

2 The Development of Asset Management in China

2.1 Background to China's AMC Market

China is the world's second largest market for bad loans after Japan. According to conservative estimates, by 1999 at least one-third of the country's large and medium-sized SOEs were making losses. And many were actually in a better financial position than they had been earlier that decade, thanks to robust consumer demand and falling manufacturing costs.

Nevertheless, SOEs still face a serious shortage of funds for current liabilities and investment in technical upgrading. Apart from closing companies without a commercial future, there is still a need for financial and organisational restructuring, both for the SOEs and the financial institutions that have been supporting them.

In 1999, the Big Four began to impose minimal criteria before extending credit – and not surprisingly, have been rewarded with increased profits since 2000.

While this certainly marks an improvement on their historical track records, the Big Four are – at least by international financial standards – technically insolvent. By Chinese definitions, however, an NPL is a loan which has not been serviced for over a year – compared with the international standard of six months. About 20% of all outstanding loans in China are officially considered non-performing – the vast majority of them owed by large SOEs.

The asset management business in China is plagued by these differences in standards and definitions. By western standards, most of the assets of which China's AMCs are seeking to dispose would be termed "bad loans". However, China prefers to label these bad loans as 'improperly disposed assets'.

Table 2.1 TOTAL LOANS OUTSTANDING IN CHINA, 2000-2003

	RMB bn	% of GDP
2000	9,937	112.6
2001	11,232	119.0
2002	13,129	128.2
2003	15,899	136.3

Source: Access Asia, PBoC, NBS

Inadequate capital and heavy NPL burdens have been compounded by organisational weaknesses at the Big Four. These shortcomings