Promoting Comprehensive Institutional Opening-up of China’s Capital Market¹

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Abstract: Further opening up China’s capital market will enhance the seamless connection of domestic and international circulation, strengthen the capability of the financial sector to serve the real economy and benefit the high-quality development of the capital market. It is critical to unblocking the bottlenecks in China’s financial system and establishing a new development pattern. Standing at a new starting point, we will adhere to the path of market-oriented, law-based and internationalized development, take steady steps to ease restrictions on cross-border investment and financing, improve the underlying alignment of institutions and rules, enhance the predictability and stability of policies, and transform partial channel-based opening-up to comprehensive institutional opening-up. Specific measures will be taken to promote cross-border market and product cooperation, improve the internationalized development of securities, fund management and futures industries, deepen international regulatory cooperation, and enhance regulatory capacity building in an open market environment.

I. Further Opening up the Capital Market is of Major Significance

I will share some views on the opening up of China’s capital market. At the recent celebration ceremony of the 40th Anniversary of the Establishment of the Shenzhen Special Economic Zone, President Xi Jinping pointed out that the new development pattern is not about closed-door domestic circulation but an open dual-circulation strategy. Leveraging the domestic circulation as the mainstay is a major strategic judgment based on the profound change in the international environment and actual

¹ This is the keynote speech the author made at the 2nd Bund Summit in Shanghai on Oct 24, 2020.
conditions of the Chinese economy. It will play a critical role in guiding China’s future development and does not contradict the promotion of international circulation.

The new development pattern calls for leveraging the huge domestic market and the comprehensive industrial system, in addition to effectively combining domestic and international markets and resources. The key to promoting dual circulation is to unblock the congestion points in the circulation so it may run smoothly. Further opening up of the capital market is of great significance in unclogging China’s financial system, promoting high-quality development of the capital market and establishing a new development pattern.

Firstly, further opening up the capital market can enhance the seamless connection of domestic and international circulations. Active trading in the capital market and sensitive price signals can effectively guide the flow of key factors across regions and industries, thus promoting the balance between supply and demand. Expanding high-standard two-way opening up of the capital market and promoting optimal allocation of resources globally will encourage the coordinated development of domestic and foreign demand, import and export, as well as attracting foreign investment and investing abroad. The synergy between domestic and international markets may thus be given full play.

Secondly, further opening up the capital market may strengthen the adaptability of the financial sector in serving the real economy. The new development pattern requires the financial sector to enhance its ability to serve the real economy. It is worth noting that a group of internationally competitive and influential businesses has emerged in China, while multinational corporations already have a broad presence in China. The production and operations of these companies are deeply integrated with the global supply chain, which will continue to intensify during the process of dual circulation. The financial industry including securities and futures firms must quickly adapt to the needs of a highly open economic system, promote both domestic development and international expansion, and provide business entities in the real economy with cross-border financial services that are more comprehensive, of higher quality and more diverse.
Thirdly, further opening up will benefit the high-quality development of the capital market. Promoting reform and development through opening-up has been key to China constantly accomplishing new achievements in its modernisation process. Experience shows that opening up the financial market may place domestic financial institutions under greater pressure in the short term. However, in the long run, by actively absorbing the advanced business ideologies, management systems, products and services and risk approaches of international peers, domestic institutions can carry out deep reform of the industry, increase operational efficiency, and foster excellence in the financial sector through coopetition. The introduction of foreign institutional investors has improved the pricing efficiency and boosted the vitality and resilience of the Chinese market. From a regulatory perspective, we also need to learn from international counterparts, which is conducive to the continuous improvement of regulatory philosophies and standards as well as market rules and regulations.

II. Four Suggestions on Promoting Comprehensive Institutional Opening up of China’s Capital Market

Since its establishment 30 years ago, China’s capital market has upheld and adhered to principle and direction of opening-up and collaboration. Especially in recent years, under the coordinated guidance of the Financial Stability and Development Committee of the State Council, China has steadily pushed forward the comprehensive opening up of the capital market from the dimensions of market, product and industry access, including the continuous optimization of the Shanghai-Hong Kong Stock Connect and the Shenzhen-Hong Kong Stock Connect, and the inclusion of A-shares in key international indices, the expansion of the pilot Shanghai-London Stock Connect program, the amendment of QFII and RQFII rules, the expansion of ETF connectivity, the opening-up of more designated futures contracts to foreign investors and the removal of restrictions on foreign shareholding in securities, futures and fund management firms ahead of schedule.

China’s capital market has become increasingly accessible to foreigner investors, whose participation continues to deepen. Since 2018, the ratio of A-shares held by foreign institutional investors has risen significantly, which fully reflects the confidence in the A-shares market and the prospects of the Chinese economy by
global investors, and has played a positive role in effectively responding to the impact of the pandemic and maintaining market stability.

Standing at a new starting point, we will adhere to the path of market-oriented, law-based and internationalized development, take steady steps to ease restrictions on cross-border investment and financing, improve the underlying alignment of institutions and rules, enhance the predictability and stability of policies, and transform partial channel-based opening-up to comprehensive institutional opening-up.

Firstly, continue to open up the capital market and products. In addition to existing programs such as the Shanghai-Hong Kong Stock Connect, the Shenzhen-Hong Kong Stock Connect, QFII and RQFII, and ETF connectivity, we will introduce more channels and models for foreign investors to participate in the domestic market, address concerns of international investors, increase the weight of A-shares in international indices such as the MSCI, and improve the Shanghai-London Stock Connect to cover more major capital markets in Europe. The channels for direct access to the exchange bond market for foreign institutional investors will be broadened. Meanwhile, we will expand offering of futures products to foreign investors to better meet the risk management needs of foreign businesses and investment institutions. A key restraint to the fast and steady development of China’s capital market is the insufficient participation of institutional investors. Introducing more foreign institutional investors would be a quick and effective solution. In addition, to attract more quality listed companies, we will build sound regimes for foreign companies to issue Chinese Depositary Receipts and seek secondary listing in China.

Secondly, increase the level of opening up of the securities, fund and futures industries. To date, China has approved eight foreign-controlled securities firms, the first wholly foreign-owned mutual fund manager and the first wholly foreign-owned futures firm. Foreign private equity firms are pouring into China and concentrated in Shanghai. We welcome more foreign financial institutions to China to tighten the bond for mutual development between China and the world. We will also create a level playing ground for domestic and foreign institutions, and encourage them to
enhance capability for cross-border services so they can better satisfy the investment and financing needs of businesses.

Thirdly, deepen international regulatory collaboration. Two-way opening up of the capital market calls for enhanced international collaboration on regulation. We have always shown an open attitude and the sincerity to collaborate. We have proactively stepped up collaboration with overseas regulators and international financial organizations to jointly address issues such as the audit oversight of Chinese companies listed overseas and effectively safeguard the legitimate rights of global investors. We will strictly crack down on financial fraud in cross-border listing and securities issuance to defend the international reputation of Chinese businesses. We also stand against all acts that block the international circulation of capital.

Fourthly, enhance regulatory capacity for an open market. With increasing instability and uncertainty in the international environment, we must place greater emphasis on regulatory capacity building as we press ahead with opening up of the capital market. The scope and level of opening-up and the stable development of the capital market in an open environment are largely determined by the improvement of regulatory capability, especially cross-border regulatory capability. We need to improve monitoring of cross-border capital flows and establish cross-border cooperation and law enforcement mechanisms on data reporting and investor protection, so as to support a higher-level opening up.

The Bund is the birthplace of China’s modern financial sector, and Shanghai is the starting point of China’s financial opening-up. The city is in the midst of building an international financial centre. Recently at the symposium on the Integrated Development of the Yangtze River Delta, President Xi called for efforts to boost Shanghai’s development as an international financial centre. A distinctive characteristic of Shanghai is that it has a capital market that is open, comprehensive, globally connected and commensurate to the size of China’s economy. Expanding and deepening opening-up of China’s capital market will certainly provide new impetus to the development of Shanghai as an international financial centre.