



July 29, 2021

China moves to reassure international investors and banks after EdTech crackdown



China's market watchdog, the China Securities Regulatory Commission (CSRC), convened with representatives from global investment banks and investment firms on Wednesday evening in a bid to ease concerns after tough new restrictions on private education companies catalyzed a strong market sell-off. News of the meeting calmed markets which recovered part of their recent decline.

As we [wrote](#) yesterday, Beijing unexpectedly unveiled new regulations that forbid Chinese companies engaged in teaching school curriculum subjects from raising capital, listing on global stock exchanges and from accepting foreign investments. The move – which follows an antimonopoly campaign targeting big tech names and a revision of IPO rules for groups seeking to list in the US – left international investors fearing a broader crackdown on foreign investment in Chinese companies.

At the meeting, the CSRC sought to restore investor confidence and reassure attendees that China has no intention of decoupling from global markets – particularly that of the US. The Vice Chairman of the CSRC, Mr. Fang, told the group that foreign capital is a strong tenet of China's current and future policy objectives and that improved communication and transparency could be expected moving forward. Moreover, he added that policies will be paced in a more gradual manner, in that they are better digested by the market.

One particular concern for foreign investors was that the VIE (variable interest entity) structure may be in jeopardy. VIEs are a popular avenue for Chinese firms wishing to list in the US, while bypassing rules restricting foreign investment in sensitive industries. The VIE mechanism rose to prominence in 2000 and has been used by China's homegrown tech behemoths like Alibaba, JD.com, Baidu and Pinduoduo (the largest agriculture-focused technology platform in China) to access foreign capital. In turn, foreign investors can share in their profits, but they do not technically own any part of the actual underlying company. Under the new regulation, education tech companies will be prohibited from using the VIE structure and investors now fear that VIEs in all sectors could face more stringent regulation. Mr. Fang said that the VIE structure continues to be viewed as a necessary and important tool. He added that more policies conducive to foreign and private capital may be in the works.

After the CSRC's meeting with big banks, the blue-chip CSI 300 index closed almost 2% higher (but was still down 4.7% on aggregate), while the tech-focused ChiNext index finished the day up more than 5%, recouping nearly all of the week's losses.

Looking ahead, we cannot say that scrutiny of big tech – a global phenomenon - will subside. However, we believe that the worst-case scenario crackdown on the private education industry was isolated to this specific sub-sector as China tries to address social issues, and should not be over extrapolated, even if regulation is getting tighter for other areas as well.

In all, we still see the investment case for China as valid and believe in the fundamentals on the ground that underpin our convictions. However, foreign investors should not be complacent about the political risks involved. Investing in China should be viewed as a marathon, not a sprint. Indeed, policy risk is higher in this market, and there will be these moments of volatility, but as of now, we don't think this should distract from the attractive mid-to-long-term opportunities offered by China's innovative and growing economy.

Disclaimer

All financial data and/or economic information released by this Publication (the "Publication"); (the "Data" or the "Financial data and/or economic information"), are provided for information purposes only, without warranty of any kind, including without limitation the warranties of merchantability, fitness for a particular purpose or warranties and non-infringement of any patent, intellectual property or proprietary rights of any party, and are not intended for trading purposes. Banque Internationale à Luxembourg SA (the "Bank") does not guarantee expressly or impliedly, the sequence, accuracy, adequacy, legality, completeness, reliability, usefulness or timeliness of any Data. All Financial data and/or economic information provided may be delayed or may contain errors or be incomplete. This disclaimer applies to both isolated and aggregate uses of the Data. All Data is provided on an "as is" basis. None of the Financial data and/or economic information contained on this Publication constitutes a solicitation, offer, opinion, or recommendation, a guarantee of results, nor a solicitation by the Bank of an offer to buy or sell any security, products and services mentioned into it or to make investments. Moreover, none of the Financial data and/or economic information contained on this Publication provides legal, tax accounting, financial or investment advice or services regarding the profitability or suitability of any security or investment. This Publication has not been prepared with the aim to take an investor's particular investment objectives, financial position or needs into account. It is up to the investor himself to consider whether the Data contained herein this Publication is appropriate to his needs, financial position and objectives or to seek professional independent advice before making an investment decision based upon the Data. No investment decision whatsoever may result from solely reading this document. In order to read and understand the Financial data and/or economic information included in this document, you will need to have knowledge and experience of financial markets. If this is not the case, please contact your relationship manager. This Publication is prepared by the Bank and is based on data available to the public and upon information from sources believed to be reliable and accurate, taken from stock exchanges and third parties. The Bank, including its parent, - subsidiary or affiliate entities, agents, directors, officers, employees, representatives or suppliers, shall not, directly or indirectly, be liable, in any way, for any: inaccuracies or errors in or omissions from the Financial data and/or economic information, including but not limited to financial data regardless of the cause of such or for any investment decision made, action taken, or action not taken of whatever nature in reliance upon any Data provided herein, nor for any loss or damage, direct or indirect, special or consequential, arising from any use of this Publication or of its content. This Publication is only valid at the moment of its editing, unless otherwise specified. All Financial data and/or economic information contained herein can also quickly become out-of-date. All Data is subject to change without notice and may not be incorporated in any new version of this Publication. The Bank has no obligation to update this Publication upon the availability of new data, the occurrence of new events and/or other evolutions. Before making an investment decision, the investor must read carefully the terms and conditions of the documentation relating to the specific products or services. Past performance is no guarantee of future performance. Products or services described in this Publication may not be available in all countries and may be subject to restrictions in some persons or in some countries. No part of this Publication may be reproduced, distributed, modified, linked to or used for any public or commercial purpose without the prior written consent of the Bank. In any case, all Financial data and/or economic information provided on this Publication are not intended for use by, or distribution to, any person or entity in any jurisdiction or country where such use or distribution would be contrary to law and/or regulation. If you have obtained this Publication from a source other than the Bank website, be aware that electronic documentation can be altered subsequent to original distribution.

As economic conditions are subject to change, the information and opinions presented in this outlook are current only as of the date indicated in the matrix or the publication date. This publication is based on data available to the public and upon information that is considered as reliable. Even if particular attention has been paid to its content, no guarantee, warranty or representation is given to the accuracy or completeness thereof. Banque Internationale à Luxembourg cannot be held liable or responsible with respect to the information expressed herein. This document has been prepared only for information purposes and does not constitute an offer or invitation to make investments. It is up to investors themselves to consider whether the information contained herein is appropriate to their needs and objectives or to seek advice before making an investment decision based upon this information. Banque Internationale à Luxembourg accepts no liability whatsoever for any investment decisions of whatever nature by the user of this publication, which are in any way based on this publication, nor for any loss or damage arising from any use of this publication or its content. This publication, prepared by Banque Internationale à Luxembourg (BIL), may not be copied or duplicated in any form whatsoever or redistributed without the prior written consent of BIL 69, route d'Esch | L-2953 Luxembourg | RCS Luxembourg B-6307 | Tel. +352 4590 6699 | www.bil.com.

