DISCUSSION OF “THE VARYING SHADOW OF CHINA’S BANKING SYSTEM”

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OVERVIEW

⚠️ NICE PIECE OF WORK ON THE “HISTORICAL” SHADOW BANKS IN CHINA

⚠️ Important to understand why this is the way it is now
⚠️ China is changing so fast….pre-2000 is like ancient time

⚠️ THREE MAIN INSTITUTIONS

⚠️ Urban Credit Cooperatives (城市信用合作社)
⚠️ Rural Credit Cooperatives (农村信用合作社)
⚠️ Trust Investment Companies (信托投资公司)

⚠️ ABOVE THREE ARE IMPORTANT CREDIT SUPPLIERS BESIDES COMMERCIAL BANKS IN THE PAST

⚠️ And after reform of 1994, these three institutions contributed to the credit-shift toward SOEs
GITIC BANKRUPTCY

1998 GUANGDONG INTERNATIONAL TRUST INVESTMENT CORPORATION BANKRUPTCY

- Finally got a closure after auctioning off real estate assets on June 2017!

BANKRUPTCY RESOLUTION

- Small debt investors got bailed out (like deposits)
- Large and international debt investors were paid below 15% (reported)

PRESUMABLY BAD INVESTMENT

- But maybe most of trust companies are more efficient than banks before 1994....


COMMENT

**TABLE 4, PANEL REGRESSION, SOE INVESTMENT IS POSITIVELY CORRELATED TO TRUST LOANS**

- But not entrusted loans, which explains real-estate investment
- Is the variation mainly coming from time-series or cross-section?

**INTERPRETATION: TRUST COMPANIES ARE SOE-CONTROLLED**

- Likely related to LGFV (政府融资平台), so-called bank-government-trust cooperation (银政信合作)
- Worth exploring further as micro-level data for trusts are available
- Wondering are there any difference around 2000 and after 2013 (the regression sample)?
• The broad trend is intriguing—how did you do the calculation? Based on aggregate (sector by sector) data?
• Improvement of TFP after 1998 was mainly composition shift from SOE to non-SOE, while almost no change of TFP within each sector
ARGUING DEFINITION IS OFTEN COUNTER-PRODUCTIVE

In this case, I think it is relevant though

China’s shadow banking now (whatever worries the regulators) is a totally different animal from those before 2000, and will keep changing

IMF DEFINITION:

Financial intermediaries or activities involved in credit intermediation outside the regular banking system, and therefore lacking a formal safety net

I feel this paper (and lots of researchers) treat shadow banking as financing that is not in the form of commercial-bank-loans
LEGALLY,

- Urban Credit Cooperatives and Rural Credit Cooperatives are Depository Institutions (or, they are Banks)
  - Credit Unions in US not “shadow banking”
- Trust Investment Companies are non-bank institutions
  - TIC are considered to be “direct finance,” (直接融资), in contrast to banking which is “indirect finance” (间接融资)

WELL, HOW ABOUT FUNCTIONALLY?

- Yes UCC and RCC are regulated in less restrictive way; but regulators (with honest reporting) have perfect oversight
- Trust companies in the old time do not engaging that much in maturity transformation
  - Though, changed quite a bit in recent years
- Say, bank-trust cooperation （银信合作）
SHADOW BANKING (3)

 REGULATORY ARBITRAGE?

- All shadow banking activities can be understood as a form of regulatory arbitrage
  - Otherwise why bother?
- Not all regulatory arbitrages should be considered to be shadow banking businesses
  - Undiscounted banker’s acceptance: non-loan items with lower capital charge; still inside the banking system, closely monitored
  - Once CBRC tightened it, almost negligible in recent years

 IN SUM

- Direct investment (Trust in its simplest form) is not shadow banking (the extreme is stock market)
- Financial intermediation that are under tight oversight is not shadow banking
- With macro-prudential assessment framework, non-loan activities by banks will be monitored
CHINA’S RECENT SURGE OF SHADOW BANKING (1)

WHAT WAS BEFORE?

- China’s shadow banking was boring. Almost all of it consists of ordinary bank loans that are routed through nonbank institutions
- Virtually all of the exotic features that make shadow banking both difficult to measure and potentially destabilizing in advanced countries are absent in China

NOT TRUE ANY MORE
China’s recent surge of shadow banking (2)

Why post-2008 surging in China’s shadow banking is scary

- Longer and longer intermediation chain, each round with one more bail-out expectations/guarantees (and in the end nobody knows who are truly responsible for it)
- Often started with deposit-like WMP (理财), then structural products (结构化产品) or asset management plan (资管计划), and then non-standard asset (非标资产), etc.
  - Most of them are NOT in Aggregate Financing (社会融资规模) reported by PBOC

Ever-complicated multi-facet financial market institutions

- Different regulators (CBRC, CSRC, CIRC)…..
  - The famous Baoneng-Vanke (宝能万科) case
- Regulators have vague idea about “true leverage” given the multi-layer structure
- Recent progress in penetrating supervision (穿透式监管)