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## Capital: Characteristics, Laws of Behavior, and Development Norm

*Hong Yinxing, Peng Wensheng, Nie Huihua, Zhao Peng and Li Qing* 9

The recognition and affirmation of the existence and positive role of capital in the socialist market economy is a major theoretical breakthrough in China's reform and opening-up. It is an important lesson to allow capital to develop while putting it under proper regulation. However, it is the nature of capital to seek profits and expand. The chaos of capital also lies in the lack of detailed laws and incompetence of regulatory capacity. When setting "traffic lights" for capital, policymakers should adhere to existing regulatory system, which is relatively stable and legalized, while making appropriate adjustments and improvements. Rules should be simplified, standards should be unified, and regulation should be carried out in a responsive and timely manner, while adjustments should be made in accordance with the changing situation. Finally, in improving the socialist market economy, it is not only necessary to regulate the behavior of capital itself and separate industry from finance, but also to regulate the external environment contributing to the disorderly expansion of capital.

## New Pathway towards Opening China's Capital Account: Building of a Domestic Offshore RMB Financial System

*Zhang Chun, Jiang Yile and Liu Guofang* 30

In view of the great changes in global politics and economics in recent years, China has become more cautious on achieving full convertibility under capital account. Yet due to the insufficient and immature development of the existing RMB onshore and offshore financial system, China's globalization effort faces a variety of development bottlenecks and risks in the financial field. China needs to explore a new and more risk-controllable pathway to its financial opening-up. Proactive efforts should be made to build a fully open domestic RMB offshore financial system in accordance with the highest global standards, which can be an expedient measure at a time when the capital account cannot be fully convertible. Its purpose is to ensure the development and security of the Chinese economy in international trade and investment, provide global high-standard financial services for China's innovation, and provide safe RMB assets for global needs. The building of a domestic offshore system can lead

the healthy and stable development of overseas offshore market, promote and coordinate the reform and opening-up of onshore RMB system, so as to promote the comprehensive opening-up of the whole Chinese financial system eventually. Building a fully open RMB offshore financial system with high international standards requires risk segregation between domestic offshore system and onshore system. In order to prevent the offshore RMB exchange rate or interest rate to interfere or deviate substantially from the onshore rates, the central bank should carry out off-shore open-market operations in a location where it has more authority and convenience to do so. This means that it has some unique advantages to build a domestic offshore market in Shanghai, which also determines the unique development goal and positioning for building the domestic RMB offshore financial system. This article describes the development ideas of RMB offshore financial system from four levels: market construction, innovation practice, infrastructure, and risk prevention and control, and analyzes the impact on the existing offshore RMB centers abroad.

### How to Overcome the Main Obstacles of the RMB Settlement in the Cross-Strait Trade?—Based on the Investigation of Kunshan City

*Zhang Ming, Chen Yinmo, Wang Zhe and Zhang Chong*

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Due to the lack of data, it is difficult to understand the real situation of RMB settlement in international trade. To get a hint of the current situation of RMB settlement in cross-straits trade, we select Kunshan City of Jiangsu Province to conduct a field study. We find that the major obstacles of RMB settlement include five aspects: trade, finance, infrastructure, politics, and network externalities. First, China's role in global industrial chain and its trade mode in which it buys raw materials, machinery and spare parts from abroad and sells manufactured goods on the international market have combined to constrain RMB settlement in trade. Second, the inconvertibility between RMB and new Taiwan dollar has led to significant transaction costs. Third, the increasing volatility of RMB exchange rate has intensified exchange rate risk. Fourth, cross-border capital control, inconvenient payment systems, and the insufficient bank branch networks have increased the costs of RMB settlement. Fifth, the depth and scope of the offshore RMB financial market has been limited. Sixth, the US dollar has a significant advantage of network externalities, which has affected the cross-border use of RMB. Finally, we offer systematic policy suggestions from different dimensions and entities.

## Paths to Capacity Improvement for China's Food Security under the Dual-Circulation Pattern

*Zhao Xia, Tu Zhengjian and Zhang Jiuyu*

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China's national food security is faced with the dilemma of domestic resource and environmental constraints and the uncertainty of international food trade. It is necessary to ensure the effective supply of food, which should be the essential policy goal, cope with major external risks through pursuing a higher level of opening-up to the outside world, promote the interaction between the internal and external circulations to stabilize prices and supply, and effectively improve the nation's capacity to guarantee food security. Therefore, this article, based on the inherent mechanism of improving the national food security capability under the dual-circulation pattern and the analysis of many constraints China faces, suggests that domestic grain planting be stabilized on the basis of the dual-circulation pattern, the grain reserve system be optimized, and international grain supply for the domestic market be guaranteed, to strengthen China's capacity to ensure grain supply; it is also suggested that the market circulation channels be unblocked under the dual-circulation pattern, and the domestic and international grain markets be well connected to enhance China's ability to secure stable grain supply; and attention should be paid to both improving domestic supply capacity and opening-up to the outside world to improve China's competitiveness in the major links of international grain trade and enhance the competitiveness of the domestic grain industry.

## Global Imbalances Strike Back?

*Yang Panpan and Xu Jianwei*

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Since the outbreak of the COVID-19 pandemic, global imbalances have risen significantly, and the trend of global imbalances deserves special attention. Based on the measurement of the scale and concentration of global imbalances, this article analyzes the evolution of global imbalances during the past two decades. Global imbalances are always more concentrated in deficit countries than in surplus countries. Deficit countries are the main drivers of global imbalances. There are strong substitutions among surplus countries to finance deficit countries. The deficit countries, led by the US, have issued large-scale bailout measures to combat the COVID-19 pandemic. The "twin deficit" effect will generally worsen the current account deficit in the US, and support for the current account in the household sector is likely to weaken. This means global imbalances will remain prominent in the post-pandemic era. Since the global financial crisis, surplus countries have become more dispersed among European,

Asian and oil-exporting countries. China's role in financing deficit countries as a major surplus country has weakened. Overall, even if global imbalances strike back, China's contribution to global imbalances may rise from the post-global financial crisis era, but is not expected to return to pre-crisis level. Policy coordination aiming to reduce global imbalances will involve a small number of deficit countries and more surplus countries, which will promote the evolution of the world economy towards multilateralism.

## Background, Pathways and Implications of SDR Channeling

*Jiang Xufeng*

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The largest-ever allocation of IMF Special Drawing Rights (SDRs) has taken effect, which brings to the fore the effective use of the sizeable inventory of SDRs to enhance its vitality. This article first reviews the history of the creation of SDRs, their characteristics, and their role in IMF's daily operations. The article provides an analysis of four feasible options for SDRs channeling, namely enlarging SDRs' support for PRGT, establishing the Resilience and Sustainability Trust, increasing the use of SDRs in other international organizations, and creating the SDRs substitution account. The article also goes through the repercussions of these four options for SDR channeling, including strengthening the systemic importance of the IMF, improving global economic governance, easing the burden for countries with high debt levels, and facilitating international monetary system reforms.

## China's Overseas Lending and Africa's Debt Sustainability: Reality and Prospects

*Liu Chen and Ge Shunqi*

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The impact of the COVID-19 pandemic has triggered widespread international attention to the debt sustainability of Africa. In the context of the continuous improvement in China-Africa financing relations, some studies have wrongfully argued that China's overseas lending is the external factor of Africa's "debt trap". This article attempts to outline the scenario of China's lending to Africa and analyze its possible impact on Africa's debt problems through a comprehensive analysis of relevant data and information. It finds that, in terms of the scale of loans, China's lending to Africa has grown rapidly in recent years, making it one of the important creditors of the continent; in terms of debt ratio, China's lending to Africa remains lower than that of commercial creditors and multilateral creditor institutions, and since the lending has been concentrated in a small number of African countries, it has had a very limited

bearing on most debt-distressed African countries; in terms of impact on debtor countries, Chinese lending has effectively alleviated the financing difficulties of African countries and made important contributions to local infrastructure construction and economic growth; in terms of debt settlement, debt restructuring (rescheduling of term, interest rate and financing) is the main debt relief measure by China's lenders, and debt relief is limited to aid loans, and there have been few cases of large-scale debt relief or asset seizure. Meanwhile, there are differences between China and international multilateral lending institutions in terms of debt sustainability framework, preferential loan policies and information transparency. It is necessary for Chinese lenders to further promote coordination and standard consistency, strengthen coordination with international multilateral institutions, and enhance transparency and information disclosure. Those efforts are important for China to respond to the concerns of the international community, implement the Belt and Road Initiative, promote China-Africa economic and trade cooperation, and build a closer China-Africa community with a shared future.

## Development Model Transformation amid External Shocks from the Structural Perspective: A Case Study of Latin America under the Impact of COVID-19

*Zhang Yong*

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In 2020, the impact of COVID-19 pandemic resulted in the worst economic recession in the history of Latin American countries, which had already been in the economic downturn cycle. Compared with the global financial crisis in 2008, the impact of the COVID-19 pandemic on Latin America has exceeded expectations in terms of dimension, scope, and degree, which highlights the urgency and necessity of Latin American countries to explore a new economic development model. By establishing an external shock analysis framework, this article expounds the structural vulnerability of original economic development model in Latin America from four dimensions, namely, heterogeneous production structure, asymmetry of participation in the world economy, increased vulnerability of social structure, and weak government governance, to provide a structural perspective for the transformation of developing countries in exploring development models in the post-pandemic era.