

## FINANCING ISSUES OF TVEs IN RURAL CHINA IN THE PERIOD OF ECONOMIC TRANSITION

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This study systematically explored the rural China's TVEs financing situation in the transitional period. The dissertation is organized into 6 chapters. Chapter 1 reviews literature to detect the research gaps between the existing studies and the reality. From a historical prospective, Chapter 2 has traced the development and evolution of TVEs with attempts of providing the background of this study. In Chapter 3, the TVEs financing issues in capital demand side were dealt with. Chapter 4 discusses the changes in the rural financial system and the impacts on TVEs financing. Chapter 5 highlights the real situation of the TVEs financing in the late 1990s at the micro level based on the results of field surveys in two provinces. Chapters 6 summarizes the main findings of this study, and discuss the policy implication of the findings.



The main findings of this study include below. (1) Because the invalidity of the traditional "capital -saving strategy", TVEs had enormous capital demands to aid in coping with the market environment changes, and the capital needs occurred in both the newly established and the early-established TVEs, though the capital purposes witnessed different. (2) Resulting from a number of factors, the TVEs financing pattern proceeded with remarkable changes. In contrast to the enormous capital demand, the TVEs financing channel narrowed. Bank loans became more and more important financial sources for TVEs, and more specifically, RCCs increasingly took the dominant share. The supplementary role of informal financial institutions on TVEs financing was also visible. (3) Rural financial reforms since the mid 1990s has reshaped the rural financial market to a large extent, and the rural financial market became remarkably competitive, and multi-participatory. Nevertheless, the rural economy was developed with difficulties in financing under the new rural financial market environment. The measures, that



government adopted to help finance the rural economy including TVEs, indeed helped to some extent, however those measures did not improve the performance of the rural financial market too much. The ratio of the directed loan balance to agricultural and rural development in the national loan balance decreased and the share of loans going to TVEs sector also declined. According to the anecdotal evidence from the author's field trip, profitability of the businesses could not be fully exploited in both underdeveloped and developed areas. (4) The analytical results of field surveys in two provinces highlights the real situation of the TVEs financing in the late 1990s. At the County level, TVEs' accessibility to bank loans ranged from 43 percent in Anhui, to 46 percent in Jiangsu at around the turn of the new century. Accessibility in terms of the percentage of enterprises with bank loans is almost the same in the two provinces. The activities of the informal financial institutions such as ROSCAs, and money-houses, were found to be less active in terms of lending volume. (5) The loan purposes of the TVEs were enumerated. The TVEs in Anhui borrowed loans mainly for enriching the working capital, and in contrast, the TVEs in Jiangsu borrowed loans mainly for the incremental investment in aspects of fixed asset, including inflow of new technology, purchase of new equipment, improvement of workshops and expansion of production. (6) TVEs were not sensitive to the interest rate charged on borrowing. Around three-fourths of rural enterprises surveyed regarded the ongoing interest rate for loans, as "low", "reasonable", or they were "indifferent". The large part of the sample TVEs in Anhui reported that banks had ever refused their loan application, and the accessibility to bank loans became more difficult since 1997 due to a series of reasons. (7) The rural banking system has increasingly become more cautious in lending. Collateral is a necessary requirement. The most typical form of collateral is the tangible and convertible fixed asset. TVEs become more and more difficult to get loans partly because they lacked collaterals. Besides the collateral, banks had been taking a number of other actions to achieve loan security. And the credit rationing was prevalent throughout.

The findings of this study have a number of policy applications. Generally speaking, to finance TVEs more efficiently, a more competitive, diversified and fair financial market in rural China is required.

