

## Research on Inter-regional Capital Flow and Regional Economic Gap

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**Abstract:** Among the factors that affect the regional economic development gap, capital is particularly important. In the short term, the level of economic growth is determined by the growth level of investment, consumption and import and export, while in the long term, the level of economic growth is determined by the investment growth of capital, labor and land and the level of technological progress. The flow of capital between regions is the basic form of realizing capital in the process of regional economic development, and promoting the reallocation of other production factors through capital, thus improving the efficiency of resource utilization. If the mobility of capital is conducive to the coordinated development of China's regional economy, capital should flow from areas with abundant capital to areas with shortage of capital, which is conducive to narrowing the regional economic gap. This paper discusses the influence of China's inter-regional capital flows on the economic growth of different regions and the changes of inter-regional economic differences, and puts forward some suggestions on promoting the inter-regional capital flows and promoting the coordinated development of the inter-regional economy.

### 1. Introduction

Since the reform and opening up, with the continuous improvement of China's regional economic integration, the liquidity of capital has also been enhanced [1]. As one of the basic factors to promote economic growth, the free flow of capital among regions is bound to have an important impact on regional economic growth [2]. There is no clear conclusion on the comprehensive impact of capital and its flow among regions on the allocation of production factors among regions, regional economic growth and regional economic level gap [3]. In the short run, the level of economic growth is determined by the growth of investment, consumption, import and export. In the long run, the level of economic growth is determined by the investment growth of capital, labor, land and the level of technological progress [4]. Therefore, whether in the short term or in the long term, capital flow is one of the important factors affecting the level of economic growth, and thus one of the important factors affecting the change of regional economic gap [5]. In the process of the flow of production factors, the flow of capital is an important part. For the economic development of various regions, capital flow is a strong agent for regions to reallocate resources through financing and promote the re expansion of their production [6]. As the most frequent and basic factor of production, capital plays an important role in the development of regional economy [7].

If the liquidity of capital is conducive to the coordinated development of China's regional economy, then capital should flow from areas with abundant capital to areas with insufficient capital, and it is conducive to narrowing the regional economic gap [8]. For China, among the capital, labor, land and other production factors, capital is the most scarce resource and the biggest "bottleneck" in the process of economic growth. Therefore, capital is an indispensable factor in promoting regional economic development [9]. This paper discusses the impact of China's Interregional capital flow on the economic growth of different regions and the changes of regional economic differences, and puts forward some suggestions for promoting China's Interregional capital flow and promoting the coordinated development of interregional economy. The capital factor not only drives the reallocation of other production factors, but also involves how the government adopts effective regional development policies to promote the social and economic development of backward areas and minimize the regional development gap, so as to realize the coordinated development of regional economy.

## **2. Theoretical analysis of regional economic effect of capital flow**

### **2.1. The formation of regional capital promotes economic growth**

Relying on the high efficiency of economic activities, the eastern region can absorb the high price caused by the marketization of capital interest rate. Moreover, in the process of financial disorder caused by the "dual-track system" of interest rates, the eastern region has collected a large amount of funds from the central and western regions in pursuit of maximizing profits through fund-raising, borrowing and repurchase, which has accelerated the accumulation and formation of capital. The difference in capital investment is indeed an important reason for the difference in regional development, but the same investment rate has different economic growth rates in different regions. That is to say, the so-called "vicious circle of poverty" put forward by Knox is not only due to the scarcity of capital and the low savings rate. The role of capital in economic growth has long been paid attention to by people. Development economists believe that among the three factors affecting economic growth, natural resources and labor force will not form constraints, and the most turning point in poor countries or regions is the "take-off" stage. At this stage, an important condition must be a substantial increase in capital investment rate. For the central and western regions, a large amount of funds flow to the eastern region, which further aggravates the shortage of funds. The existence of interest rate "dual track system" not only shows the release of "financial repression" and the acceleration of capital market flow process, but also further intensifies the tendency of capital flow between the eastern, central and western regions [10]. With the implementation of the coordinated development strategy of regional economy, the investment in the central and western regions has increased and the capital mobility has been strengthened, which further narrows the gap between the central and western regions and the eastern regions. At the same time, due to the greater development of the western region, the capital mobility of the western region in terms of fixed assets investment gradually surpassed that of the central region, and gradually realized that the eastern region took the lead in leading the western and central regions to become rich.

### **2.2. Capital flows help to reduce regional economic disparities**

Under the condition of market economy, the direction and scale of inter-regional capital flows are determined by the capital profit rate of each region. When the difference of capital transfer income is enough to offset all transfer costs and there is still a large surplus, the spatial transfer of capital stock takes place. However, the root cause of the gap between regional investment marginal efficiency is the imbalance of regional economic development. The higher the imbalance of economic development, the greater the gap of investment marginal efficiency. According to the theory of comparative advantage, under the premise that a certain production function is unchanged, the scarcer a certain production factor in a region, the higher the price of the factor, and the lower the price of the factor. Capital is an important factor of production, and it also has factor price. In the early stage of reform and opening up, the state adopted the preferential support policy, which made the eastern region obtain abundant productive factors including capital, while these factors were scarce in the western region, resulting in the situation that the price of capital factors was low in the eastern region and high in the western region. The development model of urban agglomeration is shown in Figure 1.

Under the impetus of finance, through the market-oriented flow of inter-regional capital, the transfer and reorganization of production factors among industries and regions can be realized, and the investment can be reconfigured, so that the regional industrial structure tends to be reasonable in the dynamic state. Therefore, through the free flow of funds between regions, to adjust the solidified asset stock and realize "striving for the big with the small", it has a multiplier effect for all regions. As far as the eastern region is concerned, although a good investment environment has attracted capital from the central and western regions, it is often at the expense of the high cost of capital. For the central and western regions, administrative measures have prevented the outflow of capital to a certain extent, but the cost is that the regional economic ties are weakened and the outflow of non-capital elements is restrained. The free flow of capital between regions in China will lead to the

widening of the economic gap between the two places in the early stage of reform and opening up. With the deepening of reform and the diffusion of spillover effect, capital will flow back from the east to the central and western regions, and then the economic gap between the two places will be eased.

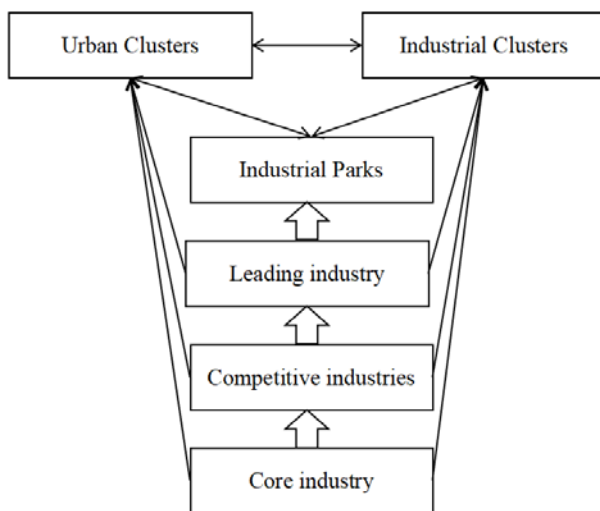


Figure 1 The development model of urban agglomerations

### 3. Countermeasures and suggestions

#### 3.1. Accelerating capital flow

For the western region, the effective way to improve the utilization rate of capital is to accelerate the capital flow, that is, to accelerate the process of capital output, that is to say, to accelerate the various production links that capital has experienced in the social production process, and to increase the number of capital turnover, which is an important way to use inherent funds to alleviate the shortage of funds. Motivation is the power to promote the movement and development of things. The motive force of regional economic development is the power to promote regional economic development, and the motive force is the root cause of regional economic development. Power can be interpreted from multiple angles. From the way of power generation, the power of regional economic development can be divided into endogenous power and exogenous power. According to the different strength of power in the process of regional economic development, power can be divided into fundamental power and auxiliary power. The so-called fundamental power refers to the power that can determine the process and direction of regional economic development, and the auxiliary power refers to the power that has an impact on the speed of regional economic development, but cannot change the process and direction of regional economic development [11]. Figure 2 is a conceptual model of the influence mechanism of entrepreneurship policy on entrepreneurs' entrepreneurial behavior.

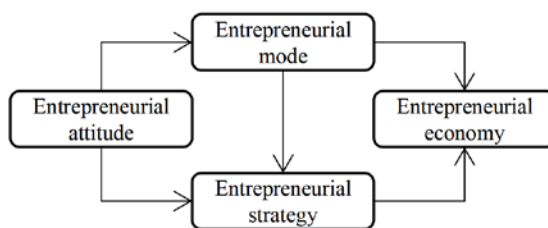


Figure 2 The conceptual model of the influence mechanism of entrepreneurial policies on entrepreneurial behavior

Social and economic changes are not determined by a single or a few factors, but by various factors such as technological progress, society, economy, politics, culture and traditional concepts. All factors are interrelated, influence each other, cause and effect each other, and present a changing

trend of "cyclic accumulation". Institutional policies from outside the region will also promote the development of regional economy, but it belongs to exogenous power. Secondly, it depends on its action mode on regional economic development. Endogenous power directly affects the development process of regional economy, while exogenous power plays an indirect role in the development process of regional economy.

### **3.2. Improving the overall investment environment in the central and Western Regions**

Private capital flow and capital flow caused by labor export are also important components of capital flow. With the development of coastal economy, the demand for labor force is increasing day by day, and the importance of capital flow caused by labor export is becoming increasingly prominent. When the fundamental power of regional economic development is lacking, insufficient or abundant, the development of regional economy will be in a state of retrogression, stagnation or development. When the fundamental power changes suddenly, it may lead to directional changes in regional economic development, such as changes in leading industries and industrial structure. From the point of view of central financial payment transfer, the funds in the eastern developed areas flow from the eastern region to the underdeveloped central and western regions in the form of paid taxes and transfer payments by the central government. From the perspective of banks and their capital channels, capital flows from the eastern region to the western region as a whole due to the central refinancing leaning towards the central and western regions. However, driven by interests, capital flows back from the central and western regions with low yields to the eastern regions with high yields. Simply pursuing capital accumulation or forcibly pushing forward capital transfer can not bring about long-term efficiency improvement and economic growth rate. While accelerating the construction of infrastructure such as transportation, energy and communication in the central and western regions, we should further standardize government behavior, transform government functions, improve work efficiency, reduce transaction costs of enterprises and markets, and optimize the investment and operation environment of foreign capital.

## **4. Conclusions**

The existence of regional economic gap is a common phenomenon in the process of economic development. There are various reasons for the regional economic gap in China, including the economic foundation of each region and the policy inclination since the reform and opening up. The free flow of capital in different regions will lead to the free flow of labor, land and other factors of production, which will make the factors of production flow to the eastern region with rapid economic development and provide favorable conditions for the economic development of the eastern region. Promoting the economic integration among provinces and removing the obstacles of capital flow between provinces will have a positive impact on the narrowing of regional economic gap and the coordinated development of regional economy in China. The government should play the role of macro-control, issue a series of policies on coordinating capital flows and promoting economic development, reasonably guide capital flows, and truly realize the coordinated development of regional economy.

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