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Topics How COVID-19 changed K12 online education in China?

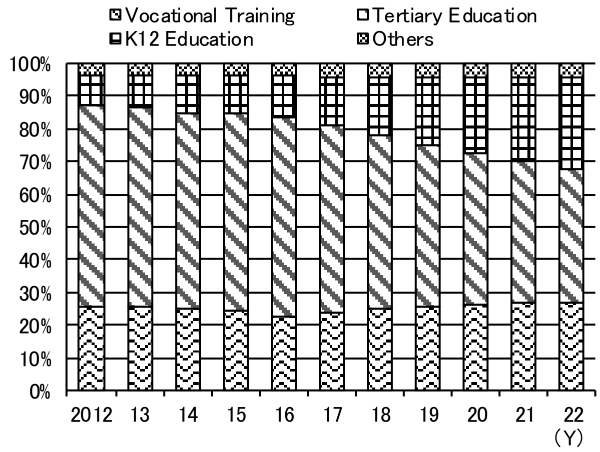
In response to the outbreak of COVID-19, schools were closed throughout China in January 2020 and online classes were introduced. It is possible that China was able to make the transition in a short period of time because the country had been preparing for it even before the outbreak. Based on this successful experience, China is expected to form a new educational model that integrates offline and online classes to enhance educational capabilities across the country.

■ China's online education market has become the largest in the world

Although China introduced the Internet in the 1990s and developed Internet industries such as news portals, social networking, and gaming, the expansion of the Internet to the education field was relatively slow. Although a distance education website was launched in 1996, the development of online education was limited by the immaturity of Internet technology itself and the lack of flexibility in the education industry.

The venture capital investment boom in online education started in 2013, and many startups entered the industry. In 2018, five unicorns (unlisted companies founded less than 10 years ago with an estimated value of one billion dollars or more) emerged. In 2018, online education was formally brought under government supervision, and while legislation continues to develop, continuous innovation in service models that reflect technological advances is being promoted. As a result, China's online education market continued to grow by more than 20% each year, reaching 251.76 billion yuan in value in 2018 and becoming the largest in the world.

<Changes in China's Online Education Market Shares by Field>



Source: Prepared by Japan Research Institute, Limited, based on "2018 China Online Education Industry Development Research Report" by iResearch
Note: Figures after 2018 are estimates.

In the past, tertiary education (education for undergraduate and graduate students) and vocational training have dominated the online education market. Services for K-12 education, covering from primary school to high school, accounted for around 20% in 2019, and the majority of such services were provided outside the school.

■ Online classes were introduced across the country as a result of the closure of all schools

After the outbreak of COVID-19, the Chinese Ministry of Education notified educational institutions of the postponement of the start of the new semester on January 27, 2020 during the Spring Festival holidays. Two days later, on January 29, it announced the policy of "Suspending Classes Without Stopping Learning (continuing learning even during school closure)." Around the same time, several private companies announced the provision of online video platforms and free educational content to support educational activities. In this way, more than 200 million students across the country received online education.

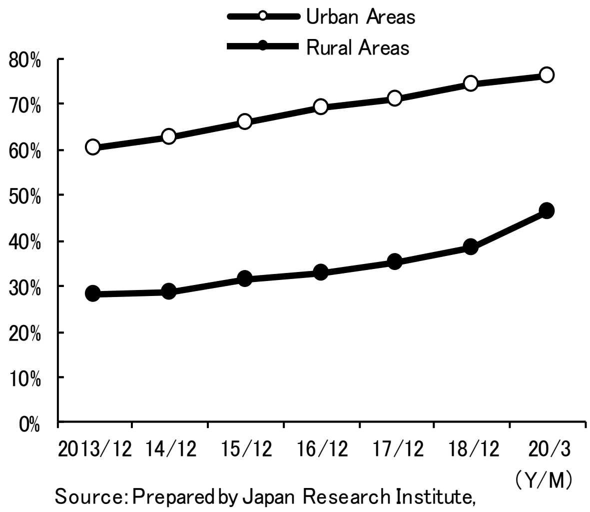
The Ministry of Education, with strong support from the Ministry of Industry and Information Technology and the National Radio and Television Administration, officially launched online schools in most provinces on February 17 and officially opened the "National Primary and Middle School Network Cloud Platform" for primary schools, middle schools, and Chinese educational TV broadcasting classes. As a result, the number of Internet users receiving online education more than doubled from 200 million in December 2018 to 420 million in March 2020.

However, the Internet penetration rate in China is not as high as in developed countries, with only 64.5% as of March 2020. It can be pointed out that there is a large gap in the Internet penetration rate between urban and rural areas. As a result, many students in rural areas cannot take online classes.

Therefore, the Chinese government started to broadcast a complementary program on China Educational Television to provide distance education even in areas where the Internet environment has not been sufficiently developed.

In March, the risk levels of the COVID-19 pandemic were reduced in many provinces in China, and most primary and middle school students returned to school in May. The introduction of online classes in schools across the nation, however, significantly changed the mindset of educators. While many of them had been somewhat cautious about the introduction of online classes in schools in the past, there have been many positive reviews.

＜Changes in Internet Penetration Rate Between Urban and Rural Areas in China＞



Source: Prepared by Japan Research Institute, Limited, based on CNNIC

■ What were the factors behind the successful introduction and what is expected in the future?

The success of nationwide online classes in China is due to the fact that they had been making plans and steadily implementing them. In 2016, the Ministry of Education announced the “Five-Year Education Informatization Plan,” which set the goal of establishing an educational information system with which “Anyone can study anywhere and anytime” by 2020. In order to achieve this goal, it is necessary for the government to provide normative guidance and effective educational information technology, improve policies and regulations, actively utilize market mechanisms, actively involve private companies, and build an ecosystem of excellent educational information technology. In addition, the “Guidance on promoting online education” published in 2019 provides concrete action plans by 2020, including i) a significant improvement in the level of infrastructure construction for online education; ii) broad use of the latest information technologies, such as big data and artificial intelligence in the education field; and iii) improvement of the maturity of online education models through the enhancement of educational resources and services.

The nationwide introduction of online classes was made possible through the steady implementation of these concrete plans. The Chinese government has been pleased with the results and is expected to move toward a new educational model that integrates offline and online education. The use of online education in elementary and secondary school education is expected to expand in the future, and the following two expected effects of online classes in school education can be pointed out. The first is to enable the sharing of the best educational resources and to help reduce regional disparities. In other words, online education will make it possible for students to take classes conducted by excellent teachers in other areas, raising the level of education throughout the country. Second, the development of a curriculum platform will enable the collection, analysis, and processing of big data, such as learning activities, learning behaviors, learning status, and learning effects, and will enable the scientific determination of optimal educational methods. In this way, the success of the online education “experiment” in China may not only expand the education market, but also contribute greatly to the future economic development of China.

(Tetsuo Fujita)

Topics Growing concern over Hong Kong's status as financial centre

As tensions between the United States and China increase, uncertainty is growing over Hong Kong's medium- to long-term role as an international financial centre. However, it will not be easy to replace Hong Kong's function as a global channel for mainland China's financial market, and it will remain important for the time being.

■ The impacts are likely limited despite the abolishment of preferential treatment by the U.S.

On June 30, a new national security law was enacted in Beijing and enforced in Hong Kong. This has raised concerns about Hong Kong's high degree of autonomy and raised concerns about its status as an international financial centre. On May 29, the U.S. announced that it would remove the preferential treatment that had been granted to Hong Kong. In addition, on June 13, U.S. Treasury Secretary Steven Mnuchin mentioned the possibility of limiting the flow of U.S. capital through Hong Kong. However, there has been no sign of major financial institutions in Hong Kong withdrawing from the market, and a statement of support for the law has been issued, indicating that there has been no significant impact so far. The adverse effects related to visa issuance and customs duties, which are included in the preferential treatment, are expected to be minor, and the possibility of large-scale financial sanctions is considered low as it would have a major impact on the U.S. companies in Hong Kong.

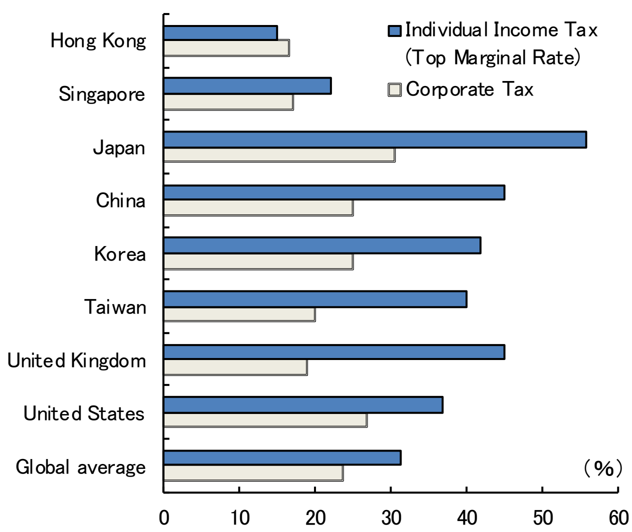
■ Some say this is a big opportunity for Singapore, but…

Although any adverse effects have not been materialized yet, some expect Singapore to deprive Hong Kong of its role as a result of the increasing uncertainty. The two regions offer a huge benefit of a low tax rate to the wealthy and hedge fund investors. The maximum effective rates of personal income tax are 15% in Hong Kong and 22% in Singapore, while corporate tax rates are 16.5% and 17%, respectively. They are much lower than those of other developed countries and Asian countries/regions. Singapore would be a strong contender if investors plan to shift funds from Hong Kong following the recent developments. In fact, some media report that the wealthy have already fled to Singapore. For financial intermediation and corporate financing, however, the shift from Hong Kong to Singapore is not so easy.

For financial intermediaries, setting up offices in the two regions would be a great advantage in terms of convenience in financial transactions, particularly foreign exchange. The two regions have built up the strength of their settlement functions in various currencies by serving as international trade hubs. In addition, the use of HKD (Hong Kong dollar) and the SGD (Singapore dollar) has advantages in financial transaction as they can be traded stably against the USD under the currency board system (pegged to USD) and the managed floating exchange rate system using a currency basket, respectively. The big difference is that Singapore has an advantage in trading multiple currencies, including those of ASEAN countries, while Hong Kong has an advantage in trading the RMB. In fact, Hong Kong and Singapore account for the largest volume of currency transactions following the U.K. and the U.S., but the RMB trading of Hong Kong accounts for 30%, marking the world's largest transaction volume.

In addition, Hong Kong has Stock/Bond Connect, a cross-boundary investment mechanism that connects Hong Kong with mainland China. The mechanism has greatly improved the convenience for international investors to trade securities in mainland China market through Hong Kong. While strict capital controls remain in mainland China, financial intermediaries can engage in transactions with mainland China most efficiently through Hong Kong. The mechanism is not easy to replace with other, which is a major reason why we rarely hear about

<Corporate and Income Tax (2019)>

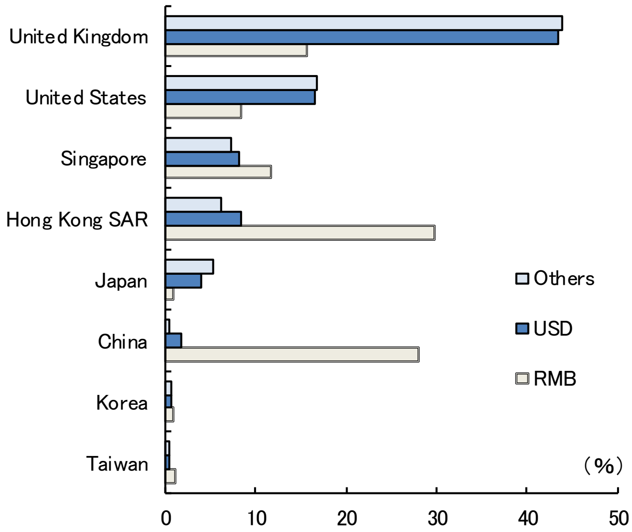


Source : JRI, based on KPMG data

financial institutions withdrawing from Hong Kong. Moreover, it may help keep investors in Hong Kong as many institutional investors in Hong Kong focus mainly on investing in China.

Both Hong Kong and Singapore are attractive markets for corporate financing to global companies. Moreover, the Hong Kong market has enhanced its superiority in terms of fund-raising by Chinese companies as it has financial intermediaries and investors (lenders of funds) that are strongly connected to China as mentioned above. Indeed, according to HKEX, there were 183 initial public offerings (IPO) on the Hong Kong Stock Exchange in 2019, with the largest amount raised in the world at USD 40 billion. The listing of a major Chinese e-commerce company has contributed significantly to the increase, in addition to the listing of a major beer brewer in Belgium who is seeking to expand its market share in Asia.

＜Share of foreign exchange turnover (2019)＞



Source : JRI, based on BIS data

On May 20, the U.S. Senate passed a bill calling for transparency in management of foreign companies listed in the U.S., which further increased the presence of the Hong Kong stock market. The bill was originally introduced after the accounting irregularities of a major Chinese café chain. However, there are growing concerns about all Chinese companies listed in the U.S., such as the possibility of delisting from the U.S. stock market if inspections are refused or information disclosure is insufficient. As a result, many Chinese companies aiming to expand their business globally are accelerating their efforts to become listed in Hong Kong, or dual-listed in the U.S. and Hong Kong due to the fungibility of stocks (i.e. the ability to buy or sell the stock in different markets).

■ It is not easy to replace Hong Kong's financial roles

Hong Kong and Singapore have grown independently and established themselves as international financial centres. The both markets offer similar favorable conditions for investors, financial intermediaries, and corporates, but the benefits gained from each market are very different. The advantages of Hong Kong are its strong ties to mainland China, and it is difficult for Singapore to replace that. It is also possible that other Asian cities will seek to replace Hong Kong as an international financial centre, but in that case, it is necessary to introduce Hong Kong's functions as a channel for the Chinese financial market, such as Stock/Bond Connect. To attract investors, it is also necessary to drastically cut the tax rate, but it will be difficult for many cites to carry that out.

As the tensions between the U.S. and China rise, there is no doubt that the medium- and long-term role of Hong Kong's international financial functions is becoming more uncertain. However, even with the potential risk of jeopardizing judicial independence, many investors, financial intermediaries and non-financial corporates have difficulty choosing to leave the city. Hong Kong will remain important for the time being, as there is no other option for a financial access point that connects effectively mainland China with the world.

(Minoru Nogimori)