Study on Influencing Factors of Cross-border Capital Flows in China's Financial Markets

Baoan Xiong, Xiaodan Zhao*

Baise University, Baise, Guangxi, China

*Corresponding author
627817039@qq.com (Baoan Xiong)
*912334080@qq.com (Xiaodan Zhao)

Abstract. This study employs the Vector Autoregressive Model (VAR) to investigate the impact of different variables on cross-border capital flows in China's financial markets, taking the balance of foreign exchange settlement and sales in capital, financial items, direct investment, and securities investment as the perspective. The variables include RMB exchange rate, interest rate differential between China and the United States, and the variable rate of the stock market index. The findings demonstrate that the impact of different variables is various under different perspectives. The impact of changes in the RMB exchange rate varies widely. The expansion of the Sino-US interest rate differential will result in cross-border capital inflows across all categories. Additionally, the fluctuations in the stock market index exhibit an inverse correlation with cross-border capital flows under the capital and financial items and direct investment, while exhibiting a positive correlation with cross-border capital flows under the securities investment item. In this regard, we put forward policy recommendations as follows: Firstly, guide exchange rate expectations and strengthen foreign exchange market supervision, to keep the RMB exchange rate basically stable at an appropriate and balanced level. Secondly, it is recommended that the interest rate differential between China and the US should be kept at a reasonable level by focusing on the current new development pattern, in light of the worldwide economic and financial situation. Thirdly, it is essential to reinforce the sharing of information and collaboration in supervision among the relevant supervisory departments. This will facilitate the supervision of cross-border capital flows at a reasonable and legal level.

Keywords: Financial market, Cross-border capital flows, VAR model

1 Introduction

China's financial opening up is currently progressing rapidly. The areas of opening up are expanding, the process of opening up is advancing in an orderly manner, and the laws and regulations, as well as the various policies and measures of financial supervision, are becoming increasingly comprehensive. Furthermore, the ability of finan-

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cial services to reform, open up and support economic and social development is being further strengthened. The relaxation of capital controls and the influence of international and domestic economic and financial environments have resulted in an increase in cross-border capital flows in China's financial markets, accompanied by heightened fluctuations[11]. This has created significant challenges for the monitoring and management of cross-border funds by regulatory authorities. The large-scale inflows and outflows of international floating capital, illegal cross-border funds and other speculative cross-border funding present a considerable risk to the foreign exchange market and domestic financial stability[12]. The Asian financial crisis of 1997 had a significant impact on Thailand, largely due to the influence of international hot money, which resulted in a notable collapse of the country's economy. Consequently, it is of paramount importance to identify the factors influencing cross-border capital flows, as this will enable regulators to monitor such flows in a targeted manner, take measures to prevent the occurrence of risks timely and effectively, and maintain the aforementioned guarantee of no systematic financial risks[13].

A review of the data from the past ten years (2012-2021) on a quarterly basis reveals that the balance of capital and financial projects has been in deficit on a continuous basis since the second quarter of 2014 until the fourth quarter of 2017. This has resulted in a cumulative deficit of 2981.5 billion yuan, which can be characterized as a cross-border capital outflow. The largest deficit was recorded in the fourth quarter of 2015, with a deficit of 565.2 billion yuan. The remaining quarterly deficits were less concentrated and more sporadic in occurrence. As direct investment and securities investment under capital and finance account, to a certain extent, the situation of the balance of payments and sales of foreign exchange is similar to it, with a continuous deficit in direct investment from the third quarter of 2015 to the third quarter of 2017 and a continuous deficit in securities investment from the second quarter of 2015 to the second quarter of 2017. The main reasons for the capital and financial account deficits during this period were the exit of the United States from the quantitative easing (QE) policy in 2014, the outflow of floating capital due to the expected depreciation of the renminbi, and balance-sheet adjustments made by residents and institutions in order to hedge against risks. From the beginning of the first quarter of 2019 until the first quarter of 2021, the capital and financial account has remained in surplus, as evidenced by an increase in net cross-border capital inflows. However, direct investment has been in surplus since the fourth quarter of 2017, while securities investment has been in surplus since the first quarter of 2018, with the exception of a deficit in the fourth quarter of 2019 and the first quarter of 2021. The surplus can be attributed to two main factors: firstly, the generally stable performance of the renminbi among global non-dollar currencies in comparison with all major currencies, and secondly, the success of China's fight against the 2020 pandemic, which boosted market confidence. Additionally, China's emergence as the only major economy in the world to achieve positive economic growth in 2020 and the appreciation of the renminbi exchange rate also contributed to the surplus.

In conclusion, a cross-border capital flow is influenced by a complex array of factors. In this study, the cross-border capital flows in the financial market are represented by the difference between the capital and financial projects from data of the

balance of foreign exchange settlement and sales of bank (by transaction items) and the settlement and sales of direct investment and securities investment under them. Positive data indicate cross-border capital inflows, while negative data indicate cross-border capital outflows. The variables include the RMB exchange rate, the US-China interest rate differentials, and the rate of change of stock market indices. The data are quarterly data from the first quarter of 2012 to the first quarter of 2021, comprising a total of 37 periods. By constructing a model to study the influencing factors of cross-border capital flows, we hope to provide certain empirical evidence make policy recommendations accordingly.

2 Literature Review

As several financial crises have prompted a considerable volume of cross-border capital flows, scholars have conducted extensive research into the influencing factors of cross-border capital flows, as well as internal and external factors. Branson (1968) employed asset securities theory to incorporate internal and external risk levels and investors' decision-making judgement into the scope of the study[3]. Additionally, he proposed that, in addition to interest rates and exchange rates, gross domestic product (GDP) and import and export trade also affect short-term cross-border capital flows. In a study employing the vector autoregression (VAR) model, Kim (2000) analyzed data from four developing countries: Mexico, Chile, South Korea, and Malaysia[9]. The findings indicated that interest rates and exchange rates exert a considerable influence on short-term cross-border capital flows. Fratzscher (2012) employed a regression analysis of data from 50 sample countries to investigate the impact of internal and external factors on cross-border capital flows in the aftermath of the 2008 international financial crisis[4]. The analysis revealed that there were notable differences in the patterns of cross-border capital flows before and after the crisis. Prior to the financial crisis, internal factors were identified as playing a significant role in influencing short-term cross-border capital flows. Conversely, external factors were found to have a pronounced impact on short-term cross-border capital flows in the aftermath of the financial crisis. Ghosh et al. (2001) examined capital inflows to developing countries prior to and following the financial crisis. Their findings indicated that elevated domestic interest rates were not a significant determinant of foreign capital inflows[6]. Instead, both external push factors and internal pull factors were identified as influencing capital inflows. In their study of capital inflows to developing countries before and after the global financial crisis, Ghosh et al. (2001) found that higher domestic interest rates were not effective in attracting foreign capital inflows[6]. Instead, they identified a range of external and internal factors that influenced capital inflows. Ahmed and Zlate (2014) employed regression analyses to compare and contrast cross-border capital flows between developing and developed countries[1]. In doing so, they identified interest rates and economic growth as important reasons for short-term cross-border capital flows in developing countries. Fratzscher et al. (2013) investigated the impact of US unconventional monetary policy on capital flows. The results demonstrate that the initial two rounds of US quanti-

tative easing policy loosening had a considerable impact on capital flows, resulting in approximately 25% of total capital inflows to emerging economies[5]. It is further argued that the US has played a pivotal role in driving global financial market development and the formation of financial cycles, with a significant influence on global financial dynamics.

Chinese scholars specializing in domestic studies have conducted a greater amount of research on cross-border capital flows. This research has included studies on cross-border capital flow stress tests, influencing factors and regulatory instruments. In their 2015 study, Lou and Yu employed a vector autoregression model (VAR) to assess the impact of cross-border capital outflows on a range of macroeconomic variables, including exchange rates, interest rates, the consumer price index (CPI), and other macroeconomic indicators[10]. They conducted their analysis using July 2015 as the initial environment. The study demonstrates that the immediate impact of net cross-border capital outflows is significant, yet the long-term effect is not significant. Zhou (2016) undertook an analysis of the impact mechanism of cross-border capital flows on China's economy and finance. He constructed an economic system based on the Wilson risk model, fitted the system parameters using the generalized method of moments (GMM), and carried out scenario analysis[15]. The results of the study demonstrate that under the prevailing macroeconomic management system, cross-border capital outflows exert a discernible negative influence on China's financial and economic sectors. Ba et al. (2015) employed principal component analysis to derive the principal factors affecting China's international capital flows. The empirical results demonstrate that greater openness to the global economy, increased economic output, higher labor remuneration and moderate inflation are associated with an increase in long-term international capital inflows[2]. Conversely, RMB appreciation has been identified as a factor inhibiting their entry. The anticipated appreciation of the RMB and the growth in real estate and stock prices has been observed to lead to an increase in short-term international capital inflows. However, the influence of openness to the global economy and the domestic and foreign interest rate differentials on short-term international capital inflows has not been conclusively established. Hong (2021) employed the SVAR model to examine the influence of U.S. monetary policy adjustments and international oil price fluctuations on China's cross-border capital flows. The findings indicate that, on the whole, changes in the RMB exchange rate and changes in the international price of oil are more pronounced than the spillover effect of U.S. monetary policy adjustments on cross-border capital flows[8]. Guo (2016) established the 'cross-border capital volatility pressure index' and employs the VAR model to conduct a comprehensive analysis of the potential outcomes associated with the implementation of price-type and quantity-type macro-prudential regulatory instruments[7]. The results demonstrate that the immediate impact of quantitative regulatory measures is considerable. Over an extended period, price-type and quantitative measures operate in conjunction, with the former exerting a more pronounced effect. While price-type measures have a smaller impact than quantitative measures, they play a pivotal role in narrowing domestic and foreign interest rate differentials, underscoring the prominence of market guidance. Xie &Yu. (2024) conducted an analysis of the relationship between China's total foreign exchange settlement and a

number of other economic variables, including the current account, capital and financial account, trade in goods, trade in services, and earnings and current transfers[14]. It is highlighted that the current account cross-border receipts and payments represent the primary components of China's cross-border receipts and payments, while trade in goods and direct investment serve as the predominant sources of China's net cross-border capital inflow pressure.

Based on the review of literature, scholars from both domestic and foreign academic institutions have conducted extensive research on cross-border financial flows. However, their studies have not been refined to include direct investment and securities investment under the capital and financial account. Additionally, the majority of these studies have focused on one-way cross-border financial flows, specifically outflows or inflows. This study is based on existing research and will focus on the factors influencing capital and financial projects, as well as the balance of direct and securities investment settlements. All data have been standardized to one measure using the Z-Score, allowing for an examination of the impact of selected variables on cross-border capital flows in the financial market. This study is limited in two ways. First, the data for a few variables is challenging to obtain, and alternative data that is similar in nature must be used instead. This approach does not fully capture the relationship between the variables. Second, for variables with significant daily fluctuations in the data, the data are processed as quarterly data, which masks the impact of large short-term shocks.

3 Empirical Analysis

3.1 Variable Selection and Data Sources

In light of the extant literature and the research objectives of this paper, as well as the availability of data, we employ the capital and financial projects (CFP) and the discrepancy between the settlement and sale of direct investment (DI) and securities investment (SI) under it in the bank settlement and sale of Foreign exchange data (by transaction item), to represent cross-border capital flows in the financial market. The RMB exchange rate (ER), the interest rate differential between China and the United States (IR), and the rate of change of the stock market index (SPI) are selected as explanatory variables. The data on the settlement and sale of capital and financial projects (CFP), direct investment (DI) and securities investment (SI) are sourced from the portal of the State Administration of Foreign Exchange (SAFE). The exchange rate of the RMB (ER) is calculated as the monthly average of the conversion of one US dollar to the RMB, with this figure then averaged on a quarterly basis. The data for this are drawn from the website of the People's Bank of China (PBOC). The interest rate differential between China and the United States (IR) is calculated as the quarterly average of the Shanghai Interbank Offered Rate (SIAR) for the period of March, minus the quarterly average of the London Interbank Offered Rate (LIBOR) for the same period. The data for SIAR are sourced from the Shanghai Interbank Offered Rate website, while the data for LIBOR are sourced from the website of International Settlements (IS.com). The rate of change of the stock market index (SPI) is

calculated as the quarterly average of the closing price of the CSI 300 index. The data for this index are sourced from the website of Net Ease Finance. The aforementioned data are all quarterly data and constitute multivariate time series data. Given the presence of negative values in the data set, it is not possible to apply the logarithm function. Therefore, all data have been standardized using the Z-score standardization method, and the vector autoregressive model (VAR) has been employed for empirical analysis.

3.2 Unit Root Test

The first step is to perform a unit root test on the time series data in order to ascertain whether it is a smooth series. Following the completion of the test, it was determined that the securities investment settlement difference (SI) and the stock market index change rate (SPI) are smooth time series. Additionally, the capital and financial project settlement difference (CFP), direct investment settlement difference (DI), RMB exchange rate (ER), and US-China interest rate difference (IR) were found to be first-order difference smooth. The results of the test are presented in Table 1. Consequently, three VAR models are constructed utilizing the first-order difference series of the balance of capital and financial projects (CFP), the first-order difference series of the balance of direct investment (DI), and the sequence of the balance of securities investment (SI) with the RMB exchange rate (ER), the first-order difference series of the US-China interest rate (IR), and the rate of change of the stock market index (SPI), respectively.

Table 1. Results of unit root test for variables

Variable	Type of test(c, t, p)	Value of the statistic Z(t)
D(CFP)	(c, 0,1)	-6.307***
D(DI)	(c, 0,1)	-6.966***
SI	(c, 0,0)	-3.350**
D(IR)	(c, 0,1)	-4.085***
D(ER)	(c, 0,1)	-3.743***
SPI	(c, 0,0)	-4.590***

Notes: (1) In the type of test (c, t, p), c represents the constant term, t represents the time trend term, and p represents the lag order. Where c, t is 0 means without constant term and time trend term, and c, t is 1 means with constant term and time trend term.

(2) ***, **, and * indicate that the variables are significant at the level of 1%, 5 %, and 10%.

Sources: data analysis using stata

3.3 Choice of Lag Order in the Model

In accordance with the information criterion, the optimal lag orders for the three models have been determined. In accordance with the estimation results presented in Table 2., a conservative approach was adopted for all three models. We perform fol-

low-up tests for the lag order selected by the different test methods, and select the order of stable model for systematic verification.

Table 2. Estimation results of lag order

-	lag	LL	LR	FPE	AIC	HQIC	SBIC
D(CFP)	0	-102.487	NA	0.009132	6.65542	6.71615*	6.83864*
	1	-85.7258	33.522	0.008797*	6.60786*	6.91152	7.52395
	2	-76.8452	17.761	0.01446	7.05283	7.59941	8.70178
	3	-62.4755	28.739	0.018354	7.15472	7.94423	9.53654
	4	-40.4378	44.075*	0.016755	6.77737	7.8098	9.89205
D(DI)	0	-103.7	NA	0.009851*	6.73123*	6.79196*	6.91445*
	1	-87.8817	31.636	0.010066	6.74261	7.04626	7.65869
	2	-83.0787	9.6061	0.021348	7.44242	7.989	9.09137
	3	-71.332	23.493	0.031925	7.70825	8.49775	10.0901
	4	-49.7745	43.115*	0.030031	7.36091	8.39334	10.4756
SI	0	-119.879	NA	0.027079	7.74242	7.80315*	7.92564*
	1	-100.583	38.592	0.022265*	7.53643*	7.84009	8.45252
	2	-91.4514	18.263	0.036027	7.96571	8.5123	9.61467
	3	-80.4545	21.994	0.056461	8.2784	9.06791	10.6602
	4	-62.5903	35.728*	0.066902	8.16189	9.19433	11.2766

Notes: * is the optimal lag order selected under the corresponding criterion.

Sources: data analysis using stata

3.4 Granger Causality Test, Residual Autocorrelation Test and System Stability Discrimination of the Model

The results of the Granger causality test for the VAR model with the response variable designated as D(CFP) are presented in Table 3.

Table 3. Results of Granger causality test

Equation	Excluded	chi2	df	Prob>chi2
D_cfp	D.ir	6.342	1	0.012
D_cfp	D.er	.02522	1	0.874
D_cfp	D.ir spi	1.8742	1	0.171
D_cfp	All	8.035	3	0.045
D_ir	D.cfp	.0253	1	0.874
D_ir	D.er	1.8733	1	0.171
D_ir	spi	.08422	1	0.772
D_ir	All	2.5888	3	0.459
D_er	D.cfp	2.0769	1	0.150
D_er	D.ir	12.333	1	0.000
D_er	spi	.20577	1	0.650
D_er	All	14.401	3	0.002

spi	D.cfp	.6976	1	0.404
spi	D.ir	3.703	1	0.054
spi	D.er	.13099	1	0.717
spi	All	4.3655	3	0.225

Sources: data analysis using stata

The results of the Granger causality test indicate that the original hypothesis is significantly rejected at the 10% level. This implies that D.ir is the Granger cause of D.cfp with a p-value of 1.2%. However, D.er and SPI do not reject the original hypothesis. However, the entire equation, or the right-hand side of the equation, is identified as the Granger cause of the dependent variable with a p-value of 4.5%. Conversely, no D.cfp variables were identified as Granger causes for the other variables[1].

The results of the residual autocorrelation test are presented in Table 4.

Table 4. Residual autocorrelation test results

lag	chi2	df	Prob>chi2
1	9.8674	16	0.87346
2	14.5719	16	0.55619

Sources: data analysis using stata

The original hypothesis of no autocorrelation was accepted following the LM test. To assess the stability of the VAR model, a unit root test was conducted, and the results demonstrated that all the eigenvalues were within the unit circle, indicating that the VAR model is stable (Figure 1.).

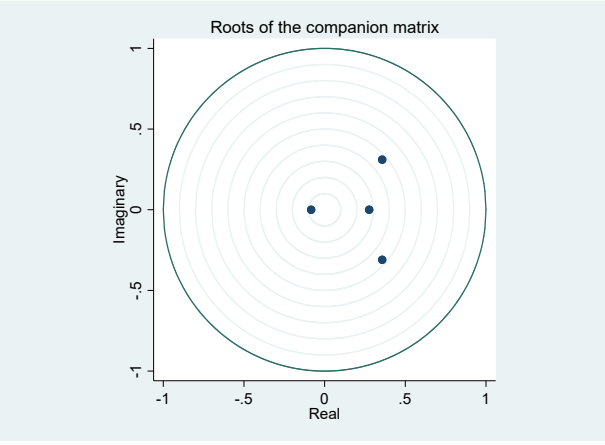

Fig. 1. Stability test of VAR with D (CFP) as response variable. (Sources: data analysis using stata)

Following the same steps and testing methods, the VAR model with D(DI) and SI as the response variable are tested and the residuals pass the no autocorrelation test

[1] Variables are abbreviated in lower case for ease of representation in stata.

and the models are stable. Given the similarity of the test steps and content, only the test discriminant plots of the VAR models with D(DI) and SI are demonstrated here. They are shown in Fig. 2. and Fig. 3.

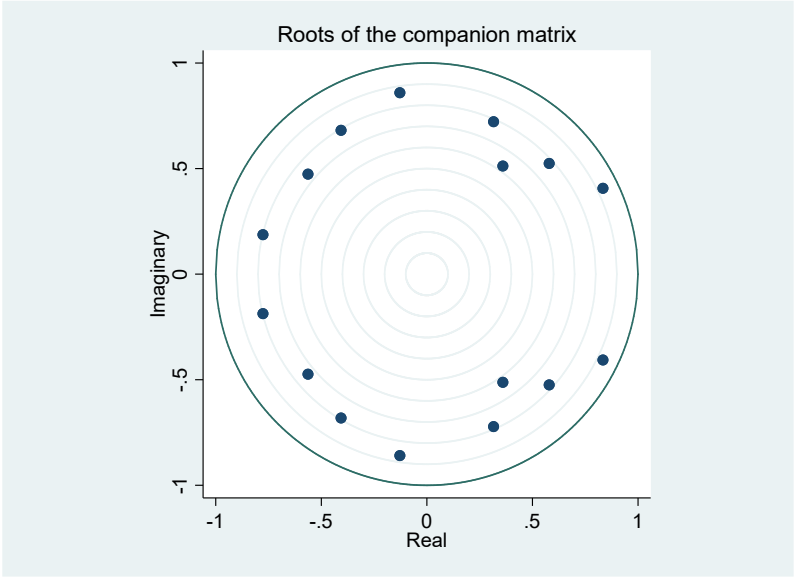

Fig. 2. Stability test of VAR with D(DI) as response variable (Sources: data analysis using stata)

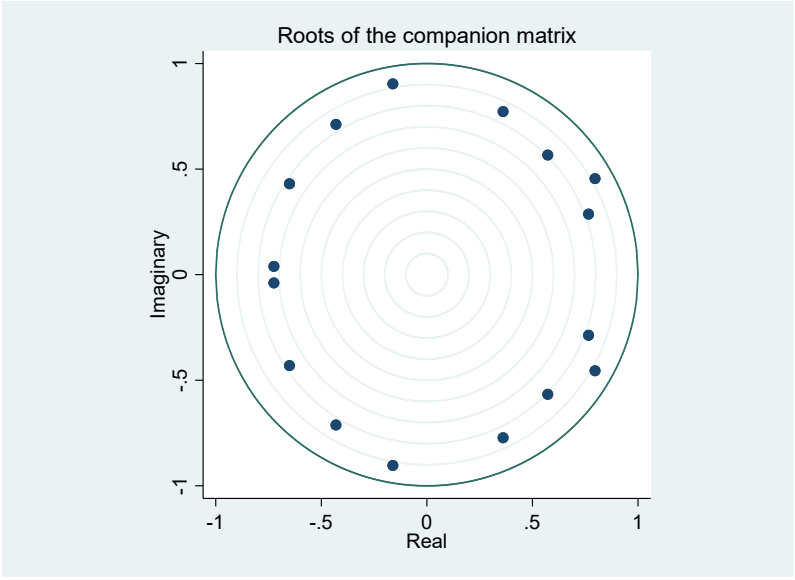

Fig. 3. Stability test of VAR with SI as response variable (Sources: data analysis using stata)

3.5 Impulse Response Analysis

Fig. 4, Fig. 5 and Fig. 6 illustrate the impulse response plots of the three models. The subheadings in the plots denote the impulse name, the shock variable and the response variable. It should be noted that the change in each variable has an effect on itself and on the other variables. The focus of this data analysis is on the effect of the explanatory variables on response variables.

As illustrated in Fig. 4., a positive shock of one unit of D.er results in an increase in D.cfp over the subsequent two periods, reaching its peak in the second period. Thereafter, it exhibits a gradual decline until reaching a plateau in the fourth period. Similarly, a positive shock of one unit of D.ir causes D.cfp to rise and peak in the next period, after which it continues to decline until reaching a plateau in the third period. To rise and peak in the subsequent period, after which the impact continues to decline until it dissipates in the fourth period; a positive shock of one unit of SPI causes D.cfp to decline to negative values in the subsequent period, and adjusts rapidly after the second period until it plateaus in the third period. A positive shock of one unit of SPI results in a decline of D.cfp to a negative value in the subsequent period, followed by a rapid adjustment after the second period, which stabilizes in the third period. The results demonstrate that RMB depreciation gives rise to capital inflows under capital and financial projects, and vice versa. Similarly, the widening of the interest rate between China and the US gives rise to capital inflows under capital and financial projects, whereas the narrowing leads to capital outflows. Furthermore, the rise in the Chinese stock market index gives rise to capital outflows under capital and financial projects, and vice versa.

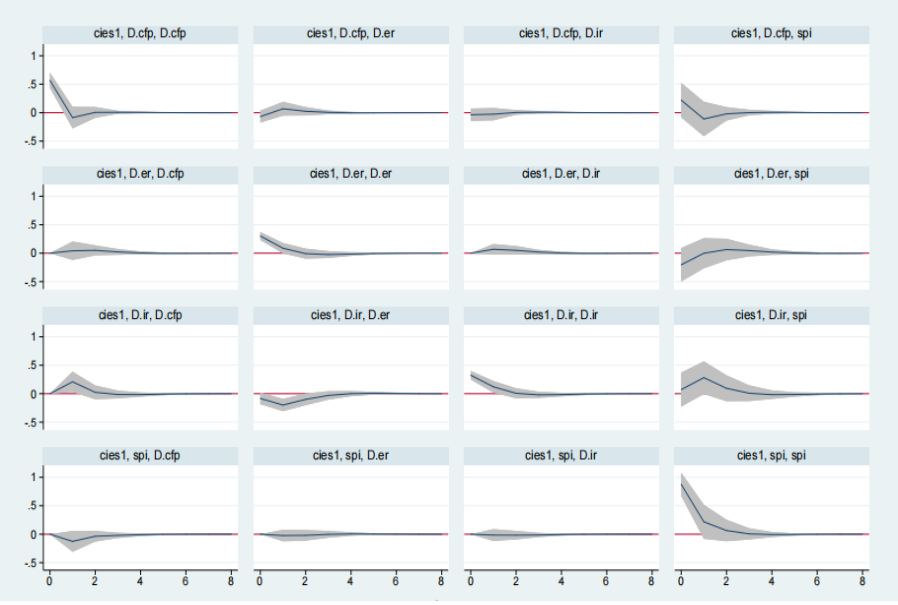

Fig. 4. Impulse response of VAR with D (CFP) as response variable (Sources: data analysis using stata)

As illustrated in Fig. 5, the positive shock of one unit of D.er exerts a prolonged influence on D.di, resulting in a negative value in the initial period and a subsequent upward trajectory in the second period. This trend reverses in the third period, before resuming an upward path in the fourth period. This cyclical pattern persists until the eighth period. A positive impact of one unit D.di causes D.di to rise to a maximum in the first period. However, in the second period, the impact decreases. In contrast, the positive shock of one unit of SPI causes D.di to fall to a negative value and then rise gradually, with fluctuations, after the fifth period. The impact of SPI on D.di persists until the eighth period. The depreciation of the RMB has been demonstrated to result in the outflow of funds under direct investment, as has the widening of the interest rate differential between China and the United States. However, the duration of the impact of these factors is not long. Similarly, the rise of China's stock market index has been shown to cause the outflow of funds under direct investment.

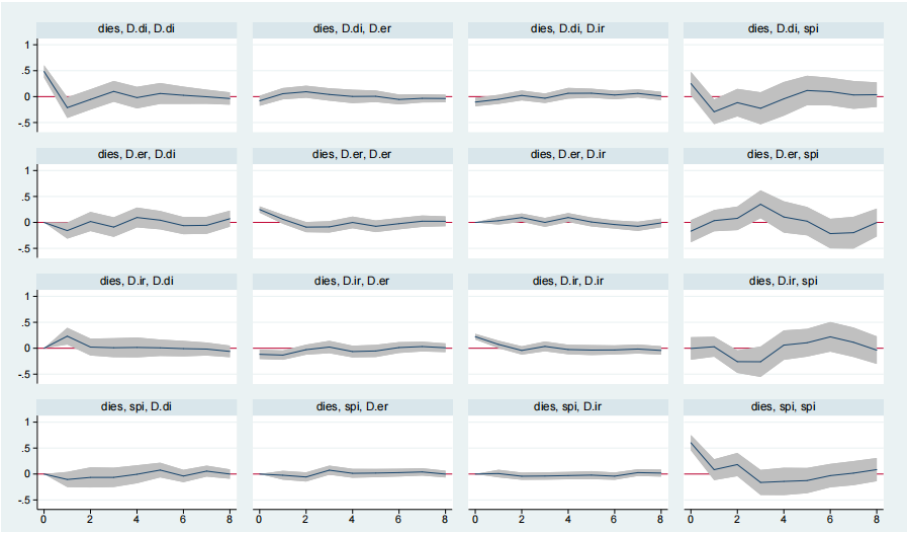

Fig. 5. Impulse response of VAR with D(DI) as response variable (Sources: data analysis using stata)

The effects of the variables illustrated in Fig. 6 can be described as follows: a positive shock of one unit of D.er causes SI to increase in the initial period, subsequently reaching a negative value in the second period and then gradually rising to reach a negative value once more in the fourth period, with the impact persisting until the eighth period; a positive shock of one unit of D.ir has a relatively limited impact on SI in the first two periods. The variables are positive in the first period and then fall to a negative value in the third period, before rising again and becoming positive in the fourth period, reaching a peak. The impact of this continues until the eighth period. A positive shock of one unit of SPI makes SI rising in the first period, falling to negative in the second period, and reverting to positive in the sixth period. The data demonstrate that the depreciation of the RMB results in an inflow of funds under securities investment projects, but this soon reverses to outflow and lasts for a considerable

period of time. The widening of the interest rate differential between China and the USA also results in a small amount of inflow. The rise of China's stock market index initially leads to an inflow of funds under securities investment, but subsequently results in a sustained outflow of funds for a period of time.

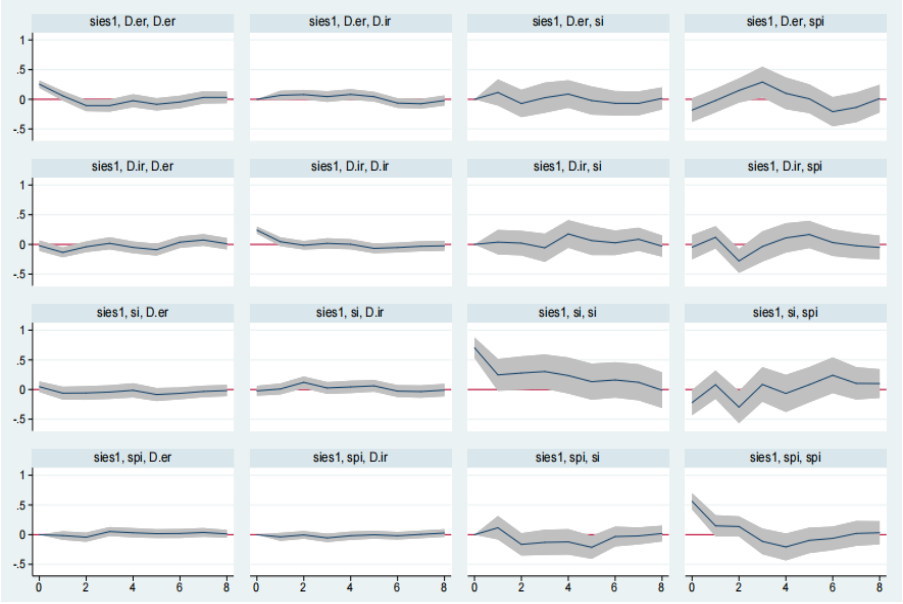

Fig. 6. Impulse response of VAR with SI as response variable (Sources: data analysis with stata)

4 Conclusions

Through the above empirical research, combined with the actual economic and financial operation, we reached the following conclusions.

The impact of changes in the exchange rate of the renminbi is of considerable variation under difference perspective. With regard to cross-border financial data, it should be noted that while the capital and financial projects encompass direct investment and securities investment, the relevance of cross-border financial flows under them is relatively limited. Indeed, the amount of cross-border financial flows under the capital and financial projects has, in some instances, been less than that under direct investment. Furthermore, the amount of cross-border financial flows pertaining to capital and financial items, direct investment projects, and securities investment projects is comparatively greater, whereas the v amount of cross-border financial flows associated with securities investment projects is relatively smaller. Consequently, the impact of RMB exchange rate depreciation on cross-border financial flows under capital and financial projects results in an inflow of funds, albeit with a shorter duration. In contrast, the impact on cross-border financial flows under direct investment results in an outflow of funds, exhibiting heightened volatility in the sub-

sequent period. The impact on cross-border flows under securities investment was initially an inflow, with the market subsequently exhibiting a net outflow of cross-border funds, indicating a certain lag in influence.

The widening of the interest rate differential between China and the United States gives rise to cross-border capital inflows under each account. The findings of the study indicate that when the interest rate differential between China and the United States widens, cross-border capital flows under capital and financial projects, direct investment, and securities investment projects demonstrate a net inflow. This aligns with the observed patterns of cross-border capital flows in practice. The results demonstrate that alterations in the interest rate differential between China and the United States will exert heightened pressure on cross-border capital flows under each account. Specifically, if the interest rates of the two countries change in an inverse manner, China's cross-border capital inflows will intensify, whereas the narrowing of the interest rate differential will result in greater pressure on cross-border capital outflows.

Changes in the stock market index are negatively correlated with cross-border capital flows under capital and financial projects and direct investment, and positively correlated with cross-border capital flows under securities investment. This indicates that an increase in the Chinese stock market will result in a net outflow of cross-border capital under capital and financial projects and direct investment, while simultaneously attracting a net inflow of cross-border capital under securities investment. It is therefore imperative to remain vigilant in order to identify and mitigate the potential impact of the substantial inflows and outflows of international floating funds and illicit cross-border funds on the economy and financial system.

5 Recommendations for Practice

Firstly, the guidance of exchange-rate expectations and the reinforcement of foreign-exchange-market supervision will serve to maintain the stability of the RMB exchange rate at a reasonable level. Guiding exchange rate expectations can mitigate the impact of panic and prevent the 'herd effect' that precipitates unconventional cross-border capital flows. It is essential to facilitate the market's role in determining the exchange rate, optimize the efficacy of supervision, narrow the scope of exchange discrepancies, continuously enhance the formation mechanism of RMB exchange rate, and facilitate the independent balance of the foreign exchange market. Secondly, in light of the prevailing economic and financial circumstances, and in consideration of the evolving new development pattern, it is imperative to maintain a reasonable level of interest rate differential between China and the United States. Firstly, the tool of interest rate cuts should be used in a prudent and steady manner, allowing for more room for interest rate cuts in order to cope with changes in the external environment and promote domestic economic growth. Secondly, the domestic interest rate market reform should be improved, and the room for arbitrage should be reduced. Last but not least, regulatory authorities should make implemented measures to enhance the sharing of information and collaboration in regulatory matters, and reinforce regula-

tory synergies and facilitate the free flow of cross-border funds at reasonable and legitimate levels.

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