

中国人民大学

中国经济发展 研究报告 2007

中国金融改革与发展道路的选择



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ITS DEVELOPMENT

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出版说明

近几年来，中国人民大学年度系列发展报告（即《中国社会发展研究报告》、《中国经济发展研究报告》和《中国人文社会科学发展研究报告》）的出版发行，引起了社会各界和广大读者的广泛关注，产生了较大的社会影响，成为我校一个重要的学术品牌，这让我们深感欣慰，也增加了我们继续做好这项工作的责任和信心。正是基于这样的责任和信心，加上近一年的努力，我们又编写出版了中国人民大学系列发展报告 2007。

中国人民大学系列发展报告 2007 的各个子报告均由编委会负责审定选题、整体框架、主要内容和编写体例，并由其组织有关专家召开研讨会，审核写作提纲。各报告实行主编负责制，主编由校学术委员会主任、秘书长会议确定，学校聘任；主编聘请副主编或执行副主编。各报告根据主题，分别聘请相关部门的领导和知名学者担任顾问。中国人民大学社会学理论与方法研究中心、中国人民大学中国经济改革与发展研究院和中国人民大学人文社会科学发展研究中心分别作为《中国社会发展研究报告 2007》、《中国经济发展研究报告 2007》和《中国人文社会科学发展研究报告 2007》的依托单位，在组织和写作方面发挥了主要作用。

报告的编写出版工作现已纳入学校的年度工作规划，成为一项常规性工作。



由于报告所涉及的问题大多具有重大、复杂和前沿性的特点，加上写作与出版周期较短及研究水平的局限，尽管我们尽了努力，报告中的不足或易引起争议的地方仍在所难免，欢迎专家和学者批评指正。

中国人民大学发展研究报告编委会

2007 年 3 月



Abstract

I . Growth and Financial Development in China's Transition

As a transition economy, China's financial system's health and potential to grow depend on the degree of its residents participating in financial market, which in turn determines maturity of the economy's financial market and compatibility of its financial system. In this report we present extensive discussions on the effects of various factors—economic development, factor endowments, and government's behavior and systems, etc. —on region-level financial market participation rate and the discrepancies among the regions, with the assistance of the results from empirical estimation in which variables such as accounts in stock market are used as the measures of financial market participation and provincial panel data are utilized. The results indicate that, in general, the above-mentioned factors have significant influences on regional financial development, with variations in direction



and degree. Specifically, economic openness and per capita initial income contribute to residents' financial market participation. Indicators such as per capita GDP, the ratio of primary industry product to GDP, human resource endowment and government behavior are positively correlated with credit market participation, but have negative or insignificant effects on stock market participation. Factors such as economic growth rate, the growth of private sector, the maturity of market-intermediating organizations, legal environment and the maturity of factor markets are positively correlated with stock market participation, but have negative or insignificant effects on credit market participation.

II. Adjustments of China's Financial System

In this report we depict how China's financial system has transformed from a highly repressed one to a fully market-based one, and analyze the gains in financial efficiency and the welfare improvements brought about by the transformation. As the first step, China firstly restored the financial organization structure, which was actually forced out by the catching-up strategy, and basically formed the secondary banking system consistent with modern standards. The People's Bank of China started to function as a central bank, and the banking organization structure became richer. Also, the financial sector especially banks replaced government's fiscal measures and became the main channel for business financing. As the market economy system became gradually established in middle 1990s, the financial system characterized by central-planning moved forward to a modern market economy. At the same time, modern financial governance system came into being, and the banking system reform, which centered on modern company governance structure, had scored preliminary successes. Share-trading reform went on smoothly and the opening-up of financial sector quickened its pace.



III. The Reform of State-Owned Commercial Banks

China's financial system is led by banks, and state-owned commercial banks are its main body, as demonstrated by their total assets accounting for approximately 55% of China's total financial assets, obviously having been playing an important role in allocating resources and maintaining economic stability. As a result, it is vital to foster state-owned commercial banks with high efficiency and stability, in order to maintain China's long-term economic growth.

Currently, the reform of state-owned commercial banks has entered a more difficult and challenging phase, symbolized by shareholding system reform, and whether the reform of state-owned banks is successful or not has a deterministic effect on China's long-run economic growth and stability. Since China started to reform and open-up, state-owned commercial banks have contributed greatly to maintain national economic development, to support the reform on state-owned enterprises, and to preserve financial system and social stability. Therefore, we need to review the reform on state-owned commercial banks in the last two decades, and to evaluate historical evolution of the reform on state-owned banks, such that we can highlight valuable lessons gained from past reform experiences, and clarify the main tasks, avenues, and objectives of current reform, yielding important theoretical and practical implications. In the report we set out to explain the reform on state-owned banks from financial political economic perspective, and provide corresponding policy suggestions.

IV. Evolution of the "Newly Sprouted" Banking System

The 11th Five Year Plan clearly states the direction of the reform,



which is to “gradually develop middle or small-sized financial institutions consisting of diverse forms of ownership”. The monopolistic position of state-owned banking system has been gradually broken down by the development of newly sprout banking system, which features a property right structure, and information and transaction cost advantages. The appearance of newly sprouted banking system contributes to banking system’s diversity and promotes the formation of modern banking system and the optimization of the market structure of banking sector. Competition in banking sector, which is market-reputation-based and brought about by the newly sprout banking system, must be carried out under the conditions of sufficient capital supply, improved profit-making ability, timely information disclosure, and effective government regulation. The success of doing so would be a key driving force behind the improvement of overall efficiency of banking sector and keeping long-run dynamic equilibrium stability. In future financial reform, the property right reform and newly sprout banking system will interact with each other, and together they will deepen financial functions.

To deepen the reform on newly sprout banking system, on one hand, regarding the system, we need to further shareholding system reform, optimize equity structure, complete company governance structure, and solve the issue of “insider controlling” in shareholding commercial banks properly. On the other hand, we need to carry out corporate culture rebuilding strategy, and encourage banks to complete the strategic transition of their business model. At the same time, we also need to further the opening-up of financial sector in an efficient and proper manner.

V. Changes in China’s Rural Financial System

One of the major challenges for China’s financial theory’s advancement and practice in reform is to complete its rural financial system. China’s rural financial system features the coexistence of formal and informal financial ar-



rangements, and the coexistence of traditional and modern financial arrangements. And the transformation of the system is a process during which endogenous and exogenous financing interact with each other in a complicated fashion. In this report we hold the view that the long-term existence of traditional credit arrangement in rural area is compatible with reality, in which peasant families' demand for funds is sticky. If exogenous financing cannot solve its "mismatch" problem with the financial demand in reality, it will fail its fate. For the sake of financial security, the most ideal solution is to ensure endogenous financing's systematic and formalized development. China ought to seek an innovational rural financial system characterized by diversification based on actual economic conditions.

For the developed areas, there are two aspects that rural financing can at least explore in order to further its development. On one hand, the model to grant loans, adopted by banks to meet rural financial demands, needs to be innovated. On the other hand, the other financial activities related to banks making loans in an urgent need to grow. For the underdeveloped areas, we should choose policies that allow fiscal measures and financing work together. First, the demand for fund resulting from peasant families' survival needs undoubtedly should be met by fiscal resources. Second, fiscal resources and financing should cooperate to fully meet peasant families' demand for fund due to their growing business.

VI. Development of China's Capital Market System

After 16 years' development, China's capital market has gradually corrected the flaws intrinsic in its early stages' design. The platform of the old system has been completely replaced by a market in which interests are converging and commonly shared. However, on the way to establish a capital-market-centered and marketing-leading financial system, many factors hurdle the pace for market to advance, such as China's relative scarcity of resources that are able to go public, insufficient capital supply on the market,



little variation in product variety and market structure, insufficient market transparency, and low level of international market participation, etc.

With the waves of global financial integration sweeping by in today's world, the core functions of China's financial system are up-stepping along with the tangible economy's growth, which requires China to set its objective of future capital market development as to establish a financial system which is open, sizable, and capable of providing upgraded four financial functions. To achieve this strategic objective, China should encourage those large state-owned enterprises with sound qualifications and resource advantages to go public on a shared market; at the same time, China should build a capital inflow mechanism which has long-term efficiency. In order to maintain the balance between supply and demand, China needs to further its market's opening-up, to develop a personnel force to conduct institutional investment activities, and to complete existing QFII system. Furthermore, China needs to improve its market transparency, ensuring accurate, timely, complete and rule-abiding information disclosure. China also needs to adjust its existing market regulations, and adapt to international market conventions, eventually making China's capital market one of the international financial multi-centers.

Ⅵ. The Transition of the Governance Mechanism of State-Owned Commercial Banks

Although starting from 1994, the four major state-owned banks began their transition towards commercial banks, they didn't employ asset liability ratio management until 1998, by then the corporate governance issue of state-owned commercial banks started to show. In 2006, as the major state-owned commercial banks going public successfully, the corporate governance of state-owned commercial bank entered a new phase. Due to the fact that the corporate governance issue of state-owned commercial banks appeared rather late and thus lack of observations, it is virtually impossible for



us to carry out quality empirical analysis using large samples. Thus in this report we instead provide preliminary evaluation on the effectiveness of the outside corporate governance mechanism and the inside corporate governance mechanism—both aim to solve the governance issue of state-owned commercial banks. Specially, the outside mechanism consists of factors such as regulation, market competition, the market for corporate control, the media, and tax law enforcement etc. , and the inside corporate governance mechanism includes factors such as the role of major shareholders, boards of directors and supervisor, benefits contract design, and interest balancing among stakeholders, etc.

In this report, for the purpose of bettering the corporate governance of state-owned commercial banks, we propose the following policy suggestions: (1) increase the extent to which the law protects investors' rights and improve law enforcement by completing legal system reform, such that investors' interests can be firmly protected in China; (2) allow more foreign capital and private capital to enter banking sector, such that the managerial behaviors of state-owned commercial banks can be effectively bound by market competition; (3) on one hand, stress the legal measures and government regulations needed for corporate governance, on the other hand, pay closer attention to the important influence of media on corporate governance of state-owned commercial banks; (4) eliminate the "one shareholder possessing decisive power" phenomenon which is rampant among current commercial banks, and optimize banking sector's equity structure; (5) improve professional expertise and independence of the members in boards of directors and supervisors; and (6) provide stock option incentive plans for executives in due time.

VII. Risk Dissipation and Regulating Efficiency during the Process of Financial System Reform

In this report we analyze the issues of risk dissipation and regulating ef-



ficiency during the process of financial system reform. We first conduct qualitative and quantitative analyses on the existing and potential financial risks at both micro and macro levels, then we turn to study the achievements and lessons generated from the risk management experience of China's financial reform. We subsequently discuss the flaws in China's current financial regulating system, and propose suggestions for further reform. It is our opinion that although China's financial system is stable overall, the risks cannot be overlooked and they are likely to aggravate over time, and the basic solution to avoid financial risks is to further market-based financial reform.

There are quite a few flaws in China's current financial regulating system, which requires China to speed up reforming the system and eventually establish an effective, multi-channeled, and multi-layered financial regulating system. First, China needs to speed up the process of financial legislation, and foster a complete legal framework for regulation. Second, China needs to loosen its direct control over banking sector and enhance regulation as an alternative. Third, China needs to improve the organization structure and governance mechanism of the regulating system, and form an independent regulating system managed by specialized experts. Fourth, China needs to introduce an agency responsible for comprehensive regulating activities, including stipulating financial sector's development, considering and stipulating financial laws and rules at aggregate level, coordinating regulating policies and standards, monitoring and evaluating the overall risk of the financial sector, collecting information on regulating activities, and allocating regulating resources. Fifth, China needs to introduce emergency alarming and management mechanism. Sixth, China needs to strengthen its unofficial regulating system, and for that purpose China should borrow from developed countries' experience, form financial trade association, as well as encourage self-disciplinary practice.



IX. A Possible Avenue Leading China's Interest Rate into Market-Based One

To transfer China's interest rate into a market-based one, the core issue is to avoid the constraints on residents' and business' financing imposed by the changes of interest rate on the market, because these constraints would result in drops in consumption, investment and financial stability of banking system. After considering factors such as returns on residents' savings, financial stability of banks, and firms' ability to pay their debt, we propose a feasible avenue which leads to market-based interest rate. That is, China needs to loosen the control over median and long-term loans' interest rates, which in turn forms a short-term interest rate; then allow this short-term interest rate to integrate with existing money market interest rate, and eventually form a short-term interest rate which reflects both the institutional demand and firms' liquidity demand; and finally based on this money market equilibrium interest rate, we can move one step further to form the equilibrium interest rates for median and long-term capital market.

X. China's Monetary Policy Framework and Its Adjustments

In China's current monetary policy framework, money supply serves as the intermediate target. Nonetheless, the target system with money supply as an intermediate target starts to face more and more challenges, as financial market and financial innovations change with time. Judging by the historic evidence generated by other countries' monetary policy evolution, there is more than one monetary policy framework that performs well, and each country should choose a suitable one based on its own political and economic conditions and historical development. Although the specific opera-



tion models for successful monetary policies under different monetary policy frameworks differ, but their systems share some common features embodying the trade-off between rule and discretion, i. e., the PIFFTA system for successful monetary policy.

In this report we propose a set of policy suggestions for adjusting China's monetary policy framework, using PIFFTA system as the reference. The specific suggestions are as follows. (1) China needs to clarify the target priorities of its monetary policy, and attempt a quantitative target such as stabilizing prices. (2) China should increase the autonomy of its central bank when adjusting money supply. (3) China should enhance its central bank's independence. (4) China needs to increase the effectiveness of monetary policy instruments. (5) China needs to improve its monetary policy operating techniques, and elevate the art of decision making for monetary policy. (6) China needs to enhance monetary policy's transparency and responsibility.

XI. Mechanisms Behind the Formation of China's High Foreign Reserve and Their Implications

For the last couple of years, China's foreign reserve has increased quickly. Based on analyses on China's foreign reserve's dynamic changes, reasons behind the accumulation, and its implications, we can draw some basic conclusions as follows. (1) After carrying out a cross-country comparison for countries with capital adequacy ratio indicator, we found that China's capital adequacy ratio is moderate compared to other countries with similarly large amount of foreign reserve. (2) The tendency of China's foreign reserve to accumulate has not been influenced by the adjustments in RMB's exchange system. The mechanism behind high foreign reserve's formation lies in factors such as the structural imbalance of macro economy, the economic opening-up, the speculative behavior on the international financial market, and changes in capital mobility in open economy. (3) The



growth of foreign reserve has different effects on nominal exchange rate, nominal effective exchange rate, and real effective exchange rate. Specifically, first, there is no significant change in the volatility of RMB's nominal exchange rate, suggesting that the fast growth of foreign reserve did not lead to lower volatility of nominal exchange rate. Second, with the increase of China's foreign reserve, RMB's nominal effective exchange rate and nominal exchange rate both exhibit a tendency to depreciate, while volatility is reduced. As the result, when discussing China's foreign reserve, we should not constrain ourselves within the narrow framework of exchange rate system and exchange rate determination, instead we should study the mechanism behind China's foreign reserve accumulation from the perspective of the structural relationships within macro economy, and focus more on the risk and cost occurring during the process of foreign reserve accumulation.

XII. Economic Globalization and “the Chinese Model” for Financial Development

The purpose of this report is to study the relationship between economic globalization and China's financial development model. The major conclusions are presented as follows.

First, before China's financial sector's opening-up, the evolution of its financial system was dominated by the notion that the country needs to carry out overall national economy planning in a closed economy. Such a financial system was led by banks, and state-owned banks served an important role during the process of gradual reform, thanks to their unique capital composition and operating manner. This financial model supported China to maintain an annual growth of 9%, and fended away the shocks brought about by the Asian Financial Crisis, successfully sticking out as a unique “Chinese Model” in the background of economic globalization.

Second, during the development and reform of the financial sector taking place in the past 5 years of the transition to WTO, China's financial re-