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An Analysis of the Path that Finance Serves in the Real Economy

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Abstract. How to effectively play the function of finance as a medium is an urgent problem to be solved. This paper defined the root of the category of the real economy and finance, analyzed the dialectical relationship between them, summarized the basic rule of financial integration into the real economy by comparing and analyzing the fusion process of finance and logistics, leasing and supply chain. On this basis, paper summed up the basic path of the integration of both the circulation and production links of the financial and real economy. It also explored the online information system. The system can improve the visibility and controllability of the various links of the real economy. Thus, it can also ensure the feasibility and security of the integration. It is the innovation to build a financing scheme for each part of the real economy.

First, the Origin of Finance Services to the Real Economy

It’s the basic principle of financial reform and development that finance serves the real economy. According to this principle, on the one hand, finance and real economy are both indispensable for economic development. On the other hand, it is due to the tendency of "de reality to virtual", which affects the efficiency of economic operation.

What is the definition of the real economy and finance in the industry? Bei JIN, a researcher at the Institute of industrial economics of the Chinese Academy of Social Sciences, pointed out that economic activities are called the tertiary industry in addition to the primary and secondary industries, mainly including three types. The first is the direct service industry, which provides direct services with human physical and technical skills. The second category is the industrial service industry, that is, the service economy which is supported by industrial technology. The third category is the financial service industry, that is, the economic activity of monetary and financial transportation, whose nature should be to serve the first and second industries, but it can also expand and expand itself and finance the first and second industries. The first category of service industry is usually called "traditional service industry", and the second and third types of services are called "modern service industry". In the broad sense, the real economy includes the first industry, the second industry and the direct service industry and the industrial service industry in the third industry. As shown in Fig. 2.

However, the relationship between finance and the real economy is blurred by the clear. Marx once pointed out: "money is a general commodity that is relative to all other goods." Therefore, from the origin of money, the finance and the real economy are homologous. However, money has been fixed by gold and silver for a long time, making the currency and the real economy different form. However, with the diversification of credit and the diversification of financial activities, the real economy has been "financialisation" or "quasi financialisation", and the boundary between finance and real economy is becoming more and more blurred. Since 1970s, the manufacturing industry also began Service-oriented. Whether the service oriented manufacturing or production services, it is the deep integration of manufacturing and service. The financial services industry is increasingly integrated with other industries, leading to increasingly blurred boundaries of finance and the real economy.

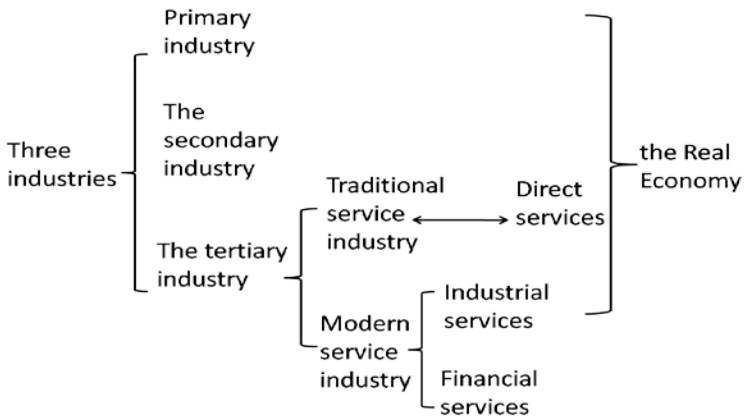

Fig. 1 The industrial definition map of real economy and finance

The relationship between finance and the real economy is close, but be stuck by the problem of "de reality to virtual". Finance is inseparable from the real economy: the financial industry needs to be established on the basis of the real economy, the financial revenue comes from the real economy, and the effective service to the entity economy is the foundation of finance; the development of the real economy needs diversified financial forms. It needs the financial industry like lubricants to help the real economy reduce the circulation cost and improve the efficiency of resource allocation. It also needs the financial industry to inject fresh vitality into the real economy like "blood". However, the unbalance of financial and real economic development has a tendency of "de reality to virtual" to affect the healthy development of the economy. If the financial industry is blind self-derivation and self-expansion, it will eventually lead to the lack of "blood" in the real economy, lead to the broken of financial bubbles because of the disappointments to the real economy, resulting in financial risks, restricting the improvement of economic efficiency and the enhancement of comprehensive national strength.

On the functions of finance, according to the American economist Robert Merton summed up, The financial system has six basic functions: clearing and payment, financing and equity refining, providing channel functions for economic resources, risk management, information providing and solving the functions of incentive problems. In addition to the second and third items that are familiar to the functions of savings and investment, the other four functions are easily ignored or forgotten. But these four functions are often functions that can greatly promote industrial and economic modernization with the improvement of the level of economic development: the financial system plays an important role in promoting division of labor, preventing and resolving risks, improving the efficiency of resource allocation, utilizing information advantages and reducing transaction costs.

How does finance serve the real economy? Yang LI, the director of the national finance and development laboratory, pointed out that a better serve to the real economy from finance fundamentally requires reducing the cost of circulation and improving the efficiency of resource allocation. To analyze the efficiency of resource allocation is the only feasible way to understand and explain the proposition of financial service to the real economy, as under the condition of market economy, monetary and financial activities are deeply penetrated into various fields and various levels of economy and society. Despite the complexity of financial activities, the ultimate role of financial activities is to play a media role in the process of resource allocation, and there is no other. The so-called financial services in the real economy basically refer to the function of its effective use of the resources allocation of medium. The so-called better service to the real economy is nothing more than that reducing the cost of circulation and improving the efficiency of the allocation of resources.

Second, a Probe into the Path of Finance Services to the Real Economy

To serve the real economy, financial services should give full play to the function of the resources

allocation of medium, reducing the cost of circulation and improving the efficiency of the resources allocation. The most prominent thing is to solve two idling problems: One is that monetary funds are rotting within the financial system but not moving into the real economy, the other is that monetary funds are transferred between state-owned banks and state-owned enterprises.

To solve this problem, based on financial services to the real economy, it requires to make up for the shortage of funds, speed up the turnover of capital in all sectors of manufacturing, reduce the cost for capital as a medium, and reduce the slowdown in manufacturing caused by capital problems, according to the operation needs of various sectors of the real economy, especially the manufacturing sector, linking the finance and real economy together. There are many living examples of the organic integration of finance and the real economy.

Logistics Finance: the Organic Integration of Logistics Link and Finance

"Money in one hand, delivery in the other hand" rarely exists at the time of the transaction, even the vast majority of trade is on credit. The goods have been produced, shipped and even reached the hands of the purchaser, but the goods are often cleared after a period of arrival. Therefore, when purchasing raw materials for production, processing and delivery, sellers often need to pay part or all of their funds, which brings huge financial pressure and transaction risk.

As a giant in the retailer, WAL-MART usually requires its suppliers to advance the full payment. For imported commodities, WAL-MART often settle accounts after 1-2 months' arrival. This will cause huge financial pressure for suppliers, especially for small and medium-sized businesses. They are afraid to take large orders, if not on the supply of funds. United Parcel Service Company (UPS) provides logistics and financial services, providing logistics services to WAL-MART and its suppliers by signing multi-party cooperation agreements with WAL-MART and its suppliers. At the same time, UPS's credit department, UPSC, provides financing services for both parties. On the one hand, UPSC pays the goods to the supplier within two weeks of the delivery of the goods to UPS by suppliers to meet the supplier's capital turnover needs. On the other hand, UPSC representing the UPS has settled with WAL-MART, saving the transaction costs between WAL-MART and a large number of suppliers. In addition, UPSC also provides a five year circular credit line for small and medium suppliers, helping them to avoid the risk of capital turnover before the delivery of the goods. UPS can gain double earnings by providing logistics services and financial services. As shown in Fig. 2.

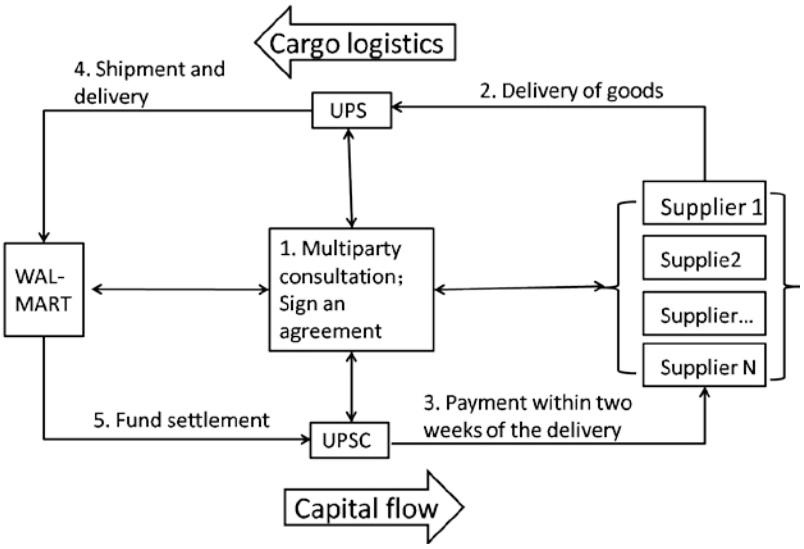

Fig. 2 UPS and WAL-MART's logistics financial flow chart

Financial Leasing: the Organic Integration of the Lease Link and Finance

Financial lease is a new set of financial that combines Financing with lease. The financial lease is generally composed of three parties, the lessor, the lessee and the supplier. The lessor buys leases

from the supplier in accordance with the requirements of the lessee, owns the ownership of the lease and leases the object to the lessee. The lessee pays the rent to the lessor on the installment payment. The lessee enjoys the financing services of the installment, speeding up the upgrading of the equipment and the transformation and upgrading, and reducing the pressure on the turnover of funds. The supplier has increased the sales of the goods, received the full payment, reduced risks of Capital occupation and financial pressure. The lessor receives the return on financing services by providing financial leasing services.

Unlike the previous operating lease, financial leasing is a link between non bank financial institutions and product leases, a bridge between the producers and the users. This makes the relationship between the manufacturer and the user more smoothly, helps the manufacturer to sell the goods and the user to solve the financial problems of the purchase of the goods. Financial leasing companies get revenue from it. It can greatly reduce the risk of loans in the process owing to the ownership of lenders. Financial leasing is a combination of Finance and leasing. It has achieved a win-win situation for the three parties, making the finance well integrated into the process of the real economy. It can not only solve the problem of financing for small and medium enterprises, but also solve the big risk of large equipment purchase. It can also help manufacturers increase the sales of products through financial leasing, avoid the problem of capital occupancy caused by direct leasing of manufacturers to users. It truly embodies the multiparty win-win outcome of the financial services in the real economy. As shown in Fig. 3.

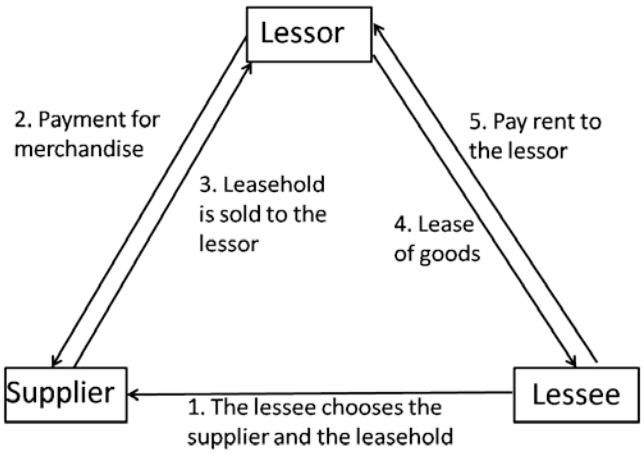

Fig. 3 Financial leasing business flow chart

The development of many financial leases further proves that the organic integration of finance and leasing can lead to the development of the real economy. The international famous case is General Electric Co.'s aircraft leasing business. In order to expand sales scale, GE sets up a specialized general Credit Company to provide installment payment services for the buyers of aircraft engines. There are also many examples in China. In November 2013, a subsidiary of Communications Bank financial leasing company in Shanghai Free Trade Area rented a Boeing 737 aircraft to Yangtze River Express Airlines Co by means of financial leasing to help the development of aviation logistics industry. Commercial bank financial leasing and Malaysia Asian airlines signed a memorandum of cooperation on aircraft financing, etc. As an important form of high-end financial services, financial leasing business, the financing and leasing combination is a typical service mode of organic integration of finance and real economy, not only can optimize the industrial structure, promote the development of the equipment manufacturing industry, but also can help the small and medium-sized enterprises to finance, upgrade the technology of enterprises, and promote the circulation of goods.

Supply Chain Finance: the Integration of Supply Chain and Finance

Supply chain finance is an organic integration of supply chain link and finance. After the sale of goods, the seller is often unable to receive the money immediately, which brings the capital

occupation and affects the production. If the buyer pays the whole money in one time, it will also bring the pressure of capital turnover. At this time, if finance can make up for the gap between buying and selling, it can effectively contribute to the achievement of the transaction. Based on this, if the credit system established, the seller may withdraw the full amount of money from the bank with a bill of exchange, as promised by a financial institution. The buyer can also pay the payment on the day of the promise. Financial institutions give the seller the money when the buyer is not paid to earn the cost of financing service on the time between the buyer's payment and the time of payment to the seller.

The world famous supply chain financial case is the financing business of the Standard Chartered Bank for both buyers and sellers on the supply chain. First, the buyer and seller reach a transaction agreement, the supplier delivers the goods and provides the relevant documents to the buyer. Second, the buyer receives the acceptance bill from the Standard Chartered Bank. Third, the buyer provides the bill of exchange and the corresponding documents to the supplier. Fourth, the supplier takes the accepted bill to the Standard Chartered Bank to collect the payment. Fifth, the Standard Chartered Bank audits the bill to pay the suppliers. Sixth, on the date of payment, the buyer returns the money to the bank, and the bank charges a certain amount of financing services.

Its essence of the integration of supply chain and finance is to find the problems such as slow or even stagnation in circulation of funds during the turnover of goods in the supply link of the real economy, embed finance into the link of the supply chain through the deformation or combination of financial services, solve the problem effectively that the circulation of goods and the circulation of funds are not synchronized and unbalanced, improve the ability and efficiency of finance to promote the development of the real economy, reduce the cost of financing. As shown in Fig. 4.

Third, Summary of Financial Services in the Real Economy

To sum up, financial services in the real economy can be dependent on the path. Whether it is financial integration into the logistics link, leasing link or other goods circulation links, regardless of financial service providers is the large logistics enterprise and non-bank financial institutions or banks, financial services in the real economy have followed the basic principle of improving the efficiency of financing in the resources allocation and reducing the cost of financing, so that financial intermediation permeate all economic entities need to link into the intersection, integrate and interconnect, no matter how the process changes, no matter which economic entity is the main body.

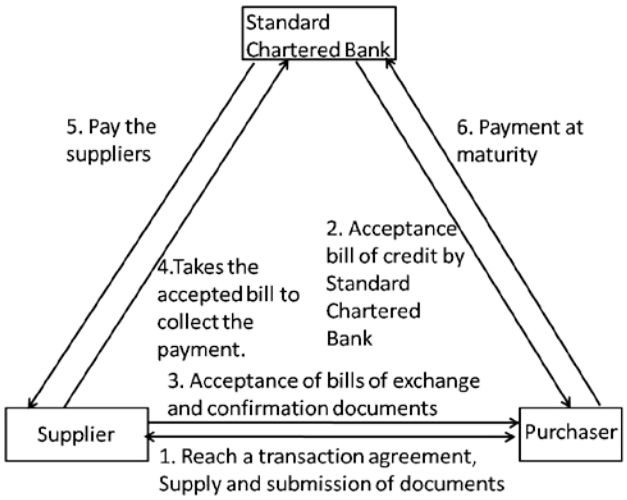

Fig. 4 The flow chart of the supply chain financial case of the Standard Chartered Bank

With the gradual integration of finance into the real economy, the profit seeking trend of financial evasion is necessary to ensure the safety of funds and reduce the risk of funds by designing various ways or processes. In the process of integration of finance and logistics, logistics enterprises often

guarantee the security of financing through the actual control of goods in the logistics. In the integration of finance and leasing process, lenders usually use the right to lease to protect the financial security. In the process of integration of finance and supply links, the visibility and controllability of the financing provider to the basic trade process is an important means to ensure the security of funds. Therefore, in order to strictly control the financial risk and promote financial integration and good service of the real economy, it is very important and necessary to establish various technical platform for the use of information technology, through improving the visibility and controllability of all aspects of the real economy to design and arrange capital circulation process, participants, and to tailor financing scheme for all aspects of the real economy.

According to the basic ideas of the summing up, financial services in the real economy is to make financial activities deep into all aspects of the real economy to meet the fund needs, improve the efficiency of the resources allocation and reduce the cost of financing. In order to strictly control the financial risk, we can build various platforms by using information technology to realize the visibility and controllability of the corresponding links of the real economy. The path of financial service to the real economy is very clear according to this basic idea. In spite of the complex operation processes such as the design of various processes and the cooperation of the participants in the operation process, to grasp this basic idea, we can carry on a lot of beneficial exploration to the financial service in the real economy. The above cases are all explored in the circulation section. Can we make use of the technology platform to achieve regulation, control and valuation in order to achieve financial integration? According to the general principles of financial services in the real economy and the basic ideas of the above summary, the integration of finance and production should be realized technically.

Thus, we can explore the integration of financial and production links. Suppose that if we can get the real-time information of the production process of a company, a set of evaluation system can be made. We can reasonably evaluate and add up the product value of each link by using the real-time information, and get the value evaluation of the production line. Then the enterprises can make financing in accordance with the value of this evaluation, and make a real-time dynamic tracking and supervision to control financing risk in this process. According to this idea, not only the production process can be integrated with finance, but also the circulation process introduced before can also be integrated with finance. As long as the "line" is visible and controlled through the information system and the regulatory platform, the integration of the financial and the real economy can be realized. You can develop a real economy "online system", to attract funds into the development, to formulate rules to ensure the stability of funds and prevent malignant operation. The goal of improving the efficiency of capital allocation of resources and reducing the cost of financing will surely be achieved, under the basic principles of financial services to the real economy, the basic idea of effective integration of financial and real economic links, the technical guarantee of the intelligent online system, the rules of the supporting rules and the law.

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