

An Analysis of the Relationship between the Finance and the Economic Growth of Counties in China's Shandong Province

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Abstract

Based on the theory of financial development and economic growth, an investigation has been conducted to reveal the contradictions and correlations between the finance and economic growth in the counties of China's Shandong Province. This paper has proposed some countermeasures through the investigation of counties of Shandong Province.

Keywords: county economy, county finance, growth relationship

1. Introduction

County economy refers to the economy within administrative districts at the level of county. As the most dynamic basic unit in the national economic development, it plays a critical role in national economy. Presently, the county economy in Shandong province has brought the whole level of economic development up to a new town-based stage. How to transform the counties' present economic development model to a scientific development model through accelerating the financial development, solving capital constraints and promote financial support is an urgent issue that needs to be addressed.

According to the theory of the new economic growth, one of the factors contributing to the economic increase is capital input, which is essential in solving the problems emerged in county economy and promoting the continuous development of county economy. As the main financing channels of the economic development of counties, county finance has increasingly attracted public attention. Based on this, the research on the relationship between county finance and county economy is particularly important.

2. Literature Review

The role of financial sectors in economic growth has always been a hot issue of economists. McKinnon (1973) proposed the theory of financial repression, which maintains that the deposit rate of maximum economic growth must be the outcome of a balanced free market. As a result, in order to achieve the liberalization of financial system and stimulate economic growth, they suggest cancelling interest ceiling, lower deposit reserve ratio and ensure a competitive environment among financial sectors. King and Levine (1993) pointed out financial development is the empirical evidence of economic growth. Finance can boost economic growth in developing countries; on the contrary, economic growth drives financial development. The inspection findings obtained by Shan (2001) show that there are five countries where there exists a two-way causality relationship between finance and economic growth, three countries where there exists a relationship of mutual promotion, and there are two countries where there exists no causal relationships.

There are several viewpoints about the mechanisms of finance and economic growth in the counties in our country, as shown in the following: Zhou Haowen and Zhong Yonghong (2004) discussed the two-way causality relationship between finance and economic growth in eastern China and found that there is no especially obvious causal relationship between central China and western China. Li Guangzhong (2002) maintains that the role that banks played in economic development is restricted to enlarge investment scales and alter savings rate, while has no evidently direct effects on economic growth. Zheng Yanna (2001) conducted an empirical analysis, which indicates that the development of county economy requires a perfect financial system and concludes that there is a relationship

of mutual promotion between finance and economic growth.

3. The General Situation of the County Economy and County Finance in Shandong Province

3.1 The Basic Situation of County Economy

The county economy in Shandong Province plays an all the more significant role. Up to 2010, the economic aggregate of 91 counties (31 county-level cities and 60 counties) account for around 60 percent of the whole province. With an area of 12.4 square kilometers and a population of 67,840,000, the land area and population of the 91 administrative divisions at the county level account for 79.2 and 70.4 percent respectively of the whole province. (as shown in Figure 1) Among them, the fiscal revenue of 18 counties reached 20 billion yuan and 9 counties exceeded 30 billion yuan (Du Jie, 2012).

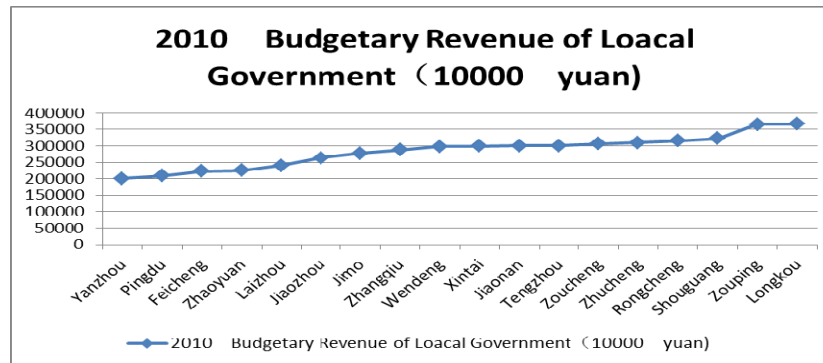


Figure 1. The counties with fiscal revenue reached 20 billion yuan

However, there is still a wide gap among the counties in Shandong province: Firstly, the overall level is high enough. In 2009, the GDP per county and local financial revenue in Shandong province were around 30% and 50% lower than that of Jiangsu province; the rural net per capita income was over 1600 yuan less than that of Jiangsu province and 2600 yuan less than that of Zhejiang province. Secondly, the industrial structure is not good enough. The percentage of primary industry in counties of Shandong province is 32% and 45% respectively higher than that of Jiangsu and Zhejiang provinces, while the tertiary industry is 54% and 89% respectively lower than that of Jiangsu and Zhejiang provinces. The problem of high percentage of primary industry and low percentage of tertiary industry in counties of Shandong province is relatively prominent. Thirdly, the powerful counties are not powerful enough. In 2009, the GDP per county and the growth of local financial revenues in counties that rated as the national top 100 powerful are 58.7% and 89.7% respectively lower than that of Jiangsu province. (Zheng Yanna, 2010) In 2010, the counties in Shandong province that ranked as the top three in terms of local financial revenue are Longkou (3.67 billion yuan), Zouping (3.66 billion yuan) and Shouguang (3.23 billion yuan), while the counterparts in Jiangsu province are Kunshan (16.31 billion yuan), Jiangyin (13.07 billion yuan) and Zhangjiagan (11.61 billion yuan), and the counterparts in Zhejiang province are Yinzhou (11.01 billion yuan), Xiaoshan (9.82 billion yuan) and Yuhang (760 million yuan). As can be seen, there is a big disparity between the three.

3.2 The BASIC Situation of County Finance

In terms of the organizational system of the county finance, up to the end of June 2011, the number of banking financial institutions reached 6405 within the scope of the counties in Shandong province. In the end of September 2011, the number of village banks in Shandong province reached 33, with an increase of 22; the sum of small loan companies arrived at 197, among which 106 were registered in counties; the sum of financing guarantee institutions arrived at 489, among which 201 were registered in counties; the number of pawnshop reached 224, among which 81 are registered in counties.

In terms of the investment and financing, up to the end of September 2011, there were 85 listed companies in the counties of Shandong province, 88 stocks and accumulative total 95.5 billion yuan, which accounts for 37.64 percent of the stock financing in the whole province. In terms of OTC market financing, up to September 2011, there were 36 companies listed in Qilu Trading Center of Trusteeship of the Stock Right, with an increase of 22 in number and 157 in percentage, stock trading reached 4 billion yuan; and there were 115 enterprise trusteeships, which privately raised financing 1.2 billion yuan and brought indirect financing 2 billion yuan. In addition, 43 companies listed in Tianjiao Institution, with accumulative financing more than 5 billion yuan. (Du Jie, 2012)

There are 69 counties that established their own specialized financial institutions, which account for 75.8 percent of

the whole province. In terms of the balance of deposits and loans, the balance of deposits in counties of Shandong province increased from 667.2 billion yuan in 2006 to 1399.4 billion yuan in 2010; the balance of loans increased from 494.7 billion yuan in 2006 to 984.7 yuan in 2010 (as shown in Figure 2). In 2010, there were 24 counties in Shandong province with balance of loans exceeded 20 billion yuan, which account for 26 percent of the total; there were 33 counties with balance of deposits exceeded 10 billion yuan, which account for 36 percent of the total (Fan Xiaojing, 2013). Savings deposits per capita have obvious increase well. In 2006, there were 18 counties with saving deposits per capita exceeded 10 thousand yuan, which account 20 percent of the total; in 2010, there were 28 counties with saving deposits per capita exceeded 150 million yuan, which account for 31 percent.

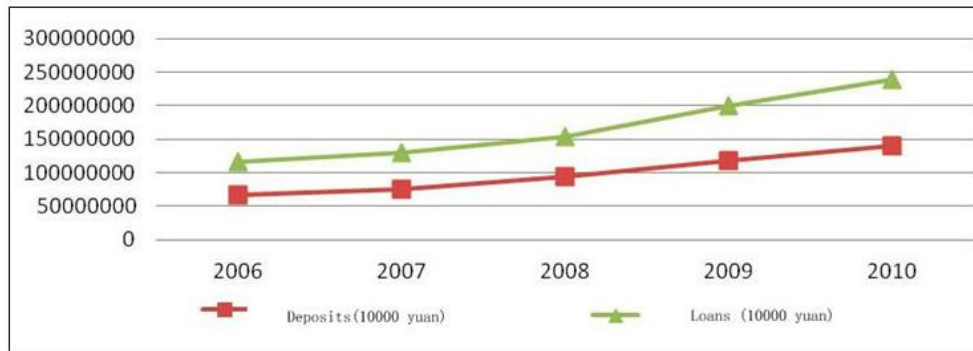


Figure 2. The situation of loans and deposits in the counties of Shandong Province in 2010

Since the reform and opening up, Shandong economy sustained and rapid development, the county economy has made a great contribution (Ma Saiping, 2012). Judging from the statistics, there are 91 county (city) of Shandong Province in 2012, the 91 counties (city) economy accounted for over 60% of the total of the province's economy.

4. Analysis of Contractions of Financial Supply and Demand in Current County Economic Development

Financial is the heart of modern economy. Even though financial industry play great role in the development of county economy, t problems still exist; mainly in the following four respects:

4.1 The Contraction between Huge Fund Demand and Limited Supply Resources

The fundamental of county economy is comparative weak behind, and inner-source financing is becoming even more difficulty, county economic development highly dependent on finance and has strong demand for credit funds. Therefore, it shows the huge demand for credit funds to develop the current county economic. First, huge financial support is the necessary demand to adjust county industrial structure. To change the backwardness agriculture and rural economy and the farmer's income, it is necessary to follow market-oriented principle, positively develop county industrial enterprises, adjust the agricultural production structure, practice the agricultural production structure and seek the path to develop county's industrial and characteristic agriculture. And all of above measures require huge credit funds. Second, the fund demand is vital for the development of private economy. The small and medium-sized private economy represented by individual business and small and medium-sized enterprises is gradually becoming the new growth points of county economy with higher contribution rate of county economic development and larger fund demands. Third, the strong funds demand of medium and long-term capital for rural infrastructure and urbanization is also increasing. In order to further change and optimize the investment environment of county economy, increase the investment efforts and speed up the process of rural urbanization , investing capital and strengthening the efforts of construction of farmland irrigation facilities transportation, town industrial park and infrastructure are necessitated. While the funds is not merely large but also with long-term. Forth, transferring surplus rural labor and return and venture of migrant workers both require financial support. One important way to increase farmer's income is to turn "farmer" into "non-farmer" according various kind of means and methods to transfer surplus rural labor force, and one of the efficient method for county economic development is attracting the able man among the migrant workers to return and venture and increase the "local digestion" rate of surplus rural labor; nevertheless, the funds demand of this aspect is also increasing dramatically (Fang Yuan, & Chen lei, 2013).

Compared with the huge fund demand, the supplies are comparatively limited which cannot satisfy county economic development. Firstly, rural fund flows into cities so that causes the rural fund" losing blood" and lacks of supply resources. Two thirds of total revenue of Postal Saving Bank of Shandong Province are from county or villages under

county's administration, most of the funds flow into cities, a small amount of funds were lent to Rural Credit Cooperatives as "refinancing of The People's Bank". Then, State-owned Commercial Bank has received the permission on the credit administration authority that limits the basic banks "only receive deposit, but no lending" or "the more deposit, less lending" which makes half of absorbed deposit of various county commercial banks flow from rural into cities. Besides that, considering the security of deposits, most of the riches in rural area deposit in city banks. Moreover, the effort of county financial institution in supporting county economy and credit funds is not enough which tend to be weaker: One is state-owned commercial bank stress on risk controlling, "due credit" phenomenon is very common, and the branches of state-owned commercial banks in county is negative on issuing loan; another is other joint-stock banks has few branches in county, especially in the underdevelopment area, no branches can issue loans; the last is policy bank only issue loan for grain purchasing, the remaining loan can only rely on Rural Credit Cooperative which given the name "major force" of rural financial, while, even though Rural Credit Cooperative strives to support "three agriculture", its financial strength is still not strong enough. The contraction of supply and demand of county fund is concentrated on the slow increasing of total loans of financial institution which cannot satisfy the reasonable financial requirements of county economic development.

4.2 The Contraction between the Diversity Demand and the Single Supply of Financial Service

The county economy's content is wide range, and has diversity and hierarchy requirements of financial services. First is the diversity of financing demand. The complex structures and diversity economic compositions of county economy have different demand in the scale, expire, channels and methods of financing. For examples, the wide range and large amount of farmers require small and short and intermediate term agricultural loans which just go through simple formalities; and middle and small-sized enterprises and agricultural industrialization group require larger scale credit; and the development and construction of rural villages need to issue bonds through the capital market to financing directly; agricultural infrastructure construction need long-term credit, and so on. Obviously, it is can't satisfy only by Rural Credit Cooperative which is only a small credit bank. Second is the diversity of business lines. With the implementation of opening-door policy and general application of modern science and technology, besides financing demand, the development of county economy also need securities business, insurance service, fiduciary activities and other various kinds of modern financial intermediate businesses, like settlement service, agent service, and credit-card business etc. And third is the demand of improvement of quality and level of financial services. Especially in the underdevelopment county, the demanding is higher.

While, in the supply of financial service view, there is still big disparity with the above demanding. First of all, the financing method is relative monotonous which mainly rely on the small agricultural loan issuing by Rural Credit Cooperative; Second, business line is single that mainly is the balance of deposits and loans or other intermediate businesses; Third, the finance service methods comparatively fall behind, and the quality and level of service is not high enough. This kind of "monotonous finance supply" seriously restricts county economic development.

4.3 The Contraction between Multifunctional Financial Institutions Demand and Single Supply

The types of financial institution and comprehensive of financial system are the direct result of financial function. The economic development and prosperous of county require perfect rural financial institution system including policy-based financial institution, commercial financial institution, cooperative financial institution and informer financial institution; and if classified according to the professional of financial institution, they are bank institution, securities institution, insurance agency, and trust lending institution etc. Only these institutions were perfect, should they provide multiply financial service and satisfy the requirement of "three agriculture" policy.

However, it is not true in the reality. Apparently, policy-based banks, commercial banks, cooperative banks are all included in county area which seems to be perfect. Actually, in many areas, there only exists one Rural Credit Cooperative and usury-type non-governmental credit agency. As a policy-based financial institution, the business of Agricultural Development Bank is gradually shrinking after the grain circulation reforms, much less providing any financial service for farmers and middle and small-sized enterprises. For another, state-owned commercial bank institution incorporated by revocation of the rural branches in recent years, considerable counties only have agencies or offices but no branches, nor did villages and towns have banking outlets (Shi Chenglin, 2011). Majority of the existed outlet is "absorbing deposits, renewing old loans with no new loan", which lead to the other aspects of financial business is hard to develop. And then, villages and towns including county, rarely have security institutions. Even though the insurance agency can issue loans, the strength to expand business is still not strong. Do is like this, Rural Credit Cooperative is becoming the "isolated army" of rural financial. Obviously, no matter the funds strength or business categories or technology means, Rural Credit Cooperative is still too weak to support county economic development.

4.4 The Contraction between Policy-Sloping Demand and Policy-Discrimination Supply

The status and character of county economy indicate that, the government should take series of policies and measures to promote county economic development, so as the development of county finance. There are many countries publish a series of favorable policies to support rural finance on the international. In the view of actual requirements of the economy and financial development of county, the government should introduce more policies including county fund support, favorable taxes support of finance, business-expanding support, and support of permission of entering financial institution market etc. Especially the support specified to Rural Credit Cooperative which is regarded as the “major force of rural finance”. While, the government often have “discrimination” on the supply of county finance which cause county finance receive no “favorable support” to develop but only regarded unfairly. In the 1990s, the government published a policy named “indexed deposit”, the indexed subsidy is paid by national finance including the indexed subsidy paid by state-owned banks to depositors, and Rural Credit Cooperative “receive no subsidies from national finance” which cause great burdens for Rural Credit Cooperative to solve by itself, furthermore, Rural Credit Cooperative is small-sized bank with no huge deposit, but ordered to have the same deposit reserved ratio with big commercial bank; and the favorable taxed policy also had been canceled. The policy has serious limitation on the business innovation of Rural Credit Cooperative and the qualification of other informer financial institution (Zheng Yanna, 2010). As for state-owned commercial bank “retreating from county” can be regarded as a kind of “strategic discrimination”, and there is no doubt that, it would cause very unfavorable influence on county economic development when the unsatisfied requirement of favorable policy of county financial and unfair “policy discrimination” both existed. The contraction of county financial supply mainly reflects on the insufficient finance supply, and insufficient fund is the most direct and obvious problem; if the problem of credit of farmers and middle and small-sized enterprises cannot be solved, which would directly affect the development of county economy. Meanwhile, in some degree it will give the illegal financial organization like rural “illegal private bank” the chance to disorder the finance market, influence the safety and stability of finance.

5. Conclusion and Prospect

As one of the important provinces in China, Shandong province possesses comparatively strong economic strength and large deposits in county finance, but there are no obvious evidences indicate that bank loan has any supporting impact on the economic growth of counties and its economic structural adjustment, which manifests that the capital source of the enterprises mainly depend on their own accumulations and other investment channels. To facilitate the sound development of county finance and county economy, it is suggested to take the following countermeasures:

5.1 Further Refining the Comprehensive Service Network of County Finance

First, encourage and guide large-scale state-owned commercial bank, joint-stock commercial bank, city commercial bank, security company and insurance company to set up more embranchments; expedite the establishment of new rural financial institutions and village banks; promote a steady development of small loan companies and financing guarantee companies etc.; organize cooperative associations such as fraternal insurance and mutually fund cooperation to constantly improve the financial organization system of the counties. Second, accelerating the reform of rural credit cooperative (RCC). Propel the eligible legal persons in the counties to establish rural commercial banks, and strive to turn rural credit cooperatives into modern financial enterprises. Third, develop more intermediary organizations such as credit rating and financial counseling. Fourth, build a sharing platform of credit investigation in the counties. Integrate various kinds of information resources and build a personal integrated information platform of middle and small-sized enterprises, thus supplying a solid safeguard for preventing non-credit behaviors and establishing a credible society.

5.2 Further Promote the Innovation of the county Finance

First, encourage innovation in financial products. Urge the financing institutions conduct distinctive loan transactions in counties and develop new credit type such as entrepreneurs’ mortgage-backed securities, warehouse receipts pledge loans and pledge of accounts receivable; enrich credit modes of loans in the “three issues of agriculture”, explore the financial products that meet the actual requirements of farmers, and promote collateral loans such as forest ownership, the right of using sea areas and islands, contractual right of land, vegetable greenhouse and homestead etc. Second, consummate the system of authorization and credit. On the premise of preventing risks, simplify the procedures of loan, and shorten the time of approval, thus providing the financing facilitations for the economic agents in the counties. Banks in higher authority should relax the restrictions of loan approval towards the large bank branches with good social credit, low non-performing loan ratio and strong economic strength. Third, promote the intermediate business of bank and off-balance sheet activities (OBS). Strive to conduct businesses in the counties such as acceptance bill, trade financing, financial products, financial lease and collective bill.

5.3 Further Enhancing the Proportion of Direct Financing in the Counties

First, impel the listing of companies. Second, exploit multi-level capital markets. Take full advantage of the available platforms such as Qilu Trading Center of Trusteeship of the Stock Right and Property Rights Transaction Center in Shandong Province to establish and perfect the financing system that combined indirect financing and direct financing, thus providing services for non-listed companies such as financing, listing training, equity transaction and information disclosure etc. Third, quicken the development of various kinds of funds. Set up private equity funds and facilitate the connections between equity investment and to-be-listed companies, new high-tech enterprises; give rein to government in guiding funds and drive the venture capital funds develop rapidly; bring the joint force of loan and trust companies, middle and small-sized enterprises and government into full play. Guide some regions and industries to set up collective trust bond funds in middle and small-sized enterprises; establish and develop industry funds in key areas. Encourage the listed companies to conduct businesses such as equity investment and venture capital investment etc. Encourage the enterprises in the counties to release surrogate products such as issue of bonds and bill collections etc. Strive to join the “Regional Debt Financing” project. Plan to build factor markets to expedite the rational flow of production factors.

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