



# IMI Newsletter

International Monetary Institute  
Renmin University of China

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## Highlight

### Launch of 2019 RMB Internationalization Report in Seoul and Seminar on China-Korea Financial Cooperation

On the afternoon of October 4, the launch of 2019 RMB Internationalization Report in Seoul and Seminar on China-Korea financial Cooperation jointly sponsored by IMI, Renmin University of China, Korea Institute for International Economic Policy (KIEP) and International Business School of Zhejiang University was held in Seoul.

Prof. Ben Shenglin, Co-director of IMI, Dean of the Academy of Internet Finance, and International Business School of Zhejiang University, Prof. Zhao Xijun, Associate Dean, School of Finance, RUC, Prof. Tu Yonghong, Deputy Director of IMI, Professor, School of Finance, RUC, Yang Pyeongseob, Associate Dean of KIEP, Dr. Kang Taesoo, former vice president of Central Bank of Korea and senior researcher of KIEP, Dr. An Sungbae, general director of Macroeconomic and Financial Research Office of KIEP, Prof. Chai Hee-Yul of Gyeonggi University, Prof. Hyun Suk and Prof. Kim Jung-sik of Yonsei University, Prof. Baek Seungkwon of Hongik University, Prof. Kim In-chul of Sungkyunkwan University, Prof. Rhee Chang Ook of Seoul women's University and other experts and scholars attended the meeting and delivered speeches. Dr. Kim Hyo Sang, director of International Financial Research Office of KIEP, chaired the meeting. This is the first time that RMB Internationalization Report was released in Korea.

Dr. Yang Pyeongseob first delivered the opening speech. He pointed out that the economic and trade exchanges between China and Korea have entered the “321 era”, that is, the gross bilateral import and export has exceeded 300 billion dollars, the direct investment has exceeded 200 billion dollars, and the number of personnel exchanges has exceeded 10 million, which has a good prospect for development. We should seize the fourth industrial opportunity represented by financial technology opportunities, further active financial cooperation, find a win-win cooperation.

Prof. Tu Yonghong interpreted the RMB Internationalization Report 2019. She first introduced the current situation of RMB internationalization and pointed out that the RMB Internationalization Index (RII) has steadily risen, from 0.02% in 2009 to 2.8% in the first quarter of 2019. RII has experienced a strong rebound after a correction, and RMB direct investment and official reserves constitute the annual highlights. Then, she analyzes the five driving forces and four challenges of RMB internationalization, which shows that long-term and unremitting efforts are needed to realize RMB internationalization. Finally, she demonstrated the relationship between high-quality development, high-level financial opening and RMB internationalization, and put forward the future work focus of RMB

internationalization from the aspects of financial market development, financial infrastructure construction, macroeconomic policy coordination, etc.

Dr. Kang Taesoo commented on the theme of "Road to RMB internationalization". He pointed out that China and Korea have close economic and trade cooperation. China is the largest exporter of Korea, and the potential demand for RMB trade settlement is huge. However, the bilateral trade is still mainly settled in US dollars at present and the matching degree between financial services and real economic demand is low. In the future, both sides should strengthen financial cooperation, carry out trade and financial two-wheel drive, and promote the internationalization of RMB.

Later, Professor Zhao Xijun and Dr. An Sungbae delivered keynote speeches successively. The theme of Professor Zhao Xijun's speech is titled "High Level Opening of Financial Industry and RMB Internationalization". He introduced the measures, fields and achievements of the opening up of China's financial industry, and pointed out that expanding the opening up of the financial industry is an inevitable requirement for China's economic development to enter a new stage, which can promote the establishment and improvement of China's system and rules, at the same time, reflects the high standard opening of finance, and is conducive to the continuous promotion of the status of RMB. However, the openness of China's financial industry still has much room to improve. The next stage of work will focus on the opening of the financial market, especially the capital market, which is the key factor to enhance the international status of RMB.

Dr. An Sungbae delivered a keynote speech entitled "Crypto Assets and Capital Flows". Taking bitcoin as an example, he pointed out that crypto assets have some transaction characteristics such as anonymity, cross-border circulation convenience and are easy to be used by illegal criminal activities such as money laundering and drug trade, which also aggravates the speculation color of blockchain industry and becomes another channel of capital outflow. In this regard, countries should strengthen the regulation of the field of encrypted assets, carry out close international regulatory cooperation, and strengthen the risk management of encrypted assets transactions.

The roundtable discussion was chaired by Ben Shenglin. The topics of discussion included China-Korea Financial Cooperation and Digital Economy and Financial Technology.

Professor Chai Hee-Yul expressed his views on regional financial cooperation in Asia. He believes that we can learn from the experience of ECU (European Currency Unit) to promote the establishment of digital currency alliance between China, Japan, Korea and other Asian countries and strengthen regional cooperation. Professor Hyun Suk pointed out that the path of RMB internationalization includes the construction and development of onshore and offshore financial markets, the use of financial technology to strengthen the linkage between onshore and offshore financial markets, and the opening of financial markets. Professor Baek Seungkwan pointed out that China may also move towards floating exchange rate system after the opening of financial market. Whether it can maintain the stability of RMB exchange rate is a matter of concern. Professor Kim In-chul affirmed the importance of capital market opening, and stressed that we should fully understand the problems and challenges brought by capital market opening, and China should gradually promote capital market opening. Professor Kim Jung-sik pointed out that there are similarities between China and Korea. He affirmed the 30-year long-term strategic plan of RMB internationalization and believed that it is worth learning



by Korea. According to Professor Rhee Chang Ook, building trust is an important factor in the internationalization of RMB. There should be a cooperative attitude between governments, and the monetary authorities should have the ability to stabilize the market.

Finally, Professor Ben Shenglin made a closing speech to the conference. He expressed his gratitude to KIEP and IMI for their cooperation in publishing the RMB Internationalization Report and carrying out discussions on financial cooperation between China and Korea. He affirmed a lot of work and academic achievements of IMI for RMB internationalization in the past decade, and pointed out that the prospect of RMB internationalization is bright, but the process is tortuous and has a long way to go. Also, he stressed that in the process of capital market opening, we should pay close attention to the trend of international capital and prevent the influx of hot money. Finally, he believes that Northeast Asian countries such as China, Japan and Korea have a good foundation for cooperation and broad prospects for cooperation. He hopes to strengthen cooperation between China and Korea in the future and contribute to human development.

## Research

### **Roundtable on Money and Finance 2019 and 4th Anniversary Forum of Suning Institute of Finance**

On November 30th, the Roundtable on Money and Finance 2019 and 4th Anniversary Forum of Suning Institute of Finance was successfully held in Beijing. The conference was co-organized by the School of Finance of Renmin University (RUC) and Suning Institute of Finance, co-sponsored by IMI, RUC Fintech Institute, and Fintech 50 Forum. The theme of this conference is "fintech and inclusive finance".

Zhao Xijun, Associate Dean of the School of Finance of RUC served as the chair of the first conference session. Zhuang Yumin, Dean of School of Finance of RUC, and Huang Jinlao, Dean of Suning Institute of Finance gave opening speeches. On behalf of the School of Finance and IMI, Zhuang Yumin extended a warm welcome to the guests present, and then elaborated on the history and significance of Roundtable on Money and Finance. She said that the financial industry must adhere to the basic principles of "integrity, innovation, security, inclusiveness, openness and mutual benefit". We should give full play to financial technology to promote the high-quality development of China's financial industry. She also announced that the "China Financial Consumption Upgrading Index Report" would be jointly released by IMI and Suning Institute of Finance at this forum, and wished this conference a complete success.

Huang Jinlao said that without financial technology, it is impossible to develop inclusive finance. Inclusiveness refers to mass customers. We must find methods to serve massive users at low cost. Benefit means that finance must benefit users so we need to reduce prices and expenses, which is closely related to the advancement of financial technologies such as artificial intelligence and cloud services. He then elaborated on the development philosophy of Suning Finance and its efforts and achievements in technological innovation as well as research and development. He wished that the cooperation between Suning Institute of Finance and the School of Finance will boost financial technology and inclusive finance.

Wang Zhongmin, Former Deputy Chairman of National Council for Social Security Fund, Wu Xiaoqiu, Vice President of Renmin University, Wang Yi, Director-General of the Financial Department of the Ministry of Finance, and Dong Junfeng, President of NetsUnion Clearing Corporation attended the conference and delivered keynote speeches. Wang Zhongmin analyzed three stages of inclusive finance from fintech perspective. The first stage is aimed at developing new technologies to boost inclusive finance. Technologies such as mobile payment, data interactive verification and 5G will cut the cost of financial services and improve efficiency. In this context, inclusive finance will boost at 2C end, especially in e-commerce, social network



and search engine. The second stage is aimed at exploring new institutions, new rules and new systems to promote inclusive finance. After making all the 2C-end scenarios a reality, we must enable the growth, development and application of data migration and data App at financial ports in order to expand, extend and broaden inclusive finance. We will first migrate data under 2C-end scenarios to financial companies and its valuation will grow rapidly, because the inclusive logic derived from financial digitization is the most effective business logic to occupy market and maximize returns. The third stage is aimed at figuring out how to make fintech universally applicable when inclusive finance has become an ultimate goal. Open source code enables unlimited and free access to source code. Cloud computing creates an infrastructure with marginal costs approaching zero. The Internet of Things makes individual behavior become an unimpeded credit asset, thereby enabling finance to realize its value. Wang Zhongmin believes that inclusive finance has become an ultimate vision. Breakthroughs in technology, social system and rules, combined with the longstanding ultimate vision can maximize financial returns for everyone. He calls on everyone to embrace this era.

In Wu Xiaoqi's speech, he has proposed the criteria for evaluating China's financial progress. The first criterion is about the evolution and improvement of finance. To evaluate whether a policy, a technology, an institutional arrangement is right or wrong, it is crucial to see whether it promotes the upgrading and optimization of financial functions in China. Currently, we are moving from financing-oriented financial system and functions to an era where both financing and wealth management are equally important. The second criterion relates to financial efficiency and security. Investors are wise enough to weigh risks against returns when purchasing stocks. However, the prerequisite lies in that all the information disclosed must be true. It is prohibited to falsify accounting statements, tell lies or conduct any illegal acts. On the premise of ensuring the transparency of the market, investors will absolutely make market judgments based on the disclosed information. Only a handful of investors are irrational that makes the market livelier. Therefore, for the first, it is important to make it mandatory to disclose true information. For the second, it is significant to grant returns to investors. China wants to open its financial market while the overall infrastructure is relatively poor. And the financial efficiency and security can be regarded as prominent criteria. The third criterion is inclusive finance which embodies the principle of fairness. Compared with green finance and bitcoin, inclusive finance boasts strong vitality in logic. With the emergence of technology, the platform of finance has been expanded infinitely, and its service chain has been scaled up to constitute a platform without boundary. Inclusive finance emphasizes on granting general access to people with aim to delivering benefits. General access represents that every person is equal to enjoy the rights while delivering benefits means to tap potential. And general access is our top priority. It is required to actively propel the whole process and facilitate innovation for inclusive finance to meet these three criteria.

Song Ke, Deputy Director of IMI and Deputy Secretary of the Party Committee of the School of Finance of RUC, moderated the second session. Xu Hongyan, assistant to the President of Suning Institute of Finance, Dou Renzheng, CEO of Chongqing Trust, Wang Wei, Founder of Legain Group, Wang Weidong, Deputy General Manager of the Department of Inclusive Finance of China Construction Bank, Wu Zhifeng, Director of the International Strategy Department of China Development Bank Research Institute and Lu Zheng, Director of the Legal Compliance Department of China Internet Finance Association, participated in the

seminar themed as “merits and demerits of inclusive finance” and conducted discussions about the boundaries and priorities of inclusive finance.

Luo Yu, Associate Professor of the School of Finance, Xia Le, Chief Asian Economist of the Research Department of BBVA, Xu Hejun, General Manager of the Department of Strategic Innovation of Beijing Financial Holdings Group, Xue Zhenghua, Vice-President of the Institute of Science of Technology of Tsinghua PBCSF, Yan Wentao, Honorary Research Fellow and CEO of CCX Credit Technology, Fu Yifu, Assistant to the Director of the Research Center of Consumer Finance of Suning Institute of Finance, participated in the seminar themed as “Fintech facilitates inclusive finance to make breakthroughs” and conducted discussions about how Fintech promotes inclusive finance and small and micro enterprises.

In the end, IMI and Suning Institute of Finance jointly released the *Report on China's Financial Consumption Upgrading Index*. With the help of big data platform sponsored by Suning Group and based on the macro and industrial statistics released by the government, the report boasts a solid foundation of a set of scientific and precise system for measurement. This paper has carried out quantitative evaluation on the development trend of the consumption structure and consumption quality of Chinese residents from macro, medium and micro perspectives. In order to accurately outline the market prospects and provide reference for the government, enterprises and investors, this report strives to present the development trend of consumption upgrading of the whole country and 31 provinces, cities and autonomous regions in a comprehensive and authentic way. On the day of the conference, the School of Finance of RUC and the Suning Institute of Finance held the signing ceremony of strategic cooperation and the unveiling ceremony of the practice base for internship.

## **Youth Roundtable on Money and Finance (No.5): New Trends in Cross-border Finance under the Belt and Road Initiative**

On November 24<sup>th</sup>, the Youth Roundtable on Money and Finance themed new trends in cross-border finance under the Belt and Road Initiative was held in Renmin University of China. This meeting was convened by Zhu Yugeng, IMI research fellow. Qu Fengjie, senior research fellow of IMI and member of the academic committee of the Institute of Foreign Economic Research of NDRC, Qu Qiang, assistant director and research fellow of IMI, Wang Shu, director of the Belt and Road Initiative Coordination and Promotion Department of China Export Credit Insurance Corporation, Liang Chengsi, deputy director of the Risk Office of China-LAC Fund and other experts attended the session and delivered keynote speeches. Qian Zongxin, senior research fellow of IMI, research fellow Liu Hongwei and Jiang Bo participated in the meeting. Firstly, Zhu Yugeng delivered a keynote speech on Belt and Road Initiative and cross-border



finance. He pointed out that financing is a critical foundation of the BRI. However, the financing gap was relatively large, and the role of finance was still inadequate in terms of serving real economy and promoting the financing of the BRI construction. By sharing the policy documents from the Ministry of Commerce, State Administration of Foreign Exchange and other departments, he noted that, overseas engineering contracting companies should shift themselves into ones elaborating design and consulting, investment, construction and operation, whole industrial chain development. To realize such goal, enterprises, banks, China Export and Credit Insurance Corporation and other financial institutions aiming at going global were faced with challenges. Moreover, he introduced various financial products and innovation in finance serving the BRI, such as ECA loan (export credit), offshore debt under onshore guarantee.

Qu Fengjie analyzed the current situation and existing problems of the work during the implementation of the BRI. She said that much of positive progress had been achieved, as the list of outcomes of this year's summit has been further expanded, and the coordination system had been improved. However, there were still some problems in the promotion, cooperation system construction, risks management, project financing and implementing approaches. These factors combined lead to international doubts about the transparency, bond trap, interference in other countries' governance, promotion of Chinese model. Besides these problems, domestic enterprises lacked high capacity and international standard, had difficulties in financing, and faced prominent risks when cooperating with other countries. These problems also posed great obstacles in advancing the BRI. However, in the future, the high quality development of Chinese economy will put forward new and higher requirements for BRI. Just like the transition from freehand brushwork to meticulous realistic painting, BRI will further push forward. On the one hand, we will step up the implementation of the specific cooperative tasks. On the other hand, we will boldly innovate in mechanism to explore a new mode of regional cooperation.

From the perspective of policy finance, Wang Shu interpreted BRI's financial trend. He first explained the narrow and broad definition of policy finance, and then put forward several balances that policy finance needs to maintain, including the role of financial funds vs. sustainable development, policy effect vs. risk prevention and control. He emphasized the importance of the prevention and mitigation of major risks, and high-quality development.

Qu Qiang analyzed the phenomenon of economic development from the perspective of politics and culture, and pointed out that political and cultural factors cannot be ignored in the analysis of economic investment. In the short term, political factors will have a greater impact on the investment prospects, and cultural factors will also show direction for investment, the influence of which may even surpass that of political cycle. Therefore, he stressed that during the promotion of the Initiative, we need to take into account the local political and cultural influence, make a reasonable orientation, and grasp the right direction.

Liang Chengsi briefly introduced the status quo and background of China-Latin America cooperation fund (including the overall situation and political and economic status of Latin America), and analyzed the prospect of China-Latin America cooperation. He pointed out that BRI investment in Latin America coincides with the needs of local economic development, thus enjoying huge market space. At the same time, he also mentioned some problems BRI faces in Latin America, such as the lack of understanding of local partners.

## Macro-Finance Salon

### Editor's Note:

*Macro-Finance Salon is a high-level academic salon initiated by IMI and Department of Money and Banking of School of Finance at RUC. The salon aims at promoting the study and practice of Macro-Finance, as well as its disciplinary program, while carrying out in-depth research on Macro-Finance theory, policy and strategy. The concept of "Macro-Finance" stems from Professor Huang Da's fundamental idea of integrating macro and micro financial theory, which systematically regards finance and real economy as a whole. In the book of "General Theory of Macro-Finance", Chen Yulu, Deputy Governor of PBoC, demonstrates the fundamental connotation and methodology of Macro-Finance, laying theoretical and empirical foundation for Macro-Finance framework, which facilitates long-term economic growth and stronger national competitiveness.*

### **Macro-Finance Salon (No. 130): Changes in the Core Indicators of China's National Economic Accounting since the Establishment of P.R. China**

On the afternoon of October 11, the Macro-Finance Salon (No. 130) was held in Room 830, Mingde Main Building, Renmin University of China. Professor Xu Xianchun, former Deputy Director General of the National Bureau of Statistics, director of China Data Center of Qsinghua University, attended the salon and made a speech titled "Changes in the Core Indicators of China's National Economic Accounting since the Establishment of P.R. China". Wei Benhua, former Deputy Administrator-in-bureau, SAFE, former IMF Executive Director for China, Xu Xiongfei, Deputy Director-General of the Accounting Department of the National Bureau of Statistics, Yang Haizhen, Professor at the University of Chinese Academy of Sciences, member of the Central Finance Committee of CNDA, Zhao Weijiu, Director of the Policy Research Office of Beijing Local Financial Supervision and Administration, Huang Jun, Deputy Dean of the School of Applied Economics of RUC, Deputy Director of China Art Finance Institute participated in the salon. Tu Yonghong, Deputy Director of IMI, Professor at School of Finance of RUC presided over the salon.

Professor Xu Xianchun gave a detailed introduction to the changes in the core indicators of China's National Economic Accounting in the past 70 years in three parts. First, the main content of China MPS national income accounting. He pointed out that MPS is a set of national economic accounting system established by the Soviet Union to adapt to the needs of the highly centralized planning management of the national economy. National income is the core indicator of this system, including national income production accounting and national income use accounting. Second, the transition from MPS national income accounting to SNA gross



domestic product accounting. He analyzed the transformation process, the transformation method, and the conversion of historical data. Third, the development of China's GDP accounting. He proposed the following four aspects: first, the definition of GDP and the revision of production scope; second, the enrichment and standardization of the source of resources; third, the revision and refinement of basic classification; fourth, the improvement of accounting methods.

In the discussion session, Wei Benhua raised questions about the selection of domestic and international standards for the core indicators of GDP accounting methods and the impact of purchasing power evaluation PPP conversion methods on GDP accounting. At the same time, he said that we should encourage more young people to gradually play a greater role in the field of international intelligence.

At the end of the meeting, Professor Xu Xianchun made detailed answers on the data credibility, the cause of the gap between real GDP and nominal GDP proposed by the guests and other participants, and expressed hopes for further discussion with everyone.

### **Macro-finance Salon (No. 131) and China-Korea Economic, Financial and Trade Cooperation Seminar**

On the morning of November 13, Macro-Finance Salon (No. 131) and China-Korea Economic, Financial and Trade Cooperation Seminar, co-hosted by IMI and Korea Institute for International Economic Policy (KIEP), was held in Renmin University of China. Il Houngh Lee, Member of Monetary Policy Board, Bank of Korea, Sungbae An, Director of the International Macroeconomics and Finance Department of KIEP, and Dr. Kyu Yub Lee, Research Fellow of KIEP, respectively delivered speeches on China-Korea cooperation in finance, economy and digital trade. Wei Benhua, Former Deputy Administrator-in-bureau, SAFE and Former IMF Executive Director for China; Ben Shenglin, Co-director of IMI, Founder and Dean of Zhejiang University Academy of Internet Finance, and International Business School; Zhao Xijun, Associate Dean, School of Finance, RUC; Tu Yonghong, Deputy Director of IMI attended the meeting and made comments. The meeting was chaired by Zhang Zhixiang, Former Director-General, International Department, PBoC and Former IMF Executive Director for China.

In his opening speech, Ben Shenglin first thanked the KIEP guests for their visit on the occasion of the 10th anniversary of IMI. He said the important progress made in the negotiations on the Regional Comprehensive Economic Partnership (RCEP) in the Asia-Pacific region is a major and positive sign for regional and global economic development, given the uncertain prospect of China-US trade frictions. The establishment of a free trade area covering nearly half of the world's population and nearly one third of the world's trade volume will bring new development opportunities for the global economy. At present, China-Korea economic and trade exchanges have entered a "321" era in which bilateral trade exceeds \$300 billion annually, direct investment exceeds \$200 billion, and personnel exchanges exceed 10 million. Further promoting China-Korea exchanges and cooperation and East Asia regional integration are of great significance to promoting regional economic growth and globalization.

Dr. Il Houngh Lee delivered a speech entitled "China-Korea financial cooperation". He pointed out that the dollar had dominated the international monetary system since the First

World War, both as a reserve currency and a payment currency. Currently 60% of the world's debts are denominated in dollars. Dollar liquidity in the market, therefore, plays an important role in global payment system operation. It also means Federal Reserve policies have stronger spillover effect. Reviewing the cooperation between China and Korea, the share of bilateral trade settled in RMB has been stable since 2016. Due to the narrow bid-ask spread, the implementation of preferential policies, the won against the RMB exchange rate has risen. Dim sum bond issuance and RM accounts by Korean companies are sensitive to market price. This suggests that with the infrastructure in place, markets begin to play an important role in determining the use of money. Finally, he noted that Asian countries still needed to build a more stable financial safety net through bilateral exchanges. The international monetary system needs more diversified anchor currencies, with digital currency as an option. Although the use of digital currency still faces challenges, it can be used as a reserve currency similar to SDR. Wei Benhua pointed out in his comments that although China's economic growth rate dropped to about 6%, it was still very high in the world. China has a solid economic foundation and a large share in international transactions. China will learn experience of Korea's early economic transformation and deepen economic reform to go through the economic transition period.

The theme of Dr. Sungbae An's speech is economic cooperation between China and Korea. He stressed that China is Korea's main export destination, and the total value and share of goods exporting to China are constantly expanding. In recent years, Korea has gradually lost its traditional competitive edge, such as price advantage, in the international trade market. Korea has shifted from a heavy industrial products exporter to a main exporter of electric cars, batteries, biomedical products and so on. Great changes have taken place in the types of goods imported and exported from Korea to China, the scale of trade and the bilateral FDI as well. Sungbae An also touched upon the division of global value chains (GVC) and the cross-border production composed by simple GVC and complex GVC. As China becomes stronger, its role in the global value chain has shifted from processing and exporting final products to that of intermediate products, namely, from simple GVC to complex GVC. China has done better than Korea in this respect. Through the cooperation of global value chains, China has contributed to the growth of Korea's GDP. In the end, Sungbae An concluded that the economic cooperation between China and Korea can be reinforced through three aspects: service industry, high-tech industry and multilateral free trade agreement. Professor Tu Yonghong expressed her approval in this respect. Among the changes in the structure of China's trade with the United States, the export of high-tech products has risen exponentially, mainly due to international investment, imports of high-tech raw materials from the United States, and the growth of its own GDP. She also believes that the priority in the future is to strengthen direct investment between China and Korea, reform the industrial structure of the two countries, and establish closer ties, especially in electronic products and medicine.

In terms of trade cooperation between China and Korea, Dr. Kyu Yub Lee emphasized the cooperation between China and Korea in digital economy and e-commerce. As the Internet develops, the flow of data is increasingly important. It's worth noting that, the number of patents applied by China has increased a lot in recent years, surpassing many other countries. The quality has also been improved, mainly reflected in artificial intelligence (AI) technology, big data and so on. It's fair to say that China has gained the strength to rival with the United States.



One of the reasons why China's technology is taking such a big stride is its huge investment in research and development, which is second only to the United States. China accounts for a large share of the number of publications in major scientific research areas, and the amount is increasing faster and faster. China also has the largest e-commerce market in the world, while Korea ranks only sixth in B2C e-commerce sales. Kyu Yub Lee believes that China, Japan and Korea need to establish a common e-commerce market, which, once completed, will create great value. Professor Zhao Xijun quoted the data from the report on the Internet and e-commerce to illustrate the vigorous development of the digital economy in China and its huge contribution to the GDP. He stressed that in China, governmental policy plays a very important role. If China and Korea want to cooperate and expand bilateral trade, they need to start with the introduction and implementation of relevant policies. In doing so, there will be more potential opportunities for cooperation between China and Korea in the future.

### **Macro-Finance Salon (No.132): International Currencies in History**

On the afternoon of November 19, the Macro-Finance Salon (No. 132) was held in Renmin University of China. Georges Depeyrot, director of the research department of National Center of Scientific Research in France, delivered a speech on the topic "International Currencies in History". Professor He Ping and associate professor Luo Yu from School of Finance of RUC attended the salon and made comments. The meeting was presided over by Professor He Ping. Professor Georges Depeyrot divided the third century B.C. to the 18th century A.D. into four periods, talked about the main international currencies in each period, and analyzed the reasons why the sovereign state of the currency won the currency war. Historically, several countries, including Rome and Greece, Byzantium and Islam, Italy and Spain, have experienced different currency wars. In this process, international trade developed from currency to IOU, and public banks emerged. History gives us an experience: there is a major currency in each stage, but it will inevitably decline gradually. After the fixed system is broken, a new currency will appear. And behind this is states' power. After the 17<sup>th</sup> century, the development of modern financial market and the emergence of various financial instruments made the cost of currency conversion lower, and the international currency was thus more in line with the interests of investors. As the Bretton Woods system collapsed, US dollar did not stand firm as the top international currency, and more of its competitors emerged. The future international currency is likely to be composed of US dollar, euro and RMB.

After the keynote speech came the discussion session. Associate professor Luo Yu summed up the main points that professor Georges Depeyrot said, and put forward opinions on the future trend of currency competition. One of the main problems facing euro is that there is no unified national concept behind it, and the lack of unified fiscal policy restricts its further development. With the emergence of digital currency, the development of international currency might evolve into the competition between mainstream currency and alternative ones.

## Tao Xiang International Finance Lectures

### Editor's Note:

*Professor Tao Xiang is one of the famous educators of international finance in China, and he is also the founder of international finance subject in Renmin University of China, who is at the meantime highly admired by a number of students. At the 10th anniversary of the professor's pass-away, proposed by graduates who had majored in international finance in RUC, the School of Finance and International Monetary Institute of RUC initiate the Tao Xiang International Finance Lectures, invite experts and scholars in international finance to give lectures and share their experience with the students, in order to cultivate outstanding talents for China to develop into the global finance center.*

### **Tao Xiang International Finance Lectures (No. 18): International Practice of Industrial Finance - Financial Road of GE**

On the evening of October 28th, Tao Xiang International Finance Lectures (No. 18) was successfully held at Renmin University of China. Ding Yi, Chairman of Huaneng Capital Services Company attended the event and delivered a speech entitled “International Practice of Industrial Finance –Financial Road of GE”. The lecture was chaired by Tu Yonghong, Deputy Director of IMI and Professor of the School of Finance of RUC. Duan Yiping, Director of R&D Department of Huaneng Capital Services Company, Zhao Xijun, Associate Dean of the School of Finance, Wang Fang, Deputy Director of IMI and Professor of the School of Finance, and the postgraduate students of the School of Finance attended the lecture.

Dr. Ding Yi first explained the concept of industrial finance. She mentioned that industrial finance is different from other pure social finance. It is a financial entity initiated and controlled by an industrial group. Then, Dr. Ding gave a detailed introduction to GE Finance from its birth and development to its challenges and problems. She compared international and domestic cases, emphasized the role of leaders in the enterprise, and pointed out the two cores of GE team: one is industry plus finance, and the other is talent. Finally, Dr. Ding provided her perspective on industrial finance. China's current industrial finance is featured by rapid yet unbalanced development, similar patterns and uncertain prospects. The priority of industrial finance is to choose the right strategy and to focus on national policy and strategy, supply-side structural reform, main business and industry.



# ***Exchange***

## **Launch of the IMF Global Financial Stability Report 2019**

On the morning of November 5th, the Launch of the IMF Global Financial Stability Report 2019 was jointly sponsored by the IMF Representative Office in China and IMI. Fabio M. Natalucci, Deputy Head of the IMF's Monetary and Capital Market Department; Wu Xiaoqiu, Vice President of Renmin University of China; Wei Benhua, former Deputy Administrator-in-Bureau of the State Administration of Foreign Exchange (SAFE) and former IMF Executive Director for China; Tu Yonghong, Deputy Director of IMI and Professor of the School of Finance at RUC; and experts and scholars from financial management departments, scientific research institutes and financial sectors attended the meeting and gave speeches. The meeting was chaired by Zhang Zhixiang, former director general of the International Department of PBoC, and former IMF Executive Director for China.

In the opening speech, Professor Tu Yonghong said that the IMI, as a long-term partner of the IMF, regularly releases joint research reports in the field of international economy and finance, and is committed to the research and discussion of international macroeconomics, monetary and financial strategies. According to Professor Tu, IMI has cultivated international financial and diplomatic talents who shoulder the mission of the times and contribute to the development of the global financial industry. She sincerely thanked all parties for the support for IMI.

Fabio M. Natalucci first pointed out in his speech that in the context of increasing global economic downside risks, the Federal Reserve and central banks have begun to implement loose monetary policies, and this situation will persist for a long time. The "Global Financial Stability Report" pointed out three weaknesses in the current global financial market, which would amplify economic shocks and increase financial risks. The first is the intensification of corporate liabilities and the increase in risk at the financing level; the second is that institutional

investors tend to hold assets with higher risks and poorer liquidity, such as bonds at grade B or below; market economies have become increasingly dependent on external debt. In general, he believes that global financial vulnerability is at a high level, and the occurrence of a black swan incident may have a significant negative impact, but this does not mean that the global economy will decline. He then pointed out that in this context, institutional investors also need to strengthen supervision and disclosure of assets and liabilities. Financial conditions in emerging markets are favorable, but their external liabilities are growing rapidly, and there are risks in the long run, and they should be treated with caution. At the same time, policy makers should also strengthen supervision and carry out their work more cautiously. To prevent sudden outbreaks of crisis in weak links, it is not suggested to immediately tighten monetary policy to prevent sudden outbreaks of crisis in weak links.

Vice President Wu Xiaoqiu pointed out in his speech that the global financial market is currently in an era of high uncertainty. First, the world has entered an era of low interest rates; second, long-term government bond yields are lower than short-term government bond yields; third, the price of gold continues to rise; fourth, people tend to reserve cash rather than allocate financial assets; fifth, financial asset prices in the US continue to rise, and the Dow Jones index equity assets registered several records. China's current degree of financial openness is still relatively low, foreign investors' investment in China's capital market accounts for only 2%, and RMB has not yet fully realized free trade. The current opening path is mainly about allowing foreign financial institutions to enter the Chinese market. In the process of increasing financial openness in the future, we must continue to promote China's financial reform and take the following measures: First, we must unswervingly follow the path of a socialist market economy, truly understand the modern market economy, demonstrate full competition and increase the degree of marketization of the economy; second, it is imperative to further improve China's rule of law foundation, especially in terms of intellectual property protection and property protection; third, we must improve the transparency and continuity of policies, and to strengthen the foundation of China's financial opening. Finally, he expressed his optimism about China's financial opening-up.



In Wei Benhua's speech, he started with the key idea that the current financial environment was relatively stable with a low interest rate, but there were three risks, namely excessive corporate debts, investment in risk assets and solvency of foreign debts. The Report had it that two factors were playing a vital role. First, global economic slowdown. The Quantitative Easing policies published by the Federal Reserve since the 2008 crisis impacted other nations' policies, resulting in a low ROI across the globe. When the Federal Reserve injected more liquidity into the market, China also adopted more targeted monetary policies to adjust the market and to monitor the financial institutions. Second, intensified trade tension. America should lodge a complaint with WTO instead of imposing unilateral sanction against China. China would prefer to reaching cooperation through negotiation to avoid negative influence on global economy. There were still a series of problems in China's financial system and China would deepen reform and opening up in the future. China's current development situation was different from that of developed countries, thus more targeted policies would be necessary. As for the foreign debts of the emerging market, Wei Benhua pointed out that China's Belt and Road Initiative was a win-win strategy. When China invested in infrastructure construction abroad, the host countries should also properly treat the rising of foreign debts. Finally, Wei Benhua stressed the consistency of economic and financial policies and the importance of financial supervision. China needed to deepen reform to improve the openness of its financial system and to further introduce foreign capital.

In Professor Zhao Xijun's speech, he pointed out that after the 2008 financial crisis, consensus had been reached on the philosophy and measures of stabilizing global finance, such as the establishment of systematic risk and macro-prudential regulation framework made by the Financial Stability Board, new regulatory requirements on systematically important institutions made by Basel III and macro-prudential management system established by central banks and regulatory authorities. However, the current stability was challenged by various non-traditional factors: the dramatic fluctuation of Dow Jones Index and Shanghai composite index, frequent and large swings in American market caused by Trump's Tweets, fluctuation of gold and Bitcoin prices, etc. All these required us to consider whether the financial-regulation-centered systematic risk management framework would be able to prevent the instability caused by

“macro” financial risks and financial market risks. He also mentioned some new perspectives on financial stability: first, the Baoshang Bank and Jinzhou Bank incidents alerted us the influence of the relationship between non-systematically important financial institutions; second, the impact of information represented by China-US trade friction, Trump’s Tweets and Brexit; third, the possible influence of the fluctuating price of legal tender brought by digital legal tender; fourth, the conservative tendency of global investors’ appetite for risk.

## **Launch of 2019 Tianfu Financial Index and Symposium on Financial Supply-Side Reform**

On the afternoon of November 21, the Launch of 2019 Tianfu Financial Index and Symposium on Financial supply-side Reform co-hosted by IMI and China Fortune Media Group and supported by Sichuan Financial Academy and Sichuan Tianfu Bank was held in Chengdu.

Ouyang Zehua, vice chairman of the CPPCC Sichuan Provincial Committee and director of Sichuan Local Financial Supervision Bureau, Xie Ruiwu, member of the Standing Committee of Municipal Party Committee and executive vice mayor of Chengdu Municipal Committee, Zhou Xiaoqiang, secretary of the Party committee of Chengdu Branch of PBoC and president of Sichuan Financial Academy, Liu Yuanchun, vice president of Renmin University of China, Han Xudong, vice president of China Fortune Media Group and chairman of Huaxin Financial Holding Asset Management Co., Ltd., Huang Yi, President of Sichuan Tianfu Bank, and other guests attended the launching ceremony.

He Qing, Professor of the School of Finance of RUC, interpreted the 2019 Tianfu Financial Index (TFFI). He pointed out that TFFI followed the “theory-based, policy-supplemented and practice-oriented” framework used in the previous two years, and evaluated the Tianfu



Financial Index and its eight sub-indices in four municipalities directly under the central government, 26 provincial capitals (except Lhasa) and five cities with separate plans. TFFI gives full consideration to the different characteristics of traditional financial model and emerging financial formats, comprehensively reflects the influence of traditional financial model with four sub-indices namely “financial market”, “financial institutions”, “working environment” and “human resources”, evaluates the current situation of emerging financial formats with four sub-indices namely “science and technology finance”, “green finance”, “cultural finance” and “rural finance”, and introduces “consumer finance” and “digital inclusive finance” to observe financial sector. Tianfu Financial Index comprehensively reflects the overall situation and characteristics of the financial development of each central city. It is divided into three national financial centers and six regions to analyze the progress and shortcomings of the financial development of 35 cities. Therefore, it is of great significance to strengthen mutual understanding, realize healthier competition and coordinated development of each central city, and provides guidance for local governments to formulate targeted policies.

Yang Tao, assistant director of the Institute of Finance of CASS, and Li Jianjun, dean and professor of the School of Finance, Central University of Finance and Economics commented on the report respectively.

Yang Tao first elaborated his reflection on TFFI. He believed that the index of urban financial development needs to be objective, systematic and operable, and affirmed the Tianfu Financial Index in these aspects. To view Chengdu’s financial development behind TFFI, it is found that the rural financial development is well, but the development of rural industry and consumption is insufficient. TFFI shows that there is great competitive pressure on human resources and science and fintech, especially the latter one, which is more worthy of attention since its purpose is to promote the development of science and technology enterprises and progress of science and technology, and it is also an important source of long-term economic growth. Then, Yang Tao proposed that the core of financial supply-side reform in the future is to properly manage risk and security. We need to get rid of the debt-growth dilemma; strengthen the financial system to ensure financial security; comply with the needs of the new economy and effectively serve entities; and adhere to the principle of opening up and win-win

cooperation. Finally, with regard to future development, Yang Tao believes that under the framework of financial index, financial supply-side reform and local financial development need to grasp typical elements such as talent, technology, data, scenario, capital, industry, supervision, policy, hardware and financial culture.

Li Jianjun mainly commented on the function positioning, characteristics and suggestions of TFFI in five major points. First, TFFI and China Financial Center Index (CFCI) have different functions. TFFI aims to guide the central cities to achieve healthier competition and coordinated development in the process of establishing regional financial centers, and its positioning reflects the policy guidance. Second, TFFI embodies the trend that financial sector should serve real economy. Third, TFFI has more connotations and diversified system. Fourth, the design theory and method of TFFI are comprehensive, takes into account both the traditional financial principles such as financial development theory and regional financial theory, and national financial policy and industrial policy as the guide. Fifth, with regard to improving TFFI, he proposed the following suggestions: first, appropriately increase the indicators to measure the satisfaction of financial consumers; set up reverse indicators to reflect the effect of financial risk prevention. Second, the some indicators need to be reconsidered, the particularity of which in urban financial development needs to be taken into account. Third, the frequency of TFFI release should be increased to let it better play a leading and referential role.

After the launching meeting, the Symposium on Financial supply-side Reform and Roundtable on Money and Finance Chengdu Summit was held. Liu Yuanchun, vice president of Renmin University of China, and Zhou Xiaoqiang, Party Secretary of Chengdu Branch of PBOC, attended the forum and delivered keynote speeches.

Liu Yuanchun delivered a speech entitled “Financial supply-side Reform is the Approach to Improve Financial Adaptability”. Liu Yuanchun stressed that in an era of great transformation, upgrading, innovation, and opening up, financial adaptability needs to be improved from several aspects: first, the structural and aggregate perspective required by the transformation; second, the adaptability between industrial upgrading, mass entrepreneurship, mass innovation and the financial system; third, the financial adaptability in the era of great opening up; fourth, the financial adaptability in the period of long-term stagnation of the global



economy and China's economic breakthrough.

Zhou Xiaoqiang put forward that: first, deepening the structural reform of the financial supply-side is of great significance. It is the objective requirement for financial services to serve the real economy, the necessary financial support to promote the supply side reform, and the fundamental strategy to prevent and resolve financial risks. Second, to deepen financial supply-side reform, we need to focus on four aspects of financial services, specifically including the insufficient development of direct financing in the financial market, the inadequate services for private SMEs, the low quality of financial innovation and the lack of financial service capacity of small and medium-sized banks. Third, to deepen financial supply-side reform, we should adhere to the new development visions, strengthen the function of financial services, and serve the real economy and people's life with higher quality. Among them, innovation is the first driving force, which should be further deepened in the future to promote the optimization of the financial system and the improvement of service efficiency; coordination is the internal requirement, which should be guided by market demand, and we should actively build a multi-level, widely-covered and differentiated financial institution; green is an important foundation, which means that we should vigorously promote sustainable economic development; opening is the only way to further promote two-way opening and better support the related financial services of Belt and Road Initiative; sharing is the fundamental goal, which means we should develop inclusive finance, thoroughly implement the strategy of precision poverty alleviation and rural revitalization, and deepen the financial services of private and SMEs.

Then, the guests conducted a roundtable discussion on the topic of "financial supply-side reform to promote high-quality economic development", chaired by Guan Wei, professor of the School of Finance and executive director of Credit Management Research Center of RUC. Participants of discussion include: Zeng Gang, deputy director of National Institution for Finance and Development, Fang Xin, vice president of Chengdu Branch of PBoC and executive vice president of Sichuan Finance Academy, Zhao Xijun, associate dean and professor of School of Finance of RUC, Zhou Yinggang, associate dean of Wang Yanan Institute of Economics and Professor of Department of Finance of Xiamen University, Tu Yonghong, deputy director of IMI and Professor of School of Finance of RUC, and Wang Qing, director

of China Financial Research Center, Southwest University of Finance and Economics.

Zeng Gang pointed out that financial supply-side reform is a long-term process, which needs a long time and institutional construction. Fang Xin shared three thoughts: first, from the diversity and complementation of financial institutions, he proposed that small and medium-sized banks such as city commercial banks should deepen their reform; second, financial contracts should realize the differentiation and adaptability of financial products under the consideration of the balance of income and risk; third, they should realize the normalization of bankruptcy mechanism, make good use of it, straighten out our national economic metabolism, and improve the quality of economic development. According to Zhao Xijun, the multi-level capital market system framework has been built, but it also faces problems and challenges. In the future, there is still much to be done: first, all levels of the capital market should be better coordinated and linked; second, the opening to international market of our capital market should be improved; third, investors' interests should be better protected. Zhou Yinggang believes that it is more appropriate for financial supply-side reform to increase cash flow than to reduce the valuation of fixed assets such as properties. The new land supply is changed from the leasehold system to an annual leasehold system, and sustainable cash flow is obtained by activating the stock, and systematic financial risks are gradually solved through deleveraging. Tu Yonghong believed that high-quality development and RMB internationalization complement each other. He also put forward the process, main challenges faced and the key work of RMB internationalization. Wang Qing pointed out that in the new era, the connotation of financial supply-side reform includes adaptability, compatibility and universality. Fintech is the tool to promote financial supply-side reform, which can be used in the field of inclusive finance, but will also cause the division of financial institutions. Although fintech is not omnipotent, it enjoys broad prospects. In the meantime, new risks should also be taken into account.



## **Assistant Director of IMI Speaks on China's Investment in Africa at the Emerging Markets Macro Conference in Dubai**

On November 14th, Qu Qiang, Assistant Director and Research Fellow of IMI, at the invitation of Commerzbank of Germany, made a speech at the 13th Emerging Markets Macro Conference in Dubai. The speech centered on the investment and trade policy of China in Africa under the Belt and Road Initiative

Qu Qiang believes that in the era of asset shortage and negative interest rates in major economies around the world, various projects invested by China under the Belt and Road initiative are favorable arrangements for win-win development of all parties.

As the largest remaining growth spot in the world, Africa is still in the development stage from 0 to 1, with high investment risk but high growth potential. In the stage of high-risk investment, if a big economic country takes the lead in investing in infrastructure and guaranteeing the basic funds of the project, on the one hand, it can greatly reduce the risks of other partners; on the other hand, it can continuously increase the welfare of all African invested countries and improve the potential growth efficiency. Big international banks have actively participated in the syndicated loan projects of relevant projects, supplemented the funds needed by African countries, diluted the potential risks and shared the future growth income. It is a typical win-win situation.

But some countries still hold certain prejudices and misunderstandings about China's investment and trade in Africa.

Qu Qiang explained, "is China's investment and trade with Africa a new round of Marshall Plan?" Will Africa be plundered by resources? Is this neocolonialism?" These views are all wrong.

First of all, the Belt and Road Initiative is not the national plan of the Chinese government. It is China's proposal and invitation to all countries and the public and private sectors of the world. It is a common cooperation project through which all sides build, share and win together. One of the most basic and often overlooked facts of all countries is that 90% of the participants in China's investment and trade in Africa are the vast number of small and medium-sized private enterprises in China, and even a large part of them are "husband-and-wife shops" or "family factories". They come here to pursue their own happiness by making use of the commercial potential of Africa.

85% of employees of Chinese-funded enterprises are natives in Africa. The proportion of local management personnel in Chinese-funded enterprises has exceeded 45%. More than 80% of Chinese-funded enterprises transfer technology to Africa. More than half even transfer the latest or customized technology. China's investment in Africa has contributed greatly to poverty alleviation and income increase in the host countries. The income they have created is distributed to every African worker in the form of wages, welfares and products, rather than to the governments and large business owners.

Secondly, China's investment in Africa is basically long-term FDI, which is "good money." Even the western most right-wing media has said that China has engaged in "colonial occupation" of infrastructure by building a lot of bridges and roads in Africa. This logic is very strange. China uses its own money to build a large number of bridges, roads, and high-speed rails in Africa which are unable to take away and can benefit the livelihood of the generations of African people for a long time, and greatly increase the welfare and potential productivity of African countries. Describing construction and empowerment as colonial plunder is an upside-down nonsense. Especially in the context of widespread excess production capacity and a sharp drop in international raw material prices, resources can be purchased directly at low prices in the market. It is ridiculous to plunder Africa's resources with the cost of losing reputation and so much efforts. Chinese companies have brought hundreds of thousands of direct employment and millions of indirect employment to African countries, enabling a large number of African youths to learn technologies, increase incomes and gain happiness, which makes a strong contrast with the Western violent colonization, featuring robbery and unscrupulous deals.

It is true that Chinese companies in Africa still face problems such as unfamiliarity with local culture, language barriers, lack of understanding of local laws, and lack of attention to environmental protection. However, these issues have been gradually solved in the past few years. Chinese companies are getting better in making roots in and integrating into the local community.

During the election, some Western politicians cater to populism with scaremongering, and use defamation and singularity to divert attention from their contradictions. They will eventually be abandoned by history. Fortunately, the Western business elite is still rational. The right thing is to achieve win-win cooperation and make all parties enjoy the benefits by investing with Chinese companies and making big cakes with African countries.



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