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Co-operative financial institutions and local development in China

Nicholas Loubere *, Heather Xiaoquan Zhang

University of Leeds, School of Languages, Cultures and Societies, White Rose East Asia Centre, 14-20 Cromer Terrace, Leeds LS2 9JT, UK

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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.

1. Introduction

Since the start of the market reforms in the late 1970s, China has witnessed rapid and sustained economic growth[1] 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

* Corresponding author. Tel.: +44 07730471467.
E-mail address: ndloubere@gmail.com (N. Loubere).

[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).

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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-operatives[3] 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 Communes[5] 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.

enterprises (SOEs) and TVEs, the rural credit co-operatives and rural co-operative foundations were suddenly rebranded as 'unsustainable' and 'risky' due to the fact that they were not operating like commercial financial institutions (Zhang & Loubere, 2013). The rural credit co-operatives were initially detached from the Agricultural Bank of China and put under the administration of county-level credit unions, which were supposed to coordinate the activities of township-level rural credit co-operatives. The reforms attempted to restore the co-operative nature of the rural credit co-operatives by requiring them to begin selling shares to rural households and enterprises. Moreover, rural credit co-operatives were supposed to prioritise agriculture, and at least 50% of loans were supposed to go to members (Cheng, 2006; Zuo, 2001). However, after a couple of years of (re)co-operativisation, rural credit co-operatives were again reformed within the logic of a market-driven commercial system, which prioritised 'financial sustainability'. This meant that 'underperforming' rural credit co-operatives were closed or merged with more 'financially successful' rural credit co-operatives, reducing the total number of branches from 50,000 to 33,020 (Cheng, 2006; Tsai, 2004; Wen, 2009).[9] The rural co-operative foundations, on the other hand, were deemed too big of a liability due to the fact that they were not technically part of the formal financial system and were more independent (and therefore more difficult to control). For this reason, all 45,000 rural co-operative foundations were forced to either shut down or merge with rural credit co-operatives, causing protests across the country (Tsai, 2004; Wen, 2009). Wen Tiejun, professor of agriculture and rural development at China's Renmin University, has noted that the cost of this massive financial restructuring was mainly born by local governments and, by extension, the rural residents and enterprises whose taxes financed these governments (Wen, 2009).[10]

Despite the fact that the reforms were supposed to restore the collective nature of rural financial institutions, the result was the closure of the institutions that most closely resembled financial co-operatives based on the International Co-operative Alliance's (ICA) Statement of Co-operative identity. This caused significant contraction of the rural financial system, and the centralisation of administrative authority and semi-commercialisation of the rural credit co-operatives. In the early 2000s, rural credit co-operative administration was shifted to provincial credit unions, with the county unions becoming the shareholders, thus further removing control from rural households and communities. This centralisation of control facilitated even easier extraction of rural financial resources for investment in urban areas (Brandt, Park, & Wang, 2001). Rural credit co-operatives have also been given mixed and seemingly contradictory instructions. On the one hand, since the early 2000s there has been a renewed focus on issues related to rural development (Zhang, 2009) and the rural credit co-operatives have been instructed to support rural areas through targeted programmes such as government subsidised microcredit and the provision of agricultural subsidies (Zhang & Loubere, 2015). On the other hand, since 2003 rural credit co-operatives have also been pushed to commercialise as a means of promoting rural development (He, 2014).[11] Relatively 'successful' rural credit co-operatives have been encouraged to transform into rural co-operative banks, while very 'successful' rural credit co-operatives (often in the more prosperous eastern coastal regions) have been encouraged to transform into rural commercial banks.[12] The introduction of new private commercial institutions into rural areas known as village and township banks and microloan companies, has also created competition and prompted rural credit co-operatives to become more profit-oriented.[13] Finally, along with urban commercial banks, rural commercial banks have begun to undertake initial public offerings (IPOs) (e.g. Chongqing Rural Commercial Bank in 2010) with international investors now allowed to own 20% of the formerly co-operative institutions (Martin, 2012).

3. From urban credit co-operatives to urban commercial banks

In urban China, the sudden diversification of economic activity in the early 1980s resulted in an increased demand for credit for commercial purposes. This was mainly due to the fact that the urban-based state-owned banks lent almost exclusively to the large SOEs (Girardin & Bazen, 1998), leaving private entrepreneurs and local (sub-municipal) governments without easy access to the capital necessary for business operations or local development projects. In response to this situation, urban credit co-operatives – which were set-up and run by local people, institutions and governments – began to emerge in urban areas in a similar way to rural co-operative foundations in rural areas.[14] The first urban credit co-operative was set up in Henan Province in 1979. By the early 1990s there were 5,200 urban credit co-operatives operating across the country, employing 120,000 people, and accounting for 3.2% of national loans and 5.81% of deposits (Girardin & Bazen, 1998, p. 145). The urban credit co-operatives were first overseen by the newly established Industrial and Commercial Bank of China, before being placed under the regulatory authority of the People's Bank of China (the central bank) in the late 1980s (Girardin & Bazen, 1998; Zuo, 2001). The creation of urban credit co-operatives was supported and encouraged by the central government and the People's Bank of China. However, urban credit co-operatives were geographically restricted to the municipalities where they were established, making it difficult for them to scale up their operations.

Throughout the 1980s and early 1990s urban credit co-operatives were considered the most dynamic and successful element of the Chinese banking system. During this period urban credit co-operative assets grew at an average rate of 57%, in comparison to 22% growth for state-owned banks (Girardin & Bazen, 1998, p. 144). The immediate success of the urban credit co-operatives was attributed to the fact that they were not allowed to lend to large SOEs (although in practice they often did), and instead focused their attention on locally controlled collective and co-operative enterprises. In this way urban credit co-operatives were able to utilise their superior local knowledge to tap into a rapidly expanding market. Most urban credit co-operative loans were unsecured (i.e. no collateral was required), so they relied on joint-liability and community monitoring mechanisms. They also worked closely with local governments who would guarantee loans targeting local industries that were in a better position to

[9] Many of the rural credit co-operatives that were shutdown were in more remote and poorer areas, resulting in increased travel time for rural people to access formal financial services.

[10] This was before the abolition of agricultural taxes in 2006.

[11] Hairong Yan and Yiyuan Chen point out that these ideological shifts and institutional changes have been grounded in the idea that the best way to deal with the rural-urban divide is through "urbanisation of much of rural population and capital-led vertical integration of agriculture" (Yan & Chen, 2013, p. 965).

[12] Rural co-operative banks and rural commercial banks are similar to the rural credit co-operatives, but are allowed to engage in more 'profit maximising' behaviour. For a more detailed overview see (He, 2014; Ong, 2009, p. 258).

[13] For a comprehensive overview of the development of these new commercialised institutional forms see (Zhang & Loubere, 2013).

[14] In the literature this is often framed as a 'reactive' process due to the lack of formal financial services, which is blamed on strict state control over the banking system (e.g. see Girardin & Bazen, 1998). However, urban credit co-operatives and rural co-operative foundations were often actually new manifestations of financial organisations that had existed previously as part of the collectives (Cheng, 2006). Therefore, this development can also be considered an expression of local collective identity rather than simply a 'reaction' to the inability to get formal loans through banks.

promote local development and increase local government revenue by paying taxes (Bateman, 2010; Girardin & Bazen, 1998; Park & Shen, 2003). Urban credit co-operatives were regulated by the People's Bank of China, but not supported financially or incorporated into a hierarchical administrative system. For this reason, they were required to finance loans through customer savings, meaning that total urban credit co-operative deposits exceeded loans. Unsurprisingly, this meant that urban credit co-operatives in the more prosperous coastal regions significantly 'outperformed' (in financial terms) their counterparts in the central and western regions of the country (Girardin & Ping, 1997).

Urban credit co-operatives were considered the most successful constituent of the banking system throughout the 1980s and early 1990s. However, despite their rapid growth, by the mid-1990s they were reframed as being 'risky' due to relatively lax regulatory oversight,[15] and not 'financially sustainable' due to their close collaboration with local governments and because they had less of a focus on 'profitability' than commercial financial institutions.[16] In 1995, in a move mirroring the reforms of the rural credit co-operatives and rural co-operative foundations, the People's Bank of China began closing down urban credit co-operatives deemed to have 'poor performance' or merged them into newly established urban co-operative banks. In 1998 the urban co-operative banks were transformed into urban commercial banks, marking a major ideological shift from support for co-operative finance to the promotion of commercial finance in urban China (Zuo, 2001). At first, 'financially sustainable' urban credit co-operatives were allowed to continue operating. However, in 2000 the People's Bank of China decided that all urban credit co-operatives must either merge with urban commercial banks, newly formed joint-equity banks or, in some peri-urban areas, the rural credit co-operatives. This move effectively terminated the role of formal co-operative finance in urban China, as the previously autonomous urban credit co-operatives were forced to become branches of commercial banks. In other words, rather than being locally controlled, urban credit co-operative decision-making shifted to bank headquarters at the municipal-level (Zuo, 2001).

Over the past decade and a half urban commercial banks, like the urban credit co-operatives before them, have grown at a much more rapid rate than China's large state-owned banks. They have also been praised for having many of the same characteristics that were identified as the key strengths of urban credit co-operatives a decade earlier, such as superior local knowledge and diverse shareholders. Aggressive reforms have reduced the percentage of non-performing loans held by the urban commercial banks, which was one of the main justifications for consolidating the urban credit co-operatives in the first place (Ferri, 2009). By 2010 there were 147 urban commercial banks nationwide with thousands of branches. While urban commercial banks represent a relatively small share of the total Chinese banking industry, they are often important financial institutions in their respective cities, usually with between 50 and 200 branches (KPMG, 2007; Martin, 2012). Urban commercial banks are also commonly chosen to handle municipal government business (i.e. pension accounts, general finances, etc.), and are the main service providers for many municipal-level SOEs. Moreover, urban commercial banks were heavily involved in pushing the post-2008 financial crisis stimulus programme through directed lending to local investment companies.[17] At the same time, they have been pushed to commercialise through an emphasis on reducing non-performing loans and increasing profits. Originally, urban commercial banks had the same geographical restrictions as the urban credit co-operatives, i.e. they could only conduct business within their municipalities. However, in recent years this restriction has been relaxed for a number of the more financially 'successful' urban commercial banks, such as the Bank of Jiangsu, the Bank of Beijing, the Bank of Hangzhou, and others.[18] For this reason, it is now commonplace to see branches of urban commercial banks outside of their 'parent' cities, and the practice of aggressive expansion is actively encouraged (KPMG, 2007; Martin, 2012; Research and Markets, 2012). Urban commercial banks are also expanding into rural areas through investment in the new commercialised village and township banks and microloan companies. Moreover, urban commercial banks are increasingly seeking access to domestic and global capital. As of 2012 the Bank of Beijing, the Bank of Ningbo and the Bank of Nanjing have already undertaken IPOs, and 11 others have applied to do so (Research and Markets, 2012).

The historical development and transformation of urban credit co-operatives to urban commercial banks outlined above reflects the wider trend of changing ownership structures in China during the 1990s and 2000s. Initially, urban credit co-operatives had diverse shareholders – including local governments, collective enterprises, private enterprises and individuals – and a shareholding structure that restricted ownership to a maximum of 10% per entity (Girardin & Bazen, 1998). However, with the reform of urban credit co-operatives, ownership shifted upwards and was consolidated. Once the urban credit co-operatives were merged into the urban commercial banks, they lost their 'independent legal person status' and became branches of joint-equity financial institutions (Zuo, 2001). As joint-equity institutions, urban commercial banks came under the control of new larger shareholders, such as the municipal governments, other government agencies (municipal and provincial), corporations and investment companies (private and state-owned). Moreover, individuals were no longer allowed to be shareholders (Ferri, 2009; Martin, 2012). Practically, this represented a shift in control from local communities to municipal and provincial-level actors. Therefore, urban commercial bank ownership and business is currently dominated by the development priorities of municipal and provincial governments, and larger SOEs (KPMG, 2007). That being said, the *status quo* is quickly changing with urban commercial bank IPOs and increased investment in urban commercial banks from both foreign and domestic sources (Subrahmanyam, 2011).

4. The (re)emergence and formalisation of new-style co-operatives

In addition to the formal and semi-formal rural and urban co-operative financial institutions discussed above, China has historically had a diverse range of informal co-operative organisations providing both financial and other services. In line with the renewed focus on rural development in recent years, there have been significant attempts to promote these informal co-operatives and incorporate them into formal legal administrative structures.

In the pre-reform era informal co-operatives operated on a much smaller scale due to a restrictive policy environment and a relative lack of economic diversity. However, some rotating

[15] Risky financial institutions have been a recurring worry for the Chinese government, primarily due to the fact that there is no deposit insurance for any Chinese financial institution. This situation has resulted in panic, bank runs, and government bailouts at various times since the market reforms. However, observers believe that the government may initiate deposit insurance in the near future (e.g. see Kazer, 2013).

[16] This coincided with an increasingly neoliberal environment, manifested most visibly in the mass privatisation of SOEs and TVEs. For a comprehensive account of this privatisation (see Chen, Zhao, Chen, & Luo, 2009).

[17] Research has shown that local investment companies often invested stimulus funds in speculative activities, such as real estate and the stock market, which created bubbles (Martin, 2012).

[18] For a comprehensive list see (Martin, 2012).

savings and credit associations persisted, mainly to provide mutual help to members with large costs or sudden crises (Hu, 2003; Tsai, 2004). Since the market reforms of the 1980s, a rich tapestry of different informal financial service providers has emerged, and informal financing is now the largest source of credit in China.[19] Indeed, it has been estimated that 70% of households are involved in informal financing and that the market is worth US$ 100 billion annually (Farrell & Lund, 2006; Tsai, 2002). These informal financial institutions and arrangements are highly heterogeneous, with some operating based on various combinations of the co-operative principles (ICA, 2014), while others are little more than usurious loan sharks. Moreover, the regulatory environment frequently changes with new policy and policy interpretation in different places, ultimately meaning that informal institutions are able to operate to different extents and in different ways across the country (Tsai, 2004).

That being said, since the turn of the century the Chinese government has been attempting to formalise the two most widespread informal co-operative institutions: rotating savings and credit associations and specialised farmer co-operatives. Rotating savings and credit associations are groups whose members pledge to contribute a certain amount of money at a set time (usually once per week or month) and then take turns receiving the entire pot. Once everyone has received the pot the rotating savings and credit association is finished and a new one is often started. In this way, rotating savings and credit associations serve a dual saving and loan function, allowing members to avoid keeping cash in the home, while also gathering together "usefully large lump sums" at crucial moments (Rutherford, 2000, p. 9).

As stated above, financial organisation in the form of rotating savings and credit associations has existed for hundreds of years in some areas, and even persisted through the restrictive policies associated with the Cultural Revolution of the 1970s. Since the beginning of the reform period the number of rotating savings and credit associations across the country has increased dramatically, sometimes with over 100 operating in a single village (Hu, 2003). Rotating savings and credit associations are highly diverse, and operate in different ways and on different scales depending on the locality and people involved. Most are established as mutual aid groups that are not profit seeking, and therefore follow certain co-operative principles, such as 'democratic member control', 'member economic participation', and 'concern for the community' (ICA, 2014).[20] These rotating savings and credit associations mainly determine turn order randomly, by need, or in other ways (Hu, 2003). However, other rotating savings and credit associations cannot be considered co-operative at all. For instance, some rotating savings and credit associations determine turn order through a bidding process and whoever is willing to pay the highest interest rate gets the pot first, meaning that members who are willing to wait earn profit from interest. In other words, these types of organisations allow members to earn profit off each other, leading to possible domination by elites who may engage in usurious practices that are contradictory to co-operative principles. Moreover, since rotating savings and credit associations are unregulated, there have also been some high profile cases of managers fleeing with the money, resulting in serious conflict and social discontent (Hu, 2003; Tsai, 2000).[21] For these reasons, in an effort to bring rotating savings and credit associations into the formal financial system, in 2007 the China Banking Regulatory Commission approved the piloting of a formalised version of the institutions called rural mutual credit co-operatives, indicating renewed policy support for the establishment of formal co-operative financial institutions in rural China for the first time since the closure/consolidation of the rural credit co-operatives and rural co-operative foundations.

Additionally, specialised farmer co-operatives have been promoted in some areas since the beginning of the market reforms and the decollectivisation of agriculture as a way of maintaining group solidarity amongst agricultural producers. In the late 1990s and early 2000s the Ministry of Agriculture began piloting formal specialised farmer co-operatives, and in 2007 the government implemented the "Law of the People's Republic of China on Specialised Farmers Co-operatives" (National People's Congress, 2006).[22] This resulted in 100,000 formal specialised farmer co-operatives being established by 2008, and this number is expected to increase to 900,000 by the end of 2015 (Deng, Huang, Xu, & Rozelle, 2010; Yan & Chen, 2013). The popularisation and expansion of specialised farmer co-operatives in China is a response to rural development challenges, and is an attempt to empower the rural population and protect farmers from exploitation by large agro-corporations, known as 'dragon-head enterprises' (Yan & Chen, 2013). The newly formalised specialised farmer co-operatives have received government support in the form of tax exemptions, technical training and subsidised credit. The specialised farmer co-operatives themselves mainly provide their members with services related to technology, information, purchasing and marketing. Some specialised farmer co-operatives also provide credit to their members. However, because they are not financial institutions, and thus not legally permitted to engage in financial business, lending is a relatively rare practice. Ultimately, most specialised farmer co-operatives have been found to confine their operations to the spheres permitted by the 2007 law (Deng et al., 2010; He, 2010). That being said, specialised farmer co-operatives do often work with financial institutions (both formal and informal) in order to achieve their other goals (see Section 5 for an example).

While the formalisation and promotion of rural mutual credit co-operatives and specialised farmer co-operatives would seem to point to the re-emergence of a co-operative movement in China, there has also been a significant amount of debate as to whether these institutions are genuine co-operatives. Recent research has suggested that only 1% of the registered specialised farmer co-operatives actually adhere to the seven co-operative principles outlined by the ICA (2014) and that only 10% actually adhere to the Chinese law on co-operatives. However, others have questioned whether these kinds of 'one size fits all' criteria are useful in the Chinese context, and have criticised them for creating false dichotomies and uncritically applying 'western-centric' perspectives, which ultimately could discourage the development of co-operatives in the country (Liu, 2010).[23] That being said, it has also been found that some co-operatives have actually been set up by elite interests (e.g. government agencies, agro-corporations, etc.) in an attempt to gain co-operative privileges, such as subsidised credit, and further consolidate control in ways that are contrary to the original aims of the co-operative movement in China and globally (Yan & Chen, 2013, p. 971).

[19] Common types of informal finance include: loans from family/friends, rotating savings and credit associations, loan sharks, pawnshops, underground money houses, trade credit, work credit, and mutual benefit funds/associations (Du, 2008; Sun, 2011; Tsai, 2004).

[20] However, as trust is a crucial element in most rotating savings and credit associations, they usually do not have 'voluntary and open membership', but are instead restricted to kinship or other types of local networks.

[21] Obviously, this unfairly tarnishes rotating savings and credit associations that actually do adhere to co-operative values.

[22] The law was promulgated in October 2006, but not formally implemented until 2007.

[23] After all, it is widely acknowledged that Chinese co-operatives have evolved in ways that both diverge and converge with the liberal democratic tradition of many 'western' co-operatives (Gijselinckx, Zhao, & Novkovic, 2014).

5. Discussion: dominant trends and complexity in the development of China's financial co-operatives

The historical overview outlined above clearly illustrates that China's co-operative financial institutions and organisations have existed within a dynamic policy environment that has, at different times, either facilitated or constrained the expansion and diversification of co-operative financial service providers. However, since the mid to late 1990s, there has been an undeniable trend towards the de-localisation, through consolidation and centralisation, and commercialisation of co-operative finance. This has resulted in substantially fewer co-operative financial institutions (see Table 1) acting in significantly less co-operative ways. These changes to the administration and ideological underpinnings of co-operative financial institutions have had a major impact on the role that these institutions play in socioeconomic development and planning at the local level.

For instance, throughout the 1990s, 90% of urban credit co-operative loans went to local collective enterprises, such as TVEs (Girardin & Bazen, 1998). This directed lending drove the growth of Chinese manufacturing and technology, facilitated large-scale rural to urban migration and urbanisation, and attracted foreign investment – all of which translated into tax revenue for local governments (Bateman, 2010, 2013). However, by the end of the 1990s the relatively independent co-operative financial institutions had begun to interfere with central planning. Therefore, reforms began to wrest control of the urban credit co-operatives, rural co-operative foundations and rural credit co-operatives from local governments through closures and mergers, which transformed the independent co-operatives into branches under the administration of institutional headquarters at higher levels (Girardin & Ping, 1997). In urban areas municipal and provincial governments and governmental institutions (e.g. departments and SOEs) became the majority shareholders in urban commercial banks. In rural areas, local rural credit co-operative members were pushed out and replaced by non-individual members at the county and provincial levels. Unsurprisingly, both institutions' main business shifted from providing loans to local co-operative enterprises, to instead supporting SOEs, small and medium enterprises, and government projects at the municipal and provincial levels (Ferri, 2009; KPMG, 2007; Zuo, 2001). Of course, this centralisation invariably meant a change from sub-municipal to municipal/provincial developmental goals. At the same time, it signified a transfer of rural financial resources to urban investment, thus instigating rural-urban capital outflow and aggravating the inequalities inherent in the current rural-urban dichotomy.

At the same time, there has been a general trend towards the neoliberalisation and commercialisation of most aspects of the Chinese economy, including the financial system. As early as the 1980s the government began reforming the banking system by reducing barriers to capital movement, with the goal of making the entire system more 'efficient' and 'profitable' (Wen, 2009). Financial neoliberalisation was accelerated with the initiation of the 'socialist market economy' in the early 1990s, and the banking system was restructured to allow for 'winners and losers', which occurred alongside a more general trend towards the privatisation of SOEs and TVEs (Chen, Zhao, Chen, & Luo, 2009; Huenemann, 2009). Particularly in the second half of the 1990s, the same co-operative financial institutions that had been considered dynamic and successful just a few years earlier (Girardin & Bazen, 1998), were suddenly reframed in neoliberal terms as 'inefficient', 'unsustainable' and 'risky'. Non-performing loans became an excuse to deem institutions 'unsuccessful' without consideration of the value for money they had provided in developmental terms (Bateman, 2010). Moreover, any connection between local governments, SOEs and financial institutions was reframed as 'interference' and suddenly became the root cause of new neoliberal 'problems' portending future financial difficulties (Ferri, 2009, pp. 139–140).

Neoliberal reforms to co-operative financial institutions were further accelerated in the wake of the 1997 Asian Financial Crisis and have continued throughout the 2000s. This is partially due to the fact that the WTO accession agreement stipulated that the Chinese financial system needed to open up to foreign banking institutions (Huenemann, 2009),[24] allowing global capital to gain access to the formerly co-operative financial institutions through the stock market and other types of investment (Martin, 2012). Ultimately, these shifts towards a global neoliberal ideology have resulted in efficiency and short-term profits (often found in urban areas) being prioritised over lower-return longer-term investment in local (often rural) activities that have the potential to produce long-term sustainable growth. Therefore, the consolidation, centralisation and commercialisation of co-operative finance has undoubtedly contributed to the rural-urban capital outflow discussed above.

However, it is also important to acknowledge the existence of counter-trends, and context-based complexity and heterogeneity in the management and operation of co-operative finance. In particular, the recent legislation formalising rural mutual credit co-operatives and specialised farmer co-operatives demonstrates some level of political will to support and promote co-operative modes of financial organisation. This formalisation has the potential to foster co-operative action in indirect and perhaps unforeseen ways. For instance, during fieldwork our research team observed the formation of previously non-existent linkages between a newly established specialised farmer co-operative at the village-level, the township-level branch of the rural credit co-operative, the township government, the county-level branch of the rural credit co-operative, and the county-level Ministry of Human Resources and Social Security. These different local actors came together in order to successfully apply for a central government subsidised interest-free microloan of 1,100,000 Yuan to allow the specialised farmer co-operative to build modern vegetable greenhouses. It is envisioned that these greenhouses will be used collectively by the members to reduce risk through crop diversification and increase farming revenue through the cultivation of more profitable vegetables in addition to their main rice harvest. While this example may be missing a financial co-operative according to the strict formal definition, it does illustrate community-oriented co-operative action involving a diverse range of participants with the aim of accessing financial resources and promoting local development. Additionally, it represents a reversal of rural-urban capital outflow by transferring resources from the centre (urban) to a co-operative entity in the village (rural) through interest payments by the central Ministry of Finance and the provision of loans from an urban financial institution to rural residents.

Ultimately, this type of local co-operative organisation and joint action is possible because China is contextually heterogeneous. This often leaves local actors with a significant amount of autonomy and discretion when it comes to implementing top-down policies, meaning that the neoliberal orientation outlined above is not evident in all local financial institutions. Finally, and perhaps most importantly, it is necessary to recognise that informal financial co-operation is widespread in China, existing in heterogeneous forms that are often rooted in longstanding local traditions of economic mutual help and resource pooling. While some of these informal co-operative initiatives are now being formalised through the policies outlined above, others maintain their co-operative nature because of their small-scale, informality

[24] China became a member of the WTO in 2001.

Table 1
Co-operative financial service providers in China.

	Urban co-operative finance	Rural co-operative finance	Informal co-operative finance
Providers	• Urban credit co-operatives[a] • Urban co-operative banks[a]	• Rural co-operative foundations[a] • Rural credit co-operatives • Rural co-operative banks • Rural mutual credit co-operatives	• Informal pooling arrangements[b] • Rotating savings and credit associations[b] • Specialised farmer co-operatives[c]

[a] Entirely shut down or merged in the late 1990s and early 2000s.
[b] Mainly through kinship or community groups.
[c] Legal entities but not formally allowed to provide financial services.

and embeddedness in local communities. Therefore, while the prevailing structural trends outlined above may pressure China's co-operative financial institutions to act in less co-operative ways, formal and informal co-operative financial organisation and action in the country is certainly alive and well, but is also diverse, complex and context dependent.

6. Conclusion

This paper has systematically charted the trajectory, dynamics and the changing landscape of co-operative finance in China, and analysed the role that co-operative financial institutions and organisations have played in China's socioeconomic change more broadly. What has emerged is a picture of complex and dynamic institutional change, which has resulted in diverse outcomes for the development and operation of co-operative financial service providers in the country. For instance, rural credit co-operatives, which were established in the 1940s as a response to usurious lending practices, were quickly integrated into a nationwide network and have become the backbone of the rural financial system accounting for 80% of savings and loans in rural areas (Ong, 2011). Rural co-operative foundations and urban credit co-operatives, on the other hand, sprung up across the country after the market reforms beginning in 1978, as independent locally run institutions. In the first two decades after the market reforms all three of these institutions played a major role in China's economic 'miracle' by supporting local industrialisation before being consolidated, transformed into commercial banks, or shutdown in the late 1990s. Finally, informal and semi-formal financial organisations exhibiting at least some co-operative characteristics, such as rotating savings and credit associations and specialised farmer co-operatives, have expanded and diversified, and have been increasingly brought into formal legal structures in recent decades.

All of the modes of financial organisation outlined above were originally established based on some combination co-operative principles, such as mutual financial assistance, community solidarity and community-led local development. However, over the past two decades these original goals/philosophies have often been altered due to de-localisation through consolidation and administrative centralisation, and the commercialisation of co-operative financial institutions. This has been a side effect of the shift from local (sub-municipal) to more centralised (municipal/provincial) development planning, and the increasing dominance of the neoliberal paradigm, particularly with regard to the operation of the financial system. A clear illustration of this phenomenon can be seen in the way that market logic (i.e. financial sustainability) was utilised to justify the consolidation, transformation or closure of the urban credit co-operatives and rural co-operative foundations in the late 1990s, which were the two institutions exhibiting the most co-operative tendencies in China. These trends are also evident in the way that the rural credit co-operatives were centralised under the administration of the provincial unions, effectively stripping local members of control. Moreover, the neoliberal push towards the commercialisation of formerly co-operative financial institutions has accelerated in recent years. Rural credit co-operatives are increasingly being pressured to operate in more 'financially sustainable' ways, and many urban commercial banks and rural commercial banks are being privatised through IPOs and foreign investment. Ultimately, this has resulted in these institutions becoming incorporated into a system that seeks to extract local (often rural) resources, such as savings, for use in central (often urban) areas. For instance, the municipal and provincial governments have different developmental priorities than local governments, and will therefore direct rural credit co-operative loans, which originate from local deposits, towards investments in urban areas. Similarly, neoliberal commercialisation pushes these institutions to seek the highest returns on investments, which are invariably in more developed urban areas and quite often speculative in nature. Therefore, the consolidation, centralisation and commercialisation of co-operative financial services has, to a certain extent, removed/replaced the co-operative principles that these institutions were founded upon, and has been complicit in the increasing divide between the rural/poor and urban/rich areas.

That being said, while most of China's co-operative financial institutions have been de-localised and pressured to adhere to commercial modes of operation, there have also been developments in the other direction. For example, the emergence of the specialised farmer co-operatives and the formalisation of rural mutual credit co-operatives, which are meant to be autonomous community-led co-operative institutions, signify support for co-operative finance in rural areas. It is also important to recognise that co-operative financial organisation in China is complex, dynamic, heterogeneous and, above all, context specific. Therefore, the prevailing trends outlined above do not comprehensively define the situation of co-operative finance across the country. Ultimately, rural credit co-operatives, rural co-operative banks and even commercial banks in both rural and urban areas are embedded within local contexts. They are, therefore, subject to a variety of local pressures, which may or may not trump higher-level considerations. Additionally, depending on the area and people involved, local governments have more or less power over the operation of financial institutions. At the end of the day, China is a vast country with diverse local 'developmental' contexts, and the operation of local financial institutions (both co-operative and commercial) is more likely to reflect, rather than transform, the local *status quo*. Moreover, the vast majority of financial organisation in China is informal and rooted in long-standing traditions of mutual aid and community solidarity that are, in some cases, co-operative in nature. Therefore, while Chinese co-operative finance has certainly been de-localised through processes of consolidation, centralisation and commercialisation over the past two decades, we should be wary of making sweeping generalisations about the nature of co-operative financial institutions and organisations before undertaking in-depth examination of the local contexts within which they are situated.

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Nicholas Loubere is a Ph.D. candidate in the White Rose East Asia Centre, School of Languages, Cultures and Societies at the University of Leeds, UK. His current research explores the role that rural financial services play in livelihood strategies and local development outcomes in rural China.

Heather Xiaoquan Zhang is Senior Lecturer in Chinese Social Studies and Director of Postgraduate Programmes, White Rose East Asia Centre, School of Languages, Cultures and Societies, University of Leeds, UK. She has published extensively on livelihood studies, rural-urban migration, social policy and citizenship, poverty, inequality and social exclusion, health and wellbeing, globalisation, and gender.