

China Stock Market and Challenge of Globalization

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Good afternoon, ladies and gentlemen. My topic is about mainland China stock market and challenge of globalization. My talk is divided into three parts. In the first part, I will introduce the background of China stock market from 1990 to 2000. The second part is about the three major periods China stock market has been undergoing. The third part is about the huge opportunities and grave challenges China stock market is facing now.

First of all, I am going to introduce the background of China stock Market from 1990 to 2000. Some of you know, there were not shareholder companies and stock market and stock exchanges in China before 1979. It means that Chinese government was an only shareholder in different enterprises at that time. In 1979, Chinese government began to reform China economic system, which included two stages. First stage, Chinese government began to reform agricultural economic system. Second stage, Chinese government began to reform industrial economic system. In 1986, some of enterprises transferred to shareholder companies which began to issue stocks to their employees and publics, but Chinese government didn't agree investors to trade their stocks at that time, which caused a big contradiction and a big conflict between government and investors. So in 1990, Chinese government approved to set up two stock exchanges, one is Shanghai stock exchange, which was established in December 1990, the other is Shenzhen stock exchange, which was established in December 1990 too. It means that China stock market has been in existence a total of ten years. Thus, China stock market is a young market and an immature market. At the end of 2000, there were 1088 listed companies in China stock exchanges, which included 975 A share listed companies and 113 B share listed companies. Why does Chinese government want to divide China stock market into two parts? One is A share market for Chinese investors, the other is B share market for international investors because Chinese currency named RMB is a domestic currency and Chinese people can't exchange foreign currency freely now. Now there are A share, B share, T-notes and some corporate bonds for investors to trade in China stock market.

At the end of 2000, there were a total of 58 million investors' accounts in both of stock exchanges, but there were only 27 institutional investors. There are about 100 securities firms, 299 securities activities related law firms and 103 securities activities related accounting firms in China now. At the end of 2000, China market capitalization was 4.8 trillion RMB, and the market turnover was 6.2 trillion RMB, and the market trading volume was 475 billion shares. All of these are basically, fundamentally background of China stock market now.

Here maybe you will ask me how about the Chinese regulation system in China stock market? That is a good question. Before 1983, there were only some T-notes to trade in China capital market, so the treasury department of China was in charge of China capital market at that time. In 1983, people's bank of China named PBOC was established, whose function is similar to Federal Reserve Bank in U.S., so PBOC was in charge of China capital market from 1983 to 1992. In 1992, China Securities Regulatory Commission (CSRC) was established, so CSRC has been in charge of China stock market since 1992. Now Chinese financial regulatory systems are separated into different parts, PBOC is in charge of commercial banking business, and CSRC is in charge of securities business and CIRC (China Insurance Regulatory Commission) is in charge of insurance business. This is the current situation of China stock market.

Secondly, there are three major periods in China stock market from 1990 to 2000. The first major period was from 1993 to 1995. China stock market just began in 1991 and 1992, many investors, including commercial banks, securities firms and listed companies, rushed into stock market. Some of them traded stocks by illegal way. At that time, Chinese government wanted to carry out constrictive financial policy, in the meanwhile, wanted to adjust macro-economy to cool down the over-heated economy, which made Chinese stock market more stable than before.

The second major period was from 1997 to 1998. In 1996 and the first half of 1997, China stock

* This is the speech-notes by Dr. Yunxian Chen in Harvard China Review annual conference held on May 6, 2001.

market rebounded, stock index went up quickly, and more and more investors rushed into stock market again, some of the securities firms did inside trading to gain much money. Based on this situation, Chinese government wanted to perform normative regulation and to strengthen-macro economic adjustment, which made stock market more stable again.

The third major period is from 1999 to now. I predicted it would last 3 to 5 years. There are two main reasons, the first one is that China Securities Act took effect on July 1 in 1999, the second reason is that China will enter WTO, which is going to cause big changes in China stock market when China opens further its door to the world. For example, the structure of listed companies would be changed, the structure of labors would be changed, and Chinese RMB will become an international currency in 3 to 5 years. So, there exist huge opportunities and grave challenges in China stock market when China enters WTO.

Challenge one, as I just said, there are two stock exchanges in China now, but both of them are of the same functions. Compared to U.S., there are two kinds of stock exchanges, one is New York stock exchanges where more traditional economic companies are listed and traded, the other is NASDAQ where more new economic companies are listed and traded. Will China stock market change its model?

Challenge two, as I said, there were 1088 listed companies in China at the end of 2000, but most of them are traditional economic companies. Compared to U.S., not only are the traditional economic companies listed but also financial institutions, high technology companies and infrastructure project companies are listed. Will the structure of listed companies be changed in China when China enters WTO?

Challenge three, as I said, there are A share, B share, T-notes and some corporate bonds for investors to trade now, but all of them are spots. Compared to U.S., not only are there spots, but also there are option, commodity futures and financial futures, and other derivatives including interest rates, exchange rates, so on and so forth. Will China stock market increase its trading instruments soon when China enters WTO?

Challenges four, as I just now said, there were a total of 58 million investors' accounts in China at the end of 2000, but only 27 accounts are institutional investors. Compared to U.S., the most important investors are the institutions, including mutual fund, pension fund and insurance fund, so on and so forth. Will the structure of investors be changed in China when China enters WTO?

Challenge five, as I said, there are 100 securities firms in China now, for instance, my company named GF Securities Co. Ltd owns 2500 employees and 100 branches around China in different big cities, the net assets is over 2 billion RMB which equals 259 million US dollars, and the total assets is over 23 billion RMB which equals 2.83 billion US dollars. GF Securities is a full service securities firm and one of the top 5 securities firms in China. But compared to U.S., such as some American friends told me that GF Securities is a tiny firm in the world. Will the Chinese intermediaries enlarge their capital scales soon?

Challenge six, as I just now said, Chinese regulatory system is to separate into several parts which are similar to U.S. regulatory system from 1933 to 1999. But in 1999, US government passed "The Financial Modernization Service Act of 1999", which means that U.S. government has agreed each financial institution to do every different financial business again. Will the model of Chinese regulatory system be changed in a couple of years?

These are on the one hand situation. On the other hand, I will say that huge opportunities China stock market is facing now. The first opportunity is that China has approved Shanghai Stock Exchange to become the main board stock exchange which is similar to New York Stock Exchange, and Shenzhen Stock Exchange will become the second board stock exchange, which is similar to NASDAQ. It means that China will change its' model of stock exchanges.

The second opportunity is that China has approved more and more financial institutions, high technology companies and infrastructure project companies to list in both of stock exchanges. It means that the structure of listed companies will be changed soon.

The third opportunity is that now China has been researching financial futures including interest rates, exchange rate, so on and so forth. It means that China will increase trading instruments soon.

The fourth opportunity is that now China has approved international investors to participate in joint

venture with mutual fund management companies, to participate in joint venture with insurance companies and other financial institutions. It means that China will increase more institutional investors.

The fifth opportunity is that China will agree international investors to participate in joint venture with Chinese securities firms about 33% shares. It means that Chinese securities firms can not only list in stock exchanges to raise money, but also can look for international partners to do their business. Chinese securities firms should be more competitive than before.

The sixth opportunity is that, based on my personal view, Chinese regulatory system should be changed again in 5 to 10 years when China enters WTO. So, all of these opportunities are not only for Chinese investors, but also for international investors.

Ok, I am going to end my talk now, if you have some questions, I would be happy to take them, please.

May 6, 2001