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Research on the Path of High-quality Opening up of the Financial Industry under the New Development Pattern of "Double Cycle"

Yongqi Wu, Wenbo Li*

School of Finance, Anhui University of Finance and Economics, P.R. China, 233030, China

*aclwbsm@163.com

Abstract

The intensification of trade friction between China and the United States in 2019 and its spillover effects have dealt a heavy blow to global trade activities, coupled with the outbreak of a new pneumonia epidemic in early 2020, which has reduced world economic growth to the lowest level in a decade and made recession inevitable. Based on domestic circulation, building a new pattern of development in which domestic and international double cycles promote each other is the key to promoting High-quality economic development and accelerating the construction of a new high-level open economy system. In order to realize the High-quality opening of the financial industry under the new pattern of "double circulation" development, we can start from several aspects, such as expanding effective investment, promoting the construction of "one belt, one road" and free trade zone, deepening the structural reform of financial supply side and strengthening financial supervision, to realize the High-quality development of China's economy.

Keywords

Double Cycle; New Development Pattern; Financial Opening up; Supply-side Structural Reform; High-quality Economic Development.

1. Introduction

At present, China's financial industry has entered a new era of expanding and opening up, and the top-level design and policy package for expanding and opening up the financial industry have basically taken shape. The financial system should accelerate the implementation of the decision and deployment of the Party Central Committee and the State Council, rapidly promote the all-round high-level opening of the financial sector to the outside world, and provide a stronger impetus and guarantee for promoting High-quality economic development and building a modernized economic system.

In the coming period, China's macro economy is still facing huge shocks and challenges, and much of the potential of China's economy has yet to be fully explored and brought into play through the structural adjustment of the domestic economy. How to cope with the uncertainty of the external environment and promote the structural reform on the supply side is inseparable from the opening of the financial business and the support of the modern financial system, especially the strong support of the capital market. Therefore, in the context of the new development pattern of "double cycle", it is of great significance to correctly grasp the modern financial system, build the law, profoundly analyze the motives of capital market reform, and actively look forward to the trend of China's financial system reform, which is undoubtedly of great importance for China's financial industry to realize High-quality opening to the outside world and build a strong financial country in the future[1].

ISSN: 2688-9323

2. The Correct Grasp of the Scientific Connotation of the New Development Pattern of the Double Cycle

2.1. To Build a High-quality Domestic and International Double Cycle with the Main Body of the Domestic Big Cycle

In the face of changes in the main contradictions of domestic society and increased international uncertainty, China timely proposed to build a new pattern of domestic and international double-loop development. In the dual cycle, the domestic circulation and the international circulation are dialectically unified, and the smooth domestic circulation is the premise of the dual cycle, while the smooth international circulation is the support and guarantee of the dual cycle.

In the domestic circulation, we should focus on the relationship between the product market and the factor market, rely on the domestic mega market and domestic demand potential for High-quality development of the domestic economy, and continuously open up the circulation obstacle in all aspects of the domestic market, dig deeper into domestic demand, create new points of incremental consumption, and carry out industrial technology innovation. On the basis of unblocked domestic circulation, we will participate in the international market with higher level and higher level as well as higher quality of opening to the outside world, so as to drive the external circulation by the internal circulation and thus realize the situation of mutual promotion of the double circulation[2].

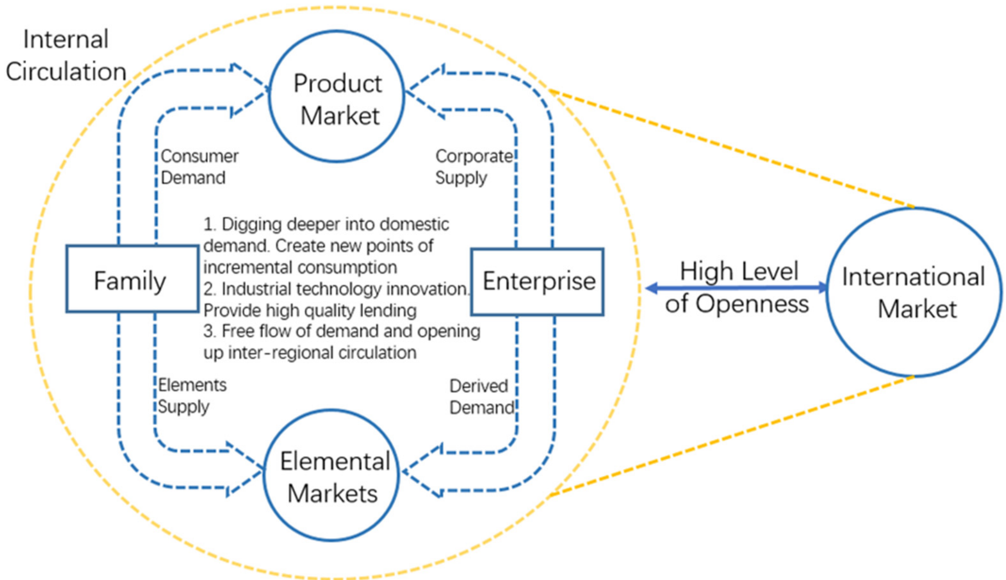

Figure 1. Connotation of the new development pattern of "double cycle"

China is in a critical period of comprehensive deepening reform and all-round opening to the outside world, we need to understand the autonomy and inevitability of the double cycle with a long-term global perspective, and accelerate the formation of a new development pattern. On the one hand, focus on the smooth domestic circulation, with the focus on Supply-side structural reform to promote the full and balanced development of the domestic economy; on the other hand, steadily promote the international circulation, with the focus on the rules and systems-based opening to promote the construction of a higher level of open economy. In the long run, China should actively promote the building of a community of human destiny and build an open world economy with a focus on new rule-based international governance.

ISSN: 2688-9323

2.2. Revision and Adjustment of China's Export-oriented Development Strategy

Since the 1980s, China has successfully seized the new wave of globalization and formulated an outward-oriented development strategy of "relying on the international circulation to initiate domestic market-oriented reforms and build a large internal market-oriented circulation", which has contributed to the miracle of China's sustained and rapid economic growth.

However, with the mutation of the globalization process and the outbreak of the global financial crisis, the development model, overall structure, governance system and operation rules of the world economy on which this outward-oriented development strategy was based have changed drastically, and the Export-oriented development strategy of relying on the international circulation can hardly adapt to the requirements of the new pattern, new model and new mission[3].

The poor internal economic circulation, segmentation and fragmentation can hardly support the comprehensive and rapid improvement of international competitiveness, and further opening up needs the full support of internal circulation. Moreover, the simple open strategy not only can hardly shoulder the power of China's High-quality development, but also becomes a source of turbulence for China's economic cycle. The outward-oriented development strategy of "focusing on the outside and promoting the inside" is no longer applicable to the development situation in the new era.

2.3. It is an Inevitable Requirement for Accelerating and Deepening High-quality Development

On January 21, 2019, General Secretary Xi Jinping stressed at the opening ceremony of a seminar for major leading cadres at the provincial and ministerial levels to adhere to bottom-line thinking and make efforts to prevent and resolve major risks, "At present, the world's major changes are accelerating and profoundly evolving, the sources of global turbulence and risk points are increasing, and our external environment is complex and severe. We need to coordinate the two big picture of domestic and international, development and security of two major events".

Human historical experience tells us that it is difficult to form a constantly improving competitiveness and harness the ability to allocate global resources without a strong internal economic circulation system and a basic disk at the time of the full rise of large economies, innovative layout and domination of the future world landscape. The development of the domestic circulation is the basis for the improvement and smoothness of the future international circulation, the key to the overall improvement of China's competitiveness and value chain status, the key to get rid of the low-level locking effect of comparative advantages brought about by simple opening, and the key to the establishment of a safe and efficient economic system, and the construction of the "domestic circulation" is the deepening and continuation of the Supply-side structural reform. It is a basic starting point and anchor point for all kinds of work in the future 14th Five-Year Plan period[3].

3. Current Initiatives and Achievements in the Implementation of Financial Sector Liberalization in China

3.1. Current Initiatives to Implement Financial Sector Liberalization in China

The launch of the Panda bond pilot in the exchange bond market in December 2015, the inclusion of the RMB in the SDR currency basket in 2016, the launch of the bond pass between the Mainland and Hong Kong in 2017, and the inclusion of all Chinese bonds in international bond indices have significantly increased the allocation demand for Chinese bonds by foreign investors. The bond market is a microcosm of China's financial industry opening up to the

ISSN: 2688-9323

outside world, and the pace of opening up the stock market and foreign exchange market has also been accelerating [4].

Along with the opening up of the financial sector to the outside world, the internationalization of the RMB has steadily moved forward.On October 1, 2016, the RMB officially joined the International Monetary Fund (IMF) Special Drawing Rights (SDR) currency basket, a milestone event.In the first quarter of 2020, the IMF announced that the share of RMB foreign exchange reserves exceeded 2%, nearly double the amount when it joined the SDR in 2016.

During the 13th Five-Year Plan period, China has actively implemented a series of measures to open up the financial sector to the outside world in accordance with the needs of economic development and financial reform. In particular, since 2018, the financial sector has been orderly expanded and opened up in banking, securities, insurance and credit, payment and rating sectors in accordance with the requirement of "sooner rather than later, faster rather than slower". 2020, foreign institutions have continued to increase their holdings of Chinese bonds, with the average monthly trading volume exceeding RMB 750 billion and the average monthly net buying volume exceeding RMB 120 billion. This fully reflects the confidence of international investors in the long-term healthy development of China's economy and the continued expansion and opening up of finance.

3.2. The Results of the Current Implementation of Financial Sector Liberalization in China

Looking back at the "Thirteenth Five-Year Plan", the pace of opening up China's financial sector has been steadily advancing, with more than 50 financial liberalization initiatives focused on release.

3.2.1. Financial Market Interconnection Continues to Escalate

From the Shenzhen-Hong Kong Stock Connect in 2016, the Bond Connect in 2017 to the Shanghai-Lun Tong in 2019 to the full abolition of QFII and RQFII investment quota restrictions, the two-way opening of China's capital market has steadily advanced. a shares are included in international well-known indices such as Ming Sheng and the proportion is increasing, and Chinese government bonds are included in all three major global bond indices.

As of the first half of 2020, the allocation of RMB assets by international institutions has reached 7.18 trillion yuan, of which the average annual growth in the scale of allocation of stocks and bonds is nearly 20%, further enhancing the attractiveness of the Chinese market. At the same time, RMB internationalization went further, with RMB cross-border receipts and payments amounting to RMB 12.7 trillion in the first half of 2020, up 36% year-on-year. The RMB became the world's fifth largest payment currency, and the share of RMB foreign exchange reserves reached a new record, nearly doubling from 2016 when China joined the SDR, the Special Drawing Rights basket. A more open financial system is taking shape at an accelerated pace, providing strong support for building a new development pattern and High-quality economic development.

ISSN: 2688-9323

3.2.2. The RMB Exchange Rate Flexibility Significantly Increased

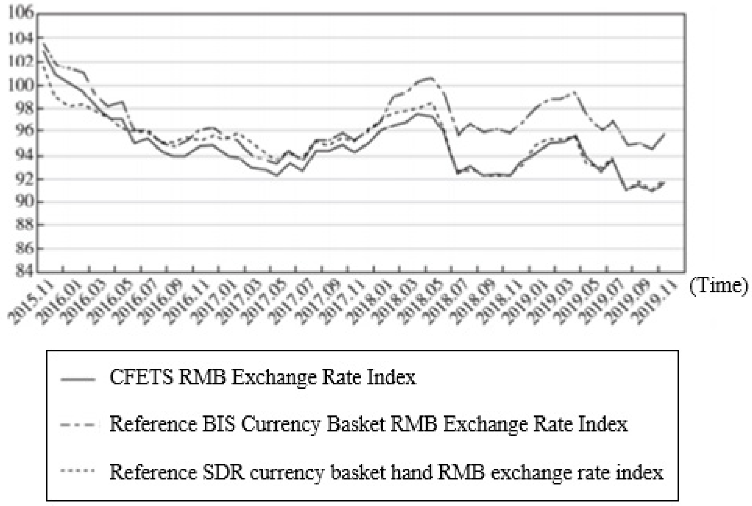

Figure 2. Changes in RMB exchange rate index in recent years

As shown in Figure 2, the RMB exchange rate index has shown fluctuating ups and downs in recent years, especially in the last two years, influenced by external factors, the volatility of the RMB exchange rate has become more obvious, and the flexibility and resilience of the RMB exchange rate has increased significantly [5]. Starting from 2014, the RMB exchange rate has been lower against the US dollar for three consecutive years. After entering 2017, the RMB exchange rate stabilized and rebounded. 2018 trade war between the US and China triggered depreciation pressure on the RMB exchange rate, and the maximum drop of the RMB exchange rate mid-year low relative to the high reached 9.9%. 2019 RMB exchange rate against the US dollar rose above 7 yuan several times, but after "breaking 7", the RMB exchange rate did not depreciate significantly. At the end of 2019, the median price of the RMB against the USD was 6.9762. The increased volatility of the RMB exchange rate is a reasonable response of the RMB flexible exchange rate mechanism to external shocks, and the flexibility of the RMB exchange rate will continue to be maintained in the future.

3.2.3. The International Influence of Finance is Gradually Increasing

In October 2013, China initiated the establishment of the Asian Infrastructure Investment Bank, which received wide response and strong support from many countries.On July 15, 2014, during the sixth leaders' meeting, BRICS countries announced the establishment of the BRICS Development Bank, headquartered in Shanghai, China.On November 8, 2014, China established the Silk Road Fund.In December 2015, the International Monetary Fund (IMF) announced that it will officially include the RMB in the SDR currency basket on October 1, 2016. According to the China Monetary Policy Implementation Report for the fourth quarter of 2019, the total amount of RMB cross-border receipts and payments in 2019 was 19.7 trillion RMB, of which 10 trillion RMB was received and 9.7 trillion RMB was paid, with a receipt-to-payment ratio of 1:0.97 [5].

According to the latest data from the International Monetary Fund (IMF), as of the third quarter of 2019, the share of RMB assets in foreign exchange reserves held by central banks of global economies rose to 2.01%, the highest level since October 2016, ranking over the Australian and Canadian dollars as the sixth largest reserve currency in the world.

ISSN: 2688-9323

4. Risks and Challenges Facing the Financial Sector on the Way to Achieving High-quality Foreign Opening

4.1. Increasing the Difficulty of Systemic Financial Risk Prevention and Control in China

The key thing that distinguishes systemic financial risks from non-systemic financial risks is that they spread quickly and have a wide reach. The reason for this characteristic is that the links between financial institutions, between financial institutions and the real economy, and between financial markets and financial markets provide channels for the transmission of systemic financial risks.

The realization of High-quality financial opening to the outside world is bound to strengthen the links between domestic financial institutions and international financial institutions, international financial institutions and the domestic real economy, and domestic financial markets and international financial markets, and the expansion of financial opening to the outside world will further increase the difficulty of China's systemic financial risk prevention and control.

4.2. New Challenges to the Regulatory Capacity of Supervisory Authorities

General Secretary Xi Jinping pointed out at the annual meeting of the World Economic Forum in 2017 that "the international financial crisis is not an inevitable product of the development of economic globalization, but the result of excessive profit-seeking of financial capital and a serious lack of financial supervision."

The entry and exit of international lending capital out of the pursuit of profit, taking advantage of some institutional loopholes in the financial market to carry out corresponding transactions, causing different degrees of losses to a country, region or even the global economy while realizing their own profits, and even causing or promoting the occurrence of global financial crisis. The entry of international financial institutions, on the one hand, may directly bring new technologies or business models, and on the other hand, will intensify competition in the financial market and promote financial innovation. The emergence of new financial technology or business models will have an impact on the existing, traditional financial regulatory structure and institutional arrangements. Without timely adjustment and timely improvement, the possibility of systemic financial risk induction will continue to rise.

At present, there are still shortcomings in global financial governance, and the existing international organization structure and international financial rules are not able to effectively deal with international lobbying regulation, and the expansion of financial opening to the outside world is bound to create challenges for China's international lobbying regulation. In China, both Chinese and foreign institutions must be licensed and regulated to carry out financial business. The expansion of market access is accompanied by continuous improvement of financial regulation so that the regulatory capacity matches the degree of openness [6].

5. Policies and Suggestions

5.1. Expand Effective Investment and Ensure Effective Investment

In the first half of 2020, China's expansion of investment efforts, with the resumption of work and production in an orderly manner, investment projects around the start, for China's economic and social recovery and development, as well as to accelerate the construction of domestic and international dual cycle of mutual promotion of the new development pattern have a very strong driving effect. But in the project construction process, some preparatory work and supporting services are lagging behind, affecting the project to promote the implementation of efficiency. In this regard, we should pay attention to the mutual adaptation and matching of investment and supporting services. On the one hand, to deal with the relationship between effective investment and financing services, to expand effective investment to further improve the financing system. On the other hand, in order to steadily increase effective investment, we should accelerate the progress of new infrastructure construction in 5G, industrial Internet, Internet of Things and other fields.

The "new infrastructure" can not only drive the prosperity of the digital economy, breed new construction demand, leverage larger-scale investment, and form a positive cycle between effective investment and "new infrastructure", but also help transform and upgrade the real economy, activate new dynamics of modern industrial development It can also help transform and upgrade the real economy, activate new momentum for modern industrial development, and bring new economic growth points. In the post-epidemic era, new infrastructure construction will become an effective way to stimulate effective investment and economic growth [7].

5.2. To Promote the "One Belt, One Road" and the Construction of the Free Trade Zone as an Opportunity to Increase the Opening-up Efforts

To unswervingly expand the opening up to the outside world and build a new development pattern of domestic and international double circulation to promote each other, China still needs to decentralize the regional and global layout and form a multi-dimensional industrial chain and supply chain system, which should focus on "One Belt, One Road" to build a new pattern of opening up to the outside world and form more international circulation for the "One Belt, One Road" and developing countries. "One Belt, One Road" and the international circulation of developing countries. At the same time, we should accelerate the promotion of regional economic cooperation, industrial chain adjustment as a grip, strengthen regional cooperation with Northeast Asia, South and Southeast Asia, and promote the small cycle of the economy of China, Japan and South Korea.

Although affected by the epidemic this year, but the "Belt and Road" market still contains huge opportunities, the "Belt and Road" market will also rise rapidly after the epidemic. For our enterprises, we should pay attention to the new economic growth pole of "Belt and Road", grasp the broad development prospects and investment opportunities of the "Belt and Road" market in the post-epidemic era, and actively develop and utilize the "Belt and Road" market. "market.

5.3. Deepen Financial Supply-side Structural Reform to Achieve High-quality Financial Openness

Among the many elements of the structural reform on the supply side of finance, optimizing the structure of direct and indirect financing is a core issue. The financing structure is directly related to the ratio of equity financing to debt financing, and the low proportion of equity financing is an important source of high leverage risk. Therefore, to fundamentally resolve the risk of high leverage ratio, in addition to regulatory strengthening and the management of financial chaos, the development of direct financing market is the inevitable direction.

In addition to pushing up the leverage ratio, too low a proportion of direct financing will also cause the problem of mismatched maturity structure. Specifically, indirect financial institutions, represented by banks, have relatively short maturities, and face certain liquidity pressure if they want to strengthen medium- and long-term credit support for the real economy on the asset side, so that the dilemma is also related to the optimization of the financing structure. Therefore, a core of the financial Supply-side structural reform is to vigorously develop the direct financing market and optimize the existing financial structure. Under this main line, we see that the current financial opening up, to a large extent, also revolves around promoting the development of the direct financing market. [8]

5.4. Strengthen Financial Supervision and Enhance Macro-prudential Management

The historical lessons of the 2008 international financial crisis show that financial markets are extremely pro-cyclical and contagious, and that a sound Macro-prudential policy must be established to truly guard the bottom line of no systemic financial risks, and to continue to focus on financial risk prevention and control.

The experience of financial opening in other countries around the world shows that reasonable and orderly promotion of financial opening can bring prosperity and development to a country, while the opposite may lead to crisis and recession. The consensus reached by domestic scholars is that in the process of accelerating financial opening, preventing financial risks remains the top priority. Currently, QFIIs are mainly long-term institutional investors such as pension funds, public welfare funds, and insurance funds. The types and identities of foreign investors entering and leaving the A-share market through Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect are more complex, and even include some international lobbyists, who are more dynamic and risk-aware. Therefore, while continuously expanding and opening up, it is necessary to both prevent possible systemic risks and enhance financial supervision capabilities.

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