

China's Financial System: Past, Present, and Future. The Wharton School, University of Pennsylvania

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Abstract

We examine the role of China's financial system in supporting economic growth, and explore directions of future development. First, the current financial system is dominated by a large but inefficient banking sector. Reducing the amount of non-performing loans among the major banks to normal levels is the most critical task for reforming the financial system in the short run. Second, the role of the stock market in allocating resources in the economy has been limited and ineffective. Further development of China's financial markets is the most important task in the long-term. Third, the most successful part of the financial system, in terms of supporting the growth of the overall economy, is a non-standard sector that consists of alternative financing channels, governance mechanisms, and institutions. This sector should co-exist with banks and markets in the future in order to continue to support the growth of the Hybrid Sector (non-state, non-listed firms). Finally, in order to sustain stable economic growth, China should aim to prevent and halt damaging financial crises, including a banking sector crisis, a real estate or stock market crash, and a "twin crisis" in the currency market and banking sector.

Keywords: banks, non-performing loans, markets, corporate governance, hybrid sector, financial crisis.

Full Text:
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