

FINANCIAL INNOVATION UNDER CHINA'S EPIDEMIC CRISIS

The epidemic in China has become the nine major themes of the global economy in 2022, and major current events such as the bankruptcy of Sri Lanka have been included in the discussion of the world economic situation. Financial innovation has enabled the Chinese economy to create conditions and achieve sustainable growth during the crisis.

Keywords: *Chinese economy; financial innovation*

Overview of China's epidemic crisis

1. Supply chain disruption and related risks

Relatively strict zero-clearance policies such as blockades and silence continue to harm economic activities in all walks of life. Because the control content includes the movement of people and goods. It is difficult for enterprises to establish long-term effective trade. According to statistics from Fortune magazine: about 94 % of the commodity supply chain has been affected. People are quarantined and goods are stagnant. In particular, the automobile and mobile phone manufacturing industries are experiencing difficulties in production. In addition, official statistics: The average annual freight rate of containers has increased by 50 %. The outbreak of the epidemic has caused companies to face pressures such as tight cash flow, supply chain disruptions, and a general decline in market supply and demand. Most companies expect their revenue to decline significantly in the first half of the year. 1/3 of enterprises have a cash flow endurance period of less than one month.

2. Rising prices of daily necessities

In the state of home isolation, the core of residents' consumption is daily necessities, and panic has led to residents' hoarding of goods. These factors have led to local temporary supply shortages and price increases. For example, the poultry industry has been affected. According to the industry's statistical assessment, the market input of chickens and ducks has dropped by about 50 %. According to the 40-day slaughter cycle, the supply is obviously insufficient and unable to cope with the rising market demand, resulting in rising prices.

3. Residents' income drops and deposits increase

Due to lockdown measures, some manufacturing industries have had to stop production amid rising raw material supply and rising production costs. Working-class residents, such as Foxconn workers, cannot receive compensation for their labor. Economist Li Xunlei said: Declining external demand, weakening Chinese real estate and other factors have slowed economic growth, leading to a decline in residents' income growth. On the other hand, affected by the weakening expectations, residents' deposits increased significantly. For example, in November alone, household deposits increased by 22.25 trillion yuan and consumption decreased. Small and medium-sized enterprises generally face the problem of reduced market sales, original orders have been postponed or canceled, and new orders cannot be obtained in the short term. As the resumption of work and production progresses and production problems are solved, market sales problems will become more prominent.

China's financial innovation changes in response to the epidemic

1. Mobile payment and online financial management

Thanks to the inclusive regulatory system and environment, China's mobile payments and online financial management have achieved ample room for development. The "Fintech Development Plan" issued by the People's Bank of China in 2022 clarifies the main goals of promoting high-quality financial digital transformation, strengthens the main line of financial technology prudential supervision, and promotes the risk firewall of finance and technology. According to statistics, the annual number of online payment users reaches 904 million. The development of mobile payment platforms has driven digital transformation in China's payment field. Mobile payment has become a "China business card" in the new era.

2. Financial innovation in big data applications

Data has always accompanied the development and changes of human society, carrying the efforts and great progress made by human society to understand the world based on data and information. The

development and application of big data not only advance epidemic prevention tools, but also promote the development of the financial industry through its application in the financial field. In China, the Internet revolution has turned face-to-face end users into face-to-face organizations. Promote the formation of a new financial industry through deep interconnection, comprehensive links of all elements, and the entire industry chain.

3. Development of blockchain technology in the financial field – legal digital currency

Blockchain technology is a new type of security infrastructure in a sense. The legal digital currency based on blockchain technology has taken the lead in formulating international standards. This includes formulating data structure standards for “basic data units” and consensus protocol standards for “data flow chains”. Its importance in the financial field is similar to the development of Internet TCP/IP protocol standards in the IT field, or the development of global trade agreement standards in the business field.

4. Factor revolution: The digitalization process is a major factor transformation during the epidemic period

In the general trend of digital economic development, China’s digital financial innovation also keeps pace with it. The development of the digital economy relies on China’s huge population and market space advantages, which has also given rise to the vigorous development of digital finance, and has derived various financial innovations based on digitalization in different application scenarios: in the field of sovereign currency, the Digital Currency of the People’s Bank of China (DCEP) , is a legal encrypted digital currency with unlimited legal compensation. It is the digital form of RMB and its essence is currency; in the field of payment, payment platforms such as Alipay and WeChat have been widely used in daily payment scenarios; in the field of asset management, big data has gained Customers, robo-advisors, etc. are also gradually emerging in wealth management scenarios; in the field of risk management and supervision, risk management models based on big data and artificial intelligence have been widely implemented in various financial institutions. Advanced technologies based on big data and blockchain Management technology is also constantly being explored and improved by China’s financial regulatory authorities. For example, the State Administration of Foreign Exchange’s cross-border financial blockchain service platform has been built and launched. The development of digital finance in China already has a pioneering advantage. Of course, there are also problems such as monopoly and risks, which need to be further solved and optimized during development. However, in the context of accelerating technological innovation and the booming digital economy, digitalization is still the key to financial development. general direction.

5. Changes in inclusive finance under the epidemic

The novel coronavirus (COVID-19) epidemic could revolutionize digital financial services. The development of mobile money, fintech services and online banking can greatly benefit low-income households and small businesses. Financial inclusion brought about by digital financial services can also promote economic growth. While the pandemic will increase use of these services, it also poses growth challenges for smaller players in the industry and highlights the issue of unequal access to digital infrastructure among market players. Several actions are needed to ensure maximum financial inclusion in the future. The shift to digital financial services was already helping society advance financial inclusion even before the pandemic began, benefiting many low-income households and small businesses that typically don’t have access to traditional financial institutions. Lockdowns and social distancing measures are accelerating the use of digital financial services, just as the SARS epidemic in 2003 prompted China to accelerate the launch of digital payments and e-commerce.

Financial inclusion benefits the economy and society as a whole. Previous research has found that expanding traditional financial services to low-income households and small businesses will be accompanied by accelerated economic growth and reduced income inequality, and that digital financial inclusion will also lead to higher GDP growth.

Analyze and Conclusion

The epidemic has had a huge impact on offline physical trade. According to statistics, during the epidemic, an average of more than 600,000 companies closed down in China each year. Among them, the tertiary industries such as cultural tourism and service industry are the majority. However, historical data shows that the impact of natural disasters on the macroeconomy is usually short-term, with the economy showing a V-shaped trend. However, the potential of the online economy has been fully unleashed, with online retail sales growing by 7.3 %. The financial digital economy activates market opportunities and will continue to inject power into China’s domestic circulation market.

Financial innovation and development based on emerging science and technology such as data science and blockchain have made finance more efficient with the support of the Internet, giving birth to tens of billions of financial giants. Moreover, the digital platform will use its strengths in the financial field to greatly improve the efficiency of financial services.

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