Foreword

Since the global financial crisis, shadow banking has been growing rapidly and in some jurisdictions, including the United States, is beginning to dwarf traditional bank financing. China has a significant shadow-banking sector, approximately one-third the size of its bank-lending market. The growth of shadow banking can pose risks to financial stability, both domestically and globally. Yet the shadow-banking sector is often weakly regulated. At the international level, both the G20 and the Financial Stability Board (FSB) have raised concerns about these risks, with the FSB suggesting that major economies take appropriate mitigative measures.

Shadow Banking in China: Risk, Regulation and Policy by Professor Shen Wei is thus a timely book, presenting readers with a comprehensive and coherent conceptualization of shadow banking in China. It systematically defines shadow banking, describes how the different types of shadow banking subsectors—including wealth management products, peer-to-peer lending, local government financing vehicles, and underground lending—are growing, and examines how Chinese regulators are responding. It also explains the risk-taking, economics and behavioural aspects of each of these subsectors, revealing the endogenous market forces driving their expansion and describing how shadow banking is innovatively helping to channel funding to the cash-starved private sector and real economy.

The book frames its analysis in a valuable context by explaining how shadow banking and its regulation should fit into China's overall regulatory and economic growth framework. To this end, it discusses the law of central banking and monetary policy, the importance of risk allocation, and the nature of systemic risk and its potential impact on the real economy. It also assesses public and private regulatory frameworks in considering how regulatory reforms can be most effectively designed.

Additionally, the book provides valuable comparative perspectives, including comparing the similarities and difference between Chinese shadow banking and shadow banking in the United States and other economies. For example, China has a closer interconnection between shadow banking and traditional banks. Also, compared to shadow banking in the United States, Chinese shadow banking relies less on complex structured financial products and special purpose vehicles; and so China has, so far,

seen far fewer repos, securitizations and other asset-backed financings, and money market mutual funds. In part, the relative simplicity of China's shadow-banking sector may reflect stronger Chinese financial regulation generally; but in part it may also reflect China's less developed financial markets. Because of these differences, US and other foreign regulatory precedents may not serve as ideal models for regulating Chinese shadow banking.

Since the global financial crisis, financial regulation has become an even more important subject of academic, political and practical interest. This book is an important contribution to that effort, being the first comprehensive account of China's shadow-banking sector and its regulation. Ideally, too, the book will serve to inform and inspire further research by scholars, regulators, and policymakers worldwide.

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