

How Banks in China make Lending Decisions

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Based on interviews conducted in four major Chinese cities, this paper examines the determinants of lending by state-owned commercial banks (SOCBs) to manufacturing firms in China. The conventional relationship banking and transaction lending theories helps explain at least part of the lender–borrower relationship in China. The perceived lending bias against non-state-owned enterprises could actually be reconciled as rational decision-making by SOCBs, partly due to the higher risk involved and/or high transaction costs in the risk evaluation of such lending. The existence of unofficial lending criteria at SOCBs nonetheless provides golden rent-seeking opportunities for unscrupulous bankers to exploit the regulatory loopholes for financial gain.

Introduction

The level of non-performing loans (NPLs) is an extremely controversial figure in the Chinese banking system. This is well illustrated by the recent retraction of a report by the global auditing firm Ernst & Young less than two weeks after its high profile publication. It stated that the NPLs in the Chinese banking system are six times higher than the official figures.¹ A number of analysts, such as Lardy, even claim that if the Western benchmarks for the liquidity ratio and NPLs were used in the Chinese system, then the banking sector in China would be technically insolvent.² It is little wonder, then, that Fitch Ratings proclaims that China's banking system is 'one of the weakest in the world, . . . [with] thin profit margins, relatively low capital, weak asset quality and underdeveloped risk management systems'.³

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1. Bloomberg, 'Bank slams "distorted" estimate of bad loans', *South China Morning Post*, (12 May 2006); Agence France-Press, 'Ernst & Young withdraws "erroneous" bad loan report', *South China Morning Post*, (15 May 2006).

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

3. Agence France-Press, 'China bank system one of the world's weakest, says Fitch', *South China Morning Post*, (8 June 2006).

With the exception of several articles on lending bias in China—such as those of Wei and Wang, and Cull and Xu—there are neither published studies nor publicly available data on the determinants of lending by state-owned commercial banks (SOCBs) to the manufacturing sector in China, partly because of the sensitive nature of information in the Chinese banking system.⁴ Based on data in 370 cities between 1989 and 1991, Wei and Wang found evidence that Chinese SOCBs positively discriminated in favour of state-owned enterprises (SOEs), i.e. cities with higher SOEs' shares in output have a faster growth in loans.⁵ Based on a sample of about 700 SOEs in Shanxi, Jilin, Jiangsu and Sichuan provinces between 1980 and 1994, Cull and Xu argued that SOCBs tended to grant loans to profitable SOEs, especially those that had the potential for good future performance because of their managerial reforms, e.g. self-selected managers.⁶ Similar observations of bank managers who place importance on loan repayment and on the granting of loans to townships and village enterprises (TVEs), have also been observed by Park and Shen in Jiangsu and Zhejiang provinces.⁷

There are some potential drawbacks to these studies. The study by Wei and Wang is an indirect test of the lending bias of SOCBs based on the output of the SOEs and the ratio of bank loans to output at city-level.⁸ The study of Cull and Xu focuses only on SOEs.⁹ In addition, the findings of both studies are unable to fully reflect the impact of SOE and bank reforms implemented since the mid-1990s.

With the exception of 12 joint-stock commercial banks, both SOCBs and SOEs are ultimately owned by central or local government.¹⁰ The conventional view is that local government officials can use their political influence to secure bank loans for loss-making SOEs, as the social and political implications of large-scale collapses are unthinkable. The combined returns on assets (pre-tax profits over total assets) for SOCBs had fallen steadily from 1.4% in 1985, to 0.3% in 1994 and 0.25% in 2003.

4. The SOCBs include the Industrial and Commercial Bank of China (ICBC), the Agricultural Bank of China (ABC), the Bank of China (BOC), the Construction Bank of China (CBC) and the Bank of Communications (BOCOM). With the exception of ABC, SOCBs are by definition international holding financial institutions after their initial public offerings (IPOs) in 2005–2006. For the sake of simplicity and the fact that the state is still the majority equity holder of all SOCBs (ranging from 54.7% in BCOM to 75% in ICBC), this paper groups the 'Big Four' plus BCOM as SOCBs by following the classification system used by the China Banking Regulatory Commission (CBRC). S. J. Wei and T. Wang, 'The Siamese twins: do state-owned banks favor state-owned enterprises in China?', *China Economic Review* 8(1), (1997), pp. 19–29; R. Cull and C. X. Xu, 'Who gets credit? The behavior of bureaucrats and state banks in allocating credit to Chinese state-owned enterprises', *Journal of Development Economics* 71(2), (2003), pp. 533–559.

5. Wei and Wang, 'The Siamese twins', p. 28.

6. Cull and Xu, 'Who gets credit?', p. 547.

7. A. Park and M. G. Shen, 'Joint liability lending and the rise and fall of China's township and village enterprises', *Journal of Development Economics* 71(2), (2003), pp. 497–531.

8. Wei and Wang, 'The Siamese twins'.

9. Cull and Xu, 'Who gets credit?'.

10. China Minsheng Bank, established in 1996, is the first joint-stock commercial bank in China. A number of other city commercial banks are partly owned by foreign-investors but are ultimately owned by the local governments (foreign investors were not allowed to own more than 25% of Chinese banks before 2007). The joint-stock commercial banks include CITIC Industrial Bank, Everbright Bank of China, Huaxia Bank, Guangdong Development Bank, Shenzhen Development Bank, China Merchants Bank, Shanghai Pudong Development Bank, Industrial Bank, China Minsheng Banking Co., Evergrowing Bank, China Zheshang Bank, and China Bohai Bank.

The bad debts accumulated by SOCBs had reached nearly 50% (4 trillion *yuan*) of the nation's GDP in 1999. By 2001, the NPL ratio of SOCBs reached 31%.¹¹ As the NPLs accounted for as much as half of the total outstanding SOCB loans in the late 1990s, mainly because of bad debts accumulated by moribund SOEs, it is usually suggested that SOCBs are obliged to grant loans to SOEs, largely as a result of political pressure (from the local and central governments) rather than due to commercial considerations.¹² Apparently, some scholars regard the existence of SOCB lending bias as self-evident, and believe that there is no need to further examine this important proposition.

To fill the literature gap on the determinants of lending by SOCBs to manufacturing firms, this paper investigates how lending decisions are made in China's banks, i.e. what are SOCB official and unofficial assessment criteria for lending and how do these criteria affect lending decisions? The policy implications for the banking system in China will also be discussed briefly.

To achieve the research objectives, three rounds of field surveys were conducted in China between November 2004 and December 2006 (see the Appendix for details). Through personal networks, a total of 15 sessions of in-depth interviews were conducted by the author in China to ascertain how SOCB bank loans are made, what the official and unofficial criteria for assessing lending risks are, and how the assessment criteria affect the operation of SOCBs. The field survey included multiple interviews with an informed banker with extensive work experience and who is extremely familiar with the operation of the 'Big Four': namely, the Bank of China (BOC); the Construction Bank of China (CBC); the Agricultural Bank of China (ABC); and the Industrial and Commercial Bank of China (ICBC). These are the four largest banks in China and were wholly owned by the central government, before the CBC, BOC and later the ICBC were listed on the Stock Exchange of Hong Kong in 2005 and 2006, respectively.¹³ All the interviews were conducted in a semi-structured manner to facilitate conversational flow, and each interview lasted for at least an hour. The interviewees included senior bankers (either Presidents, Vice-Presidents, Branch Managers, Managers in the Credit Department, or Directors of the Credit Research Department) of major SOCBs (including two of the 'Big-Four', namely the CBC and the BOC), four major joint-stock commercial banks, and two major foreign banks in China.

This paper will make two contributions to the literature. First, it examines how well the existing theories are able to explain lender–borrower relationships in China. Conceptually, the conventional theories on lending identify two types of lender–borrower relationship: relationship banking, and transaction lending. In relationship banking, banks invest in building relationships with borrowers and use their sector or

11. Lardy, *China's Unfinished Economic Revolution*, p. 83; Organisation for Economic Co-operation and Development (OECD), *OECD Economic Surveys: China*, 2005/13, (September 2005), pp. 21, 146–147, available at: <http://www.oecd.org/>.

12. *Ibid.*, pp. 141–143.

13. In 1994, the 'Big Four' controlled over 80% of China's financial assets and issued over 60% of the country's total loans. R. J. Blanchard, 'The heart of economic reform', *The Chinese Business Review*, (January–February 1997), pp. 16–24. In 2006, the SOCBs (the 'Big Four' plus the Bank of Communications) controlled 55% of the 43.95 trillion *yuan* banking assets in China. CBRC, *CBRC 2006 Annual Report*, (2007), p. 133, available at: <http://zhuanli.cbrc.gov.cn/subject/subject/nianbao/english/ywqb.pdf>.

firm-specific expertise to improve the project's payoff for the borrower, i.e. loan decisions are based on 'soft' qualitative information. In transaction lending, the lending institution is involved in an arm's length transaction in which the loan is purely a funding transaction or 'commodity product', and the loan evaluation is based on 'hard' quantitative criteria, such as balance sheets and income statement information.¹⁴ The conventional theories associate relationship banking with (commercial) banks and affiliate transactions with lending to the capital market.¹⁵ As part of relationship banking, banks collect confidential borrower-specific information through such processes as screening, monitoring, and liquidity transformation.¹⁶ In transaction lending, institutions (mainly investment banks and underwriters) are arm's length providers of finance in the capital market, and focus on the transactions *per se*.¹⁷

Second, empirical evidence presented in this paper will provide an insight into how loans are granted by the SOCBs in China. Empirically, this paper is a preliminary investigation of first-hand evidence to support or refute the conventional argument that there is a lending bias against non-SOEs in China. On the one hand, the existence of unofficial lending criteria may allow honest credit officers at SOCBs to derive lending decisions that give rise to the idea of lending bias against non-SOEs in China, despite the government's protestations. On the other hand, the existence of unofficial lending criteria may allow unscrupulous credit officers to abuse the regulatory loopholes for personal gain in China. The policy implications derived from the evidence will be profound for China. For instance, why is the Chinese central bank, the People's Bank of China (PBC), unable to rein in the excessive lending to the over-invested sectors, despite the fact that it controls the money supply in China? The economic efficiency of SOCB lending, such as whether the existence of this form of lending reduces the socio-economic costs and thus facilitates SOE reform, is not the focus and thus will not be discussed in detail in this paper.

The official and unofficial assessment criteria for lending and the applicability of conventional theories on lending will be discussed in the next two sections. The policy implications and major findings of this paper are then highlighted in the last two sections.

14. A. W. A. Boot and A. V. Thakor, 'Can relationship banking survive competition?', *Journal of Finance* 55(2), (2000), pp. 679–713. Transaction lending incorporates financial statement lending, asset-based lending and credit scoring. A. N. Berger and G. F. Udell, 'Small business credit availability and relationship lending: the importance of bank organisational structure', *The Economic Journal* 112(477), (2002), pp. F32–F53.

15. D. Diamond, 'Monitoring and reputation: the choice between bank loans and directly placed debt', *Journal of Political Economy* 99, (1991), pp. 689–721; R. G. Rajan, 'Insiders and outsiders: the choice between informed and arm's length debt', *Journal of Finance* 47, (1992), pp. 1367–1400.

16. For borrower-specific information, see S. Bhattacharya and G. Chiesa, 'Proprietary information, financial intermediation, and research incentive', *Journal of Financial Intermediation* 4, (1995), pp. 328–357; and O. Yosha, 'Information disclosure costs and the choice of financing source', *Journal of Financial Intermediation* 4, (1995), pp. 3–20. For screening, see R. Ramakrishnan and A. V. Thakor, 'Information reliability and a theory of financial intermediation', *Review of Economic Studies* 51, (1984), pp. 415–432; and F. Allen, 'The market for information and the origin of financial intermediation', *Journal of Financial Intermediation*, 1, (1990), pp. 3–30. For monitoring, see D. Diamond, 'Financial intermediation and delegated monitoring', *Review of Economic Studies* 51, (1984), pp. 393–414; and A. Winton, 'Delegated monitoring and bank structure in a finite economy', *Journal of Financial Intermediation* 4, (1995), pp. 158–187. For liquidity transformation, see D. Diamond and P. H. Dybvig, 'Bank runs, deposit insurance and liquidity', *Journal of Political Economy* 91, (1983), pp. 401–419.

17. Boot and Thakor, 'Can relationship banking survive competition?', p. 680; R. Cressy, 'Funding gaps: a symposium', *The Economic Journal* 112(477), (2002), pp. F1–F16.

Official criteria for lending

The official assessment criteria for SOCB lending, the centralization of decision-making processes for lending, and the applicability of conventional relationship–transaction lending theories to the banking system in China are discussed.

Credit scores and ‘5Cs’

Between 1998 and 2003, SOCBs began to restructure their loan portfolios by adopting a strategy of commercial lending. Apart from an injection of 270 billion *yuan* into the banking system in 1998, the central government transferred 1.4 trillion *yuan* of NPLs originating from pre-1996 to the four newly created Asset Management Corporations, or AMCs: namely, the China Orient; the China Huarong; the China Cinda; and the China Great Wall (i.e. SOCBs became responsible for the NPLs made after 1996). The international five-tier risk-based classification system [*Guiding Principles on the Classification of Loan Risk Management* issued by the China Banking Regulatory Commission (CBRC)] to rank loans as either ‘pass’, ‘special mention’, ‘sub-standard’, ‘doubtful’, or ‘loss’ was piloted in 1998 to improve the internal assessment and monitoring capabilities of SOCBs. All banking institutions have to adopt the five-tier risk-based classification system in 2004.¹⁸

The formal criteria of the loan granting mechanism in SOCBs have features of both transaction and relationship lending. The official assessment criteria for lending in the Chinese banking system are implemented by the various branches of SOCBs at local and regional levels, under instructions from their headquarters in Beijing. Since 2003, and after the establishment of the CBRC, all SOCBs in China have used a credit score (*xindai dafen*) to assess every loan application. Irrespective of the amount of a loan and its purpose, every loan application submitted to SOCBs has to be assessed and classified by credit officers into a grade, e.g. the BOC uses nine different grades from 3A to 1C (i.e. 3A, 2A, 1A, 3B), etc.¹⁹ In addition to types of applicants (namely large-size firms, medium-size firms, and private individuals), the credit score is largely based on the verified business report (*gongshang baogao*) and three years of audited financial statements (*baobiao*) (including balance sheets to reveal the applicant’s leverage in terms of debt–asset ratio) submitted by the loan applicant. In some selected cases, SOCB credit officers may visit the firm in question to verify the documentation. Unless it is demonstrated that they have followed the loan assessment procedures fully, loan officers are individually responsible for new NPLs incurred under their tenure.²⁰

In addition to the credit score, credit managers at SOCBs use the so-called ‘5Cs’ criteria for loan assessment.²¹

18. Loans classified in the ‘sub-standard’, ‘doubtful’, and ‘loss’ categories are regarded as NPLs. CBRC, *CBRC 2006 Annual Report*, pp. 72–73; OECD, *OECD Economic Surveys: China*, pp. 42, 145.

19. The actual cut-off point of lending varies between different SOCBs. Field survey, interviewees 1–3, 5, 7–9, November 2004, and personal communication with Professor Xiaoping Xu, 31 August 2007.

20. *Ibid.*

21. *Ibid.* and interviewees 13–16, December 2006.

- Character: the reputation of the applicant in terms of credit records, such as no records of bad debts, and the mutual trust (*xinyong*) between the loan applicant and credit manager.
- Capital: the leverage or liability of the applicant, normally measured by debt–asset ratio.
- Capacity: the volatility of earnings in terms of liquidity (cash flow), and usage of loans and receivables (including potential returns on projects), i.e. whether the applicant has the ability to repay the loans on time.
- Collateral: normally in the form of physical fixed assets, especially real estate (due to its ease of tradability in the market), but can also be in the form of loan guarantees (*danbao*).²² Loan guarantees are normally in terms of a personal guarantee or through a ‘guarantee institution’ (*danbao gongsi*): a company, normally funded by the local government but unregulated by the CBRC, acts as a guarantor for a loan applicant. These were used commonly for loan applications in the 1990s, when the official criteria for loan assessment were not fully formulated.²³ Due to massive defaults on loans based on guarantees, with the exception of *Fortune 500* TNCs, most SOCBs will not accept loan applications based on loan guarantees alone these days.
- Cycle: macro-economic cycle.

In some selected cases where the credit score is just below the cut-off point, the character and collateral of the loan applicant are important for the decision of whether to lend or not. For instance, credit managers and branch presidents at SOCBs can approve the loan application should the applicant have a good track record of loan repayment and/or the applicant has collateral with a market value to cover part of the loan’s principal. ‘Personal knowledge of the loan applicant is vital’, was the comment of an experienced banker on the significance of the loan applicant’s reputation.²⁴

Centralization of lending power

In addition to an annual lending quota for every branch at local level, there is a remarkable degree of centralization in the decision-making processes for loan approval at SOCB headquarters to reduce the exposure of NPLs and to rein in excessive lending, especially to SOEs with inadequate collateral. There are multi-tier checks on loan granting in the Chinese banking system. The recommendations of credit managers at sub-branch level are passed on to the Lending Assessment and Approval Committee (*xindai shenpi weiyuanhui*) at branch level, before being submitted (if approved) by the branch’s presidents to the Lending Assessment and Approval Centres (*xindai shenpi zhongxin*), who are under the direct management of

22. According to the latest policy on collateral, the usage right of land is classified as an invisible asset, while the properties built on the land are classified as visible assets in collateral by SOCBs in China. Field survey, interviewees 14–15, December 2006.

23. Guarantee institutions proliferated all over China after the pilot programme in 1998. By June 2004, there were 2,136 guarantee institutions of various forms and ownership structures, with 200 billion *yuan* of loans carrying guarantees. OECD, *OECD Economic Surveys: China*, p. 152.

24. Field survey, interviewee 1, November 2004.

the Beijing headquarters, for final approval.²⁵ The banking charters are regulated by the CBRC.²⁶

This centralization of decision-making power is even more prevalent in the joint-stock commercial banks. For instance, the branch presidents of the China Everbright Bank (a major joint-stock commercial bank, with the majority owned by the SOE, China Everbright Group) could approve loans with a value of up to 80 million *yuan*, while the sub-branch president could approve loans with a value of up to 8 million *yuan* before 2000. In 2001, the power of the sub-branch president to approve loans was taken away. In 2004, all loan applications had to be formally approved by the three newly established Lending Assessment and Approval Centres in eastern, southern and western China, under the direct management of the Beijing headquarters. Moreover, all the relevant documents on loans with a value of over 200 million *yuan* have to be directly assessed by credit managers at the Beijing headquarters. Other major SOCBs have similar centralization policies but have different ceilings on the value of loans imposed at local level. For instance, the BOC imposed a ceiling of 1.1 billion *yuan* on short-term loans (repaid in less than one year) and 0.7 billion *yuan* on long-term loans (repaid over three years or more) at branch level, while the ceiling was 50 million *yuan* for a sub-branch and 100 million *yuan* for a branch of CBC in 2004.²⁷

To improve competition, the sub-branches and branches of SOCBs have certain degrees of autonomy to adjust the terms and conditions of loans. For instance, SOCB credit managers at the local level can recommend an interest rate deviation of up to 30% of the standard rate recommended by the central bank. The ceiling on lending rates was phased out in October 2004, but the floor on lending rates remains in place.²⁸

Applicability of transaction and relationship banking

Conceptually, the conventional relationship–transaction lending dichotomy may have limitations. Some features of transaction and relationship lending overlap, such as asset-based lending, which is normally regarded as part of transaction lending, but it is also part of collateral loans in relationship banking as well. To address the unrealistic and dichotomized categorizations of bank-relationship lending versus capital market-transaction lending, Boot and Thakor proposed a model to explain the adjustment of the activities of banks between relationship and transaction lending.²⁹ Broadly defined, all bank loans involve a certain degree of relationship banking in reality, which means that the relationships between SOCBs and SOEs in China can be classified as relationship lending. However, Aoki and Dinc argued that the Chinese banking system is characterized by a specific form of

25. The sub-branch president has the right to veto but not the right to grant any loan application without the unanimous approval from other members of the Committee.

26. Field surveys, interviewees 1–3, 5, 7–9, November–December 2004.

27. *Ibid.*

28. *Ibid.* and interviewees 13–16, December 2006; OECD, *OECD Economic Surveys: China*, p. 153.

29. Boot and Thakor, 'Can relationship banking survive competition?'

transaction lending with ‘soft-budget constraints’ and insufficient monitoring by banks.³⁰

In China, the decision on whether to grant loans to borrowers is determined by a set of official as well as *unofficial* assessment criteria for lending. This is different from the scenarios under transaction and relationship lending where the decision to lend is ultimately determined by official assessment criteria for lending. Partly due to the legacy of the planned economy, and partly due to the socio-economic consequences of rapid economic reform (especially the tens of thousands of redundancies in SOEs) and the subsequent potential negative impact of massive redundancy on political stability, the central and local governments’ bureaux attempt to impose a set of unwritten assessment criteria for SOCB lending. Because of the moral hazards (i.e. they do not have to bear the full consequence of corporate failure as ‘the government will bail them out’), it could be argued that credit officers at SOCBs and managers at SOEs have less incentive to maintain the profitability of the firms that they manage, as the former are largely the gatekeepers of ‘policy-directed money-lenders’, while the latter suffer from ‘soft-budget constraints’, where the marginal social cost is larger than the marginal private cost. These unwritten assessment criteria for lending are only implemented in certain selected cases of borrowing, hence this practice is unofficial in nature and is normally determined by three factors: ownership, firm size and the industrial sector of borrowers (see below).³¹ Thus, the existing relationship–transaction lending dichotomy may not be able to explain the lender–borrower relationship in China fully. But, is the existence of unofficial assessment criteria for SOCB lending irrational?

Unofficial criteria for lending

It is possible for credit managers to approve loan applications based on a set of informal (unwritten) policies, i.e. the formal criteria for loan assessment can be *de facto* bypassed. In interviews, the following three criteria beyond the official ones, stood out: ownership, firm size and industrial sector.

‘Ownership-based lending’

The significance of ownership for SOCB lending, which is probably the most important unofficial assessment criteria of lending, can be discussed from the perspectives of borrowers and lenders.

With the exception of equity injections by the government or initial public offerings (IPOs) in the stock market, borrowing from SOCBs is generally the only way that SOEs can raise funds.³² It is natural that SOEs tend to highlight

30. M. Aoki and S. Dinc, *Relationship Financing as an Institution and its Viability under Competition*, CEPR Publication no. 488, (1997), Stanford University. Soft-budget constraint is a generic term used to describe the lax financial discipline of firms, normally state-owned institutes, i.e. decision makers expect that someone (the state) will pay for the firm’s financial losses. J. Kornai, *Economics of Shortage* (Amsterdam: North-Holland, 1980); K. Lee, *Chinese Firms and the State in Transition: Property Rights and Agency Problems in the Reform Era* (New York: M. E. Sharpe, 1991).

31. Field surveys, all interviewees, November 2004–December 2006.

32. Wei and Wang, ‘The Siamese twins’.

their state-owned character rather than try to secure collateral or equity loans from SOCBs. In stark contrast, privately funded companies only accounted for 5.7% of the total SOCB loans in 1997, despite the fact that such companies accounted for 20% of industrial output and 40% of retail sales in China.³³ This perceived lending bias of SOCBs is actually more due to the lack of an established system of credit rating, and the unavailability of the risk assessment records of private borrowers. According to a senior researcher in the Beijing headquarters of one of the 'Big Four', none of the 'Big Four' has such credit data on private borrowers.³⁴

In addition to the fact that private property rights were not fully recognized by the Chinese government until the amendment to the constitution in 1999, the opaque ownership structure (a number of the so-called privately-funded firms are actually controlled by local government officials), and 'unsystematic management' (*guanli buguifan*, i.e. run like a family business and the business founders treat the companies' accounts as personal/family bank accounts) of privately-funded firms in China explains why most SOCBs perceive them as carrying a higher risk, and are thus reluctant to grant them loans. This is different from the SOEs and publicly-listed companies where the transaction costs incurred by SOCBs to assess their credit worthiness is much lower (due to the stricter regulations by the relevant government bureaux). SOCBs also normally demand the equivalent value of fixed assets as collateral before granting loans to privately-funded firms. Should SOCBs accept machinery as collateral, they will take 50% off its market value for depreciation. The majority of SOCBs do not recognize intellectual property rights (IPRs) as collateral, mainly due to the widespread use of counterfeits and fabrications (of IPRs certificates) in China.³⁵ The reputation of privately-funded firms has been tarnished further by several high profile cases of embezzlement. For instance, the owners of both the *Chengcheng* Publisher (Liu Bo, with the loss of over one billion *yuan*) and the Sichuan Top Software Investment (Song Ruhua, up to three billion *yuan* lost) disappeared after the scandals went public. In addition, to divert company funds for personal use, rapid expansion and diversification into areas where the business founders/companies have limited competitive advantages led to cash-flow crunches and even the bankruptcy of some one-time high-flying privately-funded businesses. Therefore, privately-funded firms of small and medium size clearly have great difficulty in securing loans from SOCBs as most of them have limited fixed assets, noticeably in the form of property. This explains why a number of privately-funded companies have had to resort to local savings co-operatives (*xinyong hezuoshe*) or grey money

33. J. Laurenceson and J. C. H. Chai, 'State banks and economic development in China', *Journal of International Development* 13(2), (2001), pp. 211–225. Loans to private enterprises and individuals only accounted for 1.615 of the total short-term loans granted in 2004. National Bureau of Statistics, *China Statistical Yearbook 2006* (Beijing: China Statistics Press, 2006).

34. Field surveys, interviewee 8, December 2004.

35. There are however some rare exceptions. For instance, the ICBC had offered a 2 million *yuan* patent loan to an enterprise based in Shanghai Zhangjiang High-Tech Park, and the Bank of Communications had offered a 1.5 million *yuan* patent loan to Beijing Kery Bio-Pharm Company in September and November 2006, respectively. L. Zhang, 'Lenders now taking IPR as collateral', *China Daily*, (16 November 2006), p. 12.

markets (including borrowing from friends, loan-sharks, and pawn shops) to borrow at higher interest rates.³⁶

Partly due to the legacy of the planned economy, it is not uncommon for credit managers and branch presidents of SOCBs to give SOEs higher priority for lending. This is especially the case when the branch is nearing its annual lending quota and facing loan applications with equal or similar credit scores. As admitted by a sub-branch president: 'I shall *lend to an SOE first* should there be two equally good applications for loans, one from the SOE and the other from a non-SOE, . . . After all, we still have to rely on the [central] government for support and funding'.³⁷ The same president with years of work experience at one of the 'Big Four' also suggested that this form of 'ownership-based lending' is due to the legacy of the planned economy mentality: 'Some of us have been working in SOCBs for decades, . . . it is not easy for us to change, despite the institutional reforms. . . . *The idea of giving SOEs higher priority is deeply ingrained in our minds, consciously and subconsciously (genshen digu)*'.³⁸ This can be partly reconciled by the fact that the chief executives and other senior managerial positions of the 'Big Four' are still central government appointments and thus the Chinese Communist Party (CCP) secretaries at the central and local levels retain significant influence over both the selection of candidates and the operation of SOCBs.³⁹ In these circumstances, it could even be argued that the granting of loans is *de facto* the outcome of the soft-budget constraints ideology embedded in senior bankers in China.

'Size-based lending'

The physical size of borrowers, normally either measured by the number of employees and/or value of assets or revenue, is another important factor in the institutional constraints within the unofficial assessment criteria for lending in SOCBs. Should the firm fold due to its inability to borrow, the number of employees the firm has may indicate the potential number of redundancies and the subsequent socio-economic costs to the local economy. Furthermore, the value of the firm's revenue may indicate its potential contribution to the local government's budget in the form of profit taxes and other fees.

The perception of lending to non-SOEs as being a high risk business partially accounts for 'size-based lending'. In fact, almost all the interviewed bankers at SOCBs regarded privately-funded firms in China as carrying the highest loan risk, well above that of the SOEs (with the lowest risk) and foreign-financed firms (with a medium level of risk).⁴⁰ This further explains why privately-funded companies only account for a single-digit of total SOCB loans in China. The privately-funded small

36. Field surveys, all interviewees, November 2004–December 2006. Interest rates charged by saving co-operatives are normally 1–1.5% higher than those of SOCBs (Field survey, interviews with two owners of foreign-financed firms in China, November 2004), while pawn shops in Beijing charge much higher interest rates (3.2–4.7%/month versus 5.58%/year in SOCBs). Reuter, 'China's trapped entrepreneurs fuel pwanbroking boom', *China Daily*, (27 February 2006).

37. Field survey, interviewee 5, November 2004 (italics added).

38. *Ibid.* (italics added).

39. OECD, *OECD Economic Surveys: China*, p. 141.

40. Field surveys, interviewees 1–3, 5, 7–9, 13–16, November 2004–December 2006. The NPL ratio for lending to small enterprises was 19.3% by the end of 2006. CBRC, *CBRC 2006 Annual Report*, p. 54.

and medium-size enterprises (SMEs) are generally perceived as carrying the highest level of loan risk. A survey conducted by the Fujian government revealed that 86% of privately-funded SMEs in this province have difficulty in securing bank loans. The 48 most financially reputable SMEs in Fujian received less than half of the 2.58 billion bank loans that they sought in 2004.⁴¹

It must, however, be emphasized that the importance of size (*de facto* an indicator of risk) in lending also exists in the Western banking system. It is generally believed that firm size is a factor that determines the granting of loans. Because of the problems of moral hazard and adverse selection, small firms are informationally opaque, and have to rely more on relationship lending, i.e. they may have higher levels of liquidity constraints.⁴² Larger firms generally have a strong enough balance sheet to secure financial statement lending or sufficient available collateral to secure asset-based lending.⁴³

'Sector-based lending'

The industrial sector of potential borrowers is the most 'explicit' unofficial assessment criteria for SOCB lending. Credit managers and branch presidents in SOCBs may approve loan applications based on the firm's specific industrial sector. In other words, nationally prioritized large-scale projects (*zhongdian xiangmu*), such as projects in aerospace approved by the Ministry of Finance, will certainly receive preferential loans with a lower rate of interest, while the retrenched industrial sectors, such as iron and steel, and cement, identified by the central government will normally have their loan applications rejected, irrespective of their merits *per se*.⁴⁴

The most intense competition between SOCBs for lending is to firms involved in national prioritized large-scale projects. For instance, an informed banker revealed that the BOC granted a loan to China Eastern Airline for aeroplane purchasing in 2004 by putting forward a money-losing tender at 29 base points above the standardized rate (it is established that the break-even point for the loan is 35 base points above the standardized rate), whilst almost all the other banks put forward their bids at 100 base points (1%) above the standardized rate. The incentive for bankers at SOCBs to provide loans to established borrowers, especially large SOEs in prioritized sectors, is always there as 'other banks will do the deal if we pull out'.⁴⁵ This form of 'sector-based lending' is best summarized by the comment of a very experienced sub-branch president in one of the 'Big Four':

After all, we are a SOCB and we have to *follow* the major policies implemented by the central government. As long as we think that we can do a deal, we will do so . . . We may not earn any profit from the loan itself but we may be able to gain some profit by providing other banking services to the client.⁴⁶

41. Y. Jiang, 'Size matters', *China Daily: Business Weekly*, (24 October 2005), p. 4.

42. J. Stiglitz and A. Weiss, 'Credit rationing in markets with imperfect information', *American Economic Review* 71, (1981), pp. 393–410.

43. Berger and Udell, 'Small business credit availability and relationship lending', pp. F37–F38.

44. Field survey, interviewees 2–3, 5, 7 and 9, November 2004.

45. Field survey, interviewee 5, November 2004.

46. *Ibid.*

The massive lending by the CBC for various projects involving physical infrastructure (in particular, the construction of motorways, railways and electricity generation plants) as part of the western development is a typical example of pseudo-policy-directed lending in China.⁴⁷

From the above, it is argued that the perceived lending bias against non-SOEs and SMEs could be rational decisions made by SOCBs, partly due to the *higher risks* involved and/or higher *transaction costs* of risk evaluation (due to no established credit rating system and the unavailability of risk assessment records for private borrowers) for such loans. SOCBs (and the joint-stock commercial bank, China Minsheng Bank) are willing to lend to SOEs largely because most SOEs, especially in the coastal provinces, are profitable (partly because of having regional monopolies) and have well-organized management (partly due to the intense competition and learning by doing with foreign joint ventures). Most money-losing SOEs have either closed down or merged with other SOEs during the last decade, when the central government implemented a series of reforms to improve the competitiveness of SOEs. Credit Managers at SOCBs have the incentive to allocate credit to profitable endeavours so that they can qualify for bonuses, which are dependent on the bank's profitability.⁴⁸ SOCBs are in direct competition with global banking giants and normally have a competitive disadvantage for lending to established foreign-funded firms, as most of these firms have already established banking business with their bankers. Furthermore, the state banking system was originally established to serve the fiscal arm of the state and funnelled funds to and from SOEs, particularly the SOEs in the prioritized industrial sectors. Laurenceson and Chai argued that SOCBs in China have the strong characteristics of development banks so the conventional evaluation criteria of commercial banks, such as return rates to assets and liquidity ratios, are not applicable.⁴⁹ They further argued that SOCBs have an overall positive and sustainable impact on China's economic development, despite their poor commercial performance.⁵⁰ Therefore, the three unofficial assessment criteria for loans may not necessarily indicate any lending bias on the part of SOCBs in China. Nonetheless, the existence of unofficial lending criteria presents golden rent-seeking opportunities for unscrupulous bankers to exploit the regulatory loopholes for personal financial gains.

Bypassing official lending criteria and policy implications

In general, the official assessment criteria for lending are most likely to be bypassed by two types of firm: SOEs in prioritized sectors or large-scale SOEs, especially the

47. Policy lending (directed credit) is loans from the central bank to financial institutions that are used to finance specific projects identified by the State Planning Commission. In 1985, one-third of the total loans outstanding in China were policy loans. The corresponding figure dropped to one-fifth in 1995. Lardy, *China's Unfinished Economic Revolution*. Infrastructure accounted for about 25% of the total lending by CBC in 2006. CBC, *CBC Annual Report 2006* (2007), p. 29.

48. Cull and Xu, 'Who gets credit?', p. 540.

49. Laurenceson and Chai, 'State banks and economic development in China', p. 214.

50. In fact, the solvency ratio of SOCBs in terms of NPLs to GNP did not deteriorate rapidly during the 1990s, e.g. NPLs of SOCBs accounted for 13.8% of GNP in 1993, with the ratio increasing to 18% in 1997. Laurenceson and Chai, 'State banks and economic development in China', pp. 220–221.

top 190 SOEs directly controlled by the State Assets Supervision and Administration Commission. (SASAC was set up in 2003 to restructure moribund firms.) Two commonly used by-pass routes are as follows:⁵¹

- Break down the loan into several loans in smaller amounts so that the approval documents do not have to be submitted to the headquarters for final approval.
- Falsify the financial statements and other relevant documents, including the assessment reports prepared by the credit manager at the local branch, so that the loan applicant ‘fulfils’ the official lending criteria.

In the case of ‘falsified financial statement’ loans, the firm submits a falsified financial statement to the bank in its loan application. As in other countries, every firm in China has to submit a copy of a ‘reasonably accurate’ financial statement to the Tax Bureau for the purposes of taxation. Since banks in China do not have the legal right to access such financial statements, they have to rely on reports submitted by loan applicants to assess their financial viability. In reality, it is up to the vigilance of the credit manager and the co-operation of the firm to verify these so-called audited reports. The credit manager can request a firm visit but these requests may not be granted. Should the loan applicant secure the co-operation of the credit manager (through bribery), it is not difficult to secure a loan based on a falsified financial statement, as there is neither a systematic nor fault-free system of low transaction costs to ensure the accuracy of submitted financial statements.⁵² One typical example of securing massive bank loans via falsified financial statements is Zhengyi Zhou (Ching-ngai Chau), ranked as China’s eleventh richest man in 2002 by *Forbes* magazine, and the majority shareholder of the Hong Kong-listed Shanghai Land. Zhou is still under investigation by the Chinese government after his release from a three-year prison sentence for fraud, stock manipulation and falsifying corporate documents for a HK\$2.1 billion bridging loan.⁵³

In a number of cases, SOEs established (wholly funded) overseas subsidiaries, usually in Hong Kong, and then apply for loans from overseas branches of SOCBs. These overseas subsidiaries are normally established in the form of trading companies or international trust corporations and invest heavily in property (e.g. residential property for their senior managers stationed overseas and office property for their offices). Some of these overseas subsidiaries are even *de facto* ‘shell companies’, i.e. they exist in name only and are used as bases for the internal transfer of capital and purposes other than engaging in business. Armed with several years of (falsified) business records and their (mortgaged) property portfolios as collateral, they can secure syndicate loans arranged by overseas branches of SOCBs. The capital can then be transferred internally from overseas subsidiaries to core companies based in mainland China via legitimate but over-priced transactions. In a small number of cases, the senior managers involved in such lending profit from the transactions

51. Field surveys, interviewees 1–9, November 2004–April 2005.

52. Field surveys, interviewees 1–3 and 5–9, November–December 2004.

53. Zhengyi Zhou used the HK\$735 million loan from the BOC (Hong Kong) to repay the loan he used to buy control of Shanghai Land. The collapse of Shanghai Land also led to the arrest of Jinbao Liu, then vice-chairman and chief executive of the BOC (Hong Kong), who was accused of embezzlement. Vincent Lam, ‘End of road for Shanghai developer’, *China Daily*, (11 October 2005), p. 11.

themselves, either in the form of commission kick-backs, or even blatant fraudulence by transferring (part of) the loans into their personal accounts (to speculate on the stock and property markets or engage in management buy-out of bankrupt SOEs in China, before pocketing the profits and ‘repaying’ the loans to the firm).⁵⁴ Due to the occurrence of several large-scale fraud scandals, including the notorious cases of Guangdong International Trust & Investment Corporation (GITIC), and the above mentioned case of Shanghai Land, and the crackdown by the Chinese central government, it must, however, be emphasized that these types of ‘falsified financial statement’ loans to overseas subsidiaries, though relatively common in the 1990s, are now under much stricter control and are monitored by the CBRC.⁵⁵ According to the CBRC, 164 persons (involving a total of 26 million *yuan*) were prosecuted for commercial bribery and another 7,407 persons (involving a total of over 1 trillion *yuan*) were punished for violation of CBRC’s regulatory policies in the banking industry in 2006.⁵⁶ The CBRC also warned that a lifetime ban from senior financial management posts would be imposed upon bankers responsible for large-scale irregularities.⁵⁷

The above discussion on bypassing the official loan assessment criteria by Chinese SOCBs is supported by the sincere confession of a sub-branch president and the CCP party secretary at one of the ‘Big Four’: ‘In a number of cases, the local governments take over their partly-funded enterprises’ debts [and ask the SOCBs to write them off].⁵⁸ Under the regime of financial independence, local governments are obviously paying (more) attention to their own bottom lines and let firms default on their loans, i.e. the financial burden is transferred to the central government in the form of NPLs accumulated by SOCBs. To reduce the NPL ratios, some local branches of SOCBs grant loans indirectly to insolvent enterprises through ‘intermediaries’: the SOCB grants loans to the ‘intermediary’, normally a financially viable SOE, and the SOE lends or offers advanced payments for business transactions to the insolvent enterprise, which ‘repays’ the debts and the SOCB can then lower the NPL ratio.⁵⁹ As ‘the hills are high and the emperor is far away’ as the saying goes, local governments and local branches of SOCBs may not always routinely follow the edicts of the banking reforms from the central government. This strong argument is further supported by the admission of Mr Shuqing Guo, the chairman of CBC (and the former vice-governor of the central bank), that CBC branch managers are still facing pressure from (local) government officials to lend on a non-commercial basis to support local development. ‘Local officials tell us they need finance for local development and this is the requirement of both the bank and the state. We deal with

54. Field survey, interviewee 6, November 2004.

55. *Ibid.* GITIC, the investment arm of booming Guangdong province, became the first non-banking financial institute bankrupted in China, in October 1998. This occurred because of its inability to meet outstanding debts. It had assets of 21.47 billion *yuan* (US\$2.6 billion), but had debts from its 494 offshore and domestic companies of 46.7 billion *yuan* (US\$5.63 billion) owed to banks in Japan, China, Hong Kong, Switzerland and the US. The former president, Yantian Huang of GITIC, was sentenced to 14 years in jail. Creditors of GITIC were eventually able to recover 2.54 billion *yuan* (US\$307 million) of debt, with a ‘hair-cut’ (the unrecoverable proportion of debts) of over 87%. C. X. Zheng, ‘Former GITIC chief imprisoned’, *China Daily*, (30 June 2004), p. 3.

56. CBRC, *CBRC 2006 Annual Report*, pp. 76 and 80.

57. B. Hu, ‘CBRC gets tough on rampant scandals at lenders’, *South China Morning Post*, (1 July 2006).

58. Field survey, interviewee 5, November 2004.

59. *Ibid.*, interviewees 14–15, December 2006.

this in different ways . . . Sometimes we will *compromise* with them because we need local support'.⁶⁰ Even the CBRC chief, Mingkung Liu, weighed in to warn that 'the operational risks are enormous' in tremendous numbers of transactions as 'inconsistencies in debt repayment procedures are very common' in China.⁶¹ From the above, it is argued that the official SOCB loan assessment criteria are allowed to be bent or even by-passed in certain circumstances.

After the US\$560 billion recapitalization and capital injection into the system, the CBRC estimated that the NPLs of the 'Big Four' were 1.06 trillion *yuan* (NPL ratio at 8.2%) and the commercial banks' NPL ratio was at 6.63% (1.24 trillion *yuan*) at the end of March 2007.⁶² Notwithstanding the validity of the assumptions made in the retracted Ernst & Young report, the actual amount of NPLs in China could be higher than the official CBRC figures. The underestimates of NPLs by the CBRC can be reconciled with the fact that insolvent enterprises were treated as performing in China, as long as repayments were not overdue.⁶³ It is also possible that more loans granted before the most recent reforms will turn out to be non-performing. For instance, 'special mention' loans (loans that are performing but whose borrowers are subject to circumstances that could threaten their full repayment in the future) for the ICBC, CBC and BOC ranged between 9.03 and 9.49% of their total loans at the end of 2006.⁶⁴ Given the existence of rent-seeking opportunities to exploit the loopholes in the unofficial assessment criteria for lending by SOCBs, it could partially explain why the PBC has been unable to rein in the lending of SOCBs in sectors with excess production capacities (iron and steel, cement) during the last few years.

Conclusions

Partly due to the reforms implemented by the CBRC, the official assessment criteria for lending implemented by SOCBs in China is similar to that of their counterparts in the West. Credit scores and '5Cs' have been the norm in SOCBs since 2003, with special emphasis on the capacity for loan repayment and the centralization of decision making power for granting large loans to banks' headquarters in Beijing.

60. M. Dickie, 'Bank vows scandal will not hinder IPO', *Financial Times*, (19 May 2005), p. 28 (italics added). Should the credit managers and presidents be resilient for political lobbying, nonetheless, it is still possible for SOCBs to withstand the pressure from the government and refuse the loan application from major SOEs. As proclaimed by an experienced president at a 'Big Four' in Shanghai, 'the major difference between now and then is that we have a bottom line—we can say "NO" to the government for the loans if we are sure it is a money-losing project and thus unable to generate enough cash for repayment. The government will not force us to lend to such companies'. Field survey, interviewee 5, November 2004.

61. J. Anderlini, 'Risks rising in China banking system: regulators call for tighter lending curbs as new bank loans top 1.8 trillion yuan', *South China Morning Post*, (16 June 2006).

62. The commercial banks' NPL figures have included the 'Big Four', joint stock commercial banks, rural credit co-operatives, and 3.1 billion *yuan* of NPL incurred by foreign-owned commercial banks. CBRC, 'NPLs of commercial banks as of end-March 2007', (16 May 2007), available at: <http://www.cbrc.gov.cn/english/info/statistics/index.jsp>. ABC is the second largest bank by assets in China but with the NPL ratio of more than 23% at the end of 2006. ABC, *ABC Annual Report 2006 (2007)*, p. 2, available at: <http://www.abchina.com>. Together with the rural credit co-operatives, they are the most inefficient banking operators which incurred a typical double-digit NPL ratio in China.

63. OECD, *OECD Economic Surveys: China*, p. 143.

64. *Ibid.*, p. 148; BOC, *BOC 2006 Annual Report*, (2007), p. 68; ICBC, *ICBC 2006 Annual Report*, (2007), p. 78; CBC, *CBC 2006 Annual Report*, (2007), p. 34. Figures on 'special mention' loans are not published in the annual reports of CBRC and ABC.

Moreover, credit officers have to take responsibility for the NPLs incurred during their time in office. This is remarkably different from the Chinese banking system in the late 1990s, when the assessment criteria for lending were unsystematic at best, and the moral hazard of credit officers (with the mentality of ‘the government will bail us out’ and the ideology of soft-budget constraints) was common. All these efforts by the CBRC should be commended.

Based on the empirical information collected in four major Chinese financial cities, it is argued that the decisions to grant loans by SOCBs are determined by official as well as unofficial assessment criteria. It is further argued that the unofficial criteria for lending do not necessarily represent or indicate any lending bias by SOCBs in China. Their reluctance to lend to non-SOEs and SMEs is actually a rational decision, partly due to the higher risk of default and partly due to the under-developed credit market in China. However, the existence of unofficial criteria for lending provides golden rent-seeking opportunities for unscrupulous bankers. By dividing loans into several smaller ones, it is possible to by-pass the monitoring mechanisms established by SOCB headquarters and the CBRC and exploit the regulatory loopholes for financial gain. This is the case for SOCBs in the more advanced stages of reform, such as CBC and BOC among the ‘Big Four’, and share-holding banks, i.e. the extent of by-passing the official lending criteria by other SOCBs might be even more serious. However, the existence of unofficial criteria for lending could reduce the effectiveness of the CBRC’s monitoring mechanisms. Although it is unable to completely disentangle the intricate unofficial criteria for lending, the conventional relationship–transaction lending dichotomy is able to help explain the lender–borrower relationship in China.

The possible reasons for the existence of unofficial loan assessment criteria in SOCBs deserve further investigation. For instance, why does the CBRC not request that all SOCBs insist on loan applicants submitting the same taxation documents submitted to the Tax Bureau as evidence of the firm’s earnings, before granting them loans? Doing so could increase the transaction costs of granting commercially unviable loans tremendously and thus the NPLs of SOCBs would be reduced. It is unlikely that this practice is unknown to the CBRC or other senior managerial staff at SOCBs, given the transparency of other systems in Hong Kong and elsewhere. When pressed for a response to such a suggestion, a senior member of staff in the Beijing headquarters of one of the ‘Big Four’ responded unconvincingly: ‘This is not common practice for banks in China, . . . newly established firms or joint ventures do not have these documents, . . .’.⁶⁵ One can speculate that all possible reasons, including that the CBRC deliberately does not adopt such a practice so that they do not cut off the capital supply to non-profit-making SOEs due to political considerations, certainly demands further research.

65. Field survey, interviewee 8, December 2004.

Appendix: profile of the field surveys

The first round of the field survey was conducted between November and December 2004, and incorporated interviews with experienced bankers at the ‘Big Four’, a major joint-stock commercial bank, one overseas subsidiary of a SOCB in Hong Kong, Shanghai, Beijing, Guangzhou (Table A1). Interviews were also conducted with government officials and experienced entrepreneurs in Guangzhou and Shanghai to have a broader understanding of how lending decisions were made (the profile of these interviews is not listed here to save space). In March and April 2005, multiple interviews were conducted to clarify specific aspects of the unofficial lending criteria from an informed banker with extensive work experience and who is extremely familiar with the operations of the ‘Big Four’. In December 2006, interviews with experienced bankers at three major joint-stock commercial banks were conducted to further clarify specific aspects of the official and unofficial lending criteria in the banking system.

Table A1. The basic background information to the field study

Date	Interviewees	Interviewees' codes & places of interviews
November 2004	Assistant President and Manager of the Credit Department at a major joint-stock commercial bank (I)	1 in Shanghai
November 2004	Account Manager and his assistant at a 'Big Four' (A)	2, 3 in Shanghai
November 2004	Head of Sales, Mortgages, Consumer Banking at a major UK-based bank	4 in Shanghai
November 2004	President and CCP Secretary at another 'Big Four' (B)	5 in Shanghai
November 2004	Former credit officer of an overseas subsidiary of a SOCB	6 in Hong Kong
December 2004	Assistant President and Manager of the Credit Department at the 'Big Four' (B)	7 in Guangzhou
December 2004	Senior Researcher at the headquarters of the 'Big Four' (A)	8 in Beijing
December 2004	Manager of the Risk Control Department at the 'Big Four' (B)	9 in Beijing
December 2004	President and Credit Department Managers of a savings co-operative	10–12 in Beijing
March and April 2005	Assistant President and Manager of the Credit Department the 'Big Four' (B)	7 in Guangzhou
December 2006	Branch Manager of a major joint-stock commercial bank (II)	13 in Shanghai
December 2006	Deputy Managers of the Audit Department and Credit Assessment Centre of another major joint-stock commercial bank (III)	14 and 15 in Shanghai
December 2006	Branch Deputy Manager of a joint-stock commercial bank (IV)	16 in Shanghai
December 2006	Vice-President of the Consumer Mortgage Department of a major US-based bank	17 in Shanghai
December 2006	Manager of the Mortgage Department of a major UK-based bank	18 in Shanghai

Notes: (i) A and B represent two of the 'Big Four'.

(ii) I, II, III & IV represent four different joint-stock commercial banks.

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