

The Role of FDI in Local Financial Development in Post-Reform China: Evidence from Panel Data

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Abstract

This paper explores whether the adoption of foreign direct investment (FDI) improves the distortions apparent in China's banking system. Controlling for other factors, we find that FDI inflows exert significant positive influences on local financial development improving access of firms in the Private Sector to formal bank finance and facilitating deposit mobilization in recipient provinces. The empirical results suggest that it is important to ensure financial openness for improving the efficiency of capital allocation and, consequently, addressing the widening regional disparities in China.

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