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THE FINANCIAL DEVELOPMENT AND ECONOMIC GROWTH IN THE PERIOD OF 1978-2014: THE ROLE OF GOVERNMENT OF CHINA

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Abstract

In the complex market-oriented economy, as the rule maker and executive, government has double-side effects on financial development and economic growth. On the consideration of path character emerged from Chinese practice in the past decades, this paper analyzed the government's impacts on financial development and economy growth in different periods. Argued that government's role in perspective of regional discrepancy and of urban-rural dual structure. Then acknowledges that the relation between macro-control of government and market mechanism is not replacement but supplement and collaboration.

Keywords: role of government, macro-control, market, finance development, economic growth

INTRODUCTION

From 1950 to now, China's financial development have experienced from the period of planned national development strategy till 1979 to the recent 30 years' economic prosperity and to the optimizing adjustment now. From the heavy industry comes first policy to the prosperous financial instruments and to nowadays endeavoring to improve and optimize the financial institution systems. Chinese government as the rule maker and executive, in order to keep the economic marketing functioning well and balanced developments, made financial and monetary policies as the direct measures and executive interventions and legal means as the indirect measures to intervene the economic functioning integrally. What can be concluded from the mentioned financial development path was that though the initial factors for the leaping of the Chinese economy was bad, but the government standardized the financial marketing through legislations and other means accordingly makes the economy increasing rapidly. But the long term financial control makes business react poorly, leading the government to optimize and adjust the financial institution systems.

What roles the government has played in the financial developments and rising business of one country has raised fierce discussion among the Chinese scholars. One representative opinion held by Makinnon's and Shaw's(1973) financial deepening theory is that more governmental interventions upon business activities do harm to the collection of currencies, curbed the financial systems, blocked the business development, leading the financial curbing and poor business to a vicious circle. Government should to stop the excessive interventions to the financial marketing and business systems.

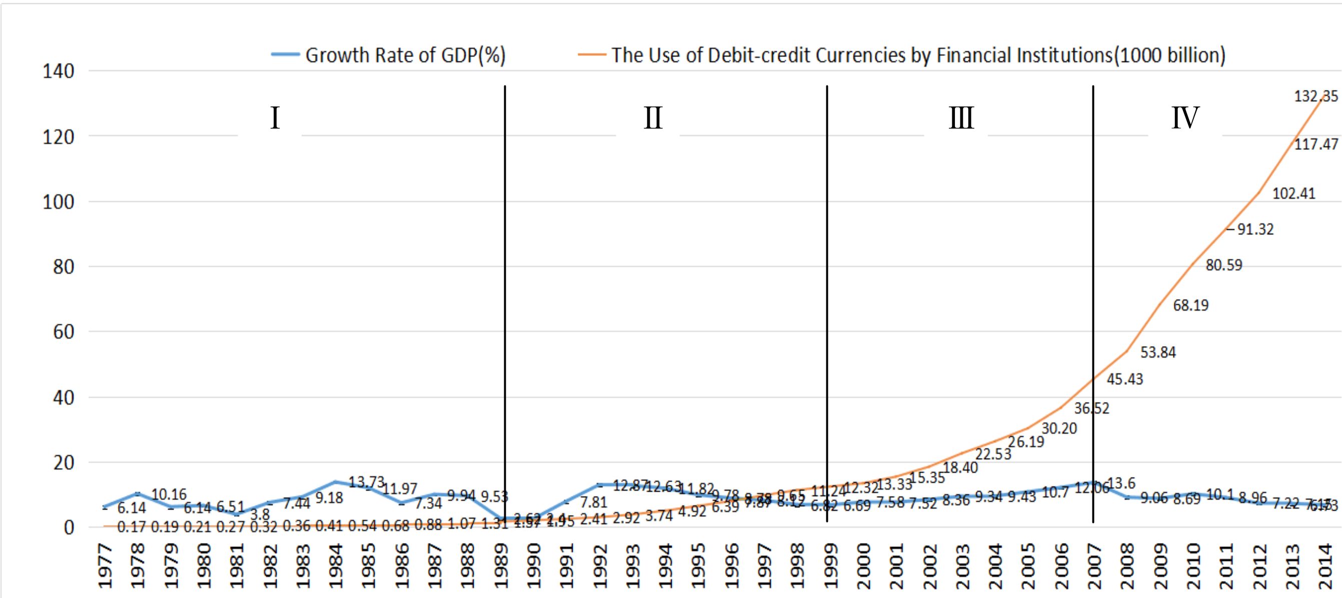
Another theory held by Jianbo Xu and Haiyong Xia (2014) in china, " the intervention of Chinese government blocked the stimulating effect to business by financial efficiency." And the theory contrary to the idea is that the financial restraint theory which held that government intervention to financial marketing is irreplaceable. Compared to other social organizations, government played a very important role in stabilize financial system and promote economic development, therefore, government intervention should be enforced. For example, Hellman, Cuha-Khasnobis and Bhadure （2000), Ergungor (2004), Ndikumana (2005), Lu jing and Zexiang Cai (2007), Honghui Cao and Huazhao Liu (2008) discussed from many aspects, and argued that government intervention to financial marketing is irreplaceable compared to other social organizations. Those two conceptions differ in results and consequences, and reasons maybe the differences in research period, the chosen representatives of financial developments and business increases and the designation of measurement models. As Aoki Hikochang(1996) raised the Marketing-enhancing View for east-Asian countries, which held that government and market cannot be deemed as the opposite sides, governments' role is to complement the local organization's regulation mechanism and overcome its shortcomings. As to the financial market, special like china which depend on the government-leading control for a long time, government's interventions have different effective to the financial developments and economic growth in different times and regions. Based on the reasons mentioned, it is necessary that this article is going to reconsider the impact on financial developments and economic growth by the government, according to the path of financial developments and economic growth and some realities.

All the domestic researches conducted reflected the same rule that the path and policy of financial development differed in countries, and this rule can be applied in different regions of the same country. Therefore, this paper divided the results of policy intervening and the influences of government's control on financial developments and economic growth into pieces of time periods, and do researches on regions and urban-rural dual structure separately. The reasons are: First, even in the same country, the government interventions have varied results in different financial development and economic growth period. Second, china is a big country which has a large span in east-west and south –north. Third, most developing countries confronted the problem of urban-rural dual structure discrepancies in the process of economic growth. Due to the historical reasons, the urban-countryside discrepancies in china are more obvious than other countries and it a critical point in realizing the financial developments and economic growths in China. So under the request of characteristic of china's path and the realities, consideration of those realities and requests must be taken into when doing researches on the Chinese financial developments and economic growths.

PHASES

The paper uses the comparison of two index, growth rate of GDP and the credit party of the debit–credit currency to figure out the impact of government's control on financial developments and economic growth. From 1977 to 2014, the comparison of the growth rate of GDP and the use of debit- credit currencies by financial institutions, see in figure 1 (data comes from the national statistical bureau http://data.stats.gov.cn).

Figure 1. The comparison of the growth rate of GDP and the use of debit- credit currencies by financial institutions



CHARACTERS

According to the data shown by figure 1, the original growth rate of GDP in china in 1978 is 6.14%, and to the year 2014, the average growth rate of GDP achieved is the outstanding number 9.776%. According to the changing momentum of GDP and combined with the character of the specific time period of economic developments in china. This paper divided the economic process of china into four phases.

Phase 1: 1977-1989, in this period, the growth rate of GDP fluctuated a lot, the loan volume of the financial institutions and the operating party of the debit- credit currencies, have been escalating step by step, and this is closely related to the policy supports by the government. The reform of the economic structures, the reform and opening up and the opening up of the special economic zone implemented one after another, the government has became the main assistant in the rapid growth of economy. The stock market had not appeared in this phase, therefore, supports of policies was continually of the economic growth.

Phase 2: 1990-1999, after 1999,the financial development speeded up evidently, stock market and bond market had became the important financing means gradually, making the financial development and economic growth came to the second climax and the reform of market economy structure went one step further. Being the policy maker and the executive government became the backbone of the economic growth. Outbreak of the financial crisis in Asia caused the growth rate of GDP dropped sharply. But under the special background of financial crisis, the government played an important role in minimizing the detriment of the crisis.

Phase 3: 2000–2007, in 2000, China joined in the WTO successfully, providing a huge platform for the increasing Chinese economy. During this time, the growth rate of GDP came to the third climax. Financial institutions and the operating party of the debit- credit currencies experienced high speed growth and the opening finance came formally. In this period, the improving financial system and the prosperity of the financial market became the pull wagon of the financial development and economic growth, but, as the external rule maker and supervisor in the process, government had its redundant intervene and its absence, became the hidden danger of the crisis.

Phase 4: from 2008 to now, the growth rate of Chinese economy was susceptible to the American subprime economic crisis evidently with a dropping fluctuation momentum, but in most occasions, the government set up a low growth rate spontaneously to seek a nucleolus factor of GDP growth

According to picture 1, the Chinese economy subjected to the influence of the periodic fluctuation of global economy. every time the rise of the speed of the GDP growth is closely linked to the government's designations, controls, assistance and other measures alike. Vice versa, each dropping of the speed of the GDP growth related to the government’s regulations and adjustments measures more or less. No matter positive influences or positive influences, the irreplaceable effective of the Chinese government in the financial development and economic growth cannot be denied. When the market mechanism is in the process of improving and ripping, and the government intervening appears to fall. Having there no governmental intervention, the appearance and spread of the modern finance would have take more time. After the intervention of the government, the financial system structure came into being with it not completely improved. Chinese economy cannot stand the absence of the Chinese government and with it the subsequent problems would be tough. The at-hand urgency is that the government should figure out what time when to take measures to intervene the market and find out the proper timing to leave the market alone.

Under the occasion of poor Chinese economy and the modern financial development subjected to many limitations, the low per capita income cannot afford cost of setting up the financial system. Had the economy relied on the spontaneous evolution of the market order, the appearance and spread of the modern finance would have taken more time. The Chinese government should put qualified social resources to intervene the market economy and when the structures of social economic system established, the government have to reform the orders and rules and improve the legal institutions to weaken the curb and control on market. In the long term, the intervention degree of government on economy descended gradually as the marketing process advanced; In the short term and at the horizon of time, when the market happens to caught in a shock all of a sudden, financial crisis, for example, the intervention degree of government would be higher than the common time and the detriment of the crisis would be relieved at the country level. With the “recovery” of market mechanism, the Chinese government would transfer the optimum degree intervention to the original one.

The influence of Chinese government in different regions

The researches conducted from different angles came to varied conclusions of government’s influence on financial development in regional economies. Wang Jingwu(2005) argued that: there is a reverse relationship between financial development and economic growth in eastern regions and western regions. The relationship of eastern regions is a cause-result relationship and the west curb-curb relationship. Zhou Ye'an(2007) concluded that: when the government’s influence be added in, the financial development and economic growth have a negative correlation .Zheng Changde’s and Liu Xingrong’s(2008) researches analyzed and demonstrated that varied sample choosing and different geographic region dividing have different impacts on financial development and economic growth. Some researchers hold that the government could improve the finance in the short term , but in the long term, the government’s measures will curb the finance and economy, Such as Pi Tianlei (2010), Malin (2012) and so on. We noticed, in this process, we were used to dividing the Chinese inland into three parts, eastern part, middle part and western part. This kind of dividing would affect the application of the conclusion considering that the different economic background of the provinces in those regions. For example, Chongqing, Sichuan and Xizang, Xinjiang exist huge discrepancies in natural resources and social resources, and having a vast difference in financial development and economic growth too. If these provinces were simply divided into one region, the overall data would be unreliable. according to the development and research center of the state council, the traditional dividing method could not reflect the regional facts any more, Li zhao, Wang shujian also raised that, when did the researches of economic growth of the regions in China, natural factors(such as endowment factor, environment position), practical factors(such as foreign business, foreign capital introducing and industrial structures) and institution factors(ownership structures, development strategies) and so on.

To sum up, whether the influence of the government's intervention on the financial development and economic growth is stimulating or curbing should take from not only the angle of time character in the financial environment mainly but also the resource endowment factor of the region. The enforcement of financial market intervention of the government will curb the regional economic growth, and the market improving function of the government's control differs in different regions. The macro-economic control of the government and the spontaneous market adjusting mechanism don't stand contrary to one another but as the supplement to each other. We should focus more of the government's intervention on the regional finance and the related influence and minimizing the discrepancies of the regional economies instead of maximizing it. The central government should comply with the trend of the developing market, confirm the position and advantages of the regional economies, and make plans as a whole. Local governments should make the boundary clear when interfering with the regional financial development, reduce the compulsory intervention on regional financial development, and add the function of service. To those regions owned advanced financial market and advantageous social resources, such as comprehensive economic zones in northern and eastern coast, local governments should weaken the direct intervention on business affairs, transferring the main functions to public services of financial market, safeguarding the financial order and sound economic development. To those regions owned poor natural and social resources, such as comprehensive economic zone in northwest where the economic development cannot get enough support from the financial market. The government should take direct or indirect measures to compensate its shortcomings, aiming at creating the market environment for financial development, strengthening the ability of exploiting and absorbing the financial resources of the market system itself, improving the market mechanism to enhance its basic effect in resource allocating.

Governments influence on financial development in the discrepancies of urban-rural dual structure

The general imbalance of regional development discussed in this paper is about the discrepancies of financial development and economic growth in different regions, and in China, the discrepancies of regional development in narrow sense appeared as the imbalance of urban-countryside development of the same region. Urban-rural dual structure system in China became a vital blockage in the process of economic growth and social development, due to the special historical reasons.

On one hand, the urban finance is fundamental to the function the city's economy and even to the country's at large. First, urban finance is a comprehensive reflection of the national economy activities in China, with it the regulation and supervision of the nation's economy overall could be realized. Second, urban finance is the hinge of other economic department, connected to the total national economy via the economic net where bank is the center. Third, urban finance accelerates the development of Chinese economy. On the other hand, the Chinese countryside regions faced evident blockage in the process of financial development and economic growth: economic professionals shortage, financial organization at large risks, capital scarcity, short of financial instruments and products, serious capital outflow, incompatible economic services, serving system of the financial service is imperfect and the like.

After over 30 years' development, discrepancies of the Chinese urban-countryside financial development in aspects of financial services, financial structures, financial institutions and the like mainly showed as:

Financial service discrepancy: financial institutes serving in urban city are intensive and balanced, but to those countryside regions poor in transportation, information, technology and population, sparse and imbalanced. More natural risk factors of the countryside economy and higher capital repay ratio in urban finance attributed to the obvious inclination of the financial institute's serving in the urban finance. As the policy-maker and practitioner, the Chinese government didn't organize the configuration of the serving function of financial institutes effectively.

Financial structure discrepancy: Although there are commercial banks, credit cooperatives, policy-bank and other financial institutes in China's countryside and urban areas alike, those institutions had no organic system connected to one another and had no effect of mutual encouragement and effective competition. List in detail is: (1) loan discrepancy in urban and countryside, people in countryside can afford money for economic sectors as depositors, but it's hard for them to lend money from economic sectors. (2) Discrepancy in urban-countryside developing phase, from the financial scale of countryside and urban regions, we could find that the former is under the primary stage of financial development, and the latter is middle-advanced stage.

Financial system difference: the history of national strategic plan "agriculture supports industry, countryside supports urban city" led to the interference of government on the economy, caused the long-term negligence of the government's fiscal investment in rural areas, and make rural finance afford capital accumulation and capital surplus for the urban city for a long time. On the other hand, government chose to strike the informal institution in order to support formal financial institutions in the countryside, which greatly reduced the informal financial institutions' complementary effect in the market mechanism. Financial institutions' common function has been distorted by government's compulsory interference, which go against the role that market mechanism should play in resources-allocating.

CONCLUSION

This paper studied about three aspects, period discrepancies, region discrepancies, countryside urban discrepancies and found that the negative and positive influence of government's intervention on financial development is as a integrity. TianleiPi (2010) argued that "Government's intervention did make a huge difference in promoting financial development at the beginning of economic transition, however, government's heavy involvements on financial development later had hampered the financial development." Studies mentioned above showed that government's intervention would have brought economic growth, but the roughness and partiality of the intervention would hamper the resources-allocating function of the financial system.

Studies mentioned above showed that government's intervention would have brought economic growth, but the roughness and partiality of the intervention would hamper the resources allocating function of the financial system, and this kind of rough growth has its imbalance in the same area. Faced to the dilemma of urban-countryside financial development and economic growth discrepancies, central government should take actions gradually, making breakthroughs at proper time according to the conditions, meantime, making breakthroughs in local areas according to the natural and economic endowments of the local regions respectively. Local governments should act as the leader, organizer and practitioner of the mechanism reforms in the urban-rural interface: First, government should resort to government's power to make systematic studies; Second, government should make innovations on financial system to lead a depth-like social economic reform; Third, government should be a true maintainer of social justice, to improve financial market rule. In short, whether Chinese government or scholars, the further studies on the same area should focus on how to reconcile the discrepancies of the Chinese urban-countryside financial development and propose measures which can shorten the discrepancies effectively.

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