

Table of contents

Abbreviations.....	XV
1 Introduction.....	1
1.1 Original problem and objectives.....	1
1.2 Methodology.....	6
1.3 Categorization of topic.....	8
1.4 Definition of key terms.....	9
1.4.1 Liberalization.....	10
1.4.2 Banking sector and financial sector.....	10
1.5 Structure of the thesis.....	13
2 The Indian banking sector.....	17
2.1 Development of the Indian banking sector.....	17
2.1.1 Development from 1947 to 1991.....	17
2.1.2 Development from 1991 to 2005.....	20
2.1.2.1 Background and goals of reforms.....	20
2.1.2.2 Reform areas.....	23
2.2 Current structure of the banking system.....	37
2.3 Political, economic and institutional environment of the banking sector.....	42
2.3.1 Political environment.....	42
2.3.2 Economic environment.....	43
2.3.3 Institutional environment	46
2.4 Conclusion	48
3 The Chinese banking sector.....	51
3.1 Development and structure of the banking sector.....	51
3.1.1 Development of the banking sector.....	51
3.1.2 Structure of the banking sector.....	56
3.2 Major reform areas and status of the sector.....	58
3.3 Similarities and differences to the Indian banking sector.....	64
3.4 Conclusion.....	67

4 Banking sector functions and coordination	69
4.1 Functions of the banking sector.....	69
4.1.1 Mobilization of resources.....	70
4.1.2 Allocation of resources.....	71
4.1.3 Fostering economic growth.....	72
4.2 State involvement in the banking sector.....	74
4.2.1 Reasons for state involvement.....	75
4.2.1.1 Economic goals.....	75
4.2.1.2 Developmental goals.....	78
4.2.1.3 Political goals.....	79
4.2.2 Instruments of state involvement.....	81
4.3 The financial liberalization hypothesis.....	84
4.4 Evaluation of financial liberalization.....	88
4.4.1 Financial liberalization, savings and capital formation.....	88
4.4.2 Financial liberalization, financial development and growth.....	91
4.4.3 Financial liberalization and banking sector performance...	96
4.4.4 Financial liberalization and financial crisis.....	98
4.5 Conclusion.....	101
5 Management of transformation processes.....	103
5.1 Classification of transformatory changes and applicability to India.....	103
5.1.1 Definition of transformatory changes.....	104
5.1.2 Applicability to the banking sector and India.....	107
5.2 Initial policy recommendations for transition countries	109
5.3 Elements of transformation processes	111
5.3.1 Liberalization.....	111
5.3.2 Stabilization.....	113
5.3.3 Privatization.....	115
5.3.4 Institution building.....	118
5.3.5 Structural change.....	122
5.4 Management of transition processes.....	124
5.4.1 Speed of reforms.....	124
5.4.2 Sequencing and timing of reforms.....	127
5.5 Differences in transformation processes in India and China.....	129
5.6 Conclusion.....	134
6 Framework for banking sector liberalization.....	137
6.1 Overview and special considerations.....	137
6.2 Transformation of the banking sector.....	140
6.2.1 Basic requirements for banking sector liberalization.....	140

6.2.2 Process elements for banking sector liberalization.....	141
6.2.2.1 Liberalization of price and volume restrictions...	142
6.2.2.2 Stabilization of banks.....	144
6.2.2.3 Bank privatization.....	146
6.2.2.4 Institutional infrastructure of the banking sector.	148
6.2.2.5 Structural change of the banking sector.....	152
6.2.3 Speed, sequencing and timing of banking sector reforms..	154
6.2.3.1 Speed of reforms.....	154
6.2.3.2 Sequencing and timing of reforms.....	155
6.2.4 Political-economy considerations for banking sector liberalization.....	156
6.3 Measurement of process and results of banking sector liberalization.....	159
6.3.1 Identification of process and result indicators.....	159
6.3.2 Construction of a liberalization index.....	169
6.3.3 Effects of market failure on indicators	171
6.4 Macroeconomic effects of banking sector liberalization.....	180
6.5 Conclusion.....	183
7 Evaluation of banking sector liberalization in India and China...	185
7.1 Qualitative evaluation.....	185
7.2 Quantitative evaluation.....	195
7.2.1 Sector level.....	195
7.2.2 Macroeconomic level.....	217
7.2.2.1 Econometric specification and data description..	217
7.2.2.2 Results of statistical tests.....	222
7.3 Conclusion.....	240
8 Policy recommendations and implications of research findings...	243
8.1 Summary of goals and results.....	243
8.2 Policy recommendations.....	248
8.3 Limitations of research approach.....	253
8.4 Perspectives for future research.....	254
Appendix.....	257
References.....	275