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Financial Markets in China and India*

Abstract

While India has a long history of functional capital markets, both China and India started market reforms process almost around the same time. But the size of the Chinese market is much bigger today than India's. However, the market micro-structure and the regulatory system in India are more evolved and robust. Transparent laws and regulations and the practice of meaningful consultations at all stages have given the analysts, commentators and investors-both foreign and domestic, a high degree of confidence in the system. The predictability about regulatory action in case of any infringement, its objectivity and a laid down system of judicial review also gives trust regarding checks and balances and the rule of law in India. In comparison, China has exhibited arbitrary and unpredictable tendencies in case of any volatility, more so in the last two years. International experience shows that deeper structural reforms rather than a unilateral and inconsistent reaction to a problem are ways for sustainable development. But, it is also true that most foreign investors find the Chinese market too attractive and too large to ignore.

Economic Growth in China

It is undisputed that China has made spectacular improvement in its economy in the last 3 decades. More than 800 million people have been brought out of poverty (World Bank 2017). The average growth of nearly 10% has been achieved between 1978 and 2014. The per capita income has grown from USD 155 to USD 7590 – a 49 fold increase (World Economic Forum 2016). Not only that, the per capita income doubled in a decade whereas it took 150 years in the United Kingdom to do so. China's share in the global manufacturing output rose impressively from 7% in 2000 to 25% to nearly a quarter in 2015 (*The Economist* 2015). China became the world's largest producer of manufactured goods overtaking the USA in 2011 (*Financial Times* 2011).

One of the main drivers for economic growth in China has been massive investment in infrastructure. Whereas in 1985, infrastructure investment was USD 33 billion; the same jumped to USD 1 trillion in 2015. It is, of course, a challenge that this breakneck speed of investment in infrastructure has also produced ghost towns and ghost roads and created environmental issues. Allegations are made that there were compromises in the implementation of labour laws and the system of HUKOU produced further stress on the migrant labour with regard to housing for their families and education of their children in cities. China benefitted from its entry in WTO in 2001, but there are complaints that it continued with its protectionist policy like a rebate on export taxes, zero VAT etc. China's trading partners also complained about currency control and how the currency was kept under-valued in

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order to help exports. China was also successful in accumulating a huge amount of foreign reserves – 4 trillion USD in mid-2015. Part of the reason is that the savings rate in China is very high – approximately 46% of the GDP as of 2016 (World Bank Database 2016). The gross savings in China accounts for 75% of the gross savings of USA and European Union's combined savings at USD 5 trillion. Its gross investment is 43% of the GDP in 2016 (Quandl 2017). Although certain issues have been raised from time to time, the achievement has been really impressive.

Current Issues

The size of the labour force in China has plateaued in 2016 and demographics are not going to be helpful at least in the short and medium term. Wages in China have also risen substantially. The average hourly wages have risen 65% since 2011 (*CNBC* 2017) and are comparable to the wage rates in the weaker European Union countries. The fear of the capital flow is also real. Between June 2015 and January 2017; the reserves fell from a record USD 4 trillion to USD 3 trillion – a 25% decline. For months together, the monthly outflows were to the tune of USD 100 billion.

The GDP growth rate has fallen from its peak, and now there is a consensus that a rate of 6.5% is what is achievable. Although, IMF reports released in January 2018 estimate the CY 2017 growth at 6.9% (International Monetary Fund 2018) the short to medium firm forecast is a growth of around 6.5%. The debt burden in the country was nearly 300% (283% to be precise) of the GDP as on 30th June 2017.

Different countries took different paths to provide stimulus to revive their economies post the Global Financial Crisis. The USA and the European Union took the extraordinary measures of unconventional intervention by the central banks by way of increasing the size of their balance sheet. This was combined with huge assistance on the fiscal side such as Troubled Asset Repurchase Plan (TARP). India took the measure of providing support mostly through fiscal measures expenditure expansion as well as revenue measures. China, on the other hand, took the decision to provide cheap credit from their banks - which are Govt. owned or Govt. controlled. While this led to massive expansion of credit, the additional dimension was that the borrowers were mostly state-owned enterprises. Many believe that China was able to avert direct expansion of fiscal deficit because most of the loans were not to the Govt. but to Govt. connected institutions. With the slowing down of the economy, reduced exports and domestic consumptions not picking up, the non-performing loans of the Chinese bank have gone to an alarming level. No reliable data is available, but many believe that the size of the non-performing loans could be around USD 5 trillion which also amounts to NPA level of around 17.5% to 19% of the total outstanding bank credit.

Not only this, the size of the shadow banking is increasing at a very high pace. According to Moody's; the size has already reached around 80% of the GDP (Moody's 2016).

China v/s India:

Table 1

Table-1 indicates how the growth rate in China has dropped from 7.9% in 2012 to 6.7% in 2016 (International Monetary Fund 2017). Future estimates about the growth by various agencies - including multilateral agencies like the World Bank and the International Monetary Funds (IMF) point out that growth rate in China is expected to remain range - bound. India, on the other hand - in spite of the effect of demonetisation, is expected to accelerate the growth in the near future and medium term. Clearly, the size of the Chinese economy is 5 times more than that of India, and their reserves are 8 times that of India. The size of their banking system is also more than 15 times that of India, but the size of their NPA's is around 50 time of that of India. At the current moment, India also has the demographic advantages with regard to the median age of the population or percentage of the population which is young or in the working age group.

Capital Market in China

Table-2

As on July 2017

Sl. No.	*Name of the Exchange*	*No. of Companies Listed*	*Market Cap*	*Remarks*
1.	SSE	1316	$ 4.7 Trillion	Banks and energy firms - SOEs and old economy companies
2.	**SZSE**			
(i).	Main Board	More than	$ 1.2	Largely former SOEs

		2000 companies	Trillion	
(i).	Main Board	More than 2000 companies	$ 1.2 Trillion	Largely former SOEs
(ii).	SME Board	879	$ 1.6 Trillion	Mostly large companies with traditional businesses
(iii).	ChiNext	679	0.8 Trillion	Innovative companies
3.	**NEEQ**	11200	0.5 Trillion	A start-up exchange, essentially pre-listing one

Table 2 above gives a broad picture of the stock exchanges in China and the companies listed there.

There are two main stock exchanges, i.e. Shanghai Stock Exchange (SSE) and Shenzhen Stock Exchange (SZSE).Shanghai Stock Exchange was started in late 1800's, but it was closed in the aftermath of the communist revolution in 1949. It was reopened in 1990 as a part of the call of Deng Xiaoping for "reform and cleaning up". Some of the companies are also listed on the Hong Kong Stock Exchange (HKE). The Greater Chinese market cap was around USD 12 trillion by July 2017 (CEIC). Since shares can get listed in multiple exchanges; foreign investors count only 'A' shares when discussing the market cap of China. 'A' share market cap is USD 7.3 trillion in July 2017. SZSE has a main board where mostly former state-owned enterprises are listed. It has an SME board. Unlike what the name suggests, mostly large companies with traditional businesses and stable profitability are listed here.

There is another board called Chi-Next which is meant for start-ups and innovative companies. The concept of companies graduating from Chi-Next to the main board is still evolving and not in place right now. There is, of course, another exchange called National Equities Exchange and Quotations (NEEQ) which is mainly for pre-listing of start-up companies and the trading is done largely by institutional investors (*Bloomberg News* 2016). There was an announcement in mid-2017 that rules would be in place to allow companies in NEEQ to migrate to Chi-Next. There are over eleven thousand SMEs listed on NEEQ with a combined market cap of over USD five hundred million. In SSE or on the main board of SZSE 80% of the trading by value is done by retail investors.

Chi-Next companies have some special dispensation for listing. For example, the profitability track record is 2 years instead of 3 years on the main board. The net asset value requirement is also lower. The disclosure of governance requirements, however is the same. In order to get listed on the NEEQ board registration with China Securities Depository and Clearing Corporation (CSDCC) is also required.

Types of Shares

Table 3 below indicates the different types of shares in the Chinese market.

Table-3

NAME	*CURRENCY*	*DESCRIPTION*
ONSHORE MARKET		
A-Shares	RMB	Companies incorporated in China. Traded in Shanghai and Shenzhen. The largest class of Chinese shares. Investors are Chinese nationals and foreign institutional investors eligible under the QFII, RQFI and stock connect schemes.
B-Shares	USD/HKD	Companies incorporated in China. Traded in Shanghai in US dollars and Shenzhen in Hong Kong Dollars
OFFSHORE MARKET		
H-Shares	HKD	Companies incorporated in China traded in Hong Kong
N-Shares	USD	Companies incorporated in China. Listed and traded on the New York Stock Exchange.
L-Shares	GBP	Companies incorporated in China. Listed and traded on the London Stock Exchange.
Red Chips	HKD	Chinese companies incorporated outside China. Listed in Hong Kong. Often state-owned or state-controlled companies.
P-Chips	HKD	Chinese companies incorporated outside of China. Listed in Hong Kong.
S-Shares	SGD	Companies incorporated in China. Traded in Singapore.

As can be seen from the Table above, multiple types of shares are in vogue in the Chinese market. 'A' shares are shares of those companies which are incorporated in mainland China, and the shares of these companies can be traded only in SSE and SZSE and in the domestic currency. Trading is open mainly to domestic institutions and to domestic retail. A small window has been carved out for qualified foreign investors, for whom a quota in value term has been allocated. But the actual activity by foreign institutions in these shares is much below the quota allocated. The actual percentage of 'A' shares held by foreigners would be around 2%. 'A' shares are the shares by which the market capitalisation of China is generally measured.

'B' shares are shares of companies incorporated in Mainland China which can be traded in SSE in USD and in SZSE in Hong Kong Dollars. Mainland investors with

legitimate foreign currency accounts in their name can also trade in 'B' shares. But it is no longer very popular. Similarly, there are 'H' shares which are traded in Hong Kong, 'N' shares which can be traded in New York and 'L' shares which can be traded in London stock exchange.

With lots of fan fair, attempts were made to link the Shanghai exchange and the Hong Kong exchange through Hong Kong and Shanghai Connect in 2014. This allows Mainland investors to buy shares of Hong Kong and Mainland companies listed in Hong Kong. Similarly, it allows foreigners to buy 'A' shares of Mainland companies. There is a yearly quota for Hong Kong to Shanghai trading at RMB 300 billion, and there is also a daily quota of RMB 13 billion. For Shanghai to Hong Kong trading, the annual quota is RMB 250 billion and the daily quota is RMB 10.5 billion. For a variety of reasons and mainly because of different trading environments and issues like T+0, DvP (Delivery v/s Payment) common omnibus accounts etc., it has not been successful.

At the time of introduction of Hong Kong and Shanghai connect in November 2014, on the average the share prices were 2.1% more high but three years down the line; the premium is now as high as 30%. There is a requirement that investors must have investible assets worth RMB 500,000 (approximately USD 77,000). This rules out retail investors which otherwise dominates the domestic market. They can come through mutual funds route or the wealth management route but the quota set by CSRC is low, and most of them have reached their limitations. Approval for new funds or extra quota is time taking and difficult. Rules for stock lending are also an impediment. Most of the trading has been one way, i.e. Shanghai and Hong Kong and not vice-a-versa. The Hong Kong and HZSE connect introduced in 2016 has also not been successful so far.

Regulatory Architecture

China Security Regulatory Commission (CSRC) was formed in 1992 - the same year that the SEBI Act was passed in India. Its responsibilities include regulation of the stock exchanges and development of their business rules for listing of companies and their approval and their listing. CSRC supervises securities trading and regulates both the listed companies as well as the stock exchange members. It is also responsible for managing and disclosing market information.

CSRC operates directly under the State Council of the Communist Party of China. Its headquarters are in Beijing. It can devise rules and regulations for the market in keeping with the law, and it has the right to examine and regulate issues of securities leasing, custody and settlement. It supervises the securities-related conduct of listed companies, stock exchanges and other intermediaries - including investment funds management companies. It also addresses standards and qualifications for personnel operating in the security market. It has the power of supervision and inspection and enforcement.

The enforcement wing makes inquiries in different cases and complaints and enforces punishment. Major areas are insider trading, market manipulations, violations of disclosure guidelines etc.

CSRC has 36 bureaus in different provinces. In addition, it has set up a commissioner's office in Shanghai and in Shenzhen. A feature of the supervision arrangement is an inter-regulatory framework which involves the participation of many departments and regulators at the local level. It includes, for example, representatives of the Ministry of Finance, Ministry of Commerce, Peoples Bank of China, representatives from the Ministry of Public Security. In theory, the coordination with relevant Govt. departments may be an excellent idea and said to be guided by the objective of protecting the interest of investors. But in practice, the decision is not independent or transparent, as, by this very design, extra considerations other than the strict implementation of securities laws come into play. Obviously, it also has political overtones and has often led to harsh and unanticipated actions.

INDIA

India has tried to learn from its past mistakes and made changes and improvements at regular intervals and after following a process of open consultation with experts, market participants and open debates inside the parliament. Post Ketan Parekh scam, SEBI Act was amended. Multiple amendments have taken place with a view to strengthening SEBI. Major amendments were made in 2002 and in 2014. Having been created by a law passed by the parliament; SEBI has statutory powers. It has strong supervision, investigation and enforcement wings. The order passed by SEBI can be appealed before the Securities Appellate Tribunals (SAT). The order passed by SAT can be appealed only to the Supreme Court of India. While in it's over 25 years of experience SEBI has faced multiple challenges, it has continuously improved itself to become a rule-based and transparent organisation. One example which would establish this point is the system of settlement of offences through consent mechanism. Earlier, even major offences would be settled leading to no punishment or penalty, and the settlement amount could vary widely.

But, SEBI prescribed new rules where there was clarity about which offences can be settled and which are declared unfit for settlement. The settlement amount is also prescribed through a mathematical formula. Discretion by SEBI staff was minimised. All enforcement actions by SEBI are under regulations like those on insider trading, manipulative trade practices, disclosure requirements etc. The rule of law approach followed by SEBI provides transparency and clarity in matters like processing of an IPO, trading and settlement - including when particular security will not be allowed to be traded, condition and manner in which foreign investors can invest or domestic funds managers can mobilise funds from investors. The culture of wide consultation before implementation has also taken its roots. India has also covered substantial grounds in strengthening corporate governance. In the World Bank ranking for shareholders protection released in October 2017, India has been ranked as number 4 in the world (World Bank 2017); way ahead of the countries like USA and UK. India's regulatory system has also been well appreciated by the multilateral agencies like the IMF. In a report submitted in April 2017, the IMF has found India to be fully compliant in all parameters prescribed by the IMF in its Finance Sector Assessment Plan (FSAP) (International Monetary Fund Monetary and Capital Markets Department 2017)

Areas of Further Improvement

One historical shortcoming in the Indian market has been the relative reluctance of households to get into financial savings. Amongst those who go for any financial savings, the preference is more towards Govt. or Quasi-Govt. securities having a nature of assured returns. In the last three to four years, it has started changing as more and more household savings are coming to the market through mutual funds. One has to be on guard, however, to ensure that cases of miss-selling and conflicts of interest are appropriately dealt with. Unauthorised deposit taking in various parts of the country is in major deficiency.

As per the amendment in SEBI Act in 2014, there is a legal presumption now that an amount raised above ₹ one billion will qualify to be a Collective Investment Scheme (CIS) and supervised by SEBI (Securities and Exchange Board of India 2017). This has helped more vigil, and coordinated action by different regulators as well as the State Governments. The Indian market also suffered from fewer products and compartmentalised regulation of different products. Trading in commodities derivatives is one such example. But now there is a move towards consolidation and ensuring inter-regulatory co-ordination.

Stock Exchanges in India

(Table-4)

Sl. No.	*HEADING*	*BSE*	*NSE*
1	No of Companies	5616	1897
2	Market Capitalisation	2,370,000	2,340,000
3	No of Companies on SME platform	209	99
4	Market capitalisation of Companies on SME platform	302	118

(As Dec. 31, 2017) (In $ million at the conversion rate Rs. 64 = $1)

Source*: SEBI*

The Securities Contracts Regulation Act (SCRA) and SEBI Act guide the listing and related matters for companies in India. There are regulations framed by SEBI for listing, trading and settlement etc. The regulations are:

- The Stock Exchanges and Clearing Corporation (SECC Regulation)
- The Issue of Capital and Disclosure Regulation (ICDR Regulation)

There are criteria for companies planning to get listed – which include minimum capital, the track record of profitability, standstill of transfer of shares by promoters, lock-in after listing. Disclosure regarding the purpose for which the capital is being raised and a ceiling of 25% for un-earmarked activities called general corporate purpose. At the time of listing or on subsequent occasions, the

promoters/ existing shareholders can off-load their shares in the market following the same procedure as prescribed for IPOs. Companies with certain positive parameters and higher net worth are also allowed to have fast track issuances.

For the listing of SME, there are special platforms in NSE and BSE. Listing criteria for SMEs are diluted. At the same time, market making and underwriting are compulsory. The minimum ticket size for investment is ₹ 1,00,000 so that small number of investors are precluded from participating on this platform.

SEBI has also come out with another platform which is somewhat similar to the NEEQ platform of China. This is called the Institutional Trading Platform (ITP). Here, only institutions or retail with more than ₹ 1 million is ticket size can participate. Initially, it was meant to be a platform providing existing opportunity to PE/VF (Venture Funds) and other institutions' investors. But now, even a retail investor above ₹ one million can participate. It was expected that start-ups planning to go outside India for listing could be lured for listing within the country. However, the first such listing is yet to take off.

Developments in China in the last Three Years

In May 2015, there was a serious crash in the market when the prices fell by more than one third. Analysts feel that in order to deal with the debt of the state-owned enterprises, Govt. had been planning to sell equity of these companies and utilise the proceed to retire the debts. They were happy with the equity prices going up - which it did in the preceding one and a half years. Most of the investors were domestic retail investors. However, when the prices reached levels much beyond the justification based on fundamentals, the market crashed in June 2015. It is, at this stage that the fearing a backlash from retail investors, China took some unanticipated and unforeseen harsh ad hoc measures. In fact, some of the reforms introduced in the last few years were reversed through these harsh measures. For example, fearing that investors were selling their holdings already listed companies and using the proceeds to buy shares in IPOs a ban on IPOs was imposed for 4 months (*Bloomberg* 2015b). Shares in more than 1000 companies were suspended from trading. At one time, 50% of the market was shut down for trading. Promoters or large shareholders including those having more than 5% of shares in a company were prohibited from selling their stocks for a period of 6 months (*Bloomberg* 2015a). Mutual funds are vehicles created to buy and sell shares in the interest of their unit holders, but mutual funds were banned from selling any shares for the next 6 months (*Bloomberg* 2015a). They could only buy. Obviously, it affected the interest of millions of unit holders in these mutual fund schemes. State-owned funds were asked to buy stock so as to prop up the prices. A public-sector company-China Security Finance Corporation-was given funds by the Central Bank so that they could loan the funds to brokerage firms who could buy shares from the market. Limitations were put on short selling and threats of arrest were issued for "malicious short selling". Some foreigners went missing, and there were reports that they were assisting in the investigation.

After six months of suspension of trading in shares; the same was resumed in January 2016 along with the introduction of a circuit filter (*CNN Money* 2016). The

market-wide circuit filter was placed at 5% and then at 7%. But, it could not stall the slide as this mechanism was hastily designed and implemented. The market continued to fall for three days, and the circuit filter was withdrawn. Immediately thereafter, the Chairman of the CSRC was also removed. All these developments aggravated lack of confidence in the transparency of the regulatory system.

Bond Market

In the bond market with a size of around USD three trillion, signs of weakness were detected in the 2016 end. Bond defaults rose sharply. Instances of forging documents and trading with forged companies seals were detected. The practice of selling investment products as insurance products came to light. Short term insurance products; say of two to five years duration were being sold in large numbers by the insurance companies. But basically, there were debt products. Instances also came to light that in order to avoid reporting a breach of permitted leverage, banks and financial firms were entrusting bonds to other companies with a promise to buy after a given time. Basically, these entrusted bonds were repo transactions. The practice of peer-to-peer (P2P) lending reached high proportion. In case of one platform- EZUBAO; more than one million investors lost their money, and it was discovered that most of the companies which took loans were non-existent. However, the supervision of P2P platforms has been augmented.

Other Developments:

There was an alarm at the sharp decline in the forex reserves from USD four trillion to USD three trillion between June 2015 to January 2017. A number of strong-arm measures were taken against investment abroad or remittances outside the country. Earlier, firms were encouraged to "go out" and acquire assets abroad, but the developments on the forex revenue led to a crackdown in early 2017 on overseas buy by large enterprises. Some of them had invested in movie companies, luxury hotels and resorts and sports clubs. All these were banned because of the fear that these foreign acquisitions were funded through high-cost borrowing in the domestic market or there were large borrowing abroad with domestic assets as collateral.

Other measures included detention of top executives of foreign corporations. At different times; executives of GSK, Rio Tinto and Crown Casino were detained. There are also reports to suggest that some big corporate leaders or their friends were detained in Hong Kong and brought back to the Mainland. China followed the policy of one nation two systems and Hong Kong securities market are regulated by the English system. But some worrying developments took place in Hong Kong as well in early 2017. Huishan Dairy lost 90% in value in one day in March 2017 wiping off more than $ 3.9 billion without any apparent reason (*Financial Times* 2017). Hong Kong SFC took measures such as being more proactive in listing rather than continuing to leave the same to the Hong Kong exchange. Measures were also initiated against limited free float and starting a third board to lure new economy stocks.

The table below lists some of the important developments:

Table 5

Major financial risks emerging in China since 2015

TIME	*EVENT*	*REMARKS*
June 2015	The sharp decline in Shanghai and Shenzhen stock market	Millions of household lost their money. A number of price supporting measures were taken: i. Ban on sell by mutual funds by shareholders having 5% or key management people. ii. Banning IPOs. iii. Closing down trading in more than one thousand companies. iv. PBoC providing money for China Securities Finance Corporation (CSFC) to lend it to brokerages for buying shares.
August 2015	Exchange rate slump in both on-shore and off-shore market	With a view to internationalise the RMB; certain reforms were taken up in rate formation mechanism but the devaluation of RMB provoked a shock.
January 2016	Circuit filter introduced in the stock exchange	The market continued to decline. Lack of proper design and preparation of the market led to frequent closure and abandoning the circuit filter mechanism.
October 2016	Defaults on corporate bonds increased	Jump in the number of bonds issued by state-owned enterprises. NPAs and zombie companies become an issue.
Early 2017	Massive decline in the prices of Hong Kong stocks	In Huishan Dairy prices inexplicably declined by 90%. Huge decline in many other cases. New supervisory measures planned.
2017	Criminal action against corporates/ foreigners	In a number of cases, corporate leaders were detained – some of which were executives of foreign firms in one high profile case, one person was whisked away from Hong Kong to Mainland China.
2016-17	Massive forex outflows reserves fell down from	Corporates were making huge investments outside China and in some cases, the sole motivation was to safe parking of money abroad.

	USD 4 trillion to 3 trillion. Monthly outflows exceed USD 100 million for months together.	Capital control measures were introduced. Large scale overseas investments in a specific sector were disallowed.

Comparisons

Trading System

Trading system and its risk management in India have been very carefully drafted by the regulators. Academics and private sector experts have contributed to the design, and it has served the country well. All exchanges have a clearing corporation which works as a central counter party. The risk management system of the clearing corporations is reviewed from time to time by experts and has got elements such as initial margins, mark to market margin, extreme loss margin etc. There is a core Settlement Guarantee Fund (SGF) which is as per the highest standard recommended by IMF and IOSCO. The corpus is provided at least 50 per cent by the exchange, at least 25 per cent by the clearing corporation and up to 25 per cent by the promoters.

Based on liquidity derivatives products are allowed in certain scrips (approximately 200). In these scrips, if there is high volatility, the dynamic margining system comes into play. For stocks in the list of derivatives, virtual tolerance limit has been provided. In case of extreme volatility having a market-wide impact, a system of circuit filter has been provided where trading gets automatically discontinued. For example, if the broad index went up and done by 10 per cent or more in the forenoon, circuit filter is applied, trading is halted and resumed after one hour. If there is a further fall up to 15 per cent then the market is shut down for 2 hours. In case there is a fall by 20 per cent then the market is closed for the day. Every move is well documented and transparently known. This contrasts with of what happened in China in 2015/ 2016. Firstly about 1000 companies were barred from trading and secondly when the newly announced circuit filter was introduced for the first time and the market continued to decline, the entire move had to be hastily withdrawn. On normal trading days the system has been working well but needs to be better prepared for tackling high volatility.

Mutual Fund Industry

There are detailed directions by the regulator to provide for their administration, risk control, fund management practices, avoidance of conflict of interest etc. in China. However, instances of giving directions banning sales have to be stopped, and transparent guidelines need to be issued.

In India, mutual funds industry has a long history. It has been regulated by SEBI for about twenty-five years. It has been on a take-off path after the measures to

revive the industry was announced in 2012. For month after month, more than ₹ 100 billion equity money is being invested in the market through mutual funds. The size of the industry has gone up for more than three times between 2010 and now and the total assets under management is ₹ 22 trillion (*Economic Times* 2017). The satisfying development is the tendency to enter the market through mutual funds rather than buying and selling securities directly by the retail investors and that through Systematic Investment Plan (SIP) of mutual funds. Risk management measures in place have proved successful at times of extreme volatility.

Foreign Investors

In China, there is the system of Qualified Foreign Institutional Investors (QFIIs). Investors with certain net worth and professional track records can get registered as QFII. The investment by QFIIs in China is not more than 2% of the market cap (*Wall Street Journal* 2017).

In India, foreign portfolio investor's regulations are in place since 1994. This was revised in 2014. Criteria for registration and investments are clearly laid out. There are no restrictions on the FPI in selling its portfolio and taking out the principal as well as accrued gain without any uncertainty or hindrance. Unlike China, where often bans are imposed on short selling that is not the case in India. Rules for risk management - including short selling, are in place. Since 2015 when market started to going down in China, several attempts have been made to discourage FPIs from selling in the Chinese market, and there are worries of FPIs shifting to other jurisdictions like Singapore, Hong Kong etc.

Conclusion

India has made continuous efforts to learn from its mistakes and make improvements. The Harshad Mehta scam led to the creation of statutory SEBI. The Ketan Parekh scam led to strengthening the powers and functions of SEBI and the subsequent episodes of market misconduct or other challenges like unauthorised deposits taking and collective investment schemes led to further strengthening the regulator and regulatory system. The risk management systems in the capital market and the supervision of the banks by RBI and all the insurance companies by Insurance Regulatory and Development Authority of India (IRDAI) have been tightened. Over the last 25 years, frequent debates in media, an active judiciary and open debates in the Parliament and professionalisation of regulatory institutions have helped strengthen the regulatory system in the last 25 years. But, often there are worries that the regulatory system needs to be more proactive rather than being reactive. Areas like illegal deposit collection, high-frequency trading and co-location, cyber security and more effective ways to mobilise domestic savings into the financial markets need continuous attention.

In China, on the other hand, some of the financial regulations brought out over a period of time were reversed at first sight of instability after 2015. But there are indications to believe that the political leadership is alive to the need for a strong and predictable regulatory regime. The National Financial Work Conference (NFWC) of the Communist Party and which is held once in five years was held in July 2017. It was addressed by the President Xi Jinping. This was a departure

from the previous two NFWCs which were addressed by the Prime Ministers at that time. Some of the statement made include: “Finance is the blood and pulse of the economy” and “Financial security is a vital part of the national security”.

It was made clear by the President that financial sector has to serve the real economy and not become unto itself. Deleveraging by commodities SOEs was also emphasised, and a call was given to halt irresponsible and reckless fund raising by the local government. The concept of one bank, three commissions, i.e. “People’s Bank of China” (PBoC) and three commissions viz. China Banking Regulatory Commission (CBRC), China Securities Regulatory Commission (CSRC) and China Insurance Regulatory Commission (CIRC) working in coordination through financial stability and development committee of the State Council was announced. The integrated regulatory framework is expected to help to deal with the old segmented approach. Commentators like Eshwar Prasad have highlighted that even though savings rate is very high in China-being close to 50% of the GDP; miss-allocation of resources because of an inefficient financial system leads to resources getting into less productive segments of the economy. He has highlighted the need for better transparency, disclosure and accountability. In his address to the 19th Congress in Oct. 2017; President Xi Jinping has exalted the nation to be a global leader in innovation with the rule of law in place. By 2050, the vision is to ensure that in China market-based allocation of resources takes place and business survival is determined by competition.

China has shown its resolve in the real economy by cutting down on the production of steel and coal and giving itself a massive target to do so in the near future. If the similar resolve is shown in bringing out efficiency in the financial markets through rule-based regulation, transparency, disclosure and predictability, China and the rest of the world will gain substantially. Going by the size of the two economies, their markets and the state of developments in their financial markets, the two countries have lots of common areas for collaboration, which will be beneficial to both the countries and help the global economy.

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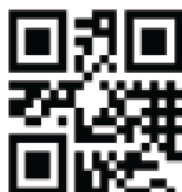

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