

Review

Finance in Rural China, by Xingyuan Feng, Guangwen He, Tongquan Sun and Christer Ljungwall (Routledge, Abingdon/New York, 2023), pp xxi + 139

China's rural financial system has experienced a rapid marketisation reform over the past two decades, which plays an essential role in facilitating agricultural development and rural transformation. Yet, the mechanisms through which this financial system marketisation reform unfolded in rural China have remained unknown to the public. *Finance in Rural China* provides an in-depth review on the reform, with a particular focus on analysing three important reforms implemented in different stages of rural development in China and their roles in fostering rural financial development.

The three reforms are: first, the rural credit cooperative (RCC) reform taking place in the first decade of the 21st century, which helped to deregulate and diversify the rural financial system originally owned by the state (Xiwen *et al.*, 2009); second, the implementation of a proactive national strategy of developing inclusive finance (or 'pu hui jin rong') across China, especially in rural areas, during 2013–2018, which further intensified market competition among commercial banks and financial institutions in providing loans to farmers (Helms, 2006); third, developing digital economy and digital finance in rural China since 2014, by integrating the inclusive finance system with the application of digital technologies (Huang & Wang, 2017). Nowadays, China owns the largest online/digital banking system in rural areas, and more than 80 per cent of the rural population in China now uses online payment tools, such as WeChat and Ali-pay for daily transactions.

If you are interested in understanding financial reforms and agricultural financial markets or just interested in knowing more information about financial reforms in a large developing country in the Asia-Pacific region, this book promises to be an engaging read. Although the book mainly focuses on issues in China, it provides valuable insights that can be applied to financial reforms in other developing countries.

The book consists of seven chapters contributed by various authors, which can be categorised into three themes, including the ideology of the rural financial system, the three types of financial reform in rural China and the potential impact of rural financial reform. Although each chapter analyses the rural finance reforms from a specific aspect, together they paint a comprehensive picture of the path taken by rural financial reform in China. However, as different chapters have been contributed by different authors with varying purposes, too many aspects and issues have been raised and discussed, which dilutes the book's focus to some extent.

In the book, Chapter 2 (70 Years' Evolution of the Rural Financial System of the PRC), Chapters 4 (Ownership, Governance and Interests of Financial Institutions within the Rural Credit Cooperative System), Chapter 5 (Improving the Financial Sustainability of the Financial Institutions Within the RCC System: Problems and Policy Options) and Chapter 6 (The Development of Digital Inclusive Finance in Chinese Counties: Index Construction, Measurement and Analysis) are the most interesting parts, and therefore, in this review, we will focus on these chapters.

Chapter 2 begins by analysing the evolution of China's rural financial system during 1949–2019. Through discussing the features of rural financial development in four sub-periods, namely, the initial formation of the rural financial market before 1978, the functional division and coordination of different financial institutions after 1978, the establishment of the modern rural financial market in the 1990s and the development of an inclusive financial system after 2014, the authors succeed in outlining the path of the marketisation of rural financial institutions and the opening up of the rural financial market in China. This paves the way for the following chapters to analyse, in detail, China's rural financial reform in each sub-period of time.

Chapters 4 and 5 have both examined the rural credit cooperation (RCC) reform, but with different focuses. Chapter 4 analyses issues related to the ownership structure, governance and interests of the RCC institutions in rural

China (Wen & Wang, 2005), and therefore it explains how the first-stage RCC reform is implemented since 2003 which in turn restructured the state-own RCC system into rural commercial banks, rural cooperative banks and rural credit cooperatives. Although the RCC reform helps the marketisation of the rural financial system in China, it does not restore the RCC's own autonomy, leading to other problems (Feng *et al.*, 2006). In contrast, Chapter 5 takes a closer look at the second-stage RCC reform (or the share-holding reform), introduced by China's Banking and Insurance Regulatory Commission in 2010. In this reform, all rural cooperative banks and rural credit cooperatives were transformed into shareholding entities without any element of a cooperative system, even if they retained the term 'cooperative' in their names. In comparison with the first-stage reform, this results in the business operations and asset conditions of RCCs significantly improving. In both chapters, the authors claimed that the RCC reforms have had success to some extent and play an important role in supporting rural revitalisation and agricultural modernisation.

Although Chapters 4 and 5 describe the background and reason of the RCC reform and document the implementation of the reforms in detail, the consequence of the reform is not well presented. In particular, most material in the two chapters uses only the performance of the reformed RCC institutions as an indicator to illustrate the success of the reform, which can be somewhat subjective and potentially biased. From a reader's perspective, the two chapters could be improved if the authors were to provide more empirical evidence on whether the RCC reform has significantly improved the accessibility for farmers to the bank loans. This would make the chapters more informative and insightful for readers.

Chapter 6 provides a measure of digital inclusive financial development. Using the data on the digital inclusive finance development in 1,884 counties from the MyBank (Ant Group, Alibaba), which is a large fintech platform company in China, the chapter constructs an index to measure and compare the development of digital inclusive finance across counties in rural China for the 2017–2019 period. A comparison of the digital finance development index across regions shows that digital inclusive finance has grown rapidly over time, but there are substantial differences which persist across regions. Additionally, although bank loans through online/

digital platform have increased quickly, the quality of bank loans could still be improved.

Over the past decade, China has gradually transformed its rural financial system towards a more inclusive direction, after the RCC reform. Along this line, a rapid development of digital economy and online transaction tools also adds the fuel to drive the development of inclusive financial system in rural China (Feng *et al.*, 2019). The remarkable expansion of MYBank and other digital financial initiatives in rural areas heralds a new era in which digital finance is poised to play an increasingly vital role in providing financial services (Xun *et al.*, 2020). Yet, the lack of digital infrastructure may still be an emerging challenge, generating cross-regional disparity in the development of the rural financial system. In our view, this chapter provides some useful facts, but it should not combine 'inclusive rural financial system' and 'digital finance development' into one piece. Instead, the content would be more interesting if they included more developments and challenges of the inclusive financial system in China as a whole.

Overall, the book systematically summarises the marketisation reform of rural financial system in China from various perspectives over the past four decades. The book is successful in providing some background information on how China has reformed its rural financial system to support rural transformation, offering valuable policy implications for other developing countries in the same region. Although it lacks extensive empirical analysis, it is highly accessible and offers a wealth of stylised facts about China's rural financial system.

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