

# Research on Financial Support in Regional Economic Development of Shaanxi Province

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**Abstract:** Financial support is of great significance to regional economic growth and the realization of coordinated development and complementary advantages among regions. There is a long-term correlation between economic growth and financial development in Shaanxi province, the improvement of its financial level can promote regional economic growth to a certain extent, from the perspective of financial development to inject new impetus into economic growth. The purpose of this study is to clarify the relationship between regional financial development and regional economic development, and through the analysis and investigation of the financial development situation in Shaanxi province, from the financial system, financial structure and financial risk control of the level to help the province regional economic rapid and coordinated development of measures.

## 1. Introduction

With the continuous improvement of the stage of economic development and the evolution of the level, the role of finance in economic development will become more and more important. The financial industry has become the main channel and platform connecting the capital needs, which is crucial to the success of enterprise operation and the development of the region. In this regard, finance has changed from the original means of payment and circulation to the core factor of modern economic activities. The deepening and development of finance has become the most important part of China's regional economic development. Financial support for regional economic development has enormous functional functions and effects, it plays an important role in the rapid and efficient development of modern economy, we should constantly increase the construction of financial organizations and research on financial system innovation, strive for regional financial services policies and restrictive incentives, we will develop an innovative financial operation system with a reasonable division of labor, scientific coordination and complementary functions, diversify financial products, with an appropriate economic foundation and a favorable external environment, to achieve sound financial support for regional economy. Finally, radiation is formed to promote the long-term, steady and healthy development of the global economy.

## 2. Relevant Theoretical Basis

The relationship between finance and economy has been concerned and studied by more and more economists. Since the middle and late 20th century, both have been continuously discussed and studied in the academic circle of financial development theory, to analyze and deduce the relationship between the two, finally, the theory of financial development was formed.

### 2.1 Theory of the Relationship between Financial Development and Economic Growth

The early 1970s, the financial circle has made a great breakthrough in the study of the theory of financial development. Among them was the American economist Ronald I. McKinnon and Edward S. Shaw's theory of financial repression and financial deepening, to promote the economic development of the backward developing countries, this theory not only played a milestone role in the field of economics, but also had a profound impact on the policy practice of developing

countries. McKinnon defines the phenomenon of “financial repression” as: “Bank credit is still some sort of exclusive license trade, large-scale export of rare minerals, highly protected manufacturing, large multinational corporations, a financial appendage of various government agencies. Financing for the rest of the economy, it must be met by the insufficient funds of the moneylender, the pawnbroker, and the cooperative. This is what I call financial repression.” Shaw believes that financial repression is a structural change and transformation strategy, by manipulating reserves relative to prices, quotas for foreign exchange, raw materials, labor and government services, solved the oversupply caused by the price level, which means the excess demand.

In the 1990s, the development of financial theory is no longer simple to explore the relationship between financial development and economic growth, they borrowed a lot from the theory of endogenous economic growth, established a more standardized development model, at the same time, more attention is paid to the verification of theoretical model results from the perspective of empirical research. So that the financial development theory more perfect, more convincing. Generally speaking, the level of development of financial intermediation and financial market varies from country to country, even the development level of financial intermediation and financial market is different in different periods in the same country. But with the development of economy and society and the rapid growth of income and wealth of some people, sufficient to meet the fixed entry costs, its demand for financial intermediation and financial markets has also increased. At this point, financial markets and financial intermediaries were established in demand. And it turns out, there is a strong positive correlation between the development level of financial intermediation and long-term economic growth, and to some extent, based on the initial financial intermediation to predict the level of future economic growth. At the same time, the panel data inspection method and the three data measurement inspection methods study the relationship between bank development and economic growth, and it turns out, financial development is an important factor affecting long-term economic growth, through the model, in low-income countries, the relationship between financial development and economic growth is not obvious, but in the high-income countries it is obvious and outstanding.

## 2.2 Financial and Economic Growth Model

At the end of the last century, the research focus of financial development theory is how to standardize the overall interpretation-the role of financial development in economic growth mechanism. In the meantime, due to the rapid development of endogenous growth theory, it provides new impetus for the study of the relationship between financial development and economic growth. According to the endogenous growth model. That is, the convexity growth model of Pagano (1993) - AK model, this paper briefly summarizes the opinions of financial development theorists at the end of the last century:

Refer to AK model formula:  $g = A\Phi S - \delta$  (g- The rate of economic growth in a stable state; A- Capital productivity;  $\Phi$ -The percentage of savings converted into investment; S- The saving rate;  $\delta$ - Allowance for depreciation) From the model, there are the following main ways of financial development for economic growth: one is to promote financial development through the economic growth effect of social savings rate. In this case, financial development has both positive and negative effects on economic growth, the symbolic relation is not clear. Second, by affecting the efficiency of capital allocation, to realize the role of economic growth. From different principles to explain the impact of financial development on capital productivity and economic growth. The first way is by collecting information, evaluate various projects, make capital allocation more efficient. The second way is through Shared liquidity risk channels, provide more efficient capital allocation for consumers. The third is to realize the role of economic growth by affecting the ratio of saving to investment. In developing countries, financial developments are good for the “financial repression” they impose, could reduce the negative impact of financial repression.

## 3. Mechanism of Financial Support for Regional Economic Development

The growth of regional economy is closely related to the development of regional finance, the

balanced development of the two can improve capital allocation in different economic zones and regions and raise investment rates. Therefore, the growth of regional economy is directly affected by the regional financial structure, and the economic growth effect is formed on this basis.

### **3.1 Improve the Level of Original Capital Accumulation**

Different theories of economic growth and the practical development of regional economy all put forward common views, that is, different financial support will affect the rate of economic development in the region. The more original capital you have, the more growth you have, if there is no accumulation of the original capital, employment of labor productivity, configuration of high-tech production equipment and development of high-tech production technology will also become problems, cannot improve the quality of enterprise staff, when the accumulation of original capital is relatively sufficient, to realize the rapid growth of regional economy. When financial support and the role of capital in production go hand in hand, can raise national income more effectively.

## **4. Increase the Savings Rate and the Proportion of Savings Converted to Investment**

In one area, economic subjects are generally composed of residents, government, enterprises and institutions. Its main function is to spend disposable income on saving, consumption and investment. But whether citizens and government agencies are willing to spend some or all of their income on savings and investment, it has an important relationship with the return and risk of saving and investing, what they do with their income is also affected by the selectivity of their financial instruments and investments. That means, the storage and investment of local people, enterprises and institutions are directly or indirectly related to the current situation of regional economic development. If the storage rate increases, the corresponding increase in raw capital to support economic development, this provides important financial support for economic development. As China's economy continues to grow, this conclusion is gradually confirmed. The shift from savings to investment is influenced by financial developments, the more robust the financial development, the higher the conversion rate, and financial developments have provided more ways to convert savings into investment.

### **4.1 Increase the Amount of Capital and Human Resources Available for Economic Development**

The flow of bank funds between different economic regions, it is influenced by financial control over the economy. The national interbank market came into effect in 1996, providing a new channel for financial institutions to move large amounts of capital, it also facilitated the flow of bank capital, it also further promotes the development of regional economy to some extent. From the perspective of the adjustment function of economic structure, when the capital market and money market in the economic region are relatively complete, policies on capital flows will be based on rational economic analysis, this means that the flow of capital is directly related to the cost of capital use and the rate of return on investment. When the original capital is sufficient, influenced by regional investment projects and different regional resources, capital will be used to invest in projects with high profitability, and will gradually abandon the investment projects with low returns and high consumption. Therefore, the improvement of capital accumulation ability is an important part of capital promotion. From the perspective of monetary capital, the weakening of the planning system will promote the circulation of capital, the rate of regional economic development can also be improved.

### **4.2 Improve the Capital Utilization Efficiency**

The amount of investment, the increase of storage, the excellent storage resources and the perfect investment bureau can make the regional economy grow rapidly. In essence, the amount of investment is far less important than the quality of investment. Especially for regional economies, the increase in new capital is as important as the decrease in low-yielding investment. With the income distribution structure gradually decentralized and diversified, the autonomy of enterprises

gradually expanded, and finance gradually becoming the capital flow and important mode of distribution, the optimal distribution of capital and the coordination of economic structure in the same or different regions are affected by the development of regional finance. To sum up, the flow of storage, investment institutions, intra-regional storage and the amount of investment are all affected by regional finance. Finally, capital utilization rate and investment profitability will be affected. The fragmented capital markets were properly integrated into the financial system, this also realized the capital in the overall economic environment in the redistribution. The financial system can effectively introduce capital into investment projects with high returns and great development potential by using its own advantages (such as information advantages, supervision advantages, etc.) and improve the utilization rate of capital. Sound financial markets make it difficult for investors to favor investment projects that lack competitiveness, the capital can be used to the maximum extent. If the original capital amount is fixed, the speed of economic development is related to capital utilization, the higher the capital utilization, the faster the regional economic development speed, the faster the regional economic aggregate can also increase, more can produce a strong capital formation ability.

## 5. Analysis of the Current Situation and Problems of Financial Support in Regional Economic Development of Shaanxi Province

By consulting relevant literature, and the analysis of numerous test results, it is obviously found that there is a direct proportion relationship between financial support and economic development in many regions of China. The financial system plays a positive role in promoting regional economic development, in particular, Banks play the most obvious role in promoting regional economic development, securities and insurance promote regional economic development next. At the same time, there is an uncertain relationship between financial support efficiency and regional economic development. According to relevant test data, it is found that although financial support plays a certain role in promoting regional economic development, there is a significant difference in the efficiency of financial support. Most of the country's financial resources are concentrated in the east coast, the existence of this phenomenon gives rise to the problem of low output efficiency of the boundary of financial factors, under the financial support, the regional economic development has the malpractice of lack of balance.

### 5.1 Operation of Banking Industry in Shaanxi Province

According to the statistics of capital sources and capital utilization of financial institutions in the statistical yearbook of Shaanxi province in 2018, Shaanxi financial industry closely follows the national macro-control policies, the scale, efficiency and quality of the financial sector have been greatly improved. Deposits and loans in the banking sector are growing simultaneously, the financial sector has further strengthened its support for local economic development.

Table 1 Rmb Credit Balance of Financial Institutions in Shaanxi Province Unit: 100 Million Yuan

Item	2016	2017
Total sources of funds	35231.61	38112.97
1.Total of all deposits	35255.48	37784.01
2.The preparation	805.29	876.06
3.Owner's equity	1284.13	1456.99
Total fund utilization	35231.61	38112.97
1.Total loans	23921.75	26679.06
2.Affiliated Bank Transactions	7955.67	7758.10
3. Bond investment	1429.61	1790.53

Data source: 2018 statistical yearbook of Shaanxi province

### 5.2 Operation of Shaanxi Securities Industry

The overall operation of the securities industry in Shaanxi province is stable. The initial public offering was a breakthrough, the financing function of capital market is gradually strengthened. By

the end of 2017, there are 47 a-share listed companies in Shaanxi province, it accounts for only 2% of the total number of a-share listed companies in China. The number of institutions in the securities industry and the volume of stock transactions have steadily increased, financing structure was further adjusted.

Table 2 Main Situation Of Shaanxi Securities Industry

Item	2016	2017
Listed companies		
Listed company (household)	45	47
Total share capital of the listed company (100 million shares)	570.46	634.07
Total stock market value of listed companies (100 million yuan)	6437.8	6298.59
Securities companies and trading conditions		
Securities company (unit)	3	3
Securities business department (unit)	245	258
Number of securities trading accounts opened (ten thousand)	400	461
Stock turnover (100 million yuan)	42928.18	46812.95
Futures trading		
Futures agency turnover (100 million yuan)	64287.47	69251.68

Data source: 2018 statistical yearbook of Shaanxi province

### 5.3 Operation of Insurance Industry in Shaanxi Province

The insurance industry in Shaanxi province has developed steadily, the market system has been gradually improved and to further enhance the ability to resist risks, increasing the depth, the density of insurance is gradually improved, the industry maintains a steady and healthy development trend. In line with the overall national trend, but the horizontal comparison with other provinces is still a big gap, both absolute and relative Numbers are below average. By the end of 2017, the total premium income of Shaanxi province is 8.687 billion yuan, the insurance density reaches 2,264.90 yuan per person, the increment is less than that of other regions, but it still shows an increasing trend. Through a strict underwriting and claims process, to improve the quality of underwriting, the insurance reparations of complete province and pay amount drop apparently.

Table 3 Premium Income Of Shaanxi Insurance Industry in 2017 Unit: Rmb 10,000

Region	The premium income		Indemnity and payment	
	Life insurance	Property insurance	Life insurance	Property insurance
The province	6438769	2248156	1523513	1076561
Xi 'an	3143200	1067840	697704	489353
Xianyang	642830 196312	156975	94186	
Weinan	579676	173481	143671	86135

Data source :2018 statistical yearbook of Shaanxi province

### 5.4 Problems Existing in the Process of Financial Support for Regional Economic Development

*The overall scale of regional financial industry is relatively small.* The financial sector is an important area for financing, gathering capital, adjusting structure and allocating capital, the rapid and healthy development of local economy is greatly promoted. However, the overall scale of financial industry in Shaanxi province is relatively small, especially far away from the scale of financial industry in eastern and central provinces. In the next few years, the development of urbanization and the improvement of the industrial structure will require enormous financial support, the funding crunch is likely to widen. And in different economic regions, large and small businesses are not evenly distributed, slowing down the pace of economic development.

*The degree of financial marketization is relatively low, and SMES face difficulties in their development.* The degree of financial marketization has progressed slowly. Currently, there are only 2 local commercial Banks in Shaanxi province, which are the bank of Xi 'an and the bank of Chang 'an, despite the continuous presence of Banks and financial institutions outside the province, but the

access time is short, the ability is still insufficient. And an important part of China's financial sector is the Banks, this also allows the financing of enterprises to mainly rely on bank credit to complete. Because the credit resources provided by Banks are not unlimited, and the application for credit needs to meet the corresponding requirements, only some businesses have access to credit, small and medium-sized enterprises must face capital risks in the future development.

*Serious credit imbalance and single structure.* Credit from financial institutions chasing investment in overheated sectors, such as real estate, coal resources, land and road and bridge construction projects, and it is so large that the limited credit resources are concentrated in a relatively single industry, the development that causes local economy to grow grows rate to incline somewhat. At the same time, the proportion of single credit structure has increased, Medium and long-term loans grew rapidly, credit imbalance is relatively serious.

## 6. Empirical Analysis of the Relationship between Regional Economic Development and Financial Support in Shaanxi Province

### 6.1 Index and Data Selection

Based on the experience of existing research results, the indicator that can fully reflect the comprehensive economic development capacity of a country or region is the gross national product (GDP). Therefore, the GDP of Shaanxi province is selected as the explained variable, financial correlation ratio (FIR) is used as explanatory variable to establish the model. Here, M /GDP (the total amount of deposits and loans of all financial institutions as a percentage of GDP) is used to represent the financial correlation ratio. And we think, regional financial development mainly refers to the growth of regional financial assets and the continuous optimization of regional financial structure. For China's regional financial market, the main bodies of the financial system mainly include commercial Banks (including credit cooperatives), securities companies, insurance companies, financial assets mainly include cash in circulation, balance of deposits of financial institutions, balance of various bonds, amount of stock raising and enterprise market value, premium income, etc. In recent years, the scale of stock market value in Shaanxi regional financial market has made a certain development. Therefore, three other indicators M/GDP (%), I/GDP (%) and S/GDP (%) were selected as explanatory variables to analyze the impact of banking, insurance and securities industries on economic growth.

The relevant data selected in this paper are from the statistical yearbook of Shaanxi province, the website of the statistics bureau of Shaanxi province and the statistical yearbook database of China. The time span was from 2008 to 2017, and Eviews10.0 was used for statistical processing.

### 6.2 Model Establishment and Analysis

*Regression analysis of regional financial market's effect on regional economy.* To explain the impact of Shaanxi's financial sector on the regional economy, we established the GDP of Shaanxi province as the explained variable, FIR is an econometric model of explanatory variables. The specific model is as follows:

$$GDP=X_0+X_1FIR \quad (1)$$

Using relevant regional financial data from 2008 to 2017, perform the least square method (OLS) linear regression analysis, the results are as follows:

$$GDP=129.3869+2.791748FIR \quad T(5.989870)(3.690929)$$

$$R^2=0.967064 \quad D.W=1.340806 \quad F\text{-statistic}=47.68969$$

From the regression results, the  $R^2$  value of the model is 0.967064, the goodness of fit of the model is very good. The t-test indicates that the selected variable has a strong explanatory ability to the dependent variable. There is a significant positive correlation between regional financial development and regional economic growth in Shaanxi, for every percentage point of FIR growth, economic growth increases by 2.79 percentage points, regional finance has promoted regional economic growth.

*Influence of major financial sectors on regional economy.* To reflect the effect of the development of major financial sectors in Shaanxi on regional economy, the GDP of Shaanxi province was established as the object to be explained. M/GDP (total deposits and loans of all financial institutions /GDP), I/GDP (premium income of all insurance institutions /GDP) and S/GDP (total market value of listed companies in Shaanxi province /GDP) are the measurement models of explanatory variables. The econometric model is as follows:

$$GDP = X_0 + X_1 M/GDP + X_2 I/GDP + X_3 S/GDP \quad (2)$$

Using relevant regional financial data from 2008 to 2017, perform the least square method (OLS) linear regression analysis, the results are as follows:

$$GDP = 44.2567 + 2.975813 M/GDP + 3.334713 I/GDP + 1.6465 S/GDP$$

$$T \quad (1.764304) \quad (-5.225102) \quad (3.988828) \quad (3.752729)$$

$$P \quad 0.1524 \quad 0.0064 \quad 0.0575 \quad 0.0642$$

$$R^2 = 0.972843 \quad D.W = 1.538485 \quad F\text{-statistic} = 47.76462$$

From the regression results, the  $R^2$  value of the model is 0.972843. It shows that the goodness of fit of the model is good and can be used to explain the relationship between variables. According to the t-test, M/GDP has a strong explanatory power for GDP, the expansion of financial scale in Shaanxi has promoted the regional economic growth, and the growth of regional economy in turn accelerated the expansion of its financial scale. At the same time, neither I/GDP nor S/GDP has passed the T test, therefore, the explanation of GDP is not strong. According to the results, financial development index M/GDP has a significant negative correlation with economic growth, moreover, for every percentage point increase in M/GDP, economic growth increased by 2.975813 percentage points. In addition, the index I/GDP reflecting the insurance market is positively correlated with economic growth. S/GDP, an indicator reflecting the stock market, is also positively correlated with economic growth, but not significantly. Therefore, both premium income and stock market value are positively correlated with economic growth, but the promotion effect on the economy is weak.

### 6.3 Analysis and Evaluation of Regression Results

Firstly, FIR and M/GDP of Shaanxi regional financial development indicators are positively correlated with regional economic growth, reflecting the rise in regional financial assets, it has played a certain role in promoting regional economic growth. Secondly, the index I/GDP reflecting the insurance market in Shaanxi province has a weak positive correlation with economic growth, premium income is positively correlated with economic growth, but the promotion effect to economic growth is not strong. This is because of the uneven development of the insurance industry in different regions, Xi 'an and Baoji developed well. For example, in 2017, Xi 'an's annual premium income was 4.211 billion yuan, accounting for 48.47% of the province's premium income. But other cities have been slow to develop insurance, people don't have a lot of insurance awareness, the service level of the insurance industry needs to be further improved, and the wealth effect of the insurance industry on economic development has not been fully exerted overall. Finally, the index S/GDP reflecting the Shaanxi securities market also shows a weak positive correlation with economic growth. This is because from the perspective of the whole country, the development of China's stock market is short, the development of the stock market is not perfect, the operation mechanism is still not perfect. Moreover, compared with some developed cities, the development of financial markets has been lagging, therefore, there are problems such as unreasonable shareholding structure, unreasonable division of listed companies and imperfect information disclosure system, these problems will lead to the ineffective allocation of capital, unable to effectively promote economic growth.

## **7. Financial Support System Construction Strategies and Measures for Regional Economic Development in Shaanxi Province**

### **7.1 Formulate and Implement Financial Planning Scientifically and Rationally Allocate Financial Resources**

Regional financial planning is the general direction of regional financial development, set standards for regional development goals. Efforts should be made to build a regional financial center, make full use of its functions, and build a rural financial service system to improve farmers' income. Actively introduce, establish and develop financial institutions to support the development of local commercial Banks. Increase the regional branches of policy Banks, such as central and western. Adjust the branches of commercial Banks in different regions. Promote the development of all regions except banking and financial institutions. Improve the level of financial services, pay attention to the effective integration of social benefits and economic benefits, and promote the improvement of the financial services system.

### **7.2 Build a Regional Diversified Financial Organization System with Reasonable Division of Labor and Complementary Functions**

We will strengthen the role of finance in supporting regional economic growth, the first problem to solve is to make the financial plate as big as possible. That is, the size of financial institutions, assets, liabilities, etc., increasing the total supply of funds to economic regions, ensure that the economic development of the region has a restructured monetary fund as a guarantee of development and sustainable development. We will accelerate the development of a multi-tiered banking financial institution system, it is necessary to increase the absorption and inclusiveness of domestic and foreign financial institutions in economic regions, at the same time to do bigger and stronger economic region mainland method person banking financial institutions. Give full play to the unique role of securities and insurance in the development of urbanization, capital market which is the main position of direct financing for enterprises, the development of local securities institutions and the promotion of the listing and financing of more local high-quality enterprises are necessary considerations and actions of economic regions, not only will it attract more institutions from outside the region, it can enhance the competitive strength of local securities institutions and realize their role in local financing process. As far as insurance institutions are concerned, the development of the insurance industry in the current economic region lags that in the developed eastern region. How to give full play to the role of insurance in regional economic development is the current key, need to recognize the situation, accurate positioning. Continue to steadily expand the number of insurance companies, enrich the types of insurance industry, to introduce positive and constructive measures to attract large domestic and foreign insurance institutions to set up insurance branches in economic regions, we will diversify the insurance market.

### **7.3 Improve the Regional Financial Risk Management System to Achieve Stable Regional Economic Growth**

During the development of regional economy with financial support, always pay attention to the relationship between financial risks and development status, we will strive to achieve steady regional economic growth based on preventing risks. Building a regional financial monitoring system, establish an efficient financial risk warning system, effectively prevent financial risk transmission, preventing the emergence of systemic financial risks. We should properly handle the relationship between financial supervision and financial innovation and improve financial supervision measures while ensuring the vitality of financial development. The risk of local government debt shall be classified into the regional financial risk management testing system, and the relationship between investment and financing platforms and the government's rights and responsibilities shall be clarified to improve risk management.

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