

## *Financial Risk in Yangtze River Delta*

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**Abstract:** The Yangtze River Delta region has a strong financial level and influence in the country and even the world, but it also faces financial risks that cannot be ignored. This is not only noteworthy in the region, but also in the country and the world. It is of great significance to control the expansion and diffusion of financial risks, promote stable economic development, and move towards a new era of development. This paper will analyze various financial risks in this region from the market, institutions, products and other aspects according to the actual situation of the region, and combine the relevant data from 2010 to 2019, so as to analyze the current financial situation in the region and some major risk problems, such as the increase of bad loans, the decline of insurance income, and the poor structure, and then discuss the solutions to control the financial risks in the region, Such as strengthening regional cooperation, improving the regulatory system and improving policy support. Through these means, it is of practical significance to improve the financial risk control system and promote further economic development.

### 1. Introduction

Since the reform and opening up in 1978, China has risen rapidly with the momentum of rapid development, and has gradually formed three economic circles, namely, the Growth Triangle, the Pearl River Delta and the Beijing Tianjin Hebei Economic Circle. Its economic aggregate ranks the second in the world, second only to the United States. Among them, the Yangtze River Delta is located in the first economic zone of China's three major economic circles (as described above). The so-called Yangtze River Delta is a narrow Jiangsu Zhejiang Shanghai economic belt defined by economic level and an economic circle composed of many coastal open economic cities. As the saying goes, "economy is the body, and finance is the blood", and finance is the inexhaustible source about development.

Nowadays, the region is in a leading position in the national economic development. At the same time, it is also a developed area of China's financial industry, especially a securities trading market dominated by the Shanghai Stock Exchange. In addition, the huge financial volume, rich types of financial products, superior financial environment and strong driving force of financial innovation

have established the outstanding financial position. However, with the financial industry taking the lead, the financial risk problem in the area has become increasingly prominent. Although risk is only a matter of probability, once it occurs, it will lead to a financial crisis. Therefore, this paper focuses on the current situation and solutions of financial risk problems in the region through the relevant survey data of the financial sector in the Yangtze River Delta region.

## 2. Overview of the Basic Financial Situation in the Yangtze River Delta

### 2.1. Basic Introduction to the Yangtze River Delta

The Yangtze River Delta, located in the eastern coastal area of China, is an impact plain formed when the Yangtze River entered the sea. The above is only the geographical category of the Yangtze River Delta, but in a real sense, the Yangtze River Delta is a symbol of the economic circle. The Yangtze River Delta can be described by the Jiangsu and Zhejiang economies led by Shanghai. Whether it is the speed of economic development, the size of economic aggregate, or the development potential, it is the strongest economic belt in China. Other cities in the region are not willing to be outdone. Driven by the radiation of Shanghai, the gross domestic product has grown rapidly, and the total economic volume has basically broken through the 100 billion yuan mark. In general, the Yangtze River Delta is currently the region with the highest level of economic development and the strongest comprehensive strength in China (see Table 1 for its overall GDP). It owns 5% of the country's land and 20% of the country's population, and has achieved 40% of the country's total economic output. The average land output value is extremely high.

Table 1. GDP of Yangtze River delta

	2010	2011	2012	2013	2014	2015	2016	2017	2018
GDP (100 million yuan)	86313.77	100624.81	108905.27	119328.11	128829.05	138126.32	152818.3	168271.01	181472.42
Added value of primary industry (100 million yuan)	4014.81	4772.76	5213.97	5355.09	5535.77	5928.78	6151.83	6089.86	6213.1
Added value of secondary industry (100 million yuan)	43270.18	49686.75	52293.04	55041.41	58197.27	59747.12	64220.39	70217.62	74486.94
Added value of the tertiary industry (100 million yuan)	39028.78	46165.3	51398.26	58931.6	65096	72450.42	82446.07	91963.53	100772.38
Per capita GDP (yuan/person)	180625	204099	217093.55	235151.72	252246.05	269434.23	298365	325841.16	348793.82

### 2.2. Basic Introduction to the Financial Industry in the Yangtze River Delta

In short, the financial industry includes banking, securities and insurance, but not limited to these industries, including trust and leasing. In April 1990, the State Council announced the establishment

of the Pudong Economic Development Zone. Its main role is to solve the urban problems faced by the old urban area of Shanghai, such as population, transportation and environmental pressures, stimulate the new vitality of Shanghai's development, build Shanghai into an international economic, financial and commercial center, and take the development of Pudong as the leading role in economic terms.

Based on the latest data, in February 2020, the balance of all loans in the region in the sum of local currency and foreign currency was 39.44 trillion yuan, up 12.9% year on year. Among them, RMB loans added by 277.9 billion yuan, an increase of 103.1 billion yuan year-on-year. In addition, the growth rate of loans in the region was 1.4 percentage points higher than that in the whole country. The total deposit balance of local currency and foreign currency in the region was 49.43 trillion yuan, up 9.3% year on year. Among them, RMB deposits increased by 491 billion yuan, an increase of 227.6 billion yuan year-on-year. It shows that the region is still maintaining a stable banking development in the global scope with great contemporary competitiveness. However, these data do not show the proportion in the whole country, which does not directly reflect the national status of the banking industry. According to the report on the special work conference on economic and financial data statistics sharing, research and analysis in the Yangtze River Delta, it is learned that loans increased by 2.62 trillion yuan in the first half of 2019, accounting for 26.6% of the national proportion; Deposits increased by 3.64 trillion yuan, accounting for 35.4 percent of the country's total. The banking industry is in a very developed position nationwide, promoting the development of the national banking industry.

According to relevant data, the initial issuance of securities in Shanghai exceeded 15 billion yuan; Jiangsu Province's number of listed companies increased from 128 in 2009 to 396 in 2018, accounting for 11.15% of A-share listed companies in Shanghai and Shenzhen, ranking third in the number of regional listed companies; Zhejiang Province's number of securities companies ranks the third in China. On the whole, the region has a large scale of securities, a huge total amount of transactions, considerable operating profits, and good futures trading, so its position in the financial industry continues to improve. However, after reviewing the data of September 2019, I can't help but express my concern that both the number of financial products issued and the income in the region fell (from the performance of the price index, the price index of bank financial products in the Yangtze River Delta fell 0.45 points to 91.79 points month on month. Among them, the price index of closed expected income products fell 0.23 points to 93.86 points month on month, and the price index of open expected income products fell 0.77 points to 88.68 points month on month.)

In recent years, with the promotion of the two national strategies of "Yangtze River Delta Integration", the "agglomeration effect" of the financial and insurance industry in the Yangtze River Delta has become increasingly strong. Insurance giants such as Shanghai Insurance Exchange, Ping An Insurance Company of China, China Life Insurance Company, PICC, etc. have increased their business proportion in the region, and the strength of the insurance industry in the region has become increasingly prominent nationwide. According to the data in 2009, the total premium income in the region was 221.823 billion yuan, accounting for 19.92% of the national total. However, nowadays, the premium share in region has declined significantly.

### **3. Financial Risk in the Yangtze River Delta**

#### **3.1. Financial Market Risk in the Yangtze River Delta**

The so-called financial market risk, in short, refers to the risk that the market value of financial assets or financial liabilities changes due to changes in interest rates, stock prices, exchange rates and other factors. Its essence is the financial risk caused by the instability of the market.

In this case, financial risks are uncertain. To be specific, the region has the largest stock

exchange in China - Shanghai Stock Exchange, which also gathers a large number of investors in the financial field. (As we all know, the area has the largest population and economic aggregate in China, which is unmatched by other economic circles.) However, the expected returns of investors themselves are uncertain. In other words, the market is changing rapidly. Investors need to collect relevant and comprehensive financial market information as much as possible to deal with various possible different economic situations, and on the basis of collecting information, Analyze and make decisions, and make market predictions that I think are more scientific to avoid risks, so as to obtain more ideal benefits. Obviously, such investor uncertainty leads to the uncertainty of financial market risk in the whole region. What's more, some speculators take advantage of the inherent characteristics of the financial market to seek huge profits through illegal behaviors such as internal transactions and market manipulation. This is not uncommon, which just shows that the market supervision is insufficient.

At the same time, financial market risks are sudden. The reason is that, in reality, the uncertainty in financial market risk is sometimes not fully reflected, that is, the reality of financial market risk, such as economic losses, may not occur. Therefore, people who are responsible for the risks in the financial market tend to take chances and try to cover them up when the risks are about to manifest. The industrial structure of the YRD is traditional, and the proportion of emerging industries is relatively low. Compared with the Pearl River Delta, its structure is obviously heavier and more traditional, so it is not difficult to speculate that the risk is great. In addition, many financial institutions, together with their ability to create credit, further cover up the existing risks.

The Yangtze River Delta is not only the focus of China's economic development, but also the focus of the world's economic development, and is an important node of the world's multilateral credit network. As we all know, financial activities are never completely independent activities. When major problems occur at one node, other nodes will also face a chain reaction, which will lead to the collapse of the global financial industry. This is the diffusion characteristic of financial market risk. When I think of the global financial crisis in 2008, the crisis first appeared in the United States and soon spread to the world, and naturally the coastal open cities were the first to be affected in China.

Because of its special geographical position (located in the eastern coastal region, rather than the Beijing Tianjin Hebei region being located in the inland region) and economic status (Shanghai is China's economic and financial center, which drives the involution of the entire region. In addition, Jiangsu Province has the first economy of the same type, and all counties and towns are located in the top 100 counties in the country. Zhejiang Province is rich in people, which is also the cradle of e-commerce), it mainly relies on export trade and is vulnerable to exchange rate fluctuations, Suffering from financial market risks, it greatly affected the subsequent rapid development. Now, the foreign economic and trade situation of the area is based on the total import and export volume of the places where the business units are located in the past ten years (as shown in Figure 1, Figure 2, Figure 3).



Figure 1. Change of the total import and export volume of the places where the business units are located in Shanghai in recent ten years



Figure 2. Change of the total import and export volume of the places where the business units are located in Jiangsu Province in recent ten years



Figure 3. Change of total import and export volume of business units in Zhejiang Province in recent ten years

It can be seen from the analysis that although the total import and export volume of goods fluctuated in the past few years, the total import and export volume continued to expand and became more closely connected with the world market. In the two weeks of March 2020, the US stock circuit breaker will be four times, which in the long run indicates that a global recession is coming. Therefore, China's response is crucial, and it is prudent to use monetary and fiscal policies to deal with the possible global financial crisis again. In addition, the economy of the it is mainly composed of the economies of Jiangsu, Zhejiang and Shanghai. At present, it is only a simple sum of the economic strength of the three regions, and the overall scale benefit of "1+1>2" has not been realized.

The default risk of local government debt is increased. Compared with other economic circles in China (the Pearl River Delta region, Beijing Tianjin Hebei region and other small and medium-sized economic circles), the region obviously lacks policy support and needs to bear greater social responsibility. With the development of the economy, the cost of infrastructure construction is increasing, so the government is facing huge pressure to repay debts. Especially for grass-roots governments, in order to improve the completeness of infrastructure, the debt level has increased year by year, but the capital level has not increased much, so the default risk of local government debt has increased. By 2019, Shanghai, Jiangsu and Zhejiang had an average annual growth of 15.7%, 17.6% and 14.0% respectively.

### 3.2. Risks of Financial Products in the Yangtze River Delta

The risk of financial products, as the name implies, is the risk faced by financial products in the whole process from production to circulation. Financial products, generally including currency,

stocks, bonds, options and futures, are different from general products and have unique characteristics. Therefore, the risk of financial products is also different from the general risk. Due to its unique economic status, the Yangtze River Delta has the largest and most kinds of financial assets.

Generally speaking, the risks of financial products can be quantified as gains and losses such as monetary capital. That is, all financial products can be priced in the same currency. Many people, even most people, often mistakenly believe that the risk of financial products is an absolute loss. However, in many cases, it is a gain. As a result, most financial product risks are uninsurable, that is, additional benefits can be obtained. Therefore, the additional benefits of the Yangtze River Delta region are huge.

The total sales volume of insurance products in the Yangtze River Delta is undoubtedly the largest in China. Due to regional cultural differences, people in the Yangtze River Delta are more enthusiastic about buying insurance. In particular, since the implementation of the family planning policy, most families in the area have only one child. After the comprehensive two child policy was released, the Yangtze River Delta gave up the policy preference because of the high cost of childcare and only had one child. Therefore, people faced with the problem of old-age care and chose to purchase insurance vigorously, which led to the hot sales of insurance products in the region. Therefore, the risk of insurance products is also greater than that of the Pearl River Delta and Beijing Tianjin Hebei Economic Circle. According to the observation and analysis, the original insurance premium income and compensation expenditure of the financial industry in the Yangtze River Delta region as a whole are shown in Figure 4.

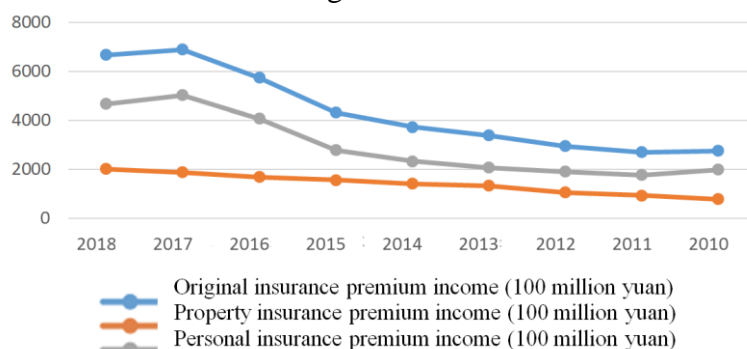


Figure 4. Original insurance premium income

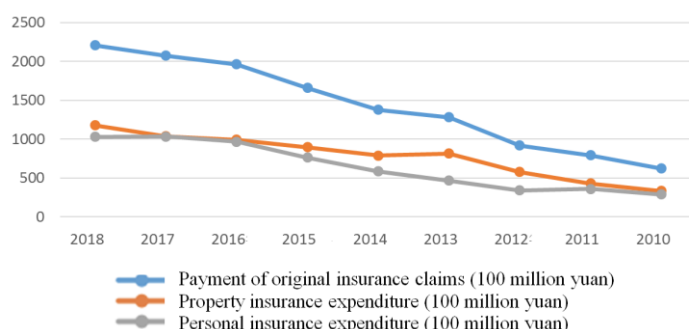


Figure 5. Premium expenditure of original insurance

Just from these figure, while the total amount of original insurance premiums in the region is expanding, the total amount of original insurance premiums has a downward trend. Moreover, in other economic involution regions in China, such as the Pearl River Delta, the financial industry has enjoyed a good momentum of development, and the yield of securities, insurance and other

financial products has been increasing and developing rapidly. It can be inferred that although Shanghai's economy is good today, it is also facing the problem of transformation. It is in the bottleneck period of development and needs certain policy support.

Insides, the securities industry in the region is also facing long-term risks, because the time is the shortest since the founding of the People's Republic of China. Looking back on that year, the people who speculated in the stock market basically fell miserably, and even many shareholders had the idea of staying away from the stock market and made irrational actions after losing money because of their poor tolerance. First of all, on January 19, the market value of the stock market evaporated by 3 trillion yuan on a single day. No one can expect such a large decline, which is also unacceptable to most people. I thought this was the end. Then, four months later, on May 28, the stock market hit the shareholders again. On that day, A shares fell as much as 6.5%. The shareholders who had been spared on January 19 could not escape this disaster. As a result, China's stock market has been in a low state throughout 2015. More seriously, from 2015 to now (2020), there has been no "bull market" in China's stock market, and some of them have never recovered.

### **3.3. Risks of Financial Institutions in the Yangtze River Delta**

All kinds of financial institutions with banking, securities and insurance as the main body, as the main units in the region to achieve rational allocation of resources and promote social and economic development, are the "first in charge" of preventing and controlling the transmission of real economic risks to financial risks. Thus, it can ensure the stable future of the region and avoid risks. However, there are many problems in reality. To a large extent, the reason is that the role of financial institutions is not fully played.

First, there are a large number of non-performing loans in the region due to lack of credit. Some people believe that the driving force for the prosperity of the region is many large Chinese owned or private enterprises with strong capital and strength, but in fact, it is the opposite. It is a financing network composed of small and medium-sized private enterprises. But now, this is the key point that the involution of the Yangtze River Delta may face a crisis. According to relevant statistics, the non-performing loans in the area account for one third of the country. Generally speaking, the demand for funds in economically developed areas is large, and the amount of natural loans is large, which also leads to a large scale of bad debts, and ultimately a large number of non-performing loans.

Second, most of the financial institutions in the region are small and medium-sized. Due to the limitation of cost-effectiveness, they cannot achieve the balance and restriction mechanism of decision-making, implementation, supervision and feedback required by laws and regulations. As a result, the internal problems are serious and have bred potential risks.

Third, the personnel base of financial institutions is not solid. If the above is a financial institution risk caused by organizational problems, it is a financial institution risk caused by personal problems. Although the overall quality of personnel in the region is relatively good, many small and medium-sized financial institutions, like rural credit cooperatives, only account for a little more than one-third of them with a bachelor's degree or above, which is not true in the region. Therefore, the involution of the region is unbalanced, incomplete and insufficient.

## **4. Solutions to Financial Risks in the Yangtze River Delta**

### **4.1. Strengthen Enterprise Cooperation for Steady Development**

Shanghai has always been the center of the Yangtze River Delta region, and Jiangsu, Zhejiang and Anhui provinces have coordinated development. Therefore, it is crucial to strengthen the co

governance of the financial industry in the region to deal with financial risks. Strengthening enterprise cooperation in the region and forming alliances to a certain extent can achieve certain information sharing, so as to avoid financial risks caused by insufficient information in some aspects; In the coordinated involution of the whole region, enterprises have continued to cooperate and progress to jointly carry out scientific and technological innovation and reform. Under such a strong atmosphere, they have effectively avoided traditional financial risks by replacing the old with the new, thus effectively improving the level of regional financial development and achieving the ultimate goal of economic development; The Yangtze River Delta region can better deal with all kinds of financial risks at home and abroad by strengthening the unity, united front and expanding the influence of the economic circle, so as to achieve the goal of "gathering firewood by all". The Yangtze River Delta region, through cooperation, protects its relative independence, responds to global financial risks, and jointly develops for a better future.

#### 4.2. Promote Talent Training and Create Excellent Teams

Finance is widely known by people and can be easily accessed. However, in order to be truly strong in the financial industry, it requires a strong personal ability. Therefore, in order to achieve the development of the Yangtze River Delta region and effectively avoid financial risks, it is necessary to build a high-quality financial risk management team. To build such a team, first of all, we need to improve the access threshold of the financial industry, eliminate the influx of a large number of low-level personnel, and ensure the high level of financial risk management personnel; Secondly, organize internal personnel training to meet the development trend of the financial industry, timely change the way the financial industry deals with risks, and keep learning and making progress; Finally, the financial industry management unit in the region formulates the assessment of relevant financial industry practitioners, regularly approves the qualification, level and ability of personnel, and ensures the progressiveness, technical and high-quality financial risk management team. The prevention of financial risks in a region requires numerous organizations to prevent and control financial risks; However, the financial risk avoidance of an organization requires countless individuals to use their own expertise to solve possible financial risks.

#### 5. Conclusion

Of course, the research on financial risks in the region in this paper is still preliminary and superficial, and needs to be further enriched and improved in the future work practice. The main purpose of this study is also to promote the sound and rapid development of the whole region by increasing the attention and timely prevention of financial risks in the Yangtze River Delta region by relevant personnel from all walks of life.

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