MARKET OPENNESS AND GOOD GOVERNANCE:
THE CHANGING REGIONAL DISPARITY OF
FINANCIAL DEVELOPMENT IN CHINA (1978-1999)

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Abbreviations

<table>
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<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>BFSOBL</td>
<td>Balance Function of State-owned Banks' Loans</td>
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<td>CEF</td>
<td>Coefficient of Equalization Function</td>
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<td>CRD</td>
<td>Coefficient of Relative Disparity</td>
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<td>DS</td>
<td>Deposits Surplus</td>
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<td>RDL</td>
<td>Ratio of Deposits/loans</td>
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<td>DLS</td>
<td>Deposits-loans Surplus, Surplus from Deposits Minus Loans</td>
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<td>EFAGG</td>
<td>The Elasticity of Finance Assets to GDP Growth</td>
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<td>EFRD</td>
<td>Equalization Function of Regional Disparity</td>
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<td>EFRDE</td>
<td>EFRD of Expenditure</td>
</tr>
<tr>
<td>ERGG</td>
<td>The Elasticity of Revenue to GDP Growth</td>
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<td>IR</td>
<td>Income Ratio, the Ratio of Deposits proportion to GDP Proportion of a Region</td>
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<td>KKH</td>
<td>Kuai Kuai Hierarchy</td>
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<td>LS</td>
<td>Loans Surplus</td>
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<td>NBFI</td>
<td>Non Banks Financial Institution</td>
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<td>PBC</td>
<td>People's Bank of China</td>
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<td>PICC</td>
<td>People's Insurance Company of China</td>
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<td>SOB</td>
<td>State-owned Bank</td>
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<td>SOBDG</td>
<td>State-owned Bank Deposits' Gap</td>
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<td>SOBLG</td>
<td>State-owned Bank Loans’ Gap</td>
</tr>
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<td>SOEs</td>
<td>State-owned Enterprises</td>
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<td>SOFIR</td>
<td>State-owned Financial interrelation Ratio, the Ratio of Deposits plus Loans of State-owned Banks Proportion to GDP</td>
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<td>SPF</td>
<td>Second Public finance</td>
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<td>TIR</td>
<td>Total Interrelation Ratio, the Ratio of Total Deposits plus Total Loans Proportion to GDP</td>
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<td>TIC</td>
<td>Trust and Investment Corporation</td>
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<td>TTH</td>
<td>TiaoTiao Hierarchy</td>
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<td>TVEs</td>
<td>Township and Village Enterprises</td>
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Abstract

This report measures the disparity of financial development in China during the period from 1978 to 1999. By calculating the Financial Interrelations Ratio (FIR) and other financial indicators of every region in China, we get some new findings and make several new conclusions. The calculations implies that, the features of financial development in China are as follows: state monopoly, loans allocation mechanism, hierarchical structure of institutions, resources divided by central departments (Tiao Tiao) and sub-regions(Kuai Kuai), rapid financial deepening, high-growth elasticity of financial assets, remarkable disparity among regions, great deposit/loan ratio drops. Since China undertook the policy of reform and opening up to the outsideworld, China’s financial industry has been performing the functions of public finance. Since mid-1990s, financial industry’s function of equalization surpassed that of public finance, the arising of central government’s financial capacity is the precondition of its falling of public finance capacity. Thus, financial industry paid the cost of gradual reform. To promote the gradual reform, China sacrificed both the development and the reform of finance. From the viewpoint of the role of government, we explained the causes of the above features. We find that, the local government’s willing and capacity strengthened along with the promotion of the decentralization reform, resulted in financial reform inertia, distorted the financial resources allocation, and made China’s marketization reform a prolonged game. To start up the reform of finance, we must speed up the openness of finance sectors, improve the governance of government, change the government functions, transfer its public finance capacity from “out of place” to “in place”, and transfer its finance capacity from “exceeding its place” to “come back to its place”.

Key Words: Financial development of China, Regional Disparity, Market Opening, Good Governance, Financial Reform
As a large country with remarkable development disparity among regions, among provinces within & without, China would impossibly have its financial developed evenly. So, in analyzing its development features and enforcing relative policies, the financial sectors in China can’t be simply regarded as a whole. Otherwise, unified policy would not be suitable for local conditions, and then it will lose its future direction.

**Part One: Indicators and Related Studies**

I. Indicators of Financial Development

1 Indicators to Measure Financial Development

While comparing financial development levels of different countries, financial growth is usually used as the alternative indicator of financial development. Financial growth shows as the expanding of financial asset size of an economy relative to its national welfare. The popular indicators measuring financial growth are Goldsmith’s index and Mckinnon’s index.

Goldsmith (1969) tried to find out the primary economic factors which determine the financial structure, financial instruments stock and financial exchange flow, then explain how the factors interact to facilitate financial development.\(^1\) So, he exposed a indicator creatively to measure the financial structure, the stock and flow of the financial assets, among which the most important one is Financial Interrelations Ratio (FIR). FIR is a ratio of current financial asset stock (overlapping included) to national welfare (physical assets plus net foreign assets).\(^2\) Usually, the ratio of financial asset to GDP is used as a simple index to measure the financial development level of economy.

Mckinnon (1973) focused on the financial depression and financial depth in the developing countries. In his study, the ratio of money stock (M2) to GNP was used as an important scale of financial growth. He argued that, ratio of money debt to GNP, a mirror which providing money to government and private sectors, seems as the simplest scale of the importance and ‘effective size’ of money system in the economy.\(^3\) So, the ratio of M2 to GDP is often used to measure the

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moneytization level of an economy.

Apparently, both of the Indicators set by Goldsmith and Mckinnon measure the financial development level of a country as a whole. Now we adapt it to measure the regional financial development of China. Whereas, since the data of financial asset and M2 in different regions of China are not available, comparing the regional finance gap in China, Goldsmith’s indicators and Mckinnon’s indicator can’t be used directly. We can use narrower indicators of deposit and loan data to discover the regional disparity of finance in China and find out the relationship of financial capability and fiscal capability. Since most of the financial assets belong to the bank system and the primary assets of the bank system are deposits and loans, the data of deposits and loans can be used to express financial development level in China. Data of deposits and loans between 1978-1998 in state-owed banks are used to reflect the allocation of financial assets among regions and measure levels of financial depth in regions. At the same time, the data of deposits and loans during 1995-1999 in all financial institutes are used as a complementary, so as to reflect the actual financial development after the financial assets decentralization.

Then, by using the data of deposits and loans in state-owned bank and GDP, state-owned financial interrelation ratio \((SOFIR)\) can be gained, the calculating formula is as follows:

\[
SOFIR = \frac{(D_s + L_s)}{GDP}
\]

Where, \(D_s\) denotes deposits of state-owned banks, \(L_s\) denotes loans of state-owned banks.

By using the data of deposits and loans of all financial institutes and GDP, total interrelation ratio \((TFIR)\) can be got, the calculating formula is:

\[
TFIR = \left(\frac{S_t + L_t}{GDP}\right)
\]

Where, \(S_t\) denotes total deposits, \(L_t\) denotes total loans.

The two kinds of financial interrelation ratio mentioned above would be used to reflect the aggregate financial development level of each region in China.

2 Indicators of Financial Structure

We would also analyze the inner structure of financial assets, by using the indicators of income ratio (IR), deposits-loans surplus \((DLS)\), and ratio of deposits/loans \((DLR)\).

IR reflects how deposits can be reflected by a unit of national income. It is the ratio of
deposits proportion \((D_p)\) to GDP proportion \((GDP_p)\) of a region, exposing the relative saving capability of the region. The calculating formula is:

\[
IR = \frac{D_p}{GDP_p}
\]

The deposits-loans surplus is the gap between the deposits of a region in a period time and the loans of the region in the same time. It is reflecting the absolute quantity of the loans that a region input from or output to other regions. The calculating formula is:

\[
DLS = D - L
\]

If DLS is a positive number, we say it is a deposits surplus, if it’s negative, we say it is a loans surplus.

The ratio of deposits/loans is a ratio of deposits to loans, which reflects how a region self-support in credit funds. If loans exceed the source of loans (deposits subtracting the reserve which should be turned in), then the region can’t self-support in funds; otherwise, it can be self-support. The calculating formula is:

\[
DLR = \frac{L}{D}
\]

In this paper, there are some other indicators, such as coefficient of relative disparity(CEF), elasticity coefficient, which would not be mentioned here in detail.

Through calculating the indicators of these deposits-loans data, we find out the features of financial development and its disparity in China, from which we can discover the relationship between gap of financial development, economic gap, and the gap of public finance of all regions in China, and then we can analyze the causes and make some policy suggestions.

II Literatures Review

In the past decades, Goldsmith(1969), Mckinnon(1973) and Show(1973) had contributed a lot to finance development theory. Their analysis on financial structure, suppression, deepening and deregulation provides people a way to learn about what function finance has and how to make research on the trail of finance. In 1990s, more economists like Ross Levine and Asli Demirguc-kunt(1992,1996etc), did research in this field and added bricks to the theory. Their theories provide us solid base to study Chinese finance and its gap among different regions.

Unfortunately, there is few researches about Chinese finance and its gap among different
provinces although there are some fruitful positive research appears on developed and new emerging market countries. One reason may be that in the past two decades, China has got through a long way in reform with too much outcome to study them all. Another reason may be the difficulty in gathering data sets obstacles to quantitative analysis. Fortunately, World Bank (1989a, 1989b), Asian Development Bank (2000) and Nicholas R.Lardy(1998,1999) paid attention to this question, which triggered off our ardency to keep an eye on it. However, those study were mainly focused on how to reform financial institution and how to deal with financial crisis. The most important questions as all-around quantitative analysis on financial long-term development are overlooked for a long time.


As to the distribution and flow of capital among different districts in China, some studies were already made by Xu Tang (1995) and Duoguang Bei (1995). Tang’s sample covers from 1985 to 1994 while Bei’s sample covers from 1979 to 1986. Obviously, their samples were too small to figure out the essence of capital distribution of China.

Junzhou Zhang (1995), Desheng Yin, Shunxi Xiao (2000) talked a lot about regional finance and its future strategy. Yet their conclusion calls much suspicion because zhang didn’t calculate and analyze regional data of finance while Yin and Xiao listed some data without uniform indicators and reliable measurement.

Based on the research mentioned above, our paper will focus on summarizing characters of finance development and regional gap in China and discuss its causes and policy implications.
As the integrated financial assets data of all China’s regions are not available, we use state-owned banks’ deposits and loans in each province as a substitute to measure local financial development levels in China.

I. Regional Comparisons of Financial Deepening Level (FDL)


From 1978 to 1999, China’s financial assets are ever increasing. SOFIR has doubled, rising from 92% in 1978 to 196% in 1997; the growth of financial assets obviously speeds up since the middle of 1990s (see Figure 1).

Figure 1  China’s Financial Interrelations Ratio (FIR)

Measured by SOFIR, initial condition of financial development was convergent in 1978.6

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4 According to the West China Development Policy, the Western China embodies twelve provinces, that is, Guangxi, Inner Mongolia, Chongqing, Sichuan, Guizhou, Yunnan, Tibet, Shanxi, Gansu, Qinghai, Ningxia and Xinjiang. Eastern China includes eleven provinces, Beijing, Tianjin, Hebei, Liaoning, Shanghai, Jiangsu, Zhejiang, Fujian, Guangdong, Hainan. Middle China involves rest eight provinces, Shanxi, Jilin, Heilongjiang, Anhui, Jiangxi, Henan, Hunan and Hubei.

5 State-owned Commercial Banks are still main bodies of China’s finance sector, which cover 70 percent financial assets in 1999, though the ratio is continually descending in the two decades, but the proportion is steady in recent years.

6 The data of western China seems very low, but if Hunan province excepts whose data of deposits and loans has obvious errors, FIR of eastern region is adjacent to central and eastern regions.
Since 1978, SOFIR rose steadily but was uneven in different regions. See Figure 2. SOFIR rose especially rapidly in the Eastern Region of China, reaching 204% in 1998, but Central Region of China was only 151%, and Western Region of China was 201% in the same year. There is obvious divergence between regions since the middle of 1990s.

Figure 2 China’s Interrelations Ratio (FIR) for Three Regions

Notes:
1. Regional data is an average of all provinces in each region; Hunan’s data in 1978 and 1979 were excepted in series, because data of deposits and loans have obvious errors.
2. \[ \text{SOFIR} = \frac{(D_s + L_s)}{GDP} \quad \text{TFIR} = \frac{(S_r + L_r)}{GDP} \]

Since the non-state-owned financial institutions have been developing quickly in 1990s, errors would occur obviously only using SOFIR to measure a regional financial development level. It’s necessary to calculate more prudently TFIR in 1990s, especially after 1995.

2 Calculating Results of TFIR 1995-1999

Using data in *China Finance Yearbook 2000*, we calculate again regional financial development level during 1995-1999. The results is as following.

Though the Western Region keeps ahead in obtaining state financial resources, the Eastern Region of China is really a winner in the competition of all financial resources (see Figure 2).
reasons are as follows: the efforts of Eastern Region of China turn from state financial resources to market financial resources, and Eastern Region of China dependence to state-owned financial organizations is descending since 1990. In 1995, Each TFIR of Eastern, Central and Western Region of China are higher than SOFIR by 100%, 32%, 26%, respectively, which was 68%, 40%, and 22% in 1998 (see Figure 3). These results imply uneven financial development status: market has played an important role in Eastern Region of China, but in central and Eastern state-owned financial sector is still dominant.

Comparing FIR among thirty-one provinces, we find the FIR of five Eastern areas, i.e., Beijing, Shenzhen, Hainan, Shanghai, Guangdong are the highest (over 300% in 1999). Central Region of China is the lowest. In Central Region of China, FIR of five provinces, i.e., Hunan, Anhui, Hubei, Jiangxi, Henan, are no more than 200% in 1999. Western FIR distributes among 200% to 300%. These results imply that high FIR matches high economic growth, which is accordant with international experiences on correlation between financial development and economic growth.

Figure 3 Comparison of the Coefficients of Relative Disparity of Weighted Average for Three Regions (1995-1998)

Comparing FIR among thirty-one provinces, we find the FIR of five Eastern areas, i.e., Beijing, Shenzhen, Hainan, Shanghai, Guangdong are the highest (over 300% in 1999). Central Region of China is the lowest. In Central Region of China, FIR of five provinces, i.e., Hunan, Anhui, Hubei, Jiangxi, Henan, are no more than 200% in 1999. Western FIR distributes among 200% to 300%. These results imply that high FIR matches high economic growth, which is accordant with international experiences on correlation between financial development and economic growth.

Five areas mentioned above are the most flourishing financial regions in China. But among them, Shenzhen, Guangdong and Hainan’s financial market development level are higher than

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7 Fujian and Shandong are excepted from eastern region, for the reason of data quality.
8 For the reason of statistics, Fujian and Shandong’s total deposits and loans equal state-owned deposits and loans, which makes them the lowest FIR provinces all over the country. Guangxi and Tibet in Western Region have the same problem, but Tibet’s data ought to be ture.
Beijing and Shanghai, measured by the source of financial assets. In 1998, Beijing’s TFIR is only higher than SOFIR by 27 percent, and Shanghai by 35 percent, but Guangdong by 105 percent, Hainan by 122 percent. Shenzhen always occupies leading position in development of non state-owned financial organizations, so it’s FIR must be higher than Guangdong’s, though we can’t get accurate figure of Shenzhen’s SOFIR. All over the country, financial market levels in Western provinces are the lowest. Guizhou and Sichuan’s including Chongqing Non-SOFIR are less than 20%, and Tibet almost zero. In the Central Region of China, Heilongjiang’s Non-SFIR is less than 20%.

II. Regional Comparison of IR

Calculation results of Income Ratio imply that, the Eastern Region of China has relatively strong saving ability, and the Central Region of China is the poorest. The Eastern’s IR is always more than 110% (except that of 1993 and 1994), which means that its sustaining economic growth has a good financial basis. The Western’s IR fluctuates around 100%, reflecting regional balance between deposits and national income. The Eastern's IR is low and always no more than 85%, which shows saving ability of the central provinces is rather poor.

III. Regional Comparison of DLS and DLR

Since 1978, loans surplus of China’s every province arose steadily, local state-owned commercial banks have serious over-loan behaviors. During 1990s, Loans Surplus (LS) of Central Region of China increases continuously and reaches an enormous scale (more than 200 billion RMB), and Loans Surplus(LS) of Western Region of China of China rose to 182.1 billion RMB in 1997. On the contrary, Deposits Surplus(DL) occurred in the Eastern Region of China since 1992 which arose rapidly and reached 1,029.4 billion RMB. Deposits surplus as a whole came forth for the fist time in 1995 (135.6 billion RMB), which reached to 812.8 billion RMB in 1998. DLS and economic growth appeared converse trend in all regions, which means that there existed a converse trend between economic efficiency and resource allocation of state-owned banks.

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9 Until the end of 1999, there are 42 domestic financial organizations, 50 foreign-invested financial organizations. See China finance yearbook 2000, p177.
DLR variety trend is consistent with DLS. Before 1992, DLR of every region was more than 100%. Three regions were over-loan, and the Western was the most serious, whose DLR was more than 175% in two periods (1978-1979 and 1985-1986). Since 1992, DLR of Eastern Region begins to be under 100% and descended steadily, but DLR of central and western Region of China is still more than 100%, though the whole trend was falling year after year. During 1978-1998, DLR of eastern Region of China is always lower by about 10 percent than national average level.

Enormous deposits surplus in Eastern Region of China and loans surplus in Central and Western Region of China, low DLR in Eastern Region of China and high DLR in Central and Western Region of China, reflects the fact that state-owned banks are the main resources allocation channels transferring money from East to Central and Western Region of China.

IV Regional Comparison of Deposits and Loans per capita and GDP per capita

1. The Regional Gap of Deposits and Loans per capita is larger than that of GDP per capita, and there is no trend of convergence.

According to the new economic growth theory of Barro and others, the growing speed of a country’s income per capita is negatively correlated with its original level (Barro, 1998), which is called the convergence of economic growth. However, the test of developing countries by economists found no commonly absolute convergence, which only exists between the richest countries and the poorest ones (Ben-David, 1998; Barro and Sala-i-Martin, 1992). They are called “convergence clubs”. Yet it can be seen from Figure 4 that the trend of economic growth convergence among different regions doesn’t appear in China. The gap of GDP per capita reduced in 1980s, and then increased in 1990s. Deposits and loans per capita did not converge as well, whose relative gap increased since 1992.

Figure 4 shows that the coefficient of relative disparity of deposits per capita(CRDDPC) is larger than that of loans per capita(CRDLPC), which is in turn larger than that of GDP per capita(CRDGPC). Before 1990s, the relative gaps of deposits, loans, and GDP per capita reduced. But in 1990s, they increased gradually and appeared strong coherence. The gap of GDP per capita started to expand in 1990, and the gap of deposits and loans per capita started to expand in 1992.

The discussions of the imbalance of china’s economic growth and convergence, please refer to Angang Hu and Ping Zou(2000), p175-203; Shaoguang Wang and Angang Hu (1999), p45-48; Fang Cai and Yang Du (2000). In this paper, we use the CRD of GDP per capita to denote the trend.
The expanding gap of public finance seemed to accord with the time as a lag reflection of economic gap. Yet, the finance development is a necessary condition of economic growth, the expanding of finance gap is sure to widen the economic gap.

Figure 4 The Coefficients of Relative Disparity of Deposits, Loans and GDP per capita (1978-1998)

Figure 5 Comparison of the Proportions of Eastern Region in National Deposits, Loans, and GDP (1978-1998)


Taking the Eastern Region of China for example, we can observe the allocation of
state-owned banks’ money in each region, so as to find out the features.

In total, the proportion of Eastern Region of China to whole country in GDP rose from about 50% in the early period of reform to about 56% in 1998; in deposits it rose from 59% to 62%; in loans it rose only by one percent from 53% to 54%.

Figure 5 shows that the proportion of Eastern Region of China’s state-owned banks(SOBs) to whole country in deposits is always larger than that in loans and in GDP, which shows that the saving ability of Eastern Region of China is very strong. Before 1990, the proportion of Eastern Region of China’s state-owned banks to whole country in loans is larger than that in GDP. In this period Eastern Region of China made use of more financial resource than Central and Western Region of China (although the loan fund is not from Central and Western Region of China but from the high level deposits in Eastern Region of China and re-loan of central bank). Yet from 1991, the proportion in loans began to be less than the proportion in GDP. The use of state-owned fund by Eastern Region of China becomes less. Obviously, Eastern Region of China is ever increasing in economic development and has more deposits, and the loans from SOBs relatively decrease. In addition, the growth rate of SOBs’ loans in Eastern Region of China always lagged behind its economic growth rate.

It can be seen from above that, the state-owned banks actually play the role of outputting fund from Eastern Region of China to the Central and Western Region of China (It’s clear from the comparison of the disparity and proportion between deposits and loans in table 3). It is opposite to the intuition of some people (Xinglong Wang, 2000), which considered that the state-owned banks are the channels for delivering fund from Central and Western Region of China to the Eastern Region of China. This direction of fund output is the same with that of the transfer payment of public finance among different regions. So we presume that, during the reform and opening-up period, the financial industry always has the characteristics of “quasi-public finance”(QPF) or “second- public finance”(SPF). We will discuss it in Part Three.
Part Three: The Characteristics of Regional Financial Gap in China
—— A Measure of Second Public Finance Function

I. The Characteristics of Financial Development in China

By computing and analyzing the financial gap in China, we have found some characteristics in China’s financial development since China undertook the policies of reform and opening-up.

1. State Monopoly

In 1980s, the assets of four state-owned banks were 90% of the total finance assets of China, and its share reduced in 1990s. In the end of last century, its share was about 70%. If we measured with deposits and loans, state-owned banks had the deposits and loans share of 78.2%, 79.0%, 80.5% and 80.8% from 1995 to 1998. The deposits and loans share of the state-owned banks are ever increasing in recent years. We can say that state-owned banks almost monopolize China’s finance, which means that analyzing state-owned banks is almost equal to analyzing China’s finance.

2. The System of Credit Allocation

The supply of China’s financial resource (most of which are loans) is not attributed by rule of efficiency but by the HQ of state-owned banks, which is similar to the system of fiscal allocation. This system does not provide loans according to the demand of the market but to the plan of central bank. Great changes have been taken place by the end of 1990s, but its characteristics exist all through the period of reform.

3. The Hierarchy Structure of Finance Organization

After 20 years of financial reform, a huge hierarchy structure of central finance institutions exists which adheres to the hierarchy structure of local institution. In the early 1980s, the People’s Bank of China was divided into four state-owned banks and People’s Insurance Company of China (PICC). Four state-owned commercial banks and PICC have its branches in every region, and every director occupies corresponding administrative status. The administration and banks are not separated clearly, which build the basic characteristics that the organization setting of China accords to the hierarchy structure of government. The contraction of public finance and “allocation of loans” reform makes local government intervene in local financial organization, which strengthen the hierarchy structure, lead to even distributing of financial organization in China, reduce the efficiency of economic development.  

11 We have analyzed the state-owned financial institutions and their employees in 1998, and find an interesting phenomenon: there are about 10000 people sharing one financial branch. This indicates that the distributing of regional financial organization does not according to the efficient rule, but to administrative rule. So average deposits, deposits per employee, loans per employee, production value per employee, contribution to GDP of the
4. Fragmentation of Financial Resource

The financial reform led by Central Government leads to longitudinal division of China’s financial resource. We name it departmental division. While local governments intervene into financial reform, which leads to the woof division, we call it regional division. Regions replicate financial development mode and financial organizations kind each other. They block financial resources of region, so financial resources become immovable in departments and regions, which will result in low efficiency of economic development.

5. Quick Finance Developing, High Increasing Elasticity of Finance

In any case, the increasing of China’s finance is more quickly comparing with GDP increase. From 1978 to 1999, China’s financial assets increase quickly. The average increase rate of the amount of deposits and loans was 21% per year (by current price). From 1978 to 1997, SOFIR doubled from 92% to 196%. Financial assets increase fast since mid-1990 (see Chart 1).

The elasticity of finance assets to GDP growth (EFAGG) is very high, (always more than 100%, indicating that the increase of finance assets is faster than that of GDP), while the elasticity of revenue to GDP growth (ERGG) is much slower. (Table 1)

| Table 1  The Elasticity of Finance Assets and Revenue to GDP Growth |
|---------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Elasticity of finance ASSETS | 1.36            | 1.11            | 1.06            | 1.39            | 1.20            |
| Elasticity of revenue          | 0.17            | 0.19            | 0.22            | 1.34            | 0.42            |


6. Serious Regional Disparity of Financial Development

Totally, disparity of financial development in China is more serious than that of economic increase and public finance increase. The financial gap reduced in 1980s and increased in 1990s. We will analyze it in detail later.

Central and Western regions is much lower than those of the Eastern Region.
7. The Ratio of Deposits/Loans (RDL) Declined

The space of monetization becomes smaller with the increase of monetization level in China, which cuts down the space of over-loans. The ration of deposits and loans in each region of China is decreasing, and loan surplus changed to deposits surplus in 1995. The decreasing level of the Ratio of Deposits/Loans (RDL) is disparity in China regions. We will analyze it in detail.

II The Characteristics of Regional Gap of Financial Development in China

1. Financial Gap Decreased First, Then Increased Afterwards

Financial gap in China continuously decreased before 1992, and then increased from 1992 on. In the early stage of the reform and opening-up period, the financial gap was the largest, and decreased continuously in the following 13 years. CRD of Deposits per capita decreased from 1.76 (1978) to 1.06 (1992), CEF of loans per capita decreased from 1.16 (1978) to 0.81 (1992). Since 1992, the coefficients increased. CEF of deposits and loans per capita became 1.34 and 0.95 in 1998, and this trend is continuing. (Table 2 and Figure 6)

Table 2 Comparison of Coefficient of Relative Disparity (CRD) 1978-1998 for 30 Regions

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<td>Revenue per capita</td>
<td>1.82</td>
<td>1.99</td>
<td>1.70</td>
<td>1.03</td>
<td>0.90</td>
<td>0.88</td>
<td>0.79</td>
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<td>0.92</td>
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<td>0.96</td>
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<td>Expenditure per capita</td>
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</tr>
<tr>
<td>Deposits per capita</td>
<td>1.76</td>
<td>1.65</td>
<td>1.33</td>
<td>1.09</td>
<td>1.09</td>
<td>1.06</td>
<td>1.12</td>
<td>1.20</td>
<td>1.23</td>
<td>1.23</td>
<td>1.36</td>
<td>1.34</td>
</tr>
<tr>
<td>Loans per capita</td>
<td>1.16</td>
<td>1.15</td>
<td>0.89</td>
<td>0.84</td>
<td>0.82</td>
<td>0.81</td>
<td>0.85</td>
<td>0.84</td>
<td>0.85</td>
<td>0.85</td>
<td>0.92</td>
<td>0.95</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>1.02</td>
<td>0.92</td>
<td>0.71</td>
<td>0.59</td>
<td>0.62</td>
<td>0.64</td>
<td>0.66</td>
<td>0.67</td>
<td>0.68</td>
<td>0.69</td>
<td>0.71</td>
<td>0.72</td>
</tr>
</tbody>
</table>

Source: calculate by NBS, the Collection of 50 Years Statistics Source of PRC, China Statistics Press.

2. Financial Gap is Larger than GDP Gap and Fiscal Gap

In total, disparity of financial development in China is more serious than the disparity of economic increase and public finance increase. We can see in Table 2 and Chart 6 that, CEF of deposits and loans are larger than CEF of GDP all along. From 1989 on, the ever-increasing relative gap of deposits and the ever-decreasing public finance revenue gap make the CEF of deposits greater than the CEF of public finance revenue. While the CEF of loans is greater than the CEF of public expenditure, so the CEF of loans is approximately equal to the CEF of public finance revenue.
3. The Decreasing Level of Ratio of Deposits/Loans (RDL) is Quite Different

The Ratio of Deposits/Loans (RDL) in each region of China is decreasing with the space of monetization, but quite different in decreasing level. The RDL in Eastern Region of China is smaller than the average ratio of China. It came into a period of quick decrease from 1988. In 1992, loans-surplus changed to deposits-surplus. Because of the huge deposits-surplus in Eastern Region of China, deposits-surplus appeared in 1995 and became greater. The Central and Western Region of China keep loans surplus all through the reform by government efforts. Loans surplus was looked as public finance aids from the Central Bank and the Eastern Region of China.

III “Second Public Finance” (SPF) Function of Finance: Comparison of Development Gaps of Financial, Fiscal and GDP per capita

1. The Measure of “Second Public Finance” (SPF) Function of Finance

Public finance and finance have different functions. Public finance should achieve the goal of equity as well as efficiency, but finance should only achieve the goal of efficiency. Only policy-oriented finance pays attention to the objective of equity. Public finance revenue relatively decreased after the reform of decentralization of state power. Public finance capability of the
central government became weaker, so the central government strengthened the capacity of controlling finance. Some functions of finance replace those of public finance. Local governments want to realize the goal of economic and social development. They gradually increased the control of local financial organizations in finance reform. So the functions of public finance were emphasized in finance, thus finance became the second public finance.

We use the CRD in Table 2 to draw Table 3 and Chart 7, in order to compare the equalization functions of regional disparity (EFRD) in finance and public finance.

We compare the functions according to the following factors: we presume that the structure of public finance revenue and public expenditure in each region do not change. The greater the public finance revenue gap is, the more difficult to equalize it by public expenditure gap. If public expenditure gap is zero, public finance revenue gap is completely equalized. If public expenditure gap per capita is equal to public finance revenue gap per capita, then public expenditure cannot perform the function of equalization. If public expenditure gap per capita is greater than public finance revenue gap per capita, then expenditure distortion exists.

China’s finance has the functions of public finance; we also measure the equalization function of state-owned banks’ loans to region gap. By the same way, we analyze the equalization function of state-owned bank loans gap (SOBLG) to state-owned bank deposits’ gap (SOBDG).

Measure formula of equalization function of regional disparity of expenditure (EFRDE) is:

$$EFRDE = (1 - \frac{EFG}{FRG}) \times 100\%$$

Measure formula of equalization function of regional disparity of state-owned banks’ loans (BFSOBL) is:

$$BFSOBL = (1 - \frac{SOBLG}{SOBDG}) \times 100\%$$

The results of calculation show that:

EFRD of public expenditure became weaker during the reform period and decreased greatly in 1990s (from 50% to 25%), while the EFRD of SOBs’ loans was about 30%, decreased a little in the end of 1980s and continuously increased in 1990s. The equalization function of SOBs’ loans was greater than that of public finance. So the second public finance (SPF) function became a leading public finance function.

Table 3 The Equalization of Finance and Public Finance for Regional Disparity  1978-1998
The amount of SOBs’ loans is also greater than the amount of public expenditure. In 1998, SOBs’ loans were 6564 billion RMB, the deposits surplus of Eastern Region of China was 1029.4 billion RMB while public expenditure was only 1079.8 billion RMB. So the increasing capability to control finance makes up the decreasing capability to control public finance. Finance of China had paid the cost of gradual reform. In other words, China promoted its gradual reform at the cost of financial development. So McKinnon’s “puzzle of China” comes out.

2. The Possible Relationship Among Financial Gap, Fiscal Gap and GDP Gap

The features’ comparison of financial gap, fiscal gap and GDP gap can see Table 4. From the comparison, maybe we can find the relationship among three gaps.

The gap of GDP per capita leads to the gap of public finance revenue per capita and the gap of deposits per capita, which reflected by the change trend of the latter two. We can see from Table 3 and Chart 6, the gap of GDP per capita is continuously decreased in 1980s, and reached the rock bottom in 1990, then increased in 1991. Fiscal gap lagged for three years (Reached the rock bottom in 1993 and increased in 1994), financial gap lagged for two years (Reached the rock
bottom in 1992 and increased in 1993). Public expenditure performs the equalization function of regional disparity. It somewhat separates from public finance revenue. SOBs’ loans also have the function of equalization, so it also somewhat separates from SOBs’ deposits. SOBs’ loans and public expenditure both have the function of equalization of the regional gap of GDP per capita. Central Government and local governments try to narrow the financial gap (mainly was loans gap) so that narrow the gap of GDP per capita, but these efforts can not reach the expectation and can only narrow the regional gap of finance organization scale. Ultimately convergence of finance organization scale exists in regions. Gap of GDP per capita perhaps do not narrow but expands due to financing block in regions and low efficient capital, which will make the society pay high cost of efficiency.
<table>
<thead>
<tr>
<th>Development features</th>
<th>Regional Disparity features</th>
<th>Good governance and policy implications</th>
</tr>
</thead>
</table>
| Economic development | 1. The gap drops first (1978-1991), and rises lately (1991-).  
2. Convergence in each three regions, and divergence within the regions (in 1990s) | 1. The gap is too bigger, should be reduced.  
2. The Central Government should have the political willing and capacity to reduce the gap. |
3. The CEF of revenue per capita is larger than that of GDP.  
4. The capacity of the Central Government fiscal transfer payment is dropping, and the Central Government’s capacity of public finance is declining. | 1. The Central Government’s capacity of public finance is weakening, and the public resources’ allocation are distorted, which is the public finance cost of decentralization reform.  
2. The government should be in place, which means strengthen the Central Government’s capacity of transfer payment. |
2. Finance gap is larger than economic gap and public finance gap.  
3. The Ratio of Deposits/Loans of every district are falling in different speed.  
4. Finance industry plays the function to equalize the regional gap. Since mid-1990s, the EFRD of finance is larger than public finance.  
5. Government monopoly.  
8. Departments (tiaotiao) and regions (kuaikuai) division of resources  
9. Hierarchical financial institutions | 1. The Central Government’s financial control capacity and its control cost arise, distortion of market resources are the finance cost of decentralization reform.  
2. The government should come back to its place. That is, the government should reduce the intervention of finance and open the markets to the domestic and foreign. |
Part IV: Political Interpretation on the Characteristics of Financial Gap
——the Function of Government in Regional Finance Development

I. Government-Leading and Controlling Financial Regime

Because there is lack of a natural developing process of market economy in China, and the financial regime of China is led and arranged by government, the financial mechanism is characteristic of “excess entry by government” under centralized economy regime. That makes the finance industry fall into “the second public finance” (SPF). Therefore, the process of finance reform and development is a process that government switch to “moderate entry” from “excess entry”. The process must be companied by the “moderate exit” of government.

But the exit of government in Chinese financial reformation is distorted. It displays in the exit of central government and the entry of local governments. Central government still pursue its power of the control on economy operation after its exit, and local governments try to resist the control” (Jie Zhang, 1998). So we must study the status of Chinese financial reformation and development under the entry of local governments.

II “Financial competition” Among Regions, Department and Region Division, Inertia of Reformation and Dilemma of Opening-up

1. “Financial Competition” Among Regions, Along With the Department and Region Division of Funds (TiaoKuaiFenGe)

Before the reformation of investment and financing regimes, local governments have no impulse to control the financial institutions, because under the ground of centralized economic regime, the public finance is far more important than the bank. At that time, department division of state-owned financial system is arranged by central governments in substance, and the large and even hierarchy structure of all the local banks has the clear mark that central governments arrange from top to below consciously.

In assessing of local government achievements, development of economy is the most important index. Because factor input, especially capital input, is the main driving force, aiming at “moneybag” means aiming at economy growth, and catching investment means catching the source of economy growth. At the periods that investment was led by central public finance, the investing famines of every region and industry embodied on the canvass for public finance. After
the reformation of allocation to loan\textsuperscript{12}, the object of local governments turned to banks immediately. At that time, state-owned specialized banks set up evenly according administrative divisions provide the channel by which local governments can control the financial institutions; thereby, the department division of state-owned specialized banks impelled by central government originally is promoted strongly by local governments. Some commercial banks setup newly follows in the footsteps of state-owned banks. On the one hand, those newly banks try their best to expand their business network; on the other hand, local governments strive for those banks to setup network at sub-regions. But it is difficult for local governments to command the business institutions of SOBs and newly commercial banks, so local governments begin to setup all kinds of non-bank financial institutions (NBFI) such as Trust and Investment Corporation (TIC), Security Company of there own, trying to get the financial centers and security exchange centers setup at sub-regions, to mobilize local saves for local investment furthest, and to allure and use the funds of other places in the country. The consequence is that many financial institutions, even illegal financial institutions, emerge everywhere, companied with sharp “financial competition” among regions. It causes the department and region division of funds and the inefficient allocations of financial resources.

After entry of local governments, we can see such a vision: the competition on achievements of local governments embodies mainly on economic competition; economic competition embodies mainly on investment competition; investment competition embodies mainly on financial resources competition; financial resources competition embodies mainly on financial institutions.

Under the department and region division of funds, local governments have three tendencies (Zhang Jie, 1998): the first is that local governments prevent the financial resources to flow outside, so funds can only allocate in sub-regions; the second is that local governments copy or replant the financial organizations and financial facilities of other regions; the third is that local governments compete on rent-seeking. Because financial rent seeking has the characters of internalizing the financial return and externalizing the financial risk, it per se gestates a huge economic conflict and financial crisis.

2. Hierarchy Structure of Finance and Inertia of Reformation

\textsuperscript{12} Here, “allocation to loan” means the reformation in 1980’ in China that financial allocations were transformed into credits.
The department and regional division (TiaoKuaiFenGe) of financial resources has a direct relation with hierarchy structure of financial organizations. The formation and consolidation of hierarchy structure in financial organizations of China is a consequence of the six-side games:

(1) Central government. By the financial organizations with hierarchy structure, central can collect the decentralized civilian financial surpluses to offset the fall of public finance. Furthermore, the oversimplified department division by central government forms the rudiment of hierarchy structure in Chinese financial organizations.

(2) State-owned enterprises (SOEs). By hierarchy structure, SOEs can demand the local governments to give money conveniently, and that forms a mechanism “to squeeze inversely”, which means that SOEs press governments; governments press banks; banks are forced to loan.

(3) Central bank (CB). Because there are insensitivity to market signal and sensitivity to administrative order in financial regulation and control of China, central bank can deliver the policy signal more easily by hierarchy structure financial organizations, and so they have a inner requirement and tendency to strengthen hierarchy structure when they try to set up a indirect regulation and control system.

(4) State-owned banks (SOBs). There are five reasons that SOBs are unwilling to exit from hierarchy structure: firstly, under hierarchy structure, SOBs can confuse their policy business with commercial business so that they have the chance to internalize the returns and externalize the risk; secondly, branches of SOBs can attain power resources from their sub-regions conveniently through hierarchy structure; thirdly, it can produce economic dominance of network to set up business network everywhere like the public service institutions such as post office; fourthly, hierarchy structure can raise the credit level of SOBs so that the branches of SOBs can attain a qualification of local government credit or even central government; fifthly, the SOBs with both administrative and commercial functions can carry out financial “official speculation” (GuanDao) through the two-track system in financial price, and that means that they can earn the difference between official price and market price. It induces an aberrance of the financial system of state-owned, so a bud of induced institutional change and market exchange sprout.

(5) Residents. SOBs are the “largest money storeroom” of residents’ current wealth. Because the debts of SOBs are assured by state, residents trust those state-owned financial institutions much more when the financial situation is unstable. The concentration of deposits toward SOBs
reflects the rigid dependence of residents on SOBs. Residents don’t hope any change of the SOBs’ system.

(6) Local governments. Local governments are necessarily the strongest supporter, because they can control the financial institutions of their own regions conveniently through such hierarchy structure, and then attain much usable resource. Every local government attains gradually the control on finance from the fall of financial control power of central government, and strengthens hierarchy structure intentionally. Moreover, local governments can collude with branches of SOBs by a promise of power and benefit under the micro-ground that there is neither division between governments and enterprises nor between governments and banks. Through the reformation practice of these years, the tendency of collusion between local governments and branches of SOBs exhibits more clearly (Jie Zhang, 1998). Local governments and the enterprises belonged can manipulate the loan growth of banks, and local delegates of SOBs “can’t resist the local require”, so that they become attachments to local economic management authorities in practice (World Bank, 1998a; FanGang etc., 1990). Furthermore, local governments become the decisive factor of the mechanism “to squeeze inversely” loan. Sometimes, the narrower the channel of finance is, the stronger the local governments’ desire to control finance is. From the fact that the deposits/loans surplus and deposits/loans ratio of the Western are large than that of the Eastern, we can see more clearly the mark that local governments influence financial industry.

Thus it can be seen that hierarchy structure is ineffective, every side of the games attain the best payments. Since the Nash Equilibrium is attained, the inertia of reformation must arise. At the same time, the forerunner of reformation will bear the risk and costs of reformation firstly, but all others will share the returns, so the “pig game” arises. That means that, everyone is waiting, and nobody has the impetus to reform until the equilibrium is broken.

3. The Marketlizing Reformation of Finance Becomes a Prolonged Game Play

In the marketlizing of finance, every local government has a strong impetus to marketlize, because that means they can expand local financial organizations and attain more usable funds. Since the regional control power is a function of scale of regional financial organizations (Zhang Jie, 1998), and the marketlizing of finance means the control power on finance of the central government is falling and the dominant power of local governments is increasing, every locality
hopes to start the marketlizing of finance as early as possible.

But marketlizing of finance means also the increase in the self-determination of regional financial organizations, which will cause conflict with regional control power, local governments hope the marketlizing of finance can be pushed forward slowly while be started early. Local governments can attain benefits by weighing the conflict.

Also every financial organization knows that they can’t attain the whole self-determinations. On one hand, they can’t and isn’t willing to escape from the Central Government, if they will lose their dominance on policymaking, even their existing base; on the other hand, they can’t avoid being dominated by local governments, and may collude with them. As for leaders of local financial organizations, losing some financial self-determination may attain more personal political and economic benefits. So, reform of financial market can strengthen other than weaken the convergence of structure of financial organizations, and intensify the department and regional division in financial organizations and resource, so marketlizing of finance becomes a prolonged game.

4. The Dilemma of Finance Opening-up

The open of finance include open to foreigner and domain. We have known from above that finance industry in China has a clear character of monopoly, and the open to domain is not enough. When we make a international comparison, we will find that the open to foreigner is not enough too.

In the book of Qualities of Growth of World Bank(2000), the degree of financial open is distinguished into four types: open, partially open, partially closed, closed. China is partially closed. In 36 countries of partly closure, China is the 30th, and the index of China is also close to the last type of close(≤1.35, China is 1.37); In the 98 samples, China located at 81st, closing to the last.

Because the index of open degree of World Bank includes 5 species and 27 items financial deals with foreigner, it can serves as a transaction cost index of economic intercourse with foreigner. Measuring with that index, we attained Table 4.

From Table4, we can calculate the transaction cost that China have to pay more than other
High cost of financial transaction causes a low efficiency of financial transaction, and induces a comparative closure in financial industry. Transaction cost reflects the fact that there are still many controls in the intercourse with foreigner in China, and that cause inefficiency and low competitiveness.

### Table 4 International Comparison of Financial Openness Index and Transaction Cost Gap (from the Viewpoint of Financial Openness)

<table>
<thead>
<tr>
<th>Countries</th>
<th>Financial openness index</th>
<th>Transaction cost gap</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>1.37</td>
<td>40%</td>
</tr>
<tr>
<td>Canada</td>
<td>1.92</td>
<td>41%</td>
</tr>
<tr>
<td>Ireland</td>
<td>1.93</td>
<td>26%</td>
</tr>
<tr>
<td>Japan</td>
<td>1.73</td>
<td>41%</td>
</tr>
<tr>
<td>Luxemburg</td>
<td>1.93</td>
<td>30%</td>
</tr>
<tr>
<td>Singapore</td>
<td>1.78</td>
<td>36%</td>
</tr>
<tr>
<td>UK</td>
<td>1.86</td>
<td>35%</td>
</tr>
<tr>
<td>USA</td>
<td>1.85</td>
<td></td>
</tr>
</tbody>
</table>

*Note: Transaction cost gap represents the percent China have to pay more than other countries in the international transaction.

Transaction cost = (openness index of other country - openness index of China)/openness index of China.

Source: calculate from the page 217-220 of *Quality of Growth* (World Bank, 2000).

In fact, for deficiency of open in finance, the ratio of employment in finance, the contribution of production value, and the profit are all very low. Our calculations indicate that ratio of employment in finance of China is 0.46% in 1999 (its ratio to employment in city is 1.56%), while in 1970, the ratio in US is 5.01%, and is 2.55% in Japan, 4.27% in UK. Seen from the contribution of production value, in 1999, the weigh of production value of finance and insurance to GDP is 3.53%. Seen from the profit, in 1999, the return rate of assets of the four SOBs was 0.19%, and the return rate of capital was 3.48%. That is lower than large SOEs that was operating poorly since 1970 (In 1998, the return rate of assets of industry enterprises that had a production value more than 500 million was 3.57%). In February of 2001, Xianglong Dai, the president of the People’s Bank of China, said, that the profits of the four SOBs was 14.6 billion, and the return rate of assets was 0.15%.

In order to raise the efficiency and promote the development of finance, China must open more broadly to foreigners and to domain. But to think from decision sector, it is difficult to
control the situation, and so open to foreigner is not easy to expand; to think from the lessons of finance and the possible risk, open to domain is not easy to expand too. That makes the finance of China fall into a dilemma. In 1990’, the employment ratio in financial industry of China is much too lower than that of the four countries such as US etc in 1970’, but the growth rate in China is higher.
Part Five: Conclusions and Policy Implications

I. The Main Contributions of the Paper Are as Follows:

1. For the first time, we use a set of indicators to measure financial development of three regions and 31 provincial regions in China, and to analyze the features of the financial development regional gap in the period of 1978-1999.

2. By our calculation, we discovered three new features of China’s financial gap: financial gap drops firstly then arises lately since 1978; finance gap is larger than fiscal gap and economic financial gap in the same period. The function of financial development to equalize the regional gap is larger than that of public finance. We also analyze the possible relations and features of financial gap, fiscal gap and economic gap.

3. For the first time, we use a set of statistic data to analyze the quasi-fiscal functions (we also call it as second public finance) of China’s financial industry. We measure the rise and drop of the equalization capacity both of finance and public finance, and unveil the relationship between the capacity of central government of controlling public finance and the capacity of central government of controlling finance.

4. For the first time, we give an explanation to the origins of finance gap from the political viewpoint. We analyze the path and dilemmas of China’s financial reform after the interposition of the local governments. Also, we make policy suggestions on finance marketization.

There are two points in the paper that should be further discussed:

1. We should do more work on the finance capacity and public finance capacity, to know the degree of the substitution of finance for public finance.

2. We also need to introduce investment gap (such as gross domestic investment or investment in fixed assets per capita) into this paper, to analyze relationship among the four gaps: finance gap, public finance gap, investment gap and economic gap, then we can find some correlativity among the four gaps.
II. Policy Implications

1. The role of finance are quite different from public finance. Public finance’s objective is to realize fairness, while finance’s objective is to realize efficiency, only the policy finance pay attention to fairness. Public finance should be arranged for economic and social goals by government, however the financial capital should be allocated following the market. In China, the central government aggrandizes the control of finance, makes finance to substitute the public finance, thus it can repair the deficiencies of decentralized fiscal reform, which wither the public finance capacity of the central government. The local governments also aggrandize the control of local finance, because they have to get money from the financial institutions to fulfill the objective to promote the local economic and society development. In the past, the local government can get money from the public finance allocation, but after the investment and financing system reform, they have to pay the bills by themselves. Because of the above reasons finance industry has to substitute the public finance and become the “second public finance”. The fundamental reason of this substitution is the deficiency of the domestic governance structure, which we call as bad governance. Only by changing governance model from the bad governance to the good governance, can the problem be solved. The government should transfer its public finance capacity from “out of place” to “in place” for public goods and services, and setting up the fiscal transfer payment system, while its finance capacity from “exceeding its place” to “come back to its place”, thus, the finance marketization reform of China could really startup.

2. China’s financial development should transfer from the quantities expanding growth financial assets and institutions to quality improvement, good market and institution governance. The key is to transfer the financial business relationship from the plan & market mixing-up type to a competitive market type. The most important thing of China’ financial development is the change of the wrong place of finance industry. Only by speeding up the openness of China’s financial market (open financial market to domestic non-stated-owned sectors and foreigners), introducing more
competition, can China’s finance reform be undertaken.

3 Only by breaking the local blockage of capital, can the financial capital be allocated efficiently, and the financial functions perform properly. We must allow independence to the financial institutions. The precondition is to open the financial market and change the domestic governance structure.

III. Conclusions

1. Financial development of China is dramatically uneven. Finance gap both deposit and loan per capita is larger than economic gap (GDP per capita) and public finance gap (both revenue and expenditure per capita). The central and local governments try to reduce finance gap, but the gap might not be reduced, while, it causes resources misallocate and inefficiency for the whole nation.

2. At the period of reform and opening, China’s financial industry performed the functions of public finance. After mid-1990s, financial industry’s function of equalization for regional disparity surpassed that of public finance. In the gradual reform period, the rising of central government’s financial capacity is the precondition of the falling of public finance capacity. Financial industry pays the large cost of gradual reform.

3. After the local governments interposition into financial development, they make the features of financial development (departments and regions division, the second public finance) more remarkable, and result in financial reform inertia, distort the resources allocation, and made China’s marketization reform become a prolonged game-play.

4. Only by speeding up the openness of finance, improving the domestic governance, changing the government function, transferring its public finance capacity from “out of place” to “in place”, and transferring its finance capacity from “exceeding its place” to “come back to its place”, can market-oriented financial reforms really start up.
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