

# China's Transitional Financial System: Evidence from the Growing Role of Financial Markets\*

Il-Hyun Yoon

Division of Business Administration, Dongseo University

< 목 차 >

I. Introduction	IV. Summary and Conclusion
II. Chinese Financial System	References
III. Increasing Role of the Financial Markets	Abstract

Key words(중심용어): 금융기관 (Financial Institution), 금융시장(Financial Market), 금융개혁(Financial Reform), 금융제도(Financial System), 무수 익여신(Non-performing Loans)

## 국 문 요 약

본 논문은 1979년 첫 번째 경제개혁조치 이후 괄목할만한 중국경제성장과정에서의 중국 금융 시스템의 역할에 대해 기술하고 있다. 중국의 금융 분야의 개혁은 빠르게 성장하는 경제에 악영향을 끼치지 않도록 신중하고도 단계적인 실시가 특징적이다. 중국의 금융시스템은 전통적으로 사회주의 경제체제하에서 중앙통제적인 계획경제를 실현하는데 필요한 부수적인 도구에 불과하였으며, 최근 자본주의 경제체제로의 변화를 하고 있는 가운데 금융 산업의 부실여신해결과 기업지배개선을 꾀하고 있다. 본 논문은 이런 와중에서 금융시스템의 두 핵심축인 금융기관과 금융시장을 중심으로 금융시스템의 발달과 변화를 분석한다. 중국기업의 자금조달은 대부분 은행 차입에 의존하여 왔으며 최근 자본시장의 발달로 직접금융의 형태의 조달을 시도하고 있으나 아직은 미미한 수준에 이르고 있다. 시장중심의 금융시스템으로의 변화의 징후는 있으나 여전히 은행 중심의 시스템이 운용되고 있음을 보여주고 있다.

\* This work was supported by the Dongseo University research grant.

This paper was presented at the 2009 International Conference held on October 31, 2009, organized by the Korean Association for Chinese Studies. The author is grateful to conference participants for their helpful comments.

## I. Introduction

China has recorded remarkable economic growth since implementation of the economic reform policy in 1978. China is now the third largest economy in the world after the US and Japan when measured in exchange rate terms.<sup>1)</sup> It is the second largest after that of the United States with a GDP of US\$7.8 trillion when measured on a purchasing power parity (PPP) basis. China has had the fastest growing major economy for the past 30 years with an average annual GDP growth rate above 10 per cent.

Throughout the past three decades of rapid growth, China has undergone substantial structural changes in its economy such as industrialization, urbanization and integration into the world economy. The country's economic reforms greatly increased the economic role of its financial system, which has also made significant changes, though in a gradualist fashion. In the late 1970s and early 1980s, the People's Bank of China (PBOC) ended its monopoly of the banking sector and played the role of the nation's central bank and four state owned commercial banks (the so-called "Big Four") were established to take over the role of the commercial bank from the PBOC.<sup>2)</sup> In the mid-1990s, three policy development banks were established to relieve the Big Four of the responsibility of making loans to implement the policies of the government, thereby enabling them to operate more fully true commercial banking business (Barth and Caprio 2007).

In the late 1990s, further changes in the financial system took place. The government undertook a series of actions to address the problem of enormous non-performing loans (NPLs) accumulated by the Big Four as a result of their earlier policy-directed lending. These actions became more urgent when China became a member of the World Trade Organization (WTO) in December 2001 and committed to fully opening up its banking sector to foreign firms by December 2006.

In the early 1990s, two stock exchanges were established: one in Shanghai and the other in Shenzhen. Laws were also enacted establishing three new financial regulatory agencies in the 1990s and early 2000s to oversee banking, securities and insurance industries, respectively. This freed the PBOC of the responsibility to supervise these financial sectors so it can focus on monetary policy. Other reforms have been implemented to improve

---

1) According to the National Bureau of Statistics of China in January 2009, the economy was revised to be worth 25.7 trillion yuan in 2007, or about 3.5 trillion dollars based on the exchange rate at the end of that year, China overtook Germany, whose GDP stood at 3.3 trillion dollars in 2007, as the world's third largest economy, only behind the United States, whose economy was worth 13.8 trillion, and Japan, at 4.4 trillion in 2007.

2) The Big Four includes Bank of China, Industrial and Commercial Bank of China, Construction Bank of China and Agricultural Bank of China.

functioning of the overall financial system and to promote sustained growth in the economy (Barth and Caprio 2007).

A plethora of studies have been done to analyse the miraculous economic development of the emerging Asian giant, but examinations of the financial sector remain relatively few while Allen and his co-authors made important contributions for the analysis of the Chinese financial system.<sup>3)</sup>

National financial systems, broadly speaking, can be classified into two types according to the relative role of the financial institutions and the markets such as stocks or bonds (see Allen and Gale (2001), Chakraborty and Ray (2003), Howells and Bain (1998), Levine and Demirguc-Kunt (1999), Levine (2002) and Yoon (2009)). One type of the financial system is the market-based system which is mainly found in the UK and the US. This type is characterized by 'market-oriented' financing practices. The other major type of financial system is the bank-based system found in Japan and Germany, which is also known as 'relation-oriented' financing. In the bank-based system, large banks maintain close relationships with companies. Banks are lenders and part owners of companies.

The financial system in China has been bank-based financial system considering the government-controlled loans have been extended to the firms through the banks. With the problems of huge NPLs in the banking sector, the government has allowed the financial market for more active roles for the corporate procurement of funds. This study examines the increasing role of the financial markets during the period of economic growth, and predict the change towards improvement of a relatively inefficient financial system in comparison with the economic success for the past decades.

The remainder of this paper is organized as follows. The next section describes the structure of the financial system in China while third section focuses on the role of the country's markets for investigation into the changing financial system before concluding the article.

## II. Chinese Financial System

The financial industry in China can be broadly classified into several categories: a central bank, that is, the People's Bank of China, or PBOC; policy banks; commercial banks; rural cooperative banks; urban credit cooperatives; rural credit cooperatives; Postal Savings Bank; foreign banks; and non-bank financial institutions.

---

3) For example, see Allen, Chui and Maddaloni (2004), Allen et al. (2008), Allen, Qian and Qian (2007), Allen, Qian and Qian (2005), and Allen, Qian and Qian (2002).

Currently, China's commercial banks are composed of 3 policy banks, 5 large commercial banks (the Big Four banks plus Bank of Communications), 12 joint-stock commercial banks, 136 city commercial banks, 22 rural commercial banks. Table 1 summarizes different types of major banks, including foreign banks operating in China. In addition, there are 163 rural cooperative banks, 22 urban credit cooperatives, 4,965 rural credit cooperatives, one postal savings bank, 4 asset management companies, 32 locally incorporated foreign bank subsidiaries, 54 trust companies, 4 finance companies of enterprise groups, 12 financial leasing companies, 3 money brokerage firms, 9 auto financing companies, 91 village or township banks, 6 lending companies and 10 rural mutual credit cooperatives (CBRC Annual Report 2008).

**Table 1: Summary of different types of banks in China**

People's Bank of China	Central bank
	Note-issuing bank
Policy banks	China Development Bank: specializes in financing key construction.
	Agricultural Development Bank of China: provides loans for the purchase, transport, marketing and reserves of selected agricultural products, and loans for enterprises involved in processing.
	Export-import Bank of China: provides financial support for the import and export of capital goods.
Large commercial banks	Bank of China
	Industrial and Commercial Bank of China
	Construction Bank of China
	Agricultural Bank of China
Joint-stock and other commercial bank	Bank of Communications
	A number of joint-stock commercial banks, city and rural commercial banks have been set up since the late 1980s in various cities and provinces.
Foreign banks	Branches of foreign banks operating in China have been established to conduct China-related business. The business scope of foreign banks has been gradually expanded after China's entry into the World Trade Organization (WTO).

Traditionally, China's financial system has been heavily bank dominated. As of October 2005, according to Song (2008), the assets in banks accounted for over 90 per cent of the country's total financial assets. Especially the Big Four banks constitute the core of the

Chinese bank credit system. Table 2 provides a breakdown of the different types of banks and illustrates domination by the Big Four in the banking sector in terms of asset, deposit and loan. During the period of 2001-2004, the Big Four banks dominate in every aspect, although the role of the non-Big Four banks in the entire banking sector is gradually increasing. Volume of total assets, loans and deposits in the Big Four amounts to 16,932 billion RMB, 10,086 billion and 14,412 billion RMB in 2004, respectively, well above those of the other banking institutions.

The Big Four's dominance resulted in the low degree of competition within the banking system. According to the comparative analysis carried out by Demirguc-Levine (2001) for China, Japan, South Korea and Taiwan, the concentration index of the Big Four – quota of assets out of the total – stood around 91% in the 1990s, the highest among the Asian countries considered.

However, from 1997 the entry of new private banks and new intermediaries gradually generated a drive towards greater competition (Allen et al. 2007). This low level of competition gave rise to higher rate of NPLs in the Big Four than that of the non-Big Four banks (also see Table 2). The huge amount of NPLs stemmed from financing extended by the Big Four to state sector firms, often granted for political rather than economic reasons with steady accumulation over the years.

**Table 2: State-owned and Private Banks in China (RMB billion)**

Types of Banks	Total Assets	Total Deposits	Loan Outstanding	NPL rate (%)
2004				
Big Four Banks	16,932.1	14,412.3	10,086.1	15.57
Other Commercial Banks	4,697.2	4,059.9	2,885.9	4.93
Joint Equity				
City Commercial Banks	1,693.8	1,434.1	904.5	11.73
Foreign Banks	515.9	126.4	255.8	1.34
Urban Credit Cooperatives	171.5	154.9	97.9	
Rural Credit Cooperatives	3,101.3	2,734.8	1,974.8	
2003				
Big Four Banks	16,275.1	13,071.9	9,950.1	19.74
Other Commercial Banks	3,816.8	3,286.5	2,368.2	7.92
Joint Equity				
City Commercial Banks	1,465.4	1,174.7	774.4	14.94
Foreign Banks	333.1	90.7	147.6	2.87

Urban Credit Cooperatives	148.7	127.1	85.6	
Rural Credit Cooperatives	2,674.6	2,376.5	1,775.9	
2002				
Big Four Banks	14,450.0	11,840.0	8,460.0	26.1
Other Commercial Banks	4,160.0	3,390.0	2,290.0	
Joint Equity	2,990.0			9.5
City Commercial Banks	1,170.0			17.7
Foreign Banks	324.2		154.0	
Urban Credit Cooperatives	119.0	101.0	66.4	
Rural Credit Cooperatives		1,897.0	1,393.0	
2001				
Big Four Banks	13,000.0	10,770.0	7,400.0	25.37
Other Commercial Banks	3,259.0	2,530.7	1,649.8	
Joint Equity	2,386.0	1,849.0	1,224.0	12.94
City Commercial Banks	873.0	681.7	425.8	
Foreign Banks	373.4		153.2	
Urban Credit Cooperatives	128.7	107.1	72.5	
Rural Credit Cooperatives		1,729.8	1,197.0	

Sources: Almanac of China's Finance and Banking 2000-2005.

The study of Allen et al. (2008) compared NPLs in China, the U.S. and other major Asian economies during 1998-2006 based on official figures (see Table 3). NPLs are measured by their size (in US\$ billion) and as a percentage of GDPs in the same year (shown in brackets). Measured as the fraction of GDPs, China's NPLs are the highest in the group from 2000 to 2006, and as high as 20% to 22.5% of GDP (in 2000 and 2001).

The cross-country comparison on NPLs includes the period during which Asian countries recovered from the 1997 financial crisis (e.g., the size of NPLs in South Korea exceeded 12% of GDP in 1999 but it was reduced to below 3% two years later), and the period during which the Japanese banking system was disturbed by the prolonged NPL problem (the size of Japan's NPLs is the largest of the group throughout the time period except for 2006; the ratio of NPLs over GDP reached 15.6% in 2001, but was reduced to below 5% by the end of 2005).

**Table 3: A Comparison of Non-performing Loans (NPLs)**

Year	China	U.S.	Japan	S. Korea	India	Indonesia	Taiwan
<i>Panel A: Size of NPLs: In US\$ billion and as percentage of GDPs in the same year (in brackets)</i>							
1997	--	66.9 (0.8%)	217.4 (5.1%)	16.2 (3.1%)	--	0.2 (0.1%)	19.6 (6.5%)
1998	20.5 (2.0%)	71.3 (0.8%)	489.7 (12.7%)	23.2 (6.7%)	12.7 (3.1%)	5.5 (5.2%)	21.8 (7.9%)
1999	105.1 (9.7%)	72.2 (0.8%)	547.6 (12.6%)	54.4 (12.2%)	14.0 (3.2%)	3.1 (3.8%)	27.2 (9.1%)
2000	269.3 (22.5%)	90.1 (0.9%)	515.4 (11.1%)	35.5 (6.9%)	12.9 (2.8%)	6.3 (2.7%)	33.2 (10.3%)
2001	265.3 (20.0%)	108.4 (1.1%)	640.1 (15.6%)	12.2 (2.5%)	13.2 (2.8%)	4.3 (1.7%)	37.9 (13.0%)
2002	188.4 (13.0%)	107.8 (1.0%)	552.5 (14.1%)	9.9 (1.8%)	14.8 (3.0%)	3.3 (2.0%)	30.7 (10.4%)
2003	181.2 (11.0%)	95.9 (1.0%)	480.1 (11.3%)	11.7 (1.9%)	14.6 (2.5%)	4.7 (1.5%)	23.1 (7.7%)
2004	207.4 (10.7%)	81.3 (0.9%)	334.8 (7.3%)	10.0 (1.5%)	14.4 (2.2%)	3.8 (2.1%)	16.4 (5.1%)
2005	164.2 (7.3%)	84.6 (0.7%)	183.3 (4.0%)	7.6 (1.0%)	13.4 (1.7%)	6.0 (1.5%)	11.2 (3.2%)
2006 (Q2)	160.3 (6.3%)	88.8 (0.7%)	108.2 (2.4%)	7.4 (0.8%)	11.8 (1.4%)	7.3 (2.1%)	--

Note: NPLs in the U.S. measure the outstanding "delinquency loan" NPLs in Japan measure the "risk management loans" (or loans disclosed under the Financial Reconstructed Law and/or loans subject to self-assessment). Cited in Allen et al. (2008).

### III. Increasing Role of the Financial Markets

The capital market in China only began its operation in the early 90s. Official activation of the two national stock exchanges, the Shanghai Stock Exchange (SHSE) and Shenzhen Stock Exchange (SZSE), took place in 1990 and 1991, respectively. Alongside the Hong Kong Stock Exchange (HKSE), the country has three stock exchanges.

Shortly afterwards, the Chinese capital market has showed rapid growth. At the end of 2002, it came only in eleventh in terms of total capitalization in the world ranking of major stock markets (Mainland China: SHSE and SZSE), while coming in tenth with HKSE (see Table 4). The national stock markets taken together had already reached the fifth place by 2002, following after the United States, Japan, the United Kingdom and France. In 2007, however, Mainland China stock markets ranked second, only behind New York Stock Exchange (NYSE). In terms of concentration index, which is a percentage of 5% of the largest companies by market capitalization compared with total domestic market capitalization, China showed a rather low percentage at 67.5%, whereas the turnover index, which is the total turnover for the year expressed as a percentage of the total market capitalization took top place (242.2%) among the developed countries. There was improvement in the concentration index for the two mainland stock markets, from 29.4% of 2002. Still the turnover index came fairly high and HKSE stood at 94.1%. Considering many of the shares were still non-tradable, such a high turnover index proves significant in terms of the

considerable speculation on the stock market. Comparing the data of both year shown in Table 3, the stock market can be seen to play an increasing role within the structure of China's bank-dominated financial system.

**Table 4: A Comparison of the Largest Stock Markets in the World  
(2002 versus 2007)**

Rank	Stock Exchange	Total Market Cap (U\$ billion)		Concentration (%)		Turnover Velocity (%)	
		2007	2002	2007	2002	2007	2002
1	NYSE	15,651	9015	57.2	61.3	167.1	94.8
2	<b>China(Mainland)</b>	<b>4,479</b>	<b>463</b>	<b>67.5</b>	<b>29.4</b>	<b>242.2</b>	<b>224.2</b>
3	Tokyo	4,331	2095	62.1	60.6	138.4	67.9
4	Euronext	4,223	1538	68.1	72.3	136.9	153.6
5	Nasdaq	4,014	1994	65.1	63.1	303.6	159.8
6	London	3,852	1800	86.0	84.5	154.2	97.3
7	<b>China(Hong Kong)</b>	<b>2,654</b>	<b>463</b>	<b>74.4</b>	<b>83.0</b>	<b>94.1</b>	<b>39.7</b>
8	Canada	2,187	570	62.1	67.8	83.7	67.9
9	Deutsche Borse	2,105	686	78.5	72.0	208.4	125.1
10	Bombay SE	1,819	-	87.0	-	29.4	-
17	Korea Exchange	1,123	216	81.8	75.2	192.6	254.4

Notes: Concentration is a fraction of top 5% most capitalized companies compared with total domestic market capitalization. Turnover velocity is the total turnover for the year expressed as a percentage of the total market capitalization.

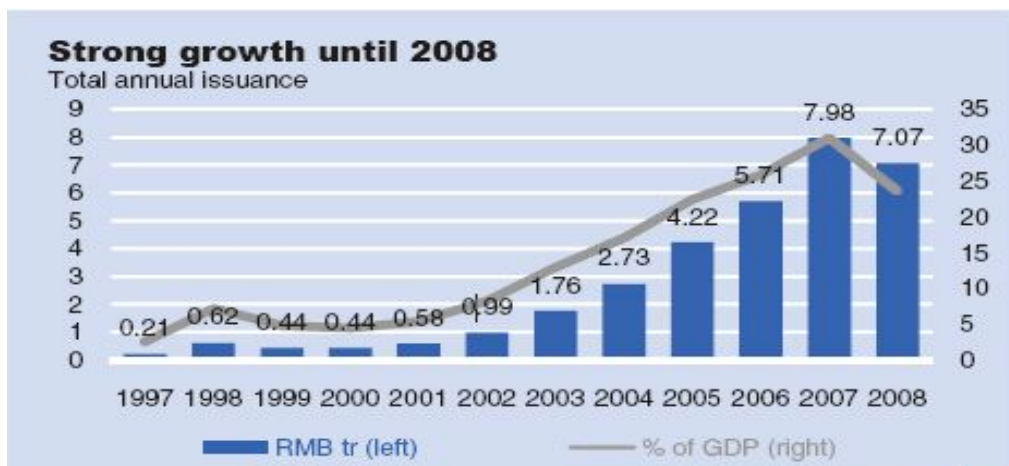
Source: <http://www.world-exchanges.org>, the web site of the international organization of stock exchanges.

One peculiar characteristics of the Chinese stock market is the remarkable segmentation: tradable shares (TS) and non-tradable shares (NTS). While the TS can be exchanged freely, the NTS (State Shares and Restricted Institutional Shares) can only be sold out privately, and are thus not subject to public trading on the market. At the beginning of 2005 the non-tradable shares still accounted for about 2/3 of all the shares in circulation (Beltratti-Bortolotti 2006). On April 29, 2005, the China Securities Regulatory Commission (CSRC) launched a reform project, providing for the gradual reduction of non-tradable shares. More particularly, this reform was applied to the period from April 2005 to September 2006, requiring that holders of NTS have to compensate in a variety of forms (cash, bonus shares, warrants) holders of TS in order to have the right to sell their shares. As for the tradable shares, they can in turn be classified in terms of domestic shares (i.e. A shares), as being owned and exchanged by domestic investors alone, and foreign shares (i.e. B and H shares)

denominated in foreign currency and reserved for foreign investors (see Beltratti and Bortolotti 2006, and Beltratti and Caccavaio 2006).

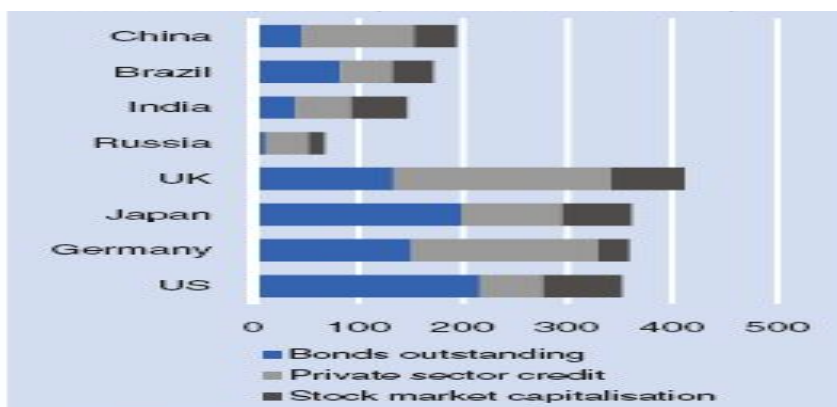
The bond market in China began in the early 1980s as economic reforms started and enterprises had to diversify their funding sources. Treasury bonds were launched in July 1981 and, from 1982 onwards, corporate bonds emerged. Starting from April 1988, trading of treasury bonds by retail investors was permitted in seven cities and by the end of that year it had spread across the country. The interbank segment was established by the PBOC in 1997 – open only for domestic institutional investors. After 2000, the range of market participants was broadened to also include domestic non-financial institutions. International institutions were also given permission to issue so-called Panda bonds – the bonds denominated in RMB. In exchange based trading, net price bond trading was introduced in 2002 and the following years witnessed a number of new products, including asset-backed securities by non-FIs. OTC trading was also established in 2002 in order to service retail investors and SMEs (see Deutsche Bank Research 2009).

Total annual issuance has significantly increased since the early 2000s (see Figure 1). However, China's bond market is still relatively small with a share of nominal GDP of 35 per cent, when compared to developed economies, as shown in Figure 2. People's Bank of China (PBOC) and treasury bonds accounted for almost 80% of total issuance in 2007, Financial bonds and corporate bonds were issued by state-owned policy banks and state-owned enterprises, while the bonds issued by companies are virtually negligible.



Source: Chinabond. Cited in Deutsche Bank Research March 16, 2009

**Figure 1: Annual Issuance of Chinese Bonds**



Note: As shares of 2008 estimation of GDP

Source: BIS, Bloomberg, IMF, IFS. Cited in Deutsche Bank Research March 16, 2009

**Figure 2: Financial Market in Comparison (% of GDP 2008)**

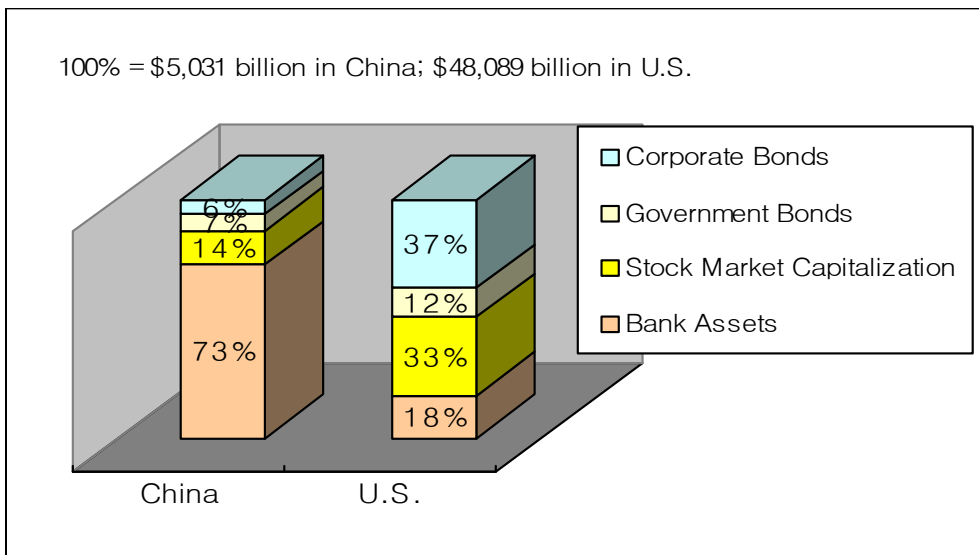
As Chinese economy recorded remarkable growth for the past three decades, the country's financial sector also enjoyed a period of significant growth especially since the early 90s. However, in contrast to China's economic power, its financial contribution in the world is still limited. Table 5 provides a broader perspective of China by comparing it to selected countries in terms of shares of world population, GDP, and total financial assets (including bank assets, bonds outstanding and stock market capitalization). China accounts for five percent of the world's GDP and three percent of the world's financial assets while the United States accounts for nearly 30 percent of the world's GDP and slightly more than 30 percent of the world's financial assets. Japan, the European Union's (EU) 25 member countries also have their own share of total financial assets similar to their share of world GDP. In the case of China, however, their financial asset shares are only two-thirds of its GDP shares. This reflects the fact that China still have relatively underdeveloped financial systems.

**Table 5: Distribution of World's GDP, Population and Financial Assets  
(As of End of 2005)**

		Percent Accounted for by			
		China	U.S.	Japan	EU 25
GDP	\$44 trillion	5.0	28.1	10.3	31.5
Population	6.5 billion	20.2	4.6	2.0	7.1
Bank Assets	\$59 trillion	6.3	14.4	12.0	32.9
Equity Market	\$35.2 trillion	2.0	44.8	13.2	20.7
Bond Market	\$58.9 trillion	1.1	40.4	14.7	32.9
Total Financial Assets	\$152 trillion	3.3	31.4	13.3	30.1

Source: IFS, IMF, Emerging Stock Markets Factbook, S&P, and BIS

In addition, for further investigation into the financial structure, financial assets in China have been broken down into different type of assets: bank assets, stock market capitalization and bonds. Figure 3 depicts that in China bank assets are twice as large as equities and bonds, in a stark contrast to the US, which has a typical market-based financial system, showing that China still has a bank-based system. As Barth and Caprio (2007) explained, corporate debt and equity requires "a much more sophisticated, timely, and reliable information network," compared with bank finance, these parts of the financial system usually develop later.



Source: IFS, IMF, S&P and BIS.

**Figure 3: Financial System Composition as of 2005**

## V. Summary and Conclusion

Major development and structure of the China's financial system over a period from its initial stage to the most recent time have been examined. China's financial system especially showed gradual changes following implementation of the economic reform in 1979. The country's different types of financial institutions and various kinds of financial markets have been examined.

With the growth of the country's economy, the volume of financial assets has increased remarkably, though not proportionately. The role of the banking sector is formidable in the Chinese financial industry in comparison with that of financial, or capital, market. Especially

domination by the so-called Big Four is striking. Ensuing low level of competition in the banking sector caused a huge amount of the non-performing loans (NPLs). Due to the government efforts to address the problem, the NPL size has significantly been reduced.

The financial market, capital market in particular, due to the financial liberalization as part of WTO accession agreement, have played an increasingly important role in the country's economy. Corporate sector has been tapping capital market for their fund raising with direct financing as a form of stock or bond issuance. The size is still far limited, compared with that of major economies.

China's financial system have long been heavily bank-based, and investigation into the structure of its financial sector shows that it is still typically bank-based system unlike most developing countries where the national financial system has been transformed or developing towards market-based from bank-based one in the wake of several financial crises.

China has much room to expand the size of their financial systems, including the banking sector and the capital markets, to facilitate continued economic growth and development. The development of a more market-based financial system, which needs more liberalization and openness, however, should be accompanied by prudential regulation and supervision over financial industry based on the lessons from a number of crisis-ridden countries in recent years.

## References

- Allen, Franklin, and Douglas Gale(2001). "Comparative Financial Systems: A Survey." *Wharton Financial Institutions Center Working Paper*. 01-15.
- Allen, Franklin, Jun Qian and Meijun Qian(2007). "China's Financial System: Past, Present and Future." *Wharton Financial Institute Center Working Paper* 05-17, forthcoming in *China's Great Economic Transformation* edited by T. Rawski and L. Brandt, Cambridge University Press.
- Allen, Franklin, Jun Qian and Meijun Qian(2005). "Law, Finance and Economic Growth in China." *Journal of Financial Economics*. Vol. 77. No. 1. pp. 57-116.
- Allen, Franklin, Jun Qian and Meijun Qian(2002). "Comparing China's Financial System." *Wharton Financial Institute Center Working Paper*. 04-16.
- Allen, Franklin, Jun Qian, Meijun Qian and Mengxin Zhao(2008). "A review of China's Financial System and Initiatives for the Future." *Wharton Financial Institutions*

*Center Working Paper*. 08-28

- Aoki, Masahiko, Hugh Patrick and Paul Sheard(1994). "The Japanese Main Bank System: An Introductory overview." M. Aoki and H. Patrick, eds. *The Japanese Main Bank System: Its Relevance for Developing and Transformation Economies*, 3-50. Oxford: Oxford University Press.
- Barth, James, and Gerard Caprio, Jr.(2007). "China's Changing Financial System: Can It Catch Up With, or Even Drive Growth." *Policy Brief of Networks*. Financial Institute at Indiana State University. 2007-PB-05.
- Beltratti, Andrea, and Bernardo Bortolotti(2006). "The Nontradable Share Reform in the Chinese Stock Market." *University Bocconi Working Paper*. September.
- Beltratti, Andrea, and Marianna Caccavaio(2006). "Asset Float, Volume and Stock Prices: Evidence from the Chinese Stock Market." *University Bocconi Working Paper*. November.
- Chakraborty, Shankha, and Tridip Ray(2003). "Bank-based versus Market-based Financial Systems: A Growth-theoretic Analysis." *University of Oregon Economics Department Working Paper*.
- CBRC(2008). China Banking Regulatory Commission. 2008 Annual Report.
- Deutsche Bank Research(2009). "China's Financial Markets - a Future Global Force?", *Current Issues of Deutsche Bank Research*. March 16, 2009.
- Howells, Peter G.A., and Keith Bain(1998). *Money, Banking and Finance : A European Text*. Harlow: Financial Times Prentice Hall.
- Levine, Ross(2002). "Bank-Based or Market-Based Financial System: Which is Better?" *Journal of Financial Intermediation*. Vol. 11. No. 4. pp. 398-428.
- Levine, Ross, and Demirguc-Kunt(1999). "Bank-Based and Market-Based Financial Systems: Cross-Country Comparisons." *World Bank Working Paper*. No. 2143.
- Lin, Justin Yifu, Fang Cai, and Zhou Li(2003). *The China Miracle: Development Strategy and Economic Reform*. Hong Kong: The Chinese University Press.
- Song, Ki-Ho(2008). *Understanding Chinese Economy (in Korean)*. Seoul: Chongmok Press.
- Yueh, Linda Y.(2004). "China's Economic Growth with WTO Accession: Is it Sustainable?" in *Chinese Economy: Issues and Perspectives*, ed. Janardian Rao, ICFAI University Press.
- Yoon, Il-Hyun(2009). "Development and Change in Korea's Financial System." *Journal of Economic Study*. Vol. 27. No. 2. pp. 153-184.

Abstract

## China's Transitional Financial System: Evidence from the Growing Role of Financial Markets

Il-Hyun Yoon\*

This paper examines China's financial system which has been greatly transformed over the past three decades which saw sustained fast growth of economy. The financial system in China specifically showed gradual and cautious changes to avoid adverse impacts on its fast-growing economy. China's financial system, which the government traditionally used as a tool for implementation of the centrally planned economy under the regime of the socialism, has been moving towards that of a capitalist economy while China has been confronted with financial difficulties such as non-performing loans for banks and corporate governance for firms. Financial institutions and financial markets, two key poles in a national financial system, are discussed in detail. Although corporate funds have been heavily financed by indirect financing through bank loans, financial markets is playing an increasingly important role in the fund procurement in the corporate sector.

■ 논문접수일 : 2010년 4월 10일, 논문심사일 : 2010년 4월 18일, 게재확정일 : 2010년 4월 20일