

# **Derailed Reform : The Case of Rural Credit Cooperatives in China's Poverty-Stricken Counties**

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## **Abstract**

Chinese Rural Credit Cooperatives (RCCs) is a collective-owned and cooperative financial institution, and its major business is to provide loans for agriculture-based projects. “The RCCs is the main force of agrarian finance,” as such claimed by the former Chinese Premier Zhu, Rongji in the fourth session of the ninth National People’s Congress regarding the function and status of RCCs. Nonetheless, despite the RCCs is a separate legal entity and aims at promoting the development of agrarian finance, it fails to do its work but becomes a private coffer of local governments. This study investigates the trajectory of development and reforms of RCCs first, and then explores the process from an institutional perspective by addressing the dynamic interactions between the RCCs, the local governments and the local enterprises. RCCs was first established in the 1950s, and has served as a private coffer for local governments since then. After launching the reform and opening-up policy in the late 1970s, the central government attempted to prohibit the local governments to intervene the operation of RCCs on the one hand, and provided fiscal subsidies as well as tax reliefs to RCCs on the other. Yet the operation of RCCs has been locked into the pre-existing institutional practices shaped in Mao’s era and been “out of track” regardless of various reform attempts by the central government. This study argues that the organizational overlap between the branches of Chinese Communist Party in the local governments and RCCs largely explains why local governments could survive those reform attempts and persistently gained the control of RCCs in the past 30 years. By examining the name lists of the party branches in the local governments and RCCs, I demonstrate that the local governments transferred the control of RCCs from administrative system to party system, thus they successfully circumvented the constraints of administrative policies and rules in various reform attempts by the central government. The finding also helps to explore the dynamic patterns of interaction among the local governments, RCCs, and local enterprises in those areas of agriculture-based economy, thus contributes to fill this gap in the literature of state-business research in China studies.

**Keywords : Rural Credit Cooperatives (RCCs), Rural Finance, Path Dependence, Soft Budget, Tiao-Kuai Relationships**