



Co-operative financial institutions and local development in China



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ABSTRACT

In recent decades the Chinese financial system has undergone dramatic restructuring, which has substantially altered the country's mutual and co-operative financial institutions. This paper aims to contribute to our understanding of the process, practice and consequences of these developments by systematically charting the trajectory and dynamics of the co-operative financial landscape in China, and by analysing the role that these financial institutions have played in China's socioeconomic change. It is argued that China's financial co-operatives have been de-localised through processes of consolidation and centralisation. They have also been increasingly commercialised within a system based on 'market logic', which has changed their developmental role in the Chinese economy. At the same time, however, recent policy has sought to reinstitute locally-focused financial and farmer co-operatives in rural areas. Moreover, local informal and semi-formal modes of co-operative organisation and action have continued to be widespread across the country.

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1. Introduction

Since the start of the market reforms in the late 1970s, China has witnessed rapid and sustained economic growth¹ accompanied by substantially diversified livelihoods in both urban and rural areas. The transformations taking place in the Chinese economy and society during the recent decades cannot be separated from the dramatic change in the country's financial system. This financial restructuring has resulted in a considerably diversified and expanded financial sector consisting of extensive national networks of both formal and informal financial service providers whose reach extend from urban to rural areas, and from coastal to more remote inland regions. Owned largely by the central or local state, the formal financial institutions have played an active and pivotal role in channelling resources to indigenous

industries, including township and village enterprises (TVEs),² that have driven the country's rapid industrialisation (Bateman, 2010; Oi, 1999). One of the key elements of the shifting financial and developmental landscapes has been co-operative financing, represented in particular by the urban and rural credit co-operatives, and rural co-operative foundations. These co-operatives were founded at different points in time and were often based on egalitarian principles of mutuality, co-operation, community solidarity and cohesion, and provided a means of protecting their members from usurious loan sharks while at the same time promoting local development (Cheng, 2006).

This paper aims to contribute to our understanding of the processes, practices and implications of China's financial restructuring in recent history by systematically charting the trajectory and dynamics of the co-operative financial landscape, and analysing the role it has played in China's socioeconomic change. It pays particular attention to the leading financial co-operatives, namely rural credit co-operatives, urban credit co-operatives and rural co-operative foundations, together with a number of other formal and informal co-operative players which have emerged during the post-reform era, including rural mutual credit co-operatives, informal rotating savings and credit associations, and specialised farmer co-operatives.

The paper begins by examining the development trajectory of rural credit co-operatives and other rural co-operative financial entities against the backdrop of China's national development strategy and urban-rural relations. Section 3 analyses the vicissitudes

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¹ The Chinese economy has grown at an average of 10% (per annum) over the last thirty years and China surpassed Japan to become the world's second largest economy in 2010.

² TVEs emerged in both rural and urban areas in the 1980s as the successors to the collective industries run by the People's Communes in the 1960s and 1970s. Throughout the 1980s and early 1990s TVEs were still often collectively owned and/or controlled by local (sub-municipal) governments. However, in the late 1990s most TVEs were privatised (Herrmann-Pillath, 2009a; Park & Shen, 2003; Zhang & Loubere, 2015).

of the urban credit co-operatives from their emergence in the early 1980s to their transformation into urban commercial banks by the turn of the twenty-first century when urban industrial restructuring accelerated prior to China's accession to the World Trade Organisation in late 2001. Section 4 turns to look at the new co-operative movement, which has been gaining momentum since the late 1990s, and particularly after the implementation of new legislation legalising rural mutual credit co-operatives³ and specialised farmer co-operatives in 2007. Section 5 presents a discussion and analysis of the dominant historical trends of consolidation, centralisation and commercialisation of co-operative financial institutions, but at the same time provides evidence of complexity, heterogeneity and the existence of divergent trends in different socio-political contexts. The paper concludes by highlighting the need for further in-depth study of local contexts in order to better understand the realities of co-operative financial organisation and operation in China.

2. Co-operative financial institutions in rural China and shifting national development strategies

Rural China has a long history of co-operative finance in the form of financial associations and fund pooling arrangements, some of which go back to at least the mid-17th century. These were often non-profit mutual aid groups formed through members' contributions in order to meet both individual and group needs, as well as to protect members from falling victim to usurious money lenders (He, 2014; Hu, 2003). During the rural reconstruction movement promoted by urban-based intellectuals during the 1920s and 1930s, formal farmer financial co-operatives were established, which were the precursor to the first rural credit co-operatives established in Chinese Communist Party controlled areas in the 1940s (Yan & Chen, 2013). Farmers' mutual aid groups and co-operatives grew rapidly in the early 1950s shortly after the founding of the People's Republic of China in 1949. However, the voluntary farmer co-operative movement was soon turned into a state-imposed agricultural collectivisation campaign with the relatively small co-operatives being replaced by much larger rural communes, until the reforms of the late 1970s which resulted in de-collectivisation and the return to family farming (He, 2014).

Rural credit co-operatives, which were initially owned by member households, also became integrated into the collective system in the late 1950s.⁴ Throughout the 1960s and 1970s they were controlled by either the People's Communes⁵ or the People's Bank of China, and have not been fully owned by member households since (Cheng, 2006; He, 2014; Herrmann-Pillath, 2009b; Park & Ren, 2001; Zhao, 2011).⁶ It is important to note that in the 1960s and 1970s, before the market reforms, rural credit co-operatives were one of the main mechanisms facilitating the transfer of rural household savings to urban areas to promote industrialisation, urbanisation and other elements of the government's modernisation agenda, for instance through the transfer of rural deposits to the People's Bank of China (Cheng, 2006; Herrmann-Pillath, 2009b; Tam, 1988). At the same time, however,

rural credit co-operatives also supported the emerging collective enterprises, which would later become the dynamic TVE sector in the 1980s and 1990s.

In the 1980s (post-market reforms) the rural credit co-operatives were put under the administration of the Agricultural Bank of China, in a move that was supposed to make them more responsive to their rural members. In conjunction with rapidly diversifying livelihoods and increased economic activity, rural credit co-operative savings grew quickly. However, they were required to deposit 30% of these savings in the Agricultural Bank of China at artificially low rates, which were often used for investment in urban areas. Thus the rural credit co-operatives effectively continued their pre-reform role of extracting rural surpluses to finance urban development (Tam, 1988; Watson, 2003). Due to this requirement, rural credit co-operatives were only able to lend 50% of their savings (85% of which came from local households) within their local areas. With the backing of local governments, a vast majority of these local loans went to collectively owned TVEs (Herrmann-Pillath, 2009b; Ong, 2009). Despite the limited amount of credit available to them, these TVEs played a key role in facilitating industrialisation and development at the local level, which has been credited with driving China's 'miracle' growth of the 1980s and 1990s (Bateman, 2010, 2013).

Alongside rural credit co-operatives, from the beginning of the 1980s increased demand for credit and other financial services resulted in the emergence of rural co-operative foundations across rural China. Rural co-operative foundations were put under the administration of the Ministry of Agriculture, but were not brought into a hierarchical management structure like the rural credit co-operatives. They were, therefore, largely allowed to remain locally independent and controlled by local people, institutions and governments.⁷ While rural co-operative foundations were recognised and supported by the central government, they were never formally recognised as financial institutions by the People's Bank of China, and therefore were not formally incorporated into the financial system (Cheng, 2006; Nyberg & Rozelle, 1999; Tsai, 2004; Wen, 2009). Rural co-operative foundations were only allowed to use local funds and were not supposed to be profit-oriented (Wen, 2009). Nevertheless, they grew rapidly and by 1996 there were 21,000 township-level rural co-operative foundations and 24,000 village-level rural co-operative foundations, with loans valuing 150 billion Yuan (Cheng, 2006). Rural co-operative foundations were highly heterogeneous in terms of ownership, structure and operation, and the extent to which they were genuinely co-operative (particularly with regard to inclusiveness and democratic management) was very much context dependent (Sun, 2011; Tsai, 2004). However, in most cases rural co-operative foundations were much more locally oriented than other financial institutions, in that they were owned by local shareholders and provided loans to local entities. Moreover, they could only utilise local funds and operate within their localities. Therefore, they provided an alternative to the rural credit co-operatives and the Postal Savings and Remittances Bureau,⁸ which were required to deposit at least a portion of their savings in non-rurally based institutions that focused primarily on non-rural investments, such as the People's Bank of China and the Agricultural Bank of China (Wen, 2009).

In 1996, in conjunction with the wider industrial restructuring policies that resulted in the privatisation of many state-owned

³ Rural mutual credit co-operatives are also sometimes referred to as mutual fund associations (He, 2014).

⁴ By this time there were approximately 103,000 rural credit co-operatives with over 100 million members (Cheng, 2006).

⁵ For an overview of the three-tiered (commune, brigade, team) system of collective agriculture during this period see (Herrmann-Pillath, 2009a).

⁶ This means that rural credit co-operatives are often considered to be nominal co-operatives (c.f. He, 2014; Zuo, 2001). However, as the following sections will demonstrate, applying strict definitions of what is and is not a co-operative can be misleading in the Chinese context as institutions often act in co-operative ways or promote different types of co-operative activity despite the fact that they do not technically meet all of the principles outlined by the International Co-operative Alliance (2014).

⁷ Rural co-operative foundations and urban credit co-operatives (see section three) would seem to be more co-operative in nature than rural credit co-operatives based on the Statement of Co-operative Identity drafted by the International Co-operative Alliance (2014).

⁸ The Postal Savings and Remittance Bureau has since been transformed into the Postal Savings Bank of China.

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