

Review Article

Eight Imperatives to be Done by Finance in Serving the Wider Economy

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Abstract - To deepen financial reform in China, we must grasp the overall situation, reform thoroughly to correct the wrong tendency of being distracted from the intended purpose, supervise with a large system, and establish a large framework of combining commercial finance with policy finance. Eight imperatives for the finance to be done in serving the wider economy are as follows: First, it is imperative to clearly understand and grasp the work of supporting the upgrading of the wider economy with financial innovation. Second, it is imperative to form a seamlessly connected financial and capital market through a diversified financial product system. Inevitably, there will be a monopoly in the financial field, which should not be excessive. Excessive monopoly must be resolved by reform. Third, diversified reform should emphasize the optimization of the structure, and it is imperative to increase the proportion of China's direct finance. Fourth, it is imperative to consider strategically matching healthy and sustainable policy financing systems to financial innovation in diversified development. Fifth, it is imperative to conduct the third industrial revolution represented by the connection of the Internet in financial innovation. Sixth, it is imperative to conduct the innovation in the PPP mechanism in the field of investment and financing. Seventh, it is imperative to create conditions for the realization of RMB convertibility under the capital account in the process of RMB internationalization (self-dismantling the firewall). Eighth, it is imperative to grasp the relationship between development and regulation in financial innovation.

Keywords - finance reform, eight imperatives

I. INTRODUCTION

Under the guidance of the spirit of the Nineteenth National Congress of the CPC and financial work conference, the theme falling into economic life is how finance can better serve the wider economy. The Financial Working Conference particularly emphasized serving the real economy. It also emphasized that multiple parties shall coordinate the measures to prevent risks and deepen financial reform. The changes in real life are, first of all, an emphasis on the overall situation, thorough reform to correct the wrong tendency of being distracted from the

intended purpose, the supervision of a large system, and the institutional adjustment in the financial system that is, establishing the financial stability and development committee to administrate the central bank (The People's Bank of China) and two commissions (China Banking and Insurance Regulatory Commission and China Securities Regulatory Commission). In addition, there is a large framework. While guarding against the risks, it is also necessary to systematically build a coordinated supporting system of commercial finance and policy finance by deepening the reform of the financial system.

Specifically, the financial services serve the real economy.

II. IT IS IMPERATIVE TO CLEARLY UNDERSTAND AND GRASP THE WORK OF SUPPORTING THE UPGRADING OF THE WIDER ECONOMY WITH FINANCIAL INNOVATION

In real life, the important role of finance has been repeatedly emphasized. In the 1980s, Deng Xiaoping said that finance is the core of the modern economy. I think it can be understood that finance is the cardiovascular system of the national economy. It can be regarded as having a core position as it promotes the allocation of various factors in the economy and society with the effective supply medium of finance. However, no matter how important the core role of the cardiovascular system is, it is also necessary to serve the health and sustainable development of the entire living organism. The starting point and destination must be to serve the real economy. But in reality, if it is not handled properly, the international financial crisis and some domestic problems with crisis phenomena illustrate that the core may become hollow. From our own domestic experience, for example, in the 1990s, all parties paid great attention to the development of Wenzhou. After the turn of the millennium, the consensus was reached that in the competition of the Wenzhou model and southern Jiangsu model, the Wenzhou model won, and the county economy and the private economy were so prosperous. However, a "runaway incident" later appeared, revealing that the local financial ecology has not achieved the state that it was supposed to be highly valued in the past. Due to various



reasons, conventional finance has been marginalized. In real life, the development of Wenzhou's private enterprises had to be financed by costly usury loans and was vulnerable. Under the impact of the external financial crisis and its own contradictions, the capital chain was broken. Almost at the same time, dozens of large local enterprises in Wenzhou encountered a broken capital chain, and the entrepreneurs had to run away to avoid the calamity. At that time, the emergency measure was taken to cope with the local crisis, and efforts were made to calm it down. After the matter basically subsided, it became clear that due to the marginalization of conventional finance in finance and the leading role of usury, the capital chain finally broke down. Then the upgrading and development of the real economy in Wenzhou was hindered, and the industry was hollowed out. At a certain stage, a good situation has been missed. Originally, the private enterprises developed well in Wenzhou but had to make the drastic adjustment to digest the adverse factors. From a global perspective, if similar problems cannot be prevented and resolved well, China's post-modernization advantage cannot be realized as expected. There are such problems in the Yangtze River Delta. If similar problems reappear in Pearl River Delta (It was thought that Dongguan might have the problem. Fortunately, Dongguan has survived.), there may be a domino effect, and China may encounter the problem of the mid-income trap. How to prevent the core from becoming hollow is actually to make use of financial innovation and development to promote the upgrading and development of the real economy. After China became the world factory, it will turn from being made in China to being created in China. The upgrading of the real economy is the most critical power to support the high-quality development of the national economy, and finance must serve this power.

III. IT IS IMPERATIVE TO FORM A SEAMLESSLY CONNECTED FINANCIAL AND CAPITAL MARKET THROUGH A DIVERSIFIED FINANCIAL PRODUCT SYSTEM

In the face of reality, I think I have to admit that while financial reform has achieved a series of results and a lot of progress in China, there is still an excessive monopoly in the financial field. Inevitably, there will be a monopoly in the financial field, and its barriers to entry are high, but monopolies should not be excessive, and excessive monopolies must be eliminated. In the discussion many years ago, the leaders of the central bank and some large banks and financial institutions were unconvinced, saying that China already had more than 1,000 banks and financial institutions competing every day. How can we say that there is a monopoly? There are more than 300 million people in the United States and more than 20,000 banks and financial institutions, while there are 1.4 billion people in China and a few thousand banks and financial institutions. But this is not the key. The key is that in real life, the profiting characteristics of China's financial industry are too obvious. From the data point of view, among the listed companies in China, the top 10 ranking

from the highest level of income are all banks. While in the United States, there are only three banks in the top ten. Among the various A-share listed companies in China, the industry with the highest profit level is the banking industry, and the second one falls to a very low level, while the industry ranking in the first in the United States is high-tech companies, and the second one is the banking industry. In the United States, the level of profitability from the first to the second to the third and thereafter is a smooth decline. This can indicate that there is a huge difference between China and the United States in the flow of factors. If there is a sufficient flow of factors, it is impossible for banks to always stand out and have such a high ability to make money. In the past few years, Mr. Hong Qi, the president of Minsheng Bank and now the chairman, said words that the bank was embarrassed to make money. This is because there is an excessive monopoly. Such excessive monopoly results in insufficient diversification of financial institutions and financial products cannot be fully diversified in competition to meet various needs. Therefore, it is necessary to deepen the reform of finance to optimize the structure of the financial system under the concept of supply-side reform. Thus, different financial institutions should be established as much as possible to provide a variety of products to meet the financing needs of market entities represented by various types of entity economy in social life. Such a sufficient supply of financial products should be able to marginalize and squeeze out Wenzhou-style usury. It cannot be imagined that there is no usury at all, but at least it is necessary to prevent the "hidden rules from substituting the clear rules", which lead to the recurrence of running events. There have been some explorations in the past. For example, for small loan companies, we emphasize that they are capital financing and self-risking and should be developed more. In the middle of this, a form of "medium-interest loan" is more suitable to provide financial products for SMEs. The development direction should be a pattern formed by low-interest loans and medium-interest loans, crowding out usury loans and eliminating them. In life, we can also observe that the source of the "incident of the humiliating mother" in Shandong in the past two years is still due to usury. This kind of thing seems likely to affect the whole body. If handled improperly, economic problems will be socialized and politicized.

IV. IN THE DIVERSIFIED FINANCIAL REFORM, IT IS IMPERATIVE TO EMPHASIZE STRUCTURAL OPTIMIZATION TO INCREASE THE PROPORTION OF DIRECT FINANCE UNDER THE CONCEPT OF FINANCE

The proportion of direct finance in China is still very low, and direct financing formed by the stock and bond markets accounts for only about 20%. According to international experience, direct finance in the United States, which is the number one strong country and represented by the market economy, accounts for about 80%. In contrast, of course, we cannot simply copy the experience data in the US. However, specifically, there are indeed problems

in the low proportion of direct finance. Currently, there is a discussion on the macro leverage ratio. The ratio of China's broad money supply M2 to GDP has reached nearly 250%. It is related to a large number of indirect finances in which loans are entered one by one, and M2 is repeatedly calculated. Moreover, these loans have a tendency to become short-term loans in recent years. For M2, everyone is worried that the wolf is coming, but the price is not shocked. Since 2010, the CPI has been fluctuating slightly in the range of 1 to 2. The PPI had negative growth for a term as long as 54 months and finally turned to a positive value around July and August in 2016. It is now in a downturn again. The central government turned "de-leverage" into "stable leverage", which is related to China's specific national conditions and financial structure. At the same time, it should also be noted that a higher proportion of direct finance will be more conducive to the flow of factors, thus bringing positive effects to market competitiveness and generating additional factors, which are helpful for entrepreneurial talents. Under indirect finance, the entrepreneurs need to seek banks, while under direct finance, they can go to the stock market, bond market, and private equity to rely on the release of relevant information to the audience to correspond to resource allocation. Therefore, from the perspective of the development direction, although we cannot simply imitate such a high proportion in the United States, at least 20% of the proportion in China must be significantly increased. Financial reform must strive for a series of specific measures to achieve the result of increasing the proportion.

V. IT IS IMPERATIVE TO MATCH HEALTHY AND SUSTAINABLE POLICY FINANCING SYSTEMS TO FINANCIAL INNOVATION

Financial diversification should be considered strategically. If China matches the policy-based financial system with the commercial, financial system, it can promote China's development unconventionally. Although policy finance is supplementary in form, it has great global significance and challenge in strategy. If China's modernization is to rely on China's unconventional development, in addition to an effective market, an active and limited government is required. How can we realize unconventional development? Many ideas must be focused on policy financing, which is also a double-edged sword. If handled improperly, it will bring chaos. Referring to the experience of the old, advanced economies such as the United States and Britain and the experience of Japan after World War II, no one can ignore policy finance. China has also explored in this regard but then retreated after a while. After the 18th National Congress of the CPC, the concepts of policy finance and development finance were re-proposed. It can also be noticed now that the green finance, inclusive finance, grassroots finance emphasized by the leadership, financial support for targeted poverty alleviation, etc., all have a strong policy color. They are a system different from commercial finance. International experience and our own experience have shown that in pursuit of extraordinary development in China, we must

master strategically to build a healthy and sustainable policy-based financial system, of which finance is backup support as it involves the function and role of finance. The mechanism used by the United Kingdom and the United States to support small and medium-sized enterprises is to use budget funds for discounts and credit guarantees. China is also citing these experiences. In recent years, local governments have increasingly valued industry guidance funds and PPPs that have been working hard to innovate and develop these years, which have vivid colors of the policies. Under the operation of a dual-track system, the mechanism supported by the finance are "policy funds, market-oriented use, professional management, and leveraged amplification". In order to make it sustainable, it is necessary to establish a constraint system of multiple supervisions and audits so as to prevent rent-seeking and corruption as much as possible and to standardize the selection of supported objects. Although the applicant requiring support cannot be all supported, the supported object selected in each round should be the target of policy finance in accordance with its positioning. If the supported are selected according to "relationship", the applicant that should not be supported obtain support, then this system will not be sustainable.

VI. IT IS IMPERATIVE TO CONDUCT THE THIRD INDUSTRIAL REVOLUTION REPRESENTED BY THE CONNECTION OF THE INTERNET IN FINANCIAL INNOVATION

Alibaba can use big data, cloud computing, and software design in computer systems to continuously grant small loans with zero manual intervention, expanding the commercial and financial boundaries. Of course, they will also encounter certain limitations. For example, big online data will automatically determine the risk and decide whether to lend or not. The electronic traces of the applicant and related information with his relatives, friends, and major friends are exhausted. However, if the applicant works in agriculture in a remote rural area without any electronic traces or past economic information, then he cannot directly get small loan support. After cultivating some electronic traces of their economic behavior, Taobao users are getting easier and easier to get the support of small loans. Of course, we must realize that commercial finance has expanded its borders with the support of new information technology, but it cannot replace policy financing, which needs to cover another group of people. On the whole, it is necessary to affirm that the Internet + brought by such technological innovation is of great significance and can reduce the risk and financing costs in the entire financial system.

VII. IT IS IMPERATIVE TO PROMOTE PPP MECHANISM INNOVATION IN FINANCIAL INNOVATION

In recent years, there have been a lot of discussions on PPP in society. Some people even said that PPP should be suspended, and some journals even said that we would not publish PPP articles in the future. But in fact, in China's extraordinary innovation and development, the unique

contribution of PPP is undeniable. After the major developments in the past few years, it has been adjusted downwards and steadily, which is in line with the law of wavy development. But it will never be called stop. Certainly, after two or three years of relative stability, the attitudes of the relevant departments have become clear. Supporting sustainable and healthy development is an innovation focus of China. Restricted by the limited financial resources of the government, it is necessary to use the government's financial resources in clever maneuvers like accomplishing a great task with little effort. This is a necessary innovation. In the form of PPP, there are many things that can be done in China. From Beijing Metro Line 4 to Line 16 rail transit apps, and also public infrastructure such as "Bird's Nest", a large number of urban and rural projects in China can be done in PPP. The problem of a serious shortage of parking lots and parking spaces in Beijing can be connected with PPP. Many residential districts need to install elevators on old buildings. This is an upgrade that is generally done after entering an aging society with the improvement of people's living standards now. It is entirely possible to connect PPP to such matters. Relying on the government in accordance with the old method, I do not know how many years the will be achieved. It can be speeded up and optimized with PPP, which is directly related to the improvement of people's livelihood and the quality of social life and development environment.

VIII. IT IS IMPERATIVE TO CREATE CONDITIONS FOR THE REALIZATION OF RMB CONVERTIBILITY UNDER THE CAPITAL ACCOUNT

In the process of RMB internationalization, which is pushed from the existing peripheralization to an increasingly high level of internationalization, it must be determined that when conditions are available, we should "self dismantle the firewall" to realize the convertibility of RMB under the capital account. It can be clearly seen that it is unimaginable for China to achieve modernization, but it will indeed create risk pressure. If similar situations in the Asian financial crisis and the world financial crisis

happen again, then the role of the firewall will be lost. We will be able to cope with the impact of hot money from Soros-style financial tycoon when we have the ability to face the free flow of hot money.

IX. IT IS IMPERATIVE TO GRASP THE RELATIONSHIP BETWEEN DEVELOPMENT AND REGULATION

In many new areas of financial innovation, if you do not know how to standardize, you must first give the flexibility of trial and error for innovation. The big logic is to first put out "standards in development" and allow trial and error in development. Then it is necessary to use standardized development to prevent risks when it is necessary to take action in the future. In China, typically, the private enterprises on Internet + are rushing to the front line. WeChat and Alipay, which can be used for scan payment, are in a competitive relationship, but then combined together, enabling the Chinese public to generally go across the popularization stage of credit cards and obtain financial services very conveniently. Ordinary people scan the code on the phone on the street to call a taxi, buy pancakes and promote economic prosperity. However, WeChat once encountered a difficult situation. Tencent once wanted to sell WeChat, but no one took it. China Mobile has also launched Fetion, which is supported by the same original American technology, but it is difficult to pass through the barriers where money must be spent. At that time, someone told WeChat that it would cause trouble for the government. Prime Minister Li Keqiang said a word, "prudent and tolerant". Let's take a look and give flexibility. After overcoming the bottleneck, this WeChat soared into the sky. Not only did it have convenient payment services, but it also provided ordinary people with access to financial management and financial services at the grassroots level. This was a service that the financial industry could never dream of. These things together inspire us: allowing trial and error and giving flexibility must be ranked first. Then take the norm when the risks are clear. For example, in P2P, later, when a situation like stopping operating occurs, it is time to take a shot and do a good job of preventing risks.