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## Accounting as an instrument of Neoliberalisation? Exploring the adoption of fair value accounting in China

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### Abstract

**Purpose** This paper explores the implementation of fair value accounting (FVA) in China as part of a global process of neoliberalisation and financialisation of political and economic systems. It establishes that FVA forms part of the technical architecture of neoliberalism. **Design/methodology/approach** In considering the processes of neoliberalisation in China, this paper uses a qualitative approach to explore some of the impacts the adoption of FVA has had on Chinese capital markets. **Findings** It is shown that the practice of FVA is imbued with assumptions about the state and the market that have little bearing on the realities of Chinese capital markets. Rather than advancing the public interest, as neoliberal theories claim, this accounting change has failed

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# **Accounting as an Instrument of Neoliberalisation? Exploring the Adoption of Fair Value Accounting in China**

## **ABSTRACT**

**Purpose** – This paper explores the implementation of fair value accounting (FVA) in China as part of a global process of neoliberalisation and financialisation of political and economic systems. It establishes that FVA forms part of the technical architecture of neoliberalism.

**Design/methodology/approach** – In considering the processes of neoliberalisation in China, this paper uses a qualitative approach to explore some of the impacts the adoption of FVA has had on Chinese capital markets.

**Findings** – It is shown that the practice of FVA is imbued with assumptions about the state and the market that have little bearing on the realities of Chinese capital markets. Rather than advancing the public interest, as neoliberal theories claim, this accounting change has failed to transform political and economic power. Instead, it has provided another opportunity to reposition powerful political and economic elites both inside and outside China. This paper argues that the process has reconfigured capital markets in the image of those in advanced capitalist economies, but is devoid of the regulatory and socio-political apparatus to rationalise its relevance and reliability in the Chinese context.

**Originality/value** – By positioning the research in broader literature of neoliberalism, this paper offers an alternative framing of the purpose of adopting FVA and, more broadly, the globalisation of International Financial Reporting Standards (IFRS).

**Keywords** *Fair Value Accounting; Neoliberalism; Financialisation; Free Market; Chinese Accounting Standards; Chinese Capital Markets.*

While many general accounts of global transformations and their effects are now available, what is generally missing...is the political-economic story of where neoliberalization came from *and how it is proliferated on the world stage* (Harvey 2005, p. 4 emphasis added).

[T]he move to fair value accounting is already being hotly debated, embroiling not only national accounting regulators but also the already increasingly challenged International Accounting Standards Board. Whilst one strand of research has most certainly encouraged moves in this direction, there is now an emerging interest in looking at the actual ways in which the changes were realised. How, in other words, have very abstract conceptual ideas been realised in practice, how have the inherent ambiguities been operationalised in calculative terms, and with what wider consequences? (Hopwood 2009, p. 797).

## **Introduction**

At the start of the Chinese communist regime, China adopted an accounting system that supported and sustained its communist political commitment. Accounting within communist China played a different role to that of accounting within capitalist societies (Zhang et al. 2009). This, however, has changed dramatically since China's decision to converge its national accounting standards with International Financial Reporting Standards (IFRS) in 2007. The convergence was regarded by both the Chinese government and the International Accounting Standard Board (IASB) as "an important step for the development of the Chinese economy and its place in the world's increasingly integrated capital markets" (Tweedie 2006, p. 6). Within China, the adoption of fair value accounting (FVA) into the new Chinese accounting standards (CAS, otherwise known as *Accounting Standards for Business Enterprises* or ASBE)<sup>1</sup> has met with considerable interest. Many Chinese accounting academics (Ge & Xu 2006, Liu & Zhang 2006, Wang 2006, Lu et al. 2007) have argued that the adoption of FVA in China is evidence of a profound departure from previous practice, where FVA was completely prohibited.

Globally, the progress of FVA is controversial, and the source of considerable debate from both the accounting community and the broader public. This was particularly acute during the 2007-2011 global financial crisis (GFC) (O'Malley & Hofste 2003, Barth 2004, Landsman 2007, Penman 2007, Ronen 2008, Sunder 2008, Whittington 2008, Hopwood 2009, McSweeney 2009, Roberts & Jones 2009, Zack 2009). There is, however, a lack of research documented in English regarding FVA in China. This paper contributes to this literature, providing insights into the deeper ideological motivation underpinning FVA and its influence on China's socio-economic transformation. In pursuing Harvey's (2005) call for a deeper understanding of the mechanisms used to grow neoliberalism internationally, we argue that despite the economic crisis, FVA remains a significant technology of neoliberalism.

The structure of this paper is as follows: Section Two broadly discusses the relationships between neoliberalism and financial markets, FVA, financialisation and the global economy; Section Three specifically explores the case of FVA in China and the effect its introduction has had on Chinese capital markets; Section Four exemplifies the argument by examining the split-share-structure market reform of China; and finally, Section Five summarises the arguments and draws conclusions.

## Financial Markets and Neoliberalism

Neo-liberalism evolved historically. It is not a static phenomenon, nor was it born fully formed. We are better advised to...speak of the process of 'neoliberalisation'...implying an ongoing and uneven process, yet with shared features and logics across space and time. One implication of this is that national variations in neoliberalism must be taken into account (Cahill 2010, p. 306)

The reorganisation of relationships between states and their economies since the 1980s has seen policies of privatisation, marketisation and deregulation promoted globally. Such policy shifts change the nature of both the public and private sectors (Goddard 2002, Christensen & Skaerbaek 2007, Andrews & Entwistle 2010) by lifting regulatory restrictions on the way businesses conduct themselves both nationally and internationally. Such changes have been labelled neoliberal transformations – or neoliberalism<sup>2</sup> (Harvey 2005, Cahill 2010, Cooper et al. 2010). Proponents of neoliberalism argue that the best rules and conditions for markets to flourish include: deregulation of financial markets; privatisation; weakening of institutions of social protection; weakening of labour unions and labour-market protections; shrinking of government; cutting of top tax rates; opening up of international goods and capital markets; and abandonment of full employment under the guise of the natural rate (Friedman & Friedman 1980, Munck 2005, Palley 2005, Gamble 2006).

The appropriate level of interaction between a state and its economy is long contested. Neoliberalism emerges from this debate, advocating less government intervention and more market freedom. However, Cahill (2010) juxtaposes this articulated ideal with 'actually existing neoliberalism', which, he argues, is very different when put into operation (Cahill 2010). His analysis of neoliberalism in Australia documents the regulatory requirements needed by the global market in order for a state to secure its 'freedom' (Rapacynski 1996, MacEwan 2005, Munck 2005, Gamble 2006, Ong 2006). That is, the 'deregulation' advocated by neoliberalism in theory may not reflect the nature of the actual practical relationship that a state has with its economy. This has led some political-economists to argue that an 'activist state' (Cahill 2010) is required to intervene and 're-regulate' to overcome any obstacles and resistance to the institution of a 'free' economy. In line with this, MacEwan (2005, p. 172) cautioned that:

Neoliberalism requires a strong state that can ensure the primacy of private property, preserve the dominance of markets over social control, and thus limit the operation of democratic power. Also, neoliberalism often requires a strong state, sometimes a dictatorial state, for its implementation.

In fact, the "making of markets" (Munck 2005, p. 61) is a contested political process, and not a natural state, as much neoliberal theory asserts. For example, Karl Polanyi, commenting on the 19<sup>th</sup>-century Industrial Revolution, argued that "the emergence of national markets was in no way the result of the gradual and spontaneous emancipation of the economic sphere from governmental control" (Polanyi 1957, p. 258); rather, "the market has been the outcome of a conscious and often violent intervention on the part of government which imposed the market organisation on society for non-economic ends" (Polanyi 1957, p. 258). In the context of contemporary economic globalisation, the market relies on institutional support,

such as the international rules to ensure intellectual-property protection or trade arbitration. The construction of this institutional environment is often negotiated among powerful states with unequal terms attached, such as the World Trade Organisation (WTO) (Munck 2005).

In a similar vein, Ellwood and Newberry (2007) contend that effective neoliberalism requires an “iron tripod” of regulation, comprising: independently administered monetary policy; macro-level fiscal discipline; and micro-level economic reforms for trade liberalisation. Further, Merino et al. (2010, p. 775), observe that “neoliberalism fosters corporate hegemony since it treats the market as an omnipotent God that should direct the fate of human beings”. Whilst advancing policies of ‘deregulation’ (removal of state regulatory systems that intervene in markets), it is contended, rather, that neoliberalism reconfigures regulation with market-oriented rules and policies to facilitate the development of a new form of capitalism. It is a new form of capitalism in which there are clear winners and losers (Harvey 2010), and one in which global accounting regulations lubricate and legitimise this process (Boyer 2007, Newberry & Robb 2008, Hopwood 2009, McSweeney 2009, Roberts & Jones 2009). Transformations promoting the ideology and epistemology of neoliberalism have ensued, albeit unevenly, wherein “capital mobility was encouraged, free trade was sanctified, labour was made more ‘flexible’ and macro-economic management became fully market compliant” (Munck 2005, p. 61).

### *Neoliberalism and Crisis*

Much research on neoliberalism demonstrates the corresponding rise in significance of the global financial system in contemporary capitalism (George 1988, Wade & Veneroso 1998, Clarke 2005, Harvey 2005):

The support of financial institutions and the integrity of the financial system became the central concern of the collectivity of neoliberal states (such as the group comprising the world’s richest countries known as the G7). In the event of a conflict between Main Street and Wall Street, the latter was to be favoured.... While the slogan was often advanced in the 1960s that what was good for General Motors was good for the US, this had changed by the 1990s into the slogan that what is good for Wall Street is all that matters (Harvey 2005, p. 33).

There is also strong evidence (Harvey 2005, Panitch & Gindin 2005, Soederberg 2005, Toporowski 2005) to support the view that neoliberalisation has created greater socio-economic inequity. Stiglitz (2011) has written extensively about the deepening socio-economic inequities that have emerged over the last 25 years – in the US alone, the top 1 percent of Americans now takes home 25 percent of the nation’s income every year. In China, there are regular reports of the emerging ‘super rich’, but underpinning these ‘great successes’ are income inequities that have never been higher (Lee 2010). The international response to the 2007-2011 GFC is a good example of the unevenness of state intervention under neoliberalism. The crisis and its impact on both Main Street and Wall Street saw an acceleration of government intervention to ensure their ongoing survival. For the most part, policy-makers couched this intervention in terms of ‘social benefit’, whilst under-reporting the long-term social debt that resulted from risk-exposed capital markets seeking to minimise the consequences of excessive financialisation (Lapavitsas 2009).

Research on the social impacts of neoliberalism (Wang 2003, Harvey 2005, Ong 2006, Klein 2007) notes new processes of class formation emerging: the rise of finance and financial services producing a surge in the remuneration of CEOs of financial corporations; new sectors, such as biotechnology and information technologies, allowing individuals in advanced economies to accumulate unprecedented fortunes (for example, Bill Gates and Paul Allen); individuals and families (such as the Suharto family or the newly emerged Chinese entrepreneurs with a Chinese Communist Party background) with a privileged relationship to state power that has made them immensely rich; and the privatisation of public assets re-allocating wealth to a small group of individuals, as exemplified by Russia's notorious oligarchs or 'the princelings' in China (Harvey 2005, Klein 2007).

The reform path that China has undertaken since the late 1970s has aligned it with this broader neoliberal context. The extant literature illustrates the following major characteristics of China's economic reform: the establishment of 'markets' in the economy, adhering to a central-plan and public ownership (Shirk 1993, Solinger 1993, Wang 1994); the expansion of the markets by fostering international trade and opening up domestic markets for overseas capital (Lardy 1995, Gao 1996, Prasad & Wei 2008); the massive privatisation of public assets and state-owned enterprises (Krug 1997, Song 2004, Guthrie 2006); the substantial withdrawal of the government from social-welfare provision (Wang 2003, Harvey 2005, Ong 2006); an active participation in the world economy by seeking membership in international organisations, such as the WTO (Garnaut et al. 2001, Song 2004); and the voluntary convergence of domestic standards with international ones, such as the IFRS (Zhang et al. 2009). All of this signals China's intention to be seen as a 'free market' through its active construction of institutional arrangements that signal economic freedom to capital markets. Much attention has been paid to the large scale institutional changes that have been occurring in China, but we still know little about the processes and practices that are essential to the neoliberalisation of the global economy (Harvey 2005). The remainder of this paper explores the role of FVA in this process, with a spotlight on China, its recent decision to commit itself to IFRS and its preference for FVA.

### *Fair Value Accounting and Neoliberalism*

The political economy approach critiqued the notion that accounting is a neutral, objective technology that functions to improve the *allocative* efficiency of markets, and emphasized instead the ways in which accounting is a partisan practice that is implicated in *distributive* transfers of wealth between social classes. In this view, accounting both shapes and is shaped by relations of power within the political economy in which it operates. Accounting is, thus, seen as essentially political; accounting policies are influenced by ruling elites and dominant ideologies, and accounting practices, in turn, affect the distribution of income, wealth and power within society (Arnold 2009, p. 805).

By positioning FVA in a broader neoliberal context, this paper contributes to the debates on FVA and the broader discussions on the globalisation of IFRS. We argue that FVA is an accounting method that forms part of the architecture of neoliberalism, embedding the broader ideological commitments of neoliberal globalisation within accounting techniques. In many ways this is obvious, yet few researchers have explored the ideological bias of FVA and its dependence on institutionalised market freedoms that may, or may not, be appropriate. This ideological commitment is apparent if we understand that FVA requires a belief in free markets that are

underscored by interventionist states (Cahill 2010). Its success lies in the capacity to align accounting techniques to the interests of financial capital, whilst maintaining an image of objectivity and masquerading as a teller of financial ‘truths’. Given the focus of this research, we attempt to engage with Arnold’s (2009, p. 805) call for deeper explorations of the link between “micro level regulatory and accounting technologies and the macro level economy”.

Given that a ‘fair’ value, according to the definition, is the value determined in an arm’s-length transaction between willing and knowledgeable parties, a ‘free’ market is essential to the functioning of FVA. This is also evident in the IASB’s (2006) discussion paper, which prescribes the interpretation of fair value within the US Financial Accounting Standards Board (FASB) standards as being a current market sale price. From this perspective, the price determined by *the market* will represent the ‘fair’ value. However, associating the market with fairness obscures the expanding inequities that have emerged from within the centres of advanced capitalism.

Theoretically, an underlying assumption of FVA is that prices derived from arm’s-length market transactions reflect effective analysis of all necessary information required to create an accurate valuation (McSweeney 2009). By extension, markets are deemed to be self-optimising and are therefore presumed to accurately value assets. According to the theory, the ‘invisible hand’ of the market ensures that ‘irrational’ decisions by individual buyers or sellers are not sufficient to undermine the accuracy of the prices collectively determined by rational buyers and sellers. That is, there is no information asymmetry. Because the market utilises economic resources efficiently, the self-correction mechanism also enables a market to move naturally towards an equilibrium, when there is no ‘interference’ in the market (Smith 1961, Friedman 2002). Such ‘equilibrium’ is significant because it reflects the ‘magic’ power of the market to transform private interest into social optima (Palma 2009). It is a view of the market that has been persuasive, and it underscores the successful expansion of neoliberal ideology across the globe (Harvey 2005, Ong 2006, Klein 2007).

### *Fair Value Accounting and Financialisation*

Although many would argue that FVA has emerged because it provides users with the most relevant information for decision-making (e.g. Financial Accounting Standards Board 2009), its popularity cannot be understood without reference to the changing nature of advanced capitalism. Emerging demands for FVA valuations reflect a shift in the world economy toward service-oriented and information-oriented businesses since the 1980s (Dumenil & Levy 2005, Fishman et al. 2007). Within the changing economic context, Robinson (2006, p. 13) notes, “the expanding energy, finance and technology sectors were to become major beneficiaries and central pillars within the neo-liberal camp”. Although these trends are not new, they have accelerated in the last 20 years (Fine 2010, Harvey 2010).

The feature of contemporary neoliberalisation that most profoundly affects the global economy is its ‘financialisation’<sup>3</sup> (Froud et al. 2004, Gleadle & Cornelius 2008, Newberry & Robb 2008, Andersson et al. 2010). Neoliberal capitalism has seen the scale of finance grow exponentially, with many arguing it is out of proportion to production (Bryan & Rafferty 2006). As Newberry and Robb (2008, p. 743) have

noted, “the increased power of financial markets prompts companies to pursue goals set by the financial markets, rather than operational goals related to their production function”. The value of financial assets and finance-based incomes as a percent of GDP has risen dramatically throughout the world; for example, “in the US, share market capitalisation as a percent of GDP rose from its long-term average of about 50 percent to 185 percent in 1999” (Crotty 2005, p. 85). The financial-services industry's share of corporate profits in the US was around 10 percent in the early 1980s, but peaked at 40 percent in 2007 (Bank for International Settlements 2008). In the US in 2003, “the outstanding amounts [of the derivatives market] are 19 times the size of the US economy, while trading volume on exchanges was over 79 times the US GDP” (Dodd 2005, p. 150). According to the Bank for International Settlements, over the period 1999-2009 (Palma 2009, p. 834), the global amounts outstanding on over-the-counter derivative contracts jumped from US\$92 trillion to US\$683 trillion (7.5 times), or from 2.4 to 11 times the size of global output.

This shift to a financial economy sees the proliferation of complex financial instruments, such as derivatives, and a decline in the traditional trade- and production-based economy (Bank for International Settlements 2008, Dore 2008, Fine 2010). This financialisation process has two observable impacts on world economies: the decoupling of the non-financial and financial sectors, and an increase in financial speculation. First, according to Palma (2009), increased financialisation has led to a shrinking of non-financial trade activities, such as import and export trade, because of the impact of the overwhelming growth of the financial sector. Secondly, financialisation has introduced massive financial speculation into other sectors. This penetration of the financial sector into the rest of the economy has made real production sectors more fragile through their exposure to the substantial fluctuations of the financial market. Bryan et al. (2009) argue that, through increased securitisation, capital previously held in physical assets (such as machinery) or illiquid forms (such as mortgages) can now be made much more liquid, as is the case with holding financial derivatives. This shift has provided more ‘freedom’ for the owners of capital, which was previously tied to fixed and illiquid items. They are now able to make faster returns by taking advantage of the ‘short-term’ trading modes in financial markets.

It is in this ‘short-termism’ that the financialisation process has directly affected corporate governance behaviours. Market capitalisation is normatively ascribed as the ‘fundamental’ firm value, premised upon the efficient-market hypothesis and its assumptions, including: no information asymmetry; rationality on the part of decision-makers; the stability of economic structures; and the primacy of self-interest (Mouck 1990, Sterling 1990, Lazonick & O'Sullivan 2000). This norm is so firmly and uncritically established that the *unreal* assumptions upon which it is built are virtually invisible (McSweeney 2009). Under the disciplinary effect of the ‘market of corporate control’<sup>4</sup>, the managerial behaviour of contemporary corporations no longer pursues long-term growth, but prefers short-term distributional goals for shareholders (Kotz 2009).

As the focus of business operations moves away from productive activities to finance-oriented activities, the shares of many firms are traded at increasingly higher multiples of ‘book value’ (Palma 2009). These book values are understood as reflecting the ‘intangible’ values of the firm, including intellectual property such as

trademarks, trade names, patents and formulas; goodwill; the value of research and development; and, more importantly, the increased value of the financial capital. More specifically, financialisation has meant an increase in speculative and highly mobilised financial flows, which has led many to argue that a financial-reporting system built upon historical cost measurement would fail to satisfy the needs of ‘users’. Users, as construed in the context of financial capitalism, demand the most up-to-date information to maximise their chance of optimising their gains in the market. The popularity of FVA, therefore, can be viewed as a product of the needs of participants in financial markets. Instead of conservatively tempering the excesses of financialisation, as in the wake of the GFC, accounting has become an instrument of neoliberalisation, because it has promoted a view that a ‘fair value’ is a value that is most relevant to speculative decision-making within a ‘free’ financial market.

FVA promotes the mark-to-market valuations of many financial assets, such as ‘securitised’ assets, swaps, and collateralised debt obligations; these are often readily available in active markets<sup>5</sup>, and thereby used in practice (Plantin et al. 2008). Financial evaluation models strengthened collective belief that financial asset values are readily measurable through discounted cash flow analysis (McSweeney 2009, Bezemer 2010). For those infrequently traded or non-traded assets, there is considerable management discretion in determining the amount and timing of asset valuation and/or revaluation (McSweeney 2009). Yet the level of management judgement required in the pricing process has been neglected in much of the FVA debate. The effects of financialised markets, as evidenced in the 2007-2011 GFC, have also reflected the failure of accounting to consider the problematic relationship between financial accounting and macroeconomic instability (Arnold 2009). Given all of this, we understand FVA to be a technology of neoliberalism, offering technical legitimacy to markets. The role of accounting here is deeply ideological, and it serves to sustain specific elites (Harvey 2005, Arnold 2009). We now turn to a discussion of China to explore this in more detail.

## **Fair Value Accounting in China**

China’s economic growth has been extraordinary. But with this growth have come new challenges: rampant corruption, increasing social unrest, rising levels of inequalities, the yearning for democracy, and the spread of ideas foreign and inimical to the perceived interests of the communist state (Li 2010, p. 1).

The remainder of this paper explores the accounting arrangements of financial instruments as they are being applied in China. The Chinese accounting standard – *ASBE 22: Recognition and Measurement of Financial Instruments*<sup>6</sup>, which is equivalent to *IAS 39: Financial Instruments: Recognition and Measurement* – has brought about the most significant changes to Chinese listed companies’ financial reporting since the introduction of the new CAS in 2007. As a result, it provides a strong empirical platform to explore and contextualise the ideas presented above.

As FVA<sup>7</sup> must draw its valuations from Chinese capital markets, knowledge of these markets is important in order to understand how *ASBE 22* operates in China. FVA requires that the assets acquired and liabilities incurred are reported on the balance sheet at prices that would be adopted in current market transactions at the measurement date; and that the increases or decreases in the hypothesised ‘prices’ of assets and liabilities are recognised as incomes and expenses in income statements.

This approach, as mediated through the *ASBE 22*, has led to huge volatilities in the reported profits of Chinese listed companies. This is evidenced in the market turbulence between 2006 and 2008: the Shanghai Composite Index increased continuously from 1200 points in January 2006 to the highest point 6092 points in October 2007 – a jump of 408 percent in less than two years; at a similar rate, the Shanghai Composite Index dropped from 6092 points on 16 October 2007 to 1728 points on 31 October 2008 – a fall of 72 percent in one year. Since then the markets have been relatively stable, with the index never exceeding 3400 points until January 2010<sup>8</sup>.

Under *ASBE 22*, financial assets are to be measured at their fair values, and any variation is recorded in the profits and losses of the current period (Chinese Accounting Standards Committee 2009). Companies holding Chinese shares must recognise any share-price changes as either profits or losses. This can be very significant, as many Chinese companies have cross-holdings in other companies. In 2007, 1135 listed companies held other companies' shares, accounting for about 78 percent of total listed companies on the Shanghai and Shenzhen Stock Exchange (Shi 2007). Consequently, listed companies' profits were boosted greatly by the strong performance of the capital markets between 2006 and 2007. This dramatic market fluctuation was reflected in listed companies' financial statements, because of the application of FVA as required by the new CAS.

Two examples of large Chinese companies, one a manufacturer and the other in the financial services industry, illustrate this argument. The Livzon Group, a leading pharmaceutical company in China (listed on the ShenZhen Stock Exchange as 000513), reported that its net profit for the first quarter of 2008 fell by 73.53 percent compared to the same period in the previous year. This was despite net profits from operating activities of 142.18 million Yuan (RMB) - an increase of 34.19 percent compared to the period of 2007. The decreases in prices of cross-holding shares contributed a loss of 170.85 million Yuan (RMB) (Wang 2008). Similarly, China Credit Trust Co. Ltd., a major non-banking financial institution, reported a half-year loss of 317 million Yuan (RMB) in September 2008, while in the previous year it reported a profit of 931 million Yuan (RMB) (Huang 2008). The biggest contributor to this loss is changes in the fair value of cross-holding shares (Huang 2008, Wang 2008). The Secretary of the China Securities Regulatory Commission, Li Xiaoxue, acknowledged that one-third of the increases of profits of listed companies in 2007 came from the fair value changes in the cross-holding shares of other listed companies (Li 2007).

Outside China, this kind of volatility in reported earnings has been strongly contested within the accounting research. Whilst FVA is popular amongst business elites and standard-setters for the reasons outlined above, it meets with some resistance as the quality of FVA data is questioned (Barth et al. 1995, Barth 2004, King 2006, Landsman 2007, Penman 2007, Benston 2008, Whittington 2008, McSweeney 2009). The practice of FVA can also have a significant negative effect on financial markets, which became obvious during the 2007-2011 GFC. In a declining market, the decreases in 'fair value' reduce the value of assets on the balance sheet, and hence the bottom line numbers. The resulting paper losses forced many institutions to become unviable, including the biggest financial institutions in the US<sup>9</sup>. Given the level of debate within the accounting literature on the appropriateness or

otherwise of FVA, this was foreseeable long before the crisis (King 2006). Despite these technical limitations, we argue that the popularity of FVA lies elsewhere and can only really be understood when it is analysed as part of the broader political economy of neoliberalism.

As discussed previously, FVA relies on free markets to operate, yet free markets require significant state intervention. This aspect has received little attention in accounting research to date. This co-dependence between free markets and state intervention is not an accident. Instead, we argue that the progress of neoliberalism relies in part on technical rationalisations of its legitimacy. FVA provides this, whilst masking the activist role of the state (Cahill 2010). Nowhere is this tension more apparent than in China. To exemplify this argument, this paper critiques the Split Share Structure Reform (SSSR) that the Chinese government has been implementing since 2005. This reform has affected share prices, and correspondingly influenced the 'fair values' of shares in China. In reality, the Chinese market is a creation of the state and its reforms – yet the illusion of free markets and fair values has been sustained. We contend that this illusion is sustained by FVA and is critical to the neoliberalisation of China.

### **Fair Value Accounting and Free Markets? The Split Share Structure Reform (SSSR)**

FVA requires a free market to create meaningful valuations; however, 'free markets' have always been elusive. This is particularly true in China given its political and economic history. In reality, markets across the globe have required the active intervention of the state to sustain the legal and policy architecture in which they operate. They have also relied on the state to protect them from their own excesses and failures<sup>10</sup>. This disconnection between the theory and reality of free markets has underpinned neoliberalism. In fact, many have argued that the illusion of a free market forms part of the power of neoliberalism; and it should not be understood as an anathema, but rather as a lubricant to the freedoms and protections found when neoliberalism is explored in practice (Thorsen 2010). Mapping the disconnection between theory and practice is critical to our understanding of how the illusion of free markets is sustained and institutionalised. FVA plays a significant role in this story as it institutionalises, within accounting, the idea that markets are an unbiased arbiter of value, and thus lubricates the progress of neoliberalism. Its promise of fairness in values obtained through the market mechanism that can be reported as financial truths has had widespread appeal.

The discussion of the SSSR provides an opportunity to explore the 'ideal' of the free market as it works in practice. We argue that there is a significant disconnect between theory and practice, and that this disconnection is reinforced through the application of FVA. A close look at this reform reveals just how inappropriate FVA is in China from the point of view of a technical valuation. This suggests that its meaning is symbolic, as it signals a commitment to the neoliberalisation of the Chinese economy over and above its commitment to free markets or the accurate valuations that are said to sustain them.

## *Neoliberalising China through the SSSR*

The SSSR is a policy of the Chinese government to ‘free’ Chinese capital markets by transforming the share-ownership structure of Chinese listed companies. Chinese market inefficiency is said to be tied to the previous share-ownership structure, providing a strong impetus for reform (Young & McGuinness 2001, O'Connor et al. 2006, Francis et al. 2009).

There are two types of shares that can be traded in Chinese capital markets, *A-shares* and *B-shares*. *A-shares* comprise companies incorporated in mainland China; these shares are traded on the mainland *A-share* markets. The prices of *A-shares* are quoted in RMB, and only mainlanders and selected foreign institutional investors are allowed to trade them. *B-shares* comprise companies incorporated in mainland China, and are traded in the mainland B-share markets (Shanghai and Shenzhen). *B-shares* are quoted in foreign currencies. In the past, only foreigners were allowed to trade *B-shares*. This changed in March 2001 when mainlanders were permitted to trade *B-shares* as well. However, they must trade with legal foreign-currency accounts.

Prior to the June 2005 reform, the total market capitalisation of *A-share* listed companies in the Chinese share markets was RMB 735.6 billion, among which the value of the non-tradable shares (state-owned shares) was RMB 469.4 billion, accounting for 64 percent of the total capital (Zhang 1992). In other words, only about 36 percent of shares issued by listed companies were freely available to investors. The government also imposed very clear quantitative restrictions on both the number of companies that could go public and the maximum number of shares that could be issued in a given year (Liu 2006)<sup>11</sup>. This kind of regulation presented a challenge for China, because it was seen to constrain ‘market freedom’ – an anathema to any self-respecting capital market. The ‘freeing’ of markets from these kinds of constraints was seen as a step towards modernisation (Guthrie 2006); it also signalled the opening of another market to the kinds of speculative investments that had been championed elsewhere. Therefore, the SSSR was supposed to reform the market in the image of those found in advanced capitalist economies, and to provide an appropriate forum through which FVA could operate.

Although the Chinese government had good reasons for these interventions in capital markets in the past, they were increasingly difficult to defend in the context of global de-regulation of capital markets. Since the beginning of the significant economic reforms instigated by Deng Xiaoping in 1978, “China’s mainstream state ideology...[has been] confronted with more and more challenges from a great variety of ideological trends” (Li 2010, p. 2). Many liberal intellectuals call for an acceptance of private property as a ‘basic human right’, and this call extends to ending state ownership of enterprises within China (Li 2010, p. 6)<sup>12</sup>.

Given the global trend towards free markets and the deregulation of capital constraints, it was also difficult for China to attract capital into its markets, which is necessary to expand its economy and broaden economic prosperity. Government intervention predating the SSSR was widely criticised as distorting the supply-and-demand relationship, thereby constraining capital expansion unnecessarily (Zhang 1992, Wang & Xu 2004, Francis et al. 2009). In essence, the SSSR was introduced in order to transform non-tradable state shares into freely floating shares so that the markets could be ‘efficient’. However, as we have argued earlier, this is paradoxical,

as the establishment of a ‘free market’ requires significant intervention and re-regulation. In fact, the SSSR required the government to regulate and enforce the adoption of IFRS and to promote the use of FVA.

Although the stated objective of the SSSR is to increase market efficiency, the opening up of Chinese markets to powerful private interests also has the potential to create undesirable social outcomes (Li 2010). The reform was, in effect, a massive privatisation initiative, leading to the transfer of state (public) resources into private hands, which contradicted many of the ideological commitments of the central Chinese government. According to Li (2010, p. 8), the mounting discourse around globalisation mobilised a reconfiguring of China’s ideological commitments, which “helped transform the top leaders’ thinking regarding globalisation. Beijing not only endured lengthy negotiations and an ever-expanding set of requirements in order to join the WTO but also used the pro-market rules of that institution to overcome resistance to reform among die-hards inside China itself”. The privatisation of public assets was legitimised as part of the necessary reforms required by the WTO and was seen as a triumph by many within China. To those critical of the reform, however, it was described as a process of “accumulation by dispossession”, as it rewarded Chinese elites and sustained age-old inequities (Harvey 2005, 2010)<sup>13</sup>.

### *The SSSR in Practice*

In China’s case, the SSSR was deliberately designed in two steps. The first step was to change the non-tradable state-owned shares to tradable shares in name, although these shares could not be traded in the markets immediately. In effect, these shares were still non-tradable. This meant that while the change ostensibly signalled the transformation of the Chinese capital markets, it actually stalled the trading consequences. Article 27 of the Administrative Measures of the SSSR requires that:

The sale of originally non-tradable shares after the reform plan is completed shall comply with the following provisions:

- (1) The non-tradable shares shall not be traded or transferred within 12 months from the date of implementation of the reform plan;
- (2) A former non-tradable shareholder who holds more than 5% of the total shares of a listed company, upon expiry of the lock-up period as stated in Article 27.1 of the Measures, may sell their shares, with a maximum of 5% of the total shares of the listed company within 12 months via the trading system of the stock exchanges, and not more than 10% within 24 months<sup>14</sup>. (China Securities Regulatory Commission 2005a)

The reform took effect on 8 May 2005 with “four companies including Sanyi Heavy Industries, Tsinghua Tongfang, Zijiang Enterprises, and Jinjiu Energy chosen as the first pilot companies” (Wan & Yuce 2007, p. 376). According to the rule, shares of those companies were no longer non-tradable state-owned shares, but they were still banned from trading for 12 to 24 months. The first float of these previously non-tradable shares did not enter the markets until 2007, with trading activity increasing significantly in 2008, 2009 and 2010 (see Table 1). Since then, all other listed companies have been scheduled to undertake the same reforms.

In Chinese, the requirement to liquidate the tradable shares after passing the 12- to 24-month lock-up period is referred to as *JieJin*<sup>15</sup>. Table 1 is a timetable of the *JieJin*, which shows that by the end of 2010 most of the non-tradable *A-shares* had passed the lock-up period.

**Table 1. Timetable of the *JieJin***

Year (up to)	Number of <i>JieJin</i> Shares (billion)	Percentage of Total A-shares	Market Capitalisation (billion RMB)	Percentage of Total Market Capitalisation (billion RMB)
31/12/2007	128.50	8.06%	2,244.20	7.29%
31/12/2008	162.07	9.18%	2118.31	17.2%
31/12/2009	685.09	37.81%	3458.71	27.16%
31/12/2010	357.69	19.54%	3763.47	29.30%

Source: Zhang (2009).

The impact of this requirement on the supply of tradable shares has been enormous. As indicated by Li (2008), the *A-share* market capitalisation was about 7.1 trillion Yuan (RMB) up to 30 April 2008, and increased to 22.6 trillion Yuan (RMB) by 2010. In terms of the number of shares that could be exchanged from 2006 to 2008, Wan (2005, p. 180) predicted that:

Under the policy that requires a 12- to 24-month lock-up period before selling those non-tradable shares after their conversion into tradable shares, about 37 billion (5% of 740 billion) non-tradable shares would become free floats after one year, which even exceeds the total amount of IPO issuing in 2003 and 2004. After the lock-up period, the whole free float would reach 300 billion shares, which could all be sold out as long as the market prices were greater than the current mean price of 2.8 Yuan/share...those shareholders of non-tradable shares would sell those shares high, and buy back low to maintain the control...there would be enormous pressures on the markets in the next three years<sup>16</sup>.

The relationship between *JieJin* and share price has been investigated. Zhang (2009) identified a strong connection between a decline in share price and the increased volume of shares being *JieJin*. The research shows that in September 2007 and March 2008, the two months with the greatest quantities of *JieJin* shares being traded at one time, the market experienced significant falls (Zhang 2009, p. 2). The implication is that the *JieJin* dramatically increased the supply of shares in the market, resulting in a price fall.

Li (2008) noted that the arithmetic mean price of an *A-share* was about five Yuan (RMB) per share by the end of 2005, which had increased to over 15 Yuan (RMB) per share as of 30 April 2008. This meant that the average gain on selling previously non-tradable shares would have been over 200 percent in about two years – a situation that provided strong incentives for shareholders to sell off the shares and cash out the gains. That is why Ma et al. (2008, p. 2) warned:

In 2007 the bull market has successfully absorbed the impacts of the *JieJin*; however, with the increasing amounts of *JieJin* and its cumulative effect, if the macro-economic

condition deteriorated and the market liquidity couldn't catch up, the markets would suffer unbearably<sup>17</sup>.

A brief comparison of the market turnover, as shown in Table 2, sheds further light.

**Table 2. Chinese share-market trends**

Year	Market Capitalisation (billion RMB)	Circulated Share Value (billion RMB)	Transaction Number (million)	Volume (billion shares)	Turnover (billion RMB)
1991	0.00	0.00	0.12	0.12	0.81
1992	0.00	0.00	1.99	1.78	24.90
1993	0.00	0.00	24.43	14.74	234.05
1994	0.00	0.00	48.99	65.68	573.51
1995	0.00	0.00	44.36	51.28	310.35
1996	533.56	126.66	184.74	110.12	911.48
1997	0.00	0.00	158.01	121.57	1,376.32
1998	0.00	0.00	156.71	112.40	1,235.27
1999	1,458.05	424.97	179.71	156.04	1,696.58
2000	2,693.09	848.13	304.92	243.77	3,137.39
2001	2,759.06	838.21	209.75	182.00	2,270.94
2002	2,536.37	746.73	175.57	178.11	1,695.91
2003	2,980.49	820.11	206.61	269.28	2,082.41
2004	2,601.43	735.01	260.16	360.77	2,647.06
2005	2,309.61	675.46	210.14	398.66	1,924.02
2006	7,161.24	1,642.83	447.26	1,028.39	5,781.66
2007	26,983.89	6,453.22	1,617.33	2,432.54	30,543.43
2008	9,725.19	3,230.59	1,278.84	1,631.16	18,043.00

Source: Shanghai Stock Exchange, [www.sse.com.cn](http://www.sse.com.cn).

For instance, the trading volume was 398.66 billion shares in 2005, which was the highest amount over the period before *JieJin* began; it jumped dramatically to 1,028.39 billion shares in 2006 and 2,432.54 billion shares in 2007<sup>18</sup> – a leap of 158 percent in 2006 and 510 percent in 2007<sup>19</sup>. Despite these significant changes to the market brought about by government policy, no information has been disclosed about the exact number of *JieJin* shares in circulation. Given the influence *JieJin* had on the supply of shares, it is indisputable that this would have affected market conditions.

### *Censorship, 'Free' Markets and the Chinese Elite*

The SSSR reform has transformed Chinese capital markets significantly, but it has fallen short of providing the idealised free market. In fact, the reform presented an opportunity for the informed elite to make windfall gains by buying shares in newly privatised public assets. The SSSR held out great opportunity for the small percentage of the Chinese population positioned to take advantage of the reform, but these advantages were not widespread or inclusive, as little information about the reforms was made publicly available. The research articles upon which this paper draws are only accessible to researchers who are registered to receive information of this type,

and only after paying access fees. This excludes much of the broader Chinese public, and quarantines information to an elite group within China. This also prohibited any widespread debate about the strengths and weaknesses of the reform package.

Given the significant regulatory intervention required to construct a ‘free’ capital market, debates over the risks associated with the *JieJin* for share prices and the Chinese economy were sidelined in the public media between 2007 and early 2008. For example, *Sina.com.cn* – one of the biggest financial websites in China – has a specific section (<http://finance.sina.com.cn/nz/chinaggzw/3.shtml>) dedicated to the SSSR. As of January 2010, the latest news was dated 16 July 2007. There were only five posts in 2007, and only one of these referred to the reform somewhat negatively, with the title ‘Investment Fund Industry: there’s limited impact of the split share structure reform on the market’<sup>20</sup>. A browse of nearly 500 posts in 2006 reveals that most of the news was about how strong the shares had performed in the bull market. There were only two articles mentioning *JieJin*. One was on 8 August 2006 – ‘The peak time of *JieJin* hasn’t come yet, A-shares bear hardly the pressure’<sup>21</sup>, which briefly introduced the numbers of shares that would be allowed to circulate in 2007 and 2008, but contained no evaluation of the consequences of the privatisation of state-owned assets on the market. The other was on 9 November 2006 – ‘The amount of *JieJin* surges today, beware of the risk of selling off’<sup>22</sup>, which only gave a brief introduction to the situation of *JieJin* for six specific companies<sup>23</sup>, but without referring to any broader impact on the market. Another section on the specific topic of *JieJin* from the web portal (<http://finance.sina.com.cn/focus/dafeixiaofei/4.shtml> accessed on 15 June 2009) shows that no information at all was posted between 21 March 2007 and 5 February 2008. On the official website of the China Securities Regulatory Commission, the section on the SSSR had not been updated since 20 April 2007 (<http://www.csrc.gov.cn/n575458/n4238522/n4238662/index.html>, accessed on 21 July 2010)<sup>24</sup>. A further search on [www.baidu.com](http://www.baidu.com) – the biggest web-searching engine<sup>25</sup> in China – with the keywords “大小非解禁” (*JieJin*) shows similar patterns (accessed on 9 April 2011): there was a vast amount of news about *JieJin* and its disastrous effects on the markets, but the authors could not find any that had been posted before 2008. In other words, when shareholders were liquidating those previously non-tradable shares into the markets between 2007 to 2008, which was believed by some researchers (as discussed earlier in this paper) to cause the catastrophic drop in share prices, the public was not informed about this critical issue, as the media went silent on it.

Based on our reading of the media at the time, it appears that mainstream media outlets did not discuss the issue of *JieJin* until the market reached its lowest point in early 2008<sup>26</sup>. The possibility that this was the result of massive media censorship is not farfetched. Indeed, there are a number of studies that document censorship as a daily routine in China, especially when the government is managing a significant social or economic reform (Esarey 2006). As argued by Harvey (2005), the ultimate beneficiaries of the ‘freeing up’ of the global economy have been those who already have access to capital – the existing global economic elite. In this Chinese case, the access only belonged to the owners of those previously non-tradable shares, as they were provided opportunities to “sell those shares high, and buy back low to [still] maintain the control” (Wan 2005, p. 180) during this partial privatisation of public assets.

To smaller retail investors, the consequence of this kind of information asymmetry was extremely harmful. Wang (2005) showed that retail investors – individuals investing their own funds as opposed to institutional investors – accounted for 99.52 percent of total *A-share* accounts in China by the end of 2004. These individuals, who had not been fully informed about the potential impacts of *JieJin* on the markets, would hold the shares with unrealistic optimism, misled by the media, when the markets started to fall. A survey conducted by the Hong Kong-based broadcasting company Phoenix News Service showed that 88.6 percent of investors had a loss from *A-shares* trading in 2008, of whom 48 percent lost over 50 percent of their total capital (Phoenix News 2008). This signals the possibility, as Harvey (2005, p. 150) described, that China’s move towards neoliberalisation “has achieved rapid growth and alleviated the poverty of many, but it has also embraced great concentrations of wealth in the upper echelons of society”.

The issue of dominant state ownership in listed companies was not resolved by this reform. As Cahill (2010) argued, this is reflective of ‘really existing neoliberalism’. No matter what domestic and global investors expected of the results of this reform, the state can still be the dominant shareholder in these listed companies. The aim to maintain control has actually been stipulated clearly in another document, released by the CSRC on 23 August 2005:

The Share Reform is designed to float the former non-tradable shares rather than for the purpose of unloading state-owned shares through the open market...The controlling shareholder of the state-controlled listed company shall determine a reasonable minimum stake in the listed company under its control in light of the national layout and structural adjustment strategy with respect to the public sector economy. State capital shall be persistently maintained to the extent that it holds dominant control and acts as the leading force in sectors that are vital to the national economy and public welfare, as well as in the state-controlled listed companies that are fundamental and the pillar for the national economy. Where necessary, the state-owned shareholders may increase its stake in such listed companies through buying shares in the open market<sup>27</sup> (China Securities Regulatory Commission 2005b).

Although the SSSR was designed to change the ownership structure of Chinese listed companies through the conversion of non-tradable shares into tradable ones, the reform did little more than offer access to shares the state deemed to be superfluous to their needs, producing a ‘win-win’: Chinese elites within government and the business community could have access to speculative market gains previously off limits; at the same time, the government would maintain ultimate control of the sectors it deemed ‘vital to the national economy and public welfare’, and could signal its commitment to the kind of free market desired by global investors and organisations, such as the WTO. None of this produced the kind of trickle-down benefits or market efficiencies that proponents of the reform had promised.

As has been discussed previously, FVA exacerbates the problem, as it requires that financial-statement preparers quote the observable market price as a ‘fair value’ and that the resulting value changes are carried into the income statement. Given the level of government control and ownership within the market and the regulatory intervention required to support the reform, the market is far from free, and is a long way from being the kind of market upon which the logic of FVA relies. Even so, the accounting techniques adopted within the newly globalised Chinese economy perform

an important function, as they demonstrate the government's ongoing commitment to globalism and free markets – although each remains highly contestable in practice (Li 2010).

## Conclusion

If we are to understand the role of accounting in socio-political struggles, we must explore it within many different contexts. We know that accounting does more than reflect financial reality – this has been well-documented – but we still know too little about the role accounting practice can play in the mobilisation of particular ideologies, because of its propensity to mask this in the neutral language of technical necessity. The research in this paper is firmly positioned within this ongoing critical research project. Through an exploration of accounting change in China, we have argued that FVA institutionalises a technical commitment to the ideals of neoliberalism: for FVA to work, it requires a free and active capital market. And according to its proponents, by extension, the efficiency of the market requires minimal government intervention and ownership. Although FVA has not created the conditions of neoliberalism in China, it has sustained them. It has legitimised the transformation of the market and has supported the *appearance* of an efficient market in terms established within global capitalism (deregulation, privatisation and IFRS).

This process is complicated by the fact that neoliberalism in practice diverges from its theoretical ideals. Given the extent of this divergence, political economists now argue that this is an essential feature of neoliberalism (Harvey 2010). Nowhere is this more apparent than in China. We have demonstrated that, through the SSSR, the Chinese government has adopted reforms that signal a commitment to the broad tenets of neoliberalism: privatisation of public assets; deregulation of markets; and the adoption of international reporting standards. The Chinese government has defended the reforms as necessary to create greater welfare for all in China. In practice, the reforms have delivered market volatility that was capitalised on by a relatively few well-positioned speculative investors. The claim to enhanced market efficiency that was to be achieved through the reform is an illusion that is partly constituted through FVA. In reality the government still controls the proportion of shares it requires to control and influence the market. Information about the reforms has been limited to a 'fee-paying' elite within China, making it virtually impossible for the vast majority of the Chinese population, let alone retail investors already active in the market, to actually participate in the market for the new shares. The inequity in wealth distribution within China has worsened.

FVA has also produced significant volatility in the Chinese capital market – a volatility that has sustained the Chinese elite but has negatively affected ordinary investors in China. It has also quarantined ownership of significant community infrastructure away from the vast majority of Chinese people into the hands of a small number of well-positioned, 'informed' investors. The lack of public information about the SSSR has compounded this problem. As a result, we have argued that Chinese share prices can never reflect 'fair values', as these depend on a free market in which all parties are 'knowledgeable' and 'willing', and where transactions happen at 'arm's length'. In the Chinese context, FVA can only ever exist in name – as a symbol of China's commitment to global capitalism. To this end, China's adoption of IFRS

requires an embrace of so much more than comparable accounting techniques. It requires a commitment to the ongoing neoliberalisation of China that is disconnected from the underlying political and economic architecture that is operating within China.

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## Notes

<sup>1</sup> The *Accounting Standards for Business Enterprises* (ASBE), released in 2006, consists of a new Basic Standard and 38 specific ASBEs, 17 of which specifically adopt FVA as either an initial or subsequent recognition and measurement method (Chinese Accounting Standard Committee 2007, available at: [http://www.casc.gov.cn/kjfg/200607/t20060703\\_337130.htm](http://www.casc.gov.cn/kjfg/200607/t20060703_337130.htm)).

<sup>2</sup> Harvey (2005, p. 2) defined neoliberalism as “in the first instance a theory of political economic practices that proposes that human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterized by strong private property rights, free markets, and free trade”.

<sup>3</sup> The rise of financial capitalism has been described by Harvey (2005), Dumenil and Levy (2005), Palma (2009) and many others. The term ‘financialisation’ refers to the increased use of financial transactions, rather than through production and trade, to produce profit. This has been possible because of the deregulation of the global financial sector.

<sup>4</sup> As Lazonick and O’Sullivan (2000, p.15) wrote: “[T]rained, as virtually all American economists are, to believe that the market is always superior to organizations in the efficient allocation of resources, these economists were ideologically predisposed against corporate – that is, managerial – control over the allocation of resources and returns in the economy.” According to this theory, therefore, it is better to let the market coordinate corporate control. The current version of this market has functioned in a way that disciplines managers whose companies perform poorly through a take-over mechanism, and corporate performance is evaluated through its ‘financial’ performance.

<sup>5</sup> However, this often refers to ‘over-the-counter markets’ through which these assets are primarily traded.

<sup>6</sup> Chinese text: ‘企业会计准则第 22 号 – 金融工具确认和计量’. More detail of this standard and its comparison with the IFRS are available at: <http://www.iasplus.com/dttpubs/0607prcifrseenglish.pdf>.

<sup>7</sup> As discussed above, under the current IASB framework, the ‘fair value’ is defined as “the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction” (the International Accounting Standards Board 2006, available at: <http://eifrs.iasb.org/eifrs/bnstandards/en/framework.pdf>). The IASB published an Exposure Draft in June 2009 for Fair Value Measurement, in which it proposed to change the definition of ‘fair value’ to “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date” (International Accounting Standards Board 2009, available at: <http://www.iasb.org/NR/rdonlyres/C2F93A23-64EF-409C-A8F2-FC98B6466285/0/PREDFairValueMeasurementMJCB0509.pdf>).

<sup>8</sup> The index numbers are quoted from Shanghai Stock Exchange, [www.sse.com.cn](http://www.sse.com.cn).

<sup>9</sup> This refers to Lehman Brothers Holdings Inc. which declared bankruptcy in 2008.

<sup>10</sup> The bailouts during the GFC are a powerful example of this.

<sup>11</sup> More details of the restrictions can be found in Liu (2006).

<sup>12</sup> This draws on the work of Hayek, which became increasingly popular within the liberal intellectual classes in China from 1990 onwards.

<sup>13</sup> Harvey (2005) gives more examples.

<sup>14</sup> Original Chinese text: “第二十七条 改革后公司原非流通股股份的出售，应当遵守下列规定：（一）自改革方案实施之日起，在十二个月内不得上市交易或者转让；（二）持有上市公司股份总数百分之五以上的原非流通股股东，在前项规定期满后，通过证券交易所挂牌交易出售原非流通股股份，出售数量占该公司股份总数的比例在十二个月内不得超过百分之五，在二十四个月内不得超过百分之十。”

<sup>15</sup> Original Chinese text: “解禁”.

<sup>16</sup> Original Chinese text: “根据政策，非流通股转为流通股后需要等待 12 至 24 个月后可以上市流通，一年后将会有 370 亿（7400 亿的 5%）的非流通股进入市场，这个数量甚至超过 2003 和 2004 所有的 IPO 的总和。解禁期过后，所有的 3000 亿解禁股将会被抛售，只要市场价格高于 2.8 元每股的成本价...非流通股的股东们会在高位上卖出股票，然后再低位上再买进继续保持控股权...接下来的三年市场将有不可承受的压力。”

<sup>17</sup> Original Chinese text: “2007 年的牛市已经成功地吸收了解禁带来的冲击，但是，随着解禁数量的增加和累积效果，如果宏观环境恶化及市场流动性不能跟上的话，市场将遭遇不可承受的冲击。”

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<sup>18</sup> For comparison, the volume of newly issued shares in 2007 was only about 43 billion shares (<http://news.cnlist.com/CnlistNewsDetail.aspx?tablename=dtlmb&GUID={3F652350-EC99-4F6C-A66F-DEAFA09F5C9F}> accessed by 17 July 2010).

<sup>19</sup> This has fed the argument that it is in the public's interest because now shares are being traded in bigger volumes, meaning more participation in the market. This is, however, suspicious given the possibility of unevenly distributed information.

<sup>20</sup> Original Chinese text: “基金界人士称大非减持力有限”。

<sup>21</sup> Original Chinese text: “解禁最高峰尚未到来 A 股不堪限售股解禁之”。

<sup>22</sup> Original Chinese text: “限售股今天迎来解禁高潮 防套”。

<sup>23</sup> These companies are: “ShuangLu Pharmaceutic (双鹭药业), Nanjing Harbour (南京港), Fuxing Technology (福星科技), Tianmao Group (天茂集团), Zhejiang Sunshine (浙江阳光), Shenton MTR (申通地铁)”。

<sup>24</sup> This section had been removed from this website on 9 April 2011 when the authors revisited the site.

<sup>25</sup> This is the ‘legitimised’ web-search engine endorsed by the Chinese government after Google was expelled from China in 2010 due to its refusal to comply with the censorship policy imposed by the government.

<sup>26</sup> The market went from 6092 points on 16 October 2007 to about 2000 points by February 2008 (Shanghai Stock Exchange, [www.sse.com.cn](http://www.sse.com.cn)).

<sup>27</sup> Original Chinese text: “股分置改革是非流通股可上市交易作出的制度安排,并不以通本、市、减持国有股份为目的,当前国家也没有通、境内、本市、减持上市公司国有股份、集、金的考。非流通股可上市交易后,国有控股上市公司控股股、根据国家、于国有、布局和、构性、整的、略性要求,合理确定在所控股上市公司的最低持股比例,系国、民生及国家、命脉的重要行和、域,以及国民、基、性和支柱性行中的国有控股上市公司,国家要保、国有、本的控制力、影响力和、力,必要、国有股股、可通、券市、增持股份”。