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The Chinese financial system has grown significantly since the People's Bank of China (PBC) began functioning as the central bank in 1983 and the Shanghai Stock Exchange was established in 1990.[1] Total assets of banking institutions grew from 40 trillion yuan in 2006 to 210 trillion yuan in 2016.[2] Increasing financial sophistication in China is both a blessing and a curse. Commercial enterprises and investors welcome the wider array of financial products available today, but regulators face the challenge of maintaining financial stability in an increasingly complex market. Other actors, such as small and medium-sized enterprises (SMEs), have been left out of the mainstream financial system and have turned to alternative funding sources such as shadow banking.

This paper aims to explore the development of the shadow banking system in China. Shadow banking is broadly defined as credit intermediation that occurs through activities and entities outside the regular financial system.[3] Due to formal and informal constraints by the PBC on the amount and quality of lending in China, businesses without access to the four major state-controlled commercial banks have resorted to shadow banking as a substitute source of credit. The Chinese shadow banking system is growing rapidly by overall size and proportion of global shadow banking activities. Based on the Financial Stability Board's "narrow" measure of shadow banking, it currently accounts for $7 trillion of $45 trillion global shadow banking assets

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[1] People's Bank of China, (last visited Apr. 30, 2018), http://www.pbc.gov.cn/english/130712/index.html; *China's Stockmarket Plunge: This Time It's Different*, THE ECONOMIST, Feb. 13, 2018, https://www.economist.com/news/finance-and-economics/21737077.
[2] People's Bank of China, *China Financial Stability Report 2017*, July 2017, at 36.
[3] Zoltan Pozsar et al., *Shadow Banking*, FEDERAL RESERVE BOARD OF NEW YORK ECONOMIC POLICY REVIEW, 2013, https://www.newyorkfed.org/medialibrary/media/research/epr/2013/0713adri.pdf.

and grows 29% annually.[4] Shadow banking supports economic growth and investment by providing wider access to affordable credit. However, it also greatly increases risk in both the domestic and international financial systems.

This paper is organized as follows: Part I provides an overview of the types and size of shadow banking activities in China. Part II explains how shadow banking developed in China and identifies three major drivers: 1) demand for credit to support business investment and economic growth 2) lack of regulatory expertise and oversight and 3) restriction of credit after the global financial crisis in 2009. Part III explores the benefits of shadow banking as a source of needed credit, especially during China's transition up the economic value chain. It also highlights the risks of shadow banking, including lack of transparency and barriers to systemic risk assessment, implicit government guarantees, and corruption and criminal penalties. Part IV offers policy proposals for legal and institutional reform and reduced government intervention in macroeconomic planning. Additionally, it includes a brief analysis of broader domestic and international pressures on the Chinese financial system.

I. THE SCOPE OF SHADOW BANKING IN CHINA

A. Types of Shadow Banking in China

Shadow banking is a general term that encompasses a wide variety of bank and non-bank credit activity. The Federal Reserve Bank of New York defines shadow banking as credit intermediation outside the regular financial system without protection from either the central bank as a lender of last resort or public deposit insurance programs.[5] In China particularly, credit

[4] Financial Stability Board, *Global Shadow Banking Monitoring Report 2017*, Mar. 5, 2018, at 3, http://www.fsb.org/wp-content/uploads/P050318-1.pdf.
[5] Pozsar, *supra* note 3.

intermediation can be classified into three categories based on the source of funds and cumulative distance from the original lender.[6]

First, the creditor stage includes wealth management products (WMPs) and trust products.[7] WMPs issued by banks, trusts, and securities firms are investment products that provide a higher yield than traditional bank deposits based on performance of specific underlying assets.[8] WMPs are usually purchased by wealthy individuals seeking target returns, although interbank WMPS are becoming more common.[9] Trust products include trust loans, non-listed equity, and traded financial instruments purchased by both wealthy individuals and corporate and institutional investors.[10]

Second, the intermediate stage consists of financial system interlinkages including bank-trust cooperation, bank-securities brokerage cooperation, and bank-to-bank trust beneficiary rights transfers.[11] Bank-trust cooperation and bank-securities brokerage cooperation relationships are used to transfer money from WMPs to trust companies and investment products to securities brokerages, respectively.[12] The purpose of transferring management and holding of assets from banks to trust companies through such vehicles is to remove loans from bank balance sheets. For example, trust beneficiary rights are derivative transactions in which the purchaser receives a proportion of trust returns in exchange for keeping assets off-book.[13] Bank-to-bank trust beneficiary rights transfers shift loan and debt security exposures to other banks through a single-

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[6] Torsten Ehlers et al., *Mapping Shadow Banking in China: Structure and Dynamics*, BANK FOR INTERNATIONAL SETTLEMENTS WORKING PAPERS, Feb. 2018, at 9.
[7] Ehlers, *supra* note 6, at 35.
[8] Douglas Elliott and Yu Qiao, *Reforming Shadow Banking in China*, May 2015, at 3, https://www.brookings.edu/wp-content/uploads/2016/06/Elliott-Shadow-Banking-2.pdf.
[9] Ehlers, *supra* note 6.
[10] *Id*.
[11] *Id*. at 36.
[12] *Id*.
[13] Elliott, *supra* note 8.

investor trust that then loans the money to the ultimate borrower.[14] This technique shifts credit risk from one bank to another while avoiding or decreasing regulatory burdens.

Third, the ultimate borrower stage includes a range of forms of lending. Entrusted loans are loans between two corporations with a bank as an intermediate fiduciary to side-step bans on direct lending to corporates.[15] Trust loans operate like traditional bank loans, with funding from bank-issued WMPs or wealthy individual and institutional investors.[16] While trust companies are technically regulated by the China Banking Regulatory Commission (CBRC), they have rather flexible charters and are not subject to normal banking regulation.[17] Peer-to-peer (P2P) lending matches saver-lenders and users-borrowers via online platforms.[18] Other informal lending exists, such as loans by pawn shops or small businesses, but much of this activity is illegal.[19]

B. Size of the Shadow Banking Market in China

It is difficult to precisely calculate the size and growth rate of the shadow banking system in China. The market lacks transparency because a significant amount of credit intermediation occurs off balance sheets and goes unregulated.[20] Therefore, statistical records from domestic regulators and international organizations are incomplete and likely underestimate the true amount of shadow banking activity in China.

The most current and reliable data is available through the Financial Stability Board (FSB). For the first time in 2017, the FSB was able to collect baseline data on China and include the country in its annual report on global shadow banking. The FSB estimates the Chinese

[14] Ehlers, *supra* note 6, at 36.
[15] *Id*. at 37.
[16] *Id*.
[17] Elliott, *supra* note 8.
[18] *Id*.
[19] *Id*.
[20] People's Bank of China, *supra* note 2, at 150.

shadow banking system at $7 trillion in 2016 based on its conservative "narrow" measure of shadow banking.[21] The system accounts for approximately 16% of global shadow banking assets and 2% of total global financial assets.[22] For comparison, the United States accounts for 31% of the global total and is thus twice the size of the Chinese shadow market.[23] However, the mainstream banking sector in China is the largest in the world at $33 trillion and twice the size of the banking sector in the United States. [24] Therefore, while the absolute size of the Chinese shadow banking market is concerning, it is a smaller proportion of the country's domestic financial system than shadow banking is in the United States.

The three stages of shadow banking vary in size. The creditor stage is approximately 77% of China's GDP, the intermediate stage is 50%, and the borrower stage is 55% in 2016.[25] The amount of shadow funds available from creditors is higher than shadow funds that borrowers ultimately receive because a significant portion of WMP funds are diverted into bonds, the interbank market, and "structured" intermediation that does not include direct lending to borrowers. A key trend is that WMPs are rapidly shifting from guaranteed instruments (8% of GDP) to non-guaranteed instruments (31% of GDP). While non-guaranteed instruments increase returns for investors, they also increase systemic risk in the broader financial system.[26]

II. DEVELOPMENT OF SHADOW BANKING IN CHINA

Shadow banking has grown especially quickly in China over the past decade due to three interrelated factors:

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[21] Financial Stability Board, *supra* note 4, at 3.
[22] *Id*.
[23] Financial Stability Board, *supra* note 4, at 50.
[24] Gabriel Wildau, *China Overtakes Eurozone as World's Biggest Bank System*, FINANCIAL TIMES, Mar. 5, 2017, https://www.ft.com/content/14f929de-ffc5-11e6-96f8-3700c5664d30.
[25] Ehlers, *supra* note 6, at 28–30.
[26] Ehlers, *supra* note 6, at 28.

First, the supply of credit is inadequate for the high level of demand from growth-seeking private and public entities. The Chinese financial system is dominated by four commercial banks—Bank of China, China Construction Bank, Agricultural Bank of China, and Industrial and Commercial Bank of China—which are partially state-owned and operate under supervision of Communist Party leaders.[27] The PBC imposes informal lending quotas to direct both the level of credit growth and which sectors should receive funds.[28] The commercial banks lend most of their deposits to state-owned enterprises (SOEs) and local government-backed investment entities.[29] Preferred lending practices restrict the supply of private credit and favor large commercial enterprises with established reputations who can access traditional forms of credit. While there is evidence that officials are relaxing enforcement of quotas as the PBC transitions towards a market-based interest rate regime, SMEs and other higher risk borrowers continue to face barriers.[30]

Strong and unmet demand for credit also comes from the public sector. Local governments are incentivized to invest in large infrastructure projects, such as building roads and factories, in order to meet central government growth targets. Historically, the central government did not permit local governments to issue bonds, eliminating a key source of credit for local economic development plans.[31] A massive government stimulus plan in 2009 led to an overextension of credit to local governments, which quickly reversed as bank managers decided

[27] Dan Awrey, *Law and Finance in the Chinese Shadow Banking System*, 48 CORNELL INT'L L.J. 1, 23 (2015).
[28] *Id*. at 28.
[29] Simin Gao, *Seeing Gray in a Black-and-White Legal World: Financial Repression, Adaptive Efficiency, and Shadow Banking in China*, 95 TEX. INT'L L.J. 95, 106 (2015).
[30] Zhou Xiaochuan, *A Few Thoughts on Market-based Interest Rate Reform,* THE PEOPLE'S BANK OF CHINA, Jan. 4, 2011, http://www.pbc.gov.cn/publish/english/955/2011.html.
[31] Michael F. Martin, CONG. RESEARCH SERV., R42380, *China's Banking System: Issues for Congress* 31 (2012).

to only offer credit to the most reliable SOEs instead.[32] As a result, local governments turned to shadow banking and created local investment enterprises to channel the funds into projects. In 2015, the Ministry of Finance (MoF) approved a local debt swap scheme through which provincial governments can sell low-interest bonds directly to commercial banks to replace high-interest loans from the shadow banking sector.[33] While this creates a mainstream credit channel for local governments, it is not a replacement for open local government bond markets and could create additional market distortions.

Second, a lack of regulatory expertise and oversight allows the shadow banking system to circumvent traditional barriers to credit activity and regulation. The key regulators of the banking sector are the PBC, MoF, and CBRC. However, no central government entity officially oversees shadow banking. Instead, non-professional regulators such as the Ministry of Commerce and local government-appointed departments are tasked with handling shadow banking issues day-to-day.[34] Decentralization of authority means that rules for financing guarantee companies vary by jurisdiction and there is no official reporting to any national regulatory authority. The regulatory gap increases the lack of transparency of shadow banking activity and provides local officials with opportunities for corruption.

Third, the global financial crisis in 2009 led to a contraction in mainstream credit and increased private demand for shadow banking. The most prominent example comes from the city of Wenzhou in Zhejiang province. Wenzhou grew rapidly beginning in the 1980s because of its concentration of entrepreneurs and high level of private sector development. Due to the global financial crisis in 2009, the Chinese government imposed tight restrictions on credit. Businesses

[32] Martin, *supra* note 31, at 32.
[33] Elliot, *supra* note 8, at 5.
[34] Gao, *supra* note 29, at 129.

in Wenzhou turned to "underground banks" to fill the gap. Shadow banking offered an alternative to strict interest rate ceilings on deposit accounts, a result of tight monetary policy after the government's crisis stimulus package, and allowed speculators to take advantage of rising real estate prices.[35] Local officials allowed informal financing arrangements with almost no regulation or oversight.[36] Excessive shadow lending led to the city's financial collapse in 2011-2012, when an estimated 80% of businessmen defaulted on debts, disappeared, or committed suicide.[37] In response, the central government issued lending guidelines and developed bank stress tests, but the shadow banking market had already expanded in size and complexity.[38]

III. BENEFITS AND RISKS OF SHADOW BANKING

Shadow banking offers many benefits to the Chinese financial system. It is an important source of credit for local governments, private enterprises of all sizes, and individual investors. Access to cheaper and more flexible credit arrangements encourages business investment and the efficient flow of money, which in turn drive economic growth. Shadow banking provides higher returns for savers limited by PBC control of deposit and lending interest rates.[39] As China moves up the economic value chain, investors and borrowers will continue to seek a wider range of options and greater sophistication in financial markets. Innovation in shadow banking fills the gap until regulators and the Communist Party leadership permit greater flexibility in monetary policy and decrease restrictions on capital flows.

[35] Martin, *supra* note 31, at 6.
[36] Gil Lan, *Insights from China for the United States: Shadow Banking, Economic Development, and Financial Systems*, 12 BERKELEY BUS. L.J. 144, 166 (2015).
[37] Wei Shen, *Shadow Banking System in China – Origin, Uniqueness, and Governmental Responses*, 1 JOURNAL OF INTERNATIONAL BANKING LAW AND REGULATION 20, 23 (2013).
[38] Martin, *supra* note 31, at 6.
[39] Gao, *supra* note 29, at 105.

However, shadow banking creates significant risks. Shadow banking does not fall under the purview of mainstream systemic risk assessments and evades international risk management standards. For example, a key attraction of credit intermediation is that it allows entities to lessen or avoid onerous capital liquidity standards. China aggressively began implementation of the Basel III capital adequacy requirements in 2007 to comply with international regulatory standards.[40] While the largest banks met Basel tests as early as 2013, many small and medium-sized banks could not or would not comply.[41] However, regulators instituted a ban on packaging off-balance sheet loans into WMPs in early 2018 to push banks into traditional lending and curb shadow lending.[42] This should force banks to move assets back onto their balance sheets, increasing transparency and legitimizing government financial stability initiatives.

Despite such positive government efforts, two unique Chinese legal institutions continue to threaten financial stability and the rule of law. First, implicit government guarantees create a moral hazard problem. The central government has traditionally acted for decades as a lender of last resort for failing financial institutions. In the event of a bank failure, credit intermediaries assume that the central government will bail out every actor along the shadow banking lending chain, particularly if the funds originated at one of the large commercial banks.[43] In 2015, China introduced a deposit insurance scheme as a step towards clarifying bank resolution procedures.[44] This signaled to the shadow banking system that the government would allow financial institutions to fail, decreasing the incentive to engage in risky informal lending. However, the deposit insurance system is in its early stages and remains largely untested.

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[40] Wei Liu, *Basel III and Bank Regulation in China*, 7 J. LEGAL TECH. RISK MGMT. 1, 9 (2014).
[41] *Id*.
[42] Gabriel Wildau, *Chinese Banks Under Pressure from Beijing to Boost Capital*, FINANCIAL TIMES, Apr. 24, 2018, https://www.ft.com/content/cee23ffa-43aa-11e8-803a-295c97e6fd0b.
[43] Awrey, *supra* note 27, at 34.
[44] A.L., *China Introduces Deposit Insurance*, 34 INT'L FIN. L. REV. 12, 13 (2015).

Second, the government imposes harsh criminal penalties for "economic crimes." The judicial system has the discretion to impose long prison sentences and even the death penalty for underground credit activity.[45] While the list of official economic crimes covers an array of activity and is part of the broader Communist Party fight against corruption, shadow banking prosecutions in particular may be motivated by more than punishing illegal activity.[46] Gao suggests that the government uses harsh criminal punishment instead of administrative fines to deter private actors from competing with SOEs for deposits.[47] Penalties for financial fraud and money-laundering are necessary, but capital punishment for widespread quasi-legal activity is excessive. Harsh criminal punishment incentivizes shadow banking actors to engage in even more opaque transactions, hindering regulatory efforts and financial reporting. Furthermore, foreign investors will demand a higher level of independence from the judicial system as the Chinese financial sector liberalizes, and disproportionate punishment may decrease judicial credibility on the international stage.

IV. REFORMS AND POLICY SOLUTIONS

Shadow banking developed in China largely because of a lack of access to affordable credit and inadequate risk management systems. Therefore, mere bans on particular types of credit intermediation or harsh penalties will not be enough to mitigate risk from the shadow banking system. Regulators will need a comprehensive approach in order to permanently shift shadow lending to regulated mainstream instruments. China can achieve a more sustainable, flexible regulatory environment for its quickly maturing financial sector by instituting legal and

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[45] Gao, *supra* note 29, at 132.
[46] *See* Benjamin Kang Lim, *China's CEFC Chairman Investigated for Suspected Economic Crimes*, CNBC, Mar. 1, 2018, https://www.cnbc.com/2018/03/01/reuters-america-update-2-chinas-cefc-chairman-investigated-for-suspected-economic-crimes--source.html.
[47] Gao, *supra* note 29, at 132.

institutional reforms, reducing government intervention in macroeconomic planning and monetary policy, and addressing broader domestic and international concerns.

A. Legal and Institutional Reforms

Recognizing the risks of unregulated credit intermediation, the Chinese government increasingly formalized its efforts in the past five years to enhance supervision of the shadow banking system. The State Council, the highest administrative body in China, published a report in 2013 identifying the agencies responsible for various supervisory tasks: the State Council, CBRC, China Securities Regulatory Commission, China Insurance Regulatory Commission (CIRC), and the PBC.[48] In order to increase transparency, the State Council directed the PBC to create a statistical framework for shadow banking and called for stronger commercial and individual credit rating systems.[49] The report distinguished between credit intermediaries with and without financial licenses.[50] It also recognized that some credit intermediaries are not subject to any supervision at all while others receive insufficient supervision or evade supervision.[51] This demonstrates that the national government was aware of the range of shadow banking activity in China and intended to target regulatory efforts based on the scope and characteristics of particular types of credit intermediation.

However, regulatory objectives remain unclear and delegation of authority overlaps among the national agencies with supervisory responsibilities. President Xi Jinping's recent efforts to centralize power and reorganize the government bureaucracy may provide needed

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[48] General Office of the State Council of the People's Republic of China, *Notice of the General Office of the State Council on Issues Concerning Strengthening the Supervision of Shadow Banking*, Doc. No. 107, Dec. 31, 2013.
[49] *Id.*
[50] *Id.*
[51] *Id.*

clarity.[52] The reorganization includes significant changes to the structure of the financial regulators and explicitly addresses regulation of shadow banking. First, the government created a Financial Stability and Development Committee in July 2017 to coordinate high-level policy on financial stability and reforms of the financial sector.[53] Second, the CBRC and CIRC will be merged into one commission in order to centralize risk management efforts, particularly for shadow banking.[54] Third, the PBC will gain significant power beyond its current monetary policy authority because it will take over the previous CBRC and CIRC functions of drafting key regulations and prudential oversight.[55] The ultimate effect of these changes on shadow banking activity remains to be seen, but they do signal increased government focus on actively managing systemic financial risk and curing deficiencies in the regulatory structure.

The International Monetary Fund (IMF) advocated for additional reforms in its 2017 annual Financial Sector Stability Assessment for China. The report emphasized regulatory clarity and legal reform as key components of financial stability.[56] The IMF Executive Board explained:

> [Analysts] stressed the importance of adequate legal protection, clear institutional mandates and accountability to ensure sufficient independence and resources for oversight agencies to act effectively and foster interagency cooperation…. Strengthening the financial safety net and the legal framework for bank resolution would improve incentives and reduce the potential risks to public resources that could arise from the failure of financial institutions.[57]

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[52] Chun Han Wong, *China Unveils Overhaul of Government Bureaucracy*, WALL STREET JOURNAL, Mar. 13, 2018, https://www.wsj.com/articles/china-unveils-overhaul-of-government-bureaucracy-1520905490.
[53] The State Council of the People's Republic of China, *China Establishes Financial Stability and Development Committee*, Nov. 9, 2017, http://english.gov.cn/news/top_news/2017/11/08/content_28147 5936107760.htm.
[54] Jun Luo, *China's Central Bank Gains More Power in Xi's Regulatory Shuffle*, BLOOMBERG, Mar. 12, 2018, https://www.bloomberg.com/news/articles/2018-03-13/china-announces-plan-to-merge-banking-insurance-regulators.
[55] *Id*.
[56] *See Financial Sector Stability Assessment: People's Republic of China*, INTERNATIONAL MONETARY FUND, IMF Country Report No. 17/358, Dec. 2017, at 8, 39, and 53.
[57] *IMF Executive Board Concludes Financial Sector Stability Assessment with China*, INTERNATIONAL MONETARY FUND, Press Release No. 17/469, Dec. 6, 2017, at 3.

To address shadow banking risk, the IMF recommended that the government improve legal and regulatory processes for bankruptcies of insolvent WMPs, eliminate implicit guarantees (which have no legal basis) and lending to particular sectors, and limit asset market interventions to high risk periods.[58] These reforms would help shift the government's focus from economic development objectives to financial stability and provide clear, predictable risk management procedures for credit intermediaries. They would not completely eliminate excessive risk in the shadow banking market, but they would likely shift funds into more transparent instruments and more quickly resolve failing credit intermediaries.

B. Government Intervention in Macroeconomic Planning and Monetary Policy

The legal and institutional reforms proposed above would be strengthened by economic reform. Decreased government intervention in macroeconomic planning would shift the government's primary focus from achieving economic development goals to encouraging financial modernization and stability. Shadow banking expanded in part because of strict government restrictions on the amount and quality of credit in the banking system. Increasing the decision-making authority of financial institutions would allow them more flexibility to make efficient market decisions and diminish the incentive to turn to unregulated sources of credit. The CBRC has already shown a willingness to make some compromises on government control; for example, in early 2018 it eased rules on high loan-loss provisions to align more with international standards and encourage banks to engage in traditional forms of lending.[59]

Further interest rate and currency liberalization is also needed. Market-based interest rates and a more flexible exchange rate would help manage systemic risk by allowing the market

[58] *Financial Sector Stability Assessment, supra* note 56, at 11.
[59] Gabriel Wildau, *Beijing puts foot on accelerator for bank lending*, FINANCIAL TIMES, Mar. 7, 2018, https://www.ft.com/content/4cc6ee1c-21cc-11e8-9a70-08f715791301.

to correct imbalances on an on-going basis without waiting for government intervention. Additionally, interest rate reform would not only help established financial institutions but also individuals and SMEs. First, increasing or eliminating the interest rate cap on ordinary bank deposits would increase the incentive to save, because depositors would get a more reasonable rate of return.[60] Second, lowering restrictions on the lending rate would increase the incentive to lend to SMEs. This would decrease the volume of shadow banking activity because it would solve the initial problem—lack of access to affordable credit. Third, reforms of usury laws would increase the availability of credit while protecting consumers from excessive exposure. As Gao explained, "Chinese law currently prevents all kinds of usury without having a clear definition of usury, and current judicial practice regards all interest rates that exceed four times the interest rate set by the People's Bank as illegal, even if the interest is reasonable and risky to an acceptable degree."[61] However, liberalization is likely to continue to be very gradual given the PBC's generally cautious approach.[62]

C. Broader Domestic and International Concerns

Broader domestic and international pressures exist that exacerbate the risks of shadow banking in the Chinese financial system and contribute to global financial instability. A major domestic imbalance is the central government's significant authority and control over provincial and local government oversight of financial institutions. While standardized rules are essential to ensuring consistent supervision and eliminating regulatory arbitrage, local officials engage in deals with local credit intermediaries and corruption to evade top-down control.

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[60] Gao, *supra* note 29, at 140.
[61] *Id*. at 141.
[62] *See* People's Bank of China, *supra* note 2, at 30.

A major international concern is China's commitment to maintaining international risk management standards and opening its domestic financial sector. While the largest banks in China are generally compliant with Basel III standards, the IMF noted that higher and more tailored capital requirements may be needed in China to counterbalance volatility as its financial sector expands and modernizes.[63] Additionally, the United States is concerned with government subsidies to Chinese banks, especially SOEs. The 2001 World Trade Organization accession agreement for China required the opening of domestic financial markets to foreign banks over a five-year period, but American banks complain that they still face barriers.[64] While China recently announced it would raise foreign ownership limits for financial institutions from 49-50% to majority 51% in 2018, analysts are skeptical of how much this will promote openness.[65]

V. SUMMARY AND OUTLOOK

The shadow banking system in China has significantly expanded in size and complexity over the past decade due to a lack of access to affordable credit, regulatory gaps, and government restrictions on lending. While credit intermediation fulfills high demand for funding, lack of transparency, implicit government guarantees, and corruption pose significant risks to financial stability. Further legal, institutional, and economic reforms are needed. Recent consolidation of power at the PBC and creation of the Financial Stability and Development Committee may promote regulatory clarity and financial stability. However, the success of these administrative changes remains indeterminate, and the Chinese government may face backlash from the international community if it does not promote financial liberalization and transparency.

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[63] *Financial Sector Stability Assessment, supra* note 56, at 41.
[64] Martin, *supra* note 31, at 12, 14.
[65] Kevin Yao, *China pledges to allow more foreign investment in financial sector by year-end*, REUTERS, Apr. 10, 2018, https://www.reuters.com/article/us-china-boao-pboc/china-pledges-to-allow-more-foreign-investment-in-financial-sector-by-year-end-idUSKBN1HI074.