

A Comprehensive Research on China Rural Area Finance

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Abstract. The financial situation in China's rural areas plays an essential role in the overall national economy because it contributes to the sustainable economic development of a region in the future. In recent years, China has paid great attention to the economic situation in rural areas and try to improve the current position. Therefore, many policies have been introduced to reduce poverty and balance regional development differences. However, how to completely solve the rural financial problem is a slow and complicated process because of a series of problems, such as small rural market size, high market risk, lack of financial literacy and poor supervision. After analyzing the specific problems in rural areas and combining them with the actual situation, the paper gives some relevant solutions and programs which will have a significant and far-reaching impact on supporting the national policy for rural areas, eliminating the wealth gap between people and realizing shared prosperity.

Keywords: China, rural, finance.

1. Introduction

Since the reform and opening, China's economy has developed rapidly and has become the world's second-largest economy. In addition, China is a major agricultural country, and agriculture significantly impacts the national economy. To achieve long-term sustainable development of the domestic economy, China must focus on highly critical rural areas to accelerate rural development and narrow the urban-rural wealth gap. However, the current research does not have the attention and information on rural development and how rural finance affects individual and family daily lives from the local people's perspectives [1].

At present, the financial development in cities is approaching saturation, but rural finance needs to be stronger and more advanced, especially in remote and backward areas. Therefore, it is crucial to accurately analyze the current problems and provide reasonable methods to thoroughly improve the rural financial environment for promoting the comprehensive and long-term development of the country.

2. Problems

2.1. Small Market Size

Compared to the urban cities, the economy of rural areas in China is relatively backward, which directly leads to the lower average income of rural residents than those living in cities. People's incomes in rural areas are generally lower than in urban areas. Therefore, the types and diversity of financial products in rural areas have been severely limited. Based on the data statistics by China Family Panel Studies, around 6.13 percent of Chinese residents bought and owned financial products in 2020, including 11 percent of urban residents holding financial products. In contrast, people in rural areas who purchase financial products only occupy 1.84 percent of the total population [2]. Hence, the gap of people's willingness of buying financial products between urban and rural areas is enormous.

Some extra reasons explain why people in rural areas lack financial resources. In the first place, the service outlets of banks and financial institutions in rural areas are much lower than those in urban areas, especially within the region of inconvenient transportation and slow economic development. The rural financial development in eastern China has a relatively bright prospect. In contrast, the rural

financial development in central and western China is prolonged and does not positively impact citizen income [3]. Therefore, it would be challenging for rural local people to have the opportunity to contact or even handle relevant business. Except for the most fundamental bank deposits and loans, advanced financial products, including insurance and stocks, are scarce, as rural areas need strong attractions to financial institutions. In addition, the population density in rural areas is low, which increases the per capita service and operating costs simultaneously. Banks and other financial institutions tend to believe that the investment does not have a higher price-performance ratio in these areas, so they will be reluctant to develop markets and provide services locally.

2.2. High Market Risk

The primary industries in rural areas are planting and breeding. Residents generally like to plant potatoes, corn, and chestnuts and raise pigs, chickens and other domestic animals. These fundamental industries do not have high profits and rates of return, but they need to bear more significant risks. The lower income level directly represents that investment in agricultural production will not be attractive for funds to inflow [4]. Besides, the extreme weather like drought or typhoons can lead to lower crop yields or even worse no harvest. Pigs and chickens also need to be protected against viruses in daily life; if the emergence of flu is not detected and cured, these domestic animals will be forced to be killed and buried without any value, which may not bring any positive results from the investment and spending of people in the year. It will cause incalculable damage and unbearable losses for rural people, so financial institutions will not come up with any idea and interests of local investment.

Sometimes, the international situation has a negative impact on the industries of rural areas. Due to tensions between countries, there will be some trade wars; countries will increase tariffs on imported goods and enhance competition. In serious cases, the entry of goods may even directly be prohibited into the customs, so crops are likely to be directly unsold because there is no large alternative market to help digest, so it is easy to cause rural financial depression. In short, it is not a wise decision for financial institutions to develop these industries in rural areas.

2.3. Lack of Financial Literacy

There are many reasons why many people in rural areas resist accessing and buying finance-related products. First, residence area is one of the most important factors affecting the income gap between urban and rural areas. However, in addition to the reason of rural traffic blockage, the education level in rural areas is a bigger actual factor potentially causing a big gap [5]. Furthermore, China's top 985/211 universities are basically concentrated in economically developed large cities. The limited educational resources have increased rural children's difficulties and challenges when going to the city to study at university. Compared with urban people, it is normal that the proportion of rural children who can enter university is less than that in urban areas. It means that the average education level is insufficient to understand the financial products produced in the most economically developed regions.

Additionally, the development of network coverage and penetration in rural areas is relatively falling behind, so local people cannot access brand-new financial information. China's rural population is ageing; many older people are unwilling to learn to use high-tech electronic products, so there is no possibility of any contact with financial product investment.

Moreover, under the influence of traditional customs, rural people like to work down to earth and get a stable income. Even if they are willing to save money, they will put all their savings in the bank the first time to get a small amount of interest instead of taking risks to buy financial products because they prefer to pursue stability and worry about unexpected losses even though financial products offer a higher yield. All in all, due to the lack of knowledge of finance in rural areas, it is difficult for financial markets to find and attract many customers in rural areas.

2.4. Poor Supervision

Due to the large number of people buying financial products in cities, financial institutions and markets are oriented towards cities. Supervising financial products and services in cities is also essential and strict, while there are fewer financial institutions and national banks in rural areas. Supervision also requires capital and technical knowledge as well as sufficient financial support, so supervision in rural areas is relatively loose due to the shortage of relatively specific skills enough funds [6]. Therefore, it will increase the pressure to the government potentially and simultaneously.

Although China has encouraged and stimulated the development of rural areas in recent years, it would still be difficult for the development level to be significantly improved in a short period. The industrial chain in rural areas is relatively simple, and once there is an economic downturn or natural disaster, it will be subject to significant fluctuations. It means that the unemployment rate in rural areas will be higher. Moreover, if rural people want to do basic aquaculture and other industries, loans will be needed because of insufficient funds. As formal financial service processes are complicated, relatively strict standards and complex and time-consuming processes allow informal financial institutions to use them. Some people tend to be opportunistic, and it is difficult for regulators to maintain high supervision and level.

3. Solution

3.1. Improve Coverage of Financial Services

Government subsidies can also increase the number of bank outlets and ATMs in rural areas to make it more convenient for people to reach these places in daily life and save time to attract more potential customers. Online network processing can also be increased, ensuring that more people are more willing to deposit much of their income, so the rural financial coverage rate is higher.

The government needs to provide policies to improve the infrastructure construction in rural areas, it can increase the connection between rural areas and cities. There are 35.4 percent of total rural population belonging to internet users and 25.1 percent village having built e-commerce distribution places now [7]. In the future, if the infrastructure coverage proportion can continue to increase, the rural finance will be improved continuously and tremendously. Also, the transportation will be more convenient so that people living in rural areas have more opportunities to access financial products and services and try to choose rural centres or convenient places to open outlets. After that, more people will often pass through these places to increase more potential customers and solve the problem of rural population density.

3.2. Minimize Risks and Look for Opportunities

Using the current artificial intelligence technology to try to offset part of the risk in the planting industry can introduce more efficient machines to replace the original manual. In the future, mechanization will fully support all agricultural and rural modernization, it will not only be convenient and labor-saving but also can improve production efficiency and output, increase the income of rural areas. In addition, to vigorously develop the tertiary industry, it is necessary to help rural areas find more economic development opportunities, such as the development of tourism to attract more foreign investment in rural areas can diversify rural industries and reduce risks. According to a study by China's Jinshitan scenic area, tourism has become the dominant industry in the area. The income from tourism is ten times the output value of agriculture [8]. It can increase the proportion of employment at the same time. Therefore, as people's willingness to travel increases, rural areas need to seize this opportunity and find their competitive advantage to attract more tourists to visit the local area. It will be beneficial for non-urban communities to enhance economic development and growth. If more tourist attractions are developed and carefully managed, it will greatly stimulate the local economy and increase employment, which is greatly higher for the whole country.

Strengthen innovation and reform of financial products and services, such as seeking to buy some insurance related to agriculture to make up for some unnecessary losses caused by extreme weather conditions. It can not only reduce the loss risk of farmers but also strengthen the investment of financial and insurance institutions in rural products to achieve a win-win situation.

3.3. Improve the Financial Literacy of Rural Residents

Encourage more students to go out of the countryside to study in the city, and at the same time, provide some preferential policies to help them reduce tuition fees and living expenses. More fundamental infrastructure, such as schools were built in rural areas to provide mandatory education and conduct cultural activities including public entertainment or learning centers [9]. Furthermore, teachers were allowed to go to rural areas for short periods to teach courses to improve rural people's knowledge level.

Increase the construction of the Internet. Provide accessible communication through daily services in public areas such as community volunteers, teach the elderly how to use electronic products and show the benefits and convenience of electronic products. Currently, Chinese government has already built the digital infrastructure. It is a great opportunity to develop more mobile phone users living in rural areas to access online banking and access to advanced financial services. At the same time, young people should teach the elderly how to use smartphones in daily life when they return to the countryside and improve their skills.

Publicizing anti-fraud knowledge improves the ability of the elderly to identify good financial products or choose to invest in some financial products with a higher safety factor in addition to bank deposits, such as treasury bonds.

3.4. Systemic Reforms

Encourage and motivate some formal institutions to bring advanced technology to rural areas. The technology can play an essential on supervising ability. Through big data and electronic information reporting help supervision improve efficiency and reduce costs. It can slightly reduce the processing requests and time after providing technical specific solution. The potential benefit can increase the local government's regulatory responsibility by using the brand-new technology. After that, the government can pave the way for equitable future development.

Strictly crack down on any illegal financial loan financing and other activities. The government should provide legal support and advisory services on financial services so that people realize the importance and severity of the event [10]. As time goes on, non-financial institution activities will disappear as the popularization of formal financial institutions and people's awareness.

4. Conclusion

In conclusion, rural financial condition is crucial for sustainable economic growth and national prosperity. Even though the process of solving the problem may be challenging, complicated and time-consuming with a great deal of problems, it would be necessary to achieve collective wealth and be beneficial for the country's future development. Therefore, as the government can look for relatively functional strategic solutions to each problem, such as improving financial service coverage, using technology, improve average literacy and regulatory environment, it will make a considerable contribution to the rural area economy and the future development of the whole society.

The problems mentioned in the paper are only the tip of the iceberg of rural financial problems, which is not enough to meet all the challenges. With the increase of time, more potentially intractable problems will surface to be solved, so it is necessary to always be prepared to deal with future uncertainties.

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