

## **The Politics of the Stock Market** **Barry Naughton**

Economic issues are playing a surprisingly small role in China's current political succession. There was little serious debate over economic policies at the March sessions of the National People's Congress (NPC), despite China's many complex economic problems. Delegates had plenty to complain about, but few concrete suggestions. Premier Zhu Rongji, in turn, repeatedly called for patience in pushing reforms, and emphasized the need for social stability this year, but said little about specific policies.<sup>1</sup> There is no obvious struggle among leadership factions for control of the economic policy agenda. This silence is unusual in the post-1978 history of the Chinese Communist Party (CCP), and seems particularly striking during a period of tense maneuvering for the political succession.

However, although economic policy is not currently central to ideologically charged debate, economic issues are still highly politicized in China, and economic policy issues will affect the leadership succession in numerous ways. A good current example stems from policies concerning the development and regulation of the stock market. The stock market is a hot topic in China today: there is an enormous amount written about the market, with heated discussion of specific policies. The previous issue of *CLM* described the vicissitudes of one of the most important stock market-related policies, that of selling off state shares in listed companies in order to fund social security. As it happens, perhaps the most important concrete policy news from the NPC was a "casual" comment dropped by Zhu Rongji on this policy. According to widely disseminated rumors, Zhu said, "The program of selling down state shares will not necessarily be resumed during this administration." Of course, Zhu's statement was immediately interpreted to mean that the program was dead for the year.

The discussion of the failure of the state share reduction program in the previous *CLM* focused primarily on the important economic issues that were at stake. But, at the core of that policy process was an intensely waged political struggle among interest groups. In the climactic event, one alliance of interest groups faced down Premier Zhu Rongji and blocked his effort to implement this major economic policy. The twists and turns of the policy of "selling down state shares" reflect a more general reality about economic policymaking in China today. Economic policy is increasingly shaped by interest groups that are often specific to particular sectors. Bureaucratic stakeholders and vested economic interests—some of which have arisen quite recently—vie for influence over economic policy. In a general sense, this competition is rather similar to the situation in market democracies, but the interplay of interest groups is much murkier in China. Factions do not have explicit programs that can be seen to benefit one or the other economic interest group. Many economic interests are linked to top leaders in the Communist Party, and are therefore sensitive. The economic interests of the leadership raise the potentially explosive issue of corruption, so the concrete details are typically hidden. As a result, we don't understand very well the particularistic economic interests

that might influence various party leaders. Still, the stakes are high enough in the outcomes that we can observe that we may reasonably conclude that economically based interest groups will affect the outcome of the current competition for power.

In this analysis, I will look at some of those issues through the prism of the Chinese stock market and the securities companies that operate in it. For the past two years, China's stock markets have been a locus of contention among various factions of China's elite, where actions have been dictated by both interests and policy preferences. I look first at the Chinese market's "year of supervision," the sustained effort to impose a regulatory framework and some transparency on the market. Second, I look at the new information about how the market works that has come out of this year of supervision. Importantly, some major scandals have erupted, and new media—especially the journal *Caijing*—have played an important role in directing public attention to the problems and needs for reform. Third, I go beyond the scandals to ask what hasn't been revealed. The basic answer, I suggest, can come from a distinction between corruption and market manipulation by outsiders on the one hand and corruption and market manipulation by insiders on the other. Information on manipulation by insiders is systematically scarcer. Finally, I touch on the role of one prominent insider, Li Peng, and consider what some of these issues might mean for the coming succession of political power in China.

### **The Year of Supervision: 2001**

The China Securities Regulatory Commission (CSRC) proclaimed early in 2001 that the year would be the "year of supervision." The CSRC had become the sole regulator of the stock market in 1998-99, following the 1998 governmental reorganization and new Securities Law. The appointment of a new leader of the CSRC in February 2000 began the active assertion of the commission's regulatory mandate. Zhou Xiaochuan, the new head, is widely regarded as one of China's smartest and most capable economist-bureaucrats. He has played an important role in economic reform design since the mid-1980s, and is often mentioned as a possible important fifth generation leader. Zhou has presided over a regulatory effort that has steadily gained momentum.

A wide-ranging effort has been made to follow through on the agenda of the year of supervision, and important progress has been made.<sup>2</sup> In some sense, the kickoff of the year of supervision came when Wu Jinglian, arguably China's most prominent public intellectual/economist, declared on central television on January 24, 2001, that China's stock market was more like a casino than a normal market and was seriously overvalued.<sup>3</sup> On February 12, Laura Cha, a Shanghai-born Hong Kong citizen with a U.S. law degree, extensive U.S. legal experience, and most importantly a decade of experience regulating Hong Kong's financial markets, was signed on as one of four CSRC vice chairmen.<sup>4</sup>

New regulations and enforcement actions came successively during 2001-02. The main actions have included:

- adding inspectors, clarifying enforcement power, and levying serious fines on listed firms and securities companies for fraud and misuse of funds

- issuing new regulations outlining requirements for financial statements, including increasing the frequency of financial statements (the number of companies punished for disclosure irregularities has risen from almost zero to 9 percent of all firms by October 2001)<sup>5</sup>
- requiring that one-third of the members of the boards of directors of listed firms be independent outside directors, and specifying the qualifications for a director to be considered independent
- strengthening audit requirements and, for firms listing after April 1, 2002, requiring audit by international accounting firms (such as Arthur Andersen!)
- delisting firms that have failed to perform or have reported inaccurately, which replaces the past practice of “classifying” underperforming firms
- prohibiting the use of short-term bank loans and other categories of funds for financing stock purchase or speculation

China’s market is still far from achieving the standards of regulation and transparency of developed nations’ markets (themselves imperfect, as Enron reveals). Markets are rife with insider trading and market manipulation, and a long process is still needed to correct the problems. Still, the CSRC has put together a serious and sustained effort to impose a regulatory framework on China’s “Wild West” stock market.

Along with the first steps of increased regulatory scrutiny has come a major market downturn. The market has lost more than a third of its value since the year of supervision. Interpretations of this downturn (as of any market downturn) are diverse. Some blame the CSRC for pricking the market’s bubble. Others see China’s market as having been artificially inflated and thus ripe for a correction. These conflicting interpretations of market performance have contributed to the debate over stock market regulation.

### **Taking the Lid off the Market**

The struggle to improve the transparency of market operations has given us our first real glimpse of current stock market operations. We always knew that there was something “fishy” about this market, but only now can we track the concrete details of market manipulation and insider trading. Moreover, new information is changing the way we look at the Chinese market overall. The standard wisdom had been that the Chinese market was dominated by individual investors with a short-term, gambling outlook. This view was supported by the existence of 60 million individual investment accounts and the extremely high rates of turnover of individual stocks. It turns out that this received wisdom is quite misleading. Many of the millions of accounts are inactive, and individuals can and do open more than one account. Until very recently, opening an account did not require identification, and fake identification documents are still easy to

come by. Many individual accounts are actually controlled by companies and investment funds. The officially registered securities companies have long been recognized as playing a prominent role in the market: managing initial public offerings, buying and selling on their own account, and managing investment funds. Alongside these companies there are literally thousands of unregistered investment funds. Xia Bin of the People's Bank of China surveyed a large sample of the firms that had registered to provide investment advice, consulting, or management services (but were not authorized to run investment funds) in Beijing, Shanghai, and Shenzhen. Xia used his sample to estimate that unregistered funds in those three cities managed 544 billion yuan, mostly invested in stocks.<sup>6</sup> Combining this amount with an estimated 200 billion yuan worth of stocks managed by registered securities companies, as well as with informal funds in other locations, Xia concludes that at a minimum 700 billion yuan, or about 40 percent of the stock market circulating funds, is managed by various registered and unregistered funds. With this kind of financial clout, and with little supervision until recently, securities companies and investment funds have significant market power.

During the last two years, the increasingly aggressive oversight and regulation of the CSRC has combined with an increasingly competitive business press to produce a series of exposés and to uncover some particularly juicy scandals. Competing magazines have uncovered scandals in the search for competitive advantage, and many journals have produced good investigative reporting. The preeminent outlet for investigative reporting is the magazine *Caijing*. This glossy and highly readable magazine has set a high standard for business and economic reporting, and has also become by far the most important outlet for detailed, timely, and accurate reporting of market scandals.<sup>7</sup> *Caijing* reporting has created an environment in which it is easier for the CSRC to implement its regulatory agenda. Three landmark articles from *Caijing* illustrate its influence.

In October 2000, *Caijing* published the scholarly “Dark Curtain” study of the market impact of officially registered investment funds. The study examined the behavior of 22 closed-end investment funds operated by 10 securities companies. The received wisdom is that investment funds—like other institutional investors—will stabilize a market, because fund managers will take long-term positions based on sound fundamentals. To the contrary, the study found that the Chinese investment funds tended to destabilize the market: on days of significant market declines, the investment funds actually reduced their positions more quickly than average market participants did. Moreover, it was found that most of the funds built up large positions in individual firms, often in cooperation with the other funds run by the same securities company. These funds would engage in sales of shares back and forth to each other to create the appearance of robust demand at high prices, generating artificial profits. Further, funds were not acting independently of the securities firms that had created them—when a securities firm managed a public offering, the stock was more likely to be held by the investment funds of that securities firm, suggesting conflicts of interest in which the investment funds sacrificed the interests of their investors in order to accommodate the interests of the issuing firms and securities firms. Finally, information disclosure by these funds fell far short of regulatory requirements.<sup>8</sup>

In February 2001, *Caijing* followed with revelations from a remarkable character named Lu Liang. Lu Liang first attracted public attention by writing experimental fiction and editing an important journal in Beijing during the 1980s. Later, the appeal of life as an engagé intellectual faded, and Lu Liang went down to Shenzhen to start playing the market. After he correctly called a few market turns, he built a reputation among market insiders. By 1996 Lu Liang had created a career writing about markets, doing consulting work, and advising investment funds. He also fell in with a Shenzhen speculator named Zhu Huanliang who was scheming to gain control of a company called Kangda'er. Lu Liang went back to Beijing, raised over 700 million yuan (\$85 million) from various Beijing companies and organizations, bought a large portion of the noncirculating government shares of Kangda'er, and took control of the company. Then, in the spring of 1999, Lu Liang published the first of four articles in *Securities Market Weekly* under the pseudonym Mister K. The new technological revolution is upon us, wrote Mister K. In biotech and high-tech agriculture, Chinese can take on any foreigner and go global, so the opportunity for investors is now, he asserted. In the fourth of his series—later bound together in a pamphlet—Mister K let drop that an overlooked little company called Kangda'er was well positioned to take advantage of this new wave. In August 1999, Lu Liang placed an unsigned article in *China Securities Daily* that described how Kangda'er was reorganizing and would become a holding company—like Berkshire Hathaway—with investments in biotech, high-tech agriculture, and Internet services and equipment. Lu Liang changed the name of the company to Zhongke Chuangye and bought stakes in Chinese medicine companies, but the company still had almost no assets. Nonetheless, with the favorable self-generated publicity, and after orchestrating a series of phony stock deals at steadily increasing prices, Lu Liang was able to generate a sense of momentum that led to 26 straight months of appreciation, making a fortune on paper. Then the scheme collapsed, perhaps because Zhu Huanliang betrayed Lu Liang and sold out early, and Lu Liang was left holding the bag. Lu Liang's gift with words had not deserted him, however, and he told his story to a *Caijing* reporter. The articles the magazine published were essentially the “confessions” of Lu Liang, although the reporter was able to verify key details independently.<sup>9</sup>

In June 2001, *Caijing* published the story of the company Yi'an Keji (earlier called Wanyi Keji), which bears similarity to that of Lu Liang. In this case a network of shell companies set up 627 bogus individual accounts and used them to buy shares, accumulating 85 percent of the circulating shares in the company in a little over a year. Shares were sold back and forth among the various accounts, steadily ratcheting up the price and generating “buzz.” In February 2000, Yi'an Keji became the first stock in China to sell for over 100 yuan per share, notwithstanding the fact that it was actually a poultry feed producer with a grab bag of half-baked “new economy” high-tech schemes. As the scam began to unravel, the regulatory authorities pounced. The CSRC fined the four shell companies and their principals a whopping 898 million yuan (\$108 million), including damages.<sup>10</sup> There are hundreds of scam and scandal stories in the Chinese market, and exposés are continuing, but the revelations in these two cases were pathbreaking.<sup>11</sup>

## Insiders and Outsiders

The stories reported in *Caijing* and elsewhere in China's press are entertaining and informative. But they tend to focus on cases of egregious con artists and speculators. These are individuals whose unusual talents and willingness to cross boundaries have given them the opportunity to profit from China's irregular market environment. They are, in short, outsiders. Because they are outsiders, their activities are likely to be unambiguously illegal, and when they fall, they typically end up friendless. The Chinese press is rather circumspect about the institutionalized corruption carried out by insiders. *Caijing* acknowledges that it tells the story of outsiders, but that the roles of their collaborators on the inside remain in the shadows—either as the source of funds behind speculators such as Lu Liang (where did he get that \$85 million?), or as the managers of firms such as Yi'an Keji that cooperate in the manipulation of their own share values.<sup>12</sup>

Insiders regularly profit from activities that are similar to the maneuverings of speculators such as Lu Liang, but are not necessarily unambiguously illegal. The most basic form of profiteering is setting the initial public offering (IPO) of a state-owned enterprise (SOE) at an unrealistically low price. The SOE gets the revenues from the IPO, while favored insiders get the opportunity to purchase at the low price and then turn around and sell quickly at the higher market price. The higher market price has been maintained, at least until recently, by a perception that the government will limit the supply of issues to the market and keep their value artificially high. Thus, in a sense, insiders, like speculators, pump up the price of low-value assets and then sell off part of the ownership at inflated prices. In order for the operation to go smoothly, the benefits must be shared among those who facilitate the operation. We can characterize this institutionalized corruption that has plagued the market as a triangle of interests. At one vertex of the triangle are the SOEs and their patrons, the local governments. The SOEs have a huge incentive to get listed on the stock market: the revenues from the shares sold in an IPO go to the firm itself. Listing generates a large sum of unencumbered money. SOEs of course have to share some of this benefit with whoever can help them get this listing.

They turn to the securities companies, the second vertex of the triangle. The securities companies manage the IPO, and they advise the SOEs on the steps they need to take to achieve a successful listing. SOEs listing on the market and securities companies have a kind of sweetheart relationship.<sup>13</sup> Both have an interest in maintaining high share prices, and SOEs are quite willing to have their IPOs go off at initially low prices so that securities companies and others with whom they wish to share benefits can profit from the initial appreciation. Of course, this might include local government officials, regulators, politicians, and their families. Chinese securities companies “are each and every one state-owned, and all are related to political power.”<sup>14</sup> (Private firms are not allowed to have securities licenses, because this might lead to speculation and corruption!)

At the third vertex of the triangle is the regulatory authority itself, the CSRC. Until 2001, there was a quota for the number of firms to be listed, and the CSRC

administered the quota. Who decided who was to be listed? There were criteria, to be sure, but in the end it was the CSRC that decided. As a result, a successful securities company was one that was able to cultivate good relations with the CSRC, navigate the approval process, and facilitate a listing. Since the CSRC set many parameters of an IPO, such as overall size and target profit, securities companies didn't necessarily have to provide particularly detailed advice or be all that skilled in financial analysis: it was more important to know how to get a listing through the commission.<sup>15</sup> Thus the triangle was established: the CSRC doled out positions in the listing queue, the SOEs would pay to get a place in line, and the securities companies managed the transaction that brought all parties together.

From this perspective, the essential first step in regulatory reform is to end the quota system by which the CSRC determines which firms can be listed. Without this change, the pressures creating institutionalized corruption within the CSRC, as well as without, are simply too strong. In fact, in April 2001, the CSRC abolished the quota and formally adopted a system in which any enterprise can list after passing a series of qualifying conditions. Of course, in China as anywhere else, the new regulations are complex, and it is still useful to have a friendly insider provide help in navigating the regulatory maze.

This account should make it clear that the struggle to impose a regulatory framework on the stock market also implies a struggle to reform the CSRC itself. There has been substantial turnover within the CSRC, and in many cases the simplest course has been to bring in new personnel with good training, foreign experience, and fewer connections to existing Chinese interest groups. With the new people coming in, experienced incumbent personnel see their opportunities for advancement reduced. This situation leads to resentment against so-called *haigui*—literally, “sea turtles,” but actually a pun meaning “returnees from abroad.” The same dynamic ensures that the top ranks of securities companies managers have been replenished by a flow of people leaving the CSRC. In the absence of effective conflict of interest regulation that would prevent regulators from serving in the firms they had regulated, former CSRC “nativists” have moved easily into the top ranks of securities companies.<sup>16</sup> A new generation of smart, well-connected managers, who have an interest in maintaining their own freedom of action, has given the securities companies new skills and influence.

The tensions within the CSRC can perhaps best be exemplified by the unusual events that followed the publication of the “Dark Curtain” article on investment funds, which I discussed above. The extensive data on which the article was based had been used without authorization by an employee of the Shanghai stock exchange, and the revelations were subsequently confirmed by an investment fund manager. When the article came out, both the Shanghai stock exchange and the fund supervision division of the CSRC were furious at the breach of confidentiality, and they proposed that both men be banned from the industry for life. Instead, somebody made sure that Premier Zhu Rongji was made aware of the situation, and Zhu decided that the former investment fund manager, Hong Lei, should instead be appointed vice director of the fund supervision division of the CSRC. Hong Lei seemed to know all the dirty tricks, reasoned Zhu, and

sometimes the fox is the best choice to guard the henhouse. Hong Lei continues to serve in that position.<sup>17</sup>

Thus, perhaps inevitably, the CSRC's effort to improve transparency and create a modern regulatory framework has created a lot of enemies. The broad market decline has cut into the profits many had made in the market. Opponents of greater transparency naturally emphasize the losses that those millions of individual small shareholders experienced, and blame the losses on the CSRC's regulatory policies. Both the program of selling down state shares and the decision to open the B-share market to Chinese citizens have come in for criticism.<sup>18</sup> Resentment is also easily generated against the high salaries and good treatment that members of the overseas contingent seem to receive, and "nativists" use this sentiment to criticize the approach taken by the CSRC.<sup>19</sup> These criticisms are fundamentally unfair. The broader market decline may have been the inevitable deflation of an artificial stock market bubble, or it may have been the delayed arrival in China of the global bear market that began in 2000. In any case, as discussed in the last issue of *CLM*, the CSRC did not design the specific policy details of the sale of state shares that coincided with the recent turndown in the market. Yet, these details do not prevent a lot of frustrated investors from blaming the CSRC.

In fact, at times the CSRC even gets blamed for being unable to control the corruption cases that its own investigative efforts are increasingly bringing to light. Although the corrupt practices predate the present CSRC administration, the public sees more cases of corruption and may blame the CSRC for not doing more.<sup>20</sup> So far, the CSRC has received fairly consistent support from Jiang Zemin and Zhu Rongji, as well as from most of the economics community. But without solid political support, the program of regulation might quickly run into trouble. That would be a disaster for China's reform process, because regulation of the stock market is a precondition for resolving several of the most pressing economic challenges that China faces. If the policy of stock market regulation were to become tangled up in the broader competition for power, that would be an extremely ominous portent for China.

## **Some Political Implications and Conclusions**

The powerful economic interests at play in the Chinese stock market undoubtedly make their influence felt all the way to the top of the political system. But, as mentioned above, it is difficult to trace the concrete connections. One institutional relationship we can trace stems from the NPC. Overall, members of the NPC assert a right to be involved in creating legislation for the stock market, and this involvement can complicate the regulatory process while also bringing in a number of diverse voices. An even more direct role is played by the Standing Committee of the NPC, which has a separate identity from the assembly gathered at big annual NPC meetings. In one sense, the "insiders" find a home at the Standing Committee, which is loaded with retired government ministers and high-level party cadres. Many of these are older bureaucrats with lots of practical experience and strong views on the issues. They take very seriously their obligation to supervise the operation of the government and to debate and draft regulations. During the drafting of the Securities Law, the legislative affairs commission

of the Standing Committee (*fazhi gongzuo weiyuanhui*) took an earlier draft of the law and revised it extensively. However, these revisions generally narrowed the law and made it less effective. For example, they stripped out provisions dealing with investment funds, various kinds of derivatives, and over-the-counter and electronic trading. Moreover, they subordinated the section on stock issuance to the section on securities companies, effectively giving sanction to the IPO monopoly enjoyed by the securities companies. In a final twist, the difference in approach between the legislative affairs commission and the finance and economics commission, which had drafted the initial version, led to a deadlock over the Law. It took six and a half years before the final version—closer to the legislative affairs commission's ideas—was promulgated at the end of 1998.<sup>21</sup> The approach of the legislative affairs commission has essentially been to be very concerned about outside speculators, but rather relaxed about the problems of insider control (that is, management and CCP control) of an enterprise. From this standpoint, the NPC can and does criticize the CSRC for not doing enough to expose corruption even as it maintains a basically complacent attitude toward the structural problems of insider control, lack of supervision, and market manipulation by state firms.

The character of the Standing Committee helps explain why Li Peng has managed to happily ensconce himself at the NPC over the last five years. It seems paradoxical that the unpopular Li Peng is at the head of what is nominally China's most democratic institution. But since the upper levels of the NPC are in fact populated by large numbers of retired officials, the NPC in some respects makes a very natural home for Li Peng—a “retired” premier—and he is quite comfortable representing the interests of these officials. This institutional relationship is striking, because Li Peng enters our story in other respects as well. There are persistent rumors about the involvement of high officials in stock market-related corruption. The general form this innuendo takes is of whispers that “wives and secretaries” of top leaders in Zhongnanhai own significant stakes in firms. An article in the Hong Kong publication *Zhengming* purports to describe a document from the Central Discipline Inspection Commission dated December 2001 that outlined the eight most problematic areas of corruption: number one on the list was high-level cadres holding stocks.<sup>22</sup> The report may or may not be accurate, but it certainly reflects popular perceptions and perhaps captures the essential nature of the system. Suspicions about Li Peng's family are particularly intense. Li Peng's eldest son, Li Xiaoyong, has been tainted by his connection with the collapsed Xinguoda futures scam, and public protests in Beijing have denounced his role. Li Peng's second son is head of Huaneng Power International, a big SOE listed on the market. When *Securities Market Weekly* in November 2001 described Huaneng Power in passing as a “typical family enterprise” and actually mentioned the name of Li Peng's wife, Zhu Lin, in the same context, it set off an immediate reaction: the issue was recalled and destroyed and the authors disciplined. Zhu Lin then gave an interview in which she claimed that she did not own a single share of stock and really didn't even understand what stock markets were about.<sup>23</sup> Li Peng was said to have been furious, suspecting that the CSRC was behind the article in the first place. Public opinion, presumably, was unmoved.

The discussion thus far may shed some light on the way in which economic issues might affect the succession process. First, many people have strong vested interests in

the current system, and those people will presumably use every bit of political influence they have to try to ensure that the succession does not damage those interests. Li Peng has the most to lose, because he has such a high position, because his family benefits so richly from the current political configuration, and because he is so widely disliked. But Li Peng also has a number of potential allies among other vested interests and a strong institutional base to cement those alliances. This entrenchment poses a clear challenge to the succession process and to Chinese regulatory reform.

It will be difficult, perhaps impossible, for us to trace these alliances as they play out in the succession maneuvering. At times in the past, it has seemed as though charges of corruption might be used as weapons in open party struggle, and as though such struggles might blow the lid off some important relationships.<sup>24</sup> But generally speaking, that has not happened. Instead, top party leaders seem to have concluded that there is plenty to go around. Family members from most top official families have benefited. There are rules against blatant forms of corruption, but little restraint on other forms of enrichment and influence peddling. An uneasy truce has been declared, and thus much information has been submerged. The struggle over power and money will create alliances in the power transition that might be unexpected, and that might cut across ideological cleavages. Politics makes strange bedfellows.

The struggle to subject the Chinese market to some kind of regulatory oversight plays a unique role in all this maneuvering. We should not interpret it as merely the normal regulatory effort that every government makes against con artists, speculators, and a few crooked politicians, though it is also this. More importantly, it is an attempt to chip away at the iron triangle of interests that systematically enriches the government and Communist Party functionaries who control the SOEs, giving them the chance to convert their political power into economic advantage. It would not be surprising to see alliances forged in the struggle for control of the stock market play an important role in the political succession. Indeed, of all the economic policy discussions in China, the struggle over the stock market might end up playing the largest role in the succession. Its political impact is likely to be greater than that of all the policies debated about how to aid poor peasants, benefit laid-off workers, or develop China's western provinces.

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## Notes

<sup>1</sup> Zhu Rongji's Government Work Report (March 5, 2002) seems to go out of its way to avoid saying anything meaningful about economic policy at all, even by the low standards of this traditionally anodyne document. See also "The Ministers of Foreign Trade, Foreign Relations, and the Information Industry have been Tapped for Retirement," *Renminbao*, March 13, 2002, citing Beijing *Gongshang shibao*, March 12, 2002, [www.renminbao.com/rmb/articles/2002/3/13/19664p.html](http://www.renminbao.com/rmb/articles/2002/3/13/19664p.html). *Renminbao* is an anti-government web site based outside of China, with a name chosen to mock the official government newspaper, *Renmin ribao*.

<sup>2</sup> "'Year of Supervision' for China's Stock Market: Roundup," *People's Daily*, December 30, 2001, [http://english.peopledaily.com.cn/200112/30/eng20011230\\_87763.shtml](http://english.peopledaily.com.cn/200112/30/eng20011230_87763.shtml).

- <sup>3</sup> “Stock Market Being Sensibly Regulated,” *People’s Daily*, April 20, 2001, [http://english.peopledaily.com.cn/200104/20/eng20010420\\_68196.html](http://english.peopledaily.com.cn/200104/20/eng20010420_68196.html). Wu Jinglian’s views were contested, a month later, by another group of economists head by Li Yining.
- <sup>4</sup> Ms. Cha insisted on a pay package that would meet international standards, but it is said that she returns her salary (or part of it) to the commission.
- <sup>5</sup> Bei Hu, “Regulation: Study Highlights Poor Market Controls,” *South China Morning Post*, May 3, 2002.
- <sup>6</sup> Xia Bin, “Zhongguo simu jijin baogao ” (Report on China’s privately raised funds), *Caijing*, July 2001, [new.homeway.com.cn/lbi-bin/news/create/article.pl?257063](http://new.homeway.com.cn/lbi-bin/news/create/article.pl?257063) and [.../article.pl?257073](http://.../article.pl?257073) and [.../article.pl?257007](http://.../article.pl?257007). For a brief English account, see Stephen Green, “The Truth about China’s Stock Market,” CFO.com, October 26, 2001.
- <sup>7</sup> Mark O’Neill and Christine Chan, “Magazine Reports in Name of ‘Justice,’” *South China Morning Post*, March 11, 2002.
- <sup>8</sup> Ping Hu and Li Qing, “Jijin heimu — guanyu jijin xingwei de yanjiu baogao fenxi” (Behind the fund’s Dark Curtain: Analysis of a research report on fund), *Caijing*, October 2000, <http://caijing.homeway.com.cn/lbi-html/caijing/monthly/200010/1335.html>.
- <sup>9</sup> Hu Shuli, Li Qiaoning, and Li Qing, “Zhuangjia lu liang ” (Speculator Lu Liang), Parts One and Two, and Li Qiaoning, “‘Zhongkexi’ zhuangwang zhi mi ” (The mystery of the speculator network behind the Zhongke companies), *Caijing*, February 2001, <http://caijing.homeway.com.cn/lbi-html/caijing/monthly/200102/1767.html>.
- <sup>10</sup> Li Qing, “Sheizai zaocong Yi’an Keji?” (Who is manipulating Yi’an Keji?), and Shu Li, “Yi’an Kejian hai meiyou wan” (The Yi’an Keji case still isn’t over), *Caijing*, June 2001, <http://caijing.homeway.com.cn/lbi-html/caijing/monthly/200106/content.html>.
- <sup>11</sup> A convenient list of scandals through 2000 is provided in Kang Weiping, “Zhongguo gushi zhongda weigui shijian buwanquan jilu” (An incomplete record of major illegal affairs on the Chinese stock markets), *Caijing*, January 2001.
- <sup>12</sup> Li Qiaoning, “‘Zhongkexi,’” and Shu Li, “Yi’an Kejian.”
- <sup>13</sup> Ying Zhoukan, “In the Big Market Decline, Which of the Five Main Departments is Most Misunderstood?” *Sichuan jinrong touzibao*, August 24, 2001, NetEase, [http://stock.163.com/editor/010824/010824\\_5846.html](http://stock.163.com/editor/010824/010824_5846.html).
- <sup>14</sup> Yi Xianrong, “Time to Get Rid of Corruption in the Stock Market,” *Hong Kong Dagongbao*, August 24, 2001. Yi is with the finance research center of the Chinese Academy of Social Sciences.
- <sup>15</sup> Zong Sheng, “The ‘CSRC Network’ in Charge of the Securities Companies,” *Jingji guancha bao*, November 18, 2001, [finance.sina.com.cn](http://finance.sina.com.cn).
- <sup>16</sup> *Ibid.*
- <sup>17</sup> “Zhao Yugang, One of the Protagonists in the ‘Behind the Fund Curtain’ Affair, Has Left the Shanghai Stock Exchange,” *Caijing shibao*, July 6, 2001, [news.homeway.com.cn/lbi-bin/news/creat/article.pl?256850](http://news.homeway.com.cn/lbi-bin/news/creat/article.pl?256850). Zhao Yugang, still in his 20s, was the other principal along with Hong Lei. Reputedly a brilliant student, he was disciplined by the Shanghai exchange for breach of confidentiality and subsequently left under unclear circumstances, but found a good job as asset manager in a Dalian securities company part owned by Beijing University.
- <sup>18</sup> Described in “QDII zhidu dui zhongguo zhengquan de yingxiang ” (The influence of the QDII system on Chinese stocks), *Zhengquan zhi xing*, April 12, 2002, [cn.biz.yahoo.com/020412/102/11x2.html](http://cn.biz.yahoo.com/020412/102/11x2.html). The criticism is that Chinese domestic investors rushed into B shares as the market was being opened, giving foreigners a chance to sell out and stranding domestic investors in a stagnant or declining market.
- <sup>19</sup> Yang Fan, “Yang Fan zhipi Hu zuli guandian: Xiadie weibi yu jianchi youguan?” (Yang Fan directly criticizes Fred Hu: Can it be that the market decline isn’t related to the state share reduction program?), *Beijing chenbao*, January 31, 2002, <http://finance.sina.com.cn/t/20020131/169436.html>. Yang Fan has a brisk reputation as a Beijing “leftist.”
- <sup>20</sup> For example, see the web posting by Cheng Guoyou, “Jinji jianji: Jiang zhongguo gushi zhizhi sizi and housheng” (Urgent suggestion: Kill off China’s stock market so it can be reborn), August 17, 2001, NetEase, [www.163.com](http://www.163.com). The piece argues that basically all the money in the market today is ill-gotten, so let them take their losses, and if the CSRC can’t control corruption, the leaders should quit.
- <sup>21</sup> Zhang Zhixiong, “‘Zhangquanfa’ chutai: buwei renzhi de neiqing” (The emergence of the Securities Law: The behind the scenes story people don’t know), *Caijing*, July 1999, 36-38. See also “Cheng Siwei:

The Speculative Activity on the Market Urgently Needs to be Controlled,” *Zhongguo hongguan jingji xinxiwang* , September 30, 2001, [www.macrochina.com.cn/qwview/20010930020918.shtml](http://www.macrochina.com.cn/qwview/20010930020918.shtml). Cheng, vice head of the Standing Committee and a former government minister, argues that unregulated private investment funds are the main force behind speculation. Cheng argues that the most important thing is to ensure that no single investor can take too large a position in any listed company, but of course he implicitly exempts the government from this restriction.

<sup>22</sup> Li Zijing, “Zhonggong dangqian bada fubai lingyu,” *Zhengming* 2002, no.1: 17-19. According to this source, the document claims that before the prohibition on speculating in stocks and foreign exchange, over 85 percent of cadres at county level and above held stocks.

<sup>23</sup> John Pomfret, “Corruption Probe in China Embroils Western Firms,” *Washington Post*, January 26, 2001, sec. A, p. 1; “Systemic Corruption: Something Rotten in the State of China,” *The Economist*, February 14, 2002.

<sup>24</sup> Joyce Barnathan, “The Gloves are Coming Off in China: President Jiang’s Crackdown on Corruption Could Unleash an All-out Power Struggle,” *Business Week*, May 15, 1995, 60-61.