

The Current Status of and Challenges for the Banking System in the Three Provinces of the Northeast of China

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Summary

While China's economic development is striking, its financial systems, including the banks, are in the process of being put in order, and the progress therein differs depending on the region. Initiatives in the urban areas of the coastal regions were commenced in the latter half of the 1990s, yet in the regions where economic development began after a delay the initiatives were later than that, and in rural areas they got into full swing from 2003. As the core industries of the three provinces of the Northeast in the era of the planned economy were state-owned manufacturing industry and agriculture, they needed, differing from the coastal regions, initiatives aimed at state-owned enterprises and agricultural reform. As a result, economic development lagged behind the coastal regions, and looking at the finance-related indicators also, there was a situation where they were following in the wake of the coastal regions. Consequently, today's banking system of the three provinces of the Northeast is being formed, having its own peculiar characteristics even for within China.

The Industrial and Commercial Bank of China and the Agricultural Bank of China, the core banks of the three provinces of the Northeast under the planned economy, have been reducing their outstanding lending through being burdened with the disposal of non-performing loans, and this has been compensated for by policy banks [banks making low-interest loans for state projects], urban commercial banks, and rural credit cooperatives. It is difficult for private banks to take on the risk for the breaking away from the planned economy, and finance in recent years has had to depend on policy banks. The urban commercial banks have been shouldering the regional financing which is difficult for the state-owned commercial banks and joint-stock commercial banks developing nationwide to handle, and the evolution of business and its realignment in response to the economic conditions of each region has been progressing. It is hoped that the rural credit cooperatives will form the core for the building of the rural finance system which the China Banking Regulatory Commission points out. Within the three provinces Dalian has become relatively well-developed.

For the effective allocation of funds the establishment of market functions is essential. While it is probably difficult to immediately lower the dependence on government departments over the entire area of the three provinces of the Northeast, the time is coming for deepening the discussion as to how far would be "appropriate" for the involvement of government departments in the cities which are, like Dalian, relatively well-developed.

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