

China's Agricultural Policies and Rural Development

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1. 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.

Since the rural reform launched in early 1980s of the 20th century, China has implemented household responsibility system, liberalized agricultural product markets and prices, encouraged the development of operational systems and township enterprises. Market-oriented reform gives farmers great incentives. Consequently, agriculture and rural development obtain phenomenal achievements: Grain output surpassed several crucial levels consecutively, increasing from 300 billion Kg to 500 billion Kg; cotton output increased from 40 million Dan to 80 million Dan. China is now world's largest producer of grain, cotton, oilseeds, vegetables, fruits, meats, eggs and fishery products. Farmers' net per capita income has increased from RMB 133 in 1978 to RMB 3255 in 2005, growing more than 20 fold.

However, at the end of 20th century, China's agricultural market has changed from shortage of supply to balanced supply, or even oversupply in good harvest year. Consequently, grain price and output decrease consecutively. Grain output decreased to 430.7 billion in 2003, record low since 1990s. The growth rate of farmers' income

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declines apparently -- annual growth rate of net per capita income averages only 3.9% from 1998 to 2003.

Agricultural and Rural Situation since 2004:

---- Grain Production: decreasing trend has finally been changed and output increased in two consecutive years with wide margin. 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.

---- Farmers' Income: China's farmers' net per capita income reached RMB 2936 and RMB 3255 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 planting and livestock industries, substantial growth from transferred income, significant growth from increased salary. Off-farm economy has become the new pillar of farmers' income growth. The stagnant or even decreasing trend of farmers' income in major regions of grain production has changed.

---- 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 buying and selling markets. Rural credit cooperation reform has been expanded to all provinces except Hainan and Tibet. Land procurement reform has been started. Market plays an increasing role in resource allocation, and market economy system is perfected significantly.

---- Rural education, culture, healthcare, infrastructure and other 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.

Grain output in the summer of 2006 reached 113.8 billion Kg, up 7.4 billion from 2005, with a growth rate of 7% and record high yield. Grain output in the Spring of 2006 reached 31.7 billion Kg, similar to that of 2005. With an expected good harvest in the Fall, 2006 would become a good year for both grain output and farmers' income.

2. 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 "socialist 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. An increased proportion of income resulted from land selling would be used in rural areas. The overall budgetary expenditures for agriculture reached RMB 339.7 billion, up RMB 130 billion from 2003. The central government allocates a rural construction fund of about RMB 53 billion focusing on the improvement of rural living and production conditions. Central government's expenditures on the development of rural education, healthcare and culture have also increased with wide margins. In recent years, 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 and value-added agricultural taxes. All national farm taxes were removed this year, the over 2,600 year-old tax came to an end eventually. To achieve this, an annual fund of RMB 103 billion is appropriated from government budget, of which the central government provides RMB 78 billion. Compared to 1999, the year before the reform, farmers save RMB 125 billion from taxes exemption, with RMB 140 per capita. 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 encouraged the development of non-state owned economies, 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.

3. Constrains for China's Agricultural and Rural Development

3.1 Agricultural Resource Constrains. 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. It was estimated that land demand for housing and industrial construction would be 80 million mu in next 20-30 years. With growing population and decreasing land, the pressure to ensure enough subsistence food is increasing. 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.

3.2 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. Meanwhile, competitions in international agricultural markets have become increasingly fierce. The impacts resulted from the imports of disadvantaged agricultural products have been seen while the potentials of agricultural products with comparative advantage have not been shown. After China’s entry into WTO, the impacts resulted from the imports of agricultural products are increasing: China imported 26.59 million tonnes of soybeans in 2005, 1.6 fold of domestic soybean output; China imported 2.57 million tonnes cotton in 2005, accounting for 40% of domestic cotton demand. Trade barriers for agricultural products have made China’s agricultural product exports increasingly difficult. Japan implemented “affirmative table” system on May 29, 2006. Consequently, China’s exports of agricultural products to Japan in June decreased 18%. Agricultural product trade pattern has changed significantly – China has changed from having trade surplus to having trade deficit for several consecutive years for agricultural products. Overlapping all these factors, the growing constraints of market on agricultural development could be expected in the future.

3.3 System Constraints. Rural markets and agricultural product market systems have almost been formed after a long-time reform. However, 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. Industrial and agricultural product prices’ “scissor differences” were the major source of agricultural contribution to industrialization in the past. However, the major source of agricultural contribution to urbanization has now changed to cheap labor and land. It was estimated that: China’s farmers contributed an accumulated fund of RMB 950 billion to industrialization through industrial and agricultural product prices’ “scissor differences” from 1952 to 1990; non-farm construction has obtained a net profit of RMB 1420 billion from the price differences in buying and selling of farmers’ land; in 2002, China’s rural labors contributed RMB 520 billion through undervalued salaries alone. Although these figures may be inaccurate, it reflected China’s farmers’ contribution to its industrialization at some level. 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.

4. Major Tasks and Policy Options for China's Agricultural and Rural Development in the future

4.1 Perfect national supporting system for agriculture. China should redistribute national income to benefit agricultural sectors by subsidizing agriculture with industrial profits 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.

4.2 Building modernized agriculture by putting emphasis on water conservancy and agricultural technology equipments. Strictly implement arable 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. Implement the strategy of "agricultural development should follow scientific approach", increase expenditures for agricultural science and technology, perfect the extension system, update agricultural scientific research extension system, increase the capability for agricultural scientific innovation and change the growth model for agricultural development. Extend agricultural machinery and improve agricultural equipments. Stick to the self-sufficient food policy, increase grain output steadily, improve grain productivity and ensure food security. Strictly protect natural forests, secure the achievements resulted from "Returning Farmland to Forests Programme", return more pasture for grass, put great efforts on water conservancy, manipulating agricultural production pollution and protecting environments. By doing so, sustainable agricultural development is achievable.

4.3 Speed up adjusting agricultural structure and develop high yield, good quality and efficient agriculture. Fully use comparative advantage in each region, encourage the construction of industrial chain for agricultural products with comparative advantage, put priorities on the construction of production base for good-quality grain and large scale commercial grain. Optimize the structure of agricultural products, standardize agricultural products production and improve products' quality. Put priority on the development of livestock industry and improve animal sanitation systems. Make intensive use of 1.83 billion mu arable land and tap the potentials of 6 billion mu grassland, 4.27 billion mu forest land, 4.2 billion mu

fishery land and 260 million mu water land. Use these lands to develop intensive agriculture, famous brand fishery and agricultural multi-functionality of bio-energy, environment, tourism, leisure and culture. Extend agricultural products' production chain, boost industrial operation of agriculture, enhance the competitiveness of agricultural products and improve overall quality and profit of agriculture.

4.4 Speed up adjusting rural economy's structure and put great efforts on developing second and third industry. Speed up adjusting township enterprises' structure and system innovation, encourage and support the development of township enterprises which comply with industrial policies, especially for labor intensive enterprises and service industry, and encourage the development of individual private economy in rural areas. Enhance technical training for rural labors who work in urban areas, put great efforts on the services of policy consultation, employment information and guidelines, and career introduction for rural labors. Protect rural emigrants' legal rights in cities, secure their reasonable salaries, improve their healthcare condition, career safety and employment environments, perfect social security-nets for them, and encourage rural labors migrate into urban areas and non-agriculture industries. While pushing the development of middle and large cities, great efforts should also be put on the development of small towns by channeling enterprises and production factors to them.

4.5 Improve rural infrastructure and living environments. While constructing water-supply projects for rural habitants and animals, step up efforts 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. Redo rural habitants' kitchen, restroom and animal fence by the utilization of gas from wasted materials. 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. Carefully plan village development, better manipulate rural water pollution and garbage, improve rural sanitation and living conditions.

4.6 Deepen rural reform and perfect countryside management mechanism. On the ground of long-time stable and increasingly perfected rural basic operation system, following the principle of being voluntary and non-free, land could be rented to develop scale economies of various ownerships. 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 system and perfect the financial systems which coordinate the cooperation and competition among policy-oriented rural financial

institutions, commercial financial institutions, cooperative financial institutions and individual financial institutions. By doing so, financial support to agriculture can be improved. Reform farmland repossession system, perfect repayment system for farmers who lose land, and put great efforts on providing jobs and social security nets to those who lose land. Perfect the function of wholesale markets, push forward modernized transaction approaches, and steadily develop future market for agricultural products.

4.7 Enhance social services in rural areas to boost comprehensive development for rural economy and society. Speed up the construction of elementary schools and education facilities in rural areas. Tuition for compulsory education would be exempted for poor students by 2007, and free textbooks and subsistence allowance for boarding would be provided to poor students. Provide more training opportunities to farmers to improve their capability in the use of agricultural technology and agricultural management. Cultivate new type farmers to construct the “socialist new countryside”. Enhance the construction of township clinics and rural public sanitation systems, speed up the implementation of rural cooperative healthcare system and take great efforts to prevent infectious disease, such as AIDS etc. Increase allowance for birth control in rural areas, strengthening poverty relief efforts, perfect rural social security system and increase its coverage.