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Comparison Of IPO Regimes In Korea And China

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Abstract

This comparative study examines IPO systems in China and Korea, highlighting differences and commonalities within the two economies' legislative architecture, market climates, and investor safeguards. China's IPO system has moved away from a state-led process to be more market-oriented, reflecting broader market reforms. However, its regulatory emphasis stands in contrast to the largely market-oriented approach of Korea, with the latter emphasizing transparency, the rights of minority shareholders, and global access to the market. By examining premier IPOs such as Alibaba and Samsung Life Insurance, the study argues that the legal and institutional contexts in which IPOs are housed critically shape their nature, balance, and confrontations. it suggests that despite a push toward enhanced market efficiency and competitiveness, both countries continue to confront considerable challenges. The findings have implications for policy makers, investors, and companies involved in the IPO process. The study suggests a model of ongoing experimentation and a call for institutional reform that is more innovative.

Keywords: Initial public offerings, Chinese stock market, Korean stock market, Regulatory changes

1. Introduction

Over the last several years, the IPO market has expanded quite noticeably. An expansion of the IPO market is a trend that has been heavily driven by Chinese companies listing on the Hong Kong Stock Exchange, and the Asian markets' continued influence over global IPO performance is underscore one more time (Ernst & Young, 2020). Prime examples of this are the listings of the Industrial and Commercial Bank of China and the Bank of China, the former of which listed simultaneously in Hong Kong and Shanghai and the latter that listed on a staged basis on both exchanges. Cross-border IPO activity for foreign companies has also remained strong, particularly among financial centers such as New York, London, and Singapore, with the most active exchange globally continuing to be the United

Kingdom's LSE/AIM, the US's NYSE/NASDAQ, followed by SGX in Singapore.

Compared to the contents between 2021 and 2022, South Korea's IPO market has seen a significant decline in new offering companies. It is well known that the stock market tends to be heated, or companies to be highly valued so there seems to be more IPOs with high activity, the IPO market in Korea is not the case. There are many reasons to explain the drop in South Korean new listings, with the one that appears to be the most pertinent, owner mangers of unlisted companies, that decide whether to go public or not.

This study compares and analyzes initial public offering (IPO) systems in China and in South Korea to understand the characteristics and differences of their IPO system. IPO is an essential means for raising capital of a company through publicly selling or issuing its stocks and it is closely linked to the economic development of every nation. This paper assesses the regulatory environment in China and South Korea, mainly the investor protection, the market transparency, and the market efficiency, and proposes the policies on design of a more efficiency and transparent IPO system.

2. The historical Development of the Stock Markets in China and South Korea

1) The development of the Chinese stock market

When China adopted a socialist economic system, the stock market, a product of capitalism, did not initially exist. Due to the Cultural Revolution, there was a lack of research on stocks, and the theory behind it was outdated. A decade of unnecessary revolution left China's economy behind the rest of the world, and much of the literature lost during this time meant that China had to start over decades later.

In 1978, a reform and opening policy was initiated based on a declaration by President Deng Xiaoping, which led to economic reforms and the introduction of market economy elements. These reforms marked a significant shift towards integrating China's stock market with global finance, highlighting the market's evolutionary journey post-reform (Walter and Howie, 2012). Since reform and opening, China's stock market has experienced three phases of development. In the late 1970s, government bond issuance began, and in 1984, a securities issuance market was formed in Shanghai, Beijing, Shenzhen, and other cities, with a small number of companies issuing stocks and corporate bonds. In September 1986, China established its first securities trading corporation, the Industrial and Commercial Bank of China, and in 1987, the Shanghai Branch of the People's Bank of China allowed stock trading in Shanghai. Of course, prices were to be determined by agreement of the parties to the transaction, but there was no stock exchange per se, and only a few types of stocks could be traded at any given branch.

With the gradual increase in the frequency and scale of securities issuance and trading in Shanghai and Shenzhen, a growing number of bourgeois individuals became new equity investors, leading to the transformation of securities trading from decentralized transactions to a market regulated under rules of unified, centralized operation. On November 26, 1990, the State Council approved the establishment of the Shanghai Stock Exchange, which began operations on December 19, 1990. On December 25, 1990, the Shenzhen Stock Exchange was set up, and officially began operations on July 3, 1991. Here, during his "Southern Visit", on March 22, 1992, Comrade Deng Xiaoping proposed the endeavor of the stock market. It was his talk that sparked the rapid development of China's stock market. The advent of the corresponding B-shares for foreign investors in 1991, and in 1993, the H-shares and S-shares, from the listing of 14 companies in 1991 to 2,062 by the end of 2010. The Securities Commission of the State Council and the China Securities Regulatory Commission, equipped with securities-related legal personnel who had been deployed across the country, had overseen China's securities market through the processes of nationalization and internationalization, and it had arrived at this impressive juncture, one that commands widespread international attention.

The regulations made by National People's Congress include, the Company Law enacted in 1994, the Securities Law enacted in 2005, and in 2004 the regulation of the securities market China Securities Regulatory Commission on the Stock Listing Rules, Stock Trading Systems, Issue

Securities Systems, and Securities Issuance and Investor Interest Protection, established the system of laws and rules, paving the way for the normalization of securities market management. At the beginning, the Shanghai and Shenzhen Stock Exchanges were managed locally and were under central supervision of the China Securities Regulatory Commission, the Securities Commission. However, the State Council subsequently announced in 1997 that these two were to be directly managed by the state. Furthermore, to do so, the National People's Congress enacted the Securities Investment Trust Law in 2003, with the regulations associated with the securities market institutionalized to make a significant contribution to the continued growth and development of the securities market.

The opening of China's securities market to the outside world can be viewed from the three following perspectives. The first, that is, participation in the international securities market by domestic financial institutions and enhance international competitiveness of the international institutions, the second, is to support the activities of foreign financial institutions in the Chinese securities market, the third is, full opening of the market. China's accession to WTO, is not only related to China's role in the internal and external economy of the international community, but also different economic issues, including China's economic reform and exchange rate issues, and will look at as an important opportunity to demonstrate the rise of China's economy at the beginning of the 21st century. With the globalization of the world economy, the Chinese securities market, also has had an influence from the securities market of the United States and its neighboring Asian countries securities market. Nevertheless, under restrictions of the Chinese securities market, on the securities market of the world is limited, but many large companies are listed internationally as well as domestically, and is also listing in China and in Hong Kong, including a certain amount of influence.

2) The Development of the Korean Stock Market

The history of the Korean stock market began in March 1956 with the opening of the Korea Exchange. At the time the exchange was opened, 12 companies were listed, but there was no active trading of stocks, and the volume was small. Government bonds were at the center of bond trading, and there were relatively few securities of various types. Nonetheless, the Korean stock market grew step by step with continued government support and various policy efforts. The development of the Korean stock market can be divided into three major periods in time. First, the period before the 1960s was the formation phase that saw the establishment of the Korea Securities Dealers Association and the opening of the Korea Stock Exchange. In term of technology, business, volume and quality, the securities market was not very extensive in this formation stage. In 1949, Daehan Securities was established, and securities trading was conducted through retailing, and on March 3, 1956, the Korea Stock Exchange opened. In the 1960s to 1970s, an increasing amount of stocks were listed, and the period was the development stage, during which the Securities and Exchange Act was first enacted, and the securities market system was established through the enforcement of the Capital Market Development Act, Investment Trust Business Act and others. In 1968, the Act on the Development of the Capital Market was legislated to promote the growth of the capital market, and in 1969, the Securities Investment Trust Business Act was legislated, which led to the growth of the securities investment trust business. From the early 1980s to the present, the Korean stock market has entered the internationalization phase. As Korean economy shift to an open economy, the securities market was opened in stages. In 1981, it announced its long-term plan for the internationalization of the capital market, and foreign securities companies were allowed to enter, and allowed foreigners to indirectly acquire securities in a limited form. While this has been followed by several other major international measures, the opening of the securities industry in 1991 became an important factor, and the direct investment limits of foreigners in stocks improved and domestic companies were listed in foreign stock exchanges, and their internationalization has continued. This financial globalization of Korea, as a financial market driven by the dynamics of the financial markets that are free of the global 1997 financial crisis is a benchmark that shows that my guess market has been kept in the middle of it with adaptive power and alertness (Lee-Jay Cho and Kim, 2000).

3. IPO Regulatory Changes in China and South Korea

China's IPO process has evolved significantly over the past few decades. In the initial stages, the market was dominated by state-owned enterprises (SOEs). Over time, the market began to open to private companies (PCs) in China's coastal regions. In the early stages, the government heavily controlled IPOs in the market and approval for share issuance was part of state planning. This shifted over time, and the Chinese government implemented several measures to introduce more market-friendly elements and overhaul the IPO process, which included the establishment of the China Securities Regulatory Commission (CSRC) to approve and oversee IPOs. Additionally, accounting transparency requirements for companies were improved and the process has been made increasingly more difficult for companies to meet the eligibility requirements for IPOs.

Coupled with these reforms, several additional reforms took place in the South Korean IPO process, which has also evolved significantly. South Korea's stock market grew rapidly in the late 1980s to early 1990s, and in earnest, the country began to regulate its IPOs. Initially, the regulations were relatively lax and increased regulation as the market matured. The Korean Financial Services Commission and Korea Exchange set several controls to increase the transparency and fairness of the IPOs. This included deemed sufficiently financial disclosure, independent audits for companies going public, and stringent corporate governance standards.

As part of these changes, South Korea also has taken several steps to increase the access to foreign investors in its market. This has increased international access to the Korean market and increased its access to the IPO market for foreign investors.

In total, both China and South Korea have dramatically transformed the IPO regulations and are more market-driven, transparent, fair markets. These changes have significantly helped the economic development in each country and the subsequent integration of their financial markets in the international financial markets. The story of the IPO processes in China and Korea reflects the global trend of increased regulation of IPOs for better market efficiency and investor protection (Geddes, 2003).

4. Comparative Analysis of IPO Systems in China and Korea

Efficiency, transparency, and investor protection remain the principal yardsticks against which IPO systems around the world are compared. These are also the principal areas in which legal and financial frameworks matter in shaping any global comparison of IPO systems (Huang, 2011).

First on efficiency - China's IPO system began as highly government-regulated which led to long delays and significant opaqueness in the early years of IPO approval. However, in recent years China has been reforming its system to make it more streamlined and efficient. The upshot has been faster and more efficient IPOs. Korea's system, on the other hand, has by-and-large always relied on mechanisms driven by market actors; the result has been relatively quick and efficient process as well. The Korea IPO process emphasizes an interactive, relatively market-based, and flexible system that is quite responsive to market conditions.

Second on transparency - China has also been thinking more seriously about opacity in recent years. Chinese companies are now required to release more information to receive approval for their IPOs, and this has subjected their request and disclosure of process to regulatory oversight, and thereby given the investment public more data about the investment in question. Korea, on the other hand, has had transparency in its IPO process for a very long time. It is characterized by a detailed disclosure process and audit provided by strong and well-established disclosure and audit procedures. Detailed financial information and business conditions are disclosed by companies wishing to IPO, and then reviewed by outside auditors, which provides investors with reliable information. This system is highly trusted by the investment community.

Finally with respect to investor protection - China has slowly been making progress in this area. This too has been mostly by way of increased regulation. In response to the myriad of scams that were gouging investors in recent years, the Chinese government has forced its public companies to disclose more leading indicators to better signal their respective upcoming IPOs, and begun legal action against any investment bank, or intermediaries, or trading partners that have partaken in any dishonest trading surrounding any IPO. This has increased the stability of Chinese financial markets and, by providing more real data, has also given investors reason to feel more confident about the stability of the markets there. Korea has already been ahead of the ball here; it already both has a strong legal and institutional framework in place to protect the investors and it very actively maintains a high level of financial market openness. Regulators in Korea have been very active in reducing information asymmetry around IPOs, to give investor confidence that they are deploying their capital into a stable, well-ordered, largely legal, and financially honest system.

In sum, China and Korea's IPO systems have evolved in ways that reflect the evolution of their very different economic systems and regulatory environments. China's system is introducing more market-based mechanisms after many years of highly government-driven regulation; Korea's system has always been market-oriented. Both are seeking to introduce more market-oriented mechanisms; both have already achieved a remarkable level of transparency and investor protection.

5. Comparison of Representative IPO Cases

Aspects of the Chinese IPO market provide a high-profile case in point. When Alibaba Group listed in 2014, following its IPO on the New York Stock Exchange, it was the world's largest. Its 2014 IPO was emblematic. It broke records and highlighted the potential for Chinese companies in global markets. It epitomized not only a broader Chinese strategy of internationalization (Erisman, 2015), but also how Chinese companies could tap global markets to raise capital. Its listing represented a golden opportunity for Chinese companies to showcase their capabilities and novel technologies to the global market and investors. It also pointed to Chinese government policy on internationalization as well as Chinese companies' international market entry strategies. The Chinese government has been explicit in its desire to see the rise of Chinese companies on the international economic stage and has made a series of moves designed to facilitate Chinese companies' development in international capital markets. In these efforts, the success of the Alibaba listing was seminal: It was a critical step in the development of a positive image of Chinese companies in the global market and a significant contributor to the global economy. In South Korea, a similar story emerged, as Samsung Life Sciences listed in 2010. That IPO was the largest in the country's history and was instrumental in raising the standard and international visibility of the Korean stock market. As a case in point, "Samsung Life's IPO in 2010 was a reflection of the maturation and attractiveness of the Korean stock market driven in large measure by transparency and corporate governance" (Chang, 2010). That Samsung Life listed is an example of a Korean company becoming more globally competitive and its corporations more transparent, as they look to showcase their firms to international investors. The IPO allows Samsung Life to emerge from behind the clouds and emerge as an internationally recognized insurance company. A similar case in point is the IPO of SK Bioscience, which showed that the potential growth of South Korea's bio and healthcare industry was not lost on investors. It was a successful IPO, which was symbolic of how South Korean bio-tech companies could be recognized by international investors.

Alibaba's and Samsung Life's listings in New York and Korea respectively are emblematic examples of how companies from different regulatory environments navigate global capital markets (Erisman, 2015; Chang, 2010). These high-profile IPOs in China and South Korea reflect their countries' economic development, the growth potential of their firms and their approach to the global capital markets. They are critical milestones in the evolution of these countries' securities markets.

6. Conclusion

A comparative study of the IPO systems in China and South Korea reveals some key differences between the two systems. While China has gradually incorporatedmarket-based elements under the strong influence of the government, South Korea's market-oriented system has been driving efficiency and transparency. Both systems are making important progress in terms of investor protection and transparency, which clearly reflects the trends and developments in international financial markets.

These findings provide important insights for both policymakers and investors. For policymakers, it suggests that they need to adjust their policies to further enhance efficiency and transparency, while bringing their IPO systems in line with international standards. China should accelerate the integration of market-based elements, while South Korea should pursue continuous innovation to remain globally competitive. Meanwhile, investors need to understand the characteristics of both markets and effectively incorporate them into their investment strategies. The potential growth potential of the Chinese market and the stability and efficiency of the Korean market can be important considerations for investment decisions.

As Dan Schwartz (2010) emphasizes, the growing influence of private equity and venture capital signifies a transformative shift in the global economy, potentially altering traditional pathways to public markets for companies in China and Korea. These trends underline the importance of adapting IPO systems to remain competitive and responsive to emerging financial dynamics. China and Korea's IPO systems have taken different paths, but both countries have made efforts to keep pace with international financial market trends. A deeper understanding of the market and system improvements will bring both countries closer to maximizing their role and influence in the global capital markets.

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