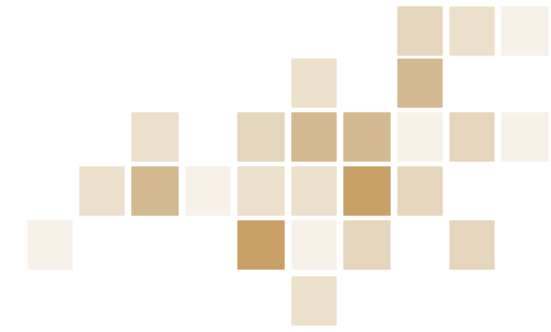




Industrial Policy and Capital Markets: From State Support to Market-Driven Growth

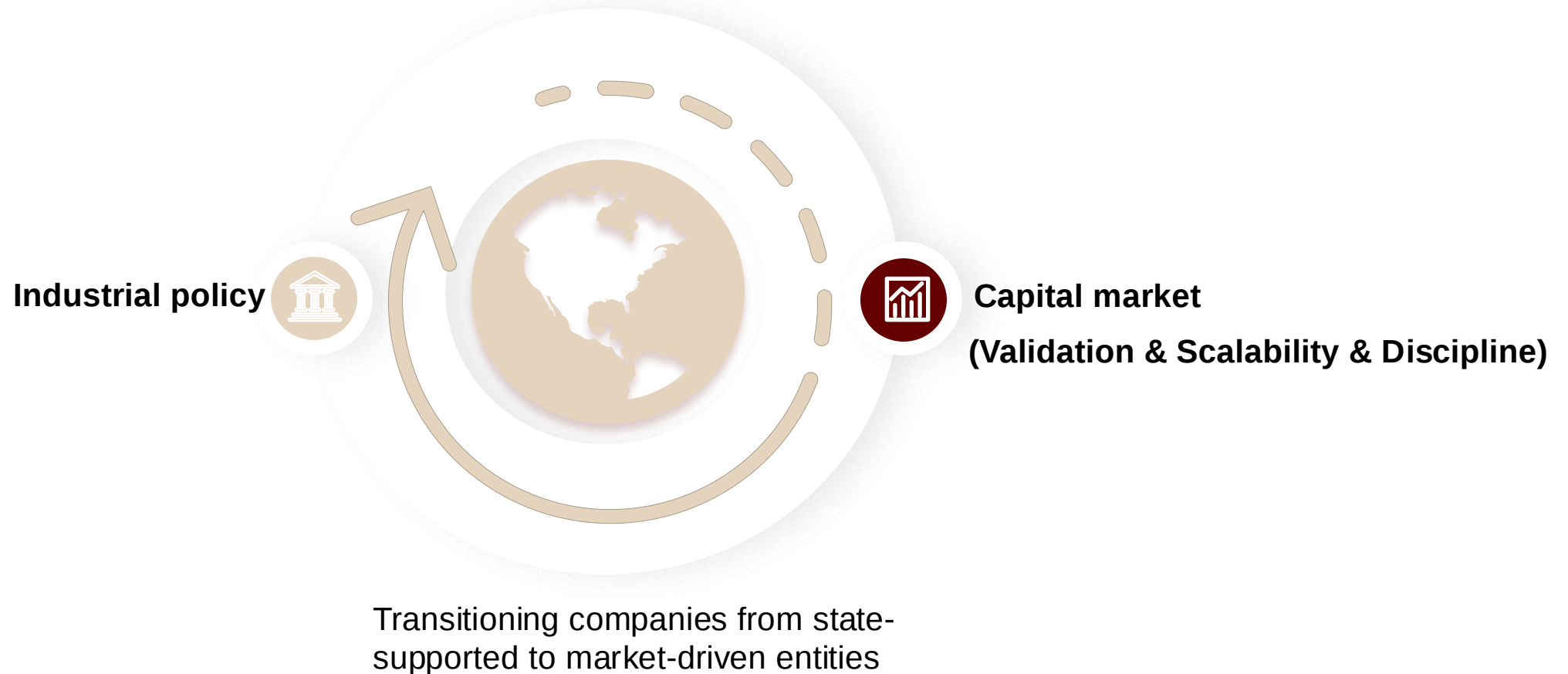
MIAO Yanliang

Chief Strategist and Executive Head of Research Department, CICC

January 2025

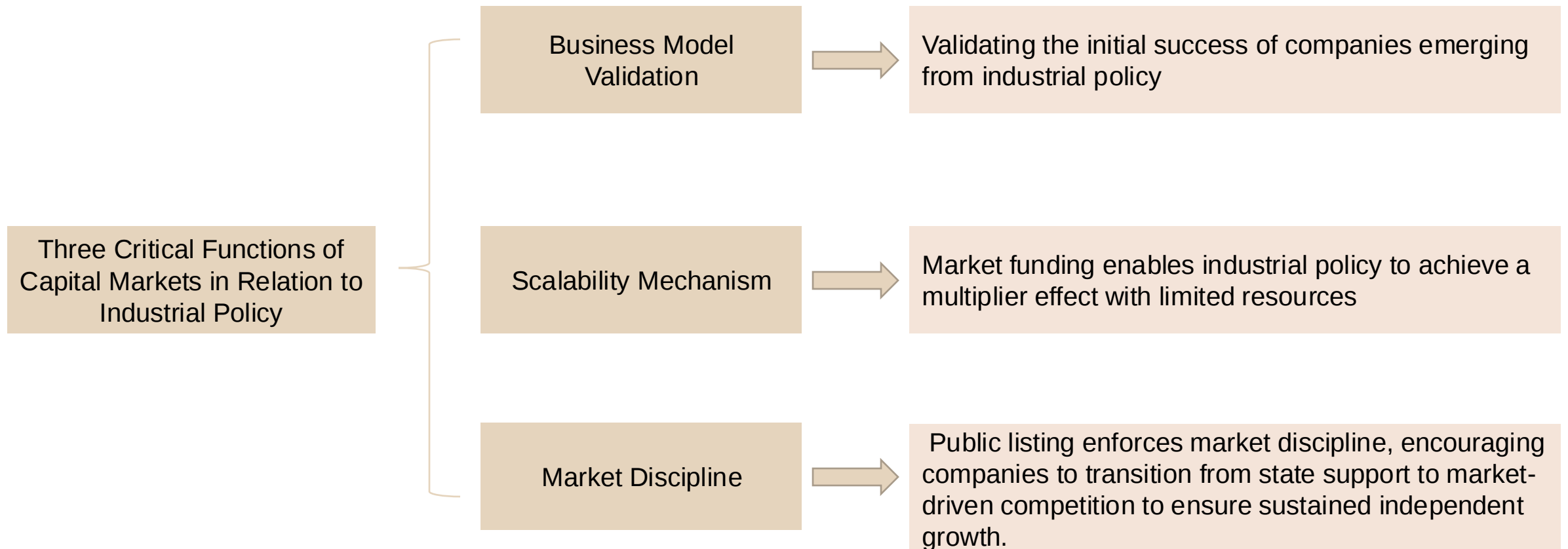
Industrial Policy and Capital Markets: From State Support to Market-Driven Growth

- **A study of the nexus between industrial policy and capital markets**
- Traditionally, industrial policy (e.g., state intervention) and capital markets (IPO/M&A/other market financing) may be viewed as opposing forces.
- In practice, their interaction in fact creates a unique ecosystem for nurturing and validating innovative enterprises.



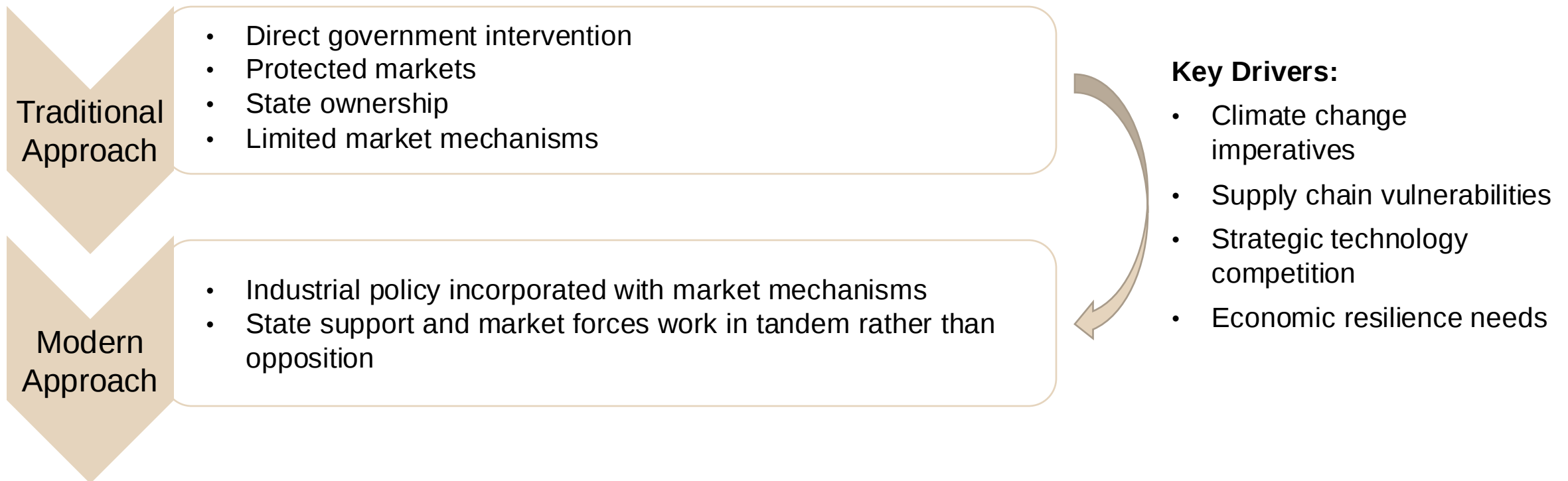
Capital Markets: Validation, Scalability, and Discipline for Companies Benefiting from Industrial Policy

- Capital markets serve as sophisticated testing grounds for companies emerging from industrial policy, providing three critical functions:
1) business model validation; 2) scalability mechanism; 3) market discipline.



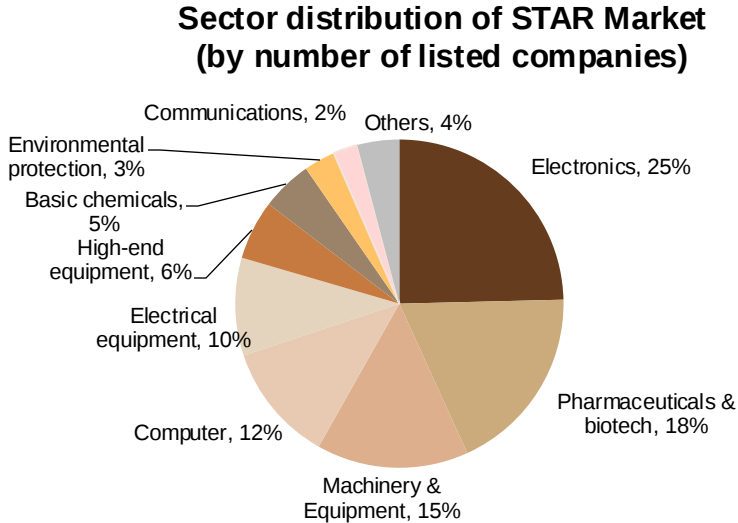
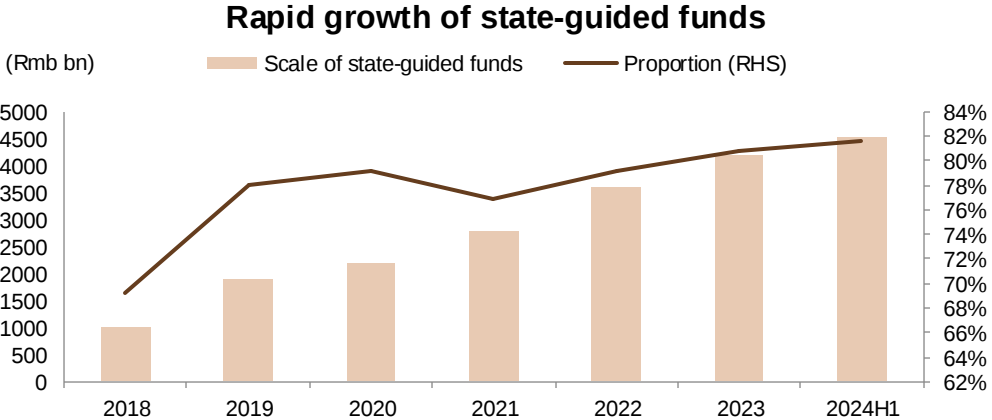
Evolution of Industrial Policy

- Recent years have witnessed a renaissance in industrial policy. Different from historical approaches, modern industrial policy often interacts closely with market mechanisms.



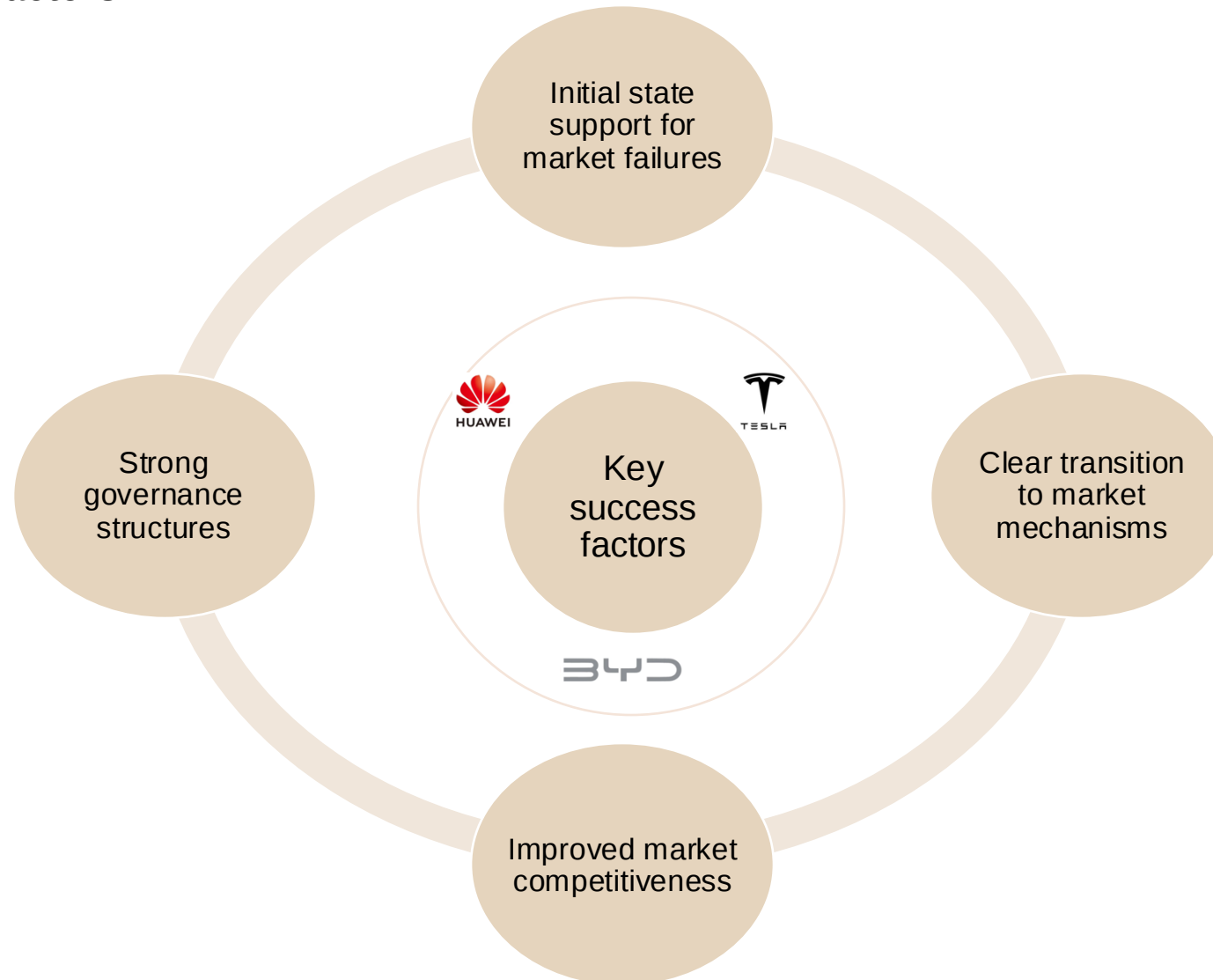
Evolution of Industrial Policy—China’s Story

➤ Industrial policy and capital markets synergize with each other in China.



Success Stories Overview

➤ Key Success Factors:

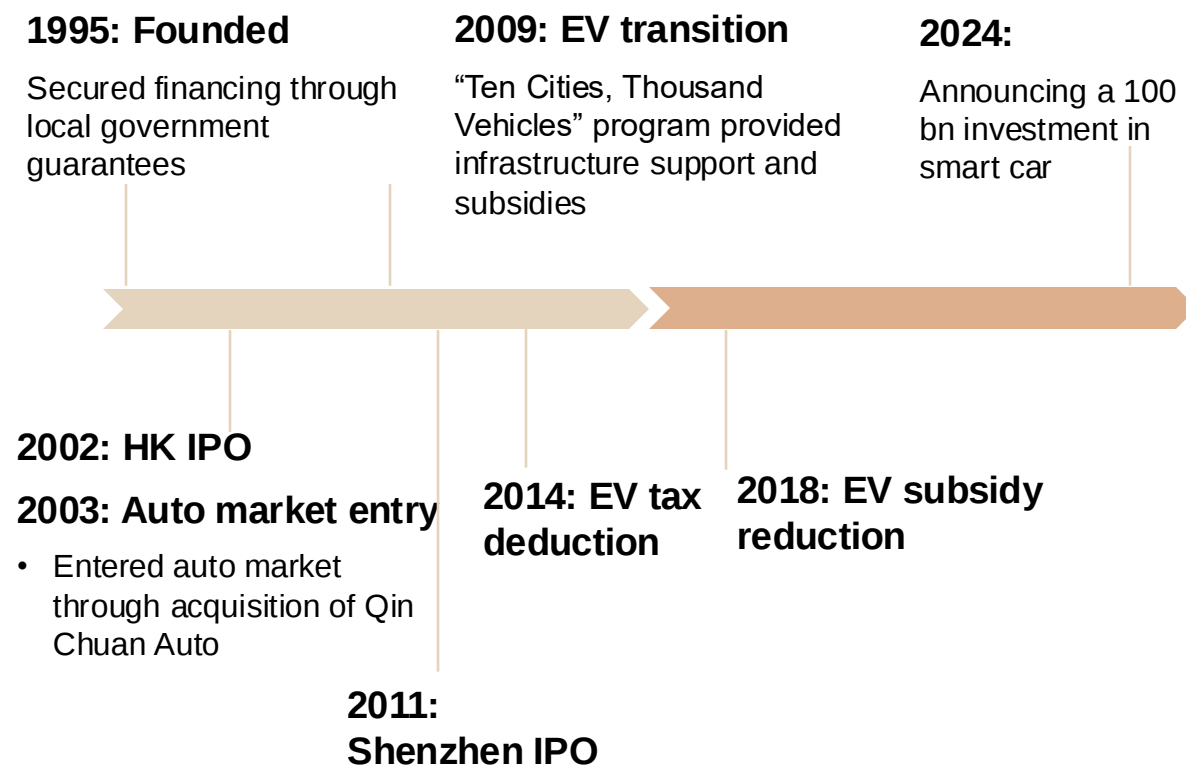


BYD Case Study: Battery Maker to EV Pioneer

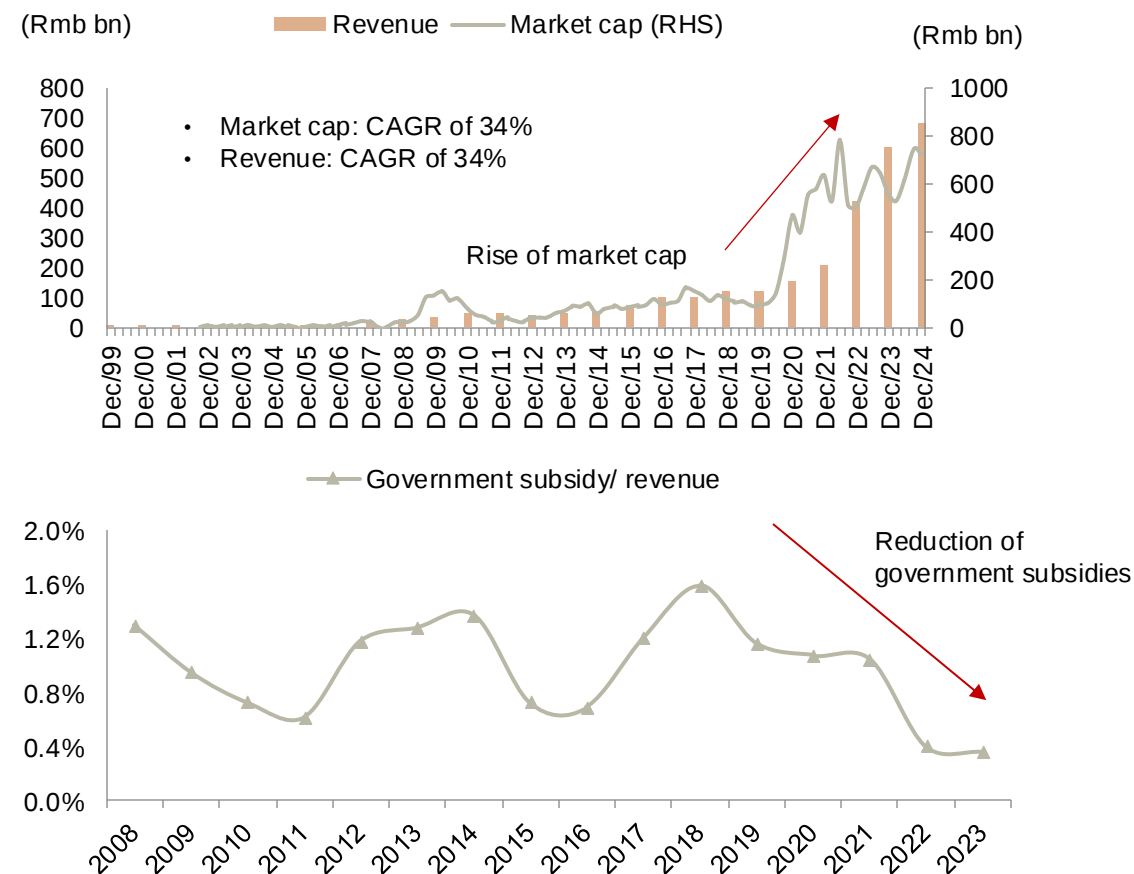
➤ Key success factor:

- **Validation:** Used capital markets (e.g., IPOs) to validate early success as a battery maker.
- **Scalability:** Leveraged market funding to scale its business and transition into the EV sector.
- **Discipline:** Transitioned from state support (e.g., subsidies) to market-driven growth, reducing reliance on government support.

Milestone of BYD



Earning and market performance of BYD

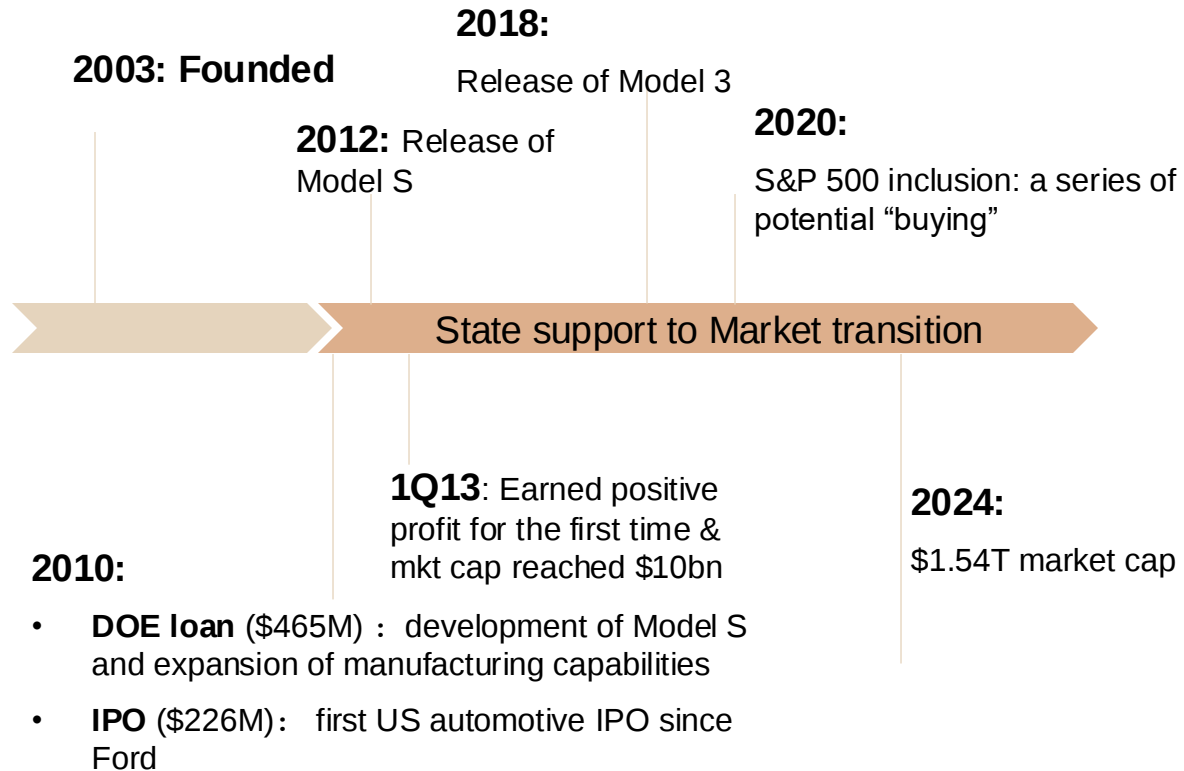


Tesla Case Study: Government Support to Market Dominance

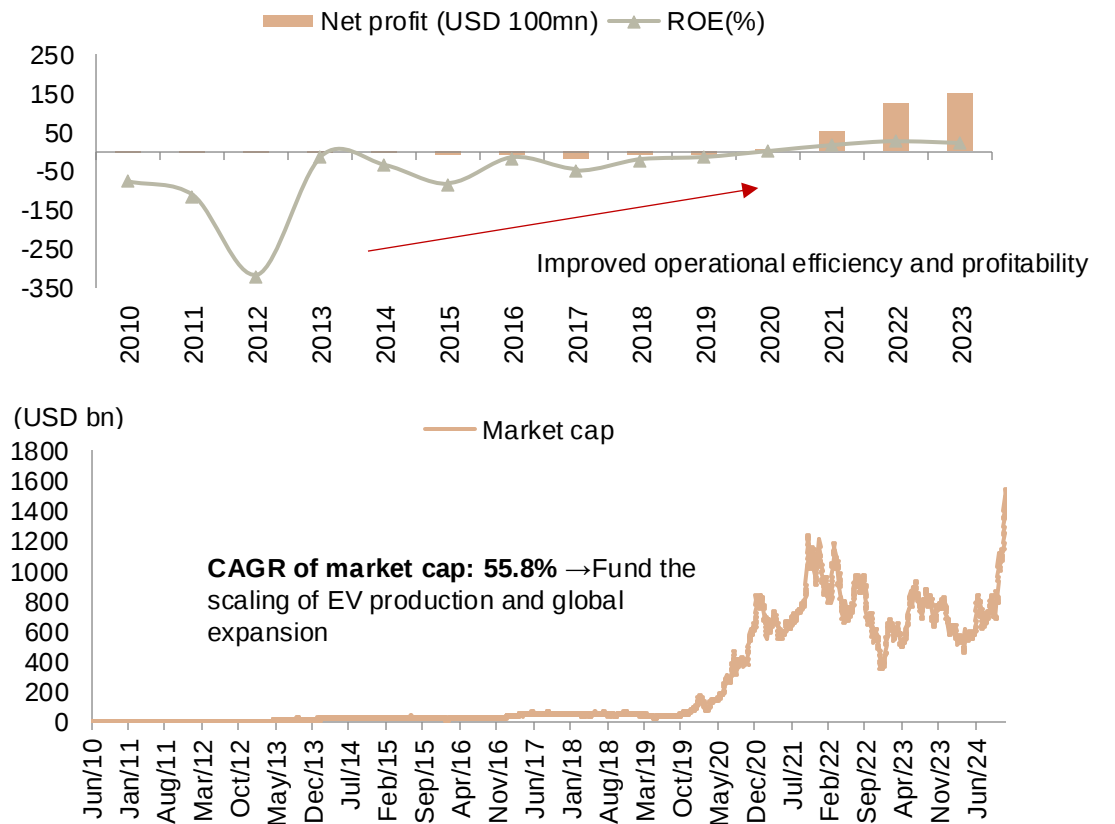
➤ Key success factor:

- **Validation:** Capital markets validated Tesla's early potential through significant investor interest.
- **Scalability:** Tapped into capital markets to fund the scaling of EV production and global expansion.
- **Discipline:** Improved operational efficiency and profitability through increasing market pressures.

Milestone of Tesla



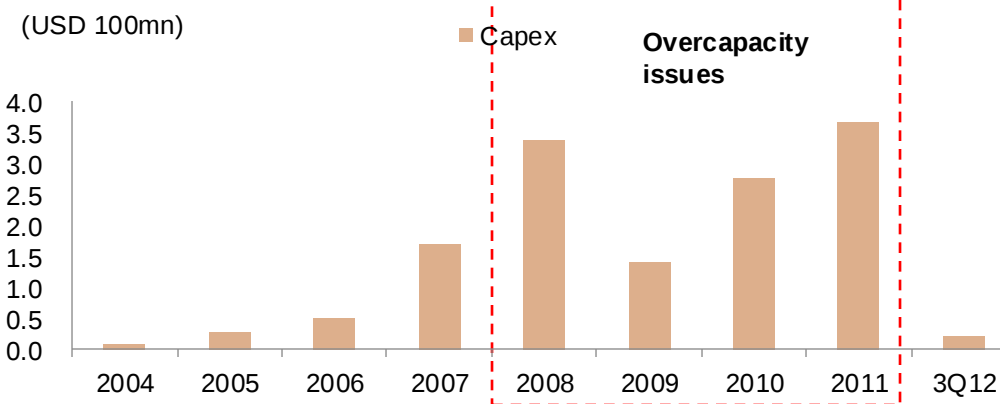
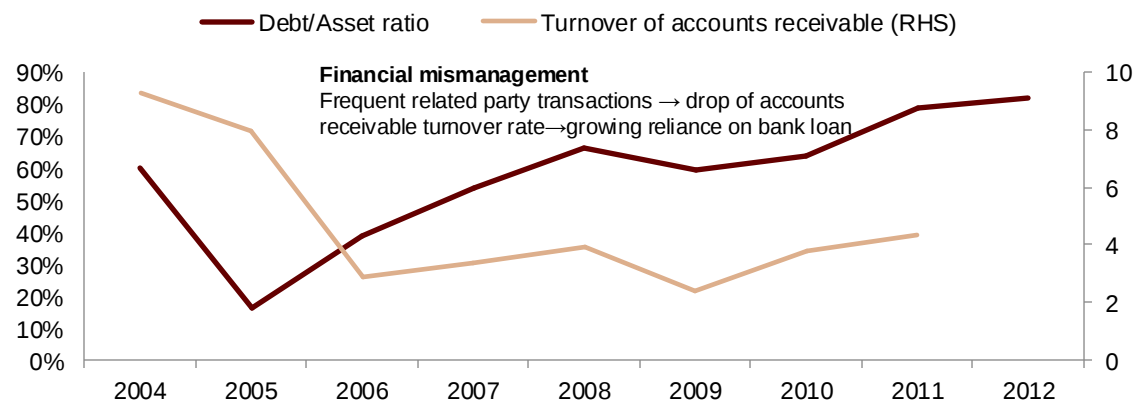
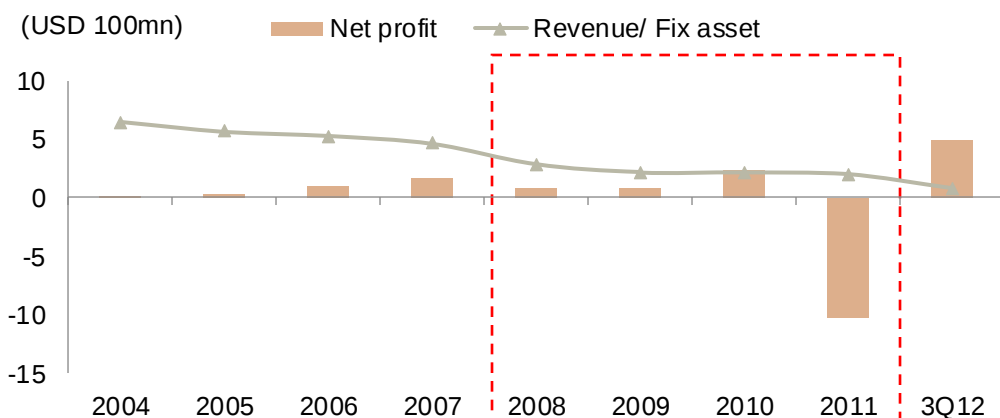
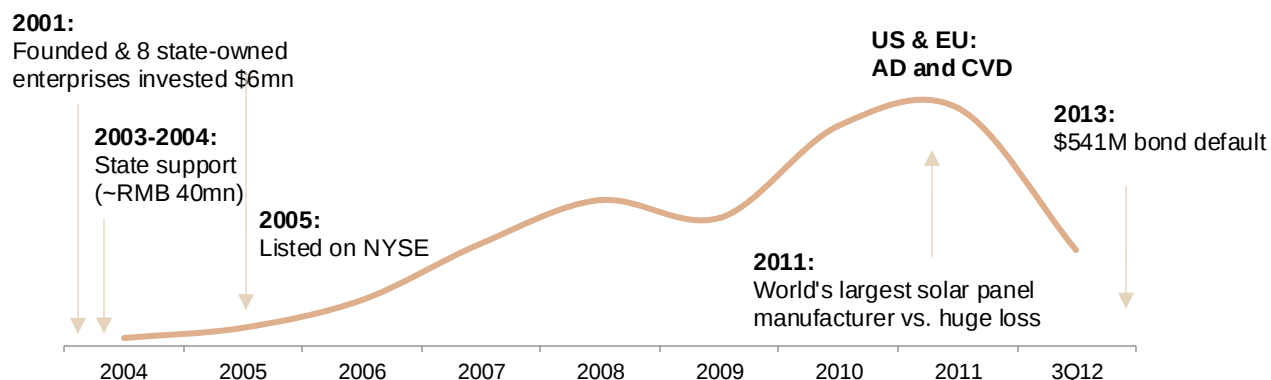
Earning and market performance of Tesla



Learning from Failures—Suntech Power

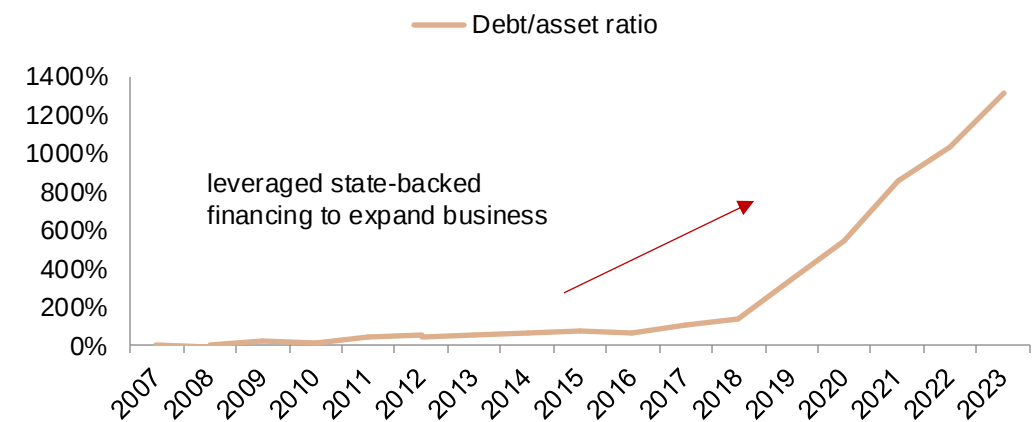
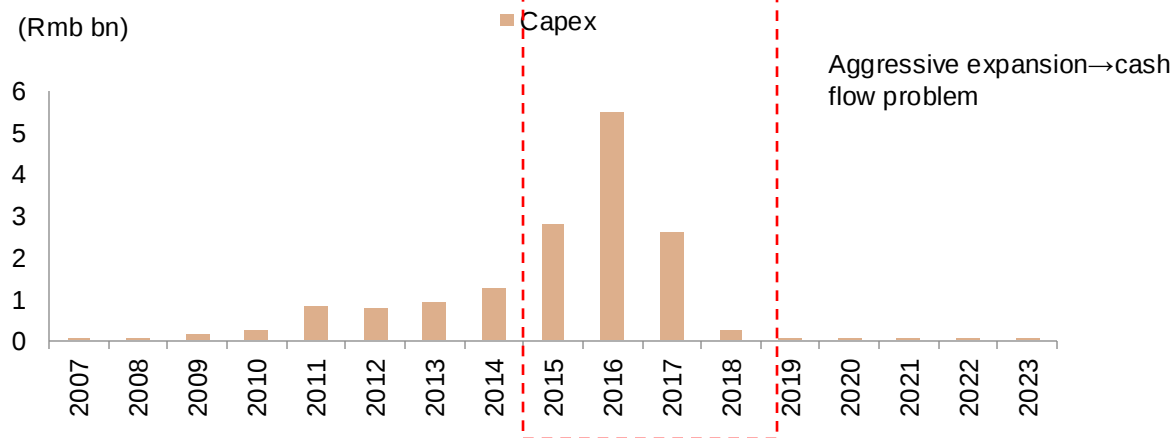
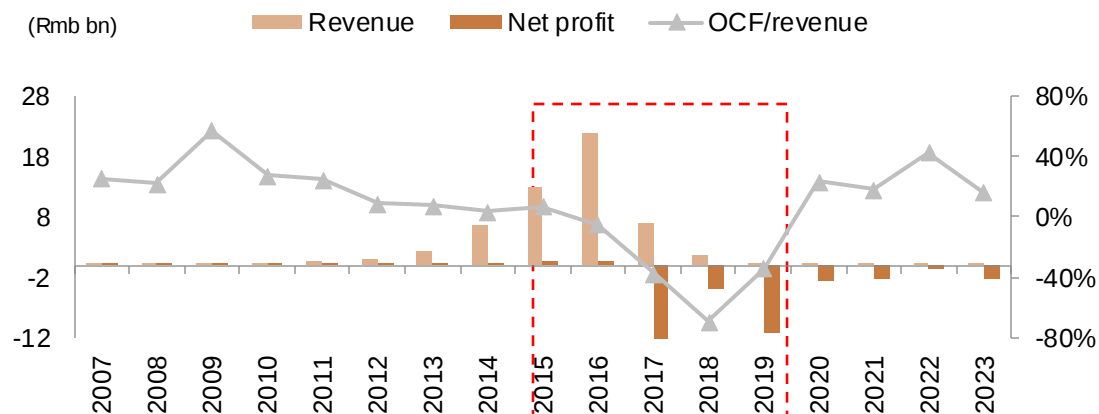
➤ Suntech Power: The Solar Bubble

- **Factors Causing Failure:** Over-expansion, international trade barriers (anti-dumping tariffs), and financial mismanagement
- **Lesson:** Industrial policy must be paired with market-oriented planning to prevent resource misallocation. Capital markets must enforce stricter due diligence to ensure firms remain competitive and financially viable.



Learning from Failures—LeEco (LeTV)

- **LeEco: Overexpansion with poor financial and corporate management.**
- **These “failure” cases are not indicative of industrial policy Failures:** Once companies go public or tap capital markets, they are largely on their own.
- **Capital markets serve as testing grounds for individual companies rather than industrial policy, testing companies’ ability to sustain and adapt independently.**



Capital Markets: Validation and Testing Grounds for Companies Emerging from Industrial Policy



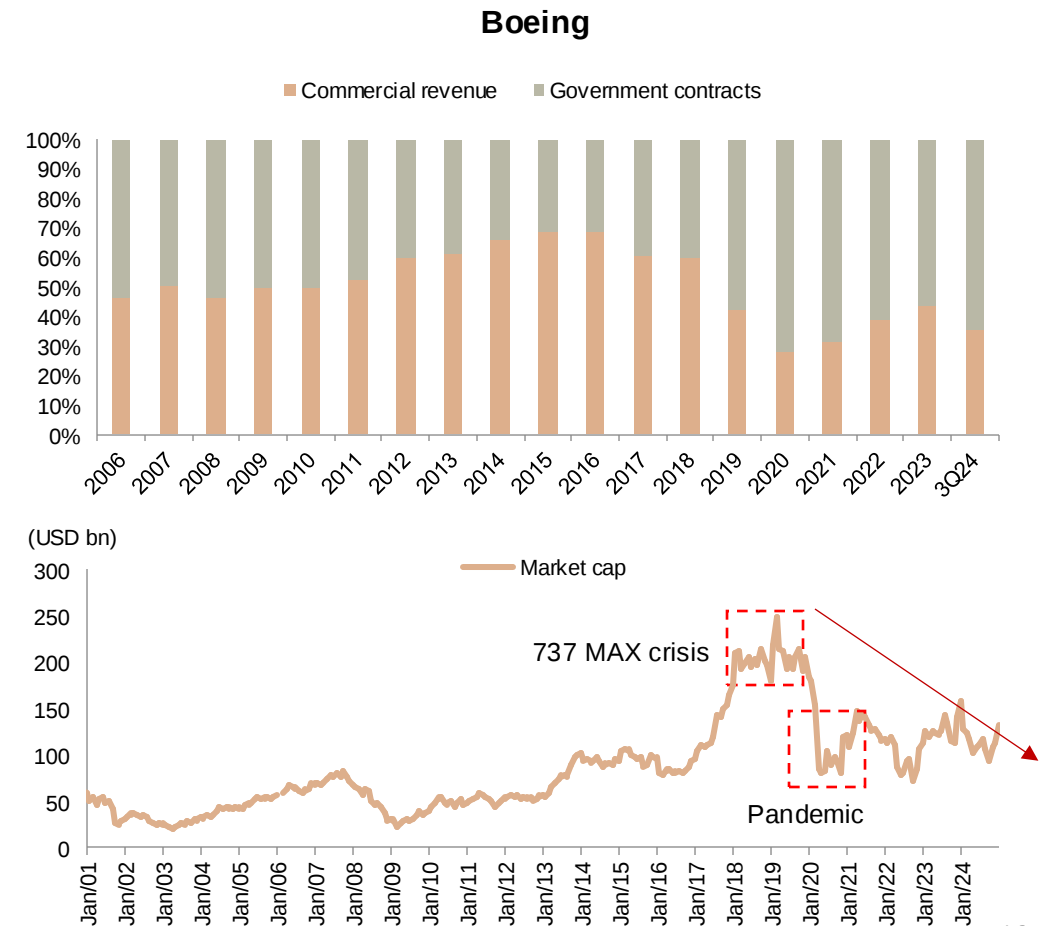
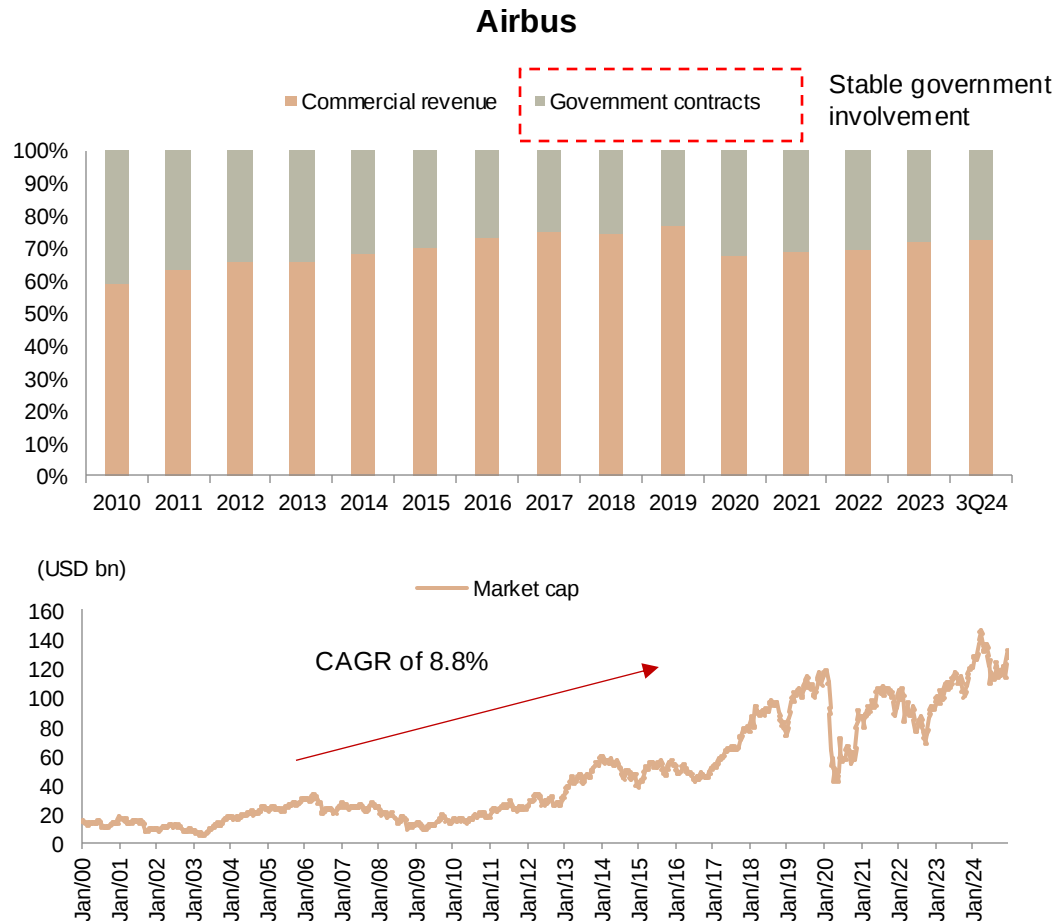
Capital markets test companies emerging from industrial support, not the industrial policy itself.

Validation occurs during the initial phase, such as IPOs or mergers & acquisitions.

Beyond that, capital markets test whether companies can sustain growth independently after state support diminishes.

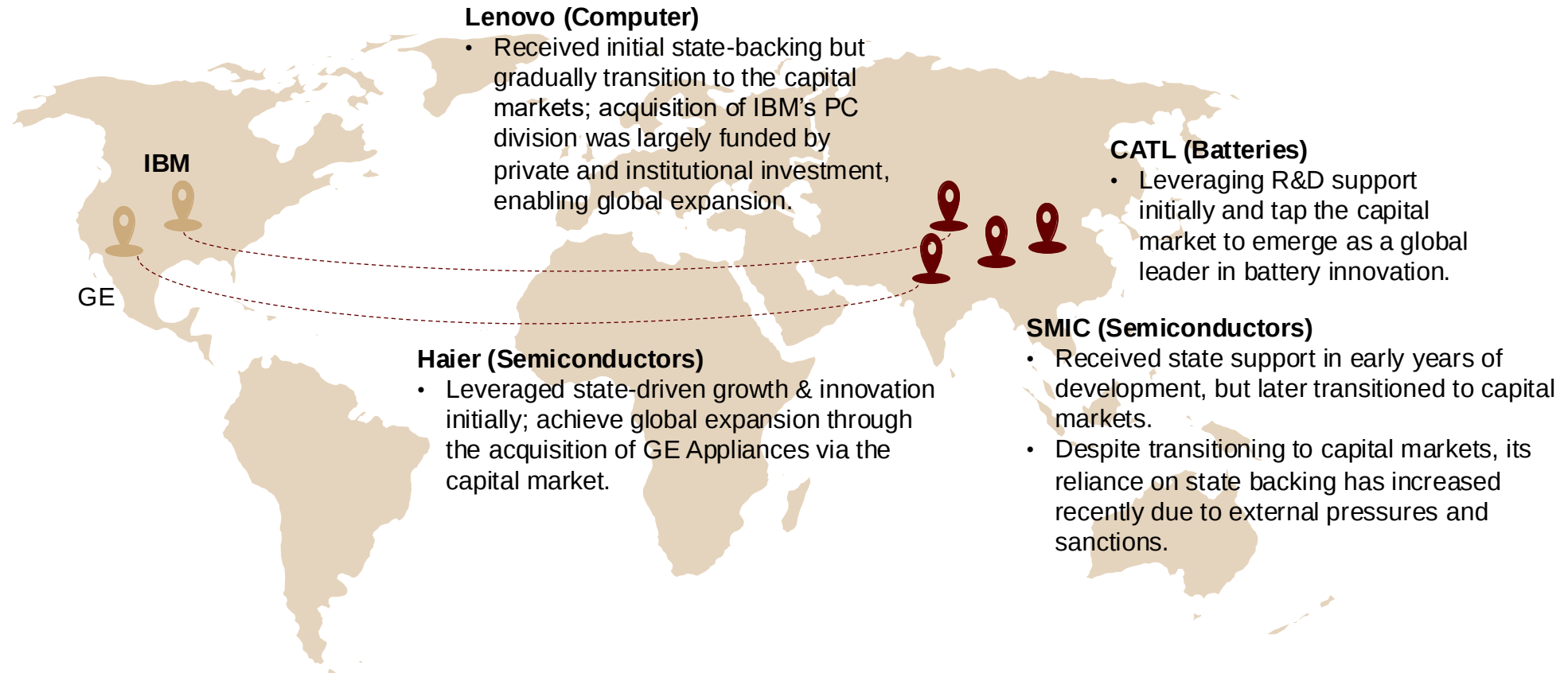
The Aerospace Exception: Ongoing calibration rather than a complete transition to market-based governance.

- Airbus: Transition to market in 2000 while maintaining strategic government involvement (30% government contract).
- Boeing: 1) Growing share of government contracts; 2) Market forces can expose operational issues.



Additional Cases Illustrating the Interaction Between Industrial Policy and Capital Markets

- Several other examples illustrate the dynamic interaction between industrial policy and capital markets: SMIC, CATL, Lenovo, Haier etc.



Framework for Integration

➤ **Conclusion:**

- Capital markets play three roles: validation, scalability, and discipline, helping companies emerging from industrial policy transition from state reliance to market-driven growth.
- China presents a unique context with lessons on how industrial policy and capital markets synergize effectively.

➤ **Some lessons from case studies:**

- Industrial policy can provide targeted guidance during a sector/company's early development stages.
- Companies should be encouraged to transition to capital markets when ready, validating their viability while preserving state resources.
- E.g. state-guided funds should act as initial catalysts without dominating companies' long-term development.
- Early guidance and market discipline work complementarily, with many global examples demonstrating optimal ways to balance both.
- Similar to child development, the approach requires targeted early support while fostering long-term independence and competitiveness.

Thanks!