

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

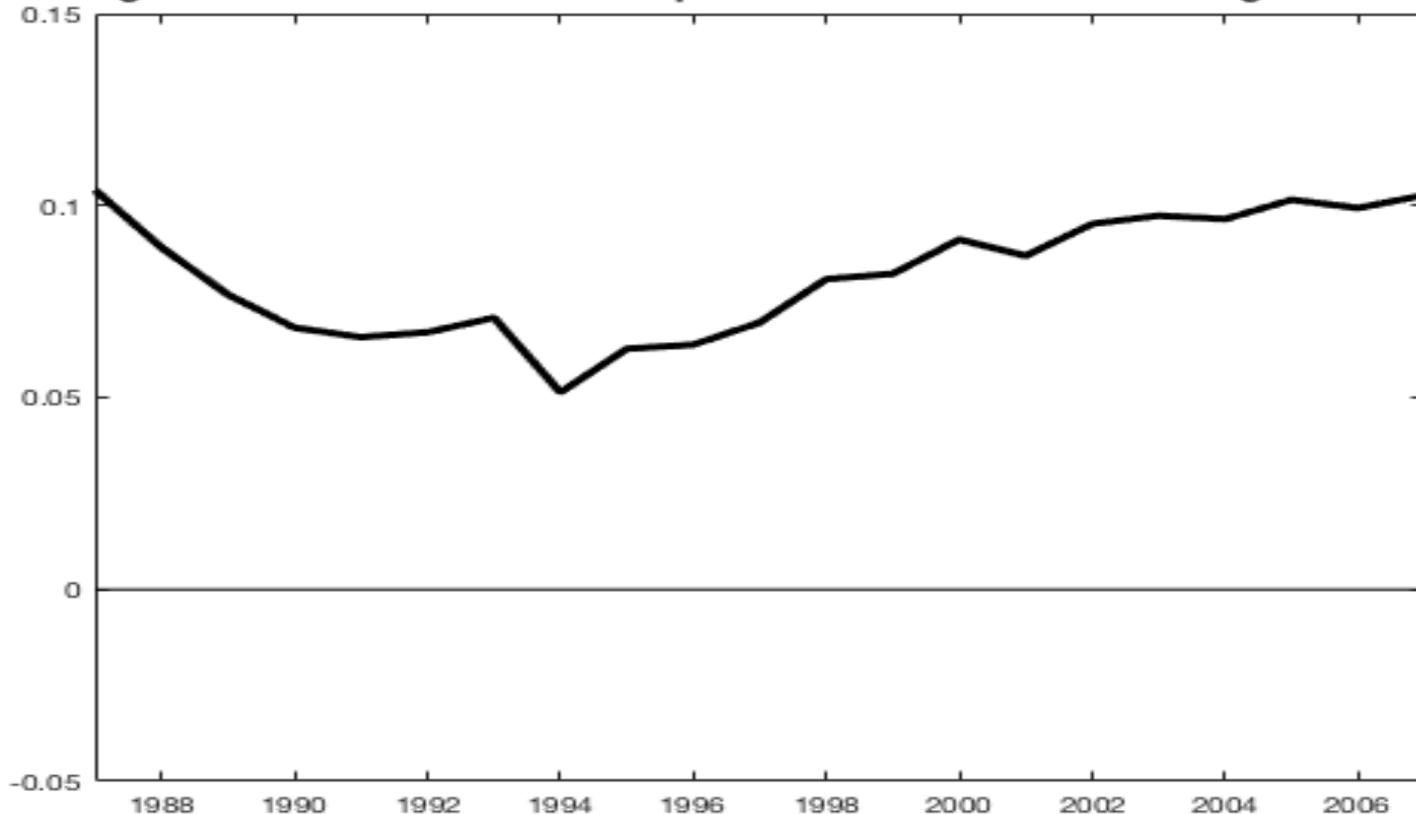
- ❖ But maybe most of trust companies are more efficient than banks before 1994....

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)?

CHANGTAI'S COMMENT

Figure 2. TFP Loss Due to Capital Misallocation in Non-Agriculture



- 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

SHADOW BANKING (1)

❖ 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*

SHADOW BANKING (2)

❖ 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?

- ❖ Kroeber, “China’s Economy: what everyone needs to know,” 2016
- ❖ 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)