

Perfection of Long-term Mechanism for Synergetic Development of County Financial Service and Economy*

Gao Xiaoyan¹, Ma Li²

¹ Gao Xiaoyan (female), born in 1964, Professor of Finance, Master Tutor in Tianjin University of Finance & Economics. Research area: rural finance.

² Ma Li (female), born on September 9th, 1987, Finance Graduate in Tianjin University of Finance & Economics.

Abstract - This paper elaborates the financial for the promotion of economic growth and the theory of inhibition, the empirical analysis on China's eastern, central and western county financial services and the present situation of the coordinated development of county economy, puts forward the long-term mechanism on improving county financial services and the coordinated development of county economy.

Index Terms - County Financial Service, County Economy, Synergetic Development, Long-term Mechanism

1. Literature Review

There is a divergence over the utility of finance on economic development in academia, which can be mainly summarized as following two opinions: Firstly, major research achievements of scholars who take a positive attitude include: Joseph Alois Schumpeter (1912), pioneer of research on relationship between economic growth and financial development, demonstrated the significant impact of financial variables like money supply, credit loans and interests upon economic innovation and development, and that such credit creativity is the impetus to promote economic development. On this basis, Patrick (1996) put forward double-model theory on financial development and economic growth, i.e., "demand-following" and "supply leading". The latter mainly appears in the early period of economic growth, especially common in developing countries, while the former is seen more in the mature stage of economic growth. According to King and Levine (1993) financial system development contributes to productivity gain and economic growth in the long term through promotion of capital formation and resource allocation.

Secondly, major research achievements of scholars who take a negative attitude include: Mckinnon and Edward S. Shaw (1973) pointed out that as financial repression policies such as low interest rates and slight inflation are commonly adopted by developing countries to promote economic development, which has hindered the ability of financial system to gather and allocate financial resources, and thus has a negative effect on economic growth. Grabel (1995) held that market with adverse selection and moral risks is defective, which can easily result in blind financing for high-risk investment projects and lead to improper credit allocation, low

economic growth and even financial crisis. Sharing Grabel's view, Hellman (1998) further stated the impact of rate increase upon economic growth is uncertain, which might either promote investment and expand production, or restrain economic growth due to insufficient effective demand.

Through the empirical analysis of the relationship between county financial development and economic growth in Jiangsu province from 2001 to 2006, Xie Wenlan and Dong Xiaolin (2008) concluded that the interactive effect of county economy and finance in Jiangsu province is favorable and optimized county industrial structure and industrial economic ingredient are key factors in promoting county financial development and economic growth. By setting up panel data model of relevant data in Zhejiang province from 2001 to 2008, Qian Liangxin (2010) made an empirical analysis and concluded that conversion between county deposits and investment in Zhejiang province is not high in recent years, and that the supporting role of financial loans in promoting county economic growth is unremarkable, while deposit greatly promotes county economic growth. Through empirical research on economic data of 47 counties in east, central and west China from 2005 to 2011, Gao Xiaoyan (2013) made the conclusion that on the whole there is certain interaction between county economy and finance in China, but it shows great regional differences in interactive effects.

2. Empirical Analysis of Synergetic Development of County Financial Service and Economy in East, Central and West China

A. Sample Selection

According to the administrative division from China Statistical Yearbook (2012), there are 1942 "county-level" cities, "counties" and "autonomous counties" (collectively known as "prefecture" or "county") all together. Based on the proportion of county number of each province in the total county number in China and data availability, 33 counties in east, central and west China are selected as sample. The time span of the sample is from 2007 to 2012, therefore 33*6=198 observed values are involved. Data come from national economy and social development statistical bulletin of each county on China statistical information website. The sample

* Funded by Tianjin higher education innovation team Mechanism and International Comparative Study on Innovative Development of Small and Micro Businesses
National social sciences fund project (13BJY172) Study on the Synergetic Development of County Economy and Financial Service during Urbanization

counties are divided into east, central and west China according to commonly used division method (table omitted).

B. Indicator setting

County Real Gross Domestic Product (RGDP) is chosen as the indicator to measure county economy as most scholars commonly do. And “ratio between loans of county financial institutions and county GDP” is selected as measurement index of county Financial Development Scale (FDS). “Ratio between financial institution loans and deposits” (FDE) commonly used by scholars today is chosen as the indicator of financial development efficiency on a basis of data availability and consistency.

C. Empirical Analysis of Synergetic Development of County Financial Service and Economy in East, Central and West China

1) The role of county financial service in east, central and west China during county economic development

For a comprehensive analysis of the role of county financial service in east, central and west China during county economic development, based on the characteristics of data collected, the use of panel data model is more conducive to our research analysis by applying Eviews6.0 software.

2) Empirical findings

Following conclusions can be drawn from the above empirical analysis. (I) County financial development scales in different regions have different effects on county economic development, as it shows a negative correlation in central and west China, while a positive correlation in east China. (II) County financial development efficiencies in different regions play different supporting roles in county economic development. Although it all shows positive correlation in east, central and west China, the improvement degree is different. (III) County financial development scales and efficiencies in different regions have different impact on county economic development. The impact of county financial development efficiency is bigger than that of county financial development scale in east China, while it is completely opposite in central and west China.

3. Perfection of Long-term Mechanism for Synergetic Development of County Financial Services and Economy

A. Accelerate county financial system reform, strengthen financial service for agricultural support

Attention should be paid to following aspects during county financial system reform. Firstly, the role of government is to provide rational guidance and supervision for efficient operation and steady development of county financial market. Secondly, as financial system reform cannot be achieved overnight, the reform should be conducted in an orderly manner according to the reality in different regions. Thirdly, the reform of tax, fiscal and trade system related to financial system should be conducted to ensure smooth financial system reform.

B. Improve county financial organization system, broaden the channels of financial service for agricultural support

Service groups of state-owned and joint-stock commercial banks can be set in more developed county regions around cities; local commercial banks should take full advantage of geographical convenience and good human relations to position its market in retail banking in county regions, and grant credit support for county economic entities to obtain employment or become self-employed.

C. Innovate county financial service mode, improve efficiency of financial service for agricultural support

Innovation of financial service mode can be made from following aspects: firstly, to improve county financial payment and settlement, audit and supervision systems; secondly, to properly broaden business scope; thirdly, to diversify financial instruments; fourthly, to innovate financial service mode.

D. Establish county agricultural insurance mechanism, ensure safe agriculture-related credit

It is imperative to speed up the establishment of agricultural insurance mechanism. With regard to risk early warning, efforts should be made to build information exchange and sharing mechanism between institutions for early analysis and warning for potential risks and to take precautionary measures; in legislation aspect, the formulation and perfection of laws and regulations related to agricultural insurance should be accelerated to clearly define the rights and responsibilities of economic agents involved in insurance, so as to ensure legalization of agricultural insurance; in terms of policy, as agricultural insurance is different from general commercial insurance, governments should grant certain preferential policy support and subsidies to agricultural insurance institutions; besides, related supervision departments should establish a sound supervision mechanism for agricultural insurance.

E. Optimize county financial ecological environment, promote the sustainable development of county economy

Optimization of county financial ecological environment requires concerted efforts of the whole society. Firstly, relevant legal system shall be gradually improved for better county law enforcing environment, and farmers shall be allowed to take land-use right and house as collateral. Secondly, the construction of county credit environment needs to be accelerated. Thirdly, the policy environment of county financial development shall be improved. Considering the features of county agriculture such as low profits, long-term return on investment and high risk, as well as the contradiction between capital safety, liquidity and profitability in county financial institutions, governments must grant adequate policy support for county financial development.

References

- [1] Qian Liangxin. Mechanism and Empirical Study on County Financial and Economic Development. *China Development*. 2010 (8): 63-67.
- [2] Gao Xiaoyan, Du Jinxiang, Ma Li. Empirical Study on Interaction between County Economy and Finance in China. *Journal of Central University of Finance and Economics*. 2012 (12): 43-49.