Financing China’s Economic Future: Challenge and Opportunity

- China in the World:
  - China’s Economy: Hugely important for the world economy.
  - China’s Markets: Limited presence in the global financial markets.

- China’s rate market (CGB and CDB):
  - Poor liquidity, severe segmentation, small amount outstanding, and limited hedging tools.

- China’s credit market:
  - Since the first default in 2014Q1, improved price discovery.
  - Since 2018Q2, increased importance of government support in credit pricing.
  - The real impact of credit mis-allocation: efficiency loss for non state-owned enterprises.

- China’s FinTech in asset management:
  - FinTech platforms have become an important distribution channel for mutual funds.
  - Super Apps improve financial inclusion, especially for under-banked individuals.
Liquidity of China’s CGB and CDB

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<thead>
<tr>
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<th>Noise (bps)</th>
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<tbody>
<tr>
<td></td>
<td>since</td>
<td>mean</td>
<td>med</td>
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<tr>
<td>CGB 2004</td>
<td>9.96</td>
<td>8.25</td>
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<tr>
<td>CDB 2004</td>
<td>10.24</td>
<td>9.86</td>
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<tr>
<td>CGB 2019*</td>
<td>6.90</td>
<td>6.05</td>
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<tr>
<td>CDB 2019*</td>
<td>6.06</td>
<td>5.84</td>
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<tr>
<td>UST 1987</td>
<td>3.08</td>
<td>2.57</td>
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<tr>
<td>JGB 2002</td>
<td>1.08</td>
<td>0.97</td>
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<tr>
<td>GB 2011</td>
<td>2.09</td>
<td>1.87</td>
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* Bloomberg inclusion 2019/04

"Noise as Information for Illiquidity" by Hu, Pan, and Wang (2013).
The Time-Varying SOE Premium and Its Real Impact

\[ \text{CreditSpread}_{i,t} = a + b \times \text{NSOE}_{i,t} + c \times \text{Rating}_{i,t} + \sum_{k} \text{Controls}_{k,i,t} + \epsilon_{i,t} \]

First Default
New Regulation

Quarterly Return on Assets

FinTech Adoption in China

Individual $i$’s consumption on Alipay and Taobao during month $t$:

$$\text{AliFrac}_t^i = \frac{\text{Alipay}_t^i}{\text{Alipay}_t^i + \text{Taobao}_t^i}$$

2017Q2

2017Q4

2018Q2

2018Q4