Economic structural reform and China’s financial security
—Issues, logic and countermeasures

Abstract  The authors believe that the financial operation based on the issuance of paper money in excess of economic capacity resulting from dependence on the state investment is the central manifestation of factors of China’s financial insecurity. The financial support for the economic reform, the financial reform and the impact of globalization constitute the major logic of its formation. The fundamentals to safeguard financial security lie in the persistence of the state’s comprehensive development strategy, so as to maintain long-term accumulation of the state’s net wealth and the stability of faith in markets.

Keywords  financial security, economic reform, financial reform, economic globalization

JEL Classification  E6, E44

1 The raising of the question

The so-called financial security refers to the status in which a country’s financial system is able to resist and defuse the interior and exterior threat of various risks and interests infringement, and to ensure the normal play of financial function and the stable operation of financial order. This shows that both the inner frail essence within the financial system and the forces of external impact can give
rise to the question of financial security, and either the potential threat of financial risks or the substantial encroachment on the interests of sovereignty can constitute factors of real financial insecurity. With the in-depth development of the economy and financial globalization, governments of all countries have given increasing attention and emphasis to financial security, and have definitely incorporated financial security into the category of state’s economic security.

For modern China, the question of financial security seems to appear more important and pressing. The reform of the economic structure has not only resulted in a miracle of economic growth with annual average increase of 9.5% lasting for as long as 27 years, but also displayed the momentum of rapid and strong economic monetization (Wang, 2004). The financial interrelation ratio (FIR) has continuously risen, which indicates that financial activities have penetrated into all facets of economic life and become important factors involving economic growth. At the same time, in the modern economy with finance as its core, once the financial system is unstable or crises occur to it, they would be bound to exert extremely serious negative influence on the entire economic operation.

The present FIR in China is already close to 3 and is almost like that of major developed countries, but it makes people even more worried about China’s present status of financial security. As in the process of remarkable growth of gross financial assets, financial structure has undergone extremely slow changes, and financial service level and competitive capacity lagged even further behind the mature money market. Is such a financial growth in an extensive pattern in the absence of quality and efficiency only a build-up of “foams” instead of a real financial development? If this is true, the higher the degree of economic monetization, the greater the degree of China’s financial insecurity will be.

2 The structure of insecure operation of China’s finance and its central manifestation

The structure of insecure operation of China’s finance in the present stage roughly includes three facets of micro-, meso- and macro-structure (see Fig. 1). On the micro-level, financial insecurity is chiefly manifested by a great heap of risks accumulated by various kinds of financial institutions. Although the banking business has seen some effect in its reform, and commercial banks have made remarkable improvements in making profits, increasing assets quality, and the capacity to resist controlling risks, the balance of bad loans had still reached 1717.6 billion yuan by the end of 2004, accounting for 12.6% of the GDP of that year. In the meantime, the mismatch problem of loan terms of RMB of commercial