[Writer's Note: Unfortunately over the past 10 years, I've managed to temporarily misplace the published version of this article. But the information here, I believe, is too important not to include in my archive.]
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WHEN A HOLD IS REALLY A SELL: Trading in China

By Maureen Nevin Duffy

Few people have heard the name Ye Shu, yet this Chinese national may be as important to the trading community as any Tiananmen Square dissident. Ye's arrest and 35-day incarceration are less well known in financial circles than her country's January Decree, a gargantuan attempt to corral the giants of financial data under China's own news/regulatory agency, Xinhua. But rest assured, both events stand to influence trading decisions worldwide.

A research analyst for SBC Warburg's offices in Beijing, Ye was arrested on September 20th on suspicion of divulging "state secrets," and could have spent several months in jail, according to the South China Morning Post. On October 24, Reuters reported the release of Sichuan-born Ye, and noted that "China's broad definition of state secrets includes economic and financial information -- much of which would be considered public information in the West."

Ye had apparently exhumed data from the People's Bank of China's monthly circulars, which are distributed among state-owned companies and contain economic forecasts and central bank statistics. "This isn't like someone finding out about a merger from the SEC and reporting it," says a Chicago-based expert on emerging markets, who asked that his name be withheld. "This is more like getting unemployment statistics that the government doesn't want known and publishing it. This is actually quite an issue for firms doing business in China. What would be considered original economic or company research in the west very well might be considered a "state secret" in China."

The source says payment for such information may have also played a role. "You cut a deal with government agencies to get government statistics: You cut a deal with a company or the government agency in charge of the company to get company data. You get it unofficially, you piss them off. This is pure speculation -- but informed speculation -- that that guy ended up in jail because China doesn't want foreigners digging up for free what it wants to sell, and some bureaucrat with clout got pissed enough to send the guy to the big house."

The news industry insiders we spoke with in China say they don't know of such payoffs. But another rationale for 'the guy's' arrest meets few arguments. Warburg offices in New York, London and Hong Kong have all declined comment, other than to say they are "pleased to say she is released and fine." But a source close to the firm confirmed that it issued a report to its clients prior to Ye's arrest predicting a decline in China's currency, the renminbi,. "She was a research analyst who was working with information in the public domain. China authorities took great exception to what she wrote," says the source.

One veteran trader isn't surprised. "The traders out in this region have been doing this business in these countries for a long time," says Glenn Lesko, director of sales and trading for HG Asia Ltd, in Hong Kong. "It's a different perspective coming from America, but you just, essentially you value that into your parameters when you're looking at things. You get to know it and you get to live with it." South Korea is another example, says Lesko. "You watch what you write in South Korea. You don't go calling big government linked companies 'a sell.'"

To counter this, Asia-wise traders like Lesko have personal relationships with their people in China and elsewhere. "You really rely on that to get the true story," he says. "Like they might call and say, 'Look guys I've taken this big government-run company. I've moved it to a 'hold,' but, you know, tell you the truth it's probably a 'sell.' But we could get kicked out China if I said that.'" This reality accounts somewhat for the popularity of red chips, shares of China-related enterprises, which are researched and whose books are audited out of Hong Kong where there is better disclosure. Lesko trades them as H shares in Hong Kong, as well as B shares, listed on the Shenzhen and Shanghai stock exchanges.

When Beijing issued a decree on January 16, 1996 ordering all foreign news agencies and wire services to register themselves as well as their clients through Xinhua News Agency, supply it with terminals for monitoring the transmissions and forfeit possibly 7% of their revenues. Lesko says, "It did anger and frustrate people. People took that very negatively." Our State Department and United States Trade Representative Office did as well, issuing public objections. USTR considers the mandate a trade issue, possibly affecting China's admission to the World Trade Organization (WTO), according to a spokeperson for the office. Acting USTR head Charlene Barshefsky raised the issue of the decree with Wu Ye, the head of the Chinese Ministry of Foreign Trade and Economic Cooperation (MOFTEC), at the Asia-Pacific Economic Cooperation (APEC) forum's Informal Leadership Meeting in Subic, Manila in November, and will continue to raise it.

But people in Hong Kong took that as, "'Oh that's china. That's something that they do,'" says Lesko. Part of the local nonchalance is that Hong Kong residents don't expect the same for themselves. To date, Hong Kong is protected by special rules, outlined in a document called the Basic Law, that guarantees Hong Kong's right to continue as usual.

It's hard to get Hong Kong upset about anything right now, because there are boom times there, partially due to a euphoria over independence from Britain in July -- a nationalistic wave of optimism fills the air. Liquidity has increased in China's markets, says Lesko, pushing up B shares in the Shenzhen market by 10% thanks to lower interest rates. Also, the Chinese government and its companies are on a buying spree, gobbling up businesses and office space in Hong Kong "like mad," says Lesko.

Certainly China’s traders must be grateful. When interviewed this fall, they were struggling with 70,000-share trading days. Yi Zhang, 29, depends on a variable percent-of-profit bonus to boost his $250 a month salary, from The Shenzhen Special Economic Zone, a securities firm trading on the Shanghai Exchange. After four years, Yi, who was trained right on the Shanghai, is anxious to see a commission system implemented. But at the end of that particular long day, he said only, “I’m so tired.”

On the Shenzhen Stock Exchange, Karen Yau, a B-share trader for Jardine Fleming considered her 5 million-share day a light one. Yau, who was trained on the Hong Kong Stock Exchange and also works on salary plus bonus, said the spreads of usually one fen, the smallest currency unit, are only “So, so. Not very good” for making money. However, her colleagues Zhong Ming and Jin Jung, who trade both A and B-shares for the state-owned Industrial Bank, find the B-share spreads are often three times that of the A’s. The two, who trade mainly double the number of large blocks to small (1 million or 10 million-share lots) find the A-share spreads quite thin.

“Most clients don’t even trade them,” says Lesko, of the B-shares, due to the lack of disclosure. With the decree threatening to interfere further with the flow of information, it could hurt the very companies China’s exchanges were set up to help. The USTR feels the procedures outlined in the initial decree, which was under debate among Chinese authorities and the three major data vendors -- Reuters, Dow Jones and Bloomberg -- until talks died down, “would interfere with our companies’ ability to deliver real time information,” says a department spokesperson. Nicholas Burns, spokesman for the Department of State, told a briefing, “We are disappointed that the Chinese government has taken what appears to be an action to restrict the amount and type of information, at least on economic matters, available in China.” Burns went on to point out the detriment to China’s credibility on economic issues and its own economic prospects.

Despite an original 90-day deadline, none of the three news agencies are in compliance with the edict, which USTR also fears will alter the timeliness and quality of market data and news. This despite China’s position that it intends to monitor not channel the information. The confusion is typical and may account more for these disputes than the orders themselves. Apparently, China wants to see news which could cause negative market impact, such as past reports of Chairman Deng Xiaoping’s death, so that it “can make presentations that it’s wrong” before it can cause mass market fluctuations, says a Chinese embassy source. China’s State Council, which issued the edict, seems to be waiting for further instruction from a part of the Chinese government whose identity is unclear even to the principles involved.

Despite proclamations that China would not interfere with the content or flow of the vendors’ information in China or Hong Kong there is room for interpretation. A key official in charge of Hong Kong’s transition, Lu Ping, has told journalists that while a champion of objective news, he abhors advocacy journalism. “That’s a huge area,” says a Western businessman with ties to the information industry in China, “because that means every editorial or every piece of commentary would be regarded as advocating something and therefore (that’s) something they don’t accept. My own personal opinion on this, and I've been involved with Asia for 20 years, is that it will be in the area of the media in Hong Kong that we will first notice the difference." Journalists currently and recently covering Hong Kong, as well as a highly placed diplomat, concur that most of the papers there have already begun to self-censor their copy.

The information industry is also very concerned by the Ye Shu incident. "That is extremely worrying to the business community here," says the source close to these groups. "Few people are saying anything in public about it because there is this feeling in Beijing that no one wants to offend the Chinese hosts." However, the information used by Ye, says the source, "is quite freely available through contacts in the Chinese banking industry. This could happen to anybody, but the question is why did they pick on this organization?" He wonders if it was retaliation for Warburg's report.

On the other hand, he says, there are many Chinese officials "working to try to achieve greater degrees of transparency, in order to avoid insider trading and things like that," he says. "It's a country going through reform and different offices in different agencies are giving different views. So you will come across incidents like that of the arrest of the analyst that seem like throwbacks to the past. So you must be careful what conclusions are drawn."

Underlining the sensitivity of the current climate in China, ordinarily accessible contacts like James McGregor, who represents all of Dow Jones' interests there and is the outgoing chairman of the American Chamber of Commerce in Beijing, and Richard Pascoe, McGregor's equal at Reuters, did not return calls for this article.

However, Michael Bloomberg's head of editorial, Matt Winkler, said the company is prepared to do whatever it has to to provide its services to the market. "If China wants to charge us for selling news in China, we'll take and put on a customer charge," says Winkler, who says the organization has not encountered any interference in its five-person operation in Beijing and Shanghai. Bloomberg has discussed with Xinhua, which wants to market news through its China Internet Corp., "making parts of Bloomberg information news available for Chinese distribution," he says.

Asked if he thought there was a chilling effect over Chinese research, Winkler said, "When were you born?" His point: that China has come a long way and younger people may not be able to fully grasp its progress. Should the readers of Financial Trader trust in what they are getting from their news suppliers under the circumstances? "Well Ronald Reagan said it best, 'Trust but verify,'" says Winkler, alluding to Reagan's philosophy toward Gorbachov's détente.

As for journalists, Winkler says even the best -- Rather, Brokaw, Jennings -- are wanting when it comes to understanding stocks, bonds, currencies, etc. Is he implying that, in business, you should apply different rules as far as freedom of the press? "As I said, capitalism is a system of choice. Ah, it's a great time to be alive and a great time to be a capitalist. And it's a great time to be writing about capitalism and that's what we do."

In the meanwhile, sources say the information industry is hoping the US government can get the point across to China for them that free market economies must have free flowing information.

--30--