Unlocking Synergies: How innovation and opening-up benefit from and contribute to each other in the financial sector

KPMG

Executive summary

Amidst the profound restructuring of the global economic landscape and the rapid evolution of technological advancements, China is leveraging high-level financial opening-up and high-quality financial innovation as dual engines to propel high-quality economic development and bolster international competitiveness. A dynamic interplay exists between financial opening-up and innovation. On one hand, institutional openness is aligned with international norms to attract global capital. On the other hand, technology-driven and scenario-based innovations are transforming financial services, facilitating real economy growth and unlocking new productivity drivers. From unleashing the market potential of the "Belt and Road" initiative to upgrading cross-border e-commerce financial systems, from high-end intelligent joint investment funds to comprehensive cultural outbound services, China's finance sector is driving innovation through opening-up, while also promoting opening-up through innovation, thereby constructing a global financial service network. In navigating risks and challenges, China adheres to a holistic approach that balances safety and efficiency, safeguarding innovative vitality with robust supervision. As this new paradigm unfolds, the synchronized progress of financial openness and innovation will not only inject strong momentum into China's economy but also contribute valuable Chinese insights and solutions to the global community.

1. Understanding opening-up and innovation in the big picture

As the global economy slows and the international order evolves, financial markets are becoming increasingly volatile. In response, the Central Financial Work Conference has reaffirmed its commitment to transforming China into a financial powerhouse by promoting market-driven financial innovation, fostering high-level opening-up of the financial sector, and driving institutional reforms and technological transformation. In today's interconnected world, where globalization and technological disruption converge, China is proactively embracing opening-up and innovation in finance to revitalize its competitive edge, drive high-quality growth in the real economy, and achieve strategic goals. These efforts complement, benefit from, and contribute to broader societal developments in areas such as economics, trade, culture, and technology.

To establish itself as a financial powerhouse, China must pursue openness, which is also a crucial catalyst for reform and development. As global geopolitics undergoes a profound shift and the international financial landscape becomes increasingly disrupted, maintaining a high level of openness in the financial sector will enable Chinese industry players to enhance their global competitiveness and shape international norms. To achieve this, China should focus on reducing transactional and compliance costs by integrating with other markets, collaborating with foreign regulators, and engaging in mutual recognition of standards. These efforts will inject new vitality into the economy.

Financial innovation plays a crucial role in optimizing resource allocation and is essential for a thriving economy. To support China's dual-circulation model, it is imperative to foster innovation in the development and advancement of financial systems, enhance the quality and efficiency of financial services, drive high-quality economic growth, and ensure financial stability and security in an open economy. In response to the emerging scenarios and needs arising from China's modernization efforts with unique characteristics, adopting an iterative approach to product and service innovation can optimize resource allocation, improve financial efficiency, stimulate economic growth, and strengthen the financial sector's international competitiveness.

There exists a dynamic interplay between opening-up and innovation, both essential to the competitiveness of the financial sector. On one hand, opening up the financial sector will stimulate innovation by providing new opportunities and scenarios for growth, while also expanding Chinese enterprises' access to international financing channels. The entry of international financial institutions into China will bring valuable experience and expertise that can enhance domestic institutions' ability to innovate and improve their services, contributing to regulatory innovation as well. On the other hand, financial innovation will cater to emerging needs, yielding novel solutions for opening-up. It will be a driving force behind changes in both financial markets and regulatory systems, ultimately leading to more internationally competitive products and services that foster greater openness and support high- quality development.

2. How to define high-level opening-up and high-quality innovation

2.1 Adhering to the high-level opening-up of the financial sector, with a focus on institutional opening-up

Financial sector opening-up is a crucial component of China's broader opening-up strategy, as well as a key driver of supply-side structural reforms and high-quality development in the industry. Since 2018, China has stepped up efforts to open up its financial sector, introducing unprecedented measures characterized by their scope (licenses for financial activities), depth (qualifications for financial business operations), and pace.

At the Central Financial Work Conference held at the end of 2023, policymakers emphasized that China should accelerate efforts to promote high-level opening-up of the financial sector, ensuring national financial and economic security. Greater institutional openness in the financial sector is an essential component of an open economy. Aligning with global peers in terms of financial rules, regulations, supervision, and services can drive deeper domestic reforms in relevant areas. Institutional openness holds the key to achieving high-level opening-up in the financial sector, a process that will unfold over time. To achieve this goal, China should adopt a dual-track approach: attracting foreign investors while encouraging Chinese enterprises to expand globally. Strengthening measures to facilitate cross-border investment and financing activities will be crucial. As more foreign financial institutions and long-term investors establish and grow their presence in China, this trend will contribute to mutual opening-up.

2.1.1 The time is ripe for high-level opening-up

China's economy bears some similarities with Japan's in the 1980s in certain aspects. Currently, China mirrors what Japan once was: the world's second-largest economy and manufacturing hub. With an annual trade surplus, China has emerged as a creditor nation, akin to Japan's past position. Approximately a generation ago, Japan capitalized on globalization and opened up its financial sector, achieving notable successes, including establishing Tokyo as an international financial center, significantly enhancing the JPY's status, and fostering more balanced asset allocation domestically and internationally. As China seeks to open up its financial sector to inject new momentum into development and optimize asset allocation efficiency, it would be wise to draw lessons from Japan's experience. Notably, Japan's later-stage opening-up efforts were marred by asset bubbles. To avoid this pitfall, China should bolster financial supervision and encourage domestic financial institutions to enhance their capabilities. Furthermore, the emergence of new productive forces, the increasing globalization of Chinese enterprises, and active participation in the Belt and Road Initiative all demonstrate the growing appeal of Chinese assets to global investors. In light of these factors, it is fair to assert that the time is ripe for opening up the financial sector at a high level.

a. China's ongoing development of new quality productive forces has triggered a global revaluation of the country's assets. In contrast, from 2018 to 2024, while the S&P 500 index and Nasdaq index surged by 120% and 180%, respectively, China's CSI 300 index declined by 13% in USD terms (Figure 1). The rise of US stocks can be attributed to two factors: first, the country's safe-haven status for funds; second, the scarcity premium commanded by large-cap tech companies, which has had a spillover effect on global tech stocks. Looking ahead, China's burgeoning new quality productive forces will drive revaluations across its financial market. Three key trends are likely to emerge: Firstly, following breakthroughs by Hangzhou-based "Six Dragons" (including DeepSeek) and other high-tech enterprises, global investors will increasingly focus on technological innovations in China. Secondly, as intelligent manufacturing gains traction and more Chinese companies go global, they will move up the value chain, leading to revaluations of high-end Chinese manufacturers. Finally, with global investors seeking alternatives to USD assets, RMB assets that offer safety and returns are likely to attract favorable attention.

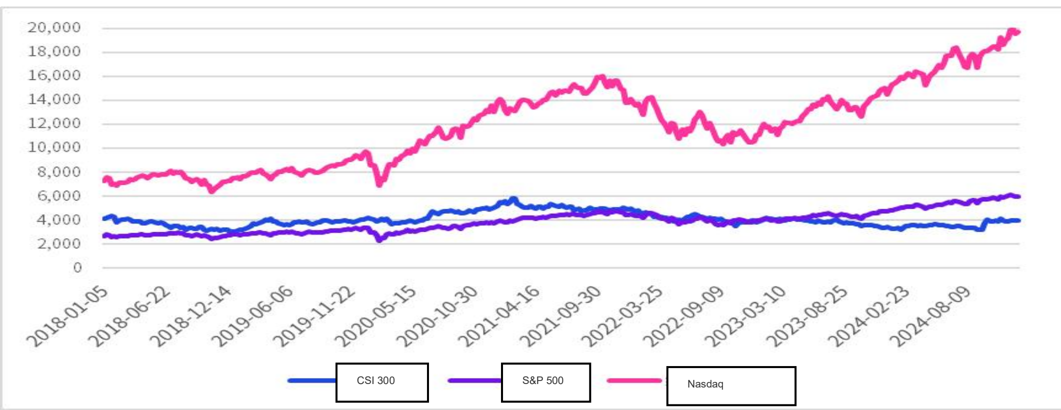

Figure 1 Stock indexes from 2018 to 2024

Source: Wind, KPMG analysis

b. Under the Belt and Road Initiative, China and participating countries are leveraging their complementary strengths in natural resources, human resources, and capital, significantly expanding market prospects. In 2024, Belt and Road countries accounted for over 50% of China's total imports and exports for the first time. Notably, exports to Brazil, the United Arab Emirates, and Saudi Arabia increased by 23%, 19%, and 18%, respectively, while exports to ASEAN countries along the Belt and Road rose by 13%. As the global economic landscape undergoes restructuring, Chinese enterprises are embracing new opportunities for international expansion. Recognizing the need to venture abroad to remain competitive, they have been actively pursuing foreign direct investment (FDI) opportunities. According to data from the Ministry of Commerce, China's non-financial FDI reached USD 143.85 billion in 2024, representing a 10.5% increase over 2023. A significant proportion of this investment, approximately 23%, was directed towards countries along the Belt and Road (Figure 2). To support Chinese enterprises' global ambitions and participation in the Belt and Road Initiative, China must actively engage in shaping international financial rules and enhance financial cooperation mechanisms among participating nations. In response, financial institutions should refine their international business systems to seamlessly integrate local and foreign currencies. By fostering closer collaboration between domestic and overseas branches, they can establish a robust global business network.

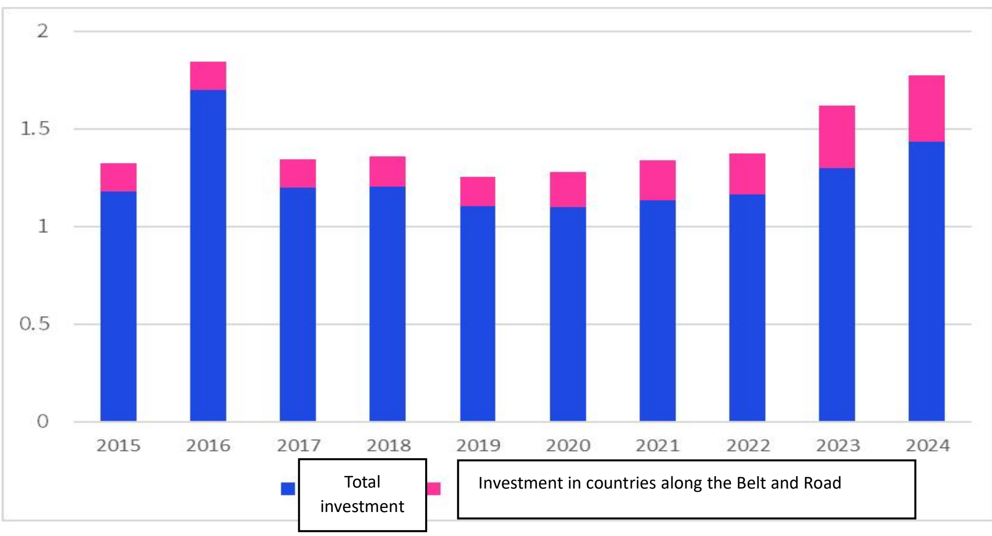

Figure 2 Foreign direct investment by Chinese enterprises (non-financial) in USD 100 billion

Source: Wind, KPMG analysis

2.1.2 Taking institutional openness in the financial sector to new heights

2.1.2.1 Continuously optimising the market environment, financial talent pool and intellectual property (IP) protection in China

A favorable business climate is crucial for the survival and growth of enterprises. Promoting institutional openness in the financial sector is essential for enhancing efficiency in allocating financial resources and driving innovation. In terms of scope, institutional openness goes beyond merely opening up borders for businesses; it also entails a solid foundation for the financial market, comprising a favorable business climate, a robust talent pool, and a sound intellectual property protection system. An open, transparent, and predictable business environment is vital for attracting more foreign financial institutions to establish a presence in China and contribute to a thriving financial market. In recent years, China has introduced various policies and measures to support foreign-invested enterprises, including equal treatment with domestic peers, protection of foreign investment, fiscal and tax incentives, and facilitated repatriation of profits. Notably, the negative list for foreign investors in the financial sector has been abolished, and restrictions on foreign participation in financial institutions have been lifted. Going forward, China will proactively address the concerns of foreign enterprises, ensuring they receive equal treatment with domestic peers and have equal access to government procurement, bidding, and standards development opportunities. The country will further refine its communication mechanisms between the government and foreign enterprises to introduce targeted preferential policies, maintain a stable and predictable policy environment, and boost business confidence.

Highly skilled professionals are essential for achieving institutional openness. As China's financial market continues to grow, there is an increasing demand for top-tier financial talent. To provide human resources support for institutional openness in the financial sector, the government and enterprises must proactively attract, retain, and leverage talented professionals. From a policy perspective, simplifying visa and residence permit procedures would make it easier for overseas professionals to work in China. It's also important to establish channels to address practical concerns such as settling down, social security, medical care, and education. Enterprises should offer global career opportunities and market-based compensation packages to attract and retain top international talent. Moreover, transparent promotion mechanisms should be put in place to create an excellent workplace where professionals can grow and thrive. Meanwhile, companies should engage in more international exchanges and cooperation, establish overseas offices to connect with global talent, and attract foreign professionals worldwide.

Intellectual property (IP) protection is a crucial condition for financial innovation. In the financial sector, IP protection extends beyond creating, applying, and safeguarding patents and trade secrets; it also encompasses ensuring the security and privacy of financial data, as well as protecting the rights and interests of financial consumers. China has been dedicated to establishing itself as an IP powerhouse. According to the World Intellectual Property Organization's Global Innovation Index 2024, China ranked 11th in terms of innovation capability, a one-place improvement from the previous year (Table 1). Nevertheless, China still faces significant challenges in enhancing its IP protection framework. Moving forward, China will need to further refine its system of IP laws and accelerate legislative progress in emerging areas, such as data and General Artificial Intelligence (Gen AI), to provide institutional support for the development of the digital economy. Simultaneously, to facilitate enterprises' global expansion, China should deepen international exchanges and cooperation on IP matters, participate in shaping global IP rules, and promote a fair and reasonable international mechanism for IP governance.

Table 1 China's ranking in the Global Innovation Index 2024

Ranking	Economies	Score
1	Switzerland	67.5
2	Sweden	64.5
3	US	62.4
4	Singapore	61.2
5	Britain	61
6	South Korea	60.9
7	Finland	59.4
8	The Netherlands	58.8
9	Germany	58.1
10	Denmark	57.1
11	China	56.3
12	France	55.4
13	Japan	54.1
14	Canada	52.9
15	Israel	52.7

Source: WIPO, KPMG analysis

2.1.2.2 Continuing to globalise domestic institutions and localise those that are adopted internationally

Financial cooperation and service networks that facilitate international trade are key drivers of greater institutional openness in the financial sector. To advance this agenda, China should focus on three strategic priorities. Firstly, China should further enhance multilateral mechanisms for financial cooperation by strengthening partnerships with international financial organizations, jointly developing frameworks and rules, and providing platforms for collaboration between global financial institutions. Secondly, the country should leverage fintech to upgrade its financial service networks. This includes promoting the mBridge project to provide more efficient and secure cross-border payment solutions for enterprises engaged in international trade. Additionally, technologies like artificial intelligence (AI), blockchain, and big data can be utilized to enhance payment efficiency and security related to e-CNY, with a focus on developing more use cases. Thirdly, financial cooperation networks should be inclusive and supportive of private enterprises, particularly small and medium-sized enterprises (SMEs). As the main participants in China's foreign trade, accounting for 55.5% of the country's total imports and exports in 2024, SMEs require innovative cross-border financing solutions that enable their steady growth in the international market. Financial institutions should be encouraged to develop such solutions, catering to the needs of asset-light, high-growth SMEs.

Promoting market-oriented reforms in capital factors is crucial for institutional opening-up in the financial sector. By piloting free trade zones (ports) and aligning with international standards, China can gradually open up its capital market, providing more avenues for foreign investors to participate. This will increase market liquidity and activity. To empower domestic enterprises' overseas expansion and development, support should be given to help them raise funds in the international market through listing and bond issuance. Although the negative list for foreign investors in the financial industry was abolished in 2020, and restrictions on institutions and expansion have been lifted, foreign financial institutions still encounter difficulties in areas such as applying for business licenses. Relevant authorities should provide detailed guidance on how these enterprises can apply for licenses within the policy framework and adopt a more predictable approach to policy implementation, thereby eliminating hidden barriers.

To drive institutional openness in the financial sector, domestic and overseas financial markets need to be more closely connected. Aligning domestic and overseas markets in terms of rules and mechanisms can help provide more convenient channels for investors. First, China should further innovate financial products and improve services, diversify products under programmes including the GBA Wealth Management Connect, the Shanghai-Hong Kong Stock Connect, the Shenzhen-Hong Kong Stock Connect, the Swap Connect, the Qualified Domestic Institutional Investor (QDII) programme and the Qualified Foreign Institutional Investor (QFII) programme, optimise management in relation to the

Qualified Foreign Limited Partnership (QFLP) pilot project, and explore more innovative financial tools, such as green financial products, to meet the diverse needs of investors and encourage more domestic and foreign investors to participate. Second, China should step up efforts to build mechanisms that connect data at home and abroad and inspire trust, enhance the application of cross-border data verification platforms, and promote data connectivity in banking, securities, insurance and other sectors to drive greater efficiency in cross-border business. The country should also improve cooperation in cross-border credit investigation and establish a unified credit evaluation system to facilitate overseas enterprises' financing in the Chinese Mainland.

The above measures will help China comprehensively promote high-level institutional openness in the financial sector in terms of both breadth and depth. Opening up the financial sector at a high level will be a catalyst for financial innovation and contribute to the high-quality development of the real economy.

2.2 Building a technology-and-scenario-driven ecosystem for financial innovation

Against the backdrop of the digital economy, financial innovation has become a key driving force for China's economic transformation. In China, financial innovation is characterised by national strategy-aligned services and a spontaneously evolving market. Financial innovation has not only reshaped the financial service model but has also injected vitality into the economy.

2.2.1 Great potential and a growing market for financial innovation

a. Underlying technologies are in place that serve as a strong foundation for financial innovation. On one hand, in view of the rapid development of modern information technologies, including AI, blockchain, cloud computing and data technology, and key breakthroughs in independently developed technologies such as distributed databases and privacy computing, China can compete internationally in financial innovation. Recently, DeepSeek has captured global attention for its outstanding performance. Leading financial institutions, such as ICBC, has taken the initiative to deploy a DeepSeek model. On the other hand, China's financial technology facilities continue to evolve. Financial infrastructure—from 5G, the Internet of Things, and the "Eastern Data, Western Computing" project to the backbone network for quantum teleportation—is being iteratively optimised; these advances provide a strong and secure foundation for financial innovation and will help sustain innovation momentum in the medium and long term.

b. The growing demand for financial services is the engine of financial innovation. In recent years, the development of new quality productive forces has been established as a national strategy. China is transforming from a global manufacturing hub to an innovation powerhouse. Under the circular economy model in the new era, the government, the public, enterprises and individuals have new financial needs, giving rise to new financial products, service models and market mechanisms. As the saying goes, necessity is the mother of invention. For example, financial institutions are launching IP-backed financing products to improve IP evaluation and the trading market. The inclusiveness of China's financial sector also encourages changes in the long-tail financial demands of small and micro enterprises and households, such as equipment renewal and loans for consumer goods trade-in. As the economy grows and residents become more affluent, there is a growing demand among investors for diversified and personalised financial products. This trend is encouraging financial institutions to diversify and innovate financial solutions, such as intelligent investment advisers that can provide recommendations on asset allocation strategies and portfolios based on investors' appetite.

c. The accelerating pace of opening-up has provided more scenarios for financial innovation. To build an open, dual-circulation-based economy, expand the global cooperation network and increase its global impact, China has recently coordinated a number of opening-up initiatives, including expanding pilot opening-up programmes in telecommunications, medical care, education and other sectors, deepening institutional openness in free trade zones and foreign trade system reforms, and moving in line with the international standards of the EU and other economies. The financial industry itself is also opening up in a rapid but orderly manner, including by abolishing restrictions on foreign investor shareholding in financial institutions, expanding programmes to further connect markets, such as the Shanghai-Hong Kong Stock Connect, the Shenzhen-Hong Kong Stock Connect, the Bond Connect and the Cross-border Wealth Management Connect, stepping up efforts to join free trade treaties such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the Digital Economy Partnership Agreement (DEPA), and promoting mutual recognition of green finance taxonomies between China and the EU. These developments have provided new scenarios and opportunities for cross-border financial innovation and cooperation, the global development of green finance and digital finance, and international cooperation in financial regulation.

2.2.2 High-quality innovation should fuel new quality productive forces

a. Financial innovation that empowers new quality productive forces. First, diversified and innovative financial products should be developed to meet the needs of enterprises that are adopting different technology roadmaps and that are in different industries and stages of development. For example, financial institutions can develop integrated lifecycle service systems that cover share issuance, lending, borrowing and insurance, and innovative products, such as IP-backed loans, which are adapted to the needs and characteristics of high-tech enterprises. Differentiated approaches should be adopted to allow enterprises that are not yet profitable to list their shares on the STAR market, and a mechanism that connects fiscal authorities and financial institutions should be put in place to share the credit risks associated with innovative tech enterprises. As small and micro enterprises only have a small amount of financial data that is not readily available and verifiable, financial institutions can offer loans on platforms that connect banks with tax authorities. Second, greater digitalisation needs to be promoted across the financial industry. Financial institutions should leverage advancements in technological infrastructure and financial technology to digitalise their operational systems in sync with digital developments in other industries. For example, in terms of supply chain finance, they can connect to production, inventory, logistics and industry data systems—in addition to order data, invoice data, financial data and credit data—to empower credit and risk management officers. They should also mine insights from their own business and process data to identify zeroing items, irreducible items and bottlenecks and establish an efficient cycle of business development and operations. Third, capital market reforms that cater to venture capitalists should be promoted. For example, China should develop onshore and offshore financing markets, and provide investors with reliable exit channels.

b. Scenario-driven, technology-enabled financial innovation. Chinese financial institutions' investment in technology is growing and is expected to exceed RMB 580 billion in 2027 (Figure 3). In terms of products and services, innovations are constantly emerging in the Five Key Areas. Green finance products such as green bonds and green funds are helping drive the development of green industries, and new service models such as digital banks and intelligent investment advisers are enabling more accessible and personalised financial services for investors. In terms of risk control, comprehensive, multi-dimensional and real-time data is providing more quantitative support for credit decision-making and risk control strategies; and data & analytics and machine learning have significantly improved the accuracy of risk assessment. Under the convertible bond + asset restructuring model, innovative risk disposal tools are available for enterprises and financial institutions to resolve their debt problems. In terms of services, markets are growing increasingly connected, and innovative financial derivatives continue to be launched, such as the recently launched options and futures contracts that provide investors with more investment strategy options and risk management tools. Connected markets are also making it possible for investors to manage their wealth globally. The Belt and Road Initiative and various partnership agreements offer broad space for financial institutions to develop internationally. In terms of efficiency, automated trading systems and high-frequency trading algorithms have significantly improved trading efficiency and reduced transaction costs for securities companies. Enabled by technologies such as biometrics and intelligent credit granting, certain types of loans can be approved and made available within seconds. These innovations that are adapted to financial scenarios can also serve as a springboard for the financial sector to get out of the rat race and compete at a higher professional level.

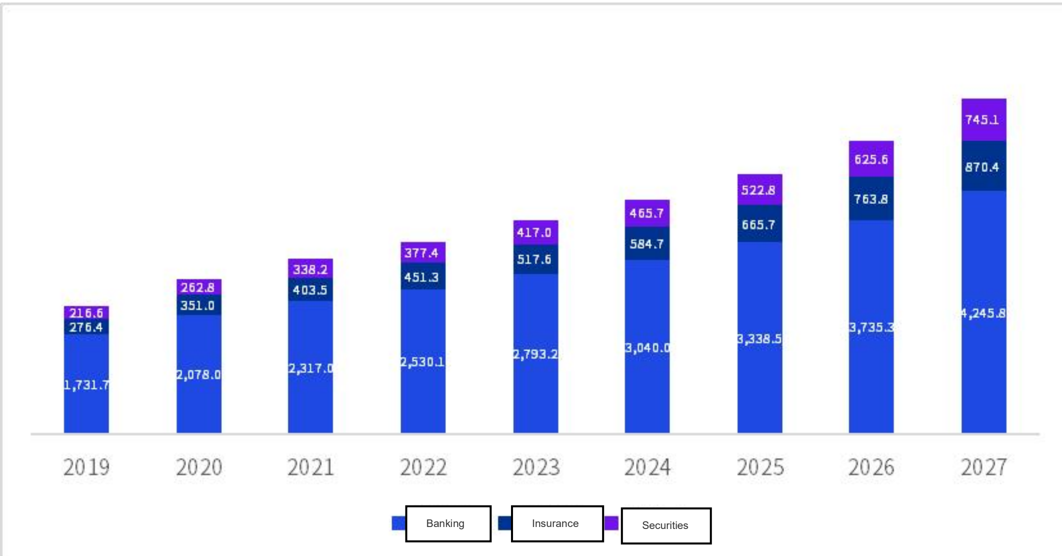

Figure 3 Chinese financial institutions' technology investment from 2019 to 2027 (in RMB 100 million)

Source: Insights into China's Fintech Industry 2024 by iResearch

2.2.3 Financial innovation should be balanced with financial stability and security

a. Financial innovation presents new threats and challenges to financial stability and security. While financial innovation improves market efficiency and vitality, it also brings new threats to financial stability and security due to the potential challenges posed by technical risks and the profit-seeking nature of financial business. First, the deep integration of technology, business and scenarios may result in changes in the routes along which risks are transmitted, which tend to trigger chain reactions and proliferate across networks, leading to systemic risk and increasing the volatility and vulnerability of the financial system. Second, the open ecosystem and decentralised characteristics of technological development blur the business boundaries and ownership of responsibilities, giving rise to risks that are cross-regional, cross-market, cross-border and cross-institutional. In addition, the structural mismatch between functional regulation and institutional regulation is prone to creating regulatory gaps or grey zones, leading to financial disorder and other risks. Third, the complexity and lack of transparency of the technologies themselves may cause technological alienation, market distortions and other issues, which could lead to systematic discrimination, industrial monopolies and other problems that affect market fairness. Fourth, due to restrictions in practical conditions, limitations still exist in financial regulation. For example, there is a time lag and speed difference between financial regulation and financial innovation, and opportunities for regulatory arbitrage may arise due to the mismatch between international regulation, domestic regulation, and separated regulatory systems. Market entities may therefore evade regulatory requirements or drive capital flows to pursue profit through compliant cross-border, cross industry planning, which poses a threat to financial stability and security.

b. Financial regulation is the key to ensuring high-quality financial innovation. Financial regulation is key to addressing the changes and challenges brought about by financial innovation. With the aim of encouraging innovation, especially providing strong financial support for the new economy and new enterprises, a balance needs to be maintained between financial innovation and financial regulation, and excessive regulation that may weaken innovation vitality should be avoided. In response to technological challenges, financial regulators need to strengthen technology governance and technological ecosystem governance, such as by working with technology departments to jointly establish technical ethical rules, standards and norms, as well as market rules such as those related to data asset ownership. Regulators should also build a resilient regulatory framework that is adaptive to the rapid development and dynamic changes of technology-driven financial innovation, and they should enhance the adaptability, scalability and agility of the regulatory system. For example, regulators should strengthen principle-based regulation in addition to rule-based regulation; clarify regulatory objectives, principles, and ethical norms according to the rules of development; continue to enhance the top-level design of financial regulation; and guide financial institutions' behaviour in areas that the regulatory system does not extend to and in grey areas. In terms of implementation, regulators should use technological means to improve the timeliness and accuracy of regulation; from the perspective of regulatory approaches, regulators should flexibly apply pilot schemes, regulatory sandboxes, circuit breaker mechanisms, firewalls and other mechanisms to prevent risks from financial innovation, with the goal of driving regulatory innovation in an orderly manner and exploring appropriate regulatory paradigms. In addition, in order to tackle issues such as risk spillover and cross-contagion, international regulatory cooperation and coordination between domestic regulators should be strengthened.

3. Key application scenarios for financial opening-up and innovation

As the world changes at an accelerated pace, domestic companies are actively going global while foreign companies are enthusiastically entering the country. During this process, financial institutions should focus on making up for weaknesses in financial services, mitigating financial risks and accurately embedding financial innovation into economic development, with the aim of using financial opening-up to empower industrial upgrading and enterprises' go-global initiatives. As the saying goes, we should "settle disputes and pursue harmony with others (挫锐解纷、和光同尘)". Only by focusing on the current development stage and practical bottlenecks can China fully tap its momentum in financial innovation and opening-up and contribute its unique financial expertise to the world.

Although there are a rich variety of financial products and services on the market, supply and demand are still mismatched for SMEs and specific individual groups and in various emerging scenarios. Due to a lack of financial knowledge and experience, limited time and energy, and other practical conditions, certain individual groups often face difficulties in choosing financial products and services that meet their needs. Therefore, comprehensive and user-friendly solutions are particularly important for improving the efficiency and effectiveness of financial services. At present, financial institutions can prioritise the following scenarios to drive financial opening-up and innovation:

3.1 Going global: Financial services for SMEs' go-global initiatives

In recent years, a large number of SMEs have rapidly entered the international market with their high value-added, high-tech products and services. To provide strong financial support for SMEs' go-global efforts, financial services need to be embedded into SMEs' go-global journeys, and obstacles and pain points in these financial services need to be addressed. During this go-global process, financial services have stimulated innovation and accelerated the development of globally competitive SMEs in the fields of AI, high-end smart manufacturing, cross-border e-commerce, culture and consumption, enabling "Chinese smart manufacturing, Chinese goods, and Chinese culture" to go abroad and flourish internationally.

3.1.1 Finance helps Chinese smart manufacturing enter the international

high-end market

At the beginning of 2025, as DeepSeek dethroned OpenAI from its dominant position and humanoid robots performed the Yangge dance and twirled handkerchiefs at the Spring Festival Gala, Chinese smart manufacturing amazed the world once again. In order to incubate more enterprises like the Six Dragons in Hangzhou and help high-end manufacturing enterprises enter the international market, financial support for high-tech enterprises' go-global efforts should be accelerated and improved, and an industry-finance collaborative ecosystem for high-end smart manufacturing should be created. In key and core technological fields such as smart robots, financial institutions should adopt measures such as establishing joint cross-border investment mechanisms (such as the Sino-German Smart Manufacturing Fund (中德智能制造基金), providing special loans for cross-border mergers and acquisitions (M&A), and innovating cross-border IP financing, to help high-end smart manufacturing SMEs go global and solve funding bottlenecks in technological research and development and production.

a. Exploring the establishment of joint cross-border investment funds. High-quality investment institutions at home and abroad should cooperate to pool capital from diversified sources and set up joint cross-border investment funds that target the go-global efforts of high-end smart manufacturing enterprises. **Based on accurate industry targeting**, financial institutions should analyse global development trends in key and core technological fields, select projects with high growth potential, and provide financial support for enterprises that are pursuing key technological breakthroughs and engaging in product iteration and upgrading. **By collaborating**, financial institutions can integrate resources from various parties within the industry, and provide value-added services to investees, including in areas such as global market channel expansion, and technical exchange and cooperation, thereby accelerating their go-global journeys and expanding the global presence of China's high-end smart manufacturing.

b. Supporting and strengthening cross-border M&A services. Professional financial support should be provided for cross-border technology M&As involving high-end smart manufacturing enterprises. **Industry analysis experts:** Financial institutions should help SMEs address their weak points in obtaining industrial insights by means of knowledge mapping, machine learning and other technologies, and help them identify strategic development opportunities and mitigate decision-making risks. **M&A transaction consultants:** By leveraging their resource advantages and professional experience, financial institutions can assist enterprises in finding M&A targets, and negotiating and completing M&A transactions, which will help enterprises reduce M&A costs and accelerate their global expansion.

c. Exploring cross-border IP rights financing. Innovative financing models can be used to provide financial support based on the core IP rights of high-end smart manufacturing enterprises. **IP evaluation:** Financial institutions should dig deep into the value chain of technological innovation and evaluate the value of enterprises' technology patents around key pillars such as technological breakthroughs, transformation of results, scenario development and market expansion, as an important basis for financing. **Exclusive financing plans:** Financial institutions should devise flexible and diversified financing plans to meet enterprises' capital needs at different development stages, such as IP pledge loans and special financing for technological research and development, with the aim of facilitating the commercial application of technological innovations.

3.1.2 Finance empowers cross-border e-commerce to better serve the international consumer market

Following in the footsteps of leading enterprises such as Tencent, Alibaba, Douyin and Xiaohongshu, more and more SMEs have begun to expand their cross-border e-commerce business. Cross-border e-commerce has maintained a significant growth rate, with a trade volume growth rate exceeding that of total imports and exports in recent periods (Figure 4).

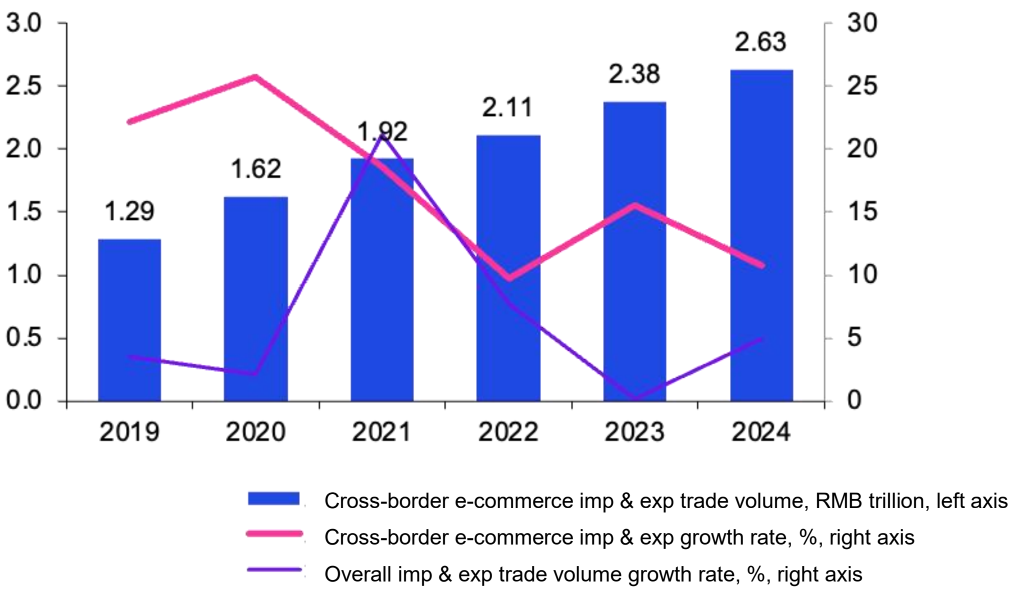

Figure 4 Cross-border e-commerce import and export trade volume and growth rate

Source: Customs press conference data, KPMG analysis

Despite their rapid growth, SMEs operating in the cross-border e-commerce sector still face many urgent problems, including weaknesses and resource gaps in supply chain resilience, risk mitigation and other areas. Although financial institutions have launched many financial products for international trade, an integrated financial service system for cross-border e-commerce has not yet been developed. As a result, SMEs lack systematic financial support; and at the same time, they do not have sufficient knowledge, experience, time or energy to find suitable financial services, which hinders the development of the cross-border e-commerce industry.

In light of the above problems, financial institutions should build an integrated cross-border e-commerce financial service system to enhance the accessibility, user-friendliness and efficiency of financial services. To address the asset-light and high-frequency nature of cross-border e-commerce, a one-stop cross-border payment platform should be developed and embedded into the high-frequency trading scenarios of cross-border e-commerce. Financial institutions can also provide order pledge financing services based on real-time transaction data, in combination with derivatives such as forward exchange locking and currency options to hedge foreign exchange risk, so as to alleviate SMEs' pain points in capital turnover and cross-border settlement.

a. Building an integrated cross-border payment platform. By enabling multi-currency payment, local payment access, real-time settlement, and security and risk control systems, this platform can meet the diversified payment needs of cross-border e-commerce and ensure transaction security. **Convenient payment methods:** The payment methods commonly used by local consumers should be integrated into the platform, and the platform should support transactions denominated in USD, EUR and local currencies, so as to improve payment convenience and transaction efficiency. **Real-time transaction settlement:** Real-time settlement of transactions effectively aligns with the high-frequency needs of e-commerce, as well as sellers' need for rapid payment collection, enhancing SMEs' capital turnover capabilities. **Reliable risk control system:** Encryption technology, AI, large language models (LLMs) and other risk control tools should be used to monitor and intercept abnormal transactions in real time, ensuring capital security in cross-border e-commerce transactions.

b. Developing order pledge financing services. Financial institutions can evaluate credit lines based on transaction data and help cross-border e-commerce SMEs solve difficulties in capital turnover through quick approval and issuance of loans, flexible repayment options, and dynamic adjustment of credit lines. **Business scenario-oriented services:** The financing quota of e-commerce enterprises can be determined based on certain business data, such as order amounts and buyer reputation, embedding the risk assessment model into e-commerce business scenarios. **Rapid approval and issuance of loans:** New technologies can be harnessed to improve review and approval efficiency and enable loans to be issued instantly based on factors such as credit evaluation and order pledges, so as to provide sufficient and timely financial support for SMEs engaging in cross-border e-commerce. **Dynamic repayment arrangements:** Repayment plans can be designed according to the order payment collection cycle to reduce the pressure felt by SMEs in relation to loan repayment. In addition, financial institutions should dynamically adjust SMEs' financing quotas according to changes in their cross-border e-commerce transaction volumes.

c. Further improving foreign exchange hedge services. Financial institutions can leverage their professional advantages to help cross-border e-commerce SMEs mitigate foreign exchange risk through forward foreign exchange contracts, currency options and risk early warning advisory. **Forward foreign exchange contracts:** Financial institutions should provide accessible forward foreign exchange contract services for cross-border e-commerce, and they can provide recommendations on contract signing timing and exchange rate locking schemes based on market trends and business characteristics. **Foreign exchange option services:** Intelligent foreign exchange option strategies can be pushed in a dynamic manner, and exchange rate fluctuations can be tracked in real time according to the distribution of cross-border e-commerce markets, thereby helping enterprises accurately manage exchange rate risks and reduce the negative impact of exchange rate fluctuations on business operations. **Risk early warning advisory:** Financial institutions should provide smart exchange rate monitoring and early warning services. They should also devise exchange rate hedging strategies and issue early risk warnings according to the actual conditions of cross-border e-commerce enterprises, enabling intelligent, around-the-clock exchange rate risk prevention support for SMEs.

3.1.3 Finance assists the cultural and creative industry in expanding to the international market

With Ne Zha 2's global box office sales exceeding RMB 10 billion and the game Black Myth: Wukong topping global sales lists, China's cultural industry has begun a new journey in the global market. However, systematic financial support and safeguards have not been established for the development and expansion of emerging cultural enterprises, and financial services covering the full lifecycle of cultural projects have not been developed. In addition, financial services have not yet been able to reach key processes such as the discovery, incubation and overseas expansion of cultural projects, which hinders the development and global expansion of China's emerging cultural business.

In order to connect all service points throughout the lifecycle of cultural projects and support the go-global ambitions of domestic cultural enterprises, financial institutions should urgently build a comprehensive financial service system and establish a financial empowerment model for these enterprises. Cultural industry investment funds should be set up to incubate films, games and other projects that present great potential. In addition, IP pledge financing should be provided, and an IP value-based evaluation system should be established, to provide financing support for enterprises. Financial institutions should also introduce cultural export credit insurance. Finally, a risk compensation mechanism should be developed that targets overseas policy risk, market risk, exchange rates and other risks to reduce the risks faced by cultural enterprises in their go-global journey, and address their difficulties in relation to capital and risk control.

a. Cultural industry investment funds: Bringing together leading enterprises and investment institutions in the cultural industry and pooling capital from multiple sources to establish industry investment funds that focus on cultural enterprises' go-global initiatives. Financial institutions should study the dynamics of the global cultural market and the preferences of global audiences, explore cultural projects such as films and games with international market potential, and provide financial support starting from the creative planning stage to help incubate projects. In addition, financial institutions should leverage their resource integration capabilities to provide value-added services such as international distribution channel expansion and overseas marketing and promotion for invested projects, with the goal of driving the overseas popularity of China's cultural products and enhancing the global presence of the country's cultural industry.

b. IP pledge financing: Provide flexible IP pledge financing services for cultural enterprises based on a sound IP value evaluation system. Financial institutions should establish professional IP evaluation teams to accurately evaluate the value of IP using scientific evaluation methods, taking into account considerations such as the market prospects of cultural products, audience feedback and the potential for the development of spin-offs, so as to reasonably determine financing quotas for relevant projects. In addition, financing plans—such as short-term working capital loans and long-term project development loans—should be customised according to the capital needs of cultural enterprises at different development stages, so as to help enterprises realise the value of their IP and address problems around capital turnover.

c. Cultural export insurance: Introducing professional cultural export credit insurance and building a comprehensive risk protection mechanism for cultural enterprises' go-global initiatives. Financial institutions should conduct in-depth analysis on the risk factors related to overseas cultural markets such as policies and regulations, market competition, and exchange rate fluctuations; and customise risk identification lists for cultural enterprises, provide early warnings about potential risks, and develop risk response strategies. Once a covered risk event occurs, the insurance institution should promptly initiate the compensation process and provide economic compensation to the claimant. By building an effective complementary mechanism, financial institutions can reduce the risk associated with cultural enterprises' go-global efforts, which will facilitate the healthy development of these enterprises in overseas markets.

3.2 Foreign inbound investment and foreigners coming to China

With the deepening of China's opening-up and innovation, foreign enterprises are attracted to the prospect of investing and developing in China, and they are contributing to China's economic development. To attract and retain foreign enterprises, financial service innovation should be empowered; policy support should be provided; and a favourable business environment should be cultivated. At the same time, convenient financial services should be provided, and a welcoming social and cultural environment should be built, so that foreigners can enjoy their work and lives in China. In this way, foreign enterprises can develop sustainably in China, while also supporting the country's economic growth.

3.2.1 Financial services for foreign enterprises operating in China

In order to help foreign enterprises thrive in the China market, innovation in the financial sector should be harnessed to optimise the business environment for foreign capital coming into China, with the goal of "bringing in" enterprises to achieve mutual development. A financial service system should be established for foreign enterprises, and customised and comprehensive financial services should be provided through innovative financial service models.

a. Market access and financing innovation. Upgrading the cross-border capital pool: Financial institutions should fully leverage the advantages offered by capital pools that integrate local and foreign currencies in pilot free trade zones to improve the capital turnover efficiency of foreign enterprises, with a view to safeguarding their investment and business development in China. **Priority channel for green bonds:** For foreign enterprises in the fields of renewable energy and low-carbon technology, financial institutions should provide a prioritised channel for the issuance of green corporate bonds, which can be supplemented by local governments' interest subsidy policies, so as to attract foreign capital into China's green industry. **Cross-border financing services:** Cross-border financing services should be provided to foreign enterprises to meet the financing needs of their operations in China. Meanwhile, financial institutions should help foreign enterprises build financing channels and optimise financing costs based on the characteristics of their business in China.

b. Integrated financial services for foreign enterprises. Account and fund management: According to the characteristics of foreign enterprises and their fund management needs, financial institutions should provide multi-currency account services to achieve efficient global payment and settlement. Financial institutions should provide fund custody services, monitor fund flows in real time to ensure enterprises' fund security and provide data support for their financial decision-making. **Exchange rate risk management:** Financial institutions should develop a suite of products that are linked to RMB exchange rate options, and enable effective exchange rate risk management through direct interfacing with the internal systems of foreign enterprises.

3.2.2 Financial services for foreigners coming to China

As foreign enterprises increasingly enter the China market, more and more foreign individuals are coming to China to work and develop their careers. In order to meet their needs in day-to-day life, shopping, consumption, investment and wealth management in China, the financial service system for foreign individuals should be further enhanced in respect of convenient payment, consumer finance, investment and wealth management, so as to ensure that they enjoy their work and lives and feel content living in China.

a. Enabling convenient payment for day-to-day consumption. Financial institutions should expand payment channels and provide convenient mobile payment solutions for foreign individuals; enable the binding of overseas bank cards to domestic mainstream payment platforms; and provide convenient and secure online and offline payment methods to meet their payment needs for day-to-day consumption. Moreover, an e-CNY "hardware wallet" application channel should be set up for foreign individuals to meet their multi-mode payment needs in a way that integrates mobile phones, hardware wallets and paper money. By taking these steps, financial institutions can provide a more convenient consumer experience for foreign individuals living and working in China.

b. Providing integrated financial services. Personal credit services: Based on comprehensive evaluations that take into account foreign individuals' income level, credit status and other factors, financial institutions should provide integrated personal credit services to meet foreign residents' financial needs in terms of home purchases, car purchases and day-to-day consumption in China. **Wealth management services:** Financial institutions should develop exclusive wealth management plans based on the specific situation of each foreign individual and provide a package of financial products covering investment planning, tax advisory and family wealth management, with a view to providing differentiated wealth management services for foreign individuals in China.

4. Conclusion

Amid today’s complex and ever-changing global landscape, financial innovation and opening-up are the key drivers of sustainable economic development. The attainment of future goals necessitates tangible implementation in the present. As such, China must adopt a multifaceted approach that encompasses not only top-level design of macroeconomic systems but also agile responsiveness and execution at the micro level. To achieve this, the financial sector should focus on identifying demand, pursuing scenario-driven innovation, and upgrading its toolkit to continually enhance the efficiency of financial services in supporting the real economy. Moreover, it is essential to optimize global resource allocation while maintaining a steady pace of opening up. By fostering synergy between financial innovation and opening-up, China can modernize its financial system and bolster its financial competitiveness.