

China's Strategic Finance Drive: Considerations for Korea's Next Steps

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I. Introduction

China believes its financial system must be equipped to support the country's evolving economic paradigm and industrial innovation. At the Central Financial Work Conference in 2023, China emphasized the importance of developing “Financial development with Chinese characteristics” for the nation's economic structural transition, and announced “building a financial powerhouse” as a key national strategic objective. China's recent financial reforms align with its development strategy and this strategic goal. However, rather than simply adopting Western financial development models, the recent financial reform is focused on creating the strategy of financial development with Chinese characteristics. In particular, this strategy centers on expanding Party control over the financial sector and establishing a “unified leadership” framework.

This report studies China's recent financial reform initiatives and development strategies, analyzes the opportunities and risks that may

emerge from changes in China's financial system, and draws implications for future Korea-China economic cooperation.

II. The Strategy of “Financial Development with Chinese Characteristics”

Under the financial development strategy with Chinese characteristics, the Chinese government positions finance as the lifeblood of the national economy and a cornerstone of the country's core competitiveness. The strategy aims to maximize financial resource utilization by strengthening the Party's direct involvement and leadership in financial sector and its oversight. China's financial development strategy contains three main areas: (1) building a comprehensive control framework to ensure financial stability, (2) enhancing support mechanisms for the real economy, and (3) advancing market-oriented financial reforms.

1. Establishing financial control tower through enhanced Party leadership

The main purpose of establishing a financial control tower is to strengthen Communist Party supervision over the financial sector, aiming to mitigate potential risks and support high-quality financial development. By highlighting Party leadership as the central theme in the eight core principles and six priority areas of China's financial development strategy, the Communist Party has firmly established its role as the central authority of the financial industry.

In 2023, China implemented the “Party and State Institutional Reform Plan,” establishing the Central Financial Committee (CFC) and Central Financial Work Committee (CWFC) under Party Central leadership. The plan also created the National Financial Regulatory Administration (NFRA) as a State Council agency, replacing the China Banking and Insurance Regulatory Commission (CBIRC). Also, it upgraded the China Securities Regulatory Commission (CSRC) to a directly subordinate State Council agency. This restructuring created a “one bank, one administration, one commission” framework under the State Council, incorporating the People's Bank of China (PBoC).

Under this new structure, the PBoC supervises and regulates monetary policy and macroprudential regulation, the NFRA oversees all financial markets except securities and manages consumer protection, while the

CSRC administers securities markets. This consolidation appears designed to eliminate regulatory gaps by integrating previously fragmented supervisory functions under unified functional oversight.

This financial supervision system represents a comprehensive institutional reform that strengthens central government control to bolster financial stability and enhance regulatory oversight of financial institutions and markets.

2. Enhancing real economy support mechanisms

China underscores that the primary role of finance is to support real economic development, and promotes financial sector development based on this fundamental principle. China aims to allocate adequate financial resources toward emerging and strategic industries in order to achieve high-quality economic development. Nevertheless, a persistent challenge remains. Capital continues to flow into the real estate sector, which has long served as one of the key engines of China's economic growth. Excessive investment in the real estate sector has fueled asset price bubbles and speculative activity. In response, China aims to resolve these challenges by reorienting the financial sector's role in supporting the real economy.

First, the Chinese government has designated five strategic areas for financial development, aiming to channel financial resources into priority sectors of the economy and enhance the capital market's ability to support the real

economy. These five designated strategic areas are technology finance, green finance, inclusive finance, pension finance, and digital finance. This initiative shows the government's commitment to optimizing financial resource allocation toward strategic national goals, including technological innovation, advanced manufacturing, green transition, and support for small and micro enterprises.

To provide financial support for key industries tied to next-generation economic growth, China has established sector-specific lending facilities and investment funds to ensure liquidity. Through government guidance funds, it encourages long-term investment in high-tech innovation sectors. These funds operate primarily through indirect support mechanisms, such as R&D investment, rather than direct subsidies. For example, the third-phase semiconductor government guidance fund, launched in 2024, supports the localization of China's semiconductor industry. In addition to the Ministry of Finance and China Development Bank, six major state-owned banks—the Industrial and Commercial Bank of China, China Construction Bank, Agricultural Bank of China, Bank of China, Bank of Communications, and Postal Savings Bank of China—participated in the fund. Through this fund, China aims to catalyze private sector investment in the semiconductor industry.

Second, China is implementing financial supply-side reforms of capital markets. For a long time, China has been criticized for the domi-

nance of its oversized banking sector and a relatively underdeveloped capital market. To address this imbalance, China seeks to expand direct financing by developing capital markets. The “Nine New Guidelines for Capital Market (Guo Jiu Tiao, 国九条),” a comprehensive policy framework for the capital market, outlines reform measures such as strengthened listing standards and regulatory oversight in securities markets, as well as improved delisting mechanisms and enhanced investor protection. Furthermore, it encourages M&A among securities firms to improve the competitiveness of non-banking financial institutions, with the ultimate goal of building world-class investment banks. These efforts aim at establishing a multi-layered, diversified financial supply-side ecosystem encompassing banking, bonds, equities, and venture capital.

3. Market-oriented financial reforms

Despite continuous liquidity injections through various policy measures, China continues to face chronic credit constraints in the real economy, particularly in terms of financing difficulties among small and medium private enterprises. To address these issues, Chinese government is pushing forward with market-oriented financial reforms.

A core component of China's market-oriented financial reform is interest rate liberalization. This reform is critical for enabling the efficient allocation and utilization of capital based on market-driven supply and demand.

For this reason, China has been pursuing interest rate liberalization over an extended period. However, the current level of interest rate liberalization remains insufficient, leading to concerns over the limited effectiveness of monetary policy. In particular, the disproportionately high credit risk premium for private enterprises, compared to state-owned entities, has contributed to elevated lending rates, thereby undermining the transmission and effectiveness of lending rates in the broader economy.

Interest rate liberalization is closely linked to the reform of the monetary policy transmission mechanism. China prioritizes economic growth and real-sector economy contribution as key objectives of its monetary policy. Traditionally, it has employed a combination of quantitative tools such as the M2 monetary aggregate, price-based interest rate tools, and structural instruments. However, discrepancies have emerged between monetary policy indicators and their impact on the real economy. In response, China is placing greater emphasis on price-based tools and regards reasonable inflation levels as a key policy consideration.

Currently, China's interest rate system is complex, with short-term rates (e.g., open market operations) and medium-to-long-term rates (e.g., MLF) moving separately. This fragmentation weakens the effectiveness of monetary policy transmission. Moreover, a structural inconsistency exists in which the interest rate for the Standing Lending Facility

(SLF) exceeds that of the MLF, potentially creating arbitrage opportunities and liquidity risks. To enhance the transmission effects of monetary policy, the PBoC plans to increase transparency, strengthen financial institutions' capacity for autonomous and rational pricing, and align monetary operations more closely with fiscal and industrial policy directions.

III. Implications for Korea and Policy Recommendations

China's recent financial development strategy has been accompanied by comprehensive institutional reforms. In light of the potential for changes in the legal and regulatory environment in China's financial market, Korea should consider adjusting its approach to engaging with the Chinese financial sector both at the corporate and governmental levels.

First, Korea should analyze China's expanding financial support for strategic industries and formulate a Korea-China economic cooperation strategy that distinguishes cooperation areas and levels from an economic security perspective. As the Communist Party's influence over the allocation of financial resources grows, support for strategically important industries is likely to increase significantly. This could, in return, strengthen product development capabilities and enhance the market expansion of Chinese companies. The rise of Chinese competitiveness in strategic industries could establish higher market entry barriers for foreign companies seeking to access the Chinese market. Accordingly, Korean companies need

strategic approaches that analyze evolving Chinese competitiveness, while securing their own competitive advantages within key industries and their supply chains. And if necessary, it needs to adopt strategic approaches such as establishing sustainable partnerships through joint R&D co-development initiatives. At the same time, the growing influence of the Communist Party over financial resources allocation may enhance access to state capital and state-owned financial institutions for private companies. This could gradually blur the boundaries between state-owned and private enterprises. As geopolitical risks increasingly manifest in corporate-level business cooperation, it is essential to establish secure business partnerships through thorough due diligence and analysis of counterpart firms. Ensuring transparency and trust in inter-firm collaboration is becoming ever more essential.

Second, in response to the evolving regulatory frameworks in China's financial sector, Korean financial institutions should reassess their market strategies for assessing the Chinese market. While China is likely opening financial markets to foreign companies, it is also expected to introduce additional regulatory measures related to financial risk management and capital market reform. Moreover, the consolidation of state-owned securities firms and the emergence of world-class investment banks as part of financial supply-side reform may enhance the competitiveness of Chinese

securities companies. This could create new entry barriers for foreign financial institutions. Therefore, it is necessary for Korean financial institutions to closely monitor the evolving Chinese financial system, evaluate their own competitiveness in the Chinese market, and swiftly formulate market entry strategies that align with local conditions.

Third, while recent financial reforms in China aim to address financial risks, such as those related to the real estate sector, local government debt, and small financial institution, these challenges are also deeply intertwined with structural issues in the real economy. As such, the current financial risk management measures may take time to yield fundamental solutions. Although it may still be premature to discuss the outbreak of a full-scale financial crisis in China, it is essential for Korea to assess potential risks within China's financial system and prepare proactive response strategies in light of possible spillover effects. In parallel, Korea should work to establish bilateral macroeconomic policy coordination channels with China to facilitate information sharing and strengthen cooperation on financial safety nets. Moreover, through both bilateral and multilateral mechanisms, Korea should continue encouraging the Chinese government to adopt market-friendly practices, including but not limited to the transparent disclosure of financial data. **KIEP**