Proceedings of the 2nd International Conference on Financial Technology and Business Analysis
DOI: 10.54254/2754-1169/46/20230313

The Impact of Internet Finance on the Real Economy

Jiayu Xu[1,a,*]

[1]Xintong International Education, Hangzhou, Zhejiang, China
a. xjy19970916@icloud.com
**corresponding author*

Abstract: Due to the improvement of information technology, the emergence of 5G network, and the rapid development of global informatization, the Internet economy, as an emerging force, has developed rapidly, and gradually formed a network economy and society with Internet as the center. By April 2023, the number of Internet users worldwide has reached 8.5 billion. In this case, more and more people advocate Internet finance, the real economy has been affected to a certain extent. The real economy is the source and cornerstone of social development, marking the economic development level of a country or region. How to improve the growth of the real economy has been the focus of the municipal government. Therefore, the purpose of this study is to explore the impact of Internet finance on the real economy, find out the reasons for the slow development of the real economy, and explore how to use Internet finance to promote the development of the real economy. By using iterature review and some data from the Internet, this article finds that Internet finance will promote and hinder the development of the real economy.

Keywords: internet technology, internet finance, real economy, economic research.

1. Introduction

Real economy is the foundation of economic development. Our country as a big country of real economy must pay heavy attention to the development of real economy. However, at the present stage, there are some problems in the development of China's real economy, which is Mired in the dilemma of rising labor costs, structural imbalance, reduced demand, reduced material capital accumulation, and low profits, which further leads to reduced investment in the real economy and aggravates the problem of turning from real to virtual [1]. According to the Central Economic Work Conference in 2021, China is facing the triple pressure of shrinking demand, supply shock and weakening expectations [2]. China should appropriately advance infrastructure investment, increase support for manufacturing and micro, small and medium-sized enterprises, and guide traditional industries to carry out digital transformation. And the government will encourage financial institutions to provide financial services to entities related to scientific and technological innovation and green development. Since 2015, China's Internet finance has become the world's first. However, due to the rapid development of Internet finance, it has separated from the integration with the real economy, and even hindered the development of the real economy to some extent. How does the emergence and development of Internet finance affect the real economy? How can we effectively use Internet finance to promote the development of real economy?

DOI: 10.54254/2754-1169/46/20230313

Up to now, there have been many economists in China who have studied this aspect. For example, He Shiyuan, in “The Correlation between the New Business Forms of “Internet + Finance" and the Development of the Real Economy”, compared the financing modes of Internet finance and traditional finance and found that Internet finance plays a promoting role in the development of the real economy, mainly in the aspects of convenient payment, reduced transaction costs and enhanced efficiency of fund use [3]. While Lin Xingtao in "Our real economy development predicament, inducement and countermeasure research" shows that the fundamental reason that real economy can not develop in the long term is the lack of financial support, virtual economy has expanded rapidly in recent years, beyond the real economy, the real capital can enter the real economy is very limited, affecting the efficiency of the use of funds [4].

This article will study the positive and negative impact of Internet finance on the real economy in recent years by analyzing various data and literature support and analyzing various cases, finally put forward effective solutions, hope this will play an effective role in promoting China's economic development.

2. The Theoretical Basis of Internet Influence on Real Economy

2.1. Financial Repression Theory and Financial Deepening Theory

Traditional monetary theory and Keynesianism have been questioned by many economists. In 1973, McKinnon criticized them and proposed the theory of financial repression, while Shaw proposed the theory of financial deepening on the basis of criticizing them [5].

In the theory of financial repression, they believe that financial repression is more obvious in developing countries, which is mainly manifested in slow development and low efficiency of financial markets, and excessive government intervention in financial markets. Financial repression will affect the allocation of resources in the financial system, resulting in incomplete development of the financial system, slow development of the direct financing market, and slow long-term development of the financial system and the real economy. So financial repression has had a big impact on the real economy. To promote the development of real economy, we must solve the problem of financial repression and realize financial liberalization.

In the theory of financial deepening, the government gives up excessive intervention in the financial market and allows profits and exchange rate to fluctuate freely with market fluctuations, which better reflects the changes of capital supply and demand in the financial market and better develops the financial system and the real economy.

China's traditional financial system used to use high-energy, high-input economic growth, but in recent years, the country's economic growth has slowed, this approach is no longer effective. At present, the economy is mainly affected by innovation and technology, so digital finance, an innovative financial model, can timely adjust the financial model, effectively solve the problem of financial repression, and ensure rapid economic growth.

2.2. Information Asymmetry Theory and Transaction Cost Theory

In 1959, Marschak published the Review of Information Economics, marking the birth of the theory of information economics [6].

The school of Information economics believes that information asymmetry refers to the asymmetry of the two parties to each other's information in trading activities, this leads to adverse selection problems and moral hazard problems. Adverse selection is caused by information asymmetry before trading. Some traders deliberately conceal their economic conditions before trading, which leads to financial institutions not being able to judge the trading objects well and slows down the efficiency of financial institutions' capital allocation. The moral hazard problem is caused by the information

DOI: 10.54254/2754-1169/46/20230313

asymmetry after the transaction. Some traders invest money in high-risk projects to satisfy their personal interests after obtaining financial services, which greatly affects the interests of financial institutions. The existence of moral hazard makes financial institutions reluctant to provide financial services to small enterprises, resulting in financing difficulties and slow development of small enterprises.

In 1937, British economist Coase put forward the transaction cost theory for the first time when writing his paper "on the Nature of the Firm" [1]. Williamson believes that the transaction costs before the transaction include searching, bargaining, information and decision, while the transaction costs after the transaction include supervision and default.

However, the development of Internet finance effectively reduces information asymmetry and transaction costs by using digital economy. Internet finance reviews the transaction objects through the Internet, evaluates and analyzes the honesty of the transaction objects and past transactions, improves the transparency of the transaction process and reduces the transaction risks. On the other hand, the Internet economy reduces the cost before the transaction through the Internet. During the transaction, enterprises no longer need to spend money to solve the problems of bargaining and decision-making. And when the risk of a trade is reduced, the post-trade costs also fall, because supervision and default costs are much lower.

Therefore, it is necessary to explore the impact of the Internet on the real economy in order to better promote China's economic development.

3. Main Aspects of the Internet Affecting the Real Economy

3.1. Internet Finance Can Promote the Real Economy

Due to the development of the Internet, a new economic operation model arises at the historic moment, thus emerging a new economic form, we call it virtual economy. Virtual economy helps people transfer a lot of transactions to the Internet, so that the transaction is not restricted by time and space, which not only saves the transaction cost but also improves the transaction efficiency. For example, when COVID-19 was at its peak in 2019, various quarantine and epidemic prevention measures made people's life at home inconvenient. It is because of the e-commerce economy that people can shop online without leaving their homes, guaranteeing people's basic life. When it comes to the e-commerce economy, Jack Ma must be mentioned here [7]. He founded Alibaba and launched various platforms such as Alipay and Taobao. Online shopping became popular on a large scale, which greatly promoted the development of the traditional postal service industry, brought huge profits to various postal companies, provided a large number of jobs and solved a large part of the employment problem.

Moreover, Internet finance is highly consistent with the development goals of the real economy. Therefore, the Internet can allocate funds to various economies more efficiently, expand the transparency of economic activities and the scope of services, so that small, medium and micro enterprises and individuals can get better services, and promote the better development of the real economy. Alibaba, as mentioned above, also owns Alibaba Finance, which provides small loans to small businesses and individuals and is a leader in Internet finance. Ali Finance entered the consumer finance field by investing and acquiring Amap and UC, and buying stocks in offline entity resources such as Youku Tudou, Sina Weibo, Intime Business, Dingding.com, Qiongyouyou.com, and online education. Construct a consumer finance ecosystem from infrastructure, information layer, user layer and entity layer [8]. Ali Finance not only carries out credit evaluation for enterprises and individuals in terms of credit and consumption, but also facilitates the inclusion of all small and micro enterprises in the credit investigation system, and enables other online financing platforms to participate in the loan business of small enterprises, so that small enterprises get adequate fund guarantee. At the same time, the development of the credit information system provides a guarantee for various credit

DOI: 10.54254/2754-1169/46/20230313

platforms, such as rental car and personal transactions, which greatly improves the operation efficiency of various industries and promotes the development of the Internet finance industry and the real economy industry.

In short, the development of Internet finance has obvious positive effects on the development of the real economy. Due to various advantages of Internet finance, such as good liquidity, high profitability and the use of big data, it can collect and process information in a timely manner, greatly reduce the risk and cost of enterprise financing, and provide financial support for the development of the real economy, driving the continuous development of the real economy.

3.2. Internet Economy Hinders the Development of Real Economy

Due to the rapid rise of the Internet, the network has gradually become the source of information that people rely on, and traditional media began to be not used, making many real economy obsolete.

As can be seen from the table below, due to the emergence of the Internet, the virtual economy gradually prospered, which had a certain degree of impact on the real economy. In the early stage of reform and opening up, the proportion of real economy was between 93% and 98%. However, since the 1990s, the proportion of real economy dropped rapidly to 91%, while the proportion of virtual economy rose rapidly. The growth rate of the real economy even dropped from 36.49 percent in 1994 to 5.09 percent in 2015, and it did not pick up slightly until 2017. In general, the development of the real economy is relatively stable. The development of the virtual economy fluctuates greatly every year, but the total gap between the virtual economy and the real economy is also narrowing.

Table 1: Total amount of the virtual economy and the total amount of the real economy [9].

	GDP	Virtual economic aggregate	Real economic aggregate	% of virtual economy	% of real economy	Growth rate of real economy	Growth rate of virtual economy
2007	270844	15173.7	255670.3	5.60%	94.40%	22.29%	52.47%
2008	321500.5	18313.4	303187.1	5.70%	94.30%	18.59%	20.69%
2009	348498.5	21798.1	326700.4	6.25%	93.75%	7.76%	19.03%
2010	411265.2	25680.4	385584.8	6.24%	93.76%	18.02%	17.81%
2011	484753.2	30678.9	454074.3	6.33%	93.67%	17.76%	19.46%
2012	539116.5	35188.4	503928.1	6.53%	93.47%	10.98%	14.70%
2013	590422.4	41191	549231.4	6.98%	93.02%	8.99%	17.06%
2014	644791.1	46665.2	598125.9	7.24%	92.76%	8.90%	13.29%
2015	686449.6	57872.6	628577	8.43%	91.57%	5.09%	24.02%
2016	740598.7	61121.7	679477	8.25%	91.75%	8.10%	5.61%
2017	824828.4	65748.9	759079.5	7.97%	92.03%	11.72%	7.57%

And because the Internet has a lot of uncertainty, large-scale risk trading, illegal fund-raising, trading fraud and other accidents happen frequently. Among them, the largest case is the Ezubao case, which is the largest case involving the largest amount of money and the largest number of people in China's financial history. It successively absorbed a total of 76.2 billion yuan and involved more than 1,150,000 investors [10]. Due to the unreasonable pricing of Ezubao products, there is no clear information about suppliers and enterprises either on the website or in the agreement with consumers, which makes consumers need to bear high risks. In addition, in order to reduce transaction costs and expand popularity, Ezubao promotes itself through a large number of advertisements, such as

DOI: 10.54254/2754-1169/46/20230313

increasing its exposure on various Internet platforms, various public places with dense crowds and even through TV stations, so that consumers blindly trust and participate in it.

There are many other incidents like Ezubao, so there are still many defects in Internet finance. First, the regulatory system of Internet finance is not perfect. Many Internet financial platforms only need to submit data to the Industrial and Commercial Bureau for registration before they can apply to the Ministry of Industry and Information Technology for the establishment of a website. However, various regulatory departments do not review the credit degree and operation ability of Internet financial platforms, which makes the Internet financial industry a jumble. The low threshold allows all kinds of malicious people to enter at will. It greatly increases the risk of Internet finance. Second, many Internet financial platforms have not been integrated with the bank credit investigation system, which makes it impossible to unify the credit investigation standards. Although there have been legal provisions, the regulatory authorities have not implemented and improved the laws, and there are still many Internet fish that escape the net, leading to many consumers being deceived and suffering heavy losses.

Internet finance like this has swallowed up huge social funds and, to a certain extent, hindered the source of funds for the real industry and hindered the development of the real economy. The essential concept of Internet finance is an innovative financial model based on certain Internet tools to provide third-party payment, capital financing, information intermediary and other services [11]. We should make full use of science and technology to help the real economy develop better and promote national economic growth.

4. Conclusion

This paper analyzes the impact of Internet finance on the real economy from both theoretical and case studies, expounds the positive and negative aspects, and discusses the relationship between Internet finance and the real economy, so as to make digital finance better serve the real economy.

However, this study still has some shortcomings. First, the analysis of data is not perfect enough. The data of some prefecture-level cities in our country have defects, so the research results may be slightly biased. Second, the development of Internet finance is relatively short, and many researches done so far are not in-depth enough. They are more from a theoretical perspective.

And future research should be conducted from the perspective of the public, such as some market surveys and public interviews, to better explore consumers' views on Internet finance and real finance, and more data of Internet finance and real finance in various consumer markets should be used for analysis and comparison, so as to better draw research results and convince the public.

The author believes that more and more scholars will study this field in the future, hoping to better explore the relationship between Internet finance and the real economy, and studies how to use Internet finance to better promote the growth of the real economy and achieve our prosperity.

References

[1] *Men ShuShu. Digital financial impact on the real economy research [D]. Qufu normal university, 2022. The DOI: 10.27267 /, dc nki. Gqfsu. 2022.000489.*

[2] *It will be held in Beijingfrom December18to2, Wang Qishan, member of the Standing. Committee ofthe Political Bureau ofthe CPC Central Committee and secretaryofthe Central Commission forDisciplineInspectionandZhang Gaoli,member of the StandingCommittee ofthe Political Bureau ofthe CPC Central Committee andVice PremierofThe State Council attended the meeting(China Network 2023.6.23.17:39 http://www.china.com.cn/opinion/think/node_7233146.htm)*

[3] *He Shiyuan, 2015: "The Correlation between the New Business Form of "Internet + Finance" and the Development of Real Economy", Fiscal Taxation and Capital Market, 2015 No.7.*

[4] *Lin Xingtao, 2018: "The dilemma of Chinese real economy development, inducement and countermeasure research", "Shanxi Agricultural Classics", 2018 No.2.*

[5] *MBA think tank 2023.6.23.17:39 (https://wiki.mbalib.com/wiki/McKinnon)*
[6] *Marschak: In 1959, Marschak published the Review of Information Economics, which marked the emergence of micro-information economics and was one of the three most important Founder of micro-information e.(https://zhuanlan.zhihu.com/p/574977647)*
[7] *Jack Ma, born on September 10, 1964 in Hangzhou, Zhejiang Province, is the main founder of Alibaba Group.*
[8] *Guo Peilin, 2018: Analysis of the Economics of Internet Finance Based on the Case Analysis of Alibaba, China Market, 2018.*
[9] *China Statistical Almanac 2018, 3-1 GDP, website of the National Bureau of Statistics*
[10] *Lv Xiaoying. China's Internet financial impact on the real economy research [D]. Shanghai university of finance and economics, 2020, DOI: 10.27296 /, dc nki. Gshcu. 2020.000075.*
[11] *Lu Minfeng, Yang Liang. Strategic research on Internet Finance Driving innovation and Development of real Economy [J]. Journal of Hunan University of Finance and Economics,2015,31(06):5-11.*