

Rural Policy Reviews: China

What is the profile of rural China?

How has the approach to rural policy evolved?

What challenges emerge in multi-level governance?

What are the priorities for rural policy?

How can rural governance be more effective?

For further information

For further reading

Where to contact us?

Introduction

Over the past three decades, China has made remarkable progress in raising the standard of living of its rural population. Using the country's definition of poverty, the number of people living below the poverty line in rural areas declined from 250 million in 1978 to 21 million in 2006.

This progress may now be under threat. The global financial and economic crisis is starting to have an impact on the rural economy, with return migration and a subsequent reduction of remittances. Since it is not clear whether Chinese agriculture will be able to reabsorb many of these returning migrants, the importance of diversifying and strengthening the rural economy has grown. Significant employment has to be created in sectors other than agriculture. There are short- to medium-term opportunities for infrastructure and public service investments. In the longer term, the best opportunities will come through support for cleaner rural enterprises and other emerging sectors, expanded workforce training, a strengthened role for different types of financial institutions, and an improved use of land and related rights.

China's approach to rural policy has been evolving rapidly. The current strategy, "Building a New Socialist Countryside" (NSC), and related reforms are innovative. However, in order to bridge rural-urban divides, there need to be a greater focus on investment rather than on redistributive measures and important governance reforms at all levels. Measures included in the Chinese government's stimulus package responding to the current crisis should consider a significant regional and rural-policy component.

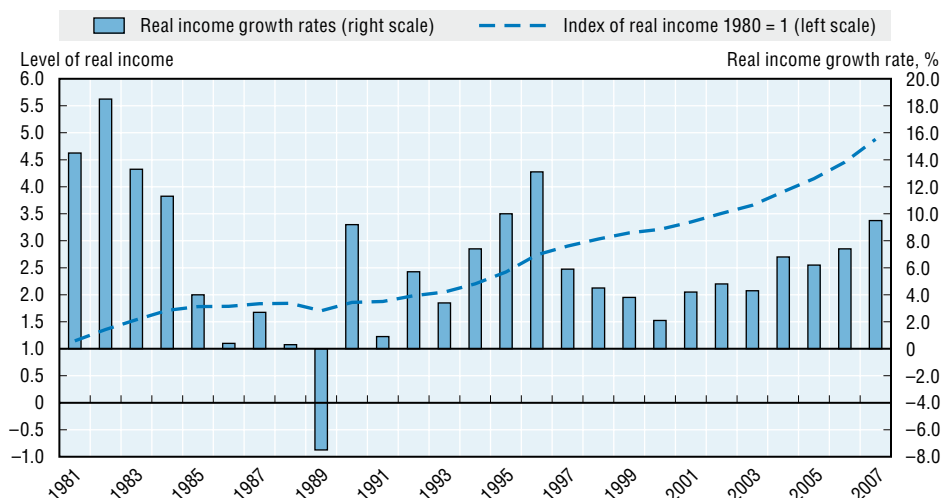
This *Policy Brief* presents the challenges and opportunities facing rural China today and provides specific recommendations suggested in the new *OECD Rural Policy Review of China*. ■

What is the profile of rural China?

With a rural population of 737 million in 2006, accounting for 56% of the national total, China is still a predominantly rural country. Between 1980 and 2007, real incomes per capita in rural households increased almost fivefold, at an annual rate of about 6% (Figure 1) and rural poverty rates fell dramatically. This progress reflected both improved socio-economic conditions in rural areas and an outflow of rural migrant workers to urban areas, whose number reached 132.1 million in 2006. These migrants have contributed greatly to economic development and the diversification of income sources in rural areas. Additional income repatriated by migrants has raised household income per capita in rural areas by between 8.5 and 13.1%. However, disparities with urban areas and among different rural regions widened. The ratio of nominal urban-to-rural income per person climbed to a record level of 3.3 in 2007. The levels of rural per capita income are highly disparate across provinces, as availability of non-agricultural jobs in rural areas and agricultural labour productivity differ greatly. Most vulnerable are rural areas dependent on agriculture, which often feature the highest rates of poverty (see Figure 2).

Despite recent improvements, large disparities in providing public services still exist. Closing these gaps through accelerated investments could be part of the response to the current economic slowdown. There are great differences in access to education between rural and urban populations, and across provinces. On average, the rural population over 15 years has attended 7 years of schooling while their urban counterparts have attended 10 years of school. While the permanent urban population, except migrants, is covered by medical insurance, the vast majority of the rural population is not. Medical treatment often involves high costs, indebtedness or a withdrawal from treatment. China has made significant progress in providing rural areas with basic services and infrastructure, such as transport and electricity, but still does not provide clean drinking water to its entire rural population: at the end of 2005, about 312 million rural people did not have access to safe water.

Figure 1.
RURAL HOUSEHOLD NET INCOME PER PERSON, 1981-2007



Source: NBSC, China Statistical Yearbook, various editions.

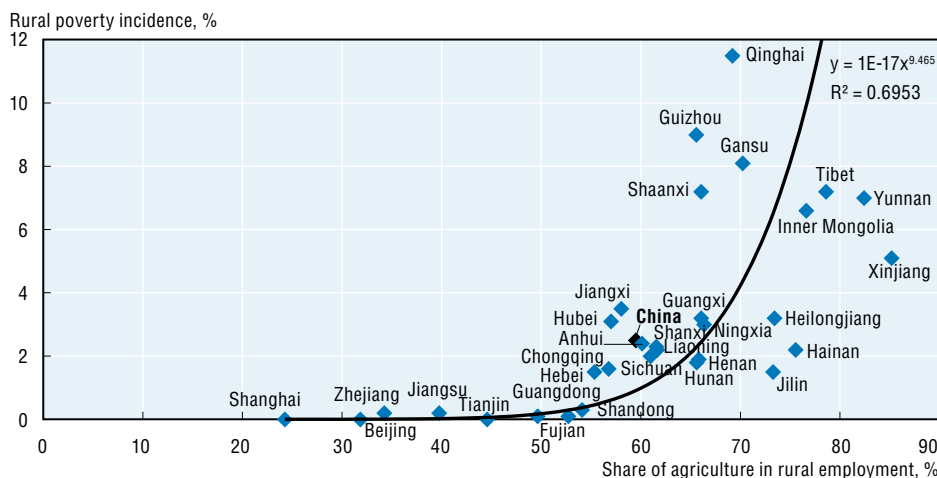
Access to credit and other financial services is also largely unequal, with a net transfer of financial resources from rural to urban areas. This represents a key obstacle to the economic development of many rural regions.

Even if agriculture remains key, the rural economy has been going through a significant transformation with falling shares of agriculture in rural employment and income (Figure 3). Despite impressive growth of agricultural production and ongoing restructuring, agricultural labour productivity remains low. It will be difficult for the agricultural sector to reabsorb returning workers without a significant decline in the productivity of labour and thus of average income per farmer.

The rapid growth of rural enterprises has supported a structural transformation of China's rural economy. Rural enterprises expanded from 1.5 million in 1978 to 23 million in 2006, creating 119 million new jobs in this period. These enterprises showed an extraordinarily strong performance at the beginning of the 1990s, experienced a significant slow-down in the second half of the 1990s, and then improved steadily in the first half of the 2000s, with annual growth rates of value added, exports and profits approaching 20%. Among the top ten provinces, ranked by rural enterprises' output value, eight are located in the coastal region.

There is an enormous unexploited potential for further economic diversification, which has become more pressing because of the current economic slowdown. China is one of the most environmentally diverse countries in the world and has a particularly rich cultural heritage to be discovered in rural areas. Moreover, renewable energy resources are abundant and supported by the government, but are still significantly under-utilised. There is, however, some threat to this potential diversification, as rapid economic growth has put considerable pressure on the environment. Water scarcity, water pollution, soil erosion and desertification are serious problems in various parts of rural China. ■

Figure 2.
RURAL POVERTY INCIDENCE AND THE SHARE OF AGRICULTURE IN RURAL EMPLOYMENT, 2005



Source: NBSC, China Statistical Yearbook 2006; CDRF 2007.

How has the approach to rural policy evolved?

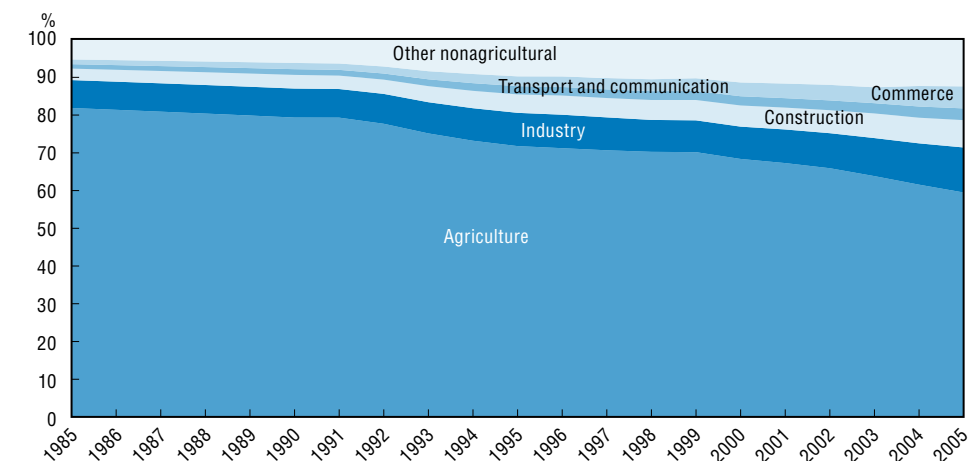
The Chinese government broadened the scope of rural policy with its most recent policy approach, “Building a New Socialist Countryside” (NSC). This approach targets agricultural productivity, land use, rural income, local governance reforms and public-service delivery, aiming to resolve the “three rural” (or *sannong*) issues: agriculture, rural communities and farmers. Starting with the reform period in 1978, China’s policy for rural areas has been evolving towards a more market-based approach, involving a relaxation of agricultural controls and a less-centralised production system called the Household Production Responsibility System. A large part of China’s success in raising rural incomes originates from a series of reforms in agriculture in the late 1970s and early 1980s. Related reforms contributed to a greater diversification of economic activities and to a more autonomous rural-governance system.

Public expenditure for rural areas has been increasing in line with a stronger focus on territorial imbalances and the trend may need to be intensified as a response to the crisis. Expenditure on rural areas almost doubled in nominal terms between 2004 and 2007, with the largest part provided through agricultural policy measures (55% of the total in 2007), followed by rural infrastructure (23%), and social development, which combines support for rural education, health care, rural poverty-alleviation, and rural social security (20%). ■

What challenges emerge in multi-level governance?

The coherence and effectiveness of China’s rural policy suffer because of the country’s current institutional and governance framework, and because of sector-by-sector fragmentation. Despite the important role played by the Central Committee of the Communist Party of China (CCCPC) and two related Leading Groups, horizontal co-ordination in policy design remains modest, as there is no single institution or formal mechanism in charge of integrating the most important NSC policies. These difficulties are reproduced at lower levels of government. Conflicts of interest emerge among different levels, between sectoral agencies and within government structures.

Figure 3.
EVOLUTION OF SECTORAL COMPOSITION OF RURAL EMPLOYMENT IN CHINA, 1985-2005



Source: NBSC, China Statistical Yearbook 2006.

A dysfunctional intergovernmental transfer system and the unintended effects of recent reforms hamper the distribution of resources. Although a comprehensive rural tax and fee reform succeeded in responding to farmers' complaints about fiscal burdens, it also reduced local governments' ability to generate self-raised funds. Fiscal transfer payments have increased, but so have the responsibilities of local governments, resulting in gaps between expenditure and financial resources. Disparities in fiscal expenditure across rural governments are stark. Moreover, many richer local governments are collecting considerable off-budget revenues, mainly from land-related transactions, but also from proceeds generated by local debt (despite the fact that they are not legally entitled to issue these). These dysfunctions may also be linked to the weak representation of rural interests in people's congresses.

The implementation of central directives is particularly challenging because of four main weaknesses in local governance: the modest administrative capacity of local officials, who tend to be selected through non-competitive processes; low accountability, as governmental structures are often not yet developed enough to monitor and evaluate policies effectively alongside top-down mechanisms; weak rule of law, as local courts have low institutional status; and limited scope, in practice, for citizen representation and participation. ■

What are the priorities for rural policy?

As shown in the *OECD Rural Policy Review of China*, policy responses should address use rights affecting land, rural service delivery including access to credit, economic diversification, and environmental protection. Experience across OECD countries, as well as many policy experiments in China shows that if these conditions are met, the Chinese countryside can become a source of balanced national development and growth.

With the current economic slowdown, investing in the following priorities has increased in relevance:

- *Land use:* Progress is needed on the implementation of farmland rights, which could help realise economic potential in many rural areas. Residential land rights should be clearly specified and made fully marketable and mortgageable. Recent policy improvements on land expropriation have to be fully integrated into law, permitting farmers to negotiate directly on compensation and clearly defining the scope of "public interest".
- *Service delivery:* A more coherent and better-funded strategy for rural services should aim to bridge rural-urban and rural-rural divides. In addition to fiscal improvements across levels of government, more flexible, place-tailored investments are necessary. These should take into account local feedback and encourage continuous innovation, benefitting from the opportunities offered by information and communication technology, particularly for remote regions. The strategy should be open to market opportunities and the role of non-governmental service providers, such as rural co-operatives and financial institutions.

- *Economic diversification*: In the context of the crisis, additional efforts to stimulate rural enterprises could increase geographic diversity of business activity and provide new employment. Changes on both the demand and supply side require policy makers to look beyond agriculture for the future of rural China. Important opportunities exist for rural-urban linkages in business and services, given the assets of rural areas, such as culture, landscapes and biodiversity. Emerging sectors that hold great promise include rural tourism, renewable energy production, and high value-added traditional food, agricultural and forest products.
- *Environmental protection*: Sustainable development and economic diversification depend on a sound environmental policy. It is crucial to address the challenges facing rural China in protecting natural amenities and biodiversity. Water-pollution levels should be reduced and water-use efficiency in agricultural production should be increased. Pollution caused by rural enterprises could be reduced by better monitoring, inspection and enforcement. ■

How can rural governance be more effective?

A more effective and inclusive rural, multi-level governance system would improve policy design and implementation, which is crucial to face the crisis and also meet longer-term policy challenges. Governance reform would need to include horizontal co-ordination, the intergovernmental fiscal system, local governance and the judicial system.

- *Horizontal co-ordination*: A more integrated, strategic approach to rural development at the central level of government might include strengthening and formalising cross-sectoral co-ordination, oversight and financial assignments. Experience in OECD countries with co-ordination mechanisms defined by law, the creation of integrated ministries, or 'rural-proofing' mechanisms could be helpful.
- *Intergovernmental fiscal system*: Further reform is needed within the intergovernmental fiscal system in order to include revised expenditure assignments, increased local revenues, and a more effective transfer system. The central government should provide sub-national authorities with appropriate resources to meet their obligations, and limit central spending to activities of national relevance. A comprehensive 'rural budget' at the central level, which includes central and sub-national expenditure, might be considered, as well as a more transparent local taxation system linked to actual investment and submitted to citizens' scrutiny. Block transfers reflecting NSC objectives should be increased and accompanied by investments in technical assistance and monitoring-and-evaluation systems.
- *Local governance*: The use of place-based policies that tailor central directives to local circumstances should be enhanced and coupled to improved local administrative capacity and accountability. Better representation of and participation by citizens is also needed. Priorities should include improved human-resource management that is linked to stricter entry procedures and more competitive and flexible salaries. The representation of rural citizens' interests could be supported through a more balanced rural-urban

representation in people's congresses, enhanced public-participation mechanisms for accessing information, and greater participation in village self-governance and social organisations.

- *Judicial system*: Judicial independence and the authority of the courts have to be further enhanced, as they relate to both Party bodies and local governments. The implementation of two reforms could strengthen rule of law in the countryside: Enhance the quality of the most basic-level jurisdictions, mostly located in the countryside, and enforce the coherent implementation of laws across the territory. Judges need to be clearly differentiated from other local civil servants and their salaries should be re-evaluated. In addition, the legal system needs to be fully consistent, both horizontally and vertically, to ensure that rural citizens have their cases litigated according to the law. ■

For further information

For more information about the *OECD Rural Policy Review of China* and the series of OECD Rural Policy Reviews, please contact:

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For further reading

OECD (2009), **OECD Rural Policy Reviews: China**, ISBN 978-92-64-05956-6, 258 pages.

OECD (2007), **OECD Environmental Performance Reviews: China**, ISBN 978-92-64-03115-9, € 45, 336 pages.

OECD (2005), **China in the Global Economy: Governance in China**, ISBN 978-92-64-00842-7, € 59, 574 pages.

OECD (2005), **OECD Review of Agricultural Policies: China**, ISBN 978-92-64-01260-8, € 50, 236 pages.

OECD (2008), **OECD Rural Policy Reviews: Finland**, ISBN 978-92-64-04194-3, € 40, 298 pages.

OECD (2008), **OECD Rural Policy Reviews: Netherlands**, ISBN 978-92-64-04196-7, € 40, 184 pages.

OECD (2008), **OECD Rural Policy Reviews: Scotland, UK**, ISBN 978-92-64-04163-9, € 40, 175 pages.

OECD (2006), **The New Rural Paradigm: Policies and Governance**, ISBN 978-92-64-02390-1, € 21, 168 pages.

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The OECD Policy Briefs are prepared by the Public Affairs Division, Public Affairs and Communications Directorate. They are published under the responsibility of the Secretary-General.