

# **China's Agricultural Policies and Rural Development**

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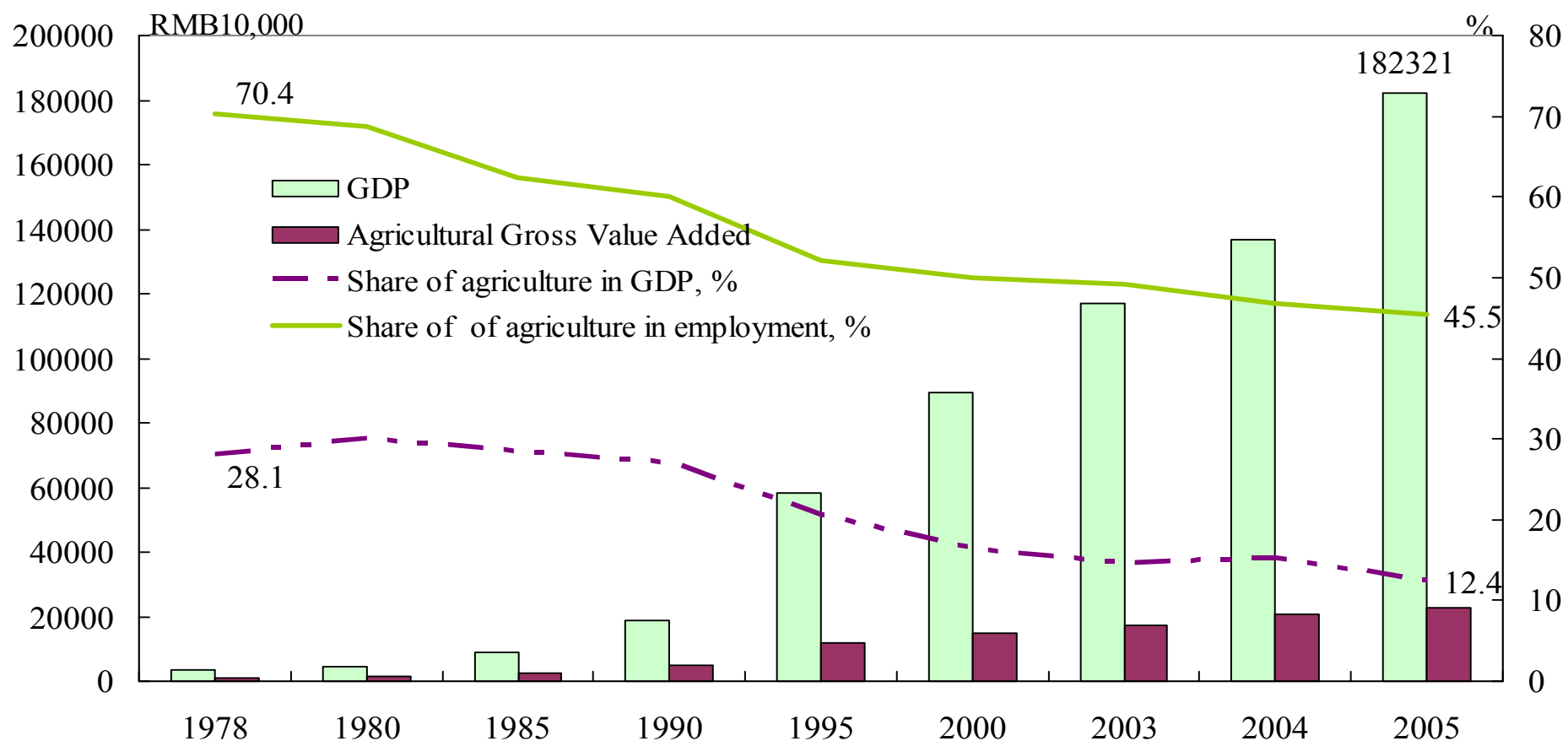
# Outline of presentation

- **China's Agriculture and Rural Development: Current Situation**
- **Major Policies**
- **Constrains for China's Agricultural and Rural Development**
- **Major Tasks and Policy Options for China's Agricultural and Rural Development in the future**

# China's Agriculture and Rural Development: Current Situation

- Agriculture is of special meaning for China. Although its share in Gross Domestic Product (GDP) is declining, agriculture as the basis of stabilized national economy development has never been changed.
- Using 9% of world arable land to support 21% of its population, ensuring enough food for over one billion people is always the top priority for China.
- Agriculture is also an important industry for solving the problems of rural unemployment and farmer's income. Agriculture absorbs 320 million labors and contributes significantly to farmer's income (accounts for 45%).
- Meanwhile, agriculture is also directly related to the growing demands of domestic market and consequently boosts the development of national economy.

## Contribution of agriculture to the China's economy



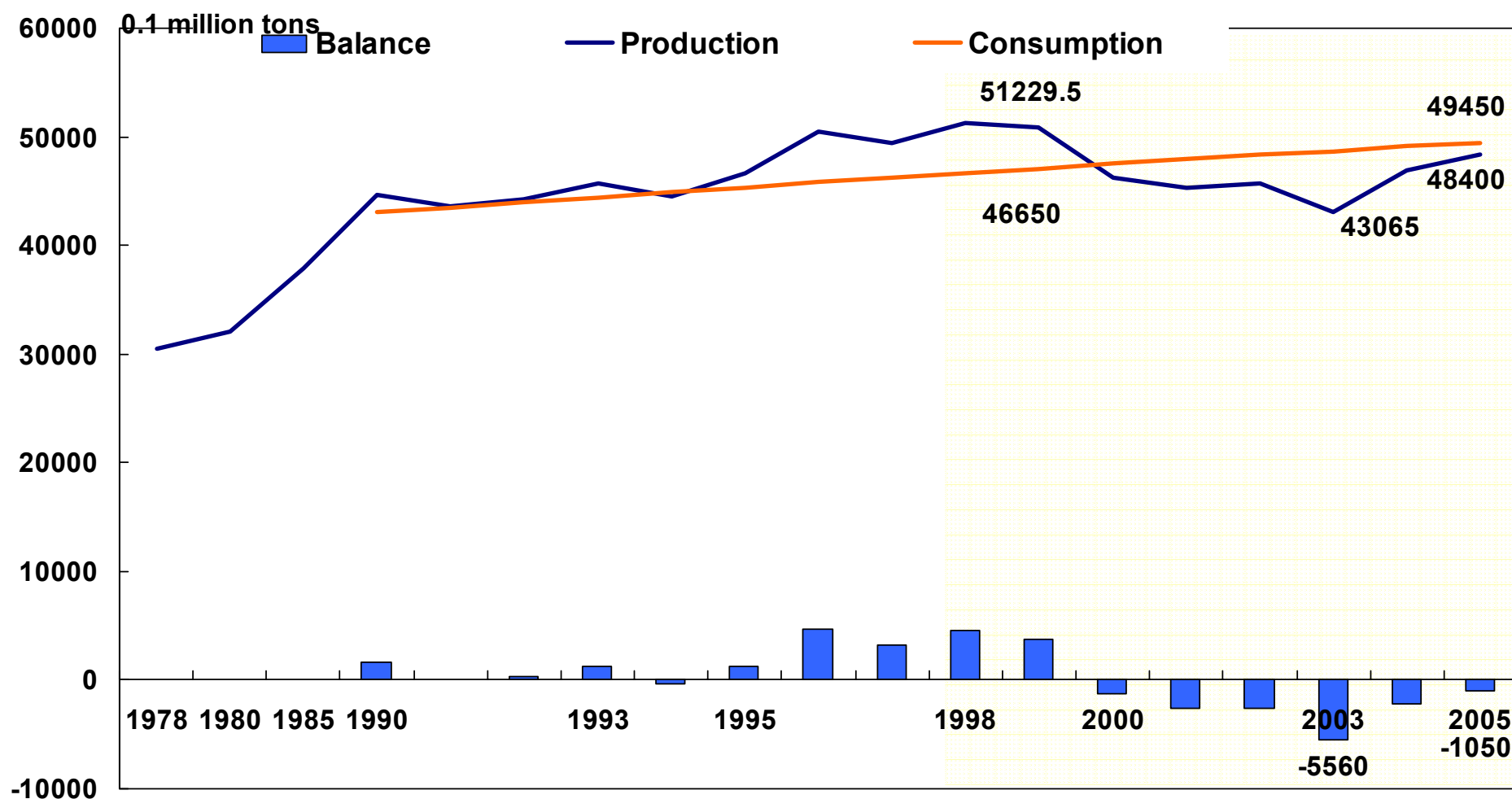
Source: China Statistical Yearbook

## Agricultural and Rural Situation since 2004

### ■ Grain Production:

- Grain output reached 469.47 billion Kg in 2004, up 38.8 billion Kg from 2003, the biggest increase in the past 50 years.
- Grain output reached 484.4 billion Kg in 2005, up 15 billion Kg from 2004.

# Chinese Grain: production and consumption



## ■ Farmers' Income:

- China's farmers' net per capita income reached RMB 2936 (USD 367) and RMB 3255 (USD 406) in 2004 and 2005, respectively, with a real growth rate of 6.8% and 6%, respectively.
- There are some changes in the sources of farmers' income growth:
  - rapid income growth from crop and livestock products,
  - substantial growth from transferred income, significant growth from increased salary.
  - Off-farm economy has become the new pillar of farmers' income growth.

## ■ Rural Reform:

- Rural tax and fee reform has been speeded up to a new phase of elimination of agricultural taxes.
- Grain circulation system reform has been deepened further with completely liberalizing grain marketing.
- Rural credit cooperation reform has been expanded to all provinces except Hainan and Tibet.
- Land use reform has been started.

## ■ Rural public goods inputs:

- government increased its efforts in support of rural education, culture and healthcare. Consequently, public services available to farmers were increased significantly.
- Countryside road construction was undertaken in large scale and consequently improved rural transportation.
- The “human and animal safe drinking water project” was speeded up to solve the drinking water problem in countryside.
- Small infrastructure was built increasingly to improve farmers’ living and production condition.

# Major Policies

- China has brought up the supporting policies of “**give more, take less and liberalization**” to support agriculture and rural development since 2003.
- **The tasks** identified by China for the near future are:
  - boosting farmers’ income growth,
  - strengthening comprehensive production capacity of agriculture and
  - constructing the “new countryside”.
- To this end, China has articulated a series of policies to support and benefit agriculture and farmers more directly and effectively.

## *"give more"*

- **Redistribute national income and increase support to agriculture, farmer and countryside (“san nongs”).**
  - National infrastructure investments would be channeled to rural areas.
  - Newly added financial appropriations on education, healthcare and culture would be used mainly in countryside.
  - Newly added national infrastructure fund would be used mainly in rural areas.
- **Central government’s expenditures on the development of rural education, healthcare and culture have also increased with wide margins.**
- **Since 2004, China’s grain farmers have received *direct payments, fine breed payments* and *machinery payments* from the government. Over 600 million farmers have benefited from these payments.**

## *"take less"*

- Reduce farmers' burden substantially and protect farmers' rights.
- China started the trial reform of rural taxes and fees in 2000. The reform eliminated all farmer-specific taxes and fees except agricultural taxes.
- All national farm taxes were removed in 2006, the over 2,600 year-old tax came to an end eventually.
- Meanwhile, the goal of free compulsory education in all rural areas is set for next two years.

## *“liberalization”*

- step up rural reform, better agricultural products circulation, facilitate production factors flow between rural and urban areas.
- China liberalized its domestic grain market and set **minimum purchase prices** for key grain products in 2004. Therefore, all of China’s agricultural product markets have been liberalized except for tobacco.
- The so called “**green lane**”, which means all fees are exempted for fresh agricultural products for the use of bridges and roads, was established in over 22 provinces. A network of “green lane” for fresh agricultural products has been established gradually across the selling and buying regions.
- Meanwhile, governments of all levels have speeded up the migration of rural labors to urban areas, improved the working conditions for rural labors in urban areas and guided the flow of rural labors.

# Constrains for China's Agricultural and Rural Development

- **Agricultural Resource Constrains.**
  - **Land:** China is a country of large population and land shortage, per capita arable land is less than 0.1 hectare, about 43% of world average. With growing population and economy development, the trend of land reducing is irreversible.
    - With growing population and decreasing land, the pressure to ensure enough subsistence food is increasing.
  - **Water:** The shortage of water supply is even harsher. In terms of per capita, China is one of the thirteen countries who is mostly lack of water supply. Its per capita water supply is only one quarter of world average.
    - Moreover, China's water resource is distributed unevenly, over 80% in the South of Yangze river while less than 20% in the North of Huai river. Many places have to overuse underground water. Consequently, underground water levels become increasingly lower.
    - Draught and lack of water supply have become the “bottle neck” restricting agricultural development in many places.

■ **Market Constraints.**

- **In the time of agricultural product shortage, there are not market problems for agriculture.**
- **Things changed in the 21st century. Due to agricultural development, the supply of agricultural products has changed from shortage to oversupply.**
- **According to some investigations, oversupply exists for 57% of 110 agricultural products while balanced supply accounts for 40%.**
- **With improved living standards, the Engel Index decreased sharply for rural and urban residents. The proportion of food expenditure in total expenditure becomes increasingly small. Consumption has changed from “eat enough” to “eat better”. The Engel Index declined to 37.7% and 45.5% for urban and rural residents, respectively.**
- **Trade barriers for agricultural products have made China's agricultural product exports increasingly difficult. Japan implemented “affirmative table” system on May 29, 2006.**

## ■ System Constraints.

- the long-time tiered system between rural and urban areas has not been removed. Therefore, there still exists some system hurdles for the free flow of production factors between rural and urban areas.
- Under the rural-urban tiered system, money, land, resources, technology, talents and other production factors flow from agriculture to non-agriculture industries, from rural areas to urban areas. These are the reasons deep inside for the growing gap between rural and urban areas.
- It still needs a long time to thoroughly remove the tiered system and solve the long-time accumulated problems induced by it.

## Major Tasks and Policy Options in the future

- **Supporting system for agriculture and rural development.**
  - China should redistribute national income to benefit agricultural sectors and increasing expenditures for agricultural and rural development.
  - To remove system hurdles for balanced development between rural and urban areas, China should reform its systems for resident identification management, labor employment, social security and public goods supply.
  - Moreover, to ensure farmers can benefit from industrialization and urbanization, China should perfect the management and operational mechanism to optimize resource and production factor flows between rural and urban areas.

- **Development modernized agriculture.**
  - **Strictly implement farm land protection system, enhance land quality construction and improve land fertility.**
  - **Put great efforts on the construction of water conservancy projects, upgrading aged agricultural technology equipments, perfecting watering systems and extending water saving technology.**
  - **increase expenditures for agricultural science and technology, perfect the extension system, update agricultural scientific research extension system, increase the capability for agricultural scientific innovation.**
  - **Stick to the self-sufficient food policy, increase grain output steadily, improve grain productivity and ensure food security.**

## ■ **agricultural restructure**

- put priorities on the construction of production base for good-quality grain and large scale commercial grain.
- Put priority on the development of livestock and improve animal sanitation systems.
- to develop intensive agriculture, and agricultural multi-functionality of bio-energy, environment, tourism, leisure and culture.
- Extend agricultural products' production chain, boost industrial operation of agriculture.

- **Improve rural infrastructure and living environments.**
  - to resolve the problems of unsafe drinking water.
  - Strengthen energy construction in rural areas and encourage the extension of clean energy technology, such as gas from wasted materials and straws, solar energy, wind energy etc.
  - At the end of 11th five year plan, all towns should be almost connected by cement roads, all villages in the East and Central China should be connected by cement roads, and all villages in the West should be connected by roads.
  - Push forward the construction of agricultural information system and provide information services to rural areas.

## ■ Deepen rural reform

- Push forward rural comprehensive reform with emphasis on township bureau, rural compulsory education and financial management systems for county and town level government.
- Enhance social governance and public services in rural areas, build long-time mechanism to ease farmers' burden and secure the achievements resulted from rural tax and fee reform.
- Speed up innovation of rural financial service system;
- Reform farmland repossession system, perfect repayment system for farmers who lose land, and put great efforts on providing jobs and social security to those who lose land.
- Perfect the function of wholesale markets, push forward modernized transaction approaches, and steadily develop future market for agricultural products.

## ■ Enhance social services in rural areas

- Speed up the construction of elementary schools and education facilities in rural areas.
- Provide more training opportunities to farmers to improve their capability in the use of agricultural technology and agricultural management. Cultivate new farmers to construct the “new countryside”.
- Enhance the construction of township clinics and rural public sanitation systems, speed up the implementation of rural cooperative healthcare system
- strengthening poverty relief efforts, perfect rural social security system and increase its coverage.

**Thank you!**