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Financial development and economic growth in Mainland China: a note on testing demand-following or supply-leading hypothesis

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Abstract

In this note two competing hypotheses are empirically tested, namely those of the demand-following and supply-leading, using multivariate VAR models for Mainland China over the period 1987Q1 to 1999Q4. Johansen cointegration results indicate that there exists one cointegrating vector among GDP, financial development and the degree of openness of three variables. The results from Granger causality tests based on multivariate error-correction models (ECM) suggest independence between financial development and economic growth. This empirical result supports neither the demand-following nor the supply-leading hypothesis for Mainland China.

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