



# The Exploration of Finance Contributing to High-Quality Regional Economic Development

## -- A Case Study of Hubei, China

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**Abstract.** Under the background of regional economic integration, the agglomeration effect of financial industry is increasingly obvious. Promoting the coordinated development of regional finance is of great significance to improving the quality of economic development. This report takes Hubei Province, China as an example, through the analyze of various financial data and economic indicators in recent years, combined with financial practice cases, the report explores how finance can better contribute to the high-quality development of regional economy from three aspects. It shows that in the current stage of regional economic development, financial institutions are facing several problems such as lack of vitality in credit approval, limited product types, and difficulties in providing continuous financial services. Based on this, a series of financial measures to contribute regional economic development has been listed, such as more government support, continuous upgrading of financial products, strengthening the spatial layout planning of business, etc.

**Keywords:** Regional economic development, financial economy, regional finance

## 1 The Practice of Financial Support for Regional Economic Development

### 1.1 Introduction

As one of the basic activities of human society, economic activities always take place in a specific geographical area, with regional economy gradually formed<sup>[1]</sup>. The coordinated development of human, material and financial resources in a certain area is of great significance to the optimization of economic structure and high-quality economic development.

Under the background of regional economic integration, the agglomeration effect of financial industry is increasingly obvious. Since the 1980s, with the increasing integration of the global economy and accelerated flow of international financial resources

between regions, the financial industry has shown the tendency of structural adjustment. More and more financial activities and financial institutions are concentrated in the central city. Financial aggregation has gradually become the basic form of modern financial organization<sup>[2]</sup>.

Nowadays, financial institutions has gradually shown its great achievements in serving the real economy, people's livelihood and development in both urban and rural areas. It strives to provide strong financial support for the high-quality development of regional economy.

This report can be mainly divided into three parts. Firstly, the practice and exploration of financial institutions promoting regional economic development would be analyze, and then the report would illustrate the problems during the practice process. Finally, several feasible way for financial institutions to contribute to regional economic development would be stated.

## **1.2 The Provision of Financial Services Targeted to Different Regions and Scenarios**

In terms of economic development in poor areas, financial institutions mainly provide economic assistance from three aspects: mechanism, product and service. In some remote areas, the level of economic development is relatively backward and poverty alleviation is under great pressure. Through the implementation of the rural revitalization strategy in China, financial institutions have made great efforts to alleviate poverty in poor areas and drive area economic development. To be specific, in Hubei Province, financial institutions have taken the development of agriculture & economic development in rural areas as the primary goal, and set up a leading group & a executing team to support rural revitalization. In addition, the government has formulate the guideline named "one city helps one village". For local products, the mode of "industry + projects" based on the local characteristics has been adopted, such as focusing on food on land and aquatic products on seaside-area. Under this mechanism, local signature products has grown stronger and stronger. In terms of services, technological empowerment would be invested in more, and the construction of rural credit system, & the development of rural big data would be greatly promoted.

In addition to promoting the development of rural financial economy, financial institutions are also actively solving the financing problems of small & medium-sized enterprises. The research shows that the development of small and medium-sized enterprises is positively correlated with regional macroeconomic development. Data show that the correlation coefficients between the number of small and medium-sized enterprises, total tax revenue and regional GDP and fiscal revenue are all greater than 0.88. On the other hand, the development of small & medium-sized enterprises is conducive to the growth of regional GDP. In the central cities, an increase of 1% in the number of small & medium-sized enterprises, business revenue and employment can boost the provincial GDP by 0.12%, 0.14% and 0.24% respectively. In other areas, every 1000 additional small & micro enterprises will increase urban GDP by 1.43%<sup>[3]</sup>.

However, due to the agglomeration effect of the financial industry, the financing of small & medium-sized business are limited. To solve these financing difficulties, financial institutions have taken a series of measures. Taking Ping An Bank as an example, it formulated a work list of 24 financing difficulties and set up corresponding measures, issued 50 implementation opinions to assist for small & medium enterprise with rescue and economic development. This aimed to built a long-term mechanism of "dare to lend, willing to lend, able to lend" for financial institutions, and improved the convenience of lending services for small, & medium enterprises. The Postal Savings Bank has established the concept of accompanying the growth of enterprises, created a standardized service template, lowered the financing threshold for small & micro enterprises, and carried out the pilot work of small and micro enterprise credit factories. In 2022, it shows an increase of 8.019 billion yuan in small & micro loans, exceeding the regulatory plan by 178%<sup>[4]</sup>.

### **1.3 Promote Green Financing Development and Actively Explore the Transformation of Financial Development**

Green finance and regional economic development have always been mutually reinforcing. On the one hand, as an emerging economic activity, green finance can effectively control and reduce carbon emissions, promote the upgrading of energy-intensive industries, improving the economic level. On the other hand, when the degree of financial agglomeration is within a reasonable range, the positive external agglomeration brought by it improves the utilization rate of regional resources , thus promoting the development of regional green economy.

In order to promote the development of green finance industry, various financial institutions have increased their support for green finance. For example, the Bank of China leads the front desk to carry out the marketing of double-carbon financial inventory, actively promotes the innovation of green products, and accelerates the supporting of the settlement system of the carbon emission rights trading center<sup>[5]</sup>. In addition, the government is constantly guiding the development of green economy, effectively guiding financial agglomeration, taking into account the carrying capacity of local economy, infrastructure and natural resources, and formulating structural and differentiated financial agglomeration policies. For example, excessive financial agglomeration should be avoided in coastal areas and encouraged in inland areas to promote regional green economic development<sup>[6]</sup>.

### **1.4 Strengthen Risk Prevention and Holding the Bottom Line of System Risks**

Research shows that the level of regional financial risk is one of the important factors affecting the stable development of regional economy, and the stability and risk prevention of the banking system are the key points. This requires more monitoring and guidance of financial institutions,

By holding the bottom line, Bank of China constantly improves the degree of matching between loan investment and credit policies. It highlights regional characteristics of credit policies in credit approval, focuses on major regional development strategies,

implements differentiation of credit policies, and establishes industry information database and emerging industry research system.

At the same time, internal control compliance risk management was strengthened as case prevention basis. The financial situations actively resolved the hidden dangers left over from historical cases, continued to promote the management of the negative list of regulatory evaluation, and resolutely hold the bottom line of risk compliance.

## **2 Potential Problems Over Finance Contributing to Economic Development**

### **2.1 Credit Approval by Financial Institutions Lacks Vitality**

Firstly, the financing model of financial institutions is rigid. In order to improve the approval efficiency and control the risks, financial institutions often have fixed approval models to measure the financing line of customers, which cannot be customized and adjusted. As a result, the approval quotas of customers cannot meet their financing needs. For example, some banks stipulate that the first enterprise loan and real estate development loan should be submitted to the head office for approval. As the approval process being so complicated, it is difficult for basic financial institutions to meet the financing needs of customers in the first time, which also leads to the low deposit and loan ratio of financial institutions. A large amount of funds are not used to support regional economic development, and the utilization of regional financial resources is insufficient<sup>[1]</sup>.

Secondly, the credit approval did not take into account the impact factors of regional differences. Due to uneven level of economic development in different regions, financial institutions follow the principle of "mortgage first, credit later" , resulting in the difficulties of credit granting and loans for small enterprises in related poor areas.

Thirdly, the risk control for financial institutions is relatively strict. Financial institutions adopt lifetime-responsibility-tracing-system for the approval behavior of credit examiners, which would affect the enthusiasm of credit examiners and difficult to effectively meet the financing needs of customers.

### **2.2 The Lack of Diversification of Financial Institutions' Products Makes It Difficult to Meet Diversified Financial Needs**

The main secret for the successful operation of a market economy is the existence of market competition, which is the main "engine of progress" [7]. However, financial products do not show effective competition. Either the product design is too complex to be quickly promoted and applied in the region, or the research & development investment is limited, which influence the update of product. In addition, the promotion of product ignore the regional economic development rule, the production and operation rule and the characteristics of the industry. For example, some financial institutions do not consider the seasonal production and raw material procurement of enterprises,

only choose to promote to increase profits at the beginning of the year. This does not conform to the normal production and financing cycle of enterprises.

### **2.3 Difficulties in Providing Continuous High-Quality Services**

With downward pressure on the economy in recent years, financing remains difficult and expensive. For risk control and other considerations, some financial institutions have adopted strict rules and models for credit approval. On the other hand, there is a mismatch between regional firm characteristics and financial services. For example, financial institutions still have high collateral requirements in terms of risk control, while the technology park is full of asset-light companies with low mortgage rates, making it difficult to obtain adequate loans.

## **3 Feasible Ways for Financing Advocating Regional Economic Development**

On the whole, the financial sector has made positive contributions to the integrated and coordinated development of regional economies. We need to take a higher level of responsibility for regional economic development.

### **3.1 Government Support**

In terms of mechanisms, the government should establish a working mechanism to support rural revitalization, provide in-depth guidance to key areas, and promote regional work through institutional implementation. In Hubei Province, for example, the government has integrated seven regional poverty alleviation cooperation mechanisms, including fixed-point poverty alleviation, and adopted two models, namely cross-city, cross-regional cooperation and inner-city pairing, to achieve full coverage of economic development in key regions.

In terms of policy, relatively flexible policy would be conducive to regional economic development. For some promising enterprises and backward areas, more support can be given, with some approval procedures could be reduced. Secondly, the government should set loan targets for regional financial institutions, such as county-level loans accounting for no less than 50% of new deposits. Financial supervision departments should take the lead role in establishing a credit management system adapted to the development of regional economy, ensuring that the funds organized by financial institutions are mainly used within the area, accelerating the development of credit business and broaden the channels for the use of funds.

In terms of subsidies, policy subsidies should be increased for enterprises related to agriculture, science and technology, so as to support and guide credit funds to serve the economic development of specific industry and area.

### **3.2 Innovation and Optimization of Financial Products**

Efficient financial services can improve efficiency and address the financial needs faced by different themes in the process of regional economic development. Financial institutions should actively develop and design diversified, distinctive financial products that meet the needs of the regional economy, and enhance their ability to serve the regional economy through "marketable" products.

For instance, financial institutions could actively provide credit products such as legal person overdraft, bank acceptance and bill discount to meet various financing needs of enterprises in certain region. For economically backward areas, financial institutions should vigorously innovate financial products and services to aid agriculture, actively develop a variety of movable and immovable property as collateral credit products, provide guarantees for farmers' housing, farmers' homestead and land contract and management rights, and actively solve the mortgage guarantee problem<sup>[8]</sup>.

### **3.3 Strengthen the Layout Planning and Establish the Brand Image of Gathering**

The local government & financial institutions should pay full attention to the advantages of the regional financial industry and increase investment attraction. With the publicity of influential media, the financial agglomeration brand image would be promoted. As the core area of innovative enterprises in Wuhan, Hubei province, Optics Valley High-tech Industrial Park should further optimize its functions, give full play to its commercial and cultural advantages, and focus on the development of innovative finance, consumer finance and financial auxiliary industry chain<sup>[9]</sup>. By speeding up infrastructure construction, new financial landmarks will be created to attract related financial institutions to settle in.

### **3.4 Promote Precise Financing and Improve Financing Level**

On the enterprise side, it is of great significance to fully investigate the resources of high-quality enterprises in the region, establish a precise, dynamic and stratified database of listed enterprises, and provide training on capital market situation, industry-related policies and other topics for backup enterprises<sup>[10]</sup>. In addition, financial institutions also need to actively use financial markets to encourage qualified companies to address their financing needs through various means, such as issuing bonds.

For financial institutions, all parties should strengthen the construction and promotion of financing platforms, such as the promotion and application of accounts receivable financing platform in Hubei Province. By actively connecting with the enterprise credit basic database, using digital platforms to improve the accurate matching of investment & financing information among enterprises, investment institutions & financial institutions, continue to deepen the cooperation between the government and enterprises of banks, and provide more small&medium business with low-cost and efficient financing services<sup>[11]</sup>.

## 4 Conclusion

As regional economy gradually integrated, finance has made remarkable contribution to the high-quality development of regional economy. According to the practice and data analysis of various financial institutions in Hubei province, it can be found all-round financial support has been provided, from specific regions to specific industries, from financial products to financial services, from front marketing & service to risk management. This has brought great contribution to region economic development<sup>[12]</sup>. However, in this process, there are also problems such as rigid approval model, single product type and limited financial services. In view of these situations, the government, enterprises, financial institutions and other parties need to work together to promote high-quality regional economic development through policy guidance, model optimization, product upgrading, brand building, etc.

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