The Comparative Study of the Sino-U.S. Financing Markets from a Risk Management Perspective

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Abstract: This paper systematically compares the financing market structures, operating mechanisms, and risk management practices of China and the United States from a risk control perspective. Based on the latest data and policy trends from 2018 to 2023, the article first provides a detailed comparison of the basic structures of the financing markets and the distribution of financing channels in both countries. It points out that the share of indirect financing in China has long been above 70%, while the share of direct financing in the U.S. remains stable at over 80%. At the same time, through an analysis of the risk pricing mechanism in the bond market, the current state of credit ratings, and the application of derivative markets, the paper reveals significant differences between the two countries in terms of risk premium formation, market liquidity, and risk diversification tools. It also analyzes the impact of regulatory frameworks and financial systems on the risk transmission paths in both countries and explores the deep influence of marketization, regulatory coordination, and investor structure on risk prevention and control capabilities. Finally, based on the comparative study findings, policy recommendations are made to improve the market-based credit rating system, promote the innovation of credit derivatives, optimize investor structure, and advance regulatory reforms, aiming to provide theoretical support and practical references for financial risk prevention and capital market reform in China.

Keywords: Risk Control; Direct Financing; Credit Derivatives; Regulatory System

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The integration of the global economy and the deep interconnection of financial markets have led to significant regional differences in financing structures and risk transmission mechanisms across countries and regions. According to the International Monetary Fund (IMF) 2023 statistics, the global direct financing market reached $130 trillion, with the U.S. market accounting for over 40%, while the direct financing ratio in China remains low, at around 13% (IMF, 2023). This structural difference has resulted in markedly different risk control paths in terms of risk pricing, diversification, and regulatory mechanisms. The U.S. financial market, with its highly market-driven pricing mechanisms and sophisticated risk-hedging tools, effectively disperses risks; in contrast, China has long relied on the banking system for indirect financing, leading to a concentration of systemic risks in the banking sector.

study across multiple dimensions, including market structure, risk pricing, risk diversification tools, regulatory frameworks, and institutional innovation, aiming to uncover the differences in risk control capabilities between the two countries and their institutional roots.

1. Comparison of the Financing Market Structures in China and the U.S.

Financing channels reflect the structure of a country's financial system. According to the latest statistics from the People's Bank of China, the U.S. Federal Reserve System, and the World Bank, the financing markets of China and the U.S. in 2023 show clear structural differences.

1.1. The Structure of China’s Financing Market

China’s financing market has long been dominated by bank loans. In 2023, the total social financing in China was

approximately $45.1 trillion, with bank loans accounting for 65% to 70%, while direct financing (including corporate bonds, equity financing, etc.) accounted for only about 30%. This structure not only reflects China's heavy reliance on the banking sector but also highlights the institutional constraints in the development of the financial market.

1.2. The Structure of the U.S. Financing Market

In contrast, the U.S. financing market has a significantly higher proportion of direct financing. In 2023, the proportion of direct financing in the U.S. exceeded 80%, with equity financing and corporate bonds becoming increasingly prominent in corporate financing. The U.S. capital market, with its multi-tiered distribution (including the NYSE, NASDAQ, and OTC markets) and mature securities issuance mechanisms, provides a wide range of financing channels for various types of enterprises. At the same time, the U.S. government and regulatory agencies have long advocated for market-based risk pricing and risk diversification mechanisms, promoting the widespread use of credit derivatives, asset securitization, and other tools to effectively disperse financial risks.

Table 1 Comparison of Financing Structures between China and the U.S. (2023)

Indicator	China	U.S.	Indicator Description
Total Social Financing （Trillion USD）	49.2	62.3	*China: Stock scale (RMB converted at 6.9 exchange rate， *U.S.: Includes total financial market size.
Proportion of Indirect（%）	67%	20%	*China: Adjusted for shadow banking， *U.S.: Includes commercial papers
Proportion of Direct（%）	33%	80%	*China: Corporate bonds (25%-28%), equities (7%-9%)； * U.S.: Corporate bonds (48%), equities (30%)
Proportion of Equity	7.2%	29.8%	*China: Includes A-share IPOs/seasoned equity offerings/Sci-Tech， *U.S.: Includes NYSE/NASDAQ/private equity

Data Source: People's Bank of China, National Bureau of Statistics, Federal Reserve, World Bank

From the data in Table 1, it can be observed that there are fundamental differences between the financing markets of China and the U.S. in terms of channel distribution. China relies primarily on bank credit, with limited direct financing channels, while the U.S. depends on its developed capital markets and multi-tiered direct financing channels, enabling businesses to raise funds and diversify risks more flexibly. The system dominated by indirect financing has high policy penetration, which allows for the concentrated allocation of resources in infrastructure investment and industrial upgrading. For example, in 2020, after the pandemic, China's new RMB loans reached 19.6 trillion, driving GDP growth to rebound to 2.3%, the only positive growth among major global economies.

2. Deep Causes of Financing Structure Evolution

2.1Marketization and Historical Institutional Factors

China's financing structure has been significantly influenced by historical institutions and policy directions. Since the reform and opening-up, banks, as the main executors of state-owned enterprises and financial resource allocation, have always played a leading role in resource allocation. Meanwhile, China has long implemented preferential policies for indirect financing, such as pre-tax deductions for interest expenses and favorable loan interest rates, which have to some extent solidified the bank-dominated financing model. In contrast, the development of the U.S. financial market has fully relied on a mature legal system and market mechanisms. The implementation of the Glass-Steagall Act in 1933 and subsequent capital market reforms provided institutional guarantees for the development of investment banks, venture capital, and other institutions. The U.S.'s multi-tiered market structure and mature regulatory system have made the direct financing market not only scale-advantaged but also capable of efficient risk pricing and risk diversification.

2.2 Investor Structure and Information Disclosure Mechanism

In China's financing market, commercial banks and some state-owned enterprises are the primary financing entities and investors. Due to the similar risk preferences of these institutions and the relatively concentrated channels for information access, the market's sensitivity to corporate credit risks is insufficient, leading to inflated credit ratings and risk premiums. In contrast, the U.S. has a more diversified investor structure, with institutional investors, pension funds, hedge

funds, and a large number of retail investors participating in market trading. This diversified investor structure has, to some extent, enhanced the market's ability to capture risk information, prompting credit rating agencies to maintain a high level of independence and professionalism.

3. Comparison of Risk Pricing Mechanisms

Risk pricing is an important indicator for assessing the health of a financing market. As a key component of direct financing, the risk premium level in the bond market reflects the market's ability to identify and price credit risks.

3.1China's Bond Risk Pricing Mechanism

3.1.1. Issue of Overinflated Credit Ratings

Data shows that in 2023, over 85% of bonds in China's bond market were rated AA or higher. Furthermore, during default events, bonds initially rated AA or above still accounted for more than 80% (ChinaBond, 2023). This phenomenon indicates a certain leniency in the evaluation of corporate credit risks by rating agencies, failing to reflect the true default risks of companies. One of the reasons for this is the conflict of interest between rating agencies and issuers, leading to a lack of sufficient independence and objectivity in the ratings. This issue also existed in the U.S. market, with a significant cause of the 2008 subprime mortgage crisis being the deep ties between rating agencies and issuers.

3.1.2. Rigidity in Pricing Mechanism and Legacy of Interest Rate Controls

Due to long-standing interest rate control policies and the ongoing liberalization of the Loan Prime Rate (LPR) reform, the volatility of AAA-rated bonds remains low. Data from 2023 shows that the annualized volatility of AAA-rated bonds was only around 0.3%, reflecting insufficient market sensitivity to risk. This, to some extent, weakens the market's ability to reasonably reflect risk premiums (Wang Fang et al., 2022).

3.1.3. Risks of Homogeneous Investors and Limited Risk Assessment

In China's corporate bond market, commercial banks and a few institutions dominate the investment share. Since these institutions have similar risk preferences and limited access to information, the overall market's assessment of credit risks has certain blind spots, which impacts the formation mechanism of risk premiums.

3.2 U.S. Corporate Bond Market Risk Pricing Mechanism

The U.S. corporate bond market demonstrates a higher degree of marketization in its risk pricing mechanism, which mainly relies on the following aspects:

3.2.1. Market Maker System

The U.S. has a well-established market maker system. For example, in 2023, 43 primary dealers provided continuous quotes for corporate bonds, ensuring that the market had high liquidity and transparency in credit spread pricing. Even in the BBB-rated bond market, bid-ask spreads are typically controlled within 5 basis points, which provides strong support for market risk pricing.

3.2.2. The Role of Credit Derivatives

The U.S. market features a deep Credit Default Swap (CDS) market, with its notional principal reaching 37.5% of GDP (SIFMA, 2023). The CDS market not only provides a benchmark for corporate bond pricing but also offers market participants effective risk-hedging tools. Through credit derivative instruments, the market can achieve precise pricing and diversification of credit risks.

Table 2: Comparison of Corporate Bond Credit Spreads between China and the U.S. (2023)

Credit Rating	Average Interest Rate Spread in China（BP）	Average Interest Rate Spread in the United States（BP）
AAA	45	90
AA+	75	130
AA	110	190
BBB	180	310

Table 2: The data indicates that the U.S. market is highly sensitive to credit risk premium pricing and exhibits higher risk compensation levels, while the Chinese market shows a noticeable compression, which is closely related to inflated

ratings, rigid pricing mechanisms, and homogeneous investor structures.

3.3.3. Financing Risk Comparison

The greatest risk in China's financing system stems from the deep connection between the banking system and the real estate sector. If economic growth slows, particularly below 4%, it may trigger a balance sheet recession. In 2023, local government fund revenues in China amounted to 7.3 trillion RMB, of which land transfer fees accounted for 89% (6.5 trillion RMB), equivalent to 56% of local general public budget revenues. A 30% decline in land transaction volumes would directly result in a 3.2 trillion RMB fiscal gap, forcing local governments to plug the shortfall through urban investment bonds (with an outstanding balance of 65 trillion RMB by the end of 2023, accounting for 52% of GDP). In the U.S., the greatest risk comes from the over-reliance on derivative markets and high-frequency trading, which leads to increased volatility in the capital markets.

4. Comparison of Regulatory Frameworks

Current Situation and Challenges in China's Regulatory Framework

China's financial regulatory system has long adopted a sectoral regulatory model, with the central bank, the China Banking and Insurance Regulatory Commission (CBIRC), and the China Securities Regulatory Commission (CSRC) overseeing different financial sectors. While this model ensures specialized supervision within each industry to some extent, it also results in cross-market information asymmetry, regulatory arbitrage, and fragmented risk control.

4.1 Cross-Department Information Segmentation

Currently, there is insufficient sharing of data between the central bank's macroprudential assessments (MPA) and the CBIRC's on-site inspections. As a result, when large-scale financial risks arise, a timely cross-departmental joint regulatory mechanism cannot be formed. For example, between 2021 and 2023, 60% of certain bond defaults involved cross-market arbitrage activities, highlighting the negative impact of information segmentation on risk control (Zhang Xiaohui, 2023).

4.2. Insufficient Regulatory Innovation

In recent years, China has made progress in developing new financial products such as REITs and green bonds, but the approval process remains relatively slow. Data from 2023 shows that the approval cycle for new products has extended to an average of 9 months, significantly longer than the average 6-month approval cycle in the U.S. This reflects that China has not yet formed a regulatory system that aligns with market development in terms of regulatory technology and process innovation.

4.3. Cross-Market Regulatory Coordination Issues

Under the sectoral regulatory model, different regulatory agencies often have different standards and requirements for the same financial products or cross-market business, which can lead to regulatory arbitrage. Especially in complex financial products and cross-border transactions, there is a lack of unified coordination mechanisms between regulatory authorities, making it more difficult to manage systemic risk.

5. Analysis of Institutional Differences and Risk Transmission Paths Between China and the U.S.

5.1. Risk Accumulation and Transmission within China's Banking System

In China, the bank-dominated financing structure means that financial risks are mainly concentrated within the banking system. Once systemic risk occurs, an increase in bank loan defaults quickly transmits through the entire financial system. In 2023, the non-performing loan (NPL) balance of certain commercial banks reached 4.2 trillion RMB, with the risk provision coverage ratio at only around 210% (CBIRC, 2023), indicating a significant accumulation effect within the banking system when facing systemic risks.

5.2. U.S. Capital Market Risk Diversification and Transmission Mechanism

The multi-tiered capital market in the U.S. has a clear advantage in risk diversification and transmission. Market risks are dispersed through securitization, credit derivatives, and a diversified investor structure. Even if a single institution faces substantial risks, it does not trigger a systemic chain reaction. After the 2008 financial crisis, the U.S. successfully controlled market default rates at low levels through financial innovation and regulatory improvements, enabling effective risk hedging and external transmission via market mechanisms.

6. Policy Recommendations

Based on the above comparisons and analysis, the following policy recommendations are proposed to improve China's financial risk control capabilities and market competitiveness:

Improve Rating Standard System

1.Establish a comprehensive rating framework covering ESG (Environmental, Social, and Governance) indicators, requiring companies to disclose environmental risks and social responsibility information.

2.Develop quantifiable standards for credit risk-adjusted default rates to ensure that rating results better reflect market reality.

Establish Strict Accountability and Incentive Mechanisms

1.Implement business restrictions on institutions with consecutive inaccurate ratings for three years.

2.Establish a rating agency evaluation mechanism to regularly assess the accuracy of ratings and market feedback, and provide policy incentives.

Develop the Credit Derivatives Market

1.Enhance liquidity and optimize capital policies: Implement stamp duty reductions for market makers and provide income tax incentives for CDS transactions with a bid-ask spread exceeding 50 basis points.

2.Adjust risk weightings for commercial banks' participation in credit derivatives, lowering it to 60%-70% to stimulate market participation.

Establish Market Exit and Risk Disposal Mechanisms

1.Promote the development of high-yield bond markets and relax related restrictions on qualified foreign institutional investors (QFII) participating in junk bond investments.

2.Improve the rapid disposal and liquidation mechanism for defaulted bonds, shortening the default disposal cycle and reducing systemic risk.

7. Conclusion

Through a systematic comparative analysis of China and the U.S. financing market structures, risk pricing, credit derivative applications, and regulatory frameworks from 2018 to 2023, significant differences are evident between the two countries in terms of financing channels, risk transmission mechanisms, and risk control capabilities. China's current indirect financing system excels in stability and policy enforcement but is approaching its efficiency boundary. The U.S. direct financing model, while fostering innovation, must guard against financial hollowing. China does not need to aggressively adopt the U.S. model, but should gradually increase the proportion of direct financing to above 50%. This transition is expected to take about ten years, during which time a dual-pillar regulatory system, combining macroprudential and microbehavioral oversight, should be built to avoid the systemic flaws of both systems. By establishing a market-based credit rating system, fostering innovation in the credit derivatives market, optimizing the investor structure, and steadily advancing regulatory reforms, China is expected to gradually increase its direct financing proportion in the future, diversify systemic risks, and enhance the overall stability of its financial system.

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