Diversified Financing Measures under the Background of Financial Reform

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Abstract: The reform of China has entered deep-water area. Therefore, conducting financial reforms is influential to China’s social economy and others fields. The financing system of China was single in the past and has not positive effect on private enterprises and capitals, thus causing defects in market financing. Therefore, the financing of China should grasp the developing trend of financial reforms and adjust their financing structures and channels, thus forming a market financing system with more energy.

1 INTRODUCTION

Currently, China is at an active stage of financial reform. If China wants to realize promotive development and occupy more market shares, further financial reform needs to be conducted. Financial reform has a lot of influences on China, and the diversified financing channels are changes brought by these influences. Formerly, banks are main financial institutions in China. Therefore, the beneficiaries of financing are large-scale state-owned enterprises or state-controlled banks. Through financial reform, the number of financial institutions will stimulate the initiative and vitality of the whole market, thus creating more market value. Therefore, better exerting the positive influences of financial reform has much significance to the adjustment of industrial structure and the sustainable development of China. Some scientific and effective advice on diversified financing should be proposed for the reform of Chinese finance.

2 DEFECTS OF CHINESE FINANCING SYSTEM AND ITS INFLUENCES

Although the economic reform of China has made positive changes of China’s financing system, traditional economic system, as well as some contractions and conflicts between financing system cannot be avoided. Traditional financial system has accumulated some functional obstacles, hindering the sustainable development of socialist market economy. The most important defect of China’s financing system is the deficiency of functions. In a microscopic view, the deficiency has caused some negative influences on the healthy and sustainable development of the society and the economy.

The current financing system of China has some functional deficiencies, one of which is the inverse capital allocation in credit market. For traditional finance-allocating credit, the financial reform of China will be bound to have market-based instruments. For example, China will solve relevant problems with market-based credit system, which is the requirement of market-based resource allocation. China was once a country with planned-economy resource allocation. After reforms of economic system, some systematic obstacles can be caused due to the traditional financing system. Meanwhile, state-controlled banks and state-owned enterprises have same nature, so state-owned enterprises can get most support under current financing system. In addition, under the pressure of governments, state-controlled banks can not carry out punishment on the secession of state-controlled enterprises. In essence, these problems are closely related to the imperfection of current social credit system of China. Banks are gradually becoming the focus point of contractions in period of economic transition due to large non-performing assets. The whole society is becoming low efficiency in allocating resource, and the market intervention of government does not have a clear boundary. Therefore, financing deficiency of China has large impacts on both the macro-economy and micro-economy. The financial reform and diversified financing should first solve the potential financial risks.
3 INFLUENCES OF CHINA’S FINANCIAL REFORM

Recent financial reform of China should mainly form a package plan that is composed of three support points. First, the financial reform of China can learn widely from others’ strong points. Foreign financial management theory has been gradually mature with long-term financial practice. Therefore, China can form a more scientific plan of financial reform. China has some resource advantages, especially in clients resource, which lays a good social, theoretical and resource foundation to quicken financial liquidity. Second, China now adopts floating interest rate system, which has emancipated interest rate from governmental control. The basic interest rate depends on market transaction, which is beneficial to the normalization of China’s financial market. Although shadow banking system offers more financial plans with higher rate of return, all legal financial products can be protected as the interest rate control disappears. Finally, China’s financial reform can reduce the number of financial products offered by shadow banking system, promoting the formation of financial regulations and financial orders. The financial supervision authorities should grasp key areas in financial market and conduct corresponding adjustments.

The influence of China’s financial reform will be profound, although the current financial management theory can not touch it. However, the financial industry, especially market financing system will be greatly influenced, promoting diversification of market financing. In the past, as an irreplaceable role in issuing loans, these banks monopolized financing order, which was not beneficial to capital movement and appreciation. Through financial reform, the efficiency of capital allocation will be gradually enhanced, and more idle funds will be concentrated on the market, thus providing small micro-enterprises with more capital and resource support. In traditional financing system, these small-scale enterprises are away from normal financing market. For financial enterprises, financial reform can facilitate the diversification of financing channels. Both families and enterprises will consider capital appreciation plans when they accumulate enough money, thus promoting the diversification of social financing. The regulation and management of shadow banking system should avoid some objective risks of traditional financing and create a more scientific way of financing, avoiding illegal behaviors.

4 FINANCING DIVERSIFICATION MEASURES UNDER THE BACKGROUND OF FINANCIAL REFORM

Under traditional Chinese financial system, the interest of financing is relatively low. Banks can attract some clients by issuing loans. However, some reforms, such as social security reforms, will have impact on financing with the development of financial reforms. In the development process of Chinese economy and financial market, the problems of financing is resource surplus. China has huge capital reserves, but few of them are applied to social financing. Therefore, the financial market of China is full of potential and attraction.

If China wants to have scientific financing channels and systems, it should conduct reforms in key areas. Especially, China ought to grasp the rate of reform progress. The financing system of China has developed under the background of planned economy. Through the reform of socialist market economy, the market-based financing of China is gradually forming. However, the regulatory role of macro-economy still needs to be emphasized. For the supervision and management of relevant capital account, economic and financial supervision departments should have cooperation and coordination, thus gradually facilitating the reform of market-based financing.

4.1 Broadening Financing Channels

Traditional financing channels of China was narrow and constrained since China’s financing had not adjusted to the financing demands of market. So the financing efficiency of China was low then. In order to break the traditional narrow and discriminatory financing structure, China should reverse unbalanced financing situation, from which large-scale of state-owned enterprises benefited a lot. Meanwhile, China should support microeconomy and offer more capitals for medium-sized and small enterprises, breaking the financing difficulties of private economy. For indirect financing, China’s financial market should further open up to medium-sized and small enterprises and give them enough supports and helps. Broadening the financing channels of private enterprises can promote the smooth movement of capitals in microeconomy operation.

Financing policies should incline to medium-sized and small enterprises with high productivity. Over the recent years, state-owned enterprises had weak competitive powers in market economy. Industrial production value and relevant profits have
continuously decreased, and many state-owned enterprises and collective enterprise have suffered losses. Therefore, we should consider current financing reform and its influences over the sustainable development of national economy. Optimizing financing structure can activate economic growth of China and recombine economic structure, thus enhancing the quality of financial assets and avoiding accumulated dilemma as well as financial risks of state owned economy.

4.2 Adjusting the Ratio between Direct Financing and Indirect Financing

Recently, China has fast development of direct financing since the start-up of securities financing. However, the scale of direct financing is still small, which shows that indirect financing is currently the most important financing ways for Chinese enterprises. Therefore, for the adjustment of financing structure, we should pay attention to the unbalanced ratio between direct financing and indirect financing and strengthen the support for direct financial. The enhancement of direct financing can avoid the situation of single financing in the market. It can also help free movement of enterprises’ capitals and optimize investment leverage ratio of the whole society, avoiding more financing risks.

Currently, the inner structure of direct financing also needs to be properly adjusted. Now, the development of bond market is slow-moving while the stock market is flourishing. The total market value of Chinese stock market is very huge, but the circulation of bonds is small, which is only 30% of the total value of stock market. Therefore, government should relax restrictions of bonds, encourage good-quality enterprises to issue bonds. Bonds market of China should have de-administration, and macroscopic readjustment and control as well as legal means ought to be used to restrict the boundary of issuing bonds. Enterprises should have some flexibility, especially in issuing price. Enterprises that want to issue bonds are supposed to meet other restrictions and enhance their awareness of financing risks. Using bond financing can help enterprises to have groundbreaking development.

4.3 Facilitating the Development of Financing System with Multiple Channels

China also needs to actively refer to western experiences on how to support science and technology intensive enterprises. These enterprises should developing new financing channels, helping them raise capitals through issuing bonds or stocks. Government can encourage the development of venture capital for science and technology intensive enterprises and offer investment to some enterprises with potentials, leaving the market to bear relevant risks. Given the popular private loans in rural areas, China can enact laws to scientifically regulate traditional private loans and give them some developing space. Supporting policies should be applied to private low, and scientific supervision mechanism should be formed, thus maintaining its stability of financial order and actively developing new financing channels. Supporting policies can reduce the burden on private financing and emancipate the value-creating power of private capitals.

5 CONCLUSIONS

The economic reform in China has lasted over 30 years. The industrial structure and corresponding financial system have undergone huge adjustments. The reform of traditional financial system based on planned economy facilitates China to form a socialist financing system with Chinese characteristics. Although this financing system is in a preliminary stage, it still has great significance. Therefore, China should grasp the decisive decision of financial reform to push the rationalization of financing system. The goal of financing reform is not merely enhancing the role of capital in facilitate social productivity, but further activating the initiative of capitals and the dynamics of medium-sized and small enterprises as well as private capitals. Thus, more power will be attracted for the sustainable development of China’s socialist market economy.

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