



## Financing System Construction Based on the Development Strategy in Binhai New Area

Liping liu

College of Industry and Commerce, Tianjin Polytechnic University, Tianjin 300160, China

E-mail: anliu24591483@126.com

Yaping Wei

College of Industry and Commerce, Tianjin Polytechnic University, Tianjin 300160, China

### Abstract

The proposal to develop and open Binhai New Area in the 11<sup>th</sup> Five-year Plan of China has provided a great opportunity to promote the economic development both in this area and in the whole Tianjin city. According to the experience of the development areas in some developed countries as well as in Shenzhen and Pudong, the innovation in financial system is important, especially the construction of financing system. Based on an analysis on the features of the development strategy of Binhai New Area, together with the consideration of some policies on the construction of this area and some experience in dealing with the relationship between financing system and development strategy in and outside China, this article establishes financing system for Binhai New Area in accordance with its development strategy.

**Keywords:** Binhai New Area, Development strategy, Financing system

In China's 11<sup>th</sup> Five-year Plan, the development of Binhai New Area, as well as Shenzhen Special Zone and Pudong New Area, is listed in China's overall development strategy with the hope to stimulate regional economy. The strategy to develop Binhai New Area in this five-year period is set as follows: with the support of Beijing, Tianjin and Hebei Province, serving the circum-Bohai region, radiating its influence to the three northern regions and facing Northeastern Asia, Binhai New Area will work hard to develop itself into the northern gateway to the whole world, a high-level base for modern manufacturing, R&D and transfer of high-tech achievements, an international shipping as well as logistics center in Northern China, and gradually become an inhabitant-friendly and eco-friendly area with prosperous economy, harmonious society and charming scenery. In order to achieve this goal, the innovation of financial system plays a quite important role, especially the construction of financing system. According to the guidelines set by Chinese government, some significant reform in financial enterprises, business, market and opening can be experimented in Binhai New Area first. In this situation, it is particularly important for the development and opening of this area to construct financing system conforming to its development strategy.

### 1. The Current Financing System in Binhai New Area

Currently, the capital in Binhai New Area mainly comes from the following sources: government grants and bonds, bank loans, issuing bonds and stocks at capital market, absorbing foreign investment, enterprises' internal financing and so on. With a certain scale and structure combining the variety of financing sources, Binhai New Area has formed its own financing system.

#### 1.1 *Great Dependence on Enterprises' Internal Financing and Loans*

Currently, most enterprises in Binhai New Area get over half of their capital independently, which reveals the importance of social credit financing, especially enterprises' internal financing. However, the current financing sources seem far insufficient in order to achieve its development strategy in the five-year period.

#### 1.2 *Small Proportion of Direct Financing*

Nearly all the present security financing is obtained from stocks instead of bonds. However, there are only 6 listed companies in Binhai New Area up to now, whose total and net assets are even lower than the average of all listed companies throughout China. Of course, they have an even greater gap when compared with those companies in Pudong and Shenzhen. Due to its poor influence at capital market and inability to exert its stimulating effect in financing resulting from its small scale of listed companies, Binhai New Area cannot satisfy its own demands for development with the international securitization of capital.

#### 1.3 *Insufficient Financing in Scientific Research*

Just as Xiaoping Deng said, science and technology are the primary productive force. It has been proved in some

developed countries' experience that science and technology play particularly important roles in the contribution to economic development compared with capital and labor force. In the scientific research projects of Binhai New Area, government grants are mainly relied on in early stage and foreign investment in late stage. Therefore, some core technologies have been monopolized by foreign enterprises, which is unfavorable for this area's sustainable development. Although some special funds for R&D and transfer of scientific achievements and funds for the infrastructure construction of science and technology have been established to support scientific research and construction of scientific research bases, the amount is too limited.

#### *1.4 Dependence on Foreign Investment*

Foreign investment takes a certain proportion in Binhai New Area's financing sources, which reveals its feature of export-oriented economy. However, it relies too much on foreign investment. What's more, mainly absorbing direct investment, Binhai New Area has no access to foreign capital in financial industry which is also turned to in Shenzhen and Pudong.

#### *1.5 Insufficient Nongovernmental Capital*

With the reform in state-owned enterprises and the policy to improve large enterprises and enliven small ones, private economy has taken dominance in national economy in quantity as well as quality. With its less-than-10% proportion of private economy, Binhai New Area suffers from a great disparity with Shenzhen and Pudong.

### **2. The Contributing Factors of the Current Financing System in Binhai New Area**

#### *2.1 Dependence on Financial Grants and Loans Determined by its Geographical Features*

With its ports and low-tax, tariff-free zones, Binhai New Area must put the construction of basic facilities to the first place, which is featured by large investment scale, long construction period, high requests for supporting facilities and long period to get investment return. In this way, financial grants and bank loans must be relied on much more than market.

#### *2.2 Dominance of Internal Financing Determined by its Industrial Structure*

The industrial structure of "secondary industry---tertiary industry---primary industry" is adopted in Binhai New Area, in which processing industry, with its capital-intensive and technology-intensive features, plays the dominant role. Industrial investment is the main channel to promote industrial upgrading and quality improvement, therefore, investment, mainly coming from enterprises' retain income, is distributed in great amount to secondary industry to purchase fixed assets and employ advanced technical equipment.

#### *2.3 Dependence on Foreign Capital Determined by Its Open Economy*

With foreign enterprises taking over 80% or 90% of all and 121 among the world top 500 enterprises settling down in Binhai New Area, there has been a constant increase in both the number of enterprises with investment and the amount of investment.

#### *2.4 Insufficient Capital from Other Provinces*

In spite of its increasing experience in foreign investment introduction, Binhai New Area should exert more efforts to cover its less importance and insufficient preferential policies on introducing nongovernmental capital from other provinces.

### **3. Successful Financing Experience of Other Special Economic Zones in China**

#### *3.1 Successful Financing Experience of Shenzhen Special Economic Zone*

As the first experiment plot of China's reform and opening, Shenzhen has accumulated much experience.

First, its over-centralized, rigid and onefold banking system is broken and a multi-layer, multi-form financial system comes into being in which different kinds of financial institutions cooperate with each other. Currently, a modern financial system with a full range of institutions, orderly division of labor and sound operation has been formed in Shenzhen, hence developing it into a city with highly-developed financial industry. In addition, corporation financial institutions in Shenzhen have extended their service centers to tens of large and medium cities throughout China and have established business agent relationship with over 300 financial institutions in nearly 200 foreign countries and areas all over the world.

Second, with the support of Shenzhen government, Shenzhen Stock Exchange began to be pre-operated in Dec. 1, 1990, becoming the first of this kind. In the past decade, it has achieved great success in market scale, transaction means, information revelation as well as market monitoring. Now, the financial market in Shenzhen has radiated its influence to all parts of China from an original regional market, and, together with Shanghai, has become two financial centers in China as well as a huge capital distribution center.

### 3.2 Successful Financing Experience of Pudong New Area

First, Pudong constantly perfects its financing system and establishes diversified financing channels including applying for bank loans and loans from national debts, issuing construction bonds and enterprise bonds, applying for listing on stock market and taking advantage of foreign investment. In this way, enough capital has been provided to construct Pudong.

Second, national market of factors has been established here, which includes Shanghai Stock Exchange, Shanghai Futures Exchange and Shanghai Diamond Exchange and so on, hence laying solid foundation for Pudong's position as an international financial center as well as absorbing many domestic and foreign financial enterprises to rush here.

Finally, in terms of their ways to introduce foreign capital, it takes efforts to introduce some innovative ways such as BOT besides the traditional ways to process raw materials on clients' demands, to assemble parts for clients, to process according to clients' samples and to engage in compensation trade.

Seen from the above analysis, both special economic zones share something in common in their financing: first is perfect financing system; second is a national stock exchange; third is the innovation in their internal and external capital introduction.

## 4. Financing System Construction Based on the Development Strategy in Binhai New Area

In this part, we are willing to give some advice on the construction of Binhai's financing system based on its development strategy and regional features.

### 4.1 Perfecting Indirect Financing System

Multi-layer, multi-form direct financing channels, with a variety of financial institutions cooperating with each other, should be established. In addition to the four national commercial banks in existence and newly-established Bohai Bank, more efforts should be exerted to draw more domestic private financial institutions as well as foreign banks to come here, including banks, insurance companies, trust institutions, financial companies, security institutions and so on.

### 4.2 Strengthening the Construction of Direct Financing System

Due to the small scale of security financing and the small number of listed companies in Binhai New Area, there is a pressing need for the development of direct financing.

Firstly, Binhai's financial industry should be developed with great efforts. First, it should apply for the establishment of a northern stock exchange in its area, which will give constant capital support to Northern and Northeastern China as well as Binhai itself. Second, the secondary market should be developed if the above application is declined. In addition, the scale of private equity funds should be extended to collect more construction funds and encourage the flow of nongovernmental capital. Third, the present Shanghai, Shenzhen and Hong Kong stock exchanges, small and medium enterprise board and overseas red chip market should be taken good advantage of to get more companies in Binhai listed.

Secondly, Enterprises' financing ability by issuing bonds should be enhanced. First, the former limitations in scale and volume should be cancelled to improve the bond-issuing efficiency of those enterprises meeting relevant requirements. Second, the construction of local bond institutions as investors should be facilitated. Besides, the regional over-the-counter market should be established to increase the liquidity of bonds. Third, according to the actual situation of Binhai's enterprises, the variety and type of bonds should be innovated to better resist risks, protect investors' interest and to absorb more investors as a consequence.

### 4.3 Converting the Methods of Absorbing Foreign Investment

With China's entry into WTO, Binhai is shortening its disparity with other countries and areas in absorbing foreign investment. In this case, innovation seems more important. At present, there are three fundamental methods to absorb foreign investment: FDI, FPI and OFI, in which FDI was mainly turned to before World War II and after that it took the form of foreign countries' direct investment. Now, based on the formed pattern, FPI should be relied more to absorb foreign investment.

### 4.4 Establishing and Perfecting Talent Introduction and Selection System to Improve the Quality of Financial Talents in Binhai New Area

The construction and operation of the above-mentioned financial system, specially the innovation of financial industry, call for a great amount of high-quality financial talents. Consequently, completely new ideas should be employed to break the traditional talent-employing methods and to innovate the systems for talent introduction, selection, cultivation and encouragement in order to expand financial talents in Binhai New Area.

## References

Cui, Yihai. (2007). *Promoting Financial Reform and Innovation in BNA to Develop Tianjin's Economy*. Tianjian

Economy. (4).

Dai, Xianglong. (2006). *What Should We Do for the Financial Reform in Binhai New Area*. A Speech at the 3<sup>th</sup> International Finance Forum.

Guo, Qingping. (2007). *Promoting Direct Financing in the Circum-Bohai Region at the Juncture of BNA Development and Opening*. Huabei Finance. (9).

Tianjin Statistics Yearbook.