

# Research on the Impact of Financial Agglomeration on the Upgrading of Industrial Structure from the Perspective of Supply Side Reform -- A Case Study of Shandong Province

Yan Wang, Zhengyin Wang\*, Yuna Miao

International Business School, Shandong Jiaotong University, Weihai, 264200, China

**Abstract:** As an important part of financial circulation in social development, the financial industry plays an important role in the distribution of financial resources for various industries in the entire society. It also plays an important role in improving the overall operation efficiency of macro-economy. One of the key points of economic development is to optimize the industrial structure. The development of industries and industrial sectors needs a large amount of financial support and protection, to test the relationship between financial development and industrial structure adjustment. The analysis shows that the financial development of Shandong Province can significantly promote the adjustment of industrial structure. Taking Shandong Province as an example, this paper studies the impact of financial agglomeration on the upgrading of industrial structure from the perspective of supply side reform, puts forward relevant policy suggestions to improve the efficiency of resource distribution, and uses various financial means to affect macro-economy and enterprises to balance the development level of financial industry in Shandong Province, and enhances the comprehensive competitiveness of financial industry.

**Keywords:** Supply side structural reform; Financial market; Financial agglomeration; Impact

## 1. Introduction

### 1.1 The background of China's supply side structural reform

With the development of society, the economy has entered a new normal period, and the strategic concept of supply side structural reform has been put forward, and new requirements have been put forward, which have become an important driving force for innovative development. In short, it highlights the necessary to find the targeted solutions for the next economic strategy. Therefore, there is an urgent need to identify specific impacts on financial market and find the development trend. With the development of financial institutions and the deepening of financial innovation, the phenomenon of financial agglomeration is more and more obvious. It is itself a part of the tertiary industry, and its will directly or indirectly affect the speed and quality of the financial industry. Generally speaking, with the development of financial institutions and the deepening of financial innovation, the financial agglomeration effect will have a significant impact on industrial development. The driving force for economic growth and investment in China as a whole has

begun to decline. The overall value of investment as a driving force of economic growth has also fallen from 7.85% in 2008 to 2.7% in 2018, which indicates that a single investment driven growth model is not desirable. At the same time, due to the rapid growth of China's overall capital stock, the pulling effect of investment on consumption has reached a peak of 6.2% in 2011, and then has gradually fallen steadily and maintained a stable range of about 4.5%. The analysis of exports shows that the pull of exports to the domestic economy has dropped to - 3% in 2009, and remained at a low level in the rest of the year. Since 2010, the contribution rate of China's industry to GDP has declined from 52.8% in April 2010 to 23.9% in February 2018 [1]. Many current situations fully show that the development of financial industry has shown a certain degree of backwardness.

## 2. The Impact of Supply Side Structural Reform on Financial Market

### 2.1. The impact of reduced capacity

It mainly focuses on large energy consuming and polluting enterprises, mainly large state-owned enterprises.

Due to the political and economic system, these large and medium-sized enterprises have always been an important source of customers for the financial industry. The mechanism of green finance to promote industrial transformation and upgrading is to restrict the development of projects and industries, and focus on the cultivation and development of green industries. In particular, industries that consume a lot of energy, cause a lot of pollution and have a lot of excess capacity can be defined through the key index of green credit implementation issued by China Banking Regulatory Commission.

### **2.2. The impact of destocking**

It takes the real estate industry as an example. Real estate is related to decoration, building materials, consumer services and other industries. In fact, real estate investment will affect nearly 55% of investment in fixed assets, so in the process of stock reduction, house prices will be reduced, which will affect the real estate construction and sales market, and then affect the overall quality of bank credit.

### **2.3. The deleveraging effect**

Nowadays, the rapid development of China's financial system has led to an increase in the debt burden of economic entities to a certain extent. At the same time, providing financing to economic entities has also increased the risk of the financial system. Weak solvency also leads to inefficient distribution of resources of real economy.

### **2.4. The impact of cost reduction**

As the name implies, cost reduction is to reduce the target business operations, taxes and transaction costs. Nowadays, the financing channels of small and medium-sized enterprises in China are relatively single, and most of the bank credit financing is the main channel, which makes financing difficult. At present, the financial industry still takes the dissemination income as the main source of income [2]. The competition among enterprises in the same industry will reduce the profit margins of banks, and reducing the intermediate business expenses of banks will also have an impact on the profit of the financial industry, and have a negative impact on the development of the financial market.

### **2.5. The impact of short-term remedial measures**

This is an important part of bringing opportunities to the financial industry. In the process of supplementing the industrial structure, it will also provide financial services and support for traditional industries through mergers and acquisitions. On the other hand, when the supply of livelihoods is insufficient, the increase of public goods and services provides stable business content for the financial industry. Information transmission promotes the optimal distribution of social resources and capital, which can

guide the funds to greener projects and realize the function of information transmission.

## **3. Financial Practice and Industrial Structure Adjustment in Shandong Province**

Shandong Province is a major economic province in China. In the process of economic development, its industrial organization has been optimized, but there are some problems. The goal of coordinating green development requires further adjustment of industrial structure to eliminate backward production capacity and cultivate strategic emerging industries. As an innovative financial tool, green bonds need to raise funds to invest in green projects with energy conservation and environmental protection benefits, including banks, other financial institutions and non-financial institutions. Enterprises in Shandong have made substantial progress in issuing green bonds and adjusting industrial structure.

### **3.1. Accelerating innovation and upgrading of the financial sector**

In the environment driven by innovation, the potential for innovation in the economic field is huge. At the practical level, the following aspects are considered for the direction of innovation: on the one hand, it is committed to vigorously promoting the innovation and development of investment banking business; on the other hand, it aims to expand the types of investment banking business. The financial services should increase support for the development of small and medium-sized enterprises, especially micro-enterprises, give full play to the effective support of the financial market to the economy, and focus on key links to make up for the deficiencies. Focusing on the deficiencies of basic technology, basic materials, skilled workers and brand quality, it should continue to carry out in-depth industrial basic projects, strengthen platform support, and arrange and establish multiple research centers for industrial basic projects. Secondly, it should take various measures to reduce costs. In view of the new round of global tax competition, it should actively explore the potential of cost reduction and adopt more inclusive methods, such as research and development and tax relief, to reduce the tax burden of enterprises.

### **3.2. Taking into account business operations and risk prevention**

For the financial industry, the most important issue is to effectively prevent financial risks. The reality is that all returns are accompanied by risks, as is the case in the financial industry, but the pursuit of profits is the basic feature of the financial market. Therefore, for this contradiction, it is difficult to solve, it only can find a path of

equilibrium, so as to minimize the development resistance.

### **3.3. Promoting the comprehensive transformation of green finance**

By investing and financing financial means, green financial funds will flow to industries with low energy consumption, low emissions, and low pollution, thereby promoting the development of environmentally friendly industries. It should adhere to the concept of ecological priority and green development, cooperate with environmental protection supervision, actively carry out ecological restoration, and vigorously develop energy-saving, environmental protection and green low-carbon technologies, so as to promote the green transformation of traditional manufacturing industry, guiding the industry to develop towards the cleaner, more energy-saving and safer direction.

### **3.4. Increasing financial openness**

According to the theory of financial market, the development of financial industry needs to be guided by reform and openness. The so-called openness means that the government should not only limit the vision at home, but also focus on the development of the financial industry. The future development of financial market should adapt to the situation of globalization, deepen the integration of Internet, and expand the openness of financial market by promoting the innovation of financial development, thus promoting the effective development of financial sector. For example, the government should break through the limitations of traditional financial services, increase the innovation and application of Internet finance and financial technology, provide more innovative financial services for the society through effective risk control strategies, and comprehensively improve the value of big data, so that China's finance can connect with the international market as soon as possible[3]. The concept of supply side structural reform has been developed so far, and further deepening is the general trend, so its impact on the financial sector can not be ignored.

## **4. Industrial Structure Upgrading Measures Under Supply Side Reform**

### **4.1. Supporting the concept of greater openness in financial**

In the middle stage of industrialization, manufacturing industry changed from light industry to heavy industry. At present, the characteristics of industrial structure are mainly capital intensive industries. As an important promoter of regional economic development, finance can improve the ability of financial intermediary to serve the real economy by improving the conversion rate of savings and investment, activating the accumulated capital

stock and reducing the financing cost of small and medium-sized enterprises. The purpose of adjusting economic structure is to regulate and guide the flow direction of the distribution of credit resources through differentiated credit policies, targeted interest rate reduction and price mechanism. This is mainly due to the decline of investment growth caused by economic re-balancing. Economic growth has shifted from investment and manufacturing industry to consumption and service industry. Traditionally, when relying on capital investment for economic expansion, it is necessary to firmly grasp the basic development principles of manufacturing industry, improve quality efficiency and upgrade level, and constantly enhance the industry's global influence and competitiveness. The acceleration of the transformation and upgrading, the continuous optimization of the industrial structure, and the significant improvement in efficiency have laid a good foundation for the sustainable and healthy development of the industry. The main direction is to promote industrial development, improve quality efficiency and upgrading, and start the new journey of building a modern economic system and high-quality industrial development.

### **4.2. Carrying out quality brand promotion**

Through high-quality development led by innovation, the government should further implement the development strategy led by innovation, take science and technology innovation as the main driving force for industrial development, accelerate the cultivation of innovation subjects, integrate innovation resources, and create innovation platforms and development momentum. Optimizing the innovation environment will accelerate the creation of upgraded versions of innovation and entrepreneurship, and rely more on innovation to lead high-quality development. Also, the government should accelerate the construction of innovation system, focus on improving industrial competitiveness, and increase the overall influence of key general technology driven by strong force. It is necessary to promote and improve inclusive support policies to support numerous medium and small-sized enterprises and provide broad support for their innovative capabilities.

### **4.3. Optimizing the innovation ecology constantly**

It is necessary to advocate innovative culture and form a cultural atmosphere conducive to innovation. Specific measures should be taken to encourage innovative enterprises and well integrate them with the real economy by increasing innovative enterprises. The government should supply water from technology sources, rationalize the transfer channels of technological achievements, optimize the environment for the development of innovation and entrepreneurship, and speed up the development of quality improvement, function improvement and spe-

cialization. The government will speed up the development of the statistical system and adapt it to high-quality development, profits and other quality indicators of economic development. Through deepening the industrial structure of supply side structural reform, the government should eliminate backward overcapacity through more market-based legal means, actively adjust thinking and work focus, and rely more on the establishment of a long-term market mechanism.

#### 4.4. Strengthening international cooperation

First of all, the government should actively establish international opening laboratories, world industrial innovation alliances and global innovation network, strengthen strategic cooperation in technological innovation with world-class universities, leading enterprises and research institutions, and attract multinational companies to establish research and develop centers in China. Second, it is necessary to strive to promote the second opening up of the service industry. The government will give full play to China's new talent dividend, and focus on opening up the service industry, including education and training, health care, cultural creativity, research and development and design, as well as business services, and vigorously develop service trade. Third, it is necessary to support industries and enterprises with competitive advantages to move faster to the world. In combination with the Belt and Road Initiative, the government will improve the overall coordination mechanism of countries along the Belt and Road, establish several international production capacity cooperation demonstration regions in countries along the Belt and Road, accelerate the promotion of China's competitive production capacity to the international, encourage competitive enterprises to develop international general contracting and integration, and drive industrial output including equipment, technology, standards, and brands. Also, the government should increase export credit and other policy support to produce China's advanced production capacity, such as high-speed rail and nuclear power [4]. It is supposed to take specific support measures to encourage enterprises to cooperate with multinational companies in research and brand acquisition. The government can encourage enterprises to make diversified investment, and promote overseas mergers and acquisitions, equity investment, venture capital, joint venture, establishment of branches and research and development centers, as well as enhance the global resource allocation capacity through investment, global procurement and other ways, to constantly enhance the global influence and industry competitiveness.

## 5. Conclusion

Under the background of supply side structural reform, the main problems of the supply side of the Chinese economy are: the low-end supply exceeds the demand and it needs to reduce production capacity; it has also indirectly increased the financing cost of the industry. Green finance focuses on financial intermediary issues to support sustainable social development. It uses a wide range of financial instruments, including green credit, green bonds, green insurance, and green funds, to address a certain stage of the development of society and the environmental crisis. The latter pays more attention to reducing energy consumption, preventing pollution, and protecting ecology, which are related to differences of economic development level and industrialization stage. Under the background of supply side structural reform, the comprehensive analysis of China's financial market response measures is as above. In the case of supply side structural reform, China's financial market will inevitably be affected by it. In view of this impact, this paper believes that it is unreasonable to find appropriate strategies, but we should take this as the driving force to promote the financial market in a more active state, and find innovative methods from a macro perspective.

## 6. Acknowledgment

Fund project: Shandong social science planning youth fund project (18DJJJ04“Research on the Evaluation of Total Factor Productivity in Shandong Province under the Background of Supply Side Structural Reform”) phased achievements

## References

- [1] Pan Xiaojian, Du Li. Promoting the further development of inclusive finance in rural areas from the supply-side reform. *Economic Review*. 2017, 2(12), 22-23.
- [2] Li Xia, Yang Yang, Tian Feng. Research on financial support in supply-side structural reform. *Journal of Guangxi Financial Research*. 2017, 5(32), 25-26.
- [3] Ma Biao, Lin Lin, Wu Junfeng. The relationship among capacity, financial support and economic fluctuation under the supply-side structural reform. *Industrial Economics Research*. 2017, 5(6), 55-56.
- [4] Liu Guangxi. The special and practical significance of supply side management and structural reform -- some thoughts on how to speed up the financial structural reform and increase the effective supply of finance. *Journal of the Party School of the Central Committee of The C.P.C.*. 2017, 2(4), 88-89.