

## *Original Paper*

# Digital Finance Drives High-Quality Economic Development

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### ***Abstract***

*It can be defined as the use of digital technologies by traditional financial institutions as well as web-based enterprises to facilitate financing, payments, investment, and other innovative financial business models. High-quality economic development aims at facilitating the shift of economy towards quality-driven growth through comprehensive reforms and innovations with the focus on sustainable development, social inclusion, innovation-based growth and environmental conservation. With constant developments in information technology moving rapidly, digital finance has become increasingly important to the world economy, and has become one of the most significant drivers of innovation in financial systems. Not only it helps to popularize financial services but also makes an important contribution to enhancing economic efficiency, optimizing the allocation of resources and promoting high-quality economic development. In this paper, it will discuss the present situation and tendencies of the development of digital finance, its position in ensuring the high-quality economic development, and will provide policy suggestions to make it more effective in this aim.*

### ***Keywords***

*High-Quality Economic Development, Digital Finance*

## **1. Introduction**

High-quality development is the most effective and sustainable type of economic development. Innovation is the central catalyst and coordination is a vital characteristic. The green development is the global solution, the openness is the primary path, and the ultimate purpose is to obtain common gains. China's digital finance, which has been a major catalyst of economic development in the country, is growing fast, in terms of scale and impact. It is also important in stimulating consumption, encouraging investment and creating employment opportunities. With the Chinese economy entering a new normal, there has been a shift in focus away from the idea of rapid growth towards the concept of high-quality development. Such a move towards high-quality development is a natural demand of the need to constantly meet the rising expectations of the population to achieve higher living standards, a basic

mechanism to solve the issues of unbalance and underdevelopment in the economy, and a natural choice to implement the new development concepts. The engine of economic growth is gradually changing, whereby the drivers are becoming factors that are no longer led by investment but rather by innovation, shifting investment-driven growth to total-factor growth. The key to overcoming such challenges as declining marginal returns on investments, the loss of demographic dividends, ecological pressure, and obstacles to technological innovation is to transition out of an investment-based growth model to an innovative-based growth model. Digital finance Digital finance can also be seen as the key driver of economic growth, which is an essential tool in the promotion of high-quality economic development, which is an essential tool in high-quality economic development<sup>1</sup>. The manner in which it finances its projects and the amount of money used will have a significant bearing on the quality of economic development.

Digital finance is a blend of digital technology and financial innovation which takes advantage of the internet of things, big data, cloud computing and artificial intelligence to provide financial services that are efficient, accountable, and commercially viable to a greater range of economic players. It is in line with the objectives of high-quality economic development as it makes sure that financial services are supportive of the actual economy, the outcomes of economic and social advancement are shared and inclusive growth is encouraged. Consequently, there is an increased debate on the effective use of digital finance to drive the high-quality development of China both in government and in society.

The existing digital finance studies mainly focus on the micro level. To give a more accurate picture of the development of digital finance in China, the Peking University Digital Finance Research Center together with Ant Financial Group developed the China Digital Inclusive Finance Index. Extending this index, researchers have started studying the impact of digital finance on China's real economy and have produced numerous useful findings. Other studies show that digital finance can alleviate financing constraints, encourage technological innovation in enterprises, create employment opportunities, develop the level of entrepreneurship, optimize industrial structure, boost overall factor productivity, facilitate the digitalization of enterprises, decrease emissions of pollution, and impact other aspects like the income disparity between enterprises and corporate risk-taking. At the macro level, studies mainly examine how digital finance can be used to reduce relative poverty, increase the level of consumption, enhance economic resiliency, and investigate the differences in the behavior of banks and rural consumption patterns across different regions. At present, studies of high-quality economic development are mainly focused on measuring the levels of economic quality development, regional disparities, and dynamic changes in distribution. Moreover, there are other researchers who have analyzed the coupling connection between regional technological innovation and the progress of high-quality economic development, along with the consequences of fiscal expenditure, COVID-19 pandemic, construction of infrastructure, financial technologies, environmental policies, aging population, and pollution on promoting high-quality economic development. The available studies show that digital finance has a multidimensional and complicated effect on the development of high-quality economic development. It has to be noted that

the attempt to achieve high-quality economic development and digital finance has serious economic implications. Digital finance is the application of mathematical models and methods to analyze, price and manage risks in financial markets and financial instruments usually with a focus on quantification analysis and mathematical models to explain the behavior of the market, asset pricing, derivatives pricing and financial risk assessment and management. High-quality economic development is not only characterized by a steady increase in output but also includes enhancing the industrial structure and increasing the total factor productivity. Particularly, high-quality economic development requires switching between "the quantitative extension" and "the qualitative development" and between "scale extension" and "structural optimization," and between "factor-driven" and "innovation-driven."<sup>2</sup> Nevertheless, there is a significant question: what pathways are most commonly used by the digital economy to promote high-quality development? The answer to this question has not been provided by current research. This paper provides strong support to the fact that high-quality economic development should be promoted to deal with this problem.

## **2. Digital Finance and High-quality Economic Development**

### *2.1 The Evolution of Digital Finance in China*

The convergence of internet technology and financial services brought about in recent years the concept of digital finance<sup>3</sup>. Financial exclusion has been a challenge to traditional financial development, as small and medium-sized enterprises (SMEs) and other weaker players have found it difficult to obtain financial services. This is a matter that has become even more pressing in terms of inclusive finance. Nevertheless, inclusive finance also has its own challenges, especially in achieving a balance between commercial sustainability and inclusiveness. Although the two concepts are closely related, digital finance is more concerned with the term "finance" instead of simply "technology". Its goal is to make the financial system more inclusive with the help of digital technologies that eventually serve the real economy.

### *2.2 Digital Finance as a crucial Driver for High-Quality Economic Development*

Finance is the bloodline of current economic development and the sound growth of the economy will depend on the high degree of financial support. The traditional financial system in China is quite poorly developed, there are few physical service networks and this has been a major constraint to the high-quality economic development. Digital finance uses new technologies such as big data, blockchain, and artificial intelligence to extend the scope of financial services <sup>4</sup>, considerably lower the costs, improve the convenience, and increase the efficiency and quality of financial services, thus promoting high-level economic growth. Besides, digital finance is more efficient in allocating financial resources because it helps better align the financial supply and demand and raise the quality of financial services contributing to the improvement of high-quality economic growth.

### *2.3 Pathways for Digital Finance can Drive High-quality Economic Development in Regions*

The natural benefits of digital finance, i.e., the transmission of information across space and time,

generation and sharing of data, and much lower costs of transactions, can well resolve the contradictions between the supply and demand of the high-quality factors of economic development, space constraints of the economy, find a solution to the equity-efficiency problem. In addition, digital finance increases the value of the relevant information because of data collection and mining, decreases informational asymmetry in the financial services, and minimizes the moral hazard and adverse selection in the investment and financing processes. Concurrently, the reduced market entry barriers increase sources of funding, decrease capital costs and enhance the efficiency of transactions. Additionally, the use of massive data mining and artificial intelligence to match risk and returns greatly contributes to the effectiveness of risk management when allocating capital resources. Such capital allocation effect leads to more effective financial support of economic development which facilitates high-quality growth. Conversely, digital finance disrupts the so-called 80/20 rule in financial services whereby historically, financial services were not friendly to long-tail customers since they could not access capital. With the ever-evolving form of digital finance, small and micro companies, innovators, and those dwelling in remote areas have the capability to get the financial aid they require. Digital finance resolves the problems of imbalanced and inadequate development in China by offering entrepreneurial, employment and consumption financial services. It allows underdeveloped regions to access financial assistance and develop by leaps and bounds and underdeveloped areas also get the required finances to grow further. This promotes a more sensible industrial, and market, regional development and opening, making the allocation system more efficient and finally meeting the demands of all the population to lead a higher quality of life. The social contradiction transformation is a major driver of promoting high-quality development. The inclusive nature of digital finance undoubtedly resolves this contradiction by creating high-quality development in various fields of society. Based on this, we present our first research hypothesis:

H1: Digital finance contributes to achieving high-quality development.

Digital finance is an essential task of improving industrial productivity, innovation capacity, and market competitiveness through the introduction of technological and financial service innovations. Digital finance is a strong addition to the traditional finance that creates an inclusive setting that encourages innovation, allows innovative individuals to develop meaningful connections with the target of their innovation, and addresses possible "structural gaps" in the process of innovation. First, digital finance uses the latest technologies including artificial intelligence, big data, and blockchain to reduce the asymmetric nature of information in investments and financing in order to reduce the cost of searching information and transacting and better match risks and returns. There are more details about logistics, information flows, and capital flows that are included in the system of risk assessment and pricing, which decreases financing friction and increases the likelihood of successful financing. Finally, digital finance is much more efficient in delivering financial services, has less transaction costs and extends the scope of financial services. Especially in the areas where it has not been possible to reach effectively with traditional financial systems, such as SMEs, rural inhabitants or low income groups, digital finance allows those groups to use easy, inexpensive financial services, such as mobile payments or online loans,

overcoming geography, time, and capital limitations in traditional banking. Hence, digital finance is very useful in helping small and medium-sized businesses to surmount financial obstacles to innovation, reviving their research and development efforts and ensuring a steady pace in the overall performance of innovation. Finally, digital finance offers financial and technological assistance towards the digitalization of traditional industries. Most traditional industries suffer the so-called digital divide, where poor information technology and automation hinder their productivity and competitiveness in the marketplace. Digital finance gives these enterprises a flexible source of financing and encourages them to innovate and upgrade using financial technology<sup>5</sup>. Given that, we come up with the following research hypothesis:

H2: Digital finance fosters high-quality regional economic development by driving innovation.

Synergy between industries and integration of urban and rural regions is an important feature of development of a high quality. Digital finance contributes to the digitalization and intellectualization of the traditional industries, innovates in the new industries, and promotes the closer integration of financial services into the industrial chains, which jointly propel high-quality economic development in different perspectives. To begin with, digital finance facilitates the financing requirements of the emerging industries by allowing innovative and technology-based companies to easily get capital, hence speeding up the development of the industries. The digital economy, green energy, artificial intelligence, and biomedicine are some of the emerging industries which frequently require large investments and risky research and development costs. Digital finance, with its innovative financial instruments such as equity crowdfunding, venture capital, and debt financing, offers adequate capital assistance to these sectors, allowing the vigorous growth of these emerging industries. Thirdly, digital finance extends the information search space and modifies the mode of data processing, making it possible to identify risks and prevent their occurrence more effectively and thus protect the sound development of these sectors and the financial system. Digital technologies bring the idea of boundaryless finance into reality, and erase the financial divides between cities and villages, as well as between the various regions, bringing them into the same sphere of financial services and promoting the balanced development of regions. Finally, digital finance allows the close integration of financial services with industrial chains, and it helps to optimize and upgrade the industrial chains. With the help of supply chain finance and industry chain finance, enterprises have the opportunity to receive fast financing, eliminate capital turnover periods, and optimize the management of stock. Such a deep integration not only optimizes the performance of organizations within the industrial chain but also strengthens the whole chain in terms of resiliency and risk resistance. On this basis, we are presenting the third research hypothesis:

H3: Digital finance fosters high-quality regional economic development by optimizing industrial structures.

In a more limited way, digital financial services, such as digital payment and online credit, are eco-friendly financial services. More widely speaking, the essence of green finance is the internalization of the externalities of environmental problems and the balancing of environmental behavior which does not pay or compensate through policy direction or pricing. As a type of public good with considerable

externalities, digital finance may and ought to be compatible with green finance. Digital finance drives high quality regional economic growth by promoting the development of the green economy as a new source of momentum. It can help green industries including environmental protection initiatives, clean power, and low-carbon technologies by funding them with green financial tools such as green bonds and green funds. The green project financial support provided by digital evaluation models is more accurate, and technologies such as blockchain enhance transparency and efficiency of fund use, increasing market confidence in green investments. Besides, digital finance provides enterprises with low-cost, easy-to-access green financing options, enabling them to quickly embrace the green transformation and conserve resources as well as protect the environment. Not only will it optimize the industrial structure of the region and increase the competitiveness of green industries, but also contribute to the realization of the goals of sustainable development, balancing the interests of economic growth and environmental preservation, and pushing forward the shift of the regional economy towards the green, low-carbon, and efficient orientation. Given this, our suggested research hypothesis 4 is:

H4: Digital finance promotes high-quality regional economic development by driving green economy.

### **3. Conclusion and Policy Recommendations**

#### *3.1 Conclusion*

The high pace of digital finance growth is a new impetus to the development of the economy to the higher quality level. Because of the role it plays in enhancing financial inclusion, resource allocation optimization, and facilitation of industrial digital transformation, the importance of digital finance to high-quality economic development cannot be overemphasized.

#### *3.2 Policy Recommendations*

To begin with, there is a need to create supportive policies that will enable the close integration between technology and finance. Besides protecting against risks, there must be enough room to give space to pilot projects so as to encourage and develop the supportive industries that can form a strong basis on which to build the capacity of digital financial services and promote innovation.

Thirdly, the development of the digital finance requires additional improvement and growth of the financial system. The conventional financial organizations (particularly banks) need to adopt the digital finance phenomenon and channel the resources into companies that have the highest innovation potential and can raise the level of financing.

Third, a complex regulatory mechanism ought to be reinforced in order to alert about possible dangers in the sphere of digital finance. In order to achieve a balance between risk management in finance and innovation development in the real economy, the development of a more advanced regulatory framework is necessary.

Fourthly, it is important to balance the old and new forms of finance so that their advantages can be complementary. Digital finance technologies must be adopted by traditional financial institutions in order to increase the level of service efficiency and promote digital transformation.

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