

# Digital Inclusive Finance Helps Developing Countries Narrow the Urban-rural Income Gap Analysis—Taking China as an Example

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**Abstract.** With the rapid development of digital technology, finance, and technology integration today, a new type of large-scale financial digitization has emerged, increasing the breadth and depth of services, increasing the comfort of the financial services sector, and enabling residents to participate equally in the financial system and obtain necessary financial resources. Extensive digital financing has enabled information exchange and reduced costs. It can promote better management. The concept of digital fusion funding is an innovation in the development of traditional financing. This is a modern development vision focusing on the interests of the group. Their honesty and tolerance are of great importance to achieve social equality. Many studies have shown that the development of digital economic integration may effectively assist developing countries to reduce the revenue gap in the village. China is the largest developing country with the world's largest population. For example, China can summarize how the integration of digital economy affects urban-rural income gaps, identify problems and signs of experience in developing countries.

**Keywords:** Digital financial inclusion, urban-rural income gap, developing countries.

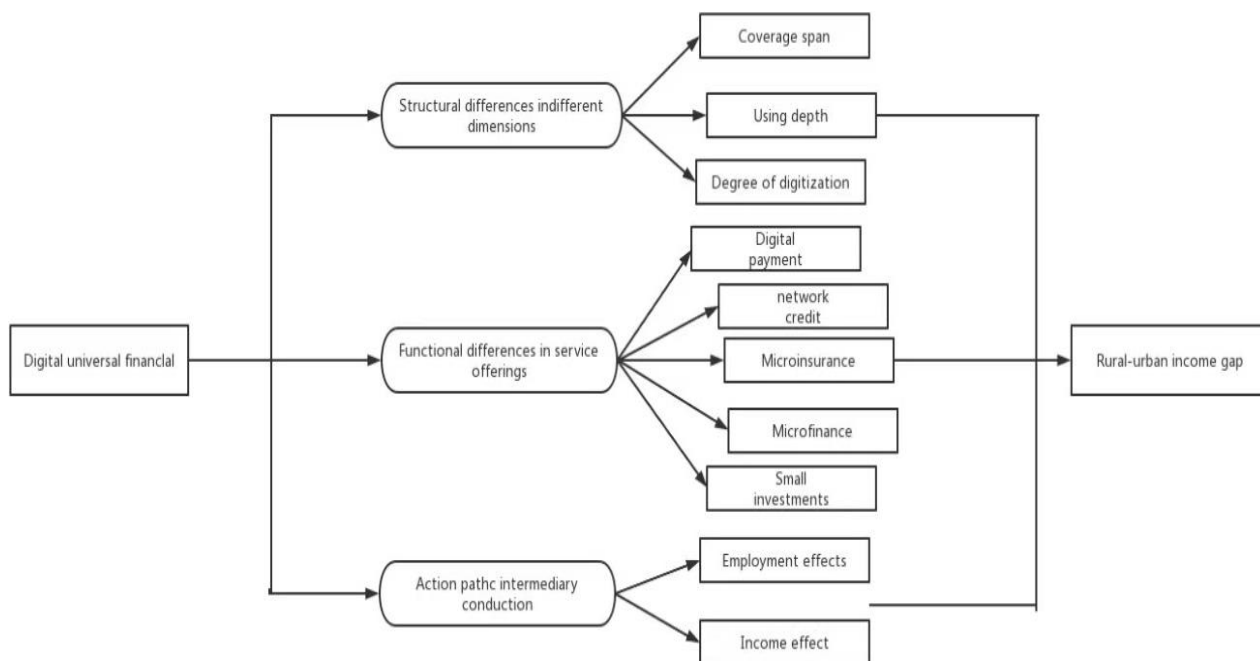
## 1. Introduction

### 1.1. What is Digital Financial Inclusion

Digital integrated finance is defined as the use of various linked technologies in the financial area via internet technology. Information processing, data transfer, big data analysis, cloud computing, and other technologies, for example, can aid in information sharing and efficiently cut transaction costs [1, 2]. Financial services' restrictions include the utilization of large data for digital financial publication, convenience, security, low cost, and low threshold. The breadth and coverage of financial services have been enlarged thanks to the benefits of cloud computing and artificial intelligence, and a computerized risk control system has been established, considerably boosting the capacity to regulate financial hazards. Popular digital finance exemplifies financial technology's original objective and goals.

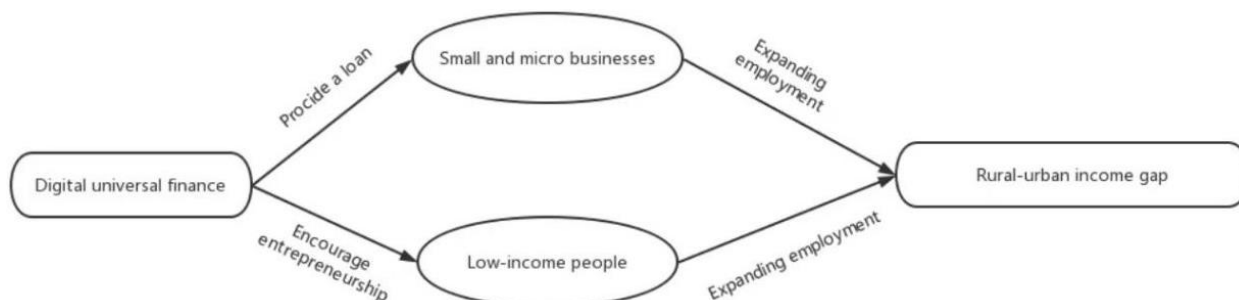
### 1.2. How Digital Financial Inclusion Can Narrow the Urban-rural Income Gap

As a mix of digital technology and fusion finance, digital fusion financing offers distinct advantages such as broad coverage, diversified functionalities, and simplicity. There exist income disparities. Furthermore, the influence of inclusive digital finance on the urban-rural income divide is multidimensional and structurally multi-level [3]. There are considerable variations in the functions of products and services, as well as techniques for reducing urban-rural economic disparities. Various impact consequences (see Figure 1).

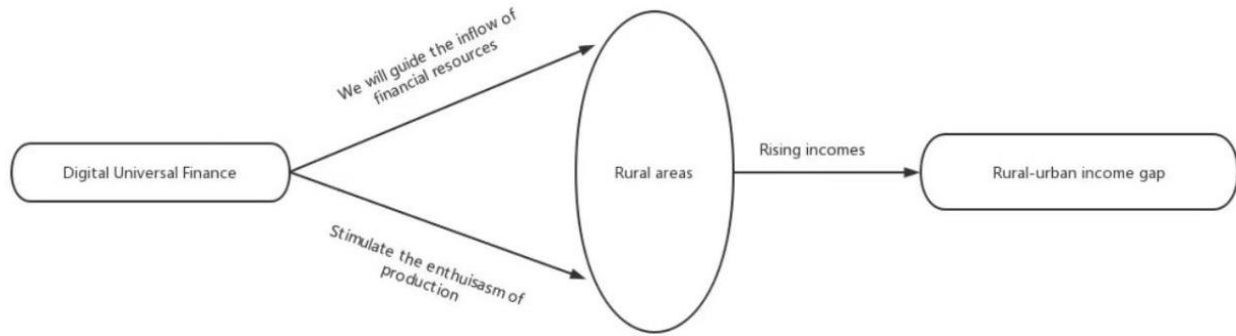


**Figure 1.** Mechanism analysis of digital inclusive finance on urban-rural income gap

Analyze the indirect transfer of digital integration finance toward closing the urban-rural income gap, split into job effect mechanisms and income impact mechanisms [4]. In terms of job creation, digital inclusive finance extends the benefits of deeper financial development by expanding financial coverage, introducing new features of inclusion, and changing the long-standing pattern of inadequate financial services in rural regions. It has a promotional impact. Small and micro firms, as well as low-income groups, are affected by financial exclusion and are excluded from the financial circle as traditional banking develops. They cannot enjoy the financial support provided by financial services, and the promotion of entrepreneurship and employment in rural areas is limited. Digital financial inclusion has provided significant assistance to small and micro firms, as well as low-income individuals who are financially excluded, and has played an essential role in increasing entrepreneurship and employment, as well as closing the income gap between urban and rural areas (see Figure 2). From the analysis of the income effect, the traditional financial system has obvious class characteristics, and rural areas are affected by financial exclusion and financial "thresholds", and cannot enjoy equal and fair financial services in a true sense. Digital inclusive finance guides financial resources to continue the flow to rural areas enables rural residents to access financial services, changing the trend that urban residents mainly enjoy financial services. Digital inclusive finance offers a variety of inclusive financial services to rural areas, such as low-interest lending services, at the same time. Encourage farmers to buy agricultural equipment so they can upgrade their production techniques, achieve higher production efficiency by upgrading their techniques, pique farmers' interest in production, raise the income level of rural residents, and reduce the income gap between urban and rural areas. (See Figure 3).



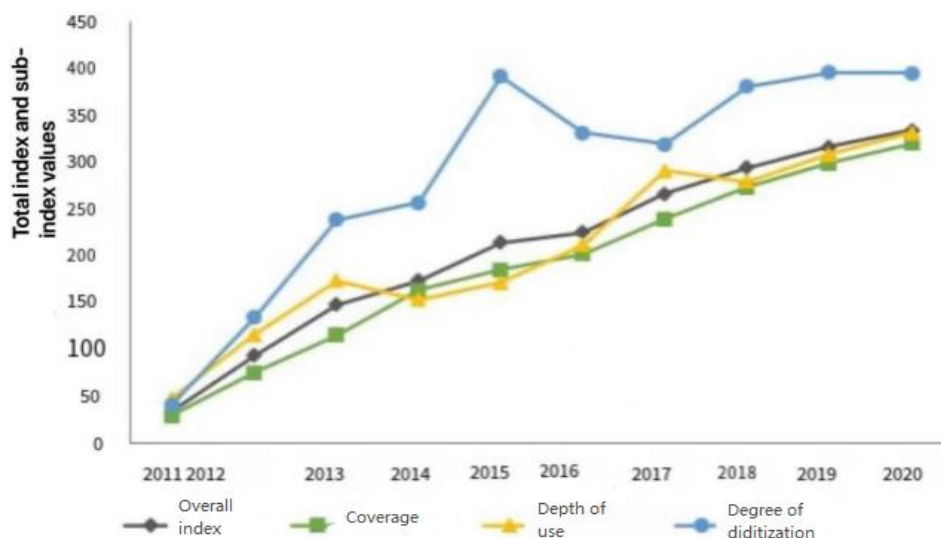
**Figure 2.** Mechanism diagram of employment effect



**Figure 3.** Mechanism of the income effect

## 2. Current Status of China's Digital Financial Inclusion Development

With the advancement and development of science and technology, when digital technology expands to financial fields such as traditional banking and securities industries, the speed of dissemination of financial information has been improved, and financial products have sprung up one after another, becoming a platform to promote the continuous development of digital inclusive finance. Strength [5]: Baidu, Alibaba and Tencent, as the three giants of China's Internet development, use big data to understand the needs of users, provide more diversified financial products that better meet user needs according to user characteristics, and make services more refined and targeted. Due to these thoughtful actions, China's digital inclusive finance has experienced rapid development and a rise in users. In terms of overall index, coverage, depth of usage, and degree of digitalization, China's digital financial inclusion index is rising, according to the "Peking University Digital Financial Inclusion Index (2011-2020)" (see Figure 4) [6], the development of digital financial inclusion in China is showing a thriving trend. Among them, the degree of digitalization has been steadily increasing from 2013 to 2014. The scale of China's data industry has been greatly improved from 2014 to 2015, but it has been slightly lowered from 2015 to 2017, but it is still on an upward trend. In the future, the overall degree of digitalization will still be on the rise, and the application range of digital technology is relatively wide, involving various industries. Big data, the core of digital technology, and cloud computing are applied to all aspects of inclusive finance, solving many problems in the process of inclusive finance. For example, big data, also known as huge amount of information, collects a lot of assets with regular information. The information comes from companies and some platforms. This information has been processed and has certain rules. Relying on this information can better deal with problems in the financial industry.



**Figure 4.** The provincial-level median value of Chinese digital financial inclusion index and sub-index for 2011-2020

### **3. Suggestions for Developing Countries in View of Chinese Development of Digital Financial Inclusion**

#### **3.1. Increase Policy Support to Promote the Development of Digital Inclusive Finance in Developing Countries**

In most developing nations, there is a sizable income difference between urban and rural areas; thus, inclusive digital financing holds considerable promise for bridging this gap. Governments of developing nations must consequently enhance funding to encourage the growth of inclusive digital finance [7].

First of all, the government should rationally allocate financial, material and human resources to avoid unbalanced development, where digital inclusive financial development in some cities is particularly good and some cities are extremely backward, so as to prevent further widening the income gap. In addition, laws and regulations should be improved, and unified industry standards should be formulated to prevent illegal phenomena in the field of digital inclusive finance. Inspire commercial banks and other financial institutions to develop innovative financial models, aggressively stimulate the establishment of digital banks, and foster an atmosphere that is favorable to financial consumers.

Secondly, developing countries should further promote and improve incentives related to digital financial inclusion, and formulate corresponding fiscal, monetary and taxation policies from the perspective of benefiting the development of digital financial inclusion. Strengthen financial support for regions that achieve inclusive digital financial development; provide financial incentives to financial institutions that actively respond to government actions; create financial services that are inclusive of digital technology for the general public, or use such services to significantly boost regional industry. Therefore, governments of various countries should establish and improve digital financial service systems, technology sharing systems, and platforms for industry transparency to support inclusive digital financial sectors' sustainable growth in emerging nations [8].

#### **3.2. Increase the Popularization of Financial Knowledge and Deepen Its Using**

If the depth of use of digital financial inclusion is low, it means that the users of financial inclusion have insufficient understanding of related services and use efficiency is low. Therefore, in the development process, in order for people to have a deeper grasp and awareness of it, it is vital to improve the popularization of financial knowledge and the development of digital financial inclusion.

First of all, in view of the weak financial knowledge of the elderly and rural residents who are prone to fraud, relevant departments should make full use of information media such as radio, television, and newspapers to strengthen their financial security knowledge and enhance their ability to prevent financial fraud.

Secondly, since citizens' awareness of financial products will directly affect the development of digital inclusive financial services, developing countries should actively explore effective digital financial education and publicity methods. The corresponding financial departments and financial institutions should actively publicize financial knowledge. They can take the community as a unit and send professional financial practitioners to popularize financial knowledge for residents on a regular basis. Under the long-term "influence" of residents, they will definitely have financial knowledge enough to know. Only by enriching residents' financial knowledge can digital inclusive finance develop better and faster in developing countries and further narrow the income gap between urban and rural areas.

#### **3.3. Optimize Service Experience and Increase Coverage**

From the perspective of coverage, mobile phones, as the most convenient terminal devices in the Internet age, are an important bridge for users to experience online financial services. Therefore, financial institutions should try their best to improve smart phone clients and improve customers' online financial service experience. Make customers happy to participate [9].

First of all, financial institutions in developing countries should strengthen the development of mobile phone software, formulate corresponding marketing strategies for different customer groups, and expand their popularity in the hearts of customers through various means. Financial institutions should pay attention to and actively do a good job in mobile phone software promotion work. In the promotion process, we should pay attention to cooperation with other financial institutions and Internet companies to jointly increase the utilization rate of our online software.

Secondly, financial institutions in developing countries should carry out relevant activities according to their own business characteristics and geographical location, such as red envelope cashback, points exchange, birthday discounts, etc., so as to attract more high-quality customer groups and promote their own further development. At the same time, financial institutions in developing countries must actively adjust their product structure, continuously innovate product functions, and further enrich their own product types according to the current changing trend of the international financial market environment, so as to meet diversified consumer needs.

### **3.4. Strengthen Supervision and Improve the Security of Digital Financial Inclusion**

Internet fraud has doubled in recent years, making it difficult to promote digital inclusive financing. Many people don't trust online financial services. Access to digital finance is hindered, especially in developing countries where more vulnerable groups, such as the elderly and the rural population, live. Therefore, it is necessary to rely on the government to strengthen governance, improve the security of an inclusive digital finance approach and attract people to participate.

First of all, financial regulators in developing countries should consider more targeted and operable measures and formulate service standards related to products and services. Strengthen digital supervision to protect the rights of inclusive financial consumers. Continue to carry out special rectification of Internet finance, severely crack down on various false propaganda, misleading advertisements, and fraudulent activities using digital technology, and protect the rights and interests of financial consumers [10].

Second, in some parts of developing countries, credit information systems have not been developed, and some small businesses, small businesses and weak credit risks are relatively high, and integration of digital finance is relatively expensive. This requires building a new risk management mechanism to improve the credit system in developing countries to achieve better, healthier development and promote the acquisition of general digital finance.

## **4. Conclusion**

The financial industry is not only the soul of the world's modern market economy, but also the blood that provides nutrition for the development of the real economy of various countries. It is also an important tool for a country to allocate resources and macro-control. In order to achieve high-quality economic and financial development, digital inclusive financial innovation has become an indispensable part of it. Since the information revolution, science and technology have developed rapidly, emerging industries have sprung up like mushrooms, 5G, artificial intelligence, cloud computing and other technologies have achieved leapfrog progress, which has greatly promoted the development of inclusive finance. Financial services are becoming increasingly accessible and affordable. Through digital technology, inclusive financial coverage can almost cover anyone who needs financial services. Combining big data technology, everyone can access personalized financial services, which helps the economic development of developing countries and reduces the number of urban and rural areas' Income level. Overall, promoting universal access to digital finance is crucial for the economic development of developing countries, which have enormous prospects and an increasing trend towards universal access to digital finance.

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