Institute of Chinese Studies
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Wednesday Seminar
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Comparing Financial Markets of India and China

Speaker – U.K. Sinha

Chair – T. N. Ninan

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ICWA (Sapru House)

The seminar was an attempt to understand financial markets in India and China. Mr. U K Sinha largely focused his presentation on comparing scenarios of financial markets in India and China. To begin with speaker provided a brief background of China's economic growth highlighting some statistics for key economic indicators. China has lifted 700 million people out of poverty; average growth has been near 10% from 1978 to 2014, Per Capita income hiked from US $ 155 to US $ 7590, its share in global manufacturing output rose from 7% in 2000 to 25% in 2016 surpassing US in 2011 and became world's largest producer of manufacturing goods. Speaker noted number of reasons for China's sustained double digit economic growth namely its infrastructure investment which increased from US $ 33 billion in 1985 to US $ 1 trillion in 2015, lesser compliance to labour and environmental laws removing bottlenecks in implementation of key development projects and spurring its speedy completion, protectionist measures to ensure Chinese companies could stand up against foreign companies in an unequal competition for market, currency control and relaxation in intellectual property laws also helped China attain such continuous double digit growth.

Speaker then accented some current issues in Chinese economy such as rising wages, demographics, fear of capital flights as Chinese Foreign Exchange Reserve fell down from US $ 4 trillion to US $ 3 trillion in last 18 months, falling GDP growth, excess capacity in heavy manufacturing industries like cement, iron and steel; debt burden near 300% of GDP and non-performing loans almost US $ 5 trillion in banking system which constitutes 50% of its GDP.

While comparing GDP growth rates of India and China speaker pointed out that Chinese economy has experienced slow growth whereas Indian economy has witnessed stable growth from 2012 to 2016. In terms of key indicators China's GDP stands US $ 11.4 trillion whereas India's GDP accounts for US $ 2.25 trillion, Chinese GDP per capita income is US $ 8260 and Indian GDP per capita income is US $ 1718, China holds US $ 3 trillion foreign exchange reserve whereas India has only US $ 372 foreign exchange reserve, while China has trade surplus of US $ 38 billion India is having trade deficit of US $ 10 billion.

Going further speaker elaborated upon China's capital markets bringing to notice that history of Chinese stock exchange markets dates back to 1800s. Shanghai stock exchange (SSE) and Shenzhen stock exchange (SZSE) were opened in 1990 as part of Deng Xiaoping's policy of 'Reforms and Clean up'. Shenzhen Stock Exchange has three boards namely Main Board, SME Board and China Next Board. Main Board consists of state owned enterprises; SME Board is where large private enterprises are registered and China Next Board is a platform for technology-innovation driven start-ups with less stringent conditions. Normally there would be migration of enterprises from one board to another as in India but there is no such mechanism exists in China while some news reports suggests such mechanism is being planned. They also have Over the Counter platform (OTC) called NEEQ which is a prelisting platform where prices are not negotiated in the open or anonymous system providing opportunity to new generation companies to get registered. Only institutional investors are part of the NEEQ and not retail investors.

While talking about Chinese capital market regulatory arrangement and its institutional structure speaker pointed out the role of China Securities Regulatory Commission as a chief regulator of Chinese capital market. CSRC was formed in same year of 1992 in which Securities and Exchange Board of India established. Whereas the SEBI enjoys functional autonomy in India, the CSRC is under control of Chinese State Council and there are other agencies like Ministry of Finance, China Banking Regulatory Commission, and China Insurance Regulatory Commission with which it has to work, sometimes leading to politicization. Speaker also compared regulatory mechanism of capital markets in India and China. Unlike China where Initial Public Offerings are based on approval by the CSRC, in India it is disclosure based, faster and less expensive. As far as trading system and risk management is concerned, it is highly sophisticated in India as IMF's Financial Sector Assessment Plan rated India fourth best, whereas trading system or risk management is less sophisticated and less predictable in China due to lack of rule based trading system and risk management. Corporate governance is very elementary in China contrary to India where it is more sophisticated, owing to the fact that India ranked 13th by World Bank shareholder protection. Enforcement action in China is opaque and unpredictable while in India it is transparent and predictable.

Post 2008 global economic fallout many countries opted different stimulus plans to recover economies but in China market crashed by 45% in mid-2015 due to majority of stimulus share went to banking system and loans given by the banking system to state owned enterprises to raise share prices of those companies so that these companies can be listed on stock exchange at very highly respected valuation or if shares divested they could be utilized for raising capital. To achieve this objective, ordinary people were encouraged to take huge loans which led to crash of capital market as people realized market was over bound. Thus, many heavily interventionist measures were taken such as ban on IPOs for four months, suspension in trading of shares of more than 1000 companies which constituted half of the market, six month ban on stock sales by those owning lesser than 5%, mutual funds directed not to sell and state owned funds asked to buy stocks. Peoples' Bank of China lent US $ 40 billion to brokerage firms through China Securities Finance Corporation just to ensure that the market could be brought up. There were also limitations on short selling and threats of arrest for 'malicious short selling' were issued. Some foreign nationals were also missing reported to be assisting in investigation. In January 2016, the circuit filter was introduced after six month period was over for stock sales by those owning 5% which now rose at 7%; but this was failed because of lack of confidence in regulatory system and hastily withdrawn. Another important factor was peer to peer lending program went on in this period where loans were given to entities that didn't even exist causing a loss of US $ 7.4 billion and 1 million investors affected. Speaker also highlighted that there were around 200 people arrested since 2015 for securities exchange violations such as Xiao Jin Hua was abducted from Hong Kong to mainland China.

To conclude speaker said that foreign investors are very uncomfortable due to Chinese financial market regulations as financial market remains to be politically sensitive. This became evident when National Financial Work Conference normally attended by PM was attended by President Xi Jinping in July 2017.

There were questions asked on why Chinese regulatory actions are not condemned by international financial institutions, responding to which speaker said that political power works in favour of China.

Report is prepared by Mr. Chetananand Y. Patil, Research Intern, ICS

About the Speaker

Mr UK Sinha was the Chairman of Securities and Exchange Board of India (SEBI) from 2011-2017. From 2005 to 2001 he was the Chairman and Managing Director, UTI Asset Management Co. Ltd. and Chairman, Association of Mutual Funds in India (AMFI). He has also served as the Joint Secretary, Ministry of Finance. As a member of the Indian Administrative Service (IAS), Mr Sinha has worked in different developmental assignments in the provincial Government in Bihar. As Chairman, SEBI he undertook major reforms in the areas of Foreign Portfolio Investors, Asset Management Industry, Trading and Settlement Systems and so on. For his work, he has received several awards and recognitions.