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Suspension of Ant Group's Listing in the Shanghai Stock Exchange and Its Implications

Dr. KIM Kisoo

*Senior Research Fellow,
The Sejong Institute
(kskim@sejong.org)*

On November 3, 2020, the international financial world received shocking news. Ant Group, a FinTech and an affiliate company of Ma Yun(馬雲)'s Alibaba Group, was suspended from listing in Shanghai and Hong Kong two days before November 5, the scheduled date of listing. It would have raised \$34 billion in its initial public offering and made the biggest listing in history. There has been no case of delisting like this. With conventional thoughts, such incident is actually impossible to happen in the capitalist market economy. The Shanghai Stock Exchange did not clarify the reason. There are only speculations from the media.

Ma Yun said following during his speech at the Bund Summit on October 24: "Good innovations are not afraid of supervision, but is afraid of outdated supervision ... We cannot manage an airport in the same way as we manage a railway station. As such, we cannot manage the future with yesterday's method ... A problem of China's financial system is not its integrity, but a lack of functioning financial system." Ultimately, he criticized that China's existing financial system does not function properly and added the Chinese authorities' backwardness in supervising and managing finance and a lack of will to reform the whole system as major risks. It is said that such criticism provoked the Chinese authorities and caused the listing to suspend.

Such an interpretation makes sense. However, asking this question shows that the problem is not quite simple. What is the scope of market operation for the Chinese economy? Similarly, to what extent is private ownership guaranteed? Everyone knows that China began reform and opening in 1979 under the leadership of Deng Xiaoping. The key points were the introduction of the market principle and the expansion of individuals' economic autonomy. It was not easy for the communist state, which is characterized by sharing and rationing, to accept market principles. Indeed, the scope

of the market and the question of how the market could coexist with socialist economy had to be asked.

In 1982, Chen Yun (陳雲), who was the top economist and the best in his field then, settled these issues by creating a bird-cage economy theory (鳥籠經濟論), a famous economic theory that is still discussed. It included a main-and-support theory (主補論), which asserted the main (主) is the planned economy and the market only assists (補). Like a bird in a cage, the theory indicated that the market (bird) is recognized and operates within the boundaries of the planned economy (cage). This also applied to companies. The principle of grasping the large and letting the small go (抓大放小) was confirmed by the State Council in 1994 as China's principles for large enterprises. This guideline suggested that large companies would be state-owned and further grow in the future, while small businesses would be privatized. This is the reason why all enterprises in 7 key industries in China are state-owned.

People often think that the Chinese economy has developed and operated on the basis of Western market principles and private ownership due to China's remarkable economic growth and predictions that it would catch up with the U.S. soon. However, the long-established bird-cage economy theory and the principle to grasp the large and let the small go are still valid. Moreover, the basic policy that the Chinese Communist regime runs the economy has not changed. Therefore, what appears to be private will eventually be controlled by the government if its size grows. Then, large businesses will virtually act like state-owned enterprises.

Ma Yun's companies have grown too big. The emergence of Ant Group, a company that deals with AI and blockchains, threatens the Community Party of China's top priority of resident control since Ant Group may be able to seize the control of key technologies. A regulation by the Communist Party was inevitable in any way. It is rather curious what Ma Yun intended to do through his criticism of the Chinese government. Was it a personal inclination, or a desperate recognition of the reality that the intolerable level of the Chinese government's control on corporate and financial development is in fact fatal to the financial environment? Anyway, the Ant Group incident illustrates the relationship between the Communist Party's power and private enterprises in China. As the principle of bird-cage economy explains, market operation and the scope of private ownership exist within the boundary of planned economy. In short, the same principle applied to Ma Yun's companies, and such is the characteristics of the Chinese-style socialist market economy. ♣

* Translator's note: This is a summarized unofficial translation of the original paper which was written in Korean. All references should be made to the original paper.

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