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Research on the Impact of Inclusive Finance on Economic Growth

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Abstract: *Since the outbreak of the global epidemic in 2020, although the current epidemic has been greatly controlled, but the global economy is still greatly affected by the financial inclusion put forward by the main idea is to make all social classes and groups can fairly enjoy the financial services, not only to the large-scale enterprises with strong capital to provide a variety of types of financial products and financial services, but also to make the "three rural" and small and medium-sized enterprises and other low-income groups to fairly enjoy the savings, settlement, loans and other required financial products and financial services, to a certain extent, to solve the problem of financial exclusion provides a good way. "Three rural" and small and medium-sized micro-enterprises and other low-income groups to enjoy a fair savings, settlement, loans and other required financial products and financial services, to a certain extent, to solve the problem of financial exclusion provides a good way to promote the current poor environment of economic growth. This paper mainly from a theoretical point of view, combined with China's financial inclusion in various regions of the development level, so as to roughly analyse the impact of financial inclusion on economic growth.*

Keywords: *Inclusive finance, Economic development, Financial exclusion*

1. Introduction

Financial exclusion is widespread in our society, such as gender, household registration, ethnicity, occupation, education, age, economic wealth, risk appetite and other factors that affect the access of residents to financial services, especially some micro, small and medium-sized enterprises (MSMEs), due to their inherent instability, which leads to financial institutions are more willing to grant funds to large state-owned enterprises in order to avoid the generation of bad debts, thereby increasing the return on This has resulted in financial institutions preferring to release funds to large state-owned enterprises in order to avoid bad debts and increase revenue. Over time, it becomes difficult for domestic small and medium-sized enterprises to secure financing and grow on their own, and when they run into financial difficulties, they are unable to access the necessary funds and eventually close down in a pitiful state.

In order to effectively solve this problem and promote economic development, the United Nations formally put forward the concept of inclusive finance at the International Year of Microcredit in 2005, stressing the need to improve the depth and breadth of financial services, and to provide reasonably priced, efficient and convenient financial services for all social classes and groups. In 2006, China introduced the concept of "inclusive finance", which gained widespread attention. In 2013, relevant policies were formally introduced to support the development of inclusive finance. In 2016, the State Council introduced the "Plan for Promoting Inclusive Financial Development: 2016~2020", emphasising the importance of putting the development of inclusive finance into practice. Financial development into practice, in 2017, the State Council held a financial work conference is clear to farmers, disadvantaged groups, small and medium-sized enterprises as the focus of help, to greater to eliminate financial exclusion, so that more people have access to financial products and services.2023 the latest "financial development of inclusive special fund management measures" is from the financial aspect of support for the development of inclusive finance. It can be seen that the development of inclusive finance has an important impact on China's economic development.

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2. Literature review

2.1. Research on the Relationship between Inclusive Finance and Economic Growth Abroad

Beck et al. found that financial exclusion is more prominent in imperfect financial markets, making it more difficult for vulnerable groups to access financial products and services, reducing resource allocation efficiency in the entire market and hindering regional economic growth[1]. Therefore, promoting the development of inclusive finance facilitates access to finance for vulnerable groups and small and micro-enterprises, thereby supporting economic growth.Luisa Corrado and Germana Corrado (2017) argue from both micro and macro perspectives that inclusive finance promotes inclusive growth and development[2]. Inclusive financial markets provide affordable and fair financial products for all households and entrepreneurs, thereby enhancing people's ability to take advantage of economic opportunities, increasing demand, and becoming a key tool for driving the economy onto a sustainable growth trajectory, Effectively promoting positive social and economic development in the local area. Antony (2019) turned his attention to Kenya, believing that the development of inclusive financial services may promote the stable development of Kenya's finance[3].

2.2. Research on the Relationship between Inclusive Finance and Economic Growth in China

From the perspective of inclusive finance research in China, most of the research still focuses on how to improve economic efficiency. Most scholars in China generally believe that inclusive finance can improve economic efficiency to a certain extent. Zhang He (2022) found through empirical analysis that the deep integration of fintech and inclusive finance has injected new momentum into China's regional economic development, significantly driving economic growth, although there may be certain differences depending on the region[4]. Jin Bohong et al. (2020) measured the level of inclusive finance in Zhangye City by constructing an inclusive finance index, and combined it with empirical analysis to conclude that the development level of inclusive finance is highly correlated with the economic development level of Zhangye City. Based on this, they proposed relevant suggestions to promote the economic development level of Zhangye City[5]. Wang Xiaowen (2019) empirically tested the relationship between inclusive finance development and poverty alleviation using a spatial panel model, and analyzed the poverty reduction effect and threshold characteristics of inclusive finance among urban residents using panel data[6]. He argues that, during the process of poverty alleviation, the poverty reduction effects of inclusive finance will significantly improve when economic development exceeds a certain threshold. Prior research by scholars has shown that inclusive finance is critical for economic development. Nonetheless, it is important to investigate and discover ways to more effectively utilise inclusive finance to support economic growth.

3. The Theoretical Mechanism of Inclusive Finance and Economic Growth

Inclusive finance has been extensively researched by national and international scholars, who have explored different theoretical frameworks such as financial development theory, inclusive growth theory, internet finance theory and financial exclusion theory. However, financial exclusion theory remains a core theory in the field.

The theory of financial exclusion pertains to the limited access that certain groups have to financial products and services in the financial market due to certain characteristics, rendering them in an excluded position within it. The typical financial services offered, such as bank deposits, loans, and insurance business, are affected. The existence of financial exclusion is the cause of some disadvantaged groups and small to medium-sized enterprises being unable to access affordable financial services. This creates obstacles for their participation in the financial market and ultimately impedes economic growth. There are two primary causes of financial exclusion. Firstly, financial institutions face higher costs when providing services to disadvantaged groups and small and medium-sized enterprises, particularly in less developed regions where their reach is limited. Consequently, financial institutions prioritize their own interests and strive for economies of scale, ultimately leading to financial exclusion. The second reason is that some of the groups mentioned above have a weak economic level, and when it comes to lending services, it is difficult for them to meet the standards of the financial institutions, thus preventing them from obtaining the corresponding financial products and services. It is the great harm of financial exclusion that promotes the development of inclusive finance.

The development of inclusive finance for economic development mechanism can be mainly from the following two aspects: the first is to enrich the financial products, inclusive financial development is to reduce the threshold of the financial market, so that more and more people to participate in the financial market, but the financial institutions have to consider their own profitability, so the financial institutions will often be aimed at those special groups to design a specific financial products. The second is to be able to promote scientific and technological innovation, the emergence of inclusive finance makes it easier for small and medium-sized enterprises (SMEs) to obtain the funds they need, once the SMEs have obtained the funds they need, these enterprises will have the basis for innovation, and promote scientific and technological innovation, these enterprises will be able to make more profits, have greater productivity, and at the same time promote economic growth.

4. The Current Situation of Inclusive Finance and Economic Development in China

There have been numerous studies on measuring financial inclusion levels both domestically and internationally. However, the International Monetary Fund had already measured it in two dimensions - availability and usage - long before the concept of financial inclusion was even introduced. In 2007, Beck formulated eight measurement criteria, but most scholars now evaluate financial inclusion using three perspectives: financial penetration, service availability, and usage. The only variation is in the choice of sub-dimensions within these perspectives. Therefore, the measurement of financial inclusion differs only with respect to these sub-dimensions. A more credible measure of financial inclusion in China is the Digital Financial Inclusion Index, which the Digital Research Centre at Peking University has published. The Peking University Inclusive Finance Index compiles indices on the extent of coverage, usage depth, and level of digitalisation of digital inclusive finance from various perspectives. It also takes into account categorical indices, including payment, insurance, money fund, credit service, investment, and credit, to form the measurement standard. This paper will also analyze the progress of inclusive finance concerning the accessibility of financial services and the extent of social funding.

Affected by national policies, inclusive finance in China has developed rapidly, and the number of service recipients of inclusive finance is constantly expanding, especially in rural areas, poverty-stricken areas, and small and micro enterprises. The People's Bank of China has specially introduced relevant policies to reduce the cost of financial services, increase the loanable capital of financial institutions by adjusting the reserve requirement ratio, and reduce those that meet the inclusive financial evaluation standards by 0.5 to 1 percentage point. And the increase in the scale of social financing in China, as shown in the latest report of the People's Bank of China, has remained at the lowest level of 535.7 billion yuan since 2023. Even in the relatively underdeveloped northwest regions of China, such as Xizang, where the social financing scale increased by 46.7 billion yuan, and Ningxia, where the social financing scale increased by 78.1 billion yuan, the development of inclusive finance in China can be clearly seen. But from the perspective of the eastern provinces, the increase in social financing scale in Jiangsu is 286.3 billion, and the increase in social financing scale in Zhejiang is 2445 billion. We can also see that there are indeed significant differences in the development level of different regions.

In terms of the changes in the business outlets of banking and financial institutions in different parts of China, there were only 191,000 business outlets of banking and financial institutions in China in 2007, and by the end of 2022, there were still about 223,000 business outlets despite the closure of some business outlets due to the impact of the epidemic. However, it must be noted that in each province, the economically advanced eastern coastal and western regions are showing higher growth rates, leading the expansion of network providers in 2022. Nonetheless, other areas have experienced a contraction in their networks, primarily seen in Liaoning Province, located in the northeast region, due to the population's migration, resulting in a network shrinkage of over 200.

Since 2012, China has experienced a period of robust and speedy development. Over the past decade, China's economic progression has remained mostly consistent. Nevertheless, due to changes in global development and the impact of the pandemic, China's economic growth has decelerated since 2020, albeit the overall amount still remains relatively high. As of 2022, the total GDP has reached 18100 billion US dollars, making China the second largest country in the world, following the United States. While the total amount is considerable, it is important to examine regional economic development more closely. According to this analysis, the top five provinces for economic development are Guangdong, Jiangsu, Shandong, Zhejiang and Henan, with Gansu, Hainan, Ningxia, Qinghai and Xizang ranking among the least developed. In terms of total GDP, there is a significant discrepancy between the highest and lowest ranked provinces, with the first place GDP being six times larger than that of the last place.

5. Summary and suggestions

In summary, we can see that with the support of the government, China's inclusive finance has indeed achieved great development, and the availability of inclusive finance has significantly improved. The growth of financial institutions' business outlets and social financing scale also means the improvement of our country's inclusive financial environment. In addition, with the continuous development of the internet, integrating internet technology into inclusive finance has brought about digital inclusive finance and a wealth of inclusive financial products and services. But it is obvious that the problems exposed in this can also be seen:

1) The financial services provided by vulnerable and remote areas are significantly lower than those of developed coastal and eastern regions, and there is a significant gap between provinces. Due to the improvement of infrastructure construction and the favorable coastal environment for commercial development, the development of inclusive finance in the eastern region is much higher than that in the central and western regions with incomplete infrastructure and severe population outflow. From the perspective of financial institutions, the more developed regions have strong financial demand, which brings more benefits to financial institutions. However, in vulnerable and remote areas, due to insufficient demand, the overall cost is higher. Finance plays an extremely important role in economic development, and the purpose of inclusive finance is to enable more people to enjoy financial services, thereby reducing disparities and promoting economic development. So to promote balanced and rapid economic development, we cannot do without the support of inclusive finance.

2) The regional economic development in our country is imbalanced, with vast territory and abundant resources. Each region has its own characteristics, which leads to a significant gap in development between regions.

5.1. Promote the balanced development of regional inclusive finance

However, present development perspectives reveal a significant disparity in geographical distribution of China's inclusive finance levels, with coastal economic development areas being most affected. The primary aim of inclusive finance is to promote accessibility to financial services for all. It is thereby crucial to coordinate inclusive finance development across all regions and strive for balanced development. The primary reason for this disparity is due to the eastern region having a more concentrated allocation of financial resources in comparison to the western region. Therefore, it is important for the country to strive for equilibrium when investing funds and allocating resources between the central, western, and eastern regions. The crucial aspect is to prompt financial institutions to develop actively in the central and western regions by introducing corresponding policies and benefits.

5.2. To organically integrate traditional finance and digital finance

With the development of technology and the Internet, more and more online payments and financing are beginning to emerge. If we combine the development index of digital finance, the cities with good prospects for digital finance development are also in a leading position in terms of inclusive finance level. Digital finance has a series of advantages that traditional finance does not have, such as information disclosure and wide service scope. This makes digital finance provide better conditions for financial accessibility. For providers and demanders of financial services, it not only breaks through the concept of space, but also greatly saves them time and transaction costs. So the importance of digital finance for inclusive finance is self-evident. In the new era, if we want to develop inclusive finance well, we must rely on digital finance. In the new era, digital finance can often be seen as internet finance, which can be summarized as follows: firstly, openness. Internet finance, due to its reliance on the internet, has an inherent advantage of openness. Compared to traditional financial institutions, its financial threshold is relatively low, so there is no obvious customer discrimination. Both the poor and the rich can enjoy the convenient services brought by internet finance. The second is sharability, as the openness and transparency of the internet determine its sharability, which allows everyone to access the information they need through the internet. And as there are more and more platforms for publishing information, this has led to more and more channels for obtaining information, greatly reducing transaction costs and time costs, thereby improving transaction efficiency in the entire financial market, enabling better resource allocation, and thus improving the economic development efficiency of the entire society.

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5.3. Emphasize the development of rural finance

As a major agricultural country, agriculture is also an essential field in China's development process. However, the current existence of rural financial problems has seriously affected the development of China's rural economy. Therefore, we should fully attach importance to the development of rural finance. In addition to the well-known rural credit cooperatives, we need to enrich the diversification of rural finance and improve the channels for rural areas to access financial services and support. In addition, a very important reason for the limited development of rural finance is that farmers have difficulty accessing limited information. The problem of information asymmetry is severe in rural areas. Therefore, to solve this problem, it is necessary to have certain financial innovation or improve farmers' financial literacy. Especially in the current highly informationized era, we need to improve the popularity of internet finance in rural areas and fully enhance the vitality of the rural economy.

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