

Analysis of the Current Subject Behaviour of Rural Financial Market in China

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Abstract

At present, China's social market economic system is in the process of deepening reform. For the development of the rural economy, there is a very significant dependence and promotion relationship between it and rural finance, and the development of rural finance is an important help for the modernization of China's agricultural industry and the promotion of the construction of a new socialist countryside. However, China's rural financial market is in a state of long-term absence of competitive subjects, which has led to a low level of efficiency and quality of services in the rural financial market, which is very detrimental to the healthy and positive development of the rural economy. The stagnant development of the rural economy will in turn affect the further development of the rural financial market, ultimately forming a vicious circle that will further increase the riskiness of the rural financial market. Therefore, promoting the formation of a healthy competition pattern in the rural financial market as well as identifying and preventing various possible risks in the rural financial market in advance is the key to promoting a virtuous cycle of rural finance and rural economic development. It is of great practical significance in promoting the integration of urban and rural economies and the achievement of the goal of building a new rural area.

Keywords

Rural; Financial Markets; Subject Behaviour.

1. Introduction

With the continuous development and improvement of China's market economy system, it has further promoted the financial market to optimize the allocation of resources and to promote the speed of economic development. At the same time, China's rural financial market has a serious problem of lagging behind in development, and there is a serious shortage of effective supply bodies. This has led to a serious outflow of capital, while credit funds are unable to fully meet the development needs of the rural economy. In this development context, it is urgent to strengthen the analysis of the behavior of rural financial market players and take targeted measures to improve the current inefficient operation of the financial market.

2. Rural Financial Markets and Market Players

The financial market is a market for funds that provides a platform for the demand for funds and the supply of funds, and for the transaction of funds with the help of credit instruments. It can carry out activities such as capital financing, bill processing, securities trading and money lending [1]. Rural financial services refer to the many types of financial services such as insurance, securities, loans and deposits carried out in counties and sub-counties. Based on the characteristics of rural economic development, insurance, futures and securities occupy a very small proportion of the rural financial market.

Rural financial market players are institutions and individuals who carry out fund transactions in rural financial institutions, which include both fund users and fund providers. In some cases, those who carry out fund transactions are both fund users and fund providers at the same time. Depending on the demand for funds, institutions and individuals involved in rural financial market transactions can be classified as investors, arbitrageurs, arbitrageurs and fundraisers. Rural financial market players include government departments, households and individuals, industrial and commercial enterprises, depository and non-depository financial institutions.

3. Current Development of the Rural Financial Market

3.1. Lack of Competitive Subjects

With the deepening of market-oriented reforms, some banks in rural areas have carried out vigorous abolition of business outlets and streamlining of staff, gradually shifting credit business to urban markets, which has eventually led to a gap in financial services in some rural areas. With the reduction in the number of business outlets and staff of rural financial institutions, the strength of financial services in rural areas has also declined more significantly. Although the coverage of financial institutions in townships has increased in recent years, the overall level is still relatively low. Many areas have only one particular financial institution main body, which makes the market lack a healthy competitive environment. The gap in services provided by financial institutions in rural areas is mainly due to the structural imbalance in the economy that has occurred during the development process. The rural economy has become a disadvantaged area due to the inhibition of relevant policies. Rural areas lack the ability to accumulate capital and are unable to effectively absorb external capital for their own development. As modern industry develops at an increasing rate, agriculture grows at a very slow pace, further widening the structural differences between the urban and rural economies. The shrinking rural economy has made it impossible for rural areas to support the operations of relevant financial institutions, which has led to a gradual withdrawal of financial institutions from the rural financial market.

3.2. Backward Development

Among the main component institutions of the rural financial system, they lack direct and in-depth contact with the people directly involved in agricultural production. They are unable to play an effective role in carrying out their work in support of rural areas in an ideal promotional manner. Although rural credit unions have direct and frequent dealings with agricultural production and farmers, and are the core force in financial services, they are unable to play their main role efficiently due to the influence of factors such as their unclear ownership structure, low quality of assets and backward service measures. In the process of the development of the rural financial market, riskiness has been increasing, which is reflected in the excessive risk of capital flows and low adequacy ratios of rural financial institutions. For financial institutions, the capital adequacy ratio is a key indicator of their operational soundness. All countries have strict restrictions on the capital adequacy level of financial institutions. The development of rural financial institutions is influenced by many factors, and the rapid expansion of assets is not matched by the speed of capital growth, which eventually leads to a continuous decrease in the capital adequacy ratio, which in turn leads to an increasing liquidity risk for rural credit unions. On the other hand, the risks of rural financial institutions in the course of their daily operations are also increasing. In terms of profitability and lending levels, rural financial institutions have generally experienced a more pronounced downward trend. The contradiction between the long-term application of funds and short-term sources of funding is also becoming increasingly acute, with the proportion of demand deposits in rural financial institutions rising year on year. The rural financial market is influenced by the limited scale of rural industrial output and limited growth in demand. Compared to industrial output,

the growth rate of China's agricultural output is consistently low, which in turn makes the rural financial market affected by the slow pace of rural economic development, and the size of the market is far less than the scale of urban finance. This, coupled with the lack of income and spending power of rural residents, has also led to a lack of higher demand for financial services. From a supply perspective, rural financial institutions generally suffer from low efficiency and poor asset quality, and are unable to effectively meet the current demand for financial services in rural areas. Coupled with the low rate of return on agricultural production, ultimately leads to a massive flight of rural credit funds.

3.3. Low Level of Marketability

In agricultural credit subsidy theory, rural residents are considered a group that does not possess a high level of saving capacity. The characteristics of agricultural production, such as low returns, long-term investment and unstable income, also make rural residents not included in the financing targets of commercial banks. Therefore, in order to alleviate the widespread poverty in rural development, it is imperative to increase the infusion of funds for agricultural production as well as input policy funds. The government has the primary responsibility for agricultural credit support, but the central government has mostly delegated authority to local governments to fine-tune the flow of funds [2]. At present, there is fierce competition in the local market for financial resources in rural areas, but due to the lack of a sound and scientific mechanism in the rural financial market, the funds to support rural development are not effectively utilized in practice. According to research, the increasing amount of funds in the financial accounts to support rural development has not only failed to play a role in promoting agricultural economic development and raising farmers' incomes, but has even had a dampening effect. This phenomenon is mainly due to the lack of a sound operating mechanism in the rural financial market, which ultimately leads to the inability of the funds supporting the development of rural areas to play their proper role.

4. Specific Analysis of the Subject Behaviour of Rural Financial Market

4.1. Behavior Analysis of Agricultural Bank of China

The Agricultural Bank of China is a wholly state-owned enterprise, and it occupies the main position in the rural commercial financial market. With the deepening of commercialization and reform, the Agricultural Bank of China has completed the withdrawal of some of its township operations in order to further improve economic efficiency and reduce operational risks and costs, and has further weakened the branch's authority to make decisions on lending, preferring to place loans in the urban market [3]. With the rapid development of the market, the scope of business of Agricultural Bank of China is no longer only rural credit and settlement business, its financial services are comprehensive, combining local and foreign currencies, and it has operations in both domestic and international. At present, Agricultural Bank of China has become the state-owned commercial bank with the widest scope of business and the largest number of operating points in China.

With the continuous reform of its operating mechanism, Agricultural Bank of China has adopted profit maximization as the mechanism of its operating objective, operating autonomously and at its own expense, and has achieved commercialization. Since the commercialization reform, the Agricultural Bank of China has implemented risk management and asset-liability ratio management to minimize the intervention of administrative forces in its operations and actively utilize its own strengths. It has followed market principles and carried out diversified business activities, which have greatly improved its asset quality and business management. It has also promoted the rational allocation of various resources in the rural financial market. In terms of business strategies, the Agricultural Bank of China has completed asset restructuring,

staffing restructuring and institutional restructuring. In the past, under the planned economy, the Agricultural Bank of China presented a sloppier management model in terms of business selection, staffing and network layout. Although there were many types of business, the overall quality was very limited; the number of staff was huge but lacked effective portfolio allocation; the number of operating points was large but failed to achieve high economic efficiency, which eventually led to a serious waste of human and material resources, so the financial situation of the bank was very unsatisfactory. With the shift in commercialization of its business strategy, the Agricultural Bank of China relocated its rural business offices, where the input-output ratio was too low and the volume of business too small, to areas with economic growth prospects for institutional set-up and intensive and large-scale operation. They have focused their development on supporting the industrialization and integration of urban and rural economies, exploring and practicing business strategies that are compatible with commercial development [4]. Although the business focus of Agricultural Bank of China has been gradually shifting, it still plays an important role in the rural financial market.

4.2. Behavior Analysis of Rural Credit Cooperatives

Rural credit unions are the most important form of organization in the development of rural cooperative finance in China, and they mainly operate and develop in the rural market. As the blueprint for building a new socialist countryside is put forward, rural credit unions are facing more serious challenges and opportunities. Only by optimizing the layout of the rural financial market from a strategic perspective and improving its comprehensive competitiveness can it truly play its key role as the mainstay of the rural financial market. In recent years, with the deepening of reform work, rural credit unions have mostly achieved more desirable growth and development, but there are still several defects and shortcomings in the following areas.

First, although rural credit unions have very rich operating point resources, they lack the network resources to match them. As the backbone of local finance, rural credit unions tend to deploy a wide range of operating points when working on network layout, usually 1 to 2 operating points in each township. If the township is prosperous, the number of outlets will be further increased. The wide distribution of business outlets effectively plays a role in attracting customers. But on the other hand, the picture of rural credit unions suffers from weaknesses such as poor settlement channels and outdated service measures, and the level of development of rural credit unions varies greatly from region to region, with a serious lack of network resources related to the development of large-scale business [5].

Second, although rural credit unions have extremely rich human resources, the overall team quality is more limited. Many rural credit unions deploy at least five people to each operating site, but the staff are generally older and less professionally qualified, and they lack a high level of adaptability to many new things. There is a serious shortage of highly professional, technically and operationally savvy and innovative personnel at these operating points.

Thirdly, rural credit unions have achieved a relatively sound construction of traditional business-related systems, but the progress of the construction of platforms for new business development is very unsatisfactory. With long-term development and progress, rural credit unions have achieved considerable development in terms of traditional business network systems, and there is no significant gap between them and other commercial banks. However, on the other hand, the lack of a corresponding platform to unify the development of large-scale business due to the overly lax operation mechanism has greatly increased the development costs, thus further widening the disparity between different regions.

Fourthly, rural credit unions lack sufficient quality customer resources. Rural credit unions have been developing in the rural market for a long time and have gradually cultivated a customer base consisting mainly of rural collective economic organizations, individual

industrial and commercial households and farmers in general. However, the proportion of quality customers in the current customer base of rural credit unions is very low.

Fifth. In the process of development, rural credit unions lack sufficient incentive to innovate and in the rural financial market. Rural credit unions have a certain monopoly advantage. Thus, the competitive pressure is very low [6]. Not conducive to it raising its own competitive awareness. Strengthen the development of innovation.

Finally. There are deficiencies in information gathering. Although rural credit unions are able to achieve extensive collection and use with various types of local information, they are seriously deficient in acquiring and communicating information within the industry compared with other banks, which is not conducive to the sharing of new business resources between rural credit unions and other banks, and there are serious adverse effects in risk prevention.

In summary, in the context of the development of new rural areas, the government needs to continue to introduce corresponding preferential policies. Rural credit unions should strengthen the efficient use of resources from all parties and improve their comprehensive competitiveness, so as to maintain their advantageous development position in the rural financial market.

4.3. Analysis of the Behavior of Foreign Banks

With the deepening of reform and opening up, foreign financial institutions also began to gradually enter the rural financial market. According to the development of China's rural financial market, foreign financial institutions will inevitably fail to gain revenue at the initial stage of entering the rural financial market, and may even suffer losses. However, in addition to the pursuit of economic profits, many foreign banks have brand and reputation as important development goals [7]. Many foreign banks invest a large amount of money in charity every year, an act of great social significance that helps to establish the brand image of the enterprise, thus further improving its influence. The entry of foreign banks into the rural financial market further demonstrates the huge potential and attractiveness of the rural financial market. In the process of participating in the rural financial market, foreign banks will inevitably cooperate with rural credit unions in areas with higher comprehensive strength, and will not be too inclined to backward areas. However, with the launch of various business operations by foreign banks, such as microfinance, this can achieve some improvement to the current problem of inadequate supply in the rural financial market, and also has a corresponding contribution to the transformation of the competitive situation in the rural financial market.

5. Conclusion

With the establishment and continuous development of the rural financial market, this has basically been able to meet the diversified needs of economic development in rural areas, but at the same time it can also cause various problems. In particular, as the market opens up at a faster pace, financial institutions can ignore risk in order to maximize economic efficiency. Their lack of optimization of their own governance structures and risk management levels in the process of capturing a share of the rural financial market, coupled with the lack of strict restraints in laws and regulations, will eventually make the development of the rural financial market increasingly risky. Therefore, the government should strengthen guidance and regulation, using rural financial institutions based on financial market institutions and legal framework constraints to guide and restrain the market to carry out healthy competition, so as to promote the economy to achieve high-quality development.

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