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GEORGE WARREN BROWN SCHOOL OF SOCIAL WORK

COUNTRY BRIEF

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China Country Assessments for Youth Development Accounts

By Li Zou

CSD is part of a global consortium supported by the MasterCard Foundation that is exploring the potential for piloting a Youth Savings initiative in multiple developing countries. In addition to CSD, the consortium includes Save the Children, the Consultative Group to Assist the Poor (CGAP), and the New America Foundation. The consortium's goals for the 2009-2010 year include identifying six developing countries in which to implement these pilots, along with local financial and research institutions that could assist in implementing and evaluating the pilots.

This brief is one of a series that CSD has prepared on candidate countries in Asia, Africa, and Latin America. This brief, like the others, assesses the candidate country on four criteria: institutional capacity, national political interest, research capacity, and broader macroeconomic environment.

Summary

China stands out as a candidate site to include in the pilot projects of Youth Development Accounts (YDAs) in four ways: (1) a flexible, reliable, regulated banking infrastructure to deliver YDAs; (2) national government interest in asset-based socioeconomic development policy; (3) engaged and experienced local contacts in research institutions; and (4) a strong and stable economy. In particular, Sichuan Province appears to be an ideal site to choose as a launching site for YDAs in Asia.

Basic Population and Economic Indicators

- » Population: 1,318.31 million (World Bank, 2007)
- » Percent of population under age 15: 19 (Population Reference Bureau, 2008)
- » Youth ages 10-24 (percent of total population, 2006): 24 (Population Reference Bureau, 2008)
- » Percent of population below national poverty line (1998): 5 (total), 2 (urban), 5 (rural) (UN Statistics Division, n.d.)
- » Median age: 34.1 (CIA, 2009)
- » Income level: Lower-middle income (World Bank, n.d.)
- » GDP per Capita (PPP US\$ in 2005): 6,757 (UNDP, 2007)
- » Percent of population living on \$2 a day or less, 1990-2005: 34.9 (UNDP, 2007)



Washington University in St. Louis

The Earthquake Context

Survivors of the May 12, 2008 earthquake have immediate and serious challenges, including loss of loved ones, loss of nearly all assets, loss of livelihoods, inadequacies and stresses related to the current living environment, and uncertainty about the future. Response to date has been less than sufficient; many people are living in tents and porta-homes, with no immediate prospects for permanent housing or livelihoods.

Under these conditions, a successful “response” will go beyond disaster recovery and toward conditions that can sustain development of households and communities, especially the young generation. A major emphasis should be on financial services to promote development, particularly saving services for rebuilding homes, enterprise, education, and health care. These would be designed partially in response to Chinese central government’s call to “create conditions to enable more citizens to have property income.”

Institutional Capacity

A year after the severe earthquake, all four major national banks—The Agricultural Bank of China (ABC), Industrial & Commercial Bank, Bank of China, and Construction Bank—have successfully reopened branches and resumed regular business in the most heavily affected area, Beichuan County in Sichuan Province. Among all of the four banks, the ABC Beichuan Branch has managed over 70% of the total donations and disaster relief funds for the entire county and issued loans of over 200 million Yuan (US \$29.4 million) to over four thousand quake-affected households in 38 villages.¹

ABC Beichuan Branch is the most promising financial partner for the consortium. Currently, the ABC has three business locations in Beichuan County, with the newest one opened on June 12, 2009.² Recognized as one of the top 10 most influential country banks in the nation, ABC Beichuan has the best reputation and the largest customer base in the area. As of the end of May 2009, the values of deposits and loans at the Bank were 2.39 billion Yuan and 2.33 billion Yuan respectively, an increase of 1.24 billion Yuan and 1.2 billion Yuan respectively since early 2009.

The author of CSD has communicated with a few staff at the bank, including Mr. Shan JIANG, Branch Director, Mr. QIU, head of the Sales Department, and Ms. Yan LIU, Chief of Staff. According to Ms. Liu, ABC offers various deposit products and serves

both adults and youth as long as they have Resident ID cards (the official Chinese ID). Children under 16 require additional parental signatures when opening accounts. All banks are required by law to check customers’ official IDs before opening any savings accounts.

The idea of YDAs helping the youth living in the quake-affected area was appealing to the three staff members. They extended a welcome to the consortium for a field visit to the Bank and discussed the potential for collaboration face-to-face (the preferred Chinese way of doing business).

Aside from ABC-Beichuan, other players include the long-existing Rural Credit Cooperatives (RCCs) and newly established Village/Township Bank (VTB) authorized by the China Banking Regulatory Commission (CBRC). Four VTBs are in Sichuan Province. All of them offer comparable services to other commercial banks and can take deposits. However, they are relatively small in size and have suffered significant losses during the earthquake. The VTB in Beichuan, Sichuan was completely destroyed by the earthquake—the physical building collapsed and some staff are lost or severely injured. Its three million outstanding loans are no longer retrievable because many of their clients are dead or injured or lost their business.

Strong political will

The political climate for and political interest in asset-based socioeconomic development policy is excellent. Since 2006, the Chinese Government has prioritized expanding financial services in rural areas as part of the national response to President HU Jintao’s call for new approaches to rural development. In response to the urgent needs in the quake-affected areas, the China Banking Regulatory Commission (CBRC) has accelerated its approval process to allow many financial institutions to open branches in those areas.

The most noteworthy policy developments toward building assets are that:

- (1) The 16th Central Committee of the Communist Party of China (CPC) in October 2006 set “universal increase of household wealth” as one of the key directives for building a harmonious socialist society by 2020. This is a significant step towards asset-based social policy.
- (2) The 17th National Congress of the CPC announced that “conditions will be created to enable more citizens to have property income” in October 2007.

Excellent research capability and strong partnerships

Over the past five years, CSD has established strong research collaboration relationships with many well-known academic and research institutions, including Beijing University, the Chinese Academy of Social Sciences (CASS, China's top governmental think-tank), Shandong University, Tsinghua University, Sichuan University, and Hong Kong Polytechnic University.

CSD has collaborated with CASS in a joint research project over the past three years to study savings and assets amongst Chinese rural farmers in Hutubi County, Xinjiang Uygur Autonomous Region. Through this work and its dissemination, CSD has made many contacts with government administrators in China interested in furthering asset-based policies at local and provincial levels.

The central government of China is interested in the Hutubi pilot project not only as a part of the national effort to improve farmers' lives, but also as a model for comprehensive policy. Mr. ZHAO Dianguo, director of Rural Insurance at the Ministry of Labor and Social Security highlighted this interest, noting that "[this Hutubi project] has ... achieved both social and economic benefits."³

Most recently, asset building has been used as a guiding theme for several proposed initiatives in quake-affected areas in Sichuan Province led by Sichuan University and Hong Kong Polytechnic University.

In July 2009, Shandong University, CASS, and CSD co-organized an international conference on productive aging. In addition, the three parties successfully co-sponsored an international conference on asset building and social development in 2004.

Strong and stable economy

China's economy has experienced strong growth over the past decade, and China's currency, which is tied to the US dollar, is stable. Savings interest rates are currently at a ten-year low, due to the very low interest rates in China. These two factors combine to yield conditions ideal to YDAs: modest incentives will be attractive relative to other investments, and the chance of investment loss through hyperinflation is minimal.

Large potential impact in the country and region

With a population of 1.3 billion people, a broad-reaching and scalable financial infrastructure, and strong political support, the potential impact for YDAs in China is huge and is very likely to attract the attention of mainstream media. Even at the pilot stage, asset-building accounts could easily grow to outnumber individual development accounts (IDAs) in the United States at the present time. With growing discussion and applied projects, there appears to be an opportunity to inform a larger and more inclusive asset-based policy in China and surrounding Southeast Asian region.

Endnotes

1. Xinhua News: Big opportunities after big disasters—Anecdotes from the Agricultural Bank of China (Beichuan Branch) http://news.xinhuanet.com/newscenter/2009-05/15/content_11379337.htm
2. Sichuan Rural News: <http://sannong.newssc.org/system/2009/06/16/012036176.shtml>

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Author

Li Zou, International Director
lzou@wustl.edu

Contact Us

Li Zou
lzou@wustl.edu
(314) 935-3469

Center for Social Development
George Warren Brown School of Social Work
Washington University in St. Louis
Campus Box 1196
One Brookings Drive
St. Louis, MO 63130

csd.wustl.edu



CENTER FOR SOCIAL DEVELOPMENT

George Warren Brown School of Social Work
Campus Box 1196
One Brookings Drive
St. Louis, Missouri 63130-4899