CEINEX
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Index

Editorial

Dear Readers,

Despite the global geopolitical tensions as well as the global Covid-19 pandemic China's integration in global economy is continuing as before or even more. Especially the integration in the global capital markets is picking up speed. This goes both ways, with more and more barriers being put aside by the Chinese regulators for international financial services firms to enter its market as well as an increasing number of Chinese firms opening offices and branches in Europe and the US. This is a strong signal that the challenges in other terrains can also be solved by cooperation and that all sides involved eventually are still looking to do so.

Further proof of the financial cooperation was delivered by index provider FTSE Russell who recently announced the inclusion of Chinese government bonds in the important World Government Bond Index. This is not only a technical matter for financial market participants. It is also an example of the fact that it has long since ceased to be about the »if« of intensive cooperation with China, but rather about »how« we can organize and breathe life into the interconnections.

For us at CEINEX, developing the partnership between China and Europe for the long-term benefit of both sides is part of our DNA. We are convinced that more than ever we must focus on understanding, working and learning together. To do so, we are inviting you to join the China Europe Finance Summit on **Tuesday, 20 October**. In this digital conference we bring together high-level Chinese and European personalities from politics, finance, industry, and the scholar world to discuss the crucial topics in Sino-European relations: **digital currencies, fintechs, cross-border investments, and capital markets**. Follow the keynote speeches by Minister **WANG Weidong, PR China Embassy to Germany**, Executive Board Member **Burkhard Balz, Deutsche Bundesbank**, and **Director General Dr. Eva Wimmer, Germany Ministry of Finance**, as well as many more insightful discussions.

CHINA EUROPE
FINANCE SUMMIT

As a warm up for the discussions next Tuesday, we are happy to have won some excellent authors to introduce their view on China capital markets topics for our CEINEX Quarterly: for example, the rapid changes in the Chinese asset management industry. Acknowledging that the allocation function of capital markets is key for further economic growth, the government is dynamically developing this industry and opening it more than ever to not only capital, but also to knowledge and expertise from abroad. Peter Reynolds and Adrian Low, both Oliver Wyman Hong Kong, as well as Kai Keller from the World Economic Forum's Beijing office, write about this in this newsletter.

Denton's lawyer Frank Niu describes in his article that there is great interest in Europe and the world in investing in China. At the same time, he points out cultural and regulatory challenges that European companies have to face in order to be successful with their investment or even an M&A transaction with a Chinese counterpart.

An essential facilitation for all parties involved would be a smart set of rules that clearly regulates the conditions of cross-border investments. For this reason, Prof. Dr. Horst Löchel, a widely-respected China scholar from the Frankfurt School of Finance and Management, is calling on Europeans and Chinese to conclude negotiations on the EU-China Comprehensive Agreement on Investment soon. It would also be a signal for successful cooperation in a tense geopolitical environment.

Meanwhile, DWS' Chief Investment Officer for the Asia-Pacific region, Sean Taylor, calls for China not to be viewed in isolation, but in the context of the North Asia region as a whole. This region has fewer economic volatility and more stable currencies than other regions in Asia.

Thomas Heck, PwC's Head of China Business Group Germany and Europe, takes a look into the future of the Chinese financial market together with his colleague Sebastian Sohn from their Singapore office. They shed a light on the impressive development of the Chinese fintech ecosystem, but also emphasize that in order to take advantage of their chance for global success, Chinese FinTechs must adapt Western regulatory standards as quickly as possible.

This last text in particular makes one thing clear: instead of looking enviously at the achievements of the other, everyone should focus on their own strengths as well as learn from the successes of the other. With a clear set of rules in the back, a fruitful »coopetition« can be built.

We hope to »see« you next Tuesday at the China Europe Finance Summit!

Yours sincerely,
CEINEX Corporate Communications

Talking Point

Convergence in China: Opportunities for Institutional Investors

by Peter Reynolds, Managing Partner, Head of Greater China, Oliver Wyman, Hong Kong; Kai Keller, Initiative Lead, World Economic Forum, Beijing; Adrian Low, Engagement Manager, Oliver Wyman, Hong Kong

China's Asset Management industry has been growing quickly. Total AuM has reached appr. USD 16 trillion by the end of 2019 (versus appr. USD 1 trillion ten years ago) and – notwithstanding a short-term slowdown with the regulatory clamp-down on Bank Wealth Management Products – is set to grow even further. However, significant potential remains untapped waiting to be realized once the right conditions are in place.

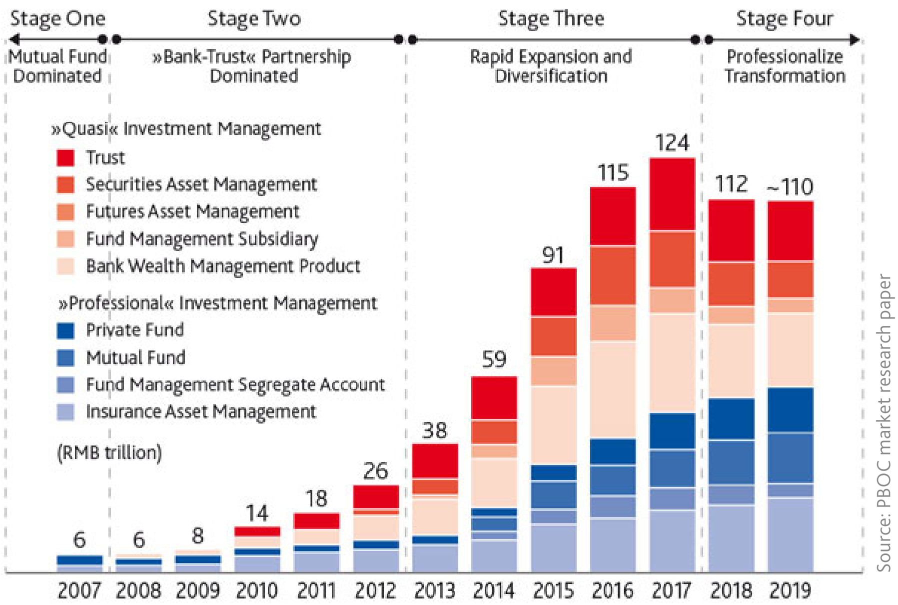
On the demand side: Chinese individuals have one of the highest household savings rates globally, with a significant portion of wealth being 'locked up' in roughly USD 28 trillion of bank deposits. Use of the banking system as the primary capital allocation approach is both inefficient and precarious. In addition, China faces a rapidly aging society and under-funded pension schemes, making high and stable returns all the more important.

On the supply side: The institutional segment remains sub-scale to date as China is still primarily a retail-driven market. Half of the market's AuM is accounted by the 'quasi' investment managers, such as Trust, Securities AM, Futures AM, which are primarily 'channel' businesses – a regulatory arbitrage that serves little purpose beyond enabling financial institutions to invest in markets that are restricted due to licenses.

How is it different from the West?

The Chinese economy, unlike the US and other developed markets, remains heavily dependent on bank-led financing (accounting for 50% of total financing). Under-developed domestic capital markets, for both fixed income and equities, present challenges to companies when attempting to raise financing. Domestic capital markets remain somewhat illiquid, with a limited range of investment products available to retail and institutional investors, resulting in lower efficiency of capital allocation in China versus other major global economies.

1 Total Asset under Management of China's Asset Management Industry



What does the future look like?

We believe that both the demand and supply sides are set to experience profound changes in coming years as we have outlined in our report China Asset Management At an Inflection Point:

- Pension reform: A healthy pension system, particularly for Pillar 3 (commercial private pension), is a political imperative to fund retirement, and will have the knock-on impact of channelling individual savings to institution-managed long-term capital. In turn this will improve the depth of domestic capital markets. Whilst significant progress has already been made in rolling out new measures to selected provinces during the pilot program in 2018, the schemes remain sub-scale and more work needs to be done prior to mainstream adoption.

- Regulatory changes: The New Asset Management Regulation (资管新规) has achieved significant progress towards the consolidation and restructuring of the existing regulatory framework. This has catalysed the transformation of 'quasi' asset managers into 'active' managers and improved the efficiency of investment allocation. But significant hurdles remain due to legacy reasons, where policymakers and the industry will need to work hand in hand to implement the roadmap envisaged and convince the Chinese consumers that they can longer rely on implicit guarantees of high-return products.

- Fintech disruption: China has long been recognised as the leader in technology-led transformation. In the asset management industry, we are now seeing early signs of innovation transpiring across the value chain including the middle and back offices. By upgrading its approach from »distribution first« to »customer first«, the industry is enhancing investment management infrastructure which will be critical to support overall professionalisation.

What is needed to enable further transformation?

To reach the target state of efficient investment allocation supported by highly professional institutional asset managers, three critical conditions will need to be in place:

- Ongoing government commitment: The government and policymakers will need to continue to recognise the urgency in resolving today's inefficient markets as a critical driver of GDP growth. This will require a concerted effort to drive lasting changes such as pension reform and new asset management regulation which will be essential to enhance capital allocation efficiency and drive the next stage of growth.

- Opening up of domestic markets: The influx of foreign capital and more importantly, global expertise will accelerate the domestic industry's journey to meet global best practices, and also offer international diversification to investors. Such expertise ranges from portfolio allocation methodology, risk management philosophy and tools, to human capital – all of which are critical building blocks for a professional institutional investor segment.

- Deep and liquid domestic markets: As domestic institutional investors mature and develop sophisticated investment strategies, they require a liquid pool of financial instruments to create the target investment profiles. The continued development of financial instruments, such as single stock options or commodity futures, is an important requirement for institutional investors to effectively manage and hedge risk.

The transformation of China's Asset Management industry is still at its early stage but we continue to see significant progress made across all aspects. We remain bullish and optimistic on China's ability to develop institutional investment to both support economic growth through more efficient capital allocation and allow the aging population to have a healthy and prosperous retirement.

Speakers' Corner

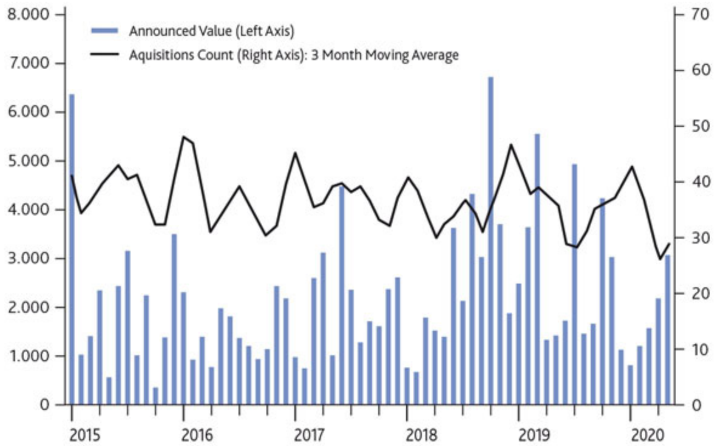
M&A Investing in China – Five things to be aware of

by Frank Niu, Dentons China

Foreign direct investment into China, in particular M&A deals, remains relatively strong and resilient despite the currently difficult economic environment and the impact of COVID-19. According to the following data recently published by the Rhodium Group, »in the first five months of 2020, foreign M&A into China totalled USD 9 billion, surpassing Chinese outbound M&A activity in both volume and value terms for the first time in a decade«.[1]

2 Value and Volume of Newly Announced Foreign M&A Transactions in Mainland China

Monthly data, USD million and number of transactions



Source: Rhodium Group; includes announced transactions resulting in a stake of 10% or more. 2020 data are preliminary only.

The foreign M&A investments span across most industry sectors, with one notable exception being financial services, such as banking, insurance, securities trading, and fund management. In these areas, almost all foreign investments are green-field projects and do not involve mergers with existing companies. This could change following the gradual removal or relaxation of regulatory restrictions of FDIs in financial services (e.g. equity caps, investor qualifications, and business scope limits) since 2018. However, foreign investors should bear the following points in mind when pursuing M&A opportunities in China's financial services sector.

1. Foreign investors may have limited options for structuring.

An M&A transaction may normally be structured as an equity deal or an asset deal, and may take the form of a direct acquisition or an indirect acquisition (e.g. investing through an offshore holding vehicle). However, asset deals are usually difficult to implement in China due to high tax costs, and Chinese regulators have imposed substantial qualification requirements on foreign investors in financial services that cannot be satisfied by a special purpose or intermediary holding vehicle, thus making indirect acquisitions impossible. In the end, foreign investors may be left with only one structuring option: direct equity acquisition.

2. Due diligence on Chinese targets can be a great challenge.

Foreign investors may find the due diligence process fraught with challenges. The seller or Chinese target may be lacking experience (e.g. in organizing a user-friendly data room), the target's book keeping (including financial accounts) may be poor or inaccurate, and it may devote inadequate manpower (either internal teams or external advisors) to work with the purchaser. The greatest challenge may come from misunderstandings and insufficient communication or inconsistencies in documents and gaps between paper and practice. Issues that are often unexpected by foreign investors.

3. Regulatory approval is crucial to deal success.

Deal making in China's financial services sector is subject to and directly influenced by the approval required from the industry regulator, the China Banking and Insurance Regulatory Commission (CBIRC). The CBIRC has issued rules and guidelines governing not only the approval procedures, but also the shareholding structures and corporate governance of licensed financial services companies. Investors must ensure strict compliance with such requirements in order to pass the regulatory scrutiny and avoid their deals being blocked or delayed due to regulatory considerations. On top of CBIRC an M&A transaction may require the review and approval by further regulators such as the antitrust / antimonopoly authority, the national security review agency, and the state-owned assets regulator. All these regulatory processes must be taken into account fully when pursuing and closing an M&A transaction in China.

4. Legal documentation is key to protection in the process.

A foreign investor needs to rely on acquisition agreements (such as a sale and purchase agreement) and other documents (such as a joint venture contract in case of a partial acquisition of the Chinese target) to protect it against the legal and regulatory risks in an M&A transaction. The legal documents serve as the basis for resolving any dispute that may arise in the transaction or subsequent operations of the target entity. Moreover, well drafted legal documents may prevent disputes from arising in the first place, thus keeping the business relationship intact. Therefore, foreign investors do and should generally attach utmost importance to legal documents on their China investments.

[1] See Who's Buying Whom? COVID-19 and China Cross-Border M&A Trends, Thilo Hanemann and Daniel H. Rosen, published on June 18, 2020 and available at https://rhg.com/research/whos-buying-whom/.

5. Please be prepared for long, hard, and constant negotiations.

For foreign investors, negotiations in China transactions are often very difficult and time consuming, lasting through each transaction stage. The reasons are diverse, including language and cultural barriers, as well as the sometimes unpredictable positions of Chinese parties who are not assisted by competent professional advisors. Most notably, signing of legal documents does not mean the end of negotiations: new issues may be uncovered and old issues may be reopened prior to or even after closing. Foreign investors should not underestimate the toughness of the negotiations but should be well prepared and employ appropriate strategies.

In conclusion, among other sectors China's financial services sector presents great opportunities for foreign investors, but they should be aware of related risks and pitfalls. With good planning, correct execution and assistance from experienced advisors, foreign investors can overcome the challenges and reap the benefits of investing in this promising market.

Policy Update

Towards a Mutual Beneficial Investment Agreement between the EU and China

by Horst Löchel, Professor of Economics and Co-Chairman of the Sino-German Center at Frankfurt School of Finance & Management

Already in 2003, the European Union (EU) and China agreed on the EU-China Comprehensive Strategic Partnership. Since then, the economic relationship between Europe and China has developed very well. China is now the EU's second-biggest trading partner behind the United States, and the EU is China's biggest trading partner. The stock of Foreign Direct Investments (FDI) of Chinese companies in Europe sums up to around EUR 160 billion until 2019. In contrast, companies from the EU (without the UK) invested in the same period overall EUR 175 billion until then.

In the last seven years and with over thirty negotiation rounds, the discussion concentrates on the so-called EU-China Comprehensive Agreement on Investment (CAI) that should set the framework for mutually beneficial foreign direct investments in the future. The intention is to provide a simpler and more reliable legal framework for investors on both sides by securing predictable long-term access to EU and Chinese markets respectively, and, providing for strong protection to investors and their investments. It should replace the existing bilateral investment treaties between China and the EU Member States with one single comprehensive agreement covering all EU Member States.

From a European perspective, the most important outcome is to ensure a level playing field for European companies in China, identical to the conditions Chinese companies face in Europe. There are still asymmetric market entry barriers like, for instance, JV-constraints and caps for equity holdings in addition to unequal business opportunities for European companies compared to their Chinese competitors.

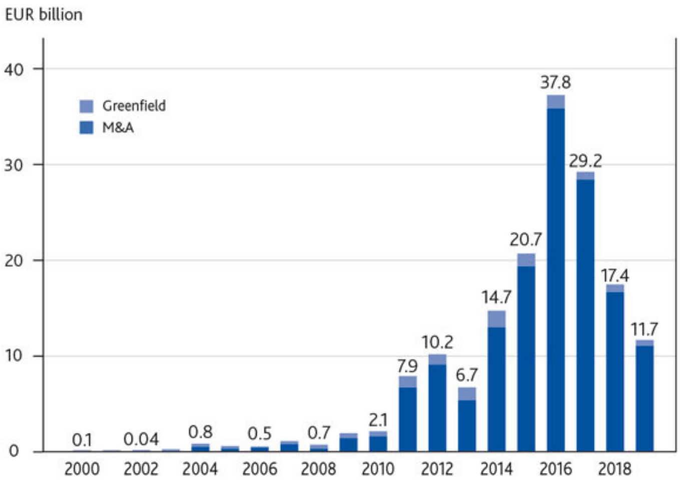
However, in recent years the opening-up of China's market for foreign companies has accelerated. Most important is the shorting and easing of the so-called 'negative list' (Special Administrative Measures on Access for Foreign Investment), which defines the business areas that are restricted for foreign investments. Especially in the financial sector, caps have been released or even lifted. For instance, German Allianz is now allowed to set up its standalone insurance holding in China, and the European bank Credit Suisse has increased its investment to a majority stake in its China securities joint venture, Credit Suisse Founder Securities Limited (CSFS).

But also for the industry as a whole, the situation has improved as well. For example, BMW recently increased its stake in Brilliance Automotive JV (BBA) from 25 to 75%.

In fact, FDIs in China are now possible for a variety of industries that were closed or restricted for a long time, like the nuclear power industry, public water pipelines, and air control; all industries that, by the way, are restricted for foreign investors in Europe.

On the other hand, the EU has tightened its control on overseas investment (ODIs) to Europe in recent times. Since March 2019, the Law to Control Foreign Investors is in place, which has been legally adopted by Germany this July. This so-called 'screening-procedure' is a robust monitoring mechanism that allows the European Commission to issue opinions on transactions that concern multiple member states or target a project or program affecting the interests of the EU as a whole. Those opinions are not binding. However, in cases that affect the EU as a whole, a member state would be required to justify its decision not to follow the Commission's opinion. The factors to consider when screening for risks to security and public order are very broad and include a wide range of sectors from energy, transport, as well as artificial intelligence, finance, water supply, health, and media among others.

3 Chinese FDI in the EU fell further to a 5-year low
Annual value of completed Chinese FDI transactions in the EU-28



Source: Rhodium Group

Already in November 2018, the Federal Government of Germany amended its Foreign Trade and Payments Ordinance ('Außenwirtschaftsverordnung') to allow for wider control of foreign corporate take-overs with a focus on critical infrastructures. In December 2018, German authorities further changed investment-screening rules that allow reviewing any transaction in which non-European foreign companies plan to buy more than 10% of a German firm in sectors such as defence, critical infrastructure, and media. Based on these amendments, Germany's government already blocked directly and indirectly Chinese investors in network operator 50Hertz, semiconductor Aixtron, and engine builder Leifeld.

The most fundamental concern for the EU is technology transfer combined with the fear of losing technological leadership in the face of China's attempt to upgrade its industry. On top of that, the discussion of stricter rules for foreign investments in Europe gained traction under Covid-19 as the economic crisis raises concerns that a variety of European companies are now a bargain. However, a couple of empirical-based analyses have shown that the allegation of technology transfer by Chinese investors in Germany is without empirical evidence. Just recently, the Expert Commission of Research & Development ('Expertenkommission Forschung und Innovation') implemented by the Federal Government of Germany and conducted by the Friedrich-Schiller University Jena, has again shown that the behaviour of Chinese investors is equal to that of any other foreign investor in Germany. This holds especially in the fields of knowledge transfer and employment.

The asymmetric development of China and Europa in terms of FDIs is echoed by European business in China itself. The European Chamber of Commerce in China (EUCCC) found that while in 2018, 62% of their member companies agreed that Chinese companies had a better market access in the EU than European companies did in China, in the same survey taken in 2020 only 54% agreed with the statement. The 'No' answers indicate the same direction: 38% in 2018 declined that Chinese companies had a better market access in the EU than the other way around, a value that increased to 46% in 2020.

However, we cannot neglect that – despite of these facts – the current international atmosphere in politics and economics has a negative impact on the EU-China relationship, too. Already for a while, economic and cultural globalisation is on retreat and protectionism as well as nationalism on the rise. The Covid-19 crisis has fuelled this as an accelerant.

These global developments are not in the interest of the EU and Germany. From an economic point of view, Europe should stay with the principle of open markets. Competitiveness requires competition also from foreign companies and investors. Turning Europe into a closed shop will lead to economic decline. Of course, the principle of open markets is a requirement for all involved parties.

The world today is experiencing profound and complex changes. The EU and China as important international actors share responsibility for promoting peace, prosperity, and sustainable development for the benefit of all. A conclusion of the EU-China Comprehensive Agreement on Investment under Germany's Presidency of the EU-Council would not only contribute to better business conditions for companies but also signal that co-operative solutions are still possible in a multipolar world.

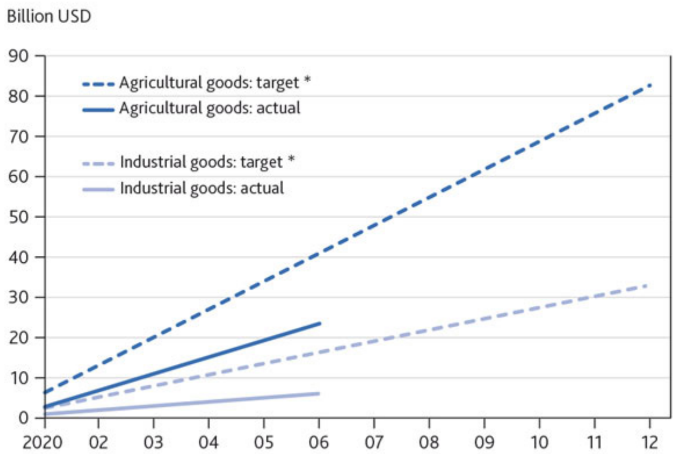
Macro View

North Asia leads the recovery in Emerging Markets

by Sean Taylor, APAC Chief Investment Officer, DWS, Hong Kong

Within Asia, North Asian countries such as China, Taiwan, and South Korea are able to contain the virus efficiently due to better crisis management through early and focused isolation and shutdowns, extensive use of technological surveillance, and large scale testing. Higher fiscal scope for stabilization measures also helped these countries bounce back from the crisis relatively quicker, although the amount of fiscal stimulus used for Covid-19 measurement was much less than in developed markets. Due to the less cyclical economic structure and higher share of technology sectors, North Asia remained resilient through the crisis. China had the deepest yet shortest recession. By the second quarter, the country has recovered 80% of its pre-crisis level. We expect China GDP growth to rebound to 2% this year. South Korea and Taiwan experienced gradual improvement in export growth driven mostly by high-technology goods. However, some countries in Asia such as India, the Philippines, and Indonesia are still facing an uphill task to control the virus. These countries have less fiscal balance, a big population which were unemployed during lockdown and remained so after lockdown ease, and are more susceptible to a second wave. Unlike North Asian countries, these Asian countries are still very much like Emerging Markets. They are reliant on commodities, low GDP per capita and less technology savvy.

4 Cumulative U.S. Exports to China



* For this chart, the annual target is assumed to be equally distributed across the months. Sources: United States Census Bureau, DWS Investment GmbH as of 7/27/20

Since 2017, risks surrounding US-China trade war have been weighing on investors' minds and resulted in huge outflows from the Emerging Markets. Despite the tariffs imposed on Chinese goods, China's export sector remained resilient. While Chinese exports to US fell by 11% in 2019, total export in China increased by 0.5% in 2019 as China was able to export more to the European Union and the ASEAN region. On the other hand, after the Phase One Trade Deal was signed in the beginning of 2020, China is far behind on agreed import quantities from the United States. The trade agreement seems to be only a side show for China. The extensive sanctions against Chinese telecommunication, technology, and internet companies are doing far more damage to China than potential new punitive tariffs. Beijing's incentive to support Trump politically with higher imports is now likely to be low. Especially, if some sanctions were to be implemented from mid-September onwards. With the US election coming up in November, we see geopolitical risks impacting investments in Asian assets. Volatility could be heightened during this period, although it should not jeopardize the economic recovery in China which is mainly driven by domestic demand. Tactically, we could expect a temporary reprieve from the latest escalation in the China tensions after the elections. Indeed, this was the experience with Trump in 2017, leaving space for a boom in global growth.

US-China conflicts are extending beyond trade issues to technology and finance, including limiting the access by Chinese corporates to US capital markets, as well as a US focus on strengthening human rights and democracy initiatives. In particular, the latter issues are increasingly triggering measures also from the EU and other countries. China is responding with a short-term tactical response and a longer-term strategy. The former buys time and seeks agreement as outlined by the Phase One Trade Deal which is likely to extend into the first year of the new US Presidency. This allows both sides to claim a victory of sorts and calm the heightened tension. Typically, the first year of a Presidential term is directed at using hard earned political capital to push through difficult domestic legislation, which in this case would provide a cooling period between the two major global countries. The longer-term strategy is a »self-sufficiency« strategy, which China has been working on, and which could be accelerated after the US Presidential election; especially, if a strong global alliance were to be formed against China.

While China has progressed well towards its long-term strategy, the rest of the Asian countries have a lot of catching-up to do. South East Asian countries are still unable to contain the pandemic in an orderly manner. Indonesia and the Philippines see large numbers of infection cases and are still in partial lock down mode. Therefore, these countries have to focus on healthcare and supporting local businesses and livelihood and put recovery in tourism, trade, and consumption growth on the back burner for a while.

Hence differentiation is key when investing in Asia. North Asia markets are less cyclical and have more stable currencies. The North Asian technology companies offer competitive advantages and have showcased their uniqueness during this crisis. To date, North Asian technology stocks are among those that have led the Emerging Market rally since the March lows. North Asian countries make up about 65% of the MSCI Emerging Market Index's total country weight. Removal of North Asian countries will make the index significantly less attractive compared to the MSCI Asia Pacific Index. Besides country weightage, the sector weightage will be very different in the MSCI Emerging Market Index as it shifts towards a very cyclical focused index without the technology heavy North Asian constituents. In addition, Asian bonds have been well supported by stable currencies, strong support from local investors, and strong new issue pipelines. But we cannot say the same for all Asian countries, and thus remain with the opinion that selection is key.

Exchange Markets

FinTech in China

by Thomas Heck, Partner PwC, Head of China Business Group in Germany and Europe & Sebastian Sohn, Senior Manager Financial Services (Singapore) at PwC South East Asia Consulting

The development of FinTech in China over the past two decades has had a significant impact on the social and economic development of the world's most populous country.

Large internal market and regulatory freedoms

China has a gigantic domestic market for financial services. The country's universities are able to produce technologically excellently trained talents. The adaptation of new technologies as well as internet availability and usage are very widespread.

To add to that, for a long time the authorities granted a great deal of freedom for new companies and products. Together with technological trends and its economic development, China is an excellent breeding ground for FinTech innovations and with high scaling opportunities in a broad market.

However, the 20-year history of FinTech in China is not only characterized by success stories. In addition to the terrific successes such as Alipay, WeChat Pay, Zhong An, and numerous digital banks, there are also cases of spectacular failure.

Examples are the crypto markets and peer-to-peer lending, which were stringently regulated and in some cases also prohibited after strong growth.

Overall, the combination of its cautious regulatory approach, a large domestic market, and digitally savvy users, has put and will continue to put China in a nearly unique position to test and establish new business models.

Four pillars of FinTech in China

FinTech in China consists of a variety of different offers, solutions, and companies and goes far beyond banking and mobile payment. A systematic classification of financial technology in China developed by the Tsinghua People's Bank of China School of Finance identifies the following fields:

1. Digital transformation of existing business models
Existing financial services in China have been digitized at a pace met by hardly any other country. This includes both the front and the back end of these companies, which also applies to the use of financial clouds, for example.

2. Internet based financial services
Mainland China offers a broad array of internet based financial services such as mobile payment solutions, online insurers (e.g. Zhong An), and online asset management products with a huge scalability more or less right from the start. The money market fund »Yu'e Bao« connected to Alipay was at times the largest money market fund in the world. Also, digital banks were built with the participation of technology companies such as Tencent and Xiaomi.

3. New business models through FinTech
Early on, new business models through FinTech emerged: ranging from crowdfunding and lending to crypto-related startups they were always kept in balance by strict regulation (including bans) countering a too rapid development. Recent developments include the use of artificial intelligence in the analysis of financial data and the use of natural language processing (NLP).

Other models rely on the integration of financial services into other services. This affects the retail sector, for example by combining travel booking, travel insurance with a loan, or target savings plan for financing.

But there are also similar approaches in the commercial segment. For example, farmers can use FiTech in an integrated way to plan their operations financially, to select profitable business areas, and to purchase and finance operating equipment.

4. Financial education and knowledge management
Finally, FinTech also allows China to effectively tackle financial literacy of the population and to strengthen consumer protection. This is efficiently combined with the use of social networks and communities with a focus on investments as well as the comparison of and the supported search for financial products.

Hong Kong financial center as a catalyst for further development

In addition to the aforementioned innovations, there are other developments and trends in the field of Chinese financial technology: in particular the integration of Hong Kong and the Greater Bay Area as well as the development of digital central bank money.

The approximately 7.5 million residents of the Hong Kong Special Administrative Region live in an environment cut off from the financial system of around 1.4 billion people in Mainland China – a leading regional financial center whose local financial system is strongly oriented towards Western standards.

As a result, FinTech innovations from the mainland only came to Hong Kong in parts and with a time lag. Nevertheless, the city is an exciting market with its mixture of Chinese culture and international regulatory standards.

One example is the introduction of Virtual Bank licenses in 2018, by which the local regulator sought to modernize the local gang system, improve financial inclusion, and strengthen the economic integration of the Greater Bay Area (the pearl river delta around Hong Kong, Macao, and South China). Hong Kong's concept caught on in Asia – in addition to Singapore and Malaysia, other countries are also striving to introduce digital banking licenses.

Among the eight licensees for building digital banks in Hong Kong are six consortia around Chinese technology companies. In addition to the business opportunities in the Special Administrative Region and the surrounding Greater Bay Area, these giants also have the opportunity to get to know Western banking regulation. Hong Kong could thus also become a possible springboard for them to expand into other markets.

Another boost for China's digital financial market could be the planned introduction of a digital central bank currency. China would be a pioneer. In spring 2020, a pilot project started with banks in selected cities, which was expanded to include the ride-hailing app Didi (which took over Uber's China business) in summer 2020. Even if a start date for a broad introduction and technical details have not yet been published, statements by the Chinese central bank indicate that the digital currency should be blockchain-based and will also be usable offline.

The development of FinTech in China is undoubtedly impressive when you consider that China has succeeded in converting previous weaknesses – such as the lack of spread of card payments – into strengths such as the establishment of mobile payment. As a result, technologies gained wide acceptance, which only spread later and at a much slower pace in Western countries, especially in Germany (although parts of these technologies were developed in the West).

Conversely, those FinTech innovators from China who are particularly successful in adapting western regulatory standards are most likely to have global success. What is certain is that China has recognized the advantages of a strong FinTech ecosystem and the early testing of innovation and will continue to use them.

About CEINEX

China Europe International Exchange
China Europe International Exchange AG (CEINEX) is a joint venture established by Shanghai Stock Exchange (SSE), Deutsche Börse Group (DBAG), and China Financial Futures Exchange (CFFEX). It is the first dedicated trading venue for China- and RMB-related investment products outside of mainland China and considered a strategic project between China and Germany

Our vision
Establish a centralized marketplace for trading, risk management, and asset allocation for China-related or RMB-denominated exchange traded financial products in Europe.

Our mission
As a Sino-German strategic capital markets platform, CEINEX's mission is to support the real economic cooperation between China and Europe as well as promote RMB internationalization.

CEINEX is a Joint Venture of

上海證券交易所 SHANGHAI STOCK EXCHANGE

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