*Forest Chemicals Review*
*www.forestchemicalsreview.com*
*ISSN: 1520-0191*
*March-April 2022 Page No. 1379-1385*
*Article History: Received: 08 February 2022, Revised: 10 March 2022, Accepted: 02 April 2022, Publication: 30 April 2022*

# Can Digital Financial Inclusion Affect the Sense of Gains of the Poor? Review and Prospect of Chinese Studies Literature

**Yang Gao**
School of Accounting, Shandong Youth University of Political Science, Jinan, Shandong 250103, China.

***Abstract:***

Poverty is a subjective feeling and value judgment, and a person's feeling of poverty is closely related to his expectation and his view of fairness. “Sense of gain” refers to a sense of satisfaction generated by a group as a result of obtaining economic and social benefits, which is a reverse definition of relative deprivation. China's rich experience in the field of digital poverty reduction finance has provided experience for more developing countries facing the challenges of digital transformation. In this paper, the systematic literature research method is used to review and sort out the relevant empirical literature on improvement of the poor groups’ financial power in China through the development of digital inclusive finance in the past decade, refine and review the research results of these literature, and discuss and explore possible research directions in the future in combination with the current reality. The development of digital inclusive finance has achieved remarkable results in enhancing the poor people's sense of obtaining financial power, whose broad consensus in academic circles exists in the facts that firstly, financial exclusion is the key factor causing poverty, especially that caused by the antagonism between urban and rural dual economic structures in China, which urgently needs to be alleviated by innovation in inclusive finance; secondly, the "sense of deprivation" regarding financial power brought by the digital divide still exists despite the significant increase in the financial access of poor farmers in recent years; and thirdly, finance affects the probability of poverty, i.e. households that are financially excluded have a higher probability of falling into poverty. There are three major risks lead to the use of Internet financial resources by poor farmers to form new types of financial exclusion with multi-dimensional and dynamic characteristics, such as instrument exclusion, assessment exclusion and self-exclusion. The digitalization in inclusive finance does not necessarily produce the expected poverty reduction result and fails to completely solve the financial exclusion. However, how to realize the fairness and common benefits of inclusive finance is an important issue concerned by domestic and foreign scholars. In the future research, three aspects should be covered as following: (1) The poverty reduction effect of inclusive finance digitalization in different economic regions and the existence of Matthew effect should be measured; (2) The research should start with the financial needs of relatively poor family units, and then consider the realistic performance of new financial exclusion. (3) It is necessary to systematically design an index system to measure the degree of the new type of financial exclusion to explore this issue in depth.

*Forest Chemicals Review*
*www.forestchemicalsreview.com*
*ISSN: 1520-0191*
*March-April 2022 Page No. 1379-1385*
*Article History: Received: 08 February 2022, Revised: 10 March 2022, Accepted: 02 April 2022, Publication: 30 April 2022*

***Keywords**: Digital inclusive finance, Sense of gains, A sense of deprivation, New financial exclusion.*

## I. INTRODUCTION

Poor groups are in a difficult position in social and economic life due to their relatively low economic income, so they are more likely to have a relative sense of deprivation. "Sense of gain" refers to a sense of satisfaction generated by a group as a result of obtaining economic and social benefits, which is a reverse definition of relative deprivation. As the goal of the Chinese government's anti-poverty work over the past 40 years, the promotion of the sense of empowerment and ability of the poor groups has achieved remarkable results.

In China, the number of poor people decreased from 98.99 million by the end of 2012 to 5.51 million by the end of 2019, reducing poverty by more than 10 million per year for seven consecutive years. During the "Thirteenth Five-Year Plan" period, the per capita net income of poverty-stricken people registered nationwide increased from 4,124 yuan in 2016 to 9,057 yuan in 2019, with an average annual growth rate of 30%. After the large-scale elimination of "absolute poverty", the "relative poverty" will also exist for a long time. With the income proportion method, 50% of the median in disposable income of urban households and 40% of the median in rural per capita disposable income are taken as the relative poverty standard of urban and rural areas respectively. According to this standard, in 2019, the national relative poverty rate was 12%, the urban and rural relative poverty rates were 5.8% and 21.5% respectively, the national relative poverty population was about 168 million, the urban relative poverty population was about 49.21 million, and the rural relative poverty population was about 119 million, which means that in the relative poverty stage, China will face the dual challenges of a large scale of rural poor population and a large increase in the urban poor population. Moreover, many poor people are far from the "quality of life" in first-tier cities even if they are lifted out of poverty. Such a situation poses a continuing and significant challenge to innovation in poverty alleviation measures and long-term mechanisms for alleviating relative poverty.

## II. THE DEVELOPMENT OF DIGITAL FINANCE AND THE SENSE OF FINANCIAL POWER ACQUISITION OF POOR GROUPS

Poverty is a subjective feeling and value judgment, and a person's feeling of poverty is closely related to his expectation and his view of fairness. Different from absolute poverty that depends on objective standards, relative poverty mainly comes from the gap between people, that is, inequality in material, resources, opportunities and rights. Although the Chinese government has ended its battle to eradicate absolute poverty in 2019, relative poverty, like most countries, will surely persist. When it comes to the concept of relative poverty, we have to mention the sense of relative deprivation, which was first put forward by American Scholar S. A. Stouffer, and then developed by R.K. Merton into a theory of group behavior, which refers to the sense of deprivation when people compare their situation with a certain standard or a certain reference and find themselves at a disadvantage. The concept of relative poverty is evolved from the relative deprivation, and financial exclusion reflects the relative deprivation of financial

*Forest Chemicals Review*
*www.forestchemicalsreview.com*
*ISSN: 1520-0191*
*March-April 2022 Page No. 1379-1385*
*Article History: Received: 08 February 2022, Revised: 10 March 2022, Accepted: 02 April 2022, Publication: 30 April 2022*

power, which has long been the problem to be solved in inclusive finance. Although experience both in the country and abroad has shown that the provision of microcredit can significantly improve the income and living standards of the poor, implementation in inclusive finance is often limited to the "impossible trinity", i.e., achieving the three objectives of controllable risk, controllable cost and scale development at the same time. The defect of traditional microfinance credit model leads to the dilemma of "mission drift" of microfinance institutions under the pressure of survival and profit, which also limits the inclusiveness of microfinance. However, digital inclusive finance, as an important means and method of structural reform on the supply side of finance, provides new ideas for further promoting financial inclusion and poverty alleviation, and breaks through the practical difficulties of traditional financial poverty alleviation with the help of financial technology advantages. On the basis of promoting the balanced allocation of financial resources between urban and rural areas, it effectively solves the contradiction of dual goals of financial poverty alleviation, and brings more poor and weak groups into the precise portrait goal, thus effectively improving the financial availability of poor and remote areas.

With the continuous deepening of the cause of inclusive finance in China, an ecosystem has now been formed in China, with banks and other financial institutions, non-bank financial institutions, internet giants, financial and technological enterprises as the service subjects, the "agriculture, rural areas, and farmers" services, targeted poverty alleviation, small and micro enterprise financing and smart city construction as the service objects, the payment system, credit system, property rights trading market as the infrastructure, and the policy system and law as the institutional guarantee. The relevant research experience and literature are also gradually enriched.

## III. ACADEMIC CONSENSUS AND DIVERGENCE ON POVERTY REDUCTION EFFECT OF DIGITAL INCLUSIVE FINANCE

Digitalisation in inclusive finance refers to a new generation of services in inclusive finance that combines new technologies such as 5G, cloud computing, big data and artificial intelligence with traditional financial services. Financial exclusion refers to the phenomenon that economic entities cannot meet their basic financial needs due to the lack of adequate ways or means to access the mainstream financial products and services, including savings exclusion, payment exclusion, insurance and credit exclusion. Relative poverty refers to the inequality in the distribution of wealth, income and rights, that is, a relative sense of deprivation. Financial exclusion reflects the relative sense of deprivation of financial power.

In China, the earliest development of inclusive finance can be traced back to 1979 when the United Nations Development Programme provided loans for poverty alleviation and rural development projects in China, which started with landmark policies and events. The concept of inclusive finance was first put forward by the United Nations in 2003, and formally introduced into China in 2006, which was highly valued and promoted. Although there has been a dispute over the definition of inclusive finance in the academic circle, there is a broad consensus that: First, financial exclusion is the key factor contributing to poverty, and inclusive finance is only needed due to the financial exclusion caused by the confrontation

Forest Chemicals Review
www.forestchemicalsreview.com
ISSN: 1520-0191
March-April 2022 Page No. 1379-1385
Article History: Received: 08 February 2022, Revised: 10 March 2022, Accepted: 02 April 2022, Publication: 30 April 2022

between the urban and rural dual economic structures in China [1]; Second, although the financial accessibility of farmers has been significantly improved with the implementation of the National inclusive finance Strategy, the rural financial exclusion problem still exists [2]; Third, financial exclusion affects the probability of poverty, that is, households subject to financial exclusion have a greater probability of falling into poverty. [3]

In recent years, financial science and technology have developed by leaps and bounds. Especially after the adoption of the *G20 Digital inclusive finance Advanced Principles* at the G20 Summit in 2016, the advancement and deepening of digitalization in inclusive finance is regarded as an unstoppable development trend. There are two schools of research conclusions in academic circles:

One argues that digital poverty reduction in inclusive finance has both direct and indirect effects and has effectively reduced financial exclusion: Digitalization in inclusive finance is characterized by breaking the constraints of time and space, low threshold, quick transaction and low transaction cost, and helps farmers by providing savings and loans, smooth consumption and convenient payment, which can effectively expand the coverage and penetration rate of inclusive finance and improve the efficiency of financial resource allocation. [4] The empirical results show that digital technology can provide the poor and long-tailed people with access to financial services, increase the possibility of poverty alleviation, significantly reduce the income gap between urban and rural residents, and indirectly alleviate poverty by promoting economic growth and improving income distribution, with certain spatial spillover effects. [5,6] Not only that, inclusive finance combined the "ubiquity" characteristics of the Internet to include more poor and weak groups in the target of accurate portrait, which expanded the possible boundary of financial transactions and reduced the financial exclusion caused by traditional financial institutions [7,8]

While others argue that poverty reduction through digitalization in inclusive finance is ineffective, it has created a new type of financial exclusion: The effect of poverty reduction in inclusive finance is not nonlinear, but influenced by the level of economic development, and shows a remarkable single threshold feature. [9] However, the "information cocoon effect" caused by digital gap and knowledge gap not only aggravates the income gap between non-poor households and poor households [10], but also leads to an increase in the unemployment rate and incidence of poverty among poor residents, a deepening of multi-dimensional poverty, and an increase in the impact year by year [11], probably because the development of internet finance has exacerbated the financial exclusion of people who do not have access to computers and the internet, and is even more disadvantageous to the disadvantaged groups with low education and older age. In addition, there are three major risk defects in the process of digital operation in inclusive finance, that is, the digital divide defect, the risk of failure of social benefit objectives due to business sustainability, and the risk defects caused by "de-risk" in digital inclusive finance institutions, which have led to the emergence of new types of financial exclusion, especially in rural areas. The digital divide leads to technical financial exclusion from rural areas by financial institutions, market-based financial exclusion from rural areas due to the pursuit of commercial sustainability, and risk-based financial exclusion from rural areas due to the "de-risk" of digital inclusive finance institutions. These three major risks lead to the use of Internet financial resources by poor farmers to form new types of

*Forest Chemicals Review*
*www.forestchemicalsreview.com*
*ISSN: 1520-0191*
*March-April 2022 Page No. 1379-1385*
*Article History: Received: 08 February 2022, Revised: 10 March 2022, Accepted: 02 April 2022, Publication: 30 April 2022*

financial exclusion with multi-dimensional and dynamic characteristics, such as instrument exclusion, assessment exclusion and self-exclusion. [12]

## IV. RESULTS

In summary, the digitalization in inclusive finance does not necessarily produce the expected poverty reduction result and fails to completely solve the financial exclusion. However, how to realize the fairness and common benefits of inclusive finance is an important issue concerned by domestic and foreign scholars. There are still some deficiencies in the existing research. First, most researchers only focus on Internet finance and lack of combing the complicated interaction between digitalization and financialization; Secondly, the research on the effect of digitalization on poverty alleviation in inclusive finance is old and does not match the rapid development of financial digitalization in China. It only stays at the provincial level and lacks recent micro-evidence starting from the county level. Third, there is a lack of empirical evidence about the new type of financial exclusion caused by the digitalization of inclusive finance. Therefore, it is planned to improve from the following aspects: first, the concept and connotation of digitalization in inclusive finance should be redefined, and the interaction between digitalization and financialization should be comprehensively and systematically analyzed; second, the poverty reduction effect of inclusive finance digitalization in rural areas and the existence of Matthew effect should be studied from the supply side; and third, the existence of new financial exclusion should be explored from the demand side from the perspective of "relative deprivation", the development degree and influencing factors should be analyzed, and countermeasures should be put forward.

## V. CONCLUSIONS

Regarding the direction of academic research in the future, scholars should theoretically construct the concept of digital finance exclusion and systematically study the causal chain and action mechanism of the influence of digitalization and financialization on relatively poor groups, which will help to enrich the research content of digital finance, and deeply explore the influence of financial digitalization on the financial activities of relatively poor farmers and the influencing factors of their behavioral decisions, broaden the existing research ideas of digital finance and financial exclusion, and provide theoretical support and empirical basis for the establishment of a fair and effective income distribution system. In addition, previous studies only proposed the possible theoretical basis for the new type of financial exclusion, but did not provide evidence for empirical studies. In this study, the focus is put on the performance of new financial exclusion, and the index system to measure the degree of new financial exclusion is designed systematically and its influencing factors are explored to achieve the concretization and systematization of the concept of new financial exclusion.

In terms of applied research, the exclusion degree of rural digital finance should be compared and differentiated from the regional perspective in the future. The study on the poverty reduction effect of digitalization in different regions of inclusive finance from the supply side and the impact of financial digitalization on the financial activities of relatively poor farmers provides a useful reference for the poverty alleviation and financial sector in China and provinces to formulate relevant policies in the process of financial poverty reduction in the "post-poverty era", and helps agricultural financial institutions to improve the financial inclusion and service efficiency of digital services. Moreover, the influencing factors of digital financial exclusion of relatively poor families are studied from the demand side, and the deep-seated reasons leading to "relative deprivation of financial power" are explored through social investigation and in-depth interviews.

Therefore, the theory is integrated with practice to clearly show the complex interaction between digitalization and financialization in specific situations in China, thus getting a more accurate and universal theory.

## ACKNOWLEDGEMENTS

This research was supported by Shandong Social Science Planning Fund Program under Grant No. 20CLYJ54, Shandong Scientific R&D programs of universities under Grant No. J18RA086 and Shandong Higher Education "Youth Innovation S&T plan" team under Grant No. 2020RWG008.

## REFERENCES

[1] Su F, Fang L (2016) "Active government" and the development of rural inclusive finance: based on "thousands villages investigation" of SUFE in 2015. Journal of Finance and Economics 12:72-83
[2] Tan YZ, Sui ZY, Zhang ZH, et al. (2016) A Study of Rural Microcredit Companies' Network Layout and Effectiveness of Supporting Agriculture: A Case Study of 355 Microcredit Companies in Eastern, Middle and Western Areas. On Economic Problems 08:87-93
[3] Dong H Zhang (2020) Can Financial Inclusion Improve the Quality of Poverty Reduction: Analysis Based on Multidimensional Poverty. South China Journal of Economics 10:56-75
[4] Yao Y, Shi D, Finance SO, University ZG (2017) Exploring regional differences in development of internet finance: perspectives of path dependence and government interference. Journal of Financial Research 5:127-142
[5] Liang S, Liu (2019) Digital inclusive finance and the income gap between urban and rural areas. Journal of Capital University of Economics and Business. P & Y University
[6] Liu S, Zhu D, Liu Y (2017) The analysis on advantages and disadvantages, specific practices and path selection of digital inclusive finance's promoting poverty alleviation. West China Finance 4:87-89
[7] Leng CX, Chen QH, University CA (2017) Current situation and influencing factors of internet financial use of rural residents in poor areas. Finance and Trade Research 11:42-51.
[8] Yang Y, Chen FU (2019) The effects of china's rural inclusive finance on targeted poverty alleviation. China Economic Transition 2:24-30
[9] Liu D, Fang R, Tang Y, et al. (2019) Spatial spillover effect of digital inclusive finance on farmers' off-farm income. Financial Economics Research 9:22-28
[10] Liu B. (2020) Does Financial Literacy Weaken Household Financial Vulnerability? South China Journal of Economics 10:76-91

*Forest Chemicals Review*
*www.forestchemicalsreview.com*
*ISSN: 1520-0191*
*March-April 2022 Page No. 1379-1385*
*Article History: Received: 08 February 2022, Revised: 10 March 2022, Accepted: 02 April 2022, Publication: 30 April 2022*

[11] He ZY(2020) Digital Finance, Digital Divide, and Multidimensional Poverty. Statistical Research 10:79-89
[12] Wu BJ (2021) The Influence of Digital Technology Access on the Subjective Relative Poverty in Rural Poor Areas. Rural Finance Research 6:59-68