

Building financial powerhouse vital to high-quality development

ECONOMICS

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The history of economic and financial development in human society suggests that a strong economy is the foundation of a strong nation, and a strong financial sector is essential to a strong economy. At the Central Financial Work Conference held in late 2023, General Secretary of the Communist Party of China (CPC) Central Committee Xi Jinping first proposed accelerating the construction of a “financial powerhouse,” and pointed the direction for advancing sustained and healthy financial development in China under new circumstances.

Necessity

To deeply understand the significance of building China into a financial powerhouse, it is necessary to review the evolutionary path of financial policymaking in the country. From the perspective of national strategy and top-level design, the vision of building a strong financial sector indicates that China has fostered a clearer and more precise policy and governance framework in its push to strike a balance between efficiency and security in financial development.

Looking back through history, the first national financial work conference in 1997 emphasized resolving financial risks and expediting reforms to commercial banks; the second meeting in 2002 underscored the need to continue state-owned bank reforms and expand financial opening up. In the third conference in 2007, the comprehensive deepening of financial system reforms was stressed. The fourth national financial work conference in 2012 highlighted the coordination between innovative development and risk mitigation. The fifth session in 2017 focused on stabilizing development, intensifying regulation, and guarding against risks. Meanwhile, finance was strategically positioned as a significant measure of national core competitiveness, financial security as a crucial component of national security, and the financial system as a vital basic system of economic and social development.

After decades of reforms and explorations, the strategy of building a financial powerhouse crystallizes years of successful experience and valuable lessons, further clarifying and elevating the importance of the financial system, the status of financial work in state governance, and the ultimate value of financial development.

When it comes to endogenous demands in economic and social development, pushing for the financial sector's prosperity suggests that the real economy's demands have evolved to a new stage. Both theory and practical evidence show



A branch of the People's Bank of China in Jinhua, Zhejiang Province
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that modern finance and economic growth are extremely closely related. An efficient, developed, and transparent financial system will spur economic growth, while economic prosperity will facilitate the continued optimization of the financial system. Certainly, an excessive orientation toward finance in the economy or uncontrollable financial activities will trigger financial risks and even crises, thus affecting economic growth.

After years of rapid development, China has exhibited features of a super-large economy. Its economic size, market depth and breadth, and the dynamism of economic factors have all reached a high level, which have raised higher requirements for the country's financial service capacities. Basic functions of the financial system, such as payment and settlement, optimal asset allocation, risk management, and information management, should be more robust.

We can extrapolate the implications of building a financial powerhouse from two aspects. First, this strategy aims to effectively overcome the problem that China's financial sector is “big but not strong.” Admittedly, the Chinese financial industry has ranked at the top globally based on many scale-related indicators, along with its remarkable achievements in financial system construction. However, the system's development quality, structural layout, and service efficiency and effect are unsatisfactory, so are its abilities to counter internal and external risks and shocks.

Second, the goal of building a financial powerhouse serves the nation's general “powerhouse ambition.” The report to the 20th CPC National Congress calls for efforts to “realize the Second Centenary Goal of building China into a great modern socialist country in all respects and advance the rejuvenation of the Chinese nation on all fronts through a Chinese path to modernization.” Moreover, the objective to become a leading country in education, science and technology, talent, culture, sports, and health by 2035 was laid out. As the lifeblood of the national

economy, finance also needs a “powerhouse strategy.”

Four key supporting links

In light of modern finance laws and China's actual conditions, to become a financial powerhouse is inseparable from the support of four key links on the premise of following the path of financial development with Chinese characteristics.

First, it is essential to optimize the supply side of finance. In 2019, the 13th group study session of the 19th Political Bureau of the CPC Central Committee first systematically defined financial supply-side structural reform, underlining the need to improve the financing structure and the systems of financial institutions, market, and products, in order to provide higher-quality and more efficient financial services for the real economy.

Therefore, priority should be given to both quantity and quality in financial supply. Only by increasing effective financial supply and reducing inefficient, or even negatively efficient, supply, can the “water” running from finance be more abundant for economic development.

Second, importance should be attached to matching and nurturing effective financial demands. Currently, financial demands in China have become more diverse and complicated than before. If financial development is so imbalanced and inadequate that it cannot satisfy normal financial demands, the performance of financial operation will not be truly reflected. At the same time, financial activities are professional and particular. This highlights the necessity of fostering healthier effective demands by educating financial consumers and other means.

Third, stable environmental factor guarantees are pivotal. A powerful financial sector is not exogenous and artificial. Instead, it should be an organic system with endogenous vitality. This emphasizes the importance of guarantees from various environmental factors in the financial ecosystem, turning them into “fertile soil” for the financial industry to thrive upon. Among other factors, monetary conditions, risk manage-

ment and regulatory environment, the financial system, and cultural climate are material to the pursuit of financial strength.

Fourth, opening up should be consistently regarded as a key measure for the quality of financial development. Although opening up might invite new risks and challenges, only by withstanding tests of the tempestuous international market can the financial industry gradually build up competitiveness and vigor to rival other financial powerhouses across the globe.

Serving the real economy

Steadily optimizing the model and path for finance to serve the real economy is the core thread of strengthening the financial sector, and the efficient alignment between financial supply and demand is a crucial starting point. To leverage the role of finance in bolstering the real economy, the financial industry should properly handle its relationships with the government, enterprises, households, and foreign sectors.

First, the financial sector should push ahead with the structural optimization of financial institutions, products, and the market system, to improve quality and efficiency. Efforts are needed to enhance the sector's security, robustness, flexibility, and resilience so as to eliminate factors hindering healthy financial operation.

Second, finance should well perform its basic functions to smoothly and efficiently promote better allocation of financial resources, serve normal needs of the corporate and household sectors, and avoid “blockage” and “loss” of financial “blood” during its flow.

Third, the financial industry should impose higher self-requirements, exploring and implementing its special functions to bring more “incremental value” to other economic sectors. Sci-tech finance, green finance, inclusive finance, elderly-care finance, and digital finance are all areas where innovations can be made to maximize the role of finance in serving the real economy.

Fourth, finance serving the real economy is not unidirectional. The ultimate goal is to shape a more productive development pattern featuring symbiosis, sharing, and mutual benefits between financial and other sectors.

When it comes to environmental factors, it first matters to create an ideal monetary environment for high-quality economic and social development, enriching and applying diverse monetary policy tools, and accurately grasping the supply-demand law and new characteristics of money and credit. More attention should be paid to synergizing cross-cyclical and counter-cyclical regulations, and striking a better balance between short-term and long-term, micro and macro policy effects.

Second, risk identification, prevention, and control abilities should be continuously sharpened to en-

hance the effectiveness of financial regulation. All financial activities should be regulated by law, with institutional, behavioral, functional, penetrating, and continuous supervision reinforced across the board. In the upcoming period, in particular, focus should be placed on responding to latent risks in small and medium-sized financial institutions, local debts, real estate finance, and interest rates.

Third, related systems and rules should be critical guarantees. These include China's most important advantage and characteristic of upholding the CPC's leadership in financial work, as well as finance-related laws and regulations, law-based environment, financial standardization, industrial self-discipline, and credit environment. We can also draw essence from fine traditional Chinese culture to fuel financial development with Chinese characteristics.

Financial opening up is the inevitable path to follow when building China into a financial powerhouse. Corresponding to the plan to “steadily expand institutional opening up with regard to rules, regulations, management, and standards” as mapped out in the report to the 20th CPC National Congress, building a financial powerhouse should also focus on advancing high-standard opening up in finance to ensure national financial and economic security.

First, “bringing in” and “going out” should be considered equally crucial to steering the Chinese financial sector to the global stage, involving it in global financial competition with high quality and high standards, and facilitating enterprises and residents to enjoy greater convenience from cross-border and international financial services, while enabling China to boost its economic growth by fully channelling global financial resources.

Second, only by steadily expanding institutional opening up in the field of finance can we stabilize the expectations of financial system participants, shore up the confidence of domestic and foreign financial institutions and long-term investors, and strengthen the Chinese financial system's capacity to sustain operations and cope with shocks in increasingly complex global scenarios.

Surely, during financial opening up, risks and challenges are unavoidable, such as how to achieve steady, prudent, and solid RMB internationalization in the new situation. Nonetheless, this can prompt improvements in China's financial regulation capacities and levels, thus better integrating into and even making a difference on the global financial governance system.

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