The Development of China's Financial Industry under the Background of “The Belt and Road”

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**Keywords:** The Belt and Road, Financial industry, Development overview.

**Abstract.** This paper cuts through the background of the "The Belt and Road", analyzes the two backgrounds of the international economic situation and domestic economic development, and deeply explores the reasons for the "The Belt and Road" strategy. Then it discusses the development status of the “The Belt and Road” from two big perspective, and discusses its impact on China's economic development. It analyzes the strategic significance from two aspects of opportunities and challenges. Finally, it provides a prospect for the further development of the “The Belt and Road” future.

**The Background of "Belt and Road"**

“The Belt and Road” is China's initiative to promote China's high-quality production capacity and comparative advantage industries to the west, which will benefit the coastal countries along the way. Committed to building a harmonious world of lasting peace, universal security and common prosperity is the country’s long-term core economic strategy1.

**International Economic Situation**

The world today is undergoing complex and profound changes. The deep-seated impact of the international financial crisis continues to manifest itself. The world economy is slowly recovering, developing and diversifying, and the international investment and trade pattern and multilateral investment and trade rules are brewing profoundly. The development problems facing countries are still grim. For those countries along the important stage of economic transformation and upgrading, the “The Belt and Road” initiative is proposed to stimulate its own development vitality and cooperation potential, and enhance its international financial competitiveness.

At present, the Chinese economy is highly correlated with the world economy. China will consistently adhere to the basic national policy of opening to the outside world, build a new all-round opening pattern, and deeply integrate into the world economic system. Promoting the construction of the “The Belt and Road” is not only the need for China to expand and deepen its opening up, but also the need to strengthen mutually beneficial cooperation with Asia, Europe and Africa and the rest of the world1.

**Domestic Economic Development**

Policy background: On the eve of the “The Belt and Road Initiative”, although the Chinese economy is developing at a rapid pace and the economic situation is stable, the impact on the domestic economy is small in the context of the international economic crisis. However, there are still some problems in the economic structure2. Overcapacity and excess foreign exchange assets; China's oil and gas resources and mineral resources are highly dependent on foreign countries; China's industry and infrastructure are concentrated in the coastal areas, and if it encounters external strikes, it is easy to lose core facilities; the overall situation of China's border areas is in the best history. During the period, the willingness to strengthen cooperation between neighboring countries and China generally rose.

**The Current Situation of Development**

“One Belt and One Road” is a high-quality production capacity shared by China and Silk Road
countries. It is a joint investment in projects, joint infrastructure construction, and sharing of cooperation results. The contents include road connectivity, trades smooth, currency circulation, policy communication, and people's connection. The article emphasizes the unicom of trade and currency.

**Trade Smooth**

At present, China has signed 14 free trade agreements with 22 countries and regions in the world, and the total free trade with countries along the line accounts for about one-third of the total global trade. In 2016, China to Pakistan, Russia, Poland, Bangladesh and India Exports increased by 11%, 14.1%, 11.8%, 9% and 6.5% respectively. During the same period, China's exports to the EU increased by 1.2%, exports to the United States increased slightly by 0.1%, and exports to ASEAN fell by 2%. The three countries together accounted for 46.7% of China’s total exports. As shown in the data below, the total amount of China’s exports of goods has increased significantly in the past 10 years, and the total amount of total exports of goods has also increased.

<table>
<thead>
<tr>
<th>Time</th>
<th>Total export of goods (100 million yuan)</th>
<th>Total import of goods (100 million yuan)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>107022.84</td>
<td>94699.3</td>
</tr>
<tr>
<td>2011</td>
<td>123240.6</td>
<td>113161.4</td>
</tr>
<tr>
<td>2012</td>
<td>129359.25</td>
<td>114800.96</td>
</tr>
<tr>
<td>2013</td>
<td>137131.43</td>
<td>121037.46</td>
</tr>
<tr>
<td>2014</td>
<td>143883.75</td>
<td>120358.03</td>
</tr>
<tr>
<td>2015</td>
<td>141166.83</td>
<td>104336.1</td>
</tr>
</tbody>
</table>

(Source: China The Belt and Road Network)

Table 1. The total export of Chinese goods [100 million].

Trade between China and countries along the line has maintained a good growth trend. American companies in China believe that China's investment environment is improving. In 2017, 73% of US companies achieved profit in China, and 74% plan to expand investment in China in 2018, the highest in recent years; about 60% of companies regard China as the top three investment destinations one. Although global foreign direct investment (FDI) fell by 16% in 2017, China's foreign capital inflows still reached a record high, up 4% year-on-year, continuing to be the first in developing countries and the second largest foreign capital inflow in the world.

**Currency Circulation**

At present, the “The Belt and Road” financing is mainly reflected in four aspects: financial institutions, financial markets, financial products, and financial infrastructure. Financial institutions cooperate mainly with dual multilateral funds and investment development banks. In terms of products, the People's Bank of China and the central banks of the countries along the line signed bilateral bilateral currency swap agreements. On March 2, the Shanghai Stock Exchange issued a notice on the pilot of the “The Belt and Road” bond, which clarified the main institutional arrangements for the “The Belt and Road” bonds. “The Belt and Road” bonds can leverage the financing capacity and allocation effectiveness of the domestic bond market to attract construction countries along the route to domestic market financing, deepen the understanding of overseas entities on the Chinese market, and attract international interest in “The Belt and Road” investment. The entry of funds will help promote the two-way opening of the domestic bond market and solve the actual financing needs of enterprises in project construction.

Following the relaxation of the restrictions on foreign-invested shares held by financial institutions in 2017, China has further expanded its opening in the areas of foreign-funded banking business and market access. Foreign banks have become an important part of China's financial market. Taking Shanghai as an example, the data disclosed by the Shanghai Banking Regulatory
Bureau showed that as of the end of 2017, the total assets of Shanghai foreign banks were 1.56 trillion yuan, a year-on-year increase of 13.0%, and the growth rate reached a new high in the past five years; foreign banks accounted for the proportion of Shanghai banking assets. At 10.6%, asset quality continued to remain stable.

Opportunities and Challenges

The “The Belt and Road” reform not only provides new development opportunities for China's financial industry, but also brings new challenges.

Opportunity

Internationalization of RMB. On November 30, 2015, the RMB officially joined the SDR, meaning that the RMB became an international currency. Judging from the current process of RMB internationalization itself, it is already the second largest trading currency after the US dollar, and the fifth largest currency from the use of global payments. With the launch of the AIIB (Asian Investment Bank) investment project, the economic ties between China and Asian countries will increase, and the proportion of people using Asians in the trade will increase. China will sign currency swap agreements with more Asian countries. This will increase the proportion of the Renminbi in the foreign exchange reserves of Asian countries. It will enhance the status of the Renminbi in the international financial system, which will undoubtedly accelerate the internationalization of the Renminbi.

Cross-border trade RMB settlement business developed rapidly. Since joining the World Currency Basket SDR in 2015, more and more countries have chosen to use the RMB as their settlement currency. As shown in the chart below, the overall value of China's cross-border trade RMB settlement business is stable.

![Figure 1. China's cross-border trade in RMB settlement][billion].

Reform and Innovation of Financial Institutions. The development of “The Belt and Road” has injected vitality into the development and reform of financial institutions. First of all, it is more convenient to expand international business, especially the internationalization of the RMB, which provides more opportunities for the development of Chinese financial institutions. Secondly, the open international environment also provides an experience and an environment for the development of Chinese financial institutions.

The China’s institutional setup of financial institutions abroad should be promoted in parallel with the Renminbi to play a mutually reinforcing role. As of December 2017, six Chinese banks have established more than 80 sub-branches, branches and representative offices in 19 countries along the route. China UnionPay cards cover more than 50 countries along the line, more than 4 million merchants and 400,000 ATMs. The foreign exchange trading of Chinese financial institutions is still at a relatively high level.
Enterprise Strategy Development Period. Enterprises are the main body of implementation and backbone of the “The Belt and Road” construction. The construction of “The Belt and Road” has also brought new opportunities. According to statistics from Bloomberg, since 2017, Chinese companies have issued US$180 billion in overseas debt, an increase of 70% compared with last year, setting a record high. “Cross-border loans” have taken another path for enterprises to solve the problem of financing difficulties and financing. In terms of financial cooperation, CDB has strengthened communication with domestic and foreign financial peers, actively carried out multi-bilateral financial cooperation, promoted bilateral cooperation with multilateralism, deepened pragmatic cooperation, and promoted mutual benefit and common development.

Challenges and Risks

Currency Risk. Another serious challenge facing Chinese companies in expanding their business along the “The Belt and Road” countries is exchange rate risk. Due to the large fluctuations in the RMB exchange rate in the past few years, companies will be slightly inadvertent and will suffer losses due to exchange losses. It will also have an impact on the overall environment of the Chinese economy.

Credit Risk. The credit rating systems between countries along the line are different, and financial institutions such as banks do not understand the credit situation of other countries. Under certain conditions, they cannot understand in depth. Therefore, the business development of financial institutions is hindered, affecting the progress of the project.

Recommendations and Future Prospects

Establish a Special Organization

It is recommended that China set up the “The Belt and Road” International Development Agency, or a regional investment and financing institution, as an independent relevant institution to strengthen the top-level design of the industrial layout, strategic layout and country investment layout of foreign investment, promote private investment, and encourage Chinese enterprises. Establish a benign cooperative relationship and provide high-quality and efficient service support for overseas Chinese-funded enterprises.

Strengthening the Construction of Regional Financial Safety Nets

Relevant countries and regions should strengthen financial micro-prudential supervision and cooperation, strengthen macroeconomic policy dialogue and build a multi-level regional financial cooperation platform. In addition, on the one hand, strengthen exchanges and cooperation between credit management departments. Strengthen communication with the “The Belt and Road” national and regional credit management departments in cultivating the development of credit information market, supervision of credit reporting agencies, establishing credit rating systems and standards,
preventing credit risks, protecting the legitimate rights and interests of information subjects, and timely exchange of countries. Recruiting legislation to enhance mutual understanding and understanding. The second is to strengthen exchanges and cooperation between credit reporting agencies and rating agencies. Encourage domestic large-scale credit reporting agencies and rating agencies to communicate and communicate with similar institutions in the “The Belt and Road” countries and regions in terms of product design and development, credit service methods, information security guarantees, and expansion of credit services.

References


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