THE ROLE OF CHINESE FINANCIAL INDUSTRY IN PROMOTING REFORM AND OPENING UP AND SERVING THE REAL ECONOMY IN THE NEW ERA

Jiaxin Zhang and Qingqi Wang

Jiaxin Zhang (*left*) is a researcher of the Center for China Public Sector Economy Research in Jilin University, and a professor at the School of Economics, Jilin University, China. Email: aixiaolu@jlu.edu.cn

Qingqi Wang (*right*) is a PhD candidate of the School of Economics, Jilin University. Email: wqq18@mails.jlu.edu.cn

Abstract: Finance plays an important role in the economic development of the new era. In the historical process of further deepening reform and opening up, the financial industry should upgrade the level of supervision and strengthen the ability of risk prevention so as to realize the strategic goal of serving the real economy. Based on background, it's necessary to analyze the limited openness and protectionist behavior of the financial industry in developed countries, and then review the important achievements of Chinese financial industry in opening up and reform. In the new historical period, China should attach great importance to the work of financial security from the basic national conditions, improve the level of supervision and risk prevention, strengthen abilities of technological innovation, especially gradually expand the two-way reciprocal opening in the financial field, and introduce social capital into the real economy through deepening reform and effective use of financial means, so that finance can return to serving the real economy. The aim is to promote the healthy development of the national economy in the new era, and constantly improve Chinese comprehensive competitiveness in the world economic system.

Key words: reform and opening up; financial industry; financial security; real economy; risk prevention

Finance is the blood of the real economy. The financial industry should provide strong support for the operation of the national economy. Xi Jinping (2017, 34) pointed out: "Deepening the reform of financial system and enhancing the economic capacity of financial service entities." In February 2019, Xi Jinping emphasized: "Economy is the organism, and finance is the bloodline. Both live and prosper with each other," and deepening reform of the financial industry must be based on "serving the real economy and people's livelihood."[1] Finance plays an important role in the socialist economic construction with Chinese characteristics. In the new era, Chinese financial industry should further deepen the reform and opening up, enhance the level of supervision and strengthen the ability of risk prevention, so as to achieve the strategic goal of financial industry serving the real economy.

In the new historical period, China needs to be vigilant against the external expansion of financial industry from Western countries, especially the increasing penetration and control of financial sector by the United States. Historical experience showed that many developing countries' financial industry has deviated from the development level of the real economy, which has led to self-growth of fictitious economy, and triggered serious financial crises. At present, China is facing the "superposition of three periods": the period of growth rate shift, the painful period of structural adjustment, and the digestion period of the early stimulus policy. With the complex international and domestic economic situation, China must clearly recognize that during its primary stage of socialism for a long time, the principle of development for people's benefits should be upheld and the national interests should always be put first, to ensure that the financial industry effectively serves the development of the real economy and to enhance its comprehensive competitiveness in the world economic system. This article analyzes the issues related to further opening up and deepening the reform of the financial industry in the new era, and puts forward specific proposals to promote financial services for the real economy.

Limited Opening up and Protection of Financial Industry in Developed Countries

Developed countries have long prided themselves on their high degree of financial freedom, but they have imposed restrictions on foreign investment under the nominal openness. The seemingly free and open actually has strong protectionist characteristics. The governments of developed countries strictly supervise their banks and other financial sectors, which greatly restricts the access and development of financial institutions of other countries.

As the world's leading power, the United States (US) adopts the policy of opening up and expanding other countries' financial markets on one hand. On the other hand, it constantly strengthens its own financial supervision and improves the ability of risk prevention and control, and keeps strict control of the access rights of domestic financial markets by protectionism.

In the banking sector, the protectionist policy of the United States is obvious. The proportion of major shareholders of Wells Fargo, Morgan and Bank of America in 2017 have been described in Figure 1. We can find that major shareholders of Wells Fargo, Morgan, and Bank of America, are American domestic financial groups, and the three major banks have a basic overlap of major shareholders. From the whole financial sector of the United States, the major shareholders of major American banks are basically controlled by American capital, and foreign financial institutions have a small proportion of shares.

In the stock market, the market value of American stock market is mostly controlled by large institutions. From the perspective of flow, high-frequency trading accounts for 56%, various fund management institutions and pensions account for 17%, and retail investors account for 11%.[2] From the perspective of stock, the stock holding statistics provided by major financial information providers, show that overseas investment institutions and retail investors are not important subjects of American stockholdings, though the result of Gallup research reveals that more than half of the US residents own US stocks, which is much higher than Chinese domestic level.

The US bond market is characterized as its huge size, rich variety and strict daily control by the Federal Reserve. By the second quarter of 2016, the US bond market had a stock of $40.7 trillion, 2.25 times US GDP. From the point of view of bondholders, although the proportion of overseas investors in bond investors is

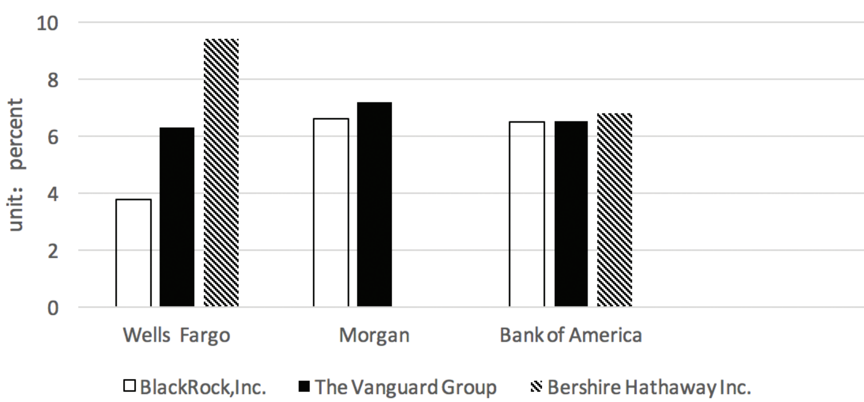

Figure 1 The Proportion of Major Shareholders in the Three Largest Banks in the United States in 2017

Source: http://mini.eastday.com/mobile/171013100526780.html#

Note: Berkshire Hathaway Inc. does not own Morgan's shares, so there are only two vertical bars for Morgan.

43%,[3] the benchmark interest rate is still adjusted independently by the Federal Reserve System according to market conditions.

The evaluation criteria of American financial regulators are not transparent. They use subjective evaluation methods to determine whether foreign Mergers and Acquisitions (M&A) are within the scope of national financial security. Once foreign capital holds more than 10% of the shares in US businesses, US Foreign Investment Committee will examine them, and the results of their review of them do basically say "no." At the same time, the United States indirectly suppresses other countries' financial markets through credit rating agencies. For example, in 1997, Moody publicly downgraded Yamamoto Securities in Japan, which directly led to its collapse. American Merrill Lynch took the opportunity to take over and enter the Japanese stock market at a very small cost. So the United States could maintain the hegemonic position of the United States financial industry in world by the control of international credit rating.

From a historical perspective, the construction of the financial supervision system in the United States is a process of continuous strengthening. The promulgation of Federal Reserve Act (1913) marked the establishment of US national reserve system, and laid the core position of the Federal Reserve in the whole financial system. In response to the Great Depression, the government vigorously pursued the state intervention in economic policy, and paid more and more attention to financial supervision. The enactment of the Glass-Steagall Act in 1933 and the establishment of the Federal Deposit and Loan Insurance Corporation in 1934 meant that the Federal Reserve's regulatory power was enhanced. With the trend of financial internationalization since 1990s, the US government believes that foreign capital has threatened the stability of its financial system. In 1999, US Congress passed the Foreign Banks Regulation Promotion Act and the Federal Deposit Insurance Company Improvement Act to strengthen supervision, and passed the Financial Services Modernization Act to guide financial innovation for comprehensive operation. The financial crisis in 2008 exposed the drawbacks of the former regulatory model. The US carried out the Financial Regulation Reform Program and other bills to strengthen the prudential principle of supervision at all levels, endowed the Federal Reserve with greater powers and responsibilities, and established the Financial Stability Supervisory Committee. The Ministry of Finance promulgated the Regulations on Mergers and Acquisitions of Foreigners, which put forward very strict requirements for the entry and acquisition of foreign capital. After Trump came to power, the financial supervision of the United States was further strengthened, and opportunities for participation of foreign investment institutions were restricted. The promulgation of the Foreign Investment Risk Review Modernization Act in 2018 is a landmark of this series of supervision. At present, the United States has formed the "Umbrella and Twin

Peaks" financial supervision model, which not only consolidated the central position of the Federal Reserve System, but also introduced the Business Behavior Regulatory Authority and the Prudential Financial Regulatory Authority to perform their duties, in order to improve the mixed operation ability of American financial groups.

Opening Up and Deepening Reform in Chinese Financial Industry

Compared with developed countries, Chinese financial industry started correspondingly late and had a weak foundation. During the historical period, when the financial industry promoted a new round of opening up and deepening reform, how to realize the high-quality development of the financial industry and make it serve the real economy better has become an important issue. Therefore, it is necessary to analyze the development of the financial industry in China.

Banking

The opening up and reform of Chinese banking industry can be divided into three stages. In the first stage, from the beginning of reform and opening up to the entry into WTO in 2001, the banking industry realized the improvement of its financial service function with foreign capital's entry. In 1981, overseas banks can set up business premises in Chinese Special Economic Zones. Nanyang Bank of Hong Kong operated in Shenzhen in 1982. American CitiBank founded its branch in Shanghai in 1991. At the same time, the continuous expansion of foreign currency business showed the welcome attitude of China's banking industry to overseas financial institutions. The second period is from the entry of WTO to the outbreak of financial crisis in 2008. China has fulfilled its commitments and adopted a series of policies to deepen its opening up. In 2002, the government promulgated the Regulations of the People's Republic of China on the Administration of Foreign-Funded Financial Institutions, which abolished restrictions on foreign-funded businesses in some areas. By 2002, foreign banks had set up 180 business places and 211 representative offices in China (Song and Zhang 2003). The third stage is the 2008 financial crisis up to date. In order to maintain the stability of the financial market, the government has strengthened supervision of the banking. As can be seen from Figure 2, the proportion of total assets of foreign banks in China to total assets of Chinese banking industry was 2.36% in 2007, which began to decline after 2008 and dropped to 1.7% in 2009. The proportion of foreign banks remains low in recent years, but their total assets are being on the rise. As shown in Figure 3, the total assets of foreign banks increased nearly six times in 2015 compared with in 2003.

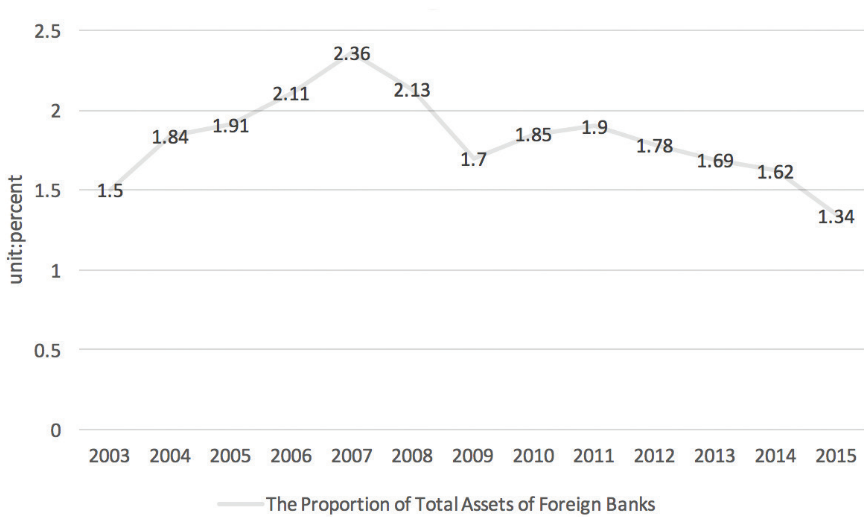

Figure 2 The Proportion of Total Assets of Foreign Banks to Total Assets of China's Banking Industry from 2003 to 2015

Source: CBRC 2015 Annual Report, http://zhuanti.cbrc.gov.cn/subject/subject/nianbao2015/2.pdf

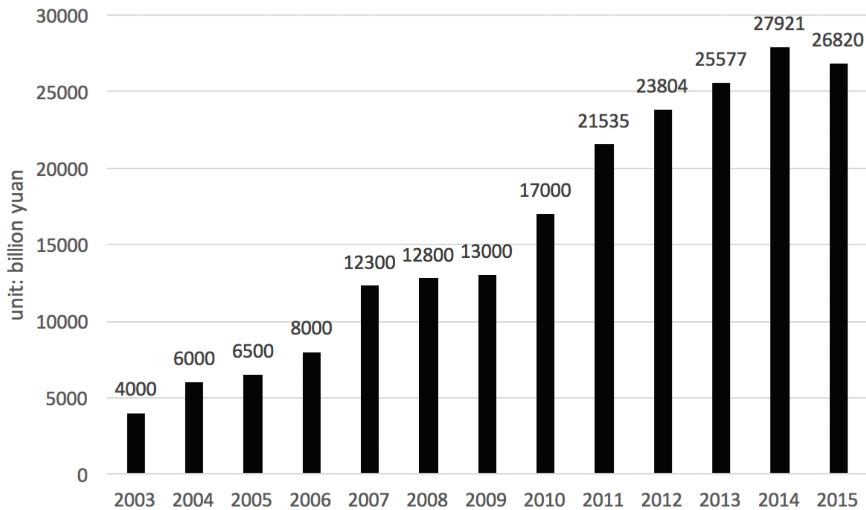

Figure 3 Changes in Total Assets of Foreign Banks in 2003–2015

Source: CBRC 2015 Annual Report, http://zhuanti.cbrc.gov.cn/subject/subject/nianbao2015/2.pdf

By 2015, banks from 15 countries and regions had set up 37 wholly foreign-funded banks, 2 joint venture banks and 1 wholly foreign-owned financial company in China. The foreign banking institutions have held 580 sub-branches all over China by 2015 (see Table 1).[4]

At the end of 2018, the total assets of the banking industry in Chinese market are 268.2 trillion yuan.[5] As far as the scale of assets is concerned, Chinese banking industry is twice as large as that of the United States, bigger than the total amount of the European Union, ranking first in the world. By the end of the third quarter of 2017, Foreign Shareholding Ratio of Chinese local commercial banks has maintained a high level, and Foreign banks become their major shareholders (see Table 2). Through the analysis of the ownership structure of Chinese local commercial banks, it is found that Chinese banking sector is more open than the United States.

Chinese banking regulators have played an important role in the opening up policy of banking industry. In March 2017, the China Banking Regulatory Commission (CBRC) issued a document, permitting wholly foreign-owned banks and Sino-foreign joint venture banks to invest in domestic banking institutions. In the same year, according to the Sino-US trade agreement, China allows foreign financial services institutions to provide credit rating services and electronic payment services. In April 2018, the Central Bank announced 12 specific measures to further open up Chinese financial sector, one of which is to broaden the scope of foreign banks business. In June 2018, the China Banking and Insurance Regulatory Commission decided to abolish the restriction on the proportion of foreign shareholdings of Chinese-funded banks and financial asset management companies. According to previous regulations, foreign banks could not hold more than 20% of shares of Chinese Banks independently, and 25% jointly.[6]

Table 1 Numbers of Chinese Foreign Banking Institutions (up to 2015)

	Foreign Banks	*Wholly Foreign-Funded Banks*	*Joint Venture Banks*	*Wholly Foreign-Funded Financial Company*	*Total*
Head office of legal person institutions	–	37	2	1	40
Branches and subsidiaries	114	306	4	–	310
Sub-branches	23	542	15	–	580
Total	137	885	21	1	1044

Source: CBRC 2015 Annual Report, http://zhuanti.cbrc.gov.cn/subject/subject/nianbao2015/2.pdf

Table 2 Foreign Shareholding Ratio of Some Local Commercial Banks in China (as of the End of the Third Quarter of 2017)

Chinese banks	*Foreign shareholders*	*Shareholding ratio*	*Shareholder ranking*
China Bohai Bank	Standard Chartered Bank	19.99%	second
Hengfeng Bank	United Overseas Bank	13.18%	second
Bank of Beijing	ING Bank of the Netherlands	13.64%	first
Bank of Nanjing	BNP Paribas	18.63%	first
Bank of Ningbo	OCBC Bank	20%	first (juxtaposed)
Bank of Tianjin	ANZ Bank	11.95%	second
Qilu Bank	Federal Bank of Australia	20%	first
Bank of Chengdu	Hong Leong Bank Berhad	19.99%	second
Bank of Shanghai	Banco Santander	6.48%	second
Bank of Xi'an	Scotiabank	20%	first

Source: Zhang and Wang (2018, 10)

Stock Market

The opening up and reform of Chinese stock market can also be divided into three stages. The first stage is from the mid-1980s to 2001. In 1984, Feilo Acoustics became the first public offering stock in China. In 1992, the B-share market was established, gradually allowing overseas institutions and retail investors to trade in stocks market. The second stage is from 2002 to 2014. In 2002, the system QFII (Qualified Foreign Institutional Investors) for foreign professional investment institutions to invest in China was formally introduced, attracting a large number of overseas investment institutions. In 2005, the China Construction Bank took the lead in listing on Hong Kong Stock Exchange. The third stage is from 2014 up to now. With the improvement of Shanghai Stock Exchange and Shenzhen Stock Exchange, the pace of opening up of stock market is accelerating. In 2015, 281 overseas institutions were approved as qualified foreign institutional investors, with a total operating capital of US$73.615 billion. Meanwhile, the actual operating capital of RMB QFII (RQFII) increased to US$436.626 billion.[7] In 2018, A-share Index was formally incorporated into the emerging market index of MSCI (Morgan Stanley Capital Inc.), which indicates a new round of opening up of Chinese stock market.

In Figures 4 to 6, we can see that QFII and RQFII have been growing rapidly in the Chinese domestic stock market in recent years. At the same time, the total amount of Chinese mainland stocks showed an increasing trend on the whole,

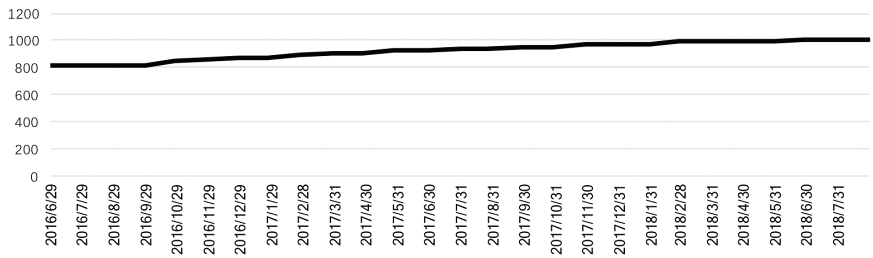

Figure 4 QFII Approved Investment Quota (100 Million US$)

Source: www.safe.gov.cn/safe/file/file/20191031/02c17d65c16f4308a4b6bd9059acc900.pdf

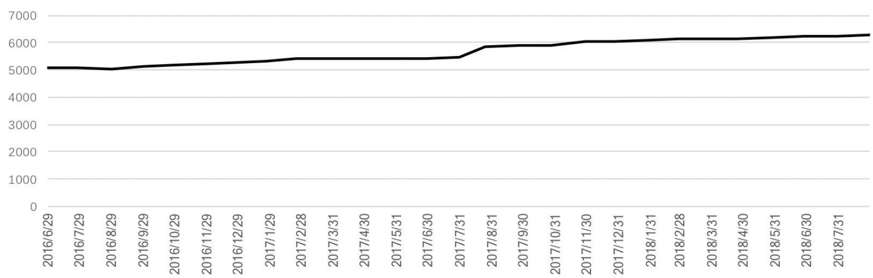

Figure 5 RQFII Approved RMB Investment Quota (RQFII) (100 Million Yuan)

Source: www.safe.gov.cn/safe/file/file/20191031/4a189fa3020e42a59690f3c84d78b395.pdf

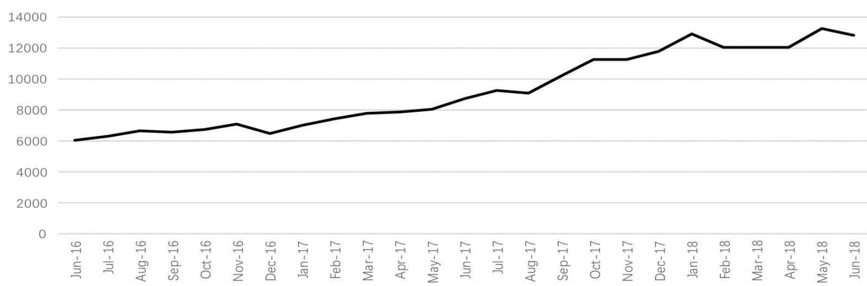

Figure 6 Domestic RMB Financial Assets of Overseas Institutions and Individuals in Stock Market (100 Million Yuan)

Source: www.ceicdata.com/zh-hans/china/domestic-rmb-financial-asset-held-by-overseas-entity

nearly doubled from June 2016 to June 2018. Then, China speeded up the process of opening up of stock market, and removed the quota restrictions on QFII and RQFII in September 2019.[8]

Bond Market

The opening up and reform of Chinese bond market can be divided into three stages too. The first stage is from 2005 to 2009, when the bond market is in its infancy. In 2005, the Asian Debt of Chinese Bond Fund and the Pan-Asian Fund were approved to enter the Chinese bond market, which can be regarded as a symbol of the opening up of the bond market. During this period, the opening channels were limited and the number of foreign investors was still small. The second stage is from 2010 to 2014, when the bond market had opened to the outside world. In 2011, China formally operated the RQFII, and approved qualified foreign institutional investors of RMB to invest in the bond market. The overseas investment institutions invested Chinese bonds mainly by interbank bond markets, and their investments increased quickly. The third stage is the further opening up of the bond market from 2015 up to now. In May 2016, the eighth Announcement of the People's Bank of China was issued, which broadened the types of institutional investors in the bond market and standardized the access process of investment institutions. In October 2016, before the RMB was formally incorporated into the SDR basket, overseas investors were keen to increase their holdings of Chinese bonds. By the end of 2016, a total of 63.1 billion yuan of Panda Bonds had been issued by overseas development entities (Pan 2017, 9–11). According to data from the China Central Depository & Clearing Co., overseas investment institutions increased their holdings of Chinese bonds to 385.97 billion yuan by September 2017. See Figure 7, when RMB joined SDR, foreign financial institutions continued to increase their investment in Chinese bond market (Wang 2017).

As can be seen from Figure 8, foreign investment institutions mainly deal in book-keeping treasury bonds and policy bank bonds, accounting for 90% of the total. At the end of 2016, the balance of Bond Custody was 63.7 trillion yuan, and

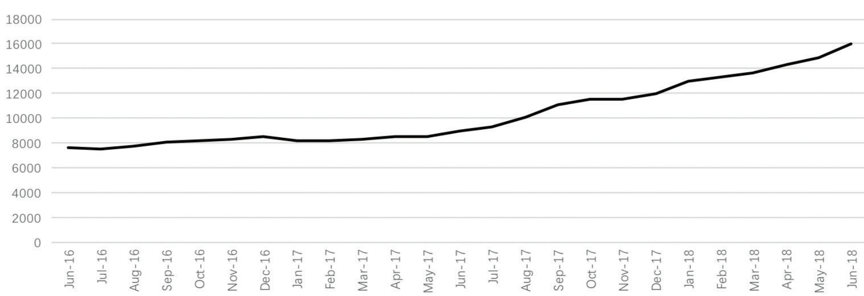

Figure 7 Overseas Institutions and Individuals Hold Domestic RMB Financial Assets in Bonds Market (100 Million Yuan)

Source: www.ceicdata.com/zh-hans/china/domestic-rmb-financial-asset-held-by-overseas-entity at the end of 2017, it was 73.94 trillion yuan (Jiang, Zhu and Zhang 2015). In terms of scale, Chinese bond market is the third largest in the world, second only to the United States and Japan. The promulgation of documents such as Guidelines on Supporting the Development of green bonds for pollution control, bonds for poverty alleviation, and other special bonds has optimized the management mechanism, matching the hierarchical investors.

To sum up, Chinese financial industry has made remarkable achievements in opening up and deepening reform. However, it should be noted that finance is a highly centralized area of economic relations. China should maintain the principle of prudence, put national interests first, and continuously monitor the proportion of foreign capital holding shares in the financial sector (Cheng and Zhai 2019). In order to ensure that finance serves the real economy, government should adhere to the principle of benefiting the people, and promote the high-quality development of financial industry.

Policy Suggestion

The operation and development of the financial field is directly related to the effectiveness of Chinese socialist economic construction. Finance embodies the important competitiveness of a country. Once the domestic financial industry is manipulated by foreign capital, losing the initiative of economic development may be waiting for us. In July 2017, Xi also stressed at the national financial

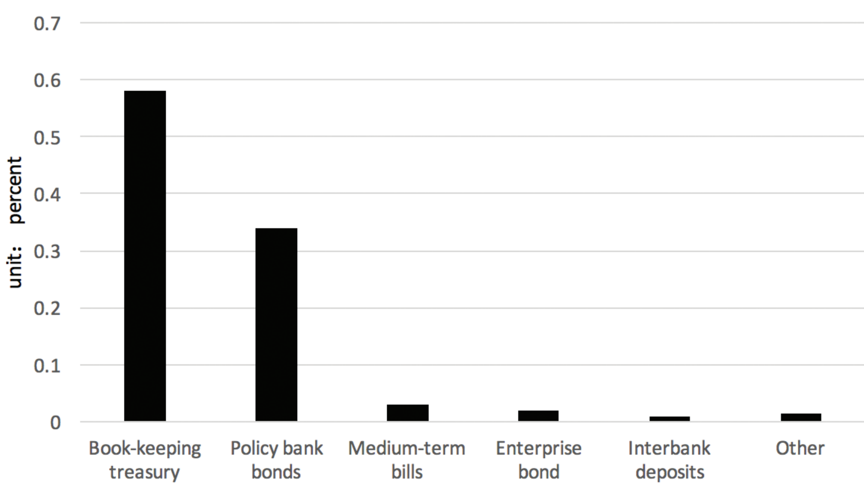

Figure 8 Distribution of Overseas Institutional Bond Investment

Source: http://cpfd.cnki.com.cn/Area/CPFDCONFArticleList-JJYJ201706005.htm work conference that "serving the real economy is the duty of finance" (Yuan and Wu 2018, 100). In February 2019, Xi Jinping pointed out that China should improve financial services, prevent financial risks, and enhance the capacity of financial services for real economy.[9] So we should maintain financial safety and financial services for the real economy.

At present, there is a trend in China that the funds circulate and inflate inside the financial system itself, which may lead to the bubble economy. In order to achieve high-quality development of the national economy in the new era, further reform and opening up in the financial field are needed. At the same time of relaxing the restrictions on the ratio of foreign capital to shares in banking, securities and insurance industries, China must steadily and orderly strengthen supervision and management, and deepen the reform of the financial sector to make the financial industry truly become the core of the modern economy. China should gradually open up its financial industry according to its level of real economic development, otherwise it will probably lead to financial crisis. According to the data of banking openness in countries with different income levels at that time, the per capita GDP of high-income countries was US$23,090, and their degree of banking openness was 93.5%. For example, Thailand implemented a financial liberalization policy in 1989, opening its banking sector to foreign investment and remove their shareholding ratio. While the per capita GDP of Thailand was only 2414, its degree of banking openness reached 97.8%. As a result, Thailand suffered heavy losses in the Asian financial crisis of 1997 (Wu 1998, 27–28). For another example, under the influence of neo-liberalism and the direct intervention of the World Bank, Mexico has enacted the Stock Market Act and the Financial Group Act to completely open the entry of foreign capital into the financial industry. Mexico soon fell into the financial crisis in 1994. At same time, foreign capital with Mexican financial assets fled rapidly on a large scale, aggravating the financial crisis.

As a large developing country, Chinese per capita GDP is US$8,836 in 2017, while developed countries such as the United States and Japan implemented gradual financial liberalization with strict supervision only when the per capita GDP reached US$40,000.[10] If developing countries simply and unrestrictedly open up the financial industry, it is likely to make the financial market lack of constraints, leading to economic virtualization. Financial industry is a competitive industry in essence. There are a large number of enterprises in the industry, where exist many homogeneous products and strong substitution. The deepening of financial industry has broken the boundaries of banking, securities, and insurance respectively. From the practice of Chinese reform and opening up, we can see that the introduction of foreign capital has indeed improved the efficiency, product quality and international status of Chinese financial institutions. It also proves that the financial industry is a competitive industry. At present, the total assets of state-owned financial corporations in China account for more than half of the total financial assets. The mixed reform of state-owned enterprises is under way that state-owned enterprises can be wholly owned, absolutely controlled and relatively controlled by foreign ones. If foreign capital generally holds more relative shares or absolute shares than national capital, it leads to loss of financial sovereignty, and buries hidden dangers for systemic economic risks. Finance is the core of modern economy and plays a vital role in the international and domestic economy. At this stage, China should avoid such improper phenomena as "money makes money" and "shadow bank." Under the historical background of deepening the reform and opening up of financial industry in the new era, finance should return to its original role serving the real economy. The reform of Chinese financial industry should help to promote the orderly operation of the financial system and the effective play of financial functions. The financial supervision should make the opening and reform of the financial industry under the principle of financial services for real economy.

Combined Market Orientation and Government Regulation

Reforming and opening up in the financial field should be carried out in a market-oriented and government-regulated way. On one hand, the government should take the initiative. It's necessary to adhere to the concept of stable, orderly, reciprocal and mutually beneficial financial development, with the ultimate goal of building a community of human destiny, not as some developed countries represented by the United States plunder other countries through financial means. China Banking and Insurance Regulatory Commission is improving the measures for the management of equity rights of commercial banks, and will further revise regulatory system for insurance agents at the same time. In October 2018, the regulatory authorities proposed to include at least 50 key domestic financial institutions (including banks, insurance, securities companies) into the risk evaluation system in order to protect Chinese financial institutions from risks, which will greatly enhance the liquidity supervision and risk resistance.[11]

On the other hand, the market should actively play its role. Market price is an effective way to allocate resources. As the price of capital, interest rate will lead to capital flow and realize equilibrium price. In December 2013, the Chinese Economic Working Conference stressed the need to continuously promote the marketization of interest rates and enhance the ability of financial services for the real economy (Zheng 2019, 10). In the process of promoting the reform and opening up of the financial industry, China should improve the credit system centered on commercial banks and enhance the overall competitiveness of financial institutions. Therefore, China should strive to develop multi-level and multi-faceted capital markets, reduce the cost of direct financing, broaden the channels of direct financing, and fully tap the potential of the domestic market.

At the same time, in the process of opening up the financial industry in the new era, the government should have the awareness of risk prevention. The opening and reform of financial markets should help promote people to share the dividend of real economic development. In December 2014, the Chinese Economic Working Conference pointed out that the government should continue to implement steady monetary and fiscal policies (Zheng 2019, 11). At this stage, RMB has joined the SDR system of International Monetary Fund (IMF). According to the classification of capital account by IMF, 35 of total 40 capital items have been convertible in China.[12] This fully demonstrates that Chinese financial opening has achieved remarkable results. In the next stage, China should have crisis awareness in both utilizing foreign capital and investing abroad, do more hedging business, and avoid financial risk. In addition, China should effectively improve the comprehensive competitiveness of domestic and foreign markets, carry out RMB regionalization and internationalization, actively promote foreign RMB exchange business, and facilitate RMB to become the settlement currency of more countries. China should accelerate the construction of a manufacturing power through the "the Belt and Road Initiative" and Asian Infrastructure Investment Bank, and remain the security of the national economy and enhance world people's livelihood.

The Top Right of Supervision System

Effective supervision system is the key to ensure effective financial services for the real economy. In July 2017, the Chinese Conference on Financial Work pointed out that finance was an important core competitiveness of the country. It's necessary to learn from the practices of developed countries such as the United States on the issue of financial openness (including the relaxation of equity restrictions) and improve the review mechanism of foreign capital security in practice. Therefore, it is necessary to design the top-level framework of financial supervision in the new era. In March 2018, Chinese Financial Stability and Development Committee were established, bringing the relevant departments responsible for monetary policy into the financial supervision system, enhancing the authority and professionalism of financial supervisions, and carrying out early warning and intervention on financial risk. China should attach great importance to and improve the financial supervision in the process of opening up. Based on the understanding of preventing systemic financial risks, we put forward the "top-level design" of supervision system in China.

As the organizational structure of the modern market economy system, Chinese top economic rights are composed of "currency issuance right," "asset pricing right" and "exchange rate pricing right." Historical experience showed that if a government lost control over the top economic rights of a country, it would become a tool of foreign capital.

1. In terms of the "right to issue currency," the central bank should vigorously implement the mechanism of independent currency issuance. Since the reform of RMB exchange rate, foreign currencies continue to enter Chinese market. Foreign capitalists holding US dollars continued to convert their funds into RMB and invest in China as capital, which led to a sharp rise in the demand for RMB. The central bank could only reduce the loan quota for domestic commercial banks to control the amount of domestic currency, which reduced the liquidity of the real economy. Therefore, China should implement the domestic independent currency issuing mechanism and settlement mechanism.
2. In terms of the "right of asset pricing," the regulatory authorities should strengthen the control of capital account and closely monitor the proportion of foreign capital in China's financial market. In China, RMB asset price mainly includes stock price, bond price and real estate price. For example, real estate prices, according to the national housing loan monitoring data in May 2018, the average interest rate of the first house loan in China was as high as 5.6%, an increase of 20% year on year.[13] But the central bank and the securities regulatory authorities have not reached a consensus on currency policy. On one hand, because of the influx of foreign capital, the central bank can only transfer the pressure to the domestic capital market as above. On the other hand, in order to avoid the social instability caused by the collapse of the stock index, the securities regulatory authorities needed the introduction of foreign capital to improve the rate of return on international capital, which will inevitably affect the economic development in the long run. Therefore, China should take necessary measures to remain stable entry of foreign capital, adhere to the principle of reciprocal openness, prevent financial leap, and let asset pricing right serve the national economic development.
3. In terms of "exchange rate pricing right," a prudent RMB exchange rate floating mechanism should be formulated. In July 2005, China launched exchange rate reform, and the influence of the US dollar on the pricing of RMB exchange rate began to increase. The continuous appreciation of the RMB has caused a large influx of foreign currency.[14] Therefore, China should strictly supervise the proportion of foreign capital in financial industry, and formulate a set of effective schemes and financial taxation to manage the pricing of RMB exchange rate.

At the same time, regulatory authorities at all levels should make preparations for anti-financial sanctions as soon as possible. At present, financial sanction is a common tactic of imperialism, which gradually paralyses the sanctioned countries in such important fields as capital and energy. It is precisely because of its strong judicial and regulatory power (such as the "long arm jurisdiction" of the United States) that developed countries are able to launch financial sanctions against other countries. In this regard, China should formulate early warning plans for anti-financial sanctions from the following aspects:

1. to replace the hegemonic practice of unilateral jurisdiction of the United States with the consultation between the two countries, to formulate laws to protect the real economic interests, and to restrict developed countries' trading with China by the principle of non-national treatment;
2. to establish RMB settlement system quickly, especially in commodities and energy;
3. for Chinese overseas assets, to establish a crisis warning mechanism and asset withdrawal mechanism to ensure that China can minimize overseas funds' losses in the event of risk.

Promoting Financial Innovation to Serve the Real Economy

The real economy is the object of financial services. China should innovate and develop various financial services products. In order to make all kinds of financial institutions serve the social economy, China should constantly introduce new financial products and make full use of advanced technologies to effectively improve the service level of financial institutions. In July 2017, China Financial Stability Report pointed out that Chinese financial industry has insufficient endogenous innovation.[15] Therefore, on the innovation of financial transactions, banks should cooperate with Alipay, WeChat Pay and other interconnected mobile payment platforms. In the aspect of financial science and technology innovation, the application of artificial intelligence in banking industry should be strengthened. Commercial banks should accelerate the digital transformation and upgrading, and implement face recognition technology, intelligent risk control, intelligent customer service system and network robot technology, so as to promote the construction and development of "unmanned bank." The first "unmanned bank" set up by China Construction Bank in Shanghai promotes the overall business capability of the bank in terms of product quality, access channels and user experience. In July 2017, the Chinese Conference on Financial Work pointed out that financial services for small and micro enterprises should be strengthened. In December 2017, Chinese Conference on Rural Work emphasized that China should constantly strengthen the innovation of financial services and vigorously enhance the level of financial services for agriculture and farmer (Zheng 2019, 12). China should encourage the innovation of products and services for green finance, learn the operation mode of green finance in developed countries, build a green financial ecosphere, and provide a feasible path for exploring the green transformation of economy. At the same time, the central bank should strengthen the supervision, and flexibly and rationally use a variety of monetary policy tools, which will help de-leverage and reduce systemic risk.[16] In the process of integration with innovative financial instruments, the central bank and regulatory authorities should adhere to the principle of risk prevention, and promote the sound interaction between finance and real economy.

In the process of enhancing financial innovation, China should adhere to the following principles: First, reducing the complicated financial instruments, which do not fundamentally promote the nature of financial products for serving real economy. Second, further strengthening the transparency of information. Financial innovation enlarges the accumulation of wealth in society as a whole. Only by ensuring the sunshine of information can financial innovations become possible to meet the need of real economy. Finally, the ultimate goal of financial innovation is to benefit the people. The pursuit of excess profits by financial capital will lead to the price deviation of financial products from their actual value. When the real economy enters a new stage of growth, the financial monopoly capital often uses the irrational psychology of individuals in the financial market to induce and enhance the confidence of buying and selling financial products, which does not benefit the development of real economy, but financial capital. Such reciprocation will cause the decline of social consumption level and damage the development of real economy. So China should unswervingly implement the policy of financial services for the real economy, and effectively improve the living standards of the vast majority of the people through healthy and green financial instruments.

Notes

1. See www.xinhuanet.com//politics/xxjxs/2019-02/24/c_1124156143.htm.
2. See http://forex.eastmoney.com/a/201903021057895470.html.
3. See www.sohu.com/a/165375549_556912.
4. See http://zhuanti.cbrc.gov.cn/subject/subject/nianbao2015/2.pdf.
5. See www.sohu.com/a/326270511_175647.
6. See http://finance.sina.com.cn/roll/2018-06-08/doc-ihcscwxa5779422.shtml.
7. See http://cpfd.cnki.com.cn/Area/CPFDCONFArticleList-JJYJ201706005.htm.
8. See www.yicai.com/news/100435105.html.
9. See www.gov.cn/xinwen/2019-02/23/content_5367953.htm.
10. See www.stats.gov.cn/tjsj/zxfb/201802/t20180228_1585631.html.
11. See http://finance.sina.com.cn/money/bank/bank_hydt/2018-11-28/doc-ihmutuec4519090.shtml.
12. See http://forex.hexun.com/2015-07-29/177899296.html.
13. See www.sohu.com/235316681_823645.
14. See www.sohu.com/a/281748463_479097.

15. See www.gov.cn/xinwen/2018-11/03/content_5337137.htm.
16. See www.gov.cn/xinwen/2018-05/13/5290717/files/7314bdaad20c491eaf36f80cb908905a.pdf.

Funding

The study was supported by Major Projects of Significant Research Bases of the Ministry of Education of China "Research on Innovation-Driven Development of State-Owned Enterprises in China" (no. 16AZZD008).

References

Cheng, E., and C. Zhai. 2019. "Continuous Improvement of Chinese Comprehensive Competitiveness in the World Economic System." [In Chinese.] *People's Daily*, February 14.

Jiang, C., Z. Zhu, and Q. Zhang. 2015. "The Current Situation, International Comparison and Influence of China's Bond Market's Opening to the Outside World." [In Chinese.] *China Bond*, no. 10: 33–41.

Pan, G. 2017. "Foreign Exchange Management Helps the Construction of 'One Belt and One Road Initiative'." [In Chinese.] *China Finance*, no. 9: 9–11.

Song, Y., and W. Zhang. 2003. "The Opening Degree of Finance Service Trade in China." [In Chinese.] *Journal of Anhui University*, no. 6: 139–144.

Wang, Y. 2017. "The Importance of Prevention and Control of Financial Risks." [In Chinese.] *Xuexi Times*, April 27.

Wu, Y. 1998. "Excessive Financial Deepening: An Analysis of the Causes of Thailand's Financial Crisis." [In Chinese.] *Studies of International Finance*, no. 2: 26–29.

Xi, J. 2017. *Secure a Decisive Victory in Building a Moderately Prosperous Society in All Respects and Strive for the Great Success of Socialism with Chinese Characteristics for a New Era: Report of the 19th National Congress of CPC*. [In Chinese]. Beijing: People's Publishing House.

Yuan, H., and S. Wu. 2018. "Duty of Finance Is to Serve the Real Economy." [In Chinese.] *Economy*, no. 2: 98–101.

Zhang, J., and Q. Wang. 2018. "Research on Deepening Development and Risk Prevention of China's Banking Industry in the New Era: Based on Prof. Enfu Cheng's Principle of 'Equal Reciprocal Opening of Financial Industry'." [In Chinese.] *Economics Study of Shanghai School*, no. 4: 1–20.

Zheng, L. 2019. "Xi Jinping's Important Exposition on Prevention and Control of Financial Risks." [In Chinese.] *Literature of Communist Party of China*, no. 4: 9–15.