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In China, Volatility in Stocks Fuels Anger at the Government

By Ariana Eunjung Cha

SHANGHAI, June 8 -- Under normal circumstances, the Chinese citizenry isn't known for public dissent. But this week, as investors saw their savings shrink in a few days in the stock market, many openly blamed the government.

After an announcement a week ago that taxes on stock market trades would be increased, which resulted in the largest point drop ever on the Shanghai Stock Exchange, investors seethed on electronic bulletin boards.

Many criticized authorities for flip-flopping on an earlier promise not to raise the "stamp tax." One person assailed the move as "planned murder." There was even talk about organizing investors to storm Tiananmen Square.

"Now is not a good time to crack down on the market administratively. It's necessary to protect investors' passion" for putting money in stock markets, said Cao Fengqi, director of the Financial and Securities Institute at Beijing University.

Until recently, it was hard to blame the average Chinese investor for assuming that the stock markets only go up. Since June 2005, the Shanghai composite index has gained about 300 percent. Chen Junjie, 34, who works at a consulting company, used to joke that if the Chinese stock market had a motto, it would be "Even idiots can make money."

As the Chinese government, worried about a bubble, has attempted to get control of the situation, shares have seesawed. On June 1, the day the government announced the new tax, shares fell 2.7 percent in Shanghai. On Monday, the next trading day, they fell 8.3 percent. Seeking to forestall panic, state-run securities newspapers printed front-page editorials assuring the investing public that the stamp tax on trades would be positive in the long term. This time, shares rose, 2.6 percent Tuesday.

On Friday, the Shanghai composite index edged up 0.6 percent.

A steep fall on the Shanghai exchange in February sparked a brief global stock sell-off, but since then, investors elsewhere appear to have learned not to overreact to the swings in the Chinese market. The recent Shanghai sell-off prompted virtually no response from more established markets.

Chinese government officials and others, including former Federal Reserve chairman Alan Greenspan, for months have been speaking about a dangerous bubble, but the investing public for the most part has shrugged off the warnings.

The Chinese stock markets, which are largely closed off to foreigners except for a select group of institutional investors, are dominated by inexperienced individual investors struggling to understand capitalism.

They have driven up shares of companies that are known to be corrupt or losing money. Investment strategies in China are far from scientific. Many investors flip stocks after a few days.

Stocks with lucky numbers 6 and 8 in their trading symbols are considered good buys. Xu Wenming, who works in importing and exporting, said he invested a lot in the Pudong Development Bank because, he said, "Pudong is a good name." Pudong refers to the part of Shanghai east of the Pu River.

Yu Xueqin, a retired office assistant, invests in companies that produce retail products because government officials are "always saying China is a big populated country and the need for consumer products is big."

In the past, posts on Internet investment boards were mostly tips about how to invest. Now they are filled with desperate tales of caution.

A woman, who said she was 48, described how she took $26,000 out of savings bonds without her husband knowing and put it into the stock market, only to lose money. "I am sweaty, shaky, like I'm about to collapse," she wrote.

Whether the Chinese government was wise to step in is a subject of much debate.

"Although the art of controlling [the stock markets] needs improvement, the purpose is for China's capital markets to act more logically," said Teng Tai, a researcher for Galaxy Securities.

But Yi Xianrong, a researcher with the Institute of Finance and Banking of the Chinese Academy of Social Sciences, said the government's heavy-handed policies with regard to the stock markets is one of the biggest hurdles facing their development. The Shanghai exchange and its much smaller counterpart in the southern city Shenzhen are not true investment markets, said researcher Yi Xianrong, "but rather markets led by the government."

Gao Shanwen, an economist with Anxin Securities, said the government, too, is learning as it goes along. The government did not anticipate the sharp reaction to its first announcement and quickly moved to correct the problem with positive news. Like the public, Gao said, "the government obviously doesn't hope for the stock market to fall dramatically."

Staff researcher Crissie Ding contributed to this report.