fund, Fujian Provincial Enterprise Technological Transformation Fund, and signed the Strait Energy Industry Fund with China National Petroleum Corporation (CNPC) (CIB, 2016). In 2019, the total capital assets of CIB Fund Management Co., LTD. were RMB 3.628 billion (CIB, 2019).

4) Industrial Consumer Finance Co., LTD.

In December 2014, Industrial Consumer Finance Co., LTD. was established to provide consumer loans to individuals, primarily aiming to expand its internet and offline personal consumer credit business. By the end of 2019, the assets of Industrial Consumer Finance Co., LTD. totalled RMB 37.352 billion. The company successfully issued financial bonds in August and November, totalling RMB 3 billion. Additionally, in September and November, the company issued 'personal consumption loans' totalling RMB 4.068 billion (CIB, 2019).

5) CIB Wealth Management

CIB Wealth Management Co., Ltd. is a wholly-owned subsidiary of CIB, with a registered capital of RMB 5 billion, and it was officially approved to open on December 13, 2019 (CIB, 2019).

8.4 Foreign Banking Capital in China

8.4.1 Hong Kong and Shanghai Banking Corporation Limited (HSBC) China

Since its establishment in 1865, the Hong Kong and Shanghai Banking Corporation (HSBC) has operated in mainland China without interruption. On April 2, 2007, HSBC Bank (China) Limited, a wholly foreign-owned bank owned by the Hong Kong and Shanghai Banking Corporation Limited, was formally incorporated. It was the former Mainland China branch of the Hong Kong and Shanghai Banking Corporation Limited. Since then, HSBC (China) has become the largest foreign bank in mainland China and holds a 19% stake in the Bank of Communications.

In 2012, the total assets of HSBC (China) were RMB 298.51 billion, and the total assets increased to RMB 425.76 billion in 2014. The primary growth was in corporate loans and investment in government bonds. Corporate loans rose from RMB 102.04 billion in 2012 to RMB 133.86 billion in 2014. Government investment bonds reached RMB 77.09 billion in 2013 and RMB 90.32 billion in 2014 (HSBC(China), 2012; HSBC(China), 2013; HSBC(China), 2014).

In 2015, HSBC's total assets fell slightly to RMB 389.66 billion (HSBC(China), 2015). From 2016 to 2019, the total assets continued to increase, reaching RMB 421.71 billion, RMB 467.93 billion, RMB 476.32 billion, and RMB 524.8 billion, respectively. Corporate loans grew to RMB 148.65 billion in 2019, while personal housing loans often increased less significantly, reaching only RMB 49.16 billion in 2019. In addition, financial investment increased, reaching RMB 111.13 billion in 2018 and RMB 120.61 billion in 2019 (HSBC(China), 2016; HSBC(China), 2017; HSBC(China), 2018; HSBC(China), 2019).

Although the total assets of HSBC in 2019 were only RMB 524.796 billion, the asset of HSBC was the largest foreign bank in China, accounting for 18.80% of the total assets of 39 banks (EQ Intelligence, 2020).

Table 8.13 shows the specific HSBC's assets changes from 2012 to 2019.

Table 8.13 HSBC's Assets, 2012–2019

HSBC	(RMB Billion)	2012	2013	2014	2015	2016	2017	2018	2019
Assets		298.51	365.82	425.76	389.66	421.71	467.93	476.32	524.8
	Loans	131.86	148.51	172.94	170.24	163.22	185.59	193.82	209.84
	Corporate loans	102.04	108.71	133.86	--	--	127.22	134.87	148.65
	Personal housing loans	16.81	21.77	26.92	33.54	42	47.7	--	49.16
	Available-for-sale financial assets	44.84	77.28	91.92	73.43	82.12	97.71	--	--
	Financial investments	--	--	--	--	--	--	111.13	120.61
	Government bond investment	44.84	77.09	90.32	--	--	93.5	109.48	103.82
	Foreign government bonds	--	--	--	--	--	--	--	15.13

In 2016, HSBC China began selling officially registered Hong Kong mutual recognition funds in China as an agent, becoming one of the first foreign banks in the mainland to do so. HSBC China was also the first bank to assist overseas financial institutions in entering the Chinese bond market. Moreover, HSBC China began carrying out individual cross-border RMB settlement business, cross-border interbank certificate of deposit business, and market business. HSBC China also served as a custodian bank for RMB Qualified Foreign Institutional Investors (RQFII) in Thailand, the United States, Malaysia, and other countries (HSBC(China), 2016).

In 2017, HSBC China and the interbank bond market with foreign institutional investors completed the first RMB to foreign exchange derivatives transaction. In addition, HSBC China also became the first foreign bank in the mainland to issue financial bonds through the 'Bond Connect'. In October 2017, HSBC China received approval to conduct lead underwriting of debt financing instruments for non-financial foreign companies in China's interbank bond market (HSBC(China), 2017).

In 2019, HSBC China was approved by the Dalian Commodity Exchange to carry out futures margin deposit business for overseas customers of iron ore futures, becoming the first foreign bank to obtain the margin deposit business qualification of the Dalian Mercantile Exchange. In August, HSBC China completed the first 1+3 cash transaction in the bank bond market. In November, HSBC China, as the domestic custodian bank of the UK cross-border converter HSBC Banking Corporation Limited (UK), supported the

cross-border converter in completing the first cross-border conversion of Shanghai-London Stock Connect Global Depositary Receipts (HSBC(China), 2019).

8.4.2 Bank of East Asia (China) Limited (BEA China)

Founded in 1918 in Hong Kong, the BEA provides a comprehensive range of retail and commercial banking services to customers in Hong Kong, Mainland China, and other major markets worldwide. With the approval of the CBIRC, BEA China, a wholly-owned subsidiary of BEA, was opened on 2 April 2007. BEA's significant shareholders include Sumitomo Mitsui Banking Corporation (21.37%), Criteria (18.91%), and Guoco Management Limited (16.21%).

In 2009, BEA received over RMB 6.3 billion in bond subscriptions from retail and institutional investors during the subscription period (BEA (China), 2009). In July, BEA China issued RMB bonds worth RMB 4 billion in Hong Kong, and BEA, the first foreign-incorporated bank in the mainland, issued RMB bonds in Hong Kong (Securities Times, 2012). Moreover, BEA issued the first RMB 2 billion financial bond on March 18, 2011 (BEA(China), 2011).

In 2012, the total assets of BEA were RMB 206.97 billion and continued to grow to RMB 219.78 billion in 2015. Among them, loans increased from RMB 103.34 billion in 2012 to RMB 116.72 billion in 2015 (BEA(China), 2012; BEA(China), 2013; BEA(China), 2014; BEA(China), 2015). BEA's assets rose from 212.86 billion yuan in 2016, then began to decline to RMB 217.3 billion in 2017, and continued to decline (BEA(China), 2016; BEA(China), 2017).

In 2017, East Asia Qianhai Securities Co., LTD. (East Asia Qianhai Securities) was established, with BEA being the largest shareholder, holding 49%. The registered capital of East Asia Qianhai Securities is RMB 1.5 billion. Its business scope includes securities brokerage, securities underwriting and sponsorship, securities asset management, and securities self-management (BEA(China), 2017).

BEA China's assets were RMB 216.36 billion in 2018 and RMB 195.68 billion in 2019 (BEA (China), 2019). On March 8, 2019, BEA (China) Limited announced that it completed the issuance of financial bonds totalling RMB 2.5 billion in the national interbank bond market. The lead underwriters responsible for coordinating and underwriting the bond included CITIC Securities Co., LTD., Bank of China Co., LTD.,

and East Asia Qianhai Securities Co., LTD. (BEA(China), 2019). BEA is one of only two foreign banks participating in China and issuing secondary capital bonds.

In June 2019, BEA released that the main reason for the decline in profit was mainland China's financial business, which was affected by significant impairment losses from the non-first-tier real estate loan business. Additionally, due to deteriorating market conditions, the downgrade of the credit ratings of four earlier approved mainland loans could lead to significant impairment losses of HK $2.5 billion to HK $3 billion, and the asset impairment loss rate could be as high as 50% or more.

Since BEAs have relatively simple business types in China, they are more affected by government policies and the real estate market environment than other banks (BEA(China), 2019).

However, most real estate lending in recent years, particularly personal residential mortgages, may be relatively secure due to how it is structured in China. Down payments are typically substantial, and loans often have recourse, meaning that if the homeowner defaults, the bank can pursue other assets besides the home. Since 2016, individual Chinese cities implemented dependent measures to regulate the local property market. These regulations typically restrict who can purchase an apartment, limit the number of apartments purchased, and mandate a minimum down payment. In most major cities, only individuals with a local hukou or residence permit are eligible to purchase a house (The Economist, 2023).

According to S&P Global, approximately 2.4 trillion yuan ($350 billion) worth of mortgages could potentially default, and the bad mortgages represent roughly 1.3 % of total bank loans, which could pose a risk to some smaller banks but is not significant enough to pose a systemic threat to the banking system (The Economist, 2022). Therefore, China's largest banks remain financially sound. However, smaller banks, particularly rural banks, have been disproportionately impacted. This diminishes the available funds to sustain small businesses and major industrial initiatives, potentially resulting in slower economic growth (Taplin, 2023).

8.5 Conclusion

In this chapter, a comparative analysis has been undertaken, focusing on the operational dynamics of both domestic joint-stock commercial banks (exemplified by

CMB and Industrial Bank) and foreign banks (represented by HSBC and BEA).

The study reveals that China's joint-stock commercial banks, notably CMB and Industrial Bank, exhibit resilient growth trends in their primary asset portfolios. This growth trajectory is prominently underpinned by strategic investments in loans, with a particular emphasis on personal mortgage loans.

A noteworthy facet of their financial strategy involves the financialisation of assets, achieved through equity holdings in financial enterprises—a practice driven by compliance with Chinese regulatory frameworks. Interestingly, despite these banks operating as joint-stock entities, their principal ownership remains vested in state-owned enterprises and local governmental entities.

Conversely, a distinct contrast emerges when examining foreign banks' presence within China, as exemplified by HSBC and BEA. Foreign banks operate with relatively narrower asset portfolios and business scopes than their domestic counterparts. Due to regulatory restrictions in China, such as the 'Regulations on the Administration of Foreign Banks' issued by The State Council in 2006[40], the minimum amount of time deposits that foreign bank branches can accept from Chinese citizens was not less than RMB 1 million each.

This led foreign banks to focus more on specific client groups, such as high-net-worth individuals, multinational corporations, and large corporations, which may make their portfolios relatively light on the retail banking side. At the same time, foreign banks have a relatively small market share in China, which may limit their scale in some asset classes, especially in the highly competitive retail banking market.

Their primary focus revolves around creating, marketing, and distributing financial products, catering to the Chinese market and helping China connect more closely with international markets. However, this strategic orientation towards financial products results in a relatively streamlined business model, potentially leading to a higher concentration of risk due to its simplicity.

The example of BEA provides a case in point, as its assets have experienced a declining trajectory over recent years. This decline is attributed to the combined impact

[40] This rule was revised in 2019 to require no less than 500,000 RMB per transaction, and the requirement for foreign banks to obtain approval to start an RMB business was removed.

of NPLs and market-induced pressures, signifying the vulnerabilities inherent in a simplified business model.

This comparative analysis underscores the intricate interplay of ownership structures, regulatory compliance, and business models shaping the trajectories of China's joint-stock commercial banks and foreign banking entities. The study prompts further inquiry into the strategic implications of ownership patterns and the risk dynamics associated with streamlined business models within the Chinese financial landscape.

Chapter 9: Summary and Key Findings

9.1 Summary

The speed of development in the Chinese economy has been faster than expected. China's average annual GDP growth rate has been approximately 10% in the last two decades (Berger et al., 2010), and China has become one of the world's largest and fastest-emerging economies. Some scholars predict that China will become the world's largest economy in the future. The reason for China's rapid development needs to be traced back to the U.S. globalisation program, which includes the presence in China of American transnational capital. Although the U.S. global neoliberal program was the primary response to the crisis of excessive accumulation in the 1970s, it has benefited China more in the long run than the U.S. itself (Fouskas et al., 2020). Moreover, the policy of the Chinese government involved in global capitalism is based on claims of independence rather than dependence on US capital and power. Therefore, the relationship between China and the United States differs from that between Japan and the United States.

From 1958 to 1978, Western countries underwent significant changes:

1. Compared with the rapid economic development of Germany and Japan, the United States has experienced slow economic development since the 1960s because of a series of problems, such as a continuous decline in manufacturing growth and excessive accumulation, coupled with a balance of payments deficit. After the war, European countries signed the EEC treaty to fight against the United States and the Soviet Union. However, because Japan was more dependent on the United States, it marked a series of trade treaties with the United States that needed to be more conducive to its own country.

2. To maintain its dollar status, the United States disintegrated the Bretton Woods system and linked the dollar to oil, consolidating its international position. Affected by the U.S. economy, Germany and Japan experienced economic downturns. During this period, the United States government intervention was mainly in fiscal, taxation, monetary, and government procurement. The enterprise ultimately determines the specific investment, production, and operation activities. Germany had a social market economy system, and Japan had planned economies and market economic systems that use medium- and long-term plans to intervene in macroeconomics.

During this era, the Chinese government pursued a development policy centred on industrialisation within a planned economy, leading to rapid industrial growth. State-owned enterprises focused on heavy industry became pivotal contributors. From 1953 to 1957, China initiated its first five-year plan with a primary emphasis on developing heavy industry. However, while achieving planned goals, this approach led to agricultural neglect, resulting in a shortage of government funds due to excessive capital investment. This imbalance posed challenges for subsequent economic development.

Notably, due to a lack of intricate connections, China's economy had limited direct impact from Western stagflation during Mao's era. The described geopolitical and economic shifts contributed to global dynamics but had constrained direct effects on China's economy then. During the Cold War era and ideological differences of the 1960s and 1970s, China's interaction with Western nations was limited. However, it maintained some level of engagement despite these restrictions. Initially, after the establishment of the People's Republic of China (PRC) in 1949, it formed a close alliance with the Soviet Union and the socialist bloc. But as the 1950s and 1960s progressed, the relationship between China and the Soviet Union became strained, leading to a more contentious approach.

Moreover, China's economy was largely isolated from the West during this period, but it was still striving to establish an independent foreign trade system. China's trade with Western countries, such as the United States, Germany, and Japan, was limited but not non-existent. For instance, between 1972 and 1977, China imported over 222 items of machinery and equipment worth $3.96 billion from more than 10 developed countries, including the US and Japan (Liu, 2019, p. 30).

Moving to Deng Xiaoping's period in China, Deng's policies aimed to open China to the global economy, attract foreign investment, and stimulate economic growth. The 'stagflation' crisis played a pivotal role in accelerating China's reform and opening-up process. The 'stagflation' crisis in the 1970s led to a sharp rise in global energy prices, significantly impacting China's economy. At this time, China's planned economic system showed some drawbacks, including irrational allocation of resources and low efficiency. Also, China faced several internal challenges, such as population growth and employment pressure. These problems led the Chinese leadership to recognise the need to take steps

to reform the economic system in response to external and internal pressures. In light of this, in 1978, China began to perform the 'Reform and Opening Policy' led by Deng Xiaoping. The 'stagflation' crisis accelerated the process of China's reform and opening up to a certain extent.

In addition, although the development of (global) neoliberal financialisation has damaged the economic profits of Western countries, it has promoted the development of China's economy. Japan had the most significant bilateral goods trade deficit with the United States for many years until China overtook it in 2000 (Morrison, 2018). Then, after China joined the WTO, it gradually integrated into the global economic system. Always seeking higher profits, capital found new opportunities in East and Southeast Asia since the 1990s. Investments moved to China and similar locales, causing the US and other Western industrial sectors to shrink and resulting in significant unemployment. The rapid development of China's economy coincided with the rapid unemployment of the manufacturing industry in developed countries such as the United States (Ebenstein et al., 2012). Chinese banks play an essential role in the financial resources between the common financial services, such as household savings, government deposits and transfers, and the financing of Chinese corporations (Berger et al., 2010). In addition, China's banking sector also has played a central role in China's financial intermediation. It has a great global influence, so the development of China's banking industry impacts countries outside China (Cousin, 2011). Therefore, we cannot separate the research on Chinese banks when studying the economics of China. A holistic approach is required.

Before the reform and opening up in China, banks were regarded as accounting, cashiers, and financial management organisations due to the limitations of the planned economic system. **Figure 3.9** shows the financial system in China from 1949 to 1977. Beginning in 1978, China began the reform of financial institutions. The monopoly in PBOC's banking business was initially changed. The PBOC was independent of the Ministry of Finance and formally performed the functions of the central bank on 28 August 1979. In the same year, the Agricultural Bank of China (ABC) was revived; the Bank of China (BOC) was separated from the PBOC, and the People's Construction Bank of China was separated from the Ministry of Finance. These three banks were formed as specialised banks. In July 1986, the State Council approved the Bank of Communications

as the first joint-stock Chinese commercial bank. More joint-stock banks were established following the Bank of Communications. In 1993, depending on the State Council's Decision of the State Council on Financial System Reform, China established three policy financial institutions (the China Development Bank (CDB), the Export-Import Bank of China (EXIM Bank), and the Agricultural Development Bank of China (ADBC)) to handle policy-based credit business. These three policy institutions strengthened the central bank's macro-control capabilities and reinforced the 'Big Four' commercial business.

The research elucidates the policy requisites established by China's central government and central bank in the aftermath of the reform and opening-up period. The primary objective is to analyse the impact of these policies on the reform and development trajectory of China's banking industry. This comprehensive exploration spans 40 years, delineating the evolution into three distinct phases: From 1980 to 1990, China embarked on banking system reform in the initial phase. The reform of the banking system involved the segregation of commercial operations from the central bank and the explicit definition of the professional commercial functions of state-owned banks. Then, from 1991 to 2001, state-owned and joint-stock banks underwent a transformative shift from state-owned enterprises to commercial entities, marking a pivotal period in the industry's structural metamorphosis. With China's accession to the WTO, the banking sector underwent internationalisation. Chinese banks ventured abroad, contributing to their emergence as global entities during this phase. The last phase witnessed China's banking industry entering an era of technological innovation, reflecting the broader digitalisation trend and technological advancements.

In recent years, the financial market in China has witnessed significant growth while facing multiple challenges, such as financial risks, lack of transparency, and inadequate regulation. China's financial system is one of the world's largest and much more advanced than most emerging market economies (Karacadag, 2003). Considering this, China must establish a robust regulatory framework to ensure the healthy development of the financial market. In short, the development of China's banking industry cannot be based on establishing and reforming China's financial system. At the same time, China's careful adherence to the Basel agreement has also won the trust of China's international investors

and expanded China's global influence.

The financial system in China has undergone significant reforms since the introduction of the economic reform and the policy of opening-up after Mao. During this time, state-owned banks dominated the market, and regulatory agencies were established to oversee the financial sector. The People's Bank of China (PBOC) was designated as the central bank. It was responsible for monetary policy, while the State Administration of Foreign Exchange (SAFE) was established to oversee foreign exchange regulation. To regulate emerging nonbank financial institutions, including insurance and securities companies, the China Securities Regulatory Commission (CSRC) was established in 1992, followed by the China Insurance Regulatory Commission (CIRC) in 1998. In 2003, the China Banking Regulatory Commission (CBRC) was established to oversee the banking sector. Then, CBRC began to promulgate and implement the 'Administrative Measures for the Capital Adequacy Ratio of Commercial Banks', which followed the Basel I agreement and followed to change the specific regulatory requirements by Basel II and Basel III. (**Figure 5.11** shows the current structure of the financial system in China). As we saw, there are more elements of ordoliberalism than neo-liberalism in China's central banking and state system.

Furthermore, the ongoing transformation of China's banking supervision system has introduced a more systematic and efficient regulatory framework to foster the growth of the country's banking industry. Simultaneously, this initiative has fortified regulatory mechanisms, enabling a more stable operational environment for the banking sector. Moreover, adequate financial supervision plays a crucial role in upholding financial stability and ensuring the robustness of the financial system. Over the past few decades, China has systematically adjusted its regulatory framework through gradual and targeted reforms. Adopting China's Basel regulation enhances collaboration between China and international financial institutions, showcasing China's dedication to global financial stability. Furthermore, subsequent reforms in China have streamlined the regulatory framework, aligning with the double peak concept and signifying a significant stride towards its adoption (Chorzempa & Véron, 2023).

9.2 Key Findings

Before the 1990s, banks served as the sole financial market in China, and enterprises or individuals relied exclusively on borrowing from banks to sustain their business operations. In subsequent years, a series of reforms in China's financial market led to the gradual development and expansion of the securities, insurance, and trust industries. Despite the evolution and increasing complexity of China's financial system, it continued to be characterised as a bank-based financial structure, which was deemed advantageous for controlling financial risks and mitigating the occurrence of financial crises (Liu et al., 2022). Presently, China's financial system remains predominantly bank-based, aligning with the typical post-Marxist-Keynesian approach, with a primary objective of supporting the real economy. Consequently, credit money in China continues to be primarily directed towards production and financing (Subasat & Mavroudeas, 2023) and capital controls remain in place, a fact which prevents Western-type of financialisation. The expansion of credit markets, mainly through investment and exports, has rapidly developed China's infrastructure growth. With the rise of manufacturing, China's energy consumption has soared, and the development of the financial system has provided financial support for the development of energy-intensive industries (Hao, Wang, & Lee, 2020).

In 1994, China implemented financial system reforms by establishing policy banks, including the CDB (国家开发银行), EXIM Bank (中国进出口银行), and ADBC (中国农业发展银行). These institutions supported national infrastructure development, promoted foreign economic and trade relations, and facilitated agricultural and rural growth. The tasks of the three policy banks were different around the 1990s. The EXIM Bank mainly dealt with export credit, foreign contract projects, overseas investment loans, and foreign preferential loans of the Chinese government; the ADBC collected agricultural policy credit funds based on state credit, undertook agricultural policy as stipulated by the state, and engaged in agriculture-related commercial financial business, serving as an agent for the allocation of financial funds to support agriculture and the development of the rural economy; CDB mainly provided long-term financial support for national infrastructure and basic industries, such as power, roads, railways, petroleum and

petrochemicals, coal, postal and telecommunications services, agriculture, forestry, water conservancy, public infrastructure, etc. Initially, the three banks made up for the lack of market credit, and allocating financial resources in some areas was difficult (China's Reform and Opening up, 2010).

By the end of 2004, the total assets of the three policy banks were RMB 2.41 trillion, of which the outstanding loans were RMB 2.22 trillion. The outstanding balance of financial bonds was RMB 1.42 trillion, and the three policy banks borrowed RMB 609.9 billion from the central bank. In 2004, the total profit was RMB 13.1 billion (PBOC, 2005). By the end of 2005, the total assets of the three policy banks had reached RMB 2.93 trillion, an increase of RMB 516.08 billion from 2004. The book profit in 2005 was RMB 27.406 billion, RMB 14.315 billion more than in 2004 (PBOC, 2006). Chinese policy banks provided up to $110 billion in financing to developing countries in 2009 and 2010, compared with $100 billion from the World Bank over the same period (Dyer & Anderlini, 2011). The policy banks play a crucial role in facilitating economic development by offering affordable loans to projects that often need more appeal to commercial banks, encompassing infrastructure, agriculture, exports, and overseas investments. Notably, since 2013, the CDB and the EXIM Bank have expanded their scope beyond their traditional functions and demonstrated a proactive approach to pursuing commercial transactions, including financing leveraged buyouts in foreign markets (Gallagher, 2013). On April 12, 2015, the State Council approved the reform plan of the three policy banks that remained non-commercialised. The 'policy banks' were ADBC and the EXIM Bank, while CDB was positioned as a 'development financial institution'. The difference between development financial institutions and policy banks was that the former fully supports the national strategy with market-oriented operations and can intervene in any development project; the latter were directly engaged in policy financing, mainly serving specific fields such as foreign trade and agriculture (Gov.CN, 2015).

Compared with non-policy state-owned banks, China's policy banks have a unique loan purpose and a strong motivation to connect with Belt and Road Initiative (BRI). Therefore, BRI is closely related to the lending practices of China Policy Bank (Chen et al., 2022). The BRI has increased the funds provided by China Policy Banks for

renewable energy projects in the Belt and Road countries, especially in hydropower projects and Southeast Asia (Cheng & Wang, 2023). Two policy banks, CDB and Exim Bank, provided most of the funds for BRI. By the end of 2014, the outstanding loans provided by foreign borrowers were about $70 billion, of which CDB was about $40 billion, and the rest was Exim Bank (Kopiński & Sun, 2014).

In international investments, China has strategically undertaken numerous projects abroad through its policy banks, with a notable focus on Africa. A compelling illustration lies in China's engagement with railway infrastructure on the African continent. A prominent instance dates back to 1975 when China inaugurated the Tazara Railway, a monumental aid initiative spanning 1,860.5 kilometres, connecting Dar es Salaam in Tanzania to Kapiri Mposhi in Zambia. This project was provided with interest-free loans by China. Then, the China-Nigeria partnership also yielded substantial dividends, with the Nigerian Railway Modernisation Project launched in October 2006. Chinese policy banks have also participated in cooperative financing initiatives and regional funds in Latin America and the Caribbean (LAC), working with multilateral banks and commercial institutions to facilitate transactions in various initiatives, including telecommunications, energy sector, and infrastructure projects (Myers & Ray, 2022).

The coastal areas of China historically served as focal points for industrialisation due to their strategic role in foreign trade. This early development laid the foundation for modern industry in these regions. A region's geographical location can significantly influence its resource endowment, ultimately shaping its economic policy and performance. Countries rich in natural resources often prioritise industries that capitalise on these assets.

The Belt and Road Initiative (BRI) allows these nations to expand their markets and enhance their economic strategies through infrastructure development, thereby improving connectivity, trade, and investment (Nogueira & Qi, 2019). Countries along the Belt and Road have experienced economic growth and heightened trade due to enhanced port infrastructure, a direct outcome of the BRI's focus on improved connectivity (Liu, 2015).

Compared with commercial banks in China, policy banks have no advantage in capital costs. Their fundraising cost is alarmingly high. In this financial development model, the role of the Chinese state is to promote market financing for infrastructure

projects rather than direct financing (Chen, 2020). Nevertheless, a point of convergence exists between China's policy banks and commercial banks in the form of unified regulation under China's banking regulatory framework. The 'Big Four' banks (the Industrial and Commercial Bank of China (ICBC), China Construction Bank (CCB), BOC, and ABC) are the largest in China in terms of capitalisation, profits/returns, productive investment, etc. (Sperber, 2023). In the Forbes 2023 top 100 global enterprises, ICBC ranked No.3, with a market value of $203 billion, assets of $6.12 trillion, and profit of $ 53 billion. Followed by CCB in No.4, ABC in No.5, and BOC in No.12. (**Table 7.3** shows the data for Leading banks in China in 2022).

Table 7.5 provides a comprehensive overview of the development of the Chinese banking sector, which shows that the total assets of the banking sector as a % of GDP increased from 185% to 262% from 2007 to 2021 in China. Notably, the Total Assets of the Banking Sector as a percentage of GDP in China exhibit a consistent upward trajectory, underscoring the sector's expanding influence (shown in **Table 7.4** and **Figure 7.14**). In addition, **Figure 7.15** shows that salaries in the financial sector have increased significantly, reflecting the importance of the sector and the need for high-end talent.

The net income and tax data of China's four major state-owned banks, namely ICBC, ABC, BOC, and CCB, were analysed alongside China's GDP data. The growth of net income and tax of the banks is observed to be relatively correlated with the rising trend of China's GDP, particularly from 2005 to 2014. This observation suggests a positive association between the profits generated by the four major banks in China and the country's overall economic development (**Figure 7.12** and **Figure 7.13** show detailed information for the data of the 'Big Four' and GDP in China). As the annual report data shows in Chapter 7, the asset allocation of the 'Big Four' banks tilted towards credit assets. The loans and advances of the banks all accounted for more than 50%, and the investment in financial assets accounted for a stable proportion, while the proportion of other assets declined. The primary loan fields are manufacturing, transportation, warehousing, and postal industries. In light of this, the 'Big Four' banks have more support for China's real economy and infrastructure construction than other commercial banks, but the scale and scope are small compared to those of policy banks. Although the 'Big Four' banks are also developing real estate and financial instruments, the balance is relatively small.

Moreover, infrastructure construction is the main development project area in the BRI, following the issuance of financial bonds and the cross-border use of RMB. Based on the central bank's annual lending rate (**Table 9.14** shows the Central Bank's Annual Basic Lending Rate from 1999 to 2019), by the end of 2019, ICBC's customer loan and advance interest income reached 707.40 billion yuan; ABC's loan and advance interest income also increased to 565.465 billion yuan, which was 62.849 billion yuan higher than the previous year. BOC's interest income totalled 662.82 billion yuan, with loans accounting for 465.702 billion yuan. CCB achieved an interest income of 883.499 billion yuan, including 341.666 billion yuan from corporate loans and advances (ICBC, 2019; ABC, 2019; BOC, 2019; CCB, 2019). Additionally, the level of financialisation of the 'Big Four' banks is low compared to Western countries, especially compared to the United States. The high level of financialisation mentioned earlier, led by the United States, mainly involves banks and financial institutions recycling and pricing up paper assets (e.g., bonds, derivatives, etc.), instead of investing in the real economy, making financial profits without real economic productive development. The major assets of the 'Big Four' banks rely on loans to invest in the real economy, such as manufacturing, and due to Chinese regulatory requirements, the financial investment of the 'Big Four' banks is mainly based on establishing holding financial subsidiaries.

Table 9.14 The Central Bank's Annual Basic Lending Rate

	Annual Interest Rate (%)				
Date	**6 months**	**6 months–1 year**	**1–3 years**	**3–5 years**	**Above 5 years**
1999.06.10	5.58	5.85	5.94	6.03	6.21
2002.02.21	5.04	5.31	5.49	5.58	5.76
2004.10.29	5.22	5.58	5.76	5.85	6.12
2006.04.28	5.4	5.85	6.03	6.12	6.39
2006.08.19	5.58	6.12	6.3	6.48	6.84
2007.03.18	5.67	6.39	6.57	6.75	7.11
2007.05.19	5.85	6.57	6.75	6.93	7.2
2007.07.21	6.03	6.84	7.02	7.2	7.38

2007.08.22	6.21	7.02	7.2	7.38	7.56
2007.09.15	6.48	7.29	7.47	7.65	7.83
2007.12.21	6.57	7.47	7.56	7.74	7.83
2008.09.16	6.21	7.2	7.29	7.56	7.74
2008.10.09	6.12	6.93	7.02	7.29	7.47
2008.10.30	6.03	6.66	6.75	7.02	7.2
2008.11.27	5.04	5.58	5.67	5.94	6.12
2008.12.23	4.86	5.31	5.4	5.76	5.94
2010.10.20	5.1	5.56	5.6	5.96	6.14
2010.12.26	5.35	5.81	5.85	6.22	6.4
2011.02.09	5.6	6.06	6.1	6.45	6.6
2011.04.06	5.85	6.31	6.4	6.65	6.8
2011.07.07	6.1	6.56	6.65	6.9	7.05
2012.06.08	5.85	6.31	6.4	6.65	6.8
2012.07.06	5.6	6	6.15	6.4	6.55
2014.11.22	5.6		6		6.15
2015.03.01	5.35		5.75		5.9
2015.05.11	5.1		5.5		5.65
2015.06.28	4.85		5.25		5.4
2015.08.26	4.6		5		5.15
2015.10.24[41]	4.35		4.75		4.9
2019.12.20		4.15			4.8

The investment policies of China's joint-stock commercial banks and China's state-owned commercial banks are similar in that both aim to support economic growth by providing financing to businesses and individuals. However, there are some key differences between these policies. For example, state-owned commercial banks are often used to finance large infrastructure projects, while joint-stock commercial banks tend to focus more on financing small and medium-sized enterprises. The study reveals that

[41] The benchmark interest rate for RMB loans of financial institutions was not adjusted until December 25, 2018.

China's joint-stock commercial banks, notably China Merchants Bank (CMB) and Industrial Bank, exhibit resilient growth trends in their primary asset portfolios. This growth trajectory is prominently underpinned by strategic investments in loans, with a particular emphasis on personal mortgage loans.

According to S&P Global, approximately 2.4 trillion yuan ($350 billion) worth of mortgages could potentially default, and the bad mortgages represent roughly 1.3% of total bank loans, which could pose a risk to some smaller banks but is not significant enough to pose a systemic threat to the banking system (The Economist, 2022). Therefore, China's largest banks remain financially sound. However, smaller banks, particularly rural banks, have been disproportionately impacted. This diminishes the available funds to sustain small businesses and major industrial initiatives, potentially resulting in slower economic growth (Taplin, 2023).

Furthermore, the primary shareholder of the 'Big Four' is Huijin Company, which is a wholly state-owned company funded by the State. Intriguingly, despite China's joint-stock commercial banks operating as joint-stock entities, their principal ownership remains vested in state-owned enterprises and local governmental entities. So, 'Is China an imperialist power?' This research will not answer this question here, but future research will try to seek this concern.

According to Article 43 of the 'Law of Commercial Banks' of China, commercial banks are prohibited from engaging in trust investment and securities business, investing in non-self-use real estate, or investing in nonbanking financial institutions and enterprises, except as the government stipulates. However, China's banks have gradually expanded their reach over the past few years by taking control of stakes in several financial companies. These financial companies include securities, insurance, fund management, etc. Additionally, a noteworthy facet of China's joint-stock commercial banks' financial strategy involves the financialisation of assets, achieved through equity holdings in financial enterprises—a practice driven by compliance with Chinese regulatory frameworks.

The PBOC, in its 'China Financial Stability Report 2013', defines China's shadow banking as a credit intermediary system. This system comprises entities outside the formal banking system with liquidity and credit conversion functions, posing potential systemic

risks or regulatory arbitrage. The 2020 ‘China Shadow Banking Report’ from the China Banking and Insurance Regulatory Commission (CBIRC) emphasises that China’s shadow banking revolves around banks, manifesting as ‘the shadow of banks’. The structure is inherently tied to China’s bank-dominated indirect financing system, in which China’s banking sector has always accounted for about 90% of total financial sector assets. However, in Europe and the United States, shadow banks generally refer to the purpose of raising short-term capital through asset-backed commercial paper (ABCP), financial intermediaries, and Structured Investment vehicles (SIVs) to invest in long-term assets and multi-leverage investment operation framework.

China’s shadow banking sector has emerged as a vital alternative financing source, especially for small and medium-sized enterprises (SMEs), overcoming challenges posed by strict criteria and credit limitations from traditional banks. This alternative funding avenue has been pivotal in fostering economic growth by supporting investments and expansions across various sectors, contributing to the nation’s overall development (Allen & Gu, 2021). However, by recognising the associated risks, the Chinese government has implemented new regulations for the shadow banking sector since 2018, aiming to enhance asset quality and mitigate potential threats. Specific banking regulations, such as the loan-to-deposit ratio (LDR) and loan quota, have been introduced, impacting traditional banks exclusively. These regulations have significantly influenced the ascent of the shadow banking sector in China during the period from 2009 to 2016 (Yang et al., 2019).

At the same time, foreign banks have played a crucial role in China’s economic growth over the past few decades. With China’s entry into the WTO, foreign banks have played an important role in providing capital and expertise. The investment policies of Chinese commercial banks have also evolved, and the entry of foreign banks into the Chinese market has also brought competition to China’s banking sectors, prompting the reform of Chinese local banks. Foreign banks have made significant contributions to China’s banking strategy by providing modern banking services and helping to modernise the sector.

A distinct contrast emerges when examining foreign banks’ presence within China, as exemplified by HSBC and BEA. Foreign banks operate with relatively narrower asset

portfolios and business scopes than their domestic counterparts. Due to regulatory restrictions in China, such as the 'Regulations on the Administration of Foreign Banks' issued by The State Council in 2006[42], the minimum amount of time deposits foreign bank branches can accept from Chinese citizens was not less than RMB 1 million each. This led foreign banks to focus more on specific client groups, such as high-net-worth individuals, multinational corporations, and large corporations, which may make their portfolios relatively light on the retail banking side. At the same time, foreign banks have a relatively small market share in China, which may limit their scale in some asset classes, especially in the highly competitive retail banking market.

Recent changes in China's regulatory requirements aim to create a fair and competitive environment for foreign banks to operate in China. In October 2019, The State Council promulgated the 'Decision of The State Council on Amending the Regulations of the People's Republic of China on the Administration of Foreign-Funded Insurance Companies' and the 'Regulations of the People's Republic of China on the Administration of Foreign-Funded Banks'. The revised regulations eased restrictions on foreign ownership in the banking, securities, and insurance industries, relaxed restrictions on establishing foreign financial institutions, and expanded the scope of foreign financial institutions' business in China. In addition, in 2024, China's Financial Supervision Administration announced that restrictions on the proportion of equity in financial institutions subject to foreign equity participation, acquisition, or capital increase had been abolished, and capital increase of financial institutions, allowing foreign investors to hold 100% of the equity of banking and insurance institutions to achieve full control.

In summary, each type of bank in China plays a distinct role in the country's economic development. A comprehensive analysis of their contributions would entail examining their market shares, lending practices, risk management capabilities, and implications for economic growth and stability.

- **State-owned banks:** State-owned banks primarily finance large-scale infrastructure projects and state-led initiatives, leveraging their extensive branch networks and financial resources. Their dominant position in credit allocation has been crucial in

[42] This rule was revised in 2019 to require no less than 500,000 RMB per transaction, and the requirement for foreign banks to obtain approval to start an RMB business was removed.

driving China's rapid economic growth (Jiang & Yao, 2019).

- **Joint-stock banks:** Whether listed or private, joint-stock banks provide banking services to small and medium-sized enterprises (SMEs) and retail customers. Their support for SMEs promotes economic diversification and innovation, contributing to financial inclusion and competitiveness (Lin & Zhang, 2018).
- **Foreign banks in China:** While holding a smaller market share, foreign banks bring international best practices, products, and risk management techniques to China's financial sector. They facilitate foreign direct investment (FDI) and international trade, enhancing the banking sector's efficiency and competitiveness and contributing to economic development (Asian Development Bank, 2019).

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Appendices

Original Data Sources

Appendix 1: Foreign Direct Investment From 1970 to 2020-US &China

	Net Inflows		Net Outflows	
($ Billion)	China	United States	China	United States
1970	-	1.2	-	6.5
1971	-	0.8	-	5.6
1972	-	1.3	-	7.3
1973	-	1.9	-	9.3
1974	-	3.5	-	5.2
1975	-	2.3	-	13.7
1976	-	2.9	-	11.3
1977	-	2.9	-	11.3
1978	-	5.5	-	14.4
1979	0.00008	8.1	-	24.7
1980	0.1	16.7	-	19.0
1981	0.3	25.7	-	10.1
1982	0.4	21.2	0.044	7.8
1983	0.6	11.5	0.1	8.8
1984	1.3	25.2	0.1	12.8
1985	1.7	9.6	0.6	3.7
1986	1.9	30.9	0.5	19.5
1987	2.3	63.2	0.6	39.8
1988	3.2	56.9	0.9	21.7
1989	3.4	75.8	0.8	51.0
1990	3.5	71.2	0.8	59.9
1991	4.4	34.6	0.9	49.3
1992	11.2	30.3	4.0	58.8
1993	27.5	50.2	4.4	82.8

1994	33.8	55.9	2.0	90.0
1995	35.8	69.1	2.0	110.1
1996	40.2	97.7	2.1	103.0
1997	45.4	122.2	3.8	121.4
1998	45.6	211.2	4.5	174.8
1999	41.0	312.4	4.0	247.5
2000	42.1	349.1	4.6	186.4
2001	47.1	172.5	9.7	146.0
2002	53.1	111.1	6.3	179.0
2003	57.9	117.1	8.5	195.2
2004	68.1	213.6	8.0	374.0
2005	104.1	142.3	13.7	52.6
2006	124.1	298.5	23.9	283.8
2007	156.2	346.6	17.2	523.9
2008	171.5	341.1	56.7	343.6
2009	131.1	161.1	43.9	312.6
2010	243.7	264.0	58.0	349.8
2011	280.1	263.5	48.4	436.6
2012	241.2	250.3	65.0	377.2
2013	290.9	288.1	73.0	392.8
2014	268.1	251.9	123.1	387.5
2015	242.5	511.4	174.4	302.1
2016	174.7	474.4	216.4	299.8
2017	166.1	380.8	138.3	409.4
2018	235.4	214.7	143.0	(130.7)
2019	187.2	314.7	136.9	105.7
2020	253.1	148.9	153.7	271.8
2021	344.1	448.3	178.8	421.8
2022	180.2	351.6	149.7	435.8

Appendix 2: Original Data for GDP & GDP Per Capita from 1960 to 2020- US & China

	GDP ($ Billion)		GDP Per Capita ($)	
	China	United States	China	United States
1960	59.72	543.30	89.52	3007.12
1961	50.06	563.30	75.81	3066.56
1962	47.21	605.10	70.91	3243.84
1963	50.71	638.60	74.31	3374.52
1964	59.71	685.80	85.50	3573.94
1965	70.44	743.70	98.49	3827.53
1966	76.72	815.00	104.32	4146.32
1967	72.88	861.70	96.59	4336.43
1968	70.85	942.50	91.47	4695.92
1969	79.71	1019.90	100.13	5032.14
1970	92.60	1073.30	113.16	5234.30
1971	99.80	1164.85	118.65	5609.38
1972	113.69	1279.11	131.88	6094.02
1973	138.54	1425.38	157.09	6726.36
1974	144.18	1545.24	160.14	7225.69
1975	163.43	1684.90	178.34	7801.46
1976	153.94	1873.41	165.41	8592.25
1977	174.94	2081.83	185.42	9452.58
1978	149.54	2351.60	156.40	10564.95
1979	178.28	2627.33	183.98	11674.18
1980	191.15	2857.31	194.80	12574.79
1981	195.87	3207.04	197.07	13976.11
1982	205.09	3343.79	203.33	14433.79
1983	230.69	3634.04	225.43	15543.89
1984	259.95	4037.61	250.71	17121.23
1985	309.49	4338.98	294.46	18236.83

1986	300.76	4579.63	281.93	19071.23
1987	272.97	4855.22	251.81	20038.94
1988	312.35	5236.44	283.54	21417.01
1989	347.77	5641.58	310.88	22857.15
1990	360.86	5963.14	317.88	23888.60
1991	383.37	6158.13	333.14	24342.26
1992	426.92	6520.33	366.46	25418.99
1993	444.73	6858.56	377.39	26387.29
1994	564.32	7287.24	473.49	27694.85
1995	734.55	7639.75	609.66	28690.88
1996	863.75	8073.12	709.41	29967.71
1997	961.60	8577.55	781.74	31459.14
1998	1029.04	9062.82	828.58	32853.68
1999	1094.00	9631.17	873.29	34515.39
2000	1211.35	10250.95	959.37	36329.96
2001	1339.40	10581.93	1053.11	37133.62
2002	1470.55	10929.11	1148.51	37997.76
2003	1660.29	11456.44	1288.64	39490.27
2004	1955.35	12217.19	1508.67	41724.63
2005	2285.97	13039.20	1753.42	44123.41
2006	2752.13	13815.59	2099.23	46302.00
2007	3550.34	14474.23	2693.97	48050.22
2008	4594.31	14769.86	3468.30	48570.05
2009	5101.70	14478.06	3832.24	47194.94
2010	6087.16	15048.96	4550.45	48650.64
2011	7551.50	15599.73	5614.35	50065.97
2012	8532.23	16253.97	6300.62	51784.42
2013	9570.41	16843.19	7020.34	53291.13
2014	10475.68	17550.68	7636.12	55123.85
2015	11061.55	18206.02	8016.43	56762.73

2016	11233.28	18695.11	8094.36	57866.74
2017	12310.41	19477.34	8816.99	59907.75
2018	13894.82	20533.06	9905.34	62823.31
2019	14279.94	21380.98	10143.84	65120.39
2020	14687.67	21060.47	10408.67	63530.63
2021	17734.06	23315.08	12556.33	70248.63

Appendix 3: Original Data for Annual Wage in China from 1980 to 2022 (RMB Yuan)

1980	762
1981	772
1982	798
1983	826
1984	974
1985	1148
1986	1329
1987	1459
1988	1747
1989	1935
1990	2140
1991	2340
1992	2711
1993	3371
1994	4538
1995	5500
1996	6210
1997	6470
1998	7479
1999	8346
2000	9371

2001	10870
2002	12422
2003	13969
2004	15920
2005	18200
2006	20856
2007	24721
2008	28898
2009	32244
2010	36539
2011	41799
2012	46769
2013	51483
2014	56360
2015	62029
2016	67569
2017	74318
2018	82413
2019	90501
2020	97379
2021	106837
2022	114029

Appendix 4: Annual Wage of Financial Sector in China[43]

Date	Wage (RMB)
1980	720
1981	750
1982	768
1983	779

[43] Data from National Bureau of Statistics

1984	973
1985	1154
1986	1353
1987	1458
1988	1739
1989	1867
1990	2097
1991	2255
1992	2829
1993	3740
1994	6712
1995	7376
1996	8406
1997	9734
1998	10633
1999	12046
2000	13478
2001	16277
2002	19135
2003	22457
2004	24299
2005	29229
2006	35495
2007	44011
2008	53897
2009	60398
2010	70146
2011	81109
2012	89743
2013	99653

2014	108273
2015	114777
2016	117418
2017	122851
2018	129837
2019	131405
2020	133390

Appendix 5: Purchasing power parity for US and China from 1980n to 2020 (Unites)

Date	United States	China
1980	12,552.94	306.733
1981	13,948.70	348.055
1982	14,404.99	396.553
1983	15,513.68	450.585
1984	17,086.44	530.856
1985	18,199.32	612.806
1986	19,034.77	668.43
1987	20,000.97	752.552
1988	21,376.00	852.879
1989	22,814.08	909.8
1990	23,847.98	966.575
1991	24,302.78	1,078.15
1992	25,392.93	1,245.66
1993	26,364.19	1,435.68
1994	27,674.02	1,638.95
1995	28,671.48	1,837.38
1996	29,946.97	2,035.34
1997	31,440.09	2,239.26
1998	32,833.67	2,420.14
1999	34,496.24	2,621.21

2000	36,312.78	2,885.74
2001	37,101.45	3,174.09
2002	37,945.76	3,494.75
2003	39,405.35	3,897.38
2004	41,641.62	4,380.97
2005	44,034.26	5,003.41
2006	46,216.85	5,782.76
2007	47,943.35	6,750.18
2008	48,470.55	7,501.33
2009	47,102.43	8,222.38
2010	48,586.29	9,160.17
2011	50,008.11	10,180.91
2012	51,736.74	11,136.87
2013	53,245.52	11,905.09
2014	55,083.51	12,496.32
2015	56,729.68	12,926.23
2016	57,839.99	13,432.04
2017	59,878.72	14,151.79
2018	62,787.78	15,409.71
2019	65,077.30	16,567.01
2020	63,577.34	17,134.72

Appendix 6: Gross Domestic Savings for China from 1960 to 1990

Date	Gross domestic savings (current US$ Billion)
1960	22.15879
1961	9.724578
1962	7.150439
1963	9.551651
1964	15.99843
1965	23.48305
1966	25.96753
1967	21.00178
1968	19.23132
1969	24.54102

1970	33.43087
1971	36.71679
1972	40.60728
1973	50.63341
1974	52.01105
1975	62.11655
1976	52.61058
1977	64.30499
1978	85.83299
1979	97.85001
1980	108.109
1981	97.25037
1982	94.92772
1983	99.19127
1984	107.408
1985	108.223
1986	105.576
1987	121.734
1988	154.51
1989	162.972
1990	143.428
1991	157.4184
1992	198.6588
1993	257.8669
1994	236.0047
1995	300.6814
1996	345.0897
1997	388.0218
1998	406.9798
1999	409.4738
2000	441.2786
2001	509.8664
2002	573.761
2003	696.9527
2004	875.2866
2005	1042.752
2006	1305.261
2007	1739.792
2008	2307.575
2009	2546.75
2010	3109.742
2011	3763.744
2012	4168.603
2013	4620.896
2014	4973.309
2015	5089.331

2016	5050.64
2017	5556.019
2018	6244.693
2019	6280.534

Exchange Rate for CNY and USD/JPY/EUR from 1982 to 2020

Appendix 7: 1 CNY exchange rate for USD/JPY/EUR from 1982 to 2020[44]

Date	Price		
	EUR	JPY	USD
01/12/2020	0.1254	15.814	6.5723
01/12/2019	0.128	15.5946	7.0394
01/12/2018	0.1267	15.9209	6.959
01/12/2017	0.1281	17.3152	6.6137
01/12/2016	0.1368	16.8231	6.8856
01/12/2015	0.1417	18.5214	6.39
01/12/2014	0.1331	19.2796	6.15
01/12/2013	0.1201	17.3929	6.09
01/12/2012	0.1216	13.9202	6.23
01/12/2011	0.1228	12.2243	6.37
01/12/2010	0.1134	12.3195	6.66
01/12/2009	0.1023	13.6166	6.83
01/12/2008	0.1048	13.2728	6.88
01/12/2007	0.0938	15.2654	7.4
01/12/2006	0.097	15.2488	7.84
01/12/2005	0.1046	14.6062	8.08
01/12/2004	0.0891	12.3802	8.28
01/12/2003	0.096	12.9726	8.28
01/12/2002	0.1151	14.3468	8.28
01/12/2001	0.1356	15.9087	8.28

[44] Data from Investing.com

01/12/2000	0.1282	13.8111	8.28
01/12/1999	0.1199	12.351	8.28
01/12/1998	0.103	13.6793	8.28
01/12/1997	0.1099	15.775	8.31
01/12/1996	0.0961	13.975	8.33
01/12/1995	0.0941	12.435	8.33
01/12/1994	0.0965	11.8101	8.53
01/12/1993	0.1553	19.2803	5.82
01/12/1992	0.1447	21.7064	5.75
01/12/1991	0.1373	-	-
01/12/1990	0.1397	-	5.24
01/12/1989	-	-	3.73
01/12/1988	-	-	3.73
01/12/1987	-	-	3.73
01/12/1986	-	-	3.73
01/12/1985	-	-	3.21
01/12/1984	-	-	2.79
01/12/1983	-	-	1.99
01/12/1982	-	-	1.97
01/12/1981	-	-	1.72

Appendix 8: German Deutsche Marks to One U.S. Dollar from 1971 to 2001[45]

Date	Price
1971/12/1	3.2688
1972/12/1	3.1988
1973/12/1	2.6577
1974/12/1	2.4503
1975/12/1	2.6217
1976/12/1	2.3831

[45] Data from Federal Reserve Bank of St. Louis

1977/12/1	2.151
1978/12/1	1.8798
1979/12/1	1.7341
1980/12/1	1.97
1981/12/1	2.2579
1982/12/1	2.4193
1983/12/1	2.75
1984/12/1	3.1044
1985/12/1	2.5122
1986/12/1	1.988
1987/12/1	1.6335
1988/12/1	1.7564
1989/12/1	1.7378
1990/12/1	1.4982
1991/12/1	1.563
1992/12/1	1.5822
1993/12/1	1.7105
1994/12/1	1.5716
1995/12/1	1.4406
1996/12/1	1.5525
1997/12/1	1.7788
1998/12/1	1.6698
1999/12/1	1.9345
2000/12/1	2.1773
2001/12/1	2.1946