

# **Financial Liberalization in China: The Contradiction Between Opening and Guaranteed Outcomes**

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In recent months, the Chinese leadership has trumpeted the opening of its financial sectors, including President Xi Jinping's expansive promise at the 2018 Bo'ao Forum. However, because the government continues to place a heavy priority on financial stability and the funding of key government objectives, developing liquid and transparent markets have taken a back seat. In fact, across the credit market, the bond market, and the stock market, financing debt roll-over in an orderly manner and minimizing volatility have led to an increasing degree of state intervention in these markets, rendering them increasingly illiquid and non-transparent. For investors interested either in attractive pricing or greater transparency, the Chinese financial market continues to hold less profitable potentials than other emerging market economies. Even with granting foreign institutions more licenses to operate in China, foreign participation in China's financial market will continue to stagnate.

At the 2018 Bo'ao Forum, Xi Jinping told an audience of global corporate and government leaders that "With hard work, I believe the competitiveness of the Chinese financial sector will increase notably."<sup>1</sup> Yet, an examination of the recent development of China's shadow credit, bond, and stock markets reveals that the party continued to prioritize guaranteed outcomes over allowing the market to make use of all available information to price financial assets at equilibrium levels. Because guaranteed outcomes of financial stability and low volatility in the prices of financial assets that require financial actors provide financing and not sell assets against self-interests, Chinese financial markets will continue to be unattractive to external investors, who are not incentivized by the internal political rewards provided by the party. In other words, whereas a competitive, efficient market requires the free flow of information, which sometimes translates into price volatility, the party has prioritized particular outcomes in the financial markets, even if that prevents information from flowing to investors. Knowing that, investors will continue to think twice before investing in the various financial markets in China.

In the shadow credit market, massive PBOC monetary injections prevented a financial crisis from developing, but trillions of RMB in problematic loans still sit on the balance sheets of both banks and non-bank financial institutions, constituting a potential time bomb. The treatment of distressed loans as un-problematic also prevented the discounting of these loans and their sales to private and foreign investors. In the bond market, the continual need to roll over a massive pool of local government debt meant that non-government corporations found it difficult to raise a meaningful amount of money in it. Because the bond market is widely recognized to be a much more efficient form of credit than loans, much of corporate China still had to go through the bloated and inefficient state banking system for financing. The dominance of state issuances

with low yields also means that Chinese bonds are not exceptionally attractive to major global bond investors. Finally, in the stock market, the fear of another crash and high state ownership of the largest listed companies have led to stagnant growth in margin financing and minimal shorting activities, thus making financial derivatives, typically a profitable segment of the financial industry, relatively unattractive to international investment banks.

### **Engineering a Smooth De-leveraging of Shadow Banking**

In Xi's 2018 Bo'ao speech he promised foreign banks, even those without Chinese joint-venture partners, greater access to China's banking market. However, the banking sector in contemporary China is plagued by an enormous pool of shadow distressed debt, which requires constant government intervention to stay afloat. This reality makes much of China's banking industry unattractive to foreign financial institutions and credit investors.

During the 2008–9 stimulus, Chinese banks lent well over 10 trillion RMB to local infrastructure projects. Because most of these projects generated few cash flows, borrowers soon found it difficult to service the interest and principal of their loans.<sup>2</sup> Instead of allowing market forces to inaugurate a wave of bankruptcies among local state-owned enterprises (SOEs) that borrowed heavily to build infrastructure, the Chinese government encouraged banks to roll over the debt of these SOEs.<sup>3</sup> In order to maintain the appearance of healthy balance sheets, banks were further allowed to move problematic infrastructure loans into off-balance-sheet vehicles, such as trusts, wealth management products, and investment funds.<sup>4</sup> This practice continued for new loans in subsequent years because additional financing was necessary to produce growth and to roll over an enlarging debt pile.<sup>5</sup> Thus, one can see in Figure 1 that outstanding trust assets reached a high of 25 trillion RMB, while outstanding shadow credit held by investment funds reached a high of close to 20 trillion RMB.<sup>6</sup>

After consolidating power, in late 2015 Xi Jinping called for deleveraging in order to prevent or delay a potential financial crisis in China.<sup>7</sup> By 2017, regulators had enacted new financial regulations that made it more difficult for banks to off-load their loans into off-balance-sheet vehicles, such as trust products and asset management plans.<sup>8</sup> In January 2018, Vice Premier Liu He announced at the annual Davos meeting that China would “deleverage to an appropriate level.”<sup>9</sup> Meanwhile, the China Banking Regulatory Commission (CBRC) announced a series of draconian timetables for banks to unwind much of the off-balance-sheet assets or to provision for them.<sup>10</sup> In other words, banks were forced to re-acquire problematic assets that they had earlier abandoned, thus damaging the creditworthiness of their balance sheets and increasing their provisioning costs. For foreign banks based in advanced economies, this would have been an unimaginable infringement of their operations. Yet in China, this was seen as a policy victory because it successfully shrank the size of trust and funds' assets invested in shadow credit (see Figure 1).

The CBRC regulations in 2018 were bold, demanding that trust companies and fund managers freeze the aggregate size of credit they held and to gradually shrink it. Banks that had off-loaded these assets on trusts or investment funds were asked to re-absorb them or to roll them over into

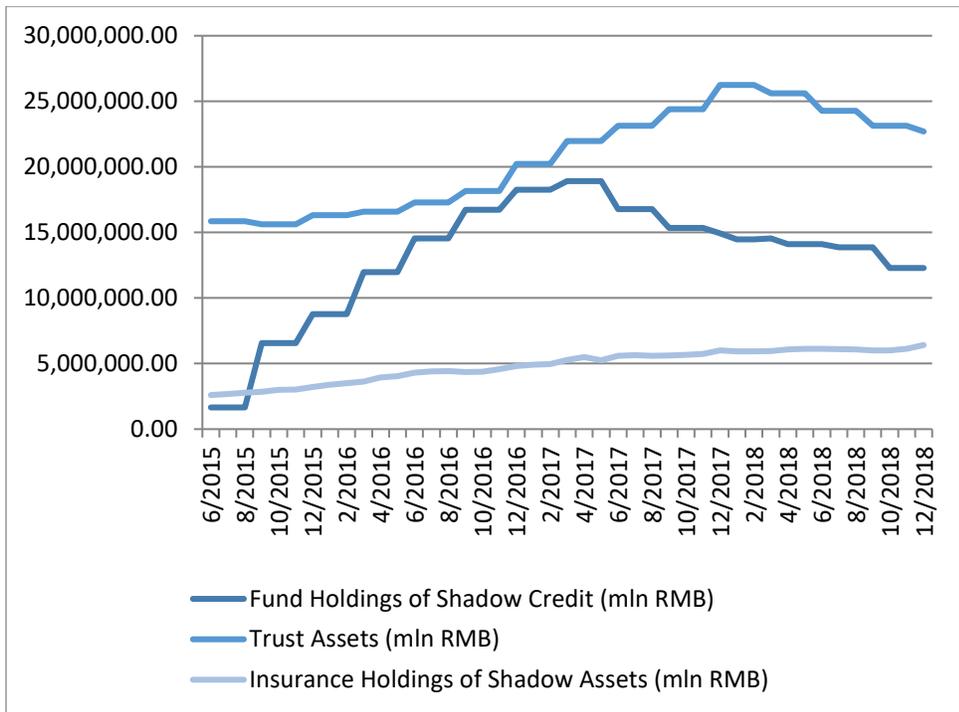
more transparent off-balance-sheet vehicles. A sudden surge in regulations, especially those that shrank liquidity, tended to cause a wave of panic selling of assets because the ex ante financial system grossly underprovided information on the quality of assets.<sup>11</sup> Some investors, not certain whether the withdrawal of liquidity due to the new regulations would cause a massive depreciation of various types of assets, would sell their holdings in order to protect their net worth, which would in turn trigger a systemic sell-off. Yet, in a time of panic, another breed of investors, who specialized in distressed assets, would have stepped in to start buying steeply discounted credit. Eventually, new equilibrium prices based on information about the creditworthiness of various debtors, would have emerged and stabilized. Yet, massive interventions by the People's Bank of China (PBOC) did not allow this process to take place.

Why not? First of all, the CBRC regulations provided a generous timetable for the unwinding of off-balance-sheet assets that ranged into years.<sup>12</sup> Because the central leadership time and again emphasized that financial regulators must “hold the bottom line” of financial stability,<sup>13</sup> banks bet correctly that the new regulations would not introduce too much change from the status quo.

Furthermore, to avoid a panic, the financial regulators and the central bank most likely coordinated to flood the interbank market with liquidity so that banks, trust companies, and asset managers had plenty of cheap capital with which to restructure shadow credit, while slowly complying with the new regulations. Thus, through the course of 2018, shadow banking assets housed in insurance, trust products, and funds were reduced from 47 trillion RMB to a little over 41 trillion RMB (see Figure 1). In Figure 1, based on CEIC data I decompose shadow banking assets into trust assets, shadow assets held by funds, and shadow assets held by insurance companies.<sup>14</sup> Based on that decomposition, the bulk of the deleveraging took place in the fund industry, which in recent years has become a storehouse for credit assets. One should note that the fund industry began to shrink its shadow assets in 2017. However, trust companies began to take on more shadow assets, until in late 2017 when they also began to shrink their shadow assets. Meanwhile, insurance companies continued to grow their shadow assets without interruption through 2018. A 6 trillion RMB reduction in shadow credit, however, hardly represented true de-leveraging in China, where total credit amounted to well over 100 trillion RMB by 2018 and where total credit was still rising substantially in 2018.

The different patterns of shadow credit growth in the three industries suggest that the reduction of shadow assets was not the product of an across-the-board selling of shadow banking assets. Instead, it likely was the product of a relative orderly transfer of the underlying assets held by funds and trust companies back to banks, or via the conversion of some of these assets into bonds and loans. This orderly process, however, meant that many distressed loans were still not properly priced and still sat on the balance sheets of major state banks and entities affiliated with these banks.

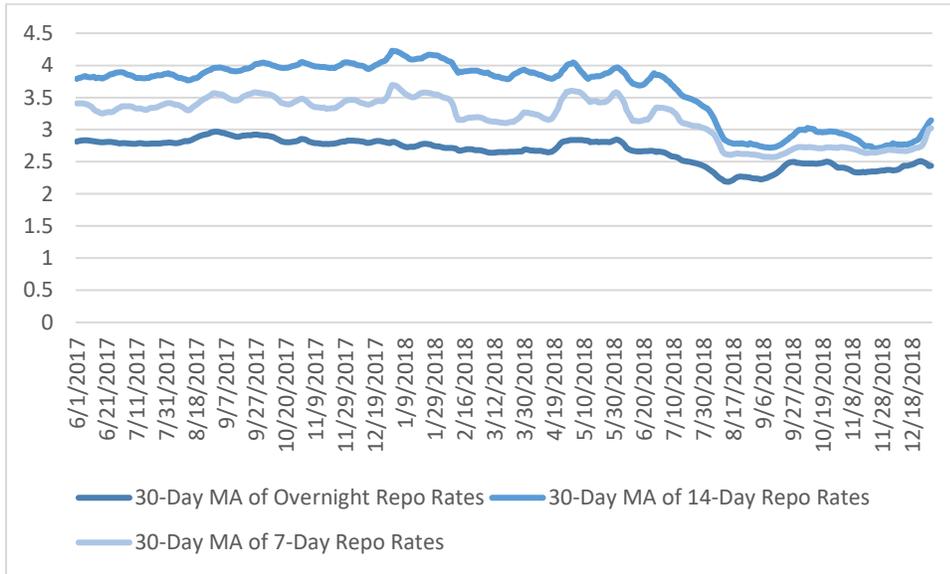
**Figure 1: Insurance and Fund Holdings of Shadow Assets and Trust Assets (mln RMB)**



Source: Author’s calculations based on CEIC data.

Furthermore, in a typical market-driven deleveraging episode, the supply of capital becomes scarce, forcing asset holders to cut prices to obtain liquidity. Thus, a market-driven deleveraging episode is almost always accompanied by a sudden increase in the price of short-term funds. Yet, as Figure 2 shows, interbank repo rates, the benchmark interest rates for borrowing between financial institutions, remained relatively calm throughout the second half of 2017 and throughout all of 2018. Only extensive central bank injections of liquidity and guidance could have guaranteed this degree of calmness in the midst of deleveraging.

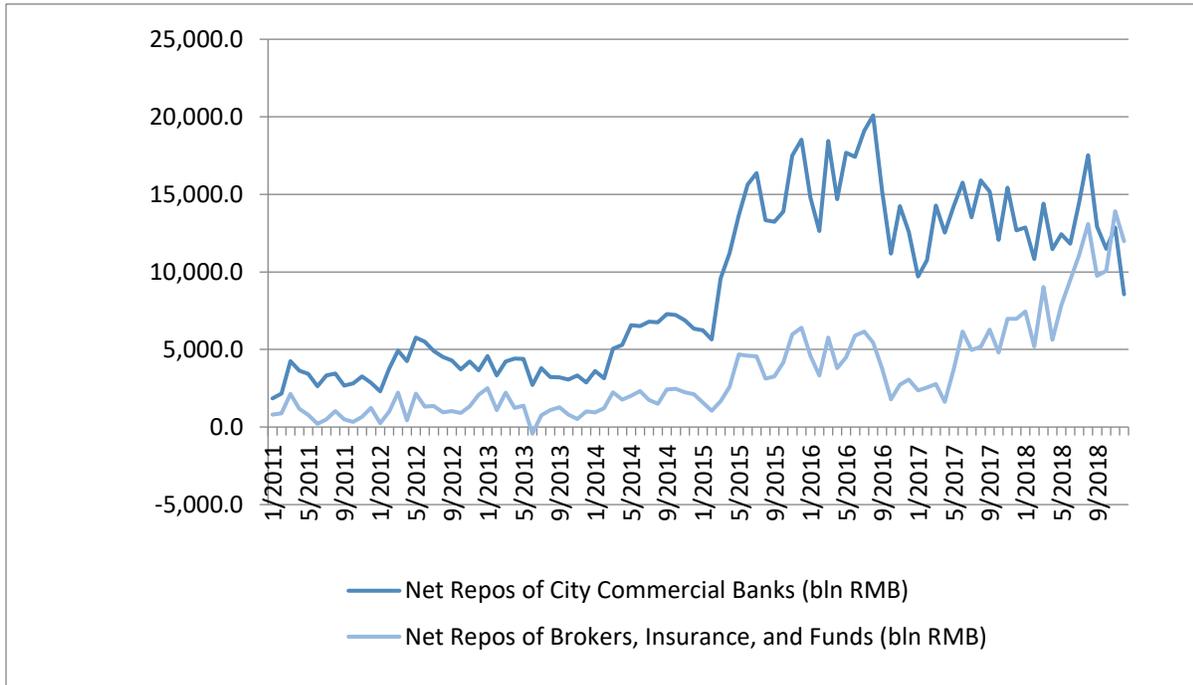
**Figure 2: 30-Day Moving Average of Overnight, 7-Day, and 14-Day Repo Rates: June 2017–December 2018**



Source: CEIC.

Figure 3 clearly shows this logic. Instead of having their liquidity yanked from them during the “deleveraging” period after mid-2017, fund, insurance, and trust companies were able to increase their interbank borrowing by a net of close to 10 trillion RMB (1.5 trillion USD) through bond repos. Much of the lending was provided by the banks, which obtained new liquidity because PBOC cut the reserve requirement ratio (RRR) multiple times throughout the course of 2018. For major banks, their de facto RRR fell from 15 percent to just over 12 percent over the course of 2018, thus releasing trillions of RMB in liquidity. This allowed banks to use their balance sheets to take on off-balance-sheet assets as well as to lend to trust companies and asset managers as they restructured their books in compliance with the new regulations.

**Figure 3: Net Borrowing (Repos) of City Commercial Banks and Brokers, Insurance, and Funds (bln RMB)**



Source: CEIC.

The “deleveraging” of 2018 has given China bulls another example of the invincibility of the Chinese technocrats—the government could accomplish outcomes that the market by itself often failed to deliver. To be sure, shrinking off-balance-sheet assets, announcing tough financial regulations, and maintaining nearly complete calm in the market were three incompatible outcomes, but the financial regulators and the central bank made them occur simultaneously. The formation of the State Council Financial Development and Stability Commission, headed by Vice Premier and Xi Jinping—confidante Liu He, might have made this coordination easier. Also, the PBOC seemed to have taken the helm during this deleveraging process. This stands to reason as the PBOC is the only organ capable of pumping trillions of RMB in liquidity into the system on short notice in order to avoid panic in the market.

But does better coordination by the PBOC mean better outcomes for China’s financial sector? It depends. For stability maintenance, the PBOC’s readiness to pump liquidity certainly has helped. However, if the goal is to nurture a financial sector that can increasingly anticipate market swings and hedge against them, the massive exercise in central planning will likely have the opposite effect. That is, regardless of economic conditions and financial regulations, investors and bankers in China will continue to expect bailouts from the PBOC printing press, thus conditioning them to pay little attention to credit risks and market conditions. Where central bank policies create space for non-bank financial institutions to profit from arbitrage, they will do so on a massive scale very quickly regardless of the potential risks. As Figure 1 shows,

investment funds' holdings of shadow credit went up from close to zero to over 15 trillion RMB within the space of less than two years. That is the kind of inflation that only a busy central bank printing press can produce.

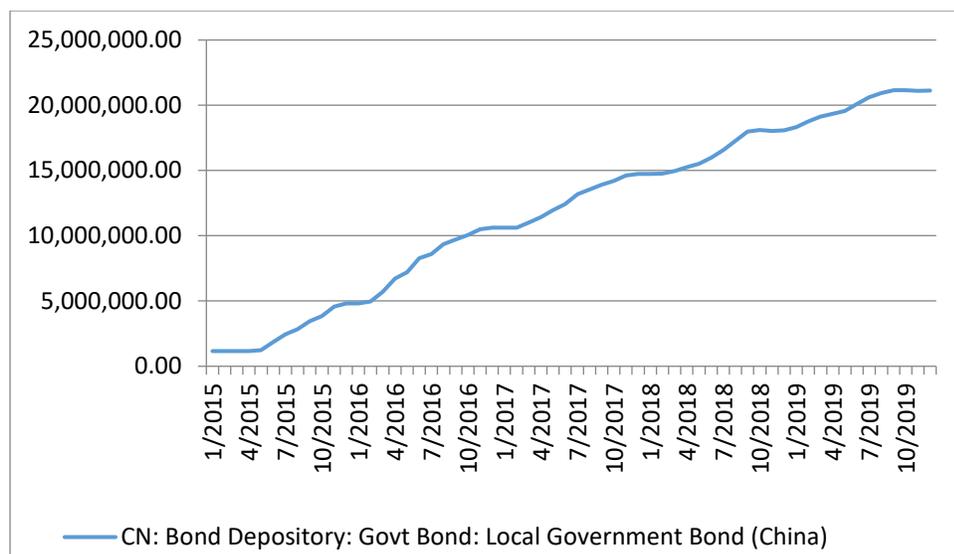
Furthermore, for foreign investors, massive central bank interventions and coordination do not bode well for their success. In essence, Chinese banks could continue to lend recklessly and they would be bailed out. In the meantime, foreign banks that try to follow prudential lending practices may not obtain the largest customers, who are the state-owned conglomerates with dubious balance sheets. Meanwhile, foreign investors who may want to invest in distressed loans in China will have limited scope for expansion due to the artificial ever-greening of the distressed loans, which prevents them from being priced according to their underlying creditworthiness.

### **Policy Crowding Out in the Bond Market**

A similar phenomenon has plagued China's bond market. After Xi's 2018 Bo'ao speech promising an opening of China's financial sector, the PBOC and other regulatory agencies issued a flurry of new regulations allowing greater foreign participation in China's bond market. For the first time, foreign companies had a path to issue bonds in China's enormous interbank bond market.<sup>15</sup> The PBOC also provided regulations which allowed foreign banks to underwrite bond issuances and for foreign credit-rating agencies to issue officially sanctioned credit-rating reports.<sup>16</sup> Similar to the shadow credit market, the massive government interventions in recent years will likely make much of China's bond market unattractive to foreign investors. For one, central government–mandated local government bonds have crowded out high-yield corporate issuers and have stifled an increase in turnover ratios. The relatively uniform yields of bonds in China and the lower liquidity make the Chinese bond market, although enormous at 14 trillion USD, less attractive to foreign investors compared with the bond markets in other developing countries.

Again, the “original sin” in the bond market was the 2008–9 stimulus, which created thousands of heavily indebted local government financing vehicles (LGFVs) and SOEs. In late 2014, the central government instituted a system to replace a part of local government debt with municipal bonds guaranteed by the central government.<sup>17</sup> The main aim of this exercise was to lower interest payments for indebted local authorities, thus alleviating fiscal pressures. As Figure 4 reveals, this program was considered a success, in that local debt skyrocketed from nearly zero at the beginning of 2015 to over 20 trillion RMB at the end of 2019 (Figure 4).

**Figure 4: Official Local Government Debt Outstanding (millions of RMB)**

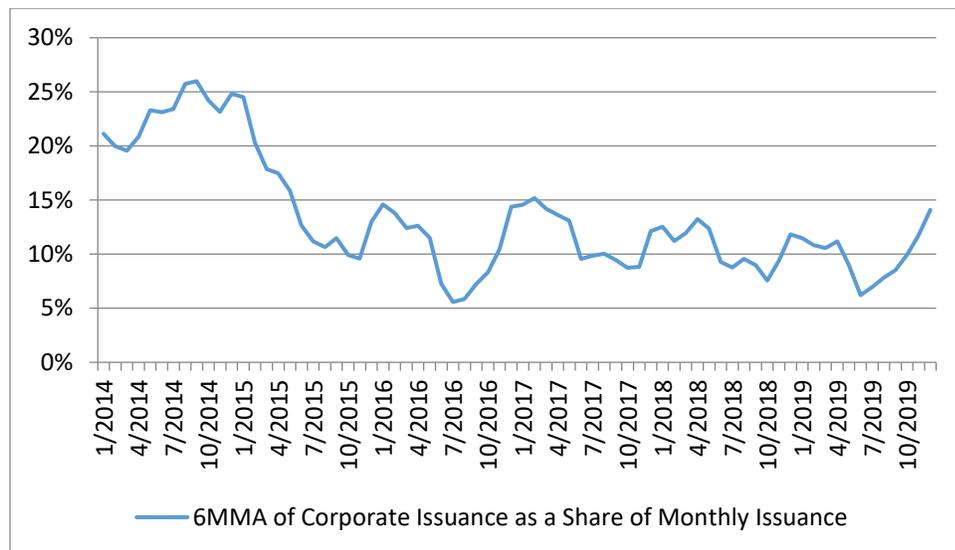


Source: CEIC.

Although this massive exercise of bond issuances alleviated local fiscal pressures, banks, which by far were the largest buyers of bonds in China, were obligated by the central government to buy newly issued municipal bonds.<sup>18</sup> This left significantly less room on their balance sheets to acquire bonds issued by corporate issuers. On top of local government issuances, the central government also flooded the market with central government treasury bills and bonds issued by policy banks and major state-owned commercial banks. Because all of these issuances came with central government backing, the yield spread between these securities was minimal. Meanwhile, corporate issuances, in which credit quality and yields varied, were increasingly constrained by the constant flood of government-related issuances.

As Figure 5 reveals, whereas corporate issuances were around 25 percent of gross monthly bond issuances prior to 2015, this ratio dropped significantly to between 5 and 15 percent after 2015, demonstrating a clear crowding out from the increase in municipal issuances. To be sure, an average of 10 percent still represented hundreds of billions in new corporate notes every year, but the bulk of corporate bond issuers was made up of SOEs, which meant their bonds had yields that were similar to central government yields. Thus, for international investors, the dominance of relatively low-yielding government notes did not make the Chinese bond market very attractive. Given the persistence of the local debt problem, the dominance of central and local government-related bond issuances will not abate in the foreseeable future.

**Figure 5: Corporate Issuances as a Share of Monthly Issuances**

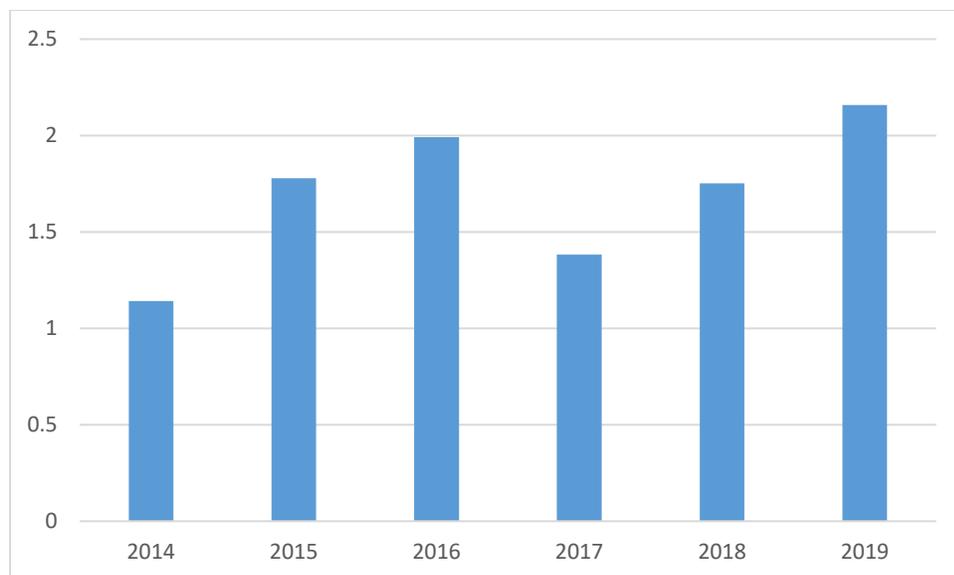


Source: CEIC.

The flipside of the coin to dominance by state issuers is dominance by state-affiliated investors, who tended to hold on to their purchases. This tendency lowered the liquidity of the market and delayed accurate pricing of assets.<sup>19</sup> In more intuitive terms, if the vast majority of bonds are held by state-owned banks, they will not sell these bonds even if the underlying risks have increased. For non-state investors familiar with the implications of state interventions, the artificially induced stability of prices may deter them from buying these securities, which they otherwise would have purchased with similar price actions.

Figure 6 displays a commonly used metric for market liquidity—the annual turnover to the market capitalization ratio. For the U.S. treasury market, for example, such a ratio is consistently around 10, meaning that the annual turnover of US treasuries has been roughly ten times greater than the total amount of treasuries outstanding at the end of the year. In Figure 6 one can see that despite a spectacular increase in total bonds outstanding, from 30 trillion RMB at the end of 2014 to close to 100 trillion RMB at the end of 2019, the turnover ratio has struggled to surpass 2. Given such a large bond market, such a low level of turnover is highly unusual and suggests massive state intervention. Again, knowing that arbitrary state intervention can affect bond prices, investors without inside knowledge of Chinese government interventions would think twice before investing large sums in the Chinese bond market.

**Figure 6: Turnover Ratios of Chinese Bonds**



Source: CEIC.

### **Heavy Intervention in the Stock Market**

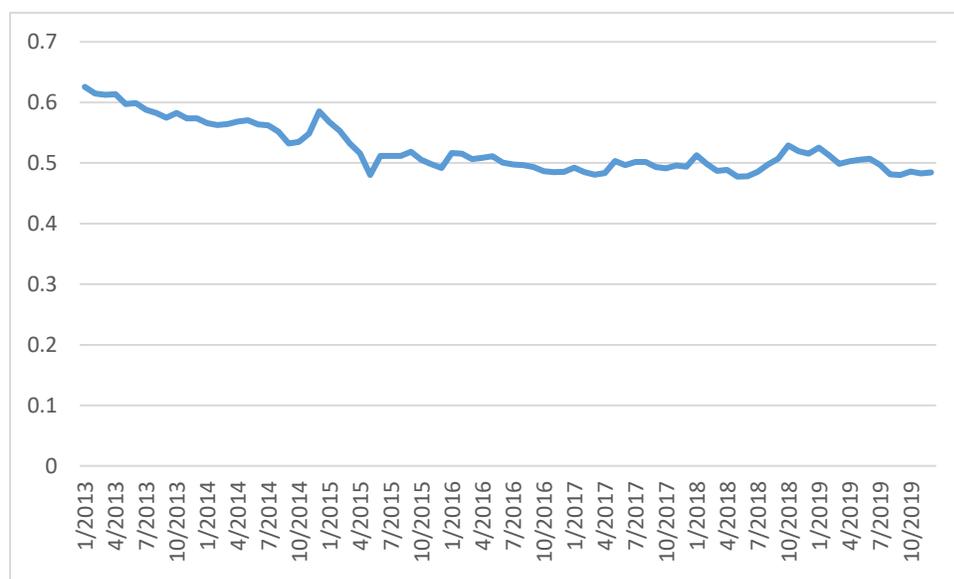
Finally, foreign investors have the most potential of profiting from China's equity market because of much deeper experience and expertise in hedging strategies. Yet, China's equity market faced problems similar to those in the bond market. The dominance of state-owned stock issuers meant that any degree of volatility in the stock market soon triggered massive state intervention, which increased the share of state ownership of stocks and decreased market liquidity. Meanwhile, low stock liquidity and heavy regulation rendered many hedging strategies, such as stock borrowing, infeasible on a large scale, thus limiting the growth potential in this profitable market segment.

The stock market in China was established in the early 1990s as a way to raise additional financing for the struggling state-owned conglomerates.<sup>20</sup> As such, upon the establishment of the Shanghai Stock Exchange (SSE), all of China's listed companies had been subsidiaries of major state-owned enterprises. Although hundreds of private companies have joined the market since then, in terms of market capitalization the bulk of the SSE is still dominated by SOEs. In Figure 7, I calculate the share of SSE market capitalization made up of state-dominated industries, including finance, agriculture, transportation, mining, and utilities. As one can see, that ratio has declined in the past few years due to the advent of the real estate and IT sectors, but it has remained around 50 percent. If one includes SOEs in sectors not dominated by the state,

such as real estate and industrial production, that ratio would be much higher, at 70–80 percent of market capitalization.

Although shares in China were traded generally actively, the high proportion of shares still controlled by state-owned entities, and their willingness to intervene on behalf of the government, meant that share prices did not reflect the fundamental value of these companies. China Construction Bank, one of China’s largest banks, is over 60 percent owned by entities directly controlled by the central government, such as the central Huijin Company.<sup>21</sup> Even among the “private” shareholders, mutual funds operated by state-owned entities, such as the Everbright Group, owned an additional 20–30 percent of the bank as of January 2020.<sup>22</sup> During the market selloff in 2015, the Chinese Communist Party issued orders to all state-owned entities to stop selling shares of SOEs and even ordered them to start buying against market selling.<sup>23</sup> Although this limited the extent of the crisis in 2015, such wide-ranging intervention fundamentally diminished the role of price signals in revealing to investors the value of companies. Such distortions persisted over time because once state entities, such as Huijin or China Securities Finance Corporation (CSFC), purchased large blocs of shares, they could not sell substantial positions without reducing the market value of the large SOEs. Thus, they became permanent owners of large blocs of SOE shares. Over time, the escalation of state ownership through multiple actual or potential crises distorted the price signals in the market even more.

**Figure 7: Share of State-Dominated Sectors in Shanghai Stock Exchange Market Capitalization**



Source: CEIC.

Not surprisingly, against this backdrop, the financial derivatives market in China has struggled with uneven growth since the State Council first approved stock margining (long shares) and share borrowing (short shares). First, given that investors all knew that the government would intervene to stabilize a falling market, investors had every incentive to go long on shares, even to

the point of borrowing massively in order to finance stock purchases. When the State Council relaxed regulations on the collateral that investors had to put forth to borrow money for share purchases, it triggered a rapid run-up in investor borrowing to finance share purchases, which grew from 500 billion RMB in mid-2014 to close to 2.5 trillion RMB in June 2015 (Figure 8). This triggered a spectacular run-up in equity prices, but when regulators realized the enormous risks that had built up, they devised new regulations to limit the extent of margining. The new regulations, of course, triggered panic selling that caused a market crash in mid-2015.<sup>24</sup>

Even after the crash, the moral hazard inherent in China's stock market continued to encourage investors, especially major shareholders of listed companies, to borrow against their holdings. The China Securities Regulatory Commission (CSRC) revised regulations several times to limit the extent of margining by investors, such as limiting the maturities of margining contracts and limiting the ratio of listed shares that could be pledged as collateral.<sup>25</sup> As seen in Figure 8, margining outstanding has stabilized at around 1 trillion RMB, which means the market also has not grown at all since 2015. This regulatory outcome will make margining an unattractive area for foreign investment banks.

The picture for shorting, or share borrowing, is even grimmer. The regulators had an inherent distrust of shorting and thus enacted rounds of strict regulations limiting it, such as preventing mutual funds from lending shares for profit.<sup>26</sup> Moreover, shareholders of major listed companies, which were themselves state-owned entities, tended to be conservative and did not lend shares to short investors for fear of being blamed in case of a market correction. Finally, short investors also hesitated to short a stock for fear of government intervention that lifted the share prices of even a company with a distressed balance sheet. Alternatively, the government may intervene to abrogate the share-borrowing agreements themselves, which would result in heavy losses for the short investor.

Because of these factors, to the extent that there is shorting in China the total value of shorted shares outstanding has only grown from 4 billion RMB in 2017 to a high of 14 billion RMB at the end of 2019. This made margin financing 71 times larger than shorting in terms of the market value of the shares involved in these two types of transactions. Moreover, after the Lunar New Year in 2020, a rumored Chinese government order cancelled thousands of share-borrowing agreements, leading to the collapse of short interest from 14 billion RMB to 8 billion RMB (Figure 9). Government intervention once again made shorting shares in China a losing proposition. Clearly, foreign investors witnessed these episodes of government interventions and realized the difficulties of profiting from financial derivatives in China.

### **Still a Heavily Distorted Market**

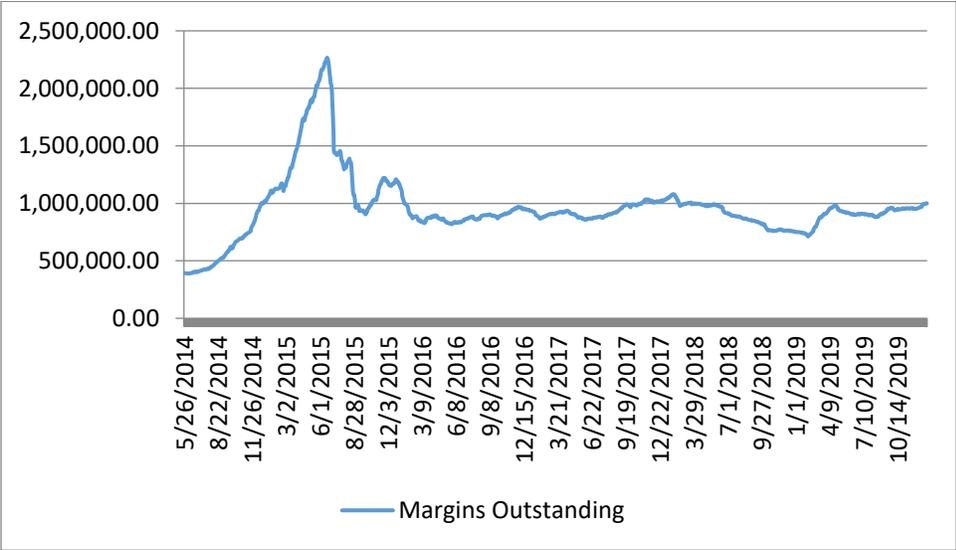
To be sure, the size of China's financial markets remains an important lure for foreign investors. The loan market, including shadow credit, may be as large as 28 trillion dollars, while the bond market is 14 trillion dollars, and the equity market is 5.7 trillion dollars. These are enormous markets that provide substantial market potential for foreign financial institutions. Yet, years of state intervention have heavily distorted asset prices in all three markets. Part of the reason that financial assets have grown so much is that true financial risks and volatility were never

introduced to the market. This means many risky assets remain hidden on the balance sheets of Chinese banks and financial institutions, and the recent modest reduction in shadow credit has barely put a dent in the financial bubble.

Heavy interventions by the government to ensure stability have encouraged greater risk-taking behavior by Chinese investors, especially in the credit market. The “one-way bet” mentality has encouraged the growth of credit, much of it problematic, thus exacerbating the financial bubble in China. Government interventions to realize “guaranteed outcomes” in these markets also have stunted the growth of hedging instruments, where financial institutions in market economies have earned substantial profits. Without proper price discovery, investors without special access to the Chinese government can hardly use conventional models to estimate the risks of financial investments. Over time, these two tendencies actually move China farther and farther away from having well-functioning financial markets.

Thus, foreign investors will either try to obtain connections to the political elite to profit from these connections or will not join the fray of China’s financial market. Even with such connections, Chinese government interventions during the times of crisis often force losses on financial investors without recourse. The decree forbidding large shareholders of listed companies from selling is a perfect case in point.<sup>27</sup> Chinese investors, especially those in state-owned conglomerates, can at least be rewarded politically with promotions within the party if they carry out the party’s decree against their financial interests. However, for foreign portfolio investors, most of whom have a duty to maximize profits for investors, investing in China may clash against their fiduciary duties. Thus, official rhetoric aside, the realities of China’s financial market will limit foreign participation for some time to come.

**Figure 8: Margins Outstanding in Both the Shanghai Stock Exchange and the Shenzhen Stock Exchange (mln RMB)**



Source: CEIC.

**Figure 9: Market Value of Outstanding Shorted Shares (mln RMB)**



Source: CEIC.



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Notes

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- <sup>1</sup> Jinping Xi, "Kaifang Gongchuang Fanrong, Chuangxin Yindao Weilai: Zai Bo'ao Yazhou Luntan 2018 Nianhui Kaimushishang De Zhuzhi Yanjiang" (Open Up and Create Prosperity Together, Innovate and Inaugurate the Future: Keynote Speech at the Opening Ceremony of the 2018 Bo'ao Asia Forum), in *Xi Jinping Baodao Zhuanji* (Special Series of Reports by Xi Jinping) (Beijing: Xinhua, 2018).
- <sup>2</sup> Victor Shih, "Local Government Debt: Big Rock Candy Mountai," *China Economic Quarterly* 14, no. 2 (June 2010): 26–32.
- <sup>3</sup> Ibid.
- <sup>4</sup> Chong'en Bai, Chang-tai Hsieh, and Zheng Song, "The Long Shadow of a Fiscal Expansion," *Brookings Papers on Economic Activity* (Washington, DC: Brookings Institution, 2016).
- <sup>5</sup> Richard Dobbs et al., "Debt and (Not Much) Deleveraging," ed. McKinsey Global Institute (New York, NY: McKinsey & Company, 2015).
- <sup>6</sup> Author's calculations based on Euromoney Institutional Investor PLC, "CEIC China Premium Data," *Euromoney*, 2018.
- <sup>7</sup> Haixia Li et al., "Shu Buneng Zhangdao Tianshang, Gao Ganggan Buneng Renxing Shengzhang" (Trees Cannot Grow into the Sky, High Leverage Cannot Be Allowed to Grow without Constraints), *People's Daily Online*, August 4, 2016. <http://money.people.com.cn/n1/2016/0804/c42877-28610930.html>.
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- <sup>9</sup> Haiping Xie, "Liu He: Wenbu Qu Ganggan Shi Woguo Fangkong Jinrong Gongjianzhan De Zhongzhong Zhizhong" (Liu He: Steady Deleveraging Is the Most Important Thing in Our Defense of Financial Stability), *Jingji Cankaobao* (Economic Reference), January 26, 2018. [http://finance.sina.com.cn/money/bank/bank\\_hydt/2018-01-26/doc-ifyqwiqk8318492.shtml](http://finance.sina.com.cn/money/bank/bank_hydt/2018-01-26/doc-ifyqwiqk8318492.shtml).
- <sup>10</sup> Yuran Wuhong, "Yinjian Hui 'Sansansi' Jiancha Yanqi, Qiangdiao Fengxian Modi."
- <sup>11</sup> Joseph Bisignano, "Precarious Credit Equilibria: Reflections on the Asian Financial Crisis," BIS Working Paper no. 64) (Basel, Switzerland: Bank for International Settlements, 1999).
- <sup>12</sup> Yuran Wuhong, "Yinjian Hui 'Sansansi' Jiancha Yanqi, Qiangdiao Fengxian Modi."
- <sup>13</sup> Xinhua, "Mingnian Woguo Jixu Shishi Wenjian De Huobi Zhengce," December 20, 2017. [http://www.gov.cn/xinwen/2017-12/20/content\\_5248949.htm](http://www.gov.cn/xinwen/2017-12/20/content_5248949.htm).
- <sup>14</sup> Euromoney Institutional Investor PLC, "CEIC China Premium Data."
- <sup>15</sup> People's Bank of China, "Yanghang: Yunxu Waizi Jingou Huode Yinhangjian Zhaiquan Shichang Lei Zhuchengxiao Paizhao" (Central Bank: Allow Foreign Institutions to Obtain Licenses to Be Lead Underwriters of Bond Issuances in the Interbank Bank Market), *Pengpai*, July 7, 2019. [https://www.thepaper.cn/newsDetail\\_forward\\_3965852](https://www.thepaper.cn/newsDetail_forward_3965852).
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- <sup>17</sup> Zi'er Wen, "Wanyi Difang Zhai Zhihuan Beihou" (Behind the Trillion Yuan Local Debt Swap), *Zhongguo Jingyingwang*, 2015. [http://www.cb.com.cn/finance/2015\\_0317/1118178.html](http://www.cb.com.cn/finance/2015_0317/1118178.html).
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<sup>21</sup> Sina.com, "Zhuyao Gudong: Zhongguo Jianshe Yinhang" (Major Shareholders, China Construction Bank).

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<sup>22</sup> Ibid.

<sup>23</sup> Reuters, "Timeline of China's Attempts to Prevent Stock Market Meltdown," July 8, 2015.

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<sup>24</sup> Ibid.

<sup>25</sup> Mingming Li, and Che Pan, "Regulators Limit Pledged-Stock Loans," *Caixin*, January 15, 2018..

<sup>26</sup> Yue Quan, and Timmy Shen, "China Seeks to Bolster Short Selling after Opening of Tech Board," *Caixin*, June 25, 2019.

<sup>27</sup> People's Bank of China, "Yanghang: Yunxu Waizi Jingou Huode Yinhangjian Zhaiquan Shichang Lei Zhuchengxiao Paizhao."