New Phase of China’s Financial Opening
(The 2017 Jingshan Report)

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2017 • The Jingshan Report

• An annual research project focusing on financial reform issues. The 2017 report: “China’s financial opening during the time of de-globalization”

• Members of the Project:
  • Min Zhu (former DMD, IMF)
  • Yuyan Zhang (Director, CASS IWEP)
  • Tao Guan (former DG, SAFE)
  • Bin Zhang (Senior Fellow, CF40)
  • Zhong Xu (DG, PBC Research)
  • Jun Zhu (DG, PBC International)
  • Yiping Huang (Professor, PKU)
Should China continue financial opening?

- It was not an issue before, but now it looks like one.
- Many emerging market economies experienced financial crises right after financial opening.
- The role models of China’s financial reform, the US and western Europe also experienced severe financial crises lately.
- Even the IMF adjusted its policy stance on temporary restrictions on short-term cross-border capital flows.
Past experiences

- Slow and back-and-forth (exchange rate policy)
- Ambitious commitments, limited progresses (opening to foreign financial institutions)
- Lack of policy coordination (opening of domestic financial markets)

![Graph showing effective exchange rate and RMB/USD rate](image-url)

![Graph showing shares of foreign institutions in total industrial assets](image-url)
New opening requires new policy thinking

• From partial, industry-specific and tunnel-type opening style to top level design and comprehensive opening model

• Limited and temporary restrictions on short-term cross-border capital flows for the purpose of financial stability and monetary policy independence

• Coordination between “promoting reform through opening” and “facilitating opening through reform”
Policy recommendations

• The State Council Financial Stability and Development Commission to coordinate financial reform and opening policies
• Macroprudential regulation for financial stability
• Greater exchange rate flexibility to allowing greater role for market forces
• Relaxation of restrictions on foreign share holding in financial institutions
• Convergence between domestic and foreign market rules and regulations
• Improving external financing cooperation
• Management frameworks at the micro and macro levels for cross-border capital flows and resumption of RMB internationalization
What to expect in 2018?

• Already announced
  • Lifting of equity limits for foreign institutions
  • Rollback of temporary capital flow management measures

• High probability events
  • Reacceleration of RMB internationalization
  • Increase in exchange rate flexibility
  • Further opening of the domestic financial markets
Thanks 感谢