Trading China

A Look at the Issues and Opportunities in China's Capital Markets

A Report by Kapronasia sponsored by Equinix

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Foreword

With the global economy still facing a period of uncertainty and lackluster growth, multi-national companies are scouring the globe looking for growth economies with above average ROI. China is one of the first countries that companies tend to think of, but one of the last ones that they want to enter.

That truly is the challenge and conundrum that is China: it is the 2nd largest economy in the world behind only the United States and, with over 1.3 billion people, is the largest population of any country in the world. With that geopolitical footprint, China represents one of the biggest economic opportunities today and likely of the future.

However, the opportunity is somewhat cloudy. With a different style of government, culture, habits and way of life, China, for many Western firms and organisations is a bit of a scary place - often thought of more for the stories of company failure than of success, many firms take a 'maybe tomorrow' approach to China and delay their China entry indefinitely.

Yet, tomorrow may be too late. The economic changes and development in China is a once in a lifetime opportunity for many companies. The best day to enter China was yesterday, the next best is today.

In this context, the Trading China report, published by Kapronasia and sponsored by Equinix, takes a detailed look at some of the key aspects of China, China's economy and the Chinese Financial Services Industry that all entrants or existing companies in the market should keep in mind. Although doing business in China's financial services industry can be challenging, the rewards for companies that are successful are great.

We hope that this report will give you some insight on how you can take advantage of the market opportunity and set the stage for success in China. We hope you find this report as interesting to read as it was for us to research.

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Key Findings

- **Although slowing slightly, China's economic growth is stronger than most other countries and the market still represents one of the best investment opportunities globally today.**
- **China's capital markets are in a period of rapid reform; financial futures, margin trading and several other products and reforms are changing the industry.**
- **The new leadership in China may not be as reformist as some would like, but will still focus on modernizing and internationalizing China's financial services industry.**
- **There are challenges and pitfalls to entering China's financial services industry, but a clear understanding of market dynamics and smart partnering can help.**

Methodology

The Trading China report focuses on the key opportunities and challenges of the China market and more specifically China's Capital Markets.

The findings are based on a combination of secondary and primary research. Secondary research sources included Kapronasia's internal knowledge database, external government reports and published reports from vendors and FIs themselves. Primary research included interviews with FIs involved in the trading space, vendors and industry experts. The purpose of the research was to gather insight into:

- Key challenges of the market
- How companies are overcoming these challenges
- What the political changes in China will mean for the financial industry
- What the key programs and initiatives are that affect cross-border investment

Introduction

Today

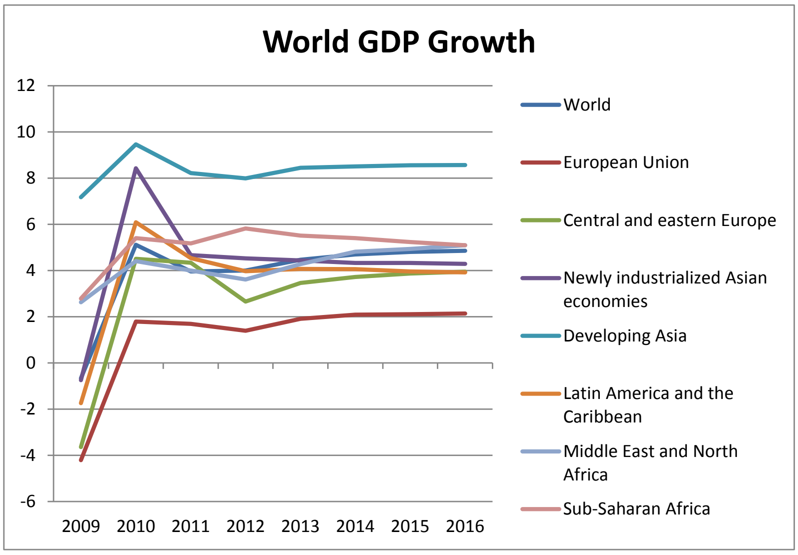
According to the IMF, the global economy is currently passing through what the fund considers to be the forth stage of the lingering Global Financial Crisis that started in 2008. According to their analysis, the crisis has gone from individual US consumers not being able to pay debts to the situation we are in now where the concerns are if entire countries will be able to pay their debt. Although short-term fixes have been implemented, there is still a lack of long-term political solutions needed to ensure financial stability.

This situation has stressed the bottom-line of financial and non-financial firms alike. Company profitability has been strained in developed markets and lack of credit and lackluster stock market performance has made obtaining additional capital challenging for many firms to say the least. Naturally firms are looking for new markets and new opportunities. For many, this means China.

China's Economy

From 2000-2010, China's economy grew at just over 10%. Although growth is somewhat more tempered today, expected GDP growth of 7% in 2012 is still much higher than in other markets around the world.

Much of China's growth stems from the 'Great Leap' policies of the late 1970s. The policies of that period started to open up the Chinese economy to external investment, a process that continued to gain momentum as China entered the WTO in 2001 and started to fulfill its commitments.



Source: Kapronasia, IMF

The Stages of the Global Financial Crisis

1. Private debt - Subprime crisis originates with U.S. consumers and banks
2. Banking – Systemic crisis spreads from the United States to Europe
3. Sovereign – Immediate problems in euro area sovereign debt; medium term debt burdens in core advanced economies
4. Political – Difficulties in reaching political consensus on fiscal consolidation and adjustment

Source: IMF, Kapronasia

Source: IMF World Economic Outlook Database, Kapronasia

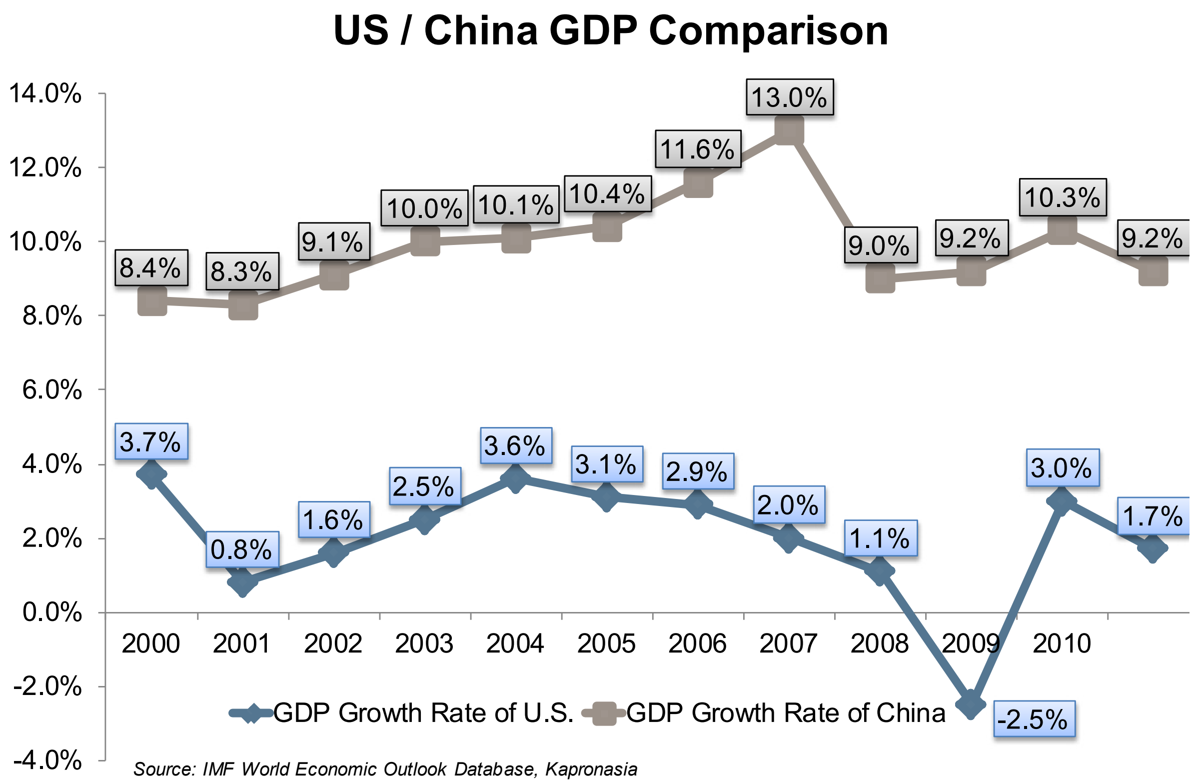
Fundamentally, China's double-digit GDP growth of the 2000's was somewhat unsustainable as much of it was based on infrastructure investment, so although growth today is slower, it is more balanced and based on better fundamentals.

One of the main criticisms of the Chinese economy has been the fact that it is based heavily on exports and not enough on domestic consumption as a more normal modern economy would be expected to be. This is still a challenge for the economy, but the government and regulators recognize this as an issue and one of the unwritten objectives of the government is to reach a better balance which is evidenced in policies and regulations designed to stimulate domestic spending and consumption.

The China Opportunity

So taken on its own, the Chinese economy clearly is growing strongly. What is more impressive however is when you look at it in the context of other world economies such as the United States. Projected 7% growth in 2012 is still 3-4% above what 2012 growth in the US will be and even more when one compares China to Europe.

What this means is that in comparison to other investment destinations, China is still one of the most attractive in the world.



A Rising Tide

Another criticism of China is that trade is a zero-sum game where jobs that moved to China result in unrecoverable losses in the United States. This argument was most recently illustrated in the political campaigns in the US where China was brought up frequently in debate as a cause of many domestic economic problems in the US.

	China	USA
Population (2011)	1,300 M	308 M
GDP (2011)	US$7.5 T	US$15.1 T
GDP per Capita	US$5,769	US$51,623

Many economists would argue that this is the natural order of things and if something can be produced more cheaply in another country (China or otherwise), then it should be; it then becomes incumbent on the country losing the production to refocus and retrain their workforce to adapt to the new normal. Production moves, products and goods become cheaper and the rising tide lifts all boats.

In reality however, there still are challenges and the US is struggling to compete in certain sectors, but it is also far from clear that things will stay the way they are. There are numerous examples of American companies outsourcing their business to China only to realize that production in China is not as cheap as they thought and bringing the business back to the US.

Currency: The Chinese Yuan (RMB)

Another intricacy of the Chinese market is the currency. The Chinese Yuan or Renminbi (RMB) as it is also commonly known, is a capital controlled currency meaning that it is not freely convertible. This fact has been a common sticking point for politicians especially in the United States where during the last election, the candidates frequently pointed to the RMB as being undervalued therefore making Chinese exports cheaper and undermining the U.S. manufacturing industry.

Most economists do believe that the RMB is slightly to greatly undervalued as compared to the U.S. dollar and other major commercial currencies and believe that the Chinese government and People's Bank of China (PBOC, the central bank of China) should revalue the currency; this appreciation has been happening, albeit gradually.

Beyond simply the cost of goods and services, the appreciation of the RMB has had a strong affect on capital markets both inside and outside of China. Many industry observers believed that the RMB would continue to only appreciate with little to no chance of it going in the opposite and actually depreciating. In effect, this made the RMB as a one way bet whose gradual yearly appreciation of 3-5% was 'icing on the cake' so to speak for any China investments. In other words, if a investor invested in mainland markets, they would receive any capital gains from the underlying asset, but would also benefit from the f/x appreciation, which up until the past year or so.

What has happened more recently however is that for brief periods of time, the RMB has actually depreciated against the U.S. dollar. So although the RMB currently stands at a record high vs the U.S. dollar, what was once a one-way or sure thing bet, is no longer. This, combined with the lackluster performance of the Shanghai domestic A-share market has made investors a bit more wary of investing in mainland China.

What to Expect Politically and Economically in the Future for China

In early 2012, as part of China's well planned political transition, the leadership of the main regulators changed for all three commissions: The China Securities Regulatory Commission (CSRC), China Banking Regulatory Commission (CBRC), and China Insurance Regulatory Commission (CIRC). In general all of these transitions were largely expected and many of the new heads came from either one of the other commissions or from industry itself.

The moves were welcomed and most observers saw the newcomers as being well qualified and vetted for their jobs. Indeed, very soon after the new leaders took their roles, several policy and regulatory changes, especially in capital markets, were enacted which may mean that the new leaders will continue to reform and open the markets.

In November 2012, during the national congress, the next generation of Chinese leaders were appointed. Although it was clear for months and in some cases years before about who was getting which position, there is still some uncertainty about the direction of future reform in China as many of the industry watchers felt like the key reform minded leaders were sidelined.

Regardless of whether the current leaders are true reformist, political and economic reform will progress in China and will continue to change the shape and mold the development of China.

In general, this development will only be positive. The new leadership still faces a number of challenges in China including economic imbalances both on an individual and on a macro-economic level, but the government is making decisions and progress to simultaneous protect the domestic economy yet gradually open up markets to the outside world.

China's Financial Industry

As China's economy has expanded, the financial industry has continued to grow both in terms of size and importance. The industry however is tightly regulated especially with regards to what international financial institutions can and cannot do in the market. Nevertheless, as part of China's continued integration into the global economy and its commitments to the World Trade Organization, the industry as a whole is opening up.

Reform

Although many industry observers note that they feel reforms to the Chinese financial markets are coming too slowly, they are actually very well planned out and executed by the government and regulators to ensure that the industry can continue to expand without the risk of the industry or even the entire economy collapsing.

The first financial industry reforms started in earnest in the banking industry. In the 1980s, Chinese banks were known for less than stellar customer service and a very limited product suite. This gradually began to change as domestic customers expanded both within China and internationally. The expanded business models required better quality and services from the banks.

More importantly however, as the industry started to open, competition increased. Previously, the banking industry was mainly comprised of large state owned banks mostly directly connected to the Communist party. As there were only a few banks and each with a particular niche[1], there was not a significant incentive to innovate or compete.

As regulations changed, two new types of banks entered the market: joint-stock commercial and city commercial. Both had some element of government involvement, but were generally considered privately held. As these banks didn't have the implicit backing or funding of the government, they needed to compete in different ways to take customers from the big five, and they did through innovation and customer service.

In addition to the new classes of domestic banks, the early 2000s marked the first time that completely foreign banks could enter the market. Initially the banks were only allowed to setup representative offices to help their clients do business through domestic banks, foreign banks now have full branches and, although still somewhat limited in terms of products and services, are nevertheless gaining market share.

Capital Markets

The first share traded at the Shanghai Stock Exchange was in 1866. In June of that year, a list of thirteen companies, including the Hong Kong & Shanghai Banking Corporation, appeared in a local newspaper under the 'Shares and Stocks' section. According to the English newspaper in Shanghai, 'The North-China Herald,' it was around this time that the first 'regular system of dealing in shares sprang up.'

In 1891, during the mining boom, foreign businessmen founded the "Shanghai Sharebrokers Association" headquartered in Shanghai which became China's first official stock exchange. In 1904, the association applied for application in Hong Kong under the provision of the Companies ordinance and was renamed as "Shanghai Stock Exchange" which we know of by that same name today.

1 China Construction Bank, Bank of China, Agricultural Bank of China and Industrial Commercial Bank of China were the first 'big-four' banks in China and each focused on a particular segment of the economy hence the naming: Agricultural Bank on rural, agricultural, and food related financing and banking, etc.. The big-four grew to be today's big-five when the Bank of Communications was added.

By the 1930's, the Shanghai Stock Exchange became the financial center of the Far East. People from China and abroad could trade stocks, government bonds, debentures, and futures. The Stock Exchange was halted for a number of years between December 8, 1941 and sometime in 1946 when invading Japanese forces occupied the Shanghai International Settlement. After the war ended, China assumed full control over Shanghai, and the legal privilege and means of enforcing financial contracts for foreign businessmen had gone. The Shanghai Stock Exchange, as a foreign share brokers' association, never reopened again and by 1949 the Shanghai Stock Exchange was closed due to the rise of Communism.

In 1978, after the Cultural Revolution, Deng Xiaoping re-opened China to the world. By 1990 the Shanghai Stock Exchange was back in action. The exchange initially only traded A-shares, which were only available to Chinese mainland investors and priced in Renminbi (RMB or Yuan). In 1993, the government added B shares, which were open only to foreigners and priced in US dollars.

Unlike other markets, where a large percentage of the investors are institutional investors (e.g. banks, insurance companies, investment funds), investors in mainland China markets are predominantly retail. Retail investment activity accounts for about 40% of total turnover in Shanghai as compared to 30% in HK or 20% in New York (typically a larger institutional investor base helps to stabilize the markets). The Chinese government has been instituting measures to push greater involvement which has shown some results as the split 10 years ago was about 95% retail and 5% institutional and in 2005 it was 70% retail and 30% institutional.

Since the Shanghai stock exchange was re-opened over 20 years ago, it has passed numerous milestones and is now one of the largest stock exchanges in the world based on volume and is the largest in mainland China. As the Chinese economy continues to expand, the importance of the Shanghai market will inevitably continue to grow.

RANKING OF GLOBAL MARKETS BY TURNOVER AS OF OCT 2012 (US$M)		
1	NYSE Group	11,328,038
2	Nasdaq	8,404,567
3	Tokyo SE	2,866,373
4	Shanghai SE	2,175,870
5	Shenzhen SE	2,006,656
6	London SE	1,889,918
8	Korea Exchange	1,297,159
11	Hong Kong Exchanges	913,166
12	Australian SE	800,414
15	Taiwan SE Corp.	571,706
19	National S.Exchange India	442,437
23	Singapore Exchange	214,656
29	Bombay SE	92,792
Source: World Federation of Stock Exchanges		

Markets Today

Although China's capital markets today are somewhat less mature than markets in other geographies, they have gradually grown and are starting to accommodate the increased demand from both domestic corporations and global investors.

One thing that it is important to understand is that historically, funding for corporations in China came largely from bank lending rather than corporate bonds or stock as you might expect in other markets. This has caused issues in the banking system in the past as non-performing loans, although currently under control, have been a challenge for the industry for many years.

Cross-border investing

Whilst the domestic markets are developing quickly and investment options increasing, the range and number of investment options in mainland China is still relatively limited; this situation is one of the key drivers in the increase in asset prices leading to the asset bubble that many believe the Chinese economy is facing now as too much money chases too few investment options. One obvious alternative to local markets are of course foreign markets.

The main challenge however is that the Chinese Yuan (or Renminbi / RMB) is a capital controlled currency. What this means in a practical perspective is that any conversion of RMB to another currency needs to happen through official channels and approved by China's State Administration of Foreign Exchange (SAFE). Corporations and individuals can convert a certain limited amount of currency every year, but this is amount is typically very limited and not very useful if the person or company is looking to actually invest any significant amount of money outside of China.

Often, Chinese domestic companies will either belong to or have a Hong Kong entity. If trade or services transactions are then completed in USD, the company can decide to keep that money off-shore and that they can use for non-RMB transactions of investments (typically USD). If they have been paid or receive RMB however, traditionally, unless they use grey market channels, domestic companies could invest very little of that RMB money abroad.

Simiarly, in addition to domestic investors looking for alternatives to local markets or investment vehicles, foreign investors, seeing the growth of the domestic markets, were increasing looking for ways to invest in and take advantage of the domestic China market growth.

So, for most of the 1980s and 1990s as China's economy was starting to grow and develop, there was no real option for investors who were looking to invest either into or out from the domestic Chinese capital markets. The government realised this issue and in the early 2000's, setup two programs that alleviated, but did not completely remove the restriction. These programs are called the Qualified Domestic Institutional Investor program (QDII), which allows domestic institutions to invest abroad and the Qualified Foreign Institutional Investor program (QFII) which conversely allows foreign institutions to invest nearly directly into domestic markets.

Qualified Domestic Institutional Investor program (QDII)

The QDII (Qualified Domestic Institutional Investor) program was first launched in 2004 initially for insurance companies to invest their foreign exchange funds in the Chinese companies traded in overseas markets, with PingAn insurance company being the first institutional investor to receive a QDII quota of US$8.89 billion. Since then, the program has expanded and now allows institutional investors, including commercial banks, security companies, fund companies, insurance companies and trust funds to raise funds in mainland China and invest in offshore capital markets under the control of China’s foreign exchange regulator.

All the participants in the QDII program are required to first obtain a QDII license from the relevant regulatory agency (either China Securities, Banking or Insurance Regulatory Commission) and then a quota, which is granted by the State Administration of Foreign Exchanges (SAFE) as the first step of their oversea investment. After insurance companies, commercial banks and fund companies were allowed to obtain QDII licenses in April 2006. The first bank to receive a QDII quota was the Bank of China (BOC), with US$1 billion of quota, which was granted on 10 July 2006.In September 2006, HuaAn Fund Management Co., Ltd. was approved to be the first fund company to get a QDII quota of US$500 million.

As of the end of February 2012, 96 QDII licenses have been issued to 26 commercial banks, 31 fund companies, 8 security companies, 26 insurance companies and 5 trust funds, with US$75.25 billion of investment quota allocated.

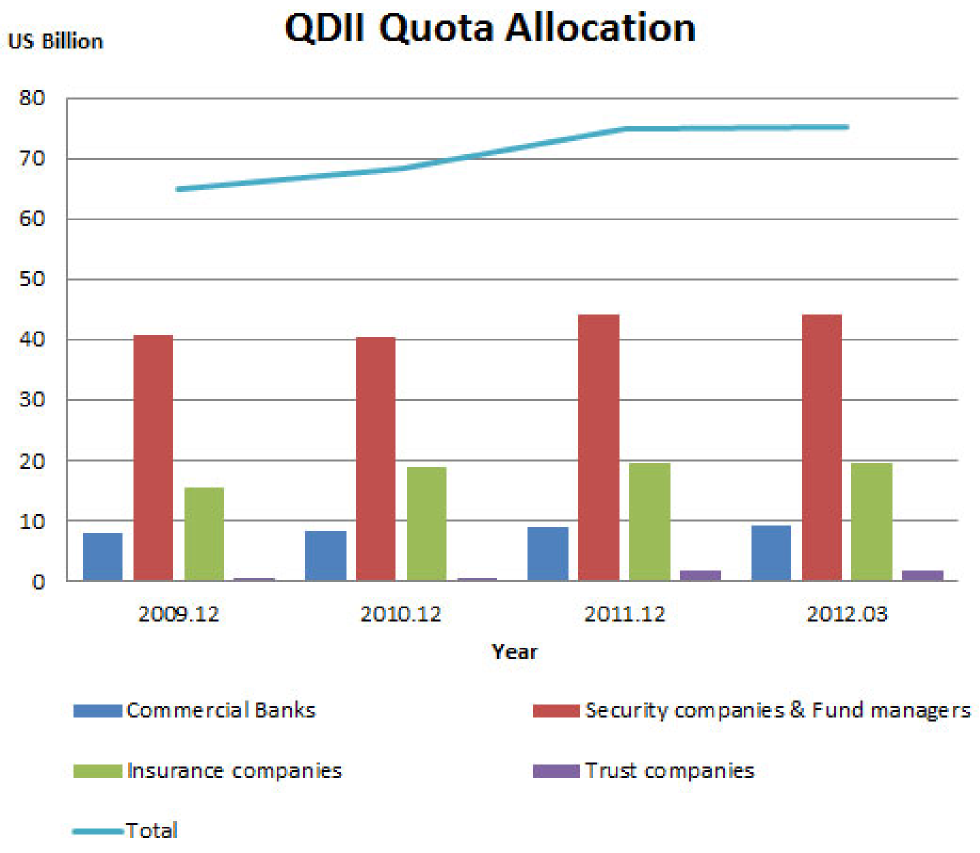
QDII Restrictions on Investment Scope

Under the QDII program, China Banking Regulatory Commission (CBRC), China Security Regulatory Commission (CSRC), and China Insurance Regulatory Commission (CIRC) set up limitation of investment scopes on each type of QDII entity respectively.

Type of QDII Entity	Investment scope
Commercial banks	Can invest in overseas fixed-income products (e.g. bonds, notes), structured and derivative products and certain equity products (e.g. stocks, public funds), but cannot invest in commodity derivatives, hedge funds and securities below 'BBB' level.
Security companies & fund managers	Restricted to invest in overseas stocks, bonds, depository receipt, real estate investment trust, public funds, structured products and other financial derivatives.
Insurance companies	Restricted to invest their foreign exchange funds in overseas money market products (e.g. bank bills, negotiable certificates of deposit), fixed income products, depository receipt, and certain equity products (e.g. stocks, stock funds)
Trust companies	Restricted to invest in overseas money market products (e.g. bank deposits, depository receipt), bonds and financial derivative products permitted by CBRC.

QDII Quota Allocation

After the approval of Bank of China and the HuaAn fund as trial QDIIs in 2006, the QDII scheme has expanded to involve more institutional investors since 2007. At the end of 2007, US$64.5 billion of QDII investment quota had been approved by SAFE. However, due to the global financial turmoil, the QDII scheme was suspended in the second half year of 2008 and no quota was approved until the program was restarted in May 2009.



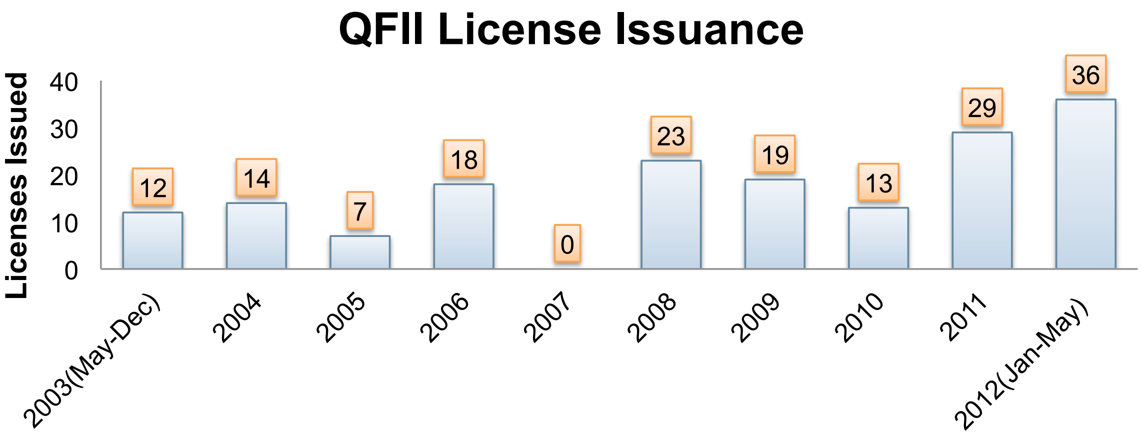
(Source: http://www.safe.gov.cn/)

At the end of March 2012, the total quota approved by the SAFE had reached US$75.25 billion, surpassing the total figure (US$74.95 billion) of last year. As the global economy continues to recover and the global financial turmoil recedes, investors clearly remains optimistic that the QDII program will continue to expand in both size and scope.

Qualified Foreign Institutional Investor program (QFII)

In the past, the Shanghai A-share market, unlike many more developed markets, had been largely dominated by domestic retail investors with institutional investors holding less than 50% of the A-shares in circulation. This predominance of retail investors has led to some tremendous, and sometimes irrational, shifts in the market. Indications are however that this is shifting gradually with institutional investors starting to play a more prominent role in the markets. Another element of stability in the market is the QFII program, which although very small, representing only 0.2-0.5% of the market today, will grow in importance.

The Qualified Foreign Institutional Investor program, or QFII for short, was setup in 2003 in order to give foreign companies the opportunity to invest in and profit from the growth of the Chinese A-share market which had previously only been open to domestic investors. The initial interest in the QFII program was low but there are strong signs that this is starting to pick up dramatically. Although no QFII licenses were issued in 2007 due to a regulatory moratorium, since 2008 the allocation of both licenses and quota has increased dramatically with 2012 showing a dramatic increase in both.



Once a foreign investor has a QFII license however, which is given by the China Securities Regulatory Commission (CSRC), they still need to apply for quota from the State Administration of Foreign Exchange (SAFE). A few years ago, quota was actually very difficult to obtain and nearly all of the wall-street QFII firms had used their entire quota and for awhile were ‘borrowing’ quotas from other firms using participation notes (p-notes) or similar tools.

Other Cross-border Investment Programs

In addition to the QDII and QFII programs, we're starting to see additional programs established both domestically in China and overseas.

Offshore RMB Market

In the past, most of the trade to and from China was settled in USD. With inputs in RMB and sales in USD, Chinese suppliers had historically been taking a lot of currency risk, which was especially concerning as the RMB has continued to appreciate. This has started to change gradually as companies start to settle in RMB which then put non-Chinese companies in the position of having or needing to have RMB, which was nearly impossible in the past for a foreign company.

Over the course of 2010 and 2011, China has moved to setup an offshore market for the RMB. Although there have been several initiatives in different countries, the biggest program by far is in Hong Kong. Currently, non-Chinese individuals and institutions / corporations can setup and maintain RMB accounts in Hong Kong and, although investment options are somewhat limited, invest their offshore RMB in RMB bonds and some basic funds in Hong Kong.

Although initially demand for offshore RMB was quite high, it remains slightly unclear about how popular the program will be in the future. Questions about the credit quality of the bonds and investment vehicles have somewhat limited demand.

Renminbi Qualified Foreign Institutional Investor (RQFII) Program

On December 16th, the China Securities Regulatory Commission (CSRC), the People's Bank of China (PBOC) and the State Administration of Foreign Exchange (SAFE) together issued the rules for the RQFII (RMB Qualified Foreign Institutional Investor) program and officially launched the RQFII programs in Hong Kong to enable qualified Hong Kong subsidiaries of fund management companies and securities firms to use their RMB funds raised in Hong Kong to invest in mainland securities.

According to the rules, the maximum investment quota of RQFII programs is set at about 20 billion RMB, and at least 80 percent of RMB must be invest in fixed-income securities, while no more than 20 percent can be used for investment in stocks and equity funds. These restrictions on investment quota and portfolio reflect regulators' concern with the adverse effect caused by excessive investment and their priority to keep the mainland financial market stable and to control risk.

Compared with the total market capitalization of China's A Share market and the rules that restrict the amount that can be invested in equities, the initial implementation of the program has had little near-term impact on the market. However, the latest statement from Guo Shuqing, the new chairman of the CSRC, clearly indicates that the CSRC is committed to encouraging long-term capital to flow into the stock market. The RQFII programs are another important part of this strategy as they will open another significant channel for overseas RMB funds to flow back into the mainland capital market.

The program will likely have a greater impact on HK markets as overseas RMB funds have to date had limited investment choices. Because of this, there will be quite a bit of demand for the RQFII program and likely the first batch of RQFII products will not meet investors' demands. The 20 billion RMB investment quota will be increased in the future and the influx of capital through the RQFII will inevitably benefit to Chinese Stock in a long term.

As one of ways in which China make its currency to more international, the RQFII programs, by giving a green light to investment of overseas RMB funds in mainland securities markets, will not only make Chinese capital market more open but also facilitate off-shore RMB business by diversifying investment products for overseas RMB funds.

At first, regulators will tightly control the program as to ensure it does not expand too quickly, however, the authorities will continue to widen the investment channel of overseas RMB funds and making the RMB an international currency slowly will not change.

The Future of Chinese Markets

If the early 2000's represented the key transition period for the banking industry in China, the current decade represents the capital markets transition. With the increased opening of money flowing into and out from mainland China as well as the introduction of new products, services and types of trading, domestic capital markets are clearly in a period of huge change.

Of course the changes aren't without challenges nor is the market completely structurally ready for being completely open. China's legal system is still somewhat immature, interest rates are still not market driven and a fully independent credit risk industry doesn't exist, to name but a few of the challenges.

What is clear however is that the government is committed to driving reform and change in the industry and through their own industry / policy experience as well as consultation with foreign policy makers and industry experts, have a fairly comprehensive understanding of what the shortcomings of the market are and what needs to happen to overcome these challenges.

They will, as they have in the past, take a very pragmatic and measured approach to reforming the markets in the next few years - balancing growth and stability in a method and manner that is right for China, not for the rest of the world.

We expect to see the domestic markets to become more mature over the next few years as the sophistication of both institutional and individual investors increases. As segments of the market open further, we should also see pockets of potential arbitrage opportunities across markets and borders - which should attract more programmatic and quantitative traders.

Recommendations

Over the course of this report, we have attempted to layout some of the key challenges and considerations that any firm should keep in mind when entering the mainland China market. The planned political changes that China is going through at the moment come at a challenging point in China's growth and development, but represent a unique opportunity for the country to reform and modernize in new ways.

Certainly over the next few years, the market reforms we have seen in the financial industry will continue as the economy develops and modernizes. Clearly the government is committed to change within the industry as evidenced by the speed of which reforms are coming as well as the programs like "Shanghai International Financial 2020" that have been announced and are being developed.

Entering China's capital markets as an institutional or individual investor, broker, fund manager, technology provider or any entity for that matter can be challenging. There are numerous regulations and policies that need to be followed for any segment of the industry and often the entrenched domestic competition is hard to displace.

That being said, there are numerous examples of companies that have been successful coming into China. Typically those companies have a few key attributes:

- Patience - China is not a short-term game. Chinese companies and individuals like to see commitment to the market. It can sometimes take years to develop a business in China and patience is key to make that happen.

- Realism - Gone are the days of 'if I could just get 1% of the market'. As the market has become more saturated with both domestic and international competition, new firms are unlikely to gain a significant amount of market share easily. Although you might have a great product or service, don't assume that means that you will sell lots of it.

- Pragmatism - Much like the market requires patience and a realistic attitude, it also requires a pragmatic approach. What works in the west will likely not directly work in China. Firms need to firstly understand the market and then develop and implement a very clear and cohesive strategy to enter the market successfully and not be another case-study in what not to do in China.

Finally, partnerships and information is key. In all likelihood there is another company that has been in a similar or exactly the same situation as yours in the past. Working with partners and really understanding the market can help avoid making the same mistakes that others have made in the past.

Conclusions

In closing, China is a big market and one that firms cannot ignore. As the country grows in terms of economic and political influence, it will, and indeed has already, have a large effect on countries, markets and economies around the world.

Likewise, China's capital markets are gradually opening and we are likely to see this continue for the next few years. The current reforms and changes are revealing unique opportunities for capital markets firms both in terms of trading and providing services to the industry which may only be short lived.

Needless to say, reform in China's financial services industry and the country as a whole is far from over and will likely continue for many more years to come.

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