The Impact of Financial Agglomeration on Economic Growth

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Abstract: This paper focuses on financial agglomeration, an important phenomenon in the modern economic system. By reviewing relevant literature, it delves into the impact mechanisms of financial agglomeration on economic growth, covering aspects such as capital accumulation, technological progress, industrial structure upgrading, and spatial spillover. Meanwhile, it analyzes the regional differences between the eastern and central - western regions. The study finds that financial agglomeration has multiple positive impacts on economic growth, and there are differences among different regions due to various factors. Based on this, it puts forward suggestions for optimizing financial resource allocation and promoting coordinated regional economic development, and points out the direction for future research.

Keywords: Financial Agglomeration; Economic Growth; Impact Mechanism; Regional Difference

1. Introduction

As the concentration and optimized allocation of financial resources in space, financial agglomeration has become a crucial phenomenon in the modern economic system. Financial agglomeration not only promotes the development of the financial industry itself but also exerts a far - reaching impact on economic growth through various channels such as capital accumulation, technological progress, and industrial structure upgrading. This paper aims to explore how financial agglomeration affects economic growth, analyze its action mechanisms, and examine regional differences by reviewing a series of literature on the relationship between financial agglomeration and economic growth.

2. Literature Review

Financial agglomeration, as a key phenomenon in the modern economic system, is receiving increasing attention from the academic community. There are various measurement methods for financial agglomeration, with common ones including the location quotient index, spatial Gini coefficient, and Herfindahl index. Han et al. (2023) [1] used the location quotient index to measure the degree of financial agglomeration in their relevant research. This index accurately reflects the situation of financial resource agglomeration by comparing the proportion of the added value of the financial industry in a certain region to the local GDP with the corresponding proportion at the national level. Considering the spatial spillover effect and the staged characteristics of financial agglomeration, Feng (2022) [2] combined the benchmark regression model with the mediating effect model to further refine the measurement method. This approach offers a more detailed perspective for future research.

Significant geographical aspects of financial agglomeration are seen, albeit to varied degrees, in different locations. The eastern area has a strong economy and plenty of money, which leads to a lot of financial agglomeration, as pointed out by Liu and Jia (2023) [3]. The central and western areas, on the other hand, are not keeping up with the rest of the country. This is evident in their size, structure, and overall efficiency. This dispersed data sets provide a solid foundation for investigating how financial agglomeration affects GDP development in different regions.

Financial agglomeration, according to Yi and Gao (2021)[4], can speed up the process of capital accumulation by lowering financing costs, increasing the efficiency of capital allocation, attracting more capital inflow, promoting the development of the real economy, and improving the conversion rate of savings to investment through the deepening and expansion of financial markets. The function of financial agglomeration at the capital level certainly injects considerable impetus into economic expansion, and it is an essential aspect overall.

Regarding technological progress, Zhu and

Wang (2022) [5] showed that financial agglomeration can provide financial support for technological innovation, reduce innovation risks, stimulate the innovation vitality of enterprises, and promote the technological spillover effect. Through information sharing and technological exchanges among financial institutions, it drives regional technological progress. Technological progress is one of the core driving forces for economic growth, and the promoting role of financial agglomeration in it further highlights its significance for economic growth.

Financial agglomeration can also promote industrial structure upgrading. According to Zhang et al. (2023) [6], who used data from the Yangtze River Delta and Pearl River Delta urban agglomerations as their basis, financial agglomeration can direct investment towards high-tech and efficient sectors, encourage the evolution of conventional industries into more sustainable ones, fuel the development of new sectors, and create opportunities for economic growth. Financial agglomeration has a crucial role in facilitating the change of economic growth patterns by contributing to the improvement of industrial structure, which is a necessary step towards high-quality economic development.

A geographical spillover effect is another consequence of financial agglomeration. According to a spatial econometric model examined by Wu et al. (2021)[7], places experiencing high levels of financial agglomeration have the potential to stimulate economic development in neighboring regions by means of the transfer of capital and the spread of new technologies. Because of this effect, we can now examine the effects of financial agglomeration on economic development outside just one area, broadening the breadth of our study into this topic.

Looking at things from a regional viewpoint, the eastern area benefits more from financial agglomeration's growth-promoting effects. Using the Yangtze River Delta area as an example, Kang (2022) [8] noted that the region's high level of financial agglomeration and superior financial ecological environment both encourage and drive economic growth, drawing in high-end talents and foreign investment. On the other hand, central and western areas suffer from a lack of financial resources and an inadequate economic base, which results in low levels of financial agglomeration and a limited impact on economic development. Central and western areas are seeing a rise in financial agglomeration, which is having a positive impact on economic development, thanks to the backing of national policy.

The purpose of this paper is to provide theoretical support and practical references for optimizing financial resource allocation and promoting coordinated regional economic development by further exploring the impact mechanisms of financial agglomeration on economic growth. This will be done by analyzing how financial agglomeration has differentiated impacts on economic growth in different regional contexts through paths such as capital accumulation, technological progress, industrial structure upgrading, and spatial spillover effects. The research results of many scholars mentioned above will be drawn upon.

3. Impact Mechanisms of Financial Agglomeration on Economic Growth

3.1 Capital Accumulation Mechanism

Financial agglomeration promotes capital accumulation by reducing financing costs and improving the efficiency of capital allocation. In regions with financial agglomeration, there are numerous financial institutions, and the market competition is fierce. This prompts financial institutions to lower loan interest rates and reduce the financing costs of enterprises. At the same time, financial agglomeration enables financial institutions to obtain more comprehensive and accurate information about enterprises, thus improving the efficiency of capital allocation and investing funds in enterprises and projects with greater development potential and economic benefits. This is consistent with the research results of Liu and Liu (2021) [9]. In addition, the deepening and expansion of financial markets, such as the development of the stock market and bond market, provide more channels and ways for the conversion of savings to investment, improve the conversion rate, and accelerate capital accumulation, providing sufficient financial support for economic growth.

3.2 Technological Progress Mechanism

Financial agglomeration provides a favorable financial environment and risk - sharing mechanism for technological innovation. Peng and Qiu (2023) [10] constructed a financial agglomeration index system to exert its mechanism. On the one hand, financial institutions can provide long - term financial support for the R & D activities of enterprises to meet their financial needs during the process of technological innovation. On the other hand, the relatively developed venture capital institutions and insurance institutions in regions with financial agglomeration can share innovation risks for enterprises, reduce enterprises' concerns about innovation, and stimulate their innovation vitality. In addition, frequent information sharing and technological exchanges among financial institutions promote the occurrence of technological spillover effects. Enterprises can obtain the latest technological information and R & D results through cooperation and exchanges with financial institutions, accelerate their own technological innovation pace, and drive technological progress in the entire region, thereby promoting economic growth.

3.3 Industrial Structure Upgrading Mechanism

In order to optimize and upgrade the industrial structure, financial agglomeration may direct capital to flow into high-efficiency and high-tech companies. Financial institutions will prioritize investing in developing and high-tech businesses throughout the capital allocation process because of the positive impact these sectors may have on the economy and the likelihood of fast growth in these sectors. According to Zhang's study (2025) [11], financial agglomeration is a key factor in improving industrial structure and boosts regional economic diversity and quality of growth. Meanwhile, conventional sectors may benefit from financial agglomeration by undergoing technological transformation and equipment renewal. This can be achieved via receiving financial help and technical coaching, which ultimately leads to their transition into smarter, more environmentally friendly practices. Improving the industry's overall competitiveness, creating new growth spots, driving the pattern of economic change, and achieving sustainable development are all possible outcomes of upgrading the industrial structure.

3.4 Spatial Spillover Mechanism

Financial agglomeration primarily achieves its geographical spillover effect via the movement of financial resources and the dissemination of technology. In their investigations, Shi (2021) [12] and Tian et al. (2023) [13] offered empirical evidence that financial agglomeration had a geographical spillover effect and highlighted its significance in driving regional economic development. Areas that are highly concentrated in the financial sector tend to be resourceful and home to a large number of financial firms and professionals. The interconnectedness of financial markets and the cross-regional activities of financial institutions will cause these funds to trickle down to neighboring regions, where they will bolster local businesses and spur economic growth. Simultaneously, areas experiencing financial agglomeration will see a synergistic development effect as the technological advancements and advanced management practices in these areas spread to neighboring areas through personnel mobility and technological cooperation. This will propel industrial upgrading and technological progress in these areas, which in turn will promote economic growth.

4. Analysis of Regional Differences in the Impact of Financial Agglomeration on Economic Growth

4.1 Eastern Region

The eastern region's economy is well-established and has been for some time; the region's financial sector is also well developed, and the region's financial resources are plentiful and used effectively. A comprehensive and intricate financial industrial chain is formed by the many different types of financial institutions in the Yangtze River Delta area, which is concentrated around Shanghai. These institutions cover a wide range of activities, including banking, securities, insurance, and funds. At the same time, the region has advanced and perfect financial infrastructure, including modern trading venues, efficient information transmission systems, and secure payment and settlement systems, providing solid hardware support for the conduct of financial business. In addition, the Yangtze River Delta region has a superior financial ecological environment, with sound policies and regulations, a perfect regulatory system, and a good credit environment, creating favorable conditions for the stable operation of financial institutions and the healthy development of financial markets. The promoting effect of financial agglomeration on economic growth in the eastern region is manifested in several key aspects.

4.1.1 Capital aggregation and industrial upgrading support

The developed financial agglomeration situation in the eastern region acts as a powerful capital magnet, attracting a large amount of domestic and foreign capital. These funds not only provide sufficient financial guarantees for the expansion of large - scale enterprises and the launch of new projects in the region but also inject strong impetus into industrial upgrading. For example, in the field of high - end manufacturing, a large amount of capital is invested in R & D innovation and production equipment updates, promoting the industrial transformation and upgrading towards intelligent, green, and service - oriented directions and improving the overall added value and competitiveness of the industry.

4.1.2 Talent attraction and innovation - driven development

The superior financial environment and broad development space make the eastern region an attractive destination for high - end financial talents and innovative talents. Many outstanding domestic and foreign financial professionals, scientific researchers, and innovation teams flock here, bringing advanced financial concepts, technologies, and innovative ideas to the region. These talents play an important role in financial innovation, scientific and technological R & D, etc., improving the region's innovation ability and competitiveness and giving birth to a series of emerging industries and business models, opening up new paths for economic growth.

4.1.3 Financial innovation and diversified services

The intense competition among highly aggregated financial institutions in the eastern region prompts them to continuously carry out financial innovation and launch a variety of financial products and services. From traditional bank credit business to complex financial derivative transactions, and from investment and financing services for enterprises to wealth management solutions tailored to the individual needs of residents, financial services in the eastern region are characterized by diversification and personalization. This diversified financial service can better meet the financial needs of different enterprises and residents at various development stages, promote the optimal allocation of resources, and drive efficient economic growth.

4.1.4 Spatial spillover and regional synergistic development

The spatial spillover effect generated by financial agglomeration in the eastern region is significant. Through the flow of financial resources and technological diffusion, it drives economic growth in surrounding areas. Taking Shanghai as an example, its financial center's radiation range not only covers the Yangtze River Delta region but also extends to a wider area. Shanghai's financial institutions promote the development of enterprises and industrial upgrading in surrounding areas by setting up branches and conducting cross - regional business in surrounding areas, and at the same time, inputting funds, technologies, and advanced management experience. Meanwhile, the surrounding areas also provide a broad market space and rich resources for Shanghai's financial industry, forming a synergistic development effect among regions and jointly promoting economic growth in the eastern region and even the whole country.

4.2 Central - Western Regions

When comparing the eastern and central-western areas, it is clear that the former lacks the necessary economic infrastructure, developed financial markets, and concentrated financial resources. The central-western regions' economies have lagged behind the national average for quite some time. This is due to the region's reliance on antiquated manufacturing processes and the absence of new, innovative, and competitive high-tech sectors. There is a lack of financial agglomeration and a relative scarcity of financial resources because the financial market development is behind schedule. There is only one range of financial products and services, an imperfect financial infrastructure, and an ecological environment that needs further improvement. Because of these limitations, financial agglomeration could not completely play its leadership role in resource allocation and economic development in the past, and its boosting influence on economic growth in the central-western areas was relatively restricted.

Western Development and the Rise of the Central Region are just two examples of the extensive national policy initiatives that have helped the central-western regions flourish in recent decades. As a result, these areas have experienced rapid economic growth and a growing degree of financial agglomeration, as well as a plethora of new development opportunities.

The structure of financial institutions in the central-western areas has been strongly guided by the sequence of policies established by the state to assist their growth. These policies are put in place to help banks and other financial institutions set up shop in the central and western areas, as well as to encourage them to boost their credit investment there. The policies have been a driving force behind the expansion and branching out of large commercial banks, securities businesses, insurance companies, and others in key cities across the central and western regions. To better serve their customers, some joint-stock commercial banks have established regional headquarters or offices in major cities in central and western China, including Chengdu, Chongqing, and Wuhan. This has increased the availability of capital in these areas.

Financial resources have been directed into the central-western areas as a result of well-guided policies and the optimization of financial institution structure. One positive aspect is the increased inflow of domestic capital into the central-western regions' economy via channels like bank credit and the bond market, which benefits both important projects and industries in these areas. In the central-western areas, for instance, a plethora of capital has been poured into sectors like transportation, energy, and communication as a result of national infrastructure development. This has enhanced the local investment climate and propelled the growth of associated companies. Meanwhile, as the central-western regions have become more open, foreign capital has started to notice the potential for development there. As a result, they have started to invest directly, form joint ventures, and work together, giving the local economy a much-needed boost.

Efforts to enhance the financial ecological environment, build stronger financial infrastructure, and raise the quality of financial services are also being made by the central and western regions themselves. Financial development has received more funding from local governments, and these governments have instituted a number of preferential policies in an effort to entice financial companies to set up shop in their jurisdictions. At the same time, they have enhanced regulatory procedures and fortified the building of the credit system, resulting in a solid financial order. The central-western regions have made great strides in increasing the efficiency and security of financial services via the creation and upgrading of payment and settlement systems and credit information systems. Also, in order to better meet the financial demands of local economic development, financial institutions have been actively innovating financial products and services and launching local market-appropriate solutions based on the features and requirements of businesses in the central-western regions. These solutions include agricultural insurance and characteristic credit products for small and medium-sized enterprises.

There is a noticeable disparity between the eastern and central-western areas when it comes to the stimulating influence of financial agglomeration on economic development. Nevertheless, this effect is slowly but surely improving. There is a significant disparity between the eastern and central-western areas in terms of total financial assets and capital stock, and the latter provides relatively little financial assistance to the former's actual economy. Central and western regions' financial institutions are struggling to keep up with the increasingly diverse financial demands of businesses and residents due to a lack of innovation in financial products and a lag in the application of financial technology. There is a dearth of financial talent and a cap on the industry's potential for growth in the central and western regions because of things like their low level of economic development and their less desirable living conditions.

5. Conclusions and Suggestions

5.1 Conclusions

Financial agglomeration positively affects economic growth via various processes, including capital accumulation, technological progress, industrial structure upgrading, and spatial spillover, according to this paper's research on the impact mechanisms of financial agglomeration on economic growth and regional differences. However, the effect of financial agglomeration on GDP growth varies considerably between areas owing to variations in policy climate, economic base, and other variables. While central-western areas began relatively late, their promoting influence is steadily expanding with governmental backing and self-development. In the east, financial agglomeration has a more substantial impact on economic growth.

5.2 Suggestions

5.2.1 Increase policy support

Continue to implement strategies such as the Western Development and the Rise of the Central Region, strengthen policy support for the central and western regions, guide the flow of financial resources toward these areas, and enhance the level of financial agglomeration in the central and western regions. For example, introduce tax preferential policies to encourage financial institutions to set up branches in the central - western regions; provide financial subsidies to support the construction of financial infrastructure in the central - western regions.

5.2.2 Strengthen financial infrastructure construction

The central-western regions should actively improve the financial ecological environment, strengthen financial infrastructure construction, and improve financial service levels. Increase investment in financial infrastructure, improve payment and settlement systems and credit systems; strengthen financial supervision to maintain the stability of financial markets and attract more financial institutions and financial talents to settle in.

5.2.3 Promote regional financial cooperation and exchanges

Encourage the eastern region to strengthen financial cooperation and exchanges with the central - western regions, establish financial cooperation platforms, and carry out financial counterpart assistance. Through cooperation platforms, promote the sharing of financial resources and technological diffusion and achieve synergistic development among regions. For example, organize financial talent exchange activities to promote financial talents from the eastern region to work in the central - western regions on secondment; carry out financial project cooperation to jointly develop financial products and services suitable for the central - western regions.

5.2.4 Promote financial innovation

Insist that banks enhance the effectiveness of their financial assistance for the real economy by creating goods and services that meet the specific requirements of various areas' economic growth. Build agricultural supply-chain financing and small and medium-sized enterprise collective bonds, for example, that cater to the unique industrial needs of the central-western regions. Make better use of financial technology to expand access to banking services and make them more convenient for customers. Lastly, lend a hand to regions struggling economically.

5.3 Future Research Directions

The internal micro-logic of the effects of financial agglomeration on economic growth, the ways in which it influences enterprise-level innovation and investment decisions, and the micro-mechanisms by which these effects are felt can all be explored in future studies. To aid China's economy in achieving high-quality and coordinated development, it is important to study how the impact of financial agglomeration on economic growth changes over time and in response to different policy environments. This will provide more precise theoretical support for financial policy-making and regional economic development.

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