世貿組織與中國資本市場之發展

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中文摘要

中國製造業發展迅速，有世界工廠之譽。經濟發展的另二基底：消費與投資也隨之開展。消費活動繫乎於效用之追求，以此刻而言，廣大之初富與新富階層多汲汲於投資以蓄積明日之消費實力。因而此刻之經濟發展重點之一實繫乎於資本市場之建立及投資環境之營造。

中國正朝向超越德國，成為僅次於美國、日本的世界第三大經濟體挺進。由於製造業蓬勃，再加上投資熱錢湧入，外匯存底迭創新高。中國央行為了因應市場需要，增加貨幣供應量。然而發行政府債券，去除多餘流動性，殊屬必要。中國股市屢創新高，股海中良莠並存難免有欠缺經驗之小股民遭損失影響生計，解決之道為三管齊下：其一、設立投資人保護協會，加強投資教育；其二、開發股票指數期貨及選擇權，鼓勵用眼光獲利，如預期股票指數在某時將走低則可賣空指數期貨並獲利，如此可避免盲目追高；其三、建立銀

行互保制度（FDIC），提供保障收益存款商品，鼓勵欠缺投資經驗及風險承受度低者選擇。

中國人民幣正緩漲中，預計外匯存底將持續快速增加。外匯存底之投資多為美國之政府公債，殊屬穩當。於通膨存在之時，美國財政部抗通膨債券（Treasury Inflation-Protected Securities, TIPS）亦為上選。抗通膨債券，是由美國財政部發行的國債，屬於國庫債券之一種，每年分發利息兩次，年期十年，其本金及票息均依據消費物價指數（CPI）確定的通膨率隨時進行調整。外匯存底之本質乃出口商委託政府代管之外幣資產，不宜大規模進行風險高之投資。

中國國有銀行存在不良貸款的問題則可透過發行信用違約交換（Credit Default Swap）尋求防範並求解。CDS 是一種可供信用提供者（放款人或公司債持有人）規避信用風險的契約，是常見的信用衍生性金融商品，交易主體包含違約風險保護買方（protection buyer）主要為銀行，及違約風險保護賣方（protection seller）。買方（銀行）因持有風險敏感性資產如債券或放款部位，希望將此違約風險轉嫁給賣方，故定期支付固定成本來獲得違約風險的保護，相對地，賣方雖固定獲得買方定期給付的收益外，亦同時負有義務當違約事件（Credit Event）發生時，將給付買方（銀行）因市場波動所造成的損失。如此則有違約風險保護賣方監督，避

免了銀行不當放款的可能，也避免了銀行壞帳全民買單的不平。一但制度建立進入良性循環，則銀行不吝於放款給亟需資金創業之中小型企業，俾益民生經濟。

世貿組織要求中國於二〇〇六年底前開於金融市場。迄今已見相當成效。此外為了更有效率地運用外匯存底，中國成立了國家投資公司，管理二千億美元之資產，進行以取得單位數報酬率為目標的穩健投資。

WTO and China's Capital Market Development

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Key Words: China's Capital Markets, excess liquidity, WTO, sterilization

Abstract

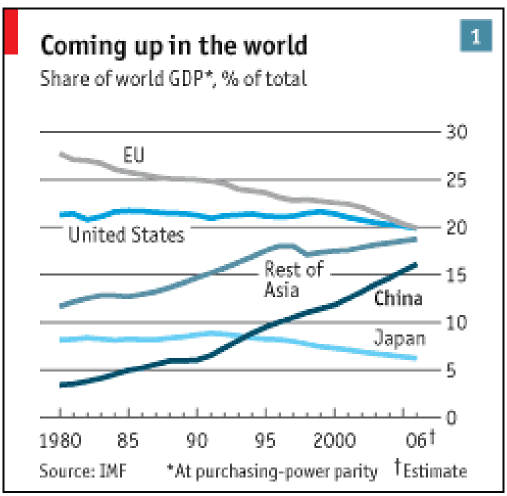
As reported by Wall Street Journal on October 23, 2006, "China's commitments to the World Trade Organization required it to start permitting foreign companies into more areas of the financial industry, beginning in September 2006, including insurers and banks. Insurance and banking have been opened step-by-step before and after China joined the WTO in 2001." We study issues and strategies of the capital market development in China, from one asset category to another, in the post-WTO era. "The Chinese economy has maintained a robust trend of high growth, low inflation and low interest rates, but the skyrocketing prices of financial assets reveal the contradiction between the accumulation of wealth and the supply of financial assets," said the country manager of Standard & Poor's in China in 2007. The inflation had surged since late 2007 and had peaked at 8.7% in February 2008, with 90% of the inflation came from food price surge. And, at the same time, China has

to face a reduction on export-driven growth due to the slowdown of US economy caused by sub-prime mortgage crisis. Due to the lack of adequate development of the bond market, Chinese Treasury had not been ready to issue inflation protected securities to soothe discomfort of seeing negative real interest rate. A sound financial infrastructure with a bond market will help signal a benchmark rate on return, which can be used to contrast the returns from stock investment and its risk-taking. In addition, bond market would help expand direct financing and strengthen capital market stability.

China's foreign-exchange regulator is, as of April 9, 2008, drafting rules on foreign-exchange management that will further relax controls on China's Qualified Foreign Institutional Investor program (QFII), which was initialized in 2003 to allow foreign companies to invest in China's domestic capital markets.

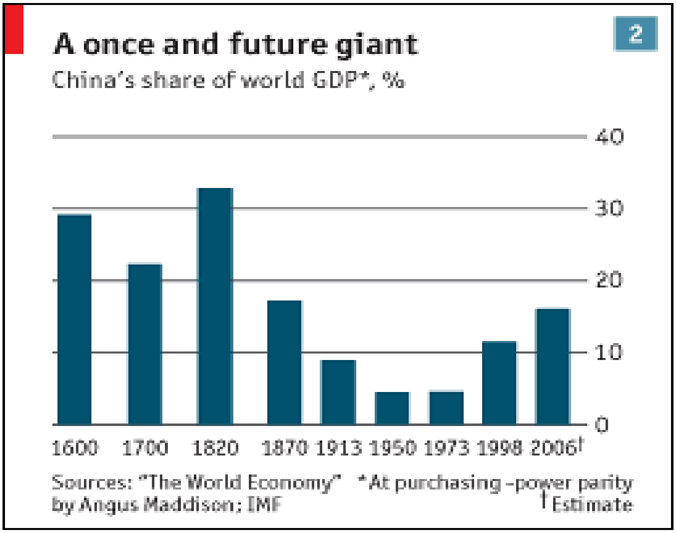
Introduction

China has gone through a significant change in the past few decades. China's GDP now constitute a solid 16.8% of the world GDP. Most significant change was initiated after joining the WTO for five years because China's financial market has to open gradually for foreign financial institutions. All of a sudden, domestic banks become listed company in China and in Hong Kong. The stock prices of listed banks shoot up and now carry high price-earnings ratios. However, local investors still invested without any hesitation till mid-2007. Maybe it was because the initial and fast development of domestic financial markets and insufficient development and prohibition of international investment venues. New development is seen monthly, if not weekly, and includes the following: the stock market now shows up and down with economic news and financial performance; Chinese government will soon allows sophisticated institutional investors to invest in foreign market and instruments. Chinese domestic investors were borrowing to invest in domestic stock markets from banks which hosted the Chinese household deposit of 2 trillion US Dollars and enjoyed a wide interest margin/spread of 2.79%. Evidence suggested that Chinese banks extended 3.18 trillion Yuan of new loans in 2006, exceeding China Central Bank's target by more than 25 percent. China's largest bank, Industrial & Commercial Bank of China had a 31 percent gain in profit as total loans grew 10 percent (Bloomberg News, April 17, 2007). Ever-increasing shares price also pushed China's banks to be the ones with most expensive share prices among Asia's emerging markets.



China’s growing importance in the world economy. China was also once important in world economy.

Source: Economist, March 29, 2007



Stock Markets in China

Class H shares are shares of Chinese companies based on the mainland and listed in Hong Kong, while Class A shares, denominated in Yuan, are listed on the mainland. Traditionally, the best Chinese companies tended to list in Hong Kong because of that market's stronger reputation for corporate governance and its less-volatile performance compared with mainland markets. As reported by Wall Street Journal on April 18, 2007, “the

China Securities Regulatory Commission (CSRC) has held up approvals of Class-H-share listings while encouraging companies to list as Class A shares. One way around the recent practice -- especially for megadeals of more than US$1 billion -- seems to be to add a domestic offering to an already planned Class-H-share IPO." In 2006, 59 companies raised US$41.5 billion in Hong Kong IPOs, of which US$38.6 billion was from 41 Chinese companies, according to Dealogic.

Date of Pricing	Issuer	Deal Value, In Billions of Dollars	Dual listed in Shanghai?
October 2006	Industrial & Commercial Bank of China	$21.93	Yes
May 2006	Bank of China	$11.19	No
October 2005	China Construction Bank	$9.23	No
June 2005	Bank of Communications	$2.16	No

Hong Kong Stock Exchange-listed Chinese Bank IPOs
Source: Dealogic, Wall Street Journal

Nasdaq: A Chinese Version

Right now, the corporate bond market in China meets only 1.4 percent of the financial needs of companies in the fast-growing economy. The reason: cash-rich banks are willing to throw money at companies without much of a credit analysis, and hence the lacking of incentive for companies to go to a larger set of bond investors. Due to the lack of developed bond markets and also due to the soaring of share prices, initial public offering becomes the major source of raising capitals for corporations. China opened its main stock exchanges in Shanghai and Shenzhen in the 1990s. As reported by International Herald Tribune / Reuters on Monday April 2, 2007, “China is considering establish a bourse for start-up companies. China is likely to open a new exchange with lower listing requirements provided for start-up companies by 2008, an industry analyst and a regulatory source said Sunday. The exchange would be similar to the Nasdaq Stock Market or Hong Kong’s Growth Enterprise Board, allowing a platform for newer companies that focus on technological innovation to list.” “There is little chance for the board to be lunched this year,” said Liu Jipeng, a professor at Chinese University of Politics and Law. “However, it’s very likely that we will have it next year,” said Liu, who is often consulted on the development of China’s stock market.

There is ample evidence that Asia's current-account surplus - or excess savings - is keeping the region's debt markets shallow. With an average household savings rate of 40%, China has more than 30 trillion yuan of bank deposits, but stock market capitalization is only 10 trillion yuan, of which about 30 percent is freely tradable." As reported by Wall Street Journal on April 10, 2007, some changes have since been initiated: “After performing poorly from mid-2001 through late 2005, the country’s stock markets have roared back to life as the government sharply cut the overhang of nontradeable, state-owned shares.”

In terms of risk aversion, many Chinese investors seem to have the similar propensity to save. Due to the very uneven distribution of wealth, the rich in China may actually save significantly more in percentage terms. China's stock market roaring may be moderated by providing fixed-income securities with guaranteed return and attract some risk-averse investors to such investment venue.

Equity Market in China and elsewhere

Chinese macroeconomic policy and performance, but not its equity market, are important to global financial markets. This is due to the non-significant share of China's equity market in the world market capitalization. "Based on its so-called free float, or those shares that international investors can purchase, China accounts for only 11 percent of the Morgan Stanley Capital International Emerging Markets Index and a mere 0.9 percent of the MSCI All-Country World Index. That is less than South Korea and Taiwan, and about the same as Russia AND Brazil." "What is more, before declining 0.5 percent on March 29, 2007, the Shanghai and Shenzhen 300 Index rallied to five successive records, while U.S., Japanese and most European share markets have yet to recapture their pre-Feb. 27 peaks. So while China's market can upend the world, it might not be able to lift it." Due to the world financial market turmoil, the fading of irrational exuberance, and the cooling effort of Chinese Macroeconomic policy, the Shanghai index had plunged 35%, as of April 10, 2008, since the beginning of 2008.

Housing Markets in China

As reported by Wall Street Journal on April 18, 2007, "Property prices in China in March were up 5.9% from a year earlier, data from the country's economic-planning agency show. The latest data, following February's 5.3% rise, mean the government will likely continue its efforts to rein in and redirect the real-estate sector. Concerned that rising prices and a focus on luxury developments at the expense of housing for low-income families in cities like Shanghai are pricing ordinary citizens out of the market, Beijing has taken a series of macroeconomic measures."

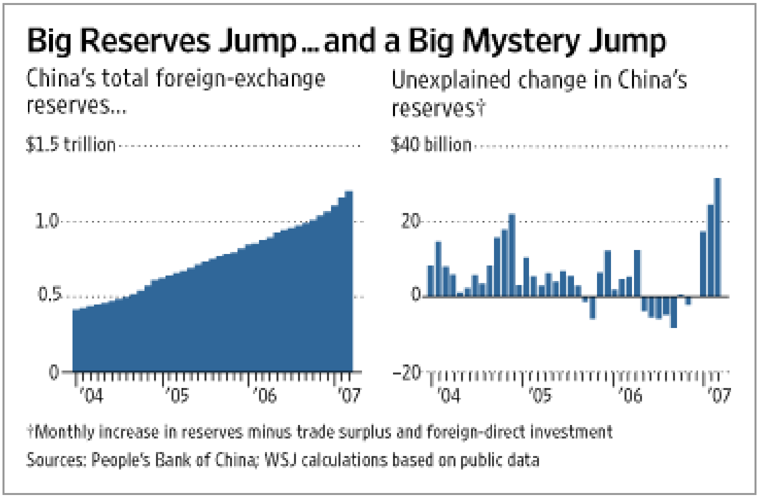
"Prices of newly built housing in the 70 cities rose 6% in March from a year earlier, exceeding February's 5.9% increase, the commission said. Prices in the secondary housing market rose 5.9% last month, up from February's 4.4% increase, it said." House prices might just echo the increase in share prices on the stock markets, ultimately due to the fast economic growth, high savings rate, and lacking of investment targets.

Foreign Reserves in China / Bonds in Need / Securitization

What was also noticed being the ever-increasing foreign reserves of China. It is partly due to the strong export of merchandise from China and partly due to the inflow of the hot money which has been betting on the appreciation of the undervalued Yuan. China now owns the largest foreign reserves in the world and still sees an increase of foreign reserves at a rate of one million US Dollars per minute in the first quarter of 2007. In order to allow local corporations to exchange the foreign reserves back to Chinese Renminbi for domestic use, China has to continue to expand its money supply with an unavoidable side-effect of lighting inflation. As reported by IMF on April 12, 2007, "China raised interest rates to the highest level in almost eight years and increased the amount of money that lenders must set aside as reserves six times in less than a year to slow investment and loans." The cooling effect of rates hike has been limited. The popular remedy of sterilization (a controlling policy of vacuuming back the excess liquidity by issuing government bonds to exchange for cash), removing the excess liquidity by issuing government bonds, cannot be done in a satisfactory way due to the underdeveloped bond markets. Inflation may also be fueled by China's pegging of Renminbi to US Dollar since US has undergone some higher inflation and it may get passed-through to China. After all, China and United States are at very different stages of their economic development. Worst of all, when China lifts interest rates to cool the economy, it may only makes the undervalued Renminbi even more lucrative and hence attracts even more hot money from overseas and hence worsened the excess liquidity problem.

Sovereign funds

In order to increase the efficiency of the trillions of foreign reserves, China had established government investment company to manage 200 billions of foreign reserves. It worth considering inviting an investment officer from a successfully-run university endowment funds due to the similarity of both funds.



Wall Street Journal: April 13, 2007.

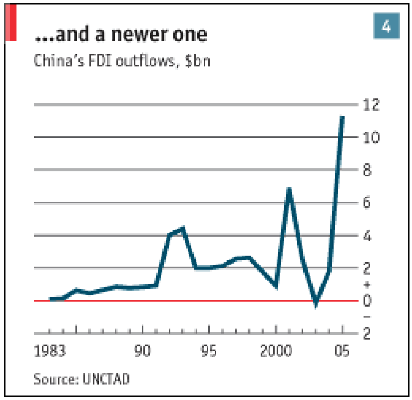
Excessive liquidity in the banking sector is considered a major problem for China's economy and developing securitization market has also been proposed by Joseph Hu of Standard & Poor's China as an alternative (of issuing government bonds) to absorb excess liquidity. When investors of the securitized product withdraw their deposits from a bank, it will help lower the cash (an asset) and deposits (a liability) of the bank and hence lessen the problem of excess liquidity. That is, in securitization, banks sold their loan and credit assets to investors, rationing the otherwise needed increase in money supply. However, thinking more deeply, "Asian savings sit in savings accounts, creating vast pools of liquidity that enable banks to offer mortgages and loans at rates with which the originators of securitized loans can't compete," said by Standard & Poor's analyst Betty Tan in 1996.

Consider, for example, as suggested by Andy Mukherjee on April10, 2007, securitized debt. “In Hong Kong, India and South Korea, only 1 percent of housing loans are securitized, while in Japan and Malaysia, the ratio is between 5 percent and 6 percent, a study by the Bank for International Settlements found. That compares with 68 percent in the United States in 2005.” Asia's or excess savings may have caused the region's debt markets to stay shallow.

China receives a record-high foreign direct investment; China also gives a record-high foreign direct investments.

Key indicators	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Real GDP growth (%)	10.5	9.5	9.0	8.3	7.9	7.6
Consumer price inflation (%; av)	1.4	2.5	2.7	2.8	2.7	2.6
Budget balance (% of GDP)	-0.8	-1.6	-1.8	-1.7	-1.7	-1.6
Current-account balance (% of GDP)	7.8	7.2	6.3	5.0	4.2	3.3
Commercial bank prime rate (%; year-end)	5.9	6.2	6.4	6.4	6.4	6.4
Exchange rate Rmb / US$ (av)	7.97	7.62	7.46	7.35	7.23	7.10
Exchange rate Rmb / ¥100 (av)	6.86	6.67	7.48	7.68	7.73	7.73

Economic data of China, Feb 5th 2007
Source: the Economist Intelligence Unit



Foreign Direct Investment "To" China, and Foreign Direct Investment "From" China.
Source: Economist, March 29, 2007

Insurance

As reported by Wall Street Journal on October 23, 2006 under the title of "Marsh Gets License in China To Work as Insurance Broker", "In 2004, Beijing gave foreigners permission to operate insurance-brokerage services, the niche where Marsh competes, but only in joint ventures where they hold a maximum of 51%. Unlike a handful of smaller foreign competitors, Marsh never took a joint-venture partner." "Despite Beijing's pledges to open up its financial sector, it has made no promises to drop restrictions not specifically addressed in the WTO agreement. For instance, Marsh and other foreign insurance brokers will be barred from working with small businesses. China's market is even more restricted for foreign underwriters of life insurance, which can operate only in joint ventures with Chinese firms and can own no more than 50%."

Partly because of the insufficient social security development in China, insurance policies have been sought after by salary earning people for preparing their life after retirement. It will help the majority invest their savings for higher return and for better quality of life after age of 65 if a China may develop a sound capital market soon. The strong needs of insurance policy are evidenced by the following Wall Street Journal report dated April 18, 2007: "China Life Insurance Co. said its net profit more than doubled last year on robust growth in premiums and investments.

China's largest insurer by premiums said it expects a further expansion of the country's insurance industry as well as more intense competition among market participants in 2007. Net profit rose to 19.96 billion Yuan (US$2.58 billion) last year from 9.31 billion Yuan."

Currency Derivatives

Launching currency derivatives (currency futures) as a preparation of loosening the fluctuation band of Renminbi as a transition to more flexible "managed-floating exchange rate system" is being discussed. Allowing US Dollar to circulate in a few cities may be an impromptu solution to the needs of ever-increasing the money supply in China.

Wall Street Journal reported on April 10, 2007 that on March 12, 2007, China Launched a new yuan-trading platform that adheres more closely to international norms and could deepen the market by allowing for more products. "The China Foreign Exchange Trade System, the central house where all onshore currency transactions are managed and cleared, introduced the new platform, which uses technology from Reuters Group PLC and offers instruments such as forex spots, outright forwards, and swaps trading."

Trading of foreign-currency pairs onshore began on March 12, 2007 and yuan trading against the U.S. dollar, Hong Kong dollar, yen, euro and British pound began on April 9, 2007. Market participants said many players tested trades on the same day but remained wary of committing to prices outside a narrow range against the yuan as they were still getting used to the system."

China seems is getting ready to adopt a more flexible "managed-floating exchange rate systems".

Stock Index

According to BLOOMBERG news dated on April 06, 2005, "The Shanghai and Shenzhen stock exchanges plan an index of 300 companies across both markets, giving investors their first combined measure to gauge the performance of the domestic shares of the country's biggest companies." "The Shanghai Shenzhen 300 Index will open on April 08, 2005, tracking 300 companies with yuan-denominated Class A-Shares." "The index will be revised every January and July, with no more than 30 companies changed." ""What it means is that we now have a basis for the introduction of new products, such as index futures. We are currently studying the possibilities of an index futures contract."

Stock Index Futures

China's stock markets need to have hedging products for long-term growth. Reported by BLOOMBERG news on April 06, 2005, "Having derivative products would help investors hedge against losses. The Shanghai A-Share Index has dropped a third in the past 12 months, from April 2005 to April 2006. The Shenzhen benchmark has slumped 36 percent in that period. The Morgan Stanley Capital International Emerging Markets Asia Index has added 5.5 percent in that time. The index makes "it more convenient for investors to gauge overall market sentiment," the exchanges said."

How to hedge with the stock index futures? When an investor believes in the potential of certain stocks, yet worries about the market overheat, she may buy those "good" stocks and sell the index futures to remove the unwanted exposure of the stock market.

As reported by Shanghai Securities Times on October 23, 2006, the China Financial Futures Exchange has issued draft rules on trading index futures. The four draft rules are: Shanghai-Shenzhen 300 Index Futures Contract, Detailed Trading Regulations, Detailed Clearance Regulations, Risk Management Measures.

Governance

China's securities regulator published new rules on April 9, 2007 governing share trading by company executives, as historic stock market highs prompted increased concerns over insider trading and corporate governance (Wall Street Journal, P22, On April 10, 2007). Coping with the international competition in post-WTO era, China's financial statement disclosure and transparency level will also need to catch up with the International Accounting standards. This is indeed important, especially when South Korea has just recently required bigger corporations to conform to international financial reporting standards to protect investors and further boost share prices.

Citing from Wall Street Journal, "The commission's statement said that in a given year, senior managers may not sell more than 25% of the company shares they held at the end of the previous year. They aren't allowed to trade stocks within one year of a firm's public listing, or within six months of leaving the company, it said. They are also forbidden to sell or buy company stocks 30 days before regular reports, or 10 days before performance forecasts, the statement said." This is a leap toward international governance compliance.

Conclusion

Catching the deadline of opening up to international banking industry after joining the WTO for five years, China's major banks partially privitalized and became listed company with surprisingly high shares prices. Chinese banks now have abundant capital and sustainable financial strength. The post-WTO era will be featured with international competition and innovation. Domestic banks will compete with foreign counterparts with world-class service quality and complete list of financial products. In the foreseeable future, with high economic growth rate and extremely high household savings rate and huge deposits at banks, China's capital markets have great potential and urgent needs to be further developed. Liquidity needs outlets (financial assets) for good returns. China can not afford to allow a liquidity glut to militate against its capacity to generate an adequate supply of financial assets that will allow it to keep its savings at home. Government controlling policy has to be agile and adequate to guide the development locus.

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