Analysis on the Non-equilibrium Problems and Causes of China's Finance

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Abstract. A sound financial system and smooth operation are essential for a country's economic development. At present, there are a series of imbalances in China's financial sector, affecting the full play of financial functions. Only an in-depth analysis of the causes of these problems can better advance the construction of the financial system and promote the steady development of the national economy.

Keywords: financial disequilibrium; present situation; cause.

1. Introduction

Since the reform and opening up, with the expansion of financial system and financial scale, financial reform and the establishment of market mechanism, China's financial industry has played an effective role in promoting the national economy. But there are levels of dysfunction, even market failures or financial imbalances. Summarizing and analyzing these urgent problems will help to think deeply about the inadequacy of financial reform and financial deepening, the direction of financial system arrangement and innovation.

2. Main Phenomena of Current Financial Imbalances

2.1 Financial Services in High-tech Industries are Uneven

China is a post-industrial country, accelerating the development of emerging technology industries to upgrade the industrial structure is extremely important. The downturn of capital market and the lack of other exit channels will seriously affect the scale expansion and capital cracking of venture capital and PE. It further undermines its enthusiasm and Reinvestment ability, and affects the formation and growth of more emerging enterprises and high-tech industries.

From the perspective of foreign practice, the withdrawal methods of venture capital are mainly initial public offerings (IPO), corporate mergers and acquisitions(M&A), equity buybacks, and bankruptcy liquidation. American and European venture capital use first public launch. That is, the sale of corporate stocks in the GEM market, the withdrawal of investment accounted for 1/3. The remaining 70 % or so use mergers and acquisitions and liquidation respectively.

China's high-tech industrial conversion rate, there is still a lot of room for improvement. The implementation rate of patented technology in China is only 10 %. The proportion of scientific and technological achievements converted into commodities and achieved economies of scale is 10 % to 15 %. It is far below the level of 60 % to 80 % in developed countries. Of the scientific and technological achievements that have been successfully transformed in our country, 56 % are mainly self-financed. Relying on the National science and technology program loans accounted for 26.8 %. Only 2.3 per cent rely on venture capital [4].

2.2 Inadequate Banking System for SME Financial Services

In China's current banking system, large banks are biased towards mature industries and large enterprises, lack of policy-based SME banks. The number of SMEs that tend to provide financing support to SMEs is still too small. On the one hand, from the objective point of view of small banks in support of the development of small and medium-sized enterprises have inherent economic advantages, for example, information cost advantage and "relational financing" advantage. The cost of capital transaction and information collection is relatively high for large banks to provide financing services to small and medium-sized enterprises. In China's financial system, state-owned financial
institutions have a high degree of market monopoly. On the one hand, it leads to higher barriers to
the entry of private capital to the financial industry. The low market density of financial enterprises
makes it difficult to effectively meet the demand for financial services from non-financial
organizations, including small and medium-sized enterprises. On the other hand, on the basis of risk
prevention and other considerations, state-owned financial institutions have a certain "financing
ownership tendency", resulting in an imbalance between financial supply and financial demand for
small and medium-sized enterprises. The driving effect of the financial system on core enterprises
has certain defects. In the current Jinrongshichang, there are some areas where finance has promoted
mergers and acquisitions or monopolies, but it has not promoted the scale effect of core companies
that is conducive to productivity growth.

2.3 The Financing Mode of Basic Industry is Single, and Financial Services are Insufficient

The basic industries here mainly refer to agriculture and other infrastructure industries. On the one
hand, rural financial services are weak and rural financial resources are lost to cities and industries.
At present, before the rapid development of urban financial reform in China, rural financial reform is
relatively lagging behind. It is reflected in the large gap in the progress of reforms. Compared with
cities, rural financial reforms are seriously lagging behind. Lack of innovation in agricultural finance,
lack of business varieties, single service modes, backward settlement means, cannot adapt to the
development of agriculture. Network coverage is uneven. State-owned commercial banks have
withdrawn a large number of county-level branches and have the right to receive loans. The supply
of credit has shrunk significantly, and the channels of financing have narrowed from width to width,
resulting in a large outflow of county funds from rural areas, and the funds actually used for "three
farmers" have been shrinking. On the other hand, other infrastructure industries have a single
financing method and are greatly affected by macro regulation. At present, China's basic industries
mainly rely on medium-and long-term loans from commercial banks, and individual industries attract
foreign capital and private capital in the form of BOT. Regardless of the total amount of this model,
the original model has shown deficiencies.

2.4 Some of the High-margin Industries are Over-centralized in Financing, and Emerging
Industries and Service Industries are Under-financed

As commercial banks through the centralized lending industry to invest, it is beneficial to bring
into play the commercial banks 'comparative advantages of specialization. Cultivating long-term
customer relationships, the concentration of the commercial bank loan industry is generally
proportional to performance. On the other hand, the higher concentration of loans implies greater
systemic risk. The investment of the loan industry also reflects the ability of commercial banks to
grasp macroeconomic fluctuations and control risks. At present, some emerging industries and
tertiary industries in China are not adequately financed. Due to the lack of experience in managing
modern finance, it is difficult for domestic banks to take the initiative to grasp industrial policies and
industrial development prospects. The phenomenon of loan convergence is serious, and excessive
credit is given to certain projects and enterprises, creating centralized risks.

2.5 The Blurring of Financial Industry or Financial Center and the Disconnection of Regional
Real Industry

The financial industry and other service industries are an important part of the tertiary industry. Its
own development can effectively improve the local industrial structure. However, the financial
industry and financial center that are separated from the local real industry status will have huge
industrial structural friction and contradictions. At present, many cities in China have proposed that
the financial industry as the leading industry should be built into a financial center. Compared with
financial centers in the world, the formation of financial centers corresponds to their special economic
status and industrial structure. That kind of pure financial instrument trading center is not suitable for
most cities. In addition, blindly liberalizing finance and striving to be an international financial center
have led to financial disengagement from industrial services, forming a large chance of bubbles and
financial crises. This has happened in cities such as Bangkok and Manila during the financial crisis in Southeast Asia.

3. The Underlying Causes of Financial Imbalances

3.1 Institutional Barriers Lead to Financial Imbalances

The nature and structure of the financial system are affected by a number of factors, including, inter alia, the specific level and structure of economic development, the degree of monetary financialization, the overall social economic system and the state of technological progress. These are collectively referred to as the environmental factors of the times. With the change of environmental factors in the times, the financial system will also change. Different countries have different financial systems in different historical periods. The changes of the financial system are embodied in the reform and innovation process of the financial system, which is a process of complex occurrence, progress, perfection and establishment of new systems. It must also involve many factors and the interaction and mechanism of different forces. The research shows that the reform and innovation of financial system in developing countries often does not keep pace with the change of environmental factors in the times, so the non-equilibrium problem of financial system arises. The disequilibrium of the financial system mainly means that the current financial system is not optimal and the lowest cost. The improvement of the current financial system can effectively promote industrial growth and increase the total income of the whole society. This non-equilibrium is a financial system obstacle that does not adapt to the environmental factors of the times. From the perspective of macro management, on the one hand, the financial system and instrument system that convert savings to investment are not innovated enough and the channels are narrow. On the other hand, it is the defect of the whole financial system. This has some connection with the system of separate business management, separate business supervision, separate business, and insufficient communication and coordination. From the microscopic market point of view, on the one hand, the reform of the management system of China's commercial banks is not perfect, the market management ability is weak, and the industrial analysis industry selection behavior is rigid. On the other hand, there is insufficient innovation in the organizational structure of the securities market, insufficient construction of mechanisms related to operating behavior, and more noise trading.

3.2 Central and Local Games and Inertia of Local Government Behavior

Under the specific national conditions, various kinds of imbalances have a deep institutional background. Due to the influence of traditional benefit mechanisms such as local and central fiscal division tax system, in the financial industry investment, local governments in China must be used to making industrial policies according to local revenue maximization and intervening in the industrial choice of financial investment. There may be inconsistencies between the policy systems at the level of national industrial policy and the needs of the national economy. The model of government-led market economy is the actual experience and habit of our country. Whether bank credit follows local government policy direction or central government policy direction has a dilemma, and the financial equilibrium involved in it is affected. Local government behavior has strong motivation and inertia. On the one hand, each region will increase its financial attraction due to the needs of its own economic development. On the other hand, the competition for financial control also has a special institutional background in terms of the large regional concept at the central and local levels. First, risk constraints at the central and local levels are inconsistent. In order to make the central government's development strategy easier to implement, it is necessary for the central government to strengthen its control over financial resources. The central government has assumed the ultimate responsibility of preventing and defusing financial risks, while the local government has very little responsibility in preventing and defusing financial risks. Local governments are basically risk-constrained in the competition for financial resources. Secondly, it is the struggle for the initiative of macro-control. In the context of strengthening macro-control, the central government hopes to control the initiative of the financial regulation function, while the local government hopes to increase the control of financial resources.
to win its own initiative in macro-control. Under the above factors, the competition for financial resources in various places is extremely fierce.

3.3 Imbalance of Industrial Value Chain Causes Financial Institution "Debt Capture"

This reason comes from the actual value distribution characteristics of industrial development to the financial system. The concept of value chain is by Maikee Bote of Harvard Business School in the United States. Porter first proposed in his book Competitive Advantage. First, for the analysis of the enterprise level, he argued that the value chain of any enterprise consisted of a series of interrelated value-creating activities that were interrelated and had an impact on each other. In the industrial value chain, which is at the core of the value chain, industries that obtain the highest value tend to have high profit returns and the highest financial attractiveness. Because these industries have broad prospects, high entry barriers, can crowd out the profits of upstream and downstream industries, and share the biggest fruits of economic growth, they belong to investment growth industries. The investment income of this industry far exceeds that of traditional defensive industries. The influx of financing has made such high-value industries a significant influence on financial institutions. Even financial institutions can no longer easily cut off from them. Even if the macro situation is not good, it can only continue to support and communicate, which constitutes a "debt capture." Some industries in China began to occupy the core of the value chain, and the scale of loans continued to expand, resulting in "debt capture" for banks.

3.4 The Single Management System of Bank Profits and its Preference for Credit Financing

This mainly stems from the bank's original profit model single, management system transition lag. The strong preference of credit delivery is also related to the periodic fluctuation characteristics of some industries. On the one hand, at present, the domestic bank has its own capital adequacy ratio continuously improved, and credit funds are sufficient. Under the pressure of profit returns, industries that have to chase high periods of credit to increase, forming a clear pro-cycle industry placement preference. That is, the collective behavior tendency that is more rational in the early stages of economic growth, excessively optimistic in the stage of rapid economic growth, easy to cater to speculation in the "bubble" of the economy, and may be excessively pessimistic in the economic depression. The behavior tendency leads to the existence of the "hot spot" industry and enterprises in the rising cycle of Chinese banks. It will be a long and arduous task to avoid the risk of bank loans being invested in more centralized and interest rate market. Only by deepening the reform of the banking management system, strengthening the institutional innovation of financial products and financial instruments, and forming the diversification of bank profits and the construction of a new credit culture, can we gradually overcome the interference of this factor to the financial promotion of real economic development.

References


