

# A Comparative Study of Financing and Investment Regions in Financial Development

Jiahao Zhang

Department of Mathematics, School of Mathematics and Chemical Engineering, Changzhou Institute of Technology, Changzhou, Jiangsu, 213032

**Keywords:** Finance, Integration, Capital price, Cooperation.

**Abstract:** Finance is an inevitable outcome of a country's economic development. Compared with other economic zones in China, the level of financial integration in the Yangtze River Delta is in a leading position. However, the slow development of regional financial integration in Jing-jin-ji is not conducive to the cross regional flow of financial resources and the formation of a unified financial market. Based on the comparison of regional financial integration between Jing-jin-ji and the Yangtze River Delta, this paper first introduces the research background and significance, then analyzes the level of regional financial integration between Jing-jin-ji and the Yangtze River Delta from two aspects of capital price and financial cooperation, and concludes that the level of regional financial integration in Jing-jin-ji is lower than that in the Yangtze River Delta. From the perspective of fund price difference in the region, the difference between the loan interest rate in Jing-jin-ji region and the discount interest rate and rediscount interest rate in the bill market is significantly greater than that in the Yangtze River Delta region. From the perspective of financial institutions' own cooperation, the regional financial market in the Yangtze River Delta is relatively perfect, and financial institutions cooperate frequently, forming a developed regional financial market. However, the cooperation of financial institutions in the Jing-jin-ji region is still subject to administrative divisions, mainly focusing on the holding of financial institutions in Beijing Tianjin to Hebei region, rather than reasonable positioning to seek the common development of the whole region .

## 1. Research background and significance

### 1.1. Background

As an important engine of modern social development, finance plays an important role as the blood and core of social economy. In the early theory of economic growth, financial factors did not receive the attention and attention of relevant scholars[1]. Until the early 19th century, with the increasingly obvious impact of Finance on the economy, economists explained the reasons of economic growth by internalizing finance, and financial factors gradually came into economists' vision. In recent years, with the proposal of financial deepening theory, many countries regard finance as an important way to promote economic development [2]. In promoting the reform and development of the financial system, China has also tried various policy measures. Finance has become an indispensable factor in the process of economic and social development.

For a long time, the development of financial integration in Jing-jin-ji region is slow, which is not conducive to the cross regional flow of financial resources, the formation of a unified financial market, and the coordinated development of Jing-jin-ji region. The coordinated development of Jing-jin-ji has become a national strategy. To realize the coordinated development of Jing-jin-ji is the need of building a new capital economic circle and promoting the innovation of regional development mechanism in the future. Goldsmith stressed that "there is a roughly parallel relationship between the development of economy and finance"[3]. The development of a regional economy cannot be separated from the support of finance. Meanwhile, the steady growth of finance

will accelerate the regional economic growth. Therefore, the realization of regional financial integration is of great significance to promote the coordinated development of Jing-jin-ji .

Compared with other economic regions in China, the level of regional financial integration in the Yangtze River Delta and the Pearl River Delta is higher, but because the Pearl River Delta only involves Guangdong Province, there is no impact of administrative divisions[4]. In previous studies, we can find that the barriers of administrative divisions are the main reason that hinders the process of regional financial integration, so the comparative study with the Pearl River Delta is lack of practical significance, so this paper only selects The Yangtze River Delta is the comparative object of Jing-jin-ji .

## **1.2. Significance**

The infrastructure construction, industrial transfer, ecological construction, urbanization and other aspects needed by the coordinated development of Jing-jin-ji are all inseparable from financial support, which requires mobilizing the financial resources of the three regions, giving full play to their respective advantages, strengthening financial cooperation and contributing to the coordinated development of Jing-jin-ji . However, the development of regional financial integration of Jing-jin-ji is still in the initial stage, and the current financial contact is still in the general and traditional business, which requires that the Jing-jin-ji region can break the barriers of financial cooperation as soon as possible, The advantages of financial resources in each region are analyzed in detail, and different development goals and work focus are formulated, so as to realize the effective flow of resources, make the industrial division of labor reasonable, and realize the efficient and reasonable allocation of resources. Therefore, the research on the regional financial integration of Jing-jin-ji is particularly important.

## **2. Comparison of regional financial integration between Jing-jin-ji and Yangtze River Delta**

### **2.1. Comparison of capital price differences between the two regions**

#### **2.1.1. Difference between loan interest rate and discount to discount interest rate**

The price method is to seek the consistency of asset prices among the economies or markets in the region. Its research is based on interest rate parity theory and capital asset pricing model. Now, CIP is generally used in the world To measure the degree of international financial integration, but in view of its need for a more developed forward foreign exchange market and full marketization of interest rates, its applicability to China is very weak, and this paper is to study the financial market integration within China's region, which will not involve the exchange rate problem, so we can use the "one price law" to measure the two regional financial integration Degree, the method assumes that the price of any homogeneous goods in the efficient market should be the same under the condition that other conditions remain unchanged and there is no transaction cost. That is to say, if the degree of financial integration is achieved in the region, the capital can flow freely and realize the optimal allocation, then the capital prices of the three regions should be the same.

In view of the fact that the proportion of China's securities market in the financial market is not very large, and that the capital supply of Chinese enterprises mainly depends on bank loans, this section will measure the degree of financial integration of the two regions by examining the differences between the loan interest rates of the two regional banks and the discount to discount interest rates.

#### **2.1.2. Loan weighted interest rate comparison**

In view of our current technical means and the imperfection of the market, we can use the weighted average of the floating up and floating down ratio of the financial institutions in each region as the approximate value of the market interest rate in each region for the calculation of the loan interest rate. In December 2018, the weighted interest rates of the two regions are as follows:

Table.1. Comparison of weighted interest rates of two regions in December 2018

Interest rate interval	Jing-jin-ji			Changjiang Delta		
	Beijing	Tianjin	Hebei	Shanghai	Jiangsu	Zhejiang
0.9-1.0	50.9%	11.8%	2.5%	24.0%	4.9%	5.2%
1.0	21.7%	32.6%	25.5%	23.3%	26.1%	15.6%
1.0-1.1	10.3%	23.5%	16.7%	17.6%	23.9%	23.0%
1.1-1.3	9.8%	23.9%	18.6%	18.4%	31.2%	38.1%
1.3-1.5	3.5%	7.2%	11.9%	5.2%	6.9%	8.5%
1.5-2.0	1.7%	0.3%	20.8%	10.1%	5.2%	7.5%
2.0+	2.1%	0.7%	7.2%	1.3%	1.7%	2.1%
Average multiple	1.047	1.092	1.352	1.142	1.155	1.196

It can be seen from the table that the loan interest rate gap between cities in the two regions is different. From the perspective of Beijing Tianjin Hebei region, Hebei Province has the highest interest rate, followed by Tianjin, followed by Beijing, with Hebei Province being 1.29 times of Beijing, Tianjin being 1.04 times of Beijing; from the perspective of the Yangtze River Delta, Zhejiang Province has the highest interest rate, followed by Jiangsu Province, Shanghai, and Zhejiang Province being 1.05 times of Shanghai Times, Jiangsu Province is 1.01 times that of Shanghai. It is obvious from the calculation results that the loan interest rate gap in Beijing Tianjin Hebei region is larger than that in the Yangtze River Delta region.

### 2.1.3. comparison of discount and rediscount interest rates of financial institutions

According to the financial operation report, the discount and transfer discount rates of financial institutions in bill markets are as follows:

Table.2. Comparison of discount and rediscount interest rates of two regional financial institutions in the fourth quarter of 2018

Interest rate interval	Jing-jin-ji			Changjiang Delta		
	Beijing	Tianjin	Hebei	Shanghai	Jiangsu	Zhejiang
Discount rate of bank acceptance bill	6.89	6.91	6.78	6.79	6.90	6.86
Discount rate of commercial acceptance bill	7.33	7.74	7.74	6.82	7.57	7.24
Interest rate from bill purchase to discount	6.09	6.22	5.88	6.03	6.01	5.84
Interest rate from Bill repurchase to discount	6.25	6.33	5.47	6.09	6.10	5.82

From the perspective of bill interest rate, except for the large internal differences in the Yangtze River Delta of discount interest rate of commercial acceptance bill, the difference degree of other interest rates are greater in Jing-jin-ji .

#### **2.1.4. Comparison conclusion of fund price difference**

From the loan interest rate and the discount interest rate and the rediscount interest rate in the bill market, it can be seen that the difference of fund prices within the two regions is different, and the fund gap within the Beijing Tianjin Hebei region is significantly larger than that in the Yangtze River Delta, which shows that the substitution of financial resources among different regions in the Beijing Tianjin Hebei region is poor, which is not conducive to the free flow of financial resources, and reduces the effectiveness of financial resource allocation The integration degree of Beijing Tianjin Hebei region is lower than that of Yangtze River Delta region.

### **2.2. Comparison of the promotion degree of two regional financial cooperation on regional financial integration**

#### **2.2.1. Financial status of the Yangtze River Delta**

In 2004, China Construction Bank held a joint forum of CCB in Hangzhou, including Jiangsu, Zhejiang, Shanghai, Ningbo and Suzhou. It made a breakthrough in information exchange and joint process, and defined the implementation plan and specific schedule of regional financial cooperation. From the establishment of Bank of China's East China Information Center in state-owned banks, the communication and coordination mechanism of Agricultural Bank of China and Bank of China in the Yangtze River Delta region, to the establishment of Everbright Bank's East China loan review center in joint-stock banks, the overall linkage strategy of Huaxia Bank's regional branches in Jiangsu, Zhejiang and Shanghai, to the 16 of rural commercial banks in the Yangtze River Delta region Three cooperation agreements, product innovation and sharing, personal business, marketing and credit management, have been signed by branches in three cities. Financial institutions at all levels have played an important role in the promotion of regional financial integration in the Yangtze River Delta, making outstanding contributions to the faster realization of regional financial integration.

In addition, the continuous integration of the Yangtze River Delta regional economy has promoted the widespread use of commercial acceptance bills in the Yangtze River Delta region, forming a unified regional bill market. In 2009, the Yangtze River Delta region issued the Yangtze River Delta bill discount price index and signed the bill commitment self discipline convention. This index is the first regional commercial bill discount price index in China, marking a substantial step in the financial product innovation of the Yangtze River Delta regional financial integration process.

In terms of financial market innovation and cooperation, pilot projects such as RMB settlement of cross-border trade, centralized filing of foreign exchange payment for foreign imports, and overseas lending by private enterprises were successfully carried out. In the golden age of financial development, the Pan Yangtze River Delta regional modern financial innovation and development summit was also held. Ten cities in the Pan Yangtze River Delta established a regional financial innovation and cooperation alliance and signed a strategic agreement to jointly promote regional financial cooperation and realize free flow and optimal allocation of financial resources. At the same time, the dominant position of financial institutions has also been respected, and the substantial promotion of financial integration has been realized under the market baton.

#### **2.2.2. Financial status of Beijing Tianjin Hebei region**

Today's administrative divisions divide Jing-jin-ji into three different administrative regions, which belong to different local governments. Under the current fiscal and tax system, which measures local political achievements by tax revenue, the local government has greater control over local economic and financial development, so there is less cooperation among financial institutions in the Beijing Tianjin Hebei region. At present, the main products of financial integration in Beijing Tianjin Hebei region are: automatic bill sorting system in Beijing Tianjin Hebei region, Bank of Beijing holding Langfang bank, inter regional branches of financial institutions, the first cross regional

tourism financial innovation product in China - the issuance of Beijing Tianjin Hebei tourism all in one card, the construction of Hebei Financial backstage service center, etc. Although the pace is not big, long-term adherence and promotion can also improve the level and degree of regional financial integration in Jing-jin-ji .

### **2.2.3. Comparative conclusion of cooperation among financial institutions in the region**

The development process of financial integration in Beijing Tianjin Hebei region lags behind the Yangtze River Delta region. The cooperation of financial institutions in the Yangtze River Delta region is more frequent and active, the development of the bill market and the continuous improvement of financial innovation make the regional capital flow more free, realize the rational and effective allocation of financial resources, and achieve a highly market-oriented state, which is less affected by the administrative force; while the Beijing Tianjin Hebei region is affected by different financial resources endowment and political status Due to the severe inequality, the cooperation of financial institutions in the region is only concentrated on the control of Beijing and Tianjin over Hebei. Hebei has always been in the state of subordination and service. The political leadership has affected the rational development of market economy and objectively delayed the integration process.

## **3. Conclusion**

There is a close internal relationship between finance and regional economic development. The development of Finance restricts or promotes the development of regional economy from the aspects of knowledge spillover, economic structure, factor allocation and scientific and technological competitiveness, and the development of regional economy will also bring broad market demand, financial support and good institutional environment guarantee for scientific and technological finance; the two systems interact and influence each other, forming a complex and dynamic coupling relationship.

On the whole, the financial integration level of Beijing Tianjin Hebei region is lower than that of the Yangtze River Delta region. The specific performance is as follows: from the perspective of the driving factors of regional financial integration, from the perspective of the fund price differences in the region, the differences between the loan interest rate in the Beijing Tianjin Hebei region and the discount interest rate and the rediscount interest rate in the bill market are significantly greater than those in the Yangtze River Delta region. From the perspective of financial institutions' own cooperation, the regional financial market in the Yangtze River Delta is relatively perfect, and financial institutions cooperate frequently, forming a developed regional financial market. However, the cooperation of financial institutions in the Beijing Tianjin Hebei region is still subject to administrative divisions, mainly focusing on the holding of financial institutions in Beijing Tianjin to Hebei region, rather than reasonable positioning to seek the common development of the whole region.

## **References**

- [1] Fu Li, Wang Chen. The relationship between finance and real economy and penetrating supervision [J]. China price, 2020 (04): 38-40.
- [2] Xu Yude, Zhang Fang. Boosting high-quality economic development with financial supply side structural reform [J / OL]. Finance and accounting monthly: 1-5.
- [3] Liu Junfang. Practical thinking on promoting regional financial integration in Jing-jin-ji [J]. Hebei finance, 2008,04:6-10.
- [4] Wei Qing, Zhu Jin. An empirical study of financial integration in the Yangtze River Delta Based on the analysis of the correlation between savings and investment [J]. Yuejiang journal, 2009,04:28-33.