Regional Economic Growth and Financial Development: The Empirical Analysis of Chinese Regional Convergence and Banking Industry Efficiency

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At the beginning of Reform and Openness in 1978, a political slogan, ‘let some people and some regions get rich first, others will be brought along, and through this process national common prosperity will be gradually achieved’, was proposed by Chinese central government. Worldwide admitted, continuous and spectacular economic growth certainly endorses the accomplishment of this political slogan particularly. There is no doubt that the target of ‘some people and some regions get rich first’ has been achieved after decades of sustainable high-speed economic growth, having participating in WTO in 2001 as well as having ascended to the second largest GDP country in 2011. With the proposal of new political slogan ‘construct a harmonious society’ several years ago, the political goal of ‘achieving common prosperity’ is put forward once more. This dissertation focuses on a particular aspect of China’s ‘build in a harmonious society’ issue in its economic boom proceeds, from both the economic side and financial development side.

This dissertation empirically investigates how the development of the financial market has an influence upon the regional economic growth in China. Specifically, the author focuses on the impulsive financing force of the external way of foreign investors (foreign capital utilization, foreign shares within the Chinese banking industry) and foreign rivals (foreign banking assets), as well as the domestic way of Chinese financing system self-reform (especially the Chinese banking industry).

Firstly, the author quantifies the degree of regional economic convergence (or divergence inversely) in Chapter 3. Distinguishing from former researches, this dissertation is aroused by the inquiry of ‘whether reforms benefit generating a convergent economic growth’. Evidence co-proves that regional economic growth convergence significantly exists in the post-reform period (1978-2008). However, the post-financial-reform period (1978-1994) shows weak $\delta^2$ divergence or weak $\beta$ convergence. Therefore, the economic reform accelerates convergent speed, whereas the financial reform slows down this outstanding trend.

Secondly, the author empirically investigates determinations of external foreign financial utilization in Chinese regions in Chapter 4. Other existing researches have investigated the decisive
role of FDI in Chinese economic growth on an aggregate level (namely in all industries). Distinguishing from these previous studies, a special focus is given to a separated foreign capital inwards into regional financial intermediation in this dissertation. However, aggregate foreign capital utilization is also employed as an object of basis. According to the results of our empirical analysis, the economic factors, rather than the financial factors, are confirmed more significantly in aggregate foreign capital attraction. On the other hand, the financial determinants show significantly positive effects to foreign bank asset distribution. In the concrete, a pluralistic, developed financial institution with a large but low-efficiency banking industry attracts foreign rivals in the banking industry.

Thirdly, measurements of banking industry cost efficiency and influence factors are the bright spots in Chapter 5. Stochastic Frontier Approach (SFA) was chosen as the method of cost efficiency measurement. The empirical results show that the category of the 1990s newly established policy banks is most cost efficient. According to the empirical results, the participation of foreign minority ownership has a significantly positive impact on the cost efficiency of the banking industry, in spite of a lack of weight strength. And the market-oriented factor (total asset expansion) has a statistically significant impact on the cost efficiency, while the government intervention (credit control) does not. These results verify the evidence that the market-oriented factor plays a more crucial and substantial role than government intervention in Chinese banking industry reform during the post-WTO period (2002-2009).

In Summary, both the internal domestic financial and the external foreign financial approaches impact on Chinese fast economic growth. Introducing competition, especially external foreign force, into banking industry is proved to be an effective approach to cost efficiency improvement. However, foreign capital generally emphasizes profitability. If the government does not work out any measure except for deregulating, foreign capital may invest only to the East region. As a result, the economic disparity between regions must be accelerated. To narrow the enlarged regional gaps, the government should take a feasible and practical measure which induces foreign capital to make inroads into financial market in less developed region. As a first step, tax reduction or subsidies for foreign investors who invest into financial institutions in West and Midland region is worth considering. On long terms, market-oriented competition should be the core reform orientation for the goals of both ‘get rich’ and ‘achieve national common prosperity’. 