

Global financial governance and Belt and Road Initiative are mutually beneficial

Belt and Road initiative is not only a platform for China's further opening up, but also an important platform for economic globalization. It has five components (or five links) namely policy coordination, facilities connectivity, unimpeded trade, financial integration and people-to-people bonds. Like blood bringing us oxygen and nutrition, financial intermediation will also give the initiative vitality and nutrients, which constitutes an essential part of the initiative.

Financial integration involves a lot of questions. For example, where does finance come from? How to raise it? What financial institutions can operate it? Where does it go to? How to monitor and manage it? What currency should be used in denomination and settlement? What is the impact on the balance of payments of capital receiving countries? Above questions are not isolated, but related to a larger financial framework, which is the international monetary and financial system, for the rules, the institutional arrangements of the system directly or indirectly stipulate the policies, methods and approaches to solve the above-mentioned problems.

After the Second World War, the Bretton Woods Conference established the IMF to address the balance of payments problem and the World Bank for the purpose of providing development aid. Meanwhile, it established the dominance of the dollar by gold exchange standard. Although in the early 70s of last century, the double-linked financial arrangements have been broken in which the dollar is pegged to gold and other currencies are linked to dollar. But the dollar dominance has not been changed. It should be recognized that such a global monetary and financial system has played a positive role in trade development and economic globalization after World War II.

But at the same time, we should also notice that it also has some flaws, including lack of representation of developing countries, inadequate capability in resisting financial risk, and lack of inclusiveness etc. After the global financial crisis, many countries and the international community have undertaken a series of efforts aiming at improving global financial governance, eliminating or mitigating these shortcomings. For example, G20 adopted IMF quota and governance reform program at the 2010 summit. And after a long delay, the program was finally implemented in 2015, which increased the voting rights of developing countries including China. But that's far enough. In particular, the fundamental flaw of the system has not changed when a sovereign currency acts as a global credit. The monetary authority (the Federal Reserve) would choose its monetary policy according to its domestic economic needs, which may

conflict with the global economic needs. This is also the deep-rooted causes of the global financial crisis.

Financial integration is what the initiative requires.

First of all, infrastructure construction is the center of the initiative. There is a huge demand from countries along the belt and road for infrastructure investment. Most of them are developing countries with insufficient domestic savings for infrastructure investment themselves. According to the forecast of the Asian Development Bank, in the next 10 years, there is a need of 8.22 trillion US dollars in infrastructure investment in Asia, that is, an annual increase of \$ 820 billion in infrastructure investment financing.

Secondly, the initiative has also lead to a huge demand for production capacity cooperation, which provides opportunities for china's enterprises going out and their industrial transformation and upgrading.

Furthermore, the initiative has also spawned other financing-related needs, including financial cooperation and financial product innovation with financial institutions in countries along the belt and road.

Such a large-scale cross-border financing demand has the incentive to perfect the global financial governance; at the same time it also provides a new chance to further improve the global financial governance. With the process of

economic globalization, in the past two decades, developing countries including China have made great progress, whose share in global economy has exceeded 50%. In order to break the asymmetry between the current economic structure and the right of speech in existing international financial institutions, a series of new international financial institutions have emerged, such as Asian Infrastructure Investment Bank (AIIB), New Development Bank (NDB), Contingent Reserve Arrangement (CRA) and so on. They can play a positive role in the initiative. In the process, these new financial institutions themselves can also be developed. They complement and promote the current international financial institutions, and make the international monetary and financial system more equitable and inclusive.

Financial integration involves settlement problems. Currently some countries along the belt and road have begun to use their local currencies in settlement. It can reduce over-reliance on US dollar, and alleviate external financial shock. The currency multi-polarization reflects both the objective needs and the evolution of the global monetary system. It is commonly believed that in medium-term (about 15 to 20 years later), it is likely to have US dollar, the euro and the RMB as the three main reserve currencies in the system.

The huge demand for financial intermediation will also expand cross-border use of the RMB. The final inclusion of the RMB into the SDR Basket in October 2016, raised the RMB's international status. According to IMF latest data,

RMB-denominated foreign exchange reserve assets have reached \$ 88.51 billion, accounting for 1.07% of global foreign exchange reserve assets. It is a good start. With the further implementation of the initiative, the cross-border use of the RMB will also be strengthened. History sometimes gives us some revelation. Although the Bretton Woods system has established the dominant position of the dollar, it is the Marshall Plan that makes this dominance working. There is no doubt that the belt and road initiative is completely different from the Marshall Plan in nature. But as a transnational economic plan just like the Marshall Plan, it may also provide better chance for the internationalization of RMB.

The initiative is beneficial to countries along the belt and road, especially the developing countries. The realization of the "five links" tend to improve the economic power of the developing countries along the way, perfect their financial markets, strengthen their economic resilience, and resist them from external shocks. Thus it will have an active effect in stabilizing the global financial system.

All above elaborates the initiative's role in promoting the reform of global financial governance. While in turn, the reform of global financial governance will also promote the initiative.

Currently, the IMF is under the fifteenth quota review. We can expect further increase of developing countries' rights in voting and speaking. In addition, after

the global financial crisis, the global financial safety nets have been strengthened as an important part of the global financial governance reform. The global financial safety nets include self-insurance (reserve assets), bilateral financing mechanisms (central swaps), regional financing arrangements (RFA) and IMF multilateral financing mechanisms. IMF plays a leading role. Last year, the IMF and the Chiang Mai Agreement conducted the first anti-risk drill, which will strengthen the cooperation between IMF and RFA.

The strengthening of the global financial safety nets would have protective effect on the initiative. Recently, international financial community gives special attention to the monitoring and management of cross-border capital, which is regarded as a part of global financial governance as well. Cross-border capital includes foreign direct investment (FDI), securities investment and other investment. Among them, FDI is beneficial to the receiving country, and less sensitive to changes in interest rates. Among securities investment and other investment, there also have some long-term capital with maturity over one year, which is not sensitive to changes in interest rates. By excluding FDI and those long-term capital mentioned above, we define rest of the capital as Quickly Movable Capital (QMC). They have a greater impact on developing countries, which need to be given sufficient attention. At the press conference of two sessions, Zhou Xiaochuan divided the capital into two categories, namely physical investment and financial flow. We believe the further classification of

cross-border capital and their monitoring and management, will be conducive to the financial integration of the initiative.

All in all, the global financial governance and the belt and road initiative are mutually beneficial to each other. We should be aware of this and take full advantage of policies to increase the common benefits.