A New Era for Chinese Credit Rating Provision

Credit rating in China has been, since the 1980s, the domain of domestic credit rating agencies. Now, however, the Chinese Government has allowed a global CRA into its country for the very first time. This raises a number of important questions about how that assimilation may work in reality, and the effect it may have upon the unique entity that is China. This article therefore attempts to assess and answer those questions.

Introduction

China's relationship with the concept of credit rating has been a relatively short-lived one, with China only developing its own version of a 'credit rating industry' in the 1980s. On account of its political model, China has been reluctant to allow the leading credit rating agencies – Standard & Poor's, Moody's, and Fitch Ratings – onto its shores and has only allowed their presence in a carefully designed and monitored way. However, China now sits at the precipice of its next phase of development and, as such, there is an argument that its model must change in order to bring about that next stage. It is on that basis that this article examines the recent development which saw China officially open its doors to a foreign credit rating agency for the very first time. Although it has yet to officially rate a Chinese entity or financial product, S&P were granted its licence to operate within China in January 2019.

The questions that this development brings up are many. Is there a need for the leading credit rating agencies within China? Does the Chinese model allow for such influential but private entities to exist as they do outside China, or does there need to be compromise? If so, on whose behalf? What effect does this development have on the very meaning of what China is in the modern world? To some it may appear that China is simply opening up its gates to a financial player as it moves forward with its economic model, but with the Chinese model being based upon conservatism and control, particularly in the financial marketplace, can the credit rating agencies really exist within such an environment? Yes, the questions are many and in this article there will be an examination of a number of key questions that arise from this first-of-its-kind move for China.

In order to achieve this aim, the article will proceed upon the following basis. To begin we need to understand the development of the credit rating industry within China, and the factors that have shaped that development. To accentuate that analysis, the article will continue by looking at some of the evidence, and also the theoretical reasoning as to why the entrance of the global CRAs is needed when a domestic market currently exists. Some of that reasoning will lead us onto some of the more conceptual issues relating to the environment that S&P have now entered. China represents a truly fascinating case study and its development is marred by incredible empire building, imperialism, war, revolution, and ideological application.[1] As such, there are a number of overarching and truly philosophical considerations at play in something as routine, to the rest of the world, as credit rating provision. Once that conceptual analysis has been undertaken, the article will analyse the recent granting of the licence to operate within China to S&P and assess the reality of the licence, and the scope for developments. To conclude, the article will ask some pertinent questions regarding the future of this collaboration, and the impact upon the development of the Chinese ideology as it begins its next phase of development.

Credit Rating in China

The established leaders within the global credit rating industry can trace their roots back as far as the 1830s in the antebellum era of the United States,[2] but for China the development of their own version of the credit rating industry is much more recent. In the 1980s, China was continuing to struggle with the development of a market-based system that it needed to oscillate away from the Maoist era that ended with Mao Zedong's death in 1976. The financial system at that point mostly revolved around 'lending to privileged state-owned enterprises and those with strong political connections, forcing private companies to borrow

[1] D.C. Wright, *The History of China* (ABC-CLIO 2011).
[2] D. Cash, *The Role of Credit Rating Agencies in Responsible Finance* (Palgrave Macmillan 2018) 48.

from informal channels'.[3] However, when the Government launched a corporate bond market in the mid-1980s as part of its modernisation under Deng Xiaoping, the Chinese credit rating industry was formed as a natural result. 1987 has been recognised as the year when the credit rating industry in China formally began,[4] with the actions of People's Bank of China (PBoC) in 1987, via the promulgation of the 'Temporary Regulations on the Management of Corporate Bonds', leading to a number of its branches developing credit rating departments which would go on to become rating agencies.[5] The first of these departments was affiliated to the Shenyang branch of the PBoC. From 1989 onwards, many of these departments were redeveloped to stand alone and, in 1992, the PBoC issued a revised version of the 1987 regulations which essentially enforced that issuers needed to have their bonds rated before applying to have them marketed.[6] The effect was for the Chinese credit rating industry to balloon in size, but the financial crisis that gripped the region in the mid- to late-1990s brought the Chinese enthusiasm for bonds to a grinding halt, with a massively high ratio of bond defaults occurring in specific parts of China during this period.[7] The solution was for the Chinese Government to step in and pay-off creditors, but as a result of this the State enforced that the number of registered credit rating agencies be reduced, where only nine agencies remained from the previous pool of fifty. This has been recognised as the beginning of what the literature on credit rating agencies labels as 'regulatory licensing'.

The Chinese Government took stringent action after the Asian Financial Crisis and reorganised its regulatory framework. The responsibility for regulating the issuance of bonds was stripped from the local governments and placed under the auspices of the State Development and Planning Commission in 1999. In 2003, the Commission was renamed as the National Development and Reform Commission (NDRC) and, 'for a year, bond approvals came to a complete halt'.[8] In line with this redirected approach, the regulation of credit rating agencies was tightened also, with only a handful of agencies being officially recognised. The China Chengxin Credit Rating Co (founded in 1992), Dagong Rating Co. (founded in 1994),

[3] S. Kennedy, "China's Emerging Credit Rating Industry: The Official Foundations of Private Authority" (2008) 193 *The China Quarterly* 65.
[4] D.W. Arner, B.F.C. Hsu, and L. Pu, "Credit Rating in China" (2010) 43 Chinese Law and Government 3; Heather Lee, "Regulation of Gatekeepers after the Financial Crisis: An Example of Credit Rating Agencies in China" (2016) 37 *Company Lawyer* 352.
[5] Kennedy (n 3) 69.
[6] ibid.
[7] ibid.
[8] ibid.

China Lianhe Credit Rating Co. (founded in 2000), Shanghai Brilliance Credit Rating & Investors Service (founded in 1992), and Shanghai Far East (founded in 1988) became the leading members of the Chinese credit rating industry.[9] The regulatory framework was being developed around this core group of agencies and, after the PBoC had 'directed that credit reports issued by CRAs may be referred to in loan-granting decisions of banking institutions' in 1996, the China Banking Regulatory Commission made similar provisions in 2004. In the same year this was followed by the State Council of China promulgating further regulations in relation to the credit rating industry, entitled 'Some Opinions of the State Council on Promoting the Reform, Opening, and Steady Growth of Capital Markets'.[10] It is worth noting here that the global credit rating agencies have been, up until the recent development with S&P, prohibited from establishing stand-alone agencies within China. However, they have been allowed to partner with existing agencies, and Moody's and Fitch Ratings hold substantial stakes in China Chengxin and China Lianhe respectively.[11]

Yet, whilst there appears to have been a concerted effort to regulate the credit rating industry via the regulation of the capital markets, it is widely noted that 'the regulatory framework on credit rating in China is scattered across various sections of the financial laws, rules and normative documents'.[12] Kennedy confirms this when detailing the rules put forward by the China Insurance Regulatory Commission in 2005, and the China Securities and Regulatory Commission (CSRC) in 2005 and 2006, which permitted their charges with only investing in 'highly rated securities'.[13] Lee states that one can effectively differentiate regulators within the Chinese financial marketplace between regulators of the bond market, and regulators of the credit market.[14] Essentially the task of regulating the credit rating industry is divided between the PBoC and the CSRC, although Lee continues by arguing that 'both the CSRC and PBoC also have weak supervisory power in exercising sanctions'. When inspections are undertaken, they are not made public, and in reality the ability to revoke the licence of a credit rating agency is 'seldom used'.[15] There is an exception to this, and admittedly it

[9] ibid 70; Lee (n 4) 353; X. Jiang and F. Packer, "Credit Ratings of Domestic and Global Agencies: What Drives the Differences in China and how are they priced?" (2017) *Bank for International Settlements Working Papers* No. 648 6 *https://www.bis.org/publ/work648.pdf* [accessed 14 April 2019].
[10] Arner and others (n 4) 4.
[11] Lee (n 4) 353.
[12] ibid.
[13] Kennedy (n 3) 77.
[14] Lee (n 4) 354.
[15] ibid.

occurred after the publication of Lee's article in that Dagong was suspended from rating for a year in 2018, but we shall examine that case later on.

In examining the literature on this regulatory framework, there appears to be a number of issues. Lee discusses how the issuer-pays model – the model of having the debt issuer pay for the rating rather than the traditional model of having the subscriber (the investor) pay for the model – has the increased effect of facilitating conflicts of interest on account of the concentrated dynamic within the Chinese marketplace. With a number of CRAs in place but with a much smaller market to work with, Lee suggests that there is an increased possibility of exerting influence over the CRAs. Both the bond and credit markets are dominated by 'State-Owned Enterprises' (SOEs), and Lee points out that 'CRAs must maintain good "guanxi", i.e. a good relationship, with the clients, especially SOEs'.[16] This is relatable to the concept of the global CRAs being bound 'reputational capital', but Lee suggests that this connection is much stronger within the Chinese dynamic. She also suggests that SOEs favour agencies that were developed from a governmental background, with Dagong and Shanghai Far East falling neatly into that category.[17] Lee's conclusion is that 'it is important that even CRAs which have a state-owned background should be left with autonomy for their own operations',[18] but Kennedy declares that the State is in supreme control of what is, to all intents and purposes, 'a planned economy'[19].

It is this concept of a planned economy that raises so many questions regarding the invitation to the global CRAs to ply their trade within China. Kennedy is clear in his understanding that the State is responsible for either the growth or reduction in the size of the credit rating industry, and in the capital markets moreover. He concludes by stating that 'China still does not have a laissez-faire market. Government approval for issuance is still needed… [and] global CRAs have been blocked from the local market and guided into joint ventures, a strategy motivated by the desire to provide protection to local CRAs and by the apprehension of having foreign rates sit in judgement of China's domestic economy, particularly its weak

[16] Lee (n 4) 356.
[17] Kennedy (n 3) 71.
[18] Lee (n 4) 357.
[19] Kennedy (n 3) 75.

financial system'.[20] If that was the case in 2008, when Kennedy's article was published, has the situation changed all that much so that now foreign CRAs are being welcomed? Kennedy did discuss how the planners of the Chinese society had understood in the wake of the Asian Financial Crisis that 'a conservative approach with administrative guidance was crucial to preserving financial stability' and that, because Chinese investors lack 'risk consciousness' and would not accept losing money as part of the investment process, 'a liberal bond market could also threaten social stability'.[21] We will examine the development of Chinese society briefly in the next section, and as a result we will see that this requirement to preserve the social order is of paramount importance for those charged with directing Chinese society. With that being the case, the question must be why would China take the risk of opening itself up to the global capital markets and allow the American-based CRAs to sit within its jurisdiction and evaluate its domestic situation? The answer is that it is a matter of necessity, and now it is worth examining why that is.

The Chinese Environment

China has a particularly long and storied history. From the eras of the Hundred Schools of Thought and Confucius, to the post-war development of the Communist State[22], China's history is truly fascinating. Wright suggests that, geographically, 'China was and still is an isolated civilisation'.[23] That thought continues with the musings that because of this geographical isolation (China is surrounded by the Pacific Ocean, Mountain Ranges, and the desolate Siberian plains), and the traditional difficulties with overcoming such boundaries, the result has been to make China regarded as 'somewhat "mysterious" and fascinating to the outside world'.[24] However, whilst this 'mysterious' past has been responsible for some truly remarkable endeavours and feats of human development, China's history has been irrevocably linked to the concept of tragic loss and pain. The literature positions this suffering against the era determined by 'her forced opening'.[25] Harris attributes this to China's harsh

[20] ibid 80.
[21] ibid 75.
[22] Wright (n 1).
[23] ibid 1.
[24] ibid 2.
[25] X. Zhang, "Chinese Capitalism and the Maritime Silk Road: A World-Systems Perspective" (2017) 22 *Geopolitics* 2 314.

experience under foreign occupation from the nineteenth century to the end of WWII'[26], whilst Zhang goes further by stating that 'since her forced opening and encounter with multiple western imperial powers after the Opium Wars in the mid-nineteenth century, China has lost a series of wars and has been forced to pay indemnities and make significant territorial concession'.[27] Harris suggests that 'overcoming national oppression through liberation and modernisation was a major premise of the revolutionary struggle'[28], although it can be said that China has a longer history with that very same sentiment; one example of this is the so-called 'Boxer uprising' or 'Boxer Rebellion', which occurred at the turn of the 20th Century and witnessed militia rebel against imperialist and religious foreign power on Chinese soil[29].

The China we know today is defined, arguably, by the post-War period. The subsequent rise of Mao Zedong in the aftermath of the War[30] brought forward the connection between China and the ideal of Communism. The passing of Mao Zedong in 1976, and the failed coup of Jiang Xing (Mao's widow) and the so-called 'Gang of Four', ushered in the era of Deng Xiaoping, a reformer who would reshape the trajectory of China almost irreversibly[31]. Although Deng would go on to develop a modernised version of what is often called 'capitalism with Chinese characteristics', the hold of communism was and is strong in China. The traditional view from China, which Coase and Weng suggest is based upon the orthodox Marxist and Maoist view, is that the 'private sector was the hotbed of capitalism' and that, after the 1989 Student Movement, 'to preserve the socialist regime in China, the government felt compelled to nip capitalism in the bud'.[32] Yet, Deng's revolution was an ideological one and it transformed the very ideal of Chinese socialism. Coase and Weng state that:

> There was no ism, no dogma of any kind to defend in Deng's view of socialism. Socialism was, rather, an open system that should "draw on the achievements of all cultures and learn from other countries, including the developed capitalist countries". Socialism was no longer exclusively identified with collective ownership and central

[26] J. Harris, "China's Road from Socialism to Global Capitalism" (2018) 39 *Third World Quarterly* 9 1711.
[27] Zhang (n 25) 314.
[28] Harris (n 26) 1711.
[29] Wright (n 22) 118.
[30] K. Pletcher, *The History of China* (The Rosen Publishing Group 2010) 323.
[31] P.B. Ebrey, *The Cambridge Illustrated History of China* (CUP 2010) 333.
[32] R.H. Coase and N. Weng, *How China Became Capitalist* (Springer 2016) 107.

> planning. Rather, “the essence of socialism” was “the ultimate achievement of prosperity for all”.[33]

It is on that basis that China sought to develop. In jettisoning the orthodoxy of Maoism, Deng had set the course for a more prosperous era in China’s history. Yet, it is worth noting that this was not be a system akin to capitalism. Moving forward in China’s history slightly, the global financial crisis represents a key example of the underlying sentiment that exists within the Chinese leadership. Collier, in discussing the impact the Financial Crisis had upon the ideological infrastructure in China, states that ‘in the minds of senior leaders, widespread chaos could lead to the breakdown of the Chinese Communist Party, the bedrock of the Chinese political system. That’s why the financial crisis caused such shivers in Beijing’. Furthermore, rather than seek to prop up the financial system as was taking place in the West, Collier notes how the Chinese stimulus package of more than $586 billion ‘ramped up expenditures on affordable housing, rural and other infrastructure, public health and education, the environment and technical innovation’.[34] Yes this is a far cry from the experiences of citizens in the West, but the sentiment within the literature is that these actions are potentially demonstrative of a regime that is far more insecure than their more traditionally-anchored Western counterparts.

Whatever the reason may be, China did take a different course from that of their Western counterparts. Yet, that course has recently taken on a new dimension. The massively high rates of growth experienced in recent decades are beginning to slow, something which Zhang argues is demonstrated by ‘acute signs of over-accumulation, indicating the beginning of a phase of contraction and stagnation’.[35] To resolve this, there are perhaps two paths for China to take, and she is taking both of them. The first is based upon the common understanding that there is a need to ‘export capital and the use of [Foreign Direct Investment]’ because bother nationalist and globalist Communist Party Members ‘understand the transnationalisation of capital is the path to wealth, influence and power’.[36] This pathway is determined by developments within China’s financial sector, with scholars noting that ‘Chinese capitalism is undergoing a rapid shift from a material-expansion stage dominated by

[33] ibid 117.
[34] A. Collier, *Shadow Banking and the Rise of Capitalism in China* (Springer 2017) 27.
[35] Zhang (n 25) 311.
[36] Harris (n 26) 1714.

industrial capital to a financial-expansion stage where financial capital may play the dominant role'.[37] If that is to be the case, then that opening-up of China's financial marketplace requires foreign investment. Yet, for those foreign investors, the lure of the massive marketplace is tempered by a lack of knowledge, and a lack of trust, regarding the quality of what is on offer. It is in this void that China hopes the global CRAs will step in. However, there is a need for another path to be developed if that is to be achieved, which brings us to the second pathway being trodden by China.

Zhang, utilising Arrighi's framework, argues that the combination of 'capital logic' and 'territorial logic' leads to a concept called the 'spatial fix'[38]. This spatial fix relates to the isolation we discussed earlier, and is arguably one of the cornerstones of the reasoning behind the creation of a project that is fundamentally defining modern China. That project is the 'One Belt, One Road' initiative, or the Belt and Road Initiative (BRI), which aims to cross a number of boundaries and connect China to the rest of Asia, Africa, and Europe. This project is well underway and is the legacy being developed by the current Premier Xi Jinping. Xi himself recently stated that:

> We should pursue the Belt and Road Initiative as a priority, give equal emphasis to 'bringing in' and 'going global', to follow the principle of achieving shared growth through discussion and collaboration, and increase openness and cooperation in building innovation capacity. With these efforts, we hope to make new ground in opening China further through links running eastward and westward, across land and over sea.[39]

Scholars have called this initiative 'the Chinese prescription' for 'resolving the fragility and uncertainty on the world economy as well as the lack of coordinated global economic policies at the international level'[40]. The narrative underpinning this era-defining initiative is truly fascinating, particularly when viewed against the protectionist policies of the Trump administration[41]. The Chinese narrative underpinning the BRI is that 'the rise of China is not

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[37] Zhang (n 25) 318.
[38] ibid 311.
[39] M. Dian and S. Menegazzi, *New Regional Initiatives in China's Foreign Policy: The Incoming Pluralism of Global Governance* (Springer 2018) 68.
[40] ibid 69.
[41] A.H.M. Nordin and M. Weissmann, "Will Trump make China Great Again? The Belt and Road Initiative and International Order" (2018) 94 *International Affairs* 2 232.

destined to trigger great power competition and security dilemmas. On the contrary the renewed Chinese centrality, alimented by the BRI, is destined to be a factor of stability, growth and harmony for the region and the world'[42]. Now, whether that ideal comes to fruition is another matter entirely, but the contrasting nature of the sentiments between the West and the East should not be ignored.

Nevertheless, these are the two pathways China has chosen. It is choosing to financialise, and also to expand its footprint across the globe. These two concepts are fundamentally intertwined and we can see that the invitation to the global CRAs is contextualised perfectly by those two concepts. For the increased financialisation of China's financial marketplace, the global CRAs are key. To encourage the foreign investment required to facilitate the enormously ambitious aims of the BRI, foreign verification is required. When Xi spoke of 'bringing in', this is a prime example of what he meant. Allowing the global CRAs into China is a clear demonstration of the importance of the BRI to China's development, particularly as it seeks to move into a financialised era underpinned by an ever-increasing footprint. Yet, there are a number of questions that this move raises. If it is the case that China wants to 'bring in' foreign expertise in the credit rating market and learn from that expertise, then is the aim to eventually build up its own domestic market to a position of strength? If so, a. is this possible, and b. is there really a need to do so? In the next section, we will seek to answer these questions. By analysing the divergence between the global CRAs and the Chinese CRAs, there is evidence that suggests the inclusion of S&P, and one presumes the other global CRAs, is absolutely necessary. On that basis we will review the inclusion of the global CRAs before concluding.

A New Era for Chinese Credit Rating Provision

Up until recently, the Chinese rating landscape was somewhat stable. In 2013, Dagong was seeking to bolster its international presence by aligning with a number of credit rating agencies, including Egan-Jones Ratings and RusRatings, in order to attempt to provide an

[42] Dian and Menegazzi (n 39) 69.

alternative to the hegemony of the Big Three.[43] However, just a few short years after establishing the 'Universal Credit Rating Group', which was designed to offer a more ethical, fairer, and transparent rating system, Dagong finds itself under tremendous pressure. In 2018 the CSRC suspended Dagong's domestic licence for a year for 'charging extravagant fees for consultancy services to clients', whilst the National Association of Financial Market Institutional Investors (NAFMII) 'prohibited the firm from rating some types of credit products for a similar period'.[44] NAFMII went on to make the point that the violations 'seriously violated' the firm's independence which, of course, is accurate. However, this issue of 'independence' is something that plagues the Chinese rating industry, and it is not alone. It is has been noted in the literature that when a rating industry exists within a political system that has a tight grip on the actions of its financial marketplace, then the independence of those rating agencies will likely suffer as a result. It has been suggested that a new rating offering in Russia – the Analytical Rating Agency – may suffer in that same way,[45] but the question in relation to that agency is dictated by its age; as it is only now starting up, the issue revolves around whether even just the perceived control is enough to stifle its independence. Fortunately, the Chinese rating industry is more mature and, as such, a clearer picture of the firms' independence can be painted. This is what Xianfeng Jiang and Frank Packer have done for us, on behalf of the Bank for International Settlements.

The scholars begin by noting that the understanding that there are divergences between the Chinese rating agencies and the global credit rating agencies is a longstanding one. Not only do the global CRAs present far more conservative rating policies, resulting in lower ratings more generally, but the credit risk factors are also massively different; for the domestic CRAs, it is size that has a positive credit risk weighting, whilst for the global CRAs it is profitability and state ownership that weigh more heavily as positive risk factors.[46] In terms of a reason why this divergence between the two may exist, there have been a number of hypotheses within the literature. It has been suggested that there is a prevalence for ratings shopping (on account of the concentrated market place), that the domestic agencies

[43] D. Cash, "The Universal Credit Rating Group: Rating Debt Ethically" (2016) 17 *World Economics* 4.
[44] C. Jia, "CSRC suspends ratings agency for violations" (2018) *China Daily* (Aug 18) *http://www.chinadaily.com.cn/a/201808/18/WS5b77854aa310add14f386776.html* [accessed 14 April 2019].
[45] D. Cash, "Vladimir Putin's Analytical Credit Rating Agency: The Importance of Perception" (2017) 14 *European Company Law* 3.
[46] Jiang and Packer (n 9) 2-4.

participate in cartel-like behaviour to constrain the likelihood of less favourable ratings, or that the same cartel-like behaviour is being demonstrated to restrict the access of the global CRAs.[47] The suggestion that the aim has been to limit the entrance of the global CRAs can be easily dismissed on account of the fact that it is the Government who control that entry, not the market players[48]. However, it is harder to dismiss the idea that the domestic CRAs' ratings are too high because of ratings shopping and a concerted effort. After analysing the ratings of the domestic agencies and the global agencies, the scholars find that the ratings can differ by up to *six or seven notches*.[49] This is a tremendous divergence and, using the same scales, could see a BBB+ rating from the global agencies rated as a AAA by the domestic agencies, for example. The scholars conclude by confirming that 'similar differences do not exist between global agency ratings, nor among different Chinese agency ratings', which leads one to conclude that the domestic rating industry is fundamentally flawed. It is perhaps on this basis that there are now a new wave of investigations into a number of domestic rating agencies concerning failures to protect against conflicts of interest, insufficient quality controls, and failures to update in a timely manner.[50] The news article that suggests this asks whether the domestic CRAs are ready for the opening up of China's capital marketplace, and perhaps the change in sentiment towards the domestic CRAs hints at the Government's own view on that question.

If the increased investigations and the suspension of Dagong hint at the Government's view that the domestic rating industry is not ready, then the granting of a licence to S&P more-or-less confirms it. S&P announced in January that, under the terms of NAFMII approval, S&P Global (China) Ratings will be authorised to rate issuers and issuances from financial institutions and corporates, structured finance bonds and Renminbi denominated bonds from foreign issuers (Panda Bonds)'.[51] For S&P and the global CRAs[52] this is a massive moment

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[47] ibid 5.
[48] ibid 7.
[49] ibid 29.
[50] H. Lockett and Y. Jia, "China's Bond Market is Opening – but are the rating agencies ready?" (2019) *Financial Times* (April 4) *https://www.ft.com/content/e6ea3c7c-55f8-11e9-91f9-b6515a54c5b1* [accessed 14 April 2019].
[51] S&P Global, "S&P Global Ratings receives first-of-its-kind approval to enter China domestic bond market" (2019) *http://press.spglobal.com/2019-01-28-S-P-Global-Ratings-receives-first-of-its-kind-approval-to-enter-China-domestic-bond-market* [accessed 14 April 2019].
[52] W. Zhou, J. Ruwith, and A. Galbraith, "China Central Bank approves S&P Global's entry into China's credit rating market" (2019) *Reuters* (Jan 28) *https://www.reuters.com/article/us-china-bond-ratings/china-central-bank-approves-sp-globals-entry-into-chinas-credit-rating-market-idUSKCN1PM0QJ* [accessed 15 April 2019].

in their history and will, at first glance, cement the ascension into their next phase of development. This development is linked to the openness of the Chinese Government and the plans for its marketplace and, according to other sources, that development is now beginning to escalate. Whilst one commentator suggested that the entrance of S&P is a massive deal, others were suggesting that it is actually the inclusion of Chinese bonds on global indices that would be the 'holy grail'.[53] It since appears that this 'holy grail' moment is coming to fruition as Bloomberg recently confirmed that 'Chinese RMB-denominated government and policy bank securities will be added to the Bloomberg Barclays Global Aggregate Index starting April 2019'.[54] In theory this is a massive boost to the development of the domestic marketplace and, by proxy, the development of the rating marketplace for the global CRAs who are now allowed to enter the domestic rating marketplace. However, that suggestion may need to be tempered as a result of analysing the actualities of the rating agreement. S&P have made clear that their ratings will not be based on their usual rating methodologies, but rather developed upon a new 'national scale' that will be tailored to the Chinese marketplace. S&P suggested that 'the use of a national scale in a transparent and credible way best serves Chinese bond markets at their current stage of development [and that] we have opted to create methodologies and a national scale specific to China in recognition of the size and complexity of China's capital markets'.[55] Whether or not global investors trust in S&P to develop a national scale that they can believe in is another matter and will require further research once the new system is up and running.

Conclusion

Whilst further research will be required on the effectiveness of this new era in China's credit rating industry, there will be a number of questions that will need to be answered. It will be incredibly fascinating to examine just how China integrates these influential but private enterprises, particularly when we consider that the main selling point of a CRA is its

[53] D. Weinland and E. Dunckley, "S&P Global gets green light to rate domestic bonds in China" (2019) *Financial Times* (Jan 28) *https://www.ft.com/content/5e1a6cca-22d9-11e9-b329-c7e6ceb5ffdf* [accessed 15 April 2019].
[54] Bloomberg, "Bloomberg confirms China inclusion in the Bloomberg Barclays Global Aggregate Indices" (2019) *https://www.reuters.com/article/us-china-bond-ratings/china-central-bank-approves-sp-globals-entry-into-chinas-credit-rating-market-idUSKCN1PM0QJ* [accessed 14 April 2019].
[55] Lockett and Jia (n 50).

independence. Furthermore, if the aim is to 'bring in' expertise and develop the domestic credit rating market, the question remains as to whether inviting the Big Three is the best way to achieve that aim. The Big Three are a well-functioning oligopoly that operate on the basis of constraining competition, not encouraging it; it will be interesting to see whether the introduction of the Big Three effectively kills the domestic marketplace.

Yet, there are bigger issues potentially in the offing and only with hindsight will we be able to confirm their effect. The first is that the global CRAs are only now just moving away from their most public of eras, one in which they were vilified for their propensity to cater to issuers at the cost of investors. Now that we have examined the Chinese marketplace, it appears to be the case that the Chinese environment is actually *primed* for the global CRAs to operate in a similar manner but in a brand new marketplace. If, for argument's sake, that was to be the case, then what would the effect be upon the BRI? The BRI is central to the development of China but requires a number of elements to see it be a success, with one of those being the successful financialisation of the Chinese marketplace. In order to do that, the Chinese must demonstrate to outside investors that their marketplace can be trusted. This is arguably the sole reason for the inclusion of the global CRAs now, but there remain question marks over whether that aim will be achieved with the assistance of the global CRAs. The one aspect that suggests that global CRAs will play their role is the tremendous amount of profit available to them in this new marketplace, but when they global CRAs were last faced with the opportunity to make massive profits, transgressive behaviour soon followed. The rate of transformation in the Chinese credit rating marketplace is making it an incredible marketplace to study.