

Problems and Suggestions on the Current Rural Financial Development in China

Peng Zhang*

Economics School, Northwest University of Political Science and Law, Xi'an 710063, China

**Corresponding author*

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Abstract: Remarkable achievements have been made in all fields of society since the founding of the People's Republic of China for 70 years. However, looking back on the development of rural finance in New China, although brilliant achievements have been made under the corg between regions and between urban and rural areas in China still exists and is gradually expanding in some regions, especially in the vast rural areas of China. Under the background of rapid transformation of social and economic development, rural economic resources and elements are all involved in the process of marketization, which is influenced by the national will and development strategy. Moreover, the rural economy has lagged behind the national level in terms of development level and quality due to the long-term restriction of "financial repression", which has also become one of the restricting factors that affect the overall construction of a well-off society, the realization of the goal of poverty alleviation and the rural revitalization. Therefore, only by further encouraging and promoting the development of rural finance can the necessary guarantee be provided for the full realization of the "Two Centenary Goals".

1. Introduction

Since R.W.Goldsmith(1969) formally established the basic framework and normal form of financial structure theory in his book *Financial Structure and Financial Development*[1], more and more Chinese scholars have been enlightened to study the financial development in rural China under this theoretical framework. Zhu Xiaoping (2003) proposed from the perspective of the scale of rural commercial banks that the scale of rural finance must be kept at a moderate level in order to effectively promote the development of rural economy[2]. Guo Pei (2004) believed that the long-term underestimation of the scale of rural non-governmental finance has affected the judgment of rural financial development, and pointed out that the defects in the institutional arrangement of some formal finance are the main reasons for the expansion of the scale of rural non-formal finance. Lin Yifu (2009) argued that the current economic transformation in China is influenced by the duality economic structure, and the financial and economic growth in rural areas has been restrained for a long time [3]. However, Wang Yonglong (2006) attributed the low efficiency of rural finance in China to the low efficiency of resource allocation, especially the continuous withdrawal of commercial finance, the property right defects of policy-based finance and the commercial alienation of cooperative finance, which became the bottleneck of rural economic growth[4]. In

addition, Xie Jiazhi and Ran Guanghe (2000) analyzed the problem of “path dependence” commonly existing in the process of rural financial reform in China, and pointed out that although a preliminary framework has been established in China’s financial reform, the control and restraint formed for a long time still affect the path problem of rural financial reform based on the analysis of the institutional environment, property rights system and established benefit distribution mechanism of the whole rural area before the reform [5].

Therefore, this paper aims to analyze the influence mechanism between rural financial development and economic growth in China by sorting out and reviewing the current rural financial development in China, and sum up the inherent laws of rural financial development in China from three aspects: the problems existing, the typical characteristics of rural financial development in China at present, and suggestions for rural financial development in China in the future.

2. The Problems Existing in the Current Rural Financial Development in China

2.1. Lagged Rural Financial Reform Behind Economic Development

Since the beginning of the new century, the development level of the rural economy has been significantly improved. Moreover, farmers’ lifestyle has also changed significantly with the increase of their income level and income channels. As a result, both production and business activities and daily consumption behavior have put forward new requirements for the development of rural finance. But most rural financial intermediaries and institutions can only handle the most basic deposit and loan business without all kinds of financial instruments and financial products, which cannot meet the actual needs of farmers in life and production.

At the same time, the rural financial reform lags behind the national financial reform. The proportion of rural financial institutions generally shows a downward trend. Moreover, the development of the capital market is difficult to penetrate into the specific grass-roots rural areas, resulting in a narrow fluctuation range of interest rate reform to achieve a reasonable flow of financial assets. The lack of targeted innovation of rural financial organizations makes it difficult for financial organizations to take root in the countryside. In addition, the change of rural financial system lags behind the change of economic system, which is mainly reflected in the fuzziness of rural financial property rights arrangement. Compared with rural economic property rights arrangement, the inability to turn farmers’ land resources into financial resources is the key that restricts the reform of rural financial system.

2.2. Insufficient Effective Coverage of Rural Financial Institutions

At the present stage, the rural financial system, on the one hand, is out of proportion in the number of institutions (the abolition of a large number of institutions and personnel has aggravated the dual financial structure between urban and rural areas), on the other hand is insufficient in the distribution scope, which cannot cover all rural areas, making many farmers unable to meet their basic financial needs. Besides, there is a serious imbalance in the proportion of rural financial institutions. Specially, the “large-scale” tendency of rural commercial banks will lead to the problem of “separation from the countryside”, and no reasonable scheme has been found for the reform of credit cooperatives and policy-based finance, which cannot optimize the rural financial structure and improve the efficiency level. Clearly, the development of new-type rural financial institutions still has some irregularities, which not only brings more resources and capital, but also brings higher risks.

2.3. Slow Development of Rural Capital Market

Subject to the restriction of the geographical and regional development of China, the leading structure of rural finance in China is still the structure type of the banking sector, and the development of other types of capital markets are relatively backward. Although the rural insurance market has made rapid development with the reform of agriculture and rural insurance system in China, its insurance density and depth in rural areas are far behind the development level of the whole region. However, in the rural securities market, the development speed is even slower, and the proportion of farmers' income level of assets and property is too low, which affect the development of the rural direct financing market. Due to the uneven development of rural areas in China, although there is a certain effective demand for rural securities investment in the rural areas with developed agriculture and township enterprises in the eastern and coastal areas, the absence of the securities market has seriously restricted their possibility of developing various financing channels.

3. Typical Characteristics of Rural Financial Development in China at Present

3.1. The Continued Withdrawal of National Commercial Banks

By comparing international experience with historical experience, it seems easy to draw the conclusion that the state-owned rural financial sector is inefficient. In order to achieve the reform goal of establishing a modern commercial banking system, all the four state-owned commercial banks have begun to withdraw from the rural areas under the objective pressure of controlling risks and improving profits. In terms of capital size, the proportion of loans in rural areas, for example, was already less than 20% in 2012, but up to 80% in 1997. In terms of operating branches and staff size, the business is in a shrinking stage. Since 2000, the number of institutions and staff of the four major commercial banks have all dropped significantly. However, on the other hand, it is the country that pays great attention to and supports the development of rural finance. The contradiction between this development strategy and financial practice precisely lies in the “rational choice” of various stakeholders. The multiple reform goals of the government make it unable to achieve the best choice, but can only choose the second-best goal among the multiple goals. As a result, it is the inevitable choice to dissolve the bank risk and increase the government revenue. Therefore, when the rural financial development conflicts with the goal of banking system reform, the second-best choice of the country is the goal of supporting the reform of state-owned commercial banks. Due to the concentration of sufficient resources in cities under the background of urban-rural dualism, commercial banks will inevitably abandon those inefficient rural financial markets and concentrate resources in urban areas, and the state acquiesces in the behavior choices of state-owned commercial banks based on the principle of market economy.

3.2. Multiple Objectives of Rural Policy-Based Finance Development

For a long time, the state-owned banks in China have not only undertaken the economic task of managing money and finance, but also embodied the will of the country. Along with the comprehensive reform of the financial system in 1994, the Agricultural Development Bank of China has undertaken the dual objectives of administration and economy since its establishment. Objectively speaking, under the background of large-scale withdrawal of state-owned banks, the business scope of the Agricultural Development Bank can indeed bring certain positive effects and incentives to the development of rural finance, and also alleviate the insufficient supply of rural finance. Nevertheless, the vagueness of the policy-based financial positioning makes the

Agricultural Development Bank constantly adjust and change its role between economic objectives and administrative instructions, which inevitably leads to its low long-term operating efficiency. The lack of capital and capital makes it necessary to rely on the financial support of the government. However, a large number of mandatory loans and medium-and long-term investment and development business have left all kinds of funds in a state of mismatched terms for a long time. They are unable to achieve the liberalization of business objectives and have to face the competitive pressure of financial market reform, which directly affects the normal business development of the Agricultural Development Bank. The lack of a reasonable identity and the absence of a business entity make the development and existence of the Agricultural Development Bank face challenges and queries, and finally usher in another reform. However, will the establishment of the principle of commercial operation lead to another “deviation” from rural finance?

3.3. The Alienation of Rural Cooperative Financial Development

The rural credit cooperatives in China, as the largest intermediary organization in rural finance, have some advantages in deepening rural finance. In the planned economy era, the credit cooperative established according to the principle of credit cooperation and shareholding by members is the best channel for the state to control the rural economy and grab rural resources, which is the first alienation of rural cooperative finance from “state administration”. Since the reform and opening up, the reform of rural credit cooperatives has not been carried out around the principle of “credit cooperation” but to adjust its internal organizational structure. The penetration of national will into rural credit cooperatives is a “crowding out effect” for farmers’ cooperative participation, which eventually leads to a very high rate of non-performing assets and a very low service efficiency, and finally leads to the bankruptcy of a large number of credit cooperatives. The other credit cooperatives are moving towards the reform goal of commercial banks, which, of course, solves the problems of the development and survival of credit cooperatives, but it is also an alienation of “commercial banking”. Since 2010, a new round of rural credit cooperative reform has been gradually expanded, which promotes the establishment of restructured rural commercial banks one after another. Rural credit cooperative finance has existed in name only and can only rely on the new rural financial institutions to re-establish rural cooperative finance.

3.4. The Tortuous Development of Rural Informal Finance

Admittedly, although there is a certain lack of effective demand in rural finance, the low interest rate of rural formal finance and the high interest rate of informal finance are indeed the best refutation to the above judgment. The Rural Cooperative Foundation that originated in Jiangsu and Zhejiang provinces has played an active role in the development of rural finance since the 1980s. Its efforts to better solve the problem of information asymmetry can instead be closer to the real interest rate level in the rural lending market, while the low interest rate level of banks brings about the misappropriation and diversion of rural lending funds. According to statistics, loans from these financial organizations account for up to 40% of total agricultural inputs. Such a bottom-up financial organization can provide timely funds to meet the needs of farmers for production and living, and a more effective social credit punishment mechanism is more effective for the “acquaintance society” structure in rural areas. Whereas, the central government began to rectify such informal financial organizations for the need of financial control and management, which means that there are some conflicts between the central and local governments in economic interests. Finally, the state has further consolidated the position of rural credit cooperatives in rural finance by closing or merging cooperative funds.

4. Suggestions for Future Rural Financial Development in China

4.1. Promoting Innovation in Rural Financial Markets

First of all, the innovation of rural financial products can broaden the scope and methods of mortgage guarantee of rural business entities, and further promote the development of rural factor market. Secondly, the reform of various rural land property rights, circulation, mortgage lease and transaction systems requires the innovation of rural financial products, so as to form a scientific pricing mechanism, realize the reasonable pricing of land property rights and safeguard the basic rights and interests of the state and farmers. Finally, the innovation of the new agricultural management mode is inseparable from the reasonable incentive mechanism provided by rural financial institutions and markets. As the new agricultural management entities have significant differences in development scale and level, they have different financial demands. Thus, only through product innovation can differentiated financial needs be continuously satisfied, the optimal combination of financial products in terms of interest rate, term, quota, management process and risk control be realized, and a diversified and hierarchical financial product structure be formed, which will bring positive incentives to agricultural production and operation. [6]

4.2. Improving the Development Environment of Rural Finance

First of all, the development and construction of rural financial payment system can effectively promote the rapid and healthy development of rural finance. Secondly, the construction of rural basic financial service supply network can improve the level of farmers' financial participation. Thirdly, expanding the coverage of payment system can enrich the system of settlement and payment products, and further improve the penetration rate of rural finance. At last, the establishment of rural credit system can fundamentally reduce transaction costs.

4.3. Diversifying Financing Channels to Expand Direct Financing

First of all, the development of rural securities financial institutions services, on the one hand, can provide securities brokerage services for the vast number of farmers to broaden their sources of income and improve their overall income, on the other hand, can provide direct financing channels for rural areas, and alleviate the problem of insufficient sources of funds to some extent. Secondly, the development of insurance financial institutions services can not only provide security for the lives and property of farmers, but also provide comprehensive insurance services for agricultural production and operations, which is important and necessary for the developing rural finance. Third, the development of trust financial institution services can improve the comprehensive income of farmers and provide them with trust services such as investment consulting and financial management on the one hand, and also provide technical support for financial businesses such as consolidation and asset restructuring of rural enterprises on the other hand.

5. Conclusions

The rural finance in China is facing a transition process from planning to market and from tradition to modern finance. At present, the development of rural finance in China is in an inefficient "equilibrium", which is aggravated by the government's strict control over rural finance. Through financial control, the government distorts the mechanism of market operation, resulting in the widespread "financial repression" in rural areas of China. Only by realizing the deepening of rural finance through the continuous development and evolution of rural finance can the existing

situation be changed and the long-term growth mechanism of rural economy be formed. Finally, the development of the rural economy will change the rural landscape, improve the livelihood of farmers and enhance their “sense of dignity” [7].

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