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Foothold and Focus for China's Financial Opening Up

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Finance is the lifeline of the real economy. Currently, the Chinese economy is shifting to high-quality development and needs to be underpinned by a modern financial system with greater openness on all fronts.

China is accelerating the opening up of its financial market

Since 2018, China has sped up openness on financial market and announced over 40 policies aimed at opening up the financial sector involving banking, insurance, securities, and debt market. Despite the impact of the COVID-19 pandemic on the Chinese economy in 2020, China is pushing forward the opening up of the financial market. On February 14th, 2020, the People's Bank of China (PBC) and other relevant departments released the Opinions on Further Accelerating the Development of Shanghai as an International Financial Center and Providing Financial Support for the Integrated Development of the Yangtze River Delta Region. Among the

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30 newly introduced measures, 11 measures are intended to promote a higher level of financial openness while building Shanghai into an international financial center. Besides, legislative and regulatory authorities will enact laws and regulations to remove foreign equity limits on securities, fund management, and futures companies in 2020.

The successively unveiled measures to open up the financial market have attracted foreign-invested financial institutions and foreign investors to enter the Chinese market. Statistics show that between January and October 2019, the China Banking and Insurance Regulatory Commission had approved 15 applications from foreign-invested banks and insurers for the commencement of operations. It also added registered capital or working capital by foreign-invested financial institutions totaling 15.272 billion yuan. By November 8, 2019, the MSCI Emerging Markets Index raised China A-shares' inclusion factor in the index from 15 percent to 20 percent. The securities investment inflow in 2019 was nearly USD150 billion and saw a surplus of nearly USD60 billion. In 2019, the total amount of RMB bonds owned by overseas institutions under the depository of the China Central Depository & Clearing Co., Ltd. surged 24.55 percent by 370 billion yuan. As the financial sector opens wider at a faster pace and covers more areas, financial opening up in China has entered a new era.

Further opening up China's financial market to better serve the real economy

Effective allocation of financial resources is an important

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means to support economic development. To work towards this goal and satisfy different and personalized financial demands of various players in the real economy, China needs to open its financial market further, coordinate and leverage domestic and international markets and resources, attract high quality financial entities, develop innovative financial products and services, and increase effective financial supply.

Financial opening up helps finance serve the real economy better from two perspectives. From one perspective, opening up to the outside world will encourage market competition, boost market vitality, and improve the quality and efficiency of financial services. For a long time now, state-controlled entities have been the major players in the domestic financial market. In the face of intense yet seriously homogenous market competition, financial services favor local governments and state-owned enterprises; financial demands of those market players lacking in collateral, including private enterprises and small- and medium-sized enterprises (SMEs), fail to be fully satisfied. Consequently, the financial market is caught in a structured financing dilemma, and financial inaccessibility and unaffordability cannot be completely resolved.

As more foreign-invested financial institutions enter the market and enjoy equal treatment in fair competition, they will also share their rich experience in credit management and credit risk prevention. China should tailor credit products to the needs of different enterprises during different stages and improve the situation that credit-granting depends too much on collateral value, to meet the diverse financial demands of SMEs.

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From the other perspective, financial opening up can help the capital market serve the real economy better. Currently, there is an imbalance and asymmetry in China's financing system. According to statistics from the PBC, new RMB loans in 2019 accounted for 66% of aggregate financing to the real economy; issuance of corporate bonds accounted for 12.7% and domestic stock financing by enterprises accounted for a mere 1.4%, underlining the key role of credit in indirect financing system.

Financial opening up helps optimize the structure of investors in the capital market. It not only increases the number of participants in the domestic capital market but also facilitates financing and provision of financial services. Problems in the current financing structure will be effectively solved, and more innovative investment tools will be introduced to the capital market so that capital can flow to more profitable industries with good prospects. For high-tech industries, in particular, industrial upgrading and economic restructuring will give full play to the role of the capital market in optimizing resource allocation.

Foothold and focus of financial opening up

First, financial opening up should center around the goal of serving the real economy. It, in essence, helps finance serve the real economy better. For one thing, financial opening up provides different domestic enterprises with more financial services and meet diverse financing demands. For another, it is an integral part of the new round of opening-up strategy. It should mobilize resources both at home and abroad while

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supporting the Belt and Road Initiative and "go global" strategy. Meanwhile, China should tap both domestic and overseas financial resources, including long-term fund investment, through the development and openness of the RMB-denominated bond market. Such measures will ease the risk of currency mismatch and provide funding support for China's new round of opening up.

Second, the financial opening up should maintain a fast yet steady pace while promoting a higher level of financial openness. No measure should be launched until conditions permit. It should clarify the sequence and scale of opening up while tightening financial regulation and improving macro-prudential management and transparency of the financial market.

Financial opening up should leverage the pilot free trade zones. Free trade zones, as highlands for institutional innovation, may implement policies related to financial opening up. Relevant policies include opening the capital account to facilitate cross-border capital usage and transfer, innovating financial services of banks' wealth management subsidiaries regarding equity investment, applying financial technology, managing risks, reforming regulatory systems, and amending laws. The experience accumulated from pilot programs in free trade zones will be widely shared to accelerate the opening up of China's financial market.

Third, the measures adopted to open up the financial market should complement each other and prosper together in competition and cooperation. There are both competitions and mutually beneficial opportunities for cooperation in the

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process of financial opening up. In comparison, foreign-invested financial institutions excel in businesses, products, and management competencies while Chinese-funded institutions, by nature, excel at market resources, clients, and channels. The two parties may seek business cooperation or bind together by setting up joint ventures through stock equity.

For example, pension management, wealth management, and management of other assets are still in the early stage of development in China. Existing asset management institutions can hardly satisfy the fast-growing and diverse market demands. According to the latest financial opening-up policies, China should consider establishing Sino-foreign equity joint ventures in wealth management, give play to the respective advantages of China-invested and foreign-invested asset management institutions, further diversify market players and business products to meet investors' diverse demands.

Fourth, it should foster a world-class business environment conducive to financial opening up. The world-class business environment should provide a legal environment that matches up to international standards and a transparent system of rules. China should speed up promoting the establishment of the financial legal system and setting up international standards in the financial sector. Meanwhile, China should fully implement the "pre-establishment national treatment" plus "negative list management" system for foreign investment. The implementation of "entry unless on the list" policy means that China-invested and foreign-invested institutions can equally and legally enter areas and businesses that are not on the negative list. China will further streamline admin-

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istration and delegate power, reduce government approvals, and improve the transparency and efficiency during approval while improving communication and coordination during policy-making to make the process and rules simple and transparent.

Fifth, the relevant authorities should handle the relationship between financial opening up and risk prevention well. The financial industry is a risk-managing industry. It faces more complex risks and stricter requirements for risk prevention in an open market environment. Thus, in the process of opening up, China should improve its global outlook and its capacity in coping with global risks, and follow the latest trend of global economic development closely. China should also fully consider and foresee the complexity of changing international situations, improve the capacity of proactively managing risks, consider worst-case scenarios, and prevent the occurrence of systemic financial risks.

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