

The Two-sided Impact of Financial Agglomeration in the Context of Digital Economy

-- A Comparative Analysis Based on Traditional Finance and Internet Finance

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Abstract: With the rapid development of information technology, the digital economy has become a major force driving global economic growth. This study aims to investigate the two-sided impact of financial agglomeration on small and medium enterprises within the digital economy, especially focusing on the distinctions between traditional finance and internet finance during this phase. Adopting methods such as literature review, comparative research and experience summary to systematically analyze the theoretical framework of financial agglomeration and its two-sided impact on small and medium-sized enterprises. The study found that although both forms of finance can promote the development of small and medium enterprises through agglomeration, internet finance has more advantages in innovation and improving the popularity rate of financial services. In the meantime, traditional finance and internet finance have different emphases in serving small and medium enterprises, interdependent and competitive, jointly shaping the pattern of modern financial service industry.

Keywords: Digital economy, Financial agglomeration, Traditional finance, Internet finance.

1. Introduction

With the the popularization of Internet technology, the digital economy is known as an important force driving global economic growth, profoundly changing the operation mode of traditional industries. Among them, financial industry is a vital of economic development, and its agglomeration phenomenon has attracted extensive attention. The influence of financial agglomeration on economic development is significant and double faced. It optimizes resource allocation and improves service efficiency. Meanwhile, it is accompanied by problems such as concentrated financial risks and unbalanced services. In this context, traditional finance and internet finance show different service models and effects when serving small and medium-sized enterprises. Therefore, this study uses literature review, comparative study and experience summary methods to explore the doubled impact of financial agglomeration on small and medium-sized enterprises in the digital economy, and pays special attention to the different roles of traditional finance and internet finance in this process. It systematically compares the advantages and limitations of traditional finance and internet finance in the development of small and medium-sized enterprises. And it has positive significance for managing risks in financial markets and ensuring the stability and sustainability of the financial market.

In the new era, research on financial agglomeration mostly focuses on promoting green development through financial agglomeration [1, 2], the role of industrial agglomeration in new urbanization [3], the interconnection between the big data industry and financial clustering [4], and financial agglomeration serving comprehensive rural revitalization [5], and other aspects. In recent years, research on financial agglomeration has begun to pay attention to the reshaping of traditional financial aggregation patterns by internet finance. Compared with foreign research, domestic research pays

more attention to the development trend of Internet finance itself and its challenges to the traditional financial industry. At present, there are various studies at home and abroad on the impact of financial agglomeration. However, there are still some gaps, especially in the context of the doubled impact of financial agglomeration in the digital economy, the comparative analysis of traditional finance and internet finance in serving small and medium-sized enterprises is still insufficient. This study aims to fill this gap and provide a new perspective for financial agglomeration, exploring the dual roles of traditional finance and internet finance in the development of small and medium enterprises and raise policy recommendations.

2. Theoretical Basis of Financial Agglomeration

2.1. Definition and Connotation of Financial Agglomeration

Financial agglomeration refers to the phenomenon of high concentration of financial resources. related institutions and service industries in a specific geographical area (Kindleberger, 1978). Such clustering encompasses not just the tangible consolidation of financial entities, but also the consolidation of financial markets, financial data, human resources, among other elements. The purpose of financial agglomeration is to effectively promote sustainable economic growth by optimizing the allocation of financial resources and improving financial service efficiency.

2.2. Development History of Financial Agglomeration with Three Theories

The development history of financial agglomeration is closely related to location theory, neoclassical economic growth theory and endogenous economic growth theory. The concept of financial agglomeration originated from location

theory at the earliest while the location choice of financial institutions is the micro foundation and necessary condition of financial agglomeration [6]. Then this financial agglomeration developed with Neoclassical economic growth theory and Endogenous economic growth theory. These three theories together constitute a comprehensive framework for analyzing the impact of financial agglomeration and gradually formed its current meaning with the development of economy and the evolution of financial market. From the simple concentration of banks and insurance companies at the beginning to the formation of comprehensive financial agglomeration service clusters now, financial agglomeration has experienced an expansion process from single to multiple, from local to global. Judging from the development and evolution path, the spontaneous formation of financial industry agglomeration in the market follows the development path of "economic and trade growth - financial market development - financial system improvement - financial institution agglomeration - financial industry agglomeration"; the government-led financial industry agglomeration presents the path of "institutional and policy supply - financial market development - financial institution agglomeration" [7].

3. Analysis of the Current Situation of Financial Agglomeration in the Digital Economy Era

3.1. Characteristics and Development Trends of The Digital Economy

3.1.1. Definition and connotation of the digital economy

The digital economy is a new economic model that uses digital knowledge and information as the core production factors and modern information networks as the main carrier. It uses effective information and communication technology to improve work efficiency and optimize economic structure. The core of the digital economy is to use technological innovation like big data, cloud computing to improve production efficiency, promoting the transformation and upgrading of the economic structure and adding new development impetus into the economy in this process.

3.1.2. Impact of the digital economy on financial agglomeration

The digital economy has brought many impacts on financial agglomeration. The progress of digital technology has slowed down the growth of marginal cost of financial services to a certain extent, enabling various financial entities to use their service networks more widely, thus further dispersing traditional financial agglomeration. From another perspective, digital economy has given birth to new financial service models such as internet financial platforms [8]. Most of these platforms tend to gather in cities or regions with advanced technology and dense talents, thus shaping new financial agglomeration centers. The digital economy also enhances the knowledge spillover effect and network externality of financial agglomeration in promoting the agglomeration of financial assets. This is mainly because the rapid flow of digital information makes the cooperation and competition relationship between financial institutions closer.

3.2. Analysis of the Two-Sided Impact of Financial Agglomeration

3.2.1. Positive impact analysis

Financial agglomeration, a key aspect of contemporary financial markets, positively influences economic expansion and the growth of enterprises in various ways. This approach fosters technological advancements, harmonizes development across regions, streamlines the distribution of resources, enhances business efficiency among other facets, and offers robust backing for the growth of the actual economy. Meanwhile, financial institutions in the agglomeration area can share infrastructure and professional human resources and reduce the cost of redundant construction. Financial agglomeration will also create favorable conditions for the green development of traditional industries such as manufacturing industry and promote green and low-carbon transformation [9]. Financial agglomeration is also conducive to promoting the flow of production factors, improving production efficiency. In addition, financial agglomeration can also promote the exchange of information, accelerate the pace of innovation and improve the overall competitiveness.

3.2.2. Negative impact analysis

Although financial agglomeration can bring a series of benefits, it may also cause some negative impacts. For example, excessive concentration of financial resources may lead to uneven distribution of financial resources, aggravating economic imbalance between regions, and further lead to the exhaustion of funds in other regions. Meanwhile, excessive financial agglomeration may have a negative effect on the real economy. On the one hand, since many funds flow to high-return but high-risk fields such as real estate, rather than supporting the upgrading of manufacturing industry or other long-term investment projects, this may lead to an imbalance in industrial structure and affect the country's overall competitiveness. On the other hand, highly concentrated financial institutions may increase systemic financial risks. Once a crisis occurs, the scope and degree of its impact on society and economy may be amplified because the excessive concentration of risks. Secondly, the network economic effect of financial agglomeration connects most of the subjects in a region into a financial network, which may lead to excessive liquidity of funds. This excessive liquidity of funds may lead to the rapid flow of funds between different regions and industries, and increases the instability of financial markets.

4. Comparative Analysis of Traditional Finance and Internet Finance

4.1. Service Status of Traditional Finance for Small and Medium-Sized Enterprises

4.1.1. Advantages and limitations of traditional finance

Traditional finance refers to financial institutions with a long history and mainly existing in physical form, such as commercial banks and credit cooperatives. These institutions are often composed of some large banks and government institutions, and usually have strong financial capabilities, a large customer base and a mature risk management system. This gives them obvious advantages in providing large loans, long-term credit and complex financial products. However, traditional finance also has certain limitations in serving small and medium-sized enterprises, such as long approval process, high threshold and lack of innovation ability.

4.1.2. Service models and challenges for small and medium-sized enterprises

Models of service provided to small and medium enterprises encompass credit offerings, settlement assistance, and financial advisory services. Despite these services reducing the financial strain and requirements of small and medium businesses to some degree, they continue to encounter numerous obstacles. Small and medium-sized enterprises often cannot obtain loans from traditional financial entities because the lack of appropriate collateral and historical credit. In addition, due to risk assessment and cost considerations, traditional finance fails to satisfy the unique financing requirements of businesses, and the services provided are mostly "one-to-one" marketing strategies. Moreover, the service methods adopted by traditional financial institutions are relatively fixed and lack sufficient flexibility for the rapidly changing market demand.

4.2. Service Status of Internet Finance for Small and Medium-Sized Enterprises

4.2.1. Innovation and advantages of internet finance

Compared with traditional financial models, internet finance shows unique advantages in serving small and medium-sized enterprises by virtue of its innovation in business model and technology application. Internet finance adopts cutting-edge internet technologies such as big data and cloud computing to bring users more convenient and lower-cost service experience, thus meeting users' expectations for convenient use. Internet finance is more inclined to provide inclusive financial solutions and wholeheartedly serve small and medium-sized enterprises and individual customers. And through continuous technological innovation, it reduces service costs and market thresholds and expands the coverage of related services. Due to the lack of physical facilities and professional talents, traditional financial institutions often find it difficult to meet the financing needs of various small and medium-sized enterprises. Internet finance technology breaks through geographical constraints through the network and provides more convenient financial service experience for small and medium-sized enterprises in many remote places. In addition, internet finance has more advantages in handling small loan applications. It quickly gathers a small amount of funds through online channels and implements a low-cost operation strategy.

4.2.2. Practice and shortcomings of serving small and medium-sized enterprises

In practice, internet finance has successfully helped many small and medium-sized enterprises solve financing problems. Through P2P lending and other ways, Small and medium-sized enterprises can directly contact investors and borrowers, Reduce intermediate links and reduce financing costs. They can obtain user feedback in time, optimize product design and enhance market competitiveness. In addition to P2P lending, internet finance also has various models such as e-commerce finance and supply chain finance, providing more flexible financing solutions for small and medium-sized enterprises. However, internet finance also has problems such as insufficient supervision and lax risk control during its rapid development. At the same time, internet finance not only has the financial risks of traditional finance, but also has non-financial risks that traditional finance does not have, and the risk spreads faster [10].

4.3. Analysis of Interaction Mechanism

Under the background of digital economy, there are multi-dimensional connections and interactions between traditional finance and internet finance. Traditional finance and internet finance face some problems and challenges in their respective development, and cooperation has become a new trend. Anatoly Suprun believed that cooperation may prevail over competition, and existing financial institutions will reformat their architectures and take digitalization as the core [11]. By analyzing the differences between traditional finance and Internet finance in serving small and medium-sized enterprises, it can be found that the two financial models each have their unique advantages but also have certain deficiencies. Therefore, they are both competitive and interdependent, jointly shaping the pattern of the modern financial service industry. On the one hand, they compete in terms of market share, customer resources and other aspects; on the other hand, they also begin to explore the win-win cooperation model, such as traditional financial institutions investing in internet financial enterprises or carrying out business cooperation with them to jointly develop new products and services. Since traditional finance and internet finance have different emphases in serving small and medium-sized enterprises, these two financial models form a complementary and mutually promoting relationship. Traditional finance can provide large-scale and long-term financing services with its solid capital base and rich risk management experience; while internet finance can meet small-scale and short-term financing needs with its efficient and convenient characteristics. Secondly, Weiqiang Zhong & Tingfeng Jiang empirically proved that internet finance helps reduce the exclusiveness of traditional finance and alleviate the imbalance phenomenon of investment and lending exclusion in the traditional financial market [12]. The rapid development of Internet finance has broken the competitive landscape of traditional financial markets, increased the vitality and competitiveness of the market, and prompted traditional financial institutions to reform and innovate to meet the new market competition. Therefore, effective combination of the two models can more comprehensively meet the financing needs of small and medium-sized enterprises.

5. Optimization Strategies for Financial Agglomeration

5.1. Optimize the Financial Market Structure

Promoting the deep integration of traditional finance and internet finance and building a diversified financial service system is the primary strategy for optimizing the financial market structure. In the context of internet finance, traditional financial institutions need to change their business concepts according to their own characteristics, Innovate financial service methods, and carry out diversified businesses such as insurance, asset management and consulting. Secondly, encourage traditional financial institutions to introduce internet technology to optimize their service models in order to improve service efficiency. At the same time, support internet finance to expand business scope and participate in more traditional financial services to enhance market competitiveness.

5.2. Improve Financial Service Efficiency

The focus of improving financial service efficiency lies in the application of digital technology. Financial institutions should increase the application of artificial intelligence big data and other technologies to realize the automation and intelligence of business processes, shorten service time and improve accuracy, for example, using big data to analyze customer needs [13]. At the same time, financial institutions should simplify the existing business processes, eliminate unnecessary links, reduce customer waiting time and reduce operational difficulty. In addition, the introduction of innovative technologies such as electronic signatures and remote account opening can reduce the use of physical documents and cross geographical restrictions, thereby further reducing operating costs and expanding service scope.

5.3. Promote Financial Product Innovation

According to the diversified financing needs of enterprises of different scales and types, differentiated financial products and services should be designed. This includes providing low-threshold and high-efficiency financing methods such as microloan products and quick-approval credit loans. A financial service plan specially designed for small and medium-sized enterprises based on the characteristics of the small and medium-sized enterprise industry, such as venture capital, can also be provided. At the same time, financial institutions can innovate financing models such as equity crowdfunding and supply chain financing to provide more diversified financing choices for small and medium-sized enterprises; strengthen cooperation in different fields and broaden financing channels through cross-border cooperation.

5.4. Reasonably Allocate Financial Resources

The government and financial institutions need to reasonably allocate financial resources and improve resource utilization efficiency, increase financial support for underdeveloped areas and rural areas, and guide financial resources to flow to these areas by setting up special funds and preferential policies. Meanwhile, government can set up special credit lines and provide financial subsidies to alleviate the financing pressure on small and medium-sized enterprises, promoting economic development.

5.5. Strengthen Risk Management

While promoting the development of financial markets, we also need to pay attention to risk management and continuously improve the financial supervision system. Financial regulatory institutions should build a sound financial risk assessment system and early warning mechanism, identify and deal with potential risk points in time, strengthen the monitoring and analysis of market dynamics, and adjust risk management strategies in time. In addition, we should also enhance the public's risk awareness and improve the whole society's awareness and prevention ability of financial risks.

6. Conclusion and Prospect

Beginning with the overall context of the digital economy, this paper deeply discusses the phenomenon of financial agglomeration and its double-sided impact on the development of small and medium-sized enterprises. An examination of conventional and online finance uncovers the pros and cons of each for small and medium businesses,

scrutinizes their interconnection, and proposes pertinent optimization tactics. Research indicates that while financial agglomeration offers effective financial solutions and wide-ranging funding avenues for small and medium businesses, it also presents difficulties like inconsistent resource distribution and managing risks. At the same time, traditional finance and internet finance should compete and cooperate with each other to better meet the financing needs and promote the development of small and medium enterprises. In addition, through five major strategies such as optimizing the financial market structure, improving the efficiency of financial services and promoting financial product innovation, effectively respond to challenges and improve the financial service environment for small and medium-sized enterprises. The innovation of this article lies in two points: First of all, innovative research perspectives. Starting from the two-sided impact of financial agglomeration, taking exploring the interaction between traditional finance and internet finance as the main line to solve the problem of the adverse impact of financial agglomeration. Secondly, in terms of research methods. This paper adopts a comprehensive research method of multiple research methods. Through literature review, it sorts out and analyzes existing literature to solve the theoretical foundation problem of this paper. Through questionnaires and cutting-edge research, rich materials are obtained. Through comparative research, practical experience summaries of the different advantages and limitations of traditional finance and internet finance in serving small and medium-sized enterprises are presented. Future research can be carried out in aspects such as empirically verifying optimization strategies, exploring innovative applications of digital technology, and paying attention to the similarities and differences and motivation mechanisms of financial agglomeration phenomena in different economies.

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