

Study on Interactive Development of Financial Services Innovation and Export-Pushed Economy: Taking Hubei Province of China as an Example

Geng Mingying, Ding Xiaohong

International Business Economic College, Wuhan Textile University, Wuhan, P.R.China, 430074
(E-mail: shellygeng@hotmail.com, dingxiaohong@cevtc.com)

Abstract This paper focuses on financial service innovation and development of the export-pushed economy in Hubei province. It aims to find an effective way on how to use financial services innovation to strengthen the development of the real economic sector and improve resource allocation efficiency in the province. This kind of financial support should be provided to all kinds of enterprises, export-processing, foreign investments, foreign acquisitions, or project contracting. Specific policy recommendations will be made for Hubei province of China through a comparative analysis between Hubei, other 5 provinces in central China, the coastal provinces and those in western China.

Key words Hubei; Export-pushed economic; Financial service; Innovation

1 Introduction

The theories about “the effect of financial development to international trade”, representative of foreign scholars, like Early Heckscher-Ohlin (HO) theory as well as the new trade theory, in 1980s Kletzer and Bardhan’s HO model theory After joining the financial factors, the current research of Stacie-Beck(2002) and Manova(2005), Bernard and Wagner’s(2001) research of Germany, Bernard and Jensen(2004)’s research of American, Becker and Greenberg(2004)’s research etc.. All of these proofed that financial development and innovation have promoting effect to international trade development. In China, Bai, Dangwei’s demonstration study, Qi, Junyan’s theory and Shenneng’s research etc., all of them believe that financial development is an important influence factor to international trade and in favor of improving degree of areas openness.

The theories about “the influences of international trade to financial development and the relationship of their interactive development”, the research of Hung(1998)and Aizenman(2003), the model analysis of Do and Levchenko(2004), to illustrated that trade liberalization could accelerate the innovation and development of the financial market, and existing an interactive relationship between the international trade with financial development. Domestic scholar Zhang, Fenxia(2007) expounded the interactive relationship between the financial deepening with trade development, raised that the financial and foreign trade increasingly mutual infiltrate and restrict as two relatively independent power in modern economy.

Over the past 30 years since China’s reform and opening up to the outside world, we have implemented the strategy of reforming and opening coastal areas at first, the strategy of western regions development and the strategy of reforming old northeastern industrial bases. During this period, the economy in central regions lagged behind gradually compared to that in eastern area and the speed of development was like that in western regions, which led to the phenomenon of central regions’ weakness. Since 2002, Hubei has put forward the “forerunner of opening” strategy accelerating the opening to the domestic and overseas market; make it become an appropriate area receiving two transfers both from eastern areas and western regions, which provide a new historic opportunity for the development of export-oriented economy in Hubei province; the concept of accelerating the rising in the central regions has put forward in the government work report in 2004. In 2006, the central government further identified the strategic status of Hubei province in the rising of central regions and put forward that Hubei province should be constructed into an important transport hub and logistics center in China, provides a favorable policy environment for the rapid development of export-oriented economy in Hubei province.

Starting with practice of export-oriented economic development and financial services innovation in Hubei province, this paper did an in-depth and meticulous study to interaction development relationship of trade and finance, put forward a new thinking on “interactive development of financial services innovation and export-oriented economy”. As for China’s financial industry, we should learn the lesson of financial crisis in US, avoid the excessive freedom, virtualization and bubble of financial

innovation, as well as stiffness of financial system. Financial innovation can be considered as a production capability which can promote the efficiency of social resources distribution if it provides an overall support to the development of real economy, eliminate the unnecessary monetary control and create the financial derivatives for the real economy. Therefore, Hubei province should step up the financial services and innovation for the real economy especially to the export-oriented economy. And it should provide overall financial services for the export-oriented enterprises to further expand their export, foreign investment, project contracting and foreign acquisition according to the economics. What's more, their overall service level and risk resistance capacity of financial institutions should be facilitated as well.

2 The Comparative Analysis on Export-oriented Economic Development in Hubei Province

In recent years, thanks to the implementation of “going global” and “the rising of central regions” strategies, the export-oriented economy in Hubei province has developed rapidly. However it still can not reach the level of coastal areas.

From 2000 to 2008, the total volume of foreign trade export was growing year by year. In 2006, the total foreign trade import-export volume exceeded \$10 billion and reached \$11.762 billion, which is 3.7 times of that in 2000. In 2008, it reached \$20.567 billion with the growth of 38.4% year on year. The import-export scale of Hubei province ranked the second after Anhui province in six central provinces from 2000 to 2007 but ranked the first in 2008 in the end and played the leading role in six central provinces. However, the import-export scale is too small compared to the coastal cities. In 2000, the total foreign trade import-export volume of Zhejiang province was 8.7 times of that of Hubei province, 11.8 times in 2005, 10.3 times in 2008. Meanwhile, from 2000 to 2008, the distance between the import-export scales of Hubei province and Shaanxi province stayed the same with no trend of expanding.

The contribution proportion and stimulation rate in the domestic economic growth created by export-oriented economy is obviously lower than the national average level and coastal areas. The gaps were biggest in 2005 compared to Zhejiang province, the gaps were 78.55% and 9.92% respectively while the gaps were smallest in 2008, and the gaps were 21.40% and 2.05% respectively considering the situation that the coastal cities were impacted by the financial crisis at an early stage. If compared to Shaanxi province, since the implementation of the western regions development strategy, the export-oriented economy in Shaanxi province developed rapidly and its both contribution proportion and stimulation rate has increased and exceeded Hubei. (See table 1)

Table 1 The Comparison of Contribution Proportion and Stimulation Rate Created by Export-oriented Economy in Regional Economy among Hubei Province, Zhejiang Province and Shanxi Province (Unit: %)

Time	Hubei (contribution proportion/stimulation rate)	Zhejiang (contribution proportion/stimulation rate)	Shaanxi (contribution proportion/stimulation rate)
2000	4.73/0.46	42.83/4.71	4.81/0.32
2005	-9.32/-1.06	69.23/8.86	7.13/0.90
2006	4.44/0.53	56.87/7.9	4.21/0.53
2007	2.99/0.43	38.48/5.58	5.38/0.79
2008	3.27/0.44	24.67/2.49	-1.16/-0.18
First half of 2009	2.09/0.24	××	××

Statistics Source: According to China Statistic Yearbook and the statistics provided by Wuhan Customs and the DOFCOM of Hubei province

According to the statistics of Hubei, Zhejiang and Shaanxi provinces in 2008, there respectively were 343, 1858 and 156 newly approved foreign direct investment projects in Hubei, Zhejiang and Shaanxi provinces. The amount of foreign investment contract and actual volume of foreign investment utilization in Hubei and Zhejiang provinces reached respectively \$5.142 billion and 3.245 billion, \$17.82 billion and \$10.07 billion. The actual volume of foreign investment utilization was \$1.37 billion including the foreign reinvestment in Shaanxi province. the turnover of external foreign cooperation in Hubei, Zhejiang and Shaanxi respectively was \$1.52 billion, 2.09 billion and 0.79 billion. there were 427 foreign investment projects with the total investment of \$9200 million

including \$ 8600 million on Chinese side, Hubei and Shaanxi provinces shows no data.

In the first half of 2009, the impact made by the global financial crisis on the export-oriented economy in Hubei province has become obvious gradually. from January to June in 2009, the total import-export volume of Hubei province was \$ 7.7 billion which was the same as the national average level. its total import-export volume still ranked first in central six provinces and with \$ 1 billion higher than Anhui province and \$ 5 billion higher than Shaanxi province which ranked the last. The total import-export volume in Zhejiang province was \$ 83.03 billion, \$ 75.33 billion higher than Hubei province with the decrease of 18.9% year on year and 4.7% lower than Hubei province. The total import-export volume of Shaanxi province was \$ 3.96 billion, \$ 3.74 billion lower than Hubei province and with the decrease of 0.12% year on year and 19.28 % lower than Hubei province.

3 The Analysis of Association Degree Between Financial Services and Export-oriented Economic Development in Hubei Province

Till the first half of 2009, there are 24 banking financial institutions in Wuhan of Hubei province including 5 foreign-funded banks and 19 domestic-funded banks together with 29 insurance companies and 39 securities companies. The volume of credit and loan and the number of foreign-funded banks both rank first in 6 provinces in central China and the concentration rate of banks rank 5 in China. The contribution proportion created by financial service industry in overall economic development in Hubei province has been changed from 1.5% in 2002 to 10.6% in 2008. At present, financial institutions like banks, securities, insurance and the like co-exist in Hubei province.

Currently, there are 15 service centers of banking financial institutions in Huhan. Center Bank is preparing to establish a financial development center in financial harbor in Wuhan covering an area of 5000 acres and its operation is about to be on the right track. This is another important act of Central Bank in southern part of China after its access to Shanghai. Huhan has the potential to be a national financial service center.

In 2008, the total deposit outstanding and the credit loan outstanding of financial institutions in Hubei province are 1357.495 billion yuan and 875.201 yuan respectively. Hubei province ranked the second after Henan province. The total deposit outstanding and the credit loan outstanding are 38.26% and 29.51% of those of Zhejiang province respectively. in the first half of 2009, the growth rate of financial circles has reached 24.019 billion yuan with the increase of 23.6% and accounts for 4.47% of total GDP in Hubei province, and accounts for 10.17% of the growth rate of tertiary industry, which ranked the second after Henan province in central six provinces. However, proportion of financial industry in service industry in Hubei province was 3.9% and 7.7% lower than that of Jiangsu province and Zhejiang province respectively.

This essay collects two groups of statistics for analyzing. One is the statistics of various deposit and credit loan outstanding in Hubei province form 2000 to 2008, the other one is the statistics of total import-export trade volume. Obviously, the total import-export trade volume will grow as the deposit and credit loan outstanding are growing. (See figure 1)

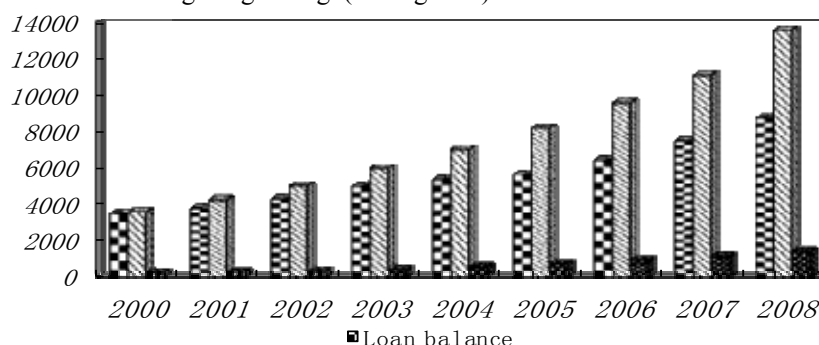


Figure 1 The Relationship Between Deposit & Loan Outstanding of All Financial Institutions in Hubei Province and Its Total Export-import Volume in 2000-2008. (Unit: ¥100 million)

Statistics Source: ① economic and social bulletins of statistics from Hubei provincial Statistics Bureau; ②2008 China Statistic Yearbook

Meanwhile, in the time sequence form 2000 to 2008, three curves fluctuate in the same way, which

indicates that the growth rate of total foreign trade import-export volume relate directly with the growth rate of annual deposit and credit loan outstanding. The growth rate of annual deposit outstanding is close to the growth rate of import-export volume. However, although the growth rate of annual deposit outstanding has the same trend, it is relatively smooth compared to the growth rate of annual loan outstanding. (See figure 2)

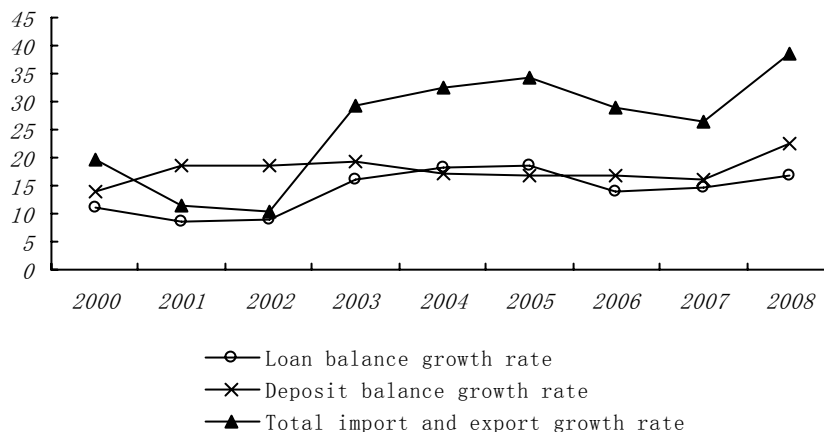


Figure 2 The Relationship Between the Growth Rate of Total Export-import Volume and the Growth Rate of Annual Credit and Loan Outstanding in Financial Institutions in Hubei Province. (Unit: %)

Statistics Source: ① economic and social bulletins of statistics from Hubei provincial Statistics Bureau; ② 2008 China Statistic Yearbook)

Based on the analysis of the table, the development of the financial services in Hubei province has a positive correlative relationship with the development of export-oriented economy in this area which means the development of financial services can contribute to the development of export-oriented economy in Hubei province.

4 Conclusions and Suggestions

4.1 Conclusions

According to the comparative analysis above, we can come to the conclusion of the development of export-oriented economy and financial service innovation in Hubei province as follows:

The development of export-oriented economy in Hubei province is relatively lagging behind and is low in foreign trade dependence. The contribution proportion and stimulation rate created by export-economy in regional economy in Hubei province are far lower than national level and Zhejiang province and equals Shanxi province.

Not only the negative impact created by global financial crisis on the export-economy in Hubei province, but also created an important development opportunity. Although the global financial crisis has made the total import-export volume of Hubei province suffered a great decrease, it still suffered less impact compared to the coastal cities because Hubei province is in the inland and its advantages are distinctively obvious in central six provinces. At the same time, this global financial crisis accelerates the speed of coastal-to-inland transfer of industry and labor force as well. Thanks to the implementation of the rising of central China strategy, the total import-export volume and total export volume are growing rapidly, which will reach or even exceed national average level gradually.

The development of financial service is conducive to the growth of export-oriented economy in Hubei province. From 2000 to 2008, the total import-export volume of Hubei province grew year by year with the increase of deposit and loan outstanding of financial institutions. Its growth rate of total import-export volume was consistent with the growth rate of deposit and loan outstanding especially the loan outstanding and there is a positive relationship between them. Therefore, Hubei province should accelerate the financial services development, which is conducive to the development of export-oriented economy and the comprehensive and rapid economic development in this area.

The export-oriented economy needs various all-round financial services. However, compared to Zhejiang province, the financial service in Hubei province is unitary, what's more, the backward policies,

narrow financing channels and the low level of innovation restrict the development of export-oriented economy in Hubei province.

4.2 Suggestions

According to the conclusion, here are some countermeasures and suggestions in terms of the innovation of the export-oriented enterprises themselves and the financial services innovation.

4.2.1 Export-oriented enterprises should strengthen their risk-resisting ability

Change the development methods of export-economy in advance, accelerate industry restructuring and conduct transfer of labor-intensive export-oriented industries to Hubei province in a proper order and speed. Accelerate the steps of going global, expand overseas development space and exploit new channels of overseas investment, merger and acquisition and project contracting.

The export-oriented enterprises in Hubei province can not repeat the development methods of coastal export-oriented enterprises. Besides export processing trade, the export of proprietary intellectual property and high and new technology products should be strengthened. They should encourage more enterprises to accelerate the research and development to form a technological innovation system featured with producing, learning and researching together.

Develop the export-oriented agriculture, promote gradually the agricultural standardization, organization and industrialization to enhance the technological capability, emphasize the research about the rules of international market, conquer the weakness of agriculture and production factors and to step up the intensification of agricultural business and the added value of products and to form a scale benefit.

Upgrade foreign trade structure and step up service trade, encourage foreign investors to take part in business and trade, software development, logistics service and lead the domestic enterprises to take over the outsourcing, developing the third party logistics service and transit and transport service.

4.2.2 Financial institutions should step up the innovation of financial service and form a overall process financial supply chain

Recently, Bank of China has designed a set of “Integrated Business Solution” mode for “go global” enterprise. The financial institutions of bank, insurance and security in Hubei should cooperate with all their strength, according to the current key demands of export-oriented enterprises in Hubei, mainly introduce and implement key parts of the feasible financial products and services. So from the export-oriented enterprise financial service demand, this paper respectively designed a set of financial service and innovation mode for export enterprises, foreign investment enterprises, overseas acquisitions enterprises and project contracting enterprise.

References

- [1] Yin, J.F. The Report of China's Financial Products and Services (The Financial Blue Book 2007)[M]. Beijing: Social Sciences Documents Press, 2007: 357-528 (In Chinese)
- [2] Justine Lin. The Theory of Optimal Financial Structure in Economic Development[J]. Economic Research Journal, 2009, (8): 4-17 (In Chinese)
- [3] Zhang, F.X. Financial Deepening and Foreign Trade Development[M]. Beijing: Economic Management Press, 2007: 425-461 (In Chinese)
- [4] Shang, F.L. Financial Innovation Should be on the Base of Servicing the Real Economy[N]. Financial Times, 2008-12-02(2) (In Chinese)
- [5] Wang, S.J. A Strategy Analysis on Financial Support to Export-oriented Economic Development in Hubei Province[J]. Wuhan Finance Monthly, 2009, (5): 22-24 (In Chinese)
- [6] Yao, S.J. On Regional Inequality and Diverging Clubs: A Case Study of Contemporary China[J]. Journal of Comparative Economics, 2001, (29): 466-484 (In Chinese)
- [7] Paul, R. K. & Maurice, O. International Economic: Theory & Policy (8th Edition)[M]. London: Pearson International Edition, 2008: 234-542
- [8] Strachan Phillip, E. & Weston James, P. Small Business Lending and the Changing Structure of the Banking Industry[J]. Journal of Banking & Finance, 2004, 22(8): 821-845
- [9] Sapir A. North-South Issues in Trade in Services[J]. The World Economy, 2003, (8): 27-42
- [10] Shaw E.S. Financial Deepening in Economic Development[M]. London: Oxford University, 2003: 650-723