Pragmatic and Innovative Practice under the Guidance of Scientific Outlook on Development to Promote the Economic and Financial Development in Tianjin Binhai New Area

Yazi Liu¹, Beibei Zhang² and Lili Ma³

Abstract. This essay focuses on the issue of financial innovation in BNA of Tianjin China under the guidance of Scientific outlook on Development with six practical solutions, which are the setting up of a real estate financial base, investment and finance service for infrastructure and industrial upgrade in local area, better financial service system for SMEs, the setting up of a bank group and a pilot project for financial mix-operation, the expansion of business lines of OTC market, banks’ involvement in the bond market, a pilot project of Interest Rate Liberalization and the setting up of offshore banks. The essay also clears roles of government, supervision and business organizations in financial innovation.

Keywords: Innovative Solutions, Re Recognition, Financial Innovation, Scientific Outlook on Development

1. Introduction

Financial innovation’s primary mission is to promote the financial and economic development with the core of it should be people oriented to benefit the general public. Financial institutions should form full scenarios, and focus on not only the sustainability of the innovation, but also the internal and external environment and the real value of innovation.

Tianjin has made remarkable achievements in Chinese economic development recent years. The open and development of Binhai New Area (BNA) had been involved in the national overall development strategy which has grown to be the engine of the “third growth pole” of China economy. BNA faces opportunities and challenges. It remains a necessity for the researchers to investigate how to help the Tianjin BNA to prioritize the development of economic and finance by implement the guidance of Scientific outlook on Development.

2. Re-Recognition of Financial Innovation by Practicing the Scientific Outlook on Development in Binhai New Area

Financial innovation can enlarge the scope of financial service, meet the needs from people, and support the economic development.[1] International experience shows that by adding utility to financial service and product, improving feedback efficiency and payment/settlement ability, adding asset and profit of financial institutions. Meanwhile financial innovation can also reduce transaction cost, enhance the capability to prevent risk, and improve the efficiency of both financial institution and financial market. All these verified Hanna and McDowell’s theory that the born of the new technology and the implementation of it in finance are the main factor of financial innovation, and the use of computer and information technology is the most important factor. [2]

Financial innovation is a must for reform and innovation, and also a risk factor and may cause lagging benefit. [3] In late 1980s’ A.Saundrs pointed out that financial innovation cannot eliminate risk, but only transfer it, which may cause financial crisis in the future. [4] Despite this, financial institutions should consider the relationship among financial innovation, related risk, and benefit as a whole.

¹ Tel.: +001(415)7996218; E-mail address: yaziliu@yahoo.cn. Student of University of San Francisco
² Corresponding author. Tel.: +8613802293389; E-mail address:13802293389@139.com. post doctor research fellow, Shenzhen eastern huarui Technology pty Ltd., Shenzhen yunde consulting pty Ltd.
³ Tel.: +8613509186344; E-mail address: nihaolili@sina.com. associate professor. North West University (PRC)
Banking industry is the crucial part of the financial system. Seeking development in innovation is the way which the banking industry cannot bypass. The local government and regulatory authorities should guide and standardize the financial innovations. Their main task is to create a conducive regulatory environment for financial innovations, to initiate and encourage banking institutions to strengthen the long term mechanism for financial innovation development. The economic development in China requires the financial system should not be the restriction. In BNA, we can explore a new way of financial system by using derivatives and controlling risks.

3. Specific Considerations on Pilot Financing in BNA

Although there are many kinds of financial institutions in Tianjin and BNA, most of them are just branches. BNA needs to speed up the development on headquarters of financial institutions. Government should make further studies and place more supports for these developing financial institutions. BNA should take the advantage of the opportunity of the first OTC market to accelerate the establishment and operation of the OTC market to bring more corporates’ property and equity transactions than ordinary trading venues. Meanwhile, BNA needs to expand the business scope of the OTC market and bring in inter-bank debt market into this system. These new business expansions are the best way to collect funds and build the centre of venture capital and equity investment. These financial developments are good for the development of the tertiary industry. More thoughts were as follow:

1.1. Idea 1: Setting up Real Estate Financial Innovation Base

Although Chinese real estate market growth very quick, this industry lacks of capital funds. Interest thing is Chinese commercial banks face excess liquidity problem, which shows series of problems of structural contradiction in the financial system, absence of efficiency financial system. In a mature financial system, financial products like REITs (Real Estate Investment Trust) and reverse mortgage are the main methods to collect money instead of banking loan. It also help to promote some mainstream real estate financing products, to accelerate the development and improvement of real estate financial system, and to achieve the goal of building up a real estate financing and regulatory system featured with controllable risk and diversify in stockholder structure, financing methods, and finance market.

Firstly, give allowance to institutions and individuals to design and plan the real estate financial product in this financial innovation base and entitled with subsidy policy. Secondly, place more policy supports to some of the new products which come from the base. For example, some privilege in tax can be applied to REITS due to the related concerns. Thirdly, support the development of real estate industry fund which is highly respected in current market. Due to less experience and regulation in this field, and the transfer of real estate usually involves a lot of turnover tax and income tax, plus the PE is hardly regulated, with these factors, the real estate industry fund did not develop well in China. We should encourage the real estate financial innovations and trial in some area to find a way of reducing the economic risk by reducing the fluctuation of the real estate industry. This is also another way to prevent real estate speculation.

1.2. Idea 2: Service of Financing and Investment for Infrastructure and Industry Upgrading.

As the engine of the third growth pole of Chinese economy, BNA should build a modern industrial structure which is mainly formed by High-tech and service industry. Infrastructure construction and industrial structure upgrading all require significant financial support. Cash flow is one of the iron principles that affect the development of BNA. Following methods can raise and manage the funds upon regional construction and industry upgrades. First, some constructions of public utility and infrastructure can be loaned with low interest through bidding. The interests on loans won’t be restricted by national minimum interest. Second, Allow some financial institution including commercial banks involve in some special projects. Use equity investment to settle the financing problems as investment difficulties and/or high risks, and diversified financing for special projects. The third, Organize commercial banks to issue bonds that relate to Tianjin infrastructure and industrial upgrading. For example the bonds about the land auction revenues and fiscal income of BNA. The banks can either be the issuer or broker to secure this fund. Moreover, some derivatives can be designed for the first and second cases, such as the securitization of package loans.
1.3. Idea3: Improve Financial Service for SMEs

More than 70% of China mainland (especially coastal cities) GDP comes from SMEs, which have developed as a very important component in Chinese economic. However, due to the immature of financial market and limit of the market, SMEs don’t have smooth financing channels. This situation is caused by some factors. First, SMEs lack assets that can be mortgaged, and banks are difficult to measure its credit due to non-standard and non-transparent financial accounting. Thus, commercial banks face higher risks. Second, SMEs have unitary financing channel and this channel is not smooth. Third, SMEs, especially family workshops firms, lack the experience and ability of capital operation which restrict their access to financing to expand their business.

To solve the financing problem of SMEs is the core issue of the financial reform. It could start from three aspects. The first one is diversified loans. At present, most of the bank loans are mortgage loans which are considered as relatively safe by the general consensus. However, with limited mortgage asset and asset price shrinkage during the financial crisis, it is more and more difficult for SMEs to finance through bank loans.

Thus, changes can start from mortgage loans to equity pledge loan, credit loan and supply chain loan. Although some SMEs has limited asset, they have a strong profitability and growth potential. Equity pledge loan could be released based on P/E ratio to value these companies. For SMEs which have sound credit and regular business with banks, credit loan can be offered to them. For SMEs which have qualified clients such as the suppliers of Walmart and IBM, we can assess its position in the complete supply chain and offer them loans according to the order situation. Some other financing methods other than bank loans could offer to SMEs, such as corporate bonds, convertible bonds, investment funds, PE, VC etc. Use the combination of equity financing and debt financing to diversified financing methods for SMEs. More over banks can make themselves as a media to build a financial service platform in professional investment and financing, fund, financial service, tax and advisory. This will gradually increase banks’ intermediary services income and change the structural relationship between SMEs and commercial banks to build a win-win relationship.

1.4. Idea4: Broaden the Business Lines of OTC, Bring in Bank Debt Transaction

BNA has the nation’s first OTC market. Investors can invest in non-listed companies through this market. OTC market has more corporate properties and equity transactions than the regular market place. By deepen cooperation with banks, Tianjin OTC market can innovatively bring in bank debt transaction into secondary market to create a new product. The trade volume of national bank debt is over 1000 billion, but most of them are from off-trading because there is no formal market for these transactions. Tianjin BNA should take this chance with the support of reform policy to gain more supports policy and tax from Tianjin government. Absorbing more financial institutions to take part in the transaction in Tianjin OTC market of bank debt transaction to bring up a new function of Tianjin OTC as the public platform of debt market for national banks and non-banking institutions.

The establishment and operation of Tianjin OTC market not only increase fiscal and tax income of local government, but also absorb funds, PE to gather in Tianjin in order to raise the level of Tianjin's tertiary industry development. It also create environment for increasing Intermediary business revenue, designing financial products, adjusting the assets structure and managing the assets. All in all, Tianjin should make this advantage to develop the financial market to catch up the market size of Shanghai and Shenzhen to promote the booming financial industry in Tianjin.

1.5. Idea5: Trial on Interest Rate Commercialization

Interest rate commercialization includes interest rate option, interest rate transmission, interest rate structure and interest rate management. It is the inevitable result of the financial reform which means the interest rate of financing work making is determined by supply and demand of market not only the central bank. Interest rate commercialization is the core object of financial reform and one of fundamental symbols of national economic operation system transformed to market economy. To participate into the globalization of the economy and finance, China should take comprehensive consideration on combined topics of RMB interest rate, the Yuan freely convertible exchange rate, exchange rate issue and the opening of the capital issues. If international capital is fully opened, the exchange rate should be liberalized, in this case, it’s
necessary to commercialize the interest rate of CNY to adjust the exchange rate. Interest rate is the core element of the financial market to adapt to open the market.

BNA should make full use of the advantage of pilot interest rate commercialization. General speaking, interest rate commercialization is required by the establishment of socialist market economic system, by the macro-control on the national economy, by the financial reform. It has positive effect on China economic development. In detail speaking, interest rate commercialization has several benefits. 1. helpful to improve the efficiency of resource allocation and promote the economic development in local area. The reform on interest rate commercialization aims at improving the efficiency of resource allocation and promote the development. 2. Improve the quality and efficiency of investment and financing. The commercialized interest rate depends entirely on the market and can quickly transfer the information to the investors. The interest rate will go lower compare with present one. 3. Change the management structure of financial institutions and improve the performance standard. It is useful for financial institutions increasing their risk control ability. Banks must control their risk when take part in quota system of interest rate. This can increase their risk control ability. 4. helpful for better research on macro-control of currency policy. In specific, financial institutions and commercial banks price the financial products and set the deposit and lending rates. The central bank regulates money market interest rates to make indirect effect on the interest rates of commercial banks and financial institutions.

1.6. **Idea6: Establishment of Offshore Banking Institutions.**

Headquarter offshore banking institutions can be set up in BNA and provide offshore banking services. Offshore banking service can meet needs from varies kinds of companies such as the overseas branch of MNC, overseas SMEs who focus on China mainland business, foreign shareholders of foreign invested China company, overseas branch of China private enterprises, and red-chip companies who listed in overseas exchange market. The provided offshore banking services include: Domestic CNY credit business under the guarantee of offshore standby letter of credit; Off/onshore back to back letter of credit ;Off/onshore linkage financing service under international factoring business; Global unified credit.

The offshore banking service should serve the MNCs and China large enterprises to meet their actual needs of: 1.solve the problem of the great account receivable by using the offshore factoring business. 2. Avoid anti-dumping with offshore financial business. 3. Solve the fund shortage problem with offshore funds. 4. Solve the information flow problem of the enterprise and promote its integration development.

4. **Summary**

There are three stages of making financial innovation strategy. First one aims on the contemporary situation. Second one focuses on future key point and trends. This article covers six future trends of financial innovation in Tianjin Binhai New Area. In fact, the third innovation strategy focuses on financial environment and its sustainable development, which more depends on the systems and information technology nowadays. Market should transfer the concept from financial innovation to sustainable development of finance system. Business integration by set up bank groups, pilot on mixed operation through information technology plateform is an inevitable stage in banks’ development. Under the guidance of Scientific Outlook on Development, financial institutions in BNA should involve themselves in financial innovation to offer a more modern financial system and service for the development of regional economy upon the specific considerations mentioned above.

5. **Reference**

[3] Xiucheng Zhang, Financial innovation is a double-edged sword[J]. Agriculture and finance,2010(4)
[5] Xianglong Dai, Insistence on financial reform and innovation to accelerate the construction and the north economic center that adapt to the modern financial service system[N], Opening up and development of Tianjin BNA and financial reform and innovation Summit conference, September 9 2009

[6] Beibei Zhang, Study on financial innovation of Real estate development enterprises, based on business model transformation-as China merchants property development an example [J], China post-doctors, 2010(1)