아태연구 제18권 제1호
2011년 4월 30일 pp.135~150

Evolution of China's Banking System: Focusing on State-owned Commercial Banks

Il-Hyun Yoon
Division of Business Administration, Dongseo University

< 목 차 >

Key words(중심용어): 금융개혁(financial reform), 무수익여신(non-performing loans), 상업은행(commercial banks), 은행제도(banking system), 자본시장(capital market)

국 문 요 약

본 논문은 중국인민공화국 수립이후 진행되어온 중국은행제도의 역사적 변천 과정을 조명하고 있다. 수십 년 동안의 괄목할 만한 경제성장에도 불구하고 중국의 은행산업은 지극히 완만한 속도로 변화해 왔다. 중국의 은행시스템은 국유상업은행에 의해 주로 지배되어 왔으며, 본 논문은 특별히 중국국유은행, 즉 소위 Big Four 은행을 중심으로 중국은행의 문제점, 효율성 및 개혁을 다루고 있다.

2001년 말 중국의 WTO 가입을 계기로 하여 광범위한 은행개혁이 이루어져 외국 은행들에 대한 국제적인 경쟁력의 제고를 꾀하였다. 증권거래소에의 상장 등 지배구조개선 노력이 이루어졌지만 국제적인 기준으로 볼 때 보다 내실이 있는 개혁이 필요하며 이에 대한 몇 가지 제언을 하며 논문을 마무리하고 있다.

I. Introduction

China has experienced rapid economic growth beginning with implementation of the first reforms in 1978. China has become the 2nd largest economy in the world after the US after the fastest growing major economy for the past 30 years with an average annual GDP growth rate above 10%.

Although the economy expanded at breakneck speed for the past three decades, there existed banking problems in China. As seen in most crisis-ridden countries such as Thailand and Korea, the structural problems inherent in banking sector eventually triggered devastating financial crises. The reason why China could achieve sustained growth of its economy without a crisis is that the government has tried to avoid radical reforms and changes in its financial policy.

However, this gradualism allowed insolvent state-owned enterprises(SOEs) to outlive their destiny and to accumulate huge losses. The big state-owned commercial banks(SOCBs) bore the full brunt of those losses. Most commercial banks, SOCBs in particular, had suffered from high levels of non-performing loans(NPLs), as a direct result of the centrally planned economy of the country.

Before 1978, the Chinese banking system was completely dominated by the People's Bank of China (PBOC), which played a role of both the central bank and the only commercial bank in the country. Following economic reforms started in 1978, the banking system has undergone significant changes. The commercial operation was split into four specialized state-owned banks, or the Big Four. The banking system was overwhelmingly dominated by the PBOC and the Big Four until the mid-1990s when some non-state banks and joint-stock banks were allowed to run businesses throughout the country(Wong and Wong 2001).

China's commercial banks are the core of the country's financial system and consist of state-owned commercial banks(SOCBs) (known as the Big Four), joint-stock commercial banks, city commercial banks, rural commercial banks and foreign banks. Among them, the four enormous SOCBs have dominated the Chinese banking landscape. The Big Four includes Industrial and Commercial Bank of China(ICBC), Agricultural Bank of China(ABC), Bank of China (BOC) and the People's Construction Bank of China(PCBC) which was renamed as Construction China Bank(CCB) in 1996.

After entering into the WTO in December 2001, China started opening its banking industry on a full scale and financial mar kets from the end of 2006, requiring its domestic banks to compete with foreign counterparts under the same conditions. The Chinese government needed to solve severe weaknesses in the banking sector, including the NPLs problem, before transition to a more free market competition. China's fragile banking system means its fragile SOCBs and financial reform is no more than reforming the SOCBs. Thus, dealing with the Chinese SOCBs means solving the banking problems in the country.

The purpose of this paper is to focus attention on the SOCBs to diagnose problems and evaluate the reform, and to attempt to provide some recommendations based upon the lessons learned from the past financial crises.

The remainder of this paper is organized as follows. The next section describes brief history of China's banking industry whilst the third section focuses on the SOBCs for their market position and weakness before concluding the article.

II. Historical Background on the China's Banking Industry

According to major economic developments and changes in the country, the Chinese banking system can be categorized in several stages: (1) mono-bank system prior to reform(before 1978); (2) organization of the system (1978 to 1993); (3) development of the system(1993 to 1997); (4) banking restructuring and openness(after 1997).[1]

1. Mono-bank system (before 1978)

After the establishment of the People's Republic of China in 1949. all of the capitalist companies and institutions had been nationalized by 1950. Between 1950 and 1978, there was only one bank, the People's Bank of China(PBOC), which served as both the central bank and a commercial bank.[2] However, the role of the PBOC was very limited, as most long-term investment financing was not channelled to enterprises through the banking system, but through the state budget: all investment projects were financed with budgetary grants. The bank was only responsible for providing working capital to enterprises(Aoki and

1) According to different authors, the system can be differently categorized(e.g., Allen et al, 2009, Jiang et al, 2009).

2) Nominally, there were the People's Construction Bank of China(PCBC), the Bank of China(BOC), and the Agricultural Bank of China(ABC). The PCBC was set up in 1954. Under the administration of the Ministry of Finance, its major business was to conduct relevant infrastructure construction funds allocation and settlement. In 1970, it was put under the PBOC, and was put again under the administration of the Ministry of Finance in 1972. The BOC was domestically known as the administrative bureau of foreign business of the PBOC while the ABC was known only as the rural financial administrative bureau(Lin et al, 2003).

Patrick 1994).

The banking sector was used only as a tool for the implementation of the centrally planned economy under the regime of the socialism. The only bank, the PBOC, played a subordinate role under central planned economy as the State Planning Commission made all the important decisions on investment, production and finance. During this period, therefore, there existed no financial system in China in a strict sense(Song 2008).

2. Organization of the banking system(1978 to 1993)

With implementation of the economic reform beginning in 1978, China's financial sector also saw major changes, mainly characterized by abolition of the one bank system, competition among diversified financial institutions and the advent of direct financial markets.

By the end of 1979, the PBOC departed the Ministry of Finance and became a separate entity while four state-owned banks took over some of its commercial banking business. In 1979, the government re-opened the Agricultural Bank of China (ABC) to deal with all banking business in rural areas. The Bank of China(BOC) was also set up as a specialized bank to conduct foreign exchange business and foreign exchange loans. In 1984, the Industrial and Commercial Bank of China(ICBC) were set up to be in charge of the deposits, loans and account settlement of industrial and commercial enterprises, and the saving services in cities and towns. The People's Construction Bank of China(PCBC) was made independent of the Ministry of Finance. Finally the PBOC was specifically designated as the central bank of China.

In addition to the above four banks, various banking institutions were set up, including Rural Credit Cooperatives(RCCs) and Urban Credit Cooperatives(UCCs).

On the other hand, the capital market came into operation in the early 1990s. Two domestic stock exchanges(SHSE and SZSE) were established in 1990 and 1991, respectively, and grew very fast afterwards in terms of the size and trading volume.

3. Development of the banking system(1993 to 1997)

In 1993, noteworthy bank reforms were implemented, which include relieving the Big Four of the policy loan burden, the adoption of financial system based on market functions, and the improvement of exchange rate regime for stabilization of the currency(Song 2008).

In 1994, the ABC, the BOC, the ICBC and the PCBC, the so-called Big Four, were transformed from specialized banks into state-owned commercial banks(SOBCs). Three policy banks were newly established to undertake the policy driven financing, earlier assigned to these banks, namely, the Agricultural Development Bank of China, the China Development Bank, and the Export and Import Bank of China, enabling the Big Four to act more like real commercial banks.

In 1995, with the Law of the People's Bank of China, the PBOC's status as the central bank strengthened and became the chief supervisor and regulator of the banking system while the Commercial Banking Law of China further enabled the Big Four to operate more as true commercial banks with greater autonomy. These two legislations significantly promoted a more market-driven banking system. After 1995, as the last institutions emerging in commercial banking sector, city commercial banks(CCBs) were set up through the shareholding reform of the NPL-ridden urban credit cooperatives(China City Commercial Bank Report 2008).

4. Banking restructuring and openness(after 1997)

Lessons from the 1997 Asian financial crisis gave new impetus to banking reforms in China. Although China did not fall prey to the worst impact of the crisis by tight capital controls, the government understood that poorly governed financial sector is a major threat to economic development. Especially, financial sector reform has focused on state-owned banks and especially the problem of their NPLs.

The most significant problem for China's financial system, has been the size of NPLs within state-owned banks, and in particular, among the Big Four. Reducing the amount of NPLs to normal levels was the most important task for China's financial system in the short term. In 1999, four state-owned bad banks, called asset management companies(AMCs), were set up to assume NPLs accumulated in the Big Four, which amounted to 1.4 trillion yuan as of July, 2000, equivalent to 35% of the total loans of the Big Four (see 3.2 section for more details).

In 2003 the China Banking Regulatory Commission(CBRC) has been created for supervision of the Chinese banking sector to form a financial regulatory system, in which CBRC, China Securities Regulatory Commission(CSRC) and China Insurance Regulatory Commission(CIRC) work in coordination, each body having its own clearly defined responsibilities.

On the other hand, China took a bold step to open its financial market as part of its WTO accession agreement. In the early 1980s, the Special Economic Zone was established in coastal open cities and inland central cities, approving a range of wholly foreign-owned and

Chinese-foreign joint venture financial institutions. In 2002, China has increased the number of cities where foreign banks are allowed to handle RMB business, and within five years such banks will be allowed to handle RMB business in any city.

Foreign banks have expanded their China-related business scope. In November 2003, the CBRC started to implement new policies, e.g., permitting foreign banks to provide RMB services to all kinds of Chinese enterprises in areas with open RMB business (previously, these banks' RMB services were restricted to foreign-funded enterprises, foreigners and people from Hong Kong, Macao and Taiwan in cities with open RMB business). The new policy also encourages qualified international strategic investors to join the restructuring and reforming of China's banking and financial institutions on a voluntary and commercial basis.

In 2005 the China Construction Bank(CCB) and ICBC were transformed as the shareholding banks, followed by the BOC a year later with the fourth SOBC(ABC) going public in 2010, aiming at a better corporate governance, speedy disposal of non-performing assets and adequate capital requirement to build up SOBCs to compete with first-class banks worldwide.

III. State-owned Commercial Banks: Problems and Reform

1. Corporate governance of banks

While China recorded its economic miracle for the past 30 years with an average annual GDP growth rate above 10%, developments in the banking sector were sluggish not least because of the undesirable link between SOCBs and SOEs. In fact, SOCBs are the products of earlier stage of financial reform in China when they were split, as genuine banks, from the PBOC. However, these banks had the state as the single shareholder, having a negative impact of state ownership on the corporate governance of banks. The banks kept making huge loans to inefficient SOEs with no sound risk management, and acting as the government agency, they had a monopoly on some areas where competition was not allowed, culminating in massive accumulation of NPLs.

Poor corporate governance in China's banks have been covered extensively in various studies. Ferri(2009) summarized a survey of literature on bank inefficiency of state ownership of banks. La Porta et al.(2002) examined the issue of the state control of banks, pointing out the distortions induced by state intervention in financial markets. According to their cross-country comparison study, as state ownership of banks increases, the growth of financial markets, of per capita income and of productivity are all diminished.

Using city-level data over the early period of 1989 - 991, Wei and Wang(1997) found evidence that China's bank loans favored state-owned industrial enterprises and argued that such lending bias diminished the effectiveness of other measures designed to promote the growth of non-state sectors or to induce SOEs to restructure. Brandt and Li (2003) also found that, as a result of discrimination, private firms resorted to more expensive trade credit.

Using provincial data from 1991 to 1997, Park and Sehrt(2001) showed that the financial reforms of the mid-1990s were ineffective at lowering policy lending by SOCBs, thus having a negative impact on these banks' performance, while SOCB lending did not respond to economic fundamentals. Moreno(2002) pointed out that banks in China traditionally met government policy goals by financing the operations of SOEs, regardless of their profitability or risk, and that while bank exposure to SOEs tended to decline over time, SOEs still accounted for over one-half of outstanding bank credit in 2000, while exposure to poor-performing SOEs had a major impact on bank performance.

Chang(2003) argued that China's (mostly unprofitable) SOEs have been kept afloat with loans from SOCBs while, conscious that they could not force SOEs to pay back their loans without causing their collapse and the inevitable political crisis that would ensue, SOCBs continued to lend to SOEs. A survey performed by the People's Bank of China(PBOC) in 2003, found that of the total non-performing loans(NPLs) of SOCBs, 30% was due to intervention by the central and local governments, 30% resulted from mandatory credit support to SOEs, 10% arose from the poor legal environment and weak law enforcement in some regions, and 10% stemmed from industrial restructuring in some enterprises, thus leaving only 20% that originated from the operational decisions of the SOCBs themselves(Zhou 2004). Cull and Xu(2000 and 2003) detected signs of SOCB loans going more and more to unproductive SOEs during the 1990s, when these banks increasingly assumed bailout responsibility.

These studies suggest that the problems of the SOCBs is, to a large extent, ascribable to political interference from 100% controlling shareholder causing SOCBs to accumulate NPLs mainly relating to loans to unprofitable SOEs.

2. Non-performing loans

The NPL problem, resulting from state control of the SOCBs, had become the major concern in the Chinese banking sector. China's four big state-owned banks were technically insolvent by the late 1990s, with the NPL ratio relative to total loans of nearly 40%(Xu 1998;

Lardy 1998; Thomas & Ji 2006).

Under the planned economy in China, the banks, especially the SOCBs, were used by the government to channel funds to commercially unviable SOEs. As the banks' loan portfolio grew, so did the non-performing assets. By the early 1990s, the problems of swollen bad assets in the banking system had become so severe that the government attempted to diminish its political interference with banks' loan decisions, separating the so-called policy lending from commercial lending. The outstanding balance of policy loans was estimated at RMB 699.6 billion in 1991. PBOC accounted for four percent, and the rest were all extended by the Big Four. Policy lending accounted for a staggering share of the Big Four's loan portfolio- 58% for CCB, 51% for ABC, 67% for BOC, and 17% for ICBC, averaging 38% for four SOCBs (see Table 1).

<Table 1> Policy Lending by the SOCBs

(Percent share of total loan portfolio)

	ICBC	ABC	BOC	CCB	Overall
1985	11	42	88	48	32
1986	11	38	82	50	31
1987	12	38	77	51	31
1988	12	38	78	51	31
1989	14	42	77	51	34
1990	14	48	73	53	36
1991	17	51	67	58	38

Source: Source: Almanac of China's Finance and Banking 1992

In 1999, AMCs were set up to acquire NPLs from the SOCBs which were suffering from substantial NPLs and low level of capital adequacy. The four AMCs, Cinda, Greatwall, Huarong and Oriental, which took over NPLs from China Construction Bank, the Agricultural Bank of China, Industrial and Commercial Bank of China, and the Bank of China respectively, received RMB 10 billion each in initial capital from the Ministry of Finance. Information summarizing these AMCs is shown in Table 2. The NPLs amounting to RMB 1.4 trillion ($169 billion) have been transferred from the SOCBs to the AMCs. As wholly state-owned financial institutions, the AMCs remain under the supervision of the PBOC, with guidance from the State Securities Supervisory Committee of China and the Ministry of Finance. The general mandate of the AMCs is to collect debt, restructure, or assign NPLs; convert NPLs into equity; issue financial bonds and borrow from financial institutions; and, recommend companies for listing(Pei and Shirai 2004).

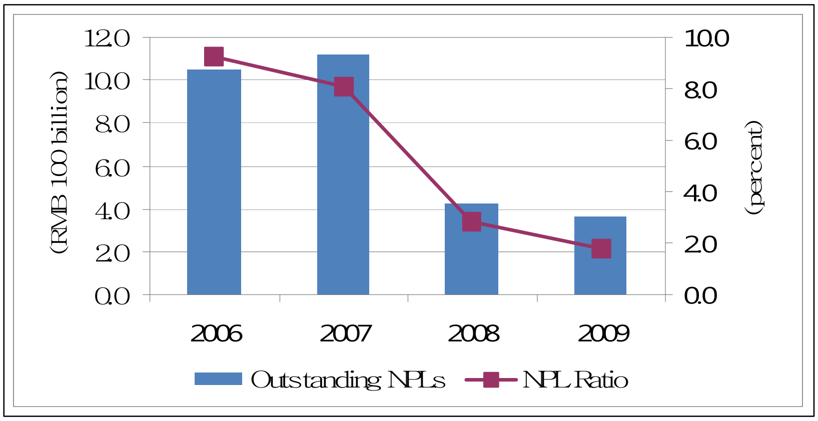
<Table 2> Details of AMCs

(RMB 100 million)

AMC	Cinda	Huarong	Greatwall	Orienr	Total
Time of establishment	1999.4	1999.10	1999.10	1999.10	
Related SOCBs	CCB	ICBC	ABC	BOC	
NPLs removed	3,730	4,077	3,458	2,674	13,939
Capital	100	100	100	100	400
Central Bank Lending	0	947	3,450	1,074	5,479
Financial Bonds	3,730	3,130	8	1,600	8,460

Source: Website of AMCs, cited in Pei and Shirai 2004.

Nevertheless, China's Central Bank Governor disclosed that the Chinese banks' NPL ratio was alarmingly high – "a quarter of the state-owned banks' loans were still overdue"(Dai 2001). In 2003, the NPLs of these Big Four were officially estimated to be RMB 2.4 trillion(US$290 billion), or 23% of total loans, but the unofficial estimate from the credit-rating agencies suggested the figure to be close to 3.5 trillion Yuan or 34% of total loans(ACFB 2004). However, in a continued effort to solve the NPL problem, the figure has been dramatically dropped to as low as less than 2% by end of 2009(see Figure 1) and it stood at 1.3% as of the end of 2010(see CBRC 2010 Annual Report).



Note: The SOCBs include the Industrial and Commercial Bank of China (ICBC), the Agricultural Bank of China (ABC), the Bank of China (BOC), the China Construction Bank (CCB) and, from 2007, Bank of Communications (BOCOM).

Source: CBRC

<Figure 1> NPLs and NPL Ratio of SOCBs

3. Market positions of the SOCBs

State-owned commercial banks constitute the major part of the banking industry in China. The four state-owned banks have the largest market share in China's banking industry in terms of loans, deposits, and assets. The SOCBs' shares of total banking assets, loans and deposits were 84.9%, 84.3% and 88.5% respectively in 1998. By 2005, these shares dropped to 56.1%, 50.1% and 79.9%. The SOCBs were also forced to abandon the past practice of job-protection at any cost and to improve efficiency through consolidation. During 2002 - 2005 the number of branches of the big four declined by 27% while the number of employees declined by 7%(Yin et al 2010). Table 3 shows further decline in recent years in the SOCBs' share of assets and owner's equity in the banking sector.

<Table 3> Total Assets and Equity of SOCBs in Banking Institutions

RMB 100 billion

Year	2003	2004	2005	2006	2007	2008	2009
Total assets							
Banking institutions	276.6	316.0	374.7	439.5	526.0	623.9	787.7
SOCBs	160.5	179.8	210.1	242.4	280.1	318.4	400.9
Share (%)	58.0	56.9	56.1	55.1	53.2	51.0	50.9
Total owner's equity							
Banking institutions	10.6	12.7	16.6	22.4	30.3	37.9	44.3
SOCBs	6.5	7.6	9.6	13.5	15.7	19.6	21.9
Share (%)	61.2	60.0	57.7	60.5	51.9	51.7	49.3

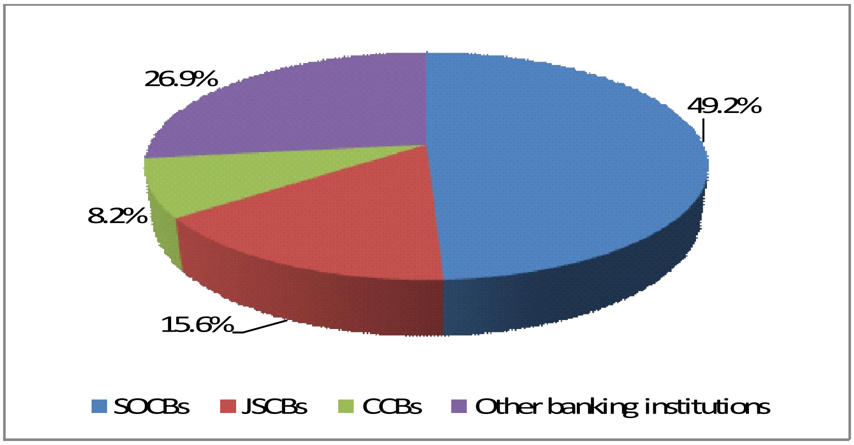
Note: 1) The banking institutions include policy banks, SOCBs, joint stock commercial banks (JSCBs), city commercial banks, rural commercial banks, urban credit cooperatives (UCCs), rural credit cooperatives (RCCs), postal savings, foreign banks and non-bank financial institutions (NBFIs)

2) Share means the proportion of the SOCBs' balance to all the banking institutions.

3) The SOCBs include the Industrial and Commercial Bank of China (ICBC), the Agricultural Bank of China (ABC), the Bank of China (BOC), the China Construction Bank (CCB) and, from 2007, Bank of Communications (BOCOM).

Source: CBRC

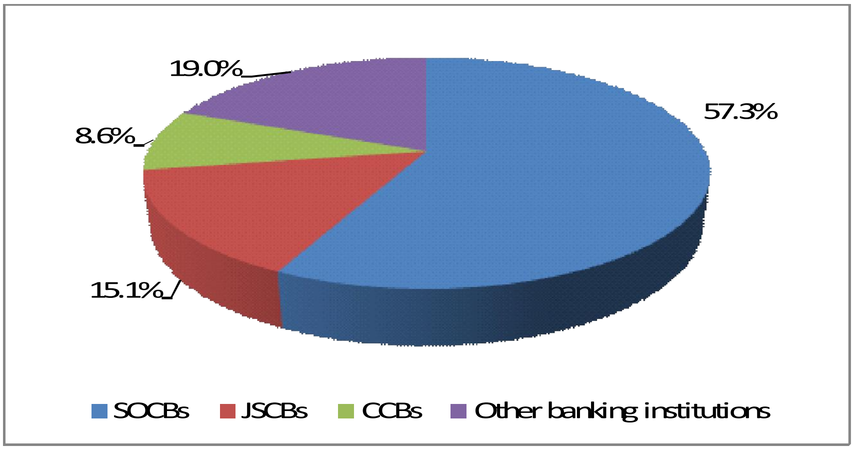
As the influence by state-owned banks in the overall banking industry has diminished for the past years, other type of banking institution, the JSCBs, have significantly increased their asset size from 10.7% in 2003 to 15.6% in 2010. However, the dominance of the SOCBs over other banks still remains. As of the end of 2010, the proportion of SOCBs in the banking sector in terms of assets accounted for 49.2% while JSCBs and CCBs accounted for 15.6% and 8.2%, respectively. As for the profit after tax of banking institutions in 2010, SOCBs accounted for 57.37%, followed by JSCBs which had the share of 15.1%(see Figure 2 and 3).



Note: The SOCBs include the Industrial and Commercial Bank of China(ICBC), the Agricultural Bank of China (ABC), the Bank of China (BOC), the China Construction Bank (CCB) and, from 2007, Bank of Communications (BOCOM).

Source: CBRC

<Figure 2> Proportion of Assets of Banking Institutions at 2010



Note: The SOCBs include the Industrial and Commercial Bank of China (ICBC), the Agricultural Bank of China (ABC), the Bank of China (BOC), the China Construction Bank (CCB) and, from 2007, Bank of Communications (BOCOM).

Source: CBRC

<Figure 3> Proportion of Net Profit of Banking Institutions at 2010

4. Reforms of the SOCBs

The reform process has undergone several stages to improve a system of entire state ownership and control of the bank. A series of reform implementation was discussed in the earlier chapter and elsewhere throughout the paper. The process of bank reform in China has been covered extensively in the literature(see for example, Chen et al. 2005; Fu and Heffernan 2007, 2009; Li et al. 2001; Lin and Zhang 2009).

By the end of 2006, the shareholding reform of three SOBCs was completed and these banks were listed successfully. Following the listing, the banks continued to enhance corporate governance and pursued business transformation and internal reform. By the end of 2008, the capital adequacy ratios(CAR) of ICBC, BOC and CCB were 13.06%, 13.43% and 12.16%, respectively, with the level of NPLs significantly reduced as discussed previously. These figures are in stark contrast to the poor respective ratios of 5.70%, 3.00% and 2.50% in 1999.

As for the ABC, the fourth of the Big Four, the *Guidelines on the Shareholding Reform of the ABC* was approved in October, 2008 and, with the government's injection of $19 billion into the bank, the Agricultural Bank of China Ltd was inaugurated on January 16, 2009, indicating the final stage for reforming the wholly state-owned commercial banks of the country as well as the determination for the bank's shareholding reform. Finally, in April 2010, Agricultural Bank of China Ltd asked investment banks to submit proposals to implement a planned initial public offering that could raise more than $20 billion(The Wall Street Journal dated April 8, 2010).

Additional reforms include strategic alliance with foreign financial institutions, widening of business scope, introduction of internal credit and risk management systems, and increasing the banks′ autonomy in business operations and interest rate decisions. Further market opening-up promoted competition from banks of alternative ownership structures such as private banks, joint-stock banks, city commercial banks and foreign banks. Accordingly, the SOCBs have been steadily losing market share over recent years. Despite the relative decline, SOCBs still overwhelmingly dominate the retail as well as corporate banking markets, as indicated earlier. Such dominant market positions may protect the SOCBs from competition by the non-state-owned banks in the banking market, discouraging motivation of further necessary reform.

IV. Conclusion and Recommendations

The Chinese state-owned commercial banks have been the backbone of the country's banking system with the dominant power over the whole banking industry. These SOCBs also have been a great concern to the sustained growth of the country′s economy due to their structural weaknesses. Hence the government continued to reform the SOCBs from the late 1990s.

The four SOCBs were created by the Chinese government to serve specific economic sectors under the central planning economic system in the early 1980s. In their initial years of operation, the four banks served as a tool of the state to support SOEs and finance the government selected projects. In the 1990s, as China's overall economic reform deepened, the banks were restructured to function as commercial banks and competition was introduced among the SOCBs and other banks.

With China's accession to the WTO in 2001, the Chinese government′s accelerated the bank reforms, which saw the shareholding reform of SOCBs, strategic alliance with foreign banks, the autonomy in their business operations and interest rate decisions, and further market opening. Although the domination of SOCBs in banking industry have been relatively shrunken, the banks still dominate in the banking business in terms of their assets, deposits and loans.

With the IPO of the ABC in 2010, all the SOCBs have completed. However, based on the lessons learned from the 2008 US financial crisis and the 1997-8 Asian financial crisis, the further reform is necessary.

Corporate governance should be enhanced to improve the decision-making process. More importantly, internal risk management system and prudential regulation should be strengthened to avoid moral hazard, seen in every crisis-triggering banking institution. More foreign banks should be allowed into the China's banking market to promote competition which drives innovation and pricing. Foreign banks currently account for just 1.9% of the Chinese banking sector assets as of the end of 2010.

Stability and development in the Chinese commercial banks will guarantee the sustained economic growth in the country and have a positive impact on neighboring economies, in particular Korea.

References

Allen, N. Berger, Iftekhar Hasan and Mingming Zhou(2009). “Bank ownership and efficiency in China: What will happen in the world’s largest nation?” *Journal of Banking & Finance.* Vol. 33, pp. 113–130.

Aoki, Masahiko, Hugh Patrick and Paul Sheard(1994). “The Japanese Main Bank System: An Introductory overview.”M. Aoki and H. Patrick(ed.). *The Japanese Main Bank System: Its Relevance for Developing and Transformation Economies.* Oxford: Oxford University Press, pp. 3-50.

Brandt, L. and H. Li(2003). “Bank discrimination in transition economies: Ideology, information, or incentives.” *Journal of Comparative Economics.* Vol. 31, pp. 387-413.

Chang, C.(2003). “Progress and peril in China’s modern economy.” *Federal Reserve Bank Of Minneapolis, The Region.* Vol. 17. No. 4, pp. 26–40.

Chen, X.G., M. Skully and K. Brown(2005). “Banking efficiency in China: Application of DEA to pre- and post-deregulation eras: 1993–2000.” *China Economic Review.* Vol. 16, pp. 229–245.

China City Commercial Bank Report(2008).

Chunxia Jiang, Shujie Yao and Zongyi Zhang(2009). “The effects of governance changes on bank efficiency in China: A stochastic distance function approach.” *China Economic Review.* Vol. 20, pp. 717–731.

Cull, R. and L. C. Xu(2000). “Bureaucrats, state banks, and the efficiency of credit allocation: The experience of Chinese state-owned enterprises.” *Journal of Comparative Economics.* Vol. 28. No. 1, pp. 1-31.

Cull, R. and L. C. Xu(2003). “Who gets credit? The behavior of bureaucrats and state banks in allocating credit to Chinese state-owned enterprises.” *Journal of Development Economics.* Vol. 71, pp. 533–559.

Dai, Xianglong(2001). PBOC Governor’s Speech at ‘2001 NPL International Forum.’

Deutsche Bank Research(2009). “China’s Financial Markets - a Future Global Force?”*Current Issues of Deutsche Bank Research.* March 16.

Ferri, Giovanni(2009). “Are New Tigers supplanting Old Mammoths in China’s banking system? Evidence from a sample of city commercial banks.” *Journal of Banking & Finance.* Vol. 33, pp. 131–140.

Fu, X Q. and S. Heffernan(2007). “Cost X-efficiency in China’s banking sector.” *China Economic Review.* Vol 18, pp. 5–53.

Fu, X. Q. and S. Heffernan(2009). “The effects of reform on China’s bank structure and performance.” *Journal of Banking & Finance.* Vol. 33. No. 1, pp. 39–52.

La Porta, R., F. Lo´pez-de-Silanes and A. Shleifer(2002). "Government ownership of banks." *Journal of Finance.* Vol. 57, pp. 265 - 301.

Lardy, N. R.(1998) *China's Unfinished Economic Revolution.* Washington: Brookings Institution.

Li, S. L., F. Liu, S. G. Liu, and G. A. Whitmore(2001). "Comparative performance of Chinese commercial banks: Analysis, findings and policy implications." *Review of Quantitative Finance and Accounting.* Vol. 16, pp. 149 - 170.

Lin, Justin Yifu, Fang Cai and Zhou Li(2003). *The China Miracle: Development Strategy and Economic Reform.* Hong Kong: The Chinese University Press.

Lin, X. C., and Y. Zhang(2009). "Bank ownership reform and bank performance in China." *Journal of Banking & Finance.* Vol. 33. No. 1, pp. 20 - 39.

Moreno, R.(2002). "Reforming China's banking system." *FRBSF Economic Letter.* No. 2002-17, May 31.

Park, A. and K. Sehrt(2001). "Tests of financial intermediation and banking reform in China." *Journal of Comparative Economics.* Vol. 29, pp. 608 - 644.

Pey, Guifen and Sayuri Shiray(2004). "The Main Problems of China's Financial Industry and Asset Management Companies." *Working Paper.*http://coe21-policy.sfc.keio.ac.jp/ja/event/file/s1-7.pdf.

PBOC(2008). Financial Stability Report

PBOC(2008). Annual Report.

The Wall Street Journal. dated April 8, 2010.

Thomas, S. and C. Ji(2006). "Banking on reform." *China Business Review Online.*

Wei, S. J. and T. Wang(1997). "The Siamese Twins: Do state-owned banks favor state-owned enterprises in China?" *China Economic Review.* Vol. 8. No. 1, pp. 19-29.

Wong, Y. C. R. and M. L. S. Wong(2001). "Competition in China's domestic banking industry." *Cato Journal.* Vol. 21. No. 1, pp. 19 - 41.

Xu, D. Q.(1998). "The Top Priority Task of Financial Reform." *The Economist.*

Ya Ping Yin, Jianlu Shang and Mick Broadbent(2010). "Efficiency measurement and decomposition for the Chinese state-owned commercial banks at the provincial level." *Journal of Chinese Economic and Business Studies.* Vol. 8. No. 1, pp. 45-65.

Yueh, Linda Y.(2004). "China's Economic Growth with WTO Accession: Is it Sustainable?" Janardian Rao(ed.). *Chinese Economy: Issues and Perspectives.* ICFAI University Press.

Zhou, X.(2004). "Some issues concerning the reform of the state-owned commercial banks." *Speech by the Governor of the People's Bank of China at the IMF Spring Membership Conference.* Shanghai, April 16.

Abstract

Evolution of China's Banking System: Focusing on State-owned Commercial Banks

Il-Hyun Yoon*

This paper reviews historical developments and changes in the China's banking system since the establishment of the People's Republic of China. In contrast to most emerging economies, the Chinese banking industry showed gradual transformation notwithstanding its remarkable economic growth for the past three decades. China's banking system has been heavily dominated by state-owned commercial banks. This paper examines China's state-owned commercial banking sector in particular, shedding light on its problems, reforms, and efficiency. Banking sector in China has been known for its heavy non-performing loans and low efficiency because of interventions from the central government. Since China's entry to the World Trade Organization (WTO) in December 2001, banking reforms have been extensively conducted for international competition. Nevertheless, there are still much room for improvement by international standards.

■ **논문접수일** : 2011년 3월 8일, **논문심사일** : 2011년 4월 25일, **게재확정일** : 2011년 4월 26일

* Professor, Division of Business Administration, Dongseo University