

Advancing the Digital Transformation of Industrial Finance: Basis and Focus⁷

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Abstract: The 2023 Central Financial Work Conference outlined “five major areas” (technology finance, green finance, inclusive finance, pension finance, and digital finance) where future efforts should be directed to improve the financial sector’s support for the real economy. Digital finance, in this context, doesn’t refer to digitizing finance itself but rather providing the financial support for the development of the digital economy and its smooth operation.

Financial institutions should tailor their financial products to meet the actual needs of companies undergoing digital transformations. It’s crucial to recognize that “industrial digitization” encompasses the complete digitization of supply and industrial chains, not just the digitalization of individual companies. Financial institutions should offer better financial services to optimize data governance, production, and transactions.

In terms of the digital transformation of industrial finance, it’s imperative to establish a clear standpoint. It should not revolve around building supply chain finance solely from the financial perspective but should instead focus on serving the industrial chain, innovating and designing digital financial products that align with the characteristics of the industrial chain. This is the type of financial services the digital transformation of industrial finance needs.

I. The “Five Major Areas” Outline the Directions of Financial Support for the Real Economy

First, we need to accurately comprehend the concept of the “five major areas” proposed at the 2023 Central Financial Work Conference, namely technology finance, green finance, inclusive finance, pension finance, and digital finance. They represent the main directions for financial support to the real economy in the future and are indicative of the future direction of China’s economic development.

In the past, when we talked about financial support, the discussion tended to focus on financial support for specific industries, such as agriculture, new energy, automobile, and even real estate for a while. But the “five major areas” don’t target specific industries. For instance, “technology finance” supports technological innovation, which is a crucial catalyst for economic development, while “green finance” backs sustainable development across all sectors, not just green industries.

It’s worth noting that “digital finance” isn’t the same as the commonly understood “fintech” but instead focuses on supporting the digital economy. The future economy will operate primarily in a digital form, and every aspect of our lives will be digitalized. Thus, financial support for the digital economy is essential to ensure its smooth operation.

In other words, the logic behind the “five major areas”

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should not be misunderstood as financial support for four other areas and the digitalization of finance. Of course, the digital transformation of the financial sector, or digitalized finance, is a part of the digital economy. However, digitalized finance should also serve technology finance, green finance, inclusive finance, and pension finance. That's how it works.

II. Providing Financial Services for the Digital Transformation of Businesses, Industries, and Sectors

Digital economy is all encompassing, as every industry, sector, and the society at large will eventually digitalize. To build a digital China, finance is required everywhere, and I'm talking not just about fintech, but all kinds of financial needs to be met.

For example, a company needs financial support to digitalize itself, and a bank decides to give it a loan. Digital finance is not about the bank providing the loan in digital currency, as the company may in fact not be digitalized enough to use digital currency, but rather about it designing financial products and services based on the actual needs of the company undergoing digital transformation. This is what digital finance truly means.

Digitalization goes beyond the transformations of individual companies and includes industries and sectors that facilitate these transformations, such as tech companies like Huawei and platform economies. In the future, all industries and sectors will undergo digitalization. "Industrial digitization" doesn't refer to the digitization of a single company but rather the complete digitalization of supply and industrial chains.

In this digital survival model, it's all about providing better financial services to better facilitate data governance, production and transaction. This involves more than just using fintech to address digital economy challenges.

In the past, supporting small and micro-enterprises was often seen as something only small banks or fintech companies could do. However, this perspective is changing, and large banks are realizing their advantages in applying digital technology to provide

financial services to small and micro-enterprises.

Similarly, we must view digital finance through a broader lens.

III. Digital Transformation of Industrial Financial Services Must Be Based on the Needs of Industrial Chain

For the digital transformation of industrial finance, it's essential to clarify the point of view from which the topic is approached. Should we look at it from a financial standpoint and center our discussions on providing financial services for industrial digitization, or should we address it from the standpoint of digitalizing industries and providing financial services to support them?

These two perspectives are different. Many banks are currently attempting to establish supply chain finance, but most are not very successful or fail to apply it systematically. This is because they approach the issue from a bank's viewpoint, focusing on what data the bank needs, assuming that the supply chain's process design should align with the bank's data requirements. However, this approach may inadvertently reduce the efficiency of the industrial chain.

In my opinion, the more reasonable approach is to focus on the need of the industrial chain and provide service accordingly. Take the example of the cold chain industry. We should design its digital industrial chain based on its unique characteristics, and then financial institutions can enter to provide services. Digital financial services that cater to the needs of the industrial chain are what the digital transformation of industrial finance in this new landscape requires. That is why we must shift our perspective.

Once the perspective is changed, we'll realize that fintech isn't simply about "peer-to-peer payments" or "lending." Instead, it involves innovating a range of digital financial products (such as loans and remittances) and digital financial tools (such as securities, bonds, checks, and promissory notes), as well as digital transaction modes and platforms. This is the key to serving the digitization of industries effectively. 🏠