

## Accepted Manuscript

Title: How Will Financial Liberalization Change the Chinese Economy? Lessons from Middle-Income Countries

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PII: S1049-0078(17)30104-5

DOI: <http://dx.doi.org/doi:10.1016/j.asieco.2017.04.001>

Reference: ASIECO 1060

To appear in: *ASIECO*

Received date: 7-11-2015

Revised date: 28-2-2017

Accepted date: 10-4-2017



Please cite this article as: Huang, Yiping., & Ji, Yang., How Will Financial Liberalization Change the Chinese Economy? Lessons from Middle-Income Countries. *Journal of Asian Economics* <http://dx.doi.org/10.1016/j.asieco.2017.04.001>

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# How Will Financial Liberalization Change the Chinese Economy? Lessons from Middle-Income Countries

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**[Abstract]** *This study projects the impact of financial liberalization in China by drawing on the experiences of 60 middle-income economies over a period of four decades. Our results suggest that comprehensive financial reform could increase GDP growth per capita by up to 1.4 percentage points and raise the real bank lending rate by up to 5.1 percentage points. Perhaps the most unexpected result is a massive increase in net capital inflows by up to 20.1 percent of GDP, which could plant seeds for financial risks later. The probability of a currency crisis could increase by up to 21.7 percentage points, but the probability of a banking crisis may rise or fall, depending on the quality of bank supervision. We also find different policy impacts of different financial reform measures. Bank ownership reform and regulatory reform are critical in supporting economic growth and financial stability. These findings offer important policy implications on how to derive maximum benefit from financial reforms while effectively mitigating potential risks.*

**Keyword:** Financial liberalization; ; ; , economic growth, financial risk, China

**JEL Codes:** F3, F21, G15

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<sup>1</sup> Earlier versions of the paper were presented at *The Sixteenth NBER-CCER Conference on China and the World Economy*, held June 26-28, 2014 at Peking University and *The 2014 International Conference on Corporate Finance and Capital Markets* held November 7-8, 2014 at Zhejiang University. The authors are grateful for valuable comments by Joshua Aizeman, Pierre-Olivier Gourinchas, Menzie Chinn, Shang-jin Wei, Yang Yao, and two anonymous referees.

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