



the  
**WHARTON  
ASIA  
ECONOMIC  
REVIEW**

Gross National Happiness  
in Bhutan: A Living  
Example of an  
Alternative Approach to  
Progress

**ALEJANDRO ADLER  
BRAUN**

*Hukou Reform and the  
Year of the Piggy Bank*

**DAVID DEMRES**

Interview:

**ANTHONY STEVENS  
(OLIVER WYMAN)**

中国农村金融改革  
探索

著: 刘昕

English Translation:

Necessary Rural Financial  
Reform and Development  
for China Today

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Wharton China Business Society  
University of Pennsylvania  
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农村金融问题是近些年理论界、政府及社会各界关注的焦点之一。文章首先回顾了改革开放以来中国农村金融改革历程，接着从政策性金融、农村合作金融、农村商业性金融等方面分析了当前我国农村金融的现状，并且从农村间接融资和直接融资两方面剖析了当前农村金融发展存在的问题，最后有针对性地提出继续放宽农村金融机构的准入门槛，加大新型农村金融机构建设力度，构建风险分担机制、发展农业保险，培育农村资本市场等政策建议。

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# Gross National Happiness in Bhutan: A Living Example of an Alternative Approach

Alejandro Adler Braun

All societies seek to create wellbeing for individuals. The question is not whether societies desire welfare or not. The fundamental questions are: what does wellbeing mean? How do we measure it? And how do we use indicators to organize society and its institutions so as to maximize wellbeing? Answering these complex questions is a challenging endeavor, especially given the diversity of values and worldviews around the globe. However, at the center of the essential questions of development and progress lie the indicators we use as a society to measure wellbeing and develop policies. As Hazel Henderson said, “Statistical indicators are the structural DNA codes of nations. They reflect a society’s values and goals and become the key drivers of economic and technological choices” (Salvaris 2007).

## INDICATORS MATTER

Indicators reveal particular information about society. They thus embody values that people care about, or at least should care about, if indicators are to drive the policies that push society in a genuine direction of progress. As a society we value what we measure and we use what we measure to make decisions that impact people’s lives. “Why are indicators important? Policymakers increasingly look at data like GDP to make decisions about what are good policies” (Stiglitz 2009). Therefore, if indicators don’t measure what people care about and a country’s economic and political architecture is designed to maximize the value of those indicators, the indicators might increase but society might not be enhanced.

Most countries utilize indicators in similar fashions. Given a particular country at a specific time, an indicator measures a set of definite characteristics about that country. This indicator provides limited information about the country depending on what it measures. The indicator is then analyzed and used by policymakers to develop policies that seek to maximize the wellbeing of society. Since the indicator is assumed to measure wellbeing to a certain extent, it is used as a proxy for wellbeing and the objective of policies and institutions becomes to maximize the value of the indicator. These policies impact society, and then at a future time the indicator is generated again to assess the success of those policies. If the value of the indicator has grown, it is a success story. If the value has declined, then the policy is deemed faulty and it is rejected or revised until it impacts the indicator positively.

Although this is a simplified version of the way institutions use indicators to develop policies, it does illuminate the primary role that indicators play in shaping decisions and society. With such a central role in driving society in a particular direction, indicators should adequately measure wellbeing and progress. “We look at numbers that tell us what we are doing. If those numbers don’t reflect what we care about, we make decisions that actually make us worse off” (Stiglitz 2009).

## GDP AND ITS DISCONTENTS

Gross Domestic Product (GDP) was developed in the U.S. to manage the Great Depression and the wartime economy. “GDP is the total market value of the goods and services produced by a nation’s economy during a specific period of time” (Encycloædia Britannica, 2009). It is simply a measure of how much money is exchanging hands, a measure of a country’s output in a given year. It was never developed as a measure of social wellbeing or progress. “Somehow, over the last 30-40 years, GDP has been seen as a measure of progress although it was never developed for that purpose... If GDP was

going up, then everything was fine in our society. GDP has been guiding institutions and politics. We need to say, ‘No, GDP is not a measure of progress.’ It is one measure of progress perhaps, but there’s many other things to think about” (Hall 2009). “How can we summarize something as complex as the progress and wellbeing of society in one single number like GDP? GDP fails to capture many of the components of a true wellbeing society” (Horachaikul 2009).

GDP is an average; even if most people in a country are worse off from one year to the next, GDP may increase if a few people are doing very well. In fact, “even though GDP rose steadily from 1999 to 2007 in the U.S., most Americans were worse off in 2007 than in 1999. There has been a general decline in standards of living for most Americans even if GDP had been steadily rising” (Stiglitz 2009). GDP fails to capture the distribution of wealth and income. It may thus fail to accurately represent the experience of most people in a country.

This sheds light on the importance of having indicators that focus on the median of society and not on the average. An indicator that uses the median income of society rather than the average will more accurately represent the change in standards of living of most people in a country. “In the last century there has been a marked increase in inequality in most societies, but GDP doesn’t reflect this” (Stiglitz 2009).

Secondly, GDP is derived from prices. So when prices are not based on reality—when they are distorted—then the measures derived from them are also distorted. A clear example is housing prices prior to the current global economic crisis: housing prices had nothing to do with reality prior to the crisis, so GDP was likewise removed from reality. Following the fall in housing prices, some of the fall in GDP had to do with a fall in real production, but part of it was a result of the disintegration of the mirage caused by the housing bubble. Again, GDP failed to adequately portray the reality of most people in society.

Thirdly, GDP does not reflect what money is spent on in society: simply, the more money is spent, the higher the GDP. The U.S. spends more money per capita on healthcare than any other developed country, yet the quality by any measure (longevity, morbidity, etc.) is lower (Stiglitz 2009). Any good system of national accounts would reveal this inefficiency, but GDP does not because the more people spend, the higher the metric. “The fact that the U.S. has an inefficient healthcare system actually contributes to its GDP, the accepted measure of progress” (Stiglitz 2009). Healthcare is an issue that is central to public policy, and yet the metric that policymakers use the most does not reflect what people care about: the quality and efficiency of healthcare.

The U.S. has one of the highest percentages of its population in prison of any country in the world. This means that taxpayers pay for the construction of prisons and for sustaining prisoners in jail. In some states in the U.S., more money is being spent on building prisons than universities (Stiglitz 2009). An adequate measure of wellbeing would diagnose that there is something wrong with a society that has such a high percentage of its population in prison, but it is quite the contrary with GDP. The more people are put in prison and the more prisons are built, the higher the GDP: the indicator grows as long as more money is spent.

Over the years the world has developed what Joseph Stiglitz calls “GDP fetishism,” a dogmatic fixation on GDP as a measure of progress. As a result, institutions and policies have revolved around maximizing GDP with little regard for what that means for individuals’ standard of living and for social and environmental wellbeing. If societies are to strive after genuine wellbeing and progress, more holistic and comprehensive metrics need to emerge.

## ALTERNATIVES TO GDP

If GDP is not an appropriate measure of wellbeing and progress, then what is?

Questioning GDP means asking the question, “What do we care about as a society? What does wellbeing mean for us?” “We need to open a national dialogue that sheds light on what values are important to

## *Gross National Happiness*

society, and then create metrics that reflect this and are used by decision-makers” (Stiglitz 2009). This dialogue is not an easy one to have, but it is definitely a fruitful one. If more holistic, comprehensive, and sustainable indicators are to emerge, what variables should be used? Who decides what these variables are? How is the information that the indicator reveals used by decision-makers?

There are various subjective measures that economists and statisticians already used and find quite useful. Consumer confidence, for instance, is an excellent predictor of people’s future consumption patterns. Given that consumption is about two-thirds of GDP in most developed economies, consumer confidence is an excellent predictor of GDP. Furthermore, studies have shown that people’s self-assessed health status—the communication of symptoms they feel—is often a better diagnosis tool than medical tests that use instruments.

Subjective indicators matter, especially for policymakers. It is difficult to prove a causal relationship between psychological wellbeing and health because of the number of confounding factors that affect both happiness and health. Danner et al., however, conducted an experiment in Milwaukee, Wisconsin in 1993 that found a strong causal relationship between happiness and health. When women became nuns in Milwaukee in the 1930s and 40s, they had to write a letter of application about why they wanted to join the convent. Danner et al. collected the applications from nuns in that convent and rated them on a scale of 1 to 3. Happy nuns were given a 1, neutral nuns were given a 2, and unhappy nuns were given a 3. Nuns were a good control group since they had similar living conditions: they woke up at the same time, had similar incomes, lived together, etc. His team followed the nuns until they died and found that happy nuns lived on average between 9-years longer than unhappy nuns (Danner 2001). Longevity is definitely a central issue in policymaking: “A 9-10 year increase in life-expectancy is equivalent to about 50 years of development in first world countries” (Hall 2009).

Policymakers cannot ignore subjective wellbeing, because it does impact objective measures that we care about, like longevity. Psychological studies consistently show that people’s behavior is governed by how they feel. An experiment was conducted in an existing lottery system in Holland where anyone in the country could buy a ticket; then a random zip code was chosen and everyone in that zip code with a ticket won a BMW car. The experimenters looked at car-buying behavior in the winning zip codes. Economists predicted that car buying would decrease in the winning zip codes because people have more cars, but car-buying actually consistently increased (Kuhn 2008). This indicates that peoples’ relational position in society influences their psychological wellbeing and therefore their behavior. This relationship speaks to the issue of equality, which is central to policymaking; its psychological and behavioral repercussions are also worthy of note. Yet another subjective measure that is crucial for a government to have credibility and the ability to develop and implement policies is its peoples’ confidence in the government. Indicators should therefore not only aim at measuring absolute wealth, but also relative wealth and the subjective wellbeing it produces.

Therefore, when nations decide to open the complex but essential dialogue of “What does progress mean for us?” objective and subjective measures have to be considered side by side when constructing indicators. Orthodox economists and statisticians might be skeptical about the possibility of shifting the current GDP-centered global paradigm. There is, however, a small Himalayan kingdom that has chosen to take a more holistic and sustainable approach to development and progress. Bhutan has developed the Gross National Happiness (GNH) index, and institutions and policies in the country revolve around maximizing GNH rather than GDP. Bhutan is a living example of a society that has openly engaged the issue of wellbeing and progress, and they have developed indicators, institutions, and policies to reflect this.

### GROSS NATIONAL HAPPINESS IN BHUTAN

Bhutan is a country about the size of Switzerland located on the eastern ridges of the Himalayas. Located between the Assam-Bengal Plain of India and the Plateau of Tibet of southwestern

China, Bhutan has important geopolitical significance. The country has a population of approximately 682,000 and in 2008 shifted from being an absolute monarchy to a multiparty parliamentary democracy. 70% of people live in rural areas and mostly farm for a living, although like in many other countries, rural to urban migration is a growing trend in Bhutan.

The concept of Gross National Happiness (GNH) was first introduced in 1972 by the 4th King of Bhutan, H.M. Jigme Singye Wangchuck. For years following the introduction of the concept, GNH served as a guiding philosophy for the absolute monarchy based on four pillars:

- Equitable Economic Development
- Environmental Preservation
- Cultural Resilience
- Good Governance

Having absolute power, the King used the four pillars of GNH to guide the construction and implementation of policies in Bhutan. In recent years, however, with more Bhutanese students pursuing education in India, the United States, and elsewhere, and with Bhutan slowly opening up to the world, the concept of GNH has been scrutinized and sometimes criticized for not being measureable or statistically sound. GNH first came to public global attention in 1986 when King Jigme Singye Wangchuck, told the Financial Times, “Gross National Happiness is more important than Gross National Product” in an interview in London (Brahm 2009).

As a response to the skepticism from both Bhutanese and foreigners, the Center for Bhutan Studies (CBS), based in the capital city of Thimphu, has developed a GNH index from the research of a team that culminated in the first GNH questionnaire in 2005 (Zangmo 2009). The most recent GNH questionnaire, published in 2007, consists of 290 questions comprising 72 indicators, nine domains, and one GNH index. The nine domains of the GNH index are as follows:

- Psychological Wellbeing
- Time Use
- Community Vitality
- Cultural Diversity and Resilience
- Health
- Education
- Ecological Diversity and Resilience
- Living Standard
- Good Governance

## 1. PSYCHOLOGICAL WELLBEING

“As collective happiness is the main goal of a GNH society, psychological wellbeing is of primary importance in gauging the success of the state in providing appropriate policies and services” (Ura 2008). The psychological wellbeing domain of the GNH questionnaire covers three areas: general psychological distress indicators, emotional balance indicators, and spirituality indicators. Elements like the prevalence rates of negative emotions (jealousy, frustration, selfishness) and positive emotions (generosity, compassion, calmness), the practice of spiritual activities like meditation and prayers, and overall life enjoyment are part of this domain.

## 2. TIME USE

“The domain of time use is one of the most effective windows on quality of life as it analyzes the nature of time spent within a 24-hour period, as well as activities that occupy longer periods of time” (Ura

2008). The time use domain highlights the value of non-work time for happiness and overall quality of life. The domain was constructed under the assumption that non-work activities such as “sleeping, personal care, community participation, education and learning, religious activities, social and cultural activities, sports, leisure, and travel add to a rich life and contribute to levels of happiness” (Ura 2008). Even though the “measurement of time devoted to unpaid work activities like care of children and sick members of a household, maintenance of household, and others can provide a proxy measure of the contribution made by unpaid activities to welfare,” the value of such activities are underestimated in most national accounts (Ura 2008).

### 3. COMMUNITY VITALITY

“The domain of community vitality focuses on the strengths and weaknesses of relationships and interactions within communities. It examines the nature of trust, belongingness, vitality of caring relationships, safety in home and community, and giving and volunteering” (Ura 2008). The domain consists of seven areas: family vitality, safety, reciprocity, trust, social support, socialization, and kinship density.

### 4. CULTURAL DIVERSITY AND RESILIENCE

“Maintenance of cultural traditions has been one of Bhutan’s primary policy goals, as traditions and cultural diversity contributes to identity, values, and creativity” (Ura 2008). This domain considers the diversity and strength of cultural traditions through six areas: dialect use, traditional sports, community festivals, artisan skill, value transmission, and basic precept.

### 5. HEALTH

“The health indicators assess the health status of the population, the determinants of health, and the health system. Health status indicators show information on self-rated health, disabilities, body-mass index, number of healthy days per month, knowledge about HIV transmission, and breast feeding practices” (Ura 2008). Barriers to health are also assessed according to the walking distance to the nearest health facility and access to health services. The three areas in the health domain are health status, health knowledge, and barriers to health.

### 6. EDUCATION

“Education contributes to the knowledge, values, creativity, skills, and civic sensibility of citizens” (Ura 2008). The emphasis of the education domain is on the effectiveness of contributing to collective wellbeing. The education domain consists of the following areas: educational attainment, Dzongkha language, folk, and historical literacy.

### 7. ECOLOGICAL DIVERSITY AND RESILIENCE

“By examining the state of Bhutan’s natural resources, the pressures on ecosystems, and different management responses, the domain of ecological diversity and resilience is intended to describe the impact of domestic supply and demand on Bhutan’s ecosystems” (Ura 2008). The ecology domain mainly focuses on perceptual data on ecology, since most of the objective measurements of ecological diversity and resilience are conducted by other environmental agencies. It uses three areas: ecological degradation, ecological knowledge, and afforestation.

### 8. LIVING STANDARD

“The domain of living standard covers the basic economic status of the people. The indicators assess the levels of income at the individual and household level, sense of financial security, room ration, and house ownership” (Ura 2008). The indicators also reflect economic hardships like inability to repair households

and the purchase of second-hand clothing. The living standard domain consists of four areas: income, housing, food security, and hardship.

## 9. GOOD GOVERNANCE

“The domain of good governance evaluates how people perceive various government functions in terms of their efficacy, honesty, and quality. The themes... include human rights, leadership at various levels of government, performance of government in delivering services and controlling inequality and corruption, and peoples’ trust in the media, the judiciary, and the police” (Ura 2008). The areas of the good governance domain are three: government performance, freedom, and institutional trust.

### POLICY MAKING BASED ON GNH

The Gross National Happiness Commission (GNHC) is the planning branch of the government, and they use the information that the GNH index reveals to construct policies that promote GNH. The GNHC develops most of the policies and programs in Bhutan, and they are increasingly using the information from the GNH index to channel resources to the areas and issues where they are most needed.

During an interview with the day-to-day head of the GNH Commission, Karma Tshiteem said, “The main responsibility of the GNH Commission is to give physical expression to ensuring that our development is on the GNH path. We try to allocate resources and expand the conventional framework for policymaking, which is traditionally the economy with a passive treatment of the environment and society” (Tshiteem 2009).

The GNH index is not the only instrument of policy that the GNHC uses; the CBS has also constructed a “GNH Policy Lens” that ensures policies are promoting GNH before they are actually implemented. “The purpose of the GNH Policy Lens is to provide a systematic appraisal of the potential effects of proposed policies and actions on the Gross National Happiness of the population, based on expected impacts on key determinants of GNH. The primary benefits of this policy lens are:

- It requires that all relevant dimensions be considered in the policy impact process and, consequently, supports a holistic approach to policy development.
- It forces an acknowledgement of areas where potential effects are not known and penalizes the policy accordingly.
- It provides a vehicle for a number of participants from a variety of backgrounds to work towards a consensus about policy impacts” (Center for Bhutan Studies 2009).

Secretary Karma Tshiteem explained, “The GNH index and its indicators are used to allocate resources to the most essential issues in the most essential areas of Bhutan. The data illuminates which issues and areas are most pressing for policymakers. The numbers of the latest survey point to certain things that we have begun to address through policies we develop here. Consistently women are at a disadvantage. We have a lot of work for promoting gender equality. Also, life deprivation is most pronounced in rural areas. This is information that an index like GDP would not reveal. The GNH index reduces the disconnect between what individuals consider important for wellbeing at the individual level and what the government considers important for policymaking. Screening tools like the GNH Policy Lens are then used to ensure that policies are pro-GNH. We ask, ‘What impact will this policy have on time use? On health? On education? On culture? On the environment?’ And so on” (Tshiteem 2009). After aggregating the nine domains of the latest GNH survey, the CBS found that Bhutan has a GNH index of 0.81.

According to Tshoki Zangmo, a researcher at the CBS, “There were huge and consistent gender differences in the GNH survey. Females in Bhutan have lower psychological wellbeing, more working hours, and overall lower life satisfaction. Another interesting finding is that even though Thimphu [the

capital city of Bhutan] has the highest income of all districts, in terms of subjective perceptions of income, whether they have enough or not, they are lower than rural Bhutan. Even though they are making more money in absolute terms, urban people feel less satisfied with their income. We also found that community vitality is lower in urban areas. Although urban areas are lower in some subjective measures, they are higher in net income, health, and education. So the first priority for rural communities is basic needs and infrastructure” (Zangmo 2009).

Both the CBS and the GNHC have analyzed the index according to the five guidelines, and they have used the information to construct policies that address the most severe issues in the most affected districts of Bhutan. The GNHC has also utilized the GNH Policy Lens to ensure that policies actually promote GNH before they are implemented. Tshoki Zangmo at the CBS said, “We should increase income, but not at the expense of other GNH domains. Increase in income is definitely desirable, especially for low-income families, as long as it doesn’t negatively affect other domains. Decision makers should consider this and that is why we developed the GNH Policy Lens” (Zangmo 2009). The CBS is currently in the process of designing the latest version of the GNH survey, and it is gathering funds to conduct a survey in 2010. They hope to increase sample size and include residents of the most remote regions of the country.

### GNH AND ITS CHALLENGES

Bhutan is indeed a living example of a society that has actively opened a dialogue that addresses the questions such as, “What is progress? What matters to us as a society? How do we measure it? How do we use statistics to shape institutions and policies?” As does any other country in the South Asian region and other developing regions of the world, Bhutan faces many social, economic, and political challenges. But what does differentiate Bhutan from other nations is that it has fully embraced an alternative, more holistic, and more sustainable approach to development in using Gross National Happiness as its metric of progress and as the driver for policies in the country. However, GNH is potentially problematic on various dimensions, detailed below.

### IS GNH DEMOCRATIC?

Given that the GNH survey inquires into peoples’ personal lives and their attitudes, does it impose certain values through the nature of its questions? Is GNH dictating what values the Bhutanese ‘should’ embrace and which they should not? Does it allow for a truly open and free society? These are not easy questions to answer, but definitely fruitful ones to ask if other societies are to extract lessons from the case of GNH in Bhutan. Secretary Karma Tshiteem at the GNH Commission said,

“We have plans in the near future to make the GNH index and the 72 indicators and all the data public to democratize the GNH process. When respondents to the survey see that their participation in the survey actually influences policymaking, they will be more engaged in the whole process and improve the quality of the index. Because GNH allows for people to voice what matters to them and let that influence policymaking, it promotes democracy in a country that just last year became a democracy. GNH is a democratic tool. Happiness still remains an individual responsibility, but the State makes sure that the necessary conditions are there for people to pursue the path they choose. Everything is a means to the end of having an open and free society” (Tshiteem 2009).

In another interview, Dasho Karma Ura, president of the Center for Bhutan Studies (CBS), stated, “the main objective of the CBS in 2009 has been to disseminate the findings of the GNH index to all sectors of society: civil society, the private sector, policymakers, students, and others. We take our data and then transmit it to people in a way that they can see how GNH and its domains are applicable to their everyday

life” (Ura 2009). Gross National Happiness seems to promote democracy in that it facilitates the process of citizens voicing their opinions on various dimensions of their lives to the Bhutanese government. The GNH survey and the index that the CBS constructs from it open a channel of communication between the government and society at large. Peoples’ voices on an array of domains reflected in the GNH index are the practical guiding forces for policy-making in Bhutan. GNH seems to be a democratic tool, and the recent introduction of democracy in Bhutan facilitates the dissemination of GNH and incentivizes people to participate in the survey.

### GNH: POLICY DRIVER OR POLICY PASSENGER?

Does GNH shape institutions and policies, or is the GNH index developed to justify and endorse existing institutions and policies? Ideally, GNH should be a measure of social welfare, and thus it should be a policy driver. But given that the index is so recent and is continually revised, existing policies and institutions might shape the content and methodology of the survey to promote politicians’ agendas. The theoretical Bhutanese model suggests that the GNH index drives policies, but theory and practice are often not aligned, especially in politics. According to Secretary Karma Tshiteem, examples of policies that have specifically been developed to maximize GNH are equitable economic growth, free education, and universal healthcare:

“A recent issue that has directly affected policymaking with the rural to urban migration is the question of who looks after old people. Instead of following the Western alienating model of putting them in old age homes, we have pursued an alternative that promotes psychological wellbeing, health, and community vitality. Many old people in Bhutan decide to pursue the spiritual path of meditation and other practices in their preparation for death. We are designing a project to set up dormitories, health facilities, food, and other service in temples where old people can decide to retire during their last years. This is an expression of GNH. The four initial pillars of GNH really do guide most policymakers in Bhutan. Most bureaucrats are in tune” (Tshiteem 2009).

Policies like the designation of 70% of Bhutan’s territory to government-protected forests would not positively impact traditional measures of progress like GDP, since many natural resources and potential land for construction are legally inaccessible. For a country like the US where people often work fourteen or fifteen hours per day, a policy making it illegal to work more than eight hours per day would sound unreasonable, as it would interfere with potential growth in output. Through Bhutan’s GNH Policy Lens, however, these policy’s do contribute to the GNH index, and therefore to the welfare of society.

### GNH: TOO SUBJECTIVE?

Many outsiders have criticized the GNH index for being too subjective. As described earlier, subjective indicators affect people’s behavior, and are therefore relevant to policy makers. Furthermore, there has been serious scientific research in the last few decades that has operationalized subjective measures into statistically sound metrics. A pioneer in this field is the founder of the Positive Psychology Movement, Martin Seligman of the University of Pennsylvania, who has extensively studied subjects like happiness, emotional resilience, self-esteem, and life satisfaction, among others (Positive Psychology Center 2009).

When I approached Dasho Karma Ura at the CBS about this issue, he told me, “The GNH indicator is often criticized for being too subjective. But stock market prices are to a large extent based on expectations and confidence. So, subjective components are important in how people make decisions. Also, the consumer confidence index is quite predictive of consumer spending, which is the largest component of GDP in most countries. Both objective and subjective measures of wellbeing are important, and the GNH indicator includes both” (Ura 2009).

## WOULD GNH WORK OUTSIDE BHUTAN?

Bhutan is a small homogenous country. Virtually 100% of Bhutanese are practicing Buddhists, and there is little ethnic diversity. Is a model like GNH applicable in more diverse and more populous societies? Or does GNH work well in Bhutan because of its unique characteristics and history? If a similar model is to be implemented elsewhere, these are fundamental questions to address. Tshoki Zangmo at the CBS stated, “The desire for happiness is universal, and sustainable happiness is multi-dimensional, not just dependent on money. The ultimate outcome of policies should be to increase the welfare of the people, not just economic growth. And that’s what we’re measuring. GNH is a more holistic and completely different approach” (Zangmo 2009).

Although GNH was developed to specifically reflect Bhutanese values and culture, what GNH represents is indeed applicable outside of Bhutan. GNH represents a movement towards developing metrics that measure what people in society care about. As Tshoki Zangmo points out, all societies want welfare. The important questions are about what welfare means for that society and how they develop metrics to measure it. Bhutan has definitely answered both of these questions, questions that are undoubtedly applicable outside the Bhutanese context.

## LESSONS FROM GNH

Gross National Happiness is a manifestation of the unique values and worldview of the Himalayan people of Bhutan. Trying to blindly adopt this indicator in a new context, especially in Western context, would be unreasonable. Bhutan has decided to open a national dialogue about progress and has arrived at a consensus about the meaning of wellbeing that is reflected in GNH and its corresponding indicator. Karma Tshiteem, Secretary of the GNH Commission, says, “progress should mean more than economic growth. It must be about a society that is really evolved, a holistic development of the individual, including material and other needs. It’s about people finding meaningful work and a purpose in life. This is what GNH seeks to achieve, an enlightened society. We have to acknowledge the great contributions of scientific and industrial progress, but not forgetting the other components of what makes us human. If we can foster external, material wellbeing and internal, spiritual wealth, we will have achieved a GNH society” (Tshiteem 2009).

Bhutan has debated about what progress means for them and have indeed arrived at a conclusion; they have operationalized this definition of welfare into an indicator that reflects the fruits of that dialogue, and they have created a political and economic architecture around Gross National Happiness. The lessons to be learned from the pioneering Bhutanese experiment are:

- Current indicators of progress like GDP do not adequately capture welfare
- Countries need to open a national dialogue about what progress means for them
- Indicators should be developed to reflect the outcomes of this dialogue
- Indicators of genuine welfare should be used by decision makers to structure institutions and guide policies
- Bhutan is a living example of a country that has pioneered in the process described above, and its institutions and policies put Gross National Happiness in practice.

Even though Bhutan epitomizes what an alternative approach to progress and development means in practical terms, they are not alone in this movement. French president Sarkozy has put together the Commission on the Measurement of Economic Performance and Social Progress that includes six Nobel laureates and other people in the diverse fields of economics, sociology, psychology, business, and others to address this precise issue (Commission on the Measurement of Economic and Social Progress 2009). Chaired by Nobel laureate Joseph Stiglitz, the commission has recently published a report on three principal issues (Commission on the Measurement of Economic Performance and Social Progress 2009):

- Questioning and analyzing the classical GDP measure
- Seeking frameworks for broader measures of wellbeing
- Addressing sustainability

The OECD has also embarked on an ambitious endeavor called the Global Project (OECD Global Project). “The Global Project aims to foster the development of sets of key economic, social, and environmental indicators to provide a comprehensive picture of how the wellbeing of a society is evolving and seeks to encourage each society to consider in an informed way the crucial question: is life getting better? It brings together the large and growing movement that seeks to understand and measure progress. The Global Project is the first systematic global effort to go ‘beyond GDP’ by enabling and promoting new ways to measure societal progress” (Hall 2009).

Thailand’s government has recently partnered up with several universities to develop the National Progress Index (NPI) which seeks to integrate the ‘sufficiency model,’ which takes into account social, economic, and environmental wellbeing, into its metrics. The NPI will be utilized to develop more sustainable and comprehensive policies in Thailand (First National Roundtable 2009). Furthermore, Chulalongkorn, Thailand’s most prestigious university has recently founded the “School for Wellbeing Studies and Research” at its Faculty of Political Science (School for Wellbeing 2009). The New Economics Foundation (NEF) in the U.K. has developed the Happy Planet Index (HPI), which takes into account life expectancy, life satisfaction, and environmental footprint to quantify welfare (New Economics 2009). Canada’s Genuine Progress Index (GPI) for Atlantic Canada movement has a well-developed metric that is slowly being embraced by the government (GPI Atlantic 2009). All these global movements that seek to promote more sustainable, equitable, and prosperous societies are reasons for optimism in the collective effort to improve measures of progress. Societies around the world should observe and learn from these movements, especially from GNH in Bhutan, in order to ask the right questions, develop the right indicators, and construct institutions and policies that foster genuine wellbeing and progress in society.

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Alejandro graduated from the Wharton School at the University of Pennsylvania. He conducted his research through the School for Wellbeing Studies and the Wharton International Research Experience, advised by Dr. Waheed Hussain.

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# *Hukou* Reform and the Year of the Piggy Bank

David Demres

In the 1950s, the Chinese government enacted the household registration (or hukou) system to preserve rural populations and respond to fears of starvation and social turmoil. Half a century later, the hukou system has outlived its usefulness and incentives have reversed. To shift rural populations into urban areas is now not only the most efficient output strategy for an industrializing China; it also promises to reduce China's pointed urban-rural income disparity by reducing rural populations that have relatively fixed agricultural output, thus effectively increasing the average income of farmers. China's working population has recognized this and an estimated 74 million rural-to-urban migrants have already migrated without hukou (OECD 2010). The Chinese government, however, has neglected reform. The hukou system is overly-restrictive as a result, and bars millions of migrants from registration rights in the cities in which they work. Such rights are the only access to social safety nets badly needed by the under-privileged minority, the lack of which causes fear that contributes to China's incomparably high gross domestic savings rate that has threatened to push past 50% in recent years (Roach 2010a). The hukou system is thus a major barrier to China's pro-consumption agenda and requires reform, but China must first overcome an uncoordinated and decentralized fiscal structure if it has serious hopes of bolstering internal consumption.

## FEAR AND ITS CHALLENGE TO THE PRO-CONSUMPTION AGENDA

China's incentives to limit its dependence on external demand and shift it onto internal consumption have mounted. Not only does a pro-consumption model promise to help stabilize global trade imbalances, Chinese standards of living also stand to benefit. However, fear in Chinese families is a major challenge to the pro-consumption agenda. As Stephan Roach, a proponent of China's pro-consumption agenda, explains, China has not embarked on a structural transformation from export- to consumer-led growth primarily because "it failed to build out an institutionalized safety net, that is, the support system necessary to temper the fear-driven precautionary saving that inhibits the development of a more dynamic consumer culture... China needs to be bold and aggressive in framing pro-consumption policies. It should start by announcing major initiatives on the safety net front" (Roach 2010a). Indeed, fear, driven by the lack of social safety nets, is a major challenge to balancing growth. Rural-urban migrants disadvantaged by the limited hukou registration system are a critical element of this challenge, and this section will analyze and substantiate their unique and vital position.

According to the OECD, "In 20 years, 30 million migrants have worked in Shenzhen and yet until 2004 only one had obtained a local hukou" (OECD 2010). Although the city has relaxed its hukou registration policies slightly, it has only done so on a case-by-case basis that imposes requirements such as a high level of education and high quality-standards for their local residence. Clearly, these qualification requirements are slanted against the average, low-income migrant. Rare and subjective case-by-case basis reform is not enough while millions live unsecured.

In Shenzhen and across the country, the hukou system bars millions from "urban" status—and thus all of the social securities that locals enjoy—since migrants are only covered in their home provinces. As Figure 1 illustrates, Chinese migrants across the board, both with formal and informal employment, have access to significantly fewer social safety nets than locals on measures of pension, unemployment

insurance, accident insurance, and health insurance. Migrants also face long-term disadvantages in education and land rights. The children of migrant workers, for example, face major hurdles in gaining access to the university system. They must return to the place of their parents' birth in order even to take the university entrance exam (the Gaokao), an extremely demanding examination that normally requires several years of preparation. Consequentially, university ambitions are out of reach for many migrant children.

Figure 1. Social Coverage for Migrant Workers<sup>1</sup>

	Informal employment		Formal employment	
	Locals	Migrants	Locals	Migrants
Pension	54.8	2.1	82.1	29.0
Unemployment insurance	12.6	0.4	39.7	17.8
Accident insurance	6.0	1.2	29.1	31.7
Health insurance	32.6	1.3	71.4	29.7

2003, *Informal and formal sectors in five cities, in per cent.*

*Migrants, especially ones with informal employment, have restricted access to social security nets as compared to locals. Many migrants, incentivized by fear, compensate with increased savings.*

Figure 2. The New Urban Health Insurance System: Coverage by City<sup>2</sup>

City Region	Baotou	Urumqui	Chengdu	Jilin	Changde	Xiamen	Shaoxing	Zibo
	West	West	West	Central	Central	East	East	East
Under 18 neither working nor at school	yes		yes	yes	yes	yes	yes	yes
Kindergarten	no	yes	yes	no	no	yes	no	yes
Primary	yes	yes	yes	yes	yes	yes	yes	yes
Junior	yes	yes	yes	yes	yes	yes	yes	yes
Secondary	no	no	no	no	no	yes	no	no
Residents over 18 not covered	no	no	no	yes	no	yes	yes	no
Unemployed	no	yes	yes	yes	yes	yes	yes	yes
Elderly	yes	no	yes	yes	yes	yes	yes	yes
Severely disabled 16-60	yes	no	no	yes	no	yes	yes	no
Migrants	no	no	no	no	no	no	no	no
Children of migrants	no	yes	no	no	no	no	no	no

*Even under new reforms, migrants are denied health care coverage in cities across the country. Neglect of these reforms has hampered social security for and incited fear and unrest among migrants.*

The hukou system, by excluding migrants from social safety nets, generates fear and tensions that not only curb a large share of consumer demand, but also threaten social stability. One tension is the fact that “unofficial migrants are often forced to leave families behind while they seek work, given the discrimination

<sup>1</sup> OECD, 2010, 199. Original source: Cai, Du & Wang, 2008.

<sup>2</sup> OECD, 2010, 226. Original source: Lin, & Lei, 2009.

they face in obtaining basic public services in the areas to which they move” (OECD 2010). Although the Chinese government has been vigilant in identifying and attempting to quell sources of social instability, it has thus far neglected tensions in the rural-urban migrant workforce. In cities with extreme migrant populations, such as Beijing, the government has gone so far as to wall off migrant villages from the rest of the city, separating them from the rest of the labor force by physical walls and social policies (Gao 2010). Even amidst wide health insurance reforms in China, Figure 2 displays the government’s disregard for the needs of migrants. Noted in red, the only demographic group not covered by reforms in major cities was migrant workers. The OECD, for one, is critical that the government fails to confront the migrant demographic seriously:

Current policies assume that unofficial migration is temporary but the recovery of the labour market after the late 2008 downturn has shown that unofficial migrants are a permanent feature of the urban labour market and that they quickly adapt their wage demands in order to secure employment. Nonetheless, the economic crisis caused social disruption in the short term, exposing the inadequacy of existing provisions of the social safety net for this group of employees; but it also demonstrated the potential advantages of a flexible labour market that can respond rapidly to new economic conditions. (OECD 2010)

While not the single largest sector of the work force, even as early as 2005 migrants were estimated to represent 39% of the urban labor force and nearly 46% of nonagricultural employment (OECD 2010). It is time hukou system reform and migrant unrest is taken seriously because it has large effects on the Chinese population—and on their savings rate.

Chinese families are extremely concerned with savings, largely out of anxiety. Figure 3 represents the savings sentiment of Chinese families, indicating that most wish they were saving even more than they are now. The Chinese are also sensitive to shifts in the Chinese economic situation, and adjust

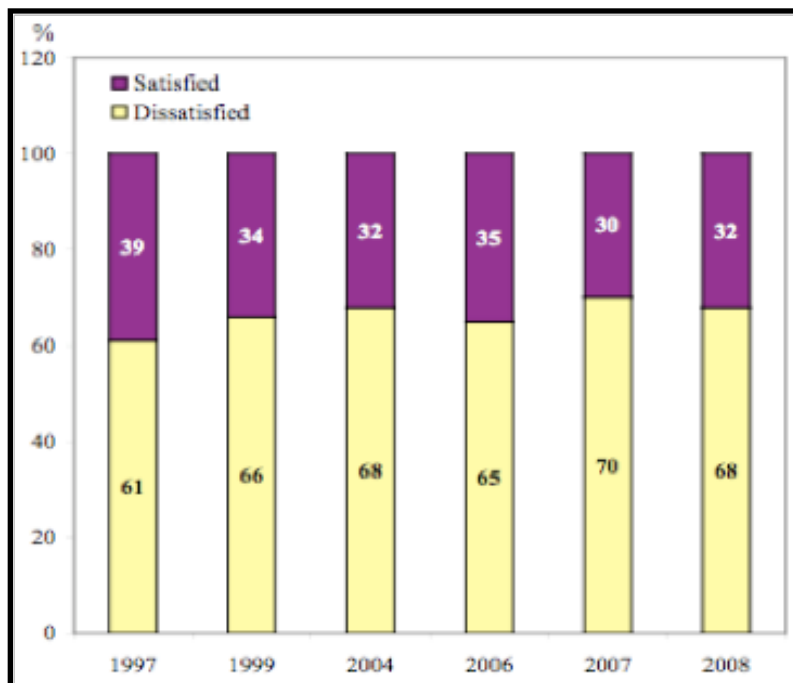


Figure 3. Saving Sentiment<sup>1</sup>

*This poll compares the amount of Chinese families “Satisfied” with their savings versus those families who are presently “Dissatisfied”. The results show strong dissatisfaction, and illustrate the fear and insecurity Chinese families harbor about inadequate savings.*

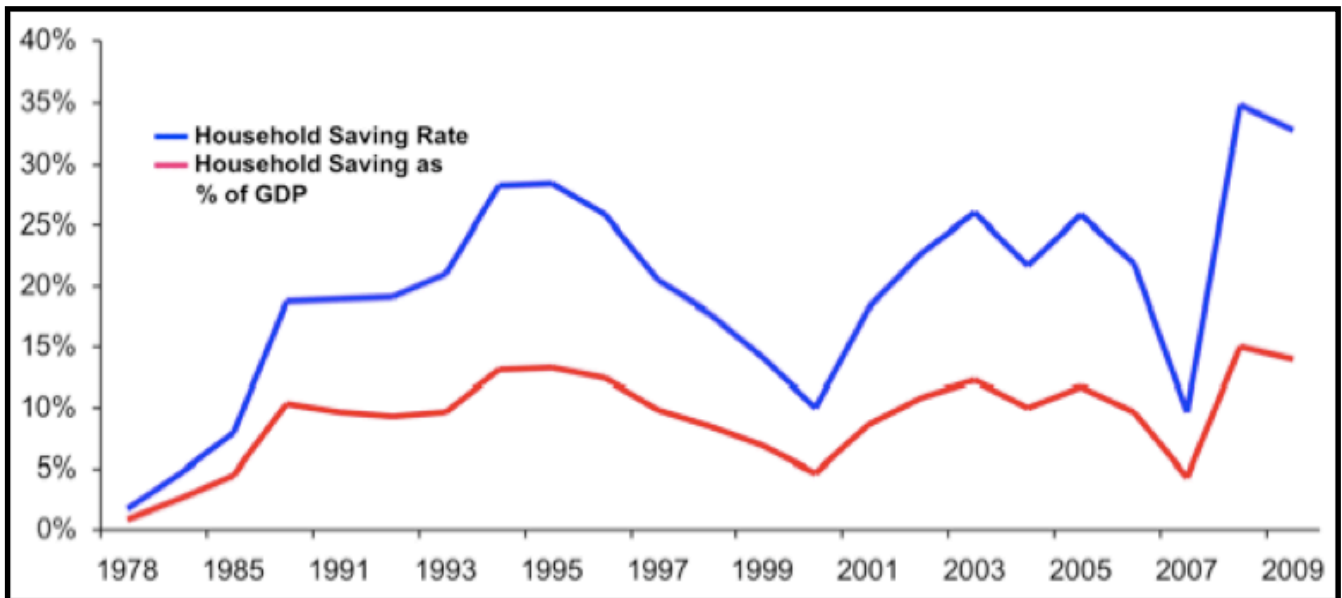
<sup>1</sup> Roach, 2010b. Original source: The Gallup Poll of China: Nationwide Polling, 1997-2008.

their savings to protect themselves against potential hardship. Precautionary saving trends since 1978 are displayed in Figure 4; the massive spike around the time of the 2008–2009 global financial crisis is evidence that Chinese families are sensitive to economic change, anticipate economic downturns with fear, and save as a result to hedge against potential hardship. February 2007–2008, the year China felt the largest effects of the frightening external demand shock, was the Chinese year of the pig; for Chinese families, it was ironically also the year they most turned to their piggy banks to save.

Rural migrants’ lack of social safety nets can cause anxiety. As argued, anxiety is a salient motive to save for Chinese families in order to hedge against potential economic downturn. It is thus assumed here that as a result of anxiety, unofficial rural-urban migrants engage in precautionary savings significantly more than urban residents. Unfortunately, empirical research is not available to provide complete verification of this claim. However, the current data presented on China as a whole suggest this is a sound assumption, and this paper will proceed with this underlying caveat in mind.

Likewise, data have not given definitive evidence that providing social security nets to China’s rural-urban migrant class will result in increased consumption. However, looking internationally, research focused on South Africa’s implementation of social security nets for the lower class gives us powerful hints. There, social safety nets have had positive effects on aggregate demand (EPRI 2002). Moreover, the increase in consumption among the poor has shifted the country’s aggregate demand towards labor-intensive, job-creating industries that are crucial for the continued growth of both South Africa and China. Although South Africa’s government and economy are structured differently from China’s, the two countries have a very similar income inequality challenge. That income inequality has also generated migration and registration issues in China suggests that hukou reform would produce similarly favorable results. Reforming the hukou system and thereby increasing social safety nets for migrants stands to promote the pro-consumption agenda.

Figure 4. Chinese Household Saving<sup>1</sup>



*This graph displays China’s fear-driven precautionary savings. The sharp increase during the global financial crisis of 2008–2009 indicates that Chinese families are sensitive to economic threats.*

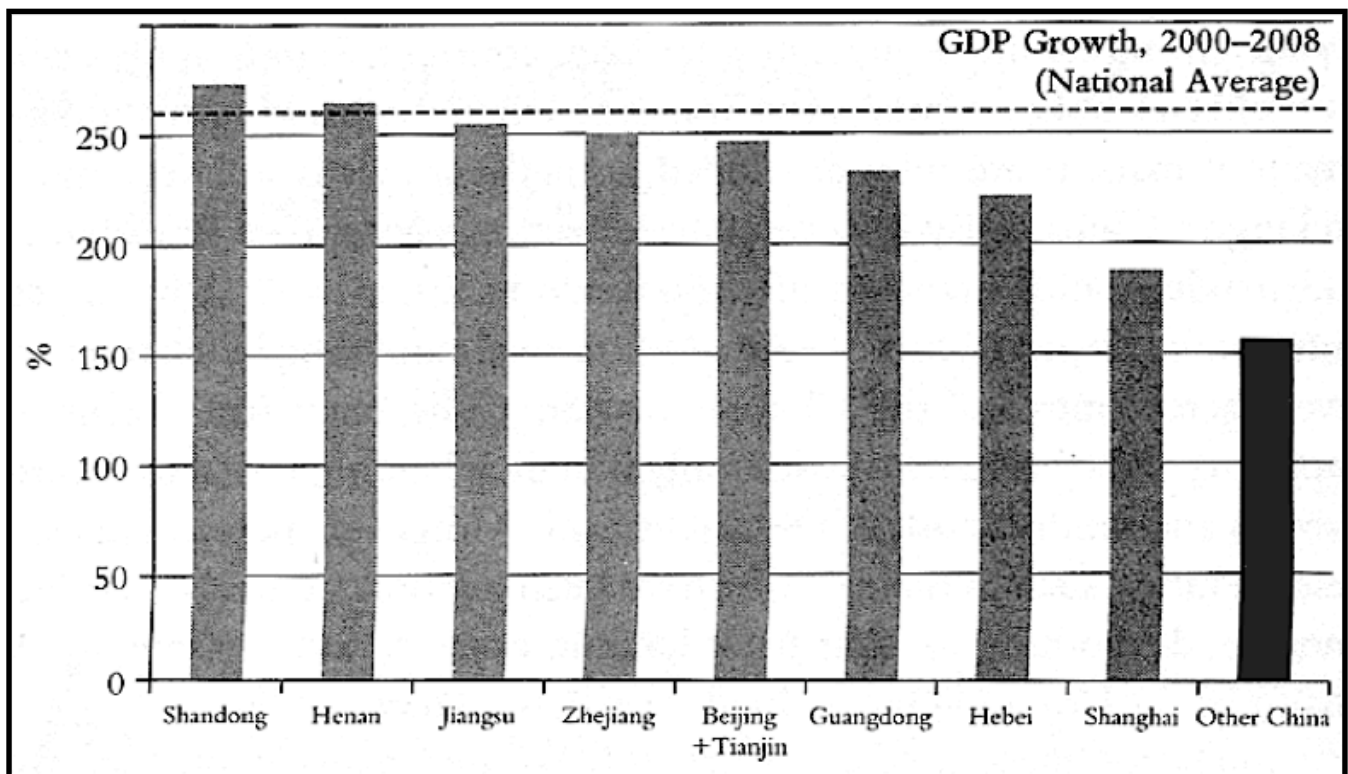
<sup>1</sup> Roach, 2010b. Original source: China Statistical Yearbook.

## THE BARRIER OF A DECENTRALIZED FISCAL SYSTEM

Coordination has historically been an issue for China and its large population. China's decentralized fiscal system makes reform of the hukou system, in particular, problematic. Financial resources vary greatly across provinces, as Figure 5 illustrates, and many are very meager. Large-scale migration creates massive strains on local governments who cannot account and provide for the millions of rural migrants who flow in each year. "The problem of reducing and eventually abolishing the hukou system will require a revision of tax-sharing agreements" (OECD 2010). A tax-sharing system across provincial borders is perhaps the only method to ensure that local governments can fairly provide for migrants under a reformed hukou system.

Analysis of the incentives of both migrants and the Chinese government spells out the complications of hukou reform within an unbalanced economy. China's rural-urban income inequality is by-and-large the driving force of migration. Figure 6 shows that the majority of rural-urban migration is motivated by job or business prospects and is a testament to the black-hole pull of cities with significantly higher wages. The unbalanced proportions of motivations represented are peculiar to China even within the developing world. Unfortunately, despite the resultant wage increase, migration to the cities is not a surefire way to secure affluence, as many migrants discover. While their decision to move is utility-maximizing in the short term, long-term losses of social safety nets and rights outweigh the advantages of migration over time. Migrants are individually unable to solve the migration issues China faces.

Figure 5. Fiscal Fragmentation: Regional vs. Macro Tensions<sup>1</sup>



*China's unbalanced fiscal structure and provincial fragmentation create regional macro tensions that strain attempts to reform the hukou system.*

The government, unable to realistically disincentivize migration by closing the income inequality gap, must reform the current hukou system so as to soften disadvantages that migrants face. The Chinese

<sup>1</sup> Roach, 2010a, 206. Original source: China National Bureau of Statistics, Morgan Stanley Research.

government nevertheless continues to drag its feet primarily because such reforms require enormous government overhaul, especially with regards to the mentioned tax-sharing systems. Under the current fiscal system, to account for each migrant's share of new, extended safety nets would be a fiscal nightmare. Creating a restructured, centrally operated system is no simple task either, but will yield long-term benefits for migrants and the pro-consumption agenda.

Figure 6. Motivations to Migrate<sup>1</sup>

Why did you leave your <i>hukou</i> registration location?	four types of migrants			
	rural-rural	rural-urban	urban-rural	urban-urban
For job or business	49.45	60.81	18.53	19.65
Job change	0.4	0.61	7.92	6.22
Employed	0.11	0.16	2.66	1.52
Training	1.26	4.05	1.55	4.01
Move house (change living place)	2.01	2.75	4.12	22.5
Marriage	18.77	5.18	11.83	9.14
Move with relatives	11.8	15.32	16.38	15.41
Move to live with relatives or friends	10.5	6.74	14.55	8.97
Temporary <i>hukou</i> change	1.06	0.37	9.62	4.08
On a business trip	0.37	0.37	0.26	0.24
Others	4.28	3.64	12.58	8.25
Weighted sample size	38 724	159 497	12 545	116 790
Unweighted sample size	28 495	132 840	7 646	87 315

*Hands down, the primary motivation to migrate to urban China is for job or business, driven above all by the urban-rural income inequality.*

Given China's size, population, and provincial inequality, adopting a centrally planned social security system is its only option, even though smaller countries have effectively embraced decentralization. Spain is a model country that runs an efficient health care system that is increasingly fiscally decentralized. Each of its regions runs health care independently, and provides nearly universal coverage, migrants included (EOHCS 2000). Yet Spain's size and population are a fraction of China's, and Spain has nowhere near the unbalanced funding challenges that China faces. Provincial leadership structure in China also discourages fiscal coordination. Leaders of major Chinese cities are rewarded only for their own local growth, unlike their European counterparts, and as a result leaders of the wealthier cities feel little responsibility for the rest of the country (Roach 2010b). Corruption and the lack of nationalist motivation is a challenge for China as it searches for ways to streamline its fiscal infrastructure. Until it does so, China's decentralized fiscal system will continue to be the greatest barrier in realizing hukou registration reform and shifting to dependence on internal consumption.

## CONCLUSIONS

An uncoordinated and unbalanced Chinese economy has made reform of the hukou registration system a rich and complex issue. In the end, incentives will determine what policy changes will become a tangible part of China's future. Unless the government can incentivize local leaders to be team players within the Chinese national economy, nothing short of a centrally-directed edict will provide a timely fix to the plight

<sup>1</sup> Gagnon, Xenogiani, & Xing, 2009, 38.

of migrants and to the pro-consumption agenda China needs. Other internal issues, such as China's incessant focus on job security, will also be problematic in granting rural migrants full urban hukou in the cities because of worries that they may flood the job market. Externally, too, China's incentives are stacked against reform, as is the case with reliance on perpetuating global labor arbitrage:

Even for the national government, maintaining a competitive edge in labour costs is crucial to China's positioning as the "world's factory" in the global economy. Hukou is obviously central to the current system of sustaining super-low-cost Chinese labour in the international market. Seen in this light, for hukou abolition with any substance, the road ahead is a very long and bumpy one. (Chan & Buckingham 2008)

That the original hukou system, a "core institution of the planned economy", has remained cemented in place far beyond its useful capacity reveals that despite China's rapid growth, its transition to a market economy is still hampered (Chan & Buckingham 2008). It will require careful analysis of the motives and fears of the Chinese people to comprehend the difficulty the country faces in adapting its economy to a globalized world. Migrant workers are an ideal starting point for such an analysis; they symbolize the extreme inequality and coordination issues that China, more than any other nation, must confront. Even with the stated caveats, it is clear that reforming the hukou system promises to benefit migrant families and the country's economy. If China can successfully implement such reforms, it will have a better chance than ever of stabilizing itself socially and economically, and helping break open the piggy banks of millions of migrants who want to contribute to a healthier, pro-consumption economy.

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David Demres graduated from Yale University in 2011.

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# Interview: Anthony Stevens, Oliver Wyman

Interviewed for WAER by Yilu Zhang

The mission of our journal is to provide analyses of how social, economic and political changes affect business and commerce throughout Asia, and how Asia in turn affects the business world. With this interview, we hope to put business practices and economic policies into a broader context.

**Wharton Asia Economic Review:** To begin, I would like to reiterate some of your keynote speech points. You've broken down the developments of the recent economic crisis into two broad categories: "the known" and "the unknown," with the known being that "the West is shaken while China is on the rise." Western responses to the crisis like quantitative easing will pose challenges to Asian economies, bringing about issues like currency appreciation, among others. My question is: are these Western regulations and reforms necessarily helpful or harmful for Asian economies?

**Anthony Stevens:** It's a good question. Given the large amount of global GDP that is still contributed by Western economies, even though China and Asia have grown tremendously over the last few years, the US is still 25% of global GDP, the Eurozone roughly the same. If those economies do not recover, then that will be bad for Asian economies—it can't be anything but. Even though the Asian economies are recovering, and domestic demand in Asia is growing now, consumption is still quite weak. Asian consumption alone won't save the Asian economies; the West has to recover. So quantitative easing is certainly a component of how the West is going to work its way out of the current deleveraging mess that it's in at the moment. That will certainly put some strain on Asian economies through either inflation, as we are seeing now, because they are refusing to let their exchange rates appreciate, or through exchange rate appreciation. It does create strains, but I don't see any easy way out of it short of lengthening the recession that the West has found itself in.

**WAER:** What about intra-Asia economic friction? What is the extent of cooperation or antagonism from various countries or regions like ASEAN nations within Asia itself? Have governments been erecting protective barriers to shield domestic markets, given the fear of what you term "cross-border economic contagions"?

**AS:** I think you need to break it into two or three pieces here, because on the one hand, you have seen significant increases in intra-Asian trade flows, so in terms of physical trade, it has dramatically increased—barriers have come down over the past five years. We're seeing now that ASEAN is announcing a move toward a single market over the course of the next five years, and I think we are likely to see barriers of trade coming further down. In terms of capital flows, there are clearly more barriers being imposed on that; now whether there is a permanence or whether they are purely temporary barriers to avoid too much economic contagion and financial contagion taking place, we will have to see. But in terms of trade integration, it's actually been very positive over the past five years.

**WAER:** How do you, or how can you, as Oliver Wyman, step in as a financial services consulting firm, given this changing dynamic of economic reform and relations within Asia?

**AS:** As the financial markets within Asia become larger, as they become more complex and sophisticated and become more reformed, then that poses challenges for Asian financial institutions in terms of how they respond to that change. There are several components to that: one is, I think we do anticipate regional expansion of the larger Asian financial institutions, and there are questions there of strategy—where do they expand, what business models do they adopt, what products and which clients do they serve, and so on. There are questions around capabilities as well, and around risk management—risk management becomes much more complex when you’ve got multiple financial products. You’ve got derivative markets, you’ve got cross-border exposures, you’ve got country risk—risk management becomes much harder to manage. We can certainly support our clients through those issues as well. Lastly, competition creates much more pressure on operating efficiency. In terms of operational management, again, whether it’s cross-border or domestic, it’s clearly support we can provide our clients.

**WAER:** Here is a more politically oriented question—the Basel III liquidity regulations are going to have huge impacts for world-wide financial practices, yet for some time Japan was the only Asian economy represented on the Basel Committee of Banking Supervision. How does future regulation become more representative of Asian markets, given the rise of economies like Singapore and Hong Kong?

**AS:** They have broadened Basel membership now, so now Japan is no longer the only Asian economy being represented—that was the case up until about three years ago, but the Basel committee has been since broadened out, so there are more Asian members on the committee. And of course, the G-20 is playing a much broader role in defining the strategy for the future financial architecture as well, and there you’ve got Korea, having hosted it last year, you have Indonesia as a member, and you have the Troika also advising now observing members to the G-20 meetings as well, such as Singapore, who was an observer at the recent Korean G-20 meeting. I think you are going to see much more Asia representation in defining future financial architecture, including the FSB and the Basel guidelines. The question for Asian regulators is how much of they need and are able to implement locally, because clearly their position is quite different. The position of their banks, the needs of their banks are somewhat different from those of US and European banks, in particular things such as focus on banker’s compensation—that may be interesting to France and Germany—not really interesting to most Asian markets.

**WAER:** To expand on that localization point—what kinds of cultural barriers are there to internationalizing financial institutions in Asia?

**AS:** I think there are several cultural barriers. Firstly, there are relatively few Asian international companies full stop, and service industries on the whole are very human-capital intensive. In building a successful international service company, you need to be effective in managing and integrating multiple cultural contexts into the same organization. Specifically within financial services, you need to have a culture that is able to manage large disparities in compensation and reward across the organization, particularly if you are building up wholesale financial service activities, because to attract talent, you need to be able to pay a competitive rate to what the global banks can offer. Lastly, given the ease with which you can make big losses in financial services, as the recent crisis has shown, you need to have a culture where it is very acceptable for technicians within the new organization to challenge senior management about risky issues. A lot of Asian organizations have a particular challenge around that, in terms of overly-hierarchical structures, family-owned structures, where it may be difficult to challenge the chairman who may be the owner of the organization as well; to a similar extent, a deference toward authority, which I think we see for different reasons in the West (maybe more for compensation reasons with risk managers not being as respected as the people bringing in the profits). In Asia, I think for different reasons, you have a similar difficulty in having really open communication around decisions, which technicians may

disagree with inside of the organization.

**WAER:** Very interesting. Quickly, going back to the known-unknown dichotomy, I'd like to explore the latter a bit more—and by its definition of being unknown, I am asking for only your projections, of course—based on the current trajectory of Asian banking, do you think in the near future there will be an “Asian Goldman Sachs”?

**AS:** No. Not in the near future. I think in the medium-term future, there could well be, and that would depend on how markets develop, how regulations evolve, and whether successful financial services banking leaders emerge. Culture is clearly a large part of it, but it also comes down to individuals as well—if you look at what made Goldman Sachs what it is, it was a small number of people seventy or eighty years ago that built the Goldman Sachs culture and enabled it to replicate itself over time. It's very possible that you will find equivalence of the original founders of Goldman Sachs, the founding fathers, within Asian institutions today, but it will then take twenty or thirty years for them to build institutions that have the same strength and depth of talent, the same depth of culture that Goldman Sachs has today. So I think you will see them emerging—but you are not going to see it at least for the next ten years. But in Asia there are 2.5 billion people, many of them extremely talented, and many of them working in financial services now, so I think it's almost impossible that there won't be an Asian Goldman Sachs emerging in twenty or thirty years' time.

**WAER:** One last question—how likely is it that China will successfully address the needed market infrastructure reforms on, say, regulatory and legal fronts?

**AS:** Again, I think in the short term, unlikely, because they are not easy infrastructure issues to address. A lot of the wiring—the electronic trading, having rating agencies—those things are there, those are the easy things to do. Changing the risk culture within banks, deregulating lending interest rates so that you can then enable market rate-setting for corporate bonds, building up institutional investors, who have experience investing in bonds and trading in bonds, building up a securitization market (one which is a genuine securitization market)—these require a mortgage market and a consumer finance market, because that's what you securitize. There are so many interconnected things you have to change that we are not talking about a five-year plan. I think we are talking two or three five-year plans before you can really achieve that wholesale change to really make the bond markets large, efficient, liquid, and change resource allocation in China for the better.

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Anthony Stevens is a Partner at Oliver Wyman and Head of the Asia-Pacific Region of Oliver Wyman. Based in the Singapore office, he has worked at Oliver Wyman for 14 years, across all sectors of financial services, and across North America, Europe and Asia-Pacific.

# 中国农村金融改革探索

刘昕

“三农”问题始终是一个影响中国经济发展和社会稳定的重大问题，也是中国历年政府始终关注的头等问题之一。而诸多“三农”问题的解决，核心是增加农民收入，实现途径是培育和完善的农村要素市场、推动农村劳动力转移，保持农业的稳定和农村经济持续发展，所有这些都离不开农村金融的支持。改革开放以来，我国农村金融体制发生了深刻的变革，在“服务三农”方面发挥了重要作用。由于金融在现代社会发展和经济结构变迁中无可比拟的作用，对农村金融的研究自然成了研究“三农”问题必须要面对的重要课题。党的十七届三中全会指出，要建立与现代农业发展相适应的农村金融制度。回顾和总结三十年来农村金融改革的历史经验，进一步深化农村金融改革以适应农村经济发展的要求，是当前需要迫切解决的一个重要问题。

## 一、改革开放以来中国农村金融改革的历程

改革开放以来，为了配合整个经济体制改革的推进，推动农村经济、金融的全面发展，对农村金融体制进行了一系列配套改革。大体来说，改革开放以来的中国农村金融改革可以分为两个阶段：

（一）第一阶段（1978-2002年），以机构改革为主，主要侧重对机构的恢复、发展和管理

1.恢复期（1978-1993年），初步建立起服务农村经济的金融安排，主要是恢复和发展原有的农村金融机构

1979年2月，国务院出台《关于恢复中国农业银行的通知》，具体规定了农行的性质、业务范围、资金来源、机构设置等；恢复和加强了农村信用社的“三性”即“组织上的群众性”、“管理上的民主性”和“业务经营上的灵活性”；先后成了国家农业投资公司、国家林业投资公司、中国农村发展信托投资公司等，大力推动农村金融组织体系的多元化；国家放开了对民间金融的管制，允许多种融资方式并存、民间自由借贷以及成立民间合作金融组织。

2.调整期（1994-2002年），主要是构建“三位一体”的农村金融体系

1993年11月14日，中国共产党第十四届三次全体会议通过《中共中央关于建立社会主义市场经济体制若干问题的决定》，建立政策性银行、发展商业银行、组建合作银行的农村金融体系，“三位一体”模式已初步显现。1994年，中国进行了金融体制的重大改革，把政策性金融从国有专业银行中剥离出来，以实现政策性金融与商业性金融的分离。1996年8月，国务院颁布《关于农村金融体制改革的决定》，提出要建立以合作金融为基础，商业金融和政策金融分工协作的新农村金融体系，标志着新一轮农村金融改革的起步。这一时期，经历了农业银行和农业发展银行分家、农村信用社与农业银行分家、国有商业银行开始日渐收缩县及县以下机构、全国统一取缔农村合作基金会。

（二）第二阶段（2003年至今），以功能改革和政府引导农村金融机构准入为主，对农村金融进行系统化改革

1.发展期（2003-2005年），主要集中在农村信用社产权和管理体制的改革

这一时期，国家出台了《国务院关于印发深化农村信用社改革试点方案的通知》，提出：明晰信用社现有产权；按照股权结构多样化、投资主体多元化原则，根据不同地区情况，分别进行不同产权形

式的试点；在产权制度改革的同时，因地制宜确定信用社的组织形式；银监会和地方政府各司其职，分别负责对农村信用社进行金融监管和行业管理；国家对试点地区的信用社给予政策扶持。同时，部分地区农村信用社开始向农村股份制和合作制商业银行改革。改革后的农村金融机构经营活力得到进一步激发，支持“三农”服务的功能不断增强。

2.深化期（2006年至今），主要集中在放宽农村地区银行业金融机构准入，完善农村金融服务体系

2006年12月20日，银监会发布《关于调整放宽农村地区银行业金融机构准入政策更好支持社会主义新农村建设的若干意见》，提出“按照商业可持续原则，适度调整和放宽农村地区银行业金融机构准入政策”。2007年全国金融工作会议更是提出了建立适应“三农”特点的多层次、广覆盖、可持续的农村金融体系的目标。2007年3月，中国第一批四家农村新型金融机构和邮政储蓄银行正式成立，邮政储蓄只存不贷的历史宣告结束。2008年，新型农村金融机构试点范围从6个省(区)扩大到全省31个省(区、市)，一系列扶持和规范新型农村金融机构的政策文件出台。2009年，银监会相继通过大范围发展小额贷款公司的指导以及规定小额贷款公司可转制成村镇银行，小额贷款公司作为“正规军”的补充力量蓬勃发展。2009年，国家明文鼓励民营资本组建村镇银行，掀起了外资行纷纷下乡组建村镇银行的狂潮，使农村金融服务得到有力补充。2010年6月财政部发出通知指出，从2010年至2012年，新型农村金融机构定向费用补贴范围扩大到基础金融服务薄弱地区。财政部也同时公布了《中央财政农村金融机构定向费用补贴资金管理暂行办法》，对补贴条件和标准作了详细说明。这一时期，随着银监会2006年农村金融“新政”的实施以及财政部、国家税务总局对农村金融激励政策的出台，农村金融出现了大发展，农村金融进入深化改革的历史新阶段。

### （三）中国农村金融改革的特征分析

改革开放以来，中国农村金融改革在政府的主导下，沿着发展机构的路径，从正规金融机构入手，力图在农村形成以合作制金融为基础，政策性金融和商业性金融相互分工的农村金融体系。综观三十多年中国农村金融变革与创新的过程，主要具有以下几个方面的特征：其一，从“放开对民间金融的管制，允许多种融资方式并存、民间自由借贷”到“以市场化推动农信社改革”再到“调整放宽农村地区银行业金融机构准入”可以看出，农村金融改革是一个政府逐渐放松市场准入垄断与管制，通过构建公平的市场准入和退出机制，更多地利用市场机制取代行政强制发挥作用的过程；其二，在改革路径上，由“机构观”转向“功能观”，中国农村金融改革第一阶段以恢复、发展和改革机构为主要目标，试图通过机构的改革达到改善农村金融服务的目的，2003年之后，中国农村金融改革以提高农村金融服务功能为目标，以改善金融服务为取向，坚持系统化改革，从金融机构、金融环境、金融激励、金融文化等多个方面来推进；其三，2006年之前，农村金融改革的范围主要局限于农村信用社，新一轮改革将重点放在增量（即现行农村金融体系所缺乏的部分）上，而不仅仅是存量上。特别是银监会2006年提出放宽农村地区银行业金融机构准入政策，首次允许产业资本和民间资本参与农村地区新设银行，并提出要在农村增设村镇银行、贷款公司和农村资金互助社等三类金融机构；其四，政府参与和主导的强制性色彩逐步减弱，在2003年之前，中国农村金融改革主要是采取政府主导的强制性的自上而下的路径，从便于政府管理和控制的角度来改革和管理农村信用社，2003年之后的农村金融改革中，政府引导开始加强，逐步从主导者转化为激励者，通过加强对农村金融的财政补贴、正向激励以及放宽农村金融机构市场准入来发挥政府在改革中的角色。

## 二、中国农村金融的现状

从我国改革开放以来的农村金融改革历程可以看出，我国农村金融改革以推进农村信用社改革为重点，同时稳步推进农村政策性金融、商业金融改革。我国农村已经初步形成了以合作金融为基础，商业金融、政策性金融分工协作的农村正规金融体系。农村金融体制改革与发展取得

# 中国农村金融改革探索

了显著成效。但从整体上看，仍处于我国金融体系的最薄弱环节。

## (一) 我国农村金融发展取得的成效

自十七届三中全会提出“构建现代农村金融制度”以来，我国农村金融经历了由“体制转型”到“制度创新”的蜕变，机构改革稳步推进，体系建设逐步完善，功能发挥日益健全，经营绩效不断提升，在建立健全多层次、广覆盖、可持续的农村金融体系，促使金融更好服务“三农”，推进统筹城乡经济社会一体化进程中取得了显著成效。

### 1. 政策性金融支农领域大大拓宽，经营大幅改善

近年来，农业发展银行积极执行国家强农惠农的政策措施，积极增加贷款投放，增强金融服务能力，业务经营发展呈现良好态势。至2009年末，农发行各项贷款余额14512.6亿元，比年初增加2319.8亿元，是五年来增加最多的一年；各类存款余额4419.9亿元，比年初增加1390.9亿元，全行业务实现存贷两旺，信贷支农成效显著，信贷支农作用进一步发挥。

一是确保了粮棉油收购信贷资金及时足额供应。农发行认真执行国家粮棉油肉糖等调控政策，积极支持托市收购和粮棉油市场收购，保障了国家粮食安全，稳定了主要农产品市场，保护了农民利益。全年累计发放粮棉油收购贷款4193.6亿元，同比增长6.2%，支持收购粮食3530亿斤，油脂128.4亿斤，棉花9732.6万担。累放化肥、食糖、猪肉等储备贷款307亿元。

二是择优支持农业产业化经营和农村基础设施建设。2009年累计发放农业产业化龙头企业和加工企业贷款1157.9亿元，余额比年初增加167.9亿元；累计发放农业科技成果转化贷款65.7亿元，支持项目138个；累计发放农业小企业贷款101.4亿元，支持企业4646个。重点支持强化农业基础、改善农村民生的项目，成为2009年信贷支农的突出亮点。2009年末，贷款余额2361.3亿元，比年初增加987.4亿元，增长71.9%，占贷款总额的16.3%，支持项目1471个。开办县域城镇建设贷款业务后，发放贷款152.3亿元。

三是不良贷款占比不断下降，经营业绩持续向好。2009年末全行不良贷款余额523.9亿元，不良贷款率3.61%，比年初下降0.19个百分点。在利差大幅收窄的情况下，全年实现经营利润143.7亿元，账面利润31.5亿元，增长20.5%。<sup>1</sup>

### 2. 农村合作金融改革取得重要进展

农信社是农村合作金融的主体，在支持农村经济发展中发挥着主力军作用，它的改革事关农村金融改革的大局。几年来农村信用社改革在全国展开，成效明显。

一是资产质量明显改善，盈利能力显著增强。截至2008年末，按贷款四级分类口径统计，全国农村信用社不良贷款余额和比例分别为2965亿元和7.9%，与2002年末相比，分别下降2182亿元和29个百分点。<sup>2</sup>

表1 2004-2008年农村合作金融机构的变化

单位：亿元

	2004年	2005年	2006年	2007年	2008年
各项存款余额	27784.74	32573.30	38843.26	45946.96	63000
各项贷款余额	19544.67	22000.63	26236.33	31355.72	41000
四级不良贷款率	23.10%	14.80%	11.56%	8.9%	7.9%

资料来源：中国人民银行货币政策司

1 数据来源：和讯网<http://news.hexun.com/2010-02-02/122569674.html>

2 数据来源：《2008年第四季度货币政策执行报告》

二是支农投放不断增加，支农力度明显加大。2009年3月末，全国农村信用社的各项存款余额6.3万亿元，各项贷款4.1万亿元。股本金和有价证券及投资分别为2461亿元、7130亿元，比2002年末分别提高2033亿元、5241亿元。

三是产权制度开始起步，法人治理架构初步建立。农村信用社在明晰产权关系、完善法人治理结构方面进行了积极探索。截至2008年末，全国共组建农村商业银行22家，农村合作银行163家，组建以县（市）为单位的统一法人机构1966家。部分农村信用社按照现代金融企业制度的要求，逐步完善“三会”议事规则，初步形成了决策、执行、监督相互制衡的法人治理体系。

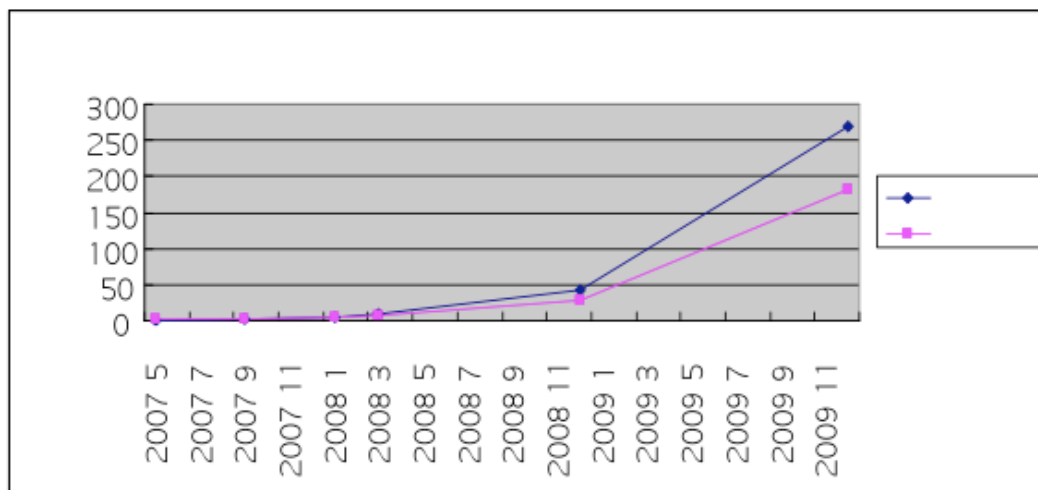
### 3. 商业性金融服务稳步推进

农业银行不断完善服务“三农”的体制机制。针对“三农”贷款时间急、金额小、用信频、期限短的特点，下沉经营重心，扩大二级分行、县支行审批权限，完善信用评级体系，创新担保方式，简化业务流程，构建向“三农”业务倾斜的内部资源配置机制，改进激励约束机制，强化风险管理，正逐步建立起一套有别于城市业务的信贷政策制度体系。农业银行“三农”金融业务呈现良好发展势头。2008年1-6月，农业银行累计投放涉农贷款3789亿元，占全行各项贷款累放额的26%。截至2008年6月底，涉农贷款余额达1.36万亿元。

在2003年邮政储蓄资金实现自主运用后，邮政储蓄通过优先为农村信用联社等地方性金融机构提供资金支持的方式，将邮政储蓄资金返还农村使用。2006年之后，邮政储蓄通过参与银团贷款的方式，将大宗邮储资金批发出去，投入到国家“三农”重点工程、农村基础建设和农业综合开发等领域。2007年初，中国邮政储蓄银行正式挂牌成立，开始按照商业化运作，在此基础上探索为农村服务的有效形式。邮政储蓄于2006年开始存单小额质押贷款业务的试点工作，2007年此项业务在全国推广。截至2008年6月末，在全国31个省（自治区、直辖市）2000多个市县的1.4万个网点办理了小额质押贷款业务，其中，县及县以下网点10250个，占全部网点总数的73%。邮政储蓄小额贷款业务服务对象主要是县域内的广大农户、个体工商户和私营企业等经济主体。

自2006年开展新型农村金融机构试点以来，新型农村金融机构吸收存款和发放贷款数额迅速增加（见图一），农村金融服务得到积极改善。根据资料显示，截至2009年末，全国共设立172家新型农村金融机构，较上年末增加65家，年末存款余额269亿元，贷款余额181亿元，分别较上年末增长315.70%和429.86%，其中农户贷款5.1万户、65.5亿元，小企业贷款0.5万户、91.2亿元，分别占其贷款余额的36.2%和50.4%。作为农村中小企业融资的新渠道，新型农村金融机构填补了中小企业融资空白，有利于满足广大农户对生产融资的迫切需求。

图一 农村新型金融机构存贷款业务变化图



资料来源：根据银监会资料绘制

## 中国农村金融改革探索

### 4. 农业保险试点开始推行，运行顺利

近几年，保险业在服务“三农”方面进行了积极探索，农业保险得到较快发展。2007年中央财政首次对农业保险给予补贴，选择6省（区）的5种主要农作物开展试点，对农业保险的发展产生了重要的推动作用。6省（区）主要农作物承保面积1.48亿亩，占试点地区播种面积的70%。同时，生猪和能繁母猪保险取得明显成效，2007年全国共承保能繁母猪3070万头，超过全国存栏总量的60%。截至2007年底，保险业开办的“三农”保险险种达160余种，保险公司服务网点基本覆盖了全国广大乡村，仅中国人寿、太平洋人寿和平安人寿三家寿险公司在县域地区的机构总数就达4380多个，拥有农村网点（含保险站、所）16087个，网点延伸到全国大部分自然村，并培养了一大批农村保险队伍。农业保险覆盖全国4980.85万（户次）农户，保险金额达到1126亿元；保费收入达到51.84亿元，同比增长514.95%。

### （二）当前我国农村金融发展存在的问题

由于体制机制等诸多方面原因，农村金融服务体系及其功能发挥仍存有很多障碍和制约因素，尚不能满足新农村建设的多元化金融服务需求和现代农村金融制度要求。

#### 1. 农村金融服务机构仍显不足，不良贷款率仍然较高

近年来，在市场化改革过程中，四家大型商业银行的网点陆续从县域撤并，从业人员逐渐精简，部分农村金融机构也将信贷业务转向城市，致使部分农村地区出现了金融服务空白。2007年末，全国县域金融机构的网点数为12.4万个，比2004年减少9811个，这一数字还在继续下滑（据介绍，2009年末，全国县域金融机构的网点数为12.2万个，比2007年减少约2000个）。县域四家大型商业银行机构的网点数为2.6万个，比2004年减少6743个；金融从业人员43.8万人，比2004年减少3.8万人。其中农业银行县域网点数为1.31万个，比2004年减少3784个，占县域金融机构网点数的比重为10.6%，比2004年下降了2个百分点。在四家大型商业银行收缩县域营业网点的同时，其他县域金融机构的网点也在减少。2007年末，农村信用社县域网点数为5.2万个，分别比2004、2005和2006年减少9087、4351和487个。2004-2006年，除四家大型商业银行以外的县域金融机构网点数年均下降3.7%，其中经济发达的东部地区县域金融机构网点数年均下降9.29%。由于县域金融机构网点和从业人员的减少，县域经济获得的金融服务力度不足。县域企业金融覆盖水平近年来虽有提高，但总体水平仍然较低。截至2007年末，全国有2868个乡镇没有任何金融机构，约占全国乡镇总数的7%。虽然近年来农村金融机构不良贷款率有所下降，但不良贷款比例仍然较高，2008年末，全部县域金融机构不良贷款平均占比13.4%，远高于同期全国四家大型商业银行8.4%的不良贷款率平均水平。

#### 2. 新型农村金融机构、农业保险在实践中存在诸多障碍

新型农村金融机构的发展有利于搞活农村金融市场，但是，作为新生事物，新型农村金融机构在现阶段的发展中仍存在很多问题。其一，融资渠道窄、资金来源不足，目前，村镇银行资金来源于境内外银行资本、境内产业资本以及民间资本；贷款公司主要由银行金融机构出资组建；农村资金互助社只是由农户和农村小企业投资组建，其资金来源不足主要是受限于“农村资金互助社不得向非社员吸收存款”的制度安排。这些实际上限制了新型机构的资金来源渠道，导致新型农村金融机构融资渠道狭窄，其结果必然是限制了贷款业务的开拓，难以满足“三农”发展的金融需求。其二，内部控制监督不足，外部监管难以到位。新型农村机构的业务经营具有具有数额小、频率高的特点，所需的高流动性资产（如现金）比例相对较大，经营成本较高，加上本身规模有限，因此，多数新型农村金融机构并没有设立董事会、监事会等内部监督部门。组织机构不完善、内控制度不健全可能导致管理者或者大股东的“独裁”现象，把金融机构变成其个人的小金库，形成内部人控制现象。新型农村金融机构受农村地区条件限制，普遍缺乏高素质的管理人员，不能为操作人员与后台业务提供培训及辅导的平台，导致较高的操作风险。同时，现有的基层金融监管力量本来就不够，难以保证对乡镇、村一级实行全面有效的监控。

表2 县域金融服务网点情况

	2005年	2006年	2007年
县域金融服务网点总数	134073	128728	123974
其中：邮政储蓄网点数	23239	23468	23695
中国农业发展银行网点数	1555	1533	1517
中国农业银行网点数	16926	15511	13175
农村商业银行网点数	535	524	505
农村合作银行网点数	1800	2142	2515
农村信用社网点数	60869	55953	52089
证券公司机构网点数	664	680	711
期货公司机构网点数	15	15	23
保险公司机构网点数	11130	12548	14135
担保公司机构网点数	752	975	1365
典当行机构网点数	499	602	713
其他县域金融机构网点数	16089	14777	13531

资料来源：中国人民银行调查统计司

我国农业保险供给不足，经营机制效率低，尚不能满足农业发展和农村经济建设的需求。目前农业保险的缺位很大程度上是由于国家相关供给制度的不足，农业保险缺乏法律依据。据保监会介绍，2008年中国遭受的罕见雪灾和汶川大地震中，雪灾的直接经济损失超过1500亿，而保险赔款只有33亿元左右，赔付不到实际损失的3%；汶川地震所造成的超过5000亿元直接经济损失中，只有5%投了保险，全国保险机构累计赔付仅1.93亿元。同时，农业保险的费率较高，有些农民因交不起保费而不参与保险。我国农业保险保费收入仅为农业生产总值的0.04%，占全国财产保险保费收入的8.82%，农业保险的险种不足30个。就农村信用担保而言，中小企业信用担保组织虽发展迅速，但信用担保体系仍不健全。另外，许多担保公司由政府财政出资设立，缺乏完善的法人治理结构和风险控制手段。再担保风险补偿机制缺位，再加上国家对担保行业的法律法规不完善，行业自律机制不健全，导致了农业担保的高风险性，严重制约了风险分散和转移功能的发挥。

### 3. 农村直接融资占比过低，农村资本市场发展滞后

农村经济结构复杂，经济成分多样，融资需求具有明显的多样性和多层次性。但目前农

## 中国农村金融改革探索

村金融中的间接融资占据融资的比重极高，融资方式以单一的金融机构贷款为主，且多为短期贷款，与农村的融资需求极不匹配。由于我国证券市场发展起步较晚，目前，我国农村融资主体还没有进入证券市场直接融资的渠道。资本市场是现代企业最重要的融资渠道，其首要作用就是能发挥筹资功能，能有效解决企业发展中的资金瓶颈问题。但是，我国对于设立股份有限公司的财务要求比较严格，发行手续复杂，农村中小企业很难达到上市融资的要求。2009年我国农业的国内生产总值是35477亿元，占整个中国GDP的10.6%；但截至2009年底，农林牧渔上市公司的总市值仅约为2000亿元，占证券总市值24.97万亿元的比重仅为0.8%；截至2010年5月，在农林牧渔板块共有45家上市公司，仅仅占全部A股上市公司的4%左右。由此可见，我国农业企业利用股票市场这个资源配置渠道的效率还很低。

### 三、深化中国农村金融改革的几点建议

新时期探讨深化农村金融体制改革和创新的路径选择，应将其置于整个农村经济社会发展的全局和统筹城乡一体化的政策背景下予以思考、审视和定位。应着力构建分工合理、投资多元、功能完善、服务高效的农村金融组织体系，显著增强金融服务“三农”的功能；充分发挥商业性金融、政策性金融和合作金融的作用，大力培育发展新型农村金融机构，创新金融服务产品，不断提升农村金融体系的服务供给能力。

#### （一）继续放宽农村金融机构的准入门槛

对农村地区吸收存款的金融机构坚持按照有关规定进行监管，同时可适当放宽“只贷不存”类金融机构在信息披露、会计准则、风险控制乃至资本充足等方面的监管标准，降低农村金融服务成本。适度放宽农村金融的准入标准，继续允许成本低廉、开展简单业务、能够维持微利的各类机构进入农村金融市场，可适当优先考虑事实上已经存在多年、并有良好记录和当地群众口碑的各类小额贷款组织。我国各地农村经济发展水平和生产经营具有较大差异，应根据农村金融需求多样性的特点，在加强监管、防范风险、总结试点经验的基础上，鼓励和支持适合农村需求特征的金融组织创新。在金融组织创新试点过程中要合理设计“止损机制”和试点方案，严格控制创新过程中产生的风险。从农村金融创新的国际经验来看，越来越多的先进技术被运用到金融创新中来，如手机银行的诞生、先进信用系统的应用等。鼓励各地探索与先进技术结合的金融创新方式，以此来降低金融机构的运作成本并提高其抵御风险的能力。在考虑农村金融机构可持续和市场容量的基础上，放宽市场准入，允许多种所有制金融机构提供农村金融服务，鼓励适应农村金融需求多样性特点的金融产品和服务方式创新，完善农村信贷市场，逐步形成适度竞争的农村金融市场，从根本上改变农村金融服务落后的状况。

#### （二）加大新型金融机构建设力度

农村金融是弱势金融，服务的对象是农村弱势群体，有必要继续加强对设立农村新型金融机构的政府政策倾斜和资金支持，同时做好风险监督工作。

第一，新型农村金融机构应按照建立现代农村金融制度的要求，创新机构，从多种途径引导更多的信贷资金和社会资金投向农村，实现资金渠道多元化。一方面，扩大银行资本，目前组建新型机构的银行资本，大多来自中小银行业金融机构如农村商业银行，虽然2007年国开行，2008年8月中国农业银行和2008年12月建设银行等分别发起设立了村镇银行，但力度远远不够。因此，应进一步扩大银行资本，充分发挥其他各类金融机构尤其是大中型银行及非银行金融机构的作用，鼓励他们到农村设立新型机构，以丰富农村资金来源渠道。另一方面，应大力培育和发展产业资本和民间资本，培育由农村其他居民、企业法人或社团法人等发起的贷款公司，引导农村地方企业、自然人与农村资金互助社建立资本联结关系，有效实现新型农村金融机构的资金渠道多元化。

第二，着力强化对新型机构风险监管工作。一是合理调配监管资源，加强基层监管力量，建立属地监管局和并表监管局的联动机制。二是指导新型农村金融机构加快建立与其业务

性质、规模及复杂程度相适应的风险管理框架和组织机构，建立规范主要业务的内部控制制度。三是监管机构要强化对资本充足率、资产损失准备充足率、不良资产率及单一集团客户授信集中度的持续和动态的监管，确保主要风险指标在任何时点均达到监管要求。

### （三）构建风险分担机制，大力发展农业保险

与城市金融市场相比，农村金融市场风险大、收益低，因此近些年来普遍出现农村资金大量流向城市。急需建立农村金融市场的风险分担和转移机制，引导资金回流。

第一，加强农村信用体系建设。要结合我国农村发展实际情况，以中小企业和个人用户信用档案建设为重点，不断健全诚信系统，建立政府主导，企业、金融机构、评级机构参与的信用评价体系。重视法律的力量和守信激励机制的建立，把一切信用活动纳入法制轨道，用法制的强制手段依法保护合法的融资行为。各金融部门之间要建立信息共享机制，联合开展农村信用等级评定，不断净化农村金融信用环境。

第二，完善担保制度。抵押担保问题是农村金融发展中的一个关键问题。农民尤其是贫困地区的农民可供担保的财产很少，且收入不稳定，在很大程度上阻碍了农户获得贷款。建立健全农村担保机制，可以降低放贷风险，在一定程度上缓解融资难的问题。其一，要多渠道、多层次筹集担保资金，构建多种形式的信用担保服务机构。其二，通过政府财政专项基金、发行债券等方式构建贷款担保基金，形成担保风险补偿机制和再担保机制。其三，建立良好的网络和风险甄别和分析评估系统，依据担保申请人的风险等级确定费率，建立完善的担保风险内控制度。

第三，大力发展农业保险。农业保险存在一定的逆向选择和道德风险，从性质上来讲属于准公共产品。我国虽已建立了农业保险制度，但对农业灾害损失主要靠两种传统的农业风险保障途径，即民政部门主管的灾害救济和中国人民保险公司以商业方式推进的农业保险，这种救助方式在实践中表现出对农户援助力量不足、资金使用效率低等问题。发展农业保险不能仅仅依靠市场手段，应参照美国、加拿大等国家建立政策性农业保险制度。所谓政策性保险是指国家和政府依靠行政手段强制推行，并给予财政补贴和其他优惠政策的非营利性保险。另一方面，我国国家财力有限，对农业保险的补贴也受会受限，这决定了现阶段应采取商业性保险和政策性保险并举，同时，根据东西部地区的经济发展差异、保险对象的风险抵抗能力的不同分别采取不同的商业性保险和政策性保险比例。此外，要发展互助合作保险组织，鼓励国内外保险机构进入农村保险市场；鼓励保险公司加大农业保险产品的创新力度，针对农业特点和农户需求开发保险产品。总之，尽快出台完善的农业保险法律制度，建立对农业保险的财政与政策支持，探索适合我国国情的农业保险模式，是我国农业保险改革的必经之路。

### （四）着力培育农村资本市场

通过发行证券，利用资本市场筹资。把一部分城市居民手中分散的资金集中起来，转化为发展农业经济的资本，这是我国农业产业发展的一种有效途径和崭新模式。可以采取以下途径，着力培育和利用资本市场，推进农业产业化经营。

一是利用股票市场，加快农业类企业上市。利用境内外股票市场，培育和扶持实力较强、影响较大的龙头企业，为农副产品生产、加工、流通等产业化经营提供资金支持。

二是发行农业建设债券、企业债券和专项债券。从国际上看，债券融资是公司融资的重要组成部分，其正日益取代银行贷款和股本融资的地位。但我国债券市场的发展落后于股市，更落后于信贷市场。农业建设项目基本上发行国债，单独发行债券基本为零。发行农业重点建设债券或某种专项债券有助于解决农业基本建设、产业结构升级的资金来源问题。

三是设立高新农业技术基金。长期以来，我国农业科技成果转化率低，建立农业产业化投资基金可以有效缓解农业产业化经营过程中的资本需求，并以此减少财政支农的负担。可以由政府主管部门引导，联合金融机构和农业龙头，成立具有独立法人地位的基金公司。

四是加快发展农产品期货市场，开发农产品期货新品种，完善市场品种结构，适时推进

## 中国农村金融改革探索

期货期权, 试点设立期货投资基金, 研究引入期货市场的QFII制度, 鼓励农产品生产经营企业进入期货市场开展套期保值业务。

刘昕是天津大学的学生。

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# Rural Financial Reform and Development Required in China (Translated)

by Xin Liu

The three agrarian issues of Ruralism, Agriculture and Farming (the “RAF trinity”) are a cornerstone of China’s economic development and social stability, and it is one of the top concerns of the Chinese government. There are many ways to address rural poverty, but the most effective is to increase farmers’ income. The fulfillment system’s goal is to develop a well-defined, rural-centric market, to promote rural labor transfer, maintain agricultural stability, and foster a robust rural economy. All of these are tightly intertwined with the availability of rural finance. Ever since Deng Xiaoping’s policy of Reform and Opening, China’s rural financial system has undergone a significant transformation and played an important role in servicing the RAF. Due to the critical role that finance has played in modernization, development, and economic reform, rural finance naturally becomes an important topic when it comes to the research of RAF issues. The Third Plenary Session of the Seventeenth Central Committee of the Party pointed out that China should establish a rural financial system that supports the modern agriculture development. Considering the history of the past thirty years, the introduction of progressive rural financial reforms to meet the needs of rural economic development is of great significance.

## I. JOURNEY OF RURAL FINANCIAL REFORM SINCE CHINA’S REFORM AND OPENING TO THE OUTSIDE WORLD

Since China’s Reform and Opening, the rural financial system has undergone a series of transformations as part of wide-spread economic reform, promoting the rural economy and developing the financial industry. These changes can generally be divided into two stages:

### **Phase One (1978-2002): Institutional Reform Focuses on Institutional Recovery, Development and Management**

1. Recovery period (1978-1993): a preliminary rural financial plan was developed for the recovery and development of original rural financial institutions (FIs).

In February 1979, the State Council promulgated the Notification of the Recovery of the Agricultural Bank of China in which the bank’s mission, business scope, sourcing of capital, and institutional establishment were stipulated. The Notification re-established and reinforced three principles: “organizational unity,” “democratic management” and “operational dynamics.” The National Agricultural Investment Company, the National Forestry Investment Company, and the China Rural Development Trust and Investment Corporation were set up to promote diversity in the rural financial organizational framework. Private investment funding was permitted to co-exist with other financing instruments, including private funding for the formation of the cooperative financial organizations.

2. Adjustment period (1994-2002): Construction of the “trinity” of the rural financial system.

On November 14, 1993, the Third Plenary Session of the Fourteenth Central Committee of the Party passed the “Decision of Chinese Communist Party Central Committee on the Construction

of a Socialist Market Economy System.” The “RAF trinity” of the rural financial system consisted of national policy, commercial orientation, and cooperative principles. In 1994, China went through major financial reforms, including the separation of the commercial finance system from the statewide policy-based finance system. In August 1996, the State Council promulgated the decision on “Rural Financial System Reform.” The Decision called on the basis of cooperative finance, commercial finance and policy finance. This marked the new beginning of rural financial reform. During this period, several banks’ established branches: the Agricultural Bank of China, the Agricultural Development Bank, and the Rural Cooperative Credit and Agricultural Bank of China. Meanwhile, state-owned commercial banks were gradually downsized in rural areas and rural cooperative foundations were eliminated nationally.

### **Phase Two (2003 to present): Systematic Rural Finance Reform Focused on Financial Institution (FI) Functionality and Government Regulatory Guidance**

1. Development period (2003-2005): Reform of equity and management systems of rural credit cooperatives.

During this period, the government promulgated the notification on the “State Council’s Issuance of a Pilot Program to Deepening Reform of Rural Credit Cooperatives.” The pilot programs were carried out regionally by the support and supervision of the China Banking Regulatory Commission (CBRC) and local governments to target current equity rights clarifications, multi-faceted stock holdings, and multi-level investment instruments. Meanwhile, a number of regional rural credit cooperatives began to transform into stock equity and credit cooperative types of commercial banks. The reform continuously improved the vitality of rural FI and enhanced their ability to service the development of RAF.

2. Progressive period (2006 to present): Easing the entry threshold of community banks and improving the rural financial services system.

On December 20, 2006, CBRC promulgated the “Resolutions to Ease the Entry Threshold of Rural FI for Better Supporting the Build-up of the New Socialist Rural System.” CBRC decided to properly ease the entry threshold of rural banking institutions according to business sustainability. The 2007 National Financial Work Conference proposed the objectives for creating a multi-level, wide-coverage and sustainable rural financial system for the development of RAF. In March 2007, the first four new-era rural FIs and postal savings were set up, marking the end of “deposit only” postal savings. In 2008, pilot areas of new rural FIs were expanded from six provinces (regions) to 31 provinces (regions, cities) nationwide. A series of policy documents supporting and regulating new-era rural FIs were published. In 2009, CBRC passed regulations on the development of private funding-based community banks and foreign funding institutions, majorly facilitating the development of rural financial services. In June 2010, the Ministry of Finance issued a “Central Policy” regarding new-era FIs involved with the expansion of financial subsidies for less competitive rural areas during the period from 2010 to 2012; rural financial developed in accordance with CBRC’s 2006 “New Policy” providing rural financial incentives and establishing a preferential tax policy. Thus, there was significant development in rural finance, and China entered a new period of progressive reform.

### **Section Three: Characteristics of China’s Rural Financial Reform**

Since China’s Reform and Opening, rural financial reform under the guidance of the government has favored institutional development. Starting with formal financial institutions, it aimed to establish a rural financial system based on cooperative finance, supported by both policy and commercial finance. China’s rural financial reforms and innovations of the past 30 years had the following characteristics. It first started with private finance: multi-sourcing financing and private lending for market-oriented reform of rural credit cooperatives and to ease the market entry threshold of rural FIs. Next, the government led

the deregulation of policies on market monopoly, fair market access, withdrawal mechanisms, and the replacement of government administration enforcement.

Secondly, it shifted its reform perspective from “institutionalization” to “functionality.” Recovery, development and reform were the main objectives of Stage One of rural financial reform. Since 2003, the rural financial reform has persistently moved forward to systematically broaden the coverage on multiple levels of service functionalities through financial institutions, financial climate, financial stimulation and financial landscape.

Thirdly, prior to 2006, the scope of rural financial reform was limited to rural credit cooperatives. However, a new round of reform focused on increasing the number of institutions that the current financial system lacks, instead of concentrating on existing institutions. Particularly, in 2006 CBRC put forward the policy to ease the entry threshold to rural banking institutions. For the first time, this policy allowed for the participation of enterprise and private capital funding in the formation of new rural banks. It also proposed the establishment of community banks, lending companies, and rural credit unions. Fourthly, this government mandatory involvement would gradually decrease. Prior to 2003, China’s rural financial reform was mainly based upon a top-down and government-led mandatory path to the reform of rural credit cooperatives. After 2003, the government shifted from the leading role to the facilitating role by strengthening financial subsidies, providing positive incentives, and easing the entry threshold of financial institutions.

## II. CURRENT RURAL FINANCE IN CHINA

The course of rural financial reform was focused on rural credit cooperative reform while steadily promoting policy and commercialization reform. A finance cooperative has been established as the preliminary financial system and is supported formally by commercialization and policy orientation. The reform and development of rural financial system has achieved significant progress. However, rural finance remains the weakest link in the overall financial system.

### **Section One: Achievements of China’s Rural Financial Development**

Since the Third Plenary Session of the Seventeenth Central Committee of the Party proposed the “Construction of the Modern Rural Financial System,” China’s rural finance has undergone a metamorphosis from “institutional transformation” to “systematic innovation.” Institutional reform has been steadily promoted; infrastructure build-up has been gradually perfected; service functionalities have been continually reinforced; and operational outcomes have been continuously improved. A multi-level, wide-coverage, sustainable rural financial system has been established to better support the development of agriculture, community and farmers. It has achieved significant results in promoting urban and rural economic and social integration.

1. Financial policy that is supportive of agriculture expanded greatly, and business support improved significantly

In recent years, the Agricultural Development Bank (ADB) has played an active role in implementing national policies that benefitted farmers. The amount and number of loans has increased, financial service capability has been improved, and business development has followed a positive trend. By the end of 2009, the loan balance was 1451.26 billion yuan, an increase of 231.98 billion yuan from the beginning of the year. This has been the largest increase in five years. The balance of various deposits was 441.99 billion yuan, an increase of 139.09 billion yuan from the beginning of the year. Both savings and loans businesses were highly profitable. Effective credit lending was increased significantly to support the agriculture economy.

ADB actively governed and supported timely and sufficient credit lending to warrant the trading of commodities such as grain, cotton, and oil, to ensure the stability of food supply-demand management

on a national scale, and to protect the interests of farmers. The total amount of annual trade lending on grain, cotton, and oil was 419.36 billion yuan, an increase of 6.2% from the previous year. It supported the trading of 1,765 billion kilograms in grain, 6.24 billion kilograms in oil, and 7.3 billion kilograms in cotton. The amount of cumulative lending reserves for fertilizer, sugar and pork was 30.7 billion yuan.

The government supported agricultural enterprises and rural infrastructure build development on a preferential basis. In 2009, a cumulative amount of 115.79 billion yuan was lent to leading enterprise, an increase of 16.79 billion yuan from the beginning of the year. A total of 6.57 billion yuan was granted for science and technology loans, spanning 138 projects. In addition, 10.14 billion yuan was lent to 4,646 small agricultural enterprises. Enhancing the agriculture industry and improving farmers' living standards became the mission of credit lending in 2009. At the end of 2009, the loan balance was 236.13 billion yuan, an increase of 98.74 billion yuan and 71.9% increase from the beginning of the year (16.3% of the total loan amount for 1,471 projects). Moreover, 15.23 billion yuan was lent to the build-up of the rural communities.

The percentage of non-performing loans continually decreased, and operational performance continuously improved. By end of 2009, the amount of non-performing loans was 52.39 billion yuan at 3.61%, a decrease of 0.19% from the beginning of the year. Under a narrow profit margin, operating profit was 14.37 billion yuan, and book value of equity was 3.15 billion yuan, an increase of 20.5%.

## 2. Major progress attained by the financial reform of Rural Cooperative Credit

Rural cooperative credit is the core value of rural cooperative finance. Since it plays a vital role in supporting rural economic development, the reform of rural credit cooperatives had great impact on overall reform. In recent years, the financial reform of rural credit cooperatives has made significant progress.

The asset quality was improved and profit margin was enhanced. By the end of 2008, examining the four categories of loans, the amount of non-performing loans of rural credit cooperatives was 296.5 billion yuan, at 7.9%, a decrease from 2002 of 218.2 billion yuan at 29%.

The amount of loans in agriculture has continuously increased. By the end of March 2009, Cooperative Credit had a deposit balance of 6,300 billion yuan and loan balance of 4,100 billion yuan. Equity and security investments were 246.1 billion yuan and 713 billion yuan respectively, an increase of 203.3 billion Yuan and 524.1 billion yuan respectively from the end of 2002.

Rural Credit Cooperatives made great efforts to define and improve the equity ownership system and corporate governance infrastructure. Nationally, by the end of 2008, there were 22 rural community banks, 163 rural credit unions, and 1,966 local licensed business entities established. Some Credit Cooperatives gradually mapped out a corporate governance methodology system through decision-making policy, implementation guideline and check-and- balance monitoring.

**Table 1: Changes in Rural Cooperative FIs from 2004 to 2008 (Unit: billion)**

	2004	2005	2006	2007	2008
Deposits	2778.474	3257.330	3884.326	4594.696	6300.000
Loan Balances	1954.467	2200.063	2623.633	3135.572	4100.000
Category“4” non-performing loan by %	23.10%	14.80%	11.56%	8.9%	7.9%

Source: PBOC Monetary Policy Department

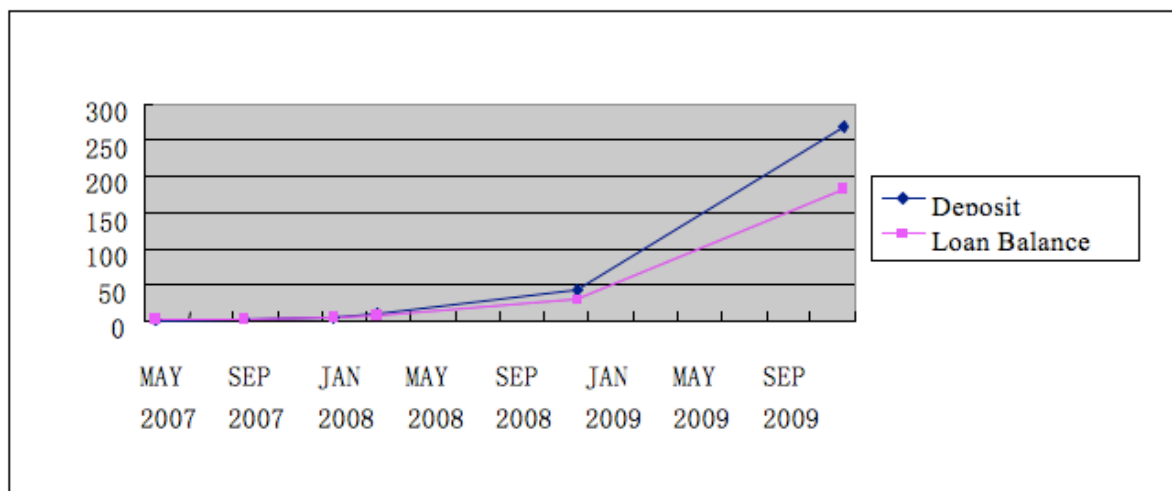
## 3. Steady Improvement the Commercialization of Financial Services

The Agriculture Bank of China (AB) has constantly improved their microfinance mechanisms

focusing on quick processing, small lending, credit frequency and short-term servicing to RAF. Furthermore, AB's growth and expansion programs are based upon approval from second-tier banking branches, comprehensive credit rating systems, innovative collateral systems and streamlined business processes. This fosters RAF-oriented development within the internal resource allocation mechanism, incentive improvement mechanism, and strengthening risk management, allowing the establishment of a credit-based lending policy which deviates from traditional urban banking business. AB's RAF-oriented financial services demonstrated a good momentum of growth between January and June of 2008. The agriculture-related loan total was 378.9 billion yuan, equivalent to 26% of AB's total lending amount. By the end of June 2008, the balance of loan reserve reached 1,360 trillion yuan.

In 2003, Postal Saving Funds were granted to provide funding services from their deposits to Cooperative Credit Unions. Since 2006, through participation in bank-syndicated funds, the Postal Service had major investment funds in RAF-associated critical projects, infrastructure construction, and integrated agricultural development. At the beginning of 2007, China Postal Savings was officially established. In 2006, China Postal Savings also began its pilot program with a small certificate deposits (CD) collateral-based lending business. In 2007, this service offering was expanded nationally, and by the end of June 2008, service coverage reached 14,000 posts in more than 2,000 cities and 31 provinces. 10,250 (73% of total Postal Saving Banks) posts were at the township level and targeted farmers, individual business owners, and private enterprises.

**Figure 1 Change in Deposit and Loan Businesses of New-Type Rural Financial Institutions**



Source: adapted from CBRC data

After the pilot program of new rural financial institution was carried out in 2006, the amount of deposits and loans increased drastically (see Figure 1), and rural financial services were significantly improved. Statistics showed that by the end of 2009, 172 new rural FIs were set up nationally, an increasing by 65 from the previous year. The deposit balance and loan balance at the end of the year were 26.9 billion yuan and 18.1 billion yuan respectively, an increase of 315.70% and 429.86%. The number of farming loans was 51,000 and totaled to 6.55 billion yuan, making up 36.2% of total lending. The 5000 small enterprise loans were made, totaling 9.12 billion yuan, making up 50.4% of total lending. Becoming the new financial channels the funding gap, rural financial institutions met the urgent financial need in agricultural production for small and medium-sized rural enterprises.

4. Pilot Program of Agriculture Insurance was initiated and operated smoothly

In recent years, officials have explored RAF agriculture insurance, which has developed rapidly. In 2007, the Central Public Finance Ministry provided financial subsidies for the first time to the insurance pilot programs of the five main crop developments in six provinces, which had an important effect on the development of agriculture insurance. In these six provinces, main crop insurance covered 148 million acres and 70% of total agriculture land size. At the same time, remarkable insurance coverage was derived for female pig breeding and pig production. In 2007, the headcount of insured female pigs was 30.7 million, accounting for more than 60% of China's total breeding stock. By the end of 2007, there were more than 160 insurance products offered throughout rural areas in China. Nationally, China Life Insurance, China Pacific Life Insurance, and Ping An Life Insurance had established more than 4,380 agencies at the national level, 16,087 rural outlets (including insurance stations and exchange centers) in small villages, while fostering massive professional brokers. Agriculture insurance covered 49.8085 million rural households with insurance coverage amounting to 112.6 billion yuan and insurance premiums of 5,184 billion yuan. This amounts to an annualized growth rate of 514.95%.

**Section Two: Current problems of China's rural financial development**

There are still many obstacles and restrictions in service efficiency within the rural financial service system. The current infrastructure cannot meet the demands of the multi-faceted, modern rural financial system to properly support the new rural development logistics.

Problem 1: Insufficient Financial Outlets in Rural Areas and High-Rate of Non-Performing Loans

Recently, during market reform, the top four commercial banks downsized their operations and staffs and transferred their credit lending to urban areas, which resulted in major shortages of needed financial services in some rural areas. At the end of 2007, the county-level financial outlets were 124,000,

**Table 2: Financial Outlets at County-Level**

	Year 2005	Year 2006	Year 2007
Total County-Level Financial Outlets	134,073	128,728	123,974
Postal Savings	23,239	23,468	23,695
Agriculture Development Bank of China	1,555	1,533	1,517
Agricultural Bank of China	16,926	15,511	13,175
Rural Commercial Bank	535	524	505
Rural Cooperative Bank	1,800	2142	2,515
Rural Credit Cooperatives	60,869	55953	52,089
Security Brokerages	664	680	711
Commodity Future Firms	15	15	23
Insurance Company	11,130	12,548	14,135
Security-Backed Guarantee Firm	752	975	1,365
Pawnshop	499	602	713
County-Level FI	16,089	14,777	13,531

Source: Financial Survey and Statistics Department of People's Bank of China

(9,811 less than 2004) and the total count of outlets kept declining. By end of 2009, the number was down to 122,000 (2,000 less than 2007). During the same year, the total number of branches of the top four commercial banks at the national level had dropped to 26,000 (6,743 less than in 2004). Staff counts had dropped to 438,000 (38,000 less than 2004). Among them, AB had 13,100 branches (3,784 less than 2004). AB's branches accounted for 10.6% of all county-level financial outlets, down by 2% from 2004. When the top four commercial banks were downsizing their branches, other county-level FIs were following suit. By the end of 2007, there were 52,000 outlets of rural credit cooperatives at county-level, down by 9,087; 4,351, and 487 respectively each year from 2004 to 2006. Financial outlets at the county-level had declined by 3.7% (excluding the top four commercial banks). The number of outlets in those highly-developed Eastern Regions had fallen by 9.29%. Although in recent years, the financial service coverage of enterprises had improved, the decrease of county-level financial outlets and staff caused a decline of financial service offerings, in turn lowering the overall service level. By the end of 2007, 2,868 villages (towns) didn't have any financial institutions, which accounted for 7% of all villages. Over the years, even though the non-performing loan rate had declined, it was still relatively high. By end of 2008, non-performing loans at county-level was 13.4%, much higher than the 8.4% at those top four commercial banks for the same period.

#### Problem 2: Channel limitations and insufficient infusion of capital funding in rural areas

Capital funding of rural bank branches comes from domestic and foreign banks, domestic enterprises, and individuals. Banks fund lending institutions. The insufficient funding of mutual fund cooperatives is caused by the single-source-only deposit policy of the local residents, particularly local small businesses. New types of financial outlets have limited funding channels. Insufficient sources of capital and less desirable lending services and the growth of financial outlets are also restricted. Eventually, the financial needs required for RAF development will be challenged.

#### Problem 3: Lack of internal accountability and external comprehensive monitoring system

The business of new rural financial institutions (NRFI) is by nature high-volume and low in transaction amounts; thus it requires a higher cash flow reserve with higher transaction costs. In most cases, as a small institution, the organizational infrastructure generally isn't equipped with sufficient oversight by independent boards and specific advisory committees. A few major shareholders and executive management officials who see it as their personal financial vaults could control the institution itself.

Rural geographic and infrastructure limitation is generally encompassed by a scarcity of highly qualified managerial resources to provide the proper training platform for an operational staff in back-office services, thus instigating the risk of operational liability. Compounded with limited capabilities, fundamentally ensuring the reliability of the financial capital management system effectively throughout all counties and townships becomes a tall order to fill.

Insufficient coverage and product offerings of agriculture insurance combined with operational inefficiencies have undermined the demand of agricultural development and the rural economy. According to the China Insurance Regulatory Commission (CIRC), the under-provision of agriculture insurance is directly linked to the lack of regulatory legal compliances. In 2008, China was devastated by a severe snowstorm and the catastrophic Wenchuan earthquake. The snow damage was more than 150 billion yuan; however the insurance payment was only 3.3 billion yuan, equivalent to less than 3% of the total loss. Likewise, the direct loss from the Wenchuan earthquake was 500 billion yuan, yet only 5% of the people had insurance coverage with payments totaling only 0.193 billion yuan. High insurance premiums prevented many farmers from buying insurance. Nationally, there are less than 30 agricultural insurance products offered, and agricultural insurance premiums accounted for 0.04% of total agricultural production revenue (8.82% of national personal GD).

The development of credit guarantees for small and mid-sized enterprises is growing quickly,

but the guarantor system is still in its infancy stage. Moreover, many guarantor companies are funded by the government with insufficient corporate governance and risk management mechanisms. In addition, incomprehensive policy and ill-fated operational regulatory issues have made the guarantor business more risky and severely inhibited risk diversification and transferences.

#### Problem 4: Low Ratio of Direct Capital Funding and Lag-Behind of Capital Market Development

The capital funding requirement of the rural economy becomes multi-layered and multi-faceted under the complicity of its structure and its layered makeup. Short-term single source financing with indirect funding is the core practice, though it does not meet the capital demand requirements. With the China Stock Market having a late start, capital funding in the rural economy has not been incorporated into public offerings through this channel. Today, the capital market is the most important funding channel to resolve the major working capital bottleneck and shortage for agriculture enterprises.

In China, the restricted financial practices and accounting requirements required with complex IPO procedures has hindered mid-sized and small enterprises from being listed on the stock market. In 2009, China's agricultural GDP was 3.5477 trillion yuan, 10.6% of China's GDP. By the end of 2009, however, the total market value for agricultural companies listed was only 200 billion yuan, comprising 0.8% of total stock market value (24.97 trillion yuan). By the end of May 2010, there were 45 companies listed in the agricultural sector, accounting for only 4% of all listed companies in A Share. As indicated, public funding through stock offerings for agricultural enterprises has not been effectively leveraged.

#### The Proposal into Progressive Transformation of Rural Finance

The paths to reform and innovation for the rural financial system should be seriously considered, strategized, and positioned to benefit overall integrated economic and social developments. The rural capital-funding infrastructure should focus on: cooperative efforts, investment diversification, comprehensive financial products, and effective financial services enhancement by the so-called "Three Rural Featured Finances." Commercial finance, policy finance, and cooperative finance will be greatly promoted to steer the new development of rural FIs with innovative products and services to elevate the financial system supply chain capability consistently in the rural economy.

##### i. The continuation to ease the entry threshold of financial institution:

The government should regulate deposit-attracting FIs in rural areas in accordance with relevant provisions. As for the credit-only financial institutions, the state may lower the regulatory policy on information disclosure, accounting principles, risk management, capital reserves, and service costs. The government should also lower the market entry thresholds for simple low-cost and low-margin financial service enterprises and give long-existing and good-standing small lending organizations priority approval. Economic development and production management are quite different in varying parts of China's rural areas. Therefore, the innovation by FIs should be encouraged and supported on the basis of proper supervision, risk prevention, and pilot testing experiences in order to meet the diversified rural financial needs. In the process of innovation and pilot testing, stop-loss mechanisms and pilot plans must be designed to strictly manage any downside risks. Judging from the international experience of rural financial innovation, we can see more and more advanced technologies being leveraged, such as the mobile banking and advanced credit application system. Lowering the operational

cost and enhancing risk-management capability of FIs can be achieved by encouraging them to explore financial innovation methods combined with advanced technology. On the basis of sustainability and market capacity, it is necessary to lower the market entry threshold for their diversities and services. Again, the government should encourage the innovation of financial products and services to meet the diversification of financial demands to improve rural credit and lending markets. Eventually, they will reach the formation of an open and competitive financial market to fundamentally improve under-developed rural financial services.

ii. Enhance the Development of New Generational Financial Institutions (NGFI):

The rural financial system is primitive and servicing financially disadvantaged groups, it is paramount to continue to enhance financial regulatory policy, capital infusion, and risk monitoring system.

Firstly, multi-channel sourcing of credit-lending and public funding to modernized rural financial institutions should be established. On one hand, most capital is derived from smaller banks like the Agriculture Commercial Bank. Even national banks like Development Bank in 2007, Agriculture Bank in August 2008, and Construction Bank in December 2008 set up branches in rural areas as local community banks, but their penetration is still not effective. Therefore, capital infusion will allow NGFI to be established with newly featured services like large banks. On the other hand, corporate and private capital should be developed. Lending organizations sponsored by local residents, enterprises, and community groups should be cultivated. Capital consolidations among enterprises, individuals, and rural cooperatives should be established. Thus, the NGFI can be diversified with multi-channel sourcing in capital formations.

Secondly, risk monitor systems on new-generation NGFI should be greatly enhanced. Supervising resources should be reasonably coordinated, grass-roots supervision should be enhanced, and the interconnected mechanism by local authorities and consolidated authorities should be established. Subsequently, NGFI must establish risk management systems and organizational infrastructures according to its business, size and complexity. Eventually, the capital adequacy ratio, asset loss reserve adequacy and the non-performing assets ratio should be strengthened. Additionally, consistent and dynamic monitoring, concentrating on the line of credit of single groups, will ensure that key risk indicators will reach the regulatory requirements at any point in time.

### III. ESTABLISH RISK-SHARING MECHANISM, AND VIGOROUSLY DEVELOP AGRICULTURE INSURANCE

The rural financial market generally bears higher risk and lower profit margins compared to the urban market. In recent years, there has been massive capital outflow to urban areas. It is urgent to put risk sharing and risk-transfer infrastructures in place to attract capital returns back to rural areas.

Firstly, a credit system should be built up according to China's rural development platform. The system should focus on setting up credit profiles of both enterprises and consumers.

- Establish a government-led credit rating system jointly with enterprises, financial institutions, and rating agencies in order to improve credit-based financial systems.
- Respect legal channels enhancements and implement a credit reward system to encompass credit transactions within jurisdiction boundaries.
- Protect proper capital funding, regulated forcefully by law.
- Establish information-sharing mechanisms among different financial sectors, jointly conducting a rural credit rating, and constantly filtering rural credit financing.

Secondly, the funding-guaranteed system should be improved. Guaranteed collateral is a key issue in rural financial development. Rural residents, especially those in impoverished areas, have few collateral

assets. Their unstable income also greatly hinders their accessibility to lending opportunity. Implementing a comprehensive guarantor system can lower lending risk, which to some extent mitigates financing difficulties. The guaranteed funding should be raised from multiple sources and multiple credit guarantor institutions and multiple forms should be established. On the other hand, if guaranteed funding can be set up via special funds and bonds from government instruments, a risk compensation system and a re-guaranteed system can be built.

Finally, a well-established market network, risk analysis mechanism, and evaluation system should be implemented. This will allow fixed rates to be derived according to the risk factors of applicants plus an internal risk control mechanism on guaranteed funding.

Last but not least, rural areas should strive to develop agriculture insurance. Agriculture insurance involves adverse selection and bears certain moral risks; hence it belongs to quasi-public goods. Although China has established an agriculture insurance system, agricultural losses are mainly insured by two traditional risk protection channels: disaster loss relief covered by the Government Civil Affairs Department and agriculture insurance offered commercially by the People's Insurance Company of China. Insufficient payout ratios to the actual loss damage and inadequate use of capital are common with these two insurers. Developing an agriculture insurance system should not only rely on market commerce. China should model its agriculture insurance system on the national policies of the U.S. and Canada. National-policy-based insurance offerings should be enforced, financially subsidized, and preferentially treated by the government and not simply profit driven. Moreover, there are limited financial resources and subsidiaries for agriculture insurance in China. A combination of commercial-based insurance and national-policy-based insurance is the way to go. In the meantime, these two types of insurance should be applied proportionally according to the economic development gap between the East and West Regions and insured members' risk-taking factors. In addition, building the agriculture insurance market requires marketing promotional programs to cooperative insurance organizations, as well as foreign and domestic insurance companies incorporated with their own products and services expansion. These should be innovative and customized according to the characteristics of agriculture and household needs. As a nation, it is paramount to implement a comprehensive agriculture insurance regulatory policy, establish a financial and support policy and explore a China-specific insurance system to necessitate the reinventing of agriculture insurance.

#### IV. FOCUS IN AGRICULTURE CAPITAL MARKET DEVELOPMENT

The most effective business model for the Chinese agricultural economy is to offer stocks through public funding. The paths to agriculture enterprise management are as follows:

1. Expedite the agricultural enterprise IPO process by leveraging international and domestic stock markets: facilitate more established and high-potential enterprises with financial support provisions in agricultural byproducts production, processed foods, and market distribution.
2. Issue agricultural development bonds, corporate bonds and special bonds: bond financing is an important vehicle for corporate financing internationally and is gradually replacing bank financing and equity financing. However, the China bond market lags behind its stock market, and even further behind than the credit market. Agricultural projects are mainly issuing treasury bonds, while private bond financing is literally not in existence. Bond issuing, including special class, will resolve the capital funding challenges related to agricultural infrastructure build-up and an enterprise platform upgrade.
3. Set up an advanced agriculture technology fund: over the years, the technology transfer ratio is low within China's agricultural sector. Setting up an agricultural industrialization investment fund can ease the burden of capital requirements in agricultural industrialization, thus relieving the stress of an

agriculture subsidy. Jointly, FIs and leading agricultural enterprises under government guidelines can establish an independent legal funding company.

4. Expedite the development of agricultural commodity futures: the market should develop new products for agricultural commodity futures and improve the structures of market offerings. It can also pilot futures investment funds, introduce a QFII System into China's futures market, and encourage agricultural enterprises to implement hedging operations in futures market.

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Xin Liu is a student at Tianjin University.

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