An assessment of the Chinese financial services sector

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This assessment report, prepared for the International Labour Organization by Prof. Paresh Kumar Narayan, is intended to provide a rapid overview of the financial services sector in China and to stimulate discussions at the Tripartite Workshop to Promote Social Dialogue on Financial Services Reforms in Selected Asia and Pacific Countries (Jakarta, Indonesia, 5-6 August 2015).The views expressed in the report are not necessarily those of the ILO.

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Contents

1. Introduction

The report provides a rapid assessment of the Chinese financial services sector. Specifically, the proposal consists of five sections. Section II provides the structure of the financial services sector. Section III discusses any potential effects of the global financial crisis. Section IV discusses sectoral social dialogue framework, industrial relations and bargaining. The final section summarizes and offers some recommendations. This report is based on an extensive desk research and a complete list of data sources is documented in Appendix A.

2. Structure of China's Financial Services Sector

China's financial services sector consists of banking institutions and non-banking financial institutions. The sector has grown impressively, has attracted reforms which has accelerated growth, and yet faces challenges. These issues are discussed in this section.

The number of banking institutions in China has declined from 8,721 (2007) to 3,639 (2010). However, the value of total assets has almost doubled from 51.6 trillion RMB to 93.2 trillion RMB, and its share of GDP has increased from 194.2% to 234.2% over the corresponding period. On the other hand, the number of non-banking financial institutions has increased from 690 (2007) to 782 (2010), contributing around 33.1% to GDP with total assets valued at 13.2 trillion RMB. There are two implications of this. First, there is a substantial decline in the number of banking institutions, yet their asset value has increased, reflecting the greater value-added and productivity of the Chinese banking sector institutions. Second, the Chinese financial service sector is dominated by the banking sector, which is around eight times larger than the non-banking financial sector.

The strong performance of the sector has been achieved, at least partly, as a result of reforms that have focused on the following: (1) the China Banking Regulatory Commission (CBRC) has improved supervision of commercial banks; (2) banking legal and regulatory framework has been brought in line (although not completely) with international standards; (3) the CBRC has overseen regulatory reforms to support a more market-based financial system; and (4) the China Insurance Regulatory Commission (CIRC) has a comprehensive supervisory framework, with emphasis on corporate governance rules, and consumer protection efforts and risk management systems.1

The joint World Bank/IMF (2011) report identifies a range of challenges facing the sector. These include (a) reinforcing the role of the Shanghai Stock Exchange as a relevant source of funding for large enterprises other than state-owned enterprises (SOEs); (b) a need to identify better pension fund investment strategies; and (c) a need for the liberalization of lending interest rates, which is essential for a commercially sustainable rural and micro and small enterprises lending.

[1]World Bank and IMF (2011) China: Financial Sector Assessment, SecM2011-0492

3. Potential effects of the Global Financial Crisis

Recent layoffs and disputes have surfaced in China although it is unclear whether this is a direct effect of the global financial crisis or simply because of China's strong economic growth or a combination of the two. The reason is the following. Working conditions in China have not been matched by extraordinary economic growth. It is argued that many enterprises in order to make quick profits ignored health and safety and pay rises despite rapid economic growth (see Shen, 2007). Moreover, economic reforms in China have contributed to higher productivity of enterprises resulting in not only higher profits but also social instability in the form of layoffs (and unemployment). In other words, where technologies have been embraced through reforms labour have been substituted by technology.2 For example, thousands of state bank former employees protested in October 2013 over severance pay.

Chinese investment banks are carrying out their biggest layoffs and bonus cuts since the financial crisis as a result of declining profits. The layoffs and bonus reductions are the most severe for the industry since 2009. Of the evidence that exists the story is that Guosen Securities, China Merchants Securities, Essence Securities, Zhong De Securities and China Investment Securities are among several firms cancelling annual bonus payments for investment bankers, freezing salaries or aiming to cut about 5 per cent of total staff, sources told Reuters. China International Capital Corp (CICC) cut around 5 per cent of its staff as part of its regular policy of trimming underperformers, but it has also stopped hiring. In 2013Citic Securities reduced its workforce by 5 per cent to 10 per cent, the sources added.

4. The Sectoral Social Dialogue Framework, Industrial Relations and Bargaining

In China, all employees in state-owned and state-holding financial institutions are supposed to be members of the enterprise-level unions unless a contrary intention is clearly declared by the individual, and all of those enterprise- level unions of financial institutions are members of China's Financial Workers' Union, which is one of the ten industry-level unions in the country and is under the direction of ACFTU. Collective bargaining does not take place.

Because all employees in state-owned and state-holding financial institutions, without an expressed declaration of a contrary intention, become members of the union, the trade union density in the state-owned and state-holding financial institutions in China is very high, maybe 100% in some state-owned and state-holding national financial institutions. However this is not the case in other financial institutions. And since the country's entry into the WTO and the opening up of its financial market to foreign and private financial institutions, the number of workers in non-state financial institutions has surpassed those in state-owned and state-holding national financial institutions since 2009 according to data from the National Bureau of Statistics China. In 2013, the number of persons employed in urban financial units, which do not include the domestic private financial units, was 5.379 million, while those employed in financial

[2]Shen, S. (2007) Labor Disputes and Resolution in China; available online at https://books.google.com.au/books?isbn=1780632274.

units of types of ownership other than by the state and collectives was 3.413 million.[3] All the unions in the banking sector are represented at the industry-level by the Financial Workers' Union, which consists of union leaders and employee representatives from the unions of the five state-owned commercial banks, other important state-owned and state-holding national financial institutions, and various regulatory commissions.

Importantly, even if unions exist at Chinese state-owned and state-holding financial institutions, they effectively function as a department under the leadership of management, acting as a bridge between management and employees. The union work committee in each bank organizes the annual employee representative congress where staff elect their representatives who are typically assigned to participate on the board of directors or supervisors. The main activities of the unions are to: (a) organize recreational activities for employees; (b) support employees going through personal difficulties; and (c) support annual health examinations by providing examination fees. This rapid assessment report has not been able to ascertain the independence of unions and therefore their actual performance in looking after the social and economic welfare of workers.

In addition, all banks in China are represented by the China Banking Association, a trade association with 132 members under the sponsorship of the CBRC, which aims to help its members in attaining common goals. Since unions are in practice bank departments under the control of management, collective bargaining does not take place and banks sign individual contracts with individual employees. Labour contracts can be signed with formal employees (planned employees), while service contracts are signed with 'unplanned' employees. Some banks hire unplanned employees through outsourcing companies; such employees do not belong to the unions since there is no direct employment relationship between the bank and the employee. This situation changed in 2008 with the introduction of the new labour law that allows such employees to join the union and retain their legal rights (see section V, below). The most challenging period for industrial relations in China's banking system was during the joint-stock reform of state-owned commercial banks in 1998–2000 when many layoffs and early retirements took place, leading to appeals requesting higher compensations from banks.

These issues aside, the banking sector and indeed the entire financial services sector is one of the most robust and best performing sectors. It is one where employees enjoy relatively higher wages and job stability. Given this, industrial relations have been harmonious and strikes or appeals rare. Unlike other sectors of the Chinese economy, the global financial crisis did not have a significant impact on the banking sector. Banks continued to expand and employment continues to rise. For example, the Industrial and Commercial Bank of China increased its workforce by more than 4,000 employees to reach 389,827 in 2009, a new performance-based evaluation system was adopted and the bank implemented a supplementary medical insurance system.

Employment and industrial relations aspect of Chinese economic and social transformation has improved since reforms began in 1978. In 2008, China implemented a number of important labour and social legislation, such as the Labour Contract Law, the Employment Promotion Law, and the Labour Dispute Mediation and Arbitration Law. These legislations build upon: (a) the industrial relations reforms undertaken in early 2000, which saw the creation of tripartite consultation bodies and the promotion of collective bargaining and wage negotiation; the Trade Union Law, which was introduced in 1992 and revised in 2001; and (c) the Labour Law and the Labour Contract Law which

[3] National Data: http://data.stats.gov.cn/english/easyquery.htm?cn=C01, under the category of "Employment and Wages".

were introduced in 1994 and 2007, respectively. These developments saw the role of unions mature and unions began playing a more engaged and productive role in social and economic transformation. For example, the All-China Federation of Trade Unions (ACFTU) made its first nationwide attempt to carry out collective bargaining in the mid-1990s.4

Moreover, at the provincial level there are local regulations that govern industrial relations. These provincial regulations tend to offer a more favourable legal environment for trade unions and allow greater space for collective bargaining. The most recent example on this comes from 2008 when the Shenzhen municipal legislature passed a new regulation, which essential regulated strike actions by recognizing “work stoppage” as lawful after a 30-day mandatory cooling-off period. This is not to say that China’s labour market has been incident free. Labour conflicts, including strikes and street protests and including serious health and safety issues, have made news regularly in China. Social conflicts and labour disputes in China have increased at an alarming rate, from around 10,000 in 1993 to over 300,000 in 2005. In fact, one report puts it that: “The simultaneous growth of collective bargaining coverage and labour protests/disputes indicates that the institutionalization of industrial relations by the official industrial relations actors may not be producing the desired effects of social harmony” (Lee, 2009: p.15). The revised Trade Union Law has created a legal foundation for tripartite and bi-partite (government-union) consultations at various levels. This has seen the emergence of tripartite consultation committees which by 2004 was embraced by all provinces and most municipalities. Government has played a key part in this as the vice-minister of the Ministry of Labour and Social Security is the joint head of this committee.

A distinguishing feature of China’s industrial relations is its focus on regional/sectoral bargaining because of the belief that this form of bargaining has more benefits compared to enterprise bargaining (Yoon, 2009).6

Turning to the relationship between industrial relations in China and the global financial crisis, the first point to note is that China was amongst those countries that was the least impacted. In fact, the Chinese economy has been so resilient to the crisis that its economic growth during the financial crisis period averaged at least 8% per annum.

One reason for the resilience of the Chinese financial system is attributed to the heavy restrictions on capital inflows (outflows) to (from) China (Soriano, 2011)7.

[4]Other relevant laws and regulations governing employment are: Employment Contract Law (effective 1 January 2008, revised 1July 2013); Employment Promotion Law (effective 1 January 2008); Law of the People’s republic of China on the Mediation and Arbitration of Employment Disputes (effective 1 May 2008); Implementing Regulations for the Law of the People’s Republic of China on Employment Contracts (effective 18 September 2008); Opinion on Several Questions Regarding the Implementation of the Labour Law of the People’s Republic of China (4 August 1995); and Law of the People’s Republic of China on Entry and Exit Controls; (1 July 2013)—See China Employment Law Guide. (Is it “Law of the People’s Republic of China on Entry and Exit Controls”?)

[5]Lee, C.H., (2009) Industrial relations and collective bargaining in China, ILO Working Paper No.7, ILO, Geneva.

[6]Yoon, Y., (2009) A comparative study on industrial relations and collective bargaining in East Asian countries, ILO Working Paper No.8, ILO, Geneva.

China's financial system is less dependent on international financial markets. A good example is the effects on the Chinese banking system following the collapse of Lehman Brothers. There were six Chinese banks (Bank of China, Industrial and Commercial Bank of China, China Construction Bank, Bank of Communications, China Merchants Bank, and China CITIC Bank) involved with subprime loans. However, the proportion of investments was small compared to bank assets, meaning that their effects on banks' regular operations were minimal. Authorities also took action to ensure credit availability to the wider economy (Soriano, 2011).

In terms of how China deals with layoffs, the story that emerges is the following. The current laws restrict collective dismissals, which is defined as when an employer dismisses 10% or more of the work force (or 20 or more employees). It is unclear though whether all layoffs must occur at the same time to be considered collective, or whether the terms of the law apply if 10% of the work force is dismissed over a period of months. A mass layoff can be conducted if the company is experiencing severe financial, production or operations problems or is undergoing a major transformation; or if there has been a material change in the objective economic circumstances that existed when the original contracts were signed. The new law requires companies to: (1) make a layoff plan specifying who is to be affected; (2) consult for 30 days with unions or workers' representatives; and (3) report the proposed layoffs to local labour authorities before implementation. No approval is necessary under the law, although some regions (e.g. Shanxi province) are now requiring official approval for large mass layoffs.

It is unclear and this report has not been able to ascertain how China has dealt with layoffs in the financial services sector. There is a need for a separate study—selected case studies at least—on this subject.

Finally, while all seem to be reasonable well with the financial services sector in China, gender issues remain a major challenge. Recent reports suggest that despite male and female graduates having identical resumes male graduates were granted interviews 42% more often than females; the standards for points earned during an interview test for males is 60 while it is 75 for females.8 How perennial this issue is for the financial services sector and at which level of the job-hierarchy this matters most is a subject for further evaluation and assessment.

5. Summary

China's financial services sector is heavily regulated and therefore survived serious effects of the recent global financial crisis. China's financial system has been amongst the most resilient to the crisis. China has a range of industrial relations laws that govern employment. Many of these have been revised to make benefits more clear and transparent. The key point is that regardless of financial crises, industrial disputes/conflicts have skyrocketed in China, influenced principally by the industrial expansion—a cornerstone of China's sustained economic growth.9 So while it is difficult

[7]Soriano, C,V., (2011) Recession and social dialogue in the banking sector: a global perspective, European Foundation for the Improvement of Living and Working Conditions, Dublin.

[8]See http://www.chinadaily.com.cn/china/2015-05/21/content_20778797.htm.

[9]Industrial growth in China has not only been the most impressive amongst all sectors but persistent. For example, over the period 1990 to 2015, industrial output in China grew at an

to link disputes/crisis as a result of layoffs to the financial crisis, there are some evidence that layoffs and disputes have resulted from the recent crisis although the magnitude of this is small. China has been dealing with its labour market conditions within the laws and regulations although the success of this is questioned in light of the statistics on the number of disputes/industrial actions alone. Many aspects of China's financial services sector remain unknown and there is need for further research along these lines:

1) What is the direct effect of the financial crisis on the financial services sector?

2) What have been the gender effects of the financial crisis on the financial services sector?

3) What specific approaches have been undertaken to deal with industrial disputes which have resulted from layoffs?

4) How much real influence do trade unions in China have, including in the financial services sector, and to what extent are they able to affect industrial relations in the sector and in the individual banking and finance institutions?

annual average rate of 12.86%; see http://www.tradingeconomics.com/china/industrial-production. This growth has been achieved through economic reforms. Reforms have made enterprises more productive and have seen the introduction of new technologies, which has triggered a phase of "industrial modernization" in China as argued by Shen (2007). On the cost side, this modernization has not been matched by improvements in health and safety standards and pay (worker's compensation) rises have not matched the pace of economic growth and inflation. This has created social instability, as discussed by Shen (2007), in the form of industrial disputes, and layoffs and unemployment.

Appendix A. Data sources

Relevant information	Name of documents	Sources
1. Structure of national financial services sector and its development.	Time series data from National Bureau of Statistics China	http://www.stats.gov.cn/tjsj/ndsj/2014/indexeh.htm
	Employees by sex and economic activity (Thousands) – China	http://www.ilo.org/ilostat/faces/help_home/data_by_country/country-details/indicator-details?country=CHN&subject=EMP&indicator=EES_TEES_SEX_ECO_NB&datasetCode=YI&collectionCode=YI&_afrLoop=401160056012465#%40%3Findicator%3DEES_TEES_SEX_ECO_NB%26subject%3DEMP%26_afrLoop%3D401160056012465%26datasetCode%3DYI%26collectionCode%3DYI%26country%3DCHN%26_adf.ctrl-state%3D134fhgxhej_393
	Total employment, by economic activity and by gender (Thousands)	http://laborsta.ilo.org/STP/guest
	Financial services to China	http://www.austrade.gov.au/Export/Export-Markets/Countries/China/Industries/Financial-services#.VWQHdk-qgko
	China service sector analysis	http://www.intracen.org/uploadedFiles/intracenorg/Content/Exporters/Sectors/Service_exports/Trade_in_services/China_ServicesBrief.pdf
	Financial Services in China	https://www.amcham-shanghai.org/ftpuploadfiles/Publications/Viewpoint/Viewpoint_Financial-Services.pdf
	China banking regulatory commission	http://www.cbrc.gov.cn/chinese/files/2014/A2726BEBE1AA406BB5CAC4ADA3875D35.pdf
	Recession and social dialogue in the banking sector: a global perspective	http://www.praxis.ee/wp-content/uploads/2014/03/2010-Recession-and-social-dialogue-in-the-banking-sector.pdf
2. Effects of global financial crisis and recent financial reform	Recession and social dialogue in the banking sector: a global perspective	http://www.praxis.ee/wp-content/uploads/2014/03/2010-Recession-and-social-dialogue-in-the-banking-sector.pdf
	Centralization and marginalization: The Chinese banking industry in reform	https://www.researchgate.net/profile/Godfrey_Yeung/publication/256972108_Centralization_and_marginalization_The_Chinese_banking_industry_in_reform/links/53d783e00cf29f55cfb4d738.pdf
	China-Financial Sector Assessment	http://www.worldbank.org/content/dam/Worldbank/document/WB-Chinas-Financial-Sector-Assessment-Report.pdf
	Financial Reform in Australia and China	http://www.rba.gov.au/publications/rdp/2014/pdf/rdp2014-10.pdf
	China and the final frontier of financial reform	http://www.businessspectator.com.au/article/2015/1/21/china/china-and-final-frontier-financial-reform
	Maintaining Financial Stability in the People's	http://www.piie.com/publications/wp/wp15-4.pdf
3. Sectoral social dialogue and	Industrial relations and collective bargaining in	http://www.ilo.org/wcmsp5/groups/public/---asia/---ro-bangkok/---ilo-

collective bargaining in the country	China	beijing/documents/publication/wcms_146612.pdf
	China employment law guide	http://www.bakermckenzie.com/files/Uploads/Documents/North%20America/DoingBusinessGuide/Dallas/br_china_employmentlawguide_13.pdf
	A comparative study on industrial relations and collective bargaining in East Asian countries	http://www.ilo.org/wcmsp5/groups/public/---ed_dialogue/---dialogue/documents/publication/wcms_158351.pdf
	Recession and social dialogue in the banking sector: a global perspective	http://www.praxis.ee/wp-content/uploads/2014/03/2010-Recession-and-social-dialogue-in-the-banking-sector.pdf
4. Redundancy, Layoffs and Social protection	China the year of layoff	http://www.cbsnews.com/news/china-the-year-of-the-layoff/
	China Investment Banks Hunker Down as Regulator Shuts IPO Tap	http://www.cnbc.com/id/100402651
	Lay off the layoffs! New regulation in China seeks to limit mass redundancies	http://www.lexology.com/library/detail.aspx?g=92476455-7e77-44b7-8f78-e6a4582d54dc
	The impact of the new labour law in China: new hiring strategies for foreign firms?	http://www.scielo.br/scielo.php?script=sci_arttext&pid=S1808-24322010000200009