POLICY REVIEW

Market reform key to 5-year plan

Guideline to improve allocation of capital and expand financial services

By ZHANG YUE
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Like many startup founders in China, Shen Cong, the CEO of an internet-based education business, gained his knowledge about the capital market through years of meeting investors. Now he is aiming at an initial public offering for his company GEC Academy.

The 32-year-old Columbia University graduate, who was selected on *Forbes China's* 30 under 30 list in 2018, said his goal is to launch his company on the stock market within the next five years as he foresees "robust growth" in the country's capital market.

On Jan 31, the General Office of the Communist Party of China Central Committee and the General Office of the State Council announced an action plan with 51 measures to develop a high-quality market to correspond with the 14th Five-Year Plan (2021-25).

The measures include improving market institutions, the efficient allocation of production factors, boosting the market environment and quality, high-level opening-up and the establishment of an oversight mechanism.

Promoting a healthy capital market is an important aspect of the five-year blueprint, with additional financial opening-up steps in the pipeline.

Robin Xing, chief China economist at Morgan Stanley, told China Daily: "The new action plan has pinpointed pressing areas needing further reforms, particularly regarding the underperformance of the onshore equity market and its over-speculative nature." He added that most of the proposals in the plan had been widely anticipated by the market.

Registration-based reform

The plan underlines the need to promote reform of the registration-based IPO system with information disclosure at its core.

Since founding GEC Academy in 2016, Shen has kept a close eye on the progress of this system. His online tutoring platform grew greatly last year as the COVID-19 outbreak pushed students to take online courses. A registration-based IPO mechanism, once expanded, will greatly facilitate the financing needs for many startups, Shen said.

Xing said: "Under the registration-based IPO system, it's likely to be easier for tech and new economy firms to tap capital markets, while alignment with global practices also renders the A-share market more attractive to foreign investors."

"At the heart of the registration-based IPO mechanism is the principle of information disclosure; essentially passing the baton of valuation and judgment to market entities including investors and financial intermediaries," he added.

The registration-based IPO system was first introduced to the technology-focused STAR Market at the Shanghai Stock Exchange on July 22, 2019. The mechanism was also applied to the ChiNext board at the Shenzhen bourse on August 24 last year. China's Securities Law, which took effect in March last year, stresses the overall implementation of a registration-based IPO mechanism.

Xing said the shift toward a disclosure framework does not mean looser listing standards. The reform should be viewed alongside market disciplines such as implementation of delisting mechanisms and the nurturing of domestic institutional investors.

SHI YU / CHINA DAILY

Delisting mechanism

Zhu Ning, deputy dean and professor at the Shanghai Advanced Institute of Finance, said the implementation of improved delisting mechanisms and nurturing domestic institutional investors are highlights of the action plan.

He believes a mature delisting mechanism would mark a milestone in the development of a high-standard market.

In his book, *China's Guaranteed Bubble*, Zhu wrote extensively about how implicit government guarantees to protect unqualified players hindered China's path to a quality market.

Zhu said in recent years, the criterion for delisting had been lowered, putting more firms under pressure.

The two measures in the guideline will provide tremendous protection for investors and remove the implicit state guarantee of protection for listed firms, he added.

Financial opening-up

The action plan also calls for measures to expand the opening up of the financial services market. The moves include allowing the establishment of foreign-controlled joint venture banks and securities firms, as well as wholly foreign-owned or joint venture asset management firms.

Daisy Ho, president of China operations at Fidelity International, a global asset manager, hailed the opening up of the financial sector as "timely and robust."

Xing said the move will help improve the overall quality of the financial market in China.

"Opening up the financial sector will help bring more foreign and private sector expertise and product diversity to the domestic market, particularly in growing areas such as brokerage, investment banking and asset management," he said. "This could help facilitate domestic development and competitiveness, which is a key enabler toward financing China's high-quality growth."

Opening up would allow China to leverage years of foreign experience and develop domestic infrastructure, such as environmental, social and governance investments.

"While we expect more involvement from private and foreign capital in broader aspects of the market, the pace would likely be gradual, and remains under the overarching principle of growth and financial stability," Xing said.

Zhou Lanxu contributed to this story.

New strategy addresses steps necessary to bolster opening-up

By TIAN XUAN

A key goal of China's reform and opening-up effort is to build a modern, market-oriented economic system. Now that the country is moving into a high-quality growth stage, building a high-standard market system is essential for long-term growth, which is why the action plan for such a market system is a timely one.

A high-standard market system, as the name suggests, will not come easily. It cannot simply be achieved by government decree alone. It will require sophisticated reform in a number of areas, including improving institutional infrastructure, building a market-oriented production factor market and deepening reform and opening-up along with a sound legal framework.

These requirements are vital for China's market-orientated reform, and the new action plan has attempted to address them all. It has, in particular, prioritized building a high-quality capital market to play a key role in resource allocation.

Tian Xuan

Several policy stances regarding capital market growth are worth noting.

Further reform of the registration-based initial public offerings system and normalizing delistings will allow the market to play a bigger role in stock issuing and pricing and will encourage businesses to properly identify their places in the market.

The plan recognizes the need for more institutional investors to bring more long-term stability to the market.

This will require a number of reforms including getting different types of financial intuitions to work more closely together, an opening up of financing channels and implementing measures to encourage greater professionalism in the equity investment environment.

It has also stressed the importance of lowering financing costs and the need for financial innovation but in a steady and orderly manner, expanding financing channels for businesses. Aligned with the guideline and governed by regulatory framework, China should continue to encourage financial innovation and develop inclusive finance.

China is now fostering a new development paradigm with domestic circulation as the mainstay but with external circulation in terms of international trade still playing an important role.

As part of this new paradigm, it is important to build a multitiered capital market. This will involve further opening-up of the financial sector, unblocking logjams that may have been caused by previous policies and a general invigoration of the market.

China's current financing structure for nonfinancial businesses relies heavily on loans rather than equity finance, suggesting a need to develop the market. Companies need to be lured away from bank financing to look at selling equity. They will only do this if the stock markets in China develop and become less volatile.

Such reform will require a reshaping of the market and regulatory landscape. Under the registration-based IPO system, businesses will become more responsive to the market.

The essence of such reform is to allow the market to work as a threshold for access and play a decisive role.

More steps for financial opening-up were noted in the action plan. This suggests that China will increase such opening-up efforts both in intensity and in scale, and doing so will help introduce more advanced technology and managerial know-how to China's financial market.

Tian Xuan is the associate dean and professor of finance at PBC School of Finance, Tsinghua University and author of the book: Finance and Innovation, A New Framework.

Policy Digest

AI innovation areas slated for construction

A second batch of national-level artificial intelligence innovation areas will be built in Beijing, the Binhai New Area of Tianjin, Hangzhou in Zhejiang province, Guangzhou in Guangdong province and Chengdu in Sichuan province, the Ministry of Industry and Information Technology said on Friday.

The first such areas were established in 2019 in the Pudong New Area of Shanghai, Shenzhen in Guangdong and Shandong province.

Building AI innovation areas is a significant move in efforts to promote the in-depth integration of AI and the real economy, the ministry said.

In Beijing, the area will focus on priority areas such as the utilities of AI in manufacturing, intelligent vehicles and the Beijing 2022 Winter Olympic Games.

The innovation area in Binhai New Area will give play to the policy advantages of the China Pilot Free Trade Zone in Tianjin and promote breakthroughs in the application of AI in manufacturing, ports, communities and other key areas.

Efforts will be made to further promote the application of AI technology in smart city administration, manufacturing and financial services in Hangzhou, the capital of Zhejiang, according to the ministry.

Given Chengdu's geographic advantage in the Belt and Road Initiative, the AI innovation area in the Sichuan provincial capital will work to empower small and medium-sized enterprises with AI technology and focus on medical and financial industries to create a dynamic industry environment in the country's western regions.

Three human resources industrial parks planned

The Ministry of Human Resources and Social Security has approved the establishment of three national-level industrial parks, raising the total number of such parks nationwide to 22, according to a notice released by the ministry on Friday.

The new parks will be set up in Shijiazhuang, Hebei province, Shenyang, Liaoning province and Jinan, Shandong province.

Ministry statistics show that more than 3,000 enterprises moved into the country's national-level human resources services industrial parks last year, earning a combined annual operating revenue of 204.8 billion yuan ($31.6 billion).

The parks have provided services to 27 million people and have offered human resources services to more than 800,000 employers, making positive contributions to employment and work resumption during the fight against COVID-19, the ministry said.

20 IPR protection, fast service hubs to be set up

The nation plans to set up 20 intellectual property rights protection centers and fast IPR service centers this year across the country in an effort to provide more efficient protection, the country's IPR watchdog said.

Further, 10 centers will be set up abroad to provide guidance and services for overseas Chinese companies to deal with related disputes, Shen Changyu, head of China's National Intellectual Property Administration, said in an interview with Xinhua News Agency on Feb 10.

China has established more than 60 IPR protection centers and fast service centers, which provide efficient, low-cost assistance to market entities.

IPR protection centers address difficulties in obtaining evidence and reduce processing time and costs involved in disputes, while the fast service centers are aimed at providing county-level industry clusters quick IPR review, verification and protection services.

China is shifting from a major IPR importer to a major creator. According to statistics, 530,000 patents were granted in China last year, a year-on-year growth of 17.1 percent despite the impact of the COVID-19 pandemic.

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