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The Impact of China’s Financial Market Opening to the Outside World

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Abstract

Since the reform and opening up, the economy and finance have been globalized, and promoting further opening of finance is in line with China's entry into a new era. As the core of modern economy, the key role of finance in the optimal allocation of production factors is particularly significant. In the context of economic globalization and global allocation of factors of production, further accelerating financial openness and integration into financial globalization has become inevitable. What is the coordination between China's financial opening and domestic development, what kind of relationship exists between financial opening and economic growth, what is the level of financial opening in China, and what are the impacts and challenges of financial opening on China's banking industry and financial supervision? In response to the above questions, this paper takes financial openness and economic growth as the basis, financial openness and financial development, and free flow of international capital as the main direction, in order to finally analyze and conclude that financial openness and economic growth in China affect each other, but the effect of financial openness on economic growth is obviously greater than the effect of economic growth on financial openness, and China urgently needs to establish a new financial regulatory system.

Keywords

Financial openness, Financial risk, Economic growth, Competition degree

1 The connotation and theoretical basis of financial openness

1.1 Definition of the concept of financial openness

Regarding the definition of financial openness, most scholars have defined financial openness mainly from the perspective of international capital flow and financial services, or in summary language. Financial openness has both static and dynamic connotations: from a static point of view, the opening of a country or region to the outside world is called financial openness; from a dynamic point of view, financial openness refers to a process of transformation in which a country (or region) moves from a financially closed state to a financially open state.

In a narrow sense, financial openness refers to whether there are corresponding laws and regulations or administrative measures to control the inflow of foreign capital into the country and the outflow of capital from the country. In a broad sense, financial openness mainly refers to the free convertibility of currencies and cross-border capital flows between a country and other countries and regions through corresponding laws and regulations or administrative means, allowing investors and financial institutions in international financial markets to conduct financial business in the country, and allowing investors and financial institutions in the country's financial markets to conduct financial business in international financial markets. Based on the analysis of the connotation of financial opening in the narrow and broad sense, it is easy to understand that financial opening mainly includes two aspects: one is the opening of capital and financial accounts to the outside world; the other is the opening of financial markets and financial business to the outside world.

1.2 Financial openness and financial development, financial freedom

The theory of financial liberalization in Western economics makes the origin of financial market liberalization, and the root of financial liberalization is the government in the financial field, by intervening in the development of the financial industry, reducing the control of financial institutions and the financial market, through the opening of domestic finance, liberalizing government control, and in the future, as more foreign financial institutions enter the market, under the conditions of enjoying equal treatment and fair competition, drawing on the rich foreign financial institutions The credit management and credit risk prevention experience of foreign financial institutions will be used to design different credit products for enterprises at different stages and types, and to change the current drawback of over-reliance on the value of collateral for domestic credit allocation, so as to meet the diversified financial service needs of SMEs. The efficiency of domestic financing increases, the dependence on foreign capital decreases, and foreign financial institutions enter the country, prompting a higher level of financial openness, thus realizing interest rate marketization, increasing domestic savings, and ultimately making full use of financial capital.

Expanding financial openness helps optimize the structure of capital market and investors, increase the number of domestic capital market practitioners, increase the capital market's financing capital and financial service capacity, effectively change the current financing structure, and is conducive to enriching the capital market's innovative investment tools, prompting capital to flow to industries with better development prospects and better profitability, especially for industries that can promote industrial upgrading and economic transformation High-tech industries, so that the function of capital market in optimizing resource allocation can come into play.

1.3 Financial opening and international capital flow and service trade opening

The most direct and important feature of financial opening is the free flow of international capital. In this perspective, the free flow of international capital can be developed from two aspects: in the macro aspect, the flow of international capital is closely related to the interest rate of each country, and the flow of capital from countries with low interest rate to countries with high interest rate is realized through financial opening, Rsgnar Nurkse's Rsgnar Nurkse's theoretical view that "differential rates of return determine international capital flows" argues for this phenomenon, which is also an application of David Ricardo's theory of comparative advantage in the financial sector. In the micro field, Tobin and Markowitz's asset portfolio theory is from the perspective of the free flow of international capital, proposing that commercial banks should diversify their assets as much as possible to determine the form of their asset holdings according to their different factors such as return and risk, to achieve the most favorable asset portfolio generation. In the asset portfolio, different risk assets have different rates of return, so that different returns offset each other, making wealth risk reduction returns increase. Developing countries, on the other hand, do not have a high correlation with the returns of financial assets in other countries due to the low degree of financial openness, a single model of economic development, and an underdeveloped financial industry. China's active financial openness has broken this situation, so that domestic exposure to the international scope of capital options, to enhance China's voice in the international financial governance system, promote the development of the domestic financial industry, improve the efficiency and level of financial services is of great significance.

2 The impact of China's financial opening on the industry and economy

2.1 The impact of financial opening on the banking industry

In terms of the management and development of the banking industry, the positive impact of financial opening up is greater than the negative impact. In the short term, the entry of foreign banks into the Chinese market will inevitably squeeze the business of Chinese banks in terms of credit, making the pressure of collecting deposits increase and the competition fierce, which may cause a reduction in the volume of Chinese business in the short term. However, in the medium and long term, foreign banks are more mature, and China's banking industry can fully learn from the business philosophy, product concept, risk management system and governance mechanism of foreign banks, so as to improve their competitiveness in the cooperation and develop rapidly in the direction of internationalization.

Table 2-1. Total assets of banking financial institutions in China Unit: billion yuan

	2015 年	2016 年	2017 年	2018 年	2019 年
大型商业银行	3,078,989	3,347,863	3,657,106	3,888,726	4,595,900
股份制商业银行	1,403,270	1,636,422	1,762,679	1,829,548	1,997,653
城市商业银行	829,220	1,035,356	1,195,334	1,310,048	1,445,500
农村金融机构	983,232	1,145,340	1,285,987	1,360,371	1,468,733
其他金融机构	1,298,521	1,651,676	1,879,873	2,091,979	1,812,947

Note: 1. rural financial institutions including rural commercial banks, rural cooperative banks, rural credit cooperatives and new rural financial institutions; 2. Other types of financial institutions include policy banks, national development banks, private banks, foreign banks, non-bank financial institutions and asset management centers. Data source: from China Banking Regulatory Commission

According to Table 2-1, we can see that the scale of assets of financial institutions in China's banking industry, large commercial banks always occupy a dominant position with absolute advantages, which is difficult for other banks and financial institutions to match. The market share of other types of banks has increased, which shows that the market-oriented reform of financial institutions in China has been effective in recent years. The market share of assets of other financial institutions, including foreign banks, is on the rise, with the most representative ones being private banks and foreign banks. In general, the development of foreign banks is steady and positive, and their expansion in China is steady but not blind.

Moreover, the comprehensive opening of finance also helps Chinese banks to transform and improve the service level of their business, which can lead to a steady increase of income from intermediate business. In the future, as more foreign financial institutions enter the market, they can learn from the rich experience of foreign financial institutions in credit management and credit risk prevention, design different credit products for enterprises in different stages and types, and change the current drawback of over-reliance on the value of collateral for domestic credit allocation, so as to meet the diversified financial service needs of SMEs.

2.2 Financial openness to promote the development of financial market improvement

Only by further expanding financial openness can we enhance the competition and vitality of finance, further strengthen the effective supply of funds, increase financial support to the real economy, and be more conducive to stable investment, stable employment and stable confidence. With the opening up of the financial industry to the outside world, a large amount of financial capital is flooding into the country, which will, to a certain extent, reduce the investment risks of domestic investors, on the other hand, financial opening can enhance the ability of the capital market to serve the real economy. At present, China's financing system still has the problem of imbalance and asymmetry. According to the statistics of the People's Bank of China, in 2019, new RMB loans accounted for 66% of the social financing scale, corporate bond issuance accounted for 12.7%, and corporate domestic stock financing accounted for only 1.4%, with the characteristics of the credit-based indirect financing system being very obvious.

Expanding financial opening can help optimize the structure of capital market investors, not only can the number of domestic capital market practitioners increase, increase the capital market's financing capital and financial service capacity, effectively change the current financing structure, capital market innovative investment tools are greatly enriched, prompting capital flow to industries with better development prospects and better profitability, especially for industries that can promote industrial upgrading and economic The capital market has been greatly enriched with innovative investment tools, and capital flows to industries with better development prospect and profitability, especially for high-tech industries that can promote industrial upgrading and economic transformation, giving maximum play to the function of capital market to optimize resource allocation.

Table 2-2. Comprehensive level of financial liberalization and processed GDP per capita data

年份	金融开放 综合指数	对经济 增长指标	人均 GDP	年份	金融开放 综合指数	对经济 增长指标	人均 GDP
1990	-2.516	3.216	0.352	2001	-1.367	3.936	0.390
1991	-2.421	3.277	0.353	2002	-0.455	3.973	0.404
1992	-2.44	3.364	0.361	2003	0.053	4.023	0.428
1993	-2.25	3.477	0.380	2004	0.495	4.091	0.452
1994	-2.15	3.607	0.393	2005	1.148	4.152	0.464
1995	-2.103	3.703	0.396	2006	2.404	4.217	0.479
1996	-1.995	3.767	0.383	2007	3.816	4.305	0.505
1997	-2.003	3.808	0.390	2008	3.615	4.375	0.515
1998	-1.706	3.832	0.389	2009	4.155	4.408	0.510
1999	-1.572	3.855	0.380	2010	5.677	4.467	0.534
2000	-1.494	3.895	0.380				

3 Exogenous Risks for Developing Countries under Financial Openness

3.1 Inflation and industrial security

The opening up of financial markets will inevitably cause a large influx of foreign currency, and the local currency will need to be matched with foreign currency so that the country will increase its currency issuance and money supply, thus exposing the country to greater inflationary pressure. For domestic industries, the financial opening poses a greater challenge to the protection of domestic industries. The inflow of foreign direct investment into China brings hidden risks to China's economic security, and foreign investors control domestic industries in terms of technology, talents, brands and markets, laying hidden dangers for the independent and efficient development of domestic industries.

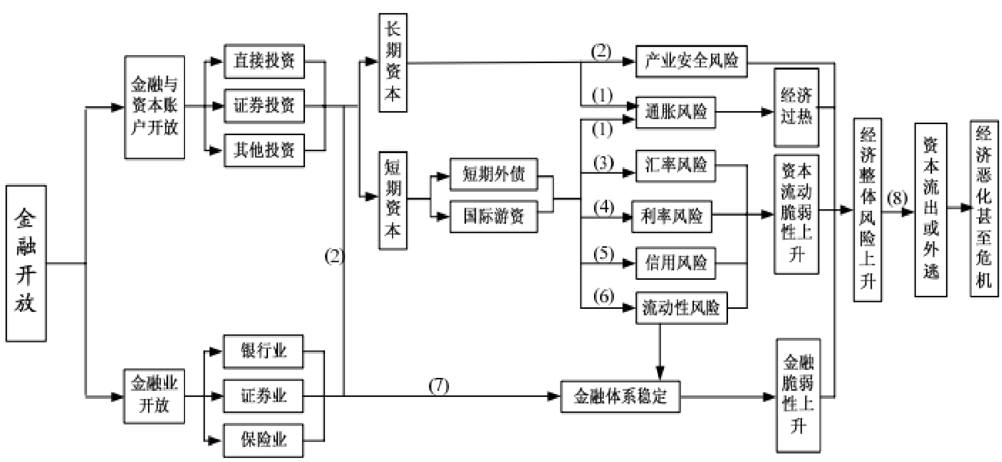

Table 3-1. Exogenous risk system of financial openness.

3.2 Strengthen financial supervision and reduce the potential risk of exogenous sources

Financial openness poses a big challenge to a country's financial security, industrial structure and the opening up of China's financial market, which requires a proper financial supervision system to achieve this purpose, requiring relevant institutions to change the direction and strength of supervision and establish a feasible and effective financial supervision and early warning mechanism to escort China's financial opening and financial industry development.

As a developing country, China should learn advanced experience from countries with developed financial industry, carry out financial regulatory system reform, establish macro-prudential regulatory mechanism, and establish a new financial regulatory system in China that integrates macro- and micro-prudential regulatory mechanisms. Such a financial regulatory coordination committee is chaired by the head of the State Council, with the People's Bank of China, the Insurance Regulatory Commission, the Banking Regulatory Commission, the Securities Regulatory Commission, the Trust Supervisory Bureau, the Development and Reform Commission, and the Ministry of Finance as members of the committee, changing the regulatory approach to a top-down model that places systemic risk regulation in a prominent position.

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