

Analysis on Rural Financial Transition and Diversification of Financial Institutions Based on Game Theory

Guimei Li

Shandong Agriculture and Engineering University, Jinan Shandong, China

Keywords: Rural Finance; Transition; Urbanization

Abstract: In the process of the development of new rural financial institutions, there will inevitably be some contradictions and conflicts. In the process of development, there are many contradictions, which can not adapt to the development of rural finance, and even have the trend of retrogression. Since China's accession to the WTO, some problems have arisen in the financial transformation and diversified development of financial institutions in rural China, which need to be solved urgently. Agriculture in China must adjust its agricultural structure in terms of variety improvement, production mechanization and biotechnology innovation. The change of rural social structure promoted by urbanization process is an important decision-making variable of rural financial transformation. The evolution of rural household income structure also promotes the change of rural social structure. Promoting the diversification of financial organizations from different angles is still the way to optimize the structure of rural financial organizations in China. In order to further alleviate the employment pressure in the city, we should strengthen the speed of urbanization construction and maximize the absorption of rural labor, thus promoting rural economic development.

1. Introduction

With the full-speed development of the economy, the strength of the government is increasing. The country has begun to accelerate its modernization and formulated many principles for the benefit of the people. Let the people enjoy the real benefits [1]. As the rural financial industry is one of the factors restricting the development of rural economy, in the process of rural financial reform, whether the rural financial system can be improved will play a decisive role. At present, the dual structure of urban and rural finance in China determines that there is still a huge gap between the rural financial system and the urban financial system, showing a clear bottleneck state [2]. Since China's accession to the WTO, some problems have arisen in the financial transformation and diversified development of financial institutions in rural China, which need to be solved urgently. Fundamental construction requires a large amount of investment, and the current rural finance cannot adapt to new developments and hinder the process of urban integration [3]. Years of reform and opening up have provided sufficient incentives to promote the progress of rural finance, but compared with cities, there are still many factors that restrict rural development [4]. In the new era, if we want to improve our overall national strength, we must realize the transformation of rural finance, promote the diversification of financial institutions, and lay a solid foundation for the development of agriculture.

Judging from the current development situation, China's rural financial system still has great defects. Accelerating the development of rural financial industry is necessary for the changes of the times. The rural financial transformation and the diversified development of financial institutions should be our main work objectives [5]. The weakening of rural financial service function clearly shows the huge defects of rural financial structure, and thus forms the theoretical view of weak rural finance and the orientation of rural financial policy. China's agriculture must adjust the agricultural structure in terms of agricultural product variety improvement, production mechanization and biotechnology innovation [6]. A series of new characteristics have emerged in the development and growth of China's agriculture and rural economy in the process of transformation, and diversified rural financial needs have been put forward. Promoting rural industrialization and urbanization is

the key to improving economic level [7]. It can effectively solve the problem of surplus rural labor force and low rural labor productivity. Restricted by the distribution of national resources, some rural areas are rich in resources, while others are extremely scarce. Therefore, there is a gap between the state and the investors of financial funds [8]. Compared with the urban financial policy, China's rural financial policy is not perfect. In order to further alleviate the pressure of urban employment, we should strengthen the speed of urbanization construction, absorb rural labor force to the greatest extent, so as to promote rural economic development.

2. Reasons for Restricting Rural Financial Transition and Diversified Development of Financial Institutions

The new rural financial institutions have relatively short operating management chains, flexible mechanisms, and close to rural realities. Farmers' industrial activities are diversified, and increasingly complex economic structures place higher demands on financial services. In the process of rural financial development, many loans have not been collected all the year round. Many borrowers have borrowed money from various financial institutions with the attitude of borrowing money and not paying back, which has led to a crisis in credit. Agricultural insurance, a new type of industry in rural finance, has been lax in the process of rural financial transformation and development. But from an economic point of view, the higher the registered capital, the higher the cost of capital [9]. What rural areas need urgently is small village banks serving agriculture, countryside and farmers. In the pace of liberalizing rural financial market, village banks are also dominant. This rapid expansion reflects the profit-seeking demand of non-agricultural capital such as financial capital and industrial capital. In order to reduce the huge capital cost, we can only choose to use funds in batches and lend to large customers. As far as the Agricultural Development Bank of China is concerned, the vast majority of the funds are directed to grain and oil in rural areas or agricultural machinery allocation. Under the condition of non-competitive market, it is difficult to expand and improve the total quantity and quality of financial services.

Strategic structural adjustment of agriculture has become the main strategy of agricultural development, and put forward new requirements for rural financial supply. With the deepening of China's reform and opening up, the issue of "agriculture, countryside and farmers" has been well developed, but the financial support for "agriculture, countryside and farmers" is not enough, and the rural financial service system does not meet the needs of the development of the situation. At present, China's rural financial institutions adhere to the rules, lack flexibility and innovation, focusing only on the financing of traditional industries. There is no support for the new industries set up by farmers and it is impossible to provide loans to ordinary entrepreneurs. In order to meet the challenges from the world market, China's agriculture must carry out strategic structural adjustment. Although not all financial institutions specialize in providing related projects for rural finance, national and local support for agricultural development is growing. As an independent, self-financing financial institution, the ability to achieve profitability and profitability is directly related to the sustainable development of business, whether it can attract subsequent investment and sustainable operation and development. China's rural credit system has certain risks. The government should strengthen supervision and establish a special rural credit guarantee institution. The major banks with state monopoly gradually annexed other private banks in the city, and some credit unions could not escape the situation of being annexed.

The availability of financial services has a significant leading effect in the development of inclusive finance in China. Among the first three indicators that have the greatest impact on the development level of inclusive finance, the per capita Internet finance accounted for the second largest proportion of per capita GDP, slightly lower than the per capita GDP. This shows that the development of China's Internet finance has a very important impact on improving the development level of inclusive finance. Table 1 shows the index structure and weight calculation results.

Table 1 Index system and weight of inclusive financial development level

Specific indicators	Weight value
Number of employees in financial institutions per 10,000 square kilometres	0.087
Number of Financial Institutions Network Points per 10,000 sq km	0.168
Number of financial institution networks per 100,000 people	0.135
Number of employees in financial institutions per 100,000 people	0.076
Per capita deposits as a percentage of per capita GDP	0.245
Per capita Internet finance scale as a proportion of per capita GDP	0.256

The domestic economy is developing rapidly, but the amount of financing in rural areas only accounts for a small part, and the intensity of indirect financing is not large. Once the agriculture-related financial business has sufficient working capital, it will greatly accelerate the progress of the project development and reflect the advantages of the project. In order to promote the development of the rural economy, it is necessary to re-adjust the rural industrial structure. Only by increasing the assistance and assistance can we help the smooth transformation of rural finance and let the relevant institutions develop towards diversification. Another channel for policy-based financial support is the lack of poverty alleviation loans, and the probability of farmers getting loans for poverty alleviation is very low. In terms of agricultural loans, the China Agricultural Development Bank is mainly biased towards the basic needs of basic agriculture such as grain, oil and cotton. For other agricultural economic projects, the proportion of loans is very small. The coverage of the existing policy-based finance to individual farmers is very narrow. There is a huge demand for funds for strategic restructuring. The accumulation of funds in the field of agriculture, countryside and farmers can not meet the demand for funds. At the same time, because of its high risk. The goal of Inclusive Finance is to improve the financing conditions of poor and special poor rural households and improve rural financial services. And then improve the social welfare level of rural and farmers in backward areas.

3. The Optimal Path of Rural Financial Transition and Diversification of Financial Institutions

To promote rural financial transformation and diversified development of financial institutions in China, we must focus on preventing rural financial risks and establishing standardized rural financial behavior. This requires our country to further improve and perfect the rural credit system construction and establish a special credit evaluation institution. Perfecting rural financial service system, adjusting rural financial industrial structure, speeding up rural financial transformation and diversification of financial institutions have become new goals. The mode of rural economic growth has changed from supply-oriented growth to quality-oriented growth. As a big developing country, China is experiencing a transition from a developing economy to a developed one. The government should guide and encourage commercial banks to vigorously support the transformation of rural economy and finance, and also guide more private financial institutions to serve the rural economy. The demand for rural financial services is small and scattered, and there is not enough collateral. For many SMEs, private finance has greater flexibility and faster capital flows. However, many regions have not received education, have no understanding of private finance, or have no relevant management experience, which has led to the slow development of private finance. The traditional and old rural financial system and the service model of rural financial institutions have been unable to adapt to the rural development trend under the new situation.

Due to the high cost of setting up branches in rural areas, most financial institutions continue to shrink physical outlets in rural areas. Internet finance is mainly divided into crowdfunding, P2P online lending and third-party payment platforms. Considering that third-party payment transactions account for a large proportion of Internet transactions. Replace Internet finance development with Internet third-party payment transactions. Descriptive statistics for each indicator are shown in Table 2.

Table 2 Descriptive statistics of each indicator

Specific indicators	Minimum value	Maximum	Median	Average value
Urban-rural income gap	2.868	3.523	3.306	3.292
Inclusive financial development	0.035	0.168	0.083	0.091
Financial intervention	0.184	0.267	0.221	0.213
Urbanization level	0.572	0.693	0.634	0.642

Another channel for policy-based financial support is the lack of poverty alleviation loans. The probability of farmers getting loans for poverty alleviation is very low. The existing policy finance has a narrow coverage for individual farmers. Due to the needs of sustainable business development, new rural financial institutions will inevitably have some tendency to violate the original intention of the regulatory authorities in the establishment and operation. In the development of rural finance, it is necessary to standardize financial behavior, reduce risk, actively improve credit, and set up a special level department [10]. Accelerating the rural financial transformation and the diversified development of financial institutions in China will help accelerate the construction of new urbanization in China and provide sufficient financial guarantee for China's new urbanization construction. Policy-driven and commercialized farmers' micro-credit loans have not achieved the desired results, and even terminated under the constraints of the cost concept of financial institutions. In order to promote the development of rural financial market, we should speed up the improvement of rural credit market, insurance market and agricultural futures market. If the new financial institutions are not economically sustainable, they will not be able to grow and serve agriculture, rural areas and farmers in the future.

The government should strengthen the prevention and control of rural credit risk, establish a sound rural credit evaluation mechanism, so as to effectively regulate rural financial behavior. Due to the limited funds of some financial institutions which set up agricultural projects, the progress of agricultural projects has been greatly affected. In order to speed up the progress of agricultural projects, some farmers began to organize private lending. The government should take various measures to develop private finance and create opportunities for transformation. Credit risk is the most important reason that hinders China's rural financial transformation and the diversification of financial institutions. The improvement of rural credit market can guarantee the normalization and simplification of rural industrial financing, and effectively regulate rural credit behavior and credit environment. In the process of interest rate marketization, or allowing rural financial institutions to expand the floating rate of loan interest rates, rural financial institutions often implement the highest ceiling interest rate, and farmers actually pay higher financing costs than urban economic entities. Rural industrialization and rural urbanization are of great significance for the transfer of rural surplus labor and the improvement of rural social labor productivity.

4. Conclusion

The government is paying more and more attention to the rural areas. It should actively develop the local economy, absorb more funds to help develop, solve rural financial problems, and escort rural progress. The defect of China's rural financial service function is mainly reflected by the contradiction of credit rationing. Resolving this contradiction is not resolved by the unipolar push to expand the supply of credit funds, but should be considered from the overall transformation of the rural financial structure. In the process of promoting the diversification of rural financial institutions in China, we must pay attention to legislation and supervision to ensure a normal financial order. Although the government has long carried out relevant financial reforms in rural areas, it has not achieved development in essence. At the same time, we should complete the financial transformation and encourage other legitimate financial activities. The change of rural social structure promoted by urbanization is an important decision-making variable in rural financial transformation. The evolution of farmers' income structure also promotes the change of rural social structure. China's rural financial demand is shifting from the monotonous demand for credit scale to

the demand for diversified financial products and higher quality financial services. The government should constantly improve the financial system to provide more financial support for rural development. So as soon as possible, let the people of the whole country live a happy life.

References

- [1] Breslin, Shaun. Financial transitions in the PRC: banking on the state?[J]. *Third World Quarterly*, 2014, 35(6):996-1013.
- [2] Cevik E I, Dibooglu S, Kutan A M. Measuring financial stress in transition economies[J]. *Journal of Financial Stability*, 2013, 9(4):597-611.
- [3] Eva B öhm, Eggert A, Thiesbrummel C. Service transition: A viable option for manufacturing companies with deteriorating financial performance?[J]. *Industrial Marketing Management*, 2017, 60:101-111.
- [4] Tomislav G. Financial supply cycles in post-transition Europe – introducing a composite index for financial supply [J]. *Post-Communist Economies*, 2018, 30(4):482-505.
- [5] Hourcade J C, Shukla P. Triggering the low-carbon transition in the aftermath of the global financial crisis[J]. *Climate Policy*, 2013, 13(sup01):22-35.
- [6] Koch, Nicolas. Dynamic linkages among carbon, energy and financial markets: a smooth transition approach[J]. *Applied Economics*, 2014, 46(7):715-729.
- [7] Kim, Chang-O. Can a temporary financial assistance scheme prevent a transition into poverty among individuals who experienced a life event crisis?[J]. *Journal of Economic Policy Reform*, 2017:1-18.
- [8] Essers D. South African Labour Market Transitions Since the Global Financial and Economic Crisis: Evidence from two Longitudinal Datasets[J]. *Journal of African Economies*, 2017, 26(2):192-222.
- [9] Hall S, Foxon T J, Bolton R. Investing in low-carbon transitions: energy finance as an adaptive market[J]. *Climate Policy*, 2015, 17(3):1-19.
- [10] Zhao Y, Xiujian T. The transition of state-peasants relationship[J]. *China Agricultural Economic Review*, 2013, 1(4):382-394.