



# IMI Newsletter

International Monetary Institute  
Renmin University of China

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# Highlight

## China Asset Securitization Annual Meeting

From April 8 to 9, the 2017 China Asset Securitization Annual Meeting, organized by IMI and China Asset Securitization 100 Forum, co-organized by XFintech and the Modern Bankers magazine, was held in Beijing. In order to review and summarize the development experience and to foresee development trend of asset securitization, the annual meeting focused on using asset securitization to promote economic development. Professionals both at home and abroad were invited to discuss the trend and changes on asset securitization in the context of finance supporting the real economy and supply side reform.

Liu Yuanchun, vice president of Renmin University, addressed at the annual meeting. Liu said that the current world economy had undergone a qualitative change. First, the world economy is no longer deflated, and monetary policy has shifted in all-round way. The majority of countries, including China, are beginning to enter cycle of raising rate. Second, changes in the operational mode of China's asset securitization exacerbate the asymmetric impact, and the risks are starting to converge along with the shift in currency issuance from traditional funds outstanding for foreign exchange and bank credit to the interbank market. The hidden government debt, capital flight and changes in the interbank market and bond market will further increase the risk caused by the projection of the cycle of raising rate in the coming quarters.

Ma Delun, member of IMI Advisory Board, chairman of Banking Accounting Society of China, and the former deputy governor of PBoC, delivered a keynote speech. He said that as the financial sector became market-oriented, international and technology-based, asset securitization gains strength. Asset securitization, as a new financial tool, is being recognized and accepted from all aspects, and the growth rate and development scale of asset securitization in recent years has proved that. For asset securitization, from the basic assets to the asset pool, from pricing to sales, from the original equity to investors, the formation of a complete industrial chain and thoughtful service will undoubtedly make the asset securitization market more mature, and thus more efficient.

Cai Esheng, the former deputy chairman of CBRC, gave advice on product innovation for financial institutions in the keynote speech. To implement asset securitization business in China, Cai Esheng put forward ten measures, emphasizing that “financial institutions, while making product innovation to meet the public demand in accordance with the overall requirements of the reform, should specially focus on maintaining stable performance and improving the product.” He said, from institution’s senior officials to the community-level officials, they can only truly grasp the concept of financial products and their service role when they develop the correct concept, and then they can better promote the products.

Chen Lei, president of XFintech, reviewed in the keynote speech the 2016 asset securitization market. He said that the asset securitization business in 2016 not only achieved breakthroughs in scale, but also in variety of basic assets. We also developed new ways of innovating policy, improving supervision, developing market, upgrading product structure and increasing product type and so on. But he also pointed out that the separate regulatory system, too much institutions participation, inefficient issuance, and investors focusing on credit risk and neglecting basic asset risk, all these hold back the development of the market.

Cao Tong, IMI co-director, chairman of XFintech, and founder of Guo Jin ABS Cloud, concludes that in the current economic cycle, it is of great significance to develop asset securitization. Cao elaborated three ways: first, the market construction; second, the policy support; third, the social support.



## IMI Invited as Co-initiator of CAF100

Since its establishment in October 2015, the China Asset-Securitization 100 Forum (CAF100) as a financial think tank in the field of asset securitization, has always been committed to providing a high-end and in-depth research platform in the field of asset securitization for governmental regulatory departments, financial institutions, asset sponsors, institutional investors and professional intermediary institutions. The platform discusses the hotspot issues to provide the most comprehensive and the most cutting-edge opinions and solutions. On the invitation of CAF100, IMI officially joined CAF100. Together with the XFintech Corporation Limited and *Modern Bankers Magazine*, IMI has become the co-initiator of CAF100 with the aim of increasing the academic support to CAF100.

IMI's involvement is of milestone significance for the long-term development of CAF100. Since the establishment of CAF100, thanks to the strong support of the Academic Committee and Advisory Council, more than 20 open forums, closed-door seminars, annual summits and many other events have been successfully held in Beijing, Shanghai, Shenzhen, Xiamen and other cities, with over 5,000 participants and won wide praise. IMI will undoubtedly provide more theoretical and practical references for relative policy-making and researches on asset securitization and will further provide an inexhaustible intellectual support for the development of asset securitization.

IMI has numerous authoritative experts and scholars in the field of economics both at home and abroad, among others, Mr. Pan Gongsheng, Deputy Governor of PBoC, Prof. Robert A. Mundell, The 1999 Nobel Economics Laureate and Professor of Columbia University, Mr. Chen Yulu, Deputy Governor of PBoC. IMI's main academic products include *International Monetary Review* (Chinese), *International Monetary Review* (English) and *IMI Research Information* as well as IMI Macro-Finance Book Series. The support of IMI will certainly play a more prominent role in the high-end research of CAF100.

In addition, IMI has long been committed to building a platform for academic exchanges and cooperation both at home and abroad. It has established the long-term strategic partnerships with over 10 international organizations or research institutions in Europe, the U.S. and Asia, including the International Monetary Fund (IMF), the Center for Strategic and International Studies (CSIS), University of Montevideo, the Official Monetary and Financial Institutions Forum (OMFIF), the Sino-German Center of Finance and Economics (SGC), the Centre for European Policy Studies (CEPS), the International Finance Forum (IFF), Columbia University, Goethe University Frankfurt am Main, the University of Luxembourg, the Bank of Finland's Institute for Economies in Transition (BOFIT), the Korea Institute for International Economic Policy (KIEP), the ASEAN+3 Macroeconomic Research Office (AMRO), the Human Sciences Research Council (HSRC), J.P. Morgan Chase, Hong Kong Fung Global Institute, the SinoPac Financial Holdings Co. in Taiwan and etc. These strong partnerships will have a positive and far-reaching implication for CAF100's exchanges and cooperation.

## Inauguration Ceremony of China Fintech 50 Forum

China Fintech 50 Forum (CFT50) held its inauguration ceremony on April 22 in Beijing. The meeting was presided over by Song Ke, member of CFT50 Academic Committee and deputy director of IMI. Speakers include Wang Zhongmin, senior academic adviser of CFT50 and vice chairman of the National Council for Social Security Fund; Wang Yongli, senior academic adviser of CFT50, senior vice president of LeTV; Ben Shenglin, member of CFT50 Academic Committee and director of Zhejiang University Academy of Internet Finance; Qin Yi, Deloitte China blockchain sponsor and Deloitte partner for Asia Pacific investment management; Huang Yusong, CFT50 special guest, deputy secretary-general of Internet Finance Research Center of the PBoC Finance Institute; Yang Tao, CFT50 chief economist and director of Chinese Academy of Social Sciences Industrial Finance Research Center; Yang Dong, CFT50 Secretary-General, vice president of RUC Law School and director of RUC Fintech and Internet Security Research Center. They shared views on the current opportunities, challenges and trends of China's Fintech development. Reporters from more than 60 financial media attended the conference and witnessed the establishment of CFT50.

CFT50 is co-sponsored by IMI, Fintech and Internet Security Research Center (FTCS) and the Research Base for Industrial Finance (RBIF) of the CASS. The National Finance and Development Laboratory and Deloitte are both support units. CFT50 senior academic advisers include Li Yang, Li Lihui, Wang Zhongmin, Wang Yongli, etc. CFT50 academic committee includes Huang Yiping, Xiao Feng, Yao Qian, Yao Yudong, Ben Shenglin, Chen Long, Yang Tao, Yang Dong, Song Ke, etc. CFT50 brings together the front-line regulators, experts, scholars and business leaders of China's Fintech industry, provides a platform to explore the cutting-edge issues and to promote industrial practice, and thus contributes to the development of China's financial technology. CFT50 is committed to become China's leading Fintech think tank, and through international exchanges and collaboration, to enhance China's global influence in the Fintech industry.

Wang Zhongmin made a keynote speech. Caring and supporting China's Fintech development, he proposed that "artificial intelligence can be used for financial supervisory innovation", and "blockchain will be applied to social security fund investment management" and so on. He said that if China's Fintech enterprises want to go from 0 to 1, they must "open source", not only to the market, but also to the regulation. Only in this way can the Fintech industry has a new ecology and make profits as much as they could.

Wang Yongli made a keynote speech themed "financial technology will promote China's financial transformation". He believes that the focus of Fintech is science and technology. To apply science and technology to the financial field and to promote financial innovation and better development, the premise is to accurately grasp the essence of finance and the law of development, and to uphold the financial bottom line and basic principles.

Yang Tao talked about "how to stay top in the era of financial technology". He believes that China's financial technology innovation is facing directional choices. An early winner should take care not to be a final loser. China's Fintech industry shouldn't become "a pig that soar up only because of the strong wind", meaning companies making temporary huge profits



only because they are in the foremost sector. “When the pig finally falls, it falls off badly. Instead, China's Fintech industry should become a strong cheetah”.

Ben Shenglin said that China’s internet finance should go abroad, and that China’s think tanks need further internationalization. He believes that the Internet finance is inherently international, but the low level of internationalization is a disadvantage of China’s Internet financial think tanks, and it doesn’t match the Fintech development. There is still a long way to go in terms of China’s Fintech think tanks going global.

Qin Yi pointed out that if financial technology companies want to win the market, they need to be fast. In essence, it is a competition of speed. For start-ups, it’s a competition of winning customers; for traditional financial institutions, it’s a competition of internal innovation.

Huang Yusong analyzed in his speech the pathways, regulatory trends and future directions of China’s Fintech industry. He believes that financial technology is a “double-edged sword”, so it requires the joint efforts of regulators, researchers and people in this industry to seek its advantages and avoid disadvantages.

Yang Dong delivered a keynote speech on “challenges and theoretical reconstruction of financial regulation” He believes that new risks may emerge in Fintech innovation, therefore, the regulatory model should also be transformed from access regulation to technical and digital-driven regulation.

# Research

## Roundtable on Money and Finance

### Editor's Note:

*Roundtable on Money and Finance is IMI's signature quarterly forum, held on the second Saturday afternoon of each March, June, September and the next January respectively (adjusted for national holidays and special occasions). The forum invites financial experts and leaders from home and abroad, having featured keynote speakers including Wei Jianguo, former vice minister of the Ministry of Commerce; Su Ning, former deputy-governor of PBoC; Chen Yulu and Pan Gongsheng, deputy-governor of PBoC; Robert A. Mundell, professor of Columbia University; Edmond Alphandery, former French minister of finance; Patrick Honohan, governor of Central Bank of Ireland; Yves Mersch, governor of Central Bank of Luxembourg. Currently, the forum has become a significant platform for academic exchanges in the macrofinance, and has cast great influence among financial researchers and practitioners.*

### **Roundtable on Money and Finance and the 56th Clearing House Salon: Macro Factors of the RMB Exchange Rate Fluctuation and its Potential Effect**

On the afternoon of April 15, the Roundtable on Money and Finance and the 56th Clearing House Salon was held successfully in Beijing. This conference is co-sponsored by Shanghai Clearing House and IMI with the theme of Macro Factors of the RMB Exchange Rate Fluctuation and its Potential Effect. Wei Benhua, Former Deputy Administrator-in-Bureau of SAFE, Liu Jun, Executive Vice President of China Investment Corporation, Chen Guang, Chief Risk Officer of Shanghai Clearing House, Sun Lujun, Director of CNIC, Xiao Geng, Professor of Finance and Public Policy in School of Business and Social Sciences of Hong Kong University and Cheng Leilei, General Manager of Product Development Department of Shanghai Clearing House and about 60 representatives from major banks attend this conference such as the Bank of China, Agricultural Bank, Industrial and Commercial Bank of China and China Construction Bank. This conference is hosted by Song Ke, Deputy Director of IMI.

Wei Benhua and Chen Guang have made wonderful opening remarks. Wei thinks that the RMB exchange rate will not experience long-term devaluation. The two-way fluctuation of the RMB exchange rate is very normal. The RMB exchange rate needs to be analyzed based on the long-term trend and we should not struggle with short-term fluctuations.

Chen Guang holds that China's exchange rate system serves our overall development strategy, in line with China's development requirements. In the next stage, the RMB exchange





rate system will be better adapted to the requirements of China's market-oriented economic reform. Moreover, it is an important job of Shanghai Clearing House to maintain the sound and stable development of the RMB derivative market.

Sun Lujun's speech centers around the "variety" and "stability" of the RMB exchange rate. He first analyzes the new domestic economic and financial problems and structural problems in the balance of payments in order to explain why the statement that "there is no basis for a sustained depreciation trend for the RMB" does not agree with the fact that RMB continues devaluating after the "8/11 Exchange Rate Reform". He thinks that the RMB is fundamentally overvalued. Then, he analyzes the new changes of the RMB exchange rate since the beginning of 2017 through detailed data, such as a narrow trading band, the reversal of the spread between CNH and CNY, the devaluation of RMB against a basket of currencies, the tightening of the liquidity of the offshore RMB market in Hong Kong, and so on. The "stability" mainly refers to the fact that investment remains the main driving force of domestic economic growth. Although the capital outflow shows some signs of improvement, it is still difficult to reverse in the short term. Finally, he makes an analysis of the impact of Sino-US relations on the RMB exchange rate. He believes that the Sino-US trade war is unlikely to occur and the dollar interest rate is not equal to the appreciation of the dollar. He indicates that the RMB still has room for depreciation but the range will be narrower than before.

Professor Xiao Geng emphasizes the importance of a stable exchange rate. He points out that the trade surplus should not be considered as a yard stick in giving the statement that "there is no basis for a sustained depreciation trend for the RMB". For China, the re-allocation of assets has brought itself the long-term devaluation pressure, and the trade surplus has no decisive impact on the RMB exchange rate. Since the "8/11 Exchange Rate Reform", a series of capital controls that China has adopted are helpless but necessary. The exchange rate is not the price of the general commodity, but the link between the two price systems. Historical experience shows that only a stable exchange rate can promote financial openness. China urgently needs to develop the government bond market, form an effective yield curve of government bonds, improve the financial infrastructure and solve the "last kilometer" problem in the financial sector, thus creating favorable conditions for easing the capital control and stabilizing the RMB exchange rate.

Cheng Leilei talks about the development of China's exchange rate derivatives through the business scale, variety changes and other aspects. She points out that the development of exchange rate derivatives is based on a relatively loose foreign exchange trading environment and a larger range of exchange rate fluctuations. At the same time, she introduces the necessity and significance of the central counterparty clearing mechanism, which is one of the systemic financial risk management tools, and demonstrates the core content of this mechanism from four aspects: the member access mechanism, settlement guarantee mechanism, risk management system and the multilateral netting mechanism. Finally, she analyzes the current situation and future development of the exchange rate derivatives central counterparty clearing services launched by Shanghai Clearing House.

Liu Jun discusses the "multidimensional motivations of currency internationalization". Liu Jun believes that the initial driving force of currency internationalization arises from the cross-border trade needs. The fundamental attribute of the currency lies in the national interest.



The level of currency internationalization is the embodiment of national strength; in the process of forming the Bretton Woods system, the national interest is a reason why the United States wanted to enable the dollar to become a currency anchor. Through currency manipulation, the United States changed the result of the Suez Crisis between the Egypt and British and France, which also reflects the currency's national properties. He then introduces the three paths of currency internationalization and points out the lack of vitality of the super-sovereign currency in reality. Taking the transfer of the euro clearing after Brexit as an example, he explores the difference between the central currency and the money center. He believes that not only China but also other countries support the RMB internationalization. China, as the second largest economy, has stepped into the international arena. China's contribution to the global GDP growth is remarkable, and its national strength represented by RMB is being widely recognized around the world. Finally, Liu Jun analyzes in detail the difference between the exchange rate and the monetary value, and the difference between the use value and real value of the currency.

During the roundtable discussion, Wang Yongli, Senior Vice President of LeTV, Di Dongsheng, Associate Professor of School of International Studies of RUC, Li Jing, Professor of School of Economics of Capital University of Economics and Business, and some representatives from Bank of China and Ping An Bank all share their own opinions on the RMB exchange rate.



## Macro-Finance Salon

### Editor's Note:

*Macro-Finance Salon is another 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. 54): The Rise and Fall of World Reserve Currencies since 1870**

On the afternoon of April 12, Macro-Finance Salon (No. 54) was held in Renmin University of China. As the guest speaker, Matthias Morys, associate professor of the Department of Economics of the York University, made a speech on the "The Rise and Fall of World Reserve Currencies since 1870". Wei Benhua, former deputy administrator-in-bureau of SAFE and Sun Lujun, director of CNIC participated the meeting. The Salon was hosted by He Qing, professor of the School of Finance of RUC.

Professor Morys reviewed the evolution and development of the world reserve currency since 1870. He mentioned that the dollar has been the dominant currency since the 1960s, and after 1999, the euro had posed a threat on the dollar's dominance, and then the euro's momentum had fallen as a result of the euro crisis. In recent years, China's economy continues to grow, coupled with the central bank's active promotion of the internationalization of the renminbi, the renminbi has gradually become the most potential opponent of the dollar. However, it has never been possible for a country's currency to catch up with another country's overnight. In general, the stronger the spillover of the dominant currency, the harder it is to shake its position. Historically, US GDP had surpassed Britain in 1870, but the dollar hadn't replaced the pound until 1960; the gold standard dominated Europe in 1870, but was not abandoned until after World War II. Therefore, the dollar's position will be difficult to change for a long period of time. Professor Morys elaborated on the three historical stages of the gold standard, which were the classical gold standard (1870-1914), the gold standard (1925-1931) during the two World Wars, and the Bretton Woods system (1944-1971/73). In this process, as the status of foreign exchange reserves is getting higher, central banks gradually replaced foreign exchange as a reserve for gold. Yet, the status of different

currencies as foreign exchange reserves are significantly different, and this contrast has changed with the rise and fall of countries' national strength. Before WW I, the United Kingdom, as the first to carry out industrial revolution, enjoyed the highest gross national product. It is the world's largest trading nation with a sustained trade surplus. The status of the pound rose with the rising economy, and thus became the dominant currency. Professor Morys pointed out that when a country's currency becomes the dominant currency, it means that the country is bound to be a financial center and has strong political power.

Professor Morys specifically referred to the gradual abandonment of the gold standard and the reasons. He used the example of, dollar's replacement of the British pound from 1914 to 1924 to illustrate the fast changing nature of the current monetary system. There may be several currencies coexist, and there may be differences between various regions. He also said that issuance of reserve currency has both pros and cons for a country. On the one hand, it is conducive to grasp the dominance of the trade and monetary policies. On the other hand, it bears the responsibility of mobility and stability, and guarding against risks.

In the comment section, Mr. Wei Benhua pointed out that the evolution of the international reserve currency provides a good reference for renminbi. He agrees with Professor Morys that the status of a country's currency is supported by the country's economic strength. China is the world's second largest economy and the largest developing country with a population that is several times larger than that of the United States. China maintains growth momentum. In this case, the renminbi has the potential to play a greater role and more important role. However, the RMB internationalization is anything but seeking hegemony. The yuan can coexist with other currencies. The dollar spent more than half a century before it could rival the pound. There is still a long way to go before the yuan becomes the world's leading currency.

Subsequently, Mr. Sun Lujun reviewed the internationalization of the RMB, pointing out that the RMB has achieved a series of major institutional changes, including cross-border settlement, offshore market development, bilateral exchange, and has joined the SDR. He believes that the renminbi has made substantial progress this year, but it is also faced with challenges. International reserve currency requires interest rate marketization, exchange rates flexibility, capital account convertibility and macro prudential management. These are all that China needs to work on. The RMB will be a strong opponent of the dollar, but it will not surpass the dollar in the near future.

## **Macro-Finance Salon (No. 57): Offshore RMB Asset Securitization**

On April 23, Macro-Finance Salon (No. 57) was held under the theme "Offshore RMB Asset Securitization in the Context of Internationalization". Liu Borong, director of Zhong Lun Law Firm and chairman of the Executive Committee of China Asset Securitization Forum, and Zhang Xiufen, co-founder of the Asian-Pacific Structured Finance Association and the member and Executive Secretary-General of China Asset Securitization Forum, attended the Seminar and delivered keynote speeches. The Salon was hosted by the Deputy Director of IMI Prof. Song Ke.

Zhang Xiufen delivered a keynote speech entitled "Offshore RMB Asset Securitization in



Hong Kong". She gave a detailed account of the reason for China's development of offshore asset securitization in Hong Kong, its potential size, as well as the related regulations, taxation, services and risks etc., and she also rendered some advice. She pointed out that the proper construction and wide use of onshore asset securitization platforms benefit the sales of China's asset securitization products to investors in international markets through Hong Kong offshore center. Besides that, these platforms are also successful examples of represent the adoption of international experience in China. With professional experience in providing asset securitization products in international capital markets, China can provide both technical and financial support to the infrastructure of countries along the Belt and Road.

Liu Borong addressed with the topic "Legal Issues about the Asset Securitization Pilot Program of the FTA of B&R Project". He mentioned that under the RMB internationalization strategy, the RMB outflow should be combined with the offshore RMB backflow to form a virtuous circle. In the early stage, we should issue RMB-denominated asset-backed securities based on domestic assets through the "window"—free trade area, in order to meet the need of foreign investors to invest on domestic assets. This is a good starting plan for offshore asset securitization. He suggested that, in order to obtain regulatory support, we can firstly establish some pilots which include the basic kinds of asset products supported by the industries and the financial sector. With the prerequisite that we have a sound communication with the supervision departments, we can raise creative solutions towards many problems such as the transfer and use of cross-regional funds, transnational assets services and the collection of recovered amounts, the due diligence of overseas base assets, project cooperation among intermediary agencies home and abroad and residential mortgage etc.

### **Macro-Finance Salon (No. 58): Beauteous Trouble—How to Use China's Huge Savings**

On April 22, Macro-Finance Salon (No. 58) was held in Renmin University of China. Yao Yang, dean of the National School of Development (NSD) at Peking University, gave a keynote speech titled "beauteous trouble: how to use China's huge savings". The meeting was presided over by Prof. Zhao Xijun, member of IMI Academic Committee and Associate Dean of School of Finance at RUC.

First, Mr. Yao analyzed the source of China's huge foreign exchange reserves, pointing out that a number of economic problems can be attributed to excessive reserves. China's export-oriented growth model led to the substantial accumulation of foreign exchange reserves. And two conditions caused China's export surge. First, China's foreign trade has greatly increased since its accession to the WTO and the export grew by five times within just seven years. Second, China has undergone double demographic transition. On the one hand, China is now at the peak of demographic dividends. On the other, a large number of rural labor forces have migrated to cities. Thus, demographic transition has provided China with many labor forces. Though adequate labor force increased the export, it also slowed down the rise in domestic salaries and increased corporate revenues, thus adding to corporate savings. High savings of high earners raised the total household savings. Moreover, China's fixed exchange rate is sticky as it reduced the relative prices of domestic products. So this further lowered salaries, raised the profits of the trading sector, and brought savings up. These factors

jointly resulted in the huge savings.

Then Mr. Yao mentioned some problems that rise from such huge savings. The first problem is that speculative investments have produced many asset bubbles in China's stock and real estate market. The second is that inflating asset prices can centralize wealth and thus exacerbate inequality in wealth and income distribution.

At last, Mr. Yao elaborated on how to use wisely China's huge savings. The major method is to buy time for further adjustments and postpone the monetary problem. First, growth should be boosted to dilute the currency. Second, more efficient investments should be made to raise asset returns. Third, the cost may be transferred to later generations through the issuance of government bonds and pre-consumption for the public. The capital that the government obtains through issuance of bonds can be invested in improving infrastructure and people's livelihood.

During Q&A, Mr. Yao also discussed with the participants the definition of capital outflow, the ways of currency loss, and whether we responsible for later generations if we make pre-consumption.

Prof. Zhao Xijun commented on Yao's speech. He maintained that China now has a large economic aggregate and quite moderate economic growth, but the core problem lies in the structure. Yao Yang also mentioned some ways to change the consumption structure, but whether there are other ways to improve China's investment and consumption structure is still a question worth of consideration.

## **Macro-Finance Salon (No. 59): Practice of the Macro-Finance in Xinjiang**

On April 20, Macro-Finance Salon (No. 59) was held in Renmin University of China. Guo Jianwei, President of PBoC Urumqi Central Sub-Branch, was invited to deliver a keynote speech on Practice of the Macro-Finance in Xinjiang. This salon was hosted by Tu Yonghong, Deputy Director of IMI and Professor of Finance in RUC.

Mr. Guo first talks about the background of the Macro-Finance and the New Finance in Xinjiang and points out that under the new normal, the Macro-Finance and the New Finance can promote the transmission of monetary policies, serve the real economy, and adapt to the diversified and integrated corporate service demands. Meanwhile, since the renminbi is steadily improving its international position, the Macro-Finance and the New Finance can bring into full play the regional advantage of Xinjiang as the core region of the Silk Road Economic Belt. The Opening-Up Strategy along the Western Border also provides great opportunities for industrial restructuring in Xinjiang. He mentions that the Macro-Finance focuses on client needs, conducts all-dimensional cooperation with China Banking Regulatory Commission, Securities Regulatory Commission, and Insurance Regulatory Commission, and explores new financing products and models in line with regional development. The Macro-Finance is problem and practice oriented and provides one-to-one diagnoses and customized solutions targeted at financing inaccessibility and unaffordability of different corporations. The New Finance theory framework vigorously adapts to economic globalization and financial integration, enables wider financial bilateral opening-up, and coordinates the new integrated financial service model of domestic and foreign currencies



onshore and offshore. The framework establishes the financial cooperation mechanism, make breakthroughs in the cross-border renminbi business, and uses foreign exchange management transformation as an accelerator to establish a long-term, stable, sustainable, and risk-controllable financial protection system that serves Xinjiang, the core region of the Silk Road Economic Belt.

Mr. Guo introduces the practice of the Macro-Finance and the New Finance in Xinjiang. Xinjiang establishes and improves the statistical framework of the Macro-Finance to continuously expand the statistical scope from traditional credit to social financing to the Macro-Finance. Xinjiang establishes “one mechanism and three platforms” supported by information intelligence, namely the transmission and promotion mechanism of monetary and credit policies, and the integrated Xinjiang corporate service platform, cross-border financial service platform, and the Internet Plus Inclusive Finance service platform under the framework of the Xinjiang Institute of Finance. Xinjiang is committed to differentiated treatment and financial service in line with its regional conditions.

At last, Mr. Guo points out that the Macro-Finance and the New Finance’s service function is improperly constrained by the unbalanced financial structure and real economic structure in Xinjiang. The Macro-Finance and the New Finance should work hard to resolve the long-term financial needs, improve the capital contribution rate, and vigorously support the service industry to stimulate the social capital vitality in Xinjiang. He shares his thinking on the Macro-Finance and the New Finance from the above-mentioned aspects.

After his speech, Professor Tu Yonghong presented Mr. Guo Jianwei the Letter of Appointment and appointed him as a member of IMI Academic Committee.

### **Macro-Finance Salon (No. 60) and Seminar on Wealth Management Development Index**

On April 25, the Macro-Finance Salon and Seminar on Wealth Management Development Index was held in Renmin University. The guests include Liu Qingsong, Former Division Chief of Henan Province, CSRC, Miao Yufeng, Former Deputy Director, Banking Division, CBRC, and Yan Xiandong, Deputy Director-General, Statistics and Analysis Department, PBoC. Zhuang Yumin, member of IMI Academic Committee, Head of the Wealth Management Development Index research team, and professor of RUC, hosted the salon.

Professor Zhuang first introduced the backgrounds, general condition of their research members and the process of the research on Wealth Management Development Index. At the beginning of 2014, wealth management and financial reform pilot area in Qingdao was officially permitted by China’s government, which signified that wealth management has become a national financial development strategy in China. Accordingly, the Renmin University of China and Qingdao Municipal Government set up a subject research group and co-edited the report *China Wealth Management Development Index*. Based on quantities, this report systematically analyzes the overall industry development of the wealth management in China, which has already achieved some results and thereby built a framework. In order to better work on index design and composition, the research team held internal seminar, on which they discussed related data and issues of this industry. They hoped that experts at the scene could put forward suggestions and proposals on index system, data collection and



theoretical supports.

Next, Tan Songtao, Gang Jianhua, Qian Zongxin and Dai Wensheng gave a more detailed introduction to their research from aspects like the building of overall framework, industry development, products, development index and index choosing, etc. They also pointed out issues they had encountered and hoped to gain suggestions from experts.

Miao Yufeng offered his suggestions from three aspects, namely index, wealth and technology and hoped that when editing index, the research team could much consider whether these index are scientific-based, promising, controllable and adaptable. Meanwhile, the group should also consider the measurability of data. Liu Qingsong hoped team members to re-build the framework of reports and think the significance and goals of making wealth management development index and lessons from international community. Yan Xiandong pointed out that editing index should first require to satisfy clients' demands, and that we should establish an index not only basically satisfying clients' needs, but also being sustainable. Besides, three experts also shared their own advice on choosing specific index and collecting data. After the salon, group members had a deep discussion on experts' suggestions.

## **Macro-Finance Salon (No. 61): The Possibility of the Outbreak of Financial Crisis in China**

On April 27, the Macro-Finance Salon (No. 61) was held at Culture Square, Renmin University of China. The salon centered on the possibility of the outbreak of financial crisis in China. Wei Jianing, Member of the CF40, Xiong Yuan and Lin Nan, both IMI researcher fellows joined us as speakers. The salon is presided over by Su Zhi, professor of Statistics and Mathematics at Central University of Finance and Economics.

Wei Jianing, by comparing the similarities and differences between the 1997 Asian financial crisis and the 2008 global financial crisis, analyzed how China was connected to these international financial crises. He analyzed China's role in causing the two crises and the crises' impact on China. During the two international financial crises, China suffered from deflation, but China was in different economic stages with different investment rates of return, the measures and effects responding the two international financial crises are also different. By analyzing China's current debt burden, capital outflows, economic growth and structure, and by evaluating the possibilities and impacts of each risk, he believes that China needs to be aware of the real estate bubble burst and overcapacity. Turning to the relationship between reform and financial risk, Wei Jianing stressed that it is necessary to distinguish three different risks, and treat them differently, that is, the risk brought by reform, the risk of carrying out reform and the risk of improper or improper reform. At last, Wei Jianing put up with some advice on China's economic and financial reform. He believes that in the short term, risk assessment and crisis response plans are needed; in the medium term, an effective risk prevention and crisis pre-warning mechanism and plans to gradually resolve the risk is needed; in the long term, to effectively promote structural reform is fundamental to avoid crisis.

Xiong Yuan shared his view on the possibility of financial crisis outbreak in China from the perspective of "debt and capital outflows' relation to the financial crisis". He believes that





the outbreak of financial crisis is often accompanied by debt and capital outflows. According to his study of international experience and historical data, he found that debt to a certain extent will drag on economic growth and increase the possibility of crisis outbreak. Then, Xiong Yuan compared the debt levels and trends of the United States, Europe, Japan with China, and found that China's overall leverage and leverage in sectors (of residents, governments, non-financial enterprises, financial institutions) are on the rise. This is significantly different from the United States and Europe. When it comes to capital outflow, he took the chronological relations between the Strong Dollar cycle and the financial crisis as an example, explained the influence of international capital flow on the financial crisis. He pointed out that the RMB exchange rate continued to come under pressure, foreign exchange reserves shrunk dramatically, net outflow of the erred and omitted projects continued to expand, all show that China is facing greater pressure on capital outflows. But China was doing better in guarding against risks, the economic downturn is expected to bottom out. The economic performance of the first quarter of 2017 was good, the pressure to maintain growth eased. At the same time, regulatory measures to guard against risks, deleverage, price bubble are being strengthened. He therefore believes that China may be hard to avoid local, event crisis, but there will be no comprehensive, systematic financial crisis.

Lin Nan's speech mainly revolves around the exchange rate and the foreign exchange risks under the "new normal". He pointed out that foreign exchange risk may not be "qualitative change" caused by the risk but "quantitative change" in risk transmission and accumulation. Combined with the industrial capital cycle in Marx's *Capital*, under the framework of "production, market and currency", exchange rate is one of the main line. In terms of production, exchange rate is affected both by economic fundamentals and the factor pricing such as supply-side labor and capital. In terms of market, foreign exchange supply and exchange rate (volume-price relationship) are associated with changes in current account, savings and investment ( $CA = S - I$ ). In the open conditions, in terms of external risk transmission and risk within, whether the exchange rate is a "buffer" or an "accelerator" is worthy of attention. In terms of currency, the exchange rate is closely linked to the local currency issue (by foreign exchange reserves). To "ensure exchange rate" or "ensure foreign reserve" in exchange rate dynamism need to draw on not only risk hint from balance of payments but also the "de-foreignized" evaluation on the central bank's balance sheet. The RMB exchange rate against the US dollar in the future (when the US dollar exchange rate index depreciates) may appreciate or, in the future, stabilize. That "RMB doesn't have a derogatory base" is not only from the economic fundamentals, but also the Sino-US monetary policy for the exchange rate. The key is a two-way plan in precaution to both devaluation and appreciation of the exchange rate (and price). The devaluation does not lead to a loss of confidence, appreciation does not lead to an overdraft of the real economy.

In the discussion session, our invited guests had an in-depth discussion on the financial risk of China, and exchanged ideas on enterprise leverage ratio, risks and precautions in the "Belt and Road" Initiatives, ways for China to make better use of the advantages of the "big government", and supply-side structural reform.

## **Macro-Finance Salon (No. 62): Real Economy and Money**

On May 14 in the afternoon, the Macro-Finance Salon (No.62) was held in Renmin University. Mr. Wu Ge, Chief Economist of Huarong Securities, was invited to deliver a keynote speech on the Real Economy and Money. The salon was presided over by Dr. Song Ke, Deputy Director of IMI.

Mr. Wu Ge first raised and answered two questions: what is money and where does money come from. Based on life experiences, he pointed out that money is a variable that is closely related to our lives but is very complicated.

He pointed out that in China's economy, growth is decoupled from employment. Although China's economic growth is slowing down, the labor market remains booming. The reason is that China has major structural changes: First, since the two-child policy, the population structure has changed; second, China's economic and industrial structure has changed. The tertiary industry's share in GDP has sharply risen; new jobs in service industry are created much quicker than the new jobs in total. By comparing the statistics of Japan, South Korea, Taiwan and other economies, he found that when these economies turned from being dominated by the manufacturing sector to the service industry, all economies tended to grow slower. The main reason is that labor productivity in service industry is lower than that in manufacturing.

Mr. Wu pointed out that since last year, China's PPI has been rising, but business inventories are declining. By comparing last year's statistics with that in 1998, he pointed out that the necessary and sufficient condition for economic recovery is to cut inventory and the sufficient condition is that there is demand. China's supply-side reform has completed the mission of cutting inventory, yet if there is no demand, the economic recovery will not last long.

Mr. Wu analyzed China's real estate market and expected the turning point of the growth rate of real estate investment is not far away. Wu said that based on forecast data, China's real estate market has a three-year cycle. Statistics show that real estate market in the first quarter of 2016 has seen a stable rebound, and now is still high. In the past, the estate investment growth has also hit the bottom when the growth of the real estate prices year on year hit the bottom. Yet this time, when the growth rate of the real estate prices year on year hit the bottom, the turning point of the estate investment growth hasn't appeared or came later. The first reason is that the real interest rate rise more slowly this year; second, the profitability of housing prices is better than that in the previous cycle; third, the high base point in this cycle is different from that in the last cycle. Taking all these into consideration, the turning point of a sharp drop of real estate investment might occur in the second quarter, but the decline in real estate investment growth rate may be limited. This judgment still has some uncertainties, such as changes in urban land supply, changes in urban real estate investment in 3rd and 4th tier cities, the extent of the tightening of financing policy and changes in the monetary policy, etc.

Next, Mr. Wu expressed his own understanding of the future monetary policy. He pointed out that we now have a wide base currency gap. Central bank's supply of base currency into the market is fragmented, which led to intensified inter-bank market interest rate volatility. Fragmented operation has many problems: first, the targets to adjust are inconsistent. Both the amount and price are controlled and intermediate goals of monetary policy are



confused; second, the liquidity tools are controlled in the short, mediate and long channels with mismatched period; third, the market expectation is confused, which will influence the transmission efficiency of monetary policy.

Finally, Wu compared China with Japan and briefly explained his views on the “Off Real to Virtual” of capital. According to statistics, now China's general credit's share in GDP has been very close to the level of Japan in 1990 when the Japanese real estate bubbles went bust. Japan's overall CPI remained stable when its stock market bubble and real estate bubble materialized, which was similar to the situation of today's China. Yet when Japanese real estate bubble went bust, the credit in manufacturing sector did not grow as expected and the capitals did not go into real economy. After several recent regulations in China, the capitals still flow into the real estate industry rather than manufacturing sector, which is similar to Japan's situation the past. On the “Off Real to Virtual” of capital, Wu's explained that the reason is that land supply becomes less and rate of return of the real estate industry is significantly higher than that of the manufacturing industry.

In the Q&A session, Wu and other participants discussed thoroughly on the relationship between the interest rate and the real economy, and the influence of the hollow economy, etc.

### **Macro-Finance Salon (No. 67): Globalization and China-led New Order**

On the afternoon of June 19, Macro-Finance Salon (No. 67) was held by IMI and the Department of Money and Finance of the School of Finance at Renmin University of China. Dr. Henry Chan, researcher at the East Asian Institute of the National University of Singapore, was invited to deliver a keynote speech titled Globalization and China-led New Order at this salon. Zhang Zhixiang, IMI's Academic Committee Member and Former Director-General of the International Department of PBoC, chaired this salon.

First of all, Dr. Chan reviewed the definition and the first two rounds of globalization. He pointed out that globalization should be discussed from the flow of the following four factors: commodity trade, service, capital, and population. The first round of globalization happened between the Napoleonic War and the First World War, where the four factors flowed under the geopolitical background of colonial activities conducted by the British Commonwealth. The second round of globalization was mainly promoted by the American hegemony, where except population, commodity trade, service, and capital flowed. Generally speaking, the international political order, the scientific and technological development, and the political orientation of hegemonies are all promoters of globalization. Globalization is the result of the industrial revolution and improves the productivity. Compared to countries against globalization or partially promoting globalization, those in favor of globalization enjoy faster economic growth.

Afterwards, Dr. Chan analyzed the issues arising in globalization and the background of globalization led by China. He thought that economic globalization is a part of the geopolitical landscape. Globalization brings high growth rate and low inflation, but also causes the uneven distribution of interest among countries. Relatively poor and backward countries enjoy more benefits from globalization, therefore, they are in more favor of globalization than developed Western countries. Globalization also aggregates the wealth gaps

within countries. In the future, policies like reducing tariff used in the second round of globalization will be harder to operate and have more limited effects. Besides, food security, labor standards, and environmental protection standards involved in the future globalization are sensitive internal affairs of sovereign countries and thus, launching a new round of globalization will be difficult. China should explicitly express its own position, propose its own solution, and let its own voice be heard. Although anti-globalization movements have taken place in some countries and globalization has temporarily gone back, the general trend of globalization will not be reversed. Nowadays, global economies are becoming more and more interconnected. The economic depression caused by anti-globalization proves that “non-globalization” is not a practical policy option at all. The only way out is to promote globalization once again at a deep level. The issue facing us is not anti-globalization but how to redefine globalization and recreate the globalization order. China is the biggest winner of the second round of globalization and has advantages in international trade and manufacturing. When the US economy is sluggish and the US is unwilling to become the banner-bearer of the next round of globalization, the international community naturally raises its expectation of China’s leading role.

Furthermore, Dr. Chan analyzed the barriers to China’s leading role in globalization. In terms of talents, he pointed out that China lacks the structural support provided by the middle-level leaders in IMF and other international organizations; in terms of capital investment, since the national income per capita ranks low, China may face political pressure if it provides free public products in globalization; and Chinese enterprises lacks sufficient internationalization and technological innovation capability, which causes the lack of banner-bears in trade globalization. Besides, given China’s large economic scale, low foreign exchange outflow, low proportion of individual income tax in GPD, high saving rate, overcapacity, and enterprises’ great demand for foreign investment, once the capital account is open, a large amount of foreign exchange will flow outwards. More importantly, since the US interest rate is the benchmark of the return rate in China, the RMB must adjust to the US fiscal and monetary policy changes after the capital account is open. If the capital account is not open, the current account balance will lack the compensation mechanism, which will undoubtedly limit China’s leading role in globalization.

At last, he commented on the relationship between the Belt and Road Initiative and promoting globalization. He thought that the Belt and Road Initiative aims to promote free trade and infrastructure construction, which demonstrates the vision of common prosperity. The Belt and Road Initiative has a sound top-level design and effectively promotes interconnectivity and intercommunication between China and other countries along the route. But we should not take the Belt and Road Initiative as the vanguard of China’s globalization and internationalization.



## McKinnon Lectures

### Editor's Note:

*As a highly respected economist of our time, Professor Ronald McKinnon is the founder of modern financial development theory. He was appointed as member of Advisory Board since the establishment of IMI in 2009, and made enormous contributions to its development. After he passed away in October 2014, his family generously contributed 1897 books from his personal collection to IMI. Therefore, we changed the name of "IMI Lectures" to "McKinnon Lectures" in perpetual memory of him. By "walking out" and "inviting in", McKinnon Lectures invite a number of prestigious experts and scholars from China and abroad lecturing on macrofinance theories and relevant policies.*

### **McKinnon Lectures (No. 11): China's Economy—Explaining the Puzzle of High Growth and Low Productivity**

On the afternoon of May 10, McKinnon Lectures (No. 11) was held successfully in Renmin University of China (RUC). This lecture was jointly organized by the China International Finance Society and IMI. Mr. Wu Harry Xiaoying, professor at the Institute of Economic Research, Hitotsubashi University, delivered a keynote speech entitled "China's Economy—Explaining the Puzzle of High Growth and Low Productivity". Mr. Zhang Xingrong, senior researcher at the International Finance Institute, Bank of China, presided over the lecture.

In his speech, Mr. Wu first pointed out the mismatch of high growth rate and low productivity in China's economy, and he put forward a logic chain, which has been tested by using data that reflect the performance of different economic sectors, to explain this problem. While analyzing the relations between China's low productivity and institutional impediments, Mr. Wu also shared some insights on the relationship between government intervention and market efficiency. In his opinion, in order to reach the unchallengeable growth target set by the government, the Chinese government often intervenes in the allocation of resources by providing various subsidies, and these administrative forces end up hindering competitive resource allocation, distorting the market, and lowering market efficiency. In theory, enterprises and industries that are subject to greater government intervention show lower efficiency. On the contrary, those with greater exposure to market competition enjoy higher efficiency. In empirical research, various subsidies have inflated the profits margins and China's GDP growth, complicating the analysis of growth and efficiency. Therefore, statistics that reflect economic growth are inevitably skewed towards a politicized growth target.

Mr. Wu went on to briefly introduce his research methodology. By using the weighted sum methods, he extracted the contribution of capital, labor and intermediate inputs and quantified them respectively, thus the effect of resource relocation to the total factor



productivity (TFP) growth is unveiled. In terms of empirical research, Mr. Wu classified the economic sectors and came to a series of descriptive and analytical conclusions based on official statistics and some rigorous mathematical formulas. He noted that labor productivity growth lags behind capital deepening in every economic sector except finished and semi-finished products sector that are closest linked to market. There is no sign of improvement after China's accession to the WTO, which implicates that China still relies on extensive growth. Then he conducted a comparative analysis between nominal labor costs and real labor output, marginal productivity of labor and labor remuneration. He then elaborated on the decline of labor productivity and the coexistence of underpayment and overpayment problems in the payment of costs. Mr. Wu found that the agricultural sector contributes the most to the TFP growth. After China's accession to the WTO, China has successfully relocated its farm labor and got a leg up in labor-intensive industries. However, the effects of capital relocation are somewhat negative.

In the Q&A section, Mr. Wu engaged in discussion with other guests on the following topics: the influence of adjusting the standards for collecting data and research methods on the research results; how to quantify the impact of administrative forces and their dynamic changes in various sectors; the relations between scientific and technological progress and institutional reform; comparative analysis of economic efficiency between China and other economies; and so on.

## **McKinnon Lectures (No. 12): Europe at a Crossroads**

On June 27, McKinnon Lectures (No. 12) was held at Mingde Main Building of Renmin University. Nout Wellink, former president of the Dutch Central Bank was invited to deliver a keynote speech themed "Europe at a Crossroads". Prof. Ben Shenglin, Founding Dean of Zhengjiang University Academy of Internet Finance and executive director of IMI, presided over the lecture.

In his speech, Mr. Nout Wellink first pointed out that the world economic and political relations were changing rapidly, thus policy-makers have to consider factors of all parties for wise decisions. In the process of globalization, large emerging economies such as China and India were rising on the world stage at an unprecedented rate. The international monetary system, however, has not yet formed a reasonable framework to adapt to this trend. He believed that if China tended to liberate exchange rate, the risks brought by it would be hard to tackle. Therefore, the Chinese government should be cautious about easing exchange rate market regulation.

Mr. Wellink then elaborated on the challenges facing Europe today. He pointed out that despite uncertainties caused by political events like Trump being elected as the President of the United States, the Brexit and elections in France and Netherlands, Europe's economic growth remained sound in the first half of this year. On the issue of development, he stressed that per capita GDP should be used more to measure the economic conditions of European countries, and the high unemployment rate of young people is also a hidden trouble. He noted that the fundamental problem of European development is the regional difference: strong countries stimulating growth would expand the gap. The EU's future task, therefore, is to help the relatively small economies to formulate proper strategies for development. In the discussion of deflation, he suggested that quantitative easing may not achieve expected effects,



as the government's excessive introduction of policies and regulations to interfere the market may have side effects. A better way is to strengthen the flexibility of policies.

Mr. Wellink claimed that in the context of globalization, a dynamic and open world mechanism is needed to incorporate emerging economies. Meanwhile, he advised to discuss the necessity of establishing an integrated finance regulation institution in Europe. He said that with the help of the Central Bank, Europe survived the financial crisis and could calmly respond to the Brexit. European countries should narrow the gap of development, strengthen financial connections, manage the risks and cooperate with and be open to each other at the crossroads.

After the lecture, Prof. Ben conferred Letter of Appointment to Mr. Nout Wellink on behalf of IMI, officially appointing him as member of International Advisory Board of IMI.



## 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. 1): Digital Inclusive Finance in China**

On the evening of April 11, the Macro-Finance Salon (No. 53) and Fintech Open Classes (No. 1) was held in Renmin University of China. The event was hosted by IMI and the Global People of the People's Daily magazine, with the Zhejiang University Academy of Internet Finance as the co-organizer. Professor Huang Yiping, Associate Dean of the National Development Research Institute and Director of the Digital Finance Research Center of Peking University, gave a keynote lecture on "Digital Inclusive Finance in China". The lecture was presided over by the Associate Dean Zhao Xijun of School of Finance, RUC.

Professor Huang Yiping started from the meaning of digital finance and its status quo, focusing on the three defining factors for the current development of China's digital finance: the lack of traditional financial supply, the rapid development of digital technology, and relatively loose regulatory policies. He mentioned four major forms of digital finance in the current market, including online payment, online loans, online investment, and digital insurance. He pointed out that digital finance provides enormous technical support for commercial banks against the background of the economic restructuring, leading to a sharp increase of Internet business of the banks. According to China's own social reality, digital technology presents two major advantages for the Inclusive Finance: better long tail effect and lower marginal cost.

But at the same time, Professor Huang Yiping also pointed out some of the most outstanding problems faced by digital inclusive finance through the analysis of the digital financial sentiment index from Peking University. In his view, although the digital finance and traditional finance face slightly different risks, the underlying cruxes remain the same: information asymmetry. Therefore, we have to solve them through the "online by data, offline by due diligence and mortgage" approach. Through the discussion on cases of P2P platform reform last year, he introduced some attempts by the international regulators for preventing digital financial risks. Professor Huang also put forward some policy suggestions on how to balance innovation and risk.

Zhao Xijun made his own comments regarding professor Huang's keynote lecture. He



believed that the internet finance has solved the transfer of liquidity which may result in default. And the transfer of information may lead to errors or unbearable risks, which all may be associated with the emergence of new formats of finance. So, we have to utilize new solutions to the new problems which appear with the emergence of new economic formats.

### **Fintech Open Classes (No. 2): The Characteristics, Risks and Regulations of Blockchain**

On the morning of April 16, Dr. Wu Xuchuan, Deputy Director and Secretary-General of the Internet Finance Research Center of PBoC, made a keynote speech on “Characteristics, Risks and Regulations of Blockchain” on the Macro-Finance Salon (No. 55) and Fintech Open Classes (No. 2). The lecture was moderated by Mr. Qu Qiang, Assistant Director of IMI.

Starting from the characteristics and principles of blockchain, Dr. Wu introduced the main application, present and future of blockchain in detail, and analyzed its regulation. He pointed out that with distributed data storage, blockchain possesses a high degree of transparency, autonomy and data security. Through decentralization, disintermediation, smart contract and timestamp, a reliable database is established. In terms of specific application, blockchain mainly has government use, civil use, and commercial use. Blockchain includes six levels—application, contract, incentive, consensus, data, and network. In the application level, blockchain is closely linked to the digital economy, Internet governance and big data.

Dr. Wu believes that due to the academic consensus on blockchain, the more frequent application, and the value flow in the strategic level, the blockchain technology has become a hotspot issue in recent years. At present, government departments begin to pay close attention to this technology, develop various guidelines, and establish some research institutions. The relevant departments of the People's Bank of China are also stepping up the research on the frontier areas such as blockchain and electronic money, focusing on the development of the blockchain technology and its future application. Meanwhile, more and more institutions are applying for related patents, and using the technology in specific business.

As a new technology that is not yet mature, blockchain has its own problems. First of all, there is an "impossible triangle" paradox in high efficiency with low energy consumption, decentralization and security. Meanwhile, its size, large power consumption, and broadcast storms may waste lots of resources, and pose a threat to platform security and application security. Dr. Wu suggested that China should seize the opportunity of the blockchain technology, and adopt the "follows strategy" to build a SC / BC alliance. This alliance is in line with the needs of China's financial market, and involves wide participation of commercial banks and various non-bank financial institutions to accelerate the formation of China SC / BC standards. We should notice the risks of the application platform of the blockchain technology, study relevant legal and regulatory system in advance, as well as improve the investor protection mechanism.

### **Fintech Open Classes (No. 3): Financial Technology Promotes Inclusive Finance**

On the evening of April 19, Macro-Finance Salon (No. 56) and Fintech Open Classes

(No. 3) was held in Renmin University. Mr. Ye Daqing, co-founder and CEO of Rong 360, gave a keynote speech on "financial technology promotes inclusive finance". The event was chaired by Mr. Qu Qiang, the assistant director of the IMI.

Mr. Ye Daqing first talked about the relation between Fin-Tech and Tech-Fin, and the past and present of financial technology. He believed that essentially, Fin-Tech was to provide financial services through information technology, for example, Fin-Tech could use data and technology to provide risk control services. Then, he talked about the past of financial technology with reference to some well-known financial companies and products throughout history. He also introduced the original form of the classic business model and its evolution in China. He divided China's financial technology into six models—payment, financial search, crowd-funding, big data finance, P2P lending and Internet insurance, and pointed out that every kind of financial technology had its own unique development strategy. China has a large population and rapid development of mobile Internet. Finance has long been repressed. People's financial needs are yet to be satisfied, and consumer finance is at its dawn. It is because of these advantages that China's technological innovation has gone beyond the United States.

As for the impact of financial technology on the industry, Ye Daqing pointed out that in the wave of financial technology, the most important factor to make customers loyal was the "convenience of access to services". Comparing with that, "financing costs" was becoming less important. Thus, in terms of user experience, traditional financial institutions could not compete with Internet finance companies. In recent years, many traditional bank executives have flocked to the Internet companies, and traditional banks have been losing young customers. He argued that financial institutions that are close to our lives, including retail banking, investment and wealth management, the transfer and payment of funds, were easily subverted by Fin-tech. A prevailing trend is to promote cooperation and integration between finance and technology. The future of financial technology is to be mobile.

As for inclusive finance, Ye Daqing pointed out that financial technology would be helpful to solve the long-existing "80/20 rule". Compared to the United States' financial services coverage rate as high as 75.6%, China lags far behind with a coverage rate of 20%. With inclusive finance, we should strive to achieve the "20/80 rule" and solve small financial users' needs which accounts for 80-90 percent of our population. He stressed that inclusive finance should firstly be "universal" and then "affordable". Currently, making inclusive finance universal is more important than "providing affordable financing cost". In addition, through reducing financial service cost including labor costs and construction costs, assisting risk control with big data, expanding the use of financial services through Internet, financial technology could solve the paradox of inclusive finance and resolve the conflicts between financing side's low cost and investing side's high return expectation.

## **Fintech Open Classes (No. 4): The Future of Block Chain and Financial Industry**

On the evening of May 15, the Macro-Finance Salon (No. 63) and Fintech Open Classes (No. 4) was held at Room 509 in the Mingde Main Building at Renmin University of China. The guest speaker is Deng Di, Chairman of China Block Chain Application Research Center



and Chairman of Beijing Taiyi Cloud Technology Co., Ltd. He delivered a keynote speech on "the future of block chain and financial industry".

Mr. Deng first introduced the characteristics of Bitcoins starting from the recent incidents of worms. He pointed out that Bitcoins were designed to digitally control the total amount of money and to establish a cross-border, completely anonymous, anti-regulatory global trading system. Bitcoins solve the distribution problem through the mining mechanism, but because Bitcoins are not linked with any asset, there is the problem of currency instability. In addition, Bitcoins still have some other problems such as slow transaction and trading amount far less than speculation amount. Next, he expounded the relations among Bitcoins, digital currency and block chain, clarifying general misunderstandings in terms of concept. He explained the three main features of block chain: distributed books, distributed keys and distributed consensus. He compared these three points with centralized databases, traditional passwords and other consensus mechanisms respectively, showing the advantages of the block chain technology.

Mr. Deng focused on the interpretation of the trusted block chains and their applications. He pointed out that the most important purpose of the trusted block chain is to make the block chain applicable to daily transactions, so in terms of the credibility of property registration, trusted identity authentication and trusted network nodes, the block chain has been improved. Trusted block chains will play a role in the five areas of digital banking, securities issuance and trading, bill and supply chain finance, cross-border payment and settlement, and customer credit and anti-fraud programs. He took the National Fintech Data Center in Ganzhou as an example, which is pilot program of Taiyi Cloud and Xinhua.com, and described the business models and scenarios of trusted block chains. The block chain can help to achieve the standardization of assets and risk control, thereby reducing the cost of investigation and other links, and improving information transparency and sharing. Intelligent electronic contract and other forms can also help to realize automatic transactions, accelerate asset transactions and circulation, and thus improving the efficiency of financial activities.

In the commercialization of block chain technology, he pointed out that the large-scale commercialization of block chain technology is faced with many problems that must be solved, such as personal information security, supervision difficulties and slow transfer. At present, there are many problems in the business model design of the block chain, but ICO (Initial Coin Offering) have appeared to support the industrial development, and the scale is considerable, which indicates that the block chain industry has become a self-driven, self-circulating economic entity. He stressed that when the future of ICO is not clear yet, relevant departments should control and standardize the ICO as soon as possible, develop regulations, prevent conflicts between regulators and traders, and encourage real application of block chain technology.

In the Q & A session, Mr. Deng answered questions about the impact of Bitcoin ETF, the future of Litecoin, the relationship between ETH and ETC, the impact of the central bank's digital currency on the existing digital currency, the threat posed by Bitcoin platforms, opinions on the Fintech Committee established by the central bank, the government's regulation on block chain companies and the gap between China and the other countries on block chain application.

## **Fintech Open Classes (No. 5): Fintech's Transformation and Promotion of Finance**

On the evening of May 19, Macro-Finance Salon (No. 64) and Fintech Open Classes (No. 5) was held in Renmin University of China. GuoZhenzhou, Founder and CEO of Quark Finance, delivered a lecture on "Fintech's Transformation and Promotion of Finance". The lecture is presided over by Gang Jianhua, Associate Professor of Remin University.

Dr. Guo thinks that Fintech has covered both the digital and mobile areas of the traditional finance and also the new emerging areas like the Internet finance and is becoming a new financial growth point. China's inclusive finance has not been covered yet by sufficient financial services due to the constraints of the financial system and difficulties of the credit investigation. Fintech, on the other hand, can solve this problem. Technology has transformed the financial instruments and means, brought about product innovation, and achieved product standardization, flow process operation, mass production, professional staff, centralized management and risk diversification. In this way, Fintech centralizes fragmented micro-financial services for large-scale operation so as to bring an all-round transformation to financial models and Fintech will gradually become an important driver of the core business model of financial institutions. He asserts that relying on the rapid development of the Internet and mobile Internet, the infrastructure of Fintech like China's basic data and payment channels has been gradually improving. China's Fintech bears features of the rapid development, multi-disciplinary integration, large scale and close interaction with the Internet.

In the practical case of Fintech, Dr. Guo introduces the Dianrong-Quark Credit Factory jointly initiated by the domestic leading Fintech company Dianrong and Quark Finance. He points out that the credit factory is a complete, strong and all-chain system of risk control integrating the centralized data flow with the workflow. According to the characteristics of people involved in the inclusive finance, the credit factory provides viable solutions with technological innovation. The credit factory also involves the human-computer interaction apart from the process operation. While using the big data for a quantitative analysis at the same time, the credit factory does not ignore the simpler diagram method and the naked-eye observation method, so the modern and traditional methods are well combined. Compared with the traditional credit, the credit factory has obvious advantages in reducing the lending costs, improving the credit assessment reliability and facilitating the post-lending management.

Finally, Dr. Guo talks about the future of Fintech and strategic directions of Quark Finance. He thinks that Fintech can achieve the specialized division of labor and fully cover the subdivision areas. Quark Finance will take accurate risk pricing as a key strategic focus. He stresses that in the development and application of Fintech, we should respect risks, deal with the big data rationally, establish a sound credit system and actively explore and embrace technological innovation.

In the Q&A session, Dr. Guo discusses with the present guests on how to establish a complete credit system, ways and channels of Quark's in-depth data mining, P2P companies, the development prospects of consumer finance companies and the application of technology in wealth management.





### **Fintech Open Classes (No. 6): New Technology Leading the Reform of Payment and Settlement System**

On the evening of May 26, Macro-Finance Salon (No. 65) and Fintech Open Classes (No. 6) was held at Mingde Main Building of RUC. Yang Tao, assistant director of Institute of Finance and Banking of CASS, director of Research Center of Payment and Settlement, was invited as the guest speaker and delivered a keynote speech on "New Technology Leading the Reform of Payment and Settlement System". The event was chaired by Song Yuanyuan, deputy director of Fintech research group.

Yang Tao first introduced the basic architecture of modern payment and settlement system. Given the growing needs of economic and financial innovation and development, China's supplies of financial infrastructure, represented by the payment and settlement system, still run low. Since 2012, the focus of financial market regulation has been gradually shifted from the systemic risks of large institutions to ones latent in financial infrastructure represented by payment and settlement system. Many countries have adjusted the objectives of their payment system reform, mostly swinging between "security" and "efficiency", while China is transiting from "loosening regulation in pursuit of efficiency" to "paying more attention to security". He then introduced three main components of China's payment and settlement infrastructure, namely the payment and settlement system of People's Bank of China, the third party payment system and the securities settlement and clearing system, and analyzed their challenges respectively. He pointed out that there is room for the central bank to improve its payment and settlement system regarding top design of the sector, coordination between payment system innovation and financial regulation, optimization of infrastructure layout and the sound and stable operation of the system. In recent years, third-party payment has flourished in a relaxed regulatory environment, but also posed acute problems such as the abuse of customer's personal information. In the securities settlement and clearing system, connectivity of the bond market needs overhauling and its risk management may lead to some pitfalls. OTC market registration and settlement is in fragmentation. The road to further opening up is still not smooth.

In terms of the new technology's impact on payment and settlement infrastructure, he pointed out that financial technology has enjoyed a global upsurge and rapid growth in recent years, but its applications in developed economies were not as popular as expected. Instead, China has become the wave rider owing to its capital-driven development, e-commerce expansion, and regulatory tolerance, though many of which are short-term factors. The optimization of technology-backed payment and settlement infrastructure can further facilitate the development of cash-free payment, reduce social costs, propel the development of the Internet economy and e-commerce, stimulate consumption growth, reconstruct the financial transaction process, and integrate financial services. He stressed that the role of mobile payment should not be exaggerated. From a cross-cultural and cross-border perspective, "fast payment" is not a cure-all, because consumption scenarios and culture could swing the choice of payment. Compared with some novel, gimmicky but low-tech payment tools, practical and convenient ones are more promising.

In his remark on payment economics and related empirical studies, such institutions as Federal Reserve, Bank of Canada, European Central Bank, US Federal Reserve Bank of

Boston have already conducted investigations and harvested first fruits, while China still lacks a research atmosphere, and the key lies in how to obtain a great number of real data. Studies have shown that the close relationship between the operation of payment and settlement system and the real economy contributes to the validation and prediction of important macroeconomic variables. The payment and settlement system is the main carrier of money circulation in modern society, and with reference to its data, the speed of China's currency circulation can be more accurately estimated, so as to provide the basis for monetary policies.

In the Q & A session, Yang Tao successively answered the audience's questions including an outlook on the game between the central bank's centralized and distributed ledger decentralized settlement, the possibility of a "cash-free society" and the coordination of financial risks in payment and settlement system and financial market infrastructure.

## **Fintech Open Classes (No. 7): Fintech Reshapes Rules and Investment Hotspots**

On the evening of June 7, Macro-Finance Salon (No. 66) and Fintech Open Classes (No. 7) was held at Room 509 in Mingde Main Building of RUC. Guo Yuhang, the founder and the Co-CEO of Dianrong.com, was invited as the guest speaker and delivered a keynote speech on "Fintech Reshapes Rules and Investment Hotspots".

Starting from his entrepreneurial experience in Internet finance, Guo Yuhang pointed out that four keys must be concerned: investigation of the red line boundary, credit enhancement guarantee, balanced recruitment and appropriate equity distribution. In his view, innovation has always challenged regulation, while regulation determines how far Fintech can go. Fintech entrepreneurs should learn from the past experiences and lessons, and communicate with regulators in an active, effective and equal manner in order to better capture the legal space and policy direction. At the same time, if they want to obtain sufficient funds to support the company operation, they should seek opportunities actively to raise voice by delivering speech, doing theoretical research, publishing books, joining associations. In this way, they can constantly promote their companies, services and models, clarify misunderstanding of the public and remove doubts of potential investors.

In the rise of Fintech, Guo Yuhang pointed out that Fintech has entered a period of high-speed development globally. Other economies including India and Singapore are not lagging behind China in terms of financial infrastructure and system construction. However, the developed traditional financial and banking system monopolies financial resources, and its regulators are conservative to Fintech, which weakens Hong Kong's status as a financial center. Chinese outstanding Fintech start-ups are emerging. On the "Global Fintech 50" issued by KPMG, the proportion of Chinese companies is second to the United States. The first generation of Fintech entrepreneurs are still positioned to provide instrumental support to improve traditional financial background service, while the new generation of large Internet companies are technology-oriented, and actively participate in the battle for financial license. The trend that talents in the traditional high-end financial institutions are flowing to Fintech industry has begun to emerge.

When talking about the reshaping of rules by Fintech, Guo Yuhang thought that Fintech makes finance more inclusive. Traditional financial institutions like Goldman Sachs and Citi





Bank have gradually moved closer toward a technology company. Big data finance, block chain, artificial intelligence and regulatory compliance have become four hot spots in Fintech. The big data finance is improving the credit reporting system. The block chain helps to build a regional light settlement system among financial institutions. Artificial intelligence like machine learning plays its role in anti-financial fraud. The application of technology enhances regulatory capacity, which makes behaviors difficult to capture in the economic and financial gray areas traceable.

In financial and technological investment, Guo Yuhang analyzed the P2P platform, online navigation, Internet consumer finance, B2B supply chain finance, Internet securities, Internet insurance, electronic money, block chain technology, automated investment, and cross-border investment. He believed that there are many Internet finance and Fintech entrepreneur models, but not everyone has the investment opportunity and investment value. In the future, compliance, verticalization, mixing and internationalization may have investment opportunity. At the same time, Fintech investment faces the risk of compliance, supervision and moral hazard of the founders. Compared with the United States, China's credit reporting system is not perfect. Fintech can discover people who lack adequate financial service but have good credit. Thus, China's Fintech companies are easy to gain higher valuation than the US technology companies. From the statistics, listed companies do prefer Fintech companies. Finally, he introduced the Xinghe Hongsheng Fintech specialized funds. He said he hoped to improve the efficiency of finance through the world's cutting-edge technology in order to make financial more inclusive and the society better.

### **Fintech Open Classes (No. 8): Fintech Leading Financial Reform**

On the evening of June 22, Macro-Finance Salon (No. 68) and Fintech Open Classes (No. 8) was held at Mingde Main Building of RUC. The salon is on the theme of Fintech Leading Financial Reform. The guest speaker was Li Wenxian, CEO of Tianchuang Credit.

Ms. Li first reviewed the whole financial sector's historical background. She pointed out that in recent years, technology and finance have been deeply integrated and the forces of technology and credit are promoting the development of the entire financial market. At present, the competitiveness of the financial industry mainly lies in user experience, risk control, and the cost of capital. Among the three aspects, the risk control ability is the most core ability of financial institutions. With the development of Internet and online consumer finance, the means of risk control and their foundation such as data, systems, models, strategies and other key factors are also undergoing great changes.

In this context, Ms. Li analyzed in detail the development trend and current business forms of consumer finance. She said that technology development has enabled the combination of data and Internet. China's huge population base and the trend of consumption transformation and upgrade have expanded the consumer market's potential. Meanwhile, the guidance of the government's macro policy has been a big driver behind consumer finance's development. The value of China's consumer financial market has reached trillions of dollars and the market will grow at a rate of 20 percent every year since 2016, according to official data. Ms. Li believed that consumer finance has many characteristics: it is scene-oriented,

data-driven and is becoming an industry. Besides, the platforms for risk control and technology support are undergoing tremendous changes.

In addition to consumer finance, another big direction of Internet finance is supply chain finance. Ms. Li pointed out that the first stage of supply chain finance features the bank-led supply chain financial model. In the second stage, the supply chain finance will be dominated by core enterprises. When it comes to the third stage, supply chain finance tends to reach saturation and the core enterprises will start to hit a ceiling. China is currently in the second stage and its domestic supply chain financial market will continue to grow rapidly in the next few years. The issues to be solved include: how to integrate and connect enterprises' various data, how to locate the service groups and provide better financial services, and how to manage and control risks.

## **Fintech Open Classes (No. 9): New Situation and New Opportunity—The Transformation and Development of Internet Finance**

On June 27, Macro-Finance Salon (No.69) and Fintech Open Classes (No. 9) was held in Renmin University of China. Prof. Ben Shenglin, Executive Director of IMI and Founding Dean of Zhejiang University Academy of Internet Finance, was invited as the guest speaker and delivered a keynote speech on “New Situation and New Opportunity—The Transformation and Development of Internet Finance”.

From the perspective of the new situation facing financial security, Prof. Ben explained how to properly handle the relationship between the development of Internet finance and security, and distinguished the definition of Internet finance from that of Fintech. He reviewed the statement made by President Xi Jinping on financial security and the remarks made by Lu Shuchun, Secretary General of the National Internet Finance Association, at the forum on "Fintech Development and Security" in June. Prof. Ben confirmed the opinion on how to properly handle the development of Fintech and security, i.e. we should "focus on finance beyond superficial phenomenon; use Fintech to serve real economy and the public; guarantee security and control risks; concertedly promote development through virtuous competition; and integrate with the whole world and lead the future". He pointed out that the concept of Internet finance is related to that of Fintech to some extent, but not exactly the same. Internet finance refers to a new financial business model or format where institutions, including traditional financial institutions or IT and Internet companies, provide financing, payment, investment and information intermediary services on the Internet (including mobile Internet) platform. Fintech, on the other hand, refers to the financial innovation brought about by technology and the new business model, application, process or product that can be created, thus significantly influencing financial markets, financial institutions or the way that financial services are provided. Internationally, the concept and practice of Internet finance is a stage of Fintech development, and the core of the transformation from traditional finance to Internet finance must be the Internet.

Next, Prof. Ben analyzed the development of several major sub-formats of Internet finance. He pointed out that the transaction volume and growth rate of third-party payment are rising, such as WeChat payment that can be applied to diversified scenarios, posing challenges



to traditional institutions including the CUP. The scale of financial products is also growing rapidly. The return rate of Yu'e Bao, the world's largest money market fund, is more market-driven, if compared with the bank deposit rate, etc. Although we haven't seen significant growth of Internet insurance which originated in China, it is going global and transforming the existing products and production. It is highly promising. The volume and platform of P2P lending in China are the world's largest. Before 2011, it made its debut and started exploring; since 2012, it has exploded and even scored "wild growth"; in recent two years, it has genuinely started orderly development. Prof. Ben believed that the overall development of Internet finance is good but there still exist problems. In order to achieve sustainable and healthy development, Internet finance must be transformed.

Strategic positioning is of paramount importance to Internet finance transformation. On this point, he said that it is necessary to meet separate demands of small and micro clients and high net worth clients, make products of simple structure that can meet the needs of the public to control risks and can apply to all kinds of real life scenarios. The development of Internet finance needs to address issues of strategy orientation, survival, namely risk control, and development, namely how to handle complex relationships. In order to address the weak point on Institutional rules, it should handle five relationships. The first is the relationship between companies and the government regulation. Companies should embrace regulation. The second is the relationship between Internet finance and traditional finance. Traditional finance should embrace the Internet so as to make good use of existing monetary and financial resources and create new resources through Internet finance. The third is the relationship between regulation and development. It should embrace the future, regulation, and rules. Meanwhile, it must ensure institutional, procedural and efficient internal organization. The fourth is the relationship between market demands, technology, capability and rules and policies. Both the association of Internet finance and regulation system of the PBOC, CBRC, CIRC, CSRC require optimizing. Companies can also assist in supervising institutions. The fifth is the relationship between home and abroad. It is both an obligation and opportunity to export China's successful experiences and models to other countries to win honor for China.

In the Q & A session, Prof. Ben answered questions from the audience, including how does Internet finance influence domestic investment banks; the future credit system in the Internet era; the development potential of third-party payment companies in the oligopoly competition; opportunities and risks of overseas payment; the core customized competencies of Internet finance companies; and how to regulate Internet finance.

## Press Conference of *Internationalization Progress and Outlook of RMB*

### Editor's Note:

*In order to faithfully record the progress of RMB internationalization and objectively reflect the challenges in the long run, IMI has released the RMB Internationalization Report since 2012. The Reports draw broad attention from all sectors of society due to the independence, objectivity and referential value for decision making. Currently, the Reports have been released in both China and abroad in English, Japanese, Korean, Russian, Arabic, Simplified and Traditional Chinese characters. RMB Internationalization Report 2017 is under the theme of Strengthen the Financial Transactions Function of RMB. In April, the research team released the Internationalization Progress and Outlook of RMB, a quarterly report tracking the RMB Internationalization Index (RII). The report predicts RII to be 3.06 by the end of 2016 and 3.08 by the end of 2017.*

On April 20, the Press Conference of *Internationalization Progress and Outlook of RMB* was held successfully in Renmin University. Jiang Nan, associate research fellow of IMI presided over the conference.

Tu Yonghong, Deputy Director of IMI, gave a detailed interpretation of the report. Prof. Tu reviewed the annual reports in the past five years, and announced the restoration of quarterly reports in this year.

This report analyzed current trends of RMB internationalization from the perspective of international status. Recently, RMB internationalization ended the past 6-year of rapid progress, and entered into the adjustment phase. The main reasons are supply-side reform and a decreasing speed of economic growth, and RMB exchange rate reform and some unexpected international incidents, such as US election and Brexit, also played an important role.

The report analyzed the RII index. Because the released statistics has a lag, we used measured data in this report. The report predicts that, by the end of 2016, RII index would be 3.06; and by the end of 2017, it would be 3.08. Comparing to main currents internationalization, there is still certain gap. It is forecasted that the internationalization index of US dollar will continue to rise, and Euro will fall, and the British pound and Japanese yen will stay stable.

After that, the report analyzed the impetuses for RMB internationalization index to rise this year, including China's economic stable growth will stimulate the newly formed impetus of new economic zones within SSR, so the economic development will be more stable; with China's overseas investment exceeding the foreign capital that comes into China, the fast advancement of FDI will encourage the development of off-shore Renminbi market; the bonus of being included into SDR emerged, and RMB has become one of international safe



assets providers; RMB exchange rate expectation is stable, which reassured market confidence; bond market continue to incorporate the international practice.

Meanwhile, the report mentioned three challenges face RMB internationalization in the future: first, the expectation of US dollar's rise contributes to speculative capital outflow; second, the domestic bond market is not internationally competitive. Products lack abundance, and the market structure fail to satisfy international investors; third, because the divergences in developed countries are obvious, dollars increases interest rate, but Europe and Japan are still engaged in QE, thus China will have more difficulty coordinate with international policies.

The report concluded that we should face the challenge, push forward RMB internationalization. Facing these risks, first we need to practice precise capital flow management system, avoid common methods for different situations, and support corporate and individual investment and trades that abide by laws and regulations. We should also strengthen bonds as international safe assets, expanding the two-way openness, and encourage assets securitization to satisfy global investors. Last, we should enhance multilateral policy cooperation, win-win cooperation, and avoid trade friction.

## "Series of IMF History" Project

### Editor's Note:

*"Series of IMF History", edited and published by IMF, chronicles the major moves and courses involved in the reform of the international monetary system since the founding of IMF in 1945 to ensure the proper functioning of global financial system. It is the most authoritative and detailed account of IMF, and also a history of global economic and financial reform. It is of great relevance to China's financial reform, establishment of a monetary financial market system, RMB internationalization and participation in global monetary governance. With the exclusive authorization of IMF, since 2014, IMI has been jointly compiling and translating "Series of IMF History" with China Financial Publishing House. The Series, comprising 11 volumes and more than 4.3 million words, is translated into a foreign language for the first time.*

On June 21, the 7th plenary meeting for "Series of IMF History" Project was held at China Financial Publishing House. Present at the meeting were Wei Benhua, head of the translation working group and former Deputy Administrator-in-Bureau of SAFE, Zhang Zhixiang, former Director General of International Department of PBoC, Wang Xiaolei, Deputy Director of Credit Reference Center of the PBOC, Duan Jining, Director of Foreign Banks Supervision Department of CBRC, Qi Jianming, Party Secretary and Executive Vice President of China Trustee Association, Wang Lu, Associate Editor-in-Chief of CFPH, He Wei, director of Rights & Licenses Editorial Department of CFPH, Tu Yonghong, Song Ke, deputy directors of IMI, and all team leaders of each volume. The meeting was presided over by Wei Gejun, co-chair of the translation working group, head of CFPH.

Wei Gejun first noted the progress of translation, pointing out that the project has lasted for over two years and seen much hard work paid by team leaders and translators. Then the Secretariat and team leaders updated their progress in its compilation and translation. For the parts with slower progress, the Secretariat will strengthen communication and supervision to ensure the Series can be published on time. At the same time, Wang Lu, associate editor-in-chief, cited specific requirements for draft and proofreading. Afterwards, Wei Benhua and the experts discussed specific technical issues in the later period of translation. The meeting was concluded in a warm atmosphere.





# Exchange

## Launch of *IMF 2017 Asia and Pacific Regional Economic Outlook*

On May 18, the Launch of *IMF 2017 Asia and Pacific Regional Economic Outlook* was held at Xi'an Hall, InterContinental Hotel, Beijing Financial Street. The meeting was co-organized by IMF Resident Representative Office in China, IMI, and Guotai Junan Securities. The meeting was chaired by Mr. Zhang Zhixiang, academic member of IMI, former Director General of International Department, PBoC, former IMF Executive Director for China. Guests attending this meeting include Mr. Ranil Salgado, Chief of the Regional Studies Division, Asia and Pacific Department, IMF; Mr. Minsuk Kim, Economist, Asia and Pacific Department, IMF; Mr. Raphael Lam, Deputy Resident Representative, Resident Representative in China, IMF; Mr. Wei Benhua, former IMF Executive Director for China; Mr. Shi Dexin, Deputy Director-General, International Division, State Council Research Office; Mr. Fan Xiwen, Chief Risk Manager of China-LAC Cooperation Fund; Ms. Jiang Wei, chairwoman of Research and Institution Committee, Guotai Junan Securities; Mr. Hu Yuwei, head of International Department, Financial Research Institute of CSRC; Mr. Huang Yanming, director of Guotai Junan Securities Research Institute; Xiong Yuan, chief analyst, Anbang Asset; Lin Nan, researcher, Research Center for Finance, Chinese Academy of Social Sciences; Chen Jie, general manager, International Business Department, Guotai Junan Securities; Xia Zeyan, general manager, Sales and Trading Department, Guotai Junan Securities.

Mr. Zhang Zhixiang gave a brief introduction to the guests and the agenda. He said regional economic outlook should not be assessed without considering the global context. Overall, the global economy has regained momentum, but how to achieve sustainable and inclusive growth amongst challenges of protectionism, uncertainties in the market and tightening financial conditions still remains to be a question.

Mr. Raphael Lam, Mr. Wei Benhua, and Ms. Jiang Wei gave opening remarks respectively.

Mr. Raphael Lam commented that the global activity is gaining momentum. Advanced economies are going through cyclical recovery in the near term and subdued growth in the medium term. In emerging markets and developing economies (EMDE), activity in stressed economies is bottoming out, and commodity importers are generally projected to maintain high growth rates. In general, the global economy is recovering, whereas the potential for setbacks is high. Forces shaping the outlook of advanced economies are mainly from cyclical rebounds and the expansionary fiscal policy in the U.S. EMDE on the other hand, face challenges such as the rebalancing in China, adjustment of commodity prices and geopolitical uncertainties. The common challenges facing both advanced economies and EMDE are



demographic headwinds and weak productivity growth. Lam stressed that risks in Asia-Pacific region are skewed to the downside, considering the threats to global economic integration, US's macro economic policy mix, financial threats to EMs, weak demand and balance sheet as well as non-economic shocks. Lam suggested that advanced economies provide cyclical support desirable where demand and inflation are weak and adopt credible strategies needed to put debt on a sustainable path. He also suggested that EMs contain financial risks and make structural reforms to boost potential growth.

Mr. Wei Benhua pointed out in his speech that Asia-Pacific region, slowed down in its economy though, still remains to be a champion in growth across the world. The overall outlook is positive, but risks remain, with protectionism arising in the west, and aging population diminishing the growth. He made clear that the credit expansion in China should not be exaggerated; after 2008 crisis, Chinese government has implemented positive measures to contain credit expansion. He also mentioned the Belt and Road Summit Forum held recently in Beijing, pointing out a series of new policies announced in the forum, including large amounts of capital newly injected to the Belt and Road Initiative which he ascertained would bring driving forces to the countries and regions along the belt and road.

Ms. Jiang Wei gave her acknowledgement to IMF's role in stabilizing global financial market and IMI's contribution in academic research. She gave a brief introduction to Guotai Junan's mission and status, assuring that Guotai Junan looks forward to cooperating with IMF, IMI and other institutions in the future. She also encouraged investors to seize opportunities after the "capital winter", embracing the pro-growth environment where the Xiong'an new district, the Belt and Road Initiative and supply-side reform are in full swing.

Mr. Ranil Salgado gave a keynote speech of "preparing for chopping waters". He admitted that Asia-Pacific picked up with positive momentum since mid-2016, China and Japan having a strong near-term outlook in particular. He stated that the favorable factors include China's economic transition, strong domestic demand in Asia and the modest recovery of commodity prices, but breadth and sustainability of the pickup still remain unclear. The risks, on balance, remain slanted to the downside. Near-term risks include tighter-than-expected global financial conditions, inward-looking policies in major global economies and a bumpier-than-expected transition in China. Mid-term risks include aging population, declining productivity. Having that being said, Asian EMs appear relatively better positioned to deal with external shocks, as is shown from selected vulnerability indicators. Mr. Salgado suggested that, in order to deal with the risks, a three-pronged approach (monetary, fiscal, and structural policies) remains appropriate. Asia should strengthen its macro-prudential framework, enhance exchange rate flexibility, preserve the gains from trade integration and continue multilateral cooperation.

Mr. Minsuk Kim gave his speech with the title of "Demographic Transition in Asia: Risk of Growing Old Before Becoming Rich". According to his research, Asia is aging fast and many parts of Asia are at risk of growing old before becoming rich. Overall, aging in Asia will subtract 0.1% per year from global growth. The demographic impact on future growth will be significant. Aging could impose a further drag on growth by lowering Total Factor Productivity. There is scope to raise labor force participation, but not enough to offset the baseline growth impact. Demographics affect savings, investment, and consequently current account balance. Old-age dependency rate and aging speed are particularly important



determinants of current account norms. Current account balances today will persist over the coming decades, but the marginal impact on global imbalances will be small. He predicted that the demographic trends will put downward pressures on real interest rates over the next decade, but at the same time, domestic demographic trends will matter less in open economies. He suggested that protecting the vulnerable elderly and prolonging strong growth take on a particular urgency. To that end, it requires to adopt monetary and fiscal policies address macro-economic imbalances early on before aging sets in. Besides, it is also important to raise labor force participation of women and elderly, implement active labor market policies, and improve the pension systems.

After tea break, Mr. Ranil Salgado, Mr. Shi Dexin, Mr. Hu Yuwei, Mr. Hua Changchun held a roundtable discussion concerning aging population, globalization, economy and trade.

## Launch of *ASEAN+3 Regional Economic Outlook 2017*

On May 24, the Launch of *ASEAN+3 Regional Economic Outlook 2017* was successfully held in Beijing. The conference was jointly sponsored by AMRO and IMI and was chaired by Deputy Director of IMI Dr. Xiang Songzuo. Experts attending the conference include Wei Benhua, former Deputy Administrator-in-Bureau of SAFE and AMRO's first Director; Li Hongxia, Deputy Director of the Department of International Economic Relations of the Ministry of China; Dr. Khor Hoe Ee, AMRO's Chief Economist; Huang Junhui, leading expert and group leader; Li Wenlong, Senior Economist of AMRO; Wu Lanxiang, Director of Public Relations; Gao Haihong, Director of International Finance Research Center of the Institute of World Economy and Politics of CASS; Lu Feng, Professor of National Development Research Institute of the Peking University; Tu Yonghong, Deputy Director of IMI and Professor of Finance at Renmin University; and other distinguished guests.

Dr. Xiang Songzuo made a brief introduction to distinguished guests and the agenda of this conference. He said that the total economic volume of the ASEAN "10+3" countries accounts for a large part of the world economy, but these countries' economic growth potential is still questioned. The AMRO's report on the macroeconomy of ASEAN, China, Japan and Korea is very important and insightful and is helpful to understand economic circumstances of Asia and the world.

Ms. Li Hongxia made the opening speech. She made a brief introduction to AMRO and pointed out that the AMRO report has a milestone significance, including three important parts: first, it is concerned about the regional economic outlook and challenges in the "ASEAN 10+3" region; second, the report specially analyzes the spillover effect in the United States, China and Japan in order to understand the significance of the three economies for regional growth and financial stability in ASEAN, China, Japan and Korea; third, the report analyzes the regional growth model in the past 20 years and points out the policy direction for the future of economic growth after the economic crisis. In recent years, AMRO's macroeconomic monitoring capabilities have been continuously enhanced and have contributed significantly to regional economic growth and financial stability. The report also helps to deepen the understanding of the ASEAN "10+3" region's economy and provide valuable suggestions for policymaking.

Dr. Khor Hoe Ee delivered a keynote speech entitled "ASEAN 10+3 Regional Economic Outlook 2017 ". He shared the macroeconomic outlook for ASEAN "10+3" and made a summary and estimation on the development of this region after the Asian Financial Crisis. Dr. Khor Hoe Ee pointed out that despite of external uncertainties, domestic demand and the recent rebound in exports will continue to promote regional economic growth. It is estimated that the annual growth rate of the ASEAN "10+3" region in 2017-2018 will decrease slightly, but it can still reach 5%. The region's inflation is controllable, its foreign exchange reserves are still sufficient, regional integration is enhanced, and global trade and investments are recovering, so the overall outlook is positive. However, risks such as protectionism, tightening global liquidity, rising inflation and increased volatility of the financial market cannot be ignored. Space for the monetary policy and fiscal policy is more limited and the global policy



environment is also more unstable. In weighing economic growth and financial stability, policy makers should put financial stability in the first place. He particularly stressed that after the global financial crisis, China has a stronger financial relationship with the region, which means that China's economic shock will bring greater uncertainty. Therefore, the development trend of China's financial market deserves close attention. At present, China's capital outflow has slowed down, the exchange rate has stabilized, private investments have increased, so it is unlikely that a "hard landing" will occur. China will have a more positive spillover effect on the whole region, but should pay more attention to the issue of corporate debts. Dr. Khor Hoe Ee reviewed the policy adjustment and development of ASEAN, China, Japan and ROK after the Asian Financial Crisis. He thought that the Asian Financial Crisis has shaped the regional development base and path of Asia in over 20 years and had a profound impact on regional integration. Under such an influence, policymakers have also developed a risk management and solution framework. The Asian Financial Crisis has led countries to pay more attention to interconnection and infectivity of the crisis and it has highlighted the importance of flexible policy frameworks and comprehensive regional financial cooperation. Today, these lessons are still very valuable to policy makers.

After the keynote speech, Mr. Wei Benhua chaired the roundtable discussion attended by Dr. Khor Hoe Ee, Gao Haihong, Lu Feng, Tu Yonghong, Xiang Songzuo and other experts. The discussion focused on some factors' impacts on economic growth, including the risks and vulnerabilities of ASEAN "10+3" countries, the spillover effect of RMB internationalization on ASEAN countries, the relationship between the Asian Financial Crisis and the establishment of AMRO, prospects and risks of China's economy, funds and investments of the Belt and Road Initiative and their impacts on regional economy, some long-term basic factors for the globe (such as the disconnection of virtual economy and real economy, the polarization between the rich and the poor, the slowdown of total factor productivity, etc.).

In conclusion, Mr. Wei Benhua summed up the conference. He pointed out AMRO's "ASEAN 10+3 Regional Economic Outlook 2017" is well written and highly relevant. The regional economic growth of ASEAN "10+3" is sound. We are confident that ASEAN "10+3" will maintain the world's most robust growth trend. At the same time, we must not ignore the risks and vulnerabilities existing in the development prospects. The policy recommendations presented in the report deserve the serious consideration and studies of policy makers.



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