China’s economy has been growing rapidly over the last two and a half decades and is expected to maintain this momentum in the foreseeable future. Because of the huge foreign direct investments and domestic entrepreneurship, China’s economic growth has been largely fueled by the expansion of the industrial sector, which has helped China earn the nickname ‘Workshop of the World’ and represented more than half of its GDP. This economic structure, however, is in sharp contrast with those of developed economies, in which the service sector invariably constitutes an overwhelming share.

Because China has the biggest population in the world with ongoing urbanization trends, there is tremendous growth potential for China’s underdeveloped service sector, especially the capital markets and financial services industry, which are pivotal in meeting the ever-increasing financing needs of the manufacturing sectors to ensure the continued development of the economy. As a member of the World Trade Organization, China’s accession promises to open up the financial sector to foreign competition by the end of 2006. Thus, China affords endless lucrative opportunities to domestic as well as international institutional and individual investors. Nevertheless, there also exist tremendous risks and challenges. They include the changing nature of the financial markets, inadequate and fast-changing regulations and laws, excessive governmental influence, the lack of transparency in accounting and corporate governance, and all the other problems associated with the transition economy with financial market liberalization.

A handbook on China’s capital market that systematically documents and analyses its current and future development while integrating the banking system and legal issues is desirable and will certainly help investors, practitioners, researchers and policymakers to understand these perplexing and intertwined issues. The experience of China’s capital market is also a valuable lesson for other transitional economies. This handbook is one of the first available in the market to cover a wide range of topics including China’s stock market, bond market and other securities markets (for example the futures market and over-the-counter markets), as well as regulatory issues that shape the direction of the development of the financial markets. We will also discuss the development and roles of
financial institutions, such as brokerage firms, banks and insurance companies, in China’s capital markets. Banks dominate corporate financing needs in China’s bank-based economy, but the development of the capital markets would provide additional avenues for firms to raise external capitals and change the dynamics of fund flows in the economy. We will examine the recent performance of the equity markets, the emergence of the small-medium enterprise market, the state banks’ bids to be listed in overseas stock exchanges, and other current issues that are timely and of interest to readers. The book will shed light on China’s overall economic growth as it is well-recognized that finance and economic growth are closely linked.

**NOTE**