

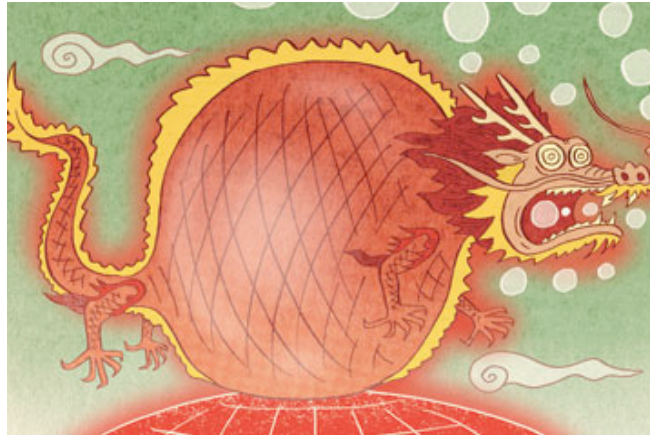
China

The people's republic in the grip of popular capitalism

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**Tens of millions of Chinese are risking their shirts in a stockmarket frenzy. If it goes wrong, things could get nasty****Get article background**

WOULD-BE share punters, keen for a piece of China's booming stockmarket, are queuing to open accounts at a Beijing branch of China Merchants Securities. A busy manager, handing out application forms, says he is taking on 100 new clients a day, perhaps five times as many as a year ago. Bunches of small investors, ranging from students to pensioners, crowd around computer terminals to carry out their trades, keeping an eye on the prices as they flicker across big electronic screens. China's biggest-ever stockmarket boom may be turning into a bubble—and the country's leaders are getting worried.

If the bubble were to pop, it could have a bigger impact on social stability than any previous downturn in the stockmarket's 16-year history. There are now more than 91m accounts held by individuals at brokers or in mutual funds. Estimates for the number of investors vary widely. At the height of the last market boom, in 2001, there were 60m accounts but perhaps fewer than 10m investors. There are certainly many millions more now. New accounts at brokers are being opened at a rate of more than 200,000 a day, touching a high of more than 310,000 on April 24th. The total so far this year is more than 8m, which is around ten times as many as in the whole of 2005, when the market began to emerge from a four-year slump.

Among those in the queue is 23-year-old Justin Xing, a university student who says he has invested about 3,600 yuan (\$465), or the equivalent of around six months' living expenses, since he opened his first account, at a different branch, two months ago. This sum, he reckons, is now worth around 4,400 yuan. Not a bad return, though those who got in earlier have enjoyed even juicier ones. The Shanghai composite index for yuan and hard-currency shares is now approaching 4,000, a rise of nearly 40% so far this year after a 130% increase in 2006 (see chart).

Some economists fret that share prices are moving far ahead of companies' earnings, to a degree scarily reminiscent of Japan in the late 1980s just before its crash. With the help of new share listings, the combined market value of the Shanghai and Shenzhen exchanges has risen to some 15 trillion yuan (\$1.8 trillion), 87% more than at the end of last year and surpassing that of Hong Kong.

The growing involvement of low-income groups such as students and

pensioners, who were more cautious during the last bull run, could make a crash more painful. Mr Xing says 20-30% of economics and business students are playing the markets. A lecture last week at Peking University by China's "stock god" (as the media call him) Lin Yuan, who says he has made some 400m yuan in the stockmarkets since their founding, attracted hundreds of students eager to learn his methods. The younger they start investing, he told his audience, the better.

A big difference between this bull market and the last is the penetration of the internet and mobile telephony. Mr Xing trades shares on a laptop in his dormitory plugged in to a broadband internet connection. The widespread installation of broadband in homes over the past four years has made it easier for pensioners and housewives to join in.

So many employees are spending their time trading stocks online that some companies have introduced fines to deter them. But many continue surreptitiously trading and sharing tips through e-mails, instant messaging and texts. Mobile-telephone users (that is, almost every adult city-dweller) can subscribe to stockmarket alerts and trade shares simply by pressing buttons on their handsets.

Another big change is the ready availability of mortgageable or pawnable assets with which to raise money to buy shares. Since the late 1990s, the privatisation of urban housing has given many people a stake in rapidly appreciating property. And with consumer-price inflation creeping up to a two-year high of 3.3% at the end of March, real interest rates have been around zero or negative this year. This has encouraged the withdrawal of savings from banks. Hou Ning, a Beijing-based analyst, says that in the countryside unlicensed moneylenders have been helping farmers into the markets with unsecured high-interest loans.

China's leaders are worried, but unsure what to do to cool the market. A string of interest-rate rises and increases in banks' reserve requirements have had little effect so far. Like their fellow communists in neighbouring Vietnam, where a similar stockmarket bubble has grown, they know that share gains keep the rising middle class contented and help the state's big privatisation programme. But if tens of millions of urban Chinese lose their shirts, they could turn their anger on the party.

Twice this year—on February 27th and April 19th—the markets have wobbled alarmingly amid rumours of tougher measures to control the flow of cash. The latest upset was caused by figures showing the economy growing even faster than expected: in the first quarter of this year, output was up 11.1% on the same period of last year. But the bulls have quickly returned. Outside the China Merchants Securities branch, a group of investors debates the market's prospects. "It's like a casino set up by the Communist Party," says one. Another says only fools are still investing. But none has any plans to cash out.



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