RIGHT TRACK

PBOC to guide funds toward green-edged ESG investments

By CHEN JIA and JIANG XUEQING

China's central bank officials said they will accord priority to ESG-themed investments henceforth and see the national carbon trading mechanism as key to implementing the country's green and low-carbon development strategy, thus encouraging injection of long-term social funds into the huge market.

Fan Yifei, a deputy governor of the People's Bank of China, disclosed over the weekend that the central bank plans to guide long-term investment funds, including pension funds, insurance and social security products, to invest in the ESG — environmental, social and governance — markets.

Financial institutions can gradually plug into the national carbon trading system, which was established on July 16. And carbon derivatives like forwards, futures and options will be developed, Fan said at the Global Asset Management Forum in Beijing on Saturday.

92 trillion yuan

total assets under management of various types of financial institutions in China by first half of this year

Chen Yulu, a deputy governor of the PBOC, urged participants in the asset management sector to actively promote ESG investing and accelerate business innovation to support development of green and low-carbon industries, as the country's 2060 carbon neutrality goal needs a tremendous amount of low-carbon investments.

Asset management institutions in China should firmly abide by the new development pattern and become leaders in ESG investment, Chen said at the China Wealth Forum in Qingdao, Shandong province, on Saturday.

By the end of the first half of this year, total assets under management of various types of financial institutions in China reached 92 trillion yuan ($14.2 trillion), equivalent to 25 percent of on-balance-sheet assets, Chen said.

China has committed to peaking carbon emissions by 2030 and achieving carbon neutrality by 2060, while experts predicted that the costs of carbon transition will be high and uneven across the country.

That may require nearly 136 trillion yuan of total investment, said Xie Zhenhua, China's special envoy for climate change, who also disclosed that the central government will issue a policy guidance soon to accelerate the low-carbon transition.

China has just established the world's largest carbon market earlier this month, which has a primary market of the carbon quota trading in the form of an auction market.

The government can take advantage of income from the quota auction to support the transformation of high-carbon emission areas, said Fan, the PBOC deputy governor.

But, if the auction price of carbon quota rises too high, it may result in higher production and living costs, or even fuel inflation, he said, urging a proper level of the carbon price should be maintained.

Fan stressed that financial institutions, securities issuers and the public sector should disclose detailed environmental information, following the mandatory and normative standards. An information sharing system should be established to ensure that financial institutions can obtain enterprises' carbon emissions data.

"China should set the carbon peaks and quota allocation in different periods according to the domestic energy distribution and structure," said Fan. "Among all the existing measures for reducing carbon emissions, building a carbon market is the most effective method."

The central bank is working to set new policy tools that can promote reduction in carbon emissions, improving incentive policies and window guidance that can encourage financial institutions to strengthen support for key areas, such as wind power and photovoltaic power generation, the PBOC official said.

Vice-Finance Minister Zou Jiayi said at the Global Asset Management Forum that fiscal policy can play a key role in driving green development in China, through adoption of tax measures and subsidies to support low-carbon production and lifestyles.

Fiscal measures like tax cuts will support the country's green economic recovery, including the reduction of tariffs on some imported products to promote waste recycling, increase in government-led investment in new energy automobiles and green construction materials, and support for the public-private-partnership or PPP financing model in pollution-prevention projects, Zou said.

By the end of June, 4,156 projects using the PPP model in the pollution-prevention and green low-carbon fields had been signed in China, entailing total investment of 4.1 trillion yuan, according to data from the Ministry of Finance.

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The cross-border e-commerce section of the China International Consumer Products Expo in Haikou, South China's Hainan province, earlier this year. LUO YUNFEI / CHINA NEWS SERVICE

Services' first negative list goes to Hainan

Cross-border trade policy promises higher level opening-up, transparency

By ZHONG NAN
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China on Monday unveiled its first negative list for cross-border trade in services. The list will be implemented in the Hainan Free Trade Port.

It is a major breakthrough in the country's opening-up for trade in services, said senior government officials.

Called the Negative List of Hainan Cross-Border Trade in Services, it is scheduled to take effect on Aug 26.

The document is different from the past liberalization arrangements scattered in specific sectors, said Wang Shouwen, vice-commerce minister.

A negative list specifies the prohibited economic activities, thereby implying that activities not listed are deemed to be allowed.

The Hainan FTP negative list specifies 70 special administrative measures for 11 sectors, including shipping, retail, logistics, finance and education, for overseas service providers.

Domestic and foreign service providers will enjoy equal access to sectors beyond the list in Hainan FTP, with greater openness, transparency and predictability, according to the information released by Wang's ministry.

In addition to removing the restrictions on foreign individuals participating in the qualification examinations for engineers in many fields in the Hainan FTP, the negative list allows representative offices of overseas law firms in Hainan to engage in part of Hainan-related commercial non-litigation legal affairs.

Through institutional opening-up, this measure will further liberalize trade in services, enhance the general level of liberalization in China and serve the creation of new development dynamics throughout the country, the vice-minister said.

As a driver of Hainan's economy, the services sector accounts for more than 60 percent of the province's GDP. Recent data showed the development of the services sector has paid rich dividends. The sector contributed 95.8 percent to Hainan's economic growth last year, data from the ministry showed.

The vice-minister said the new negative list widens market access in trade in services and paves the way for higher level opening-up in professional, transportation and financial services, among others.

"Its liberalization level goes beyond China's WTO accession commitments and its main effective FTAs (free trade agreements) in corresponding areas," he said.

Tang Wenhong, director-general of the ministry's department of pilot free trade zone and free trade port, said, "In the next step, we will push forward the implementation of this negative list and summarize and evaluate practices and experiences in a timely manner."

He said the government will also explore ways of expanding the administrative model of the negative list of cross-border trade in services to pilot free trade zones first and the whole nation later.

Ni Qiang, vice-governor of Hainan province, said that focusing on the key role of Hainan FTP in building new development dynamics, a series of opening-up measures were taken. These included a measure that liberalized the application process for yachts registered overseas.

"The measures will give Hainan a distinct edge in international cooperation and promote the high-quality development of the free trade port," Ni noted.

Yann Bozec, president for Asia-Pacific of the US-based Tapestry Group, the parent company of US luxury and fashion brands, Coach, Kate Spade and Stuart Weitzman, said with the new government policy now in place, the company will look forward to working with more partners in the growing market, thus jointly promoting the consumption upgrade and creating more value in the area of retail service.

"The booming and rapid development of the duty-free market in Hainan FTP has been a wonder to behold. We have all witnessed the tremendous injection of growth and vitality this has brought to the market," said Bozec, who is also the president and CEO of Coach China, the local subsidiary.

China's 21 pilot free trade zones attracted 100.88 billion yuan ($15.56 billion) in overseas investment in the first half of 2021, accounting for nearly 17 percent of all foreign capital that flowed into China, according to data released by the Ministry of Commerce.

The amount of capital used and new overseas investment companies established in Hainan FTP surged 5.7 times and 3.9 times, respectively, during the first half.

H1 tax data show biz revenues up 34%

By CHEN JIA
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China's tax data for the first half of this year, released on Monday, reflect solid corporate performance, as enterprises' sales revenues rose 34.4 percent year-on-year, based on value-added tax invoices, robust economic growth and steady recovery from the COVID-19 pandemic, the State Taxation Administration said.

Taken together, first-half sales revenues of corporates in 2020 and this year averaged 15.1 percent, indicating stable economic growth momentum, said Zhao Lianwei, deputy head of the STA's Revenue Planning and Accounting Department.

STA tax data showed sales revenues accelerated in the second quarter, especially in the high-tech and innovative industries like information services and research and development design services.

In the first half, high-tech companies' sales revenues increased by 33.6 percent year-on-year, and enterprises in the industrial sector witnessed revenue growth of 32.9 percent.

Data also indicated the energy supply structure has been gradually optimized, and the ecological and environmental protection industry has developed rapidly, Zhao said.

Services-related consumption recovered in the first half, with sound development of new consumption businesses. Investment also increased steadily, and the investment structure has been gradually improved, he said.

Some 6.24 million new market entities that will have to pay corporate taxes at an appropriate time were registered in China in the first half, up 27.3 percent year-on-year, as the economy continues to recover from the COVID-19 pandemic, the STA said.

New corporate taxpayers will help sustain economic growth, maintain tax resources and create jobs. And the tax authorities will improve the tax and business environment to support growth of corporate taxpayers, STA officials said.

Han Guorong, head of the STA's Taxpayer Service Department, said the administration has promoted preferential tax policies many times in the first half, which benefited 456 million taxpayers.

Many local tax departments provided consultancy services, especially for small and micro enterprises, to simplify and improve the efficiency of tax payment procedures, said Han.

Guideline, sell-off give edtech jitters

By CHENG YU
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Chinese private education companies, especially the listed ones, are quickly evolving future moves in response to Saturday's guideline that all institutions offering private tuitions to school students will henceforth be registered as nonprofit organizations, which caused a massive sell-off in related stocks on bourses in China and the United States.

In China's billion-dollar tutoring and online education (or edtech — educational technology) sector, companies typically offer a bouquet of extracurricular products and services. Some of them are even listed on the US bourses.

On Saturday, the general offices of the Communist Party of China Central Committee and the State Council, China's Cabinet, issued a guideline proposing wide-ranging reforms in the sector.

Edtech companies will no longer be allowed to raise capital through IPOs. Listed companies and overseas investors are barred from investing, or acquiring stakes, in education firms that teach school curricula.

Foreign firms are also banned from acquiring or holding shares in institutions engaged in tuitions related to school curricula using variable interest entities or VIEs.

Analysts said listed companies may face the risk of delisting or have to spin off school curricula-related businesses.

The guideline also noted that the main aim of the reform is to significantly reduce the excessive burden of homework and after-school tutoring on primary and middle school students.

Market insiders interpreted Saturday's guideline as a signal to further transform the edtech sector quickly.

Investors on Monday resorted to a massive sell-off in edtech stocks — a sign that markets expect tough times ahead for the sector. China's education industry subindex of the A-share market dropped 8 percent.

In terms of individual stocks, New Oriental Education & Technology Group Inc, Koolearn Technology Holding Ltd and China Beststudy Education Group all dropped between 30 percent and 40 percent on the Hong Kong stock exchange on Monday.

On the Chinese mainland, the benchmark Shanghai Composite Index declined 2.34 percent to 3467 points, the Shenzhen Composite fell 2.65 percent, and the startup board ChiNext Composite index closed 2.84 percent lower.

On Friday itself, sensing potential policy changes, investors began the Chinese edtech sell-off. TAL Education Group tanked almost 70 percent to $6.06 per share while Gaotu Techedu Inc dived 63 percent to $3.51 on the New York Stock Exchange.

In China, there has been widespread and growing perception that the private sector's role in the important education sector needs to be reined in, given rising stress levels among both parents and their school-going children.

This has been attributed to the pressures created by excessively tough and progressively expensive extracurricular learning programs, which, observers said, have also created unhealthy competition among both market entities and consumers.

An investor close to online education startup VIPKid, who sought anonymity, said the firm will likely broad-base its business by moving beyond school-level programs into English-language courses for adults.

VIPKid currently offers one-on-one online English courses to children aged 4 to 12 in China. Its tutors are based in the US.

"The new guideline is just the starting point. We expect that K-9 (kindergarten to 9th grade) after-school tutoring will see a long period of supervision of both business development and raising capital," said Jiang Ya and Feng Chongguang, analysts from CITIC Securities, in a research note.

"Existing companies in the sector will have to transform themselves into businesses of quality education covering art, music, vocational education, and education technology."

An outlet of New Oriental Education & Technology Group Inc in Nanjing, Jiangsu province. PROVIDED TO CHINA DAILY

Briefly

4 cities launch foreign currency bank services

Guangzhou and Shenzhen in Guangdong province, Fuzhou in Fujian province and Hangzhou in Zhejiang province launched the first pilot of domestic and foreign currency integrated bank settlement account system on Monday. From now on, enterprises and individuals in these cities can apply for opening one bank account with multiple currency operations. The pilot measure is a significant step of unifying operational rules and restructuring processes of bank accounts, laying a solid foundation for the full life cycle management of settlement accounts with foreign currencies.

Reverse repos aim to maintain liquidity

China's central bank on Monday conducted 10 billion yuan ($1.54 billion) of reverse repos to maintain reasonably ample liquidity in the banking system.The interest rate for the seven-day reverse repos was set at 2.2 percent, according to the People's Bank of China.

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