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ARTICLE

The Essence of Optimism of The Economists and Investors with Regard to the Economy of Russia

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ARTICLE INFO

Article history
Received: 29 July 2019
Accepted: 11 September 2019
Published Online: 20 September 2019

Keywords:
Russia
United States
US Federal Reserve System
Gross domestic product
Average monthly nominal wages
Core price index of personal consumption expenditures
Monetary policy
Devaluation of the US dollar
USD/RUB currency pair
Oil prices
World oil market
United States sanctions against Russia

ABSTRACT

The gross domestic product of Russia, expressed in US dollars, indicates problems in the Russian economy associated with the decline in oil prices on the world energy market and the consequences of the sanctions of the United States and the European Union against Russia. The crisis situation of the Russian economy has a negative impact on the income of the population of country, represented mainly by wages. However, an economist or investor may be optimistic about Russian economic development in the medium term. This optimism is related to the economic policy of the United States. The expansion of the United States economy within the global space, based on economic growth, requires maintaining inflation within the target level and weakening the US dollar. These tasks are solved with the help of soft monetary policy of the US Federal Reserve System. The reduction of interest rates by the US Federal Reserve System against the background of inflation of the target level and the devaluation of the US dollar will contribute to economic growth in the United States, because it will lead to the depreciation of public debt, lower consumption of imports, increase in exports and trade balance, growth of production, income, consumption. The economic policy of the United States, which contributes to the devaluation of the US dollar, will also reduce the US dollar against the ruble. The optimistic view of investors-economists on the Russian economy is due to a significant strengthening of the ruble against the US dollar. Consequently, in the medium term, the gross domestic product and wages of citizens of Russia, expressed in US dollars, will significantly increase, and the purchasing power of the national currency of the country will also increase. This growth may continue until the next election of a new President of the United States in November 2020. After the election of the new President of the United States, there is a high probability of sanctions against Russia and of decline in oil prices in the world energy market in accordance with the future economic policy of the United States – two main reasons for the sharp strengthening of the US dollar against the ruble, which will cause a deeper economic crisis in Russia in the medium and long term.

1. Introduction

The Russian economy is uncompetitive compared with the economy of the United States. Low efficiency and small scale of the Russian economy have a bad impact on the incomes of the population of the country. However, in the short and medium term, we can hope for small improvements in the Russian economy, which are associated with the implementation of economic policy by the United

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States. It is established that measures to stimulate economic growth in the United States can strengthen the ruble against the US dollar and improve the economic effectiveness of Russia. This regularity is revealed on the basis of studying the interrelations of economic indicators: (1) the relationship between the core price index of personal consumption expenditures and interest rates of the US Federal Reserve System has been studied for a long-term period; (2) during the period of soft monetary policy, the relationship between the falling interest rates of the US Federal Reserve System and the US dollar index reflecting the international value of the US dollar was studied; (3) during the last economic cycle, which showed the strength of the United States economy and the US dollar, the relationship between the US dollar index and the USD/RUB currency pair was established. The study of the interrelations of the presented economic indicators led to the following judgments. (1) The core price index of personal consumption expenditure in the United States is growing at a decelerating rate, which is often below target. This requires the US Federal Reserve System to continuously pursue soft monetary policy to stimulate economic growth and expand the economy in the United States. (2) The soft monetary policy of the US Federal Reserve System does not pass without a trace, but directs the international value of the US dollar downward. Reducing the international value of the US dollar, as a rule, also brings great benefits to the economy of the United States mainly through increasing competitiveness to gain additional markets for products. Currently, this policy is very relevant in the context of automation of production, the use of robotics and the release of jobs. (3) The decrease in the international value of the US dollar may affect the strengthening of the national currencies of other countries, for example, developing countries such as Russia. Of course, the strengthening of the Russian ruble will bring a lot of positive to the Russian economy. This positive will be manifested in the growth of the main economic indicators of the country – income. However, this positive will be used by the United States in the future for its own benefit. But so far, the revealed regularities help to form an optimistic view of economists and investors on the Russian economy in the short and medium term.

2. Literature Review

The necessity and methods of government regulation of a market economy were substantiated by John Maynard Keynes in his book "The General Theory of Employment, Interest, and Money". John Maynard Keynes believed that a market economy does not have a permanent functioning self-regulatory mechanism. Under certain conditions, a market economy may find itself in deep crisis stagnation, from which the spontaneous forces of the market alone cannot pull it out. In such a situation, government regulation of the market economy is required by stimulating effective demand through a soft monetary policy aimed at useful low inflation [9]. The above studies of John Maynard Keynes allowed us to generate ideas that public policy plays an important role in a market economy; public policy is based on target values of key economic indicators, such as inflation; a market economy periodically needs to be stimulated through the application of soft monetary policy.

Robert Alexander Mundell made a great contribution to the development of scientific economic thought in the application of monetary policy in the international economy. He showed that the most effective policy of the state in conditions of floating exchange rates is monetary policy. Soft monetary policy contributes to the weakening of the national currency and the growth of exports of the country [11]. The patterns identified by Robert Alexander Mundell made it possible to formulate a number of judgments regarding the economy of the United States: the United States economy is focused not only on domestic demand but also on foreign trade; the importance of foreign trade for the United States is growing; monetary policy of the US Federal Reserve System can have a good impact on the competitiveness of economic entities and increase the exports of the country; economic growth in the United States can be stimulated by reducing the international value of the US dollar.

Export growth is not the only reason for the application of a soft monetary policy. A strong United States economy is not always competitive even with a weak US dollar. The United States has economic competitors, such as China and other countries. Therefore, the economy of the United States requires protection from foreign producers who become strong in the production of products. Such notes of protectionism appeared thanks to the teachings of Friedrich List, who believed that from strong foreign competitors need to be protected by high tariffs on imports [10]. Economic growth of the country in the global space can be enhanced due to the restriction of imports through protectionism.

Thus, there are strong factors of devaluation of the US dollar in terms of foreign trade – protectionism and soft monetary policy, which can strengthen each other. In such circumstances, the devaluation of the US dollar becomes inevitable and can have an impact on the significant strengthening of the national currencies of other countries. The strengthening of national currencies for some countries is a boon in connection with low incomes.

The influence of economic factors on each other is often investigated through correlation and regression analysis. Correlation and regression analysis allows to determine the strength of the relationship between the factors and build regression equations, which serve as a basis for predicting...
the values of the studied economic factors. In this case, the significance of the parameters of the regression equations is checked \cite{4,5}. Economic phenomena develop in accordance with a linear trend, especially over long time intervals \cite{6}. Therefore, when studying the impact of monetary policy of the US Federal Reserve System on inflation and the international value of the US dollar, when studying the impact of the international value of the US dollar on foreign exchange rates, it is advisable to use the linear regression equations.

3. Methods

To determine the impact of the economic policy of the United States on the Russian economy, the following methods were used: analysis, synthesis, monographic, correlation and regression analysis, trend detection, forecasting, graphical, tabular.

4. Results

It is possible to talk about the level of economic development of a country on the basis of statistical data on the size of its gross domestic product. The study of the gross domestic product of Russia, represented in the national currency of the country, for the long time period I quarter of 1995 - I quarter of 2019 showed that the Russian economy is in a growth phase (figure 1).

However, it is not. The gross domestic product of Russia, presented in US dollars for the same time period, indicates the economic crisis in the country. To date, the indicator has not recovered from the global financial crisis of 2008 and demonstrates the development of the economic crisis type W (double bottom) associated with the deterioration of global financial markets, the fall in energy prices, the sanctions of the United States and the European Union against Russia (figure 2).

The income of the population of the country depends on the size of its gross domestic product. The main part of the income of the population of the country is represented by wages. In this regard, for the period I quarter 1995 - I quarter 2019 studied the size of the average monthly nominal wage in Russia, calculated for all regions and sectors of the economy. Statistical data on the average monthly nominal wage, expressed in rubles, showed the growth of the analyzed indicator throughout the study period, including after the global financial crisis of 2008 (figure 3).

Statistical data on the average monthly nominal wage, expressed in US dollars, indicate that currently the analyzed indicator has not recovered after the global financial crisis of 2008 and is below pre-crisis levels (figure 4).

Figure 1. Dynamics of gross domestic product of Russia, expressed in the national currency of the country *Russian Federation Federal State Statistics Service [7]

Figure 2. Dynamics of gross domestic product of Russia, expressed in US dollars *Calculated by the author according to the Russian Federation Federal State Statistics Service, investing.com [3, 7]

Figure 3. Dynamics of average monthly nominal wages in Russia, expressed in rubles *Russian Federation Federal State Statistics Service [1]

Figure 4. Dynamics of average monthly nominal wages in Russia, expressed in US dollars *Russian Federation Federal State Statistics Service [1]
The United States economy signals a recession when the core price index of personal consumption expenditure has an annual growth rate below target 2%. The core price index of personal consumption expenditure measures inflation, reflects the dynamics of prices of goods and services for personal consumption of Americans, is calculated without the volatile cost of food and energy, is used to determine inflation and is an index of personal consumption expenditure measures the annual growth rate below target 2%. The core price index of personal consumption expenditure tends to grow at a rate of 0.1% - 0.2%; during 2019, the growth rate of the indicator is below the target level; the price index for personal consumer spending tends to grow at an insufficiently rapid rate (figures 5, 6).

The main reason for the slowdown in inflation in the United States is protectionism, which worsens the economic performance of countries. In such circumstances, the main task of the US Federal Reserve System is to stimulate inflation for economic growth in the United States by reducing interest rates.

The decline in interest rates by the US Federal Reserve System leads to a devaluation of the US dollar. This measure is useful for the depreciation of public debt, reducing the level of consumption of imports, increasing exports and trade balance, income growth, increasing consumption. All this stimulates economic growth in the country. Based on statistical data, it was found that before the global financial crisis of 2008, the devaluation of the US dollar lasted for 6 years from January 2002 to March 2008. By lowering interest rates, the US Federal Reserve System supported an 8-year increase in the price index of personal consumption expenditure from January 2001 to December 2008. To predict the growth of the core price index of personal consumption expenditure from January 2001 to December 2008, the equation of the linear growth trend of this indicator is used (figure 6):

\[ y = 0.1298x + 72.624, \quad (1) \]

where \( y \) is the core price index of personal consumption expenditure, \( x \) is the number of the period in the time series.
The forecast showed that in order to stimulate economic growth, the price index of personal consumption expenditure in the United States should grow to 120 points over the next 6 years (figure 7).

It is known that the stable growth of the core price index of personal consumption expenditure in the United States can be achieved by changing the interest rates of the US Federal Reserve System. The high growth rates of the core price index of personal consumption expenditures are forcing the US Federal Reserve System to raise interest rates, while the low growth rates of the core price index of personal consumption expenditures are forcing the US Federal Reserve System to lower interest rates. The statistical data for the period from January 1995 to May 2019 showed that inflation in the United States is sustained over the long term by interest rates that tend to decline (figure 8).

To determine the correlation and regression relationship between the interest rates of the US Federal Reserve System and the core price index of personal consumption expenditures in the United States for a specified time period used presents the calculated data on the interest rates changing in accordance with the equation of the linear trend (figures 8, 9):

$$y = -0.0197x + 5.4621,$$

where $y$ is the interest rate the US Federal Reserve System, %; $x$ is the number of period in the time series.

This is done in order to obtain more adequate scientific results.

The correlation and regression relationship between the interest rates of the US Federal Reserve System and the core price index of personal consumption expenditure in the United States was studied for the long-term period January 1995 – May 2019 (table 1).

Table 1. Projected interest rates of the US Federal Reserve System, %

<table>
<thead>
<tr>
<th>a</th>
<th>b</th>
<th>Number of interest rate cuts by the US Federal Reserve System</th>
<th>United States Federal Reserve System Interest Rate Decision, %, x</th>
<th>United States, Price Indexes for Personal Consumption Expenditures (PCE), Monthly, Seasonally adjusted, 2012=100, y</th>
</tr>
</thead>
<tbody>
<tr>
<td>108.6091</td>
<td>-6.5882</td>
<td>0</td>
<td>2.50</td>
<td>92.14</td>
</tr>
<tr>
<td>108.6091</td>
<td>-6.5882</td>
<td>1</td>
<td>2.25</td>
<td>93.79</td>
</tr>
<tr>
<td>108.6091</td>
<td>-6.5882</td>
<td>2</td>
<td>2.00</td>
<td>95.43</td>
</tr>
<tr>
<td>108.6091</td>
<td>-6.5882</td>
<td>3</td>
<td>1.75</td>
<td>97.08</td>
</tr>
<tr>
<td>108.6091</td>
<td>-6.5882</td>
<td>4</td>
<td>1.50</td>
<td>98.73</td>
</tr>
</tbody>
</table>
The linear regression equation is constructed:

\[ y = 108,6091 - 6,5882 \cdot x, \quad (3) \]

where \( y \) is the core price index of personal consumption expenditure in the United States (points), \( x \) is the interest rate of the US Federal Reserve System, calculated on the basis of the linear trend equation (%) (figures 8, 9). Correlation coefficient \( r_{xy} = -0.999 \) – very strong inverse (negative) relationship. The coefficient of elasticity of the \( Ex_y = -0.184 < 1 \), if \( x \) changes by 1%, \( y \) changes by less than 1%, \( x \) has no significant effect on \( y \). Fisher's criterion \( F_t = 101571,7 > F_{crit} = 3,89 \) – the equation as a whole is significant. So, in order to stimulate inflation to the level of the core price index of personal consumption expenditure of 120 points, the US Federal Reserve System should reduce the interest rate to \(-1,75\%\) by may 2025.

The reduction in interest rates by the US Federal Reserve System will have an impact on the US dollar index, an indicator of the purchasing power of the US dollar relative to a basket of foreign currencies (the Euro, the Japanese yen, the British pound, the Canadian dollar, the Swedish krona, the Swiss franc), reflecting the international value of the US dollar. The correlation and regression relationship between the interest rates of the US Federal Reserve System and the US dollar index was studied for the period January 2001 – November 2015 – the period of soft monetary policy in the United States, aimed at stimulating the growth of the economy of this country due to the global financial crisis of 2008 (table 2).

<table>
<thead>
<tr>
<th>( a )</th>
<th>( b )</th>
<th>( United \text{ } States \text{ } Federal \text{ } Reserve \text{ } System \text{ } Interest \text{ } Rate \text{ } Decision, % ), ( x )</th>
<th>( US \text{ } dollar \text{ } index, \text{ } y )</th>
</tr>
</thead>
<tbody>
<tr>
<td>72,5092</td>
<td>6,8037</td>
<td>2,50</td>
<td>89,52</td>
</tr>
<tr>
<td>72,5092</td>
<td>6,8037</td>
<td>2,25</td>
<td>87,82</td>
</tr>
<tr>
<td>72,5092</td>
<td>6,8037</td>
<td>2,00</td>
<td>86,12</td>
</tr>
<tr>
<td>72,5092</td>
<td>6,8037</td>
<td>1,75</td>
<td>84,42</td>
</tr>
<tr>
<td>72,5092</td>
<td>6,8037</td>
<td>1,50</td>
<td>82,71</td>
</tr>
<tr>
<td>72,5092</td>
<td>6,8037</td>
<td>1,25</td>
<td>81,01</td>
</tr>
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<td>6,8037</td>
<td>1,00</td>
<td>79,31</td>
</tr>
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<td>6,8037</td>
<td>0,75</td>
<td>77,61</td>
</tr>
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<td>72,5092</td>
<td>6,8037</td>
<td>0,50</td>
<td>75,91</td>
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<tr>
<td>72,5092</td>
<td>6,8037</td>
<td>0,25</td>
<td>74,21</td>
</tr>
<tr>
<td>72,5092</td>
<td>6,8037</td>
<td>0,00</td>
<td>72,51</td>
</tr>
<tr>
<td>72,5092</td>
<td>6,8037</td>
<td>-0,25</td>
<td>70,81</td>
</tr>
<tr>
<td>72,5092</td>
<td>6,8037</td>
<td>-0,50</td>
<td>69,11</td>
</tr>
<tr>
<td>72,5092</td>
<td>6,8037</td>
<td>-0,75</td>
<td>67,41</td>
</tr>
<tr>
<td>72,5092</td>
<td>6,8037</td>
<td>-1,00</td>
<td>65,71</td>
</tr>
<tr>
<td>72,5092</td>
<td>6,8037</td>
<td>-1,25</td>
<td>64,00</td>
</tr>
<tr>
<td>72,5092</td>
<td>6,8037</td>
<td>-1,50</td>
<td>62,30</td>
</tr>
<tr>
<td>72,5092</td>
<td>6,8037</td>
<td>-1,75</td>
<td>60,60</td>
</tr>
</tbody>
</table>

Note: *Calculated by the author according to US Bureau of Economic Analysis, US Federal Reserve System [2,8].

The linear regression equation is constructed:

\[ y = 72,5092 + 6,8037 \cdot x, \quad (4) \]

where \( y \) is the US dollar index (points), \( x \) is the interest rates of the US Federal Reserve System calculated on the basis of the linear trend equation (%) (figures 8, 9). Correlation coefficient \( r_{xy} = 0,582 \) – a noticeable direct (positive) relationship. The coefficient of elasticity of the \( Ex_y = 0,176 < 1 \), when changing \( x \) by 1%, \( y \) will change by less than 1%, \( x \) has no significant effect on \( y \). The approximation error \( A = 8,4\% \) is below the norm, so the equation can be used to calculate individual values of factors. Fisher's criterion \( F_t = 90,8 > F_{crit} = 3,9 \) – the equation as a whole is significant. Thus, the stimulation of inflation by the US Federal Reserve System by lowering the interest rate to \(-1,75\%\) (to the level of the price index of personal consumption expenditure of 120 points) by may 2025 will lead to a decrease in the US dollar Index to 60,6 points.

Table 3. Forecast values of the USD/RUB currency pair *

<table>
<thead>
<tr>
<th>( a )</th>
<th>( b )</th>
<th>( US \text{ } dollar \text{ } index, \text{ } x )</th>
<th>( USD/RUB \text{ } y )</th>
</tr>
</thead>
<tbody>
<tr>
<td>-109,1254</td>
<td>1,7697</td>
<td>89,52</td>
<td>49,30</td>
</tr>
<tr>
<td>-109,1254</td>
<td>1,7697</td>
<td>87,82</td>
<td>46,29</td>
</tr>
<tr>
<td>-109,1254</td>
<td>1,7697</td>
<td>86,12</td>
<td>43,28</td>
</tr>
<tr>
<td>-109,1254</td>
<td>1,7697</td>
<td>84,42</td>
<td>40,27</td>
</tr>
</tbody>
</table>
The expected devaluation of the US dollar due to the need to stimulate economic growth in the United States will affect the USD/RUB currency pair, which will lead to an improvement in the main economic indicators of Russia. The correlation and regression relationship between the US dollar index and the USD/RUB currency pair was studied for the period January 2008 – July 2019 – one economic cycle, including the stages of economic development: crisis, recession, recovery, growth. The linear regression equation is constructed:

$$y=-109,1254+1,7697 \times x$$  \hspace{1cm} (5) \hspace{1cm}$$

where $y$ – currency pair USD/RUB (points), $x$ - US dollar index (points). The correlation coefficient $r_{xy} = 0.937$ shows a very strong direct (positive) relationship due to the relatively high efficiency of the United States economy and the benefits from the acquisition of US dollars. The coefficient of elasticity of the $Ex_y=3.496>1$, with a change in $x$ by 1%, $y$ will change by more than 1%, $x$ significantly affects $y$. Approximation error $A=11.1\%$ - within the norm, so the equation can be used to calculate the individual values of the factors. Fisher's criterion $F=993>F_{crit}=3.92$ – the equation as a whole is significant. Thus, the stimulation of inflation by the US Federal Reserve System by lowering the interest rate will lead to a decrease in the US dollar index and a weakening of the USD/RUB currency pair. Table 3 shows the great potential of weakening of the USD/RUB currency pair against the background of the US dollar devaluation, which can be used by the United States to fully impose sanctions on Russia and reduction of prices for energy resources.

The United States can have a big impact on the USD/RUB currency pair. Certain actions of the United States may lead to a sharp decline in the ruble against the US dollar: 1) lower prices for energy resources; 2) the introduction of sanctions against Russia. These measures are planned in the future economic policy of the United States (figure 10).

![Figure 10. The sequence of measures of economic policy of the United States](image-url)
Since the US dollar index and the USD/RUB currency pair are interconnected, in order to calculate the value of the USD/RUB currency pair in November 2020 (the possible date of the maximum growth of the USD/RUB currency pair), it is necessary to determine the value of the US dollar index in November 2020. Over a long period, the US dollar index has been declining under the influence of the soft monetary policy of the US Federal Reserve System - it is under the control of United States government officials, because the economy and the welfare of the citizens of the country depend on its level, it is a predictable indicator. The forecast of the value of the US dollar index in November 2020 is made on the basis of statistical data on the given indicator for a long period of time January 1995 – July 2019. The equation of the downward trend of the US dollar index is used:

\[ y = -0.0439x + 97.11 \]

where \( y \) is the US dollar index (points), \( x \) is the period number in the time series (figure 11).

Calculations showed that by November 2020, the US dollar index could reach 83.46 points and the USD/RUB currency pair could reach 38.58 points (equation 5, table 3, figure 12).

Soft monetary policy of the US Federal Reserve System, needed to stimulate inflation and weaken the US dollar, may have an impact on the decline of the currency pair USD/RUB to 38.58 rubles to the US dollar by November 2020 because of the declining international value of the US dollar, rising oil prices due to the devaluation of the US dollar, holding on high oil prices by United States oil companies by regulating oil production, postponed until the next election of the President of the United States of the full-scale introduction of United States sanctions against Russia. As a result of the strengthening of the ruble against the US dollar, economic indicators of Russia will change for the better. Thus, the average monthly nominal wages calculated for all regions and industries will increase from $669.5 to $1139.0, the gross domestic product will increase from $373.1 billion to $634.7 billion (figure 13).

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Soft monetary policy of the US Federal Reserve System, needed to stimulate inflation and weaken the US dollar, may have an impact on the decline of the currency pair USD/RUB to 38.58 rubles to the US dollar by November 2020 because of the declining international value of the US dollar, rising oil prices due to the devaluation of the US dollar, holding on high oil prices by United States oil companies by regulating oil production, postponed until the next election of the President of the United States of the full-scale introduction of United States sanctions against Russia. As a result of the strengthening of the ruble against the US dollar, economic indicators of Russia will change for the better. Thus, the average monthly nominal wages calculated for all regions and industries will increase from $669.5 to $1139.0, the gross domestic product will increase from $373.1 billion to $634.7 billion (figure 13).

```

5. Conclusions

(1) The Russian economy cannot compete with the economies of developed countries, such as the United States, is in a crisis stage and directly depends on the economic...
policy of the United States. The economic policy of the United States has an impact on the more important sectors of the Russian economy – the banking sector, the oil industry, the state budget. At any time, the United States can use its advantage over Russia: to impose sanctions against Russia; to influence the decline in oil prices on the world market of energy resources. Such actions of the United States can collapse the ruble against the US dollar and bring the Russian economy into a deeper and longer-term crisis.

(2) But currently, the United States is not yet profitable strong strengthening of the currency pair USD/RUB due to the need for a weak US dollar. A weak US dollar should contribute to the continuation of economic growth in the United States against the backdrop of the depreciation of public debt, lower consumption of imports, increased exports and trade balance, growth in production, income, consumption. The United States is ready to implement its economic policy, involving sanctions against Russia and lower oil prices, but in the longer term.

(3) Before the sanctions the United States and low oil prices will have a negative impact on the Russian economy, the United States should: reduce the economies of competitor countries, such as China, Japan, and others; to support the growth of economic efficiency of oil companies of the United States; to start the mechanism of the devaluation of the US dollar by reducing interest rates by the US Federal Reserve System. These measures will have an impact on the strengthening of the ruble against the US dollar and the improvement of economic indicators of Russia in the short and medium term.

References

REVIEW

Withered Peach Blossoms - A Discussion for the Phenomenon of a Poor Sense of Copyright in Chinese Youth Netizens and the Suggestion

Contents

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ARTICLE INFO

Article history
Received: 11 May 2019
Accepted: 24 May 2019
Published Online: 20 September 2019

Keywords:
Chinese youth netizens
Copyright awareness
Piracy

ABSTRACT

This proposal expresses a standpoint concerning a discussion for the phenomenon of a poor sense of copyright in Chinese youth netizens and the suggestion. The phenomenon of a poor sense of copyright in Chinese youth netizens has disadvantages. By analyzing it, a clear status of Chinese youth netizens’ problems on the poor sense of copyright will be shown. At the same time, when we consider a discussion for the phenomenon of a poor sense of copyright in Chinese youth netizens and the suggestion, we must address several main reasons that contribute to problem. These include cultural tradition restriction, incomprehensive market system, inappropriate price incentive, imperfective legal institutions and indifference education system. It is valuable for the originators feel free to create better works. Meanwhile, those factors are essential for Chinese youth netizens to consider the way to be cultivated the right spending habits. Only by analyzing all these factors together and then using these results to apply to intensity notional cultural competitiveness and form an innovative market. This paper is organized as follows: The first part will outline the poor sense of copyright in Chinese youth netizens' case studies and analyze. The second part is an introduction of the problems of the phenomenon of a poor sense of copyright in Chinese youth netizens. The reasons causing the problems are analyzed in part three. Some proposals to overcome copyright problem will be advocated in last part. This study found that enhancing copyright awareness is a very complex task for Chinese youth netizens. Cultural tradition restriction, incomprehensive market system, inappropriate price incentive, imperfective legal institutions and indifference education system are all factors which bring difficulties to promote copyright awareness in Chinese youth netizens. Combined those factors with four problems of the phenomenon in China, I offer appropriate suggestions to overcome problems and help youth netizens acquire the knowledge of copyright.

1. Introduction

This proposal expresses a standpoint concerning a discussion for the phenomenon of a poor sense of copyright in Chinese youth netizens and the suggestion. My interest in this paper arose from over the years online reading experience in China where I found that a poor sense of copyright was a serious problem for youth netizens. The phenomenon of a poor sense of copyright in Chinese youth netizens has disadvantages.

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By analyzing it, a clear status of Chinese youth netizens’ problems on the poor sense of copyright will be shown. At the same time, when we consider a discussion for the phenomenon of a poor sense of copyright in Chinese youth netizens and the suggestion, we must address several main reasons that contribute to problem. These include cultural tradition restriction, incomprehensive market system, inappropriate price incentive, imperfective legal institutions and indifference education system. It is valuable for the originators feel free to create better works. Meanwhile, those factors are essential for Chinese youth netizens to consider the way to be cultivated the right spending habits. Only by analyzing all these factors together and then using these results to apply to intensity notional cultural competitiveness and form an innovative market.

This paper is organized as follows: The first part will outline the poor sense of copyright in Chinese youth netizens’ case studies and analyze. The second part is an introduction of the problems of the phenomenon of a poor sense of copyright in Chinese youth netizens. The reasons causing the problems are analyzed in part three. Some proposals to overcome copyright problem will be advocated in last part.

2. Case Studies and Analyze

With the construction, development and popularity of the Internet, digital publishing in China formally entered the blowout period, A large number of literary works, music works, game works, photography works and so on rely on the network platform of living to emerge. China's digital copyright operation develops rapidly in the fields of content, platform, communication channel, technology and terminal, but still faces A large proportion of uncopyrighted citizens are unwilling to buy the copyright voluntarily that leading to the embarrassment of the originators life. Historical problems have left behind the wrong consumption habits. Due to the inadequate supervision of digital publishing platform, netizens have damaged their national cultural competitiveness. A large number of original talents’ material life whose works have been repeatedly copied and pirated has been unable to continue to form a no innovative market.

In the next section, after a statement of the basic problem, two models involving are investigated: on the one hand, a failed model of Tang Qi event is proposed; on the other hand, the success of DISNEY’s copyright is considered.

2.1 The Decline of Peach Blossoms

It is a matter of public outrage in the literary world. In Tang Qi’s early years, she published a series of works similar to Wind Blowing’s style and writing style. When netizens found that her style and plots were similar to the Wind Blowing, she called it a tribute to Wind Blowing. At that time, because copying works were not very famous, it did not cause too much of a stir until the advent of Life After Life, Blooms Over Blooms. People familiar with the situation found that the vast majority of the plots in the Life After Life, Blooms Over Blooms were identical to Wind Blowing’s the peach blossom debt, and more careful netizens listed the similarities.

One or two can be said to be coincidental, and multiple crashes are not so simple. Tang Qi successfully appropriated the literary style of peach blossom debt and its plot, in the end changed a homoerotic novel into a heterosexual novel. But the country has yet to recognize the publication of homoerotic literature, and other heterosexual literary writings and plots do not appeal to popular tastes. Therefore, Life After Life, Blooms Over Blooms is famous which is peach blossom debt after Tang Qi changed skin. Instead, the original novel peach blossom debt is rarely known because of its special subject matter. Tang Qi knew this point and seized the loophole in the copyright of our country, changed her underlying meaning, completely denied plagiarism, and said it was pure original.

However, most teenagers have no copyright awareness, which leads to the popularity of plagiarizing works such as the Life After Life, Blooms Over Blooms. Tang Qi has won fame and fortune for plagiarism, while peach blossom debt by the original author Wind Blowing was left without anybody to care for it.

Copycats earn millions of dollars from copycats, but the originators don’t know where to go because she doesn’t have enough money to pay the rent. The netizen satirizes Tang Qi, whose money is not the wind blowing, but your money is.

2.2 Success of Defend the Copyright—a Lesson from DISNEY

In copyright, Disney is notoriously terrible. Even the revision of American copyright law has been influenced by Disney. There's a joke, if one day you're on a desert island. On the first day, you drew a SOS and no one came to rescue you. The next day, you drew a SOS and a bonfire, and no one came to save you. On the third day, you were desperate. You drew a Mickey Mouse, and two hours later Disney drove a helicopter to sue you for infringement. See you in court.

This is a joke, but it speaks volumes about Disney's emphasis on copyright and the rigor of national legislation.
2.3 Enlightenment for Enhanced the Sense of Copyright

Though our country has a defective market environment of copyright, but with the continuous development of our country copyright industries and related industries, the continuous improvement of the system of copyright protection, copyright consciousness will also gradually thorough popular feeling.

There is no doubt that copyright protection and copyright awareness are interdependent. The emergence of copyright awareness will prompt people to take a series of measures to protect copyright, which is the best embodiment of copyright awareness. Respecting knowledge and protecting copyright is the necessary way to promote the development of Chinese culture and enhance the soft power of China $^{[1,2]}$. Copyright system for the development of cultural industry provides a fair institutional environment, also is helpful for developing cultural industry is of great economic potential, but also is beneficial to the safety of national culture, especially for the strong cultural invasion, more application of copyright protection of ethnic and national culture $^{[3]}$. As the largest group of Internet users, the young netizens have the absolute effect of the most influential group.

3. Problems of the Phenomenon

I would rather fall on the thorny path to utopia, turning into a bony skeleton, and unwilling to indulge in the beautiful illusion of theft, tearing at the flesh and entrails of the originators. Because this is the basic moral and persistence of being human.

The phenomenon of a poor sense of copyright is a severe problem, especially for young Chinese netizens who have not yet established a sound consciousness. In the next section, after a statement of the basic problem, various situations involving problems of the phenomenon are investigated: first, a problem of lead the originators to live in distress is proposed; second, a problem of cultivated the wrong spending habits is explored; then the problem of damaged national cultural competitiveness is studied; lastly, the problem of formed a no innovative market.

3.1 Lead the Originators to Live in Distress

Most of Chinese youth netizens who have no sound cognition and consciousness of infringement to copyright problem, when they repeatedly face the temptation of piracy which need not spend money, they were straight choose piracy. Kang explores that readers' awareness of copyright is indifferent, making pirated works faster. Most readers are willing to read online literature for free, even though the price of a paid-for version is not high $^{[4]}$. Through search engines, readers can quickly retrieve free online literature (2).

You use the fruits of others' labor, but you refuse to pay. Even though the originators work hard, earns a meager income, and the rampant pirates lead the originators to live in distress.

3.2 Cultivated the Wrong Spending Habits

The biggest damage of piracy is not even the death of many game companies, even if the collapse of the game companies become more and more there will be more new companies, and the truly scary one is at the other end.

Piracy has fostered a consumer habit of "electronic products must be free". This leads directly to the fact that small companies are never going to make it, and those with money to join the industry will have to adapt to the "free game" model.

3.3 Damaged National Cultural Competitiveness

According to Yuan, copyright is the vitality guarantee of original works, and also determines the cultural development of a country (2) $^{[5]}$. I once read an interview, the host in the American street interviewed passers-by about Chinese piracy, most people have said that they have heard of China's pirated "culture" and expressed surprise. There are so many good cultures in China, but the prevalence of such culture has led to a lot of derision and less affirmation of Chinese culture. This greatly reduces the competitiveness of Chinese culture.

3.4 Formed a No Innovative Market

Piracy discourages the originator from the cultural property, and thus discourages creativity. In short, piracy is the root of the fight against innovation. Kang state that internet original literature websites are driven by commercial interests, but too much pursuit of immediate economic interests can only encourage authors to create works with high click-through rates and lack of innovation (2) $^{[6]}$.

In order to get the reward, the author tends to follow the works of the wind, which leads to the creation of the original works of online literature in our country, which is single, repetitive and even plagiarizing.

Over time, few authors are still writing sincere works, full of commercial routes. The creator is gone and the market is deformed.

4. Reasons Causing the Problems

Actually, a similar story not only occurs in network literature,
but it is universal in almost every aspect of our lives in China. According to Zhang, China's public copyright awareness has been greatly improved, and most people already know the existence of "copyright", but still lack in-depth understanding of copyright knowledge and value (2) [10]. Consequently, as Tang Qi event showed above in some aspects, it has not achieved a real goal which implies a poor sense of copyright. What are the factors make for the problem?

4.1 Cultural Tradition Restriction

Cultural tradition restriction is one of the most important factors. Zhang asserts that due to the late start of social security, the gap between China and western developed countries is very large. This situation fundamentally restricts the level of Chinese people's cultural consumption, and also determines that the copyright awareness of the domestic public cannot be too high (2) [11]. Yao explores that for teenagers, contact and understand the copyright of the time is not long enough, though with the development of economy and the improvement of cultural education, more and more people begin to pay close attention to the copyright, but it hasn't form a thick atmosphere of respect for and protection of copyright (3) [8].

4.2 Incomprehensive Market System

Incomprehensive market system, the low cost of tort and high cost of rights protection have become one of the main problems in copyright protection in China. Lan analyses that the secrecy and convenience of copyright infringement in the network environment have resulted in many copyright infringement behaviors that have not been effectively dealt with (2) [3]. Lan adds that the characteristics of low cost and high profit of infringement encourage the existence of copyright infringement, which leads some teenagers to believe that infringement is illegal but profitable [3]. This causes certain obstacles to the promotion of copyright awareness among teenagers (1).

4.3 Inappropriate Price Incentive

Reasonable pricing will restrain the motive of infringement to some extent, which is a key factor in the development of copyright industry. Yao agrees that in a survey conducted by the social survey center of China youth daily in 2010, the results showed that 88.4 percent of people saw "high price" as the main obstacle to promoting legitimate products. If the price is too high, the copyright infringement market will open (2) [8].

4.4 Imperfective Legal Institutions

The development of copyright collective management system in China lags behind. Qu supports that the basic legal work of collective management of copyright has fallen far behind the actual needs [9]. Nowadays, the phenomenon of network infringement is scattered, for example, one article is infringed by multiple websites, and its author can't call to account to every infringing website (2). Under such circumstances, the copyright collective management system has more room to play its role than before, so it is necessary to accelerate the improvement of the copyright collective management laws and regulations.

4.5 Indifference Education System

Generally speaking, unless the law major students, basically no students have received the systematic copyright knowledge education, not to mention the high school students. Lan shows that in the absence of school copyright knowledge education, most students are confused by the knowledge of copyright law studied by media reports [5]. This causes students not only to master how to use others' works legally, but also to prevent copyright infringement and to create copyright innovation and protection awareness (2).

5. Applications for Overcoming Problems

By understanding main problems relate to phenomenon and the reasons causing the poor sense of copyright problem above, youth netizens may have a clear thought of what is the right sense of copyright in China and how to improve the sense of copyright. Considering the discussion above, the proposals about developing copyright awareness should draw any advantages of main approaches and aim at improving the sense of copyright within different works. Besides making a public service advertisement for all channel and accelerating the development of a mature copyright protection market, it is also worthy to pay attention to establish a standard pricing system for copyright products and improve the system of punishment and strengthen law enforcement. Moreover, publicizing the copyright system into textbooks also need to be paid attention to.

5.1 To Make a Public Service Advertisement for All Channel

First of all, displaying the copyright protection of public welfare advertisements on TV, radio, newspapers and other mass media. Zhang affirms the media can also completely through all kinds of the copyright protection of advertising living close to the audience to continue to spread knowledge of copyright. Moreover, the development of a mature copyright protection market should also be accelerated (3) [11].
5.2 To Accelerate the Development of a Mature Copyright Protection Market

In order to accelerate the development of the mature copyright protection market, we can start from the following points. Firstly, clear supervision and guiding responsibility. Secondly, standardize the operation of the website. Thirdly, encourage the network works that report content infringement. Kang raises an interesting viewpoint that the access system of the website must be strictly followed to better promote the creation of Chinese Internet original works (3) [4]. Kang’s report also shows that special channels should be set up on the website for the reporting of alleged infringement of the network works and shall be published. People are encouraged to report suspected infringement (3) [4].

5.3 To Establish a Standard Pricing System for Copyright Products

For more people to choose the legitimate version, to reduce the cost of copyright, creating a good atmosphere to resist piracy and respect copyright is imperative. Jiang argues that enterprises should be encouraged to try to play price war with piracy, through Internet and other sales platform, forming technology, management and the advantage of virtual market coverage, provide affordable authentic products (3) [7]. Zhang believes that the monopoly manufacturer should try to attract more ordinary consumers by using the low-price strategy as far as possible (3) [12].

5.4 To Improve the System of Punishments and Strengthen Law Enforcement

To accelerate the improvement of copyright protection system is an inevitable trend of China’s development of cultural industry. Yao suggests that we should be in line with the actual conditions of our country, learning foreign successful experience, perfect the copyright protection laws and regulations, strengthen law enforcement to crack down on piracy, put an end to get pirated products channels, finally forms the legal rights market (3) [8].

5.5 To Publicize the Copyright System into Textbooks

The school has its distinct advantages in classroom knowledge dissemination and extracurricular knowledge propaganda. Wang recognizes that students should learn relevant laws about copyright and consciously put an end to infringement (4) [7]. Lan also make suggestion that the school should incorporate the copyright knowledge education into the important content of education of the student general course and focus on the cultivation of students’ legal awareness of copyright (3) [3].

6. Conclusion

Enhancing copyright awareness is a very complex task for Chinese youth netizens. Cultural tradition restriction, incomprehensive market system, inappropriate price incentive, imperfective legal institutions and indifference education system are all factors which bring difficulties to promote copyright awareness in Chinese youth netizens. Combined those factors with four problems of the phenomenon in China, I offer appropriate suggestions to overcome problems and help youth netizens acquire the knowledge of copyright. Relevant national institutions and media should play their role in make a public service advertisement for all channel and awaken people's awareness of copyright. Referring to accelerate the development of a mature copyright protection market, both of website managers and people should have clear supervision and guiding responsibility. Establishing a standard pricing system for copyright products should be used in order to keep balance of both piracy boycott and legitimate price controls. Meanwhile, judiciary authorities should perfect the copyright protection laws and regulations, strengthen law enforcement to crack down on piracy, put an end to get pirated products channels, finally forms the legal rights market. Furthermore, the copyright knowledge education’s effective way of boost to students’ copyright awareness is also important.

This essay searches for the factors of a poor sense of copyright in Chinese youth netizens and gives some suggestions of how to enhance copyright awareness in several aspects. It is significant on my future living. Since several factors for bring copyright problems has been found in paper, I will pay much more attention to those factors while reading online literature. On the other hand, I may take those suggestions in this paper while resisting piracy. More effective suggestions may appear during real life. Moreover, this paper just covers some factors in certain areas of copyright in China and there are many other areas need to be explored.

Reference


REVIEW
The Thinking Path of Deepening Transformation and Innovation of Chinese Banking Industry under the Background of “New Normal” Economy

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1. Introduction
At present, China is in a critical period of economic growth shifting, structural adjustment painful period, and the digestion of early-stage stimulus policy. Commercial banks are facing three major shocks: the continuous promotion of interest rate marketization, the acceleration of financial disintermediation trend and the rapid development of Internet finance. It is urgent need for commercial banks to deepen transformation and innovation to help the real economy develop smoothly.

2. Three Shocks and Their Impacts on the Development of Domestic Banking Industry under the Background of the New Normal State of China’s Economy
Firstly, with the continuous promotion of interest rate marketization, interest spreads of deposit and loan gradually decreases, and further reducing the profit space of commercial banks, many institutional dividends previously enjoyed by commercial banks in China will no longer exist. On October 24, 2015, the central bank no longer set a floating ceiling on deposit interest rates for commercial banks and rural cooperative financial institutions, it marks that the completion of interest rate marketization reform after nearly 20 years. The profit model of the banking industry, which relies on the deposit-loan spreads as the main source of profit, is challenged. The main source of profit for commercial banks is changing to the retail banking business, intermediary business and private banking business of individual customers.

Secondly, the trend of financial disintermediation is accelerating, the financing channels of high-quality enterprises are increasingly diversified, space for customers
to choose financing methods and financing channels is greatly enhanced, and the competition between banks is increasingly fierce. Financial disintermediation firstly manifests itself as financing disintermediation, secondly as payment disintermediation, customer disintermediation, information disintermediation and channel disintermediation, which not only directly affects the growth of bank’s interest margin income, but also directly impacts on the sales mode stimulated by visiting customers. From 2000 to 2015, the proportion of social financing in Chinese banking industry dropped from 95% to about 50%, which led to the diversion of deposit and loan business, the life-line of traditional banks, and made the financing cost of financial bonds higher and higher, deposit-loan spreads narrowing, and the ability of sustainable profitability declining year after year.\(^{[2,3]}\)

Thirdly, under the new normal economic situation, new technologies such as “Internet +”, “big data” and “cloud computing” are bringing the traditional financial industry’s subversion and competition upgrading, making the traditional banking management mode face enormous challenges. The deep application of Internet technology in financial field and the rapid development of Internet finance not only accelerate financial disintermediation, but also subvert the traditional banking service mode, which weakens the advantages of commercial banks in payment, deposit and channel. Commercial banks face the risk of weakening the role of financial intermediary. The application of information technology challenges the lack of supervision over risk process of traditional banks, which makes traditional banks increasingly unable to cope with industry risk, regional risk, systemic risk, internationalization risk, moral risk and even operational risk.

Therefore, with the completion of interest rate marketization, the acceleration of financial disintermediation trend and the vigorous development of Internet finance, the traditional development model of extensive, high-capital consumption and high-risk accumulation of domestic banks, which mainly rely on deposit-loan spreads and loans to drive the scale of operation, can not be maintained for a long time. It is necessary to accelerate the transformation of development and deepen financial innovation. Banking industry needs to renew its concept, adjust its business model, gradually improve its interest rate pricing system and interest rate risk management mechanism, gradually shift from focusing on deposit-loan spreads and enterprise customer to focusing on high returns and low risks, realizing diversified income structure, and from extensive growth with high capital input, low quality and low efficiency; shift from extensive growth and scale expansion with high capital input, low quality and low benefit to intensive management with high quality, high efficiency and high connotation focusing on light assets, light capital plus investment banks and financial leases; shift from product-centered innovation to customer-centered and market-oriented, and move towards integrated and diversified financial product services Road\(^{[4]}\).

3. Limitations of Financial Innovation in Chinese banking industry

The main motivation of financial innovation of commercial banks in China is not the active pursuit of performance growth, but the passive promotion of external factors. Before entering WTO, the financial innovation of commercial banks in China is mainly to deal with the management uncertainty brought about by the marketization reform of interest rate and exchange rate of RMB, and the funds of commercial banks in China after entering WTO. Financial innovation is mainly to cope with the related risks brought about by the entry into WTO. The financial innovation in these two stages is the result of the change of the external environment, which is a kind of “stress response” of commercial banks to the change of the external environment. After entering twenty-first Century, the “Internet +” financial innovation is mainly financial and technological innovation. It is a passive “pick up” for banks to apply Internet technology in the financial field and the rapid development of Internet finance\(^{[3]}\). Therefore, the financial innovation of commercial banks in China has the following limitations:

3.1 Financial System Innovation Lags Behind

Firstly, because the financial innovation of commercial banks in China is a kind of “backward” innovation, the main manifestation is that the financial system innovation of commercial banks lags behind and the system supply is insufficient. Secondly, the way of system innovation is single. The main way of institutional innovation of commercial banks in China is mandatory institutional change, while the way of induced institutional change is relatively scarce. The main manifestation is the contradiction between the relatively developed financial system and the more developed credit modes (including financial commodities and credit instruments) and the backward credit morals and concepts, which has obviously affected the institutional innovation. And the efficiency of the system implementation mechanism. Commercial banks have the social responsibility to set an example for the sound development of China’s financial informal rules. However, China’s commercial banks are not ready to take on the responsibility of cultivating personal credit concept, which
leads to the possibility of using informal rules to promote the reform of financial institutions and the innovation of financial system no longer exists. The financial innovation and development of China’s commercial banks have been seriously affected \(^9\).

Financial product innovation is becoming more and more abundant, but most of them are financial technological innovation and imitation of foreign commercial banks’ related products and services. Independent innovation is not enough.

In the 1990s, with the commencement of market-oriented reform of interest rates and exchange rates, the trend of comprehensive and diversified operation of commercial banks has become increasingly evident, and the scale and volume of financial derivatives and related businesses have continued to increase.

With the process of interest rate marketization in China, for hedging, the financial innovation activities of commercial banks in China began in the early 21st century in the aspects of assets and liabilities, financial derivatives, etc. \(^3\).

In 2001, China formally joined the WTO. With the help of the policy dividend of commercial bank in line with international standards, the financial innovation of commercial banks in China has entered a rapid development stage, and the business of commercial banks has become more and more extensive. After 2005, China’s commercial banks continue to introduce personalized financial products comparison; after 2006, commercial banks began to engage in investment business of precious metals, design innovative financial products and services for enterprises, such as entrusted loans, enterprise consultation, enterprise tax planning, etc., and basically achieved the goal before China’s entry into WTO. Foreign banks already have financial innovative products and services, and our commercial banks have the same or similar business.

After entering the end of the 20th century and the 21st century, relying on the platform of Internet technology, China’s banking financial innovation has been carried out on the outskirts of traditional commercial banks. From the “quick payment” method of development and payment innovation, we can get rid of the “Alipay” to develop the network platform system for commercial banks, sell deposits, transfer accounts, loans, buy financial products, and fund consignment business, so as to realize the innovation of service channels, and then to imitate the Internet financial products, such as “baby products” to develop independently. A series of products combined with the Internet, a large part of which belongs to financial technological innovation, a large number of imitations of foreign commercial banks related products and services become the main way of financial product innovation of commercial banks in China. Although the results of financial innovation can be seen in the short term, it will also go for Chinese commercial banks. The road to self-innovation has laid hidden dangers \(^7\).

3.2 The Phenomena of “Financial Vacancy” and “Liquidity of Funds” are More Serious at Present

Firstly, more funds have not flowed to the real economy. Research shows that in 2016, the proportion of government departments in total social credit increased from 15% in 2009 to 20%, the proportion of residential departments increased from 15% in 2009 to 19% in 2016, and the proportion of non-financial enterprises decreased from 71% in 2009 to 61% in 2016. It can be seen that although enterprises are still the main source of “money” flows, after the 2008 crisis, “money” flows more to the government and residential sectors.

Secondly, the financing difficulties of real enterprises, especially small and medium-sized enterprises, always exist. Many small and micro enterprises have difficulty in lending, expensive loans and slow loans. When they need funds urgently, they have to go to private lending. Statistics show that in 2016, the average interest rate of private lending in small and medium enterprises is as high as 18%. Only by speeding up the reform of financial market, regulating and managing financial risks can we ensure the long-term and steady development of the new real economy \(^3\).

4. Thoughts and Countermeasures of Deepening the Transformation and Innovation of Chinese Banking Industry under the Background of New Normal Economy

In order to cope with the increasingly fierce competition and enhance the competitiveness of retail business and the profitability of outlets, commercial banks have been actively exploring and practicing the transformation and innovation of outlets. It has experienced three stages of service quality upgrading transformation from 2000 to 2005, sales transformation before and after 2005 and overall transformation after 2010, which effectively transformed the sales concept of employees and improved the service quality of outlets and sales ability of employees \(^9\). With the in-depth application of Internet technology in the financial field, the financial ecological environment is undergoing profound changes. The transformation of banking industry in China has entered a new stage of customer-centered, internal and external consideration, customer diversification needs satisfaction and customer...
experience intellectualization. At present, the trend of strategic transformation of banks can be achieved with six keywords. Summarize: Internet finance, internationalization, intensive, comprehensive, lightweight and intelligent finance [10], will build the network into customer relationship management center, customer experience center and O2O landing service center, and reshape the advantages and value of bank physical channel. The specific implementation path is as follows [10].

4.1 Deepening the Banking System Innovation to Adapt to the New Situation

To sum up, in view of the fact that China’s financial innovation is backward and financial system is imperfect, in order to promote the development of real economy under the background of the “new normal” economy, it is necessary to speed up the institutional innovation of China’s commercial banks through institutional incentives and reducing the uncertainty in the process of innovation. It mainly includes the following aspects:

First, the restructuring of organizational structure and system. At present, the organizational structure of commercial banks in China is mainly bureaucratic system, especially the organizational structure of large state-owned banks, which is similar to the bureaucratic system of the government. This organizational form, originally proposed by Max Weber, has obvious advantages, such as stable structure, tight organization, ensuring the effective realization of organizational goals, etc. [6]. With the gradual weakening of the monopoly position of commercial banks, especially the entry of private banks and foreign banks, the problems of inefficient bureaucracy, poor creativity and low enthusiasm, which can not meet the needs of customers to the greatest extent, erupt centrally. Therefore, the financial innovation of commercial banks in China must first make two important changes. Reform: Firstly, the organizational structure is flat, and the service concept centering on customer needs is established; secondly, special financial innovation departments are set up, which have equal status with traditional business. To some extent, this will stimulate the financial innovation of commercial banks.

Secondly, further optimization of bank ownership structure. At present, most banks in our country are state-owned. The ownership of state-owned holding commercial banks is mainly in the hands of Huijin Corporation and Ministry of Finance. This reality has greatly hampered the enthusiasm of innovative subjects of commercial banks. The primary task of further optimizing is that the Ministry of Finance must transfer the equity of state-owned holding commercial banks to non-governmental departments. If we are worried that the sale of equity will affect the state-owned nature of commercial banks, we can adopt the mode of remittance fund and adopt the method of cross-shareholding of corporate to optimize the ownership structure of state-owned holding commercial banks in China. In addition, Huijin’s shareholding mode should also be further optimized. We can try to divide the responsibilities of many committees within the framework of “one-session system”. The board of directors not only has the function of effective decision-making, but also has the function of mutual supervision. With the improvement of bank ownership structure and the further liberalization of financial market, the self-management of commercial banks in China will be strengthened, and the situation of insufficient motive force for financial innovation will be changed accordingly. Moreover, in the process of such innovation, more and more innovative ways will be transformed into induced institutional changes caused by changes in the external environment, endogenous innovation power will gradually be released, and government-led mandatory institutional changes will gradually decrease [5].

Thirdly, we should reconstruct the informal rules of credit morality in our country. At present, due to the weak credit foundation, outdated credit concept and lack of credit ethics in China’s financial market, the motive force of financial innovation of commercial banks is seriously damaged. For example, when introducing this kind of credit consumption and loan, it will increase the screening cost in the early stage and the inquiry cost in the later stage. Although China has initially established a personal credit rating system, there are still many loopholes, and in the specific implementation process, we can make up for the shortcomings of personal credit in the past by other ways, which leads to the virtual personal credit rating system. Therefore, our country should strive to do a good job in the cultivation of credit ethics, which not only requires the improvement of the system, but also requires strict supervision in the process of bank implementation, and more importantly, personal compliance with credit ethics.

4.2 Improving Customers’ Experience by Deepening Model Innovation of the Internet Financial

Internet financial universal, convenient and low-cost service mode challenges traditional banks. More and more customers are no longer satisfied with traditional services, but are pursuing high-quality personalized services, forcing traditional financial industry to integrate into the Internet spirit and business philosophy of “opening, equality, cooperation and sharing” and realize “production”. The product and benefit center should be transferred to the customer center. Internet technology should be intro-
duced. Customer experience should be highly valued. Innovations should be made to meet the rapidly changing needs of customers, so as to realize the transformation of customers from “arrival shop” to “window shopping”.

Firstly, we should build a business operation system under the Internet financial model, speed up the integrated transformation of online and offline business processes, and make the traditional offline business as online as possible, so as to improve the convenience of the original business and reduce costs and expenditures. Network is a display area, an experience store, a platform for information dissemination, and a resource. It is not necessary to regard the network as the object of profit assessment. When enterprises come to the network to finance, what they need to do is to help enterprises reduce their operating costs, whether online or offline, or through crowd-sourcing, O2O or PPP. If customers do not want to queue up, they need to cultivate their habits of using electronic channels, and optimize mobile banking, online banking, telephone banking and Wechat Bank. E-channel service functions such as bank, do a good job of platform-based products, enhance scenario services.

Secondly, with the help of the Internet, innovative financial products, cross-industry and cross-border, expand new profit space. By developing assets and liabilities on the Internet, expanding the proportion of retail banking business and intermediary business income in profits will help banks to transform into “light” banks and “middle-income” banks. At the same time, through financial business innovation, the development of new products such as asset securitization, financial deposit Internet and financial derivatives will help banks to enhance the benefits of serving the real economy, expand profit channels, avoid and guard against various risks and enhance the overall market competitiveness. In the future, the innovation of commercial banks’ financial business will mainly focus on syndicated loans, M&A loans, loan asset securitization, futures and options agency, off-balance-sheet business, etc. They will continue to expand their business scope and profit model to increase profit growth points.

Thirdly, using the Internet thinking mode to plan the way of development of e-bank and e-bank, the network platform not only provides a brand-new marketing channel for the original products and services of banks, but also is the main direction of bank product innovation. How to compete for virtual customers in the Internet market, how to provide financial services according to the characteristics of virtual customers, and how to obtain more effective data from customers are three issues that should be considered by electronic banks and network banks. On the one hand, various banks have upgraded their network banks, vigorously developed mobile banking business, and launched various public and personal financial services products based on electronic banking, bringing new experiences to customers. On the other hand, with the rapid increase of network merchants, banks actively rely on the network platform, with the help of network technology, vigorously develop the network financing business, to achieve the integration of industry and finance. For example, Industrial and Commercial Bank of China (ICBC) launches “Internet Credit Link” products on the basis of Internet banking platform for enterprises with high frequency of capital demand and short cycle; Bank of Communications develops an exclusive platform for small and micro enterprises and individuals. The system can customize the optimal loan scheme according to the relevant information of customers’ online applications, and conduct online pre-examination and credit granting. The process is realized through the network, which maximizes the convenience advantage of the network.

4.3 Improving Intensive of Bank Branch Operation and the Intelligent of Network Service with the Aid of Informatization

Intensification of network services includes not only the operation logic centralization of service delivery layer dealing with business activities, but also the construction of “cloud operation” of management platform. Service Delivery Layer’s operation logic centralization for business activities refers to the sharing of operational management platform, which can make operational resources of different regions and different levels of organizations support each other and improve the flexibility of resource scheduling even when the physical location of existing operators remains unchanged. Especially for the physical centralized operation activities which can not be realized due to the influence of site, talent supply and risk considerations, it can fully open up the whole operation resources, break through the restrictive factors of institutional attributes and physical location, and maximize the benefit of operation resources sharing. Large domestic banks have actively tried to establish an “integrated cloud production platform”. Under the condition of keeping some second-level branch operators “unmoved”, they have fully tapped the operational resources at the cross-regional and institutional levels to achieve a “logical” operation concentration.

Banking network operation and management platform has accumulated a wide range of channels, customers and operational data. Banking industry has entered the era of big data. How to effectively promote the pilot application of big data and form a data-driven business management
model in business innovation, internal audit, marketing, risk management and control has become a commercial bank. The main issues facing the bank. By upgrading the intelligence level of network information, reforming the network business process and risk prevention and control system, and introducing high-tech energy equipment into production links, the processing efficiency of various complex business will be effectively improved, the operational risk of business will be reduced, and the abundant product lines of commercial banks will be supplemented to enhance customer service. Level. VTM, Intelligent Robot Interactive Touch Screen, Point Mobile Terminal (PAD), Automatic Business Processing Equipment and Face Recognition Technology, Electronic Signature Technology, Electronic Printing Technology, Geographic Position Location Technology, Image Slicing Technology, Customer Behavior Analysis Platform, High Risk Business Real-time Early Warning Platform, Centralized Work Platform, Remote Shadow A series of information-based and intelligent financial technologies, such as authorization platform, anti-fraud platform, anti-money laundering platform, post-event business supervision platform and product data mining model, have been widely used in commercial banks. On this basis, traditional business processes have been transformed, taking account of customers’ financial needs and bank management requirements. We will expand the breadth and depth of online and offline linkages, build an operational service system of “business online access, seamless online and offline docking, strict risk control”, and strive to provide customers with high-quality financial services at any time, anywhere and at will. Intelligent construction includes seven aspects: building integrated operation mode online and offline; building integrated service mode online and offline; building intelligent and effective risk management mode; building intelligent business operation platform; improving offline business operation support system; building intensive and efficient backstage operation center system; and integrating. Establishment of Operational Logistics Management Center.

Intelligent network is not only the transformation of network layout and the use of intelligent machines, but also the innovation of network service process and the improvement of business philosophy. It is the centralized embodiment of “customer-centered” operation mode. Under this mode, the human resources are released from the simple and repetitive work, and the network staff no longer play the role of teller, but become the role of integrated services. The bank marketing service personnel have been effectively supplemented, and the way of communication with customers has become “side by side consultant”. Through the rapid introduction of innovative functions, services and experiences to get customers and live guests. Intelligent network makes a fundamental change in the way of banking services, customer experience and customer satisfaction significantly improved.

From the perspective of ICBC Hebei Branch, the bank’s smart network, which has been put into operation for more than 70 days in 2015, has achieved great results in terms of cabinet compression and staff transfer. Intelligent network outlets average cabinet release rate of 23%, cabinet release rate of 22%; Increase service marketing personnel to enrich the lobby guidance, on-site auditing, outreach marketing and other posts. The human resource structure of the network has been optimized, and the transformation of operation mode and service process to “customer-centered” has been preliminarily realized.

From ICBC’s Suzhou Branch, after the completion of the intelligent transformation of the network, the efficiency of customer service and customer satisfaction have been significantly improved. Taking debit card issuing and opening electronic bank as an example, the average processing time of the network points is reduced from 15 minutes before the intelligent commissioning to 3 - 5 minutes. In December 2015, the average number of four-star or more customers arriving at stores per day in the bank’s smart network increased significantly, and customer satisfaction reached 99.13%, which increased by 3.57 percentage points over the same period of last year.

In the future, on the basis of the comprehensive intellectualization of the main business, the network will be transformed to the following two directions: one is community, i.e. the network channels in a certain area cooperate with each other and form a network group with flexibility, complementarity of functions and interaction of experience, so as to maximize the resource utilization and efficiency output of the network. Transforming the competitive relationship between the Internet into the competitive relationship; the second is to make the network into a social platform and a link to link customers, so as to enhance the ability of the network to receive, gather and stick customers, and optimize the evaluation of the value of the platform network, break the restriction of the current assessment mechanism on such networks, and make the network point. Value creation ability has made a greater leap.

4.3.1 Providing Individualized, Characteristic and Differentiated Services for High-quality Customers of Banks and Enhancing Customer Value through Lightweight Network Outlets

The emergence of big data and mobile Internet impels
commercial banks to realize the transformation from “high capital consumption”, “heavy asset operation” to “light bank”. The so-called “light bank” means that commercial banks establish assets and business systems with less capital consumption, low risk weight and controllable risk. How to continue to promote the transformation strategy of “light bank”? Firstly, we should make assets “light”. We should actively adjust the credit structure, dramatically reduce risk assets in areas such as excess capacity withdrawal, and increase the investment of low-risk and high-quality retail assets. Corporate finance will shift the strategic focus to professional business areas such as trading banks and investment banks. Debt should be “light”. Deposit pricing and differential authorization mechanism should be optimized. Structural deposits with high cost should be greatly reduced. Cost should be “light”. Business and management modes should be improved to achieve more efficient development and more lucrative value returns. Accelerate business development and upgrading, improve service quality, build light assets, light capital, personalized, diversified and sustainable business development model, and realize transformation and leapfrog development.

First, customer positioning is lightweight. Reduce the focus of operation of large customers, and increase the development and operation of small and medium-sized enterprises and low-end retail customers. For small and medium-sized enterprises, banks have a strong bargaining power and can make a big interest margin. Developing and operating middle and low-end retail customers can improve the stability of savings, enlarge the savings scale and increase product sales.

Secondly, for specialized customers, layered value-added services should be established to reduce customer churn rate and improve customer asset concentration. The survey found that besides products, there are more customer experience needs that can really impress customers. Establishing a systematic value-added service system and improving customer’s consumption experience in an all-round way have a greater impact on customer loyalty. This value-added service system includes contact hall consumption experience, non-contact customer daily contact relationship maintenance, non-regular contact value-added rights and interests and value-added activities design.

Thirdly, strengthen the existing advantages and continuously expand customer resources. Firstly, we should strengthen the ability of nets to get customers. There are two kinds of work to be done in this respect: creating the marketing atmosphere of the outlet hall and developing the area. Second, revitalize the stock of customers. After careful analysis, the inventory of customers focus on three things: activation of low-end customers, promotion of middle-end customers and loss prevention of high-end customers; third, to improve the per capita value mining. Since there are fewer visitors, we need to improve the value of each customer mining. The survey found that if the cross-selling rate of customers can be raised to more than 2.8 through cross-marketing of products, the customer’s dependence on the bank will be significantly increased, and their disposable assets will naturally concentrate on the bank. By analyzing the data of more than 28 million customers in 2014, we found that if the insurance products were added to the middle and high-end customers, their savings would increase by about 160,000 a day in three months, the fund products would be added, and the savings would increase by about 140,000 yuan a day in three months. Customers transfer their bank deposits to our bank. Fourth, give full play to the advantages of customer resources accumulated over a long period of time, the advantages of network outlets, product diversification and specialization, and emphasize “one-stop” service to enhance customer stickiness. Fifth, highlight the advantages of risk management and control. Compared with Internet enterprises, traditional commercial banks have relatively perfect management framework in risk control, information security management and other aspects because of long-term external supervision. Continuing to enhance this ability and highlight this advantage will help to improve people’s trust in banks and enhance bank strength [3,7].

4.3.2 Adapting to the Development of New Entity Economy by Comprehensive Management, Optimizing the Operation Mode of Outlets, and Strengthening the Supply Side Reform of Commercial Banks Themselves

The new real economy is a new economic form which can effectively meet the real needs of customers, have high technology content, accommodate the employment of modern talents and sustain the sustainable development of ecological environment protection. The business model of “new real economy” is a new model that traditional industries have been transformed by new technologies such as Internet and artificial intelligence. It includes service links such as retail, wholesale, production, manufacturing, logistics, finance and so on, and finally forms a brand-new business form represented by new retail and new manufacturing.

In order to adapt to the development of the new real economy, the non-interest income-oriented comprehensive management strategy is the inevitable choice for commercial banks to adjust their business model under
the background of interest rate marketization. Integrated
operation is a cross-border business in the financial field,
that is, bank concurrently operates securities, trust, leasing,
investment banking, insurance and other businesses,
which is conducive to providing diversified financial ser-
vices for customers, meeting the increasingly diversified
financial needs of consumers, and realizing the economic
effects of commercial banks. Large banks will follow the
path of group development of integrated operation, while
small and medium-sized banks will pay more attention
to the road of characteristic operation, and single industry
financial institutions will emerge one after another.
For example, the recent acquisition of Shanghai Trust by
Pudong Development Bank has taken an important step
towards the goal of the financial holding group, which is a
trend of comprehensive and group development centered
on commercial banks. In the future, the transformation
of commercial banks should adhere to the essence of Fi-
nance and further focus on the functions of information
integration, resource allocation and risk management of
commercial banks. Give full play to the unique informa-
tion advantages of commercial banks, such as customers
and channels, and vigorously promote integrated manage-
ment. Comprehensive operation has become an important
trend of commercial banks, and also an important way for
commercial banks to expand and enhance their functions.

Firstly, commercial banks should take advantage of
the long-established advantages of reputation, channels,
customers, funds and information to provide more special-
ized and diversified financial services, especially to grasp
the direction of structural reform and development on the
supply side, establish a mechanism of group coordination
and sharing, and strengthen the management and overall
planning ability of integrated operation. Over-investment
and loan linkage, asset securitization and other financial
products innovate to link the credit market and capital
market, provide a comprehensive package of financial ser-
vices for customers, meet the diversified financing needs
of customers, and gradually realize the effective expan-
sion of market functions.

Secondly, we should increase the supply of diversified
financial products to meet the new needs of residents. In
recent years, with the continuous development of China’s
economy, China’s national income has increased signifi-
cantly, and residents’ investment needs have diversified
and high-end development. Therefore, in order to achieve
more stable development, commercial banks must change
the traditional demand-side-based operation mode, en-
hance the productivity of all elements of commercial
banks, increase the effective supply of financial capacity
through comprehensive innovation, improve the service
quality and efficiency of commercial banks, and optimize
the limited financial capital. The most effective allocation
of resources makes the supply structure of our commercial
banks more suitable to the demand structure of customers.
Innovation of financial derivatives should be the focus of
product innovation in our recent stage, while asset secu-
ritization and innovation of bank and securities guarantee
portfolio should be another focus of product innovation
after innovation of financial derivatives.

Thirdly, give full play to the function of risk manage-
ment to meet the growing wealth management needs of
customers and further improve the efficiency of resource
allocation. The marketization of interest rate makes the
main body of market transaction have the right of cap-
ital pricing and more choices. At the same time, it also
means that the risk of customer choice increases, and the
identification and dispersion of risk becomes particularly
important. We should give full play to the information and
specialization advantages of commercial banks, enhance
the ability of asset management through strong risk man-
agement functions, provide personalized financial service
programs for customers, and meet the growing needs of
all kinds of customers. The increasing demand for wealth
management promotes the efficiency of financial resource
allocation, so as to further enhance customer loyalty and
satisfaction.

Foundation Project

This paper was supported by (1) Construction of Excel-
 lent Teaching and Research Team of “Peer Mutual Assistance”, a major innovation team project in humanities and
social sciences of Department of Education of Guangdong Province.
(No. 2017GWCXTD002).

(2) “Peer Mutual Assistance” Excellent Teaching and
Research Innovation Team, Guangzhou Industrial and Ag-
ricultural Vocational and Technical College of Academic
Innovation Team Project were launched in September
2017.

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ARTICLE

Discussion on the Influence of Overseas Financial Institutions’ Participation in Shares on the Operation Efficiency of China’s Banking Industry

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ARTICLE INFO

Article history
Received: 6 August 2019
Accepted: 9 August 2019
Published Online: 20 September 2019

Keywords:
Overseas financial institutions
Participation in shares
Operating efficiency

ABSTRACT

With the implementation of China’s reform and opening up policy and China’s successful accession to the World Trade Organization, more and more overseas financial institutions are participating in various Chinese banks, and the amount of investment is also expanding. Therefore, it is particularly important to study the impact of overseas financial institutions participating in the Chinese Banks on the operating efficiency of the China’s banking industry. Therefore, based on the previous literature research, this paper constructs six models to explore whether foreign financial institutions participate in shares and the impact of shareholding ratio on the operating efficiency of China’s banking industry.

1. Introduction

With the implementation of China’s reform and opening up policy and China’s successful accession to the World Trade Organization in 2001, more and more overseas financial institutions have begun to participate in the development of China’s banking industry, the most important of which is to participate in major banks. Since the establishment of the representative office of the Japanese Export and Export Bank in Beijing in 1979, more and more overseas financial institutions have been approved to establish operating branches in China. The business branches of overseas financial institutions generally operate some liaison with other institutions, promote the products of financial institutions, conduct research on financial markets for strategic decision-making, and communicate technically with other institutions, which does not directly carry out business-related activities of overseas financial institutions. In addition to operating branches, many overseas financial institutions have established representative offices in China. The main task of the representative office is to make strategic decisions and other strategic related content for overseas financial institutions. Later, with the changes in China’s policies and changes in the international situation, the number of overseas financial institutions established in China has increased several years. The specific growth situation is shown in Figure 1.

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Figure 1. The number of overseas financial institutions
In this context, the business between overseas financial institutions and major Chinese banks is becoming more and more convenient and more frequent. At the end of 1996, China’s first example of overseas financial institutions participating in the Chinese Banks appeared. When China Everbright Bank was not listed, the Asian Development Bank exchanged 320 million yuan for 3.29% of China Everbright Bank. However, in the following four years, only the International Finance Corporation purchased 7% and 5% of the shares of Everbright Bank and Shanghai Bank respectively. In addition, there are no other foreign financial institutions involved in the purchase of shares in various Chinese banks. After China joined the World Trade Organization and China-related laws emerged, more overseas financial institutions participated in the purchase of shares in various Chinese banks. Some overseas financial institutions participated in the Chinese Banks as shown in Table 1:

Table 1. The situation of overseas financial institutions’ participation in shares

<table>
<thead>
<tr>
<th>Date</th>
<th>Overseas financial institutions</th>
<th>Participation objects</th>
<th>participation in shares %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>Asian Development Bank</td>
<td>Everbright Bank</td>
<td>3.00</td>
</tr>
<tr>
<td>1999.09</td>
<td>International Finance Corporation</td>
<td>Shanghai Bank</td>
<td>5.00</td>
</tr>
<tr>
<td>2001.11</td>
<td>International Finance Corporation</td>
<td>Nanjing Commercial Bank</td>
<td>5.00</td>
</tr>
<tr>
<td>2003.09</td>
<td>Citibank</td>
<td>Pufa and his party</td>
<td>5.00</td>
</tr>
<tr>
<td>2003.09</td>
<td>International Finance Corporation</td>
<td>Minsheng Bank</td>
<td>1.22</td>
</tr>
<tr>
<td>2004.03</td>
<td>Hang Seng Bank</td>
<td>Industrial Bank</td>
<td>18.98</td>
</tr>
<tr>
<td>2004.06</td>
<td>International Finance Corporation</td>
<td>Xi’an Commercial Bank</td>
<td>2.50</td>
</tr>
<tr>
<td>2004.08</td>
<td>HSBC</td>
<td>Bank of Communications</td>
<td>19.90</td>
</tr>
<tr>
<td>2004.09</td>
<td>American Newbridge Investment Group</td>
<td>Shenzhen Development Bank</td>
<td>19.89</td>
</tr>
<tr>
<td>2004.11</td>
<td>Commonwealth Bank of Australia</td>
<td>Jinan City Commercial Bank</td>
<td>11.00</td>
</tr>
<tr>
<td>2005.03</td>
<td>Dutch Bank Group</td>
<td>Bank of Beijing</td>
<td>19.90</td>
</tr>
<tr>
<td>2005.06</td>
<td>Bank of america</td>
<td>Construction Bank</td>
<td>9.00</td>
</tr>
<tr>
<td>2005.08</td>
<td>Royal Bank of Scotland</td>
<td>Bank of China</td>
<td>10.00</td>
</tr>
<tr>
<td>2005.10</td>
<td>Deutsche Bank</td>
<td>HSBC Bank</td>
<td>14.00</td>
</tr>
<tr>
<td>2006.05</td>
<td>OCBBC Bank</td>
<td>Bank of Ningbo</td>
<td>12.20</td>
</tr>
<tr>
<td>2006.11</td>
<td>BBBC</td>
<td>CITIC Bank</td>
<td>4.83</td>
</tr>
<tr>
<td>2006</td>
<td>Goldman Sachs Investment Group</td>
<td>ICBC</td>
<td>10.00</td>
</tr>
</tbody>
</table>

It can be seen from the table that after 2001, the number and amount of overseas financial institutions participating in the Chinese Banks have increased significantly, although the proportion of shares held by the Chinese Banks is not very high, however, it has a relatively strong and far-reaching impact on the development of the Chinese Banks. Therefore, it is very important to study the impact of overseas financial institutions on the participation of Chinese banks, especially the impact on the operating efficiency of China’s banking industry.

2. Four Investment Modes of Chinese-Funded Banks

Although many domestic banks in China are attracting foreign investment, different banks have different needs for the introduction of funds. Therefore, Chinese-funded banks have different modes for introducing funds, which are divided into the following four categories:

2.1 Stock Reorganization Mode

The implicit institutional demand for this type of investment mode requires China to require several large commercial banks that are consistent with world standards. China’s Construction Bank, Chinese Banks and Bank of Communications all adopt this mode of attracting investment. When different banks adopt this same mode of attracting investment, they have certain in common. When the funds of overseas financial institutions enter the Chinese Banks, they must be accompanied by certain institutional changes or changes in management strategies, therefore, this kind of investment method is accompanied by the system content.

2.2 Incremental Expansion Mode

The incremental expansion mode refers to the mode of introducing foreign capital when the stock is constant or the amount of change is relatively small. This kind of investment mode has three characteristics. First, in the two extreme areas of the China’s banking industry, it is more inclined to choose this kind of investment mode; second, the cooperation objects of this kind of investment mode generally have relatively high technicality. The areas of general cooperation are in the bank’s credit card-related business, bank retail business (insurance, etc.), bank risk management, financial control, training in banking practitioners, and other areas; third, the bank’s profitability using this mode is generally better, so they pay more attention to the long-term development of the bank.
2.3 Risk Resolution Mode

This kind of investment mode refers to the mode of introducing foreign capital to commercial banks that are in a liquidity predicament or facing other crises and seeking help from overseas financial institutions. This investment mode has three characteristics: first, Chinese banks that participate in this mode of attracting investment are generally small and medium-sized banks that are in financial difficulties; second, overseas financial institutions participating in this mode of attracting foreign investment generally have a relatively strong ability to resolve the crisis; third, the speculative nature of this mode of attracting investment is more prominent [3].

2.4 Investment Transfer Mode

This type of investment is not as specific as the former, but a relatively simple property transaction. The characteristics of this investment mode are: (1) Chinese banks involved in this mode of introduction require a certain amount of capital, and foreign financial institutions need to set up branches in China to test China’s financial market; (2) The main form of such investment mode is shareholder transactions; (3) Although foreign investors participate in Chinese banks, they are less involved in the operation and management of Chinese banks.

3. Ways in Which Overseas Financial Institutions Participate In Shares Affects the Efficiency of Bank Operations

This paper studies the impact of the participation of overseas financial institutions on the economic efficiency of China’s banking industry, rather than the impact of a specific case. Therefore, it lists the ways in which the above four methods of investment affect the efficiency of bank operations.

(1) The most direct and fastest impact of overseas financial institutions’ participation in the Chinese Banks is the capital of the Chinese Banks. Adequate capital can guarantee the expansion of the size of the Chinese Banks. Previous literature has proved that the expansion of the scale of banks can form economies of scale and scope, bringing operating efficiency to the bank.

(2) For some banks that adopt the first two types of investment models, in addition to the introduction of capital, the internal management methods, operation methods and management methods of the board of directors will change. With the help of overseas financial institutions, the Chinese banks adjusted their management methods and re-appointed members of the board of directors to fundamentally improve their management systems and improve the bank’s operating efficiency.

(3) The participation of overseas financial institutions can effectively implement a more comprehensive risk management system for Chinese banks, so that Chinese banks can establish a comprehensive and responsive risk management system and improve the ability of Chinese banks to cope with risks, thereby improving the operating efficiency of Chinese banks.

(4) The financial products of overseas financial institutions are relatively rich. Therefore, after the participation of overseas financial institutions, they can make positive revisions to various financial products of the Chinese Banks. After listening to the opinions, the Chinese Banks can appropriately modify its products and services to increase the competitiveness of its products, thereby improving the operating efficiency of Chinese banks [4].

(5) Change the sales method and operation mode of the Chinese bank and modify and improve its business process. Overseas financial institutions that can participate in various Chinese banks must have relatively complete and advanced management, sales and business models. After the shareholding, overseas financial institutions can share the more advanced model ideas with Chinese banks, making Chinese banks more competitive in China’s financial market.


The impact of the participation of overseas financial institutions on the operating efficiency of Chinese banks often needs to be observed for a period of time before they can be observed. And from Table 1, we can see that most of the overseas financial institutions’ shareholdings are concentrated after 2001, so this paper uses the data of some of the banks in the table for empirical analysis. The data used in this paper includes GDP growth rate, inflation rate, deposit and loan spreads, and so on. The data used in this paper mainly comes from the website of the Bureau of Statistics, the Bankscope database, the annual reports of various banks, and the China Finance Statistics Yearbook.

4.1 Variable Definitions

After the author’s research on relevant literature at home and abroad, the previous scholars used the measurement indicators of bank operation efficiency, namely the pre-tax asset profit rate, net interest margin and asset expense rate. In order to eliminate the influence of external factors on the bank’s operating efficiency, this paper also
selected two sets of control variables, the first group is GDP growth rate and inflation rate; The second group is the logarithm of the bank’s total assets (inasset), bank loan-to-deposit ratio (ldr), bank asset cost ratio (cost), and bank net interest margin (nim).

4.2 Building Models

Based on the above content and the analysis of relevant literature, this paper proposes the following six models to test the impact of overseas financial institutions’ shareholding on the operating efficiency of China’s banking industry. The model is divided into two categories. The first category is the impact of whether overseas financial institutions participate in the bank’s operating efficiency. The three models proposed in this paper are shown in Figure 2:

\begin{align*}
\text{profit}_{it} &= \beta_1 \text{fiscit} + \beta_2 \text{inasset}_{it} + \beta_3 \text{cost}_{it} + \beta_4 \text{nim}_{it} + \beta_5 \text{ldr}_{it} + \beta_6 \text{gdp}_{it} + \varepsilon_{it} \\
\text{cost}_{it} &= \beta_1 \text{fiscit} + \beta_2 \text{inasset}_{it} + \beta_3 \text{cost}_{it} + \beta_4 \text{nim}_{it} + \beta_5 \text{ldr}_{it} + \beta_6 \text{gdp}_{it} + \varepsilon_{it} \\
\text{nim}_{it} &= \beta_1 \text{fiscit} + \beta_2 \text{inasset}_{it} + \beta_3 \text{cost}_{it} + \beta_4 \text{nim}_{it} + \beta_5 \text{ldr}_{it} + \beta_6 \text{gdp}_{it} + \varepsilon_{it} \\
\end{align*}

Figure 2. Model 1-3

The second type of model is the impact of the proportion of foreign financial institutions participating in the bank’s operating efficiency. The three models proposed in this paper are shown in Figure 3:

\begin{align*}
\text{profit}_{it} &= \beta_1 \text{ratio}_{it} + \beta_2 \text{inasset}_{it} + \beta_3 \text{cost}_{it} + \beta_4 \text{nim}_{it} + \beta_5 \text{ldr}_{it} + \beta_6 \text{gdp}_{it} + \varepsilon_{it} \\
\text{cost}_{it} &= \beta_1 \text{ratio}_{it} + \beta_2 \text{inasset}_{it} + \beta_3 \text{cost}_{it} + \beta_4 \text{nim}_{it} + \beta_5 \text{ldr}_{it} + \beta_6 \text{gdp}_{it} + \varepsilon_{it} \\
\text{nim}_{it} &= \beta_1 \text{ratio}_{it} + \beta_2 \text{inasset}_{it} + \beta_3 \text{cost}_{it} + \beta_4 \text{nim}_{it} + \beta_5 \text{ldr}_{it} + \beta_6 \text{gdp}_{it} + \varepsilon_{it} \\
\end{align*}

Figure 3. Model 4-6

4.3 Data Result Analysis

The regression results are shown in Figure 4:

(1) The results of this data container are ideal, and the D.W. value is also ideal, indicating that the model made in this paper is highly convincing.

(2) The return results of the shareholding ratio of overseas financial institutions are more significant. Therefore, the participation rate of overseas financial institutions has a more significant impact on the operating efficiency of China’s banking industry.

(3) For the regression results of the two types of models, they are all significant at the 10% level, and the regression coefficient is positive. Therefore, the participation of overseas financial institutions has a positive impact on the operating efficiency of the China’s banking industry, that is, it increases the profitability of the China’s banking industry. However, the regression coefficient indicates that the positive effect of this shareholding method on the China’s banking industry is limited [5].

(4) The effect of net interest margin and deposit-loan spread on pre-tax profit is more significant, but the scale effect of Chinese-funded bank is not significant.

(5) Whether the overseas financial institutions’ shareholdings and shareholding ratios are more significant for the return of the asset expense ratio, but the direction of the regression coefficient is opposite. Therefore, when the Chinese-funded bank introduces the management mode, product type and other experience of overseas financial institutions, it will generate some conflicting ideas, which will cause the Chinese-funded bank to generate internal friction.

(6) Whether the factors of overseas financial institutions’ shareholdings have a significant impact on the bank’s net interest margin; the return coefficient of overseas financial institutions’ shareholding ratio for net interest margin is significant, but its impact on net interest margin is not significant.

5. Summary and Recommendations

5.1 Summary

Based on the results of the regression analysis in this paper, we can draw the following conclusions: the participation of overseas financial institutions has a positive impact on the profitability of China’s banking industry. That is, the participation of overseas financial institutions can improve the profitability of the China’s banking industry. However, due to some other factors, such as cognitive differences in management and constraints of relevant systems, the participation of overseas financial institutions has certain restrictions on the improvement of the profitability of China’s banking industry. The positive impact of the introduction of foreign capital has certain limitations [6].
5.2 Recommendations

Chinese-funded banks have not had a definitive answer as to whether overseas financial institutions have a shareholding or a shareholding. Different people have different ideas, and some people think that they should vigorously introduce foreign capital, so that the China’s banking industry can develop more vigorously, while some people think that the strong introduction of foreign capital may cause banks to be too affected by foreign capital, which will have a negative impact on the country’s economy and sustainable development.

Regardless of the point of view, we all need some advice from Chinese banks:

1. Improve the internal structure of Chinese-funded banks

   From the regression analysis results in the previous chapter, the participation of overseas financial institutions has a negative impact on the bank’s expense ratio, that is, the increase in the proportion of foreign financial institutions’ shareholdings will cause the cost rate to drop. Among them, the most declining is the administrative costs of administrative enterprises. Due to the lack of domestic banking management experience, many banks are also hoping to introduce more advanced management experience and management models while attracting foreign investment. Learn from the excellent management methods of overseas financial institutions to improve the internal structure of the bank. Therefore, domestic banks should continue to strengthen cooperation with all aspects of overseas financial institutions while attracting foreign investment. Learn from the national conditions, improve their internal structure, and enhance their competitiveness in the financial market.

2. Deepen interest rate marketization

   From the results of regression analysis, the impact of overseas financial institutions on net interest spreads is not very significant. This is quite different from the results of foreign research on the same factors. The reason may be insufficient marketization of interest rates. China’s interest rate marketization is still in its infancy. We should learn from the lessons of other countries at this stage and learn from the successful experiences of other countries at this stage to pave the way for China’s development.

3. Strengthen customer relationship management

   From the comparison of different banks, the types of banks in China, no matter what type, the products in the banks are similar, there is no obvious feature. For the same bank, the bank offers similar products for different types of customers. Therefore, it is difficult for each bank to form its own distinctive products, and each product cannot form an obvious target customer group, which has led each bank not forming its own core competitiveness. Only when the target customers are identified, can the banks design their own products in a targeted manner and stand out when competing with other banks’ products.

   After the end of the product design process, the target customer will also be maintained. Let customers know more about their products, trust the bank brand, and build a stronger customer relationship. This kind of solid customer relationship can’t be achieved only by the way that the bank now uses the customer’s rebate.

   According to the “28 Law”, 80% of the profits come from 20% of the customers. The bank should pay attention to the research and communication of high-quality customers, and provide more personalized services for these high-quality customers, so as to improve the loyalty of quality customers.

4. Achieve product diversification

   Although the profit growth rate of China’s banking industry has been relatively high in recent years, its growth mainly comes from the higher credit gap and the expansion of credit assets. In addition, the non-interest income rate of the China’s banking industry is less than 18%, and the same foreign indicator is twice that of the domestic market. The main source of profit for Western commercial banks is the intermediary business income.

   As of 2004, overseas financial institutions have successfully implemented more than 100 kinds of wealth management products and services to China. The wealth management products and services launched by Chinese Banks are not even one-third.

   The difference in the way banks operate at home and abroad also allows more customers to choose offshore financial institutions because they offer a wider range of services and a wider range of services.

   Therefore, while accepting the participation of overseas financial institutions, Chinese banks can absorb the excellent experience of overseas financial institutions in the development of intermediary business, focus on the development and promotion of international settlement, personal wealth management and other services to achieve product diversification.

6. Conclusion

   In general, the participation of overseas financial institutions will have a positive impact on the operating efficiency of the China’s banking industry. Chinese Banks should strive to seize this opportunity. While introducing foreign capital, it must also introduce advanced foreign management concepts and management systems, adjust the internal structure of enterprises, and adjust the way...
customer relationships are maintained, and design more abundant, comprehensive and personalized products and services, enhance their competitiveness, and strive to achieve a more important position in the international market.

References


DOI: https://doi.org/10.30564/jesr.v2i4.1120
ARTICLE

The Research on Shadow Banking System in China

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ARTICLE INFO

Article history
Received: 26 August 2019
Accepted: 30 August 2019
Published Online: 20 September 2019

Keywords:
Shadow bank system
Financial stability
Capital supply side.

ABSTRACT

The shadow banking system has grown stronger in the process of evading supervision. Together with traditional commercial banks, it has become an important participant in the financial system, which has caused a fundamental change in the structure of the global financial system. As an exogenous reform force in China’s special period, Shadow Bank has become an important channel for financial resources to “disconnect from reality”. Despite the lack of substantial securitization, China’s shadow banking system has developed rapidly. This paper analyzes the development motivation. This paper believes that the scope of China’s shadow banking system can be defined according to the nature of the fund supply side.

1. Introduction

At present, the global economic recovery is slow while Sino-US economic and trade frictions are constantly escalating, and the domestic and international situation is undergoing profound and complex changes. The Chinese economic slowdown has become the new normal. China’s dependence on export-driven growth model is unsustainable. It is in the critical period of economic transformation while the overall face of the economic cycle downside risks. China’s financial industry has also undergone tremendous changes. The banking industry has encountered a series of challenges such as financial disintermediation, interest rate marketization and the rise of internet finance. The credit supply of the traditional commercial banking system has been tightened year by year, and the off-balance sheet business (especially wealth management products) has been fast.

In the environment of increasing financial innovation and competition, shadow banking system has become an important part of China’s financial system. Compared with enterprises or individuals through traditional commercial bank financing, shadow banking financing has become a more valuable alternative choice. Shadow bank provides financing channels to help support real economic activities and compete effectively with traditional commercial banks.

However, shadow banking financing involves traditional commercial banking activities and is closely interlinked with traditional commercial banks. Moreover, shadow banking, like traditional commercial banks, can also be used for term conversion, liquidity conversion, and leverage operations, which have become direct or indirect sources of systemic risk. Although there is a big difference between China’s shadow banking system and the shadow bank system of Western countries, it also accumulates huge risks while developing rapidly. Since 2012, the scale of financing through shadow banking system has accounted for nearly 40% of the total social

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financing scale in the same period. Since 2014, the central government has strengthened supervision on shadow banking system and the scale of shadow banking has declined. However, since 2017, the proportion of financing from shadow banking has once again jumped, and there is a resurgence. From the statement in the relevant documents issued by the central government, shadow banking has become one of the “grey rhinoceros” of the current financial system in China. From the money shortage in 2013, to the stock market disaster in 2015 and E-rental case in 2016, the source of traceability is closely related to shadow banking system. The Chinese-style shadow banking system covers a wide range of areas, including credit, guarantees, small companies, pawn shops, underground money houses, and so on. Since the outbreak of the Wenzhou private lending crisis, the risks of private finance in various places have begun to surface and have implicated the local banking system. As we all know, the problems of the financial industry have always been the most important and most troublesome issue for any country’s economy. Some experts even pointed out that China’s “Lehman moment” is coming soon. Its shadow banking system is the largest time bomb in China’s current financial system. It may trigger financial crises in the financial system and may become the source of the next financial crisis in the country’s economy. Some experts even pointed out that China’s “Lehman moment” is coming soon. Its shadow banking system is the largest time bomb in China’s current financial system and may become the source of the next round of systematic global financial crisis.

2. The Development Motivation of Shadow Banking System in China

Compared with western developed countries, China’s shadow banking system has developed rapidly although its complexity is relatively low. Due to the lack of substantial securitization process, the development of shadow banking system is still at a relatively early stage. However, with the continuous development of financial markets, shadow banking system which is generated by traditional commercial banks to avoid credit supervision system has deserved high attention. Most of shadow banking funds come from traditional commercial banks and are inextricably linked with real estate, local financing platforms, and the stock market. Once the shadow banking funds which are mainly invested in the real estate market, local debt and stock market is in danger, it will likely result in systemic risk in the financial system. It may trigger financial crises and even economic crises through the money market and the credit market, and ultimately jeopardize the real economy and social stability.

The main reasons for the rise and rapid growth of China’s shadow banking system can be attributed to the following four aspects:

2.1 Active Participation of Traditional Commercial Banks

An important feature of China’s shadow banking: it is closely related to the formal traditional commercial banking system. In fact, without the active participation of traditional commercial banks, China’s shadow banking cannot experience such rapid growth and reach today’s scale and significance. In China, despite the substantial progress in financial liberalization, the traditional commercial banking system is still subject to a strict regulatory system. Due to the upper limit of the deposit interest rate, especially the decline in economic interest rates, financial restraint has been caused. In order to maintain their own profit growth, traditional commercial banks often have strong incentives to increase the size of loans which means that traditional commercial banks need to break through the existing loan-to-deposit ratio, capital adequacy ratio and loan quota. After experiencing a surge in loans in 2009, traditional commercial banks are increasingly facing a 75% loan-to-deposit ratio. In order to continue to expand the scale of loans, traditional commercial banks need to absorb deposits and transfer deposits by issuing higher-yield wealth management products which is alleviating the liquidity constraints caused by the loan-to-deposit ratio and enhancing their ability to continue to issue loans. Through the issuance of non-principal-guaranteed wealth management products, loans are provided to the external pool of wealth management products. The yields of these products are allowed to be consistent with market interest rates. Traditional commercial banks have actually completed the transformation of some loans from the balance sheet to the off-balance sheet, which is breaking through the restrictions imposed by the deposit ceiling.

Moreover, traditional commercial banks also provide clear credit guarantees for some wealth management products. Most of these wealth management products are short-term investments. In fact, they are almost a substitute for deposits in terms of credit risk and liquidity risk. For example, through the cooperation between commercial banks and trust companies, traditional commercial banks have actually completed the transformation of some loans from their balance sheets to the balance sheets of trust companies. The process of “out of the loan” can significantly increase the capital adequacy ratio of traditional commercial banks. Compared with traditional commercial banks, shadow banks are exempt from many credit and macro-prudential requirements, and loans are subject to less official intervention. The cooperation between shadow banking and traditional commercial banks is very
meaningful because they can achieve complementary competitive advantages \[2\].

2.2 Strong Investment Demand of Chinese Resident Sector for Shadow Banking Products

Investors’ desire for alternative investments has also created demand for shadow banking products. China is one of the countries with the highest savings rate in the world. However, due to the underdeveloped capital market and the not open capital account, investment channels are few. It relies mainly on traditional commercial bank deposits to obtain meager returns. The upward rigidity of the nominal deposit interest rate causes the real interest rate to be negative or close to zero. Many savers have begun to transfer deposits from traditional commercial banks to higher-yielding investments to maintain the purchasing power. In order to limit the outflow of deposits, traditional commercial banks need a tool that can provide higher interest rates to maintain their capital base. The desire for alternative investment provides a fertile ground for the rise of bank wealth management products and other shadow banking products \[3\].

From the perspective of investors (mainly Chinese residents, including enterprises and financial institutions, etc.), the emergence and development of the shadow banking system provides new investment tools in addition to bank deposits, stocks, real estate, and foreign exchange. The yield of shadow banking products is significantly higher than that of traditional commercial banks. This is actually a kind of market-based interest rate marketization behavior, which breaks through the financial restraint against the traditional commercial bank benchmark deposit interest rate cap. This will help Chinese residents to further diversify their assets with strong investment demand for bank wealth management products and other shadow banking products. Since 2009, the monthly circulation of wealth management products initiated by traditional commercial banks has increased significantly, reaching nearly 4,000 times per month in 2013.

2.3 Regulatory Endorsement for Shadow Banking Products

The above two types of development motivations indicate that there are structural supply and demand reasons for the rise of the shadow banking industry. However, the circumvention of regulation does not fully explain why shadow banking has developed rapidly in recent years, as regulations have existed for decades.

This paper believes that there must be some cyclical impulses behind the surge in the shadow banking industry. First of all, the rapid growth of shadow banking is inseparable from the clear recognition and endorsement of the regulatory authorities. The rise of shadow banking has been seen as a clear and positive financial innovation that expands the diversity of China’s financial system and accelerates interest rate liberalization. On the one hand, shadow bank system provides services to borrowers who cannot finance traditional commercial banks and capital markets. On the other hand, shadow banking system provides a testing ground for interest rate liberalization. Deregulation that allows for more diversified traditional commercial banking operations can also help increase shadow banking. China needs to further enhance the competitiveness of traditional commercial banks’ integrated operations in the context of financial and economic globalization. At present, most traditional commercial banks in China have departments engaged in shadow banking (such as trusts and mutual funds), which help to directly fund the real economy and bypass banking supervision \[4,5\].

2.4 Stimulating Changes in Policy

Another driver of the surge in shadow banking comes from the dramatic changes in China’s policies after the global financial crisis. As we all know, China has emerged from the crisis and has a lot to do with the substantial policy stimulus of the People’s Bank of China and the massive liquidity injection.

After the US subprime mortgage crisis broke out in September 2008, the global financial tsunami triggered and the overall world economy was in a downturn. China’s exports experienced negative growth and the economy faced a risk of a hard landing. In order to boost the Chinese economy, the Chinese government launched 10 measures to further expand domestic demand and promote stable and rapid economic growth in November 2008. With the introduction of the four trillion yuan plan, a large amount of cheap credit has flooded into the market, which significantly stimulated investment demand. Credit easing led to real estate price bubbles and local debt expansion. A large amount of loans were loaned to large credit-intensive infrastructure projects. These projects usually take several years to complete and require ongoing credit input, which could lead to a wide range of project failures and a significant increase in bank non-performing loans. In order to protect the balance sheet, traditional commercial banks have further expanded their off-balance sheet business and are increasingly relied on shadow banking as an intermediary for substantial loans. As a result, China’s shadow banking has experienced explosive growth \[6\].
3. The System of Shadow Banking in China

3.1 The Research Foundation

The shadow banking system can be broadly described as an economic entity and business activity that assumes the function of credit intermediation outside the traditional commercial banking system. Although this kind of non-traditional commercial bank credit has an important contribution to the financing of the real economy and has a comparative advantage, it can easily lead to systemic risks, especially when engaging in banking (for example, term conversion, liquidity conversion, high leverage Operation) as the correlation with traditional commercial banks is significantly enhanced. From the perspective of the development of the shadow banking system in the world, it has developed inflated since the 21st century, and has been growing steadily in the process of evading supervision and obtaining regulatory arbitrage.

Schwarzc (2012) believes that the relaxed regulatory policy environment and the regulatory arbitrage of traditional commercial banking are important reasons for the rise of shadow banking. By shifting credit assets from the table to avoid capital regulatory restrictions, the shareholder return rate is improved [7] Calmes & Theoret (2011) pointed out that traditional commercial banks use off-balance-sheet activities to build a shadow banking system, which is a profit model for obtaining non-interest income, a natural product and an inevitable result of dealing with competition and chasing profits [8].

The Financial Stability Board (2011) pointed out that the existence of the shadow banking system is closely related to changes in financial innovation and regulatory systems while is closely linked to the national economic and financial conditions of each country and changes dynamically over time[9]. In the United States, for example, the main components of the shadow banking system include five categories. The first category is securitization arrangements involving multiple financial institutions and most of them are investment banks. The second category is such as money market mutual funds, private equity funds, hedge funds, independent financial companies, various types of private credit lending institutions and other market-based financial companies. The third category is structured investment entities, real estate investment trusts, asset-backed commercial paper pipelines which are mostly initiated by traditional commercial banks or financial holding companies and constitute an indispensable part. In the fourth category, brokers and market makers engaged in financing, securities lending activities, and overnight payments of third-party payments. Purchase, etc. The fifth category includes all kinds of payment, settlement and clearing facilities outside the bank.

In Europe and the United States, the distinction between shadow banking and traditional commercial banks is mainly based on whether or not they are included in the regulatory system. In contrast, China’s shadow banking mainly relies on traditional commercial banks to perform many of the basic functions of credit intermediaries. This makes it often “centered on traditional commercial banks” and is the true “shadow” of the traditional commercial banking system.

In 2014, the “Notice on Strengthening the Supervision of Shadow Bank Supervision by the General Office of the State Council” (No. 107) made a relatively comprehensive and clear official definition of shadow banking for the first time. The notice clarified that shadow banking generally includes three categories. The first category is credit intermediaries that do not hold financial licenses and are completely unregulated, including new Internet finance companies, third-party financial institutions, etc. The second category is credit intermediaries that do not hold financial licenses and have insufficient supervision, such as financing guarantees and microfinance companies. The third category is that the relevant institutions which hold financial licenses, but there are financial services that are under-regulated or evaded, mainly including money market funds, asset securitization, and some wealth management businesses.

Based on the above notice, China’s shadow banking can only cover the first type of credit intermediaries if shadow banking is defined only by whether or not it is regulated. It is obviously not in line with the actual situation which will lead to the inability of many existing financial products in China to be included in the statistics and cannot fully reflect the structural changes and risk distribution of the Chinese financial system.

3.2 Accounting Interpretation of Shadow Banking System

This paper argues that it is not appropriate to distinguish traditional commercial banks from shadow banks in China only by internationally accepted supervision standards. In fact, wealth management products that rely on the traditional commercial banking system are typical shadow banks although regulators have issued a number of regulatory documents for wealth management products. Excluding wealth management products from the shadow bank is problematic if it is only from a regulatory perspective and ignores its essential attributes. Different from whether to accept supervision as the main basis for distinguishing between shadow banking and traditional commercial banks, this paper attempts to explore the essence of shadow banking...
banking by using the basic principles of accounting. This paper argues that the difference between shadow banking and traditional commercial banks is that the supply properties of the two funds are different. The supply of funds of traditional commercial banks has savings attributes while the supply of funds of shadow banks has investment attributes.

We know that whether it is a traditional commercial bank or a shadow bank, the most important function is to achieve the financing of funds and to promote the effective supply of funds to meet the financing needs of enterprises or individuals. Look at the shadow bank’s balance sheet. Regardless of the financial institution’s specific form of financial institutions, its balance sheet should still meet the accounting identity: assets = liabilities + owner’s equity. Different from traditional commercial banks, their liabilities are not public deposits, but investment funds with investment nature. The scope of China’s shadow banking is very wide including bank wealth management, trust loans, entrusted loans, undiscounted bank acceptance bills, securities companies and fund companies, credit financing companies, off-balance sheet business, private lending, internet finance, etc.

This paper believes that the debt based on shadow banking is not from public deposits and has investment attributes. Compared with traditional commercial banks, the money providers of shadow banks pursue high risks and high returns. Therefore, the general regulatory tone of shadow banking in different countries is often different from the prudent supervision of traditional commercial banks.

4. Conclusion

In the financial system, financing is basically achieved in two ways. First, it relies on the direct financial method of equity financing through the stock market. The indirect financial method is the other one which mainly relies on financial intermediaries. Furthermore, the indirect financial approach through debt financing can be furtherly subdivided into two channels. One is to achieve the financing through the traditional commercial banking system. In this channel, the funds are of a savings nature because the fund providers’ goal is the pursuit of security. To this end, governments generally implement prudent and strict financial regulatory policies. The other channel is through the shadow banking system to achieve financial integration. Based on the above considerations, this article thinks that the traditional commercial bank’s wealth management products should be classified into the shadow banking category. The model of financing through shadow banking is very different from traditional commercial bank financing. Because the funds from shadow banking are not of a saving nature, but an investment nature.

Therefore, it is not the only way to distinguish between traditional commercial banks and shadow banks by strict supervision. This article believes that it should be based on the nature of the supply of funds. Whether the nature of savings is of investment, it is an important criterion for distinguishing between shadow banking and traditional commercial banks.

References

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