PRESS RELEASE

Response to the temporary suspension of China's cyber security guidelines for its banking industry

BRUSSELS (April 17th 2015) - DIGITALEUROPE welcomes China's decision to temporarily suspend a set of controversial cybersecurity rules restricting banks in China from using foreign technology.

"This is an encouraging step," said John Higgins, Director General of DIGITALEUROPE.

"We believe that financial institutions in China and elsewhere should be able to select those technologies which best address their needs regardless of their origin," he added.

The technology industry would welcome the opportunity to work with the Chinese authorities to help them improve cyber security around critical infrastructures including their banking industry.

"Banks in China should have the same wide choice of technologies - including cyber security systems - that banks in the rest of the world have," Mr Higgins said.

Background

The Chinese Government released in September 2014 the "Guiding Opinions on the Application of Secure and Controllable Information Technology to Strengthen Banking Industry Network Security and Informatisation", a regulation that would exclude foreign IT companies from most of the Chinese banking IT market, which is estimated to be worth €18 billion by 2017.

To implement the above regulation, in December 2014 the Chinese Government further released the Promotion Guidelines for the Application of Secure and Controllable Information Technology in the Banking Industry (2014-2015), which defines different "secure and controllable" requirements for various ICT products and services. All implementing requirements have not, however, been published or shared with foreign ICT providers which in itself may be a breach of WTO rules. The guidelines came into force on April 1st 2015.

While in principle these measures are intended to enhance cyber security, in practice they will not only undermine the ability of European companies to participate in the IT market in China, it will also hurt the development and integration of Chinese banking sector in the global market, and would deny Chinese banks access to the same choice of technologies – including cyber security systems - enjoyed by banks from other countries.

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In order to qualify as “secure and controllable,” ICT products and services must – among other requirements – undergo intrusive security testing, make use of indigenous Chinese intellectual property (IP) (e.g local encryption algorithms), and comply with country- specific (Chinese) security standards. Foreign technology vendors should also file source code and other sensitive and proprietary information with the Chinese government. Furthermore, products must be engineered to restrict the flow of cross-border data. The implementing measures for these policies indicate also that to continue operating in China, vendors must have R&D operations in China.

The potential impact not only on European IT companies, but also banks could be substantial. China is one of the world’s largest banking IT markets. According to IDC statistics, China’s retail banking revenues have grown 30% annually since 2009 and could exceed RMB 2.6 trillion (EUR 340 billion) by 2020, making the country the largest retail banking market in Asia. China’s banking IT market will be worth more than EUR18 billion by 2017. The European banks have very limited market access to the Chinese market and they expect the on-going EU-China Bilateral Investment Agreement (BIT) negotiations to open up the market for them. But, these new technical barriers will potentially be a strong disincentive to enter the Chinese market. These policies go in the opposite direction of the signals given by the Chinese leadership inviting financial services institutions to invest in China through the recently opened free trade zones. Moreover, it would be very costly and very challenging if not to say impossible, for the EU headquartered banks already present in China to comply with the implementation deadline envisaged by the guidelines.

Combined with China’s recent other actions to tighten content filters and limit Internet-based services, these new policies will create an even more unwelcoming digital trade and investment environment for foreign companies.

More generally the rise of such forced localization policies, notably in important sectors such as banking and ICT, mark a troubling shift in global trade and economic policies. Many governments appear to abandon their established trade obligations that have led to decades of economic growth and the improvement in the quality of life, liberalisation, openness, and economic integration in favour of discriminatory market access barriers.

Further, there are indications that the Chinese Government also intends to expand similar requirements to a broad array of sectors in the near future. These policies could severely impact R&D investment, growth and jobs of various companies in Europe that operate in China. If fully implemented throughout additional industry sectors, these policies would threaten the ability of European IT companies to participate in the overall ICT market worth EUR411 billion in China.

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ABOUT DIGITALEUROPE

DIGITALEUROPE represents the digital technology industry in Europe. Our members include some of the world's largest IT, telecoms and consumer electronics companies and national associations from every part of Europe. DIGITALEUROPE wants European businesses and citizens to benefit fully from digital technologies and for Europe to grow, attract and sustain the world's best digital technology companies.

DIGITALEUROPE ensures industry participation in the development and implementation of EU policies. DIGITALEUROPE's members include 58 corporate members and 37 national trade associations from across Europe. Our website provides further information on our recent news and activities: http://www.digitaleurope.org

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