



# IMI Newsletter

International Monetary Institute  
Renmin University of China

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## Highlight

### **Nobel Economics Laureate Appointed as Honorary Chairman of IMI Academic Committee**

On December 17, Macro-Finance Salon (No. 84) and Appointment Ceremony for Honorary Chairman of IMI Academic Committee was held jointly by the School of Finance and IMI of Renmin University of China and the Global FinTech Lab (GFL).

Wu Xiaoqiu, Vice President of Renmin University of China and Edward Prescott, the 2004 Nobel Laureate in Economics and Professor of Arizona State University attended the salon and both gave keynote speech on “Global and China Economy”. Present at the salon are Zhuang Yumin, Dean of the School of Finance, Renmin University of China, Wei Benhua, former deputy administrator-in-bureau of the State Administration of Foreign Exchange, Liu Jun, vice president of China Investment co. LTD, Mei Xin, director of Global FinTech Lab, Zhang Jie, direct of IMI, Xiang Songzuo and Song Ke, deputy directors of IMI and Qu Qiang, assistant director of IMI. The salon was chaired by Cao Tong, co-director of IMI and chairman of XFintech.

Prof. Zhuang Yumin addressed the welcome speech. She said IMI has achieved fruitful outcomes in recent years. In the future, IMI will give priority to improving its authority in the international academia so that it can play a bigger role in the international arena. Prof. Zhuang then expanded her welcome to every guest and gratitude to every expert for their attention and long-term support to IMI, and wished the conference a complete success.

Prof. Edward Prescott gave a keynote speech titled “Global Economy: Current State and Future Prospects”. He started the speech with the review of the development of US economy from 1870 to 2014, combining the analysis on multiple indicators such as GDP per capita, working hour per person and the real output. The conclusion he drew is that the existence of secular and cyclical factors will somehow underestimate the real amount of real GDP growth; and the current economy growth is relatively similar to that in the period of 1995 to 2000. The US economy in fact is having an upward tendency, which we should be optimistic about, while the economy in China as a whole has make some remarkable achievements and will continue to be good. However, during this process the political mechanism plays an essential role. In addition, China itself and other countries around the world will gradually benefit from the greater success achieved by China in technology.

Prof. Wu Xiaoqiu then gave a speech on “China’s Financial Opening-up and Construction of International Finance Center”. He considered technology power, marketization power and internationalization power as three important factors that are influencing the financial reform in China. First, China’s finance will be significantly changed by the technology power such as information and communication technology, which will also

be given an particularly important position in the future development. Secondly, the power from marketization will reshape the fundamental asset structure of China's finance, leading it to a greater scale of securitization. He also made it clear that there is an increasingly critical role China plays on the international stage since China's finance is rather powerful. As three factors will influence China's finance significantly, it is of significant importance to establish the right risk awareness, he highlighted, and to pay much attention to the precaution of systematic risks.

After the wonderful speeches, Prof. Wu issued the letter of appointment to Prof. Prescott to point him as the honorary director of IMI Academic Committee; and the Prof. Zhang Jie presented the souvenir to Prof. Prescott. Prof. Prescott's joining-in will help form a stronger research team of IMI and inject more diversity of views and perspectives into the research on RMB internationalization.



## IMI Initiates Fireside Chat on Money and Finance

On December 23, Macro-Finance Salon (No. 87) and Fireside Chat on Money and Finance (No.1) co-organized by the School of Finance and IMI of Renmin University of China was successfully held.

Huang Da, the 93-year-old professor gave a keynote speech titled “Bases Cannot Be Overemphasized”. Over 100 guests participated in the event and joined discussions. Those present include Wang Guangqian, former president of Central University of Finance and Economics, Wei Benhua, former deputy administrator-in-bureau of the State Administration of Foreign Exchange, Wang Yongli, vice chairman of CIFCO, Sun Guofeng, director of Research Institute of Finance of the PBoC, Li Bin, deputy director general of the Monetary Policy Department of the PBoC, Chen Weidong, director of the Institute of International Finance at Bank of China, Wu Ge, chief economist at Huarong Securities, Chen Qiqing, director of Division of Macroeconomics of the Department of Economics of Party School of the Central Committee of CPC, and professors from RUC: Zhuang Yumin, Dean of the School of Finance, Zhao Xijun and Tan Songtao, Associate Deans of the School, Professor Ren Huaixiu, Chen Zhongyang, Dai Wensheng, Ma Yong, Deputy Director of IMI Song Ke, Researcher Zhang Wenchun, Wang Jian, Yuan Jiang, Zhao Xueqing, Xiong Yuan, and Jiang Nan.

The salon was moderated by Zhang Jie, Director of IMI and professor in the School of Finance. In the beginning, he explained where the name “Fireside Chat on Money and Finance” derived from: a popular Confucian piece *Fireside Chat (Wei Lu Ye Hua)* authored by Wang Yongbin in the Qing Dynasty. The book that commented on humanity issues throughout history in a thought-provoking way boasted long-lasting and profound influence till today. IMI thus borrowed its name and initiated the Fireside Chat on Money and Finance, which is intended to invite scholars and politicians with unique insights on monetary issues to exchange perspectives and clarify the confusion of money in the society.

Professor Huang Da’s speech touched examples through all times at home and abroad, and summarized two bases that need to be emphasized in building the financial discipline:

First, the basis of monetary and financial theory should be placed at the center. He pointed out that the general monetary and financial theory is heritage of the history and some of its most basic parts remain unchanged. The theory of money and finance in China has existed for thousands of years since its initiation in pre-Qin period while in Western Europe, the modern classical economics has made great strides since William Petty and Adam Smith. However, there was a break with previous theories, which makes it necessary to tease out the monetary and financial thought in history. Both the East and West attach great importance to money and finance, regarding them as a key tool for state governance. The relation between the real economy and financial economy should be put straight. If the financial sector is sound, economic issues can be easily resolved. Simple as the principle is, grasping it correctly is extremely difficult. Money is one of the most basic measures of all market economic activities. However, this measure is only relatively stable and never absolutely stable. The modern monetary system is organized according to the oldest monetary theory, thus always seeking institutional arrangements with lowest costs. The system is the result of repeated compromises

between various economic forces in a country and the world, as well as the embodiment of credit and debt relations in one economy. A T-account can display it very well. Professor Huang said that university education must retain the basic theory and put tremendous emphasis on it, and then put forward the proposal of opening a course of “History of Financial Thought in China and Abroad”.

Second, the essence of the Chinese cultural tradition, as the basis of the basis, must be integrated into the theory of money and finance. He believes that China's political system and cultural tradition are remarkably different from those in the West. Copying the experiences of the Soviet Union, Europe and the US is not feasible. He pointed out that the character harmony (*He*) occupies an important status in traditional Chinese culture. The values of peace (*He Ping*), harmony (*He Xie*), gentleness (*Ping He*), endurance (*Rong Ren*), and tolerance (*Kuan Rong*) all stress harmony. China as the sole survivor among the four ancient civilizations should have cultural self-confidence. Despite the humiliation we suffered in modern times and the consequences of inferiority, the achievements in the past 40 years of reform and opening up have laid the foundation for the Chinese people to regain our confidence. At the same time, we should not be impetuous or conceited but practical and realistic. The traditional Chinese culture contains a wealth of economic and financial thought. Guanzi's book *The Light and Heavy Theory* is a good example. We should strive to combine the essence of Chinese traditional culture with the theory of money and finance and develop a currency banking theory with Chinese features. At the end of his speech, he suggested that the School of Finance of RUC should draw on more talents in Chinese culture and traditions to do a long-term study on the fundamental theory of money and finance and further promote the construction of this discipline.

After the wonderful speech was an interactive discussion. Professor Zhang Jie pointed out that Professor Huang Da managed to give a 1.5-hour speech at the age of 93 with a 7-page essay for preparation. Such diligence and scholarly spirit were very touching. He said that Professor Huang transcended history in his speech and teased out historical logic of money with emphasis on the importance of the Chinese cultural tradition, giving directions for the construction of today's finance discipline.

Professor Wang Guangqian said that Professor Huang's speech was profound and meaningful. He quite agreed with Professor Huang's viewpoint that “Many basic theories seem simple but are hard to grasp.” and hoped that the spirit of valuing basic theories of money and finance can be carried over by generations of students.

Professor Wang Guogang found Professor Huang's speech pretty enlightening. He believed study on the history of China's monetary thought is necessary. Finance originated from money and money originated from the real economy. At a time when traditional finance is revolutionized by digital currency, focusing on the fundamental principle is the key to grasp the essence of things.

Mr. Wang Yongli expressed opinions on digital currency based on Professor Huang's speech. He believed that Bitcoin is largely mimicking the logic of gold and its value can only be reflected only when it is converted into the legal tender. He pointed out that despite the fever of Bitcoin today, we must find out the nature of money. The digital currency dominated by the central bank will not be digital currency of Bitcoin, but digitization of the legal tender system to extend and supplement the legal tender.



Mr. Wei Benhua detailed his three meetings with Professor Huang and then expressed gratitude to and respect for Professor Huang. He said he would relay the Huang's suggestion of setting up the course of "History of Financial Thought in China and Abroad" to China Foundation for Development of Financial Education and offer his full support. He hoped that this course could soon be set up in RUC.

Mr. Sun Guofeng believed the role of money is the most crucial behind the relationship between finance and real economy. At present, China's currency also faces some problems that need to be considered from a historical and cultural point of view. He also recalled his experience of studying Professor Huang's thoughts when he was young and applying them in actual work and research. He said Professor Huang's thought is a motivation for his further research.

Mr. Li Bin believed that monetary policy control and related research could not be sound without a thorough understanding of the relationship between money and the real economy. But many people still have not well grasped the issue of currency creation. Emphasizing the monetary basis to think about the problems can help people master currency banking.

Finally, Professor Zhuang Yumin gave her concluding remarks. She believed that though many schools in China currently have financial courses, the study of basic theories is largely neglected. The most essential part of finance is money and the monetary system. Without research based on this, the financial discipline is a tree without roots. Only by paying attention to the theoretical study of money and the monetary system can we develop a good financial discipline and provide valuable suggestions on national policies. She summed that Professor Huang's speech has two dimensions, the first money and finance and the second history and culture, and mentions two tasks, to open the course of "History of Financial Thought in China and Abroad" and to introduce talents for creation of a money and finance theory that integrates the essence of Chinese civilization. In the end, Professor Zhuang said that she would surely promote the realization of the goals and expressed sincere thanks to all guests.

# Research

## 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. 70): A Reexamination of the Heartland**

On October 11, Macro-Finance Salon (No. 70) was held at Renmin University. Luo Yu, associate professor of School of Finance, RUC, chaired the event. Zhang Jie, professor of School of Finance, served as the guest speaker. Professor Zhang, in the context of the Belt and Road Initiative, shared his thoughts on reading "The Geographical Pivot of History" by the British geographer Halford MacKinder in his speech entitled "A Reexamination of the Heartland".

Professor Zhang took "Three Lines and Three Belts" in China as a lead to the Heartland Theory proposed by Halford MacKinder in "The Geographical Pivot of History". The Heartland lies in the center of the Central Asian continent, where the Chinese civilization, Indian civilization, Greek civilization and Islamic civilization co-exist. It is such a unique area of strategic importance. From a historical perspective, the Heartland is extremely significant evidenced by the facts that the Hexi Corridor is the only route for Confucianism to communicate with others; Guan Long area is place where talents sought refuge and classical records were preserved during wartime; Xinjiang and Tibet have never been excluded out of the political map of the Central Plains for a long time after Liangzhou Alliance initiated by Prince Kuoduan of the Mongol Empire; Xinjiang was governed by the court in the late Qing dynasty, though turbulent an era when the Heartland was still not too far away.

The Eurasian continent has been torn apart to distortion by religious conflicts and wars. According to Professor Zhang, the Heartland is directly relevant to the rise of the continent.





The United States, for its own interests, maneuvers to mess up the Heartland, in order to curb the alliance across the Eurasian continent. Washington has been interfering with affairs in Eastern Europe and manipulating Japan, South Korea and other countries in Eastern Asia, in an attempt to cut off the alliance's geographical access. On the contrary, China proposes the Belt and Road Initiative to restore the Heartland and promote the integration of Europe and Asia. Since the 1950s, the global economic center has rapidly moved eastwards. The development of information technology and transportation has facilitated the long-distance transport and trade links between Europe and Asia, hence a rising tendency of Europe to be less dependent on the United States. In this regard, China actively responded with the establishment of Silk Road Fund and Eurasian trust mechanism, the increasing service lines of China Railway Express, and the efforts to create new international orders, so as to boost Eurasian economic integration.

During the meeting, the participants shared their views and had in-depth discussions on historical, political, and cultural conflicts issues concerning the Heartland. These opinions were well exchanged and echoed among the guests present. This meeting stepped beyond the research circle in economic and financial fields, and adopted the geographical and historical perspectives to look into national strategies and have an overview of international situations. It was informative, intriguing and impressive.

#### **Macro-Finance Salon (No. 71): Thoughts on Current Economic Operation and Policies**

On October 15, IMI hosted the 71st Macro-Finance Salon attended by policy experts and scholars in Culture Square. Dr. Yan Xiandong, Deputy Director General of Statistics Department of PBoC, delivered a keynote speech on "Current Economic Operation and Policies". Other participants include Zhao Xijun, Associate Dean of School of Finance at RUC, Wu Ge, Chief Economist of Huarong Securities Corporation, Chen Qiqing, Director of Macroeconomic Department, Party School of the CPC Central Committee, Zhou Yinggang, Associate Dean, Wang Yanan Institute for Studies in Economics; Professor, School of Economics, Xiamen University, Di Dongsheng, Associate Dean, School of International Studies, RUC, Xiang Zhengrong, Assistant President of Union Mobile Financial Technology Co., Ltd., and research fellows of IMI including Gang Jianhua, Zhang Jinfan, Luo Yu, Peng Yuchao, Lu Zhe, and Jiang Nan. Deputy Director of IMI, Dr. Song Ke, chaired the meeting.

Dr. Yan Xiandong analyzed domestic economy in his keynote speech which focused on fiscal and financial perspectives. First, he talked about local debt, introducing policies on local governments' debt since 2015. Particularly, he elaborated on the operation of local PPP projects. His speech also clarified the relations among economic growth, deficit, and debt. Second, he talked about some domestic problems in finance, starting with commodity price and asset price and mentioning central bank's role in stabilizing finance. Last, he expressed his views on national currency policies and financial stability based on China's current economic performance.

#### **Macro-Finance Salon (No. 72) and CBF50 Closed-door Seminar: Belt and Road**



## **Initiatives and Foreign Investment**

On October 21, the first closed-door seminar of CBF50 and the Macro-Finance Salon (No. 72), jointly sponsored by IMI and Modern Bankers Magazine, was held in Beijing. The seminar, focusing on the “Belt and Road Initiatives and Foreign Investments”, was attended and given remarks by experts on the study of the Belt and Road Initiative and cross-border finance, as well as representatives from typical investment institutions, including Wei Benhua, former deputy administrator-in-bureau of the State Administration of Foreign Exchange, Ou Xiaoli, inspector of the Western Development Division of the National Development and Reform Commission, Lin Dajian, former deputy director of the International Cooperation Department of NDRC, Zhang Jidong, director of the Ecological Economy Office of the International Cooperation Center, Er-cheng Hwa, chief economist of the Baoshang Bank, Sun Lujun, Board Director of the CNIC Corporation Limited, Shi Yan, deputy director of International Division of Planning Department of China Development Bank, Qu Fengjie, senior research fellow of IMI and member of CBF50. The meeting was chaired by Tu Yonghong, deputy director of IMI and assistant director of Sichuan Provincial Bureau of Financial Work.

Ou Xiaoli focused on three principles of “Belt and Road Initiative”. He pointed out that the success of this initiative exceeding expectation lies in three principles: discussion, shared growth and collaboration. The principle of discussion deals with how to build. When working together with other countries, China has never brought its own understanding, standards and ideology into cooperation. Instead, China emphasizes seeking common grounds while reserving differences, and respects development paths and governance modes of various countries. The principle of collaboration solves the issue of who to build. China believes that the Belt and Road Initiative is a common cause for every country involved, thus third-party cooperation matters. The principle of “shared growth” solves the problem of why to build. The initiative is not a foreign aid or poverty alleviation program; rather, it involves huge political and economic interests for China. Its partners in Europe, Asia and Africa, in spite of great differences, are all under-developed and have strong demands for improving people's livelihood and growing economy.

Lin Dajian focused on the economic risks facing enterprises, the problems of their home countries and the problems within China's enterprises. She pointed out that China, like many other countries, cannot be immune from those problems encountered in developing programs, such as the China-Pakistan Economic Corridor and the Bangladesh-China-India-Myanmar Forum for Regional Cooperation (BCIM). Therefore, President Xi's ideas of “community of common destiny” and “inclusiveness globalization” indicate the trend of the Belt and Road Initiative. She also pointed out another challenge: different political systems. In some cases, enterprises lack knowledge of the democratic system of neighboring countries, and did not adjust the way to run the project, eventually leading to problems in making investment and facing higher risks. Therefore, the key to reduce risk is to increase the sense of gain for people along the “Belt and Road” or in the investment areas.

Zhang Jidong firstly supplemented the risks facing the enterprises going global and clarified the underlying ecological and environmental risks. He then, based on his research on investment and financing, discussed the characteristics and problems of the current



investment and financing for international capacity-building cooperation and raised some ideas of international capacity-cooperation.

Qu Fengjie mainly explored whether it is possible to find a solution to the internationalization of the RMB under the framework of this initiative. She also pointed out that the important breakthroughs in Renminbi internationalization are the “Belt and Road” and the Gold-Backed-Oil-Yuan. As for economic imbalance, she believed that the “Belt and Road” is undoubtedly a solution raised by China. She then put forward the six-pronged approach to promote the initiative and how to make the initiative one of the major mechanisms and platforms for coordinating economic cooperation and macroeconomic policies along the line. At last, she suggested a solution to the more complicated Triffin challenge faced with by Renminbi: seeking a breakthrough from the initiative and regionalization, transitioning from the sub-cycle of industry to monetary finance and making RMB center of the sub-cycle through the “Belt and Road Initiative”.

After the tea break, a roundtable discussion, chaired by Qu Fengjie, was attended by experts and scholars. Wei Benhua first proposed that more people are welcome to join in the discussion. He then shared his thinking on the connection between market operation and a country's diplomatic policies when enterprises serve as the main body. He also pointed out that the “Belt and Road Initiative” has received financial support and follow-up by banks really matters.

Sun Lujun mentioned issues that businesses should focus on when investing abroad. He also discussed the way to promote and implement international capacity cooperation, China's response to the sources of funding for the initiative and understanding of irrational investment.

Shi Yan mainly introduced CDB's external investment and financing. She said that in the process of "going global", private, small to medium-sized and state-owned enterprises all have confronted with higher risks due to a lack knowledge of neighboring countries. The guidance of central SOE incentive mechanism, CDB's main research, yet proved to be unsatisfactory. She also stressed that inefficient communication will also affect China's enterprises to participate in international capacity cooperation. Thus, the cooperation between banks and enterprises matters and deserves more efforts. She made it clear that CDB has contributed a lot to promote RMB internationalization.

Er-Cheng Hwa believed that the Belt and Road Initiative is in its prime, since China is the strongest driving force of global economy which is undergoing a power shift. The motivation of going out of the motivation lies inside the country, and RMB internationalization will be achieved for the foreseeable future. He pointed out that what matters most for the initiative is the investment environment, since bilateral cooperation and agreements could run into financial problems. He also raised the issue of mutual learning between banks.

**Macro-Finance Salon (No. 74) Series of the 19th CPC National Congress (No. 1): The Reasons, Implications and Outlooks of RMB Appreciation in 2017**

On November 18, Macro-Finance Salon (No. 74) Series of the 19th CPC National Congress (No. 1) was held at Renmin University of China. Mr. Guan Tao, senior fellow at CF40, former director general of the international payments department of SAFE, was invited to deliver a keynote speech titled “The reasons, implications and outlooks of RMB appreciation in 2017”. Wei Benhua, Former Deputy Administrator-in-Bureau of SAFE, chaired this salon.

Based on the report of the 19th CPC National Congress, Guan Tao analyzed the causes and influence of RMB appreciation this year and provided an outlook of the future exchange rate policy. Guan Tao first reviewed the six stages of exchange rate changes this year and related policies. Since the end of last year, China has gradually stepped up its regulation of overseas mergers and acquisitions by enterprises, implemented stricter requirements of reporting personal foreign exchange uses and strengthened management of the outflow of cross-border renminbi. In the first half of this year, China has introduced the countercyclical factors in the pricing mechanism of RMB exchange rate. He pointed out that this year, the RMB exchange rate basically bounced back from its decline last year and the exchange rate rebound was realized when the foreign currencies were in short supply. This shows that the RMB appreciation is not the result of the supply-demand mechanism. Although RMB depreciated against non-US dollar currencies, under the dual pricing mechanism, the surprising weakening of the dollar made the renminbi stronger. From the angle of time, the major part of the appreciation occurred after the introduction of the counter-cyclical factors at the end of May. From the angle of domestic and overseas markets, before August, renminbi appreciation was mainly caused by "overselling" in overseas markets, while appreciation in late August and early September was mainly driven by domestic market forces. From a micro angle, appreciation is itself a cause, and appreciation gradually shifts the market from being bullish on dollar to being bearish. From a macro perspective, a weak US dollar, strong Chinese economy and effective foreign exchange control policies are the factors that led to the appreciation of RMB this year.

Speaking of the impact of RMB appreciation this year, Guan Tao pointed out that the "811 exchange rate reform" solved the problem of lack of transparency in pricing, and after this, RMB appreciation this year resolved the problem of lack of credibility of the exchange rate policies under the floating regime and effectively suppressed the capital outflow. From the angle of velocity of unloading foreign currencies, this year corporate actions are slower than individuals'. The stabilization of the RMB exchange rate has created the conditions for easing foreign exchange controls. The alleviation of capital outflow pressure has contributed to the recovery of foreign exchange reserves. This shows that due to the downward rigidity of foreign exchange reserves, the much-debated option between "exchange rate" and "reserves" is not valid. To maintain exchange rate stability amid depreciation pressures means maintaining stable foreign reserves. From a trade perspective, the renminbi is basically depreciating against non-U.S. dollar currencies. However, the share of U.S. dollar in cross-border cash receipts and payments is falling, therefore renminbi appreciation does not help increase the competitiveness of the exporting industry. Instead, it is a financial shock.

Talking about the prospect of RMB exchange rate reform, Guan Tao believes that the RMB exchange rate is only restoring two-way fluctuations rather than returning to unilateral appreciation. Achieving a clean floating exchange rate is still the established goal of reform.



The reform of the RMB exchange rate formation mechanism in terms of improving the exchange rate control mechanism, speeding up the construction of the foreign exchange market, and rationalizing the supply and demand of foreign currencies are still proceeding in an orderly manner. From the government's point of view, there is no painless solution. It is necessary to prepare for the worst by working out a plan based on scenario analysis and stress testing to achieve the best results. From the angle of the market, a market-oriented exchange rate is the trend of time. With the gradual withdrawal of the central bank from the normal intervention in the foreign exchange market, China will eventually move toward a new balance of international payments between trade surplus and outflow of capital. Capital outflow is a new normal.

After the formal speech, member of IMI Academic Committee, president of Urumqi Central Sub-Branch, PBoC, Guo Jianwei; member of IMI Academic Committee, Director of CNIC Corporation Limited, Ltd., Sun Lujun; IMI Deputy Director, Tu Yonghong; IMI senior researcher Qu Fengjie, He Qing, IMI researcher Xiong Yuan, Xiu Jing, Lu Gaofer, Sun Chao, Jiang Nan participated in the roundtable discussion. They discussed the following issues: the influence of introducing counter-cyclical factors; the distortions of micro behaviors like bank running on foreign currencies; the relations between onshore and offshore market; how to prevent unilateral expectations; the normalization of interim intervention policies and the impact of the liberalization of the stock and bond market on foreign exchange market.

### **Macro-Finance Salon (No. 75) Series of the 19th CPC National Congress (No. 2): Deleveraging from Financial Sector to Real Economy**

On November 25, IMI hosted the Macro-Finance Salon (No. 75) Series of the 19th CPC National Congress (No. 2). Zhong Zhengsheng, director of board and chief economist of Moneta Research and managing director of Caixin Think Tank, delivered a speech titled "Deleveraging from Financial Sector to Real Economy". The salon is presided over by Xu Yisheng, CEO of New Momentum Asset Management Company and senior researcher of IMI.

Mr. Zhong talked about tightening of financial supervision, which was mentioned at the 19<sup>th</sup> NPC and elaborated on the connotation of financial deleveraging and its relationship with real economy. He explained how to deepen financial deleveraging, and analyzed the relationship among financial liberalization, financial reform and economic reform. Based on the analysis of the Fifth Financial Work Conference and the concept of "economic reform is more urgent than financial reform", which was emphasized at the Central Political Bureau Meeting held on July 24, he pointed out that financial deleveraging is not a summary of strengthening financial regulation. He stressed that "leverage" is a neutral word, not a negative one. Leverage itself is not bad, the problem is what the leverage is working on.

When it comes to the root cause of financial deleveraging, Mr. Zhong believes that it is the real economy. He pointed out that strengthening financial supervision is a key element of financial system reform. However, it is the contradiction in real economy growth that causes the rise in financial leverage since 2009 and capital flowing out from the real economy since 2015. The three rounds of fiscal stimulus since the 2008 financial crisis witnessed a marked

monetary policy easing. In this context, on the one hand, real economy leverage has risen sharply and SOEs have increased the leverage ratio of non-financial enterprises. On the other hand, the climbing cost of capital and the declining return on investment together inevitably lead to the outflow of capital from the real economy. Talking about how to deepen financial deleveraging, Mr. Zhong said that financial sector leveraging and real economy leveraging are similar to two sides of a coin. He pointed out that first, the demand for a "steady growth" should not be emphasized strongly, and unnecessary fiscal stimulus should be reduced. China's economy is transforming from manufacturing-dominated to service-oriented, and in this process China will continue to figure out the bottom line of growth rate. He quoted from the Report that "China's economy has shifted from a period of rapid growth to a phase of high-quality growth", which serves as an example of readjusting the relationship between growth speed and growth quality. Second, private investment should be encouraged and soft budget constraints of SOEs should be relaxed. SOEs are the main beneficiaries of easy fiscal policy and easy monetary policy. If these soft budget constraints are not loosed, the highly regulated financial environment will only impact on private enterprises, so deleveraging of real economy and financial sector will both fail.

After the speech, Xiu Jing and Lin Nan, both IMI researchers, shared their views on the relationship between exchange rate and financial leverage and the structural separation of state-owned enterprises from private companies. Students of the "GinTong Global Talents Program" also raised questions about how deleveraging would be influenced by new regulations on asset management and the rate hike by the Federal Reserve. Mr. Zhong exchanged his ideas with the students on these issues.

## **Macro-Finance Salon (No. 80) Series of the 19th CPC National Congress (No. 4): Reviewing the Regulatory Reform in the Framework of the Financial Industry**

On December 9, Macro-Finance Salon (No. 80) Series of the 19th CPC National Congress (No. 4) was held in Culture Square. Wei Gejun, president of the China Financial Publishing House delivered a speech on "reviewing the regulatory reform in the framework of the financial industry". The salon was attended by Zhang Jie, director of IMI; Song Wei, associate professor of the School of Finance; Lin Nan, researcher of IMI. Song Ke, deputy director of IMI, chaired the salon.

Wei Gejun first introduced the changes in the concept of the regulatory reform. He generalized the changes in China's financial concept into four stages and summarized basic concepts of each stage. He pointed out that the financial regulatory reform had entered a new phase, that is, financial concepts had embraced new changes since the Party's 18th National Congress and particularly since 2017. Mr. Wei also introduced the attention and emphasis that President Xi had attached to financial security, financial system for economic development, and his views on the relationship between market value and social value of the financial industry, on which Mr. Wei gave his further explanation.

Based on China's financial development course and problems, Wei Geijun introduced the evolution of China's financial regulation pattern. He thought the main aim of China's financial development is to enhance the market value of the financial industry since the





reform and opening up. Later, he introduced new regulatory policies put forward at the Fifth National Financial Work Conference and the reason of these policies. Mr. Wei pointed out that this stage is featured with the pursuit of a balance between social value and market value. Based on international practices, he discussed the essence of the reform of regulatory system from the perspective of the division and combination of regulation and summarized new regulatory concepts of this year. At last, he pointed out difficult issues of the regulatory reform to be solved in the future and shared his views on regulatory reform and regulatory conditions.

After the speech, Wei Geijun answered questions about the trade-off between regulation and innovation, the realization of regulatory coordination within the framework of new policies, the relationship between financial regulatory reform and real economy reform and education for investors, etc.

At the end of the conference, Zhang Jie, director of IMI, presented Wei Geijun the letter of appointment as the mentor of “Gintong Global Talents Program” and highly appreciated and thanked him for his speech.

### **Macro-Finance Salon (No. 81) Series of the 19th CPC National Congress (No. 5): The Impossible Trinity—Reflections on China’s International Financial Policies from 2009 to 2014**

On December 10, Macro-Finance Salon (No. 81) Series of the 19th CPC National Congress (No. 5) was held in Renmin University of China. Ding Zhijie, Member of IMI Academic Committee, Assistant President of University of International Business and Economics, delivered a keynote speech on “The Impossible Trinity—Reflections on China’s International Financial Policies from 2009 to 2014”. Wei Benhua, member of IMI Academic Committee, former deputy administrator-in-bureau of State Administration of Foreign Exchange (SAFE), and Jiang Nan, Lin Nan and Zhu Yugeng, researchers of IMI attended the Salon and participated in the discussion. The Salon was hosted by Chen Weidong, member of IMI Academic Committee, and director of the Institute of International Finance at Bank of China.

Prof. Ding first introduced the Impossible Trinity and explained the relationship among monetary policies, exchange rates and capital flow. He pointed out that in reality, many countries do not actually have the freedom to choose among the three. Mostly they would have to choose one of the two goals as the target of macro-control. However, the theory is still regarded as creed in many developing countries, causing some countries to fall into the trap of the theory. Globally, most of the developing countries that took the lead in floating interest rates experienced economic stagnation in the end and caused the inertial fall of interest rates.

Then, Prof. Ding analyzed the basic situation of China’s international account from 2009 to 2014. In his opinion, the increase in assets during this period mainly came from the increase in liabilities. It shows that China was facing an excessive inflow of capital during this period. In addition, China’s foreign exchange reserves were insufficient according to IMF’s calculation model of moderate-scale foreign exchange reserves.

Finally, Prof. Ding observed the impact of floating exchange rates on a certain economy by using the Federal Reserve Composite Index. He found that the exchange rates of developed countries' currency indices have not changed much since the floating exchange rate of the U.S. dollar was adopted in 1973, while that of developing countries has increased 74 times, more than 98% devaluation from 1973 to 2015. He believed that the excessive capital inflow from 2009 to 2014 was the root cause of the current economic and financial problems. Combined policies of capital flow management and exchange rate management were the right choice for developing countries, including China. At the same time, capital flow management should shift from outflow management to inflow management under the macro-prudential policy framework. Deposit reserve ratio and interest rates should both go down to normalize the monetary policy. Only in this way can the macro-leverage ratio be fundamentally reduced.

## **Macro-Finance Salon (No. 82) Series of the 19th CPC National Congress (No. 6): A Full Perspective on the Decline of China's Foreign Exchange Reserves**

On December 16, Macro-Finance Salon (No. 82) Series of the 19th CPC National Congress (No. 6) was held in Renmin University of China. Zhang Ming, Senior Research Fellow of IMI, Director of International Investment of Institute of World Economics and Politics at CASS, delivered a keynote speech titled "A Full Perspective on the Decline of China's Foreign Exchange Reserves". Qian Zongxin and Xiong Yuan, research fellow of IMI, attended the meeting. The salon was chaired by IMI research fellow Zhang Wenchun.

Mr. Zhang Ming clarified the problems and controversies caused by the decline of China's foreign exchange reserves since 2014 from three aspects: valuation effect, appropriate scale and asset structure. In his opinion, the high proportion of foreign exchange reserves in China's total overseas assets and the low return on foreign exchange reserves investment have comprehensively contributed to the fact that China is a global creditor with consistent negative returns on investment.

He analyzed the 811 reform policy and introduced three methods by which the central bank curbs the devaluation of the RMB exchange rate and its advantages and disadvantages. He pointed out that since the 811 reform, RMB has formed a unique pattern of "Asymmetrical Devaluation" against the US dollar: once the dollar strengthens, the exchange rate of RMB against the basket of currencies goes flat while the exchange rate of RMB against the US dollar depreciates; and once the dollar weakens, the RMB exchange rate against the US dollar keeps flat, but the RMB exchange rate against the basket of currencies devaluates. The introduction of countercyclical adjustment factor significantly changed the RMB "asymmetric devaluation" pattern. Especially since August this year, the "Asymmetrical Devaluation" has changed into a pattern of "Double Ascending." In his opinion, the valuation effect is an important reason for the change in the size of China's foreign exchange reserves since 2014. At present, the appropriate scale of China's foreign exchange reserves is about 2.8 trillion US dollars and the current balance of foreign exchange reserves is rather close to this scale.

Finally, Mr. Zhang introduced the changes in the asset structure of Chinese overseas investment in the context of falling foreign exchange reserves. He pointed out that private sector investors in China have significantly reduced the share of US dollar assets in recent





years and have started to hold yen assets since 2016 after significantly reducing their holdings of yen assets in the period of 2013 to 2015. Investments in America's financial assets are still dominated by government bonds and agency debt, and stocks asset has reduced significantly in recent years. As for the investments in Japan's financial assets, Chinese investors' investments in stocks and bonds are balanced, but they once significantly increased or decreased their holdings of short-term bonds.

During the roundtable discussion, all guests communicated in-depth. Qian Zongxin thought that foreign exchange reserve is a very controversial problem in China. When the government chooses to keep its foreign exchange reserves, it is actually making comprehensive optimization and its goal is closely related to that of China's economy. Zhang Ming answered the questions and provided an outlook about the challenge that the U.S. government's tax reduction policy will bring to China, and he further clarified the issues related to the exchange rate of the RMB, and put forward suggestions on how to avoid the exchange rate risks in business. He stressed that we need to step up capital controls, meanwhile, we must also avoid the distortion on resource distribution exerted by capital control.

### **Macro-Finance Salon (No. 83) Series of the 19th CPC National Congress (No. 7): Chinese Enterprises Ride with the Bond Market in Going Global**

On December 17, Macro-Finance Salon (No. 83) Series of the 19th CPC National Congress (No. 7) was held in RUC. Dr. Wang Wei, Senior Research Fellow of IMI, Managing Director and Deputy Head of Research at BOCI, delivered a speech titled "Chinese Enterprises Ride with the Bond Market in Going Global". The salon was chaired by Zhang Wenchun, Research Fellow of IMI and Associate Professor of RUC.

Dr. Wang started from the corporate finance and bond market development advocated by President Xi Jinping at the 19<sup>th</sup> CPC National Congress. He then analyzed the development of China's market-based bond market in recent years. By analyzing the financing advantages of direct financing and bond market against the stock market, he sorted out the advantages of enterprises in financing through the bond market and expounded the mutually reinforcing relationship between the external financing and the open-up of bond market. He first analyzed the current state of China's direct financing and emphasized the importance of direct financing. Then he pointed out the advantages of bond financing over equity financing. He noted that "debt financing is not so picky. All companies are treated equally. It is very flexible in terms of any currency, market, or time. The cycle is short, fast, reproducible, and diverse. Globally, its trading volume and stock volume are both bigger than the stock market." As an example, he also illustrates bond market financing practices by analyzing the financing history of Huawei and Evergrande in the bond market.

Next, Dr. Wang explained the financing advantages of "debt" and "equity" in depth. He vividly claimed that they are "the two legs that help enterprise develop". He pointed out that by comparatively analyzing the bond market and stock market enterprises can carry out more forms of financing more flexibly. He analyzed the specific examples in the bond market and stock market in 2008 and 2009. He mentioned that this flexibility exists in the process of

financing internationalization. He also made an analysis of the current situation of Chinese enterprises issuing bonds in the rest of the world in recent years. Since around 2012, Chinese enterprises started to issue a large amount of foreign debts on the basis of US dollar bonds. In 2017, the total amount of corporate issuance in China reached 1.2 trillion yuan, accounting for 70% of the market value in Asia and 30% to 40% of the total domestic and overseas financing. This not only broadened the financing channels, but also triggered brand effects to some extent. The volume on the bond market illustrates its unique advantage of international financing in the bond market. As for the development of enterprises in international business, debt financing is a very important part of financing diversification. Especially for private enterprises, foreign financing plays a key role in the internationalization of enterprises.

Then, Dr. Wang looked into the prospect of China's foreign bond market from the perspective of the Belt and Road Initiative. He said that the huge capital demand triggered by the construction of the Belt and Road will fuel the bond market and this will be a very favorable opportunity for the internationalization of the Renminbi.

## **Macro-Finance Salon (No. 85): Experience and Prospect of RMB Internationalization**

On December 20, the Macro-Finance Salon (No. 85) was held in Renmin University of China. Xia Le, senior research fellow of IMI, chief Asia economist at the Banco Bilbao Vizcaya Argentaria (BBVA) Research served as the keynote speaker and talked about "Experience and Prospect of RMB Internationalization". Sun Lujun, member of IMI Academic Committee, director of CNIC Corporation Limited, IMI researchers Luo Yu and Peng Yuchao also attended the salon. IMI associate researcher Jiang Nan chaired the salon.

Xia Le began with an introduction of the original intention and background of the RMB internationalization strategy and reviewed the three motives for China to promote this strategy in the past decade: to diversify reserve assets, internationalize purchases of overseas products and services, and force financial reform. Then he introduced several steps at the early stage: RMB cross-border trade settlement, the development of an offshore RMB center and more bilateral currency swap agreements. Considering Renminbi's role in international settlements, in serving as the currency for many countries' foreign exchange reserves and its inclusion into the SDR, Xia Le believed that this strategy has made significant progress.

Xia Le then shared his views on the "811" exchange rate reform. He believes that in the specific phase with specific external environment, attention should be paid to the order of financial reform and uncertainties brought to exchange rate reform by RMB's internationalization. We should learn from the "811" exchange rate reform and take corresponding measures in overseas RMB backflow, offshore market, onshore market and currency swaps. Xia Le believes that there are challenges and opportunities in the external environment for RMB and next we should promote the opening up of the RMB bond market.

Following Xia Le's speech, Sun Lujun shared his views on the several "asymmetry" issues emerging in the RMB internationalization, the supporting measures and order of financial reform, and the fundamental driving force of RMB internationalization.

Other guests also raised questions on RMB currency swaps and the offshore derivatives market and Xia Le share his views about them.



**Macro-Finance Salon (No. 86) Series of the 19th CPC National Congress (No. 8):**

On December 23, Macro-Finance Salon (No. 86) Series of the 19th CPC National Congress (No. 8) was held in Renmin University of China. Wang Guogang, professor of school of finance at RUC and former director of Institute of Finance at CASS, delivered a keynote speech titled "The Definition, Effects and Solutions of Shifting from Real Economy to Virtual Industries". Other guests including Zhao Yanyun, dean of the School of Statistics of RUC, and Zhang Jie, director of IMI, also attended the meeting. This salon is presided over by Song Ke, deputy director of IMI.

Professor Wang Guogang first gave a definition of "shifting from real economy to virtual industries", briefing economy, vehicle carriers, trade partners, financial types from four aspects—definition, form, causes and effects. Then he points out that we often say that "shifting from real economy to virtual industries" from the aspect of funds, namely much money are operated in financial sector, but failed to be used in the entity enterprises, which leads to asset shortage in financial sector and money shortage in real economy. Then, Based on the continuous decline of the PPI growth rate, Professor Wang analyzed status quo of the real economy and explained the causes and effects of "shifting from real economy to virtual industries" from enterprise and commercial Banks. Finally, he put forward some suggestions, including guiding investment, improving corporate profits and financial supervision.

In the discussion session, Professor Zhao Yanyun put forward his own views on the industry segmentation, the internal structure and dynamic changes of statistical data. Professor Zhang Jie believes that Professor Wang's speech is full of passion and logic, widening everyone's horizon. Especially in the first part of his speech, the analysis of the "real and virtual economy" from various dimensions involves many basic problems in the financial field, which is very instructive. Professor Zhang also reflected on the widely accepted monetary system theory and expressed his opinions on the reasons for the expansion of entities slower than the financial expansion and the dependence of finance and taxation on the financial sector. Finally, Professor Wang shared his views with the students and guests on the issues of financialization of the economy, rate of return on financial assets and the central bank's control over the benchmark deposit and lending rates.

At the end of the salon, Professor Zhang Jie presented a letter of appointment to Professor Wang to appoint him as member of IMI Academic Committee.

## 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. 10): The Past and Present of Domestic and Foreign PE**

On December 9, Tao Xiang International Finance Lectures (No. 10) was held in Renmin University of China. Dr. Geng Qun, Research Chief of Chengtong Fund, gave a lecture on “the past and present of domestic and foreign private equity (PE).” The lecture was presided over by Hu Bo, IMI researcher and associate professor of the School of Finance of RUC. Postgraduates of the School of Finance, students of Gintong Global Talents Program, and guests from academia and industries attended the lecture.

Dr. Geng first introduced the definition and characteristics of PE, the main players and the development history of China's and the US' PE markets. He pointed out that the development of PE in the US has entered maturity with stable quantity of funds. With respect to managers, the number of PE managers is second only to that of hedge funds. As for PE's types, by the end of the fourth quarter of 2016, PE has the biggest number followed by hedge funds. On fund-raising proportion, PE accounted for 5.1% of the total, far below the shares of asset securitization funds, qualified hedge funds and hedge funds. In China, by the end of 2016, PE's subscription exceeded 10 trillion, surpassing that of the public offering for the first time and making itself a considerable player in the asset management industry. Growth funds remain the major player in raising fund and growth capital still serves as the main investment strategy, and passion for its directional add-issuance cools down a little bit.

Then, Dr. Geng shared her analysis on the exit strategy and yields of PE. The total number of world venture capital's withdrawal in 2016 continued to decline slowly just like last year. In exit strategy, equity transfer remains the major means for global venture capital exit, other means include IPO & follow-up exit (including PIPE), GP repurchase and liquidation. In China, in recent years, domestic PE's overall return has declined due to lack of assets and high-quality standard. On exit return, it is IPO>mergers and acquisitions> equity transfer; exit return of shareholders repurchase and management buyout remains the lowest.



In the end, Dr. Geng gave an introduction on the world's top two PE - Softbank Vision Fund and China State Owned Enterprise Structure Adjustment Fund.

In the Q&A session, Dr. Geng exchanged her views with the guests on cooperation between sovereign fund and foreign fund, the timing of SOE's mergers and acquisitions, difficulties that PE's exit face and the respective countermeasures, the outbound issues of PE and state-backed PE's impact on companies.

### **Tao Xiang International Finance Lectures (No. 11): Indication of the Long Term Financial Data to the Domestic and International Markets**

On December 15, Tao Xiang International Finance Lectures (No. 11) was held in Renmin University of China. Mr. Liu Zhuoshi, Chief Analyst of Fixed Income and Deputy Head of Asset Allocation at Ping An Annuity, gave a speech on the topic of "Indication of the Long Term Financial Data to the Domestic and International Markets". The lecture was hosted by Gang Jianhua, Associate Professor of the School of Finance at RUC.

Mr. Liu first highlighted the importance of data, as he pointed out that the data is as essential to the models as the grain is to the army; the models are unreliable if provided insufficient data. He started his lecture with the history of interest rates in Europe and the United States, analyzing the historical cycle of short-term interest rates, long-term interest rates, inflation, short-term real interest rates as well as long-term ones. He found out that overall, the economic growth is positively related to the real interest rate; and compared to short-term one, long-term interest rate has a higher correlation. High-speed economic growth indicates a high real interest rate while the low-speed means a lower real interest rate. However, the economic growth is often not too bad when the real interest rate is below a certain level (e.g. below zero). When the economy hits its worst the long-term real interest rate is usually above zero (not at its lowest) while the short-term one might be negative but often at not its lowest. Besides, the economic growth rate is on average higher than the real interest rate, the fact indicating the real return of bond investment is lower than the GDP growth.

Mr. Liu then made the comparison between the U.S. bonds and shares investments. The difference among the returns on equity under various macroeconomic conditions is minor with regard to return volatility. However, the relatively high correlation between the return in bonds and macro-environment as well as monetary policy structure cannot be ignored. The long-term return on bonds has a downward trend and almost has reached the very low point while the volatility is still high, indicating the value of long-term allocation might be relatively low. Compared to bonds in terms of returns, the long-term return on equity is rather impressive especially in the environment of low inflation. However, the tail risk must be highlighted. Furthermore, the inflation has a great impact on the correlation between returns on bonds and equity. Under the condition of low inflation rate since 2000, the negative correlation between the former two has been seen, which could offer a smoother return path through the portfolio of bonds and equity. The returns on bonds can still be relatively volatile and negatively correlated with returns in stock markets if the Federal Reserve continues to control the inflation at around 2%. However, the return on bonds will go up and be positively

related to that in equity market if the future inflation has an upward trend and can consistently break through the 2% inflation rate threshold.

Moreover, Mr. Liu compared the inflation rate, economic growth, short-term interest rate and long-term interest rate in China with those in America. The relative high correlation is discovered in terms of the long-term and nominal long-term interest rate as well as the inflation. Based on the above relation, one can predict the macro-cycle in China using the long-term data in America. He also pointed out that it is of pivotal importance to understand the current phase of real interest rate and inflation in overseas advanced markets in order to give insights into our own economy and finance.

Finally, Mr. Liu gave a prediction on the global economy next year and its possible influence on China. He indicated that the returns on long-term bonds in advanced countries have been collaboratively increasing since the November last year, which reflects the influences of the continuous recovery of global economy, rising inflation, monetary policy tightening-up and the expectation of tax reform policy in America. It's also predicted that overseas long-term bonds returns will continuously increase; and there will be an aggravated volatility in inflation rate. When mentioning about the possible influence the global economy might have on China, Mr. Liu believed that the current real interest rate in China is recovering; however, if the future real interest rate in America is trending up, there will be limited room for Chinese real interest rate to fall, which might hinder the economy growth within; the rapid move-up of future inflation in America has not only a direct transmission impact but also an indirect influence on our inflation rate. In other words, high inflation might speed up efforts of the Federal Reserve to increase the interest rate, triggering the large-scale adjustment in U.S. stocks, which might finally generate spillover effects on A-shares.





## Fintech Open Classes

### **Editor's Note:**

*At the end of 2016, IMI and Global People magazine jointly released the List of Top20 Fintech Leaders. The press conference attracted more than 600 participants from academia and industry and was reported by mainstream media including People's Daily, People.com, Xinhuanet.com, Economic Daily, etc. On this basis, IMI, Global People and Zhejiang University Academy of Internet Finance jointly initiated the Fintech Open Classes which invite global experts and pioneers to share their views and stories on Fintech.*

### **Fintech Open Classes (No. 10): The Essence of Currency and Virtual Currency**

On November 12, Macro-Finance Salon (No. 73) and Fintech Open Classes (No. 10) was held at Renmin University of China. It was hosted by the IMI and the Global People magazine of People's Daily and supported by Zhejiang University Academy of Internet Finance and the Global Fintech Lab. The guest speaker, Mr. Wang Yongli, the former vice president of Bank of China and Academic Committee member of IMI, addressed a keynote speech on "the Essence of Currency and Virtual Currency", and Mr. Song Ke, deputy director of IMI, chaired the lecture.

Mr. Wang first talked about the issue of currency's essence. He believed that currencies, as a standard of deferred payment, measure and store of value, must be valuable in themselves or supported by value. The liquidation of the currency has developed from direct cash settlement in the past to the current system dominated by accounts clearing. Non-cash is an inevitable trend. He pointed out, the distribution of legal currencies mainly includes ways of two levels: First, the central bank purchasing currency reserves; second, the credit of money. Since credit delivery is based on basic currencies, which were supported by value, the currency is still valuable.

Next, Mr. Wang analyzed Bitcoin and claimed that it couldn't become a real currency. Bitcoin is a digital symbol in an artificially designed network environment, without use value and value. Limited amount of Bitcoin can't meet the needs of social development. Open source system is more likely to cause the overflow of digital currency. For Bitcoin, it keeps complete secret of the offline party, which makes it difficult to meet the needs of legal supervision. Meanwhile, a country's core interest lies in the issuance and regulation of currency and it is difficult for Bitcoin to become a super-sovereignty currency. He thought that Bitcoin belongs to the virtual currency or the network business currency and the supervision for Bitcoin should focus on exchange and transaction.

Finally, Mr. Wang talked about the digital currency issue of the central bank and believed that the central bank's digital currency should only be the digitalized and intelligitized legal currency, and it should be the settlement coin or business currency on a network platform



led by the central bank. Whether a country's central bank digital currency can become the central currency of the online world depends on the overall national strength and international influence of one country, including its influence of cyberspace. China's central bank has the foundation to build the world's strongest digital coin and we should actively promote it.

In the Q&A session, Mr. Wang answered the questions about the development of central bank's digital currency, decentralization of Bitcoin and so on.

## **Fintech Open Classes (No. 11): Development and Regulation of China's Cash Loans and Internet Small-Loan Industry**

On November 26, Macro-Finance Salon (No. 76) and Fintech Open Classes (No. 11) is held in Renmin University of China. Yang Dong, Associate Dean of Law School, Renmin University of China, Director of Fintech and Internet Security Research Center and Executive Director of the Internet and Information Law Institute, delivered a speech on the development and regulation of China's cash loans and internet small-loan industry. This meeting is presided over by Song Ke, Deputy Director of IMI.

Professor Yang Dong first introduces the basic theory of cash loans from the perspective of Internet consumer finance from five aspects—the definition, history, development status, operational mechanism and practical value of cash loans. He points out that there are two sources of Internet finance in China. One is Alipay and the other is Internet small loans. On this basis, payment and small loans are vital foundations for the rise of Internet finance in China. Cash Loans in China arose in 2014, mainly due to the rapid development of the Internet finance. Online lenders got into cash loans early and banks and large internet companies also ran such business as well. Cash-loan products have features of high efficiency, high interest rate, high risk and are low threshold.

Next, taking the United States, Canada and Australia as examples, Professor Yang Dong introduces the notion of payday loans in other countries. In his opinion, the concept of cash loans in our country is very different from that of payday loans. Many policies on payday loans abroad are worthy of reference. For example, the UK limits the interest expenses to protect financial consumers' quota model, prohibit repeated borrowing and demand risk control measures like establishing data-sharing platforms. And the US CFPB adopts conduct regulation to protect consumers. He also introduces the legal basis for cash loans in China, including government documents and self-regulatory rules of cash loans and the industry regulation of cash loans across the country.

Finally, Professor Yang Dong analyzes the existing problems of cash loans in our country, sorts out the regulatory targets and concepts and then puts forward his suggestions on the regulatory system of cash loans in China. He mentions that cash loans in China mainly face problems concerning market access, risk control, interest rate legitimacy, personal information protection, violent collection and so on. The regulatory targets of cash loans cover three aspects. The first is to protect consumers. The second is to enable the healthy development of the industry. The third is to avoid systemic financial risks. Meanwhile, such regulation must be combined with flexible regulation, penetrating regulation, functional regulation and institutional regulation. We should further improve the new modern access



management by learning from P2P regulatory measures while giving appropriate license issuance, market access, information disclosure and third-party verification. Moreover, we can prevent long-term borrowing and vicious lending and establish an anti-fraud system through technology-driven regulation. In addition, he suggests that financial regulation of cash loans should not be “one-size-fits-all” and more conduct regulation and technology governance should be adopted, namely RegTech to achieve effective regulation.

### **Fintech Open Classes (No.12): Blockchain Finance Practices and Technology Trends**

On December 2, Macro-Finance Salon (No. 77) and Fintech Open Classes (No.12) was held in the Renmin University. Cao Feng, China’s first blockchain international patent inventor, one of the co-founders of China Ledger, a senior researcher of the China Blockchain Research Alliance and the chief scientist of the Blockchain Association of China Federation of Logistics & Purchasing, delivered a keynote speech on Blockchain Finance Practices and Technology Trends.

Mr. Cao first introduced the basic concept of blockchain from the perspectives of the Internet era, China’s development and the shared economy. He pointed out banks were inter-connected through certain old system and blockchain is considered as a more safe and more efficient tool connecting the banking industries. Blockchain, as an emerging technology, has been written into the national strategic planning just within one year. Block is a relatively complex computer technology, which combines the network of computer, database, operating system, cyptogroups, distribution system and synthesizes monitoring and data of computer.

Next, Cao analyzed the application of bill chain in today’s banking industries and pointed out the problem of bill financing in medium small and micro-sized enterprises. He also introduced the compositions of bill chain platform, product feature and development process in detail. He pointed out that the one-year volume of China’s bill business was 120 trillion and the amount of bill was very large. For small and micro-sized enterprises, this amount is relatively small, the clients are dispersed and the financial liquidity is poor. For the specific compositions of the platform, on the left is the receipt market of medium small and micro-sized enterprises and in the middle is the banking alliance formed by various banks based on blockchain. All the bills are inter-connected and shared.

Finally, Cao introduced the content of registration of usufruct from multiple perspectives, including the meaning of registering through blockchain, paths of current capital usufruct transfer and exit and modes of blockchain certificate. He pointed out that the asset itself is fixed, and meanwhile it would bring about the issue of usufruct, which will be further split and transferred to different investors. The money of visual accounts, according to the certificate written by the blockchain, will autonomously achieve a distribution based on a smart contract, ensuring every investor to gain his own usufruct.

### **Fintech Open Classes (No. 13): “AI+” Driving a New Generation of Financial Innovation - Artificial Intelligence Helps Identify the Grey Rhino**

On December 6, Macro-Finance Salon (No. 79) and Fintech Open Classes (No. 13) was held at Renmin University of China. Luo Ping, doctoral supervisor of the Institute of Computing Technology Chinese Academy of Sciences and research fellow of Shanghai Key Laboratory of Intelligent Information Processing, delivered a keynote speech titled “‘AI+’ Driving a New Generation of Financial Innovation - Artificial Intelligence Helps Identify the Grey Rhino”. Gang Jianhua, associate professor in School of Finance at Renmin University chaired the lecture.

First, Luo Ping introduced the capital-flow-based financial ecosphere, and pointed out that the financial sector was a document-intensive industry. The ecosphere of capital flows mainly includes three parts--raising funds, allocating funds and generating returns. If the returns are generated, the new funds would circulate in the new fundraising process. And all financial activities are recorded in great amount of various public or non-public financial documents. For example, when the investment banks helped enterprises made initial public offering or issue corporate bonds, they would compose a prospectus of hundreds of pages and submit it for regulatory review. After approved, the prospectus would be publicly disclosed to all primary or secondary market investors. Viewing from the perspective of the consumption chain, investment banks or enterprises would compose the financial document as the seller, financial regulators (PBC, CBRC, CSRC and CIRC) would audit the document as the supervisor, and the investment institutions would read and analyze the document as the buyer. Because the financial document would disclose financial information, it must be true, accurate and complete. Any mistake made in the document, even a slight one hidden in the five or six hundred pages, would lead to great risk. Therefore, we expect the machine to understand some documents and to help financial practitioners to alleviate some of their tedious work.

Then Luo Ping introduced AutoDoc--the first big data intelligent financial document product in China. The product can replace labor with artificial intelligence technology and improve efficiency at work. Its core lies in analyzing documents. It processes loads of non-structural documents into structured data, so that the computer can analyze and compare the data. The key problem is to how to make the computer process the natural text language so that the computer can translate it into specific semantic and structured information. There are three characteristics of this transformation process. First, it's instantaneous. Once a document is published on the Exchange website, it can be structured into the database in 20 seconds. Secondly, it's precise. The structural language is very precise, yet the human language is quite abundant. The computer needs to master the various expressions in human language, and make them precisely structured. Thirdly, it's in-depth. We hope that the computer cannot only deal with some simple financial indicators, but also further understand the content of footnotes, in order to develop a thorough understanding of a company.

## **Fintech Open Classes (No. 14): Bitcoin's Past, Present, and Future**

On December 24, Macro-Finance Salon (No. 88) and Fintech Open Classes (No. 14) was held at Renmin University of China. Mr. Wang Liren, Senior Researcher of China Blockchain Research Alliance, expert in Network Engineering and Safety Technology, Deputy Secretary General of Zhongguancun Blockchain Industry Alliance, co-founder of the Energy



Blockchain Laboratory, co-founder of the Agricultural Blockchain Laboratory, delivered a keynote speech on Bitcoin's Past, Present, and Future.

Mr. Wang first explained the emergence of bitcoin from the viewpoint of information. He pointed out that in the Internet age, blockchain technology was born out of the need for information retention, encryption, circulation and trading. Bit is a medium carrying information. It is also an extension of market economy theory in the Internet. On the other hand, the flow of money constitutes the economic and social debt network, and bitcoin can be used as a unit of account to settle debt. To summarize, this is a process gone through from source to signal, then to message, trust, credit, and back to the source... Money is also formed in this consensus.

Then Mr. Wang analyzed the current status of bitcoin and blockchain from a technical perspective. Firstly, the trade is transparent. Based on the transactions and circulation of Token, blockchain technology could ensure that all the information involved in the many related-party transactions is true, reliable, and cannot be distorted. Secondly, every transaction is recorded. An account page is a Block, and Blockchain is a string of transactions. As the block chain is formed, property ownership is also verified. Thirdly, it can flow. The transfer and flow of token allow resources to be distributed across time and space. To make it popular, the cost needs to be low enough.

Next, Mr. Wang elaborated the blockchain technology and put it in the context of Internet technology. The Internet has two major structural defects: First, it is difficult to ensure the reliability of information and privacy. The second is HTTP, which is a centralized protocol. The essence of the Internet is mathematics; that is, to do the mathematics about information in an encrypted, decentralized, open, secure and irreversible way. Within a great mass of information, the trustworthy information will generate credit. Therefore, blockchain system must be open-sourced, in order to ensure information transparency and a decentralized model.

Finally, he analyzed the future of Bitcoin from the viewpoint of risk, RMB internationalization and the Fed's attitude. One risk of bitcoin is that the nodes might be attacked. One solution is Royal Bitcoin. From the viewpoint of international currency exchange and pricing, the Bitcoin system was once a good opportunity for RMB internationalization. After bitcoin was blocked, the Chicago Mercantile Exchange introduced bitcoin futures, showing that the Federal Reserve is nevertheless neutral about bitcoin which claims to challenge the dollar hegemony. He envisioned the next generation of blockchain as a "multi-link" interactive information system. At the end of the lecture, he recommended some excellent financial and technology books to the audience.

# Exchange

## Launch of IMF World and China Economic Outlook

On October 31, the Launch of IMF World and China Economic Outlook was held at Beijing Financial Street, co-organized by IMI and IMF Representative Office in China, sponsored by Minsheng Securities Academy.

Over 200 prominent scholars from the financial institutions, academia and government sectors from Europe, America and Asia attended the event. Speakers include Wu Xiaoqiu, Vice President of RUC, Zhuang Yumin, Dean of the School of Finance at RUC, Alfred Schipke, Senior Representative of IMF China, Zhang Longmei, Deputy Representative of IMF China, Zhou Xiaoquan, President of Minsheng Securities, Qiu Xiaohua, Chief Economist of Minsheng Securities, Marcos Caramuru de Paiva, the Brazilian Ambassador to China, Danny Alexander, Vice President of the Asian Infrastructure Investment Bank (AIIB), Er-Cheng Hwa, Chief Economist of Baoshang Bank and a former economist of the IMF, Wei Benhua, Former Deputy Administrator-in-Bureau of the State Administration of Foreign Exchange and Former IMF Executive Director for China, Wang Yongli, Former Vice President of Bank of China, Sun Lujun, Director of Board at CNIC, Chen Weidong, Director of the International Finance Institute of Bank of China, Xiang Songzuo and Song Ke, Deputy Directors of IMI. Zhang Zhixiang, Former Director General of the International Department of PBoC and former IMF Executive Director for China, chaired the meeting. The event was reported by over 70 media.

Prof. Zhuang Yumin and Mr. Zhou Xiaoquan gave opening remarks respectively. Prof. Zhuang said that the Launch of IMF World and China Economic Outlook aims to gather experts and scholars from Europe, America and Asia to discuss issues including global economic growth, China's economic outlook and the reform of the international monetary system. The World Economic Outlook released in October 2017 shows that despite the increasingly robust global economic growth, the economic recovery is still sluggish. More efforts at the multilateral level are required to tackle the challenges of globalization. The prospects for China's economic growth are good, showing strong momentum, but problems like the continued growth of private and public debt also exist. She encouraged the experts present to come up with more brilliant ideas to solve China's problems. Prof. Zhuang welcomed all guests, thanked all the experts for their attention and long-term support to IMI and wished the conference a complete success.

Mr. Zhou Xiaoquan said that this conference is a profound seminar in the new era under the guidance of the 19<sup>th</sup> CPC National Congress with the aim to make China a strong socialist modernized country. In the new era when the major social contradictions have changed, the capital market will face even higher demands. Minsheng Securities has always been dedicated to improving the efficiency of the financial industry in serving the real economy and its capability of supporting the economic restructuring for effective prevention and mitigation of





financial risks. In the future, the company will continue to uphold the above objectives and work together with others in the industry for sustainable development of the industry. He sincerely looked forward to strengthening academic exchanges with the IMF and RUC and discussing new characteristics and trends of the global economic development.

Mr. Alfred Schipke delivered a keynote speech themed “World Economic Outlook: Seeking Sustainable Growth: Short-Term Recovery, Long-Term Challenges”. He said both the hard indicator PMI and soft indicator CCI illustrate the increasingly robust growth of the global economy. The two indicators are projected to rise to 3.6% in 2017 and 3.7% in 2018 while China’s economic growth rate is expected to be 6.8% and 6.5% respectively. Broad-based upward revisions in the euro area, Japan, emerging Asia, emerging Europe, and Russia more than offset downward revisions for the United States and the United Kingdom. But the recovery is not complete: while the baseline outlook is strengthening, growth remains weak in many countries, and inflation is below target in most advanced economies. Commodity exporters, especially of fuel, are particularly hard hit as their adjustment to a sharp step-down in foreign earnings continues. And while short-term risks are broadly balanced, medium-term risks are still tilted to the downside. For policymakers, the welcome cyclical pickup in global activity provides an ideal window of opportunity to tackle key challenges—namely to boost potential output while ensuring its benefits are broadly shared, and to build resilience against downside risks.

Prof. Wu Xiaoqiu made a keynote speech titled “To Open China's Financial Sector and Build an International Financial Center”. He systematically elaborated on how China will build a modern economic system and its matching modern financial system. He believes that a modern economic system should have five essential features: First, modern manufacturing, modern equipment industry and emerging industries reflecting the progress of modern industries must play a leading role in the modern economy; Second, the economy must be green and environment-friendly; Third, quality rather than quantity should be the pursuit in the future; Fourth, the modern economic system China wants to build must be led by the market instead of government; Fifth, though modern manufacturing and modern equipment industry are the foundation of the economic system, the central role belongs to modern financial industry. Mr. Wu pointed out that as the core and cornerstone of modern economy, the modern financial system should be much market-oriented, fully integrated with science and technology, and highly open. If such a modern economy and financial system can be constructed, there will be no barriers for China to realize sustainable growth.

Ms. Zhang Longmei made a keynote speech titled “China: Make the most of the upswing”. She said that the global economy is recovering and that the prospects for China's economic growth have been adjusted upward. This is a good time to push forward reforms for long-term economic growth in China. But, she also made clear the challenges China's economy still faces—its growth depends highly on credit expansion but the growing debt scale has increased the downside risk in the medium term. After that, she proposed two solutions to reduce the credit intensity and the vulnerability of China's economy, which are re-balancing the economy and improving the efficiency of investment itself. She also suggested that to better re-balance the economy, China should adopt more structural adjustments apart from fine-tuning its fiscal policies.

The chief economist Qiu Xiaohua delivered a keynote speech titled “China's Economy

after the 19th CPC National Congress”. He pointed out that in the future, China's economy will lead a new development under the guidance of a dream, i.e., the Chinese dream of the great rejuvenation of the Chinese nation, which is made up of two centenary goals and three phases. All policies will center on this. China will upgrade both domestic and international economic platforms. The domestic one focuses on content such as Made in China 2025, Internet+, intelligence and innovation while the international upgrade includes RMB internationalization, the Belt and Road initiative, the establishment of free trade zones and the new International investment and financing system. The new development of China's economy will be promoted by three leaps: transnational operation, cross-border integration and cross-ownership. The Chinese economy will be supported by four major new dividends, namely, demographic quality, comprehensive reform, deep opening and mass innovation. China's economy in the next stage will further incorporate the five major new concepts of development advocated by the Chinese government since the 18<sup>th</sup> CPC National Congress. In other words, innovation, coordination, green, opening and sharing will be truly embedded into China's development. Finally, Mr. Qiu said that China's development has entered a new phase when the dawn of a new cycle begins to take shape. This new cycle has six features: the relatively stable growth rate, better development quality and efficiency, further optimized structure, enhanced well-being of the people, better society order, and policies progressing steadily.

The round-table discussion was presided over by Zhang Yu, IMI Researcher and Director of Fixed Income and Co-Head of the Asset Allocation and Strategic Investment Research Center at Minsheng Securities Academy. During the discussion, Mr. Wei Benhua suggested that great importance must be attached to the risk of global macroeconomic policy uncertainty. The IMF should strengthen its ability in monitoring the global economy. Dr. Xiang Songzuo believed in the global context of deleveraging, global growth is a relatively big uncertainty. The global monetary system should be reformed toward a more stable and multi-lateral structure or better monetary order. Dr. Er-Cheng Hwa said that China's current financial risks are more stable than those in the US and that the complicated issue of global governance requires attention. Mr. Alfred Schipke thought that attention should be paid to how to resolve geopolitical risks and pointed out that the IMF has been working hard to promote reforms to better support the strengthening of the international trade system. Ms. Zhang Longmei believed that a big risk for multilateral financial organizations is protectionism and she is very optimistic about the future of RMB internationalization.

Besides, Mr. Keiji Shibata, Minister from the Japanese Embassy to China, Pyeongseob Yang, Representative of Korea Institute for International Economic Policy in Beijing, Zhong Hong, Deputy Director of International Finance Institute of Bank of China, Zhang Xiaotao, Dean of Institute of Finance and Economics Research of Central University of Finance and Economics, Wu Zhifeng, Director of Division I of International Strategies of the China Development Bank Research Center, and economic counsellors from the British, the US, Japanese, and South Korean embassies to China also attended the meeting.





## Press Conference of China Wealth Management Development Index

On November 9, Renmin University of China held a Press Conference of China Wealth Management Development Index in Jinjialing Financial District, Qingdao City. Wan Jianzhong, Deputy Secretary General of Qingdao Municipal Government, attended the conference and delivered a speech. Bai Guangzhao, director of the Qingdao Municipal Office of Finance, Zhuang Yumin, head of the research team of China Wealth Management Development Index and dean of the School of Finance of Renmin University of China attended the conference.

Produced by the School of Finance and the Wealth Management Research Center of RUC, the Report of China Wealth Management Development Index is a comprehensive, systematic analysis from the index perspective for the first time. The report, based on scientific, forward-looking and international principles, tries to objectively and quantitatively reflect the overall level and dynamic characteristics of the wealth management sector in recent years. Index in the report comprises four types: global macro index, China's Index, regional index and the prospect of wealth management index. It builds index from the development of global wealth management, the scale, products, institutions, reputation and talent pool of China's wealth management sector, and regional development of index. The research indicates as follows:

Firstly, global private wealth management continues to scale up. Wealth management in developed regions such as North America and Western Europe not only boasts a large scale but also enjoys a relatively better environment. Due to the rapid economic growth and the continuous accumulation of private wealth in Asia, Africa, the Middle East and other regions, the growth rate of the wealth management scale has surpassed the developed areas, but the sector environment needs to be improved.

Secondly, the scale of China's wealth management sector and the number of its products has shown a rapid growth over the past three years as a whole. However, the differentiation of various industries tends to be clear. In terms of industry scale, the fund sector recorded the fastest growth and the largest increase. In terms of the number of products, the securities and fund industries increased year by year while the banking industry declined slowly. The concentration of China's wealth management institutions has declined slightly over the past three years. Among them, the banking and insurance industries continued to decline, while the trust and securities industries rose slightly and the fund industry showed a downward trend. However, the decline was not obvious.

Thirdly, the wealth management institutions gradually gained better social reputation year by year. However, comparing cross-sectional data, traditional commercial banks, insurance companies and other institutions have a higher social awareness and better reputation. However, emerging private equity funds, third parties' wealth management agency's reputation is still relatively low.

Fourth, the number of professionals in this industry has steadily risen. However, the

situation of lacking high-end talent has not been eased in essence, and building a qualified team remains an arduous task.

Fifthly, analyzing the development of regional wealth management industries in four municipalities directly under the Central Government and 15 sub-provincial cities in China, it can be seen that Shanghai, Shenzhen, Beijing, Qingdao and Hangzhou are among the highest in the sample cities. However, in terms of sub-indicators, cities have different emphases and different forms of competitive differentiation have gradually taken shape.

Sixthly, from the forward-looking index analysis, we can see that the potential for wealth management in China is still huge. Although the growth of banks and trust industries will relatively decelerate, wealth management companies in charge of securities, funds and insurance will have a bright future. In terms of regional development, wealth management in Beijing, Shanghai and Shenzhen will take the lead in the future. The development of wealth management in Qingdao and other cities shows a good momentum.

Qingdao, as the only comprehensive financial reform pilot zone in China with wealth management as the focus, has accelerated the pace of supporting financial institutions and professional wealth management institutions in recent years. Various wealth management factor markets have been successively put into operation. Various wealth management forums have exerted more and more influence. Qingdao is speeding up to build Jinjialing financial district with a total area of 23.7 square kilometers, which will provide a good platform and environment for economy growth. It also has rapidly expanded its financial industry featuring wealth management. Nowadays, the pilot zone has become increasingly prominent in promoting financial growth and supporting the transformation and upgrading of the real economy.

Therefore, founding China's wealth management development index plays an important role in objectively reflecting the status quo of China's wealth management industry, deeply analyzing and grasping the trend of global wealth management, and have critical value in theory and practice when China is deepening the financial reform and opening up, as well as innovating its own wealth management industry.



## China-Uganda Fintech Seminar

On November 17, the delegation from Uganda government visited IMI and joined the Fintech closed-door seminar organized by IMI and Rushi Fintech Institute. The participants discussed about the development and application of Fintech. The participants were Simon Rutega, Governor's Advisor of Uganda Central Bank and the CEO of Uganda Stock Exchange, Uganda government adviser Kwame Rugunda, Solomon Rugunda, David Nagimesi, Robert Kirunda, Noah Mukasa Baalesanvu, the associate dean of the School of Finance, Renmin University of China, Zhao Xijun, Sun Qian, the researcher of the Department of Global Technical Collaboration and Development from Ant Financial, Yang Wang, the chief director of Hande Finmaker, Wang Xin, the senior executive of Newstyle-Collinstar Capital, Zhang Nan, the researcher from Rushi Fintech Institute. The seminar was hosted by Zhang Yu, research fellow of IMI.

Zhao Xijun first gave the welcome address. He stated that Renmin University of China is one of the most authoritative Institutions of higher education in the field of finance and economics in China. He also extended a warm welcome to the Ugandan delegation to visit the university and looked forward to more cooperation between China and Uganda.

Simon Rutega gave the thank-you speech, expressing his great appreciation for the high efficiency and effectiveness of IMI and Rushi Fintech Research Institute to organise this seminar. He also showed his gratitude for the presence of the experts. Meanwhile, he expected to gradually establish deep cooperation through the constant communication among the three parties.

Yang Wang delivered a speech on the Industrial Pattern and Investment Opportunities of Global Fintech. He elaborated the Fintech in terms of the business models, global industrial pattern, investment opportunities in China and future development. He also pointed out Fintech is a type of economic industry following the combination of finance and technology, making the financial service more convenient and efficient. The growth of the gross amount of global investment in Fintech has remained robust since 2010. Compared to advanced countries such as U.K. and America that have strong innovation ability supported by sufficient capitals and talents, China lacks technical innovation skills. However, the large domestic market and political support from the Chinese government must be highlighted. Wang later explained several application cases in detail covering the use of blockchain to build smart city, smart healthcare and bill chain and so forth.

Sun Qian introduced the fintech business in Ant Financial, including blockchain, AI, information security, cloud computing and some other applications within the business. He pointed out that only 20% of consumers were served by traditional financial institutions while the remains were offered services through the technology from Ant Financial.

Finally, the three parties had an in-depth discussion about the present stage, business cooperation models, application prospects and other related aspects of Fintech.

## IMI Releases Tianfu Financial Index

2017 Tianfu Financial Forum—Press Conference of Tianfu Financial Index (TFFI) and Measures for Facilitating Civil-Military Integration through Finance was held on November 24 in Chengdu. This forum was jointly organized by IMI, the National Defense Science and Technology Industry Office of Sichuan Province, and PBoC Chengdu Branch. Niu Xiaofeng, Deputy Secretary-General of People's Government of Sichuan Province; Ouyang ZeHua, Director General of Sichuan Provincial Bureau of Financial Work; Xu Zhou, Director of the National Defense Science and Technology Industry Office of Sichuan Province; Xie Ruiwu, Member of the Standing Committee of the CPC Chengdu Municipal Committee, Executive Deputy Mayor of Chengdu; Zhou Xiaoqiang, Director of PBoC Chengdu Branch; Liang Qizhou, Director of Chengdu Municipal Bureau of Financial Work; Tan Songtao, Associate Dean of the School of Finance of Renmin University of China; Tu Yonghong, Deputy Director of IMI; Guan Wei, Member of the IMI Academic Committee; IMI researchers He Qing and Dai Wensheng; and Chong Tai-Leung, Professor of the Institute of Global Economics and Finance of the Chinese University of Hong Kong all attended this conference.

With the support from the School of Finance of Renmin University of China, IMI has successfully compiled TFFI, with the feature of combining “theory, policy and practice”. TFFI is based on the theory of financial center, with full consideration of national macroeconomic policies and financial development experience in terms of standard and empowerment. It also pays attention to the trend of the financial industry, shows the key areas of financial development, covers related indexes of the emerging financial industry, and reflects the features of different financial centers.

On behalf of his team, Professor He Qing briefly introduced the concepts and methods involved in the inventing process of TFFI. He pointed out that the first TFFI would cover 35 first-tier and second-tier cities, including one total index and eight sub-indexes in financial market, financial institutions, industry environment, human resources, finance and technology, green finance, cultural finance, and rural finance. The first TFFI is designed to reflect the financial development and features of each central city, to promote the understanding between different cities concerning financial development, and to strengthen each city's competitiveness, promoting stagger competition and synergetic development. He also analyzed the rankings, advantages and disadvantages of major cities and presented his plans and suggestions for building Chengdu into a financial center in Western China.

Professor Chong Tai-Leung praised TFFI for its broadness, depth and advancement. He said that Hong Kong and Chengdu should strengthen cooperation in direct investment, financial technology and personnel training.

Professor Tan Songtao explained two ways of developing financial centers. He thought that financial development driven by government policies rather than the real economy was not sustainable, thus, finance should be in coordination with the economy. On the part of TFFI, he said we need to be objective when analyzing each city's figures. High scores do not equal to top rankings. He also emphasized that each city should compare its performance not only with that of other cities, but also with its past one, so as to better understand and focus on the key areas of financial development.



Huang Yi, Director of Sichuan Tianfu Bank introduced the huge potential possessed by Sichuan Internet finance and consumer finance, and made a detailed explanation of Sichuan Tianfu Bank's methods and experience of utilizing Internet and big data to develop inclusive finance.

In addition, 32 major media including CCTV, Sichuan News, Sichuan Daily and Chengdu TV covered the conference. Professor Tu Yonghong and Professor He Qing were interviewed after the conference.

## China Financial Risk Management Forum 2017

On November 25, China Financial Risk Management Forum 2017 was held at the International Conference Center of Beijing National Accounting Institute. This forum was co-hosted by IMI, Beijing National Accounting Institute, Finance World magazine, Beijing Branch of China Economic News Service and Modern Bankers magazine. The forum focused on regional financial risk management during the supply-side reform with four Sub-themes: shift from virtual industries to real economy and financial regulation, bad asset management in the supply-side reform, local financial risk management, and risk management in Fintech and innovation. Many experts and scholars attended the conference and delivered speeches, including Guan Qingyou, Academic Committee Member of IMI and director and chief economist of Rushi Financial Research Institute; Chen Zhongyang, professor of School of Finance at Renmin University of China and director of Financial Risk Management Workshop; Guan Yixin, former theoretical secretary of Central Military Commission Office and President of QiHuanZhongFu Strategic Research Institute; Hu Jiye, director of Capital and Financial Management Department, CUPL; Miao Weimin, co-founder and CEO of CriAT; Zeng Yihong, vice general manager of Gelin Dahua Futures CO.,LTD.; Qu Qiang, assistant director of IMI.

Dr. Guan Qingyou delivered a speech on Adapting to the new era of strengthening financial regulation, and made analysis and judgments on three topics regarding policy tone and regulation measures respectively: strengthening regulation, impact of asset volatility, and impossibility of debt crisis or financial crisis in China. From the aspects of monetary policy, fiscal policy and real estate financing, he proposed the importance of a long-term regulation strengthening on the policy tone and regulation measures in order to adapt to the new era of strengthening financial regulation. He also analyzed the characteristics of China's financial system and risk management, further emphasizing on the sufficient awareness and adequate disposal capacity and methods of short-term risk.

Prof. Chen Zhongyang pointed out that China was entering a new era of financial risk management. He gave his opinion about some basic issues such as how to deal with the relationship between development and risk management, and made a deep analysis of the bottom line, overall features, functional orientation, and challenges in this new era. Aiming at getting rid of the conventional management dilemma of "Once managed, problem arises; Once loosened, disorder increases", he innovatively put forth the Ten Thoughts of financial security and risk management, and underlined the pivotal role of Party leadership in the financial risk management.

Qu Qiang, assistant director of IMI, thought it important to watch out for local debts in a short-term while long-term concern could be unnecessary. He combed through the causes of local debts and indicated three soft constraints to local debts: risk, budget and politics. Moreover, he analyzed the merits and demerits of local debts and proposed suggestions of resolution of local debts accordingly.



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