

## Being Excluded or Having No Use for: Adoption of Financial Services in Pingwu County China

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**Abstract:** It is a common situation that rural residents in China do not use financial services. However, it remains unclear that it is that they do not need such services, or they are excluded by financial institutions. Based on an empirical focus on Pingwu, a deprived county in the western region of China, we examine the adoption of financial services of farmers, self-employed individuals or households (SEs) and township and village enterprises (TVEs) and try to explain the reasons from the initiative attitudes of these groups and behaviours of financial institutions. We find that most farmers do not need to use financial services except basic saving accounts. They can meet the financing requirements for the agricultural activities by the savings and cash they hold. As for the SEs, most of them do need to adopt financial services, mainly loans. Because of the limited amount, banks normally lend them money willingly. SEs usually have a stable income stream throughout the year and would repay the loan on time as soon as they earn money. However, the TVEs are more likely to be rejected by banks. They often need a large amount of funds that much more than their value of assessment while they cannot provide qualified collaterals and there are often problems with management, business patterns and others that limit their development. In this situation, banks concerns that TVEs cannot repay the loan on time.

### 1. Introduction

Financial exclusion has been one of the hot topics in financial geography, urban and social studies. Leyshon and Thrift<sup>[1]</sup> denote that financial exclusion refers to “those processes that serve to prevent certain social groups and individuals from gaining access to the financial system”. Based on this concept, several aspects have been studied in this field. Firstly, scholars pay attention to various kinds of influential factors leading to financial exclusion. Actually, there are five sub-categories of exclusion acknowledged by scholars, namely the access, condition, price, marketing and self-exclusion, every of which represents a different situation of being excluded by financial services. Sometimes, different aspects are paid attention to Yeung et al<sup>[2]</sup>, but in most cases, financial exclusion is regarded as a whole to study the influential factors. Dymski<sup>[3]</sup> believes that it is the banks pursuing efficiency and elite customers that results in the limitation of the access of poor groups to services. Against the context of globalisation, banks need to compete with more rivals, and it is necessary for them to maintain a good relation with upscale customers who provide the major income. In this situation, banks prefer to design more preferential services to them instead of the less profitable, poor customer groups. Carbo et al<sup>[4]</sup> reach a similar conclusion, but are with an emphasis on institutional causes. Bank behaviours indeed lead to exclusion, but the government also plays a promoting role through deregulation. The liberalisation of financial markets, especially the business conducted by banks, gain support in most countries since this is one of the fastest ways to boost economic growth. From another perspective, Devlin<sup>[5]</sup> pays more attention to the characteristics of poor customers and tries to find out what kinds of features they have really made them opted out of the services. According to him, educational backgrounds, household income, marital status, employment and the like all matter for getting financial services. Secondly, scholars

also consider financial exclusion from a perspective of spatial differences, in which specific historical and geographical contexts shape the variegated exclusion landscape. In this case, the reason and manifestation of financial exclusion vary across space. Drakeford and Sachdev<sup>[6]</sup> examine the reasons of financial exclusion in the UK, in which they think the inadequate efforts of the government to change behaviours of financial institutions make the problem still unsolved. The government does not enforce any compelling regulations or policies to drive banks to incorporate poor groups.

Nevertheless, the government does not come up with enough measures to tackle the problem of an individual or household indebtedness, either. Without fixing these two issues, it is laborious for the UK authority to solve the problem of financial exclusion. In the USA, it is another story with a different focus. Dymski and Li<sup>[7]</sup> analyse the reason and the appearance of financial exclusion in the USA. They find that the reason is also about the shift of the bank strategies, but that who are excluded have their unique feature. Based on a two-sector model, they denote that inner-core areas are filled with individuals or households that can work “abroad” to maintain income against the context of de-industrialisation. But the subareas cannot earn money by this way consistently and gradually become a “financial sink” of exclusion. Other studies pay attention to other places as well, and all come to distinct conclusions<sup>[8-10]</sup>. Thirdly, there are also discussions about how to relieve exclusion and achieve financial inclusion. Mostly, studies focus on policy instruments driving financial institutions to expand their customer base, which is also spatially variegated. The Community Reinvestment Act (CRA) in the USA, the Community Development Financial Institution (CDFI) set by the UK government, the “inclusive finance” proposed by the Chinese government and among others are all typical examples and have distinct measures to try to tackle financial exclusion.

However, existing studies hold the same precondition that financial services are always needed in different situations. Few examine if vulnerable groups really demand such services. There is a strand of literature discussing the demand for vulnerable groups for financial services in developing countries. Most of these studies try to explain what affects the demand for formal and informal financial services. Similarly, the institutional settings (such as the credit rationing)<sup>[11]</sup> and individual or household characteristics including educational backgrounds, income and others<sup>[12]</sup> significantly influence the demand, and generally speaking, the poorer groups are in less need of formal financial services compared to the well-off groups. Nonetheless, there are gaps in this field as well. They only pay attention to the demand but do not consider that the poor groups may be rejected by financial institutions even if they need the services. Therefore, combining studies on financial exclusion and the demand for financial services, there are new research opportunities. That which groups do not use financial services is not a result of one-sided behaviours. That the poor do not use the services does not mean that they are excluded for certain. They may not need to use the services, especially in the less developed areas in which there are no occasions to spend much money. In this situation, it is of importance to find out if the poor is excluded or it is this group proactively keep away from the financial services.

Financial exclusion research is still very limited in China, while the unique political-economic context here can tell a very different story compared to western studies. Although urbanisation develops very fast in the last few decades, there is still a large proportion of rural residents. According to China’s Statistical Bureau, by 2019, there still had been 550 million rural residents, 40% of the total population. There is an urban-rural dichotomy that separates space and people into different categories by the Hukou system<sup>[13-15]</sup>. It is very difficult to change rural Hukou to urban Hukou because of the close restraint. This directly results in salient disparity. Despite the surge of GDP, rural residents’ income remains at a low level. In the first half of 2019, the disposable income of urban residents nationwide was 21342 Yuan, 2.7 times of rural residents. This disparity is more significant in less developed areas. For example, for Gansu Province in the west, the multiple is 2.9 in 2019. Under this circumstance, the exclusion is easier to be found in rural areas.

Since the Reform and Opening up (ROP) policy in 1978, there have been three main kinds of subjects potentially using financial services in rural China, namely the farmers, self-employed

people or households (SEs), and township and village enterprises (TVEs). Different income levels, modes of creating profits and spending requirements put these groups in distinct situations about using financial services. After the Household Contract Responsibility System (HCRS), farmers in rural China have created much more revenue than they did before<sup>[16]</sup>. In average, farmers can solve the problem of food on their own in agricultural activities. On the other hand, with the development of the economy and markets, more and more farmers turn to non-agricultural activities like working in local firms or migrating to cities to find jobs<sup>[17-20]</sup>. In this situation, the scale of agricultural activities on the household level indeed grows but still maintains at a limited level. SEs have also experienced fast-development since the ROP. Before 1978, SEs were mainly suppressed in a total socialist producing mode. When the central government in China started to promote diversified ownership of the economy, there are developing opportunities for SEs<sup>[21]</sup>. Smaller than enterprises but bigger than farmers in scale, SEs are more flexible in the markets and indeed develop well, bringing vitality to the economy. Township and village enterprises (TVEs) are the unique product of Chinese rural development. They have experienced rises and falls after the ROP as well<sup>[22]</sup>. In the first ten years after the ROP, everything is for the growth. In this case, there were very few regulations, and so TVEs had many problems concerning structures, ownerships, technologies, management and the like<sup>[23]</sup>. Even though TVEs developed incredibly fast during that period, they had accumulated too many problems to gain sustainable growth if there are any changes, for example, stricter regulations, severer competition, technology advancements, etc. In the following three decades, TVEs indeed face many difficulties in developing or even surviving<sup>[24]</sup>. Although these different economic entities have various development processes, it is unfortunate that very few studies have paid attention to their different attitudes and actual situations of using financial services.

On the other hand, the financial system for rural areas in China also has its own traits. After the ROP, the rural banking system has experienced an ongoing reform with frequent changes. Now it is the Rural Credit Cooperatives (RCCs) taking the main charge for rural financial services<sup>[25]</sup>. Because the policies promoted by the central government, even though the rural area is vast, there are appropriate numbers of RCCs in every county and township. Rural residents are always able to visit a branch if they need to. But as a part of the whole banking system, the RCCs also need to pay more and more attention to profits under the commercial banking reform in China<sup>[26]</sup>. In this situation, even if the poor want to use the service, they may be rejected. This is particularly the case when they want to adopt the service beyond their financial abilities.

Against the thesis of financial exclusion, we examine the demand of farmers, SEs and TVEs for financial services, and the situations if they are excluded by financial institutions in rural China. We argue that rural economic entities in China may not need financial services instead of being excluded, which depends on income/expenditure circumstances and varies among farmers, SEs and TVEs. By taking Pingwu, a deprived county in Sichuan Province as an example, we find that farmers are not excluded from but do not need any financial services because they live in a self-sufficient lifestyle. SEs are welcomed by financial institutions since they only borrow a limited amount of money matched with their income level. And they always repay the loan on time. TVEs are easier to be rejected from obtaining a loan from formal financial institutions because of the structural flaws and failure of providing qualified collaterals.

This paper relies on policy document analysis and semi-structured interviews from August to September 2020 in Pingwu County. The rest is structured as follows. First, the financial exclusion situation in China is reviewed. The next 3 sections introduce the development of farmers, SEs and TVEs in China, respectively. Then the case of Pingwu is presented to demonstrate empirical findings of this article. Finally, the conclusion ends up the study with a future research agenda.

## 2. Financial Exclusion under Chinese Rural Banking System

Kempson and Whyley<sup>[27]</sup> denote five types of financial exclusion, namely the geographical exclusion, condition exclusion, price exclusion, marketing exclusion, and self-exclusion. Geographical exclusion mainly refers to the situation that the financial services are not accessible to

certain consumers due to the lack of physical outlets of financial institutions. Condition exclusion means that people in need of the financial services are rejected by providers as they do not meet designed conditions. Price exclusion describes the cases in which consumers are restrained to financial products at prices they can afford. Marketing exclusion refers that financial institutions do not pass particular information to the poor groups, so these consumers are not aware of such services. At last, self-exclusion denotes that consumers deem themselves to be rejected, and thus, they will never try to use the services. In China, because of the unique development of the rural economy, geographical and marketing exclusion is unlikely to happen while the rest of the types indeed prevent rural residents from getting proper financial services.

The rural banking system in China has undergone a long reform process since 1949. Before the ROP in 1978, the banking system was largely suppressed due to some movements, including the Great Leap Forward and the Cultural Revolution (CR). Generally speaking, there was a “unified” banking system across the country to mainly finish development goals set by the central government to promote a socialist economy<sup>[28]</sup>. During the movements above, the banking system was nearly suspended in which People’s Bank of China was incorporated into central financial departments. There was nothing but chaos and low-efficiency in the banking system. After the ROP with the emphasis on economic growth and market principles, things started to get better<sup>[29]</sup>. In rural areas, the main direction of the banking reform was to establish new financial institutions to meet the needs of the rural commodity economy. The central government began to prepare the Agricultural Banks of China (ABCs) nationwide in the 1980s, aiming to boost the rural economy<sup>[30]</sup>. At the same time, the RCCs started in the 1950s were reformed in operation and business scope to emphasise growth<sup>[31]</sup>. In addition, the informal finance was allowed to exist so that there would be diversified channels to promote the rural economy<sup>[32]</sup>.

At the same time, since most of the rural residents have lived in poverty, the policy-based finance to achieve public benefits and social stability has been another important aspect in the rural economy<sup>[33]</sup>. The Agricultural Development Banks of China (ADBCs) were established in the 1990s, specifically for the policy-based financial development and make RCCs and ABCs more focus on economic efficiency. In this situation, RCCs and ABCs tend to operate under the shareholder value maximisation<sup>[34]</sup>. On the other hand, after the impact of the Asian financial crisis in 1997, the central government aim to establish a stable and efficient rural economy. RCCs and ABCs have become the pillar of this strategy. Informal financial institutions are restricted to develop to a large scale. In a word, RCCs/ABCs and ADBC, which take charge for the growth and public benefits respectively, consist of the rural economy in China. On the other hand, because ADBC are the policy banks and there cannot be too many of them across space. In this situation, trying to balance the growth and the public good, the central government promotes as many RCCs and ABCs in rural areas as possible. Although these two institutions are mainly for the growth along with the banking reform, they provide easier services to the vulnerable groups compared to other banks. By 2014, there are 42201 RCCs and 32776 ABCs in China, and every county and township have a proper number of them according to the population density. In the same year, the China Banking Regulatory Commission (CRBC) launched the “village of the village” project, which encourages banks to fully cover the implementation of the basic financial services within the next five years, and so far, the project has covered more than 51000 administrative villages. Therefore, it is unlikely that geographical exclusion would happen in China.

The marketing exclusion can hardly happen in rural China as well. There are many financial service campaigns like “getting through the last kilometre to rural financial services” policy aiming to popularise financial service in rural China. For example, in Qingdao, the Qingdao Rural Commercial Bank (QRCB) held several rounds or activities to spread knowledge of basic financial services including loans, credit and debit cards, and various kinds of financial products in rural areas. Chongqing Three Gorges Bank Wanzhou Branch initiated the “financial knowledge into the countryside” activity. The bank staff teaches people how to stay away from illegal fund-raising, prevent fraud, choose and buy bank financial products, etc. In Gansu Province, 15,788 rural financial comprehensive service rooms have been established by 2019, through which banks and

insurance companies in Gansu province actively provide differentiated and characteristic financial services, especially for the poor people. The vast number of local farmers, especially poor households, have significantly increased their awareness of comprehensive insurance policies and financial services.

In contrast, price, condition and self-exclusion possibly happen in rural China like anywhere else in the world. For example, Yeung et al. believe that although farmers can access branches of formal financial institutions, it is very difficult for them to obtain loans because of strict conditions. For banks, mainly RCCs, those low-income farmers are considered to be high-risk groups who may not be able to repay the loans. The poor groups could also be excluded due to their lack of collateral land formal credit records. What is more, for farmers who have been poor for most of their lives, they are reluctant to use financial services. They prefer to keep their wealth by themselves. They are not even willing to put their money in the bank and earn interest, let alone adopting other risky services.

From the perspective of users, there have been farmers, SEs and TVEs, every of which has various demand for financial services and different probability about being excluded. All of these economic entities are under deep influences of the still ongoing rural economic reform in China. Before the ROP, these three types all had very limited income under the cooperative economic system. After 1978, a series of historical measures, such as the popularisation and application of the HCRS, Deng Xiaoping's Southern Talk in 1992, the establishment of the socialist market economy system, the abolition of agricultural tax, and China's entry into the WTO, have greatly promoted the development of these three economic entities. Despite the bumps in the road, it has generally been a benign development tendency for these three entities. In the next three sections, their development processes are illustrated to show the demand for financial services and the probability of being excluded by financial institutions.

### **3. Improvement of Farmers' Income Structure**

In the early period of the foundation of the People's Republic of China (PRC), the Chinese government carried out a series of reforms on the agricultural farming system. From 1949 to 1952, the government vigorously promote the Land Reform<sup>[35]</sup>. This measure changed the ownership of land and means of production from landlord to peasant. The farmers' self-employed pattern became mainstream. By the end of the Land Reform, it was estimated that there were nearly 100 million self-employed individual farmers<sup>[36]</sup>. The Chinese government promoted land reform to improve agricultural productivity to meet the need of the country's industrial development. However, most of the peasants only aimed at producing enough food for themselves, demonstrating the ideology of traditional small peasant economy<sup>[37]</sup>. To further improve farmers' incentive and productivity, the collective producing pattern was introduced from 1953 to 1978, in which People's Commune and production teams lead production activities in rural China<sup>[38-39]</sup>. But the collective pattern also resulted in disincentives because all the means of production and food resource are equally distributed that were irrelevant with the actual yield of each farmer. The income level of farmers remained low during 1949-1978, where the per-capita income of framers only increases from 43.8 Yuan to 134 Yuan.

After the ROP in 1978, the Household Contract Responsibility System (HCRS) began to implement in rural China in which land was contracted out to farmers<sup>[40-41]</sup>. Although the HCRS was not officially admitted, it ensured the pattern of "the more yield, the more income" for farmers, which stimulated farmers' enthusiasm for production and led a surge in the grain output and farmers' income. But the increase of the income brought by the HCRS was impacted by the reform of the agricultural product purchasing mode since 1985. Agricultural goods were solely purchased by the government in China. Because of the limited yield and for maintaining the stability of rural areas, the government set a high price for the procurement and subsidies for production means. Nonetheless, the HCRS significantly increased the yield, making a huge burden for authorities to stick to the existing purchasing mode. In this situation, the state's monopoly of purchasing was abolished, and a reform setting up market circulation system for some of the agricultural products

under the government control started<sup>[42]</sup>. In the reform, the price of agricultural products has been reduced because of market competition. In addition, the original cost of agricultural means of production was raised, and subsidies were abolished. Consequently, the enthusiasm of farmers has dampened again. On the other hand, TVEs developed rapidly in the 1980s, which employed a large amount of rural labour force and brought farmers increasing non-agricultural income<sup>[43-44]</sup>. But in the late 1980s, TVEs started to face severer regulations because of low-efficient, extensive management<sup>[45]</sup>. This led to a decrease of non-agricultural income of farmers. In general, after the first few years of the HCRS, farmers' income stopped rising quickly until the early 1990s.

Entering the 1990s, there was another round of rising of farmers' income. The Socialist Market Economic System was introduced in 1992<sup>[46-47]</sup>. With the further emphasis of market principles, the national economic development has reached a new high since the ROP. The growth rate of farmers' income also picked up vigorously under the influence of overall development<sup>[48]</sup>. In 1993, the HCRS was finally legally approved by the State Council. Based on this, many more farmers were able to improve income through this system. On the other hand, the State Council also liberalized grain prices and operation. With the fast-developing economic environment, the national grain prices began to rise sharply in the second half of 1993. To prevent inflation, the grain purchase return to the status of the government monopoly, but the purchasing price saliently went up, which contributed to increasing farmers' income. Farmers' non-agricultural income also has substantial growth. With the reform of the market economy, TVEs have made some progress in organization and technology<sup>[49]</sup>, helping them to earn more revenue and hire more farmers, whose non-agricultural income per-capita rose from 272.91 yuan in 1992 to 714.25 yuan in 1996. The average annual real growth rate reached 14.59%. As a large number of farmers go out for work, the proportion of farmers' income from non-agricultural industries has been increasing.

Since the 2000s, farmer's income has generally been increasing, both in agricultural and non-agricultural aspects, while the latter rose faster than the former, resulting in the change of farmer's income structure. The State Council introduced rural tax and fee reform to the whole country in 2003, which further strengthened the enthusiasm of farmers for production<sup>[50]</sup>. But with ten years of rapid development in production technology, there was an obvious increase in the yield but a very limited rise in price. Therefore, the agricultural income of farmers did not improve much. At the same time, with the fast urbanization process of China in that period, a large number of rural residents migrated to cities to find jobs<sup>[51-52]</sup>. Because of the higher salary in urban areas, the real growth rate of farmers' wage income reached 8.63%, nearly twice the real growth rate of farmers' per capita net income from 2001-2003. The rapid rise of wage income effectively ensures the resumption of the increase of peasant's income under the premise that the increase of peasant's household income is very limited. In the following years, due to a series of preferential policies, farmers' income has been steadily increasing. But the structure has also been stable, in which non-agricultural income is more than the agricultural aspect.

Since the ROP, farmers' income has been rising in the overall trend. With the increase of per capita income of farmers and the development of the overall financial environment, farmers began to contact and gradually accept some simple financial services, such as savings and loans<sup>[53-54]</sup>. Because of limited scale on the individual level, most farmers do not in need of loans because the subsistence farming model is sufficient to support their livelihood. A small number of farmers borrow money from banks in order to buy machines or fertilizer that can let them work in higher efficiency. On the other hand, more and more farmers choose to work in non-agricultural industries. Under this circumstance, they do not need to use any financial services from banks except savings since they devote themselves into the usually laborious work<sup>[55]</sup> and their limited education level prevents them from using complex services.

#### **4. Development of Ses under Changing Policies**

Before the ROP, the government's policies towards self-employed economies (normally people or households, SEs) changed constantly. This pattern was supported on some occasions but was ignored or even restrained in others. In the first few years of the founding of the PRC, faced with

the severe economic situation, the government was in support of multiple economic components including SEs and published preferential policies<sup>[56]</sup>. However, this did not last long. In 1958, the central government issued a policy document to strengthen the socialist transformation of the remaining small vendors, such as artisans, in which these artisans should join cooperatives for production<sup>[57]</sup>. After such transformation, the SEs had hardly left. After the outbreak of the CR in 1966, the SEs was labelled as the 'tail of the capitalism' and was banned and despised<sup>[58]</sup>.

After the ROP, there was a 10-year recovering period of SEs. The central government introduced a series of policies to support the SEs development, including expanding business premises, increasing the supply of goods and ensuring a stable working environment. Particularly, in 1984, the No.1 Document of the CPC Central Committee proposed that farmers could carry their own rations to market towns for business. Similarly, the State Council issued a policy document in 1984 as well that relaxed restrictions on rural SEs to start a business, and helped them with obtaining loans and preferential prices and taxes. These policies stimulated the enthusiasm of the rural SEs. In the next year, the No. 1 document of the central government claimed that farmers could go to cities to set up shops, which changed the situation where rural residents were restricted to so under the dual structure for a long time<sup>[59]</sup>.

However, at the beginning of the 1990s, the government started to cool down the development of the SEs and published a series of policies to reduce the support and strengthen the management because of illegal behaviours such as the tax evasion, the use of child labour and other bad issues. Because of this, the development of SEs was suppressed to some extent at this stage, but the stricter management and the correction of the wrongdoings laid a foundation for the subsequent development in the next few years.

Since the mid-1990s, instead of just imposing restrictions and regulations, the government has further introduced policies to help SEs solve the problems of potential tax evasion and accounting confusion and then to protect their legitimate rights and interests. For example, in May 1996, the Labor Department issued a document requiring SEs to sign labour contracts and establish labour relations with their hired hands in accordance with the law. In August 2008, China's Ministry of Finance and related departments issued a policy document to stop levying management fees on SEs. In April 2011, the State Council issued new regulations that removed more restrictions like the ones on the number of workers employed, on the identity condition (of being SEs), and on the business categories and scale.

Nowadays, the SEs model has become a ubiquitous business model, especially in the rural areas<sup>[60-61]</sup>. The trading of various kinds of small traders and hawkers has become a daily routine in the countryside. For most self-employed people, accessing financial services is a necessity<sup>[62]</sup>. The financial services they use most are loans, which typically range from tens of thousands to hundreds of thousands of Yuan. The loans borrowed by SEs are mainly used to replenish stock with working capital. Because commodities need to be replaced frequently, it is not enough for them to rely solely on the cash and savings they hold. When they sell out these commodities, they use the revenue they earned to pay back the loan. Compared with TVEs, SEs have a smaller amount of need but a more stable share of daily sales, which gives them good images when banks assess the risk of borrowing money to them.

## 5. Rise and Fall of Tves

TVEs are mostly reformed collective economic subjects and farmer-invested firms, which mainly established after 1978. In the first few years, TVEs experienced rapid development. These firms, normally managed by township governments, were the pillar of rural industries<sup>[63]</sup>. Because of the impacts of the CR, or in essence, of the low efficiency of the collective producing pattern, TVEs and their predecessors had a long struggling period with insufficient funds. Because the HCRS had saliently improved income level of farmers, they had more spare money to save in the banks, which became the fast-increasing capital resources for TVEs. Using this money, TVEs expanded their production scale and then made significantly more profits. From 1978 to 1983, the total output value of TVEs jumped from 49 billion Yuan to 1007 billion Yuan, while the total profit

also increased from 9.5 billion yuan to 13.7 billion yuan.

But in the late 1980s, TVEs slowed down and entered along period of rectification. In the first ten years of TVEs, there were scarce regulations in which extensive management led to plenty of problems including low efficiency, local protectionism, blind and repeated construction, lag in organisation and technology and the like<sup>[64-65]</sup>. TVEs were actually dominated by governments since the largest share of property rights belonged to township economic committees. Jean Oi<sup>[66]</sup> denotes “local state corporatism” to describe the relations between governments and TVEs and features about officials managing these firms. Basically, TVEs not only pursued profit maximisation but also pay attention to social welfare for rural residents such as increasing employment rate and building infrastructure. On the other hand, excessive involvement of township governments resulted in unclear property rights, which did help TVEs developed rapidly at first with preferential resource allocation and simplified approving procedure. However, this monopoly of governments had gradually imposed a huge burden on these firms, like investing in less-profitable infrastructure projects and unreasonably competing with firms in neighbouring areas, all of which were in favour of political careers of township officials but hindered development of TVEs themselves. In addition to this, a large proportion of TVEs were under the pattern of family management, which also was flawed when firms reached a certain scale. It was more difficult to make proper decisions to maximize profit under the influence of the kinship. Under these circumstances, the government published several regulations and policies to improve TVEs’ operation in the aspects of promoting restructure to private corporations, adopting advanced producing modes and organisation structure, expanding business categories and scale, and among others. This reform mainly took place during the 1990s to 2000s, but it is still in progress, not only because of the large number of TVEs across the country, but it is not easy to convince township governments to lose control on these major revenue channels. Because of the fundamental change inside out, the firms lower the speed of development compared to the years before. Some of the restructured TVEs have achieved fast growth again, but more of them are still in the transition process and trying to survive.

Furthermore, since China entered the WTO in 2001, foreign firms have gradually been into the domestic market and competing with different kinds of local enterprises, including TVEs. This leads to extra pressure on these restructuring firms. For example, in comparison with competent foreign counterparts, business scale, organizational structure, producing technology, employee’s quality and the like of TVEs are all in the disadvantageous position. The focus on low-end products also sets TVEs a big step backwards. In addition, because of the control of township governments, these firms are spatially dispersed, so it is difficult for them to achieve the scale of economies<sup>[67]</sup>. To improve this situation, governments have promoted several measures, including building industrial parks especially for TVEs. These indeed relieve the pressure to a certain degree, but the TVEs are no longer at the centre stage of promoting development as they did in the 1980s.

Based on the development of TVEs, most of these firms need to use the financial service, mainly obtaining loans from banks. However, they have not always succeeded in doing that because some of the key conditions cannot be fulfilled. As mentioned earlier, TVEs are limited in scale and still struggling with internal flaws that may harm the ability to repay the loan. Many TVEs are specialised in producing agricultural goods, which is periodic with long intervals<sup>[68]</sup>. In addition to this, TVEs usually have difficulties in providing qualified collateral. All of these features make banks reluctant to lend loans to them. When TVEs are unable to borrow money from formal financial institutions, they seek alternative forms of informal finance. Usury is one of the examples, which brings easier money but also the higher risk of bankruptcy.

## **6. How Do Different Groups Regard and Are Treated by Financial Institutions: the Case of Pingwu County?**

There are significant regional disparities across China. Some counties and towns in coastal areas like Jiangsu and Guangdong are even richer than large cities in the middle and west. As a result, rural residents in these developed areas often have stronger financial abilities and are less likely to be rejected by financial institutions. On the contrary, deprived rural regions in the inner areas are



better choices for studying financial exclusion. Since the ROP, farmers, SEs and TVEs have experienced different development. With the continuous improvement in general, all of the three types of economic entities are now in frequent contact with and have willing to use the financial service. In the deprived areas with a higher risk of being excluded by financial institutions, it is important and interesting to analyse the willingness and necessity for them to adopt financial services and the chance of them being rejected.

Pingwu was a national-level poor county in the north of Sichuan Province, West China before 2019. Pingwu has vast farmland and fertile soil, which make the agriculture appropriate to be an important income source. However, the whole county is surrounded by the mountains and is not well connected to the outside world. This disadvantage significantly restrains agricultural industries' development. To be more specific, farmers and TVEs that engage in agriculture have difficulties in improving their income because of the bad connection with outside markets. SEs also suffer from inconvenient transportation, especially when they need to replenish their stock that are only available from a distant place. In 2019, Pingwu county was finally able to get rid of the title as the national poor county, but a long period of poverty still makes Pingwu a good example of financial exclusion.

## **6.1 The Farmers**

Since the 21st century, the per capita net income of farmers in Pingwu county has increased from 1489 yuan in 2000 to 9,000 yuan by 2019. In terms of production, most farmers in Pingwu county choose to engage in agricultural activities rather than non-agricultural activities. There are four reasons for this phenomenon. First of all, the policy environment is improved and the agricultural base is strengthened. Since the new century, the "three rural issues" has aroused the close attention of the governments who have introduced a series of policies to increase the investment of agriculture and the reform of rural taxes that have improved the incentive for farmers to develop agricultural industries. The development of the agriculture in Pingwu has ushered in rapid development in this situation. Next, with the supportive policies and abundant resources in the land and labour, the farmers here are highly motivated in the farm work. The third reason is that Pingwu's location is especially appropriate for agricultural work. The typical mountain topography of the county makes this place perfect for growing tea, walnut, mulberry, sweet potato and Chinese medicine. Breeding industries such as medium bees and silkworms also have great potential. Finally, there have been particular opportunities for Pingwu after the Wenchuan earthquake in 2008. Under the leadership of the central government, Hebei province has invested a lot for the reconstruction for the county, especially for the agriculture. By contrast, farmers' non-agricultural income mainly comes from working at local TVEs, which are generally small in business scope and categories because of the limited technological development.

In order to get a further understanding about the attitude of farmers towards financial service and the chance they are financially excluded, interviews are conducted with the director of Pingwu's financial office in August and September in 2020. As for the farmers' attitudes towards financial services, the director said that,

"There are a number of bank branches in Pingwu. On the other hand, most farmers now have smart-phones. The online and offline popularisation of financial services makes almost every farmer have a basic understanding about what financial service is. The reason for the farmers' use of loans is mainly about purchasing means of production (such as buying pesticides, fertilisers and seeds). The amount of loans is mainly below 50,000yuan. Under the current credit system, farmers do not need collateral for loans under this amount, which makes lending more convenient and strengthens farmers' incentives to use loans. They are unlikely to be rejected by banks for the farmer who is using the loan. This is thanks to China's encouraging policies to make it easier for more farmers to contact and use financial services. Because the agriculture is the pillar industry for Pingwu, farmers earn a relatively stable income from selling agricultural products every year. Farmers can be psychologically stressed when they have a loan, which makes farmers have a higher incentive to repay the loans. But in general, there is still a small number who use loans, as most

farmers are satisfied with self-sufficiency in agricultural production. They do not need to borrow more money to buy more means of production and create higher agricultural incomes. I estimate that only 10 percent of farmers are willing to use financial services, while the rest 90 percent are still reluctant to have loan pressures.”

Therefore, the main financial services used by farmers in Pingwu are loans and they are unlikely to be excluded from the banks. However, farmers who use financial services are still a minority since they can satisfy their living and producing requirements by the cash and savings they hold.

## **6.2 The Ses**

In Pingwu, there are about 3,600 SEs that also experience fast development in the last decade. Growth from the total amount of social consumer retail sales (SCRSs) is able to reflect growth in SEs. The SCRSs include both retail and catering revenue that basically cover all the business pattern of Pingwu county's SEs, including opening supermarkets for retail services, restaurants, and hotels to support local tourism. From 1978, the total amount of SCRSs increased from 19.2 million yuan in 1978 to 1.1 billion yuan in 2015.

When it comes to the SEs, the director said,

“The development of SEs in the county is relatively stable, and nearly 70% of SEs will use in loan services, which are usually below 200,000 yuan. Because of the tension of liquidity, SEs always use loan services when they replenish the stock. Every time the SEs sell out the goods and earn the revenue, they will repay the loan immediately. Compared with the TVEs, the sales situation of the SEs is more stable since there are few fluctuations of SEs' sales revenue. With the growing tourism of Pingwu in recent years, the foreign tourist population provides a good development prospect for the local SEs.”

Thus, the use of financial services is very popular among SEs in Pingwu. As a result of the stable sales status, the SEs are able to return the loans on time. It is rare for SEs to experience the refusal of banks to provide loans because of the relatively small amount and punctuation of repayment.

## **6.3 The Tves**

Since the ROP, TVEs in Pingwu have experienced rapid development. Till now, local TVEs have business covering building materials, food, paper making, hydropower engineering, wood and tea processing. Around 2010, most of TVEs in Pingwu had been privatised, most of which focus on agriculture (such as tea, walnuts and honey). The rapid development of TVEs can be reflected from the added value of agriculture, which reached 478 million yuan in 2010. They have grown more rapidly after being transformed into private companies, in which the added value of agriculture reached 580 million yuan in 2015 and 705 million yuan in 2019.

As for TVEs the director said

“As TVEs, the demand for financial services is definitely greater than that of SEs and farmers. Their share of loans is typically in the millions level. But banks are not as friendly to TVEs as they are to farmers and SEs. TVEs generally have some problems of chaos structure, unplanned use of funds and low quality of management personnel. These problems often lead to the rejection of banks to TVEs. Moreover, for TVEs focusing on agriculture, some agricultural production machines used as collateral usually have a high depreciation rate. For example, machines of 100,000 yuan themselves are only worth 20,000 yuan when used as collateral. This has also led to difficulties for some TVEs in using financial services. Once TVEs cannot borrow money from formal financial institutions, they may choose to borrow money from informal financial institutions or methods, such as usury. But there is a big risk that if the usury cannot be repaid, the business may experience the bankruptcy.”

Generally speaking, TVEs have a high demand for financial services, but due to their improper management and other reasons, they are easier to experience the financial exclusion from formal institutions.

## 7. Conclusion

Financial exclusion is a spatial phenomenon and performs various features against different contexts. Scholars have been paying attention to more and more kinds of influential factors, but tend to avoid discussing the topic from a demand perspective. Actually, the self-exclusion has tried to define the concept from an initiative point of view, in which people may not apply for using financial services because they believe that they would be refused. This is a good start for a demand thinking, which has been unfortunately neglected to a large extent. It is understandable in the capitalist economy that most people are always in need of financial services because of the habit of deficit spending. But in countries like China, people, especially poor people, usually do not need financial services. They can meet their spending requirements with money they make since they are not used to “spending money they do not have”. Any activities with potential financial risks are not popular among the low-income group. In this situation, the detachment of financial services and people in rural China may not be an exclusion.

After nearly 40 years since 1978, the farmers, SEs and TVEs have consisted financial ecology in rural China. Every group has distinct requirements of financial services and also takes unique positions in interacting with financial institutions. Except for most farmers, SEs and TVEs usually need to adopt financial services, mainly the loans. But they face different situations. In Pingwu, SEs are more welcomed because they only borrow the amount that they are able to pay back. In contrast, banks are less willing to lend money to TVEs because they do not trust in TVEs' capability of making profit and repaying the loans. This again echoes the geographically variegated financial exclusion and it is necessary to look into different cases.

One of the major purposes to study financial exclusion is to come up with measures to include the excluded groups, or in other words, to achieve financial inclusion, which is still a rising but also very limited topic. This study has implications for this topic. Firstly, farmers are the most important target group of inclusive finance. But in some cases, some of them may not need to use the services. As a result, there may be a waste of resources to set branches for these people. What we find here is a good complement to mainstream financial inclusion literature. Secondly, the TVEs, on the other hand, maybe in more need of the attention from the financial inclusion. Difficulties of TVEs are mainly the result of the historical development, and there is no doubt that the existing institutional context needs to be improved to fix TVEs' problems. But it would take a long period. As for a supplementary method, these firms need to be considered by the policymakers of inclusive finance to make them easier to get loans and to help them with improve operation modes at the same time.

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