

Private Lending in China

Practice, Law, and Regulation of Shadow Banking and Alternative Finance

This book explores China's private lending market from historical, economic, legal, and regulatory perspectives. Private lending refers to moneylending agreements between business borrowers and their debt investors without the involvement of banks. In China, it remains difficult for private entrepreneurs to obtain sufficient loans from state-owned banks. Thus, private lending has been a vital alternative financing channel for over 80 million businesses which are reliant on private funds as their major source of operating capital. The market volume of private financing stands at 5 trillion yuan (\$783bn), making it one of the largest shadow banking systems in the world. Despite the wide popularity and systemic importance of private lending activities, they have remained outside of the official regulatory framework, leading to extra financial risks. In 2011, China's private lending sector encountered a severe financial crisis, as thousands of business borrowers failed to repay debts and fell into bankruptcy. Lots of bosses who found it impossible to liquidate debts ran away to hide from creditors. The financial turmoil has caused substantial monetary losses for investors across the country, which triggered social unrest and undermined the financial stability. This book is a timely work intended to demystify China's private lending market by investigating its historical development, operating mechanism, and special characteristics. It evaluates the causes and effects of the latest financial crisis by considering a number of real cases relating to helpless investors and runaway bosses. It conducts an in-depth doctrinal analysis of Chinese laws and regulations regarding private lending transactions. It also examines China's ongoing financial reform to bring underground lending activities under official supervision. Finally, the book points out future development paths for the private lending market. It offers suggestions for global policymakers devising an effective regulatory framework for shadow banking. It appeals to researchers, lecturers, and students in several fields, including law, business, finance, political economy, public policy, and China study.

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