

The Adjustment of Domestic Capital Layout in China under the Background of "Dual Circulation"

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ABSTRACT

In recent years, China's economic development pattern has gradually changed to a major domestic circulation with domestic and international dual circulation promoting each other. At the same time, opposition from the West to the outward transfer of industrial chain has been growing, and the new normal under the COVID-19 pandemic has also caused a great impact on the original economic development model. Based on this background, this paper analyzes the adjustment direction and path of China's domestic capital distribution, finds potential problems and puts forward relevant suggestions. This paper uses comparative research method, combines qualitative and quantitative methods, carries out horizontal comparison within China, focuses on the study of western China, finds and analyzes the capital disadvantages of western China from multiple dimensions, and puts forward policy suggestions for the financial development of western China based on advanced experience at home and abroad. Finally, this paper concludes: under the background of dual circulation, the Chinese government should vigorously promote the construction of financial institutions in western China to attract financial talents, promote local financing, improve local people's livelihood and enhance the level of opening to the outside world, so as to promote the construction of an open, inclusive, standardized and international financial service system.

Keywords: *Dual Circulation; Regional capital allocation; Western finance; Equity*

1. INTRODUCTION

With the background of the new crown epidemic and the transfer of industrial chain in western countries, China's domestic economy and opening up to the outside world have gradually entered a new stage, and the dual circulation strategy is also put forward at this time. The strategy is of great significance to the western region: the western region has been the fastest-growing region in China in recent years, and borders Southeast Asian countries, which is the bridge between China's economic and trade relations with the association of Southeast Asian nations-ASEAN. This paper focuses on the spatial layout of funds represented by investment funds in China under the background of the dual circulation, compares the economic panel data of western regions and other regions, probes into places that can be optimized in the capital layout of western regions.

Besides, we focus on giving full play to the leading role of finance in big cities in western China. The essence of the integrated development of financial markets is to properly handle the relationship between the financial

markets of core cities and those of surrounding cities," and "play the core role of big cities [1]. It is planned to start from multiple dimensions, in the market segmentation, financial innovation, risk control, personnel training, and other fields to establish a long-term mechanism [2]. Finally, we hope to draw on the experience of other regions, other urban clusters, building a financial market system with extensive radiation, interconnected financial infrastructure system and characteristic financial service system [1]. This paper will take the above content as the target, puts forward policy suggestions in the two dimensions of international and domestic.

2. ANALYSIS

2.1. Interpretation of Data and Related Indicators

This paper selects the data of the National Bureau of Statistics of China, and the Eastern Region including Liaoning, Hebei, Tianjin, Beijing, Shandong, Jiangsu, Shanghai, Zhejiang, Fujian, Hainan, Guangdong, and Hainan, in total 11 provinces, municipalities directly

under the central government and autonomous regions; the Central Region includes 8 provinces and regions, including Heilongjiang, Jilin, Shanxi, Anhui, Jiangxi, Henan, Hubei and Hunan. The Western Region refers to 12 provinces, municipalities directly under the central

government and autonomous regions of Inner Mongolia, Shaanxi, Gansu, Ningxia, Qinghai, Xinjiang, Chongqing, Sichuan, Yunnan, Guangxi, Guizhou and Tibet.

region	Number of legal person in financial industry	Added value of financial industry (100 million yuan)	Employed persons in urban units of financial industry (10 thousand)
Eastern Region	92709	48094.4	449.5
Central Region	17514	14364.7	169.7
Western Region	21521	14232.6	176.8

Figure 1: The comparison of the three indicators in different regions

According to the data in the table, about Western Region, the number of legal person in financial industry, added value of financial industry and employed persons in urban units of financial industry are all relatively low, reflecting the uneven spatial distribution of China's financial system and the weakness of western finance.

It may be calculated that the per capita added value of financial industry (set as P), and the formula is added value of financial industry (set as A) divided by employed

persons in urban units of the financial industry (set as E), that is

$$P = A / E \quad \text{Formula(1)}$$

Then P (eastern region) = 107.0, P (central region) = 84.6, and P (western region) = 80.5. The above three P values are taken as a decimal unit in thousand per person. The P value of western region is the lowest, which is also a key point for the western financial development.

Aggregate Financing to the Real Economy (flow) by Province(2020)					
Unit: 100 Million Yuan					
Eastern Region		Central Region		Western Region	
Beijing	16631	Shanxi	4689	Inner Mongolia	1095
Tianjin	4508	Jilin	3579	Guangxi	7089
Hebei	10169	Heilongjiang	1899	Chongqing	8101
Liaoning	1310	Anhui	9251	Sichuan	14334
Shanghai	10916	Jiangxi	8550	Guizhou	6567
Jiangsu	33611	Henan	11472	Yunnan	5873
Zhejiang	32155	Hubei	10433	Tibet	491
Fujian	10592	Hunan	10779	Shaanxi	6407
Shandong	20108		60652	Gansu	4016
Guangdong	40692			Qinghai	117
Hainan	970			Ningxia	872
	181662			Xinjiang	4558
					59520

Figure 2: Aggregate Financing to the Real Economy (flow) by Province(2020)

According to the data of Aggregate Financing to the Real Economy (flow) by Province(2020) of the People's Bank of China, it is 181662 in the eastern region, 60652 in the central region, and 59520 in the western region (Unit: 100 Yuan). The Aggregate Financing to the Real

Economy (flow) by Province(2020) in western China is the lowest in China, and Xizang and Qinghai are far behind other provinces in China. The eastern region, central region and the western region also decreased gradually from east to west, and the southern provinces

were generally higher than the northern provinces. But in general, the provinces in the western region are generally low in financing. Although the financing scale is generally low in the western region, there are still two higher areas in Sichuan and Chongqing. Therefore, Sichuan and Chongqing can make use of their location advantages to become the growth pole, investment center and financing center in the western region, and drive the common development of the whole western region.

2.2. Policy Recommendations

2.2.1. Based on Domestic Perspective

Western China has a very long land border, and southwest China is adjacent to some countries with rapid economic growth, which has a great advantage in foreign trade and economic cooperation. At the same time, the western region has a large population, there is also the Sichuan Basin, the economic center of the western region, economic development has internal support, broad market, huge economic development potential. However, there is relatively less capital in the western region. At the moment when the prospect of investment return in the western region continues to improve, we should vigorously promote the financing in the western region and enhance the financing capacity of the western region to facilitate the further development of the real economy and foreign trade in the western region. It is necessary to encourage Chengdu and Chongqing to jointly build the western financial center, deepen cooperation with Xi'an and other western economic centers, and radiate the entire western region. In recent years, the western region has been in a period of historical opportunity with a large amount of government investment and transfer payments and other policy dividends. Western regions should take the initiative to develop their own industries under the favorable conditions of "national blood transfusion assistance", and gradually build a virtuous cycle of an economic system that does not rely too much on central government investment. It will create more high-quality jobs, create more employment opportunities, promote the construction of inclusive finance, enhance the ability of financial services in the region to serve the real economy, raise wages in the western region, improve the employment situation, and contribute to the implementation of the national strategies of "rural revitalization" and "common prosperity". This paper suggests optimizing the supervision of the financial industry in western China, when political pressures are high and regulatory institutions are strong, regulators are able to resist powerful economic interests and pursue more stringent regulation aimed at restoring financial stability (as in the case of bank capital requirements) [3]. Ultimately, it is hoped that the development of western China can be better for the benefit of the people rather than for the benefit of capital.

It should be recommended that financial institutions increase their distribution in the west, train financial talents in the west, and train their employees by setting up enterprise training courses. The training courses can set up different levels according to the level of employees, so as to further improve their business ability. Financial institutions are also encouraged to enter universities to promote the organic combination and simultaneous improvement of students' academic and application. Financial institutions should be also encouraged to bring the knowledge of daily life into middle schools, which not only cultivates the comprehensive quality of students, but also plays a role in the publicity of the financial industry and reserves talents for the financial industry. Even if the students do not work in the financial industry, it is still a wonderful investor education -- high-quality investors are also a great benefit to the financial industry. The government can also actively invest in finance and economics universities or departments of finance and economics in universities, and the whole society should work together to provide a variety of financial education products. Within independent relationships, suppliers typically provide commoditized and standardized products, and the main objective of the purchasing department is to minimize the costs [4], so that financial practitioners with different economic and social conditions can as much as possible have a choice of educational products. Besides, firms could interact directly with the university or via an intermediary organization [5], to further optimize the progress that the labor forces transfer from education to industry.

In addition, it's vital to further cultivate their "hometown complex" to keep financial talents in their hometown and make them want to stay in their hometown. With more financial talents joining the industry, combined with the great historical opportunity of many industries transferring to the west, and the development space of the industry with large financing demand and an imperfect financing system in the west, it is necessary to actively attract talents and encourage financial talents in the west to develop investment products suitable for local areas, as well as actively help qualified enterprises to expand direct financing [6]. At the same time, because of the rising of the financial industry boom in recent years, college students, graduate students, already work, and so on very high expectations for a career change into the financial community, the community has produced much financial education curriculum, from knowledge teaching to internship opportunities, in the medium of money, marketization and capitalization operation. But at the same time, It is also important to increase the investment in non-profit financial education courses, develop more and better courses, reduce the cost of financial education. In addition, the influence of non-profit courses should be expanded to compete with marketized financial education

in some aspects, and complement and divide labor in some aspects to provide consumers with more choices. By regression analysis, Atatistic TSST and other methods, Freska Gousario et al concluded that: The availability of adequate human resources in The area with a good standard of competence that would attract the interest and the interest of investors from outside the area [7].

It is also necessary to encourage western enterprises to actively finance, export-oriented enterprises according to their own comparative advantages and international market fluctuations moderately expand production, expand imports, improve the western financial industry to serve the real economy, give play to the role of the financial industry in the adjustment of industrial layout and industrial upgrading in the west. Secondly, it's important to increase support for small and medium-sized enterprises in western China, try to meet their financing needs, provide guarantee for enterprise growth, provide financial support for enterprise innovation. The value chain and cluster level policies start from the idea of an 'engine of growth', either larger firms in a value chain or sectorally and spatially clustered groups of firms at local level which generate economic dynamism. The pro-poor dimension is about improving ways to connect smaller and weaker businesses to these 'engines of growth' [8]. The government and financial institutions should focus on helping small and micro businesses, which can not only promote innovation but also increase employment opportunities and help as many citizens as possible with financial assistance. Thirdly, it's necessary to increase the added value of the financial industry, encourage the establishment of new financial institutions, innovate financial forms, develop green finance, support the green transformation of western industries, and provide green loans to new industries in the west. Under the policy background of carbon peak and carbon neutrality and human consensus, as well as under the economic background of drastic changes in the industrial pattern of western China, it's significant to strengthen financial support for environment and carbon emission trading, think highly of instrumental and subordinate nature of capital [9], develop ecological finance and environment-friendly finance, and improve the internal circulation system of western China's economy from the perspectives of politics, economy and environment.

2.2.2. Based on International Perspective

The government should also take advantage of the land border with ASEAN countries in western China to promote the development of foreign trade enterprises by finance. Wang Tinghua has obtained the background of bilateral trade between China and ASEAN countries have not been fully developed and there is still a lot of room for exploration under the background of data statistical methods[10]. Another positive thing is that China's trade

relations with ASEAN countries show a less competitive feature than complementarity [10]. China should seize these advantages in time, expand the fruits of trade with ASEAN and further tap its trade potential. At the same time, we will guide financial institutions to increase the credit issuance of foreign trade enterprises and provide convenience for relevant enterprises in the approval and other lending procedures. Increasing turbulence, rising inequality and ceremonialization, entailing myopia, higher monitoring and punishment costs, may lead to a collapse of cooperation and socio-economic prosperity [11]. Policymakers should draw on historical and current experience, regional and other experiences, to explore appropriate distribution systems for economic and financial development. It's important to let the government, financial institutions, entity enterprises, foreign capital, foreign entity enterprises and other entities enjoy reasonable and relatively equal interests.

At the same time, Louis Brennan and Alessandra Vecchi's article demonstrates the importance of the institutional context in shaping the policy response to FDI [12]. In this case, FDI means foreign direct investment. When western financial institutions invest in foreign countries, they should establish models to evaluate the foreign institutional environment, improve and optimize the institutional environment in the field of foreign investment, and attract and regulate foreign investment.

2.3. Summary Based on Regional Economics

However, the development of the west region, the east region, and the central region is not separate, nor is it one and the other. The expansion of the western market after more capital investment also provides opportunities for many enterprises in central and eastern China to further grow. At the same time, more western talents are employed locally, which can also ease the problem of "talent crowding", "talent squeeze" and even "talent trampled" in some eastern cities, and to some extent alleviate the "involution" problem that the epidemic has accelerated. The eastern region can also upgrade the management system, refine and utilize talents more efficiently, and promote enterprise transformation. The return on capital from investing in the west can also be used to consolidate the competitive advantage of the eastern region and further pilot concrete ways of "common prosperity". The industrial transformation and upgrading, trans-regional transfer of industries, trans-regional allocation of factors and trans-regional circulation of products in the eastern and central regions need a broad economic hinterland and market network. The new western development can create a new economic hinterland and market network for the eastern and central regions to take the lead in realizing modernization and market network [13]. In the context of the eastern industry and technology gradually reaching the 'ceiling', the relatively lagging characteristics of the

western industry in the value chain can be transformed into a late-comer advantage to complete the cycle of absorbing and transforming the technical attributes of imported products in place of the eastern and central regions and produce high-quality intermediate products in the downstream [14]. The western region will become a manufacturing base for high-quality mid - and low-end products, integrating into the domestic economic cycle with higher quality products and more convenient market networks. The new round of western development boosted by the western financial system is of great significance to the internal circulation of China's economy.

3. DISCUSSION

Article 22 of "Law of the People's Republic of China on Commercial Banks" rules that "A bench of a commercial bank does not have the qualifications of a legal person", therefore, the "number of legal persons in financial industry" cannot be equivalent to the number of financial institutions in the micro-level. "Number of financial corporate units" reflects only roughly the number of local financial institutions. In addition, added value of financial industry per capita is an indicator based on currency, which is affected by different purchasing power levels in different regions. Therefore, this indicator cannot be used to accurately compare the value and benefits created by each individual in different regions.

In addition, at present, there is no relatively "perfect" indicator to describe the "capital demand" of a region. If the local "capital supply" and "capital demand" are roughly equal, a relatively high capital utilization efficiency may be achieved. In the future, the author plans to look for indicators that can better describe the "capital needs" of a region, build a better economic model in the context of the "dynamic" dual circulation, and evaluate it from multiple perspectives, such as sociology and politics.

4. CONCLUSION

In order to reserve high-end talents with strong financial knowledge, the western region should further increase investment in local education. At the same time, it should attract foreign talents, especially those from Chinese financial institutions and foreign financial institutions, to learn financial management experience. It should also attract domestic and foreign financial institutions to settle in the west, adding a number of local legal institutions while optimizing the network layout.

In the future, all kinds of financial institutions should adopt the strategy of co-existence of competition and cooperation, cooperate with other western financial institutions, regulate the competition between western financial institutions and financial institutions in other

regions, strengthen exchanges, and further strengthen standardization and legalization. Finance should give full play to its essential function of "serving the real economy". The western region can take Chengdu and Chongqing as financial centers, learn from the mature experience of the spatial distribution of the financial industry in the Beijing-Tianjin-Hebei region, the Yangtze River Delta, and the Guangdong-Hong Kong-Macao Greater Bay Area, building a high-quality financial service system based on emerging technologies and centered on people.

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