

CHES3002 China's Financial Reforms: Problems and Perspectives /

CCSS3610 Investment and Finance in China

Instructor: Prof. Li Chen (lichen@cuhk.edu.hk); **Office Hours:** by appointment

Office: Room1108, 11/F, Yasumoto International Academic Park, CUHK

Online Lecture (Zoom): Mon 4:30 - 6:15pm

Online Tutorial (Zoom): Wed 11:30am - 12:15pm

Course Description

This course examines the development and transformation of China's financial system during the recent decades of market-oriented reforms and discuss its investment implications. It takes a historical and institutional perspective to analyze the key components of China's financial system, including the reform of banking system, the development of capital markets, the rise of business groups and financial conglomerates, the evolution of exchange rate and monetary policy regime as well as the financial regulatory and governance framework. It provides students with a comprehensive and in-depth understanding of the achievement, challenges and opportunities of China's financial reforms.

Learning outcomes

By the end of the semester, students should:

- gain a better understanding of the overall structure and evolutionary trends of China's financial development and its investment implications.
- be familiar with the institutional arrangements underlying China's financial sector.
- be able to critically evaluate the challenges and opportunities facing China's financial systems.

Course readings

This course has no standard textbook, but requires intensive reading of academic literature and policy reports assigned by the instructor. The required readings for discussion will be posted to Blackboard. Students are required to bring the readings in hard copy to the class.

Assessment

Attendance	10%
Discussion Participation	10%
Reading Presentation	20%
Term Paper	30%
Final Test	30%

- **On-line Group Reading Presentation and Discussion:** there will be assigned readings for each week, and students are expected to come to class having done the readings and ready to participate in class discussion. For each session of discussion, a group of students will be assigned to lead discussion with an introductory presentation.

- **Take-home Final Test:** there will be **one final test** that examines the topics discussed in class. There will be no make-up tests unless a student has a documented medical excuse.
- **Term Paper:** students will research and write a paper discussing a self-selected Chinese financial institution or a self-selected financial policy issue or an investment situation in China. Students should resort to original company reports (annual reports, investor presentations, other company website materials), academic references (journal articles, book chapters), official statistics, and reliable news media reporting. The paper should be of the length of 3000-4000 words. The topics need to be developed in consultation with the instructor.

Students should submit a soft copy to the *Veriguide* system first and include the *Veriguide* receipt on the final copy that they submit to the instructor. The final copy must be submitted **no later than 5pm on Dec 09, 2020**. The assessment will be based on the final copy, double-spaced with standard margins and in 12-point Times New Rome font. **Hard copies without the *Veriguide* receipt will NOT be graded.** See the website: https://services.veriguide.org/academic/login_CUHK.jspx

Late submission of papers without a documented medical excuse will result in a 5% penalty and an additional 5% for every additional day.

Academic Honesty and Plagiarism

The University Regulations on academic dishonesty will be strictly enforced. Please check the University Statement on plagiarism on the web:
<http://www.cuhk.edu.hk/policy/academichonesty/>

Class schedule

Lecture 1&2 Introduction: Finance and Development

Lecture 3 Global Finance and China's Reform

Nolan, Peter (2015) "The West and China: Globalization and Competition in Financial Services", *Journal of Chinese Economic and Business Studies*, 13 (2): 87-104.

Huang, Yiping and Ge, Tingting (2019) Assessing China's Financial Reform: Changing Roles of the Repressive Financial Policies, *Cato Journal*, 39 (1):65-85.

Lecture 4 Hybrid Governance in China's Finance System

Pistor, Katharina (2012) "The Governance of China's Finance", in Randall Morck and Joseph Fan, *Capitalizing China*, University of Chicago Press, pp. 35-60.

Pistor K, Guo L, Zhou C (2016) The Hybridization of China's Financial System, in: Liebman B, Milhaupt C (eds) *Regulating the Visible Hand? The Institutional Implications of Chinese State Capitalism*, Oxford: Oxford University Press. 353-376

Lecture 5 **China's Banking Reform**

García-Herrero, Alicia (2013) "An Assessment of China's Banking System Reform" in S. Kaji and E. Ogawa (eds.), *Who Will Provide the Next Financial Model?: Asia's Financial Muscle and Europe's Financial Maturity*, Springer: 147-175.

Okazak, Kumiko (2017) "Banking System Reform in China: the Challenges to Improving Its Efficiency in Serving the Real Economy", *Asian Economic Policy Review* 12: 303–320

Chen, Muyang (2020) State Actors, Market Games: Credit Guarantees and the Funding of China Development Bank, *New Political Economy*, 25:3, 453-468.

Lecture 6 **The Rise of Shadow Banking in China**

Tsai, Kellee (2015) "The Political Economy of State Capitalism and Shadow Banking in China," *Issues & Studies* 51 (1): 55-97.

Tsai, Kellee (2017) "When Shadow Banking Can be Productive: Financing Small and Medium Enterprises in China," *Journal of Development Studies* 53(12): 2005-2028.

Lecture 7 **Corporatization and State Capital**

Wang, Yingyao (2015) "The Rise of the 'Shareholding State': Financialization of Economic Management in China", *Socio-Economic Review*, 13 (3) 603–625.

Chen, H., Rithmire, M. (2020) The Rise of the Investor State: State Capital in the Chinese Economy. *Studies in Comparative International Development*. <https://doi.org/10.1007/s12116-020-09308-3>

Lecture 8 **Capital Market Reforms**

Allen W, Shen H (2012) Assessing China's Top-Down Securities Market. In: Fan J and Morck R (eds) *Capitalizing China*, pp.149-195. University of Chicago Press, Chicago.

Li, C., Zheng, H.H and Liu, Y.B. (2020) The Hybrid Regulatory Regime in Turbulent Times: The Role of State in China's Stock Market Crisis in 2015-2016, *Regulation & Governance*, <https://doi.org/10.1111/rego.12340>.

Lecture 9 **Public Finance**

Wong, C. (2013) "Reforming China's Public Finances for Long-term Growth", in Garnaut, R. and Song, L. (eds.). *China: A New Model for Growth and Development*, Canberra: Australian National University Press, pp. 199-219

Wong, C. (2013) "Paying for Urbanization: Challenges for China's Municipal Finance in the 21st Century", in Bahl, R., Linn, J. and Wetzel, D. (eds.), *Metropolitan Government Finances in Developing Countries*, Cambridge, MA: Lincoln Institute for Land Policy, 2013, pp. 273-308

Lecture 10 **Financial Technology**

Mittal Sachin and Lloyd, James (2016) *The Rise of FinTech in China: Redefining Financial Services*. A Collaborative Report by DBS and EY, DBS Group Research, Singapore: DBS Bank.

Lu, Lerong (2018) “How A Little Ant Challenges Giant Banks? The Rise of Alipay (Ant Financial)’s FinTech Empire and Regulatory Options”
International Company and Commercial Law Review, 28(1):12-30.

Lecture 11 **Bureaucracy and Regulatory Reform**

Liao Min, Sun Tao and Zhang Jinfan (2016) *China’s Financial Interlinkages and Implications for Inter-Agency Coordination*, International Monetary Fund Working Paper 16/181.

Naughton, Barry (2017) “The Regulatory Storm: A Surprising Turn in Financial Policy” *China Leadership Monitor* (53):1-12.

Gruin, Julian & Knaack, Peter (2020) Not Just Another Shadow Bank: Chinese Authoritarian Capitalism and the ‘Developmental’ Promise of Digital Financial Innovation, *New Political Economy*, 25:3, 370-387.

Lecture 12 **Currency Reform and RMB Internationalization**

Sohn, Injoo (2015) “China’s Monetary Ambitions: RMB Internationalization in Comparative Perspective”, *Korean Journal of International Studies* 13 (1):181-206.

Cohen, Benjamin (2017) *Renminbi Internationalization: A Conflict of Statecrafts*. Chatham House Research Paper.

General Recommended Readings

Sheng, Andrew (2009) *From Asian to Global Financial Crisis: an Asian Regulator’s View of Unfettered Finance in the 1990s and 2000s*, New York: Cambridge University Press

Sheng, Andrew and Ng Chow Soon (2016) *Shadow Banking in China: An Opportunity for Financial Reform*. Hoboken, NJ: Wiley.

Stent, James (2016) *China’s Banking Transformation: The Untold Story*. New York: Oxford University Press

Green, Stephen (2004) *The Development of China’s Stock Market, 1984-2002: Equity Politics and Market Institutions*. London: RoutledgeCurzon.

Walter, Carl and Howie, Fraser (2006) *Privatizing China: Inside China’s Stock Markets*, Singapore: John Wiley & Sons

Walter, Carl and Howie, Fraser (2011) *Red Capitalism: the Fragile Financial Foundation of China's Extraordinary Rise*, Singapore: John Wiley & Sons

Goodstadt, Leo (2011) *Reluctant Regulators: How the West Created and How China Survived the Global Financial Crisis*. Hong Kong: Hong Kong University Press.

Back-up Plan: the lectures, tutorials and assessment will be conducted online as specified above until face-to-face teaching is resumed according to CUHK instructions.

Please note the instructor reserves the rights to change the syllabus at any time.