Developing Regulatory Frameworks and Practices in China's New Financial Markets

Karen P.Y. Lai

Department of Geography,
University of British Columbia,
1984 West Mall,
Vancouver, BC,
V6T 1Z2, Canada.
Email: karen.lai@ubc.ca

Economic Geography
Research Group

Working Paper Series
No. 03.08

Developing Regulatory Frameworks and Practices in China's New Financial Markets

A paper submitted to

EGRG Working Paper Series

By

Karen P.Y. Lai

Department of Geography
University of British Columbia
1984 West Mall
Vancouver, BC
V6T 1Z2 Canada
Office: +(1) 604 822 9105
Fax: (+1) 604 822 6150
Email: karen.lai@ubc.ca

5th December 2008

Acknowledgements: Fieldwork for this research was funded by the China Policy Institute at the University of Nottingham, where I was previously based. I am grateful to Jamie Peck and Will Harvey for their helpful comments. All claims and omissions remain my responsibility.

Developing Regulatory Frameworks and Practices in China’s New Financial Markets

Abstract

The case of China’s journey towards marketisation in its financial sector, in instituting market-led reforms and practices, demonstrates the complex and fluid relationship between state and finance capital. This paper focuses on the regulation of newly established financial markets in Shanghai and reveals that strong state control and intervention is instrumental rather than contradictory to the development of new regulatory frameworks and practices. Based on interviews with government and regulatory authorities, and domestic and foreign financial institutions in Shanghai, I examine how regulatory knowledge and expertise were acquired, and why specific methods and learning partners were chosen over others according to the guiding principle of ‘*difang hua*’ (localisation). I also highlight some problems associated with the Chinese style of regulatory structures and practices as identified by interviewees. The case of China’s WTO ascension is used to illustrate the tension between state control and international pressures. China’s financial reform is not simply a transition ‘from plan to market’ but a process of reconfiguration specific to its historical and geographical context, of which the constitutive role of the state is crucial. The experience of market building in Shanghai thus illuminates how different constructions of capitalism evolve, how they intersect, and how a geographic sensibility makes a difference to the form and function of variegated capitalist economies.

Keywords

State, finance, markets, regulation, capitalism, China

1. Introduction

> *"Shanghai's goal is to develop an international finance and trade centre. […] If China doesn't have a financial centre, it will not have much standing in this world. A financial centre… there are only a few financial centres in the world. There is New York, London; we can feel that they are truly global financial centres. […] No matter where they are, if there are some changes to the financial markets in these places, there will be changes globally as well. Global markets will be affected, so they have global impacts." (Planning official for Lujiazui Finance Zone: #19, 10th April 2006; translated from Mandarin)*

The desire for China to have a role on the world stage through developing a financial centre in Shanghai is expressed in the above quotation from a government official in Shanghai. For the past 20 years, Shanghai has recorded double-digit overall annual economic growth, possessing China's premier stock market and only foreign exchange centre. Since the early 1990s, Shanghai has been actively promoting investment in the tertiary sector with the backing of the central government, and has been earmarked as the new flagship city that will connect China into an increasingly integrated world economy.

The Shanghai stock market might have achieved some global influence, as seen in the knock-on effects it had on the US and world stock markets when the Shanghai stock index dropped 8.8 per cent on 27 February 2007 (BBC News, 28th February 2007; TIME Magazine, 18th February 2007), but this on-going process of instituting market-led practices into the Chinese economy is far from straight forward. While regulatory changes, technological innovations and the globalization of markets and monetary flows are remapping the financial landscape towards deterritorialisation, states remain important arbiters in determining the shape and speed of such processes. The state and its state institutions continue to exert significant influence within their national space economy as well as on the international arena through the channels of supranational organizations, such as the International Monetary Fund (IMF) and World Trade Organization (WTO). The case of China's journey towards marketisation in its financial sector reform, in instituting market-led reforms and practices, demonstrates this complex and fluid relationship between state and finance capital. In this paper, I do not take the term 'mercerisation' to refer to an unproblematic and progressive journey from centrally-planned to market economy. Rather than the wholesale adoption of neoliberal market practices and principles, the Chinese state continues to exercise considerable control over the pace and structure of reforms with clear political and social objectives in mind.

In *A Brief History of Neoliberalism*, Harvey (2005) remarks that China is an odd case as it seems to have paradoxically combined neoliberal policies with state authoritarianism. This tension between neoliberal theory and state practices in China is also noted by Ong (2007), who conceptualizes neoliberalism as a technology of governing in which authoritarian control could be understood as part of this governance technology. She argues that Harvey's approach is too unwieldy as it focuses on economic management at the scale of the state, which ignores the variety of institutions and actors that are intertwined into complex relationships within a nation-state. As an alternative, she conceptualizes neoliberalism not as a system or a dominant structure but as a migratory technology of governing that interacts with situated elements, actors and circumstances. This opens up possibilities of different configurations and outcomes as groups and individuals negotiate, challenge, and re-create the complex webs that entangle them in the production of market ideologies, systems and practices. In his insightful editorial, Wu (2008) points out that contrary to Harvey's analysis, the presence of state control does not necessarily make China strange. In fact, the Chinese case may indicate that under certain conditions, neoliberalisation may actually require consolidation rather than reduction of control. When the Chinese state adopted a market-first approach with the Open Door policy in 1979, priority was shifted from class struggle to promoting economic growth. State intervention was justified by the need to enhance competitiveness as a late-comer to industrialization, and as such, the state legitimizes its role in the economic sphere, which in turn strengthened its political legitimacy. The process of marketisation has not led to the waning of state power as official ideology switched to a form of 'market socialism' that supports market-oriented accumulation as well as a strong state. This pragmatic reasoning is encapsulated in perhaps the most famous quotation from Deng Xiaoping that 'no matter if it is a white or a black cat; as long as it can catch mice, it is a good cat'.

The development of new financial markets in China presents opportunities to investigate emergent frameworks and practices of regulation and to examine the roles of various actors and institutions in state, international and industry capacities as they negotiate complex webs of interests towards regulation and marketisation in the Chinese context. The regulation of a financial market requires the maintenance of some form of systemic equilibrium and a framework of legal and administrative rules. All systems of regulation, however, are fragile and temporal within a highly dynamic and spatially variegated capitalist system. This is particularly apparent in an age of post-hegemony where governments, international regimes and regulatory authorities become increasingly squeezed as firms in the finance industry continually push for more permissive rules. China's approach to the marketisation of its finance sector has been fairly conservative and remains tightly controlled by the state. However, there are also clear indications of international influence and cooperation as regulatory counterparts in the City of London, Hong Kong and Singapore are actively involved in the development of regulatory capacities in Shanghai (its premiere international financial centre) and Beijing (the location of its central bank and headquarters of financial regulatory bodies). The influence of global institutions such as the WTO is also implicated in the deregulation of China's financial services and economic strategies. Foreign financial institutions in Shanghai are also actively engaged in pushing for reforms in particular areas that are important to their business operations in Shanghai, in their search for ever higher returns on capital. This process of marketisation is highly contested and influenced by a variety of actors and institutions both within Shanghai, the larger context of China and the international community. Throughout this process, the importance of 'place' and the 'localisation' of foreign expertise or knowledge is foremost in the minds of regulators, in adapting specific types of knowledge and skills to the local economic and political context of China's emerging financial markets.

In acknowledging that markets are the products of social relations that vary across time and space, this paper examines how financial markets are being constructed, regulated and reproduced. By focusing on the regulation of newly established financial markets in China, I investigate how the state, through government institutions and regulatory bodies, manage tensions between regulatory control and attracting global finance capital in the drafting and formulation of regulatory frameworks and practices. The process of marketisation and the development of regulatory practices are examined through the experience of government and regulatory authorities, and foreign financial institutions in Shanghai. How is regulatory knowledge and expertise acquired and put into practice? How do Chinese state institutions control the pace of marketisation through regulation and how do financial actors strategize their business activities to solicit optimum returns on capital? If we understand regulation as a social practice, the 'real' significance of regulation is only made apparent in distinct geographical and economic contexts, with an emphasis on the practices and actors involved in the institutional cultures of regulation, often occurring at the margins rather than the centre of regulatory spaces (see Clark, 1992). Rather than a top-down approach of regulatory decisions and laws being made and disseminated from the central state level to local authorities and other financial actors, or being imported directly from overseas models (or sometimes imposed as austerity measures and reform programs) and implemented as ‘best practice’, I focus on the process of formulation, adaptation and negotiation between actors and institutions as they stretch regulatory boundaries.

The empirical analysis in this paper is based on field research in Shanghai (with some supplementary data from London). Fifty-one interviews were conducted, the majority of which were carried out in Shanghai between February and November 2006, with foreign and local Chinese financial institutions (banks and securities companies), and Chinese regulators and officials (e.g. China Banking Regulatory Commission (CBRC), Shanghai Office for Finance, Lujiazui Financial Zone), and foreign chambers of commerce. Interviews were conducted in English and Mandarin. Secondary data sources include research by Chinese scholars on China’s financial system, financial markets and regulatory changes, statistical yearbooks, government reports, news articles from local newspapers and business magazines, and reports from local analysts and regulatory bodies, in a mix of Chinese and English languages.

In the next section, I examine how knowledge networks are constructed to access expertise and skills required for the legal and regulatory frameworks needed by Shanghai in building its financial markets. Who are the actors involved in such flows and how and why are specific concepts or methods adopted or rejected by the Chinese regulators? In section 3, I discuss some of the problems associated with the Chinese style of regulatory structures and procedures, as highlighted by local and foreign financial institutions interviewed. In section 4, I use the case of China’s WTO commitments to illustrate the tension between state control and international pressures, a relationship that is highly dynamic and contested not only between state and financial actors, but also amongst foreign and domestic financial actors and within regulatory institutions themselves. Finally, the concluding section summarizes my main arguments and how they demonstrate that issues of governance and regulation are central to market enquiries. I also reflect on what might be deemed the 'right' approach to markets, and implications for theoretical and empirical analysis of the state and a Chinese variety of capitalism.

2. Regulatory Knowledge and the Importance of '*Difang Hua*'

There is no all-encompassing definition of the term 'regulation' but Leyshon and Thrift (1997) offer two uses of the term that are prevalent in the literature. Firstly, regulation refers to the maintenance of a systemic equilibrium, in which an economic or social system is controlled by a 'governing mechanism'. Second, it refers to a framework of legal and administrative rules. Both interpretations are often mutually constitutive. As economic agents continually seek to surmount barriers to the generation of profits and value, the nature of activities being regulated often change in ways that render existing governing mechanisms redundant. Moreover, the spatially bounded nature of regulation (often organized according to political-territorial boundaries) makes it possible for economic agents to move between different regulatory spaces in order to circumvent constraints associated with particular regulatory regimes. This form of 'regulatory arbitrage' (Cerny, 1993; Leyshon and Thrift, 1997) has increased dramatically in the last two decades with improvements in information and communication technologies (ICT).

The state attempts to enforce financial prudence and responsibility by constraining the behaviour of financial institutions through regulatory structures and practices, but this tends to be undermined as financial institutions develop new financial instruments that enable them to move outside of existing regulatory frameworks and into new areas of financial activity as yet unconstrained by regulatory control. This tendency towards financial innovation ensures that the regulatory and supervisory authorities of the state are faced with the constant task of reappraising and restructuring the regulatory framework (Laulajainen, 2000). Financial market deregulation, especially since the 1980s, was a response to the inadequacy of nationally based regulatory systems to deal with the new internationalization of finance, involving the lifting of regulatory restrictions on market transactions and the types of products and activities permitted. The term 'deregulation', however, masks a complex process of regulatory change. Regulations cannot merely be lifted as the very operation of market economies is dependent on the existence of *a priori* rules and mechanisms to deal with market failures. This so-called deregulation has not resulted in a reduction of regulation or overall state intervention but has generally led to a complex process of drafting new regulation – a process more usefully conceptualized as 're-regulation' (Cerny, 1993) (Table 1). This complex process of drafting new regulation is a dynamic one, influenced by different agendas, levels of expertise and perspectives of a range of actors. Even as states remain important arbiters in determining the shape of finance within their national economies, they have to negotiate with a range of actors and institutions that operate on and across spatial scales: from international financial institutions and individual money capitalists to other state actors and interest groups. This is reflected in China's experience of developing regulatory frameworks and practices for its new financial markets.

The China Securities Regulatory Commission (CSRC) was established in 1992 as China experimented with stock markets in Shanghai and Shenzhen. The China Insurance Regulatory Commission (CIRC) was established in 1998 to regulate the insurance industry, and the China Banking Regulatory Commission (CBRC) was set up in 2003 to implement banking reforms and open up the banking sector to foreign competition as part of WTO commitments. The establishment of these regulatory bodies, with their specific areas of responsibility and mandates, were widely seen as indicative of China's commitment to reforming its financial sector along market principles and opening up to foreign investors and competition (People's Daily Online, 24th April 2003). At the launch of the CBRC, its Chairman, Liu Mingkang, declared that its establishment "demonstrates that China's financial sector has been opened up further to the outside world, while the financial supervisory regime has been brought closer to the international best practices" (quoted in EuroBiz Magazine, July 2003). How are clearly capitalist market principles being implemented in an economy where such structures did not exist (or are in their infancy) and in a society that is still broadly socialist in official rhetoric? How are 'international best practices' being assessed and adopted by regulatory bodies such as the CBRC? These are carried out through networks of knowledge transfer and skills acquisition at (i) the regulatory level with counterparts in other financial centres, (ii) at the industrial level through consultation and lobbying and (iii) at the individual level through particular recruitment strategies.

Specific channels of knowledge and skills transfer were set up by the regulators to connect with sources of expertise both within and outside of China. At the regulatory level, the CBRC has a memorandum of regulatory cooperation (监管合作备忘录; *jianguan hezuo beiwanglu*) with counterparts from about 20 other countries and financial centres, ranging from London, New York and Moscow to Wellington, Hong Kong and Singapore. The idea is to "stand on the shoulders of giants" (planning official for LFTZ: #19, 10th April 2006), to learn from their regulatory models and methods and then assess how best to implement particular aspects of those in China or specific areas like Shanghai:

> I think you have to learn from real world cases and experience. But you must have contextual knowledge. Like you know how the Americans do it, how it is done in Singapore, how it is done in Hong Kong, then you think about how you

> should do this here. That is the best method. And that is how we are doing it. […] We use a global view to examine our own problem, to see how we should develop. (*Ibid.*)

Memorandums of understanding (MOUs) (for example, between the CBRC and the Hong Kong Monetary Authority, and between the CSRC and the HM Treasury of the UK) provided frameworks for cooperation, including channels for communication, increased mutual understanding and the exchange of regulatory and technical information. Through these international channels, the Chinese regulators were able to acquire technical support and access different conceptual understandings of banking and finance restructuring and management, learning from different regulatory methods and experience. These were done through specially organized conferences and workshops held in China or other countries, fact-finding trips to different financial centres, and training and internship programs with other regulatory authorities and institutions. The Monetary Authority of Singapore, the Federal Reserve of the USA, the IMF, World Bank and Asian Development Bank, regularly hosted officials from the CBRC, CSRC, and PBOC on training workshops or attachment programs in their respective country offices and also sent their representatives over to China every year on training visits and exchange programs (economist for foreign bank: #7, 22nd February 2006; CBRC official: #25, 16th April 2006).

Decisions made by governments regarding policies and regulatory reforms are no doubt influenced by conditions and institutions within their own countries, but they are also affected by the decisions and experience of other countries (sometimes mediated by the behaviour of international organizations or private actors). Simmons et al. (2008) distinguishes among four mechanisms of international policy diffusion: coercion, competition, learning and emulation. Coercion involves power asymmetries that strong actors (governments, international organizations or even non-governmental actors) exploit in order to impose their preferences for policy change on the weak. Competition amongst governments for capital and market share offers a more decentralized explanation, in which governments have strong incentive to choose particular economic policies to render their jurisdiction more attractive for global investment and to remain competitive. Policy diffusion also takes place via learning when governments draw lesions from the experiments of others and apply them in designing their own policies. Evidence of success usually increase the likelihood of adoption elsewhere, while failure would impede policy transfer and adoption. Policy diffusion through emulation occurs when there is broad consensus on what is deemed 'appropriate'. Social acceptance of a policy approach can happen when leading countries serve as exemplars or when expert groups (such as economists) theorize the effects of a new policy and give policymakers rationales for adopting it. In this instance, it is often the rhetorical power of a new policy approach, rather than hard evidence of its success or efficacy, that matters. Policy formation and evolution is often more messy, complex and awkward than presented in such neat categories. A combination of the above mechanisms is often at work in changing configurations of priority over time.

While the process of market-led reforms and the need to develop related regulatory structures in China might be driven by pragmatic goals of economic development (as long as the cat catches mice) and the approach has been to learn from a broad range of examples, some regulatory models or practices are deemed more attractive or suitable than others with respect to China's political and economic context. While Hong Kong's proximity and success as an international financial centre and close economic ties with China might render it a natural role model for mainland China's financial sector reforms, its specific economic history and governance system made it problematic for transferring regulatory principles and frameworks. In examining the experience of other developing economies, Singapore's more conservative regulatory style and success based on a managed market-economy was deemed closer to China's experience and had been highlighted as a valuable learning partner (government official from Office of Financial Services: #28, 20th April 2006). The UK appeared to be a preferred learning partner amongst developed economies. Special committees consisting of industry experts, economists and regulators from the City of London had been advising the Chinese on aspects such as interest rates deregulation and bankruptcy laws. This could partly be due to the UK being seen as having a more prudent approach to financial services regulation compared to, for example, the US (economist from an international bank in London: #4, 11th January 2006), but such consideration could also be down to personal ties. Liu Mingkang, the chairman of the CBRC obtained his postgraduate degree in the UK. He was reputedly very good friends with Howard Davies, former chairman of the Financial Services Authority (FSA) and had mentioned the possibility of modelling the Chinese financial regulatory system on the FSA. Officials from the CBRC visit the FSA on a regular basis for workshops or internships, where they would not only absorb ideas and techniques but also establish contacts that were later maintained after they return to China (country representative of foreign bank: #16, 9th March 2006; chief representative of foreign bank, #29, 12th October 2006). While the development of regulatory expertise and structures in China are influenced by models, experience and actors elsewhere in the global financial space, (political) decisions on the broad path of reform often precede the choice of appropriate models of regulatory transformation. I will pick up on this point again later, relating to the '*difang hua*' approach.

Apart from regulatory counterparts overseas, industry participants within China were also tapped upon for specific skills and knowledge of the banking and finance industry. The CBRC in Shanghai and the Shanghai Municipal Government (SMG) Office for Financial Services would consult domestic and foreign financial institutions in Shanghai to obtain their perspectives on various issues, problems that they were facing and suggestions for improvement. The CBRC in Shanghai also had an international banking committee that held regular meetings to keep up with the concerns of the international banking community in Shanghai (head of department of foreign bank: #49, 3rd November 2006). One such example was how the CBRC worked on encouraging more business lending to small- and medium-sized enterprises (SMEs), a business sector that had been traditionally neglected by the Chinese state-owned banks due to their historical role of financing large state-owned enterprises (SOEs). The CBRC went directly to specific foreign banks that were successful in this loan sector to learn from their experience and seek advice. Through these consultative channels, industry participants were able to influence aspects of banking reforms, albeit only by invitation from the regulators. Professional bodies within the industry such as the Securities Association of China and Shanghai Banking Association were also involved in the building of expertise and raising professional standards of its members by inviting overseas experts into China for training seminars and collaborating with other professional bodies in places like Hong Kong for joint programs and training. Such knowledge networks within the finance industry also extend beyond China. The International Advisory Services department of Lloyds TSB in London, for example, regularly conducts training programs on corporate credit assessment, international trade finance and bank analysis that have been attended by representatives from Chinese regulatory bodies as well as state-owned banks (international bank in London: #49, 12th March 2007).

Before the launch or approval of new financial products the PBOC, CBRC or CSRC would hold rounds of consultation with banks and individual specialists within financial institutions to troubleshoot and identify potential problems. Before the announcement of new regulations, draft copies would be sent out to individual banks to assess market reaction and garner responses. Very often, those banks would bring the draft regulations to their respective banking groups or associations and the groups would submit an official response if necessary.

There was thus a clear channel of dialogue between these market participants and regulators. However, while the regulators were often well aware of the concerns of the foreign banks and the desired regulatory changes, reforms were not always carried through due to other political and economic considerations. The regulators had to be careful about giving the impression that they might be giving away too many incentives to foreign financial institutions instead of helping the local Chinese banks. The pace and structure of reforms seen as appropriate and desirable by the foreign banks were also not always deemed appropriate for the current Chinese context. Even though the power of foreign financial institutions was limited in these channels, most interviewees affirmed that such networks of influence were still valued by both the industry actors and regulators as a basis for knowledge transfer and negotiation and did have significant bearing on the content and structure of reforms and longer term trend of marketisation in China.

At the individual level, another strategy for knowledge acquisition had been to attract overseas Chinese to return to China where they could contribute their knowledge and experience in regulatory institutions. Many of them were educated in the US, Europe and Australia and most had experience working on Wall Street, the City of London or Hong Kong. Amongst the most prominent of the '*hai gui pai*',[1] or faction of returnees, at the CSRC were Gao Xiqing and Laura Cha (more commonly known as Shi Meilun on the Mainland), both of whom were vice-chairman of the CSRC. Gao Xiqing obtained a law degree from Duke University, was the first Chinese citizen to pass the New York State Bar Exam, and went on to work as an associate at a Wall Street law firm. He served as vice chairman of the CSRC from 1999 to 2003 before moving on to the position of vice chairman of the National Council for Social Security Fund in China. Laura Cha held a US law degree and was

[1] Returnees are often referred to as 'sea turtles' (海龟) in a joking or often derogatory manner. It is a pun (homonym) on the word '*hai gui*' which sounds the same as 'returnees' or 'sea turtles'.

formerly vice-chairperson of the Hong Kong Securities and Futures Commission. She was at the CSRC from 2001 to 2004 and currently a member of the executive council of the Hong Kong Special Administrative Region. Although these returnees wielded considerable influence, they were sometimes criticized for promoting policies that were perceived to be ill-suited to China, such as the pace and style of reform being too quick or inappropriate for the local financial and regulatory system (analysts from local securities firms: #22, 12th April 2006; #34, 17th October 2006; general manager of foreign bank: #41, 27th October 2006).

This view that financial reforms must to be appropriate to the local Chinese context was of primary concern to the Chinese regulators. All (current and former) regulators and officials whom I interviewed were keen to emphasize a contextualized approach in learning from the regulatory models and experience of other countries while adapting such knowledge and expertise to the historical context and economic needs of China. While "the original idea is from abroad, learning from those overseas […] as it comes into China, it has to change its flavour, to '*difang hua*' (地方化; localize)" (Planning official for Lujiazui Finance Zone: #19, 10 April 2006) to suit local economic and political conditions in China. This emphasis that foreign concepts would not work in China was particularly prominent amongst the Chinese respondents. They argued that due to different political and economic histories, different philosophies of market development and approaches, level of maturity and economic structures, the markets being developed in China must necessarily be different from that of other countries. A local respondent, for example, pointed out that:

> Of course we would like the market to grow as quickly as possible, as a business. We can only work for a few decades and I hope that things can develop quickly during my working life, that we can attain the same standards as Wall Street. But I think that is not practical. I think it will be up to the next generation and I am willing to push things up to the right level for them to take over. [… T]hese

> things are determined by background. We cannot go according to a western, mature market, you know what I mean? Our backgrounds are also different; we have a more planned economy approach. We don't have the same experience of market development as in other countries. (Local manager of Chinese securities firm: #35, 18th October 2006; translated from Mandarin)

This '*difang hua*', localized or place-based, approach to marketisation relates to the actual content or structure of regulatory frameworks as they were being developed as well as the pace of reforms. Instead of making sweeping changes to existing regulatory frameworks or opening up the financial service sectors to foreign competition with bold liberalization policies, the approach taken by the Chinese authorities had been a very measured and cautious one, to take things step by step, examine the implications and results, make further adjustments and then take another small step. Interviewees described this as a 'Chinese style' of implementing reforms, which had to be taken in a slow and cautious manner to avoid political and social unrest. The word, '*jinshen*' (谨慎), meaning prudent or cautious, was frequently used by interviewees to describe the Chinese style of reform. Looking at the experience of Soviet Russia and Eastern Europe, the Chinese state had drawn the conclusion that the so-called 'big bang' liberalization of quick and comprehensive price reforms combined with wholesale privatization had led to the sale of national assets to foreign powers with resultant economic, political and social instability (Green, 2004; Nolan, 2004). This experience was contrasted with China where an incremental reform process had been preferred and proved relatively successful (if problematic in other ways):

> Firstly, you have to identify the problems, what are the main problems and what do you need to do? In this aspect they know what is needed but to implement sweeping reforms, that is impossible. And it is not in line with the Chinese style of reforms. The Chinese style of reforms has always been very cautious (谨慎;

> *jinshen*) and gradual. Not like in Russia or like *perestroika*, basically it is not possible for that to happen here. (Local analyst of Chinese securities firm: interview: #22, 12th April 2006; translated from Mandarin)

In terms of launching new financial products and approving new business areas for banks and financial institutions, the Chinese regulators had been very conservative, moving very slowly due to the fear of causing financial and economic instability. The ability to *control* the pace and structure of re-regulation and marketisation thus remains a top priority in order to avoid market turbulence and social unrest.

3. Regulatory Confusion

The Chinese style of marketisation and regulatory reforms had drawn criticism from international commentators as well as industry participants. Although most of them acknowledged the pace and structure of reforms as appropriate to the China context, and expressed confidence in the knowledge and abilities of the regulators to varying extents, both local and foreign financial institutions in Shanghai had their complaints about the style of such re-regulation on their business activities and environment. As mentioned earlier, the Chinese regulators did not implement bold reforms but would test the market in small ways before issuing new regulations. The new regulation would generally be very vague to allow for further adjustments and refinement after gathering information and advice from financial institutions, professional bodies and other organization (such as the foreign chambers of commerce and banking groups). With regulatory changes being implemented in small but frequent steps, rumours, vague rules, amendments and clarifications were constantly circulating in the market, and market participants often found it difficult to keep on top of these changes. This problem was compounded by the lack of transparency in regulatory procedures and stilted information dissemination. Even as regulatory frameworks, such as those governing the public listing process on the SSE and the launch of new derivatives products, were being implemented, the precise criteria to be met and application process to obtain regulatory approval were not always made explicit and public. This led to one of the most frequently cited criticisms amongst respondents, that of disorientation and confusion due to the lack of transparency. A Chinese interviewee (#24, 15th April 2006; translated from Mandarin) likened the regulatory environment to a pot of soup (一锅汤; *yi guo tang*) in which different ingredients were just thrown into a pot and mixed together in an ad hoc manner.

The application process for a public listing on the SSE was highlighted by a number of interviewees as a prime example of fuzzy rules and the lack of transparency in dealing with regulators. The procedure of listing, documents required and other related information were publicly available on the SSE website (see Table 2) but even if one had ticked all the boxes and fulfilled the requirements following the checklist, there was still no guarantee of success due to other undisclosed criteria. For example, the first step in the listing procedure was to obtain CSRC approval, after which the company could then submit the various required documents. But how one would go about obtaining CSRC approval was not specified and that was clearly a hurdle that could stop potential IPOs in their tracks from the onset. A Chinese investment analyst (#48, 3rd November 2006) spoke of the use of personal leverage and '*guanxi*' (personal networks and relationships) to push through such applications and that the undisclosed criteria were usually understood by potential companies (through rumours, informal chats with others in the industry) such that they would know whether they would be successful even before they submitted an application:

> Analyst: It's about 70-80 percent [of the requirements that are disclosed]. Under the circumstances, you cannot say for sure [whether your application will be successful]. For large state-owned enterprises or private companies, it is largely

done through *guanxi* or maybe the brokers have some special access and they can help you do things. But purely market-style operation is not possible, it doesn't happen. […]

Researcher: So this process of approval is rather fuzzy…? You cannot be 100 percent certain what it is they are looking for?

Analyst: That's right. Although you know in your heart what they look for! Like what I've said… they will not write it down but you know it yourself and you don't even have to try, there is no need to even try [*laughs*]. (Translated from Mandarin)

This 'fuzziness' was particularly problematic for foreign banks as they negotiate an unfamiliar local regulatory environment with very different rules. The types of activities permitted for a representative office was one such example. In legal terms, a representative office may only engage in non-profit making activities, such as conducting market research for parent company or client, providing data and promotional materials to potential clients and partners, and other non-profit making business activities. The line that must not be crossed was that of *business-taking and profit making* activities, but certain activities, such as operating as a post-box for local customers, forwarding documents and letters of applications to the bank's head offices and branches in Hong Kong, *could* be interpreted as being outside of its research and consultancy mandate, depending on which legal counsel and regulators were consulted. Therefore even approved licenses came with significant grey areas that could be frustrating for foreign financial institutions used to having clearer rules of operation. Knowledge about the scope of activities for a representative office was therefore acquired slowly through more experiential and sociological means of personal interaction and information exchange with other banks in Shanghai, meetings with CBRC officials and becoming increasingly in touch with the 'spirit' of the rules over time. This notion of understanding a loosely-defined and illusive 'spirit' of the legal meanings was highlighted by a foreign representative of a foreign bank office in Shanghai and whom I interviewed from the beginning of its operation in Shanghai and then again 10 months later:

> Foreign banks represent less than two percent […] of the total banking community in China. To have a banking presence here is a long term strategic view for any foreign bank and the regulator, the CBRC would say, you've got to do your time, you've got to sit there and you've got to… see what you want to do. Don't jump in and have the activities and I think that's the *spirit* of it. So, therefore, they would say you can consider that, you can do that, you can *research* the marketplace, *build good relationships* with regulators and government for your future. […] A lot of it is understanding what people can do in the other banks, CBRC, talking to people, understanding what sort of activities are permissible and what would be frowned upon. […] We market the name and we help, creating business activities for our overseas branches, which is *our interpretation* of what we can do, and I think that's acceptable. And I think that sits within the grey area but it's on the right side of grey. (Foreign chief representative of foreign bank: #29, 12th October 2006; emphasis added)

Apart from the problem of administration transparency, Chinese rules were normally expressed in generalities and did not usually provide sufficient details for practical resolution. Implementation and enforcement were often subject to the interpretation and articulation of local administrative authorities and could vary from case to case. If formally published policy information could not be interpreted 'correctly' by information users, tacit information became more important for conducting business in China in order to stay on "the right side of grey”. Regulators used this fuzziness and grey areas as extra room for policy manoeuvre, to refine aspects of the framework after monitoring market reaction and the behaviour and actions of participants. Some of my Chinese respondents explained that Chinese laws were deliberately vague because how Chinese regulatory bodies were structured across spatial scales. Regulators at the national, provincial and local levels were faced with different problems and demands and the very vagueness of the laws allowed them to be adapted according to local contexts and requirements. As a local analyst for a joint-venture fund management company (#48, 3rd November 2006) explained:

> If you issue a regulation or a new law, maybe this new law is suitable for places like Shanghai, Guangzhou and Beijing but the problem is when this law reaches Wuhan, Sichuan, you may find that this regulation does not quite work because the method of governance is more loose and there are more loopholes. If you issue a regulation that is very tight, you may find that it controls risk in those places very well but inhibits business in other places.

The changing role of the Chinese state in the economic sphere has also led to the reformatting of systems and spatialities of governance. A certain degree of administrative power has been delegated to provincial and city level governments and institutions, which has increased the autonomy of local states. However, this development has not led to the dismantling of central-state governance as the political and economic power of local institutions, at the provincial or city levels, is derived from their positions in China’s administrative hierarchy, which is organized at the national level by the central state (Chung, 2007). Although each level has its own designated power, it owes allegiance to the next higher level. This hierarchical relationship enables the central state to maintain political authority while simultaneously giving power to lower-level authorities. Banking regulations in China can be divided into ‘published laws’ and ‘regulations’; Beijing publishes the law, but the regulations are interpreted and implemented by local entities. “Chinese laws are [thus] aspirational statements” (Foreign Chamber of Commerce in Shanghai: #2, 17 August 2005) that are open to interpretation by local bureaucrats. This strategy used by the Chinese state and regulators to manage the political economy could be understood as having developed out of specific contexts. However, it created uncertainty, inhibited business decisions and raised transaction costs particularly for foreign investors who arguably had greater difficulty accessing such non-policy information compared to their local counterparts (Yusuf and Wu, 2002: 1222). Many respondents pointed out as a misconception that there were insufficient laws in China to govern property rights and rules of exchange; the real problem lies with their *execution and enforcement*. Their characteristic vagueness might have allowed for more specific treatment and interpretations by local authorities according to local contexts, but the lack of clarity proved highly confusing and frustrating for foreign investors who might not understand their rationale and mode of operation. Through consultations, working groups, position papers and training programs, foreign financial institutions and regulatory bodies had contributed to greater clarity of new and existing regulations with some success as seen from the on-going drafting and re-drafting of laws and policies to govern new and existing products and markets. However, the Chinese regulators clearly value the ability to control market activities through an opaque system that allowed them the power and flexibility to quicken, interrupt or slow the process of marketisation. It also allows for adaptation to local needs by local branches in the context of a huge country with widely varied regional and local political economies. Respondents who had been in Shanghai over the past decade indicated that they had seen a clear improvement in regulatory expertise over time and the on-going reforms and negotiations were testament to their efforts. However, the regulators still tended to err on the side of caution as a guiding principle, which tended to stifle business activities and financial innovation. As such, the fuzzy characteristic of Chinese laws and regulations is likely to continue while particular areas within are refined in response to changing local, national and international considerations.

4. China's WTO Commitments: Opening One Door and Closing Another?

In December 2001, China joined the WTO as its 143rd member. In exchange for WTO membership, China made a series of concessions and commitments to further open up its domestic industries to foreign imports and investment. The WTO agreement was expected to fundamentally transform the existing socialist market system in China into a 'real' market system, and to establish Chinese global trade and production systems that comply with global rules (Zhao et al., 2002). Accession to the WTO was also seen as China's public recognition of marketisation and internationalization as the primary sources of its rapid growth since the 1980s (Lu, 2006). As part of China's WTO commitments, it had to open up its banking sector to foreign banks with regards to (i) the types of business they can engage with (foreign or local currency business), (ii) the types of customers (corporate or retail) and (iii) by geography (cities and regions where such business is permitted). Foreign banks would increasingly be able to offer more products and services to local corporate and retail customers and operate in more Chinese cities. Within five years after accession (by the end of 2006), foreign banks in China were to receive 'national treatment', i.e. be treated the same as domestic Chinese banks, in banking regulation (People's Daily Online, 12th June 2001; World Trade Organisation, 2001). The timetable for lifting these restrictions is shown in Tables 3 and 4.

The opening up process proceeded according to schedule. By the end of October 2005, 138 foreign banks were approved for conducting yuan-related businesses in China. Their assets amounted to US$84.5 billion, equivalent to two percent of total assets in China's domestic banking sector. Their share of China's foreign exchange loan market rose to more than 20 percent. In Shanghai, foreign banks achieved a share of total banking assets as high as 12.4 percent and a share of the foreign exchange loan market of 54.5 percent (CBRC, 2005). Nearly all interviewees agreed that external pressures and international expectations for China to meet the deadlines and fulfill its commitments had played a significant role in regulatory reforms and the marketisation process. However, this should not be seen simply as a decline of state power vis-à-vis the demands of global capital, supranational organizations and pressure from foreign governments. There was plenty of scope for the Chinese state and regulatory bodies to act according to their interests and agendas within the terms of WTO ascension, even as they negotiated with other interest groups. An official from the CBRC (#25, 16th April 2006) admitted that it was a delicate task having to juggle WTO commitments with local consideration and national politics and agendas:

> With so many foreigners coming in here, what do the local firms do? What if they… get eaten up? They [foreign firms] can, through M&A [merger and acquisition], swallow up all the local firms, right? So for China's economy… it definitely has to consider the locals. But you still have to fulfill your WTO commitment, your promise, so this will require a lot of skill… it's a rather… complex relationship. (Translated from Mandarin)

Another official from the SMG pointed out rather candidly that the WTO commitments did not have very specific stipulations so there was room to manoeuvre within those areas, so long as the broad principles were adhered to. "Yes, there is that commitment, but it could work out differently *on the ground*. The WTO regulations are not very specific. So they [the regulators] can work through other ways and means to impose some restrictions" (#28, 20th April 2006; translated from Mandarin and emphasis added). A few interviewees that I spoke to between February to May of 2006 also expressed their scepticism and the expectation that non-tariff barriers would be imposed so that the Chinese regulators maintain control over the pace of reforms and extent of foreign competition while still honouring their WTO commitments. When I raised the question of WTO during interviews, they would often interrupt saying "in theory… in theory", stressing the difference between theory and practice with regards to WTO compliance and expressing their doubts that a truly level-playing field would be instituted.

When I returned to Shanghai in late-2006, close to the final WTO deadline of fully opening up its banking sector to foreign banks regardless of business activities, customers and geographical regions, those doubts were shown to be justified with the announcement of a new law that effectively restricted the expansion and activities of foreign banks in China. The lifting of restrictions had been largely in keeping with WTO commitments but the reality was that high capitalization requirements and other conditions often made it commercially unviable or difficult for foreign banks to expand their range of businesses and customers. This was highlighted by new rules governing foreign banks in RMB retail banking. Since 2001, foreign banks had been able to conduct foreign currency business with both corporate and retail customers and they had been able to conduct RMB business with corporate clients since 2003. But the 'big fish' that foreign banks had been angling for was RMB retail business with what was expected to be a large and growing Chinese middle-class population. A draft amendment on *Regulations on Administration of Foreign Banks* (State Council, 2006) was circulated by the CBRC amongst the foreign banks in September 2006 for comments, as per usual practice, relating to the opening up of RMB retail banking to foreign banks. Despite the "moans and disagreements" (foreign representative of foreign bank: #29, 12th October 2006) from the international banking community, the amendment was subsequently passed with little changes to the draft just before the WTO deadline of December 2006.

The amended regulation stated that foreign banks with prior approval to conduct RMB corporate business with Chinese enterprises would not be automatically permitted to conduct RMB retail business; instead, they would have to reapply and fulfil specific conditions. Apart from having to meet pre-existing condition of “profit-making for two consecutive years during the first three years since its opening” (while having its business activities restricted) (State Council, 2006), the banks would also be required to commit unprecedented amounts of money as registered capital. The operating capital for foreign bank branches to conduct foreign currency business (with both corporate and retail clients) would stay the same at RMB 200 million. The requirement for foreign currency and RMB business with corporate customers would also remain at RMB 300 million. However, banks that wished to engage in RMB retail banking would have to acquire ‘legal person status’, which involved being locally incorporated in China and a registered capital of RMB 1 billion yuan. Without local incorporation, foreign banks would only be allowed to accept deposits of over RMB 1 million yuan from Chinese individual residents and would not be able to issue bank cards. This move had been criticized as China giving with one hand and taking with the other (Areddy, 2006; Shao and Lou, 2006). Some described the capitalization requirements as an example of China perverting its WTO commitments as the bar for foreign banks had been set much higher than many have anticipated (Low, 2003).

Many interviewees viewed the new amendment as a means of controlling the activities of foreign banks in China and maintaining a grip on the pace and nature of competition in the banking sector. There was a sense that the Chinese government might have given away too much in opening up the banking markets to foreign competition within the five-year WTO deadline and that the local banks were in danger of being left behind. Although there was never much doubt that the Chinese government would adhere to their WTO commitments, many of my interviewees were also not entirely surprised that “they [the government] will find all kinds of ways to make life very difficult for foreign banks because they feel that right now foreign banks are getting too aggressive and too effective in competing with local banks" (foreign head of department of foreign bank: #42, 27th October 2006). By imposing more stringent rules and raising the barrier to entry on foreign banks, a 'level' playing field was offered to foreign participants (as stipulated under the 'national treatment' clause of WTO ascension) but the conditions attached financial costs which not every foreign bank could afford to meet even if they entered China with the goal of RMB retail banking.

This suspicion expressed by the foreign finance community, that the Chinese government was seen as having conceded too much to foreign investors, was confirmed by a number of my Chinese respondents. They expressed concerns about the abilities of local Chinese banks to raise themselves to international standards of management, risk control, compliance, reporting and many other areas that required a period of time for new concepts and methods to be learned and instituted, and that the five-year WTO deadline was too short. Other interviewees were more candid and blunt in their assessment and viewed foreign players as treating the Chinese market like a mine, digging up what was valuable and depriving the locals of opportunities and wealth (local analyst of Chinese securities company: #34, 18th October 2006). The concept of 'competition' was also viewed differently amongst local and foreign respondents. The foreigners saw such non-tariff barriers as giving unfair advantages to local financial institutions while the Chinese saw it as unfair if foreign investors were given free rein in business activities and to enter all segments of the financial industry before local financial institutions were fully prepared and mature:

> Why don't we build up our own strengths and our own people? […] Our securities companies have not adapted to the international market, they have not done any international business or transactions. […] When they have not been properly trained […i]f you let the foreign institutions in now, isn't that courting your own death? It will be very easy for them to pull your good employees over,

> and it will be even easier for them to pull your clients over. […] *Under these conditions, how can you compete?* So I think it is right that the doors are closed to foreign investors at this point. […] there needs to be a process for *healing and recovery* before allowing the foreign investors in. (Local analyst of Chinese securities company: #34, 18th October 2006; translated from Mandarin and emphasis added)

Therefore, although China's WTO accession was taken as a indication of its commitment to further liberalization and reforms and adherence to international standards and agreements, the actual implementation on the ground revealed the complex balance of interests between the Chinese government, regulatory bodies, and foreign and local financial institutions in negotiating different concepts of what they deem to be 'fair competition'.

5. Conclusion: The 'Right' Approach to Markets?

> *The fundamental difference between socialism and capitalism does not lie in more planning or more market. Planned economy does not equate with socialism – capitalism also has planning. Nor does market economy equate with capitalism – socialism also has market. Both planning and market are economic means… Planning and market that serve socialism are socialist; whereas planning and market that serve capitalism are capitalist… The essence of socialism is to liberate and develop the productive forces, to maintain the public ownership system as the mainstay of the economy, to eliminate economic exploitation, to avoid polarisation of rich and poor, and to achieve ultimate common affluence. (Deng Xiaoping, quoted in Yao, 1998)*

As the finance sector in China becomes increasingly open to foreign participants and with the development of regulatory and legal frameworks, the concept of 're-regulation' (Cerny,

1993) is useful in capturing the complex process of regulatory change. Regulations are not simply lifted as the very operation of market economies is dependent on the existence of *a priori* rules and mechanisms, many of which are actually lacking in China. This process of re-regulation, in the drafting of new regulations, the adaptation of existing rules and better policing of how these rules are implemented, is not purely for the purpose of attracting foreign capital. As seen in Shanghai, the pace and nature of re-regulation is also used as a means of controlling the pace of financial reforms and to achieve particular objectives set by the Chinese government to reform SOEs and state-owned banks. In the process of marketisation as economic practice, the Chinese state institutions and actors clearly maintain a vital role in determining the financial structures and flows within the national space-economy. However, they still have to negotiate with a range of other actors and institutions that operate at and across different spatial scales. The construction of a financial centre in Shanghai is thus not only an outcome of its own historical context, economic advantages and development trajectory but also intrinsically bound up with the interests and decision of other agencies at local, national and international levels and negotiated amidst conflicts of interests and power struggles. The emergent regulatory frameworks and practices in China's new financial markets highlights the messy and dynamic process of marketisation in a form that is not deviant, as in Harvey's (2005) analysis, but one which has evolved out of specific institutional legacy, political trajectory and economic objectives. The results from this paper lends credence to Wu's (2008) postulation that neoliberalisation is the trajectory to establishing greater market re-orientation in China even if a different route has been taken.

In this paper, I examined how knowledge and expertise regarding the implementation of 'market' practices and structures were acquired, interpreted and adapted by the Chinese regulatory institutions through MOUs with regulatory counterparts in other countries, channels of consultation and dialogue with industry participants and attracting overseas returnees with the relevant skills and experience to implement financial reforms. Throughout this marketisation process, a '*difang hua*', or place-based or localized, approach to the pace and structure of regulatory reforms remained a firm guiding principle. By combining different concepts, philosophies and methods, financial reforms in China were borne out of a complex balance of interests amongst market participants in Shanghai, regulatory bodies and state institutions in different parts of China (who have different interpretations, views and agendas), and other financial, regulatory and institutional actors in the global space economy. China's WTO ascension has arguably quickened the pace of reforms and boosted international confidence in China's commitment to fairer terms of competition and opening up its markets to foreign players. However, non-tariff barriers that had a disproportionately negative impact on foreign banks vis-à-vis domestic banks were seen as a means of subverting their commitments, even as local and foreign banks disagree as to what constitutes 'fair competition' as permitted by regulatory structures.

From my interviewees' responses, there seemed to be an implicit assumption of what is the 'desirable' or 'right' approach regarding the marketisation of China's finance sector. A foreign president of a foreign bank (#20, 11th April 2006) in Shanghai, for example, insisted that:

> You have to have a free market for it to be a commercial, for a true financial centre. You've got all these regulations, a lot of which are geared clearly to keep the foreign elements out, therefore the competitive element out. Then you're not going to have a true financial centre. No way, cannot be.

From the perspective of foreign investors in the banking or securities sectors, the right approach would be to remove regulatory restrictions and barriers to entry. This would enable foreign financial institutions, most of whom have more experience and expertise in financial products and systems that China is just starting to develop, to have greater influence in quickening the pace of marketisation and improving the finance sector through competition or joint ventures. Without restrictions on foreign exchange or capital requirements, for example, they would be able to expand their business activities in China much more quickly and boost the development of Chinese financial markets. For local financial institutions, however, the right approach would be to restrict the activities and expansion of foreign financial institutions in order for the former to develop their own skills and capacities and not be overwhelmed by foreign competition. While domestic banks were mostly keen to learn and adopt new techniques and systems, there was widespread concern about the time it would take for them to be brought up to par with foreign financial institutions (be it in terms of credit systems, customer service, or international experience and networks). Joint ventures and other limited forms of participation for foreign financial institutions was seen as helpful for knowledge transfer to domestic banks, while buying them time for implementing reforms and improving skills and standards, so that they could then compete 'fairly' with a strong domestic financial sector.

To the central government and regulatory authorities, the right approach towards marketisation would be to develop a socialist market economy to uphold the principle of preserving 'public ownership' (by the state) and 'cooperative ownership' (based on contractual arrangement among the employees, enterprise, and the state) as the mainstay of China's economic system. This was reflected in the practices of a quota system for the primary equity market, segmented share structure, restrictions on the trading of state-shares in the secondary stock market, and significant state influence over the activities of state-owned banks such that it resulted in the dominance of state ownership amidst private ownership. Controlling the structure and pace of reforms to the finance sector such that it limited foreign participation and the implementation of new financial products and services might restrict the growth potential of this sector and the development of Shanghai as an international financial centre. But this cautious approach enabled the central government to observe the impacts of new market systems and practices, so as to limit negative externalities that might have social and political consequences. From the perspective of local government and regulatory officials, having the freedom to interpret broad and fuzzy guidelines from the central government and implement them according to local contexts was particularly useful. This freedom to interpret and implement specific regulations could be abused to satisfy personal agendas (such as favouring particular individuals or local institutions over other Chinese or foreign competitors) but such a multi-tiered system of governance helped to avoid the problem of inappropriate policies for a country with enormous social and economic disparities. Therefore, while foreign financial institutions might complain that regulatory grey areas and fuzziness were obstacles to developing robust, transparent and efficient markets, these characteristics offered enormous flexibility to local officials in ways that took into account local contexts and interests, to develop market systems and practices that were appropriate for local economies.

The ‘right’ approach to markets very much depends on whose vision of ‘markets’ is more persuasive, or rather, who has the power to determine or influence the version(s) of markets that is implemented, even though this process is fluid and unstable and subject to constant negotiation. Therefore, there is nothing natural or unstoppable about the move towards market-based economic structures and activities, at least in the neoliberal conceptualization most commonly represented in the media. In terms of the responses from my foreign interviewees, there seemed to be an implicit assumption that China must inevitably embrace a neoliberal agenda, to remove regulatory restrictions and open up its financial markets to foreign participation and competition, if it is to develop further. This paper has thrown some doubts on that assertion by showing how the process of developing market systems, structures and practices is far from straightforward and fraught with the difficulties of balancing different visions and agendas, and by highlighting the dominant role of the Chinese state, which, to some extent, might even be necessary for the success of Shanghai by providing a source of investor confidence and the basis upon which actors in the market assess market conditions and opportunities (or lack thereof) and adjust their business strategies and activities accordingly.

In acknowledging that markets are the products of social relations that vary across time and space, my empirical research in Shanghai examined how financial markets were being constructed, regulated and reproduced through relationships that tie actors and institutions in complex webs of interests. China's experience of developing financial regulatory standards demonstrated how different interpretations and agendas affected the process and outcome of re-regulation. For the Chinese regulators, there appeared to be no *one* preferred system for financial regulatory standards and control. Although there seemed to be a preference for London's model à la the FSA, China was also developing its financial regulatory framework by incorporating expertise and elements from other financial centres in Asia such as Hong Kong and Singapore. In developing the Chinese Accounting Standards (CAS), for example, it also drew heavily from the International Financial Reporting Standards (IFRS) championed by the US. This cherry-picking demonstrated how China was developing standards and frameworks unique to its economic environment and political context. Clark et al.'s (2001) study on the adoption of international and US financial accounting standards by German corporations reveals that the process of harmonization to international accounting standards is not one of complete submission to the forces of global finance and economic logic. Instead, they highlight the coherence and persistence of German institutions and traditions and how new methods and systems are often accommodated within these institutions rather than overwriting them. Similarly, the guiding principle of *difang hua* was echoed throughout interviews with government officials and Chinese respondents, providing a strong critique of the market optic (Sayer, 2003) – the normative treatment of capitalist social relations of production and neoliberal systems of regulation – which prescribes a unidirectional journey from planned to market economy. The case of China (and other post-socialist economies) is valuable in demonstrating how issues of governance and regulation are central to market enquiries. The term ‘transitional economy’ is a misnomer; there is nothing of a transition in the developments observed or in the diversity between countries such as Poland, Ukraine or China. It is more useful to conceptualize them as reconfigurations, combinations and re-arrangements peculiar to their historical contexts. The case of China should therefore not be seen simply as a transition ‘from plan to market’ but a process of reconfiguration specific to its historical and geographical context, of which the constitutive role of the state is crucial. The experience of market building in China can illuminate how different constructions of capitalism evolve, how they intersect, and how a geographic sensibility makes a difference to the form and function of variegated capitalist economies.

References

Areddy, J. T. 2006. Long March: In China, Citigroup encounters hurdles to retail-banking plans. In *The Wall Street Journal*. 10th November.

BBC NEWS. 2007. Dow gain bucks global stock slide. 28th February. http://news.bbc.co.uk/2/hi/business/6402915.stm. Accessed 21 October 2008.

CBRC. 2005. *New Progress of Reform, Opening, and Regulation of China's Banking Sector*. 15th December. http://www.cbrc.gov.cn. Accessed on 21st October 2008.

Cerny, P. G. 1993. The deregulation and re-regulation of financial markets in a more open world. In *Finance and World Politics: Markets, Regimes, and States in the Post-hegemonic era*, ed. P.G. Cerny. Aldershot: Edward Elgar.

Chung, H. 2007. The change in China's state governance and its effects upon urban scale. *Environment and Planning A* 39**,** 789-809.

Clark, G. L. 1992. 'Real' regulation: The administrative state. *Environment and planning A* 24**,** 615 – 627.

Clark, G. L., Mansfield, D. and Tickell, A. 2001. Emergent frameworks in global finance: Accounting standards and German supplementary pensions. *Economic Geography* 77**,** 250-271.

Eurobiz Magazine. 2003. *RMB Review*. July 2003. http://www.sinomedia.net/eurobiz/v200307/rmb.html. Accessed 21st October 2008.

Green, S. 2004. *The Development of China's Stockmarket, 1984-2002: Equity Politics and Market Institutions*. London: RoutledgeCurzon.

Harvey, D. 2005. *A brief history of neoliberalism*. Oxford: Oxford University Press.

Laulajainen, R. I. 2000. The regulation of international finance. In *The Oxford Handbook of Economy Geography*, ed. G. L. Clark, M. P. Feldman and M. S. Gertler. Oxford: Oxford University Press.

Leyshon, A. and Thrift, N. 1997. *Money/space: Geographies of Monetary Transformation*. New York: Routledge.

Low, J. 2003. *Banking on China: Issues Facing Overseas Banks in China*. London: Allens Arthur Robinson.

Lu, D. 2006. China's Banking Sector Meeting the WTO Agenda. *China Policy Institute Discussion Paper No. 5*. http://www.nottingham.ac.uk/shared/shared_cpi/documents/discussion_papers/Discussion_Paper_5_China_Banking_Sector__WTO_Agenda.pdf. Accessed 21st October 2008.

Nolan, P. 2004. *China at the Crossroads*. Cambridge: Polity Press.

Ong, A. 2007. Neoliberalism as mobile technology. In *Transactions of the Institute of British Geographers* 32**,** 3-8.

People's Daily Online. 2001. *'Timetable' set for lifting restrictions on foreign-funded banks*. 12th June. http://www.chinadaily.com.cn/chinagate/doc/2001-06/12/content_245940.htm. Accessed 21st October 2008.

TIME Magazine. 2007. *Behind China's Stock Meltdown*. 18th February. http://www.time.com/time/business/article/0,8599,1594488,00.html. Accessed 21st October 2008.

Sayer, A. 2003. Markets, embeddedness and trust: Problems of polysemy and idealism. In *Market Relations and the Competitive Process*, eds. S. Metcalfe and A. Warde. Manchester: Manchester University Press.

Shao, Z. and Lou, M.-J. 2006. *Don't Bank on China*. 3rd July, *The Lawyer.com*, http://www.thelawyer.com/cgi-bin/item.cgi?id=120811&d=11&h=24&f=23. Accessed on 21st October 2008.

Simmons, B. A., Dobbin, F. and Garrett, G. 2008. Introduction: The diffusion of liberalization. In *The global diffusion of markets and democracy*, ed. B. A. Simmons, F. Dobbin and G. Garrett. Cambridge: Cambridge University Press.

State Council. 2006. *Regulations on Administration of Foreign-funded Banks (Amended Draft)*. (Draft for Comments).

World Trade Organization. 2001. *Report of the Working Party on the Accession of China*. 10th November. http://www.cecc.gov/pages/selectLaws/WTOimpact/wkptrptPRCWTO.php. Accessed on 21st October 2008.

Wu, F. 2008. China's great transformation: Neoliberalization as establishing a market society. In *Geoforum* 39**:** 1093-1096.

Yao, C. 1998. *Stock Market and Futures Market in the People's Republic of China*. Hong Kong: Oxford University Press.

Yusuf, S. and Wu, W. 2002. Pathways to a world city: Shanghai rising in an era of globalisation. In *Urban Studies* 39: 1213-1240.

Zhao, S. X., Tong, C. S. P. and Qiao, J. 2002. China's WTO accession, state enterprise reform, and spatial economic restructuring. In *Journal of International Development* 14**:** 413-433.

Table 1 Re-regulation and changes in financial market structures

a) Decompartmentalisation	- Removing geographical or hierarchical limitations within particular financial sectors or between different functions. - E.g. the lifting of exchange controls and credit controls following the 'Big Bang' in the City of London
b) Disintermediation and securitization	- Twin processes - Disintermediation concerns the slower growth or decline in supply of intermediated bank credit (i.e. loans) - Securitization involves the growth of negotiable securities issues and trading
c) Financial innovation	- The development of new financial (mostly securities and 'off-balance-sheet') instruments - Take advantage of regulatory loopholes or the lack of regulatory structures, in the continuous search for higher returns on capital
d) Marketisation of the state	- Changing role of governments not merely as regulators but as participants in the markets themselves - Goals: ensuring their own solvency; manipulating monetary and fiscal levers; and promoting international competitiveness of home-based firms
e) Globalization	- The crystallization of transnational linkages - Enabled and accelerated by ICT - Intertwined with all of the changes above
(Based on: Cerny, 1993: 56-69)	

Table 2 Listing procedure for the Shanghai Stock Exchange and documents required

Listing Procedure

1. CSRC approval. The applications of companies for the listing of their shares are subject to the approval of the China Securities Regulatory Commission approval;
2. Submission of listing application documents. Only after gaining the approval of the CSRC, can the company make an application for listing to the SSE and submit the listing application documents required by the SSE.
3. Share custody. Before a company's shares can be listed and trading commenced, it must entrust its full register of shareholders to the Shanghai Branch of the China Securities Registration and Clearing Co., Ltd.
4. Determination of the date of listing;
5. Publish a listing notice. Following examination and verification of the SSE, the company must publish a listing notice 5 days prior to the listing and trading of its shares.
6. Listing and trading.

List of Documents

According to the provisions of the "Securities Law of the People's Republic of China", limited liability companies must submit the following documents when making an application for the listing of their shares to the Securities Supervisory Institutions of the State Council:

1. Listing Announcement;
2. General meeting of shareholders resolution to apply for listing;
3. Company Ordinance;
4. Company business license;
5. Financial accounting materials for the last three years or since the founding of the company following verification by legal verification organization;
6. Legal opinions in writing and a letter of recommendation from a securities company;
7. The most recent share prospectus.

In addition, companies must submit the following related documents according to the provisions of the Exchange's rules for the listing of shares:

1. Listing Application;
2. Documents from the CSRC approving its share issue and issue and listing declarations approved by the CSRC;
3. Newly added financial materials as required following issue of the share;
4. Photocopy of its business license;
5. Personal particulars of the secretary of the board of directors and contact details of the secretary of the board of directors, securities representative and legal representative;
6. Report regarding the shareholdings of the company directors, supervisors and senior management of the company;
7. Circular determining the listing abbreviation of the company's stock;
8. Documentation showing the full custody of the company's stock;
9. A written pledge of the company's largest shareholder pledging not to sell or repurchase its shareholding for a period of twelve months.
10. Other documents required by the Exchange.

(Source: Shanghai Stock Exchange Website, http://www.sse.com.cn/sseportal/en_us/ps/lc/lst_req.shtml)

Table 3 WTO phases by business and customer groups

Business	**Customer**	
Corporate Banking	*Foreign corporations*	*Chinese Corporations*
Deposits and lending RMB	Immediate	WTO + 2 years
Deposits and lending FOREX	Immediate	Immediate
Settlements and remittances	Immediate	WTO + 2 years
Foreign exchange transactions	Immediate	Immediate
Foreign currency guarantees	Immediate	WTO + 2 years
Interbank – deposits and lending	Immediate	
Interbank – discounting	Immediate	
Retail Banking	*Foreign citizens*	*Chinese citizens*
Deposits and lending RMB	Immediate	WTO + 5 years
Deposits and lending foreign currency	Immediate	Immediate
(Sources: People Daily, 12 June 2001; Low, 2003: 1-2)		

Table 4 WTO phases by geography

Foreign Currency	
Time	*Region*
Immediate	No geographic restrictions
RMB	
Time	*Region*
Immediate	Shanghai, Shenzhen, Tianjin, Dalian
WTO + 1	Guangzhou, Qingdao, Nanjing, Wuhan
WTO + 2	Jinan, Fuzhou, Chengdu, Chongqing
WTO + 3	Kunming, Beijing, Xiamen, Zhuhai
WTO + 4	Shantou, Ningbo, Shenyang, Xian
WTO + 5	No geographic restrictions
(Sources: People Daily, 12 June 2001; Low, 2003: 3)	