

Research Series on the Chinese Dream
and China's Development Path

Xiaoshan Zhang
Zhou Li et al.

China's Rural Development Road



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Research Series on the Chinese Dream and China's Development Path

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Drawing on a large body of empirical studies done over the last two decades, the *Research Series on the Chinese Dream and China's Development Path* seeks to provide its readers with in-depth analyses of the past and present, and forecasts for the future course of China's development. Thanks to the adoption of Socialism with Chinese characteristics, and the implementation of comprehensive reform and opening, China has made tremendous achievements in areas such as political reform, economic development, and social construction, and is making great strides towards the realization of the Chinese dream of national rejuvenation. In addition to presenting a detailed account of many of these achievements, the authors also discuss what lessons other countries can learn from China's experience. This series will be an invaluable companion to every researcher who is trying to gain a deeper understanding of the development model, path and experience unique to China.

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Series Preface

Since China's reform and opening began in 1978, the country has come a long way on the path of Socialism with Chinese Characteristics, under the leadership of the Communist Party of China. Over thirty years of reform efforts and sustained spectacular economic growth have turned China into the world's second largest economy, and wrought many profound changes in the Chinese society. These historically significant developments have been garnering increasing attention from scholars, governments and the general public alike around the world since the 1990s, when the newest wave of China studies began to gather steam. Some of the hottest topics have included the so-called "China miracle", "Chinese phenomenon", "Chinese experience", "Chinese path" and the "Chinese model". Homegrown researchers have soon followed suit. Already hugely productive, this vibrant field is putting out a large number of books each year, with Social Sciences Academic Press alone having published hundreds of titles on a wide range of subjects.

Because most of these books have been written and published in Chinese, however, readership has been limited outside China—even among many who study China—for whom English is still the lingua franca. This language barrier has been an impediment to efforts by academia, business communities and policy-makers in other countries to form a thorough understanding of contemporary China, of what is distinct about China's past and present may mean not only for her future but also for the future of the world. The need to remove such an impediment is both real and urgent, and the *Research Series on the Chinese Dream and China's Development Path* is my answer to the call.

This series features some of the most notable achievements from the last 20 years by scholars in China in a variety of research topics related to reform and opening. They include both theoretical explorations and empirical studies, and cover economy, society, politics, law, culture and ecology, the six areas in which reform and opening policies have had the deepest impact and farthest-reaching consequences for the country. Authors for the series have also tried to articulate their visions of the "Chinese Dream" and how the country can realize it in these fields and beyond.

All of the editors and authors for the *Research Series on the Chinese Dream and China's Development Path* are both longtime students of reform and opening and recognized authorities in their respective academic fields. Their credentials and expertise lend credibility to these books, each of which having been subject to a rigorous peer-review process for inclusion in the series. As part of the Reform and Development Program under the State Administration of Press, Publication, Radio, Film and Television of the People's Republic of China, the series is published by Springer, a Germany-based academic publisher of international repute, and distributed overseas. I am confident that it will help fill a lacuna in studies of China in the era of reform and opening.

Xie Shouguang

Acknowledgements

After a relatively short gestation period, the *Research Series on the Chinese Dream and China's Development Path* has started to bear fruits. We have, first and foremost, the books' authors and editors to thank for making this possible. And it was the hard work by many people at Social Sciences Academic Press and Springer, the two collaborating publishers, that made it a reality. We are deeply grateful to all of them.

Mr. Xie Shouguang, president of Social Sciences Academic Press (SSAP), is the mastermind behind the project. In addition to defining the key missions to be accomplished by it and setting down the basic parameters for the project's execution, as the work has unfolded, Mr. Xie has provided critical input pertaining to its every aspect and at every step of the way. Thanks to the deft coordination by Ms. Li Yanling, all the constantly moving parts of the project, especially those on the SSAP side, are securely held together, and as well synchronized as is feasible for a project of this scale. Ms. Gao Jing, unfailingly diligent and meticulous, makes sure every aspect of each Chinese manuscript meets the highest standards for both publishers, something of critical importance to all subsequent steps in the publishing process. That high-quality if also at times stylistically as well as technically challenging scholarly writing in Chinese has turned into decent, readable English that readers see on these pages is largely thanks to Ms. Liang Fan, who oversees translator recruitment and translation quality control.

Ten other members of the SSAP staff have been intimately involved, primarily in the capacity of in-house editor, in the preparation of the Chinese manuscripts. It is time-consuming work that requires attention to details, and each of them has done this, and is continuing to do this with superb skills. They are, in alphabetical order: Mr. Cai Jihui, Ms. Liu Xiaojun, Mr. Ren Wenwu, Ms. Shi Xiaolin, Ms. Song Yuehua, Mr. Tong Genxing, Ms. Wu Dan, Ms. Yao Dongmei, Ms. Yun Wei and Ms. Zhou Qiong. In addition, Xie Shouguang and Li Yanling have also taken part in this work.

Ms. Zhou Li is the SSAP in-house editor for the current volume.

We owe our appreciation to Ms. Li Yan, Mr. Chai Ning, Ms. Wang Lei and Ms. Xu Yi from Springer's Beijing Representative Office. Their strong support for the SSAP team in various aspects of the project helped to make the latter's work that much easier than it would have otherwise been.

We thank Mr. Evan Villarrubia for translating this book.

Last, but certainly not least, it must be mentioned that funding for this project comes from the Ministry of Finance of the People's Republic of China. Our profound gratitude, if we can be forgiven for a bit of apophasis, goes without saying.

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Rural Development in China: Review and Reflections

Progress and accomplishments have been made in rural development reforms in China over the past three decades and a red line is running throughout the whole process: protecting the material rights of rural population,¹ respecting the democratic rights of rural population, liberating and developing the productivity of agriculture and rural areas. In this chapter, we look back on rural development in China and the course of reforms in the two areas of economics and politics, summarize experience which may provide lessons, explain the current state of rural development and reforms, and lay out the prospects for future development trends.

¹The word *nongmin* carries several meanings. It is composed of two characters, *nong*, which means both “rural” and “agricultural,” and *min*, which means “people.” Previously the term was almost translated as “peasant” in English, as China was formally a feudal society, in which *nongmin* means peasants as we conceive of the term in the Western sense. The term “peasant” is also applicable in the early history of the PRC, with political classes such as “poor peasants” and events such as “peasant’s movements.” The term now has a distinctly different institutional connotation to it, as under the current household registration system, all citizens are assigned either an “agricultural” or a “non-agricultural” registration. Those with “agricultural” registrations are allotted rural plots of land for farming and homesteading, belong to the rural social system, and were previously subject to very strict controls on movement and employment, which are being gradually relaxed. Those with “non-agricultural” household registrations live in cities and are subject to urban social systems. People with “agricultural” registrations are still referred to as *nongmin*, even in this book, although such *people* are no longer necessarily farmers, but may be entrepreneurs or work in cities as *nongmingong*, or “rural migrant workers.” As such, the English term “peasant” is no longer appropriate for the modern connotation of *nongmin*, and so in this book I translate the term almost exclusively as “rural population,” except when discussing historical periods when the term “peasant” is more appropriate—translator’s note.

1 Progress and Accomplishments Over Three Decades

1. Theoretical, policy, and legal systems forming to resolve the Three Rural² Issues

Reforms in China, begun over 30 years ago, first took root in the countryside. During the Third Plenary Session of the 11th Central Committee of the Communist Party of China (CPC) in December 1978, the issues of agriculture were deeply discussed. The report delivered at the Session emphasized the socialist imperative of mobilizing the hundreds of millions of rural population in China: “We must pay full attention to their material interests and feasibly protect their democratic rights.” Since then, every year the CPC Central Committee issued the “No. 1 Central government document” targeting rural issues for five consecutive years from 1982 to 1986. These documents established basic operating institutions for rural areas; identified the rural households as actors of the rural microeconomic system; clarified that the rural economy should transition from semi-subsistence into large-scale production of commodities, from traditional agriculture into modern agriculture; and initially formed an agricultural products market system and a factor market system. Twenty years later, in October 1998, the Third Plenary Session of the 15th CPC Central Committee issued the “Resolution of the CPC Central Committee on Several Major Issues of Agriculture and Rural Work,” which reiterated the imperatives: “The core of the initiative to mobilize rural population lies in protecting the material rights and respecting the democratic rights of them. At all times and in all matters, we must adhere to this fundamental principle.” All policies related to rural reforms and development issued by the CPC Central Committee over the past three decades have adhered to this fundamental principle.

Since entry into the 21st century, the 16th National Congress of the CPC has proposed the comprehensive construction of a *xiaokang* society,³ to benefit a billion or more people. Since then, the CPC Central Committee has established the resolution of the “three rural issues” as the most imperative tasks of the entire party, and established a basic guiding policy for comprehensive urban-rural development. In October 2005, the Fifth Plenary Session of the CPC’s 16th Central Committee proposed the major historical task of Building a New Socialist Countryside. Beginning in 2004, the CPC Central Committee has issued another 13 “No. 1 Central government documents, introducing a series of important guiding policies. These documents proposed to further improve “agriculture and benefit farmers while simultaneously promoting agricultural modernization as industrialization and urbanization speeded up. The “Resolution” of the Third Plenary Session of the 18th CPC National Congress stated: “Giving more property rights to rural

²The “three rural issues” or “*san nong*” in Chinese are issues of agriculture (*nongye*), rural areas (*nongcun*), and rural population (*nongmin*)—translator’s note.

³Sometimes translated as “moderately prosperous society” or “well-off society,” this term, originally a Confucian ideal, refers to a society with a large, functioning middle class—translator’s note.

population.” Since reform and opening up, China has released a large number of laws and regulations aimed at rural development and reforms, including the “Agriculture Law of the People’s Republic of China,” “Law of the People’s Republic of China on Land Administration,” “Law of the People’s Republic of China on Land Contracting in Rural Areas,” “Law of the People’s Republic of China on Farmers Specialized Cooperatives,” and “Organic law of the People’s Republic of China on Villagers’ Committees.” These laws are intended to institutionalize such policies based on practical experience, and to revise these laws and regulations according to real development.

With the protection of the material rights and respect for the democratic rights of rural population as its cardinal points, resolutions of the CPC Central Committee regarding the “three rural issues” have been innovations on and developments of Marxist conceptions of agriculture, the rural areas, and rural population. These theoretical innovations and corresponding series of policies and laws have provided theoretical, policy, and legal bases for the resolutions of the “three rural issues”; they have constituted institutional foundations and systemic guarantees for the progress and achievements made in agriculture and rural areas. During the rural development and reforms over the past three decades, theoretical, policy, and legal systems for protecting the rural population’s economic rights and political rights have taken shape.

2. The difficulty in fundamentally resolving the Three Rural Issues

Significant achievements have been made in agriculture and rural development in China over the past three decades, especially since entry into the 21st century; “twelve consecutive years of gains” in grain production and rapid growth of rural incomes over consecutive years have fundamentally resolved the survival issues of China’s rural poor. All that said, deep-seated conflicts that restrict agricultural and rural development have yet to be eliminated, and markedly stagnant socioeconomic development in rural areas has not been fundamentally treated. Rural reforms and development remain in an arduous stage, one which will require an uphill battle, and resolution of the “three rural issues” remains the most serious historical task in the course of industrialization and urbanization. At the same time, while there remain problems in the design and implementation of policies related to the “three rural issues”, we need to put emphasis on practical experience and make efforts toward resolution.

- (1) Top-level design of CPC Central policies related to the resolution of the “three rural issues” has remained fixated on the Scientific Development Perspective, with an orientation on people. These policies place primary emphasis on the most pressing needs of rural population, but the policies become distorted in the processes of downward transmission and execution, as local government interferences have yet to exit the stage of history, focused on traditional perspectives of official promotions and other systems and mechanisms. Local officials’ primary concerns are not at all the most pressing needs of the people, and this leads to deviations and sometimes distortions of policies as they are executed.

- (2) The highest form of policy realization is laws and regulations. China has a unified and multi-level legislative system that encompasses the constitution and other laws, state administrative laws, and local laws, autonomous regulations, and separate regulations. Laws, regulations, and rules within the legislative system must remain relatively stable, while the economy and society must develop and change constantly; policies should thus be correspondingly adjusted or made anew, but revisions or changes to laws often lag behind reforms.
- (3) All government departments sometimes establish and implement policies from the perspective of that department's work, reflecting the objectives and interests of that department, but may depart from the society's overall objectives and comprehensive interests.
- (4) In practice, there are many policies and measures in place to promote development of agriculture and rural economies, but relatively few policies and practices in place to realize or promote rural social management of political, democratic rights of rural population.

2 The Formation of the Rural Socialist Market System

Enormous changes have taken place within the economic foundations of China's rural areas over the past 30-plus years. The superstructure has gradually adapted to changes in the economic foundations as a result of changes in institutions. All this has initially given rise to a socialist market economic system that protects the economic rights of rural population and is advantageous to optimal allocation of resources.

1. The rural household contracting system

After reform and opening up, China established a bi-level operations system with household contracting operations as its foundation and ample integration. Rural households contract the rights to operate land held by rural collectives, and as such the stability and consummation of the rural land system is the foundation of the household contracting system.

(1) Evolution of the rural land system

Since the beginning of reforms, changes to China's rural land system have been a process of granting, continuously strengthening, and protecting the property system of contracted operations of land to rural collective members (rural population), while maintaining a diverse land collective ownership system; this process has also driven explorations within the rural land collective ownership system.

The household contracting system amounts to the land owner (the collective) transferring a portion of the rights to land to collective members (rural households). The "Rural Land Contracting Law," which went into force in 2003, established

strict scopes for both parties to the contract: rights and duties, contract terms and contract forms, scope of operations permitted on the land, transferability of contracts, and so on. This law legally permitted the transfer of most land rights to rural households, excluding the rights to use the land as collateral for a loan and the right of inheritance of the land. The law has also, however, incited conflicts between land operations rights—usufruct rights—and collective membership rights—land ownership. The Third Plenary Session of the 18th CPC Central Committee passed this resolution: “In order to stably maintain rural land contracting relationships in perpetuity, so long as we persist in and perfect most rigorous arable land protection institutions, we give to rural population the rights to occupy, use, profit from, transfer, use as collateral, and use as a guarantee, land which they have contracted.” This resolution further clarified the direction of rights endowed to rural population.

(2) How rural land collective ownership rights can be reflected in China

Collectives are composed of rural population from a given community, with democratically elected leaders representing the rural population, who exercise their rights within the community; collectives and rural population together form a whole. But who stands for the collective’s rights when collective land is transferred to non-agricultural use, or when collective land is used for agriculture? How does the collective exercise its rights over the land? In practice, it is often village cadres who exercise the land rights of collectives. Without democratic oversight and effective balancing mechanisms, “collectives” would degrade into independent interest groups standing separate from the people they purport to be composed of, with village leadership dictating how collective land is to be used, and to whom it is to be transferred. If that were the case, collective economies would degrade into “cadre economies,” and this would become the root cause of conflicts over rural land. The key to answering the question of with whom ownership rights lie is that rural population themselves must become the true owners, and the exercise of ownership rights to the land should be performed through democratic procedures among collective members themselves. The members should have the last say in how the land is to be used; such rights should not be controlled by anybody or representatives of the collective that stand separate from the collective.

(3) Problems arising from improving the market for transfer of land operations rights and developing operations of suitable scale

The CPC Central Committee has consistently advocated for localities meeting certain conditions to develop multiple forms of operations at appropriate scales, and has proposed shoring up mechanisms for transferring contracted land operation rights, so long as transfers are legal, voluntary, and compensated. The No. 1 Central government document of 2016 again emphasized improving the “separation of the three rights” method, implementing collective ownership, stabilizing rural households’ rights to contract, and relaxing land contracting rights. In the issues of developing operations of appropriate scale, however, there have long been two sets of ideologies and methodologies. The first calls for maintaining the household

contracting system; respecting and protecting the rights of rural population to contract land operation rights; encouraging concentrated land transfers to specialized rural households, household farms, and skilled agriculturalists; developing scale operations and intensive operations; and fostering the develop of new professional farmers, who are to become the driving force behind the development of modern agriculture. The second calls for companies to be the driving force behind modern agriculture, and the formation of a slew of large agricultural enterprises to be responsible for agricultural production. Industrial and commercial enterprises would enter agriculture and rent large swaths of land contracted to rural households; rural household members would cease to be the main players in agriculture and would become hired workers.

To address problems stemming from the entry of industrial and commercial enterprises in agriculture, on December 30, 2001, the CPC Central Committee issued its “CPC Central Notice on Properly Performing the Work of Transferring Usage Rights of Land Contracted by Rural Households.” The notice pointed out that central policies were extremely clear: they did not call for industrial and commercial enterprises to rent and operate large swaths of land contracted by rural households for long periods of time. The notice further clarified: “One cannot use methods of forcing the minority to obey the minority to compel rural households to abandon contracted rights or change contracts.” The No. 1 Central government document of 2008 emphasized the need to resolutely prevent and rectify such problems as rural population being forced to transfer their contracted land, or being forced to change the agricultural purpose of contracted land, and called for a lawful prevention of township and village organizations violating the contracted operation rights of rural households through methods such as “renting the land back.” Document Number One of 2013 proposed: “Encourage and guide urban industrial and commercial capital to develop appropriately corporatized planting and husbandry industries in the countryside.” The document also emphasized the need to “explore the establishment of rigorous access protocols and regulatory institutions over the renting of arable land (including forests and grasslands) contracted to rural households.” Owing to China’s national condition of abundant population and sparse land, it was decided that the model of renting large areas of rural contracted land to industrial and commercial enterprises for long periods of time should not become the mainstream of rural land contracting methods.

(4) The problem of how to divide profits on value increases from converting agricultural land to non-agricultural land

The “Resolution” of the Third Plenary Session of the 18th CPC Central Committee called for “giving more property rights to rural population.” The greatest property owned by rural population is their membership in village collective economic organizations, which entitles them to a share of village land, including agricultural land, construction use land, and unused land. The primary results of the Second Nationwide Land Survey, along with other related data, indicate that the total area

of rural village collective land in China is 6.69 billion mu,⁴ including 5.53 billion mu of agricultural land and 310 million mu of land zoned for construction. Data from the Ministry of Land Resources (MLR) indicate that 170 million mu of land zoned for construction, about 54% of the total, is zoned for homestead construction. New Rural Construction,⁵ New-type Rural Community Construction, and New-type Urbanization all touch on reorganization of land; the focus of all three is on rural collective land zoned for construction. To promote urbanization and industrialization, the use of land zoned for construction is imperative; as such, it is likewise imperative that some agricultural land be repurposed as non-agricultural construction land.

The “Resolution” of the Third Plenary Session of the 18th CPC Central Committee called for: “Constructing an integrated urban-rural construction land market. So long as planning and usage restrictions are abided, we permit the transferring, renting, and apportionment to shareholders of rural collective operations-oriented construction-use land; with market entries, authorities, and pricing identical to state-owned land.” The key issue was how to enable rural population, who has an interest in collective-held land, to share in the profits of the repurposing of the land. However, an increase in the share of profits allocated to rural population necessarily denotes a decrease in the share that goes to the local government; this in turn necessarily touches on the division of finances and authorities, land, and land financing between the central government and local governments. As such, a comprehensive set of policies and measures are needed to resolve these issues.

(5) Issues of rural homestead plots

Following reform and opening up, as urbanization and industrialization accelerated, problems of rural homestead plots and housing rights gradually began to emerge. Neither the “Land Management Law” nor the “Implementation Rules for the Land Management Law” offers concrete explanations on the usufruct rights to homestead plots of rural households. The only mention comes in Article 62 of the “Land Management Law”: “A single household within a rural village may own only one homestead plot, and the area of that homestead plot may not exceed standards stipulated by the province, autonomous region, or centrally-administered municipality⁶... Once a member of a rural village sells or rents out his home, further applications for homestead plots shall be denied.” Article 152 of the “Property Law” makes the following provision: “Persons with the right to the use of homestead plots who, according to law, enjoy the right to possess and use the land owned

⁴The traditional unit of land area in China, one mu is approximately equal to 0.06667 ha, so 6.69 billion mu \approx 446 million hectares—translator’s note.

⁵“New Rural Construction” is short for the undertaking of “Construction of a New Socialist Countryside”—translator’s note.

⁶It refers to the four municipalities directly under the central government rather than under the jurisdiction of a province: Beijing, Shanghai, Tianjin, and Chongqing—translator’s note.

by the collective, shall have the right to use the land for constructing residences and the facilities to be attached to them, in accordance with the law.” The State Council and MLR have issued corresponding administrative rules and resolutions, stipulating that urban residents may not purchase homestead plots, rural dwellings, or “houses with limited property rights”⁷ in rural areas, nor may work units or individuals illegally rent or occupy rural collective land for the purpose of real estate development. The “Resolution” of the Third Plenary Session of the 18th CPC Central Committee stipulates: “Protect the usufruct rights to homestead plots of rural households, and reform and perfect rural homestead plot institutions. Select a certain number of pilot areas to cautiously, stably promote mortgaging, use as collateral, and transfer of rural population’ property rights to their housing, and explore channels for rural population to increase revenues from their property.” If the property right of house is transferred, then there will necessarily be changes to the ownership of usufruct rights to their homestead plots. The logic behind pilots in some areas is in conformance with national conditions: with a certain amount of limitations, rural population can transfer property rights of their dwellings and usage rights of their homestead plots; these localities have also issued some general principles for such transfers.

(6) Issues of affirming rights to rural land

China’s constitution and other relevant laws provide that collectives own all rural land. There are, however, many unclear areas in the property rights of “collective ownership.” That means that the owners of rural land resources are not the primary drivers or guiders of reforms to the land system; this in turn has affected their rights to lawful, reasonable sharing in the profits gained from increased land values. A further clarification in land rights is a fundamental part of implementing rural land ownership status. The No. 1 Central government document of 2013 called for fundamentally completing the work of issuing certificates affirming rights to contracted rural land within five years. In early 2015, the Ministry of Agriculture (MOA) issued its “Opinions on Pushing Forward Agricultural and Rural Economic Work in 2014,” which proposed urgently, feasibly performing the work of issuing certificates affirming rights to operate rural contracted land. The “Opinions” further broadened the scope of pilots and selected two provinces for the launch of province-wide pilots, with all other provinces selecting at least one entire county for a pilot. Statistics from MOA indicate that pilots were launched in 2215 counties (and other county-level jurisdictions), with 19,000 towns and townships and 302,000 villages, with rights-affirming certificates issued for a total of 260 million mu of land. There were, however, some problems with the work of affirming land rights that are worthy of attention: the work of affirming operation rights to rural contracted land was conducted while top-level design of rural land system reforms was relatively lagging; the targets of rights-affirming work for operation rights to

⁷The term refers to the houses built by rural population on collective land that are tacitly permitted, but have no legal standing at all—translator’s note.

contracted land were unclear; and affirming rights to rural contracted land were certain to be restricted by contracting terms and relationships within contracting terms established by prevailing laws.

2. Migration of agricultural labor: migrant workers, urbanization, and industrialization

(1) The shifting of agricultural labor

There have been three surges in movements of Chinese rural population in the past 30-plus years. The first surge came with the rise of township and village enterprises (TVEs), of intra-locality movements, known as “leaving the land without leaving the township, entering the factory without entering the city.” The second was movement out of the countryside and into cities, called “leaving the land and leaving the township, entering the factory and entering the city.” The third was characterized by the long-term residence in cities of migrants, some of whom moved with their whole families. These three surges cannot be clearly demarcated, but happened gradually, with both intra-locality and inter-locality movements happening all the time. Even during the first surge, some rural migrants made their way to the coast or to special zones to work.

The results of the sampling survey “2011 Investigation and Monitoring Report of Rural Migrant Laborers in China” produced by the National Bureau of Statistics, indicate that there were 252.78 million rural migrant laborers in China in 2011. Of those, 156.63 million had left home, and of those 32.79 million had taken their families with them. The amount of rural laborers who had remained home was 94.15 million. In 2015, the total of rural migrant laborers was 277.47 million, a growth of 1.3% over the previous year. Of those, 168.84 million had left home, a growth of 0.4%, and 108.63 million stayed home, a growth of 2.7%.

In recent years, as the economies of China’s central and western regions have developed, a trend has developed whereby intra-provincial rural migrants have outnumbered inter-provincial rural migrants. There ought to be about 30 million or more rural migrants who have moved to cities outside their home provinces with their families. There should be about 100 million or more “local rural migrants” who have moved to nearby cities (including those rural migrants who work outside of their town or township but return home every night).

(2) Rural migrants, urbanization, and industrialization

The vast majority of rural migrants who work in cities are considered marginal floating population. Low wages and a lack of most basic social welfare make most rural migrants unable to afford to settle in large cities. They are thus unable to share in the social benefits and protections of urban residents and are unable to relocate to cities with their families permanently. There are still relatively large disparities between the living standards, living conditions, and modes of consumption of rural migrants and urban residents. This is not true urbanization, even though current statistical methodologies count them within urban populations. Per current statistics, China’s urbanization rate was 46% in 2007 and 56.1% in 2015.

Document Number One of 2016 reads: “Further promote reforms to the household registration system; accomplish the goal of having approximately 100 million rural migrant laborers and other permanent population achieve official status in the cities where they have settled; ensure that rural migrants who enter cities and receive official status there receive equal rights and obligations as urban residents; accelerate the rate of urbanization of the registered population.” Central authorities have resolved to create conditions to have tens of millions of rural migrant laborers and their families say goodbye to the countryside and truly become part of the urban population.

3. Building a diverse, competitive rural financial system

(1) Rural financial system reforms: a difficult process

Over the three decades of reform and opening up, as non-agricultural industries developed in the countryside, and as urbanization and industrialization accelerated, the homogeneity of rural population was limited to their household registration status, as they were already greatly differentiated in occupations. Rural population engaged in different occupations had different financial needs. With capital markets opened up, diversified financial organizations of different economic compositions will flourish in different environments. It is not possible that only a single kind of financial organization will monopolize the entire capital market; this fact has determined that the rural financial system must, of necessity, be diverse. In the real economy, however, rural financial reforms have had trouble getting off the ground in these past 30 years; a theme for the reforms has yet to emerge. After a tortuous, winding course, the “Resolution” of the Third Plenary Session of the 17th CPC Central Committee proposed: “Innovating in the rural financial system; relaxing access standards into rural finance; and accelerating the establishment of a rural financial system with abundant capital, sound functions, complete services, and secure operations, one which integrates commercial finance, cooperative finance, and policy finance.” After nearly 30 years of explorations, a basic ideology and policy framework for a diversified, competitive rural financial system is finally beginning to take shape.

(2) The rise and fall of rural cooperative funds

In any look back over the past 30-plus years of rural financial reforms, one must mention the greatest financial innovation to hit rural areas: rural cooperative funds, and their rise and fall. The most direct objective behind the establishment of rural cooperative funds was to recycle, manage, and put to good use the funds existing within rural collective economic organizations, to protect or add to the value of collective funds. After Deng Xiaoping’s southern tour of 1992, there was a mass fever around the nation for the establishment of TVEs. Governments at all levels competed with one another to attract capital, and financial organizations of all forms and in all guises offered high interest rates to attract deposits. With such pressures from the political environment, cooperative funds broke through existing rules that

placed emphasis on collective shares in the use and management of collective capital. Individual share payments grew rapidly, becoming the primary source of capital. Cooperative funds were never substantively cooperative financial organizations for rural population themselves. The various problems to which they gave rise did not stem from cooperation, but rather from a lack of cooperation. They were never independent in production, development, operations, or management. Rural population was shareholders in name only; in truth they were owned and controlled by town and township governments, and were appendages to government administrative departments. Integration of local governments and economic activities at this time led directly to a mountain of debt for both town and township governments and village organizations, debt which could not be repaid. These debts gave rise to the toxic assets of rural financial institutions (including cooperative funds). Some cooperative funds even reached the point of being upside down, with more debt than assets. These toxic assets became a gigantic burden on rural cooperative funds. The financial risks associated with them sealed the ultimate fate of the cooperative funds: liquidation and closing. By the end of 2000, rural cooperative funds, which had been open for over 10 years, were all shut down.⁸ The closure of the cooperative funds forced local governments to pay a steep price for their interference in finance and economic activities.

(3) The fundamental vision of building a diverse, competitive rural financial system has never been realized

A diverse, competitive rural financial system includes both standard and non-standard finance. Standard rural finance includes policy-oriented, commercial, and cooperative finance. The closure of rural cooperative funds and simultaneous reorganization of rural financial institutions led to a precipitous drop in the density of rural financial outlets. All major commercial financial institutions retreated from rural areas; this reduction in financial outlets was advantageous to strengthening of management over financial organizations, increasing economies of scale, and economizing operations fees, but was highly disadvantageous to rural population and rural enterprises, greatly increasing transaction costs for their access to financial services, and necessarily reducing their economic performance.

Policy-oriented finance and commercial finance in China long ago divided up the rural standard finance market. Rural credit cooperatives have been reformed into joint-equity commercial banks. In the area of policy-oriented finance, there are the China Development Bank, the Agricultural Development Bank of China, the Export-Import Bank of China, and others. Such monopolistic conditions have basically ensured that cooperative finance has no room in the markets to develop. It is very difficult for rural cooperative financial organizations, owned by rural population and providing financial services to rural population, to develop in China;

⁸Please see chapter “Reforms and Development of the Rural Financial System”.

this is one point of difficulty in China's rural financial reforms. Without support from cooperative finance, rural specialized cooperatives in China will be hard pressed to grow strong. Reforms to the rural financial system will be arduous and take a long time.

4. Increased participation of rural population in markets

(1) Development of rural cooperative economic organizations

In the 1980s, when the household contract responsibility system was implemented in all rural areas of China, questions emerged: where were agriculture and rural population headed? As the rural market economy developed, the scale of operations of specialized agricultural producers gradually expanded, and the degrees of marketization, specialization, and commercialization of all aspects of production activities increased. These farmers also endured ever greater risks from markets and from nature, and uncertainty about incomes also grew. Innovation was needed in the basic agricultural operation system, and as such the level of organization of rural population necessarily increased. The 16th CPC National Congress's report called for increasing the degree of organization of rural population's participation in markets. Thereafter, several Documents Number One issued beginning in 2004 emphasized the necessity and importance of developing rural cooperative economic organizations. In October 2006, the Standing Committee of the National People's Congress passed the "Rural Specialized Cooperative Law," which went into force in July 2007, at which point the development of rural cooperative organizations entered a period of upsurge.

(2) New problems after issuance of "Rural Specialized Cooperative Law"

At present, the development of rural cooperatives remains strong. As of the end of May 2015, there were 1.393 million registered rural specialized cooperatives, with three trillion yuan in capital, and 39.1701 million members; over 18% of all rural households in the country were members. We should, however, soberly face the problems that have emerged over the course of their development: different cooperatives have developed differently, with characteristics of development varying widely, and great disparities in levels of development. As for lack of oversight, some corporatized agricultural companies (major companies) have branded themselves as "specialized cooperatives" to siphon away state funding. The Third Plenary Session of the 17th CPC Central Committee called for "allowing qualified rural specialized cooperatives to open credit cooperatives." As capital verification is not required for specialized cooperatives, and as the entry threshold is quite low, some companies and lenders motivated by profits have opened "cooperative capital mutual aid departments"—true in name only—to sell shares and attract deposits of rural population's idle capital, only to turn around and invest or lend out the funds for profits, blurring the lines between cooperative finance and private lending, and destabilizing the financial order.

(3) Driving Healthy Development of Rural Cooperatives Through Institutional Innovation

Emphasis in the development of rural specialized cooperatives should be shifted from growth in quantity to growth in quality. We should strengthen standards and norms for such cooperatives. Imbalances between supply and demand as well as problems in the circulation system that have appeared in recent years call for similar cooperatives to break through regional boundaries and establish regional tier-one or even higher level alliances of rural cooperatives. Document Number One of 2013 calls for “establishing norms for the development of credit cooperation by cooperatives.” We should issue guiding opinions for mutual-aid capital business conducted by cooperatives as quickly as possible, and should also further establish norms for management and prevent risk. At the same time, we should strengthen the fostering of specialized financial talent to work in specialized cooperatives that engage in credit cooperation activities.

The development of cooperatives should be made suitable to the stage of economic development where they are located; this is a process that should be guided by circumstances. As this is done, willingness to participate on the behalf of rural population should be the primary principle. Governments should encourage, guide, and support the development of rural specialized cooperatives, but cannot interfere. Their only role should be as a “catalyst.” We should especially prevent governments from establishing quotas or tasks in the development of cooperatives; in doing so, they will nip them in the bud.

5. Evolution of the market system for agricultural products and problem of food security

(1) Evolution of the purchase-and-sale system for agricultural products

China began implementing the agricultural products monopoly system in 1953. In the 1980s, the monopoly system was reformed. On January 1, 1985, the CPC Central Committee and State Council jointly issued “Ten Policies for Further Invigorating the Rural Economy.” This document called for replacing the monopoly system with a contract purchasing system and dropping price controls on most agricultural products, allowing the market to self-regulate prices. Prices of grain, cotton, edible oils, and other major agricultural products were still established by the state, but now they were purchased on a contract basis. This was known as the “dual track system” for pricing in the agricultural purchase-and-sale system. In 1990, the State Council resolved to establish a national dedicated grain reserve system. On April 1, 1992, the central government implemented price reforms in the agricultural product purchase-and-sale system, marking the beginning of a new stage for China’s grain circulation system.

In May 1998, the State Council called for the focus of reforms to the grain circulation system to be placed on resolutely, thoroughly implementing the three policies of opening the purchasing of excess grain from farmers using protective prices, allowing grain purchasing and storing enterprises to sell grain at market prices, and implementing closed operations of grain purchasing capital; officials also accelerated self-reforms within grain enterprises. These grain reforms established a monopoly in grain purchases from rural population for state-owned grain companies. From a theoretical standpoint, this was a violation of market principles, and in practice it was also infeasible. In June 2004, the State Council clearly called for an opening of grain purchases and pricing across the nation, establishing a unified, open, competitive, orderly grain market system. After several years of twists and turns, reforms to the grain circulation system have finally alighted upon a road of nearly complete marketization.

(2) Food security policies need updating

In October 1996, the Chinese government issued a white paper titled “China’s Food Security Issues,” which called for China to reach a self-sufficiency rate in grains (including legumes and tubers) not less than 95%, and imported no more than five percent of what is needed for domestic consumption. Nationwide grain yields in 2015 totaled 621.435 million tons, at which point we achieved “twelve consecutive years of increases” in grain yields. China’s annual grain consumption demand falls between 640 and 645 million tons, meaning a gap of 20–25 million tons between supply and demand.⁹ As such, supply and demand for grain in China would seem to be basically in equilibrium. However, actual grain imports in 2015 approached 125 million tons, a record high. Of those imports, over 80 million tons were of soybeans, and over 40 million were of corn and corn substitutes.¹⁰ As costs of domestic agricultural production are rising rapidly, domestic prices of agricultural products tend to prefer purchasing imported products; this has given rise to the phenomenon of “imports go to the market, while domestic purchases go to reserves.” As agricultural products purchased at lowest possible prices or at temporary purchase-and-store prices cannot be sold at market prices, large quantities of grains become stuck in silos, and so storage fees and interest on loans have become an onerous burden on government finance. Under these conditions, we have hit an inflection point for major policy adjustments in the realm of food security. We now need both theoretical and policy renovations for protecting food security and farmer’s income.

⁹Chen, Xiyuan. “Three Focuses Must Be Grasped to Implement the Spirit of No. 1 Central government document,” http://www.farmer.com.cn/wszb06/nzh/ge/201602/t20160227_1184161_1.htm. 27 February 2016.

¹⁰Ibid.

(3) New thinking on and policies for protecting food security and farmer's income

The two chief aims of grain policies in China have been: protecting national food security and effective supply of agricultural products, and realizing steady, sustainable growth in farmer's income. In 2004, officials announced abolishment of the agricultural tax, the implementation of direct subsidies to grain farmers, subsidies for improved grain varieties, subsidies for the purchase of farming equipment, comprehensive subsidies for agricultural supplies, and other policies. At the same time, officials set minimum purchase prices for rice and wheat, while establishing temporary purchase-and-store policies for corn, rapeseed, and other important agricultural products. This was a clear policy signal sent to grain farmers: the central government encourages them to plant grain; their grain will be purchased at reasonable prices; and the government will protect stable, sustainable growth in their income. Price increases for agricultural products played a clear role in increasing both farmers' incomes and grain yields. However, the price signals sent by the policies distorted resource allocations, deviated from market principles, and created structural imbalances in supply and demand.

Protecting food security and ensuring that grain farmers do not experience losses will continue to be the cornerstone of Chinese grain policy. We must ensure fundamental grain self-sufficiency and maintain absolute food security. That said, the focus of government policies in this area is about to change. The focus of food security in the future will be placed on storing grain locally and storing grain with technology, increasing comprehensive agricultural productivity, innovations in agricultural technology, protecting grain production potential, and ensuring that grain can be produced and supplied in times of emergency. Policies will promote structural adjustments to agriculture. Some areas will have pilots launched in cropland rotation schemes (periodic fallowing), and sustained increases in grain yields will no longer be the norm. The government will play a concrete role in the following areas. The first is reforming grain price formation mechanisms. Officials will implement a method of "different policies for different products, and gradual promotion" per the importance of given major agricultural products to both national planning and the people's lives. Policies will gradually promote market-guided price formation mechanisms for important agricultural products, allow supply and demand for agricultural products on the market to determine their prices, and promote structural adjustments in agriculture. The second is reforming subsidy policies for rural population and following the policy of delinking subsidies from prices in order to protect the initiative of farmers to plant grain. The third is reforming the purchase-and-store system for grains. We must reform and improve the central system for managing grain reserves and accelerate reforms to state-owned grain enterprises. At present, reducing stocks of grains is the most pressing task.

3 Reforms and Improvements to the Rural Governance Structure in the Primary Stage of Socialism from 1956 to Mid-21st Century

Over the three decades of reforms, as the rural governance system has been further reformed and improved, political democracy is being put into practice at the grassroots level in rural China.

1. Evolution of the rural governance structure

Many problems in rural China are actually reflections of maladies in rural grassroots organizations and governance mechanisms. Development of rural areas is determined by changes to rural grassroots organizations and reforms to the rural governance structure.

(1) Evolution of the governance structure of towns and townships

Article 95 of China's constitution, adopted in December 1982, stipulates: "People's congresses and people's governments are established in ... townships, ethnic towns and counties."¹¹ In December 1983, the CPC Central Committee and State Council jointly issued the "Notice on Separating Government Administration from Commune Administration in the Establishment of Township Governments." In September 1986, the CPC Central Committee and State Council jointly issued the "Notice on Strengthening the Work of Constructing Rural Grassroots Political Power" (also known as Document No. 22), which read: "Reforms to rural grassroots political systems are an important component of reforms to the political system." This document systematically described the ideology for resolving town and township problems and improving town and township political construction in the areas of politics and economics, and at the three levels of villages, townships, and counties. Many policy measures raised in the document are still of practical import to this day.¹²

(2) Evolution of governance structures at the village level and below

A look back on the evolution of governance structures at the village level and below is nothing more than a review of the history of practical village self-rule. The constitution of 1982 established a system of self-rule for rural village residents, and shortly thereafter officials began the legislative process of writing the village

¹¹Townships, towns, and ethnic townships are all of equal status—tier four—in China's five-tier hierarchy of administrative divisions below the central level, which goes: (1) province, (2) prefecture, (3) county, (4) town/township, and (5) village. Townships are generally located in more rural, less populated areas, while towns are in more urban, populous areas. Ethnic townships are located in areas of mostly ethnic minority population—translator's note.

¹²Zhao, Shukai. (2008). "Study of the Historical Process of Reforms to Towns and counties." *Review of Economic Research*, 32, 44–47.

committee organic law.¹³ In 1987 the 23rd meeting of the Sixth National People's Congress passed the "Village Committee Organic law (Trial)." On November 4, 1998, the ninth meeting of the Ninth National People's Congress revised and issued the final "Village Committee Organic law," making clear stipulations for the nature, functions, and relevant issues of village committees, formally placing village self-rule onto the track of rule by law. In 2010, the "Village Committee Organic law" was revised again.

2. Present conditions of rural grassroots political construction and reforms to rural governance structure

The following trends in rural grassroots political construction and reforms to rural governance structures are noteworthy.

- (1) Outstanding problems in rural grassroots political construction and rural governance following abolishment of the agricultural tax

The abolition of the agricultural tax in 2004 reduced the tax burden on rural population by about 23 billion yuan, and reduced fiscal tax revenue by 30.2 billion yuan. Prior to tax reforms, governments and county, community, and district organizations received 150–160 billion yuan from rural population through the agricultural tax, the tax on special agricultural products, the "three retained fees," the "five comprehensive planning fees," and apportionments. The majority of money needed to maintain public services did not come from the three agricultural taxes, but rather from the various forms of apportionments, fees, and other non-tax revenues.

The abolishment of the agricultural tax and the tax on agricultural specialty products eliminated the costs of collecting those taxes and undermined the foundations and platforms for "hitchhiking" fees.¹⁴ These moves created conditions for eliminating the urban-rural duality, adjusting the allocation of national income, replacing the functions of grassroots governments and village autonomous organizations, further reducing the amount of personnel employed by town and township organs and reducing fiscal burdens. From this perspective, the abolishment of the agricultural tax made problems in the rural governance structure stand out more prominently, meaning that rural reforms, centered on tax reforms, had taken their first key step.

- (2) The key to reforming rural grassroots governments and rural governance structures is changing governance models

The direction that grassroots governments in towns and townships should take is away from do-everything and multi-function toward limited functionality; from top-to-bottom, issuing of edicts, starting movements, and work methods and

¹³Tong, Zhihui. (2008). "Thirty Years of Self-Governance by Villagers." *Review of Economic Research*, 32, 54–56.

¹⁴To charge additional fees which should not be paid by taking advantage of the government's power—translator's note.

governance models of centering on core work toward public participation and work methods that integrate top-to-bottom and bottom-to-top; from a government of administrative management toward a service-oriented government with a high degree of self-rule. There is no conflict between town and township self-rule and town and township governments serving as tier-one political units. There is nothing stopping town and township governments from being governments with a high degree of self-rule. Village committees should become truly autonomous organizations, with public participation, that are subject to effective checks on power.

We should first clarify the functional positioning of organizations at the two levels of towns/townships and villages. There are differences between the two in responsibilities and functions, but also commonalities. Practically speaking, each level has its own functions. The first is to provide public products and services suitable to the size of production to residents of a local community. This includes public security, compulsory education, maintaining small irrigation works, constructing and maintaining local roads, providing emergency services, preventing floods, improving the local environment, providing public health services, and other such work. The second is the execution of orders that come down from the central, provincial, prefectural, and county levels.

There are three key factors necessary for counties and administrative villages to truly become service-oriented and autonomous, with public participation, and to transition from do-everything into limited functionality: fewer orders issued from above, changes to traditional management models, and other types of organizations taking over some of the functions traditionally fulfilled by these government organizations.

3. Factors inhibiting changes to the transformation of rural governance model

Distortions to the distribution structure of national income and maladies within the administrative management system have made it difficult to effect changes in governance models at the town/township level and the village level.

- (1) The distorted relationship between “lines” and “blocks”¹⁵ have not been remedied

Distortions in the structure of national income distribution appear primarily in the egregious imbalances in the interest structure between “lines” and “blocks.” The real situation is that local governments lack fiscal capacity but have authority over local resources.¹⁶ On the one hand, the share of tax revenues going to some local

¹⁵Here “lines” refer to commands from a high-level authority that proceed directly downward to subordinate bureaus of the same department, for example orders from the Ministry of Public Security in Beijing that are issued to all public security bureaus in the country. “Blocks” are commands from a local authority that affect all authorities of all stripes in a given region, such as orders from a provincial governor or a county or town chief—translator’s note.

¹⁶Xu, Chenggang. (2008). China’s Economic Growth and Regional Decentralization. In Masahiko Aoki & Jinglian Wu (Eds.), *From Authoritarian Developmentalism to Democratic Developmentalism* (pp. 185–203). Beijing: China CITIC Press.

governments is decreasing, diminishing said governments' ability to provide public products. At present the expenditure of nearly half of local governments rely on central returns of tax revenues or transfer payments.¹⁷ On the other hand, local governments still possess authorities over local resources, authorities they should renounce. The aforementioned "corporatism of local governments" still exists. As local governments control the economic activities of local state-owned and collective enterprises and local resources, especially rural land, they have the power to guide and interfere in local economic affairs.

(2) Lagging reforms to administrative management system in vertical departments

Maldistribution of national income can also be seen in the concentration of large amounts of capital, in the form of various dedicated transfer payments, by central vertical departments. Such concentrations have not allowed markets to play the fundamental role they should play in resource allocations, but have rather exacerbated the problem of entrenched interests, leading to decreased capital utilization efficiency and aggravating rent-seeking behaviors.

(3) It is difficult to change functions and management models of grassroots governments, and a trend of opposition to self-rule is emerging

After the full abolishment of the agricultural tax, town and village organizations should have shifted from management-orientation to service-orientation, but capital, resources, and power are all connected. The powerful influence of the vertical system makes it difficult for government functions and management models to change. At present, many affairs are the result of top-to-bottom arrangements. Traditional management models and mechanisms for assessing leaders' performance retain their guiding status in many regions. Those leaders are in the pursuit of points for their official assessments: launching movements, setting quotas, issuing orders, the layer-by-layer breaking down of quotas, assigning points, and one-vote vetoes. The system of responsibility flowing only upward, and not downward, has yet to exit the stage of history.

4. The construction of effective oversight mechanisms, checks on power, and participatory mechanisms for the rural grassroots level

After abolition of the agricultural tax, the receipt of local government subsidies by village leaders has become an extension of grassroots political power and a proxy of local governments to a certain extent. The self-rule of administrative villages has been weakened, and an administrative trend of power has emerged. In new rural construction, many local governments issue policies encouraging local

¹⁷Liu, Wenhai. (2008). "The Fiscal 'Center of Gravity' should be Appropriately Sent Downward, and the Government Should Spend Fiscal Budgets Well." <http://politics.people.com.cn/GB/30178/8116529.html>. 24 September 2008.

entrepreneurs to return home, making them leaders of village committees or party branches. On the one hand, they want to help make the local community rich, and on the other, they want to earn profits from their economic activities. As such, there may emerge a lack of clarity between political power and private power, and a capitalization of public power. Although planned birth, agricultural taxes, and financing apportionments are all gone (or have been reduced), as pro-rural policies from the center have increased, village leaders have come to control many more resources than before. Under these new conditions, as New Rural Construction has risen, all manner of dedicated funds flowing from the state to the countryside have grown, and rural grassroots organizations might control a portion of said funds. As the country industrializes and urbanizes, and some collective-held agricultural land is zoned for non-agricultural construction use, village collectives might earn a portion of profits from the value added through such land zoning changes. With the promotion of the work of reclaiming land, the largest and potentially most valuable resource of the countryside (land) is increasing. Village collectives might obtain new sources of income as policies for linking increases and decreases (in land) and balancing land occupation with subsidies are implemented. Investigations have revealed that in villages that are pushing for concentrated habitation of villagers, a considerable proportion of residents are concerned that once there is more land that can be developed, village leaders will find a way to profit personally, or that developers will find an opening to enclose or grab the land. The problem of “enormous corruption in small officials” affects the trust of rural population in the party and government, sullies the image of the party and government, and reduces the “sense of gain” and happiness of the rural people.

Many of the countryside’s problems are in fact reflections of maladies within rural grassroots organizations and governance mechanisms. The achievements of democratic elections are the most prominent of the program to build rural grassroots democratic government, yet democratic policymaking, democratic management, and democratic oversight have all been ignored or diminished. If there is no effective oversight over leaders chosen through democratic elections, or any real checks on their powers, then democratic elections are nothing more than one-off transfers of power. The key to rural reform and development reside both in bestowing powers on leaders chosen by the people, and also in building a platform to check those powers. Control over the allocation of resources is tantamount to controlling power. Any organization that distributes projects is a powerful organization. What we need now are institutional arrangements and organizational frameworks to check that power. We should give the masses of rural population the right to know information relevant to their resources, the right to participate (and speak freely) regarding decisions on allocation of those resources, and the right to oversee the execution of policies related to those resources.

4 Lessons

1. Deepening reforms to macro systems and mechanisms, and driving rural development

Some deep-seated problems of rural reforms do not lie in agriculture or the countryside per se, but rather within the entire macroeconomic system and administrative management system. In order to deepen rural reforms, we must change the distortions in the distribution structure of national income and build a redistribution system for national income that is fairer.

As reforms have gradually advanced, entrenched interests of different groups or departments have gradually accumulated, and have become rigid. Resistance to current reforms is coming from past reformers who have already built up entrenched interests. Those with the power and ability to push reforms are often not enthusiastic about those reforms. A lack of drive on the part of authorities with the power to make decisions is the greatest difficulty in deepening reforms. The issues we currently face are not the result of reforms, but are emerging rather because reforms have not been deepened. We must integrate the deepening of rural reforms with the deepening of reforms to the macroeconomic system, particularly in reforms to central and provincial tier-one administrative management organs and comprehensive accompanying reforms to the county level. We should be more proactive in adjusting the distribution structure of national income and coordinating the relationships between “lines” and “blocks,” as well as the interest relationships between superior and grassroots levels of central and local authorities. At the same time, we must call for government capital allocations to become more institutionalized, more standardized, and more transparent, and build a redistribution system for national income that is fairer.

2. Changes to rural institutions and balancing of interests

The foundation of social harmony is the balancing of interests. When interests are in serious disequilibrium, society will necessarily not be harmonious. The distribution of benefits, conflicts of interest, and the methods for resolving conflicts of interest determine the process taken and the success or failure of institutional reforms. Changes to rural institutions and organizational innovations of necessity bring adjustments to property rights and changes to interests, and reforms to rural institutions must place emphasis on balancing the interest structure and reasonably compensating those whose interests suffer. Given the basic prerequisite that the benefits from institutional changes outweigh the costs, the key question is whether the people whose interests are affected can reasonably share in the benefits of the changes, and whether the costs of the changes can be reasonably divided among them. The most egregious conflict of interest, also the kind that the common people resent the most, is when some people or some groups benefit from institutional changes but do not share in the costs. When that happens, some other people or groups do not benefit, but have to bear the costs. As we push changes, we should

seek methods to reduce conflicts of interest¹⁸; we must maintain fairness and protect the rights of the vulnerable.

3. Rural marketization-guided reforms

In the countryside, we must resolutely promote marketization-guided reforms. To protect China's food security, we must first ensure that grain farmers do not eat losses. As such, emphasis should be placed on using marketization-guided price formation mechanisms to guide optimization of resource allocations. At the same time, we must use effective control by the government, such as increases or reductions to imports of agricultural goods or reserves, and maintain equilibrium between the supply and demand of agricultural products. Given that we maintain and increase land productivity, we must strive to increase the labor productivity and total factor productivity of agricultural producers; increase the efficiency of agricultural supply; better integrate laborers with the land, technology, capital, operation management, market information, and other production factors; and increase the competitiveness of China's agriculture.

4. Methods and structures of allocation of rural land resources

The relationship between rural population and rural land is the most important economic relationship in the countryside, and also the most important political relationship. In the coming decades, the methods of distributing rural land resources will control the degree of comprehensive urban-rural development to a large degree. Reforms to rural land institutions will play a key role in the master strategy of deepening rural reforms and comprehensive urban-rural planning. Reforms to property rights for rural collective resources, centered on reforms to property rights institutions for rural land, comprise the foundation and prerequisite for developing modern agriculture and constructing a New Socialist Countryside. As rural population realize their property rights to the land—that is to say, as land factors are gradually liberalized—the urban-rural duality will gradually diminish, and urban and rural economies and society will integrate.

5. Reforms to the rural economic system and the realization of democratic rights for rural population

Reforms to the rural economic system must be integrated with democratic rights for rural population. The various explorations into the means by which rural population's property rights to the land are realized must then be protected by democratic rights of rural population in local politics; this is the other side of the coin from rural property rights. Giving rural population the right to know policy information, the right to participate in policymaking, and the right to oversee policy implementation—this is the only way to gain the experience of the public, to constantly improve

¹⁸Sheng, Hong. (1994). *Transitional Economics in China*. Shanghai: Shanghai Joint Publishing Company & Shanghai People's Publishing House.

and revise during the course of implementation, and ultimately reflect the most basic needs of the rural population.

The material interests of rural population must be protected through democratic rights. As rural population's material interests are realized, more emphasis is placed on democratic rights. As diverse economic conditions give rise to multiple forms of property rights, and as the handling of collective assets (including land) is directly linked with the interests of common villagers, those villagers will take the initiative to participate in government and policymaking. That is because they clearly know that without protects from democratic rights in politics, even if they've gained economic benefits or property rights, all of it can easily be taken away. Achieving reciprocity between material interests and democratic rights is, however, a long process.

6. Developing a diversified rural organization structure

The development of diverse social organizations is an important symbol of social harmony. An important trend in the evolution of the social management system is the rapid growth of non-governmental organizations (NGOs), which occupy the space between the government and the market. These include autonomous organizations, industry organizations, social intermediary organizations, public charities, and grassroots service organizations. Allowing NGOs to play an active role in providing services, coordinating interests and other areas is an objective need in the construction of a socialist, harmonious society. An important aspect of developing diverse organizations in the countryside is striving to develop rural NGOs, communities, rural population' cooperatives and associations, and so on; these increase the social capital and organizational capital of vulnerable groups in rural areas. Investments in social capital, organizational capital, and human resources capital often bring bigger returns than investments in material capital. Governments should provide policy protects to promote a diversified rural organizational structure, to create conditions for the development of social and organizational capital for rural population. Without increases to the level of organization of rural population, there can be no village self-rule to speak of. In addition to increasing the degree of organization of rural population' participation in markets by promoting development of rural cooperatives, officials should also increase the level of organization of rural population in public affairs. In so doing, they will not only increase the degree of mass participation in public affairs, make oversight of administrative management organs more effective, and make reallocations more transparent and fair, but ultimately in so doing they will benefit increases to production and efficiency.

7. The paradoxical relationship between reforms and rule of law

Over the past three decades of reform and opening up, we have yet to figure out how to resolve the paradoxical relationship between reforms and rule of law. Some academics hold that reforms are the codifying within the law of methods for resolving problems. In truth, however, revisions or changes to laws often lag behind the progress of reforms. This leaves us with a paradox. We acknowledge that the

law is the baseline for all actions, but institutional changes taking place during the period of transformation are often breakthroughs in current laws. The goal of reforms is to build a fair, just, democratic society in which the rule of law prevails, but some institutional innovations that emerge over the course of reforms require adaptations, adjustments, and sometimes outright deviations from the law. We must resolutely set forth from reality; eliminate superstitions; dare to breakthrough stranglehold concepts that do not conform to the times; respect the pioneering spirit of the masses; bravely explore, experiment, and innovate; and move with the times in order to imbue the project of socialist modernization with life and vigor. First come the pioneering efforts of the masses, and then come policies, and finally come norms enshrined in the law.

8. Treating symptoms and root causes; integrated action of top and bottom

Changes and adjustments to development modes and macro policies; transformation of the whole of society; and evolution of economic, political, social, and cultural systems and corresponding vehicles—all these directly affect systemic rural reforms. At the same time, political, economic, and social reforms cannot be separated, but must be implemented together. Reforms require top-level design, but even more require integration between initiative at the top level and innovations at the grassroots level. The various innovations that have been made in the past 30-plus years of rural reforms are often made through coercive means. The impetus for innovation at the bottom comes from crises or conflicts, or from the political concepts of some grassroots leaders. The results of purely top-to-bottom reforms are often not good. We must use drive from the bottom to spur on the top, and ultimately give rise to a reform system of united actions between the top and bottom. As reforms progress, we need both “short, flat, and fast”¹⁹ policy responses to treat symptoms as well as long-term, strategic policies to treat root causes; only by treating both can we achieve success.

In this chapter we looked back on the past 30-plus years of rural reforms, and the red line we discussed at the beginning has again become apparent. A fundamental principle must be respected at all times and in all matters: protecting the material interests of rural population and respecting their democratic rights. This is an irrefutable truth, proven by the experience of China’s rural reforms. We must commit ourselves unwaveringly to the notion that economic democracy and political democracy are both means and ends. As all of human society will ultimately be assembled together, in that place, “the free development of each is the condition for the free development of all.”²⁰

¹⁹This phrase commonly refers to less investment, high profits, low risk and quick return usually in technological development. It is also used to describe the action to spike volleyball—translator’s note.

²⁰Marx, Karl, & Engels, Friedrich. (1848). *The Communist Manifesto*.

Development of the National Management and Basic Operations for Agriculture

In this chapter, we look back on and assess the evolution and development of the national management and basic operations for agriculture in China over the three decades of reform and opening up. We also give an outlook for and make suggestions for measures to deepen reforms in these areas.

1 Development and Reforms

1. Dissolution of people's communes

Prior to economic reforms, a highly centralized management model applied in both the economic system as a whole and agriculture in particular. Rural people's communes were the primary organs responsible for implementing planned management on agricultural production activities per state macro orders; they were an important vehicle of the planned economy.

In December 1978, the Third Plenary Session of the 11th CPC Central Committee passed the "Resolution on Several Issues of Accelerating Agricultural Development (Draft)." The document called for organizations at all levels of communes to seriously adhere to the system of distribution per accumulation of labor points. When calculating labor compensations, officials could record work points per quotas, or they could contract the work to work groups and calculate compensations per output, and reward for any surpluses (i.e. "linking output quotas to individual work groups"), provided that calculations and compensations were performed all together inside the production team. Beginning in 1979, China's rural contract responsibility system evolved through the following iterations: "linking output quotas to groups" (work groups), "linking production to labor" (laborers), "linking production to households" (rural households, also called "contracting

production to households”), and finally to “contracting production to households” (also known as the “all-around contracting system” or “big contracting system”).

The “contracting production to households” and “all-around contracting” systems both transferred a certain amount of production activities of a production team to a rural household unit. Both the household and the production team signed contracts to establish quotas, and households received income on the basis of assessments of their completion of their contractual tasks. Agricultural production changed from its previous model of concentrated, unified control by the production team into operations controlled by rural households. Although this was just a change to the production and operations model, this move objectively laid a micro foundation for the establishment and development of a market economy in rural China. From this point onward, rural households became the basic operations unit of the countryside, giving them an independent market status. As such, this was the beginning of the introduction of a market economy in China and changes to the national management for agriculture; this was a grand reform.

Once rural population had autonomy in production and operations, attained independent market status, were able to let the market guide their decisions, and could engage in production and operations with the objective of maximizing personal profits, the people’s commune system, based in the planned economy and “unity of government and communes,” began to seem unsuited to the demands of contemporary development. One manifestation of this unsuitability was that the hands and feet of organizations subordinate to communes were fettered by administrative relationships, causing them to lack the proactivity and flexibility to react to market changes, and depriving them of the ability to play their role as major entities on markets. Furthermore, the lack of separation between the government and communes weakened the administrative abilities of grassroots political bodies, and was disadvantageous to the prompt resolution and handling of problems and to the effective provision of services for rural socioeconomic development and household operations of rural population. As such, thorough reforms to the people’s commune system were necessary. By the end of 1984, over 99% of people’s communes in China had completed the work of separating government from communes, and had established in the place of the communes 91,171 townships (and towns) and 926,439 village committees.¹ From this point onward, the possession of the means of production, hitherto subject to the three-tiered administrative subordination relationship of people’s communes, or the “three-tiered ownership with production teams as the foundation” relationship, no longer existed. Former communes, production brigades, and production teams—the three tiers of the system—all established independent collective economic organizations, and the rural people’s commune system, which had persisted for 26 years, was completely dissolved.

¹National Bureau of Statistics of China. (1985). *China Statistical Yearbook (1985)*. Beijing: China Statistics Press.

2. Innovations in the basic agricultural operations system—establishment of the two-tier operation system

After the dissolution of people's communes, rural households all contracted collective land under the household contracting or all-around contracting systems, and proceeded to engage in all manner of production and operation activities centered on the household unit. To this end, the No. 1 Central government document of 1984 issued by the CPC Central Committee called for: "To improve the system that integrates unified and disparate operations, in general regional cooperative economic organizations should be established, founded in public ownership of land. These organizations can be called agricultural collectives, economic associations, or any other name chosen by the masses. They can be established at the scale of the village (or brigade or united brigade), or may be established with production teams as their central unit. They may be established separate from village committees, or they may be established as a single unit serving two different functions." As production teams were the primary unit for calculations during the era of the people's commune system, most community collective economic organizations were established with former production teams (now village organizations) as their core unit. As household operations and the market economy developed, the effects of scale operations on the market competitiveness and organizational functions of these economic organizations became more apparent daily. As a result, some group-level organizations gradually merged into village-level organizations. After the establishment of community collective economic organizations, they became the fundamental operations system for agriculture in modern China: a dual-level operations system that integrates rural household operations and community collective economic organization operations.

3. Development of the national management for agriculture

In the era of the people's commune system, the state implemented highly concentrated planned management over agricultural production, and implemented the state monopoly system for circulation of agricultural products. After the dissolution of people's communes, and once rural households had become independent operators with full market status, planned management of agricultural production and the monopoly system for purchase of agricultural products and by-products were no longer suitable, and as such there was a need to establish a new national management system. China's national management for agriculture developed in tandem with deepening of reforms to the economic system and development of the market economy. The system's development can be roughly broken down into the following stages:

(1) Planned economy as mainstay, market adjustments as supplements

In December 1978, the Third Plenary Session of the 11th CPC Central Committee passed the "Resolution on Several Issues of Accelerating Agricultural Development (Draft)," which clearly proposed encouraging and supporting the development of

sideline industries for rural household operations and the opening of rural markets. With the rural market economy gradually growing, The No. 1 Central government document of 1982 issued by the CPC Central Committee made this proposition: “The agricultural economy is an important component of the national economy, and we should use the planned economy as the mainstay and market adjustments as supplements [in this area]. We must persist in the monopoly system for grains, cotton, edible oils, and other products. In the two-class monopoly purchasing system for agricultural products and by-products, we should establish reasonable base numbers for purchases, to be established every few years. For those products for which it is not convenient to establish base numbers, we should establish reasonable proportions for amounts to be purchased and to be left. For products falling out of base numbers, some should still be purchased by the state, and some should be purchased per proportions, and some should be handled entirely by communes and brigades or rural population themselves. We allow for purchase prices for products outside of base numbers to float within a certain range per supply and demand on the market.”

(2) **Planned commodity economy**

In October 1984, the Third Plenary Session of the 12th CPC Central Committee passed the “CPC Central Resolution on Economic System Reforms,” which proposed breaking through the traditional concept of setting the planned economy in opposition to the commodity economy, and declared that a socialist economy is a planned commodity economy. The No. 1 Central government document of that year noted that the monopoly system for agricultural products had begun to influence the development of rural commodity production and increases to the efficiency of the rural economy. The document called for: “Beginning this year, excluding individual product varieties, the state shall no longer issue monopolistic purchase orders to rural population for agricultural products; per different situations, we shall implement contract purchasing and market purchasing.” “After abolishment of the monopoly system, agricultural products shall no longer be subject to restrictions of division of labor in operations; we shall implement direct circulation with multiple channels. Operation, processing, and consumption units of agricultural products may all directly sign contracts with farmers. Farmers may actively negotiate and sign contracts with relevant units either through cooperative organizations or by establishing producers’ associations. No unit may issue any directives regarding production planning to farmers.”

(3) **Markets playing fundamental role in resource allocations**

After the 1990s, new characteristics emerged in the development of national management for agriculture: a gradual shoring up and improvement of the market economy and a focus on allowing the market to play a fundamental role in resource allocations. The 14th CPC National Congress noted: “The socialist market economic system that we must build must allow the market to play a fundamental role in resource allocations, with macro controls by the socialist state, to cause economic

activities to abide the demands of value laws, and to become suited to changes in supply and demand. We must use price leveraging and functions of competition mechanisms to move resource allocations into areas of relatively good efficiency, and also apply pressure and motivation to enterprises to bring about survival of the fittest. We must use the advantages of flexibility to respond to the various signals the market sends to the economy and drive prompt coordination between production and demand. In the area of macro controls, the document proposed employing economic policy, economic rules, planning directives, and necessary administrative management to guide healthy development of the market.”

(4) Building a service-oriented government

After the 16th CPC National Congress, “accelerating reforms to the administrative management system and building a service-oriented government” became the focus of improvements to national management for agriculture. The “Opinions on Deepening Reform of the Administrative System” proposed that the deepening of reforms to the administrative management system must be based around a core of changes to the functions of government. The opinions further called for: improving economic adjustments, more use of economic means and legal means, and supplementing those means with necessary administrative measures to adjust economic activities; making macro-control more scientific, foresighted and effective; and promoting good, fast development of the national economy. The opinions called for firmly grasping the changing of functions and sorting out of responsibility relationships; further optimizing the government organization structure and setting norms for the establishment of organs; exploring the implementation of a super ministry system that organically integrates functions; and improving the administrative operations system—all per the principles of streamlined administration and the demand for mutual checks and mutual coordination between policymaking authorities, execution authorities, and oversight authorities.²

Since the outset of reforms to the economic system, great strides have been made in the development of China’s administrative management system. The most prominent has been that the government functions of economic management are gradually transforming into a role of creating a good environment for serving economic entities. There have been great reductions in microeconomic interferences by the government, as well as in the amount of administrative approvals required. The macro controls system framework centered in indirect management has basically formed, and the market system has fundamentally been established. The government now places more emphasis on its functions of nurturing, regulating, and setting norms for the market, and on public administration and the provision of public services.

²The Opinions were adopted at the Second Plenary Session of the 17th CPC Central Committee on February 27, 2008.

4. Development of basic operations for agriculture

After the 1990s, as the rural economy developed and all manner of reforms deepened, the shortcomings of the rural land contracting and operations system established at the beginning of the reform era started becoming apparent. These shortcomings have appeared in the following ways. The first is the frequency of changes to contracted land. Although in the early period of reforms the state mandated that land contracts be of a term of 15 years or longer, the data indicate that from 1978 to 1997, the average plot of land contracted by rural households was adjusted 3.01 times, and at least 60% of rural households, in at least 60% of villages, experienced adjustments to their land.³ This led, to differing degrees, to reduced investments by rural households into the land and a drive to extract increased production from the land; in some cases households abandoned land or let it return to wasteland. The second is a constant reduction in the size of land operated by rural households, owing to frequent adjustments to contracted land and lack of effective mechanisms for transferring land. By 1992, the average area of land contracted to rural households fell to 0.47 ha, broken into an average of 3.2 parcels of average area 0.15 ha.⁴ For the above reasons and because the 15-year terms on land contracts established at the beginning of the reform period were about to expire, in 1993 the central government issued “Several Policy Measures on Agriculture at Present and Development of the Rural Economy,” which called for: extending all land contract terms by 30 years, without changes, upon the expiration of said contracts, in order to stabilize land contracting relationships, encourage increased investments by rural households, and increase the land’s production efficiency. The document further called for “no addition of land for additional people and no reduction of land for reductions of people” during the terms of land contracts, to avoid frequent changes to contracted land and prevent the ceaseless subdivision of land parcels.

After 1998, the land contracting and operation system entered the track of legal system construction. The “People’s Republic of China Land Management Law,” revised in August of that year, stipulated: “the term of land contracted for operation is 30 years... The rights of rural population to operate contracted land are protected by law.” The “People’s Republic of China Rural Land Contracting Law,” implemented in March 2003, further stipulated: “Parties contracting out land must uphold the rights of land contractors to operate contracted land; they may not illegally change or cancel land contracts, nor interfere in the lawful, ordinary production operation activities of the contractors on that land. Land contractors have the rights to use, profit from, and transfer their contracted land, and the right to organize production activities of their own volition and to dispose of products as they please.

³Chi, Fulin, Wang, Jingxin, Tang, Tao. (1999, January 5). “To Grant the Rural Population a Long-term and Secure Land Use Right.” *People’s Daily*, p. 9.

⁴Research Group on Rural Cooperative Economy of Ministry of Agriculture. (1993). “Study of China’s Rural Land Contracting and Operations System and Cooperative Organization Operations.” *Issues in Agricultural Economy*, 11, 45–53.

Contractors whose land is lawfully requisitioned or occupied have the right to receive corresponding compensation per the law.” The “People’s Republic of China Property Law,” passed in March 2007, makes further stipulations: “Contractors of land have the lawful right to occupy, use, and profit from any farmland, forest, or grassland they have contracted for operation; land contractors have the right to transfer operation rights to their contracted land by means of sub-contracting, mutual exchange, or transfer, per the rural land contracting law.” The issuance of the above laws solidified the land contracting and operation system within the law, and provided legal norms and protections.

2 Assessment

1. Analysis of the national management and the development of basic operations for agriculture

A major reason for the successes of China’s national management and basic operations for agriculture lies in increases to the efficiency of agricultural economic organizations and its advantages of increasing profits and decreasing costs for rural population, which in turn have greatly increased their incentives to produce. Similarly, reforms to the economic system targeting market economy objectives have caused great increases to the effect markets play in resource allocations, have greatly reduced administrative costs for governments, and have increased the efficiency of national management. Increases to the efficiency of principal bodies in rural markets and decreases to the costs of the government’s management have led to rapid development of the rural economy and society.

First, the core method to stabilizing the household contract responsibility system⁵ lay in reasonable arrangements and feasible protections of rural population’s rights to the land, giving them long-term, protected rights to use the land. Since the beginning of reforms, the series of policies the state enacted to stabilize the household contract responsibility system have been indispensable and highly effective in the stabilization of the household contract responsibility system, causing rural households to have more secure expectations for future development, laying the foundations for stable, sustainable development of agriculture.

Second, another condition for household operations is the control of other essential means of production by individuals. Since the beginning of reforms, small and medium farm equipment, beasts of burden, and other means of production suitable to household use have been transferred to ownership by households. The rapid growth of ownership of farm equipment by rural households has greatly augmented the development of household operations.

⁵The full name is the “system of linking responsibility of farming households with agricultural production through land contracting,” but it is commonly known in English as the “household contract responsibility system,” which is the term I use from here on—translator’s note.

Third, stability of rural land contracting rights does not at all imply that the subdivision into tiny plots or excessively small scales of operations can be allowed to continue over the long term. Since the beginning of reforms, the state has continuously encouraged rural population to transfer contracted land operation rights per the law, voluntarily, and with compensations. This has led to appropriate scales of operation for the land, and has in fact been written into the “Rural Land Contracting Law,” which codifies concrete measures for land transfers.

Fourth, to stabilize the household contract responsibility system and spur long-term healthy development thereof, we must promptly, effectively resolve all problems that emerge in production operations for rural households, and also increase their ability to withstand market risks; as such, socialized services are a necessity. Of course, services provided by community collective economic organizations are more concerned with traditional agricultural production. At the beginning of reforms, rural households had extremely weak economic strength. As they still lacked methods and means to adapt to markets, those services played an important role. At the same time, policies and measures driving development of various rural self-help groups that the state vigorously advocated for helped make up for deficiencies in the ability of community collective economic organizations to provide services, and helped rural population adapt to the market.

Fifth, the operations scales of most rural population in China are relatively small, putting them in a disadvantageous position for market competition. As a result, the state encourages the development of rural population economic self-help organizations, particularly with policies and measures for the promotion of specialized cooperatives. By increasing the degree of organization of rural population and concentrating their power, these policies augment the status of the rural people on the market.

2. Assessment of the development of the basic operations for agriculture

(1) Collective operations

The two-tier operation system of agriculture in China is a product of reforms to the people’s commune system. Ownership of the land by rural community collectives and the certain degree of collective accumulations (including means of production, irrigation works, housing, collective enterprises, and so on) retained by collective economic organizations following the household contract responsibility system’s launch have both determined the necessity of retaining collective operations. Particularly during the early period of implementation of the household contract responsibility system, planning directives from the state as well as “guidance” that came later continue to play a decisive role in agricultural production; this institutional arrangement is even more obviously necessary. As a result, at the outset of the reform period, the state’s design of the function of community collective economic organizations fit perfectly with the real situation of the “three rural issues” at the time; we should thus affirm the results that this produced.

Although there are still some problems with operations of community collective economic organizations in some areas, for at least a relatively long period of time to

come, unified collective operations will remain imperative. For example, so long as the land, some means of production, public infrastructure, and other items are owned by rural collectives, community organizations will still need to manage and operate such. In the area of agricultural capital construction, it is not feasible to construct irrigation and drainage ditches, build roads between fields, improve low-to-mid-yield agricultural fields, or reclaim mountain, forest, or grassland for single households; for these projects, organizations capable of directly facing and communicating with all local residents must play a role. So we still need to resolve problems that emerge in the reforms and development of rural collective economic organizations with reform and innovative methods to respond to changing situations.

As community collective economic organizations are beset with functional shortcomings difficult for them to overcome by themselves, it is imperative to develop rural self-help organizations. The gradual rise and development of rural specialized associations, rural specialized cooperatives, and other rural self-help organizations since the beginning of reforms have effectively supplemented and improved collective operations. Therefore, effectively spurring augmented development of economic organizations needed for household operations by cooperatives and other self-help organizations should be a major component of improvements to household operations for a period of time to come.

(2) Household operations

Most discussion of rural household operations at present is centered on how the egalitarian distribution of land at the outset of reforms created excessively small scales of operations and low levels of operational efficiency, neither of which conforms to the trends of specialization and modernization in agriculture.

Fairness and efficiency are squarely at odds with one another; it is thus difficult for them to coexist. As such, the practice of “no addition of land for additional people and no reduction of land for reductions of people” is a means of preventing further subdivision of contracted land, stabilizing the profit expectations of rural population, and seeking efficiency on a foundation of fairness. Given that rural population have long-term, protected rights to operate contracted land, it is particularly necessary to support lawful, voluntary, compensated transfers of land. This is an important means for resolving excessively small scales of operations for rural households and increasing their operational efficiency. At present, some local governments have implemented shareholding cooperative systems for land ownership; these are a beneficial attempt to bring about scale operations of the land without harming the people’s rights to the land. Of course, in order to thoroughly resolve the problem of excessively small scales of operation for China’s rural households, we must enact comprehensive measures in several areas, including building and solidifying the rural social security system. Only by eliminating worries about the future for rural population can we effectively promote land transfers and accelerate the process of appropriately sized operations.

So with the two-tier operation system serving as the basic operations system for agriculture in China, only through constant improvements and innovations as the economy develops and society progresses can we maintain long-term vitality and effectively shoulder the burden of economic development and social progress for China's rural areas.

3. Assessment of development of the national management for agriculture

Since 1978, under the comprehensive goal of establishing a socialist market economy, gradual methods divided by steps have been taken in the development of the national management for agriculture. On the whole, the past 30-plus years of development have yielded marked results, and achievements made are laudable. First, the gradual method has helped relatively well to avoid major fluctuations in the economy and dramatic shocks to society, and has created conditions for stable implementation of all measures. Second, reforms to the national management for agriculture have to a great degree resolved many conflicts caused by economic system reforms, set right many relationships in economic organizations, provided relatively good development opportunities for market entities, and provided a relatively relaxed environment for development. Finally, changes to the government's economic management functions and the enshrinement in law and institutionalization of agricultural policy have established norms for and simplified the government's administrative behaviors, increased administrative efficiency, allowed market mechanisms to play a guiding role, and consequently increased the efficiency of resource allocations.

Although the national management for agriculture in China has developed considerably, from the perspective of developing the socialist market economy and comprehensively building a *xiaokang* society, there are still many shortcomings that need to be improved in the work to come.

First, market entities are not mature. Although China's market economy is gradually improving and rural households have been market entities for the past 30-plus years, there has not been a real improvement to rural households' inability to adapt to the market. The low degree of organization among rural households, the slow speed of development of market intermediary organizations and other market entities, and the unsoundness of the socialized service system have all inhibited the pace of rural population access to the market in the extreme, thereby weakening the guiding effect of market mechanisms on agricultural production.

Second, the market system is imperfect. The agricultural products market has already developed considerably, but development of the factor market is lagging, particularly the sluggish development of rural capital markets and land markets. Problems of capital shortcomings for development of rural households and rural self-help organizations have long remained unresolved, and mechanisms for transfers of rural land have not been truly established.

Third, the macro control system is imperfect. Since the outset of reforms, there have been many problems with the macro controls on agricultural product markets. In some areas we have been unable to effectively deliver accurate market

information to rural population in a timely fashion, leading to some relatively large fluctuations in agricultural product markets, creating obvious negative consequences for agricultural production and the people's lives.

Fourth, we still need to deepen changes to functions and reforms to institutions. Although it has already been made clear that the government should not interfere in any economic activities that the market can adjust by itself, in reality some government departments still interfere relatively often in microeconomic operations through administrative means. At the same time, the design of government organs is unreasonable, with departmental separation, overlapping functions, unclear responsibilities, disjointed authorities, and low efficiency handling of affairs; none of these problems has been effectively resolved.

Institutional arrangements are important drivers and the source of socioeconomic development. As such, we must not only place emphasis on resource allocations, but must place even more emphasis on appropriate institutional arrangements, in order to maximally benefit from resources already allocated. We must not only establish correct policies, but must even more establish institutional frameworks for executing those policies, enabling them to be fully implemented. The national management for agriculture is an important component of the rural economic system; effective operations on the part of the national management are necessary to fully implement policies and measures for the development of the rural economic system. At present, China's national management for agriculture, particularly the administrative management system, is still beset by many shortcomings; this is an important reason why many rural reform measures implemented since the outset of economic system reforms have not met expected targets. Consequently, deepening reforms to the administrative management system should be established as the core issue to resolve in furthering the development and improvement of the national management for agriculture.

3 Outlook

1. Improving the two-tier operation system

- (1) Renewing understanding and positioning of the functions of community collective economic organizations

Since the outset of economic system reforms, the scope of operations of farmers in China has gradually exceeded traditional planting and production of grains, cotton, oil stuffs, and other products. Their space of operations has likewise gradually exceeded the limitations of the community, township, county, and so on. As a result, the shortcomings of community collective economic organizations in the provision of services have also become increasingly apparent. The thinking for resolving these problems should set out from the reality of China's countryside and be based in the inherent conditions of community collective economic organizations. We should

renew understanding and positioning of the functions of said organizations, and make them compatible with the “three rural issues” in China at present.

At present, rural specialized cooperatives, agricultural production and operation organizations, and other socialized service organizations have come to increasingly take on functions of providing services for rural household operations. As such organizations have emerged, the functions of providing services for production and operations have grown increasingly separated from community collective economic organizations and shifted onto rural specialized cooperatives and other socialized service organizations; this is becoming a trend. As such, the operations activities of community collective economic organizations will tend increasingly toward the areas in which rural specialized cooperatives and other socialized service organizations do not excel, such as management of collective land and other means of production and public property, development of collective enterprise operations and community social enterprises, operations of public charities, and so on. Furthermore, they will lead to reorganization and innovation in functions under the conditions of the market economy.

(2) Promoting effective linkage between production and markets

The primary significance of the household contract responsibility system—an innovation in the agricultural operation system—lies in the resolution of the old economy’s problem of low efficiency of economic organization and production. Resultantly, as the market economy continues to develop and as production becomes ever more reliant upon the market, there is a need to actively nourish and develop forms of economic organization that can effectively link production with markets, and to improve and innovate in the two-tier operation system under conditions of the market economy. So we should actively nourish and develop rural specialized cooperatives, market intermediary organizations, industrialized agricultural operation organizations, household farms, agricultural companies, and all other manner of new agricultural economic organizations, in order to increase the degree of organization of market entry by rural population and solidify and develop methods of household operations under the conditions of the market economy.

2. Exploring effective forms for the rural collective economy

In order to improve the two-tier basic operation system for agriculture, we must not only make systemic innovations, but must also actively explore effective models for the collective economy. To this end, the rural community collective property rights system reforms centered on implementation of shareholding collective systems enthusiastically promoted in some places have been a meaningful endeavor. Practical experience demonstrates that this method has: broken through the constraints of traditional forms of collective economy, given rural population clear, complete rights to collective assets, and strengthened the cohesiveness of the collective economy; innovated in operations mechanisms for the collective economy, effectively increasing the level of management of collective assets, and bolstered the economic strength of collective economies; to the greatest institutional extent

possible protected the rights of rural collective economic organizations and their members, increasing the incomes of rural population; built and perfected reasonable circulation mechanisms for land contracted by rural households, driving adjustments to the rural structure and prompting suitably sized scales of operations; and played an active role in mitigating conflicts of interest between community members, driving construction of rural democratic institutions, and protecting the social stability of the countryside.⁶

In addition, rural community collective economic organizations have long lacked the needed status of “legal persons,” without which it is difficult for them to legally engage in economic activities as market entities; this is also a prominent problem constraining their effective development. How to reasonably establish their status as legal persons, allow them to act as market entities that have lawful rights to participate in operation activities, and effectively manage the collective assets belonging to collective members—this is a question that must be urgently answered.

3. Further development of the national management for agriculture

At present, China’s market mechanisms are unsound, and the market’s role in allocating resources has, to differing extents, been restricted. So in order to shore up China’s national management for agriculture, cause it to better serve market entities, and create a better development environment for it, we must take steps in the following areas:

First, shoring up and improving the market economy. Only when market mechanisms are sound can market signals accurately reflect supply and demand. Only when market entities can flexibly respond to market signals can they adjust or standardize their market behavior per the signals. Only when market signals are promptly, accurately understood can governments promptly, accurately, effectively exert macro controls over markets, avoid or reduce economic fluctuations, and bring about stable, fast, coordinated, healthy development of the rural economy and society.

Second, shoring up and improving relevant economic and legal institutions. By building a corresponding institutional framework, we can create rules and laws for macro controls to abide, making them clear and effective. Shoring up and improving economic institutions and legal institutions includes nourishing and developing all manner of new market entities; improving the market system and the socialized service system; providing necessary support and protection for fundamental industries and infrastructure that touches on the national economy and people’s livelihoods; establishing norms and exerting controls over economic activities that harm market order or the security of people’s lives; protecting the environment; and bringing about sustainable development of agriculture.

⁶Research Group of Ministry of Agriculture. (2006). “Promoting Reforms to the Property Rights System of the Rural Collective Economic Organization.” *China Development Observation*, 12, 29–36.

Third, shoring up and improving the national management methods. We must comprehensively make use of administrative, economic, legal, educational, and all other kinds of measures; in particular, we should place emphasis on allowing economic and legal measures to play a role in regulation and control. We should also allow fiscal, financial, taxation, pricing, foreign trade, agricultural support and protection, and other measures to play a controlling and driving role in agricultural production and operations.

Fourth, we should accelerate changes to government functions and reforms to administrative organs. We should change the status quo of national management of agriculture that includes separation of lines and blocks,⁷ separation of industries, and dislocation between trade, industry, and agriculture. We should bring about coordinated, concentrated management of agriculture, forestry, waters, farming machines, TVEs, grains, land, and so on, make breakthroughs in the disjointed management methods that affect agriculture pre-production, in-production, and post-production, and establish an efficient national management system for agriculture that concentrates production and sales, domestic and foreign trade in one integrated body. We should promote effective integration of production and markets in order to adapt to the demands of the market economy and the development of modern agriculture.

⁷Again, “lines” refer to vertical controls exerted downward through ministries and departments, and “blocks” refer to horizontal controls within a given region—translator’s note.

Development of the Circulation System for Agricultural Products and Factors of Production

As modernization has been relentlessly pursued in China, the size of the circulation system for agricultural products and agricultural means of production has grown ever greater, and said circulation system has grown ever more liberalized. However, we have yet to effectively resolve the problem of sluggish development of that circulation system. Dramatic fluctuations on the agricultural products market and disorderly competition in the agricultural means of production market have exerted striking negative impacts on the development of modern agriculture. Developing a modern circulation system for agricultural products and agricultural means of production is an important task in accelerating the development of modern agriculture. The theme of this chapter is the development and reform of that circulation system. We will look back on the changes that reforms have brought, summarize the development road of the system, and propose an ideology for its further development. Summarily speaking, China has used marketization reforms as the primary driving force to relentlessly break government-enterprise monopolies in the system, and has used the development of farmers' markets and wholesale markets to give rise to a diversified circulation system for agricultural products and means of production. In the future, China must push for a high degree of integration between that system and the consumption of agricultural products, in order to conform to the needs of the development of modern agriculture, and to achieve coordination between new industrialization, IT application, and urbanization.

1 Development Prior to the Beginning of Reforms

Prior to the beginning of reforms, under the planned economy, most circulation of agricultural commodities was directly controlled by the government, with monopolies by state-owned commercial entities as well as cooperative commercial entities. Agricultural products produced by farmers were purchased by the

monopoly system and then provided to residents or companies via such means as the food ticket supply system. There was only a single channel for circulation of agricultural products. Although this system helped ensure fair allocations of agricultural products to a certain degree, on the whole it severely inhibited the incentives of farmers to produce.

Prior to reforms, China gradually established the monopoly system for purchasing grain, cotton, and edible oils. Under the monopoly, the state rigorously controlled the market for grains, oils, and cotton, and forbade any private commerce thereof. In order to control grain and oils, beginning in 1953, the state established and solidified state-run grain and oil enterprises of nationwide scope; these enterprises bought and sold all grain and oil per planning objectives. Farmers could sell their grains to only state-run enterprises. Urban residents and rural residents lacking grain could buy grain only from state-run enterprises, and only by using food tickets. Beginning in 1954, farmers could sell cotton to only government-designated supply and marketing cooperatives (SMCs). These cooperatives were the only bodies in the nation permitted to buy and sell cotton. Beginning in 1957, aquatic products came under the same regulations as grain, cotton, and oil, with nationwide state-run aquatic product cooperatives being established as the only entities permitted to trade therein. Farmers could likewise sell their pork, sugar-bearing plants, silkworm cocoons, tobacco, jute, and rosin to only state-run commercial enterprises and SMCs, per tasks of the monopoly system. Even surpluses left over after completion of designated supply quotas could not be sold freely on the market, as private commerce was forbidden.

The period from 1952 to 1957 saw the traditional economy gradually established. During this period, increases to the commoditization rate of agricultural products and by-products came relatively fast, as were increases to the proportion of agricultural products and by-products purchased by the government to the total rate of production in the nation. In 1957, the total purchase amount of agricultural products and by-products from across the nation increased to 21.75 billion yuan, a growth of 54.5% over 1952. The proportion of the agricultural products and by-products purchased by the state to total production value of the agricultural, forestry, husbandry, and fisheries industries increased to 40.5%, with the commoditization rate for agricultural products adding 10 percentage points. The total of agricultural products and by-products purchased by commercial departments under direct government control reached 17.65 billion yuan, a growth of 95.9% over 1952. The proportion of agricultural products and by-products purchased by commercial departments to the total production value of all agricultural products and by-products purchased in the nation grew to 81.1%, an increase of about 17% over 1952. All this demonstrates that most of the agricultural products and by-products produced during this period that did not go to satisfy self-sufficiency needs went under control of the planned economy.

Prior to reforms, the purchasing side of the circulation of agricultural products was handled entirely by state-run commercial enterprises or cooperative commercial enterprises, as was the sales and supply side. Purchases of these products were made with food tickets, and it was common to experience shortages or have to wait

in long lines to buy these products. Pulling on relationships or going through back doors were daily necessities for urban residents to buy agricultural products prior to reforms.

The state monopoly on the circulation of agricultural products began in 1953 and ran until 1978, during which period prices for agricultural products either declined from the previous year or remained stable in most years, except a few years in which agricultural product purchase prices increased. Per the 1991 edition of the *China Statistical Yearbook*, during the period 1953–1978, 1961 was the only year in which the state greatly increased purchase prices of agricultural products and by-products, by 28% over 1960s overall price index. When prices of agricultural products are excessively low, farmers lack incentive to develop agricultural production, and agriculture grows slowly; however, the population was growing rapidly at this time, and shortages of agricultural products became a major problem.

Lacking increases to agricultural product prices for a long time and without incentives to develop agricultural production, growth to farmers' incomes was slow. Calculated per purchase prices over the period, from 1957 to 1977, per capita net income for farmers rose from 72.9 to 117.1 yuan, a growth of only 44.2 yuan over 20 years, for an average annual increase of only 2.2 yuan.

On the whole, the monopoly on the circulation of agricultural products prior to reform was not successful. The only way to effectively increase the incentive of farmers to develop agricultural production and to increase their incomes was to reform the traditional circulation system and develop one guided by the market.

Prior to reforms, the circulation of agricultural means of production in China was run exclusively by SMCs. The state established the All China Federation of Supply and Marketing Cooperatives in charge of centralized planning management. All provinces, prefectures, and counties likewise established agricultural means of production operations departments or offices, and founded agricultural means of production stores or markets in grassroots SMCs. Closed distribution management was implemented in SMCs, meaning that chemical fertilizer and pesticides were sold to only collectives and not to individuals.

2 Development During Marketization

At the outset of the reform period, the first part of the circulation system for agricultural products to be opened was trade in rural farmers' markets. As reforms progressed and agricultural productivity grew, new problems emerged in the countryside: difficulty selling and overstocking of agricultural products. At the same time, supply remained tight in urban fresh markets, meaning there was not only difficulty selling, but also difficulty buying. Once rural population were allowed into the circulation system for themselves, they began engaging in long-distance sales, and exhibited strong competitiveness, breaking through the barriers that divide the urban and rural spheres and gradually occupying dominant position of the fresh agricultural products circulation system.

1. Development of farmers' markets

Beginning in 1979, the state gradually reduced the amount of agricultural products subject to the monopoly and opened the way for farmers' markets. At the outset of reforms, agricultural products and by-products produced by commune and brigade collectives and by households under the new household contract responsibility system could all be sold at rural markets. Even surplus grains could be sold via multiple channels once rural population had completed their obligations under the monopoly. From 1978 to 1984, the number of rural markets gradually grew from 33,000 to over 50,000.

At the outset of the reform period, the state monopoly on grain was still in effect, but grain requisitioning obligations were reduced, and in some regions with low grain yields, planned purchase requirements for grain were outright abolished. That laid the foundation for the restoration of rural farmers' markets for the sale of grain. After grain markets were restored, the proportion of grain sold in markets to total grain sales in the country was low, but grew rapidly. From 1978 to 1984, the amount of grain sold in markets grew from 2.50 billion kilograms to 8.35 billion kilograms, a 3.3-fold growth.

After rural reforms, agriculture in China returned to a state of normal development, at which point problems began emerging in the monopolistic position of state-run and cooperative enterprises in agricultural products, as well as impeded channels for circulation. On the one hand, fresh agricultural products became overstocked or unsalable in the countryside, even after rural population had satisfied their own needs, as they were unable to sell the goods to cities; this was the beginning of the difficulty in selling. On the other hand, cities, the primary sales locations for fresh agricultural products, experienced serious shortages, with supply tight. To resolve the problem of impeded channels for circulation of fresh agricultural products, the central government called for reforming the circulation system and developing a circulation industry for agricultural products, allowing for unhindered development of cooperative commercial enterprises and an appropriate level of individual commercial enterprises, and permitting rural individuals and partnerships to enter the field of circulating agricultural products, giving rise to a multi-channel system for circulation.

According to the data from the 1987 *China Agricultural Yearbook*, in 1986, nearly 10 million rural population engaged in long-distance sales and transportation of agricultural products. In Shouguang, Shandong alone, there were about 30,000 rural population as such, selling 900,000 tons of vegetables, accounting for 45% of all vegetable sales in the county. Once rural population were allowed into the business of circulating fresh agricultural products, they not only broke through the separations and barriers between the urban and rural spheres, but also crossed city, county, and even prefectural boundaries, invigorating the circulation of agricultural products, exhibiting strong competitiveness and vitality.

Beginning in 1985, China began a course of over 30 years of thorough reforms to the state monopoly and circulation system for agricultural products. At this point, the focus of rural reforms shifted to the area of circulation of agricultural products,

and operations in “vegetable basket” products were opened up, gradually giving rise to network of fresh agricultural product markets, with fresh markets as their foundation.

After reforms to the monopoly system for primary animal products, animal husbandry commercial and industry companies were established around the country at the county level and higher to provide meat, eggs, and other animal products to urban residents. At the grassroots level they established veterinary stations to treat illnesses and prevent disease outbreaks among livestock, and also engaged in purchasing, processing, storage, transportation, and sales of products.

The earliest area of operations opened up in China was the circulation of aquatic products, which grew rapidly in urban and rural agricultural markets. In 1985, the central government opened circulation of aquatic products circulation, made market adjustments, and invigorated the market with multi-channel circulation.

In the 1990s, the basic circulation system for fresh agricultural products took form, guided by urban and rural agricultural product markets. Statistics from the 1993 *China Agricultural Yearbook* indicate that by 1990, 68.2% of all meat and eggs, 89.1% of all aquatic products, 80.3% of all dried and fresh fruit and nuts, and 75.8% of all dried and fresh vegetables were sold in such markets.

Also in the 1990s, a great number of specialized animal products households in rural areas of many localities began scale production and engaged in the circulation of animal products, either as individual households or as partnerships of many such households. The 1994 *China Statistical Yearbook* indicates that in 1994, about 12 million rural population around the country engaged in the transportation and sale of agricultural products, and around the country about 6.5 million rural purchase and sales organizations were operating.

2. Development of the circulation system for grain and cotton

Grain and cotton are two agricultural products that impact the national development and people’s livelihood. Therefore, the reform and development of both circulation systems are quite particular. Beginning in 1985, the state abolished the state monopoly on grain and cotton, replacing it with a contract purchasing system. Grain and cotton purchasing departments negotiated with farmers before the planting season, and signed purchasing contracts with them. The contract purchasing system for grain and cotton in principle requires that contracts between state-run grain departments or cooperative commercial departments to sign contracts on a foundation of willingness of both parties, and for purchases to be made at agreed prices and quantities. All grain and cotton produced in excess of contractually established quantities was permitted to be freely sold in markets.

At the outset of reforms to the grain circulation system, there were two components of the system: planned purchases and monopolistic sales within planning quotas, and negotiated purchases and negotiated sales in excess of planning quotas. Grain prices were relatively low within planning quotas but relatively high outside of quotas and on markets, putting grain prices in the so-called “two-track system.” At the time no reforms were taking place in the monopolistic sales system, and so

urban grain consumption remained dependent on supply from state-run grain commercial departments; this portion of grain accounted for about 80% of all grain purchased by grain purchasing departments. In 1985, there was a great reduction in grain yields in China, and prices on the free market increased markedly; at this time grain prices on the free market were much higher than contractually-established purchase prices, but contractually-established prices were not increased in a timely fashion. As such, farmers were unwilling to fulfill their contractual obligations, and were likewise unwilling to sign new grain purchase contracts under the conditions established by existing contracts.

With reforms to the grain circulation system targeting only the purchasing side, inhibiting development of grain circulation, the central government continued gradually opening up planning requirements on the purchasing side. However, beginning in 1992, officials completely opened the grain consumption market for urban residents, while simultaneously establishing grain risk funds, a system to protect prices for grain purchases, and the national grain reserve system.

In 1994, with reductions in agricultural yields owing to natural disasters and great increases in the prices of agricultural means of production, there were marked increases in the prices of primary agricultural products. After grain purchasing was fundamentally opened in 1993, planning quotas for purchasing were restored in 1994, emphasizing the obligation of rural population to complete their state-established quotas. In certain places, grain markets were closed, and entire regions were sealed off. In 1998, the central government strictly forbade anyone except state-owned grain purchasing and storage enterprises from going to the countryside to directly purchase grain produced by rural population.

In 1985, the central government abolished the monopoly purchase system for cotton and replaced it with a contract purchase system. However, just as with the grain circulation system, development of the cotton circulation system was not smooth in the early reform period. After 1985, cotton yields fluctuated for several consecutive years, and around the country local governments closed free trade markets for cotton, restoring monopolistic purchasing, and pooling cotton resources through coercive administrative means. In 1992, the state again promoted reforms to the circulation system for cotton, opened markets, prices, and operations, and developed the system. However, in 1993, the monopolistic sales system for cotton was again restored. The cotton was sold at a flat price set by the country, and the SMCs were the sole operators to purchase or sell cotton, and markets again closed.

By 1996, with sales, markets, and operations all remaining unopened on the purchasing side of the cotton circulation system, explorations were launched into opening the sales market for cotton, and the first Nationwide Cotton Exchange Conference was held in Zhengzhou. In 1997, the Nationwide Cotton Exchange Conference became the Nationwide Cotton Exchange Market, which organized purchase and sale of cotton by auction, negotiated trade, and booking of warehouses for cotton. After 1998, the focus of the cotton circulation system began to shift to nourishing cotton markets, expanding channels for sales of cotton, reducing the links in the circulation chain, and improving management of cotton reserves.

3. Development of the circulation system for agricultural means of production

At the outset of the reform period, the circulation of chemical fertilizers and other primary agricultural means of production remained in the forms—which had developed over a long time—of unified planning, unified distribution, and management divided by levels. Taking chemical fertilizers as an example, the fertilizers produced by domestic companies as well as imports were all subject to sole operation by the China National Agricultural Means of Production Corporation and grassroots SMCs. The state paid subsidies for production, sales, and imports of chemical fertilizers, and established unified prices for prices of allocation and transfer as well as retail prices of chemical fertilizers.

After 1985, the central government gradually opened up agricultural means of production such as beasts of burden, small and mid-sized farming implements, and agricultural chemicals, as well as the operations of chemical fertilizers and pesticides. Once multi-channel operations in agricultural means of production had been permitted, there was chaos on markets for agricultural means of production across the country, with enormous price increases. There was a serious problem of profiteers buying chemical fertilizers to scalp at high profits, and it became difficult for farmers to buy fertilizers at fair prices. In 1989, the central government reinstated the China National Agricultural Means of Production Corporation and agricultural means of production operations units as the sole entities allowed to sell chemical fertilizers, pesticides, agricultural plastic sheeting, and others.

The reinstated monopoly on fertilizers, pesticides, and agricultural sheeting brought an end to the problem of scalping, but in 1993 and 1994, prices of agricultural means of production again experiences sustained increases. To control excessively fast increases in prices of agricultural means of production, the central government decided to reinstate order in the circulation system of agricultural means of production, and established a system of operations for agricultural means of production with the National Corporation and grassroots SMCs as the primary channels, and agricultural planting protection stations, land fertility stations, agricultural technology dissemination stations, and agricultural production and means of production enterprises serving as auxiliary channels.

3 Development in the 21st Century

In the new century, China has further opened the grain market, and a circulation network for most agricultural products has formed with central wholesale markets as its core and regional or local wholesale markets as primary entities. The degree of organization of agricultural product markets has grown ever higher, and all manner of agricultural product specialized transportation and sales organizations, industrialized organizations, specialized cooperatives, and specialized associations have developed substantially. Since 2014, all manner of new methods of circulation

have emerged, including direct linkage between farmers and sellers and between farmers and supermarkets.

1. Further marketization of the circulation of grain and cotton

After the grain consumption market was opened in the 1990s, in 2001 the central government finally opened purchase markets in the eight primary grain sales regions of Zhejiang, Shanghai, Fujian, Guangdong, Hainan, Jiangsu, Beijing, and Tianjin. In 2004, the central government further completely opened the grain purchase market. Under normal conditions, grain purchase prices are determined by supply and demand on the market. The central government's only role is setting minimum purchase prices for rice and wheat in primary grain production areas, and temporary purchase and storage policies for corn.

In the new century, the central government has further deepened reforms to the circulation system for cotton, opened purchasing of cotton, broken through industry monopolies and regional blockages in the cotton business, and brought about multi-channel operations and orderly competition. At the same time, central officials founded the China National Cotton Reserves Corporation and thoroughly separated reserves from business.

2. Construction of agricultural product markets

In response to regionalization of agricultural production and urbanization of the population, a spot market system for agricultural markets and wholesale markets has emerged in production regions, and an operation system for wholesale markets, fresh markets, and supermarkets has formed in sales regions. The circulation system, based in transactions in wholesale and local markets, has grown ever stronger. After 30-plus years of development of the circulation system for agricultural products, the scale of a portion of transactions on spot markets has grown quite big. In 2014, there were 683 comprehensive agricultural markets in China exceeding 100 million yuan, with each of these on average achieving annual transactions of 1.37 billion yuan. There were 999 specialized agricultural markets in China exceeding 100 million yuan, with each of these on average achieving annual transactions of 1.55 billion yuan.

Although China's wholesale and local agricultural product markets are playing an increasingly important role in the circulation of agricultural products, particularly fresh products, construction of facilities for circulating products to these markets is severely lagging. To this end, after entry into this century, the central government approved projects funded by the issuance of national treasury bonds and fiscal investments to promote the construction and renovation of nationwide and regional mainstay wholesale markets for agricultural products. The focus of these projects has been on supporting trading floors, electronic account settlement, information management, inspection and monitoring, and other infrastructure and strengthening infrastructure for agricultural product circulation such as large logistics hubs for grains, cold chain systems for agricultural products, and logistics and fulfillment centers for fresh agricultural products. With drive from central

authorities to strengthen agricultural market construction projects, some local governments have established dedicated projects with expanded fiscal support to build wholesale and local markets for agricultural products, while simultaneously guiding agricultural product circulation enterprises to expand construction of modernized facilities. Practical experience demonstrates that localities that build wholesale markets with support from the central government spur investments from the public and drive upgrading and renovation of hardware facilities and equipment in markets.

3. Diversity of agricultural product circulation entities

Diversity of circulation entities has been an important characteristic of the development of China's system for circulation of agricultural products. On the one hand, the central government has established policies and institutions to cause the China Grain Reserves Corporation (Sinograin) to grow ever larger, in order to stabilize the grain market and protect the interests of grain farmers. On the other hand, central authorities have made farmers play an important role as principle entities in the circulation of fresh agricultural products by fostering and developing rural brokers, specialized households in the transportation and sale of agricultural products, agricultural product circulation companies, and other entities.

In the new century, the role of leading enterprises, primarily processors of agricultural products, in the circulation system has grown ever more prominent. By the end of 2010, leading enterprises accounted for over a third of agricultural products and products made therefrom sold on markets across the nation, and accounted for over two thirds of "vegetable basket" fresh and processed products sold in mid-sized cities. As such, they are the most important entities in the processing and circulation of grain, cotton, edible oil, meat, eggs, and milk.

In recent years, the role of rural specialized cooperatives in the circulation of agricultural products has begun becoming apparent. We have learned that by the end of 2010, there were 336 rural specialized cooperatives participating in Zhejiang Province's program for directly linking farmers with supermarkets, a 2.56-fold growth over the end of 2008. Members of said cooperatives sold their products directly.

4. Development of wholesale markets for agricultural products

Since the implementation of marketization reforms to the circulation system for agricultural products, the dominant channel for circulation of most agricultural products in China was as follows: from the place of production to a wholesale market to a local market and finally into the hands of the end consumer. In places of production, most products are sold to individual brokers. Then either brokers or farmers who sell directly take the products to wholesale markets, where individuals buy them and transport them to other wholesale markets in sales regions. These products then flow into local fresh markets, supermarkets, or group consumers. Wholesale and local markets have become the primary channel for circulation of fresh agricultural products as well as commodities.

Let's look at Beijing as an example. The Xinfadi Agricultural Products Wholesale Market has grown fast, at present with more transactions than any other such market in Beijing; it exerts an important influence on the circulation of agricultural products across the nation. We have learned that the market sells a wide variety of agricultural products, including vegetables, fruits and nuts, meat, eggs, mushrooms, grain oils, aquatic products, non-staple foods, seasonings, tea, seeds, and other agricultural products and by-products. In 2003, transactions in the market exceeded 10 billion yuan, exceeded 20 billion yuan in 2007, exceeded 30 billion yuan in 2009, and arrived at about 50 billion yuan in 2013.

5. Development of the circulation of agricultural means of production

After many years of reforms and development, an operations system for the circulation of agricultural means of production has formed, with individual businesses as its foundation; SMCs, agricultural means of production companies, and agricultural technology and service departments as its main entities; and other forms of agricultural means of production operators as supplements.

A fundamental change has taken place in the seed industry away from planned supply and toward marketized operations. Per a response from the Ministry of Agriculture, in 2012, the commercialization of seed supply in primary crops reached 60%, with complete commercialization of hybrid corn and rice varieties. It is estimated that there are nearly 10,000 crop seed companies in China. In addition, some foreign seed companies, particularly in the gardening industry, have invigorated China's seed market. Diversity of seed supply entities and channels for circulation have driven competition and made it easier for farmers to buy seeds, but has also introduced chaos into the seed market, with serious problems of fake brands, infringement of rights, and outright fake seeds. In recent years, seed companies that integrate breeding, propagation, and marketing have come to play an increasingly important role in the market, now characterized by disorderly competition and fake or low-quality seeds.

SMCs have greatly developed chain store operations in agricultural means of production by deepening reforms; they still retain a decisive position in the circulation of chemical fertilizers, pesticides, plastic sheeting, and other important means of production. Chain stores in this industry within the network of SMCs not only ensure the quality of fertilizers and other products, but also play an important role in the construction of the socialized service system for the circulation of agricultural means of production by home delivery and concentrated supply of fertilizer, and conducting seminars for farmers during the slack farming season.

In recent years, rural specialized collectives have developed rapidly in China. Some collectives, benefiting from preferential policies, have begun to play a role in the circulation of agricultural means of production, as more and more specialized collectives sell plastic sheeting, seeds, sprouts, fertilizer, pesticides, farming equipment, and other means of production to the members of their collectives.

4 Development Policies for Agricultural Modernization

As the circulation system for agricultural products and agricultural means of production in China has been reformed and developed, market mechanisms have come to play an increasingly important, fundamental role in allocation of agricultural resources. To respond to decentralization and disconnection in every link of production and circulation of agricultural products and of agricultural means of production, we must use innovations in agricultural production to drive deep integration between the pre-production, in-production, and post-production links of agriculture. The core of future construction of channels for circulation of agricultural products and means of production will lie in innovating in organizational methods of the production and sale of agricultural products and means of production. The focus will be on expanding direct supply and sales of agricultural products and means of production; nourishing companies that integrate production, supply, and sales of agricultural products; and developing chain store operations, logistics, and electronic commerce in agricultural products and means of production.

1. Establishing a sound market system for agricultural products

As the circulation system for agricultural products in China has been reformed and developed, purchase and sales markets for the vast majority of agricultural products, including grains, have been completely opened. The market system for agricultural products, centered on wholesale markets, based in local markets, and supplemented by direct delivery and sales to supermarket chains, has grown ever better, and the overall system for markets and circulation is now gradually forming. However, the overall level of infrastructure construction for agricultural product markets in China is relatively low, and there are imbalances in development between regions and different products. Furthermore, good, sound price formation mechanisms have yet to be established.

To promote upgrading and renovation in the construction of agricultural product wholesale markets, we need to accelerate the formation of a nationwide mainstay agricultural product wholesale market network of reasonable composition, advanced facilities, complete functionality, and standardized transactions. We must also transform and upgrade agricultural product market transactions and accompanying facilities, strengthen management of local markets, standardize the operations environment, and decrease the costs of doing business.

We must set norms for the development of the agricultural product futures market and fully play roles in guiding production, stabilizing markets, and avoiding risk. To better develop the futures market for agricultural products in China, first we must further increase the amount of futures varieties. Second, we must actively develop rural intermediary services organizations and agricultural leading enterprises, use the futures market to guide leading enterprises to signing contracts with farmers, and promote development of made-to-order agriculture. Third, we must strengthen knowledge of and training for farmers to participate in the futures

market, to allow them to make better decisions about agriculture by using information from the futures market.

2. Developing new business models in circulation of agricultural products

We must explore the establishment of production and marketing models for agricultural products that effectively link production with consumption and are flexible and diverse, reduce the links in the circulation chain, and reduce the costs of circulation. We must exert great energy in developing made-to-order agriculture; promoting direct links between producers and wholesale markets, local markets, supermarkets, hotels and restaurants, school and corporate cafeterias, and others; supporting the addition of direct-sales points in urban communities by production bases and rural specialized cooperatives; and developing stable supply and demand relationships in agricultural products. We must support the development of inter-connected urban-rural market bi-directional circulation networks by SMCs and rural specialized cooperatives. We must develop rural commercial information services; conduct exhibition and sales activities for agricultural products of multiple formats and multiple levels; and foster the development of agricultural product convention brands that are both nationwide and region-specific. We must make full use of modern information technology and develop modern transaction formats, such as electronic commerce.

We must guide leading enterprises to sign contracts and form alliances with rural households. When the pork industry had just begun to develop in the US, pork growers sold their products on open markets. Later, as the industry developed, contract relationships and vertical integration gradually replaced open markets. As industrialization of agriculture in China has deepened, leading enterprises and rural households are tending toward closer cooperation and more vertical integration; this may play an increasingly important role in the industry.

Food safety is becoming a growing concern of consumers. To resolve problems of food quality and sanitation, it won't be enough to rely on a single link in the chain of production as we continue to extend it. At present, most means of production rural households need are purchased on the market. The quality of agricultural means of production is becoming the most important factor determining food safety. "Lean meat power/Clenbuterol"¹ and remains of pesticides and livestock drugs are examples of unsafe means of production. Only by ensuring the quality of means of production can we ensure food safety. As the production chain is endlessly extended and refined, it will be difficult to ensure sanitation, quality, and safety of food products without effective contractual alliances. Local governments across the country must not only guide the development of made-to-order agriculture, but must also encourage companies selling agricultural means of production to integrate with downstream production via either backward integration or signing of agreements. So doing is more helpful in promoting the strengthening of

¹It refers to an illegal substance that promotes leanness in animals raised for meat—translator's note.

relationships between leading enterprises and rural households; resolving problems of food quality, sanitation, and safety; increasing the economic performance of agriculture; increasing farmer incomes; and driving the development of modern agriculture in China.

We must make great efforts in promoting linkage between farmers and supermarkets. Supermarkets establish production bases for fresh agricultural products per market demand. We should organize rural households by establishing rural specialized cooperatives on that foundation, and then have those cooperatives sign production and sales contracts with supermarkets. The households then raise their crops and livestock per the demands of those contracts, and supermarkets then buy and process fresh, cheap agricultural products directly from the production base, satisfying the demands of consumers relatively well, and giving rise to a clear advantage in variety, quality, and prices of products. Ultimately this is good for economic performance and for society as a whole.

We must explore the development of third party logistics and delivery. The leading enterprises have a price advantage since they can develop their own logistics based on the supply contract. They implement unified delivery, linkage between production and sales, reduce circulation links, drop circulation costs, and give rise to marked price advantages. Furthermore, the freshness and safety of agricultural products thus supplied are relatively well guaranteed.

3. Improving the circulation system for agricultural means of production

The orderliness of the agricultural means of production market and quality of products thereupon are important factors determining the development of agriculture and growth of farmer incomes. China's market for agricultural means of production has been basically opened, and there is now diversity of entities on that market, driving effective competition, reducing prices, and increasing the level of services. However, farmers in China are at a disadvantage when it comes to discerning the quality of agricultural means of production. It sometimes happens that farmers buy poor-quality means of production, which harms their production and leads to economic losses. To address this, we must exert great efforts in developing modern organization methods for the circulation of agricultural means of production and ensure orderly circulation.

We must further improve corporate governance structures for SMCs and enterprises engaged in circulation of agricultural means of production. We must attract all manner of investors to participate in this business through new construction, mergers, acquisitions, and other means. We must allow rural specialized cooperatives and all manner of socialized service systems to play a full role in the circulation of agricultural means of production.

We must promote integration of the breeding, propagation, and marketing of seeds and spur further assimilation of production and circulation of seeds. For a long time, there have been many seed circulation companies in China, mostly relatively small, with weak research and development capabilities. We must encourage companies that integrate breeding, propagation, and marketing of seeds

to pool resources and build new mechanisms for commercialized seed breeding with companies as the main entities. We must promote the development of modern seed groups and increase the capacity for innovation of seed-breeding companies. We must shore up the marketing and sales networks of said companies.

There have long been widespread problems of fake and low-quality companies engaging in the circulation of agricultural means of production. We must further strengthen management of this market by government departments, setting as the focus targets of this regulation seeds, pesticides, fertilizers, animal immunizations, and so on. We must rigorously combat the sale of fake and low-quality means of production that cheat or harm farmers, and establish an orderly market for agricultural means of production.

Development of Township and Village Enterprises and Transformation of the Ownership System

Over the three decades, a striking characteristic of China's economic development has been the rise and rapid growth of township and village enterprises (TVEs). TVEs grew in rural areas; were collectively established by grassroots governments, entrepreneurs, and rural population; engaged primarily in industrial activities; and had completely different production methods from agricultural production. The development of TVEs is without doubt a continuation of industrialization in China, but as they were born in the environment of institutional separation of urban and rural areas in China, they were not incorporated into state planning or the state system for division of industrial labor in either factor of utilization, industries, or technological structures. So they are not natural extensions of the development of urban industry in China. Moreover, TVEs operated on the market from the very beginning, and so their internal interest structures are clearly different from publicly owned urban industrial organizations. These factors make TVEs unique in China's economic structure.

After the appearance of TVEs, a classic tripartite structure emerged in China's economy and society, giving rise to a new order of production and distribution. TVEs were born in a special political and economic environment in China. Their emergence illustrates the diversity of the road of economic development and reforms in China. Different countries can choose different methods of development, based on their cultural heritages, institutional structures, or resource conditions. The rise of TVEs brought about market relationships between the traditional agricultural sector and urban industrial sector, which had been artificially separated; this increased the quality of economic operations and optimized the allocation efficiency of national resources. What's more, TVEs have been the most important motivator of economic growth in China over the past 30-plus years.

1 Development Course

1. Commune and brigade enterprises prior to reforms

The history of TVEs can be traced back to specialized sideline industry teams of agricultural cooperatives, a primary collective economic organization composed of rural traditional handicrafts workers at the beginning of the collectivization movement. In 1958, people's communes were established. In the same year, the CPC called for the entire population to go all in for industry in a big way. Communes established a great number of commune and brigade enterprises (CBEs) in the countryside by expropriating the industrial and sideline industry operations of former advanced agricultural producers' cooperatives and property of commune members. At the same time, the 35,000 handicrafts industry cooperatives, originally in cities under the management of county handicrafts industry cooperatives, were incorporated into people's communes and became commune enterprises. In this year, there were 18 million workers in communes working in industry, and the industrial output value was six billion yuan. After the failure of the Great Leap Forward, Great Forging of Steel and Iron, and Going All-In for Industry movements, the central government made adjustments to the organization of people's communes, reordering commune enterprises, to develop agricultural production and control the famine of 1959–1961. The "Regulations for Rectification of Rural People's Communes (Draft)," issued in 1962, called for "communes and production brigades to generally not establish enterprises or production teams specializing in sideline industries." The result was that the amount of CBEs shrank yearly, with the total output value of commune industry falling from 1.98 billion yuan in 1961 to 790 million in 1962 and again to 420 million in 1963.

In 1970, the State Council convened the Northern Regional Agricultural Conference, which passed resolutions on accelerating the mechanization of agriculture and development of agricultural production. CBEs were again encouraged, and people's communes around the country gradually began to build a slew of repair and refitting plants for agricultural implements and machinery; many brigades also founded agricultural machinery repair stations. At the same time, the "five small" industries,¹ aimed at serving the mechanization of agriculture, began to develop. At the time, the "Cultural Revolution" was spreading like wildfire, and many urban factories were busy with political critiques and class struggle; this led to extreme shortages in industrial products needed for general use. Some rural communes made use of this opportunity to break through state-imposed restrictions and establish industrial production enterprises for building products other than agricultural machinery. By 1978, there were 1.52 million CBEs, with total output value of 48.3 billion yuan, and 28.2656 million laborers.

¹The "five small" industries include small coal mines, small iron and steel plants, small chemical fertilizer plants, small concrete factories, and small machinery factories—translator's note.

2. Rapid development in the 1980s

In September 1979, the Fourth Plenary Session of the 11th CPC Central Committee passed the “Resolution of the CPC Central Committee on Several Issues of Accelerating the Development of Agriculture,” which clearly proposed that “commune and brigade enterprises must have a great development.” This was an affirmation by the CPC of past achievements of CBEs, as well as a confirmation of their status. In that same year, the State Council Issued the “Regulations on Several Issues of the Development of Commune and Brigade Enterprises,” which further clarified the significance of the development of CBEs and introduced clear development policies and rules to address a series of problems in the development of CBEs. In 1983, the CPC Central Committee issued the document “Several Issues in Current Agricultural and Economic Policies,” which again stressed: “Commune and brigade enterprises are also part of the cooperative economy; we must strive to run them well and continue full development thereof.” The issuance and execution of these supporting policies and regulations gradually pushed CBEs onto a track of stable and rapid development. In 1983, the total output value of CBEs was 101.7 billion yuan, and their total number of laborers employed was 32.3464 million.

In 1984, the CPC Central Committee issued the “CPC Central Notice on Rural Work in 1984,” which reiterated the role of CBEs. At the same time, the document offered encouragement and support to individual and private rural enterprises. In March of that year, the CPC Central Committee and the State Council reissued the Ministry of Agriculture, Animal Husbandry, and Fisheries’ “Report on the New Situation of the Establishment of Commune and Brigade Enterprises.” In retransmitting this report, central officials agreed to change the name of commune and brigade enterprises to township and village enterprises, and made the following stipulation: township and village enterprises include enterprises founded by communes (townships) and brigades (villages), some cooperative enterprises jointly run by commune members, and other cooperative enterprises and individually-run enterprises in other forms.” The notice called for party committees and governments at all levels to “actively guide the development direction of township and village enterprises, manage them in accordance with relevant state policies, and cause them to develop healthily. Township and village enterprises should be treated the same as state-run enterprises, with no discrimination, and necessary support should be given to them. In that same year, reforms to the urban economic system were begun, and many former restrictive policies were gradually abandoned. From that point forward, the political and economic environment for TVEs became more relaxed, and all forms of enterprises competed with one another to develop, with great vitality. From 1985 to 1990, the average annual growth rate of TVE value added was 15.3%, and the average annual increase in labor force employment was 5.8%.

3. Post-1990s situation

In 1992, Deng Xiaoping made his southern tour, expressing China’s resolve to continue reform and opening up. With encouragement from central policies, the

previously realized vitality of TVEs, and contributions in product markets and profits and taxes, a mass fever swept China, with “all townships starting projects and all villages founding enterprises.” The average annual growth rate of added value to TVEs in 1991 was 11.9%, and the average annual increase in labor force employment was 3.8%. In 1992 and 1993, the average annual growth rate of added value to TVEs was 41 and 44%, respectively, and the average annual increase in labor force employment was 10.5 and 16.2%, respectively.

However, in truth not all townships and villages had the conditions to establish enterprises. During the upsurge, local governments made full use of the shortcomings in soft restrictions on bank and credit cooperative budgets to both open new enterprises and expand the size of existing ones; many such projects lacked markets from the get-go, or lacked sustainability.² The result was that the pace of development of TVEs began to slow markedly in 1994, and labor force employment actually decreased in absolute terms in 1994, 1997, and 1998. From 1994 to 2000, the average annual growth rate of TVE value added was 14%, and the average annual growth of labor force employment was 1.1%, both lower than the average annual growth rates for the period 1985 to 1993 by 7.1 and 6.3%, respectively. At the same time, the number of TVEs fell from 23.95 million in 1994 to 20.85 million in 2000, a drop of 16.4%.

In the new century, great changes took place in China’s economic system and economic structure. Foreign investments grew greatly, and many formerly state-owned small-to-mid-sized enterprises were privatized. As the vast majority of TVEs had passed from collective ownership to private ownership, and as there was an excess of imprudent loans taken out at banks and credit cooperatives in the 1990s, China’s economy faced major financial risk. The central government no longer gave clear policy support to TVEs, at which point they entered a stage of steady growth. From 2001 to 2010, China’s domestic value added grew at an average annual rate of 13.9%. Over that same period, TVE value added grew at an average annual rate of 13.5%, and labor force employment grew by an average annual rate of 2.2%.

2 Historical Background to the Emergence and Development of TVEs

1. Problems in the traditional mode of economic development

After the CPC took over power in 1949, they were filled with the grand ambition to completely change China’s society and economy and resolutely promote a development strategy that prioritized industry, and so they built a planned system that controlled every aspect of economic and social life. However, the development of

²Tan (2003).

state-owned industries did not live up to expectations, for the following reasons: (1) This model of industrialization was built on a foundation of the state's reliance on administrative measures to allocate resources. After planning replaced market transactions, serious obstacles emerged in the information system that supported economic operations. A great deal of resources were expended on the oversight of agents, bargaining over prices, and a series of non-production-oriented behaviors, making the cost of all transactions across the economy exorbitant. (2) The system of state ownership completely refuted all private ownership and eliminated competition between economic organizations. This weakened the drive to oversee state-owned enterprises (SOEs), and led to less enthusiasm across the country, from operators to production members. (3) The industrialization movement launched at the time placed particular emphasis on prioritized development of industry. This development model required enormous investments, with long payback periods, and ignored China's competitive advantage of enormous surplus laborers in the countryside, reducing the allocation efficiency of resources across the country.

Although the early industrialization movement was impeded by shortcomings in the planning system and in micro production organizations, it objectively laid a series of conditions beneficial to economic development. First, this model was an imitation of the division of labor systems in developed nations, and further drove accumulation of technological knowledge and institutional knowledge by bringing in capital, advanced technology, equipment, and management models. Second, during the industrialization movement, the state made large investments in transportation, communications, and other infrastructure, set up heavy industry projects in energy, iron and steel, machinery manufacturing, and other areas, thereby improving the material production environment for economic development and creating conditions for future development. Third, state-owned industry fostered a slew of technicians and mature production workers, many of whom became the technical leaders and business nuclei of TVEs. Fourth, the state persisted in the development strategy that put priority on heavy industry. By monopolizing markets and distorting factors and product prices, they objectively created demand for some industrial intermediate goods and final consumer goods, providing profit motive for the early development of TVEs.

The most important was that state-owned industrial enterprises used their own experience to avoid market risks for the development of TVEs and reduced the costs of market development for them. With state-owned industries as references, TVEs found it easy to understand technological structures and production capabilities on markets. When there were profitable products on the market, TVEs copied what SOEs were making, and were competitive with SOEs because of their incentive mechanisms and advantages in labor costs, allowing them to take over market share. In addition, rigidity in wages of urban laborers made production costs for SOEs high, and some SOEs needed to incorporate TVEs within their own division of labor system to benefit from their low costs. In this way, TVEs successfully made use of urban industrial technology, reputations, management knowledge, and marketing and sales networks.

2. Inherent advantages in TVEs

The primary reason why TVEs were able to rise and develop vigorously in planned economy is their inherent advantages which were difficult for urban industries to achieve. First, township and village organizations controlled collective enterprises, but such organizations possess extraordinarily strong organization capabilities. Township and village organizations have the authority to appoint leaders to rural credit cooperatives. With costs of oversight high, the amount of loan credit available to TVEs was often not determined by loan quotas established by the state, but rather by the amount of deposits made by local residents. What's more, township and village organizations frequently made use of their powers to raise capital for enterprises from within the rural community. With the power of such organizations to obtain credit, debt became the most effective means for development and expansion of TVEs. Over the two periods 1981 to 1985 and 1986 to 1990, total investments into township and village collective enterprises was 83.7 and 243.6 billion yuan, respectively, with the proportion of investments raised coming from bank loans and inter-enterprise commercial credit being 55.54 and 53%, respectively; the proportions of investments coming from capital within the enterprises themselves was only 39.28 and 32%, respectively.

Second, production costs for TVEs were significantly lower than for urban industries, and their products had advantages in market competition. After central officials pushed out the development strategy prioritizing heavy industry, they inappropriately increased both capital intensity and technology structures, making state-owned industries incapable of benefiting from China's competitive advantage of cheap labor, thus increasing the costs of production. On the contrary, TVEs were market-facing from the very beginning, and moreover township and village organizations could not make large investments owing to hard limitations on fiscal budgets, meaning that their levels of technology and capital structures were more suited to the characteristics of China's resources. Furthermore, after the central government imposed the household registration system, institutionally separating urban and rural residents, urban residents gradually became a special interest class owing to lack of competition, and their wage levels were markedly higher than those of rural residents and workers in TVEs. In addition, SOEs also bore responsibility for many social protections, including the construction of preschools, kindergartens, hospitals, and other non-production bodies; these increased the costs of operations for these enterprises.

Third, the internal incentive structures of TVEs were superior to those of SOEs. Although TVEs were collectively owned, since their owners—township and village collective organizations—controlled the enterprises and could extract surpluses, there was incentive to oversee the operators of the enterprises. The operators of TVEs also had more authority to make decisions than managers in SOEs, and could also earn a larger share of profits; their production members were entirely the same as workers in privately-owned businesses. So their compensations were written into contracts, and they had no guarantees of life-long employment; therefore, the oversight mechanisms in TVEs were better.

3. Incentives of local governments to found TVEs

Grassroots-level township and village organizations had incentive to develop TVEs. Under the people's commune system, cadres of communes and brigades were direct supervisors over agricultural production. In their capacity as grassroots-level agents of the state, they had to enforce the will of the state and complete all centrally-assigned requisitioning tasks. People's communes were an agreement the state coerced rural population into signing; their primary task was to provide to the state capital accumulations needed for industry. As rural population's rights were seized from them, and they were laden with heavy burdens, the inevitable result was direct conflict between cadres and rural population. To mitigate these difficult situations, cadres sought opportunities to develop industrial and sideline industry enterprises. With economic surpluses they could control, commune and brigade cadres were able to use profits to balance the duties between their people and reduce conflicts with them. Communes and brigades could invest enterprise profits into agricultural production, both mitigating insufficient state investments in agriculture and more easily accomplishing state-assigned planning tasks.³ After the dissolution of the people's commune system, it was no longer necessary to treat problems of asymmetric production obligations and loss of rights through the development of industrial and sideline enterprises. However, such enterprises were highly profitable and increased the incomes of township and village organizations, not to mention bringing enormous profits to members of the government, and so township and village organizations held onto them dearly.

3 Contributions of TVEs

1. Increasing efficiency of resource allocation

By expanding factor inputs, TVEs not only increased their production capacities, but also brought about extremely high productivity. From 1980 to 1988, township and village industrial enterprises boasted a total factor productivity rate 3.66% higher than urban state-owned industrial enterprises and 1.43% higher than collective enterprises.⁴ Although small, TVEs had a more reasonable internal incentive structure than in the urban industrial sector, owing to their adoption of technological structures suited to China's resource endowments, and so they became a highly efficient sector (Table 1).

In addition to increasing the utilization efficiency of existing resources, technological innovations in TVEs also increased the overall competitiveness and development potential of the country. TVEs had to seize profits from the market to survive, and so competition forced them to become active technological innovators.

³Tan (1998).

⁴Jefferson et al. (1992).

Table 1 Total factor productivity of state-owned, collective, and township and village industries over the years 1980–1988

Year	State-owned industries	Collectively-owned industries	Township and village-owned industries
1980–1988	2.40	4.63	6.06
1980–1984	1.80	3.45	4.07
1984–1988	3.01	5.86	8.00

Unit %

Data source Jefferson et al. (1992)

Per the research of Chen (1999), over the years 1990 to 1995, of 4523 TVEs in the sample, “70.7% engaged in technological innovation. Of those, 50.4% engaged in product innovation and process innovation. Only 13.5% had only product innovation, and only 6.8% had only process innovation. Of the sample, 34.4% engaged in R&D, and 22% had formal R&D departments. Over the five years, the average company made 3.8 product innovations and 2.5 process innovations, and the average company obtained 4.7 new items of technology. Most expenditure for company innovation was used to buy machinery and equipment, with expenses in that category accounting for 73.4% of total innovation spending.”

2. Driving economic growth

From 1980 to 2006, the average annual nominal nationwide value added growth rate was 15.9%, while the average annual growth rate of TVEs over the same period was 18.81%; TVEs became the most vigorous sector of China’s economy. In 2010, the nationwide value added in manufacturing was 4.03620 trillion yuan, and the manufacturing value added was 1.60867 trillion yuan; contributions to those figures of TVEs were 27.83 and 40.26%, respectively.

3. Optimizing the economic structure

TVEs engaged primarily in industry. In 2010, TVEs created an industrial value added of 6.47692 trillion yuan, accounting for 57.7% of the total nationwide value added of TVEs and 40.3% of total nationwide industrial value added. Of all TVE employees, 71.053 million worked in industrial production, accounting for 44.7% of all TVE workers and 17.2% of all rural laborers. So the development of TVEs was the continuation of China’s second round of industrialization; they became important drivers of replacement and modernization in China’s economy and social structure.

Since TVEs operated in the market from their inception, they had to consider consumer demands, and so their development also optimized China’s industrial structure, correcting the Chinese economy’s long-term skew toward heavy industry. In 1990, heavy industry accounted for 50.6% of China’s industry structure, a drop of 6.3% from 1978s rate of 56.9%. After the industry structure had been improved, the liaisons between heavy and light industry as well as between agriculture, production, and consumption had become tighter. Furthermore, as light industry

requires relatively less investment than heavy industry, and as its production cycles are relatively shorter, nationwide investment industry increased, and consumers also benefited from more social welfare.

4. Driving reforms to the economic system

Unlike the “shock treatment” applied to the former Soviet Union and Eastern Europe, China’s economic system reforms advanced gradually, without impacting vested interests. The benefit of “gradual” reforms is a relatively stable reform process, without the appearance of large conflicts of interests or group confrontations, but it does require that society use resources to compensate vested interest groups. The development of TVEs led to great economic growth in China, and the products they provided won social support for reforms. The profits they generated ensured the enthusiasm of reformers. The taxes they paid increased the state’s ability to make public and transfer payments, thereby reducing the friction costs of the reform process. Competition between TVEs and SOEs in factor and product markets led to restructuring of the property rights structure and technological innovation. So TVEs provided practical support and drive to China’s economic system reforms.

5. Increasing rural incomes

In 2010, the per capita net income of rural population, composed of both wages and household operations income, totaled 2524.4 yuan, accounting for 42.7% of per capita net income in that year. Most of that income came from TVEs. Therefore, the growth of TVEs was advantageous to increases in the purchasing ability of rural population and the degree of expansion of transactions and division of labor across the nation. China’s economy is currently industrializing, and so the central government cannot hand out large subsidies to rural population through fiscal and price measures, as is done in developed nations. The policy space for increasing rural incomes through increases to agricultural yields and price levels is highly limited. So TVEs became an important channel for increases to China’s rural population, then, now, and in the future.

4 Transformation of the Collective Ownership of TVEs

1. The collective ownership of “unified income and unified expenditures”

During the era of the people’s commune system, prior to rural reforms, strict planning controls were exerted on the entire economy. Approvals were necessary from superior levels of government to determine whether rural enterprises could be founded, what industries enterprises could enter, whether industries could obtain necessary materials, channels and methods of selling products made by such enterprises, and so on. Communes and brigades controlled the usage of all land and labor. So under the conditions of the time, the human capital of entrepreneurs who

wanted to develop markets or make technological or organizational innovations had no effect in CBEs. It was the capital of political power controlled by communes and brigades that determined whether CBEs lived or died, succeeded or failed. The result was that communes and brigades arrogated all power and all the resources of CBEs to themselves. Factory managers were directly appointed by commune and brigade cadres, and workers were assigned by the communes or brigades. Enterprise profits and the use of reproduction capital to expand enterprises were subject to “unified income and unified expenditures” by the communes and brigades.

2. The contracting system

After the dissolution of the people’s commune system, township and village organizations did not renounce ownership over collectively-held enterprises. To better provide incentives for and supervise enterprise operators, township and village organizations implemented contracting system reforms to collective enterprises in the early 1980s. The system was divided into four models: collective contracting, contracting by an individual manager, partnership contracting, and individual contracting. Enterprises subject to collective and manager contracting were generally large, with more advanced technologies and equipment, and normal production, supply, and sales. Enterprises subject to partnership and individual contracting were generally smaller, with unstable production, with low profits or even losses. The contracting system meant short-term agreements between enterprise owners, township and village organizations, and enterprise operators, regarding who had rights to control the enterprise and how to divide surplus earnings. The goal of the system was to make a positive connection, to the greatest extent possible, between the powers and responsibilities granted to operators.

3. The shareholding cooperative system

In the early 1990s, officials in Zibo, Shandong and other places implemented shareholding cooperative reforms. The method of the reforms was to divide the assets of collective-held TVEs into collective shares and enterprise shares, after thoroughly inventorying enterprise assets. The collective took 70% of shares, owned by members of the township or village collective, and the township and village organization represented the shareholders in controlling this share of assets. Enterprise shares accounted for the remaining 30%. In general these shares were further split among members of the enterprise according to years of working, wage level, position and duties, and other conditions, in order to maximize contributions of said members to the enterprise. After assessing and demarcating existing assets, collective enterprises sold shares to enterprise workers, individuals outside of the enterprise, and other legal persons (corporations) in society. Shares issued to individuals were used as the basis of dividing dividends; they could not be sold, transferred, or inherited. When enterprise members were transferred away, retired, or quit, their basic shares were automatically cancelled. Therefore, individual basic shares were a means of profiting only for a limited period of time.

4. Privatization

Reforms to collective-held TVEs accelerated in the late 1990s, when reform methods became more thorough. Other than a few large or highly profitable enterprises, which were reformed into shareholding enterprises, most small and mid-sized enterprises, especially those experiencing losses, were privatized through auctions or sales. After reforms, most enterprises were owned by their operators. This reform method met with doubts, as some believed these were black-box operations or power-for-money deals, or that they led to losses of collective assets and unfair distribution of wealth. We do not deny that in some areas, some individual enterprises were as people feared. However, the widespread adoption of these methods demonstrates that original operators had advantages in reforms to the ownership of collective enterprises, such as collaborative relationships with officials of superior governments, banks, material suppliers, product vendors, people within the enterprise, and others.⁵

5. Reasons and routes of ownership reforms

As market-guided reforms to the economic system deepened, China's economy gradually shook free from shortages, and market competition became fierce. Market development and innovations in organization and technology became key factors determining income streams to enterprises; this made the human capital of entrepreneurs more important. At the same time, marketization reforms greatly weakened the advantages of township and village enterprises, corroding and eventually destabilizing their role as owners. The key phases in the process whereby the capital productivity of township and village organizations reduced are as follows: (1) Rapid growth in TVEs made them more capable of negotiating for themselves and eliminated both biased positions that previous state policies had taken against them and external pressure on them, thereby reducing the effects of the risk of having their property expropriated and the need for township and village organizations to protect their property rights. (2) In 1984, after the central government allowed individuals to establish rural enterprises, township and village organizations lost their special privileges of control over a community's resources. (3) In that same year, the state began comprehensive reforms to the planned economic system, gradually abolishing restrictions on product markets, reducing the scope of restrictions on factor markets, and equalizing the status of all kinds of enterprises in market entry and access to factors. Township and village organizations began to lose their guiding position in organizing transactions and obtaining factors. (4) After 1994s reforms to commercialize the banking system, commercial banks and credit cooperatives were no longer completely reliant upon local governments, but rather had more rights to independent economic benefits and self-rule in operations. They became more interested in the profitability and potential to pay back loans of enterprises, and not solely the identity of the owner. This led to the

⁵Tan (1999).

loss of another advantage in organizing resources of township and village organizations.⁶ (5) In 1994, central authorities implemented tax-sharing reforms in the fiscal system. The tax-sharing system divided fiscal revenues between central and local governments divided by the category of taxes. The reforms eliminated the problem of local governments constantly haggling over prices in the original fiscal contracting system and made the fiscal system more transparent. After the reforms, township and village organizations no longer had special privileges to give tax breaks to collective enterprises. (6) The 14th CPC National Congress established the building of a socialist market economy as the objective of reforms. The 15th CPC National Congress affirmed that the non-publicly-owned economy was an important component of the socialist market economy. Marketization reforms greatly reduced the risks of development of the private economy, and there was a marked drop in the need of private enterprises for political protection from township and village organizations.⁷

6. Future prospects for TVEs

The direct effects of TVEs have been to enrich market supply, make arrangements for a large amount of rural surplus labor, increase rural incomes, and grow state tax revenue. More importantly, however, they have expanded the division of labor and transactional relationships across the country, made marketization deeper and broader in China's economy, and increased the efficiency of allocations of public resources and the pace of technological progress through competition. TVEs were born in a special economic and institutional environment in China, and their production structures and methods, as well as internal organization, were replete with characteristics of underdeveloped market relationships. As economic system reforms in China deepen, factor markets and product markets are further improved, and economic organization further develops, the entire economy will guide production using market profitability. At that time, marginal productivity and return rates of capital and labor will trend toward equivalence in different regions, different industries, and different organizations. TVEs will ultimately merge into the overall market division of labor and cooperation system, and the peculiarities of their institutional characteristics will gradually fade.

In truth, beginning in the latter half of the 1990s, most township and village organizations lost both the ability and drive to establish TVEs. When many existing collective enterprises were privatized, a slew of enterprises lacking viability were closed. TVEs with adequate size and vitality entered industrial parks, both academic researchers and government policymakers lost their enthusiasm for TVEs. The major reason for that is that after many years of reforms and development, the degree of marketization in China was already quite high, and prices had already become the primary signal determining resource allocations; the assets controlled by township and village governments and organizations thus began to diminish.

⁶Tan (1999).

⁷Tan (2003).

The development trend of TVEs was advantageous to industrial and commercial agglomeration and urbanization, to reducing pollution, and to increasing resource utilization efficiency. We may confidently claim that the traditional development model for TVEs has already become history, and that the nationwide zeal for founding TVEs of the 1980s will never come again.

Rural Cooperative Economic Organizations: Development and Innovations

In this chapter we briefly discuss rural cooperative economic organizations in China prior to reform and opening up, look back on the evolution and development of such organizations over the past 30-plus years, make forecasts for future evolution and development, and propose measures to deepen reforms.

1 Basic Forms of Rural Cooperative Economic Organizations Prior to the Beginning of Reforms

Shortly after the founding of People's Republic of China, China began to establish a four-part rural cooperative economic organization system, composed of agricultural production cooperatives, handicrafts industry cooperatives, supply and marketing cooperatives (SMCs), and credit cooperatives. However, beginning in the mid-1950s, after China began the road of industrialization with emphasis on heavy industry and the complete state monopoly system on agricultural products, the central government coercively implemented complete collectivization of agriculture from top to bottom, violating the will of the people and expropriating their private property. Central authorities forcibly implemented the people's commune system in the countryside, putting all ownership of rural land under collective ownership of the communes; at this point the cooperative movement was replaced by the collectivization movement. In the 1960s, the central government adjusted the people's commune system, establishing a "three-tiered ownership system, with production teams as the foundation." This changed the original commune ownership system into a three-tiered economy composed of communes, production brigades, and production teams. Of those, the production team was the basic unit of accounting; they kept independent accounts and were responsible for profits and losses. Rural population of China became passive laborers without the rights to free movement or free choice of occupation under the people's commune system.

At the end of the 1970s, the household contract responsibility system was introduced into the countryside and rural population were no longer a monolithic mass of laborers, but developed into independent operators of small production with private property. China's economy evolved from a planned system into a socialist market system. In the countryside, the state monopoly on agricultural goods was reformed, and rural population gained some rights to operate their own production and make their own transactions. Rural population became a market entity with the power to make their own production decisions and responsibility for their own profits and losses; this laid the institutional foundations for the future development of cooperative organizations.

2 Development Course

Since reform and opening up, the development of China's rural cooperative economic organizations has proceeded on two tracks. The first was government-guided reforms to the legacy of the traditional cooperative economic organizations system under the people's commune system. The second was the development of new rural specialist cooperative economic organizations willingly founded by rural population themselves.

1. Reforms to and development of rural community cooperative organizations

Reforms to rural community cooperative organizations were implemented with direct drive from the government, against a background of universal implementation of the household contract responsibility system.

- (1) Prior to the mid-1980s: building regional cooperative organizations and replacing the traditional people's commune system

At the end of 1978, the Third Plenary Session of the 11th CPC Central Committee set the guiding policy for reform and opening up, and in 1979 the Fourth Plenary Session passed the "Resolution of the CPC Central Committee on Several Issues of Accelerating the Development of Agriculture (Draft)." Although the document continued to persist in upholding the traditional people's commune system of "three-tiered ownership, with the production team as the foundation," it reconsidered the lessons learned in agricultural development since 1958; established the entire party's concentrating all energy on grasping agriculture and incentivizing rural population as the keynote of development; and stressed the respect and protection of the democratic rights and material interests of commune members. The document proposed "contracting labor to work groups and linking output calculations with labor compensations," laying ideological foundations and institutional protection for reforms to the traditional people's commune system and implementation of the household contract responsibility system, and setting the stage for reform and opening up. Things went quickly. By the time of the spring planting in

1979, 300 million rural population in two million villages were part of the household contract responsibility system.

The No. 1 Central government document of 1980, "Several Issues in Further Strengthening and Improving the Agricultural Production Responsibility System," affirmed the course of rural reforms already in progress and called for governments everywhere to "take establishing and solidifying the production responsibility system and further calculations of labor payments as an important task." By 1982, 98.7% of rural production teams had launched the agricultural production responsibility system, and over 80% opted for the method of contracting work to households. The No. 1 Central government document of 1983, "Several Present Issues in Rural Economic Policy," proposed reforming the people's commune system and implementing the production responsibility system, particularly the household contract responsibility system, and the separation of government from communes.

The CPC Central Committee's "Notice on Rural Work in 1984" formally proposed the major policy of extending land contracting terms to 15 years or more, and also called for: "In order to improve the system that integrates centralized and decentralized operations, in general, regional cooperative economic organizations founded in public ownership of the land should be established. They can be established at the level of the village (or brigade or alliance of brigades) or at the unit of the production team; they may be separated from village committees, or established as two signs under one roof." "Rural population can choose not to be subject to regional restrictions, and may voluntarily participate in or form all manner of specialized cooperative economic organizations of different forms and sizes." To this extent, the central government began to expound on the direction of changes to the traditional people's commune system and the direction of development and innovations in new rural cooperative organizations. The document also clearly defined the basic functions of regional cooperative economic organizations, calling for them to "shift the focus of work onto the organization of work to serve rural households," including "properly performing land management and contracting management; properly managing irrigation works and agricultural machinery; organizing plant protection and disease prevention; promoting science and technology; building farm field irrigation infrastructure; and providing pre-production and post-production services."

The No. 1 Central government document of 1987, "On Deepening Guidance of Rural Reforms," concretized regional cooperative economic organizations as township and village cooperative organizations, and further explained: "Township and village cooperative organizations are formed primarily centered on public ownership of the land; they are different from specialized cooperatives, characterized by community-orientation and comprehensiveness." Their basic functions are: "production service functions, management coordination functions, and asset accumulation services; in places with the right conditions, they may organize resource development and establish collective enterprises."

The primary characteristics of rural cooperative organization development during this stage were as follows. The central government consistently persisted in the

construction of community cooperative economic organizations of “integrated centralization and decentralization and two-tier operations.” The goal was to use the “centralization” at the collective level to resolve those issues that the decentralized system of rural households under the contracting system couldn’t resolve or couldn’t resolve well, while making it easier to complete some production projects and tasks assigned by the state. Even so, as the establishment of regional cooperative organizations relied on the old system of people’s communes, they were inseparable from village committees and in some cases also from village party branches as well. So from the day they were born, regional cooperative economic organizations of “integrated centralization and decentralization and two-tier operations” were strongly imbued with “official” characteristics, making their “centralized” role difficult; in reality this decreased as rural household operations became more diversified. In 1988, a Ministry of Agriculture survey into regional cooperative organizations in 1200 villages of 100 counties indicated that from 1984 to 1987, 70% of village organizations established cooperative organizations, 83% of which merged the village with the cooperative, and only 17% of which separated the two. In the sample villages, the levels of services provided by cooperative organizations dropped continuously in all areas, including mechanized plowing, purchasing of means of production, plant protection, sales of agricultural products, agricultural machinery services, training and guidance in technology, and so on. The biggest drop was in sales of agricultural products, from 63% down to 23% in 1987, but the demands of farmers for pre-production, in-production, and post-production services continued their gradual ascent. Conversely, cadres in many rural governments directly worsened relations between the government and the people through a number of apportionments and fees often levied in the name of centralized operations. With villages and communes merged and no separation of government and enterprises, village organizations were quasi-governmental, with administrative functions including “taking money (deductions), taking grain (contract purchasing), and taking life (planned birth)”; this led to direct conflicts between the government and the people. As a result, the construction of regional cooperative economic organizations under the old system not only failed to meet expectations, but in fact evolved in the opposite direction.

(2) Late 1980s: launching reforms to establish the rural shareholding cooperative system

In the late 1980s, as urbanization accelerated, self-initiated reforms and innovations to create rural community shareholding cooperatives were begun, with representative cases being Tianhe, Guangzhou and Henggang, Shenzhen. Some of the collective assets of cooperative organizations were assessed, and quantified shares divided among collective members on the basis of their age, time worked, occupation within the collective, and other factors. At the same time villagers received their shares as collective members, many asked to be allowed to buy more shares from the collective with their own money; this gave rise to a tripartite shareholding structure of quantified shares, collective shares, and member cash shares.

“Collective shares” were often 50% or more of the total, to ensure that the collective maintained a controlling position. The reform allowed villagers to share in cooperative organization dividends, but quantified shares could not be transferred, used as collateral, or inherited.

- (3) Since the 1990s: expansion of development room for the community shareholding cooperative system, and introduction of the land shareholding cooperative system

In the 1990s, to allow rural population to share in the profits of conversion of land to non-agricultural purposes, Hainan, then part of Guangdong Province, took the lead in comprehensively launching reforms to establish the land shareholding cooperative system, by allowing the people to buy shares with their contracted land, on a basis of voluntariness. Hainan officials established shareholding cooperative economic organizations, and centrally, reasonably planned the uses for land owned under the shareholding system by rural population, promoting reasonable transfers and effective use of land resources, and driving rural labor into non-agricultural fields. Shares owned by rural population entitled them only to the right to share in profits; they could not be inherited, transferred, or used as collateral.

In the mid-1990s, some village collectives deepened land shareholding cooperative system reforms, pushing institutional reforms of “no additions with births, no reductions with deaths,” at the same time improving rights to individuals’ shares: they had the right to profit and also to make decisions about the land’s use, and shares were allowed to be inherited, transferred, gifted, or used as collateral within the community.

In the 21st century, as urbanization—typified by “abolishing counties and establishing districts” and “abolishing villages and establishing resident committees”—accelerated, other economically developed areas, like Beijing, Jiangsu, and Zhejiang, borrowed from Guangdong’s experience and implemented the shareholding cooperative system in village cooperative economic organizations. After making a thorough accounting of all collective operational assets other than land, the focus of these reforms was on quantifying village-level operational assets and distributing them to each villager, who received shares based on their identity, labor contributions, and other factors. Not only did every villager own shares, but the village collective also retained a portion of shares, 30% for example. Decisions within the collective were decided on the basis of “one person, one vote,” and dividends were divided by shares.

Overall, the reforms and development of regional rural cooperative economic organizations have been slow since reform and opening up. Initial statistics from the Ministry of Agriculture indicate that by 2015, only 41.2% of villages around the country had reformed rural cooperative economic organizations founded with traditional resources from the people’s commune system. That means that nearly 60% of villages have established village committees and village party branches but have not reestablished regional cooperative economic organizations centered on collective ownership. To accelerate reforms and development of regional rural economic

cooperative organizations and inspired by the spirit of the Third Plenary Session of the 18th CPC Central Committee, which is to “promote the common development of household operations, collective operations, cooperative operations, enterprise operations, and other innovations in agricultural operations methods,” the No. 1 Central government document of 2015, “Several Opinions on Intensifying Innovation in Reforms and Accelerating the Construction of Agricultural Modernization,” proposed to promote reforms to rural collective property rights systems, exploring effective ways to bring about rural collective ownership, innovating in rural collective economic operations, and issuing opinions to stably promote reforms to the rural collective property system. The document also proposed grasping the research and drafting of regulations for rural collective economic organizations.

2. Innovations and development of new-type rural specialized economic cooperative organizations

Rural specialized collective economic organizations are the representatives of new rural cooperative economic organizations. They are products of reforms to the rural economic system and development of the socialist market economy.

(1) Before the 1990s: development of village specialized technical associations

Shortly after the outset of reforms, on the seller’s market of the time, the primary difficulties facing the majority of rural households in developing multiple kinds of operations were lack of technology and obstructed market information. So some specialized rural households producing the same kinds of agricultural products took the lead in acting, under guidance from local scientific associations and other organizations. Given a prerequisite of not changing household contracting, they united, on the principles of voluntariness, mutual benefit, and democracy, and jointly developed technological exchanges, technological dissemination, the introduction of new varieties and technology, and other activities, giving rise to many forms of rural specialized technical associations, which became the embryonic form of new rural specialized cooperative economic organizations in China following reform and opening up.

The Five No. 1 Central government documents issued beginning in 1983 gave support and active guidance to the development of new rural cooperative organizations. The CPC Central Committee’s “Notice on Several Issues in Current Rural Economic Policies,” issued in 1983, called for adapting to the demands of commercial production by “developing the cooperative economy in many forms.” The document stressed that: “For a long time, the erroneous influence of ‘leftist’ tendencies made some wrong beliefs popular: once one speaks of cooperation, that means the merging of all means of production together with no dividends paid on shares allowed. Once one speaks of cooperation, it has to be limited to production cooperation, leaving some links of pre- and post-production out. Once one speaks of cooperation, it’s limited to regional cooperation, with a gradual transition of public ownership, and no allowance of cross-regional, multi-level cooperation.

These unrealistic conventions are now beginning to be broken by the practical experience of the masses.” “No matter what kind of alliance, so long as it abides the principles of voluntariness and mutual benefit between laborers, accepts guidance from state planning, has democratic management institutions, takes public deductions, makes accumulations for the collective, makes allocations based on labor input or primarily uses this practice, and simultaneously issues a certain proportion of dividends to shareholders, it is part of the collective economy with socialist characteristics.”

Four consecutive No. 1 Central government documents from 1984 to 1987 upheld the spirit of the No. 1 Central government document in 1983, continuing to emphasize the need to actively develop and improve the rural cooperative system, per the principles of voluntariness and mutual benefit, and in accord with the demands of the commercial economy. These documents provided a good policy environment for reforms to, innovations in, and the healthy development of rural cooperative economic organizations.

Relevant statistics from the Ministry of Agriculture indicate that in 1987, there were 78,000 rural specialized technical associations in the country. They drove the development of agricultural production specialized households and specialized villages and laid an important organizational foundation for the development of agricultural product specialized cooperatives.

(2) The 1990s: common development of specialized cooperatives and specialized associations

In the early 1990s, market mechanisms for the circulation of agricultural products in China came under construction. As officials resolved problems of excessively small and decentralized markets accessible by rural households, specialized cooperatives for the sale of agricultural products emerged. The founders of these cooperatives were salespeople and processors of agricultural products, suppliers of means of agricultural production, village cadres, and others. They provided services to members, ensured stable economic benefits to member farmers, and achieved higher sales incomes than average market prices by having farmers provide products per the demands of the founders. A Ministry of Agriculture survey conducted in 1998 indicates that about 30% of agricultural production organizations were “motivator” cooperative economic organizations, and 60% of cooperative economic organizations were specialized cooperatives. As such, in the late 1990s, rural specialized cooperative economic organizations started becoming an important vehicle for the organization of agricultural production operations.

Development of rural cooperative economic organizations in the 1990s remained slow, primarily for the following reasons. First, marketization reforms were not thorough. There were sector monopolies, existing to different extents, in both agricultural product markets and agricultural production factor markets, and so there was limited room for the development of farmers’ cooperatives. Second, the scale of specialized productions of rural households was small, and most transactions of agricultural products still took place beside the field, and so the demand for

cooperation was not strong. Third, the legal environment was not sound. Without relevant laws, it was difficult for rural cooperative organizations to achieve market status.

(3) Twenty-First Century: accelerated development of rural cooperative economic organizations, represented by rural specialized cooperatives

In the early 21st century, China acceded to the World Trade Organization (WTO), and agricultural development entered a new stage. At this point, rural households faced competition from both domestic and international markets, and slow growth to rural incomes became the most pressing task of the “three rural issues”. To improve the environment for market competition for rural households and increase rural incomes, central agricultural policies began skewing toward “giving more, taking less, and invigorating”; policies also began actively encouraging rural population to unite and commonly develop specialized cooperative economic organizations. The “People’s Republic of China Agricultural Law,” which went into force on July 1, 2003, clearly called for the state to encourage rural population to willingly form all manner of specialized cooperative economic organizations, on the basis of the household contract responsibility system. The “People’s Republic of China Rural Specialized Cooperative Law” formally went into force in July 2007. This put the development of rural cooperative enterprises in China onto the fast track. The development of rural cooperative economic organizations, represented by rural specialized cooperatives, accelerated; this became a bright point in innovations to the agricultural operations and organization system. New statistics from the State Administration of Industry and Commerce (SAIC) indicate that as of the end of May 2015, there were 1.393 million registered rural specialized cooperatives in the country, with total capitalization of three trillion yuan and 39.1701 million members, year-on-year growths of 22.6% in number of cooperatives, 32% in capital, and 15.4% in membership.

The effects of rural specialized cooperative economic organizations are becoming increasingly pronounced in promoting modernization of agriculture; participating in industrialized agricultural operations; driving standardization, increased scales, branding, and specialization in agriculture; and increasing rural incomes. They are driving transfers of the land and the development of cooperative farms, rental operations, and other forms of scale operations. They are encouraging rural households to develop industrialized operation methods typified by “company + cooperative + rural households.” They are also playing an important role in improving socialized services for agriculture, providing full-process services for agricultural production, preventing and controlling plant diseases and pests, promoting new varieties and planting processes, increasing the quality and safety of agricultural products, and so on.

However, on the whole, rural specialized cooperative organizations remain in the initial stage of development. Their operations scales remain small; their overall strength is lacking; their capacity to withstand risk is weak; and their market share

for sales of agricultural products and purchase of agricultural means of production remain extremely limited. Furthermore, their internal operations are not standardized, and the principles of cooperation have not been thoroughly implemented. More are tending toward shareholding system operations, and it has been impossible to implement democratically controlled decision-making institutions or profit distribution mechanisms based on returns of transaction totals. Many cooperative organizations are controlled by their founders, and the level of participation by farmer members is low; incentive and restriction mechanisms for the sharing of profits and risks have not been established. Some rural specialized cooperative economic organizations are, in fact, nothing more than “companies + rural households,” lacking “cooperation.”

3 Outlook: The Growing Dominance of Organizations Offering Specialty Services

1. Rural cooperatives will become important vehicle for improving the basic operations system of agriculture

The Third Plenary Session of the 17th CPC Central Committee called for resolutely persisting in the two-level operations system with the household contract responsibility as its foundation and integration of “centralization and decentralization,” while also promoting innovations in mechanisms and institutions for agricultural operations and accelerating changes to agricultural operations methods. Household operations should transition toward intensiveness, and centralized operations should transition toward development of alliances and cooperation between rural households. A diversified, multi-level, multi-form operations and services system should be sought.

International experience in agricultural development also indicates that agricultural production is characterized by the intersection of economic reproduction and natural reproduction. This gives rise to differences between production time and labor time in agriculture, making the fruits of labor difficult to supervise, thereby making the household operations system the consistent basic operations method for agricultural production in all nations. It has vigorous long-term vitality in all countries at all stages of development and in countries still in the stage of traditional agriculture or in countries in the stage of modern agriculture. Owing to China’s fundamental national condition of plentiful population and scarce land, land still bears the function of ensuring basic living conditions for most rural population, and as such we should even more so persist in maintaining the household contract responsibility system as the basic system for agriculture.

Nevertheless, with economic globalization, most small farmers are at a terrible disadvantage when it comes to competing on the markets with transnational companies and big capital; they are trending toward marginalization. Under the

WTO framework, the government has an extremely limited capacity to enact protective measures, making it difficult to satisfy the basic needs of most small farmers. With institutional weaknesses caused by decentralized, overly small sizes of operations in the forms of high transaction costs, information asymmetry, high market risks, and slow reactions to introduction of new technologies, as well as the dual pressures of malfunctioning markets and malfunctioning governments, how are the masses of small farmers to improve their lots on the market and bring about linkage with the greater market. The cooperative system provided an effective choice for the masses of small farmers. Cooperatives use unifying activities such as providing market information to members, purchasing of agricultural inputs, sales of agricultural products, joint use of agricultural equipment and machinery, and joint control of plant diseases and pests, as well as the provision of services such as joint development of mutual aid in capital and agricultural insurance, to help small farmers reduce transaction costs for market access, achieve scale efficiency, avoid market risks, reduce uncertainties in markets, drive improvements to the market competition environment, and allow markets to play a guiding role.

So the cooperative system is an important organizational vehicle for breaking through restrictions in areas such as effective organization of production factors in household operations methods, increasing the market competitiveness of rural households, and driving the development of modern agriculture. It is of general significance to future innovations to the basic agricultural operations system in China. Cooperation and unification of rural households on the foundation of the household contract responsibility system will become a means of development for innovations to the basic agricultural operations system in the new era.

2. Specialized cooperative economic organizations, specializing in products or services, will become mainstream

Rural cooperative economic organizations in China can be divided into two categories: those centered on geography and those centered on industry. In terms of development trends, the latter will become the mainstream for rural cooperative economic organizations. Its inherent logic is that on the one hand, as the market economy deepens, small farmers who used to produce the same products in traditional communities will gradually diverge, and a new demand for cooperation will arise. Specialized rural households whose production objectives are products for sales and engage in the production of different kinds of products will place more emphasis on the demands of cooperation and willingness to cooperate. On the other hand, the development of modern agriculture and the modern circulation industry objectively demands specialization, standardization, scale operations, and branding in agricultural production. The production and operation activities of rural households will change in accordance with changing markets for final agricultural products. They will introduce modern methods of agricultural operations, and make standardized, branded products that meet quality control specifications. All these activities are established on a foundation of production of different agricultural products. As a result, specialized cooperative economic organizations based in

operations and business, and not in specific regions, will become the mainstream. Furthermore, as increased industry clustering, increased capital intensification, and vertical coordination become mainstream development trends, and with restraints from competition on the buyers' market, specialized cooperative economic organizations will continue to develop with Chinese characteristics, typified by prominent corporatization and shareholding structures, as well as acceleration of motivation of rural household entities to specialize, standardize, and establish large scale operations. Community cooperative economic organizations centered in regions are the result of changes to the traditional system. They are heavily imbued with characteristics of the planned economic system, and links between members do not come from the demands of common economic interests, but rather from regional relationships, family relationships, or clan relationships. Traditional trust relationships built on common cultural identities will be broken or weaken, to differing degrees, as the market economy penetrates further, and as communities continue to open. They will also be replaced by contractual relationships based in economic interests between members of the community. Relatively closed communities in traditional agricultural areas will continue to become more opened as flows of labor, capital, and technology, and other production factors, continue to accelerate.

3. Development of open alliances and cooperation between cooperatives will accelerate

Cooperation and alliances between cooperatives are the products of cooperative economic organizations' having developed to a certain stage. Compared to large companies and leading enterprises in the same industry, rural specialized cooperatives remain small and mid-sized enterprises; they still have problems of small scales, weak economic strength, and decentralized operations. As market competition intensifies and their business activities grow, rural specialized cooperatives will form alliances and cooperation to reduce operations costs and provide inherent impetus to improve market status. Cooperation and alliances between specialized cooperatives and other related enterprises can develop not only horizontal integration, but can also bring about economies of scale and optimization of resource allocations. They can also drive vertical integration in operations, extend toward deep processing of agricultural products, expand the scope of business activities, and give rein to the branding effect of core cooperation and organization in the supply chain. Furthermore, they help to avoid destructive competition between agricultural product cooperatives specializing in similar products and increase the negotiating power of cooperative economic organizations on the market.

There are two basic kinds of organization for cooperatives to unite and cooperate in China at present. The first is the united organization with community characteristics, meaning that they do not themselves engage in for-profit business activities. Their functions are to provide services to members of rural cooperatives, like training, technological dissemination, information, financial management instruction, promoting cooperation in business activities between members, and so on.

They also represent rural cooperative organizations to the outside, making them a bridge connecting rural population and governments. They are often located in county tier-one cooperative organization unions, and generally found sub-committees by industry. The other kind is the alliance organization with enterprise characteristics, which develop business activities, seek to maximize profits, and also serve members. These alliance organizations are often established with a focus on a given industry or product, such as a dairy federation, a fruit and vegetable organization, high-quality agricultural product federations, and so on. Some are closed coalitions, meaning that organization members are limited to members of cooperative economic organizations. Others are open coalitions, meaning that they bring in other private enterprises, specialized production households, large operations households, or other non-cooperative organization members from within the same industry. Looking at overall development trends, open coalitions have more vitality, as they are able to achieve optimization of allocations of production factors of a larger scale. They merge strength with strength, amplify reciprocity of advantages, bring about scale economies, reduce costs, broaden the regional brand effect, and better improve the market competitiveness of members.

In the 21st century, and particularly in recent years, some regions where rural specialized cooperative economic organizations have developed rapidly have seen a new development trend whereby such organizations are bottom-to-top or integrate top-to-bottom with bottom-to-top. Most recent data from the Ministry of Agriculture indicate that in 2014, there were over 6000 rural specialized economic cooperation federation in the country, with 84,000 member cooperatives and over 5.6 million member households.

4. Development and innovations in rural cooperative economic organizations facing two major challenges

Future reforms and development of rural cooperative economic organizations, represented by specialized collectives, will face two major challenges. The first is the environment for survival. Cooperatives are imports from the West, and there has long been a problem of how to localize them in China's countryside. As the countryside lacks social foundations for free formation of associations, the people lack the cooperative cultural spirit of independence and self-rule. Since reforms began, the government has implemented a guiding policy of "first encouraging industrialization of agriculture, then developing cooperation in agriculture. Since China's accession to the WTO and opening to international markets, officials have guided competitive enterprise capital into agriculture, squeezing the development room for rural self-help cooperative organizations. The agriculture industry itself is trending toward intensiveness of both technology and capital, further squeezing the space for survival of cooperative organizations. Changes in the external environment will accelerate the further opening of space for allocation of production factors by rural cooperative organizations, thereby strengthening differences between members. The second is the internal construction of organizations. On the one hand,

they lack entrepreneurial talent with cooperative concepts and capital factors. On the other, most rural households hate risk and are classic risk avoiders, making it difficult to put principles of democratic control and restrictions of capital rewards into place. Facing challenges on the inside and the outside, in order to survive and grow, they may ultimately have to tend further toward shareholding or corporatization.

To promote healthy development of rural cooperative economic organizations, the government must enact policy objectives to support cooperatives, improve the legal system, ameliorate government support methods, and strengthen oversight. At the level of improvements to the law, the National People's Congress in 2015 made plans to formally revise the "Rural Specialized Cooperative Law." It is predicted that they will expand the scope of business activities approved by rural specialized cooperatives, grant clear legal status to cooperative federations, and give effective institutional room to the masses of rural households to make their own choices as to how they help themselves. At the level of improving policy support methods, standardization of relationships between the government and cooperatives will be a focus in the future. Current government policies place more emphasis on supporting cooperatives, with their focus on support given in the form of project capital. This has given rise to widespread defrauding of government support capital by fake cooperatives, who illegally receive subsidies and tax incentives, under the guise of cooperatives. This has impacted the order of fair competition on the market and harmed the interests of small rural households. The "Rural Specialized Cooperative Law," however, establishes the government's functions as only "supporting, guiding, and serving," without any clear oversight functions. This has led to difficulty on the part of relevant government departments in carrying out corresponding oversight. In the future, at the level of strengthening oversight, we must learn from international experience and gradually create an oversight system that combines self-auditing by cooperatives, government audits, and third party audits. In particular, governments at all levels should strengthen external compulsory audits performed by third party services on cooperatives that receive government support capital or tax incentives, in order to ensure effective, thorough implementation of stipulations of the "Rural Specialized Cooperatives Law" regarding distribution of government support capital and preferential taxation policies for rural specialized cooperatives, to ensure fair market competition, and protect the lawful rights of agricultural producers.

Development of the Rural Labor Market

Prior to reform and opening up, rural population did not have the right to control their own labor. As the household contract responsibility system has taken root and rural labor has gradually become freer, labor released from agriculture has shifted away from planting and toward forestry, husbandry, sideline industries, and fisheries, from agriculture into non-agricultural industries, and from the countryside toward cities and coastal regions. The integrated urban–rural labor market is now forming.

1 Development Course

1. Solidification of the rural labor market

Shortly after the founding of the nation, employment of rural labor in China was free, and most additions to the urban population came from the countryside; in this, China was no different from most developing countries. However, as the construction of socialist institutions deepened, a collective management system for labor, with the people's commune as its foundation, gradually formed in the countryside. The primary entities of production activities, the people, were reduced to simple laborers, who could not retain autonomy in production or labor in any form.

The household registration system was made to suit the needs of the rural people's commune system. This system put strict restrictions on movements of the population, particularly movements from the countryside to the city. In concrete terms, the Ministry of Public Security controlled regional population movements, making unplanned movements nearly impossible. Labor and human affairs departments planned and controlled industry transfers of labor; there was no free labor market. As a result, rural population was firmly locked inside their people's communes, and the fluidity and reorganization of rural labor resources were frozen.

From 1952, shortly after the founding of the nation, to 1977, just before reform and opening up, the proportion of employment stemming from China's primary industries fell from 83.5 to 74.4%,¹ a drop of only nine percent over 25 years, an extraordinarily slow change. A large amount of labor was tied to the land, creating low employment and low wages for rural population. This led to the accumulation of an enormous amount of potential energy for movements of massive amounts of the rural population after reform and opening up.

2. Migration and flow of rural labor

- (1) Leaving farming without leaving the land: shifts of rural labor from planting into forestry, husbandry, sideline industries, and fisheries

In the late 1970s and early 1980s, the implementation of the household contract responsibility system changed incentive mechanisms, incentivizing rural population, which drove great increases to agricultural productivity and released a large amount of surplus labor from planting. With non-agricultural industries still backward in the countryside, adjustments and optimization of the agricultural production structure helped digest a portion of surplus labor within agriculture. At this time the government adjusted agricultural policies and corrected the leftist error of "placing the vast majority of concentration on limited farmland resources, and on that farmland intensively planting only grain crops." This was a timely means of guiding rural population toward development of different businesses, and agricultural surplus labor began the transition from the planting sector toward the forestry, husbandry, sideline industries, and fisheries sectors.

- (2) Leaving the land without leaving the township: shifts of rural labor from agriculture into non-agricultural industries

As a portion of the rural labor surplus was digested within agriculture, the rest was shifting toward local non-agricultural industries. In 1979, the CPC Central Committee proposed "a great development of Commune and Brigade Enterprises," giving a certain level of support to them in the areas of taxation, loans, and so on. At the same time, the rollout of the household contract responsibility system drove development of agriculture, and gave rural laborers a degree of liberty in choosing their occupation, thereby laying the capital, labor, and material foundations for the development of CBEs and creating conditions for their rapid development. So even though macroeconomic conditions of the time weren't very good, CBEs were able to initially develop. In 1984, the CPC Central Committee "agreed to the suggestion to change the name of commune and brigade enterprises to township and village enterprises." This was not a simple changing of a name, but rather symbolized the high degree of importance the center placed on TVEs. Promoting vigorous development of TVEs was a major central reform to the countryside following the household contract responsibility system.

¹Zhang, Xiaoshan, & Li, Zhou. (2009). *Sixty Years of Rural Development and Changes in People's Republic of China*. Beijing: People's Publishing House.

The changing of the winds in central policy caused TVEs to rapidly rise to the fore, and allowed them to grow by leaps and bounds. From 1984 to 1988, the number of people employed in towns and counties rose from 36.561 million to 57.034 million, a growth of 56%. During this time, there was also growth to transfers of rural laborers, the absolute number of such laborers growing from over 20 million in 1980 to over 80 million in 1988, an over four-fold increase in eight years.²

(1) Leaving the land and leaving the township: shifts of rural labor to cities and coastal regions

(a) Policies enforcing separation of urban and rural employment, and their relaxation

In the late 1970s and early 1980s, pressures on urban employment caused the government to intensify controls on flows of rural population into cities. By 1984, rural reforms had achieved great successes, and urban employment pressures had been alleviated, at which point the government finally allowed rural population to enter cities to work or conduct business. A small policy relaxation led to a surge of fluidity of rural migrant laborers. Intense crowding during the Spring Festival transportation³ caused everyone to pay attention, and the term “tide of migrant workers” began appearing in newspapers across the country.

(b) Policy fluctuations

With the appearance of the “tide of migrant workers” and a new round of economic retrenchments in 1989, the government again strengthened controls on the outward mobility of rural migrant laborers. In spring of 1992, after Deng Xiaoping’s southern tour, reforms to China’s economic system came back on track, and policies controlling movements of rural migrants gradually changed: from acknowledging movements, to accepting movements, finally to encouraging movements. By the late 1990s, with China’s government pushing economic restructuring and the impact of the Asian Financial Crisis, urban unemployment shot up, and there was new tension in the employment of rural migrants away from home.

(c) Breaking through regional blockages and opening the urban labor market

In the new century, fundamental changes took place to the government’s policies controlling movements and employment of rural migrant laborers; the government called for “eliminating all rules obstructing the formation of integrated markets.” The change from restricting movements toward protecting movements indicated that the labor market was going to be completely opened to rural population.

²Zhang, Xinghua. (2011). “Challenges Faced in the Flow of Rural Migrant Workers into Cities during the Twelfth Five-Year Plan Period and Responses.” *Review of Economic Research*, 13, 41–56.

³The Chinese term *chunyun*, or “Spring Festival travel rush,” refers to the rush onto trains and other means of transport to return home during the Spring Festival—translator’s note.

3. Integration of urban and rural labor markets

Although the urban labor market had been opened to rural population, the household registration system and other reasons led to widespread discrimination against rural migrants and made it difficult for their rights to be effectively protected. Although rural migrants had changed professions, their legal identities were unchangeable. As market conditions change and reforms deepen, these problems are gradually being resolved.

(1) Protecting the rights of rural migrants and standardizing management of them

Since 2004, there have been “labor shortages,” where there aren’t enough rural migrants to meet demand, in many cities around the country, particularly in coastal regions. At the same time, as urban unemployment problems leftover from history have been basically resolved since entry into the 21st century, there have been changes to the urban labor market. Given those conditions, the government has strengthened protections over the rights of rural migrants, beginning with payment of wages in arrears. The “Several Opinions of the State Council on Resolving Rural Migrant Laborer Issues,” published in 2006, called for management of rural migrants by the area in which they work and incorporation of rural migrants into the urban public services system. This was the first time the government systematically standardized management of rural migrant workers, symbolizing the normalization of the management.

(2) Reforming the household registration system, comprehensively planning urban and rural employment

The household registration management system, unique to China, is not only a system for simple registration of the population, but is even more a welfare system, so reforms to the household registration system are, in substance, more reforms to corresponding welfare systems.

In truth, the government’s constant relaxing of restrictions on movements of rural laborers was the beginning of reforms to the household registration system. In the early 1990s, the government established the model of market economy reforms, after which point the pace of reforms to the household registration system accelerated, and the rural labor market developed even more. In the mid and late 1990s, urban employment institutions and policies for enterprise employment of laborers also became subject to reforms, and integration between the urban and rural labor markets grew stronger. Great strides have been made in reforms to the household registration system, but it continues to impede equal employment opportunities for all laborers, as it continues to discriminate against rural migrants, who cannot enjoy full social benefits in cities.

In the new century, some reforms directly targeting the household registration system have been rolled out, but mostly in small cities. Without many conflicts of interest between new and old residents, reforms to the household registration system in small cities have proceeded smoothly. Explorations have also been made in direct reforms to the household registration system in some large cities like

Shijiazhuang and Zhengzhou, but they have not met expectations, primarily because of a lack of urban employment opportunities and the inability of new arrivals to share in equal social benefits.

In summary, active efforts to reform the household registration system by all levels of government, as well as explorations into comprehensive planning of urban and rural employment, have accelerated the integration of urban and rural labor markets and made great achievements, but the results have not been ideal. On July 24, 2014, the State Council issued its “Opinions on Further Promoting Reforms to the Household Registration System,” which called for the establishment of an integrated urban–rural registration system. The document calls for abolishing the distinction between agricultural [rural] and non-agricultural [urban] registrations, and elimination of blue *hukou*⁴ and other such registration documents, to be replaced by unified “resident *hukou*.” This policy indicates that reforms to the household registration system are about to enter the final and most grueling phase, when all barriers to integration of urban and rural labor markets will be fully eliminated.

2 Achievements and Major Problems

1. Achievements

By analyzing the above sections, it’s not difficult to discover that outstanding achievements have been made in the development of the rural labor market, primarily in the following four areas.

(1) Optimizing allocation of labor resources

The planned economic system caused a large amount of rural labor to become stagnant on the land, in the form of disguised unemployment. Following the implementation of the household registration system, there were great increases to agricultural labor productivity, revealing the previously disguised unemployment of rural labor. A series of reform measures then caused surplus labor to shift away from planting and toward forestry, husbandry, sideline industries, and fisheries, from agriculture into local secondary and tertiary industries, and from the countryside toward cities and developed coastal regions. It is generally held that there were between 100 and 150 million surplus rural laborers in the 1980s, about a third of all rural labor.⁵ In 2005, there were 105 million surplus rural laborers, about 22% of total rural laborers. Fifty percent of true surplus rural laborers were 40 years old

⁴It refers to one’s household registration, and it identifies a person as a urban or rural resident—translator’s note.

⁵Zhang, Jiyuan, & Yu, Dechang. (1993). *Migration of Rural Labor in China*. Beijing: People’s Publishing House.

or older, which is to say that the absolute maximum of surplus rural laborers under the age of 40 was 52.12 million, meaning a surplus of only 10.7%.⁶

The transfer of labor from primary industries, with low labor productivity, toward secondary and tertiary industries, with high labor productivity, signifies optimization of allocation of labor resources, and the optimized allocations of hundreds of millions of laborers is a gigantic driver of socioeconomic development. Per data from the Fifth National Population Census, the proportion of rural migrant laborers to total employment was 58% in secondary industries and 52% in tertiary industries; within secondary industries, they accounted for 68% of employment in manufacturing and 80% in construction. It is clear that rural labor has become an important component of China's industrial workforce.

(2) Promoting labor market development

The development of China's labor market has been a process of changes toward market allocations on the foundation of breakthroughs made in reforms to the traditional planned allocation of resources. So when one assesses the development of China's labor market, one must consider not only variables inherent to market mechanisms, but also institutional variables. Considerations should be made in the following concrete areas:

- (a) Rural population obtained status as entities on the labor market. The implementation of the household contract responsibility system caused not only a release of labor and great increases to agricultural productivity, but also caused rural population to gain their freedom and autonomy in business and operations, allowing them to further become entities on their own on the labor market.
- (b) Rural population obtained the freedom to choose their occupation and to move freely. Even by the late 1990s, there were many restrictions on rural population entering cities to work. Only after the various unreasonable rules and systems were abolished could rural population freely choose occupations acceptable to themselves between industry and agriculture, urban and rural areas, and different regions.
- (c) Enterprises can freely make use of rural migrants. From the perspective of market demand, during the era of the planned economy, there were stringent restrictions on the use of all labor, including rural laborers. At present, although reforms to the household registration system are not complete, enterprises, as the key demand entities on the labor market, no longer face any institutional obstacles to the use of rural laborer; their use of labor is free.
- (d) Construction of the market services system has been accelerated. The construction and improvement of the labor market services system is an important protect for the freedom of laborers to choose their profession and move as they please; this is an important indicator reflecting the degree of the labor market.

⁶Cai, Fang. (2007). "Growth and Structural Changes in Employment in Transitional China." *Economic Research Journal*, 42(7), 4-14.

Over the long term, most services on the labor market have been offered to urban workers, with rural laborers excluded. After reform and opening up, there has been a gradual expansion to the various services provided to rural laborers. The rural labor market's service system is being gradually constructed, and services for the urban labor market are gradually being opened to rural population.

- (e) The social security system has emerged from the ether. The social security system is the foundation of stable operations for the labor market, composed primarily of unemployment insurance, pension insurance, medical insurance, and other forms of social insurance. Over the long term, rural population have had no access to the social security system, but as reforms have deepened, the government has bolstered the rural subsistence allowance system, added pilots for new rural cooperative medicine, and increased investments into the construction of the rural pension insurance and rural social aid systems, thereby driving rapid development of the rural social security system.

(3) Driving changes to the dual structure

The traditional planned economy separated allocations of labor between urban and rural areas. This system artificially divided the urban and rural labor markets, making movements of population or transfers of labor between urban and rural areas nearly impossible. Of course, this employment system played a positive role in preventing excessive flows of rural population into cities during the early phases of industrialization, which would have caused urban population crises and increases to the costs of urbanization, but it was unsuitable to the needs of the market economy. The course of reforms to and development of the labor market has seen reductions to separations between labor markets, which gradually eliminated institutional barriers not advantageous to expansion of employment and transfers of labor. These reductions, advantageous to eliminating the socioeconomic divisions between urban and rural societies, became the norm for the nationwide unification of markets and systems, driving changes to the dual structure.

(4) Accelerating urban–rural reforms

Reforms to the rural labor market and the resolution of rural laborer employment problems—particularly the resolution of employment problems for inter-regional labor transfers—included elements of profound systemic reforms; these were a primary force driving reforms and institutional innovation. The gigantic tide of rural migration broke through urban–rural, regional, and sector limitations in labor markets, making market-guided mechanisms of autonomous selection of occupation a reality, driving the development of China's labor market, spurring reforms to institutions for the use of laborers, and promoting the formation of mechanisms for the reasonable allocation of labor resources through the market. At the same time, the tide also drove enormous changes in government functions and management methods. The enormous swath of society composed of rural population broke down urban barriers and moved across regions in vast numbers, strengthening vitality of the entire society, and posing challenges to the urban public administration system.

While resolving these problems, quiet changes were taking place in government functions, management concepts, and administrative methods. Changes are currently taking place in the traditional household registration system, laborer employment system, and social security system.

2. Major problems

While great achievements were made in the development of the rural labor market, there were also many problems, primarily in the four following areas.

(1) Reforms to the household registration system not complete

The household registration system, a product of the planned economy, is a basic institution affecting marketization of labor in China. In reforms to the household registration system, small cities have mostly been opened up, but reforms to the household registration system in China's small cities have not fundamentally liberated people, increased economic performance, or increased division of labor in industry or employment opportunities. Many people have indeed bought houses and registered in small cities, but they have not received corresponding social security in those cities. Not many young laborers have stayed employed in small cities, but have instead moved to larger and more developed cities and coastal regions to work or start their own businesses. So the key to reforms is urban reforms. Since entry into the new century, many different kinds of cities have started reform pilots to the household registration system. The results of those pilots indicate that reforms in small urban areas attain success relatively easily, but there is great difficulty to reforms in mid and large cities. For example, reforms to the household registration system in Fenghua City (a county-level city), Zhejiang Province, run for eight years beginning at the end of 2000, progressed smoothly and achieved good results. After half a year of reforms in Fenghua, Ningbo copied the Fenghua experience, and pushed reforms to all 11 counties and districts in the city. Although Ningbo's threshold was high, it was later temporarily halted. After a year of reforms in Zhengzhou, several hundred thousand people flooded into the city, forcing officials to call a halt there as well. Some other cities have had similar experiences. The direct reason for the halting of reforms in these cities is the limited carrying capacity of urban public resources. The root cause was too many social benefits carried by urban registration. It will be difficult for major changes to take place to either the carrying capacity of public urban resources or the excessive social benefits of urban registrations, and so reforms to the household registration system are progressing slowly, restricting the development of the rural labor market.

Although the government made comprehensive deployments for reforms to the household registration system in 2014, they targeted mostly small and mid-sized cities. The thresholds in large-sized cities and particularly in megacities⁷ are still too

⁷The megacities in China are generally considered to include Beijing, Shanghai, Guangzhou, Shenzhen, Chongqing, Tianjin, Wuhan, Chengdu, Nanjing, Shenyang, Hangzhou, Suzhou, Xi'an, Haerbin, Foshan, and Dongguan—translator's note.

high. One can thus see that there is a long road ahead for reforms to China's household registration system.

(2) Sluggish construction of the social security system

Although the social security system for rural laborers is currently being constructed, it is not coordinated with employment conditions; this influences transfers and employment of rural laborers. There are roughly four situations by which rural laborers transfer employment in the current stage. The first is the transfer to TVEs in the same location. The second is the transfer to cities. The third is the transfer between cities. The fourth is reverse flow back to the countryside.

At present, we are still in a stage of exploration for what to do with TVE workers, the special group occupying the "margins" between rural population and urban workers: there are no clear rules on how to incorporate them into the social security system or whether to loop them into rural or urban social security systems. Lack of clarity in the social security system for TVE workers has influenced the development of TVEs.

Most rural migrant laborers who move from the countryside into cities are not covered by urban social security systems. Although rural migrants are considered non-agricultural laborers in their cities of occupation, for various reasons most of them are not covered by current urban worker basic social security. This situation is not conducive to the movement of rural migrant workers into cities, or to the smooth progress in urbanization.

Rural migrant laborers who move between cities have difficulties in receiving social security protections in different systems. China still lacks a concrete law controlling social security issues for rural migrants; social security for them is in a legal vacuum. Some local governments have come to understand the importance of social security for rural migrants, and have made explorations into conditions in their areas and established social security measures for rural migrants suitable to local conditions. Right now the system of social security for rural migrants is in a stage of "letting a hundred flowers bloom."⁸ Many models have emerged, including the "Beijing model," the "Shanghai model," and the "Shenzhen model," but the complexity of the various social security systems created for rural migrants have far surpassed the ability of a "model" to summarize. The most direct results of lacking a unified social security system for rural population are obstructions to transferring social security protections, difficulty in linking up social security protections across borders, and damage done to actual security benefits provided.

Rural migrants who move from the city back to the countryside cannot link up social security protections from the cities where they work back to their rural areas. Relative sluggishness in the establishment of a rural social security system in China has made it impossible to connect the rural system with the urban system. When rural migrants pay into urban social security systems, they cannot receive coverage

⁸It is an old Chinese saying meaning that "different views are encouraged to be expressed"—translator's note.

when they return to their place of registration, nor can they enjoy benefits thereof. This has restricted the return of rural migrant laborers home after working in the city and has harmed the incentive of rural population to return home to star businesses.

(3) Unsound market services system

At present, China is gradually building an employment services system, but there are still some major shortcomings to it, including the following:

First, employment services organs are unsound, and the various service functions are not ideal. Public employment service organs fulfill functions such as policy consulting, vocational guidance, entrepreneurial guidance, information provision, and technical skills training; they are the vehicles for the provision of employment services. Resultantly, the corresponding responsibilities are clearly assigned to certain organs, and there are teams of cadres of stable numbers assigned to this work. However, China's public employment services organs are presently not perfect, and their service functions are incomplete. The responsibilities of some organs are unclear, and working relationships are not in good order. In some, quality of personnel is low, coverage of service work narrow, and the role played by services far from complete.

Second, service work is not standardized. The various items of employment services work should all be accompanied by working institutions, bringing about standardization and institutionalization of service work. However, public employment services work in China is presently not standardized, and there are no unified, standardized demands on service organs. This has led to some service organs paying attention to only collection of service fees and ignoring whether job-seekers can actually find employment. In addition, some service organs lack systems of rules for their work; this has led to poor attitudes by service workers, lax enforcement of discipline, low work efficiency, and poor service quality.

Third, means of service provision are backward, and working methods are monotonous. All items of employment services work should be accompanied by appropriate means (including capital, technology, equipment, and so on), and should be continuously improve, and work should be done to bring about increased efficiency therein. However, in many places around China, working methods in employment service organs are extremely backward, and many still rely entirely on work by hand. Working methods are also inflexible and monotonous. For example, job placement services are primarily provided through large employment fairs; it is difficult for workers to provide subtler services, and this has influenced the quality of services.

Fourth, the various types of service organizations and service activities lack interconnectivity, and are all disparate. The various service organizations pass the buck back and forth, and dispute over trifles, making working efficiency low, reducing service quality, and greatly restricting the overall functions of employment service provision.

(4) Deficient market oversight system

Allowing market mechanisms to play a fundamental role in allocating labor resources is advantageous to development and utilization of human resources, to opening of the world economy, and integration of markets, but simply allowing the market to reign supreme will lead to malfunctions in the labor market. To this end, we must use governmental macroeconomic controls to strengthen the national management over the labor market and deepen reforms to the labor-use system to: improve wage mechanisms; shore up the unified social security system; strengthen labor legislation and other comprehensive measures; mitigate limitations inherent to the labor market; and provide a good macro environment for the formation of the labor market and smooth operations thereon.

The market oversight and control system is an important component of the labor market system. On the whole, China has yet to form effective methods for controlling and guiding orderly operations on the rural labor market. In fact, without legal means taken to limit or rectify disorder, chaos, conflicts, and disputes in labor market operations, some job placement organs have become motivated solely by profit, engaging in a great deal of illegal job placement activities, setting illegally high fees, providing false information, defrauding people of their money and property, and egregiously harming the prestige of the labor market. Sound market order is essential to improving the labor market. A sound market order includes, at least, the establishment, implementation, and oversight of laws, rules, and policies. An ideal legal system for labor generally would include these six major areas: basic labor law, labor relations law, labor protection law, occupational protection law, labor conflict resolution law, and labor oversight law. Clearly, China's legal system for labor has yet to form.

3 Outlook

The basic goals for development of the labor market, which comprises the rural labor market, are to eliminate the dual structure of the labor market and bring about a unified market that integrates the urban and rural components. Of course, it's going to be an arduous journey to accomplishing that goal, but the times are good now for reform, with changes having taken place in demand on the market for rural migrant laborers. Now that there is no longer an unlimited supply of rural labor, to a certain extent, demand is outstripping supply. In looking to the future, we must grasp opportunities and make breakthroughs in the development of the rural labor market in the following areas.

1. Substantial progress in reforms to the household registration system in large and medium-sized cities

At present, household registrations in small cities have basically all been opened, but there has been no progress to such reforms in megacities. A great deal of

experience has been accumulated in reforms to the household registration system in mid-sized and large cities, and there is hope that breakthroughs will be made, resolving the problems of rural laborers who work and reside for a long time in mid-sized and large cities with no chance of establishing residence there. Practical experience across the country indicates that the difficulty of such reforms lies in the limited carrying capacity of urban public resources, and an excessive amount of benefits attached to urban registrations; so we need to gradually disconnect the various benefits from registrations and make *hukou* into a simple “standard unit.” The benefits accorded to rural migrant workers and their families, as citizens, should gradually come to be protected, including their right to equal treatment under the law, rights to free movement and residence, rights for protection of employment and labor, rights to education and healthcare, and political rights.

2. A basically sound rural labor social security system

To build a modern integrated urban–rural social security system, we still have a long road ahead of us. During this long process, the construction and improvement of the rural social security system have gone through a process of gradual development. Now and for a period of time to come, we will basically build a rural labor social security system based in the principles of “low levels, wide coverage, flexibility, and diversity,” on the foundation of the existing rural labor social security system.

“Low level” means that the level of expenditure in the various social security programs should not be detached from the current level of social production. High levels of expenditures in the social security system will reduce the incentives of people to participate in the labor market, and will reduce the competitiveness of Chinese products in international markets. “Wide coverage” encompasses two areas: first, there should be no differences in social security system coverage for all laborers between urban and rural areas, between different regions, and between different ownership systems; second, the social security system should be sound, meaning that all laborers should enjoy all items of basic insurance, including workers’ injury, healthcare, birth, unemployment, and pensions. This is the only way to effectively build a security network. With public resources limited, the conflict between “coverage” and “levels” may be prominent. With high levels of protection, the scope of coverage will naturally be small; so we need to find an appropriate point of equilibrium. At the level of operations we need “flexibility and diversity.” That means guidance divided by categories and flexible implementation, determined by the particularities of rural laborers, and in consideration of different situations of TVE and agricultural employment.

3. Gradual improvements to the market services system

Although the market services system has been gradually built in recent years, it is incapable of satisfying practical needs, and construction of the system is strikingly sluggish. Now and for a time to come, all localities around the country will build sound public employment service networks covering all counties and townships to

provide transfer employment services to rural population. Urban public job placement organs will be completely opened to rural population, which will provide free policy consulting, employment information, employment guidance, and job placement. Coordination between places of origin and destinations will continue to grow stronger, and officials will develop organized employment, entrepreneurial training, and labor outflows. In summary, officials will basically build a multi-level, multi-channel market services system for rural laborers.

As this objective is accomplished, we will need to place focus on completing the following tasks. First, we need to shore up employment services organs; improve service functions; and place emphasis on improving policy consulting, vocational guidance, entrepreneurial guidance, employment information provision, technical training, linking social insurance relationships, and other functions. Second, we need to build and keep unobstructed channels for the dissemination of employment information; use the internet or media or other formats to disseminate information; build complete, multi-level, wide-coverage channels for information dissemination; and fully satisfy the demands of hirers and laborers for employment information. Third, we need to promote standardization and institutionalization of services; shore up working institutions; clarify the scopes of responsibilities; establish norms for job placement services; better help job seekers and hirers; and drive employment. Fourth, we need to build a public employment services working platform to provide services that are more convenient and effective to job seekers. Fifth, we need to further set norms for private job placement agencies and improve construction of the labor market. Sixth, we need to integrate unemployment insurance, unemployment aid, employment training, job placement, and other services.

4. Gradual establishment of the oversight and control system for the labor market

The oversight and control system for the labor market is composed of the legal system, unemployment warning system, oversight and control system for wages, and the labor dispute arbitration system. Although construction of the oversight and control system for the rural labor market is lagging, the construction of the system must proceed in an orderly, gradual manner. We should begin work in the oversight and control system for wages, and from that foundation gradually improve the oversight and control system for the labor market. The focuses of construction of the oversight and control system for wages are in the following areas. First is the establishment of effective mechanisms for coordinating and checking labor wages, with tripartite coordination between government labor administrative departments, labor unions, and company associations acting as the basic system and primary operations mechanisms for adjusting labor relations. Second is the vigorous promotion of collective contract and labor contract systems. Collective negotiations and collective contracts are basic institutions for bringing about full two-way cooperation in labor relations and ensuring stable operations of labor relations;

they are also a major method for adjusting labor relations. Third is the active establishment of enterprise labor security integrity institutions, building executive archives for enterprise labor, and making the use of labor, payment of wages, and social insurance conditions as major bases for assessment of the grade of enterprise integrity. Fourth is the improvement of the macro control system for wages, suitable to modern corporate structures, including the wage indicator line system and human resources cost warning forecast system.

Development of the Rural Land System

Since reform and opening up, the development of China's rural land system started first from the implementation of the household contract responsibility system in the countryside, evolving from being demand-induced to a top-to-bottom system of government supply. Having satisfied the prerequisite of fully respecting the willingness to change and pioneering spirit of rural population, the central government acknowledged and endowed the rights of rural population to operate contracted land, opened the rural land factor market, and began constructing a system to protect property rights to the land. At the same time, the government built and perfected a series of land management institutions, including restrictions on the usage of land. The outlook for the future is that the development of the rural land system will transition from single reforms into comprehensive reforms, from urban-rural segregation to urban rural integration, and the comprehensive construction of an integrated urban-rural land policy system.

1 Background

Prior to reforms, China implemented the collective land ownership system of "three-tiered ownership, with the production team as the foundation" in the countryside. The three tiers were the people's commune, the production brigade, and the production team. "Three-tiered ownership" meant all land under the purview of a people's commune belonged to the commune, the brigade, and the team. For example, land in a production team belonged at once to the commune, the brigade, and to that team. "Production team as the foundation" meant that the lion's share of rural land belonged to the production team, with small portions belonging to the commune and brigade. Actually, some households were allotted plots of land for personal use.

Under the collective land ownership system of "three-tiered ownership, with the production team as the base, officials implemented a rural land system of collective

operations with the production team as the basic accounting unit. Land within the scope of the production team belonged to the production team; none could be rented or sold. Operations of labor were centrally controlled by the labor team, and individual rural population or households had no independent land or property rights, nor were they independent operators of production. Collective ownership by production teams of mountains, forests, waters, and grasslands was beneficial; they were also operated by production teams. Production teams, as the basic accounting units, had independence in accounting, were responsible for their own profits and losses, and directly organized production and allocation of profits from the land.

As early as the late 1950s, during the people's commune movement, Hubei, Henan, and Shaanxi launched innovative initiatives in contracting production to households, but this was quickly condemned as "attempting to use so-called 'contracting production to households' or other forms to destroy collective ownership, restore individual ownership, and put the countryside back on the road of capitalism." In the early 1960s, with the agricultural crisis on, contracting production to households was initiated several times, but it was always knocked back down.

In 1978, chaos was eliminated and order restored in national politics, creating a historic opportunity for the development of and innovations to the rural land system and creativity of rural population. Under such conditions, Chinese rural population successfully launched innovative trials in contracting production and land to households over 30 years ago, and started a new chapter in the development of China's rural land system.

2 Development Course

Since reform and opening up, there have been three clear stages in the development of the rural land system. The first stage ran from 1978 to 1984, when rural population took the initiative in promoting the reform of the household contract responsibility system. The state acknowledged the system in policies, and rural population in truth gained relative autonomy in operations of their land. This was the beginning of the establishment of households as the units of agricultural accounting. The second stage ran from 1985 to 2003, when frequent land adjustments were made on the foundation of the household contract responsibility system in many places. Some local governments even tried innovative initiatives in many forms. Faced with all manner of practical problems and frequent land adjustments, particularly in the second round of land contracting that followed the term limits of the first, the center tried many times to issue dedicated policies to standardize and stabilize the land contracting system and land contracting relationships. Rural population obtained ever-stronger protections from policies for their rights to operate contracted land. The third stage was 2003 onward. With the successive issuance of the "Rural Land Contracting Law" and the "Property Law," China's rural land system completely entered a new stage of rule by law. Rural population'

rights to contract and operate land, as well as other property rights, were given standing in national law, and rural population' rights to the land were given direct protection by the law.

1. Establishment of the household contract responsibility system for rural land

The household contract responsibility contracting system was an innovation driven by the initiative of rural population themselves. In fall of 1978, villagers and cadres in Xiaogang Village, Fengyang County, Anhui Province, came to a secret agreement to contract labor to households, to be kept a secret from superior officials. Once grassroots officials tacitly acknowledged that this was going on, the "all-around contracting system" was allowed to persist in Xiaogang and spread to other regions, opening the curtains for reforms to the rural land system. Although there were initially disputes regarding the proper ideology behind the responsibility system, "contracting production to households" was implemented, to differing degrees, in Anhui, Sichuan, Guizhou, Yunnan, Guangdong, Henan, Inner Mongolia, Hebei, and other provinces and regions.

In December 1981, the CPC Central Committee convened the first nationwide rural work conference, which gave rise to the "Summary of the Nationwide Rural Work Conference" (The No. 1 Central government document of 1982), which read: "The various forms of responsibility systems currently in use are all production responsibility systems of the socialist collective economy. They include contracting of a small portion of work with equal payments, specialized contracting with payments tied to production, linking production to labor, contracting production to households, contracting production to groups, contracting work to households, and contracting work to groups." The state formally approved of the household contract responsibility system in policies. Thereafter, the unit of the production responsibility system was further transferred from the group to the household, and its primary form shifted from linking production to the group to contracting work and contracting production to the household, i.e. the "double contracting" responsibility system.

On December 1, 1982, the Central Politburo's "Several Issues in Rural Economic Policy at Present" (The No. 1 Central government document of 1983) was issued, reading as follows: "The contracting system with remuneration linked to output has adopted principles of integrating centralized and decentralized operations and also played up the advantages of collectives and provide incentives for individuals; this is a great creation of the Chinese rural population under guidance of the party." The document then proposed the establishment and shoring up of the contracting system. The "Notice on Rural Work in 1984" issued by the CPC Central Committee on January 1, 1984 (The No. 1 Central government document of 1984) called for: "Land contracting terms should be made 15 years or more, and longer for development projects with longer production cycles, such as growing trees, forestry, barren mountains, uncultivated land, and so on." The household contract responsibility system was thus formally established as the basic agricultural operations system.

2. Stabilization and policy norms of the household contract responsibility system

Reforms to establish the household contract responsibility system, with contracting work to the household as its core contents, allowed rural population to obtain more rights to operate land contracted under the system. This conformed to the effective direction of institutional reforms and to the will of the masses of rural population, and also provide incentives for production by rural population in the extreme and thoroughly liberated rural production. However, with constraints on resource endowments in the form of abundant population and sparse land and long-term shortages of agricultural products, the household contract responsibility land contracting system faced some internal challenges before it could succeed. On the one hand, sustained growth to the population continues to drive up demand for products of the land, meaning that officials had to make land reforms from consideration of productivity. On the other hand, continued growth of the rural population is strengthening the social security functions of the land, meaning that productivity-centered land reforms are facing inherent costs.

To resolve these problems, many local governments make constant land adjustments within the framework of the household contract responsibility system. Some local officials have implemented the “two field system,” scale operations, auctions of the “four barren lands,” shareholding systems for land ownership, and other kinds of institutional innovations. During this process, a number of practices have violated the right of rural population to operate contracted land, negatively affecting the implementation of household contract responsibility system and the stability of land contracting relationship.

After rural population successfully had the household contract responsibility system implemented, of their own initiative, the state continuously offered guidance and standards for the system in policies; this gave rural population’ rights to operate contracted land affirmation, standardization, and protection within policies. This could be seen primarily in the following few areas: First, land contracting terms were constantly extended. The first round of land contracting set terms at 15 years or more, and the second round extended them to 30 years, unchanging, making them longer and longer. Second, norms were established on land adjustments, with restrictions put in place and increasingly stringent conditions and procedures for small adjustments to the land, flexibly bringing the system under control and stabilizing rural population’ rights to operate contracted land. Third, norms were established for the issuing of land contracts by collective economic organizations, and land contracts were managed rigorously. Certificates were issued confirming the rights to operate contracted land, restricting the arbitrary interference into rural population’ land operations by collective economic organizations. Fourth, state agricultural and planting plans were abolished, as were obligations to pay taxes and fees on contracted land. Rural population henceforth had the rights to use, profit from, and transfer contracted land, and their rights became more plentiful. Fifth, restrictions were placed on non-standard methods of land transfers, protecting the primary status of rural population in land transfers, ensuring that rural population

have the right to autonomously decide whether to transfer or not to transfer their contracted land, and protecting lawful transfers made willingly and with compensations by rural population.

While standardizing, protecting, and strengthening rural population' rights to operate contracted land, the "Land Management Law," revised in 1998, established management institutions over uses of land, initially giving rise to a system of land contracting and operation rights with controls on land use.

3. Construction of rule by law in the rural land system

Standardization of the land contracting system in policies made rural population' rights to contracted land more stable, longer term, and more liberalized, and made rights to operate contracted land more complete. Particularly after abolition of the "three deductions and five comprehensive fees" and other rural taxes and fees, all creditors' obligations tied to contracted land operation rights were abolished. All these moves created conditions for the lawful endowment of long-term, protected rights to land use to rural population and the demarcation and protection of property rights to contracted land. From the perspective of changes to the relationship between people and the land, with the planned birth policy, rapid population growth was effectively controlled. As rural labor and population continuously shifted into non-agricultural industries and urban areas, beginning in the mid to late 1990s, there was a marked slowing in the growth of the rural population and rural households, and the numbers of people engaged in agriculture, forestry, husbandry, and fisheries became stable. These changes provided external conditions for reducing the frequency of land adjustments, stabilizing land contracting relationships, and lawfully standardizing the rural land contracting system.

After the second round of land contracting, on August 29, 2002, the 19th meeting of the Ninth National People's Congress Standing Committee passed the "People's Republic of China Rural Land Contracting Law," which went into force on March 1, 2003. The law established rigorous standards for land adjustments, land contracting rights and responsibilities, transfers of land contracting and operation rights, terms of land contracts, and other areas. This also changed the long-lasting situation whereby the rights and responsibilities of land outsourcers and contractors were primarily established in contracts and where terms, rights, obligations, and effectiveness were also established in contracts. This gave a legal basis to land operations rights and granted said rights directly to rural population, symbolizing the entry of the rural land system into a new period of complete rule by law construction.

On March 16, 2007, the fifth meeting of the 10th National People's Congress passed the "People's Republic of China Property Law," which went into force on October 1 of that year. The law clearly stipulates the usufruct nature of operating rights to contracted land. Land contracting rights, whether obtained under the household contract responsibility system, bidding, auction, public negotiations, or any other means, regardless of whether it's agricultural land owned by a collective or stat-owned land the rights to which are administered by collectives and granted under the household contract responsibility system, are endowed by law to the user of the land, whose right to profit from use of the land is protected by law. To these

ends, the rights to operate land, obtained by rural population through their innovation in the form of the household contract responsibility system, have been elevated to the status of property rights protected under China's "Property Law."

3 Assessment

1. Achievements

(1) Endowing land contracting and operating rights to rural population

Since reform and opening up, the greatest achievement in the development of the rural land system is that the rural people have obtained the rights of land contracting and operating. This laid the institutional foundation for household operations of agriculture in China and established household operations as the primary entity of agriculture. During the earliest reforms initiated and driven by rural population, they obtained the rights to operate contracted land with the household as the unit through such methods as contracting work and production to the household. Afterward, the central government issued a series of policies to guide household operations of contracted land, defining, standardizing, and protecting land contracting and operating rights. In particular, with the successive issuance of the "Rural Land Contracting Law" and "Property Law," the rights to operate contracted land, hitherto reliant upon contracts, were now enshrined in the law and given directly to rural population. Rural population thus obtained property rights, protected by the Property Law, to their contracted land.

(2) Establishment of the rural land factor market

Since reform and opening up, as rural population have obtained land contracting and operating rights, the market for land rights transfers has been opened and developed, giving rise to a rural land factor market. From the beginning, policies allowed rural population to transfer the operating rights to contracted land. However, with restrictions on external conditions such as slowing of transfers of rural population and labor, the level of land transfers remained low. In the mid-1990s, as industrialization and urbanization progressed, movements of rural population and labor into urban areas and non-agricultural industries accelerated, and external conditions for land transfers improved greatly. The rate of transfer of land operating rights also increased, to different degrees in different areas. On the one hand, land transfers drove land concentration and scale operations, intensification, and industrialized operations in agriculture, and on the other hand made transfers of surplus agricultural labor and movements to seek employment more convenient. This drove development of the rural economy in many areas.

(3) Improvements to the system for protecting land and property rights

In the development of the rural land system since reform and opening up, China has not stopped solidifying reform achievements through laws and other formal

institutions. Officials have standardized construction of the land system, giving rise to many national laws including relevant laws of the constitution, the “Property Law,” the “Rural Land Contracting Law,” the “Land Management Law,” “General Principles of the Civil Law,” the “Grasslands Law,” the “Forest Law,” and the “Implementation Regulations of the Land Management Law,” the local implementation methods of the “Land Management Law,” and local implementation methods for the “Rural Land Contracting Law,” as well as the rural land system legal system including relevant judicial explanations and departmental regulations. Officials have basically established a rural land property law protections system and a land management legal system, gradually putting rural land onto the track of rule by law.

(4) Establishment of systems for controls on land use and protection of farmland

The “Land Management Law” went into force on January 1, 1987, symbolizing the transition of urban and rural land being managed by different departments toward unified management of urban and rural land. At this point officials began gradually building and improving the land statistics system, the land surveying system, the system of management of land use planning, the system of controls on land uses, the farmland protection system, and a series of other land management systems. The “Land Management Law,” as revised in 1998, as well as its implementation regulations, made clear stipulations for a multi-level land usage overall planning system at the levels of the nation, provinces (or autonomous regions or centrally-controlled cities), provincial and large cities, counties, and townships (or towns), and also stipulated planning principles, approvals procedures, revision authorities, and the approvals procedures for establishing land usage plans per overall land usage planning. Thereafter, central officials established a five-level land usage overall plan, the levels being the nation, provinces, provincial capitals and large cities, counties, and townships, bringing the use of all rural land onto the tracks of planning management.

The 1998 revision of the “Land Management Law,” legally established the system of controls on land uses and stipulated that the state has control over said system. The state establishes land usage overall plans and stipulates land uses, dividing all land into three usage categories: agricultural use, construction use, and unused. The law strictly limits the conversion of agricultural use land into construction use land, controls the total quantity of construction use land, and grants special protections to farmland. Approvals procedures must be followed for conversion of agricultural use land into construction use land. The most recent revision of the “Land Management Law” clearly calls for the establishment of a farmland protection system, including the basic farmland protection system and the system of compensating for occupation of farmland. The basic farmland protection system demands that governments at the county level and higher approve strict management and protection of grain, cotton, and oil production bases and that farmland and vegetable bases with good irrigation and water and soil protections—no less than 80% of the administrative region—be incorporated within basic farmland protection zones.

2. Problems and challenges faced

(1) Slow progress of reforms to land requisitioning system

Since reform and opening up, China has consistently used the system for state requisitioning of collective land born in the era of the planned economy as it has built a legal system for land management. In 1986, after the issuance of the “Land Management Law,” as the integrated urban-rural land management system was established and the system for compensated transfers of urban land was put in place, land requisitioning quickly became an important means of implementing integrated management over urban and rural land and the system of controls on land use. Other than homestead plots for rural population, for land used for construction of township and village enterprises, land for public facilities in townships and villages, and land for construction of public welfare enterprises, for which applications could be submitted for use by the collective without the need to requisition said land, when any work unit or individual needed to use land for construction, they had to apply to have the land converted to state-owned status.

In recent years, the state has pushed reforms to the land requisitioning system in the two areas of land requisitioning procedures and compensation standards. In procedures, officials have reformed and improved notices for requisitioning, compensations, methods for publicizing relocation plans, and the system for holding hearings. In compensations, the state has addressed low compensation standards, poor relocation plans, and other plans by issuing a series of reform policies, calling for the levels of compensations and relocation fees to be legally required to restore rural population whose land has been requisitioned to their former living standards, and allowing local governments to use incomes on state-owned land to pay these compensations. Officials around the country have launched the work of establishing and publicizing unified annual property value standards or comprehensive land prices in areas of requisitioning, calling for equal prices for equal land in compensation of land requisitioning. Even so, existing reforms have not broken through the basic framework of the traditional land requisitioning system. Owing to restrictions on the transfer of collective construction use land, unified management over collective agricultural use land transfers has not been implemented. Urban and rural construction use land has been artificially separated, and the integrated urban and rural land market system has not been established. The scale of land requisitioning has still not come under strict limitations, and compensations for requisitioned land lack market values to use as references, meaning that such compensations cannot be perfected. As a result, one can say that we have yet to establish fair compensation mechanisms for requisitioned land and property suitable to the demands of the market economy.

(2) Reforms to the system for use of rural collective construction use land and development of integrated urban-rural markets are sluggish

The “Land Management Law” stipulates that collective construction use land can be transferred only if the collective economic organization establishes a collective by buying shares with land usage rights or under common operation—with

permission—or if enterprises whose land usage conforms to overall land planning and lawfully obtain land usage rights go bankrupt or merge and cause the need for a transfer of construction use land. Rural households' homestead plots can be transferred only to other households within the same collective. However, as tension between supply and demand for urban construction use land intensifies, and as corporate reforms are taking place in TVEs, and labor movements are taking place, and populations are shifting, and there are bi-directional flows of urban and rural populations, and there are changes taking place within villages, both supply and demand for rural collective construction use land are intensifying, and collective construction use land transfer, rentals, and sales of usage rights with cash or issuance of shares are intensifying, all constituting disguised transfers onto the market. Guided by interests, some village collectives and individual rural population have privately changed the use of their lands or occupied farmland for non-agricultural construction, intensifying the loss of farmland. Some villages quietly make agreements with developers to occupy land, in the name of shareholding cooperatives, to develop "houses with limited property rights" or "houses with township property rights" for sale. As corresponding policies and laws are lagging, transfer of collective construction use land lack guidance, standards, and management, which has given rise to a series of problems, including disorderliness and chaos on the land market, rampant land speculation, unfair allocations of land profits, and malfunctioning management over land planning.

(3) Large reductions to area of farmland

Since reform and opening up, as industrialization and urbanization have advanced rapidly, the quantity of construction occupying farmland has consistently been large, meaning sustained losses to the area of protected farmland. Statistics indicate that there were 97.8537 million ha of protected farmland in 1984, down to 94.9739 million in 1995, an average annual loss of 261,800 ha. The net loss from 1985 was a million hectares. A nationwide land use survey and survey into changes of land use indicate that the total area of protected farmland in 1996 was 130.0392 million ha, down to 121.72 million (1.826 billion mu) in 2011, an average annual net loss of 554,000 ha. There was a net loss of 1.6862 million ha in 2002 and 2.5374 million ha in 2003, both years of large amounts of ecological farmland conversion. Since 2005, annual net losses have hovered in the range of 200,000–400,000 ha. Most lost farmland lies in coastal or central regions, most of which being high quality farmland.

(4) Rural population' land contracting and operating rights still not complete

Under current laws, the contents of land contracting and operating rights are not complete, and there are still some restrictions to the transfer of those rights in some areas. These restrictions are found primarily in the following areas. Legally-established land contracting terms are short, and transfer terms are limited to the amount of time left in a contract term. Transfers of land rights from households to individuals or units outside of the collective require approval of at least two thirds of delegates to the village committee, with the stipulation that

collective members must be given the first chance to buy the rights. The use of household contracted land rights as collateral for mortgages is not legally permitted. There is no clear legal language regarding the inheritance of land contracting and operation rights; the law stipulates only that inheritors are allowed to inherit land contractors' rights to profit from their contracts and the right to renew contracts. As land contracting rights contracted to households are connected to the household registration system, as that system changes, rural population who enter cities, women who marry into a village, and other such people do not have equal protections for their rights to the land.

4 Outlook

Looking to the future, the development of the rural land system will shift from separation of urban and rural systems toward urban-rural integration and from single reforms to comprehensive reforms. The key to urban-rural integration and comprehensive reforms lies in leaving the fixed thought pattern of separated management of urban and rural areas; strengthening the government's role as public administrator; reforming inappropriate land policies that link resident status with the dual land ownership system; breaking through the framework of the dual urban-rural land ownership system; comprehensively building an integrated urban-rural system of land policies; building a land property rights system of equal protections and equal treatment; building an equal, open, integrated system for oversight of the land market; and building a land management system suitable to the demands of China's national conditions and the market economy.

1. Further improving the system of usufruct rights to contracted land

On October 12, 2008, the Third Plenary Session of the 17th CPC Central Committee passed the "Resolution on Several Issues of Promoting Rural Reforms and Development," which proposed "giving to rural population fuller, protected land contracting and operating rights, and maintaining stable and unchanged in the long term existing land contracting relationships.

On November 12, 2013, the third full meeting of the 18th CPC Central Committee passed the "CPC Central Resolutions on Several Major Problems of Comprehensively Deepening Reforms," which clearly proposed: "stabilizing rural land contracting relationships and maintaining them unchanged in perpetuity, and satisfying the prerequisite of persisting in and perfecting a most rigorous farmland protection system, giving rural population the rights to occupy, use, profit from, and transfer their contracted land and to use it as collateral for mortgages or loans, and permitting rural population to use land contracting and operation rights to buy shares in the development of agricultural industrialized operations. Encourage the transfer of contracted operation rights on open markets to specialized households, household farms, rural cooperatives, and agricultural enterprises, to develop all forms of scale operations. Henceforth, we shall pass, revise, and perfect relevant

laws, further extend terms of land contracting rights, and liberate land operation rights and develop land operations of appropriate scale on a foundation of further strengthening and protecting land contracting and operation rights.

2. Exploring the establishment of a unified urban-rural market

Usage rights to collective construction use land are tantamount to land usage rights allocated in the form of retained collective ownership. As a result, officials may permit land users or those who have purchased land rights to obtain the rights to use the land and, in accordance with the law, sell, rent, or use those rights as collateral for a loan, after paying a certain standard of land value added fees and given that the collective maintains ownership of the land. On October 12, 2008, the Third Plenary Session of the 17th CPC National Congress passed the “Resolution on Several Issues of Promoting Rural Reform and Development,” which proposed “gradually establishing an integrated urban-rural market for construction use land, and requiring that all rural collective operational construction use land obtained lawfully to be sold on integrated tangible land markets, and for usage rights to be sold openly and using standardized methods. This land bears equal rights as state-owned land, so long as planning is conformed to.” On November 12, 2013, the third meeting of the 18th CPC Central Committee passed the “Resolution on Several Major Issues in Promoting Rural Reform and Development,” which called for: “establishing an integrated urban-rural market for construction use land. Given the prerequisite that planning and land controls are conformed to, we permit rural collective operational construction use land to be transferred, rented, or have shares sold, with equal market access protocols, equal rights, and equal prices as state-owned land.” By promoting institutional reforms to collective construction use land, we will gradually established an integrated urban-rural land usage system for operational construction use land, as well as an integrated urban-rural market for construction use land.

3. Reforming and perfecting the land requisitioning system

On October 12, 2008, the Third Plenary Session of the 18th CPC National Congress passed the “Resolution on Several Major Issues in Promoting Rural Reform and Development,” which called for: “reforming the land requisitioning system, strictly demarcating construction use land of a public welfare nature and an operations nature, gradually reducing the scale of land requisitioning, and improving mechanisms for compensating land requisitioning. When requisitioning rural collective land in accordance with the law, reasonable compensations must be made to rural collective organizations and rural population per the principle of equal prices for equal land, promptness, and complete quantities, and the employment, housing, and social security issues for rural population whose land is requisitioned must be properly resolved.” On November 12, 2013, the third meeting of the 18th CPC Central Committee passed the “Resolution of the CPC Central Committee on Several Major Problems in Comprehensively Deepening Reforms,” which called for: “reducing the scale of land requisitioning, standardizing land requisitioning procedures, and improving the reasonable, standardized, diverse protect

mechanisms for rural population whose land is requisitioned.” The document also proposed: “establishing mechanisms for distributing profits from added land value to the state, collectives and individuals, and reasonably increasing profits going to individuals.” In future compensations for requisitioned land, we must fully consider both the location value and the added value of land and steadily increase compensation standards for requisitioning of agricultural use land. On a foundation of reforming usage institutions for collective construction use land, nourishing and developing a market for transfers of collective construction use land, and building an integrated urban-rural market for construction use land, we must fully realize market values for land and gradually improve fair compensations methods that objectively refer to market prices and with legally-established protections for compensation standards.

4. Improving the system of controls on land use and the farmland protection system

China’s basic national condition of abundant population and sparse land has determined that at present and for a relatively long time to come, we must establish and perfect the world’s most rigorous land control system and farmland protection system and establish a complete set of planning management rules and management systems for division of land usage; rigorous protections of basic farmland; controls on construction size; permitting controls on land development; economic rewards and punishments for land usage; reasonable compensations paid to those who suffer losses; and corresponding punishments for law breakers.

Reforms and Development of the Rural Financial System

Over the past three decades of reform and opening up, reforms and development in China's rural financial system have been through a complex, winding route. On the whole, reforms and development to the rural financial system have come in two areas. The first is reforms, in other words reforms to existing rural financial institutions, these being reforms to existing structures. The second is development, in other words the construction and development of new rural financial institutions, this being growth-centric development. Reforms and development have gone back and forth for dominance in different time periods. Over the approximately 20 years from the late 1970s to late 1990s, reforms and development to the rural financial system were of equal importance. During that time, reforms to existing structures came in the form of changes to rural credit cooperatives and the restoration of the Agricultural Bank of China (ABC), and growth development came in the form of the restoration of rural cooperative funds and the Agricultural Development Bank of China, and the establishment and development of other new financial organizations. Over the 10-plus years since the millennium, reforms to existing structures were more important over the first four years, those being reforms to rural credit cooperatives, while development and innovations have been more important in recent years, those being the establishment of new rural financial institutions.

1 Reforming the Rural Financial System

Prior to reform and opening up, China operated a highly concentrated planned economy, of which there were only two kinds of formal rural financial institutions: state banks and rural credit cooperatives. The state banks sometimes bore the name of the People's Bank and at other times the name of the Agricultural Bank, but one was merely a replacement of the other; neither ever engaged in rural deposit and loan business. There have been many changes over the past 30-plus years into which organs rural credit cooperatives are subordinate, but they have consistently

been active in the countryside. One could say that prior to reform and opening up, the structure of China's rural financial organizations under the people's commune system was the coexistence of state banks and rural credit cooperatives. Since reform and opening up, reforms have been pushed in the system of standard rural financial institutions, and the greatest reforms have been the restoration and constant reforming of rural credit cooperatives and the ABC.

1. Restoration and reforms to the Agricultural Bank of China

In February 1979, the State Council issued the "Notice on Restoring the Agricultural Bank of China," which called for top-to-bottom establishment of organs at all levels under the ABC and putting all rural branches of the People's Bank of China and all rural credit cooperatives under the guidance of the ABC, which was formally restored on March 13, 1979. It handled not only all manner of rural deposits and agricultural loans, but also handled rural industrial loans, loans for the purchase of agricultural products and by-products, and loans to the system of supply and marketing cooperatives (SMCs); it also led rural credit cooperatives. From the perspective of the relationship between the ABC and rural credit cooperatives, such cooperatives became grassroots organs for management by the ABC. After the ABC's restoration, it became the only state bank in rural areas.

On April 19, 1994, the State Council issued a notice formally establishing the Agricultural Development Bank of China (ADBC), which took over the policy-oriented financial business from the ABC, and simultaneously disconnected rural credit cooperatives from the ABC. Per the State Council's demand that state-owned specialized banks become true state-run commercial banks, the ABC established a development strategy to become a commercial bank, meaning a reduction of their presence in towns and townships and an increase in county-level cities and urban areas. In 1996, rural credit cooperatives were formally disconnected from the ABC.

In 2007, the nationwide financial work conference resolved that reforms to the ABC should be made in accordance with the overall principles of comprehensive restructuring to face the "three rural issues", commercial operations, and finding an opportunity to be publicly listed. The conference further called for the ABC to become the mainstay and pillar of the rural system, to better support agriculture, rural areas and rural population and provide services at the county level. On October 22, 2008, the State Council approved the "Comprehensive Plan for Converting the Agricultural Bank into a Shareholding Corporation," and in 2009, the ABC ceased to be a wholly state-owned commercial bank and was reformed as a modernized commercial bank with a shareholding system. In July 2010, the ABC was listed on the domestic A-shares market and on Hong Kong's H-shares market. In 2010, its total assets broke the 10 trillion yuan milestone, up to 11.68 trillion in 2011, accounting for 11.3% of total nationwide banking and financial capital, making it China's largest listed commercial bank and an important component of China's financial system. At the end of 2011, its total deposits reached 9.62 trillion yuan, with about 5.63 trillion yuan of loans issued, a capital adequacy ratio of

11.94%, a core capital adequacy ratio of 9.75%, generally high levels across the board. By the end of 2011, there was a year-on-year drop in the non-performing loan ratio of 0.48%, and a provision coverage ratio of 263.1%, an increase of 95.05%. In all core indicators it was at the fore of the Chinese banking industry.

2. Reforms and development in rural credit cooperatives

Since the beginning of reform and opening up in 1978, there have been four stages to reforms of rural credit cooperatives. The first ran from 1979 to 1984, when rural credit cooperatives were grassroots branches of the Agricultural Bank. The second stage ran from 1985 to 1995, when rural credit cooperatives were independent operators responsible for their own profits and losses. The third stage ran from 1996 to 2000, when rural credit cooperatives were disconnected from the ABC. The fourth stage ran from 2003 to 2007, when a new round of property rights reforms began.

Reforms to the property rights of rural credit cooperatives began in 2003. In August 2003, the central government decided to launch a new round of reform pilots to rural credit cooperatives in Zhejiang, Shandong, Jiangxi, Guizhou, Jilin, Chongqing, Shaanxi, and Jiangsu. After 2003, reforms were launched everywhere else in the country, on the foundation of the reform pilots, and reform plans and methods basically the same as in the pilot areas. Reforms were made primarily in six areas. The first was reforms to the management system. Provincial-level governments bear the responsibility for management and risks of rural cooperatives under their purview. By establishing provincial credit cooperative federations, officials guided local credit cooperatives to strengthen self-disciplined management. The second was reforms to property rights. Officials in all areas, on the basis of reality, chose shareholding systems, shareholding cooperative systems, cooperative systems, and many other forms of systems to promote diversification of shareholding structures and investment entities, making great strides in attracting all manner of economic entities and natural persons to buy shares. The third was reforms to mechanisms for buying with cash. The state gave not only subsidies to some rural credit cooperatives (those losing money) in the form of value-preservation deposit interest and appropriate levels of tax policy preferences, but also provided capital support for reforms to rural credit cooperatives (including dedicated bills and loans from the central bank) in order to help rural credit cooperatives eliminate their historical millstones and change operations mechanisms, and to gradually push them onto the track of virtuous cycles. The fourth was integration of legal persons. Officials changed the former two-tier legal persons structure at the county and township (or town) into integrated county federations. Fifth were changes to operations mechanisms. Officials wanted to give rise to virtuous operations mechanisms of “autonomous operations, self-restrictions, self-bearing of risks, and self-development.” Concrete measures taken include competition for jobs, elimination of non-performers, linking of achievements and rewards, using both rewards and punishments, and other labor institutions as well as reforms to the wage distribution system and others. Sixth was strengthening of

agricultural support services, which regardless of their form, all had to persist in following the aim of resolving the “three rural issues,” staying based in reality, simplifying loan procedures, increasing credit investments, expanding the amount of agriculture-supporting loans, and so on. By 2007, reforms to rural credit cooperatives were basically complete. By the end of 2011, there were 2667 financial institutions in the nationwide rural credit cooperative system, of which 212 were rural commercial banks, 190 were rural cooperative banks, and 2265 were rural credit cooperatives. At the same time, the scale of assets and liabilities and deposits of rural credit cooperatives grew to be six times the amount prior to reforms. There were sustained improvements in capital adequacy ratios, non-performing loan ratios, and other major regulatory indicators, and risks gradually diminished.¹

2 Development of New-Type Rural Financial Organizations

1. Development and fall of rural cooperative funds

As the household contract responsibility system was promoted and the rural economy developed, in 1983, some regions began attempting to establish rural cooperative funds, with capital coming from the collective capital of village collective economic organizations. After 1984, the central government gradually affirmed and supported cooperative funds. By the end of 1992, 17,400 towns and counties, 36.7% of all in the nation, had established cooperative funds, as had 112,500 villages (or production teams), 15.4% of all villages (and production teams) in the nation. Total capitalization of these funds rose from 5.66 billion yuan in 1988 to 16.49 billion in 1992.²

As rural cooperative funds developed, some left their original operational tracks, attracting large amounts of resident deposits, in the name of raising capital by floating shares. Those who bought in did not participate in management or bear risks. Owing to egregious administrative interference in the operations of funds, chaotic management, arbitrary issuance of loans, unsound procedures, and issuance of loans in excess of set ratios, asset quality was poor. Cooperative funds in some locations canvassed for deposits using high interest rates to maintain payments after their payment risks became evident; this gave rise to a vicious cycle of attracting deposits with high interest rates, followed by issuance of high-interest loans, followed by malfunctioning capital cycles, followed by more attraction of deposits with high interest rates.

On January 8, 1999, the State Council issued Document Number Three, “Working Plan for Reordering Rural Cooperative Funds,” which formally

¹China Banking Regulatory Commission, (2012).

²Cheng Siwei, (2005).

announced a full nationwide abolishment of rural cooperative funds. By the end of 2000, rural cooperative funds, which had been run for over 10 years, were all closed.

2. Establishment and development of Agricultural Development Bank of China (ADBC)

On November 18, 1994, the ADBC was formally established in Beijing. It was established as a “policy³ financial institution directly subordinate to the State Council,” and its operations are directly guided by the People’s Bank of China. The ADBC’s primary tasks are: per state laws, regulations and guiding policies, and on a foundation of state credit, to raise policy-oriented credit capital for agriculture, fulfill state-assigned tasks of policy-oriented finance for agriculture, serve as proxy in appropriations of fiscal policy-oriented capital to support agriculture, and serve both agriculture and the countryside. Resultantly, the ADBC’s loans can be broken into two categories: loans for industrial and commercial enterprises, which account for over 90% of all its loans, and loans for the development of agriculture. Its industrial and commercial loans primarily go to the purchase, storage, and allocations of grain, cotton, edible oils, and other agricultural products and by-products, as well as policy-oriented loans for processing of grain oils under the grain system. Loans for the development of agriculture serve primarily poverty alleviation, comprehensive agricultural development, comprehensive development of mountainous regions, and South Asian tropical crops. In 1998, to strengthen management over capital used to purchase grain, cotton, edible oils, and others, the State Council made major adjustments to the functions of the ADBC, putting its agricultural development loans under management of the ABC, and making the ADBC responsible for all capital used to purchase grains, cotton, and edible oils, with all capital coming from re-lending from the central bank. From that point onward, the ADBC became a policy bank specializing in the circulation of grain, cotton, and edible oils.

In recent years, the ADBC has begun to expand its scope of operations, primarily in the following two areas. First is the necessary extension of existing operations, such as the industrialized operations of grain, cotton, and edible oils, and a shift from supporting grain, cotton, and oil at the links of purchase and sales into supporting them at the pre- and post-production stages. Second is an expansion of loans into agricultural restructuring and industrialization, including primarily loans for agricultural development in superior agriculture or special agriculture; ecological construction loans in forestry, sand control, grasslands, and other areas; loans set by the state in basic construction of small and mid-sized farms, forests, husbandry operations, irrigation, and others; technological renovation loans; loans for the construction of rural communications, roads, and power stations; and loans into

³There are four “policy banks” in China, the ADBC, China Development Bank, and The Export-Import Bank of China, so named because they serve state policy objectives—translator’s note.

small urban construction. In the area of capital sources, the ADBC has also begun to make breakthroughs in simple reliance upon re-lending from the central bank and to directly raise funds by issuing bonds on the capital market. At present, the following are the primary sources of funding for operations of the ADBC: deposits from enterprises within the bank's operational scope, issuance of financial bonds, fiscal agricultural-support capital, re-lending from the People's Bank of China, inter-bank deposits, agreement deposits, and foreign financing.

3. Development of microfinance companies, town and village banks, capital mutual aid societies, and other new-type rural financial organizations

After 2005, the center began paying attention to insufficient supply on capital markets caused by monopolies, at which point central officials began to push for growth of rural financial organizations. The No. 1 Central government document of 2005, "Several Opinions of CPC Central and the Opinions on Several Policies Related to Further Strengthening Rural Work and Increasing Comprehensive Agricultural Production Capacity," which called for: "building a rural financial system with perfect functions, reasonable division of labor, clear property rights, and effective oversight... fostering a competitive rural financial market, relevant departments grasping the establishment of entry conditions and oversight methods for new rural mixed ownership financial institutions, and the launching of pilot work as quickly as possible so long as financial risks are defended against." The No. 1 Central government document of 2006, "Several Opinions of CPC Central and the State Council on Promoting the Construction of the New Socialist Countryside," further called for: "encouraging the establishment of mixed-ownership community financial organizations at the county level, with permission granted for private capital and foreign capital to buy shares. Exerting great efforts to foster microfinance organizations founded by natural persons, corporate legal persons, or community legal persons... guiding rural households to develop capital mutual aid organizations. Standardize private loans."

In December 2006, the China Banking Regulatory Commission (CBRC) issued the document "Several Opinions on Adjusting and Relaxing Access Policies for Rural Banking and Financial Institutions to Better Support the Construction of the New Socialist Countryside" (CBRC No. 90, 2006), and launched pilot work in rural areas of Sichuan, Qinghai, Gansu, Inner Mongolia, Jilin, and Hubei. The document stipulated that the establishment of three categories of new rural banking and financial institutions would be permitted. The first was town and village banks, including town and village banks in counties and county-level cities, as well as in towns and townships. The second was community credit cooperative organizations, located primarily in villages and towns and townships. The third was specialized loan business subsidiary companies, established by commercial banks and rural cooperative banks.

Once the CBRC relaxed access policies for rural financial institutions, new rural financial institutions developed quickly, falling primarily into these two categories: first, financial institutions founded by banking and financial institutions, and

second, microfinance companies founded with private capital. Interest rates on microfinance of these new rural financial institutions were mostly based on rural credit cooperative interest rates, with a lot of upward fluctuations in interest rates on deposits; this led to the execution of a policy of upward fluctuations of benchmark deposit interest rates of 40%. At the same time, loan interest rates were slightly lower than those of rural credit cooperatives, in the interest of competitiveness.

In addition to the aforementioned new rural financial institutions permitted by the CBRC, the People's Bank of China and local governments launched pilots into microfinance companies in 2006. The seven microfinance loan companies were located in Pingyao County, Shanxi, Guangyuan City, Sichuan, Tongren City, Guizhou, Lu County, Shaanxi, and Ordos City, Inner Mongolia. These companies had shareholding structures, with legal persons or natural persons buying shares through auctions or bidding, with marketized interest rates. After the pilots had been deemed successful, microfinance companies grew at pleasing rates across the country, with good operations.

3 Development of Microfinance

Microfinance was first brought to China by non-governmental organizations (NGOs) that came in the early 1990s to help with poverty alleviation. In recent years, microfinance has been incorporated into the rural financial system as a form of financial services. Microfinance has been offered not just by rural credit cooperatives, the ABC, and the Postal Savings Bank of China, but some new rural financial organizations, such as town and village banks, small loan companies, and rural mutual aid capital organizations have all begun issuing microfinance loans. At present, most microfinance loans in China fall into one of two categories: public welfare and commercial. Public welfare loans are mostly issued by NGOs and governmental poverty alleviation organs, while commercial loans are primarily issued by commercial financial institutions, such as the ABC, credit cooperatives, town and village banks, and microfinance companies.

1. Non-governmental microfinance organization

Microfinance first emerged as international aid to serve the poor. From 1981 to 1993, microfinance an important component of international aid organizations' poverty alleviation programs and a special method of capital utilization, but they were tried only at a small scale.⁴ The first microfinance loans, in the full sense of the meaning, in China appeared at the end of 1993, when the China Academy of Social Sciences (CASS)'s Rural Development Institute, with capital and technical support from the Grameen Bank and Trust (GBT) and the Ford Foundation, established a non-governmental dedicated microfinance organization in Yi County, Hebei

⁴Wu Guobao, (2001).

Province: the Yi County Credit and Poverty Alleviation Cooperative (YCCPAC). This symbolized the beginnings of development of microfinance in China. Other than YCCPAC, another NGO microfinance loan project was founded with help from the United Nations Development Programme (UNDP), a project that the Ministry of Commerce International Economic and Technological Exchanges Center ran beginning in 1995. Thereafter, NGOs offering microfinance services funded by foreign governments and international aid organizations proliferated. The vast majority of the loans offered by NGOs were “group lending,” in the model established by the Grameen Bank.⁵

These efforts at microfinance were successful in some areas, with loan repayment rates of over 90%.⁶ The success of microfinance received attention from the center as well as from financial controlling organs, who not only participated in the discussions and operations of microfinance, but also wrote “we should summarize the effective methods of the promotion of microfinance and other poverty alleviation capital to the household level” into the “Resolution of the CPC Central Committee on Several Major Issues of Agricultural and Rural Work,” passed by the Third Plenary Session of the 15th CPC National Congress in 1998. Thereafter, all microfinance projects launched by government departments and standard finance institutions were made using the experience and technology used by NGOs in their microfinance; this is the historical contribution NGOs have made in microfinance.

2. Poverty alleviation microfinance from governmental organs and the Agricultural Bank of China

From October 1996 to 2000, development began in the “policy-oriented microfinance poverty alleviation program,” led by Chinese government organs and the ABC, with capital from the national government and poverty alleviation interest-subsidized loans, drawing from the microfinance technology and experience of NGOs, in order to achieve the objectives of poverty alleviation in the new century laid out in the “Eight-Seven Poverty Alleviation Plan.” The “policy-oriented microfinance poverty alleviation plan developed rapidly, primarily in areas where NGOs already had experience in microfinance, like Shanxi, Sichuan, Yunnan, Hebei, Guangxi, and Guizhou. The State Council’s Poverty Alleviation Office, civil affairs bureaus, social security departments, handicapped associations, women’s federation branches, and unions all participated. These policy-oriented microfinance programs were mostly launched in rural areas.

With different interest rate policies from microfinance NGOs, microfinance offered by government organs and the ABC offered preferential interest rates, with actual rates much lower than standard rates of the time. This led to excessive pursuit of this area of loan capital by all parties, with almost no credit capital—only 0.69%—landing in the hands of impoverished households.⁷ Most such interest-subsidized

⁵Jiao Jinpu and Yang Jun, (2006).

⁶Wu Guobao, (2001).

⁷Wu Guobao, (2003).

poverty alleviation loans were difficult to repay. As of the end of 2004, the non-performing ratio of the 38.1 billion yuan in interest-bearing poverty alleviation loans reached 70%.⁸

3. Microfinance in rural credit cooperatives

In July 1999, the People's Bank of China defined microfinance loans to rural households in the "Provisional Measures for Management of Rural Credit Cooperative Microfinance Loans to Rural Households," and also stipulated the special management model of "one loan certificate per household" and the operations method of "one verification, loans issued where they are used, controlling remainders, and cyclical use." On January 24, 2000, in the "Guiding Opinions for Management of Rural Credit Cooperatives Group-Guaranteed Loans to Rural Households," the People's Bank of China stipulated that the risk management technology of "group guarantees by multiple households, deposits at fixed intervals, and repayment in installments" for microfinance loans, called for single loans to not exceed local rural household average incomes in principle, and for loan terms to not exceed one year. In December 2001, the People's Bank of China issued the "Guiding Opinions on Management of Rural Credit Cooperatives Microfinance Loans to Rural Households," which called for complete promotion of microfinance loans to rural households and the development of credit village (and town) activities. The issuance of these policies indicated that the central bank had already begun trying to use socially secured loan methods developed by NGOs and began considering using financial innovations to improve rural financial services to rural population lacking collateral or capital backing. To this end, standard rural financial institutions began issuing large quantities of microfinance loans, and the objective of such loans evolved from poverty alleviation into a broader space of "providing service to ordinary rural households and microenterprises."

In concrete methods, microfinance loans issued by rural credit cooperatives and NGOs were different from policy-oriented poverty alleviation microfinance loans; this divided microfinance loans into two categories: rural household credit loans and group-guaranteed loans. Microfinance loans to rural households were made with the households' credit as guarantee, with one loan certificate issued per household. Thereafter officials began construction of credit villages and towns, with differing management over credit loans to rural households in different credit villages and towns. Group-guaranteed rural household loans were guaranteed jointly by groups of rural households who voluntarily assembled.

4. Commercial microfinance from new-type rural financial organizations

In December 2005, the CBRC approved pilots for the Postal Savings Bank to issue fixed-term microfinance collateral loans in Fujian, Hubei, and Shaanxi. In March 2006, microfinance loans were offered in the three pilot provinces. These innovative services offered by the Postal Savings Bank increased the channels of supply of

⁸Jiao Jinpu and Yang Jun, (2006).

rural credit and competition on the rural credit market, breaking through rural credit cooperatives' monopoly on the rural credit market; they also established channels for postal savings to flow back to the countryside, mitigating pressure caused by outflows of rural capital. With permission from the State Council, on December 31, 2006, the CBRC formally approved the launch of the Postal Savings Bank, and also expanded microfinance loans to the rest of the country. Not only the Postal Savings Bank, but also newly formed village and town banks, microfinance companies, capital mutual aid societies, and other institutions engaged primarily in microfinance loans.

4 Development of Rural Private Finance

With capital outflows and insufficient supply in standard rural financial institutions, development of China's rural economy suffered from severe capital shortages. Capital need for development of small and mid-sized enterprises and rural households came primarily not from standard financial institutions, but from private finance and underground finance.

1. Forms of private finance

Chinese private finance, like private finance in some other developing nations, can be divided into two categories: first, lending focused on individuals, and second, private finance focused on organizations. Individual-focused lending can be further divided into three categories per the objective of the lending. The first is one-off lending aimed at mutual aid; this is the most common form in China and most countries at present. The second is high-interest loans (otherwise known as usurious loans), intended to earn profits from interest. The third involves an intermediary or guarantor playing a role between lender and borrower. Organization-focused lending can also be divided into three categories. The first are made by finance organizations targeting mutual aid objectives, such as the various "societies." The second are underground private banks, registered as companies engaged in some other field, which actually profit from the issuance of usurious loans. The third are various companies that raise funds for production.

2. Scale of private lending

Since rural reforms began, as the rural commodity economy has developed and individual economic activities have strengthened, private lending activities have grown gradually more numerous. A sampling survey conducted by the People's Bank of China into the livelihoods of rural households around the country indicates that from 1984 to 1990, the scale of private lending among rural households in the nation was between 50 and 70 billion yuan, whereas the scale of lending to rural households from standard financial institutions was between 30 and 40 billion yuan. Private lending accounted for the lion's share of rural lending, about double the

scale of standard lending. Thereafter, the ratio of private lending to standard lending has held steady, both in the 1990s and since the millennium.

As urbanization has advanced rapidly, there have been historic changes in the traditional credit system upon which private finance depends. The boundaries of the private finance market have expanded quickly, and fundamental changes have taken place in the mechanisms that traditionally restricted private credit, leading to rapid expansion of the risks in private finance. Particularly in the past few years, private lending has entered a stage of crazy development, and private lending in some areas has completely crashed.

3. Government policies on private lending

Government policies on private lending come in three areas. The first is the strict combating of illegally established financial institutions, organizations that illegally attract public deposits openly or disguised, and illegal financing activities. The second is the establishment of strict standards for private lending behaviors. Interest rates for private individual loans are established through negotiations between the two sides, but negotiated rates may not be more than four times (excluding fluctuations) the loan interest rates for the same period and grade of loan set for financial institutions by the People's Bank of China. The third is the guidance of private capital into financial institutions through buying shares. In recent years, the Chinese government and financial management departments have begun to demand, guide, encourage, and support private capital to flow into banking and financial institutions through buying of shares, in accordance with laws and with careful oversight, in order to fill out capital strength, optimize shareholding structures, and increase banks' ability to develop sustainably. After sustained efforts, private capital buys shares of banks primarily through participation in their founding, recapitalization through issuance of new shares, and the purchasing of shares on markets; this has become an important component of banking capital. In particular, such funds account for most of the capital in small and mid-sized commercial banks and small and mid-sized rural financial institutions.

5 Reform Achievements

1. A diversified services system composed of cooperative finance, commercial finance, and policy finance has initially formed

Since reform and opening up, the main theme of reform and development policies issued in rural finance has been marketization. These policies conform to the demands of building and perfecting the socialist market economy and the economic development and life improvements of the masses of rural population. As rural financial institution access conditions have been relaxed, and in particular as constant innovations have been made in rural financial institutions, financial tools, and

financial products, the rural financial market has initially given rise to a diversified financial services system composed of cooperative finance, commercial finance, and policy finance. In the area of policy finance, the ADBC has played an important role in purchasing of agricultural products and building of rural infrastructure. In the area of commercial finance, the ABC has successfully become a listed commercial bank. In the area of cooperative finance as it is commonly understood, the total of rural loans issued by rural commercial banks, rural cooperative banks, rural credit cooperatives, and small and mid-sized financial institutions at the end of 2014 was 7.5 trillion yuan, with rural loans accounting for 67.4% of all loans.

Looking at the development of new rural financial institutions, they have developed quickly and further expanded the scope of their financial coverage in rural areas. As of the end of 2014, China's rural financial institutions included one policy bank, the ADBC, one large commercial bank, the ABC, one Postal Savings Bank, 665 rural commercial banks, 89 rural cooperative banks, 1596 rural credit cooperatives, 1153 village and town banks, 8910 microfinance companies, and 49 rural capital mutual aid societies.

2. Steady development in the innovation in rural financial products and services

In order to increase the level of services to the rural economy, financial institutions around the country have made brave innovations. For example, the ABC's Fujian branch launched an innovative "bank joint establishment" program. In Jiangxi, bank officials launched the innovative "three hundred procedures" model of "innovating in 100 rural financial products, fostering 100 model finance-supporting entities, and creating 100 special financial services." In Liaoning, officials have made an innovative agricultural loan model, with innovative issuance of loans for agricultural equipment in Chaoyang City. In Yunnan, officials have created the first "one innovation and two establishments" working model (innovation in rural financial products and service methods, and establishment of rural payment environment and rural credit system) in the nation, comprehensively increasing the level of rural financial services. Officials in Henan have actively promoted made-to-order agriculture loans and seven other agricultural credit products. Officials in Gansu have actively promoted the work of creating a comprehensive experimental county in innovations to rural financial services, targeting province-specific agricultural industries, promoting innovative products and service models in rural credit. In 2015, officials around the country launched the "all villages connected" program of rural fundamental financial services, increasing the level of rural financial services.

3. Private capital beginning to enter financial institutions

Laws and policies are allowing private capital to enter banking and financial institutions through the purchase of shares. Practical experience demonstrates that private capital enters the banking industry primarily at the time of a bank's founding, by the issuance of new shares, by purchasing existing shares, or through mergers, acquisitions, or reorganizations. At present, over 50% of deposits in

China's over 100 small and mid-sized commercial banks came from private capital; the ratio is 72% in village and town banks. Since 2014, the CBRC has launched pilot work in the first five private banks and made framework suggestions for the development of private banking pilots, which the State Council has approved. Initial achievements have already been made in these pilots.

Development of Rural Fiscal Administration and Taxation

After more than three decades of reform and opening up, a public fiscal system appropriate to the socialist market economic system built on the principles of social harmony has taken shape. The distributive relationship between the state and rural population reflected by the fiscal and taxation systems has already changed from “taking much and giving little” to “giving much and taking little.” Segregation between rural and urban areas in the provision of public products and services is now transforming into urban–rural integration. However, there are still many places in urban and rural public fiscal systems that do not favor rural socioeconomic development, primarily in the following areas. Equalized public services now have wide coverage but low levels of service provision. Disparities between urban and rural areas remain large, particularly in the quality of public services. Fiscal support to agriculture remains high, but we urgently need to increase capital utilization efficiency. Decision-making and oversight mechanisms for public fiscal expenditures remain far from ideal. We need to further deepen reforms to resolve these issues.

1 Township Fiscal Systems and Changing Position of County and Township in the National Fiscal Structure

1. Establishment of township and county fiscal systems and evolution of the management system

In 1978, after the Third Plenary Session of the 11th CPC Central Committee, major economic reforms were launched in rural China, after which the people’s commune system was reformed, and township-level political organizations and fiscal administrations were established. The work of building township governments and

fiscal administrations in rural China began in 1983 and ran until the end of 1996, when township fiscal administrations had been established in 97.5% of all towns and counties in the country.

After the establishment of township and county fiscal systems, management systems have taken different forms in different times.

(1) 1983–1993: fiscal system centered on the flat rate payment system¹

Before the tax sharing reforms of 1994, most fiscal management systems in township and county governments changed along with changes to the fiscal management systems of the central and local governments. Shortly after township and county fiscal administrations were established, the two most common systems were “centralized income and expenditures and “fixed income and fixed expenditures, with income passed upward, surpluses divided, expenditures paid downward, no subsidies for excessive expenditures, and surpluses retained.” These later transitioned into systems of “checked and approved income and expenditures, linked income and expenditures, and total amounts divided,” and “divided income and expenditures, checked and approved base numbers, and flat rate duties in income and expenditures.” By the end of 1990, over 60% of nationwide township and county governments had fiscal administrations operating these two systems. These two systems are basically part of the fiscal system of flat rate taxes.

(2) 1994–2000: tax sharing reforms and flat rate system

In 1994, major reforms were pushed in China’s fiscal system, beginning with tax sharing reforms. After these reforms were enacted in the central and local governments, the relationships between local fiscal administrations were also adjusted. Some local governments implemented tax sharing reforms, but with more fiscal income being concentrated in the central government, provincial, prefectural, and county governments also took measures to concentrate fiscal resources for better control. So most towns and counties used fiscal management systems put in place before the reforms of 1994. Even those where the tax sharing system was implemented, there were still strong remnants of the previous flat rate system.

(3) After 2000: weakening fiscal administration functions in towns and counties

After rural tax reforms went into place in 2000, some local governments adjusted their fiscal systems, but most maintained their original systems largely intact. For two reasons, the fiscal functions of towns and counties have grown steadily weaker.

First, to cooperate with rural tax reforms, pilots for county-management of township resources were extended from several places to the entire nation. Per data from the Ministry of Finance, by the end of 2011, there were 29,300 towns and counties around the country—about 88% of the total—under county management

¹The *baoganzhi* system means that local governments all have tax obligations to the central government, determined by central authorities. Although it is sometimes called the “tax rationing system,” in this text I translate it as “flat rate system.”—translator’s note.

of finances. This system weakened township and county control over fiscal matters in the extreme.

Second, the management system for rural compulsory education was changed from “township-dominated” to “county-dominated.” In 2002, the management system for rural compulsory education began a program of “local responsibility, management divided by levels, and county-dominated.” This system was codified in the 2006 revision of the “People’s Republic of China Compulsory Education Law.” After this, the functions of township and county governments to manage and fund compulsory education were greatly weakened. The proportion of education expenditures to total expenditures fell from 48.5% in 1992 to 16.6% in 2009. The substantive changes to the management system for compulsory education led to an overall weakening of the fiscal functions of towns and counties.

2. Changes to the status of county and township fiscal administrations

After the establishment of township and county fiscal systems, the size of fiscal administrations grew ever larger, with growth of income and expenditures relatively fast. From 1986 to 1993, budgetary revenue of towns and counties grew by an annual average of 18.7%, far greater than the 10.1% national rate and 14.1% local rate over the same period. Also over the same period, budgetary expenditures of towns and counties grew by an annual average of 21.1%, also much higher than the national rate of 11.2% and local rate of 13.6%.

However, after 1994, the status of township and county fiscal administrations fell continuously.

From 1994 to 2009, the average annual growth of budgetary income for towns and counties was 15.2%, lower than the national average of 18.7% and local average of 19.3% over the same period. Also over that period, the average annual growth of budgetary expenditures for towns and counties was 14.9%, likewise lower than the national average of 18.8% and local average of 20.1%.

From the time when fiscal systems were established at the township level until the mid-1990s, the size of township-level budgetary income and expenditures as a percentage of national, local, and township/county-level budgetary income and expenditures grew continuously. However, the percentages have been dropping since the mid-1990s. In 1995, the budgetary income for towns was 11.13, 19.86 and 46.99% of budgetary income at the national, local and township/county levels, and for budgetary expenditure, the percentages were 10.39, 14.69, and 30.75%, respectively. In 2009, township level budgetary income was 6.05, 12.71 and 27.76% of budgetary income at the national, local and township/county levels, while the percentages of fiscal expenditure were 5.95, 7.44, and 14.46% respectively. The fiscal status of townships declined further in 2013 (see Table 1). This drop reflects not only the downward pressure from industrialization and urbanization on the scale of towns and changes to the structure of the national income, but also changes to the fiscal system.

As the fiscal status of townships and counties declined, the opposite is true of counties. In 1995, the amount of budgetary income of counties as a percentage of

Table 1 Changes to the fiscal status of townships and counties

Year	Income			Expenditures		
	National (%)	Local (%)	Township/county-level (%)	National (%)	Local (%)	Township/county-level (%)
<i>Size of Township-level fiscal income and expenditures as percentages of the National, Local, and Township/County-level total</i>						
1986	8.78	14.46	42.32	5.48	8.83	22.25
1995	11.13	19.86	46.99	10.39	14.69	30.75
2009	6.05	12.71	27.76	5.95	7.44	14.46
2013	–	–	–	5.32	6.23	11.49
<i>Size of County-level fiscal income and expenditures as percentages of the National, Local, and Township/County-level total</i>						
1995	12.55	22.41	53.01	23.4	33.07	69.25
2009	15.74	33.07	72.24	35.22	44.03	85.54
2013	–	–	–	40.98	48	88.51

Data source compiled from relevant materials from the Ministry of Finance

local and township/county budgetary income was, respectively, 22.41 and 53.01%; for expenditure the percentages were 33.07 and 69.25%, respectively. In 2009, the proportion of county budgetary income to local and township/county budgetary income had grown to 33.07 and 72.24%, respectively, and the proportions of budgetary expenditures had likewise grown to 44.03 and 85.54%, respectively. In 2013, the status of county fiscal administrations rose further (see Table 1). In addition, the amount by which the proportion of county expenditures outstripped income grew increasingly greater, reflecting an increase to the transfer of payment power. The increasing proportion to township/county fiscal administrations also reflected an increased concentration of fiscal resources at the county level, with the county bearing a greater responsibility for the provision of rural public products and services.

2 Agricultural Taxes and the TVE Taxation System

1. Establishment, adjustment, and abolition of the agricultural tax and agricultural specialty product tax

On June 3, 1958, the 19th meeting of the First National People's Congress passed the "People's Republic of China Agricultural Tax Regulations," which became the integrated agricultural taxation system for China. The regulations stipulated that all work units and individuals engaged in agricultural production or earning incomes from agriculture were liable under the tax law. The average national tax rate was 15.5% of average annual yields. All local governments established tax rates over

their jurisdiction per average rates set by the State Council and governments at all levels, but the maximum allowable rate was 25% of average annual yields.

In 1983, the State Council issued the “Several Rules for Collection of the Agricultural Tax on Specialty Agricultural and Forestry Products,” which established an independent tax system for specialty agricultural and forestry products. The goal of the rules was to balance the tax burden across various crops. This tax’s scope covered income on gardening, forests, and fisheries, and its average rate was between five and ten percent.

At the time of tax reforms in 1994, officials merged taxes on agricultural and forestry specialty and original products with taxes on agricultural, forestry, husbandry, and fisheries products within the unified industrial and commercial tax, into a single agricultural specialty product tax. This tax was levied on tobacco income, gardening income, fisheries income, forestry income, husbandry income, and mushroom cultivation income, as well as income on other agricultural specialty products set by provincial governments. Tax rates were either set nationwide or autonomously by local governments.

Although the original goal of establishing the agricultural and forestry specialty products tax was to balance disparities in income across the agricultural sector, the complexity of operations and other maladies in the system led to actual increases in the tax burden for agricultural producers.

The “Agricultural Tax Regulations” have undergone great adjustments and changes in the 40-plus years since their issuance in 1958. Although great changes had taken place in agricultural production and the agricultural economy, and many maladies had emerged within the agricultural tax, reform and opening up imposed only minuscule adjustments to tax reductions and in tax thresholds.

In 2000, China began rural tax reforms. An important component of the reforms consisted of major adjustments to the agricultural tax and agricultural specialty product tax in calculating taxes based on average annual yields, in tax rates, and in redundant tax collection.

In 2004, Premier Wen Jiabao formally proposed the abolition of the agricultural tax within five years in the “Government Work Report” issued at the second meeting of the 10th National People’s Congress. State leaders also decided to abolish taxes on all agricultural specialty products, except tobacco, beginning in 2004. As local governments around the country accelerated abolishment of the agricultural tax, the 19th meeting of the 10th National People’s Congress resolved in December 2005 to cease implementation of the “Agricultural Tax Regulations,” in place for nearly half a century, beginning on January 1, 2006; this finally ended the agricultural tax.

2. TVE taxation system: from preferential policies to basic urban–rural integration

As opposed to the agricultural tax and agricultural specialty product tax, which specifically targeted agriculture, the state never established a dedicated tax on TVEs, which were subject to the same tax codes as urban industrial and commercial

enterprises. However, for a period of time during reform and opening up, the state adopted preferential tax policies for TVEs to promote their development.

In July 1979, the State Council's "Rules on Several Issues of Developing Commune and Brigade Enterprises (Draft)" proposed the issuance of low-tax or tax-exemption policies for CBEs.

Preferential tax policies for TVEs came in the following four areas. The first was reductions or exemptions on the industrial and commercial tax and income tax for a certain time period for some enterprises shortly after their founding. The second was the allowance of some enterprises to continue tax exemptions and reductions even after the expiration of their policy-established terms. The third was that TVEs could deduct 10% of their taxable profits as socialized expenditures, pre-tax. The fourth was the repayment of loans with taxes, meaning that TVEs could repay their loans by paying product and value-added taxes.

With the state giving relatively preferential tax policies to TVEs, their actual tax rates were not only far less than nominal tax rates, but also less than those of SOEs. Preferential tax policies were an important reason that TVEs were able to rise quickly after reforms.

Central government officials used preferential tax policies and other means to support the growth of TVEs, particularly village collective enterprises. An important reason for this was that the development of TVEs was advantageous to resolving problems of excess agricultural labor and increasing rural incomes. Another important reason was to support village collective enterprises to increase investments into agriculture and rural social enterprises through "supplementing rural areas with industry," to mitigate shortcomings in state fiscal investments into agriculture and the countryside. Ministry of Agriculture data indicate that from 1978 to 1994, township and village collective enterprises invested over 90 billion yuan into "supplementing and constructing rural areas," equal to 23% of total state budgetary fiscal expenditures to support the countryside over the same period.

In 1994, China implemented major reforms in the taxation system, basically eliminating all preferential tax policies for TVEs, and bringing about fundamental integration of urban and rural taxes in non-agricultural industries. This was aimed at the market economy principles of fair tax burdens and equal competition and was advantageous to improving the construction of the socialist market economy system and to the healthy development of TVEs with fair market competition.

3 Fiscal Administration and the "Three Rural Issues": "Giving More and Taking Less" and Urban-Rural Coordination

Fiscal support of rural areas is an important means the state uses to support the development of agriculture. However, the relationship between the fiscal administration and the "three rural issues" lies not only in agricultural production, but also

in social benefits for rural population and in the development of rural society. Many changes took place to these relationships after reform and opening up, particularly symbolized by rural tax reforms, which marked the beginning of the era of “giving more and taking less.” Integrated development for urban and rural areas brought separation of urban and rural public service provision toward integration.

1. Fiscal support of agriculture: changes in “taking” and “giving”

Owing to several factors, including the level of development of the national economy, the size of the fiscal administration, state industry policies, the fiscal system, the administrative management system, and others, fiscal support of agriculture experienced changes over time, in degree, contents, and methods.

On the whole, the relationship between the state’s “taking” and “giving” has transformed from relatively unfavorable to basically stable and finally to fundamental changes since reform and opening up.

(1) Slightly short-changed: 1978–1985:

During this period, fiscal “giving” to agriculture reduced. After 1979, there was a dramatic reduction to the absolute quantity of fiscal expenditures to support agriculture, from 17.433 billion yuan in 1979 to 11.021 billion yuan in 1981, a reduction of 36.8%, much higher than total reductions in state fiscal expenditures over the same period. The 1979 level of fiscal support to agriculture wasn’t restored until 1986, while total state fiscal expenditures reached the 1979 level by 1983. In addition, as fiscal expenditures to support agriculture fell greatly, income from the agriculture tax actually increased 42.5% from 1979 to 1985. During this stage, all indices for the degree of fiscal support to agriculture indicated that fiscal support of agriculture was declining. The share of fiscal spending on agriculture to all value added in primary industries fell from 14.66% in 1978 to 6.04% in 1985. Over the same period, the share of fiscal spending on agriculture to total fiscal expenditures dropped from 13.43 to 7.66%, and the share of net fiscal spending on agriculture to total fiscal spending on agriculture (the share of the difference between fiscal spending on agriculture and agriculture tax income to total fiscal spending on agriculture) fell from 81.15 to 72.63%. The ratio of the share of fiscal spending on agriculture to total fiscal expenditures and added value in primary industries to GDP (the percentage of fiscal spending on agriculture to total fiscal expenditures corresponding to every percentage point of value added in primary industries to GDP) fell from 0.48 to 0.27.

The primary reasons for the reductions in fiscal spending on agriculture during this time are as follows.

First, adjustments to agricultural policies. The introduction of the household contract responsibility system made the primary investors into agriculture change from the state and collectives into rural households. The government hoped to encourage rural population to increase investments into agriculture with policies intended to change production relationships. The government also used large increases to purchase prices for agricultural products to support agriculture.

Second, adjustments to the distribution structure of the national economy caused continuous shrinking of the share of GDP of fiscal income, from 31.2% in 1978 to 22.4% in 1985, thereby affecting the amount of expenditures in agriculture.

Third, adjustments to government functions, reflected in constant increases to the share of education and administrative management expenditures to total fiscal expenditures.

Fourth, adjustments to the fiscal system. After the fiscal system converted from the “state monopoly” into “contracted labor,” local governments weakened their responsibilities to invest in agriculture, with its relatively low contributions to fiscal income, after obtaining other avenues to increase income. The share of agricultural expenditures to total local government expenditures dropped from 18.8% in 1981 to 10.2% in 1985.

(2) Basic stability: 1986–1997

In 1985, there was a great decrease in agricultural production, particularly grain production, with a 3.58% reduction in area planted with grain and a 6.92% reduction in total grain yields from the previous year. This forced the government to reconsider increasing fiscal support to agriculture. After 1985, the share of fiscal spending on agriculture in total expenditures increased every year, achieving something of a balance what is “extracted” from and is “received by” agriculture, bringing an end thereby to the disadvantageous condition agriculture had been in prior to reform and opening up.

The chief factors negatively affecting fiscal support for agriculture at this time were a large drops in the share of fiscal income in GDP (reaching 10.3% in 1985) and constant increases in the amount of agricultural specialty product taxes levied (its share of agricultural taxes reached 45.17% in 1997).

However, there were also many other fiscal policies during this time that were unfavorable to agriculture.

First, the overall tax burden stemming from the agricultural tax was relatively low, accounting for only about two percent of actual yields in 1990.

Second, article 38 of the “Agriculture Law,” issued in 1993, provides: “The annual overall input to agriculture by the Central Government and the local governments at or above the county level shall be increased by a broader margin than their regular revenues respectively.” This provided a legal protection for constant increases to fiscal investments into agriculture.

Third, in 1987, the government began levying the farmland occupation tax, the revenues from which went to the dedicated fund for agricultural development, used to protect farmland; comprehensive agricultural development was promoted.

Fourth, although the relative amount of fiscal investments has continuously fallen, the government, particularly the central government, has continued to withdraw from competitive fields, thereby protecting the status of agriculture in fiscal expenditures.

On the whole, other than fluctuations in a few individual years during this period, the share of fiscal spending on agriculture to value added in primary

industries and the share of net fiscal spending on agriculture to total fiscal spending on agriculture remained relatively stable. At the same time, ratio of the share of fiscal spending on agriculture to total fiscal expenditures and added value in primary industries to GDP increased.

(3) Substantive Changes: Post-1998

The year 1998 provided an opportunity to implement positive fiscal policies, and the state issued a series of policies clearly intended to offer support and preference to agriculture.

First was a great increase of investments into agricultural infrastructure. During the “Tenth Five-Year Plan” period, the average annual investment into agricultural infrastructure was 49.74 billion yuan, a 16.7-fold increase over investments during the “Sixth Five-Year Plan” period.

Second, there was a great increase to the amount of investments into comprehensive agricultural development.

Third, officials abolished the agricultural tax and agricultural specialty products tax, with net expenditures becoming the basic status quo in the fiscal relationship to agriculture.

Fourth, there were major changes to the methods by which the fiscal administration supported agriculture, and constant increases to the amount of direct subsidies. The “four subsidies” (direct grain subsidy, subsidy for purchasing agricultural machinery and implements, improved variety subsidy, and comprehensive direct subsidy) began in 2004, grew in capital allocations from 14.5 billion yuan to 140.6 billion yuan in 2011, an average annual growth of 38.3%.

At this point substantive changes took place in the relationship between “taking” and “giving” in agriculture. Since the “Tenth Five-Year Plan,” all indicators have indicated great increases in actual fiscal support to agriculture (see Table 2).

2. Rural tax reforms: the era of “giving more and extracting less”

Prior to reform and opening up, central officials used the monopoly system, price scissors, and other policies to extract agricultural surpluses to support the development of industry with low labor costs. Shortly after reforms began, although the state greatly increased the purchase prices of agricultural products and gradually abolished the state monopoly system, the distributive relationship between the state and rural population characterized by “taking more and giving less” remained fundamentally unchanged for a long time. This relationship was expressed in not only payments of agricultural and agricultural specialty product taxes, but also in non-tax burdens which remained high for a long time. Also, the public services provided to rural population were far from sufficient to meet needs.

After the introduction of the rural household contract responsibility system and the dissolution of the people’s commune system, the rural population became the main contributor toward not only agricultural taxes but also fees and funds at all levels of the government, and even those charged by village collective organizations. After reform and opening up, taxes directly levied on rural population

Table 2 Changes to fiscal support for agriculture

	1981– 1985	1986– 1990	1991– 1995	1996– 2000	2001– 2005	2006– 2010	2011– 2015
Size of fiscal expenditure on agriculture as proportion of value added in primary industries	6.52	6.13	5.76	6.86	10.32	16.51	23.46
Size of net fiscal expenditure on agriculture as proportion of fiscal expenditures on agriculture	74.55	75.66	71.13	68.71	85.04	100	100
Ratio of the size of fiscal expenditure on agriculture as a percentage of total fiscal expenditures to the size of added value in primary industries as a percentage of GDP	0.28	0.35	0.46	0.51	0.57	0.81	1.00

Unit 100 million yuan

Data source compiled from data for relevant years in the *China Statistical Yearbook* and the *China Fiscal Yearbook*

Note Data for the “Twelfth Five-Year Plan” period do not include those for 2015

included: the agricultural tax, the agricultural specialty product tax, the butchering tax, and others; township comprehensive fees and village deductions; uncompensated labor (compulsory labor and accumulation labor); and all manner of financing, fees, and apportionments.

A survey of rural households conducted by the National Bureau of Statistics indicates that the three burdens of rural population (national taxes, collective contracting obligations, and collective deductions and apportionments) grew dramatically after the mid-1980s. In most years from 1985 to 1995, the burden of rural population grew much faster than rural income.

Not only was the burden of rural population growing quickly, but burden other than taxes became extremely onerous. Non-tax burdens became the primary burdens of rural population. A State Administration of Taxation survey indicates that in the 1990s, the agricultural tax, agricultural specialty products tax, and butchering tax accounted for a little over 20% of rural burden, while non-tax burdens contributed to over 75% of the total.

Long-term high burdens on rural population contributed to social instability, posing an enormous threat to sustainable, harmonious rural socioeconomic development. To thoroughly reduce the burden of rural population and fundamentally fix

the distributive relationship between the state and rural population, in 2000 Anhui Province took the lead in launching rural tax reform pilots, which were extended to the rest of the country in 2003.

The primary contents of rural tax reforms were as follows.

“Abolishment in three areas”: abolishing the overall township and county fees, rural education financing fees, and other administrative or governmental fees levied specifically on rural population; abolishing the butchering tax; and gradually abolishing labor accumulation and compulsory labor requirements.

“Two adjustments”: adjusting the agricultural tax policy and adjusting the agricultural specialty products tax policy.

“One reform”: reforming the methods of collection of village deductions. In other words, previous village deductions would be collected centrally via the new addendum, or surtax, to the agricultural tax. All proceeds from the surtax reverted to the village organization, used to pay village leader salaries, fund the “five guarantees support system,” and pay for office fees. Villages established other financing means for collective production and public welfare enterprises and established the “case by case” system, putting limits and controls on financing.

Rural tax reforms greatly lightened the non-tax burdens on rural population, but it was the abolishment of the agricultural tax that ultimately thoroughly relieved the tax burden on rural population. The national per capita tax burden fell from 99.8 yuan in 1999 to 11 yuan in 2006, and the percentage of per capita rural net income going to taxes fell from 4.4 to 0.3%.

To ensure smooth implementation of rural tax reforms, the central fiscal administration used transfers of payments to reduce net fiscal burdens on local governments and even gave appropriate amounts of subsidies, in order to ensure continued normal operations of township and county governments and village organizations, ensure that investments into compulsory education did not fall to pre-reform levels or even increased, and ensure that rural burdens did not rebound. To promote the development of the work of “one matter, one discussion,” in 2008 officials launched a nationwide pilot in fiscal subsidies for the establishment of “one matter, one discussion” in village public welfare enterprises; this pilot was extended to the rest of the nation in 2011. Central and local government investments into this program have continued to increase since its inception. Statistics indicate that from 2008 to 2011, total investment from all levels of government into the program totaled 105 billion yuan.

In 1998, the Third Plenary Session of the 15th CPC Central Committee passed the “Resolution of the CPC Central Committee on Several Major Problems of Agriculture and Rural Work,” which calls for strengthening support for and reducing expected contributions from agriculture, and giving more benefits to rural population. The implementation of rural tax reforms was the substantiation of the policy of “giving more and taking less” and launched a new era of “giving more and taking less.”

3. Public finance: from urban–rural segregation toward integration

The 16th CPC Central Committee proposed integrated development for urban and rural areas, and the Third Plenary Session clearly proposed the scientific development perspective of “five overall arrangements.” Thereafter, the state further adopted a series of substantive policies and measures to ensure thorough implementation of the policy of “giving more and taking less,” at which point separation between urban and rural public finances trended toward integration.

(1) Urban–rural segregation in provision of public goods and services, and changes

Since the founding of People’s Republic of China, Chinese officials have long implemented an imbalanced development strategy that separated urban and rural areas, and skewed toward urban areas; this fundamental situation was not changed for a relatively long time, even after reform and opening up. Although fiscal investments into the “three rural” increased continuously and rural areas received a great amount of transfer payments, officials in charge of distribution of fiscal resources did not fully consider the size of the rural population, the backwardness of the rural economy and society, and the enormous disparity between urban and rural areas; nor did they fully consider social fairness in sharing in public products and services for rural population. For a long time after reform and opening up, the dual structure and disparity in supply of public products and services between urban and rural areas was sustained and even strengthened. This could be seen primarily in that rural public product and service supply lagged greatly behind urban supply, with supply insufficient to meet rural demand, or even basic rural needs.

Second, there were great problems of inequality between urban and rural areas. For comparable public goods and services, urban residents paid nothing or very little, while their rural counterparts had to pay much more. The most classic case is compulsory education. In the 1990s, education-related fees, financing duties, and apportionments became the major source of financial burden on rural population. To a certain extent, China’s past accomplishment of rural compulsory education objectives and development of rural compulsory education were in violation of the principle of ability to pay and increased the burden on rural population. In other words, the cost of universal coverage of compulsory education was fairness in the distribution of economic burden.

In rural tax reforms, particularly in the scientific development perspective of integrated development for urban and rural areas proposed by the center and the abolishment of the agricultural tax, major changes took place in the dual system of provision of public goods and services, hitherto separated between urban and rural systems.

- (a) The methods of distributing the costs and fees of the supply of public goods and services changed fundamentally. After rural tax reforms, the direct burden on rural population of paying for public goods and services greatly reduced, except in their payment of non-agricultural business taxes and village public welfare enterprise construction approved through “one matter, one vote.”

- (b) Distribution of fiscal resources began skewing toward rural areas. Newly added public welfare payments for compulsory education, health, culture, and so on were used mostly in rural areas. Fiscal administrations, particularly at the central level, greatly increased investments into the development of rural social enterprises. After several years of efforts, the unreasonableness of distributions of fiscal resources between urban and rural areas was improved to a certain degree.

The primary reasons for changes to the separation between urban and rural systems were as follows. First, major changes took place within the CPC’s governing concepts, as officials began using the scientific development perspective of integrated development for urban and rural areas to formulate socioeconomic development policies, shifting focus from the right to live of rural population toward the right to develop. Second, state fiscal income grew rapidly, with the income situation growing constantly better; this provided a strong fiscal support for the supply of public goods and services. Third, the transfer payment system was constantly adjusted and improved, leading to sustained increases in the amount of equalized public service objectives met by the transfer payment system.

- (2) Equalization of basic public services and acceleration of rural coverage of public finances

As the economy developed and fiscal income continuously grew, and particularly as the concepts of “human-orientation” and comprehensive development grew ever deeper, and as fiscal systems and the transfer payment system at all levels of government were relentlessly improved, the pace of achievement of objectives of equalization of basic public services and complete rural coverage of public finances grew ever faster.

The primary contents of equalization of basic public services and rural coverage of public finances are as follows. First is the increase of supply of public goods and services in rural areas and equalization of basic public services between urban and rural areas. Second is increasing the supply of public goods and services to rural areas in China’s Center and West, to achieve interregional equalization of basic public services. Third is the improvement of the structure of equalization of basic public services and resolution of imbalanced investments into rural social development. As officials have continued to increase investments into rural education and gradually increased investments into rural healthcare, culture, social security, and other areas, public finances have gradually come to completely cover the countryside.

The pace of achievement of equalization of basic public services and the acceleration of rural coverage of public finances can be seen primarily in the following areas.

- (a) With the complete implementation of rural compulsory education, with “two exemptions and one subsidy” as its primary contents, fiscal funding for compulsory education in rural areas is guaranteed.

Table 3 Central fiscal expenditures to the “Three Rural Issues”

	2003	2005	2006	2009	2010	2012	Average annual growth
Total central fiscal expenditures	15681	20249	23482	43820	48331	64126	16.9
Central “three rurals” fiscal expenditures	2145	2975	3517	7253	8580	12414	21.5
Proportion of “three rurals” to total central fiscal expenditures	13.7	14.7	15	16.6	17.8	19.4	–

Unit 100 million yuan

Note Total central fiscal expenditures = central fiscal expenditures made at the central level + returns of local tax income and transfer payments

- (b) Complete coverage of the new rural cooperative healthcare system has been achieved, and subsidy standards and reimbursement rates have been gradually increased. As of the end of 2014, participation in the new rural cooperative healthcare system reached 98.9%. At the same time, a healthcare aid system has been established for the poor and those with difficulties from illnesses.
- (c) The rural minimum subsistence guarantee system was completely established, with minimum subsistence standards and subsidy levels growing ever higher.
- (d) Pilots in new rural social pension insurance have been implemented and accelerated. Per State Council demands, by 2020 all rural residents of appropriate age will be basically covered by pension insurance. The government will pay all new basic rural protection and pension fees for all persons meeting conditions. The central treasury will pay subsidies at standards established by the center into central regions, and will pay 50% of subsidies in eastern regions.

3. “Giving more”: the role of the central government

In the areas of integrated development for urban and rural areas, supporting the development of agriculture, rural area and rural population, and ensuring the smooth implementation of “giving more and taking less” policies, the central treasury will play an important role, and the central funding of investments and transfer payments into the “three rural issues” will grow. From 2003 to 2012, central fiscal expenditures grew by an average of 16.9% annually. Over that same period, central fiscal expenditures into the “three rural issues” grew from 214.5 billion yuan to 1.2414 trillion yuan, an average annual growth of 21.5%, markedly higher than the growth of overall central fiscal expenditures. Also over that same period, the proportion of total central fiscal expenditures going toward the “three rural issues” grew from 13.7 to 19.4% (see Table 3).

Development of China's Agricultural Science and Technology (AST) System

China's agricultural science and technology (AST) system has long been in a state of reform and development. Many years of practical experience and explorations have given rise to a system for innovations in agricultural science and technology and dissemination of applications, one of standardized management, with highly efficient operations, of strong capacity to innovate and compete, highly vigorous and full of vitality. We have accumulated rich experience and ascertained the direction of reforms.

1 China's AST System Prior to the Beginning of Reforms

The AST system during the era of the planned economy was marked by characteristics of state monopoly and administrative guidance. Scientific research bodies were supported by state finances and were singular entities under direct government control, and the organization, operations, and management of these bodies was strongly influenced by political movements. On the other hand, the "mass line" and "emphasizing the local and playing down the foreign" were widely praised. Many scientific researchers moved to the first line of agricultural production to resolve actual problems in production. The enthusiasm of grassroots governments and the masses of rural population to participate was fully stoked, making them into the primary entity promulgating agricultural technology.

1. The rise and fall of agricultural science research bodies

There was at first a close relationship between agricultural science research bodies and the state system of establishing "large administrative regions." Around 1950, the governments of the large regions successively established seven large regional agricultural science institutes on the foundation of existing agricultural science research bodies. The China Academy of Agricultural Sciences (CAAS) was founded in 1957, and the next year the institutes of the large regions were all put

under control of provincial leadership where they were located. In 1960, the great streamlining of central organs movement eliminated jobs at higher levels and beefed up lower levels, quickly expanding the staffs of local agricultural research bodies. Most provinces converted existing agricultural affairs experimental farms into provincial-level agricultural science academies. Many of those academies included subordinate specialized research institutes and strengthened the construction of regional tier-one agricultural science centers.

During the “Cultural Revolution,” scientific research bodies were abolished or moved to lower levels, and standard scientific research work basically came to a halt. Large amounts of books, documents, instruments, and equipment were destroyed, and a great quantity of precious germplasm resources and experimental materials were lost forever. Agricultural sciences were egregiously damaged during this time. The CAAS charter was revoked in 1970, and the various agricultural departments had their work units and functions transferred to lower levels. Many leaders were sent to sacred places of the revolution and “red flag points” to improve work units and gain experience. All of these acts affected the entire nation; eight provincial agricultural science academies were abolished, and 21 were transferred to lower levels. AST bodies were paralyzed, and their operations thrown into chaos; the losses are difficult to assess.

It was basically impossible at the time to distinguish between agricultural production and agricultural research, with attempts made to replace scientific experiments with production struggle. For example, the proposal to “thoroughly walk the mass line in agricultural research and not rely on the 48 institutes” blindly praised and exaggerated the intelligence and effectiveness of the masses, with officials devoting themselves to experiential science from peasant society, rather than experimental science of modern agriculture.

2. Dissemination: demonstration sites and the four-tiered agricultural sciences network

After the Ministry of Agriculture (MOA) drafted the “Working Rules for Agricultural Technology Dissemination Stations,” grassroots agricultural technology dissemination stations, husbandry and veterinary work stations, and fisheries technology dissemination stations were established around the country. In 1959, with the establishment of people's communes, corresponding changes took place in the structures of agricultural technology dissemination bodies. In provinces where administrative regions below the county were abolished, agricultural technology dissemination stations with communes as their central units were established. In provinces where the original administrative system of districts was retained, district-level technology dissemination stations were also retained. Some provinces established collective commune agricultural technology dissemination stations. Some provinces separated out plant protection stations and land fertility stations from county comprehensive technology dissemination stations, and some provinces established independent seed stations and husbandry and veterinary stations.

In 1965 at the Nationwide Agricultural Science Experimentation Working Conference, the State Council called for the launch of an agricultural science experimentation movement, centered on “demonstration fields,” around the nation, calling on provinces, sub-provincial regions, counties, and communes to establish one or two, or three or five “demonstration fields.” Rural officials around the country began establishing scientific experiment groups of “triple unity” between cadres, experienced peasants, and educated youth, and launched the “three fields” (experimental fields, model fields, and high-yield fields) movement. After the beginning of the “Cultural Revolution,” most technology dissemination bodies were abolished, and the work of technological dissemination came to a complete stop. However, agricultural production remained in urgent need of technological guidance, and some regions founded scientific experimentation stations among the masses to attract experienced farmers to serve as technicians. One of those places was Huarong County, Hunan Province, which in 1969 established the “four-tiered agricultural science experimentation network” (or “four-tiered agricultural network,” composed of county agricultural science centers, commune agricultural science stations, production brigade agricultural science teams, and production team agricultural science groups) received attention and was actively disseminated within the province and imitated in other provinces. This method was affirmed at 1974s “Nationwide Four-Tiered Agricultural Science Experimentation Network Experience Sharing Conference.” In 1976, the MOA began subsidizing commune and brigade agricultural science organizations to the tune of 20 million yuan annually, gradually building up the four-tiered agricultural network.

Under the particular conditions of the times, and the influence of “leftist” ideology, the replacement of specialized teams with mass movements and the blurring of the nature of scientific research and dissemination not only made it impossible to achieve many research and dissemination tasks, but also caused enormous wastes of human and material resources. Such a system was clearly unable to effectively shoulder the task of innovation in agricultural science and technology. Prior to 1978, the AST system made great research achievements (the seed revolution, beginning with hybrid rice), drove increases to the level of agricultural machinery and equipment, and played an active role in fostering local technical personnel for the four-tiered agricultural network and increasing the spread and level of agricultural knowledge. However, its overall efficiency was low, and its capacity for supporting agricultural development was weak. Per the research of Zhu (1997), the contribution rate of AST in its broad sense from 1953 to 1957 was 20%. That rate went negative during the period of adjustments from 1958 to 1962, and then returned to 2.3% from 1966 to 1970. The rate increased to 15% from 1971 to 1975 and finally to 27% from 1976 to 1980. Agricultural development over this period relied primarily on traditional factor inputs, with insufficient inputs from science and technology.

2 Developing China's AST System: Improvements and Innovations

Since 1978, massive changes have taken place in China's institutional environment for agricultural research and technology dissemination; rural households have gradually become the main entities of the rural micro-economy and have gained autonomy in selecting technologies. At the same time, market mechanisms are beginning to play an important role in resource allocations, particularly technological resources. Reforms to China's AST system have encompassed a series of major measures, with important breakthroughs and achievements made. In 2012, the contribution rate of science and technology to agricultural growth in China reached 53.3%, providing strong support for increases in yields and agricultural efficiency and driving changes from tradition toward modernity in agriculture.

1. Restoration and development of the ast system

In 1978, the State Council approved request to reinstate CAAS's original charter and instituted a leadership system centered on ministries. At the same time, all provinces, autonomous regions, and centrally-administered cities began to restore or built from scratch agricultural science academies and specialized research bodies. With the movement afoot, the number of agricultural science research bodies grew from 597 in 1978 to 1428 in 1985, and the ranks of agricultural researchers grew from 22,000 to 102,000.¹ However, there were some obvious institutional maladies in these bodies, such as separation of "lines and blocks"—vertical and horizontal management—dependence on governments at all levels, "big and complete" and "small and complete," low levels of socialized coordination, and overall low effectiveness of scientific research. The first round of reforms to the AST system began in 1985. The "Resolution of the CPC Central Committee on Reforms to the Science and Technology System" of 1985 made designs for the AST system in operations mechanisms and organizational institutions. The reforms focused mostly on methods of funds allocations for agricultural research, changing the funding for many research programs from planned distribution into a competitive system. At the same time, officials allowed research departments to engage in commercial activities aimed at earning business revenues. However, the concrete contents of reforms to the AST system were highly divergent. To address this, the document ultimately issued proposed that agricultural research bodies at the provincial level and higher exert great efforts to perform foundational research and temporarily retain the system of contracting enterprise fees to agricultural research bodies and technology dissemination departments.

In 1986, the MOA drafted three documents: "Several Opinions on Reforms to the Agricultural Science and Technology System (Draft)," "Methods for

¹Huang, Jikun, Tao, Ran, Xu, Zhigang, Liu, Mingxing, Rozelle, Scott. (2008). *Institutional Changes and Sustainable Development*. Shanghai: Truth & Wisdom Press and Shanghai People's Publishing House, p. 99.

Thoroughly Implementing the State Council's 'Provisional Measures for Expanding the Autonomy of Scientific and Technological Research Bodies' (Draft)," and "Trial Measures for Contracting Fees for Scientific Research Enterprises." In 1988, the "director" system of responsibility was implemented in research bodies; officials launched all manner of pilots in contracting responsibility systems on a foundation of expanding the autonomy of research bodies. Thereafter officials proposed "one institute, two systems" and "stabilizing one side and opening a swath." These measures drove deepening of reforms to the AST system.

Shortly after the outset of reforms to methods of allocating funds for research, the introduction of competition for projects increased the investment efficiency of research, but as the proportion of competitive projects grew, researchers became increasingly busy filling out applications and having claims tested, and competition started affecting the direction of research; this drove a drop in the efficiency of investments into research. At another level, ramping up of marketization reforms for funding and income of research units reached predetermined objectives: average annual growth in overall income of agricultural research was 2.5%, after excluding price factors, from 1986 to 1996. However, fiscal allocations actually decreased over that same period, with growth decreasing by an annual average of 0.8%. With dual pressures to increase income and fight for fiscal allocations, agricultural research bodies began shedding personnel, with total researchers dropping from 102,000 in 1985 to 65,000 in 1996; this also exerted an influence on research activities.²

In 1999, the second round of reforms to the research system was initiated. The primary contents of this round were focused on changing the scientific research work unit system and driving the formation of a new system for innovation in agricultural science and technology, and encouraging companies to invest in agricultural research.

These reforms confirmed the principles of "structural adjustments, separation of personnel, changes to mechanisms, and institutional innovation," while also calling for reforms in scientific research bodies such as entering enterprises and universities; re-organizing as enterprises, intermediary organizations, or non-profit research bodies; and so on. In 2002, per the "Approval of the Reform Plan for Subordinate Scientific Research Bodies of the Ministry of Agriculture and Eight Other Ministries," the MOA pushed reforms to 66 research centers under its subordinate bodies, the CAAS, China Academy of Fishery Sciences (CAFS), and the China Academy of Tropical Agricultural Sciences (CATAS), converting 22 into enterprises and 11 into public institutions, rolling four into universities, and merging 29 others into 27 non-profit research centers. Only 21.4% of changes in organization structures of the "three academies" were confirmed after the reforms. Corresponding reforms were also carried out in local agricultural science academies.

²Ibid.

The “Agricultural Science and Technology Development Outline (2001–2010) of 2001, the “National Development Science and Technology Planning Compendium for the Mid to Long Term (2006–2020)” of 2004, and the “Agricultural Science and Technology Development Plan (2006–2020)” of 2007 clarified and confirmed the ideology of reforms to the scientific research system, proposed the principles of “stable support and appropriate competition,” and emphasized improvements to the system and innovation mechanisms. The primary contents of system improvements included: divided management of research bodies by category; driving optimization of configuration of national agricultural research bodies and scientific and technological resources of affiliated agricultural universities through major investments into scientific infrastructure; constructing national bases, regional agricultural research and product development centers, stations for disseminating achievements in science and technology, corporate agricultural technological research and development centers; and so on. At the level of mechanisms for innovation, the reforms were aimed at: improving fiscal investments into scientific and technological funding, mechanisms for assessing work performance, and project-establishment mechanisms; perfecting mechanisms for division of labor and coordination and uniting forces; building mechanisms for the fostering of teams and talent; and working on mechanisms for assessing achievements by category and rapid transformation of achievements, as well as mechanisms for cooperation and interchanges in agricultural science and technology.

Since 2004, the AST system, mechanisms for innovation, and the construction of major technological fields have received constant attention in No. 1 Central government documents. In particular, the No. 1 Central government document of 2012 made comprehensive deployments for agricultural science and technology for the first time since the founding of the People's Republic of China. This document was the first to clarify the strategic positioning of AST development. It made clear that AST is public, foundational and social in nature, called for sustained increases to government investments into AST, and protected increases in both absolute and relative terms.

The document made deployments of the “four major tasks” in AST innovation: one, strengthening foundational agricultural research, promoting avant-garde technological research, and making breakthroughs in a slew of major theories, methods, and commanding heights in science and technology; two, making breakthroughs in key technologies and general technologies and building a technological system suited to the requirement of high-yield, high-quality, efficient, ecologically-sound and safe agricultural development; three, grasping innovations in the seed industry; and four, increasing government investments in agricultural technology and ensuring that growth of government investments in agricultural technology markedly outstrip growth of recurring fiscal income. The document also proposed using reforms to mechanisms to resolve the “two pieces of skin” problems in research and production, and establishing and perfecting highly effective mechanisms for AST innovations.

Emphasis placed on reform and development of AST can be seen in great increases to AST investments in China. In addition to increases in standard public

institution funding, the state has also invested an enormous amount of capital to launch a slew of major AST projects in foundational research and applied research for agriculture, increasing the level of AST and having important effects.

2. Development of the agricultural technology dissemination system and formation of the diversified dissemination system

(1) Development of the agricultural technology dissemination system

After the issuance of the “Resolution of the CPC Central Committee on Reforms to the Scientific and Technological System” in 1985, governments across the country established strengthening construction of grassroots AST dissemination systems as important measures for driving promotion of local agricultural economic development. By the late 1980s, all provincial agricultural bureaus had established AST dissemination stations in all towns and counties.

In 1989, Shandong's “Laiwu experience” was extended to the rest of the nation, with the “three rights”—personal, fiscal, and property—of AST dissemination stations being sent down from the county to the township and county level, and grassroots dissemination stations being allowed to engage in commercial activities related to technological dissemination. At the same time, governments across the country began reducing fiscal investments into the grassroots agricultural technology promotion sector, which was extremely destructive to the construction of the agricultural technology dissemination system's construction and to stability of AST teams. In 1992, 44% of counties and 41% of townships either reduced or suspended funding allocations to agricultural technology dissemination stations, and about a third of agricultural technology dissemination personnel left their positions. Management of some township agricultural technology dissemination stations was sent downward to township governments and was subject to corporate “downsizing” or “abolishment.” Some stations were entirely pushed onto the market, causing “broken lines, a broken network, and dispersed personnel” in the agricultural technology promotion system.

In the mid-1990s, grain yields were stagnant, forcing the government to issue policies to stabilize agricultural technology dissemination teams. In 1995, the MOA merged agricultural technology dissemination stations, plant protection stations, soil fertility stations, seed stations, and other departments into a single entity: the “Nationwide Agricultural Technology Dissemination Services Center.” All local governments then followed suit and established comprehensive agricultural technology dissemination organs at all levels. In 1996, the MOA launched the “three fixed” work of fixed nature, fixed organization, and fixed personnel of township and county agricultural technology dissemination bodies around the nation, quickly swelling the ranks of this industry from over 300,000 in 1992 to 1.025 million in 1996. The “three rights” sent downward were mostly brought under administration of county agriculture bureaus.

In the late 1990s, officials began pilots in downsizing teams and separating commercial activities, emphasizing fiscal support of the agricultural technology dissemination system divided by category. After the issuance of the “CPC Central

Committee General Office and State Council Opinions on Downsizing of Staffing Structures in Prefectures, Counties, and Townships” in 2000, sustained downsizing of staff in the agricultural technology dissemination system began. The No. 2 Central government document of 2002 called for gradually building an agricultural technology dissemination system providing business services and public welfare functions.

Around 2004, local governments, the MOA, and the China Academy of Sciences (CAS) began pilot reforms in separating out commercial activities from agricultural technology dissemination departments. To increase the overall quality of dissemination staff and bring about subsidence of science and technology resources, the “Opinions on Deepening Reforms and Strengthening Construction of the Grassroots Agricultural Technology Dissemination System” of 1996 specified two ratios: “We should ensure that agricultural technology personnel performing first line work not be less than two thirds of the county-wide agricultural technology personnel force, and that the ratio of specialized agricultural technicians not be less than 80% of the force.” The document also proposed: “All levels of local government should guarantee necessary funding for public-welfare dissemination bodies to carry out their duties, and include such funding within fiscal budgets.” In 2007, guarantees for funding of the grassroots agricultural technology dissemination sector were improved, with fiscal allocations providing 86.4% of funding for agricultural technology dissemination bodies at the county level and nearly 70% of funding for bodies below the county level.

In 2008, the Third Plenary Session of the 17th CPC Central Committee comprehensively proposed accelerating construction of the new agricultural socialized services system; thereafter, the No. 1 Central government document of each year gave concrete guidance in this area. In 2009, central authorities proposed clarifying responsibilities, shoring up teams, improving mechanisms, guaranteeing funding, and feasibly strengthening service capacity; adopting open hiring systems, competition for positions, and other methods to hire the best specialized technicians; and linking incomes of service personnel with their job responsibilities and work performance. In that same year, the MOA began the “experts—technical guidance personnel—science and technology model households—radiating and motivating households” channel for rapidly converting achievements in AST, driving AST into villages and households. The original, singular contents of the “science and technology goes into households” program were transitioned toward unified demonstration. In 2010, central authorities emphasized construction of township and county or regional agricultural technology dissemination and other public service bodies, expanding reforms to the grassroots agricultural technology dissemination system and the scope of construction of model counties. Officials also launched the plan for special positions within grassroots agricultural technology dissemination bodies, and encouraged university graduates in studies related to agriculture to work in such bodies. In 2012, central authorities emphasized public-welfare nature agricultural technology dissemination services and called for reforms to the grassroots agricultural technology dissemination system, and proposed policies of “one link, coverage of two areas.” Officials guided universities and research

institutes to become an important force in the dissemination of public-welfare nature agricultural technology dissemination and encouraged scientific research educators to deeply enter the grassroots level to provide agricultural technology dissemination services.

In August 2012, the "Agricultural Technology Dissemination Law" was formally reissued after revisions following nearly twenty years of implementation. Summarily speaking, it made several clarifications: It clarified management divided by category of agricultural technology dissemination; clarified the public service nature, principles of organization, management system, and principles of team construction of state agricultural technology dissemination bodies; clarified the legal status of diversified dissemination organizations; and clarified norms, protection measures, and legal responsibilities of the work of agricultural technology dissemination.

(2) Formation of the diversified agricultural technology dissemination system

China began construction of the multi-form agricultural technology dissemination system in 1988. In the "Resolution on Several Issues of Deepening Reforms to the Scientific and Technological System" of that year, officials called for great efforts to be made to support all forms of rural private science and technology dissemination organizations, including specialized cooperative organizations, technology associations, and research associations, as well as organizations founded by villages, household alliances, or individual households. The document also encouraged rural population to establish agricultural technology service organizations or technological economic entities of all kinds of ownership system. In 1995, the "Resolution on Accelerating Scientific and Technological Progress" emphasized that agricultural technology dissemination departments should actively found all manner of service entities and strive to develop an agricultural socialized services system that integrates technology, industry, and trade, per the principles of "founding entities centered on service, founding entities to promote service, and providing services to drive development." Thereupon, the business services of agricultural technology dissemination departments transitioned away from technological and material integration of "selling drugs by prescription," toward high-level development with founding of economic entities and realization of industrialization.

In the 21st century, China further clarified the diversified structure of the agricultural technology dissemination system. The "Agricultural Science and Technology Development Outline (2000–2010) of 2001 and the "People's Republic of China Agriculture Law," revised in 2002, clearly proposed "establishing integration of government support and market guidance, integration of paid and free services, and an agricultural technology dissemination system that integrates state agricultural technology dissemination bodies with social power." The documents proposed stabilizing agricultural technology dissemination bodies while also striving to develop rural population' and corporate technology dissemination and service organizations and supporting the development of all manner of rural specialized technology associations. They also encouraged dissemination bodies,

scientific research bodies, colleges and universities, associations, companies, and rural population to engage in the work of technology dissemination in various forms, including development of agricultural technology, technological consulting, technological services, and technology transfers. These “three integrations” drew the outlines of a basic structure of the diversified agricultural technology dissemination system. In 2006, the “State Council Opinions on Deepening Reforms and Strengthening the Grassroots Agricultural Technology Dissemination System” proposed gradually building a diversified grassroots agricultural technology dissemination system with state leadership, cooperative economic organizations as its foundation, and broad participation of scientific, educational and other work units and other agricultural enterprises. The No. 1 Central government documents from the years 2008 to 2010 all encouraged active development of diversified and socialized agricultural technology dissemination service organizations.

At the end of 2011, there were over 100,000 agricultural industrialization organizations around the country. Of those, over 90% of state focus mainstay enterprises had established product research and development centers. Mainstay enterprises at the provincial level and higher employed 385,000 AST personnel, equivalent to 36.8% of total nationwide AST personnel; they also hired 215,000 agricultural technology dissemination personnel, 27.7% of all such personnel in the nation.³ There were 133,000 rural technological organizations, developing a large quantity of specialized households and model science and technology households, promoting progress of rural private agricultural technological work and development of all manner of private science and technology organizations, greatly increasing the science and technology level of rural population.⁴ Around the country, 500,000 rural specialized cooperatives had been established, with a total membership of over 40 million households; over 95% of these cooperatives could provide technological services to their members.⁵

After 30-plus years of reform and development, the agricultural technology dissemination system has broken through from its former singular dependence on the government and is now becoming increasingly diversified. “Expert compounds,” special technology envoys, “Science and Technology 110,” and other new forms of agricultural technological services have been disseminated to many places, providing convenient technological services to rural population and receiving widespread praise. Many agricultural-related companies, rural specialized cooperative organizations, and specialized associations, as well as private science and

³Chen, Xiaohua. (2012). “Giving Full Play to the Role of Leading Enterprises to Drive Advancement in Agricultural Science and Technology.” Official Website of Ministry of Agriculture. http://www.moa.gov.cn/zwillm/zwdt/201202/t20120208_2476883.htm. 8 February, 2012.

⁴“The Fourth National Congress of the China Rural Special Technology Association (CRSTA) Convenes in Beijing.” <http://www.hnai.gov.cn/?thread-52539-1.html>. 26 March, 2012.

⁵Rural Development Institute & Rural Survey Department of National Bureau of Statistics. (2012). *Analysis and Forecast on China's Rural Economy* (2011–2012). Beijing: Social Sciences Academic Press, p. 222.

technology organizations, are increasingly entering the field of agricultural technology dissemination. Government departments and social institutions are also participating more in this field through a series of action plans.

3. New development in science and technology education and training for rural population

With low levels of scientific and technological knowledge rampant among rural population, local governments around the country have developed rural science and technology education and vocational training, to differing degrees. On the one hand, they are training rural population in agricultural technology to develop modern agriculture and foster good farmers. On the other hand, they are giving rural population technological training for labor and employment and driving rural labor to transfer away from “physical” labor to “technical” labor.

The MOA spearheaded the launch of many training programs. The “2003–2010 Nationwide New Farmer Science and Technology Training Plan” of 2003 emphasized the implementation of the “green certificate program,” the “cross-century young farmer science and technology training program,” the “new farmer entrepreneurial training program,” the “transfer employment training program for surplus rural labor,” and the “long-distance agricultural training program.” In 2006, ministries and central commissions established 14 coordination groups for “scientific literacy for rural population.” In July of that year, officials launched the “scientific literacy for rural population initiative.” The MOA broadly spread technical training and technical services to rural population by sending science and technology down to the countryside, technical services, technical express, technical libraries, agricultural radio and television, and other means. In 2011, the MOA proposed a nationwide initiative for winter and spring agricultural science and technology training, grasping universal training focused on practical agricultural technologies, vocational training for rural population, entrepreneurial training for rural population, and vocational education for rural population, as well as persisting in guidance by the government, servicing the development of industry, being guided by rural population’ needs, and dividing education and training by class.

In 2012, the State Council issued the first “National Plan for Modern Agricultural Development” calling for agricultural modernization in China, advocating for “vigorously developing agricultural vocational education, accelerating the training of technical human talent, and training a slew of new farmers, including people skilled in planting and husbandry, agricultural machinery, science and technology, and so on,” and encouraging and supporting a new generation of rural population skilled in technology and business to engage in modernized operations of agriculture at home, or to return home to do so. The document established technical and vocational training for rural population as a basic public service, and launched the “new professional farmer training program.”

The attachment of importance to science and technology training and education for rural population drove an increase to the overall scientific and technological literacy of rural population. However, the system for science and technology

training and education for rural population remains a weak link in the overall national education system. Coverage of science and technology training remains narrow, with less than one third of rural population participating in science and technology training per year, and fewer than three percent of rural population having participated more than three times in science and technology training. In addition, most training programs are short-term initiatives, lacking in stability and mechanisms for long-term effectiveness. Most ministries and commissions launch their own rural training and education programs; there is a lack of centralization. There is a lack of standards and reasonable assessment systems and mechanisms for these programs; there are hints of formalism.

Relevant surveys indicate that China's urban residents receive an average of 11 years of education, but rural residents receive an average of only 7.8 years, and over 70% of rural population has at most a middle school education; their overall education levels are low. As rural labor transfers have accelerated, the quality of farming labor has decreased on the whole; this is disadvantageous to the receipt and study of new knowledge and new technology and has egregiously restricted the development of modern agriculture. As such, the tasks laying before us in educating and training rural population are onerous.

3 Outlook

Over the past 30-plus years of reform and development, a series of major reforms have been implemented in China's AST system, and important breakthroughs and achievements have been made. Statistics indicate that China's AST contribution rate is now 53.5%, and that during the "Tenth Five-Year Plan" period, the rate of conversion of scientific research achievements was about 40%, providing an effective support for guaranteeing supply of agricultural products and increasing rural incomes. However, those two rates are nearly 30 and 40 percentage points behind those of developed nations, respectively. China still faces arduous tasks in construction of the AST system, particularly in the construction of AST innovation capacity centered on companies and the construction of the AST dissemination system guided by the government. There are many important issues that urgently need to be resolved.

To construct a system for scientific and technological innovations in new agriculture and to convert applications that conform to the laws of development of AST, that is adapted to the needs of the development of modern agriculture, with perfect functions, highly effective operations, and capacity to support, we must emphasize the following areas.

First, we must focus on rural population. They are the primary entity of agricultural production, the direct appliers of AST, and the beneficiaries thereof. As such, the dissemination and application of AST must remain close to rural population. As scientific and technological achievements are disseminated, we must provide convenient conditions to rural population, give them low cost, practical,

and easy-to-learn technological results, strengthen the access to technologies for them, and place particular emphasis on impoverished rural areas.

Second, we must further improve AST systems and mechanisms. The focus should be on resolving issues of capability and efficiency. The key is in building and improving investment mechanisms of “stable support and appropriate competition,” project-establishment mechanisms of “tight integration between top-level design and production needs,” coordination mechanisms of “resource sharing and reasonable sharing of authorities,” and science and technology assessment mechanisms that “integrate approvals from colleagues and actual testing.”

With AST achievements highly externalized, intellectual property rights difficult to protect, and China’s scale of agricultural production small and diffuse, we must strengthen the government’s leadership role and degree of support in foundational and public welfare nature scientific research dissemination, and improve organizational methods and interest mechanisms for promulgating agricultural research within the system. Reforms to agricultural research bodies have been applied to personnel use institutions, the distribution system, the science and technology management system, funding use methods, and in other areas, to resolve problems within research units and bodies such as overstaffing, disparate strengths, redundant topics, and insufficient integration of research and production, and have increased the quality and productivity of scientific research.

The most important part of reforms to the agricultural technology dissemination system lies in constructing as quickly as possible, per the overall demands of strengthening public welfare functions and invigorating business services, a diversified grassroots agricultural technology dissemination system that is guided by national agricultural technology dissemination bodies, founded in rural cooperative economic organizations, with broad participation from agricultural research and educational work units and agricultural enterprises, with coordinated division of labor, good service, and great vitality.

Reforms to farmers’ education and training need to be focused on bringing about coordinated integration at the top and integration of training resources at the grassroots level. For example, in coordination of “farmer training programs” initiated by ministries and central commissions, in grassroots rural vocational high schools, and in the integration of educational resources of similar categories of training bodies, we need to change the situation of “a group of dragons controlling the water” at the top level and “small but complete” at the bottom level, redundant structures, and mutual competition. We must gradually bring about an intensification of rural vocational education and increase the usage efficiency of resources.

Third, we need to coordinate development and make key breakthroughs. The regional development of China is highly imbalanced; future development of agriculture and rural science and technology must assist in coordinated regional socioeconomic development and become an important force in eliminating regional disparities. This means we will need not only to increase the overall levels of innovation and application of scientific and technological resources, but must also accelerate the progress of agricultural and rural science and technology in China’s central and western regions, particularly in primary grain-producing regions,

ecologically weak areas, and old, sparsely-populated, and marginal regions. The fiscal strength and scientific and technological foundations in these areas are weak, and we need to give support to focus areas, make use of late-developing advantages, increase the level of science and technology, and bring about rapid socio-economic development, using fiscal transfer payments, preferential tax and credit policies, greater use of talent promotion policies and more government organization of projects.

China, as a developing nation, has limited scientific and technological resources on the whole, as well as innumerable problems in the development of agricultural and rural science and technology. That being the case, in allocating scientific and technological resources, we must be guided by major strategic demands, choose focus areas and core technologies, focus on scientific and technological issues that affect the whole situation and can guide strategy, overcoming “bottlenecks” constraining development of agriculture and rural economy and society, and optimize allocation of scientific and technological resources. One can foresee that deepening of reforms to the AST system will effectively drive development of modern agriculture, effectively overcome resources and market constraints, and achieve the agricultural development objectives of “high quality, high yields, high efficiency, good for the environment, and safe.”

Construction and Development of Rural Towns and Villages

In this chapter we take building the market economic system as the main line of construction, reforms, and development of rural towns and villages. We will conduct necessary, comprehensive, and detailed analysis of relevant systems and institutions, as well as development issues. We will expound upon the role that economic system reforms and the establishment of the market economy play in the construction and development of towns and villages. We will compare the formation mechanisms of different town and village development models and significance of lessons to be learned. We will explore future town and village construction and development objectives and focuses to learn how to better drive construction and development of towns and villages.

1 Town and Village Construction and Development Under the Planned Economy

During the era of the highly concentrated planned economy, China's town and village development was affected by the urban-rural duality and policies, which gave rise to the prominent characteristic of first developing cities, and then developing towns and villages. All resources for construction of towns and villages were first concentrated in superior levels of government, and even at the central level, and only after passing through every level of government approvals could resources finally land in town and village development projects. This gave rise to the town and village development model heavily colored by the planned economy.

1. Development of the town and village system

China's several major changes to the administrative management and organization system not only meant further strengthening of the power of the state to administer and control, but also gave rise to the highly unique town and village development model.

(1) Changes in the development of the town and village system

During the first round of reforms to China's administrative management system (1949–1957), the status of towns and counties as China's basic rural political units was solidified. Issued in September 1954, the "People's Republic of China Constitution," for the first time clearly abolished the past administrative coexistence of the system of districts and villages and the system of districts and townships. As a result, there was marked growth to the numbers of rural towns and counties during this period. During this round of administrative system reforms, there were no changes to the administrative nature of villages.

During the second round of reforms to the administrative management system (1958–1980), towns and counties, in their capacity as the basic rural units of political power in China, were no longer only endowed with administrative management functions. After towns and counties were turned into people's communes and administrative villages into production teams, they became composites merging politics and economics, responsible for carrying out functions of state administrative management and also shouldering the burden of development and production. At this time, marked changes took place within the administrative structure of villages, with administrative villages becoming subordinate units of people's communes as production brigades, and natural villages becoming subordinate units of brigades as production teams.

(2) Characteristics of the development of the town and village system

Owing to reforms to the national administrative management system, there were also several rounds of reforms to the development system of towns and villages, which gave rise to the following characteristics.

(a) Breaking of the Traditional development model of "no government below the county"

If we look back on the history of development in China, we see that since the establishment of counties in the Qin Dynasty, towns and villages below the county level have always been allowed autonomous management. During the Republic of China, the Kuomintang (KMT) government emulated the late Qing Dynasty model of autonomy for townships and villages, in 1930 issuing the "Township and county Autonomy Act." The difference was that the KMT established county government representative village administrative offices below in towns and townships below the county level and implemented the "Bao-Jia System"¹ in villages. Unlike any government in any previous era, the KMT strengthened controls over rural society in the extreme. As a result, during the rule of the KMT, the management practice of "no government below the county" begun during the Qin Dynasty was effectively broken.

¹It refers to the system of law enforcement and public administration in imperial China—translator's note.

In 1949, the People's Republic of China was born. The new national administrative management system to a certain extent implemented even more rigorous vertical leadership and controls from the central to the local levels, even to every corner of the countryside. Not only were all manner of administrative controls authorities concentrated in the center at this time, but owing to the development needs of industrialization and urbanization, the state administrative management system needed not only to go below the county level, but also needed to control rural households' production and lives.

(b) Vertically integrated development with power concentrated in the center

The first development characteristic was vertical leadership stretching from the center down to the local level, meaning that the central government had the authority to make decisions on economic and social construction and management, with authorities growing greater proceeding upward from the town and village level. The second was that the planned economy served as the foundation for this model of concentrated administrative power, meaning that all economic and social development activities fell under the purview of the planned economy. Local governments were subject to the most shrinking of self-rule in economic and social development. The third was a striking asymmetry between the burdens borne by local governments and their share in the benefits of socioeconomic development.

(c) The "unity of party and state" and "unity of politics and economics" in the development of towns and villages

The development management system with powers concentrated at the center was a system of "unity of party and state" and "unity of politics and economics." The town and village management system could not be extricated from this institutional background. The two unities were vivid characteristics of town and village development, with the primary functions of government being to guide economic construction, but not having to bear responsibility for the results of economic construction.

2. Town and village development methods and reasons for their formation

The town and village development model was subject to influence from the national administrative management system as well as from the models of industrialization and modernization.

(1) Town and village development methods and characteristics

After the launch of the people's commune system in 1958, the town and village development system solidified and became imbued with the following characteristics as a result of relative stability in the administrative system.

State investments into the urban socioeconomic development vastly outstripped investments into rural town and village development. The overall situation in the state development system was that cities were given precedence, and rural areas came second, meaning that town and village development basically became marginalized.

The basis for the formation of the town and village development system was the highly concentrated planned economy. Town and village development projects, both large and small, all had to be drafted and planned in advance, and approved by relevant departments of superior governments. Only after approval would capital and materials for project construction become available, meaning that town and village governments had no power to autonomously decide on development projects.

A prominent difference between town and village development and urban development was the “indiscriminately egalitarian transfer of resources” mechanism of development financing. With central fiscal resources insufficient to be turned toward town and village development, there arose the slogans “everybody’s matters, everybody helps” and “collective matters are determined by the collective.” Communes made uncompensated transfers of the property of production brigades and their members, and brigades did the same to production teams. This became the model for construction.

(2) Reasons for formation of town and village development models

The primary characteristics of the development methods of towns and villages during the era of the planned economy were as follows:

- (a) Selection of the national industrialization strategy (model). Its first effect was on the development of national industrialization, sharply dividing cities and the countryside into areas with completely different functions, giving cities the power to control the countryside, with agriculture and rural laborers providing accumulation and protections for urban development and industrialization. The second was the imposition of total wage level controls in cities and the provision of a basic social welfare environment. As a result, cities also were given preference over rural areas in public infrastructure, services, and all other social benefits. The third was the power of groups representing the interests of industry and urban residents, which was much stronger than those groups looking after agriculture and interests of rural population.
- (b) Local government fiscal powers were limited under the model of power centralization, meaning they had no resources to commit to town and village development. After 1949, China had established town (and township) governments below the level of the county, but towns (and townships) lagged far behind in construction of fiscal administrations. Some towns and villages with relatively strong capacity for accumulation saw most of their accumulations submitted to higher levels of government for use in industrialization and urban development, owing to the power of centralized authority that put fiscal emphasis on industrialized development. This directly caused town and village development to lag behind urban development.
- (c) People’s communes were an organizational form that exceeded production level development and condensed political, economic, and social functions in one body. This system laid the conditions for the “indiscriminately egalitarian transfer of resources” between communes, brigades, and production teams.

2 Development and Reform of Towns and Villages Under the Market Economy

The introduction of the socialist market economic system has caused unprecedented changes in the development of towns and villages; we have entered a period of rapid development.

1. Primary measures of town and village development and reform

(1) Building town and village planning mechanisms, including town and village construction within legal management

During the planned economy and during the transition from planned economy into the market economy, subjectivity and arbitrariness were commonplace in town and village construction. First, there was a high level of arbitrariness in town and village construction, lacking comprehensive considerations and thinking. Second, officials ignored the scientific and reasonable design of spatial patterns in towns and villages, frequently violating the laws of town and village spatial development to build them. To this end, on October 28, 2007, the National People's Congress passed the "People's Republic of China Urban and Rural Planning Law," which made specific provisions for spatial arrangements in town and village construction, and for the first time incorporated town and village construction within legal management.

(2) Building diversified construction mechanisms, incentivizing all parts of society to build

Officials abolished the system of "political and social unity" of people's communes and established and improved the township and county government and village committee systems of administrative organization. They used reasonable divisions of functions between different levels of government to remove the responsibilities of townships and town and village-level administrative organizations in town and village development. They not only clarified the functions of town and village administrative organizations in development, but also mobilized all social power that could be relied upon or used to give rise to diversified entities of town and village development to participate in and drive said development.

(3) Building diversified financing mechanisms to provide more capital for town and village construction

First was clarifying the primary channels for raising funds for town and village development of all levels of government and improving and making more prominent the government's role in financing. Second was emphasizing the autonomous development of villages and improving the financing mechanisms by which all village residents can participate in development. Third was establishing mechanisms to encourage groups and individuals from all walks of life, domestic and foreign, to contribute funds to town and village development, to mitigate problems of insufficient development capital.

(4) Building democratic oversight mechanisms and increasing the utilization efficiency of town and village construction capital

It is important to improve the town (and township) people's congress system and build an auditing system for superior levels of government to audit the use of capital by inferior levels, so as to ensure that town (and township) level construction capital stays within a controllable scope, and guarantee that the use of construction capital better conforms to the interests of the people. At the same time, instituting the "case by case" system at the village level, and putting the use of village development capital under the oversight of all villagers.

2. Changes to town and village development methods and characteristics

Reforms to the rural town and village management system have come primarily in the following four areas. First is abolishing townships and establishing towns. In China's countryside, towns denote administrative regional planning and urbanization more than townships. Second is the abolition of townships and merger of towns. This was done from the needs to reform the national development management system, and was aimed at increasing working efficiency, downsizing government labor forces, and scientifically structuring development management work units. Third is the reformation of towns into neighborhood offices. This was done from the demands for the urbanization of rural areas, and is the result thereof. Fourth is the construction of new rural communities. That means that building communities in rural areas on the urban model, with concentrated living, employment, and services, and autonomous management. At present, these reforms are still ongoing. Reforms to the town and village development management system are playing a positive role in town and village development.

(1) Changes to town and village development methods

Since 1978, great achievements have been made in town and village socioeconomic development, laying solid material foundations for town and village construction. Summarily speaking, there have been four stages of development and changes over this process.

The first was the "leaving the land without leaving the countryside" stage of town and village development, during which officials allowed for limited "leaving the land without leaving the countryside" development, which in effect meant an extension of the system that marginalized town and village development during the period of the planned economy.

The second was the "leaving the land and leaving the countryside, entering factories and entering cities" stage, which focused on developing small cities and towns. First came corrections to imbalanced development that established cities as central and rural areas as the margins, meaning that the era of marginalization of town and village development had come to a close. Next, officials incorporated development of small towns and cities and central villages into the national urbanization development system strategy, of equal status with the development

and construction of large and medium cities, giving enormous institutional space to the development of towns and villages.

The third was the stage of coordinated urban-rural development and construction of the new socialist countryside. An important embodiment of coordinated urban-rural development was coordination between rural industrialization and urbanization, the core of which was town and village development. That meant not only giving town and village development an important status in the national economy in the urban-rural relationship and in urbanization, but also giving massive support in investments.

The fourth was the stage of construction of new rural communities. The construction of new rural communities gave prominence to the integration of urban-rural development factors, drove linkages in public services between urban and rural places, drove integrated development for urban and rural areas, and promoted changes to the identities and occupations of rural population. The positive role played by the construction of new-type rural communities in the “coordinated development of industrialization, urbanization, and agricultural modernization”, is receiving increasing attention.

(2) Characteristics of changes to methods of town and village development

Striking achievements have been made in changes to the methods of town and village development, including the results of various common factor effects, including reform and opening up. The characteristics of these achievements are as follows.

(a) Town and village development was incorporated within national economy development plans, making it the focus of urbanization

As compared to the time of the planned economy, when town and village development was marginalized, such development is now no longer marginalized, and has in fact been included within the “five-year development plan” of the national economy. Since 2005, construction of small towns and cities and the new countryside have been included within mid-to-long-term development plans for the national economy, providing a clear guiding ideology for town and village development, and also providing a basis and protections for mid-to-long-term development.

(b) Formation of diversified development mechanisms

Looking at the actual results of nationwide town and village development, we see that there are three primary kinds of town and village development mechanisms. The first is completely based in market mechanisms, and makes use of marketized methods to drive town and village development. The second is centered on the national administrative system and makes use of administrative means to drive town and village development. The third is based in integration of market mechanisms and construction mechanisms within the administrative system, meaning the government is primarily responsible for infrastructure construction and service

provision, carrying out its basic duties; under this method, marketization methods are used for all construction projects possible.

(c) Simultaneous use of multiple development models

There are three development models of towns and villages in China. They are aimed at creating cities, metropolitan centers and developing local industries, respectively. These three models correspond to towns and villages in three different areas, and are actually applicable to areas of different economic development levels.

(d) Multi-entity construction and management

Town and village development and management can be divided by different development and management entities: government as primary investor and manager; collective economic organizations as primary investors and managers; private companies investing in construction but government administrative departments in charge of management; and villagers collectively serving as constructors and managers. Multi-entity development and management has led to an abundance of town and village development models, resolved problems of lacking initiative and incentive for town and village development, smashed the long-term model of sole reliance on government investments, provided capital protections for town and village development, and has been advantageous to increasing efficiency of town and village construction and management.

(e) Financing through multiple channels

Market economy reforms have provided many forms of financing for town and village development. Some are government and administrative channels, based in division of government functions and founded on public finances. Some use marketized means. Some are non-governmental organizations, centered on social groups. Some are centered on rural companies and individuals. Using different means of financing for different town and village construction projects has driven town and village development.

3. Changes to town and village development methods: An analysis

(1) Establishment of the market economy

After the reforms that replaced the planned economy with the market economy in 1978, the system that had marginalized town and village development lost its grounding. First, new town and village development methods made resource allocations on the foundation of the market economy, and no longer were resources allocated between urban and rural areas per the subjective views of people, with cities receiving preference in resource allocations. Second, new development methods needed to be based in comprehensive, coordinated sustainability, with development coordinated between urban and rural areas, between regions, and between the economy and society. Third, new development models needed to be based in market principles and line up with the demands of development; no longer was development that violated economic principles possible. It was the establishment of the market

economy that allowed core, foundational institutions to drive changes to town and village development that had emerged under the planned economy.

(2) Promotion of rural industrialization

Since reform and opening up, shifts of agricultural labor into non-agricultural industries and development of non-agricultural industries in the countryside have driven rural industrialization; this as objectively led to an upsurge in town and village development. Given such a background, if we had continued to persist in giving preference or focus to development of medium and large cities and marginalization of town and village development, the results would have been unfavorable for both nationwide industrialization and rural development. We must change existing development methods and make comprehensive considerations for overall national urban development plans, which must include town and village development, per the demands of development of the national economy and national industrialization.

(3) Demands of urbanization

Rapid industrialization has also driven urbanization. In 1982, China's urbanization rate was only 20.8%, but it rose to 54.77% by 2014. Over the course of urbanization, rural residents move into cities, particularly into small towns and new rural communities. That requires us to place development of small towns and new rural communities in an important position.

(4) Changes to the government administrative management system

First, we should streamline government and send authorities downward, to give autonomy to grassroots governments for their development, and allowing town (and township) governments and village administrative organizations to build per the demands of socioeconomic development. Second, the government should transition from direct participation in economic construction toward primarily bearing the burden for and fulfilling duties of public goods and services provision per functional demands. We should provide grassroots governments with a system of norms for town and village construction, and make public infrastructure and other town and village development projects become construction projects under hard restrictions from the government in development direction, contents, and objectives, laying a foundation for town and village development.

(5) Effects of fiscal system reforms

Reforms of fiscal system since 1978 have given governments at grassroots level greater power to control fiscal resources, and have provided material protections for their autonomy in development. Government capital's gradual retreat from production realms has laid a capital support foundation for the government's fulfillment of its duties to provide public goods and services and to construct. Rural economic development has also provided necessary capital and material support for rural development.

3 Assessment of Changes in Town and Village Development Model

To establish a development model which is not only in line with the concept of scientific development, but also advantageous to coordinated urban-rural and regional development, and favorable to the development of town and villages in the process of industrialization, is a new topic that must be urgently resolved in China.

1. Assessment of the choice of course of reforms to town and village development

Market economic reforms have driven changes to town and village development methods with the following characteristics:

First, the establishment of the market economic system has required that towns and villages have relatively independent decision-making authorities, autonomous fund-raising powers, and self-determination in construction, to improve the internal and external environments for economic development. Any systems or policies that influence the aforementioned town and village development methods will be the targets of reforms.

Second, the transition in town and village development from “leaving the land without leaving the countryside and entering factories without entering cities” to “leaving the land and leaving the countryside, entering factories and entering cities,” and finally to new rural construction and new rural community construction, has been gradual. Officials have maintained losses caused by failed changes in development methods within the smallest scope and degree possible.

2. Assessment of changes to town and village development methods

Institutional changes in China’s town and village development methods have been characterized by reforms that integrate top-to-bottom and bottom-to-top. The first advantage of such reforms is that they completely adhere to the demands of town and village development, and have, based on the needs of rural industrialization and urbanization, broken through all unreasonable institutional shackles restricting development of productivity. The second advantage is that they conform to the needs of marketization reforms. The third advantage is that institutional changes are based on a foundation of practical experience and have been tested. The results of practical experience can be elevated to the level of theory, where they can be used to guide more practical experience.

Changes to town and village development methods integrate changes to bottom-to-top institutions and changes to top-to-bottom institutions, and have reduced conflicts and friction between institutional changes. At the same time, they are in line with the needs of town and village development and have laid a foundation for the formation of town and village development methods based in the market economy.

3. Assessment of changes to decision-making mechanisms for town and village development

Decision-making mechanisms for town and village development under the planned economy were centered on approvals by superior levels of government. The largest problem with such mechanisms was that superior levels of government approved projects that were often disconnected from the needs of town and village development. When the market economy replaced the planned economy, reforms to these decision-making mechanisms became necessary.

(1) Assessment of autonomous town and village decision-making mechanisms replacing decision-making by superior levels of government

Reforms to decision-making mechanisms gave prominence to the principles of integration of the market economy and government controls, and for the first time were launched primarily targeting the administrative management system. Driven by the reforms to streamline government and send authorities downward, town and village administrative organizations received corresponding autonomy over development and decision-making powers. These reforms facilitated development in different levels of government and optimal allocation of development resources needed for socioeconomic development; however, there were some problems.

First, when other institutions had not been established to check the government's authority to make development decisions, development decision-making mechanisms were easily abused by the government, leading to disastrous results. For example, improper capital allocations led to hasty project establishment. Also, arbitrary expansion of project investments ran over construction budgets and led to debt-bearing development.

Second, the government easily went "offside" in decision-making, throwing more fiscal resources into competitive fields, leading to egregious imbalances in economic construction and social enterprise construction.

Third, as development decision-making authorities were sent downward, an asymmetric sending down of powers from superior to inferior government levels led to lower levels of government or grassroots town and village administrative organizations having to bear functions of development that they were not able to handle.

(2) Assessment of the "case by case" decision-making mechanism

The "one matter, one discussion" decision-making mechanism was designed for villages and not for township governments. It gives villagers democratic rights to express their opinions about development projects and the right to vote. It helps make sure the institutional configuration of development projects optimally meets the development needs of villagers and that they are able to oversee the progress and completion of projects. The first issue is how to help township government adopt the same decision-making mechanism. The second is how to establish other corresponding scientific decision-making mechanisms that stand apart from it.

(3) Assessment of market mechanisms replacing planned decision-making mechanisms

The first primary impact of marketized development decision-making mechanisms on town and village development is to concentrate development resources in towns and villages with regional development comparative advantages. Some towns and villages are gradually developed into small cities, and some others are merged or have disappeared; this is an inevitable trend in the development of towns and villages in China. Market decision-making mechanisms can ensure that those villages with extreme comparative growth advantages obtain more development resources and grow into cities, changing unreasonable administrative organization in towns and villages and making town and village special structures increasingly more reasonable. The second is to increase the construction efficiency in development projects. Market decision-making mechanisms from the get-go emphasize a sound construction project design, the resilience of project capital arrangements, the scientifically-sound management of project, and the efficiency of project construction. They set marketization as the standard for project investment, project construction, and project operations, use the most reasonable decisions to complete projects, and stamp out any development that does not abide market principles.

4. Assessment of changes to financing mechanisms for town and village development

(1) Changes to forms of financing

The diversity of financing methods has provided many choices for town and village development. However, as the degree of construction of the market economy system in cities differs, there are marked discrepancies in the capacity of towns and villages in different areas to use different kinds of financing. Towns and villages in the eastern region are highly capable at raising funds from the market, while their counterparts in central and western regions are less capable.

(2) Adding financing channels

Multi-channel financing has alleviated the difficulties of insufficient capital for town and village development. At the same time, it has increased the autonomy of towns and villages in controlling capital. However, some seemingly market economy financing means have been used for town and village development, such as selling local housing registrations to raise development capital. The negative impact of such means is greater than the positive impact, and so they should be used circumspectly.

(3) Expanding the scope of financing

The founding of the market economic system has changed the previous situation in which financing for only economic construction projects was of wide scope, while the scope of financing for social enterprise construction was narrow, or even extremely rare outside of the government. This has created conditions for financing of a larger scope for economic and social construction in towns and villages.

(4) Increasing the efficiency of financing

As town and village development methods have changed, autonomous town and village decision-making mechanisms have replaced decision-making by superior levels of government, and the “one matter, one discussion” decision-making mechanisms has replaced centralized decision-making mechanisms. Market operation mechanisms have replaced planned operation mechanisms, and there have been great changes in financing methods. All this has clarified financing entities, increased the number of financing forms, strengthened financing management, and greatly increased financing efficiency.

4 Future Development of Towns, New-Type Rural Communities, and Villages

Taking the road of urbanization with Chinese characteristics has driven coordinated development of large and medium cities and small cities, giving rise to an agglomeration of radiating large and medium cities and developing new urban growth poles will be the focus of future urbanization in China.

1. Future development objectives for towns, new-type rural communities, and villages

(1) Providing a supportive platform for rural industrialization

Spatial arrangements must be made to make room for rapid urbanization; these areas are the so-called “growth poles”, in economic parlance. As the role of “growth poles” continues to grow, urbanization is the necessary result, which will cause some towns, rural communities and villages with conditions to become “growth poles” to ultimately develop into small cities, making them into important vehicles for driving further industrialization.

(2) Providing a supporting platform for rural urbanization and giving rise to a reasonable urban structure

Looking to the long term, on the one hand, there will be continued reductions to the quantity of administrative villages and townships (and towns) in China, while small cities, large towns, and new rural communities will only grow in number. On the other hand, China’s urban structure is plagued with imbalances of too many large and medium cities and not enough small cities. Developing small cities, large towns, and new rural communities in the countryside will not only mitigate imbalances in China’s urban structure, but can also give rise to a reasonable system in the countryside of small cities, new rural communities, and villages.

(3) Providing supportive platforms for reasonable arrangements of resources for rural socioeconomic development

There needs to be an “agglomeration effect” in the allocation of socioeconomic development resources. This “agglomeration effect” can cause the effect of “sharing of intermediate inputs, labor sharing, and knowledge spillovers” described by Alfred Marshall in allocations for socioeconomic development. In the countryside, the areas capable of bringing about this effect are towns, new rural communities, and villages. Resultantly, in the future the development of China’s towns, new rural communities, and villages will bring about reasonable spatial arrangements of economic and social resources. That will require the construction of towns, new rural communities, and villages to abide general principles of spatial arrangements, and not consider only factors of administrative divisions.

2. Primary contents of future development of towns, new-type rural communities, and villages

(1) Adjustments to divisions between towns, new rural communities, and villages

Spatial arrangements in towns, new rural communities, and villages need to be based in the market economy and must conform to the demands of the principles of self-development. We must deepen reforms to the town and village administrative system in the following areas. First, we must define the administrative units of towns, new rural communities, and villages per their functions as regional growth poles and give prominence to the roles of such units with the potential to act as growth poles and drive regional development. Second, we must abide the principles of market development and encourage reorganization and mergers of towns and villages per the principles of marketization and urbanization, and vigorously develop new rural communities.

(2) Improvement of infrastructure construction for towns, new rural communities, and villages

Infrastructure in towns, new rural communities, and villages can be divided into two categories: production-oriented and public welfare-oriented. As their service targets are different, there are also great disparities in their construction methods. First, we must improve public welfare-nature infrastructure, incorporate such infrastructure for towns, new rural communities, and villages within national urbanization construction plans, and give focus support in this area. Governments at all levels should vigorously support the construction of public welfare-oriented infrastructure in towns, rural communities and villages, on the basis of responsibility for construction of public goods divided by functions. For towns and villages in the underdeveloped central and western regions, we should focus on central fiscal transfer payments to support the construction of public welfare-oriented infrastructure for towns, new rural communities, and villages in these regions. We should establish models of construction and development of towns, new rural communities, and villages that integrate government support with market mechanisms.

Second, we should improve production-oriented infrastructure. We should improve construction of the market economic system, allow those who invest to profit, and abide the principle of identical levels of investment and profit. We should provide incentives for production operators to invest, and give legal protections to investors so they may profit, and give necessary policy support in all these areas. We should establish mechanisms for infrastructure that comprehensively consider urban-rural development, and improve current methods that place emphasis on cities while deemphasizing rural areas. We should skew toward construction of production-oriented infrastructure in towns, new rural communities, and villages.

(3) Reforms to the methods of utilization of construction use land in towns, new rural communities, and villages

There are two primary methods for resolving the land use questions for development in towns, new rural communities, and villages: increasing utilization efficiency of existing land, and occupation of agricultural land. As basic farmland protections are growing ever more stringent, increasing the utilization efficiency of already occupied land has become an important means to resolve the land needs for town and village development. Deepening reforms to methods of town and village land use, particularly in the use of collective construction use land, exerts not only a positive influence on driving development of towns, new rural communities, and villages and on rural urbanization, but also plays an important role in protecting national food security.

(4) Building a sound investment and fiscal system for development of towns, new rural communities, and villages

First, we must gradually increase investments into the development of towns, new rural communities, and villages on a foundation of comprehensive urban-rural development. We must reverse the trend of too much investment in large and medium cities and not enough for the development of towns, new rural communities, and villages. Second, we must establish an investment and fiscal system that integrates government adjustments with the market economy, make full use of market economy financing platforms, and bring about direct and indirect financing, to raise capital for the development of towns, new rural communities, and villages. Third, we must use policies to guide and encourage companies, social groups, and individuals of different economic categories to use different models to construct towns, new rural communities, and villages. Fourth, we must strengthen central fiscal transfer payments going to support development of towns, new rural communities, and villages in underdeveloped central and western regions. Fifth, we must actively make use of all manner of foreign capital to provide construction and development services for towns, new rural communities, and villages.

(5) Strengthening administrative management for towns, new rural communities, and villages

First, we must build an administrative management system for towns, new rural communities, and villages that are coordinated with the market economy and satisfy the needs for rural socioeconomic development; that includes incorporating new rural communities into the urban system and further expanding the administrative autonomy of towns, new rural communities, and villages. Second, we must deepen autonomous administrative management reforms to new rural community neighborhood committees and village committees and allow residents to truly participate in the construction and development of communities and villages and autonomously decide on matters affecting their communities and villages. Third, we must institute multiple management models at the level of new rural communities and villages.

3. Building systems and mechanisms to protect development of towns, new-type rural communities, and villages

(1) Building a sound market economic system

In the future development of towns, new rural communities, and villages, we will need to merge towns and villages or construct new rural communities per the laws of the market economy. We will need to allocate and use development resources for towns, new rural communities, and villages with grounding in the market. In particular, we need to establish a land usage system, a fiscal and tax system, and an investment and financing system required by the development of towns, new rural communities, and villages, to ensure the sustainable development thereof on a foundation of the market economy.

(2) Building a public fiscal expenditures system founded in the fulfillment of government functions

We must deepen reforms to the government's administrative management system. We must push reforms for streamlining government and sending authorities downward to the level of administrative reforms based in division of labor and functions and the government's fulfillment of responsibilities. We must build a public fiscal expenditures system founded in the government's fulfillments of its administrative functions and give rise to long-lasting development financing mechanisms for towns, new rural communities, and villages that integrate government funding and market financing. At the same time, we should build and perfect capital support mechanisms between all levels of government for the development of towns, new rural communities, and villages, with fiscal transfer payments being the mainstay.

(3) Building long-lasting mechanisms for broad public participation in development

We must deepen reforms to the protection system for the development of towns, new rural communities, and villages that encourages broad public participation.

That means that we need to build investment and financing mechanisms on the principle of “he who invests shall profit,” and drive public participation in the construction of towns, new rural communities, and villages to the greatest extent possible. We need to adopt a more flexible construction and management system and implement more mixed forms of investment and financing for construction and management. We need to encourage innovations in construction models to find more institutional space for the survival and development of multiple kinds of construction models in administrative management.

Rural Governance in China: Review and Outlooks

Rural governance mechanisms come in the following four areas. First are the methods of production of authoritative rural governance organs, including possibly democratic elections, dispatching from superior levels, and agreements made by the people. Second are relationships between authoritative rural governance organs and other quasi-governmental organs and private bodies. Third are fiscal relationships in rural governance, including financing methods for fiscal incomes and basic rules for the use of fiscal expenditures. Fourth are basic functions and departmental division of labor in rural governance organs. Summarily speaking, in this chapter we will discuss questions of rural public order, excluding rural public finances. When necessary, however, we will touch on rural public finance. As there are already chapters in this book dedicated to the analysis of rural fiscal relationships, rural social security, rural infrastructure, and rural specialized cooperatives, in this chapter we will avoid discussion of those topics unless it is necessary.

1 Rural Governance in China Under the Planned Economy

The Communist Party of China (CPC), which led the Chinese Revolution, is highly adept at mobilization in rural areas. After 1949, most rural administration in China came in the form of “revolutionary mobilization,” which retained organization methods of rural population, highly adapted to revolutionary war, as the basic form of rural governance. Even though a revolutionary government had been formed, the slowness of changes in the foundations of rural productivity caused rural areas not to produce inherent demand for new rural governance models. On the whole, rural governance after 1949 adopted institutional models suited to “continuous revolution” while also looking to objectives of economic development.

1. Chinese rural society in the first half of the twentieth century

China is a large nation, and as such agricultural and economic conditions vary widely across the regions; this remained the case in the 20th century. Mao Zedong's findings in Changsha were: "Poor peasants account for 70% of the rural population, middle peasants for 20, and landlords and rich peasants for 10. Of the 70% of poor peasants, ... twenty percent are completely unemployed, meaning they lack land and capital and have completely lost the basis of life, forcing them to leave home to serve as soldiers or find work, or drift as beggars; they are 'utterly destitute.'"¹ Conditions in other parts of the country were not entirely similar to those in Hunan. In central Shaanxi, with its fertile soils, the tenant farmer system was not highly developed. It was "nearly a world of owner-peasants, with extremely disparate land ownership. It's not that there are no landlords, just that there are very few."² Some other places in North China were very similar to central Shaanxi.³

In the rural socioeconomic relationships of pre-1949 China, if one sought a commonality among the regions, it would be the high level of controls of officials over rural society. Such controls over areas with underdeveloped transportation were lax, but highly stringent on areas with developed transportation. In North China during the first half of the 20th century, official power permeated deeply into rural areas. Officials attempted to build a social structure better for increasing taxation efficiency, but official objectives were objectively incapable of replacing traditional rural clan relationships. The actual rural governance structure that ultimately formed integrated both clan relationships and official controls.

Officials plundered the peasantry through two channels. The first was consolidation of rural landlords, urban commercial and industrial capital, and official power, which thrust government power into land rental transactions between landlords and peasants, and between business owners and peasants, and into service transactions. Peasants were plundered in these transactions. During the first half of the 20th century, land rental rates in China's countryside were high, between 30 and 50%, four to six times the rates in Europe at the same time. The second channel was direct plundering of peasants through taxation.

Officials in the Kuomintang (KMT) regime instituted the Bao-Jia system as the basic governance system in the countryside. In 1932, the KMT government issued the "Rules for Organization and Checking of Bao-Jia Household Registration in All Provinces" in Henan, Hubei, and Anhui, which stipulated: "The household is the unit of organization in the Bao-Jia system, with leaders of each household. Ten

¹Mao, Zedong. (1991). "Report on Observations of the Peasant Movement in Hunan." In *Selected Works of Mao Zedong* (pp. 21–22). Beijing: People's Publishing House.

²Qin, Hui. (1996). *Pastorals and Rhapsodies*. Beijing: Central Compilation & Translation Press, 45–66.

³Huang, Zongzhi. (1986). *Small and Self-Sufficient Agricultural Economy and Social Movements in North China*. Beijing: Zhonghua Book Company, 27.

households constitute a Jia, and each Jia shall have a leader. Ten Jia constitute a Bao, and each Bao shall have a leader.” Under this system, the households monitored one another and informed against one another; guilt by association of an entire unit was assumed in the case of malfeasance.

On the whole, for a long time in the first half of the 20th century, China remained in a state of war. The KMT government was unable to bring about effective governance of the entire country, and the rural economy basically remained in a state of depression. Agricultural production conditions at the time were extremely backward, with most agriculture reliant on human and animal power, and nearly no adoption of modern agricultural machinery. Yields per unit of area for primary crops were only about a sixth of present yields. In 1947, after years of war, both overall yields and efficiency in agriculture were far lower than in 1936.

In CPC-controlled revolutionary strongholds, officials implemented a series of land reform policies, including the “reduction of rents and interests” implemented during the War of Resistance against Japan and policies of confiscating land from landlords to redistribute to peasants with no or little land. These policies increased agricultural productivity in revolutionary strongholds and increased grain yields, playing an important role in the CPC’s ultimate military victory.

2. Building a rural governance structure that met the needs of consolidating the revolutionary government

In 1949, the People’s Republic of China was founded, and revolutionary governments were founded across the nation, with township tier-one governments serving as the grassroots units of national governance. Actual leadership over village tier-one communities was held by CPC grassroots organizations in the countryside, but shortly after establishment of the revolutionary regime, peasant associations played an important role.

Before the establishment of revolutionary regimes across the country in 1949, armed CPC forces established peasant associations universally across revolutionary strongholds. During the peasant uprising, some revolutionary leaders proposed the slogan of “all power to peasant associations.” Such associations actually became rural administrative organs with basic governance functions. After the founding of People’s Republic of China, peasant associations were founded everywhere in the nation. On July 5, 1950, the People’s Republic of China State Administrative Council issued the “General Rules for Organization of Peasant Associations,” which proposed the establishment of peasant associations at every level but the center in the form of a legal document. The rules established the nature of peasant associations as “mass organizations voluntarily formed by peasants,” and called for the founding of peasant associations at every level from the township to the county, sub-provincial regions, all the way to the province. Peasant associations were actually governing organizations and cooperative organizations in matters excluding economics.

During land reforms, peasant associations had already become administrative organs, a portion of the emerging administrative system. Their funding came primarily from the government, so did most of their office equipment. Central government documents issued during this time affirmed the administrative management functions of village-level peasant associations, and these associations at all levels were incorporated within the governance system. Members of peasant associations were mostly poor and middle-income peasants. Rules allowed rich peasants to join only after completion of land reforms. Most peasant association presidents were CPC members.

As revolutionary regimes consolidated and the tasks of land reforms were rapidly accomplished, violent class struggle mostly came to an end, and the political mission of peasant associations likewise faded. Beginning in 1954, peasant associations started to be abolished around the nation. By 1956, almost none remained anywhere in the country. Other organizations were also established in the countryside, including women's organizations, outposts of the Communist Youth League, people's militia organizations, and others. Most of these organizations were founded after the establishment of revolutionary regimes in 1949 and most still exist. People's militia organizations served as tools of class struggle in special years, but also played a certain role in maintaining rural public order.

After revolutionary conditions began to stabilize, the central government began to organize rural grassroots governance through legislation. In February 1953, the 22nd meeting of the Central People's Government Committee passed the "People's Republic of China Electoral Law for the National People's Congress and Local People's Congresses," which mandated direct elections of people's delegates in towns and counties by the people. In September 1954, the first meeting of the National People's Congress passed the "People's Republic of China Organic Law of People's Congresses and Local People's Committees at All Levels," which made stipulations regarding the election of members of township and county committees and of township and county chiefs. This passage of this law signified that township and county governments were becoming the fundamental units of the new revolutionary regime in China.

3. Establishment of institutions from agricultural collectives to rural people's communes

After the founding of People's Republic of China in 1949, the Chinese government began confiscating large quantities of landlord-held land, distributing it to peasants with no or little land, and establishing a small farmer land ownership system. From 1950 to 1952, about 300 million peasants around the country obtained 730 million μ of land. The "Outline Land Law of China," issued in 1947, contained some excessively radical content. After the CPC Central Committee realized some of the "leftist" errors in land work, they began to make corrections. In 1950, the Central People's Government Committee passed the "People's Republic of China Land Reform Act," which resolved to protect the property of rich peasants, with some exceptions. This law corrected a few extreme methods.

The small farmer system hadn't been in place long when, at the end of 1953, the revolutionary regime began promoting the cooperative movement in the countryside, relying mostly on administrative orders to found a large number of agricultural cooperatives and giving rise to the collective land ownership system. By 1956, the disparate small ownership land ownership system had been abolished, and nearly all rural population had become members of collective cooperatives. In 1958, the regime began promotion of the wide-scale "people's commune" movement to exert complete control over the rural economy in production, exchanges, product allocations, and other areas. From this point, rural population no longer had freedom to make their own choices about production or exchanges.

Under the people's commune system, land and other important means of production were commonly owned by commune residents, but there were extremely large restrictions on the powers of members to withdraw from this system. Communal property was not put under the names of all members. The size of communities prior to 1978 was mostly limited to one or several natural villages, and property or products of communities could not be transferred or allocated to other communities without compensation. Some product allocations in agricultural production cooperatives were determined based on labor output of members, and in some other communities allocations were made based on number of mouths in households. However, as it was difficult to oversee or calculate labor contributions of individual community members during collective production activities, there was widespread "laziness" in production cooperatives; this was the primary reason for low productivity of cooperatives. After satisfying the needs of community members, collectives sold all remaining grain to the state. In addition, cooperatives had to submit "public grain" to the state; this served as a kind of tax levied by the state on agricultural cooperatives.

In February 1962, the CPC Central Committee issued the "Instructions on the Issues of Changing Basic Accounting Units in Rural People's Communes." Thereafter, rural officials began implementing the systems of "unity of government and communes" and "three-tiered ownership, with the production team as the foundation," and began to convert administrative districts into production brigades, and brigades into production teams. The so-called "unity of government and communes" referred to the integration of rural grassroots political organizations and economic organizations of people's communes. There was no distinction made between communes' public service functions and their direct involvement in economic activities. Under this system, the vast majority of communes established the production team as the basic accounting unit, except an extreme minority of communes with good economic conditions, which established the production brigade as the basic accounting unit.

In the internal economic organization of people's communes, officials instituted a distribution system that made compensations based on calculations of labor called "work points." Year-end allocations of products were multiple for workers with large numbers of points, and vice versa for workers with few points. Most allocations were made with the production team as the basic accounting unit.

In production teams with good economic conditions, some cash even accompanied year-end allocations. Most production team farmland was collectively worked by members, and rural population was divided into agricultural groups for collective labor. Most production teams also allotted to individual households small plots of “self-retained land,” which the households could plant and use at their discretion, not subject to collective duties.

The people’s commune system changed the system of popular election of delegates to township and county people’s congresses and people’s committees which had previously been legally established by the state. Beginning in 1959, nationwide elections were held for delegates to people’s commune congresses, and these congresses held elections to form commune management committees, which became the leading organs for people’s congresses. After the Third Plenary Session of the 17th CPC Central Committee in 1978, a pilot was launched in Sichuan to “convert communes into townships.” In October 1982, the CPC Central Committee and State Council jointly issued the “Notice on Separation of Government from Communes and Establishment of Township Governments,” which affirmed the success of the Sichuan pilot. In that year, 12,702 communes were disbanded. In the 1992 round of revisions, the phrase “people’s commune” was formally erased from the constitution, signifying the complete exit of the rural people’s commune system from China.

4. Establishment of divided urban and rural governance systems

The household registration system gradually arose after the 1950s, dividing China’s population into two classes, urban and rural, and restricting the freedom of rural population to freely live and work in cities. State planning placed strict restrictions on the attraction of rural laborers by urban economic sectors. Most rural population were restricted to employment in the agricultural sector, with a small percentage employed in rural industry or services; rural industry and services were all organized by rural population themselves.

The dual household registration system was gradually established through a series of adjustments in the form of laws and edicts. In 1954, China’s first constitution was passed, and it mandated “freedom of movement and residence” for rural population. In June 1955, the State Council issued the “Instructions on Establishing the Regular Household Registration System,” which called for the establishment of such a system in all cities, towns, townships, and villages of the nation, and began to integrate the work of urban and rural household registration around the nation. In 1956 and 1957, the State Council issued four consecutive documents restricting and controlling blind flows of rural population into cities. The first edicts clearly calling for division of urban and rural residents into holders of either “agricultural registrations” or “non-agricultural registrations” effectively discarded the 1954 constitution’s mandate for free movement. The line “freedom of residence and movement for citizens” was deleted from the 1975, 1978, and 1982 revisions of the constitution.

2 Rural Governance Since the Establishment of Village Self-Government

1. Development Course of institutions for village self-rule

In the early 1980s, in some parts of Luocheng and Yishan, Guangxi, rural population spontaneously organized village committees, which played a marked role in organizing mass development and production, the founding of public welfare institutions, drafting village rules, and maintaining public order. In 1982, the fifth meeting of the Fifth National People's Congress issued the "Constitution of the People's Republic of China," which clarified the legal status of village committees as autonomous mass governance organizations. In 1982, in Central government document No. 36, the CPC Central Committee called for pilots to be launched in the establishment of village committees. On November 24, 1987, the 23rd meeting of the Sixth National People's Congress passed the "People's Republic of China Village Committee Organic Law (Trial)," which made concrete provisions for the organization of village committees and self-rule for villagers. This law formally went into force on June 1, 1988. In 1990, the Ministry of Civil Affairs issued the "Notice on Launching of Village self-rule Model Activities in All Rural Areas of the Nation," at which point the Ministry of Affairs became the controlling department over the work of village self-rule. In October 1998, the Third Plenary Session of the 15th CPC Central Committee proposed comprehensive promotion of village self-rule, establishing it as an important objective of China's cross-century rural development. On November 4, 1998, the fifth meeting of the Ninth People's National Congress formally issued the revised "Village Committee Organic Law," which gave provided legal protection for village self-rule.

After the law's formal issuance, the Ministry of Civil Affairs began to revise certain articles per feedback from all sectors of the public. On October 28, 2010, the 17th meeting of the Standing Committee of the 11th National People's Congress issued the newly revised "Village Committee Organic law." The first major revision was a supplement on the election of village committee members and procedures for removing them from office. The second was an improvement of the system for democratic discussions. The second was an improvement to the democratic management and oversight systems.

2. Basic Judgments on the development of rural democracy

In the history of the development of democracy in China, the development of rural democracy is of particular significance, even though it is now very difficult for us to judge the concrete historical status of the development of rural democracy across all of Chinese society. Maybe changes to Chinese society and the success of democracy lie mostly in the development of urban democracy, but China, a country of mostly rural population, has already made a huge step forward in the development of rural democracy, and made corresponding achievements, which we have no choice but to address. The truth is that over the past historical period, many

vanguard individuals making efforts to drive the development of democracy in China have made China's countryside the focus of their work. They have worked extraordinarily hard, and the results of that work are worthy of attention.

Naturally, we can depict the achievements and the problems of the development of democracy in rural China in many ways, but it is possibly more significant to examine these achievements and problems through the lens of history. The following areas are of particular significance to our examination.

First, basic laws and regulations establishing norms for the development of democracy in rural China have been initially established.

Second, although resistance has been encountered in the work of promoting rural democracy in some areas, CPC and government officials in many areas have been highly enthusiastic about promoting the development of rural democracy. They have made innovative contributions, and even more government officials have accumulated work experience. Some private individuals have also made enormous contributions.

Third, the development of rural democracy has made no conspicuous contributions in the focus areas of Chinese rural work of increasing rural incomes and ensuring grain production. This has become a reason that some people look down upon rural democracy. However, there are initial signs that the development of rural democracy is playing a substantive role in social progress; we cannot overlook this.

The development of rural democracy also faces numerous challenges, and it cannot independently overcome all difficulties it encounters. However, there is still a great amount of room to promote this work under the established system. The truth is that China launched a new rural social mobilization movement after 1978. This movement's economic connotation is the promotion of the household contract responsibility system in agriculture, and its political connotation is the institution of rural democratic elections.

3. Several characteristics of rural democracy

First, rural economic development in China is extremely unbalanced. In China's developed eastern regions, major changes have taken place in the rural socioeconomic structure, meaning that society in those regions has become open. Rural population in these areas has a strong demand for democracy, and has expressed strong political views regarding democratic elections of leaders to superior levels of government, especially in towns and townships. This is a natural component of the development of democracy. In most backward rural areas, the rural population does not have a strong demand for democracy because of the closed nature of their societies and economies. It is very easy for superior levels of government to interfere in the democratic elections of these rural areas, and so democratic institutions there exist in name only.

Second, on the whole, rural democracy is unprecedented in Chinese history. Both villagers and government officials lack knowledge about democracy, and many aspects of technical work need to be gradually improved. Resultantly, the development of rural democracy has had no norms for a relatively long period of

time. At present, expectations for democratic institutions in most backward rural areas are too high. The government often interferes in elections, and low costs of buying elections have brought a lot of money into the political process. Finally, powerful families or even bad local power interests can easily influence elections.

Third, the newly arisen wealthy class in rural society has strong demands for democracy.

Fourth, population changes caused by rural economic development are exerting an increasingly large influence on the development of democracy in rural China. As the economy develops, rural people are choosing to live in small towns of 10,000 or more inhabitants or in medium and large cities; traditional villages will be gradually reduced to dwelling places for farm owners. This process will be long, but changes in some areas are happening. As these changes continue, it will be inevitable that democratic elections be spread to large towns.

Fifth, the development of rural democracy has been influenced by family and clan powers for a relatively long time; sometimes such influences are great. To run for primary offices in village committees, candidates obtain voter approval at the lowest possible cost, but in rural society, familial relationships are the most important and lowest cost resources for obtaining approval; as such, candidates necessarily make use of such resources. While other conditions for approval in rural society remain insufficient, familial relationships will continue to be important. Only once division of labor in rural society and economics is achieved, and the rural population shrinks, can the significance of familial relationships in politics diminish. As the rural society of acquaintances is gradually disbanded, the power of clans on elections will grow ever weaker.

3 Development Trends in Rural Governance

1. Emphasizing urban-rural comprehensive governance and socioeconomic integration

The social transformations of all nations are also transformations of population structures. The basic trend of these changes is urbanization. For several decades to come, the absolute size of China's rural population will stably decrease, and a great number of natural villages will disappear, at which point more small cities will gradually arise. In the future, the true countryside will be where professional farmers live and work, and many agricultural areas will be filled primarily with habitation zones for specialized farmers.

See Table 1 for information on reductions of townships, towns, and administrative villages. Wide-scale elimination or mergers of towns and villages has been done with government guidance. The No. 1 Central government document of 2004 provided policy support for abolishment and merger of townships, towns, and villages, calling for "further downsizing of township and county organs and personnel paid with fiscal resources, actively and stably adjusting charters of towns

Table 1 Rural population, employment and grassroots organizations in China

Indicators	2000	2004	2006	2010	2014
Number of counties and towns	43,735	36,952	34,756	33,981	32,683
Village committees (10,000)	73.4715	65.2718	63.7011	59.9	58.5
Total urban population (10,000)	80,837	75,705	73,160	67,113	61,866
Average population of village by Administrative Designation	1100	1160	1148	1120	1057
Number of people employed in rural areas (10,000)	47,962.1	49,695	47,852	41,418	37,943

Data source China Statistical Yearbook (2011); data from the second nationwide agricultural census, compiled by the National Bureau of Statistics; “National Ministry of Civil Affairs 2014 Report on Development of Social Services”; and *Data from China’s 2010 Population Census*. Some data were derived through calculations of data in the above sources

and counties, merging villages where appropriate, and advocating for overlapping positions held by single cadres.” In the “Eleventh Five-Year Plan for Development of the National Economy and Society,” the CPC Central Committee proposed “solidifying the achievements of rural tax reforms, comprehensively promoting rural reforms, and basically completing such reform tasks as township and county organs, rural compulsory education, and county and township fiscal administration systems.

Local government efforts to abolish or merge towns and counties have been, rarely enough, highly similar with central government views, and have borne a direct relationship to local interest appeals. The motivation for such comes primarily from two areas. The first is the drive for rural urbanization, and the second is the fiscal pressure created by abolishment of the agricultural tax. To encourage development of the real estate industry and expand the use of urban infrastructure, many small and medium cities around the country have lowered thresholds for rural population to obtain registration. Generally rural population need only pay some normal fees and complete a few procedures to have their registration changed. County economic plans are generally focused on the development of between three and five towns. To encourage the development of those towns, the townships surrounding those towns are often merged into the towns. When villages are merged, land is often displaced, giving local governments land resources on which to earn investment money.

The abolition of the agricultural tax exacerbated the fiscal difficulties of local governments, particularly township and county governments. Some local governments not only experienced large deficits, but some had problems repaying old debts. Before abolition of the agricultural tax, the salaries of village officials were generally paid through the collection of “village deductions.” After the tax’s abolition, wages for village cadres started coming from fiscal expenditures. Under such conditions, the reduction of the number of cadres through merging of townships, towns, and villages was a way to save money.

In 2005, the central government began naming deployments for comprehensive rural reforms, one task of which was complete reforms to township and county organs. The basic direction of reforms to township and county organs was to shift their functions, persist in separation of governments from enterprises, downsize official staffs, increase administrative efficiency, and establish grassroots administrative systems and operations mechanisms that have behavioral norms, have coordinated operations, are fair and transparent, and are uncorrupted and highly efficient. The center demanded that local governments everywhere actively, stably, reasonably adjust township and county government organs, reform and integrate township and county enterprises and stations, and downsize surplus staff. The center mandated that only reductions and no additions to staff in township and county government organs be the main line that must be persisted in for five years.

As urbanization has ramped up, villages in some parts of China have begun declining. As indicated in Table 1, although local governments have merged a great amount of administrative villages, reducing their amount by nearly 150,000 over 14 years, there have been basically no changes to the average number of residents of administrative villages; this demonstrates that the population of villages has reduced greatly. A topical survey conducted by the Ministry of Civil Affairs indicates that rates of participation in village elections are low among villagers working elsewhere, and most migrants who do participate do so before going elsewhere to work. However, most do not participate in elections for objective reasons such as not being home and not knowing when elections are taking place. This clearly demonstrates that many are highly unconcerned with elections in their own villages. Among migrant villagers, 81.1% indicated that they had not participated in the third round of village committee elections, meaning participation of only 18.9%.

As urbanization has deepened and changes to rural social structure have accelerated, the public functions of village tier-one administrative organizations is gradually weakening, and the coverage of township and county tier-one public functions is expanding. Clear trends emerging now include the following:

First, township and county governments in some developed regions have directly founded village-level community “service centers,” where rural population can directly handle some affairs with no need to go through the village committee. Workers in these centers are dispatched by the government, and their salaries are paid by the government. Kaiyuan City, Yunnan, concentrated over 80 official functions in its community service centers, directly providing convenience to rural population.

Second, after some local governments converted village committees into communities, those communities were placed under management of neighborhood offices, and autonomous elections hitherto practiced in village committees were abolished, with elections now conducted per the demands of resident committees. In some large communities created by the merging of several administrative villages, those villages could no longer hold independent elections, with autonomous elections moving upward to a higher level.

Third, after population reductions in some villages, autonomous elections grew more difficult, and it became necessary to consider adjustments to electoral districts.

It is possible that the above changes influenced the drawing of electoral districts for township and village autonomous elections.

2. Primary tasks in deepening rural democratic reforms

The following are the primary problems that need to be resolved in the deepening of rural democracy reforms.

First, we need to drive economic development and increase the degree of marketization of the rural economy. As discussed earlier in this chapter, the social demands of democracy are created after rural population leave the “society of acquaintances.” To solidify the foundations of democracy, we must use rural economic development to increase the scale of rural household operations and their levels of specialization, to give rise to the economic foundation for the creation and operation of public authority.

Second, we need to greatly reduce the power of village cadres, limiting their powers to only public affairs in which it is necessary that they have authority. To this end, we must create a system to remove the power to allocate land resources from village cadres and make rural population into the owners of the land. We need to develop all manner of rural population cooperative organizations and specialized associations, and hand some public functions to them. Guangdong and other areas have in recent years promoted “separation of government and economy” reforms, and have achieved good results. This method has been affirmed by the central government.

Third, we need to give full powers to rural population and develop all forms of autonomous institutions. Removing economic affairs from the realm of public services is advantageous to reducing illegal interferences in rural elections and ensuring autonomous elections by rural population. Guangdong officials explored a method of pushing autonomous organizations downward to village groups, which encouraged rural elites to provide services to small communities and reduced the costs of rural community public services.

Fourth, we must revise the “Village Committee Organic law.” When making revisions, we need to consider establishing more reasonable election and removal from office procedures. We need measures for punishing behaviors that violate election rules. Relevant articles of China’s “Criminal Code” need to be made suitable to punishing illegal behaviors that occur in village autonomous elections. We need to revise the duration of office in village committees, making it more suitable to the duration of office in county and township governments, in order to reduce election costs. We must define illegal behaviors such as buying elections.

3. Primary tasks in reforms to township and county organs

From the perspective of reform objectives, a mid to long-term strategy is required for reforms to township and county organs. Looking to the long term, there are six major issues that need to be resolved.

First, we must not only implement village self-rule institutions, but must also gradually promote such institutions to the level of the township and county.

Without self-rule, there is no way to bring about community cooperation in transactions of non-monetized public goods. With village communities declining, township and county communities will become the basic platform for transactions of public goods among rural people. If self-rule exists only at the level of the village, it will be of diminishing significance. Some have proposed that we abolish township and county tier-one governments and restore the system of dispatching from superior levels of government, which has already been negated by global political experience.

Second, we need to change government behaviors in all levels of government above the township and county, reasonably adjust administrative levels, and expand the fiscal autonomy of township and county governments. We need to abolish the administrative layers between provinces and counties. We need to relax standards for establishment of cities, and allow for towns of around 100,000 inhabitants to be converted into county-controlled cities; such cities would no longer have jurisdiction over other townships or towns.

Third, as labor transfers accelerate and village tier-one public functions gradually disappear, all functions of village administrative offices should be moved to the township level, and, of course, village autonomous elections should be elevated to the township and county level. The institution of “unity of discussion and governance” should be instituted at the level of township and county governments (or even as high as the county), and people’s congresses and people’s political consultative conferences should be abolished.

Fourth, we need to vigorously develop rural private organizations, such as cultural exchange associations, specialized economic associations, volunteer service organizations, and so on; where conditions permit, peasant associations can also be restored. We can allow these organizations to take on a certain amount of government functions, thereby reducing government expenditures.

Fifth, we need to push fiscal reforms and give township and county governments complete power to use their own fiscal revenues (including transfer payments from superior levels of government) to dictate their own systems and staffing numbers. We must resolutely oppose any appearance of fiscal deficits. We should legally establish a time limit, after which any township and county debts that occur will all be the responsibility of primary responsible persons. As we establish these responsibilities, we should expand the authorities of officials to determine the structures of their own organs, and not allow county governments to impose complete uniformity.

Sixth, we need to reform the system of township and county publicly run stations. We need to separate public institutions from the government and pass former administrative management functions up to township and county governments, and pass execution functions to relevant departments of county governments. We need to separate public welfare-oriented services from business-oriented services. Public welfare-oriented services should be purchased by the government, and users should pay for business-oriented services.

Development of the Rural Social Security System

Social security is the income protection the government and society offer to individuals and households, to prevent various unexpected factors from influencing their most basic survival and development. The core role played by social security is to ensure social fairness. At the same time, social security has many functions, including maintenance of social order and promotion of economic development. The rural social security system, which covers the rural population, is an important component of the overall social security system. In this chapter, we give a brief summary of China's rural social security system prior to reform and opening up, offer a review and assessment of the evolution and development of the rural social security system over the past 30-plus years of reform and opening up, make an outlook on future development, and suggest measures to deepen reforms.

1 China's Pre-reform Rural Social Security System

1. Contents of the rural social security system prior to reforms

Prior to reform and opening up, China's rural social security system came in three primary forms. The first was social security mechanisms within rural production and distribution systems. The second was the "five guarantee support system" and "cooperative healthcare system" instituted in communities. The third was the disaster relief system guided and paid for by the government.

(1) Social security mechanisms in production and distribution systems

During the era of the collective economy prior to reform and opening up, the rural operations and management system in China was "three-tiered ownership, with the production team as the foundation." Under that system, rural population were obliged to participate in collective labor upon reaching laboring age, and rural

population the right to labor on collectively owned land. Correspondingly, collectives allocated surplus collective labor per household labor quantities, with the household as the primary unit. Under such institutional arrangements, rural population could enjoy relatively universal social protections provided by collectives as a result of the rights to employment and to share in distribution that came with birth.

However, the question facing the above mechanisms was how to ensure that households with no laborers or few laborers received social protections. To this end, central officials instituted the “five guarantees” system universally across the countryside, while also adopting two methods of distribution that incorporated distribution according to labor input. The first was an integration of distribution according to labor input and distribution according to number of people. In many rural areas, officials considered not only work points accumulated by a household, but also the number of people in that household when distributing grain and other agricultural products and by-products. The second was the allowance within a collective of troubled households to borrow grain or money from the collective. Some such debts were deducted from allocations in the following year, and some remained permanently on the accounts of households unable to repay. It is clear that these two supplementary distribution measures, which augmented the system of distribution per labor input, were indeed mechanisms for protecting vulnerable groups. As a result, troubled households within communities received a certain degree of protections.

(2) The rural disaster relief system

If a major natural disaster occurred in a rural community, it would be difficult for the community to guarantee maintenance of basic living standards on the basis of mutual aid and support alone. History shows us that there have always been disaster relief systems in rural China; the state sends food or capital to affected regions to help the community. This is a security system that mitigates insufficiencies in communities’ own systems. After the founding of People’s Republic of China, the Chinese government continued the traditional rural disaster relief system. When rural people encountered difficulties in access to food, clothing, housing, and healthcare due to natural disasters, the state or society provide urgently needed capital or materials to maintain minimum living standards.

(3) The rural “five guarantees support system”

The rural “five guarantees support” system was a rural community mutual-aid system born of the collective economy. It included protections for rural residents not entitled to support under the law, those unable to labor, and those without the means to provide food, clothing, housing, healthcare, and funerals (the five guarantees). Beginning in the 1950s, locations around China established senior care facilities to provide concentrated care to targets of the five guarantees. Thus a model combining collective support and decentralized care gradually formed on the basis of the “five guarantees” system.

During the era of the people's commune, the five guarantees system was primarily a mutual-aid system based in surplus accumulations within production brigades and communes, bolstered by necessary state fiscal relief. The five guarantees system was more formal, more based in policies, had clearer targets for service targets, and endowed more rights to support than the collective system in distributions and mutual aid. After rural reforms, the five guarantees system was retained, and remains one of the primary methods of survival guarantees to rural poor in China.

(4) The rural cooperative healthcare system

After the founding of People's Republic of China, the Chinese government began focusing on construction of a three-tiered health services system at the county, township, and village levels, to resolve problems of accessibility of health services. By 1965, most counties, communes, and production brigades across rural China had built healthcare bodies, giving rise to a relatively good three-tiered prevention and healthcare network. Generally speaking, the operations of commune hospitals relied to a large degree on fiscal support from communes and brigades. Brigade health clinics, on the other hand, were entirely reliant upon economic support from the collective. All facilities, drugs, healthcare equipment and other inputs were provided by the production brigade, and healthcare workers' salaries came entirely from production teams.

At the same time, as agricultural cooperatives rose, the cooperative healthcare system was implemented across rural China to resolve problems of availability of rural healthcare services. In essence, rural cooperative healthcare was a form of mutual-aid organization, existing within the scope of villages, with collectives, administrative organizations, and individuals all paying for basic healthcare services and redistributing the costs of healthcare between the healthy and the sick.¹ Once rural population got sick, they could receive treatment in village clinics or township or town hospitals, needing to pay only a small amount of medical fees, and sometimes entirely without charge.

2. Assessment of the development of the rural social security system prior to reform and opening up

(1) Relative fairness, but low levels of protection and unclear protecting of rights

The rural social security system in China prior to reform and opening up was one of mutual aid and support in the disparate risks of life within communities; it rather effectively met the most basic living needs of commune members and their families. In particular, it met the basic food needs of households with many mouths to feed and not enough laborers, those who were covered by the "five guarantees."

A marked characteristic of such mutual aid mechanisms within communities was that the level of protections was often determined by their capacity to supply, and not

¹Zhu Ling, 2003.

by the needs of the people living in the community. At the same time, with fewer households in rural communities, their ability to withstand disparate risks was low.

Another characteristic of community protections is lack of clarity in protection of rights. Mutual-aid within communities was often implied or random, and as such rural population could not clearly predict whether they would receive aid from the collective or their neighbors in the case of difficulties, or if they could receive large amounts of aid.

(2) Improper socioeconomic policies weakening functions of the rural social security system

Prior to reform and opening up, driven by the strategy of rapid industrialization, the government bore basically no responsibilities for rural social security, putting this burden onto rural collective organizations. So social security at that time was essentially collective security. At the same time, socioeconomic policies aimed at rapid urbanization further weakened the functions of rural collective social security.

(a) Low-efficiency agricultural production and operation models

Under the system of “three-tiered ownership with the production team as the foundation,” rural population collectively operated and labored on collectively held land, with the production team as the base unit; likewise, all fruits of their labor were collectively distributed. There were egregious problems of laziness under this production system, with great difficulties for labor overseers, leading to low agricultural productivity. Empirical research demonstrates that collective factor productivity was 20–30% less than under the household contract responsibility system.

(b) The food distribution system skewed toward urban residents

Prior to reform and opening up, distributions and mutual aid within rural collectives were second-level distributions. Only after meeting compulsory objectives set by the state (the monopoly and apportionments) could rural population divide up the fruits of their labor. This system reduced the amount of supply to communities, further weakening their functions in social security. The government monopoly system not only set prices too low, but often called for the sale of “too much grain” to the system.

(c) The household registration system separated between urban and rural areas

By imposing the household registration system, the government stole opportunities from rural population to ensure that their earned wages could provide for personal survival and development. Prior to reform and opening up, there was no labor market in China. The state monopoly, people’s commune, and household registration systems artificially separated urban and rural laborers and obstructed channels for free movements of labor between rural and urban areas; rural population were allowed to engage only in agricultural production, grain in particular. These both increased the risks of agricultural production and restricted the possibility of rural population to gain social protections from exchanges.

- (d) Driving increases to the human development index on a foundation of low productivity development

Over the 30 years prior to reform and opening up, China's Human Development Index (HDI) rose quickly, and China ranked at the top of developing nations in health and education indices, putting it at a medium level of human development, higher than two thirds of the world's countries.² Looking just at the average life expectancy, prior to the founding of People's Republic of China, it was 35.0 years. In 1957, it rose to 57.0, then to 67.0 in 1981, 66.4 for men and 69.3 for women.

2 Development of the Rural Social Security System Since Reform and Opening Up

After reform and opening up, China abolished the production and distribution systems of collective operations, unified labor, and equal distributions, putting the household contract responsibility system in their place. This systemic reform increased agricultural productivity and the ability of rural population to obtain survival and protections directly from production. The government gradually relaxed restrictions on the agricultural products circulation market and changed the disadvantageous conditions for exchanges between rural and urban areas. The government also encouraged rural population to engage in multiple forms of operations and to adjust the agricultural structure. These policy changes increased the ability of rural population to receive protections from their exchanges.

However, as the household contract responsibility system was put in place, mechanisms of equality in rural production and distribution disappeared; this was an onerous challenge to the rural healthcare system and five guarantees support system, both of which being entirely reliant upon collective economic organizations. China then made many exploratory reforms and innovations in the area of rural social security targeting these new conditions and issues.

1. Development of the rural pension system

After reform and opening up, China's traditional rural methods of senior care faced new challenges: weakening of the collective distribution system skewed toward poor households; increases of risks of leaving senior care to younger generations caused by planned birth policies; diversification of rural employment structures and income sources, weakening restrictions and punitive mechanisms of traditional communities toward disobedient sons and daughters; and difficulties such as quantitative limitations on the ability of land to protect income and new population without land.

²China Institute for Reform and Development (CIRD), 2008.

China's government proposed "in-home senior care, collective support, and stabilization of rural land" policies to respond to these challenges. With guidance from the government, officials explored many kinds of mechanisms for senior care.

In 1992, the Ministry of Civil Affairs issued the "Basic Plan for Rural Social Senior Care Protections" on the basis of pilots. Rural population were all allowed to freely participate, and would receive pension payments after the age of 60. The system is funded mostly by individual payments, with village collectives supplementing a portion, and all individual and collective payments going to individual accounts. Rural population participating in the program could draw from their accounts according to the amount paid in. By 1998, there were 80.25 million people in the program, or 9.24% of the rural population of 868.68 million and 17.28% of the rural labor force of 464.322 million, with over 500,000 rural population receiving pension payments.

There were, however, many problems in the old rural social security system. In July 1999, the State Council issued the "State Council Reissued Notice on Reorganization and Reform Plans for Reordering Working Groups in the Insurance Industry," which included rural social pension insurance within the scope of reordering. Thereafter, work in old rural social security basically came to a halt across the country. There were reductions in people joining the system, and increases in people leaving the system. The number of people protected under the system dropped to 517.1 million in 2007.

In September 2009, the State Council issued "Guiding Opinions on Establishing Pilots in New Rural Social Pension Insurance," which resolved to launch pilots in new social pension insurance (NSPI) beginning in 2009. By 2012, the NSPI system had achieved basic coverage of all regions.

As compared to the old system, the NSPI system's greatest advances came in changes to the funding structure. The new system was funded not only through individual payments and collective subsidies, but also had funding from local governments. The payment structure of the new system was also more reasonable than the old. Most capital came from two areas: foundational pension funds, and individual pension accounts. The central treasury paid for foundational pension funds in central and western regions, and for half of such funds in eastern regions. In 2011, China launched urban resident social pension insurance pilots. In February 2014, the State Council resolved to merge the rural and urban systems.

2. Development of the rural five guarantees support system

After reform and opening up, the principle funding source of the rural five guarantees support system shifted from coming from within communities to coming from village deductions and township funds, greatly expanding the scope of funding. In 2006, China abolished the agricultural tax, cutting off the original source of funding for the five guarantees system. On March 1, 2006, China issued new "Working Rules for Rural Five Guarantees Household Support," which ended the previous source of financing of "village deductions and township financing" into guarantees from the central treasury. The rules clarified the relationship

between the central and local treasuries, calling for capital for the five guarantees support system to come from local people's government budgets, with the central government giving subsidies to areas that have difficulty providing such funds. The rural five guarantees support system thus changed from a rural collective mutual aid system into a modern social security system, a historic change.

3. Establishment and development of the rural minimum living standards guarantee system

In 1996, the Ministry of Civil Affairs issued the "Opinions on Accelerating Construction of the Rural Social Security System" to address arbitrariness in the traditional rural social aid system, clearly proposing that establishment of a rural system to guarantee minimum living standards become a focus of work. Beginning in 1997, some provinces and municipalities with proper conditions gradually established such a system. Guangdong, Zhejiang, and other economically developed provinces and municipalities issued and implemented "Measures for Rural Minimum Living Standards Guarantees," which legally incorporated rural population within the scope of the social security system.

After the 16th CPC National Congress, several central party documents again called for active exploration of establishment of such systems in places with conditions, and the relentless promotion of rural minimum living standards systems. Some provinces, autonomous regions, and centrally-administered cities began establishing rural minimum living standards guarantee systems per local economic development and fiscal conditions. In 2007, the CPC Central Committee and State Council jointly issued the "Notice on the Nationwide Establishment of Rural Minimum living Standards Guarantees Systems," which set objectives and tasks, standards, people to be included, operations procedures, and financing methods and channels for the system. It also called for protections of a series of principles in this work.

4. Development of the rural health protection system

After the rural household contract responsibility system went into place, changes in rural production methods and distribution systems removed the supports from rural cooperative healthcare. Beginning in the 1980s, rural cooperative healthcare gradually shrank. By the early 1990s, the only remaining cooperative healthcare systems in the country were found in Shanghai, southern Jiangsu, and other rural areas with a developed collective economy.

To reduce the economic burden on rural population with illnesses and mitigate rural problems of "becoming poor because of illness or returning to poverty because of illness," in 2003 the CPC Central Committee resolved to launch pilots in new rural cooperative healthcare, centered on major illnesses, in some counties (or municipalities or districts). From 2003 to 2005, the central treasury allotted an average of 10 yuan per person per year for participants in the system in non-urban areas of the central and western regions, with a subsidy of not less than 10 yuan per

capita annually from local governments. Thereafter, central fiscal subsidy standards for rural minimum living standards guarantees continued to increase. Correspondingly, new rural cooperative healthcare protection standards also increased. For example, the annual minimum funding standard was 300 yuan in 2012, with the rural people themselves paying 60 yuan, and 120 yuan coming from the central treasury and local governments.

3 Assessment of the Development of the Rural Social Security System Since Reform and Opening Up

1. Recognition of the importance of the rural social security system gradually increased among decision-makers and theorists, but there remained a few errors in understanding

In recent years, the trend of putting priority on urban areas and looking to rural areas only afterward or not at all has come under a degree of control. The central government has clearly proposed development objectives of “building a social security system that covers urban and rural residents.” To fund the rural social security system, officials have changed from advocating for “reducing the state’s burden” to “increasing fiscal investments in social security.” In its functions, officials have shifted emphasis from “low levels” to “reasonably establishing standards and methods of protection.”

However, amid the reforms and development of the rural social security system, there have been some specious arguments made by both policymakers and theorists. The first was to excessively exaggerate the functions of land and households to provide protections and deny the social security needs of rural population. The second was to excessively emphasize the function of social security to mitigate poverty and maintain social stability while ignoring its constructive role in promoting human development. The third was to see social security as a luxury, holding that it could be developed only once a certain degree of economic development had been attained. The fourth was to view social security as an extension of economic development. The above errors obstructed the breadth and depth of reforms and development of the rural social security system.

2. As the government becomes a dominant source of investment toward social security, a more stable and long-lasting funding mechanism has yet to be established

The Chinese government did not use to play any role in funding rural social security. That has changed gradually. Now it plays a dominant role. However, no stable, long-term funding mechanisms for the construction of the rural social security system have yet to be established. There are three reasons for the delay.

(1) Uncertainty in government responsibilities

The core issues in rural social security system reforms lie in establishing the service provision responsibilities of the government, collectives, the public, households, and other related parties, as well as institutionalizing those responsibilities. However, the distinctions in responsibilities between relevant parties have been obscure in reforms to this system.

(2) Imbalances in local responsibilities and powers

Local governments provide the majority of funding for China's rural minimum living standard guarantee system and five guarantees support system, with the central treasury giving only appropriate levels of subsidies to poorer regions. Considering China's current fiscal and other authorities, as well as the central treasury's current state of transfer payments, funding "primarily from local governments" may continue to be insufficient to effectively operate the rural social security system. Areas with large poor populations are often economically underdeveloped with fiscal deficits and weak collective economies; these areas are not guaranteed enough income to maintain social security systems.

(3) Weak incentives for local investment

The Scientific Development Perspective calls for the government to pay attention to people's livelihoods and expand development of rural social security. However, current fiscal and tax systems, party official promotion and evaluation systems, the fiscal system, the land system, and others are all disadvantageous to changing the model of local governments' myopic pursuit of GDP growth.

3. The rural social security system has played a positive role in improving people's livelihoods, but levels of protection remain low

After reform and opening up, China implemented market-guidance reforms. These reforms had two effects on rural social security. The first was a strengthening of the capacity of rural population to withstand risk, owing to increases in economic productivity and rural incomes, ultimately lowering their demand for social security. The second was a low capacity of vulnerable groups to ensure income or effectively protect themselves; the omnipresence of market risks also increased the vulnerability of all rural population. It could be said that reforms to China's rural social security system and land policies have played an important role in mitigating the negative effects of market-guidance reforms and upholding rural population's rights to survival and development. However, the level of protection of China's rural social security system is low, and there remains a large disparity between it and the urban system. For example, in 2013, rural population over the age of 60 was able to obtain an average of around 82 yuan in pensions, while urban residents received over three times that amount on average. In addition, there is certain degree of disparity between the protection levels of rural social security and actual survival needs of rural population.

4. Development of the rural social security system still not able to drive social fairness

Over 30-plus years of reforms, China's socialist market economy has gradually been built and improved. Throughout this time, unfairness in starting points and processes have led to unfairness in results. The core functions of social security are to iron out inequality of results in the market economy, adjust the results of primary distribution, and promote social justice and fairness. However, reforms to China's rural social security system have not yet had this effect, and in fact reverse subsidies have even appeared in some social security programs, in two areas. The first is the enormous differences in social security programs for different classes of rural population, and the second is an expansion of regional disparities in social security, with underdeveloped regions enjoying lower levels of protection.

4 Outlook, and Suggestions for Future Development

1. Outlook

(1) Reforms and development of the rural social security system will accelerate

The rapid accumulations of over 30 years of reform and opening up have led to great increases in China's comprehensive national power and fiscal revenues, and an acceleration of the equalization of public services, lending great fiscal support to the development of China's rural social security system.

More important than fiscal power, there were also great increases to the incentives within the development of the rural social security system, particularly in local governments. Because of their considerations of social stability and interregional competition, local governments have seen an increase in factors incentivizing them to rapidly develop the rural social security system. One might predict that a major theme in China for now and a period to come will be attaching greater importance to rural livelihood issues and the equalization of public services.

What's more, the various institutions of China's rural social security system have already been established. Institutional inertia will drive development of the rural social security system. Under the present political system, although terms of office for grassroots government officials are short, there have been certain degrees of incompatibility or even conflicts between their behavior and choices with the demands of superior governments and the interests of rural population. However, as the institutional framework for rural social security has already been established, the level of welfare enjoyed by rural population will gradually increase as the system is improved; this will become an issue that government officials serving consecutive terms will have no choice but to address.

(2) Uncertainty in reforms, development, and effects of the rural social security system

Looking to the future, the rural social security system's development will continue to face many challenges and uncertainties. The first is that fiscal and tax systems, the land system, and the system for official promotions are all disadvantageous to changing the model of myopic fixation on GDP growth. Local governments will continue to place priority on economic development, fiscal revenues, foreign direct investments (FDI), and nationwide fixed objectives, including political and policy objectives (such as planned birth and social stability). The second lies in the large investments required for many rural social security programs, with slow results, difficulty in estimating results, and difficulty in quantifying them. With terms for leaders as short as they are, it's difficult for them to see results in their rural social security programs, and as such they tend to ignore the negative repercussions of rural social security development. The third lies in the relationship between the central and local governments, as local governments need to meet high development standards to ensure completion of central economic development indices. This will lead to the central government's continued ignoring of the behavior of local governments toward rural public services. At the same time, factors of information asymmetry, un-openness, and lack of transparency will make it difficult for superior levels of government to discover that lower levels of government are not carrying out policies, or are very lax in carrying them out. Local governments are opportunistically using information advantages to trick superior levels and avoid oversight and inspection from them. The fourth is that from the perspective of rural population participation, pressure, and oversight, grassroots governments are in a position of strength vis-à-vis the rural people, and unorganized groups are completely unable to control the direction and structure of fiscal investments. With such a disadvantage for rural population, there are problems of "free riders" in the public oversight of uses and performance of public finance, which affect the motivation for rural population to participate.

(3) Possibility of continued expansion of disparities in levels of social security between urban and rural areas and between regions

The speed of reforms and development of rural social security systems has been faster in eastern coastal developed regions, particularly in medium and large cities and their suburbs. The primary basis for this assessment is that as industrialization and urbanization have progressed rapidly, rural population in coastal developed areas have had stronger demand for social security, as well as a correspondingly stronger ability to pay. With land scarce and prices high, local governments hope to remove the function of land to provide social protections to rural population as quickly as possible through social security system construction. These local governments also have deep fiscal resources and strong rural collective economies. In underdeveloped central and western regions, there are higher proportions of agriculturally-registered and impoverished people, with greater demand for social

security expenditures but less ability to pay for them. These regional disparities in fiscal abilities and demand for services cause them to be unable to provide similar levels of social security despite similar efforts.

2. Suggestions

The development of the rural social security system should transition from establishment of the system toward improvement of the system and increases in levels, with an ultimate goal of total urban-rural integration.

(1) Further improving the rural social security system

The three fundamental parts of the rural social security system are new rural cooperative healthcare, urban-rural resident social pension insurance, and rural minimum living standards insurance. For now and a period of time to come, we should take measures to further improve these three systems.

The following are three measures for improving new rural cooperative healthcare. The first is to strengthen management and oversight over capital, to ensure that capital is indeed used to compensate healthcare expenditure of rural population and is not misappropriated or embezzled. The second is to use better-designed compensation plans to reduce the economic burden on rural population to the greatest extent possible, and to effectively restrict the ability of healthcare bodies to increase the costs of services too much or use too many services. The third is to strengthen reforms to healthcare bodies and prevent constant increases in the cost of healthcare.

There are two measures that can be taken to improve the rural minimum living standards guarantee system. The first is for fiscal payments from superior levels of government to make up for gaps between supply and demand on a foundation of assessments of capital needed by counties (and cities) and their ability to pay, and toward the objective of covering all those who should be covered. The second is to build an aid and protection system for minimum living standards that integrates one-off aid measures and aid programs divided by category and covers the major survival risks of rural population, on the foundation of the minimum living standards guarantee system.

There are three measures that can be taken to improve the urban-rural resident social pension insurance system. The first is to build normal, long-lasting mechanisms for the urban-rural resident pension insurance basic fund. The second is to provide incentives for urban and rural residents to choose higher payment standards. These systems are funded through the basic pension fund and individual pension accounts. It is not realistic to rely solely upon the government's basic fund; we must also provide incentives for rural and urban residents to choose higher payment standards, to increase the levels of individual pension accounts. The third is to explore new channels for increasing and maintaining the value of the fund. We can explore nationwide integrated planning of urban-rural pension funds, building an integrated fund investment management system, and bringing about diversified investments, to increase the yields and payment ability of the fund.

- (2) Establishing sustainable funding mechanisms and accelerating the shrinking of disparities in social security between urban and rural areas and between regions

Eliminating the disparities between urban and rural social security systems takes time. However, with accelerating urbanization and continual drop in the size of the rural population as a percentage of the total, mitigating such disparities takes on increasing urgency.

- (a) Continuing to Increase Fiscal Public Investments

Social security is an area in which the market does not function. The core responsibility of resolving the funding issues of rural social security lies with the government, and its capital expenditures. However, the rural social security system is composed of a number of social protection programs, and the degrees to which the market fails in each of these programs differ. So we should meticulously break down different social protection programs and the degree of severity of market failure in the operations of these programs, and use the power of market mechanisms to overcome these issues, thereby determining the extent to which the government should make public expenditures in different aspects of different social security programs.

- (b) Clarifying the responsibilities of the central and local governments in funding responsibilities

From the perspective of China's national conditions, the proportion of agriculturally-registered and poor to total populations are high in relatively backward regions of China's economic development, meaning they have a strong demand for expenditures toward social security. The fiscal resources in these regions are also limited. This regional disparity in fiscal resources and demand for social security has led to an inability of some local governments to provide similar social security using similar efforts. Considering China's current fiscal system, we can consider shifting the responsibility of financing to higher levels of government, and using transfer payments to ensure inter-regional fairness in social security.

- (c) Gradually increasing the responsibility of individuals to make payments

The government does not have unlimited responsibilities. The responsibility of individuals to contribute to social security programs is growing ever greater. Reasons to call for increased individual responsibility include: some social security programs have attributes of private property; the social security system exerts a degree of negative influence on employment, and sometimes may be a hidden trap into poverty; and we should distribute resources to the neediest.

- (3) Increasing government incentives to reform and develop the rural social security system

We should continue to diminish the role of GDP, fiscal revenues, and other economic development indicators; increase the proportion of rural social protections and public services within assessment protocols for government officials; and promote increased government investments. We should create performance

assessment standards of different categories and classes for different kinds of social protection programs. We should use changes to these assessment protocols to guide competition in fiscal expenditures between local governments in the correct direction and give rise to a virtuous cycle in the development of rural social security.

Poverty Alleviation in Rural China

The great reduction of the numbers of rural people in poverty is one of the greatest, most spectacular achievements made in China over the past 30-plus years of reform and opening up. In this chapter, we will look back on and summarize the course taken in rural poverty alleviation over the past 30-plus years, focusing particularly on analysis of the successes and failures of rural poverty alleviation. Such analysis is of both great practical significance and is also significant for theoretical guidance for selecting future poverty alleviation institutions.

1 Poverty Alleviation in Rural China Prior to the Beginning of Reforms

1. The status of poverty alleviation in current rural development and amid institutional changes

Shortly after the founding of People's Republic of China, there was widespread poverty in the countryside, owing to the ravages of a long period of war, high concentration of land ownership and few peasant land owners, and backwardness of technology. To turn this situation around as quickly as possible, officials established poverty alleviation as a priority area for government institutions and policy arrangements, launching land reforms, the cooperative movement, and the people's commune movement, to reduce disparities in resource ownership and income occupation. Although China had never made a poverty alleviation plan prior to reform and opening up, a series of institutional arrangements, policies, and plans were launched to either indirectly or directly alleviate or eliminate the widespread poverty in the country.

2. Primary rural poverty alleviation measures prior to reforms

From 1949 until the advent of reform and opening up, the Chinese government took the following major measures in rural poverty alleviation.

(1) Increasing the Rights of Rural Population to Occupy and Use Their Land (Natural Resources)

Before the founding of People's Republic of China in 1949, land occupation in China was highly unequal. It is estimated that in 1934, four percent of the rural population—landlords—owned 50% of arable land, while poor peasants and hired farmhands—70% of the rural population—owned only 17% of arable land.¹ After 1949, land reforms were launched across rural China. During these reforms, land was stripped from landlords without compensation and distributed to poor peasants and hired farmhands with no or little land. Land reforms gave all rural population in China the right to own land, and by 1952, the unequal distribution across different classes of rural society had been fundamentally resolved²; this basically eliminated the landless class, which in other countries comprises the vast majority of the rural poor population, and laid a highly advantageous fiscal and institutional foundation for the success of later poverty alleviation in China.

(2) Improving rural infrastructure

From the 1950s through the mid-1970s, the Chinese government used effective controls on resources, the “three-tiered collective land ownership system,” and comparative advantages in land and labor usage to drive wide-scale rural infrastructure construction, improving rural irrigation works and transportation conditions. During this time, the length of nationwide drivable roads increased 10-fold, and the area of effective irrigation increased 125%.

(3) Improving basic rural education and basic rural healthcare conditions

From 1949 to 1978, the number of primary schools in China grew 2.6-fold, and the number of middle schools grew 29-fold, with enrollment in primary schools growing from less than 50 to 96%. Officials built the rural cooperative healthcare protection system, improving or building over 50,000 township-level hospitals and over 600,000 village clinics, achieving a nationwide rural village coverage rate of 68.8%, greatly improving the lack of rural healthcare and medicine and increasing the health levels of the rural population.

(4) Building a social security system based in communities

Officials built a social security system based in communities: the five guarantees protection system, to provide most basic social protections to households lacking

¹Zhang, Youyi. (1957). *Data on China's Recent Agricultural History*. Beijing: China Agriculture Press.

²National Bureau of Statistics. (1984). *Enormous Changes in the Lives of China's Rural Population*. Beijing: China Statistics Press.

the ability to labor. Officials also established a system to provide living aid to households in extreme difficulty caused by natural disasters or other special circumstances.

In addition, officials established the nationwide rural credit cooperative network, agricultural technology dissemination network, and planned birth system, and so on, all of which played an important role in rural poverty alleviation prior to reforms.

3. Achievements and issues

Nationwide grain yields increased 2.69-fold from 1949 to 1978 owing to the aforementioned major policies and measures. Nationwide rural calorie intakes also increased by an average of 20%.³ The rural poverty rate fell from 80 to 50%. However, poverty alleviation gains made during this stage were made through a degree of sacrificing economic productivity. It was difficult to keep such poverty alleviation methods effective in the long term.

2 Evolution of Poverty Alleviation in Rural China Since 1978

Changes to China's rural poverty alleviation systems and methods since 1978 can be roughly divided into three stages. The first ran from 1978 to 1985, and was driven by reforms to the basic rural economic system. The second ran from 1986 to 2006, with the dual effects of dedicated poverty alleviation development projects and economic growth. The third phase started in 2007 and is ongoing, with dedicated poverty alleviation development projects, social security, and economic growth all working together.

1. 1978–1985

During this period, China completed systemic reforms centered on the household contract responsibility system. These reforms greatly increased rural population's incentives to labor, invest, and strengthen management, and agricultural labor productivity increased 40.3%.⁴

During this period, the Chinese government improved transaction conditions for agricultural products and increased rural incomes by increasing the prices of agricultural products. The comprehensive purchase price index for agricultural products increased 66.8% from 1978 to 1985; these price increases accounted for 15.5% of growth in rural incomes. With the household contract responsibility

³Zhou, Binbin, "The Issue of Poverty in the era of People's Communes in China." *Review of Economic Research*, (Z1), 821–837.

⁴National Bureau of Statistics. (1999). *China Rural Statistical Yearbook 1999*. Beijing: China Statistics Press.

system and agricultural product prices rising, rural per capita net incomes grew 132%. The per capita rural daily calorie intake grew from 2300 in 1978 to 2454 in 1985.⁵ The number of rural population living in poverty, per poverty standards set by the Chinese government, fell from 250 million in 1978 to 125 million in 1985, and the incidence of poverty fell from 30.7 to 14.8%.⁶

Most poverty alleviation during this stage was the result of institutional reforms and adjustments to agricultural product prices. Although rural households in different regions and under different conditions benefitted to different degrees from these reforms, disparities in geographic location, resource endowments, household conditions, and household income began to grow, and the Gini coefficient of rural income distribution rose from 0.21 in 1978 to 0.28 in 1985. Although there were “10,000 yuan households” in some rural areas, there were also a great number of households with “not enough food to fill the belly, not enough clothes to cover the body, and not enough houses to keep out the wind.”

2. 1986–2006

In 1986, the Chinese government began a rural dedicated anti-poverty plan of historic scale to address the change from poverty caused by comprehensive institutional restrictions toward poverty caused by restrictions in regional conditions and by restrictions in household capabilities. This plan’s objectives were to adopt special policies and measures to drive increases to the self-development of poor in areas of highly concentrated impoverished populations, and to drive regional economic development to stabilize alleviation or elimination of poverty. Disparities in strategic focuses and methods of poverty alleviation strategies during this phase allow us to further break it down into three periods.

(1) 1986–1993

Primary rural poverty alleviation measures taken from 1986 to 1993 include the following: (a) Establishing dedicated poverty alleviation development organs from the central down to the county level; drafting poverty alleviation policies; establishing poverty alleviation targets; creating mid-term and annual poverty alleviation plans; distributing poverty alleviation capital and projects; coordinating relationships between relevant departments; and overseeing and inspecting poverty alleviation projects. (b) Establishing the basic guiding policy for development-oriented poverty alleviation, and changing the focus of poverty alleviation from aid-oriented toward regional development-oriented. (c) Establishing focus poverty alleviation counties. (d) Arranging dedicated poverty alleviation capital and increasing investments into impoverished areas. (e) Issuing a series of other preferential policies, including: increasing capital investments into impoverished regions;

⁵National Bureau of Statistics. (2000). *China Rural Household Survey Yearbook 2000*. Beijing: China Statistics Press.

⁶National Bureau of Statistics. (2000). *Poverty Monitoring Report of Rural China: 2000*. Beijing: China Statistics Press.

exempting business taxes on development-oriented enterprises in impoverished regions; setting fiscal quotas on impoverished counties, and establishing dedicated projects and subsidies for people in difficult circumstances.⁷ During this stage, the absolute number of people still without sufficient clothing and food decreased from 125 million in 1985 to 75 million in 1993, for an average annual decrease of 6.25 million.

(2) “Eight-Seven Poverty Alleviation Plan”: 1994–2000

In 1994, China issued the “Eight-Seven Poverty Alleviation Plan” intended to resolve the clothing and food problems for the remaining 80 million rural poor (“eight”) over the course of seven years (“seven”), by 2000. This was the first plan in China’s history directly targeting poverty alleviation.

During the period covered by the “Seven-Eight” plan, China adopted a series of new poverty alleviation policies and measures, including the following: (a) Making adjustments to officially designated “poor counties” per the distribution of population living in poverty. (b) Greatly increasing poverty alleviation investments from the central government. From 1994 to 2000, the central government made average annual poverty alleviation investments of 16.14 billion yuan, in the form of development capital, disaster relief through work program funds, and subsidized poverty alleviation loans, a 210% increase over the period from 1986 to 1993, with a 340% increase in fiscal poverty alleviation funds. (c) Further strengthening scientific and technological poverty alleviation. The government issued the “Scientific and Technological Poverty Alleviation Planning Compendium,” which called for dispatching scientific and technological cadres and personnel to poor areas, made arrangements for “spark plan” scientific and technological poverty alleviation loans, established model scientific and technological poverty alleviation programs, and supported agricultural industrialization in poor areas. (d) Encouraging social power and social capital to participate in and support poverty alleviation projects through east-west cooperation, non-governmental organizations, governmental departments, large and medium enterprises, and international organizations to become involved in targeted poverty alleviation programs in poor areas. (e) Gradually adjusting targets of poverty alleviation and giving more direct support to poor households.

In addition, relevant government departments also issued other policies and measures to benefit poor areas and poor rural households. For example, officials implemented the “Compulsory Education Program in Poor Areas,” transportation poverty alleviation, and cultural poverty alleviation, as well as policies encouraging development of rural transportation, electricity, radio, and television, the scope of benefit of which included poor areas. Officials launched the Great Development of the West strategy and policy for returning arable land to forests in 1998; these played an important role to a certain extent in alleviating rural poverty.

⁷The State Council Leading Group Office of Economic Development in Impoverished Regions. 1989. *Overview of Economic Development in Impoverished Regions of China*. Beijing: China Agriculture Press.

During this time, per capita net rural incomes in the 592 state-designated poor counties increased 74%, and rural per capita net incomes grew 48.8% over the 1993 level and 59.4% over the 200 level. Infrastructure in poor regions was also markedly improved. There was a shrinking of the gap in some social development indices between poor areas and nationwide levels. The absolute number of rural poor without sufficient clothing and food fell to 32.09 million, and the incidence of poverty dropped to 3.4%.⁸

(3) 2001–2006

In 2001, the CPC Central Committee and State Council jointly issued the “Poverty Alleviation Development Compendium for Rural China (2001–2010),” ushering in a new era for rural poverty alleviation in China.

(a) Strategy

Strategic objectives for poverty alleviation during this period were as follows: (1) Resolving problems of insufficient clothing and food for the rest of the poor population; (2) solidifying the achievements made in the previous stage and ensuring that people already lifted out of poverty not experience more problems of insufficient clothing and food; and (3) improving infrastructure and the environment in poor areas. To this end, the government established the guiding policy for rural poverty alleviation development of “guidance by the government, social participation, self-reliance, development and poverty alleviation, and comprehensive development.” The major change highlighted by the guiding policy was the inclusion of the two important concepts of social participation and comprehensive development within the strategy, which established social participation as a key area in rural poverty alleviation development from a high strategic vantage point, and broke through the former thinking of poverty alleviation focused solely on increasing incomes. Officials thus included irrigation works, transportation, electricity, and other infrastructure construction in poor areas, as well as science and technology, education, health, culture, and other social development enterprises, within the strategy for development-oriented poverty alleviation.

(b) Primary methods

After 2001, officials in China rolled out three important poverty alleviation measures: whole-village advancement, transfer and training of labor in poor areas, and industrialization. These three measures, in addition to the three previous strategies of voluntary population movements, scientific and technological poverty alleviation, and social poverty alleviation became the fundamental framework for rural poverty alleviation development in this stage.

(1) Whole-village advancement. This program called for moving poverty alleviation objectives down from the county level to the administrative

⁸Rural Survey Department of National Bureau of Statistics. (2000). *Poverty Monitoring Report of Rural China: 2000*. Beijing: China Statistics Press.

village level, and also concentrating poverty alleviation investments over a certain time period in a small number of villages with concentrated impoverished populations, completely eliminating restrictions keeping these villages poor, and lifting entire village populations out of poverty. A total of 148,000 such villages were designated around the country, 20% of all administrative villages in the country, and accounting for 80% of the rural poor population in China.⁹

- (2) Transfers and training of labor in poor areas. The central government established a concrete plan for transfers and training of labor in poor rural areas and also set aside dedicated funding for training programs.
- (3) Agricultural industrialization. Poverty alleviation through agricultural industrialization includes the following: planning and constructing regional-oriented industries with special characteristics over contiguous regions per local resource advantages, market demands, and the direction of industrialization; building production bases for agricultural products in poor regions and providing pre-production, in-production, and post-production services to rural poor households, to give rise to industrialized operations that incorporate trade, industry, and agriculture as well as production and marketing; providing preferential policies to support development of mainstay enterprises; and exploring interest-sharing mechanisms between mainstay enterprises and poor rural households, to bring about win-win situations for households and industries.
- (4) Voluntary movements of population. Beginning in 2001, poverty alleviation through population movements (also called poverty alleviation in different locations or ecological population movement poverty alleviation) grew continuously stronger. The central government proposed the guiding policy of “guidance by the government, voluntary participation by the masses, policy coordination, and seeking real results.” Officials also established six principles for this program: coordination between poverty alleviation and ecological construction; integration of voluntary participation by the masses; comprehensive planning, and policy protections; first develop then move; suiting measures to local conditions and seeking real results; act according to one’s abilities and progress gradually and in good order.
- (5) Science and technology. Building model townships and villages for science and technology on the basis of local characteristics in poor regions; driving the advancement of characteristic industries with science and technology and supporting the development of a slew of special pillar industries in poor regions; building information service stations and launching science and technology information poverty alleviation initiatives; exploring

⁹The State Council Leading Group Office of Poverty Alleviation and Development. *Outline for Development-oriented Poverty Reduction for China’s Rural Areas*. Beijing: China Financial and Economic Publishing House, 2003.

solidification of achievements of poverty alleviation through science and technology and driving mechanisms for growing rich; and launching the work of science and technology training and popularization, and propagating scientific and technological information and achievements to poor regions.

- (6) Social poverty alleviation. This includes aid in sites specified by government public institutions or large enterprises, coordinated poverty alleviation in eastern developed regions and western poor regions, and poverty alleviation with participation from social organizations and individuals.

(c) Main achievements

First, the absolute number of rural poor was reduced. From 2001 to 2006, there was a reduction in the absolute number of rural poor in China from 29.27 million to 21.48 million, per government-set poverty standards, with the vast majority of rural poor with the ability to labor and survive resolving problems of clothing and food.

Second, whole-village advancement programs and focus poverty alleviation work counties saw a rapid increase in rural incomes. From 2002 to 2006, rural per capita net incomes grew 47.7% in focus counties and 51.7% in focus villages (not excluding price factors), higher than the national averages at the time by 2.9 and 6.9%, respectively.

Third, there was a degree of growth in the number of rural laborers from focus counties and villages working elsewhere. From 2002 to 2006, the proportions of such workers in focus counties grew 50 and 49.77% in focus villages, higher than nationwide averages for laborers having been trained and working in state or other bodies by 1.5 and 2.1%, respectively.

Fourth, infrastructure and social services conditions were markedly improved in focus counties and towns. Improvements in public roads, electricity, education, healthcare and other areas were much faster in focus counties and towns than in the rest of the country from 2002 to 2006. Over this period, there was a 12.47% increase in the number of road-connected natural villages in focus counties and 17.66% in focus villages from 2002 to 2006. Over the same period, the increase to telephone connection in natural villages was 53.05% in focus counties and 90.05% in focus villages. The increase in administrative villages with health clinics was 7.9 and 15%, respectively.

3. Rural poverty alleviation since 2007

In 2007, the central government established the rural minimum living standards guarantee system and policy for tuition exemption in rural compulsory education across the country. Thereafter officials gradually established the new rural cooperative healthcare and new rural social pension insurance systems covering the entire country. The establishment of these rural social security systems also moved China's rural poverty alleviation strategy from its previous stage of dual effects of development-oriented poverty alleviation and economic growth into a new stage of the triple effects of development-oriented poverty alleviation, social security, and economic growth. At the end of 2015, the State Council issued the "Resolution on

Winning the War against Poverty,” resolving to lift everybody in the country out of poverty by 2020, per current poverty standards.

(1) Key Policies and Measures

- (a) Building the nationwide rural minimum living standards guarantee program, including all rural poor below the poverty line within the system.

By the end of September 2015, 49.72 million rural population in the country were covered under the system, accounting for seven percent of the national rural population. The per subsidy amount under the program by that time was 139 yuan.¹⁰

- (b) Two big adjustments to rural poverty alleviation standards and an expansion of those eligible for rural poverty alleviation programs.

Before 2008, China’s poverty line had been set at a purchasing power of less than one US dollar per day. In 2008, that standard was increased by one third. In 2011, the standard was again increased from 2010s average of 1274 yuan up to 2300 yuan, an increase of 80.5%. The new poverty alleviation standard was now set at a purchasing power of USD \$2.2 per person per day, slightly higher than the World Bank’s standard of USD \$1.9 per person per day.

- (c) Clearly implementing policies that integrate dedicated poverty alleviation projects, industry poverty alleviation, and social poverty alleviation, to form a comprehensive system of poverty alleviation.

- (d) Establishing contiguous, particularly impoverished regions as the main battlegrounds for poverty alleviation development and returning the focus of development-oriented poverty alleviation to regional development. The “Chinese Rural Poverty Alleviation Development Compendium (2011–2020)” established the Liupanshan mountainous region and 13 other contiguous particularly impoverished regions as the primary battlegrounds for rural poverty alleviation development for 10 years.

- (e) Implementing a precise strategy

The Chinese government began implementing a precise poverty alleviation strategy in 2014. The use of precision targeting of poor population, precise diagnosis of the causes of poverty, and precise aid were all more highly targeted measures to help the rest of the poor population leave poverty.

(2) Primary Achievements

- (a) Accelerated reduction of rural poor population and gradual effectiveness of minimum living standards program on poverty reduction.

Per 2008 rural poverty standards, there was a reduction of 7.625 million from the rural poor population from 2006 to 2010, accounting for a 23% increase in the average annual rate of decrease of the poor population from 2000 to 2006,

¹⁰Ministry of Civil Affairs of China. 2015., “Nationwide Rural Minimum Living Standards Conditions at the County Level and Higher in the Third Quarter of 2015.” <http://files2.mca.gov.cn/www/201510/20151027152708756.htm>.

before the minimum living standards program was established. Most particularly in the first year of the program's existence, 2007, there was a reduction of 13.78 million from the rural poor population, gradually displaying the important effect of the program on rural poverty alleviation.

- (b) Increases to rural incomes in focus poverty alleviation counties were rapid, and the gap between the national average level and these counties closed. Since 2007, rural incomes in focus counties have grown faster than national average rural income growth rates, closing the relative disparity between these counties and the rest of the nation. The proportion of rural per capita net income growth in focus counties to the nationwide averages (assuming the nationwide average value is 100) was stagnant for many years after 2000, but then grew from 53.7% in 2006 to 62.9% in 2014.
- (3) Infrastructure and Social Services Conditions were Further Improved in Poor Regions, Closing the Gap Between These Regions and the Rest of Rural China

Infrastructure conditions for roads, electricity, telecommunications, and culture in rural areas has been further improved since 2007, shrinking the gap with national averages. There have been steady increases of school attendance by school-aged children in focus compulsory education counties, drawing close to national averages.

3 Innovations in Poverty Alleviation System in Rural China: Lessons and Experience

1. Innovations in China's rural poverty alleviation system

Innovations in China's rural poverty alleviation system were primarily concentrated in strategy, governance structure, and capital management.

- (1) Innovation in Poverty Alleviation Strategy
 - (a) Transition from the strategy of guiding poverty reductions through economic growth with no poverty alleviation objectives into a strategy of development with targeted objectives.
 - (b) Transition from aid-oriented poverty alleviation to development-oriented poverty alleviation, and a strategic change toward an integration of social security and development-oriented poverty alleviation beginning in 2007. Before 1986, the Chinese government provided primarily emergency policy-oriented aid to vulnerable rural groups. After 1986, the Chinese government's primary means of poverty alleviation was development-oriented, supplemented by temporary policy-oriented aid. This strategy was replaced in 2007 by a strategy combining development-oriented poverty alleviation and institutionalized social security,

the focus of which was replacing previous policy-oriented temporary aid with the institutionalized rural minimum living standards guarantee system.

- (c) Strategic transition from giving aid to poor regions toward more targeted aid to poor counties, with a focus on poor villages, as well as beginning to implement a strategy combining development of large poor regions and bringing poverty alleviation into villages and households.
- (d) Strategic shift from single projects to comprehensive poverty alleviation.

(2) Innovations in Governance Structure

China has made constant explorations into the governance structure of poverty alleviation to improve the efficiency and effectiveness of poverty alleviation programs. The two major innovations are as follows. The first is a constant downward shift of decision-making authorities in poverty alleviation plans and programs. From 1986 to 1995, most authorities to make rural poverty alleviation plans and distribute corresponding resources were concentrated in the Central Poverty Alleviation and Development Leading Group. In 1996 the government began shifting resources, tasks, authorities, and responsibilities downward to the provincial level. The vast majority of provincial-level governments then further shifted them downward to the county, with provincial-level governments retaining decision-making authorities over only investments over a certain size or cross-regional projects. As the whole village advancement program was popularized after 2002, authorities to make and implement poverty alleviation plans were further sent downward to the level of rural poverty alleviation focus work villages, basically completing the transition of decision-making authorities in this realm from top-to-bottom to bottom-to-top. The second is the change from complete government guidance to a combination of government guidance and social organization participation, and the further shift to government guidance, social organization participation, and participation by affected groups.

(3) Innovations in capital management

Primary innovations in fiscal poverty alleviation capital management are as follows.

- ① Inter-regional allocations of governmental poverty alleviation funds went from unclear into allocations made primarily per the factor method.
- ② Dedicated account management and expense account systems were implemented in fiscal poverty alleviation funds.
- ③ A monitoring and information system for fiscal poverty alleviation funds was established to manage said funds.
- ④ Performance evaluation mechanisms were established for poverty alleviation funds.
- ⑤ Diversified oversight mechanisms were implemented with participation from audit, fiscal, and operation departments, public opinion, and so on.

Primary innovations in management of credit poverty alleviation funds include the following. The first is the innovation in credit entities, including the change from direct loans to households into supporting economic entities and finally into supporting local guiding industries or mainstay enterprises. The second is the innovation in loan methods. Since 1986, officials have made attempts at using government credit for economic entity loans, microfinance made on the basis of

social credit, enterprise and government loans based in mortgages or collateral, and so on. The third is the innovation in discounted interest methods. Government officials have made attempts in discounting interest on loans made to banks or individuals. Last, in choosing institutions to carry loans, officials have made attempts with commercial banks bearing loans, policy banks bearing loans, local governments bearing loans, and so on.

2. Primary experience of innovations to China's rural poverty alleviation system

(1) Establishing Development as the Central Institutional Design for Poverty Reduction

China has not made innovations in poverty alleviation institutions isolated or dissociated from the national development strategy or nationwide institutional innovations, but rather has established the status of poverty alleviation within the macroeconomic strategy and uses the establishment and improvements to macroeconomic development institutions to choose and set the direction of innovations in the poverty alleviation system. This then allows innovations in the poverty alleviation system to both serve the big picture of national development and enables officials to choose and adjust the contents and forms of national development per the demands of macroeconomic development.

(2) Choosing the model of innovations to the poverty alleviation system of “problem—study—testing—adjustment—dissemination”

Although the courses chosen in various innovations are not entirely similar, the vast majority of innovations to the poverty alleviation system either consciously or unconsciously adopt the above model. As problems are discovered, the government or other social organizations, with support and pressure from external forces (such as international organizations and academic institutions) and grassroots publics frequently adopt rather transparent and open attitudes and learn from and study advanced concepts and methods, conducting tests on a small scale, and then making summaries and adjustments per testing results, using government power to effectively disseminate the innovative methods to the rest of the country. This model of innovation has been an important guarantee constantly innovated in and improved over 30 years of the development of China's rural poverty alleviation system, and is also an indelible contribution that China's progress in rural poverty alleviation has made.

(3) High levels of emphasis on the role played in innovations to the poverty alleviation system by international organizations, NGOs, and academic institutions

Since the mid-1980s, and particularly since 1996, the Chinese government's attitudes toward international organizations, NGOs, and academic institutions, and in particular their new concepts and methods in poverty alleviation, has been to not resist, not oppose, and allow testing, an enlightened attitude. Thus these organs

outside of China's system have participated deeply and comprehensively in innovations to the poverty alleviation system, playing an active guiding and exploratory role in such innovations.

- (4) The government's attitude toward adopting tests and innovations in the poverty alleviation system has been open and enlightened

Two aspects of the government have played decisive roles in innovations to the rural poverty alleviation system. The first is the government's open, enlightened attitude toward external advanced concepts and methods, and willingness to study and learn from new, useful concepts and methods, and ensuring that these innovations do not die in the cradle. The second is the government's use of its power to govern and enormous public resources, promulgating poverty alleviation methods proven to be effective through testing to the entire nation.

4 China's Experience in Rural Poverty Reduction

China has made marked achievements in poverty reduction, with primary experience in the following areas: implementing comprehensive poverty reduction methods; effectively allowing the government, the market, and social organizations to play a role in poverty reduction; and focusing on innovations in poverty alleviation.

1. Comprehensive poverty reduction methods

- (1) On the strength of the trickle-down growth strategy based in development of the market economy, the development of market organizations, industrialization, and urbanization have become the primary fountainhead of rural poverty reduction.
- (2) Using the poverty alleviation strategy of targeted development as a support, officials have improved the availability of property for poor people and increased the ability of poor people to benefit from growth.
- (3) Using social development and the establishment of the social security system as guarantees, officials have helped prevent vulnerable groups from further marginalization.
- (4) Using poverty alleviation strategies of moving people away from ecologically vulnerable regions and regions not suitable to human habitation as a supplement, officials have improved the ability of these special groups to leave poverty on their own strength.

2. The roles of the government, the market, and social organizations in poverty reduction

Rural poverty alleviation in China was formerly benefitted by the particular characteristics and advantages of government-guidance. The government, the market,

and social organizations have all played roles in poverty reduction to different extents.

(1) The government's decisive role in rural poverty reduction

The government has played a decisive role in China's rural poverty reduction, especially in the following areas: (a) Making poverty alleviation into an important aspect of government work by establishing a system of poverty alleviation leading and coordinating groups and incorporating poverty alleviation within national economic and social development plans, thereby guaranteeing organizational support needed for poverty alleviation; (b) use of governmental administrative systems and resources to drive and make arrangements for resources for poverty alleviation, guaranteeing necessary investments into poverty alleviation; and (c) adjusting relevant policies or drafting essential laws and institutions, per the needs of poverty alleviation, to provide institutional guarantees to the orderly progress of poverty alleviation work.

(2) The foundational role played by the private sector in rural poverty reduction

The private sector has made a great contribution to rural poverty alleviation by creating employment and demand for agricultural products, payment of taxes, direct launching of poverty alleviation aid programs, and other methods.

(3) The positive role played by social organizations in driving up social support and innovations in poverty alleviation

Although the level of development of NGOs in China is rather elementary, NGOs have played an active role in poverty reduction. Social organizations play two primary roles in poverty reduction. The first is the use of their social networking resources to drive up support and resources for poverty alleviation. The second is the use of their solid understanding of the situations and demands of poor people and advantages of flexibility in responding to situations to drive innovations in methods of poverty alleviation. NGOs played a major role in China's development and exploration of microfinance.

3. Innovation in poverty alleviation and constantly improving methods

China has made constant innovations in the poverty alleviation strategy, governance structure, and capital management since 1986. Officials have made timely adjustments and improvements to poverty alleviation methods and effectively driven increases to poverty alleviation efficiency through changes to circumstances and an accumulation of experience.

Natural Resource Management and Environmental Protection in Rural China

The development of China's rural natural resource management and environmental protection has happened against a backdrop of constantly accelerating urbanization and industrialization, ever tightening land resource supplies, and growing pressure to improve environmental quality. The significance of rural natural resources management and environmental protection lies in: providing guarantees for water and land resources under the national food security strategy; providing ecological security guarantees for economic and social development; and providing environmental quality and safety guarantees for improvements to people's welfare. China's systems for rural natural resource management and environmental protection are rich in contents. In this chapter we will focus primarily on arable land resources, forest resources, natural grassland resources, and rural industrial, agricultural, and living pollution. On a foundation of describing changes to the quality of rural natural resources and the rural environment, we will give an outline of China's system for rural natural resources management and environmental protection, through changes in organizations and institutions and development of actions and measures, and finally give an assessment of achievements made and challenges faced.

1 Changes to Natural Resources and Environmental Quality in Rural China

1. Changes to rural natural resources

(1) Changes to arable land resources

China's total area of arable land fell from around two billion mu in 1978 to 1.826 billion mu in 2011, with the trend over the period being mostly downward with

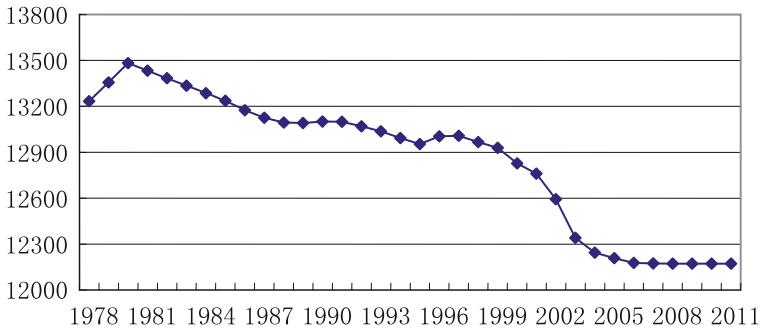


Fig. 1 Changes to area of arable land (Unit 10,000 ha) from 1978 to 2011

some fluctuations (see Fig. 1). The achievements of the work of grading nationwide agricultural use land (arable land) completed in 2009 indicate that China's overall quality of arable land is low. All arable land in the nation was divided into 15 natural grades (1 being the most superior, and 15 being the poorest). Grade 1 land accounts for the smallest portion, only 0.19% of all land in the nation. Most of China's arable land—84.12%—falls within grades 6 to 13. The average grading of arable land in China, calculated per a weighted average of all the grades, is 9.2.¹

(2) Changes to forest resources

Data from China's second through seventh National Forest Resources Surveys indicate that there have been steady increases to China's forest coverage rate and volume of standing stock. From 1978 to 2008, the forested area in China grew from 115 million hectares to 195 million hectares, and the volume of standing stock grew from 10.261 billion cubic meters to 14.913 billion cubic meters (see Table 1).²

(3) Changes to grassland resources

The Ministry of Agriculture and Chinese Academy of Sciences (CAS) conducted an investigation into China's grassland resources from 1979 to 1990, the data of which indicate that China has 400 million hectares of grassland. As of 2011, the overall

¹Chen, Baiming, Song, Wei, Tang, Xiumei. "Rough Estimation on Land Quality Changes of China in Recent Years." *China Land Science*, 24(5): 4–8.

²State Forestry Administration of China. (2011). "Basic Conditions of the Forestry Industry in China in 2011." <http://www.forestry.gov.cn/CommonAction.do?dispatch=index&colid=58>. 18 July 2011.

Table 1 Changes to China's forest resources since 1978

	1977– 1981	1984– 1988	1989– 1993	1994– 1998	1999– 2003	2004– 2008
Forested area (100 mn ha)	1.15	1.25	1.34	1.59	1.75	1.95
Standing stock volume (100 mn m ³)	102.61	105.72	117.85	124.88	136.18	149.13

trends in China's grassland ecology are "improvements in spots and worsening across large areas, improvements in some areas with overall worsening."³

(4) Soil erosion and desertification

In 2005, the Ministry of Water Resources, CAS, and Chinese Academy of Engineering (CAE) jointly launched the three-year "Comprehensive Scientific Observation of Soil Erosion and Ecological Security in China." That program's results were released in 2009 and indicated that the total area affected by soil erosion in China was 3.5692 million km², 37.3% of all China's land. Of that total, 1.6122 million km² had been subject to water erosion, and 1.9570 million km² to wind erosion.⁴

There was an increase to the area of land desolation from 1998 to 2005. In 2005, the first reduction in land desolation was achieved since the founding of People's Republic of China. As of the end of 2009, the area of desolation in China was 2.6237 million km², with the area of desertification being 1.7311 million km². There was a net decrease of desolated land area of 12,454 km² over the five-year span beginning in 2004, for an average annual decrease of 2491 km². Over the same period, the total area of desertification had a net decrease of 8587 km², for an average annual decrease of 1717 km².

2. Agricultural non-point source pollution and changes to rural environmental quality

(1) Agricultural non-point source pollution (ANPSP)

As modern inputs into agricultural production have rapidly increased, agricultural non-point source pollution (ANPSP) has grown more severe. The results of the first

³Gao, Hongbin. (2011). "Firmly Grasping Opportunities, Strengthening Oversight over Execution of the Law, and Striving to Promote Grassland Protections and Climbing to a New Level of Construction." Department of Livestock Production of Ministry of Agriculture of China. <http://www.xmys.moa.gov.cn>. 21 September 2011.

⁴Chen, Lei. (2012) "A New Chapter in Deepening Thorough Implementation of Water and Soil Conservation and Ecological Construction Per Central Policy Deployments—Speech at the 2012 Nationwide Water and Soil Conservation Work Conference." Official Website of China Soil and Water Conservation and Ecological Construction. <http://www.swcc.org.cn/>. February 25, 2012.

nationwide pollution source survey⁵ indicate that agricultural source pollutants are exerting a large influence on the water environment, with a total chemical oxygen demand emission quantity of 13.2409 million tons, accounting for 43.7% of total nationwide chemical oxygen demand emissions. Agriculture is also the primary source of total nitrogen—2.7046 million tons for 57.2% of the national total—and total phosphorous—284,700 tons for 67.4% of the national total—emissions. The census indicates that pollution from animal husbandry is a prominent source of agricultural pollution, contributing 96% of agricultural chemical oxygen demand emissions, 38% of total agricultural nitrogen emissions, and 56% of total agricultural phosphorous emissions.

(2) Pollution from the husbandry industry

Data from the Ministry of Environmental Protection indicate that the husbandry industry produced a total of 2.75 billion tons of excrement in China in 2006, which converts to 100 million tons of chemical oxygen demand (COD); this is 8.3 times the amount of COD emitted by all industry and urban residents in the country in the same year. Animal excrement contributes 6.47 million tons of COD, 6 million tons of biological oxygen demand (BOD), 870,000 tons of total nitrogen, and 345,000 tons of total phosphorous to bodies of water per year. Most excrement produced by highly concentrated husbandry operations is flushed into rivers and lakes along with other untreated dirty water, creating wide-scale non-point source pollution.⁶

(3) Excessive use of chemical fertilizers

The amount of chemical fertilizers used in China increased from 40.85 million tons in 1998 to 55.62 million tons in 2010, and the amount of chemical fertilizer used per unit of area increased from 315 to 457 kg per hectare (see Table 2). Sustained increases in the amount of chemical fertilizer used have contributed to increased grain yields but have also become the primary source of ANPSP in some regions.

(4) Issues in the rural living environment

The most prominent issues in the rural living environment are as follows. (a) Trash created by rural life is increasing rapidly, but waste management capacity remains severely insufficient. (b) The issue of rural safe drinking water has not been completely resolved, and wastewater facilities are crude and backward. (c) As an important aspect of new rural construction, village cleaning and sanitation has seen some achievements made in model areas, but on the whole, regional disparities remain large, and village community environmental and sanitary management mechanisms have not formed.

⁵<http://scitech.people.com.cn/GB/10962156.html>. 9 February 2010.

⁶Ministry of Environmental Protection. (2009). "Explanation of System of Policies on Technology for Prevention and Treatment of Pollution from the Husbandry Industry 'Draft Soliciting Requests.'" <http://www.mep.gov.cn/gkml/hbb/bgth/200910/W020090918349658446952.pdf>.

Table 2 Changes in amount of chemical fertilizers used in China from 1998 to 2010

	1998	2000	2002	2004	2006	2008	2009	2010
Amount of chem. Fertilizer used (mn tonnes)	40.85	41.464	43.394	46.366	49.277	52.39	54.044	55.62
Average amount of chem fertilizer used per area (kg/ha)	315.1	323.3	344.6	378.7	404.7	430.4	443.8	457

Unit 10,000 tons

2 Natural Resource Management and Environmental Protection in Rural China: Institutions and Policies

1. Development of organizations and bodies

As market-guided reforms have been constantly deepened, the size of administrative management organs has shrunken and functions have been streamlined. However, government organs tasked with management of natural resources and environmental protection are among the few that have actually grown bigger and stronger. The characteristics of organizations and organs tasked with rural natural resources management and environmental protection are: government organs are already the bulk; non-governmental organizations are a supplement; and social participation plays a certain role. The general sequence of development of such organizations and organs is as follows. (1) In 1979, the state separated management of forest resources and development of the forestry industry from the Ministry of Agriculture and restored the Ministry of Forestry to take over these functions. In 1997, that ministry was turned into the State Forestry Administration, under direct control of the State Council. In 1986, the function of managing land resources were separated from agricultural management, and the Ministry of Agriculture's Land Bureau was upgraded into the State Land Management Administration, at which point it became the controlling department over land resources; one of its important work areas was protection of arable land resources. In 1998, the State Land Management Administration was merged with the Ministry of Geology and Mining, the National Ocean Administration, and the National Bureau of Surveying and Mapping, to become the Ministry of Land Resources. In 1988, the State Bureau of Environmental Protection was separated from the former Ministry of National Urban-Rural Construction and Environmental Protection, coming under direct control of the State Council; in 1993, the bureau was elevated to the vice-ministerial level, and in 2008 became the Ministry of Environmental Protection. (2) Industry controlling departments and macroeconomic comprehensive management departments established corresponding management and coordination organs. (3) NGOs have played an increasingly important role in China's economic and social development.

2. Institutional and policy framework

(1) Establishment of laws and regulations

In the early 1980s, China began issuing laws and regulations related to arable land resources, forest resources, natural grassland resources, and environmental protection. They are, in order: the “Environmental Protection Law (Trial)” (1979), the “Forest Law” (1984), the “Water Pollution Prevention Law” (1984), the “Grasslands Law” (1985), the “Fisheries Law” (1986), the “Land Management Law” (1986), the “Water Law” (1988), the “Wild Animals Protection Law” (1988), the “Environmental Protection Law” (1989), the “Water and Soil Conservation Law” (1991), the “Agriculture Law” (1993), and the “Rural Land Contracting Law” (2002).

Since the mid-1990s, China has continued to issue new laws and regulations while also revising laws issued in the 1980s, adding detailed rules and regulations, and making them more executable. Examples include: the two revisions of the “Land Management Law” (in 1998 and 2004); the revision of the “Water and Soil Conservation Law” (in 2010); the issuance of the “Basic Farmland Protection Regulations” (1994), the “Implementation Regulations of the Forest Law” (2000), and the “Regulations for Returning Grain Plots to Forests” (2002); the issuance of the “Technological Policy for Preventing and Treating Pollution from the Husbandry Industry” (2010); and the public request for opinions on the “Regulations for Prevention and Treatment of Husbandry Pollution” (2012).

Management of arable land resources currently is composed of five systems: the basic farmland protection system, the system of balancing occupation and subsidization of arable land, the land use control system, the system of land development and organizing and restoring cultivation, and the land contracting operations system.

(2) Institutions and policies for forest resource management

Objectives of management policies in the development of management of China’s forest resources have grown constantly deeper, and a transition has been made from the primary objective being addition of forest coverage shortly after the outset of reforms to accomplishing objectives of the forestry industry and forest ecology. Important institutions and policies have been concentrated in the following four areas. First, in 1982, the State Council issued the “Implementation Measures for Launching the Movement of Compulsory Tree Planting of the Entire Population,” which began the forestry construction system with tree planting as an important component. Second, the “Forest Law” issued in 1998 called for the state to establish a forest ecology benefit and compensation fund, signifying a legal protection for China’s forest ecology benefit and compensation system. Third, the “Approvals and Management Measures for Occupation and Requisitioning of Forest Land” of 2002 began implementation of the forest land requisitioning approvals system. Fourth, in 2008 officials began reforming management of timbering in China’s forests.

(3) Institutions and policies for grassland resource management

In September 2002, the State Council issued “Several Opinions on Strengthening Grassland Protection and Construction,” which proposed that there was no time to lose in strengthening grassland protection and construction and established or improved grassland protection systems, including the following. The first is the establishment of a basic grassland protection system. Second, implementation of a system for balancing grass and husbandry, per the amount of grass that a certain area of grassland could produce in a given time and the amount of grass needed to feed certain animals. Third, the promotion of the system for rotating grazing, letting grasslands lie fallow, and banning grazing. In 2011, the State Council issued “Several Opinions on Promoting Good and Fast Development in Pastoral Areas,” which for the first time clearly demanded that basic grasslands protections be given the same importance as basic arable land protections, accelerated the drafting of basic grasslands protections rules, promoted demarcation of basic grasslands per the law, and implemented the basic grasslands protection system, was planned to cover 80% of total national grassland area by 2015.⁷

(4) Institutions and policies for rural environmental protection

In 2005, at the central population resources and environmental work conference, Secretary Hu Jintao proposed initiating a plan for rural *Xiaokang* environmental action, to bring prevention and treatment of soil pollution high on the agenda. In 2006, the State Environmental Authority issued the “State Rural *Xiaokang* Environmental Action Plan,” and also implemented it. This plan proposed that rural “dirty, disorderly, and bad” problems be basically resolved, that the trend of increasing rural environmental pollution be curbed, and that rural life and production environments be improved, all over the course of 15 years. In 2007, the State Environmental Authority issued the “Opinions on Strengthening the Work of Rural Environmental Protection,” which proposed the following focuses in rural environmental protection work: (a) protecting rural drinking water sources; (b) intensifying rural life pollution treatment; (c) strictly controlling rural industrial pollution; (d) strengthening prevention and control on pollution from the husbandry and fisheries industries; (e) controlling ANPSP; (f) actively preventing and controlling rural soil pollution; (g) strengthening protection over the rural natural ecology; and (h) strengthening rural environmental monitoring and oversight. In 2008, the central government began implementing the policies of “using rewards to promote treatment” and “replacing subsidies with rewards”; rural environmental protection work over the years 2008 to 2011 was performed with this as the central duty.

⁷Gao, Hongbin. (2011). “Firmly Grasping Opportunities, Strengthening Oversight over Execution of the Law, and Striving to Promote Grassland Protections and Climbing to a New Level of Construction.” Department of Livestock Production of Ministry of Agriculture of China. <http://www.xmys.moa.gov.cn>. 21 September 2011.

3 Actions and Measures in Rural Natural Resource Management

Actions and measures taken in China's rural natural resources management can be divided into four categories: control actions, incentive measures, property rights reforms, and rural ecological programs.

1. Control actions

(1) Banning illegal occupation of arable land resources

The problem of occupation of arable land has been around since reforms began. To this end, the government has issued several policies exerting mandatory controls over occupation of arable land resources. In the early 1980s, there was fervor for rural population to build their own houses while economic levels were high; this gave rise to the problem of illegal occupation of arable land. So in 1982, the CPC Central Committee and State Council jointly issued the "Report on Feasibly Resolving the Problem of Illegal occupation of Arable Land to Construct Housing." In the mid-1980s, as TVEs developed, there emerged the issue of rural industrial occupation of arable land; so in March 1986, the State Council issued the "Notice on Strengthening Land Management and Preventing Indiscriminate Occupation of Arable Land." To address the issues of occupation of arable land caused by acceleration of urbanization and industrialization in the mid-1990s, in 1997 the "CPC Central Committee and State Council Notice on Further Strengthening Land Management and Feasibly Protecting Arable Land" froze all further occupation of arable land for non-agricultural construction projects for a year. In 1999, the State Council General Office issued the "Notice on Strengthening Management of Land Transfers and Strictly Forbidding Land Speculation," which raised six demands. In the 21st century, the "Eleventh Planning Compendium for Development of the National Economy and Society" clearly proposed imposition of policies with most rigorous protections over arable land, and established the objective of maintaining 1.8 billion mu of arable land by 2020, establishing the figure of 1.8 billion as a "red line" not to be crossed. On the whole, since 2004, illegal occupation of arable land has basically been stamped out.

(2) Banning indiscriminate and illegal timbering and occupation of forest land

In the early 1980s, there were two prices for timber in China: the state-set price for standard timber, and negotiated prices for non-standard timber. One could say that the demarcation between these two kinds of timber coming from collective forests was both clear and unclear, because standard timber could be artificially converted into non-standard timber. The most obvious manifestation of the issue was that the state couldn't purchase enough standard timber, whereas so-called non-standard timber flooded the market. As a result, there was a great deal of indiscriminate and illegal timbering in some places, causing great damage to forest resources. In 1980, the State Council issued the "Urgent Notice on Resolutely Preventing

Indiscriminate and Illegal Timbering.” In 1987, the CPC Central Committee and State Council jointly issued the “Instructions on Strengthening Management of Forest Resources in Southern Collective Forests and Resolutely Stamping out Indiscriminate and Illegal Timbering.” In 1998, the State Council issued the “State Council Notice on Protecting Forest Resources and Preventing Destruction of Forests to Create Cultivable Land and Illegal Occupation of Forest Land.” In 2001, the State Forestry Administration issued the “Regulations on the Accountability System for Damage of Forest Resources in Violation of Forest Resource Management Rules” and “Regulations on the Reporting System for Major Administrative Cases of Destruction of Forest Resources.” In January 2004, the State Forestry Administration issued the “Opinions on Rigorously Managing Timbering in Natural Forests.”

2. **Compensations for natural resource protections**

(1) Arable land resources protection compensations

As urban–rural comprehensive planning deepened and basic farmland protections received more attention, China launched pilots to provide incentives for protection built on control mechanisms over the quantity of arable land of continued use of “restrictive” protection methods. Chengdu established the “arable land protection fund,” an exploration into compensations for protection of arable land. Under the program, subsidies were paid in all cases where arable land was maintained for agricultural purposes, over all the over six million mu of arable land under administration of Chengdu, per rigorous planning and strict controls on land use.

(2) Forest resources protection compensations

In 2001, the Ministry of Finance established the forest ecology productivity subsidy fund, used primarily to provide protection and management over protected forests and special use forests of ecological productivity (known as ecological public benefit forests). At this point, China’s forest ecology productivity compensation system began to receive fiscal support. In November 2001, pilots for the program were launched in 685 counties and 24 state-level natural protection zones in 11 provinces and autonomous regions, covering 200 million mu of protected and special use forests, with a subsidy of five yuan per mu. The goal of the pilots was to accumulate experience in the forest ecology productivity compensation system. In 2010, the central compensation standard for state-level public benefit forests was increased; the standard for state-owned forests was set at five yuan per year per mu, and 10 yuan per year per mu for state-level public benefit forests owned by collectives and individuals. In 2010, the central government earmarked 7.85 billion yuan for the compensation fund, covering 1.049 billion mu of state-level public benefit forests (581 million mu of state-owned forests and 468 million mu of collective and individual-owned forests). In 2010, China launched pilots in subsidies for forest creation and improved tree varieties, with particular focus on forest creation in the Southwest and Northwest. Now reforms to the collective forest rights system have been completed, and local governments in 20 provinces have given

vigorous support to forest creation. The subsidy standards are: 200 yuan per mu for newly created tall tree forests; 120 yuan per mu for shrub forests; 160 yuan per mu for oleaginous⁸ economic forests; 100 yuan per mu for all other economic forests; 100 yuan per mu for bamboo forests; and 100 yuan per mu for previously slashed forests rejuvenated through human efforts. In 2010, a subsidy in the amount of 200 million yuan was set aside to support 131 oil-producing tree forest pilot programs in 29 provinces, covering an area of 342,000 mu. One hundred million yuan was disbursed. State-owned seedling units in 22 provinces adopted advanced technology to cultivate 500 million improved tree variety seedlings, with an average of 0.2 yuan paid per seedling and a total subsidy outlay of 100 million yuan.

(3) Grasslands ecological protection subsidies and rewards

In October 2010, the State Council Standing Committee resolved to establish the grassland ecological protection subsidy and reward system to promote increased incomes for herders. The resolution called for comprehensive establishment of grassland ecological protection subsidy and reward mechanisms in the eight major grassland and herding provinces (and autonomous regions) of Inner Mongolia, Xinjiang (including the Xinjiang Production and Construction Corps), Tibet, Qinghai, Sichuan, Gansu, Ningxia, and Yunnan, beginning in 2011. The resolution's scope covered an area of 3.71 billion mu (including 1.16 billion mu of grassland forbidden to herders and 2.55 billion mu of grassland on which grass production and number of animals were balanced) of grassland in 264 pastoral or semi-pastoral counties in the eight provinces (and regions), accounting for 62% of China's total grassland area, and affecting two million herding households.

3. Natural resource property right reforms

(1) Reforms to the arable land property rights

In 1978, China launched the household contract responsibility system, a major reform in arable land property rights. After 30-plus years of constant development and improvements, the arable land contracting operation system has become China's basic land system. The core of reforms to the arable land property rights system lies in maintaining collective ownership of the land, while also separating ownership and usage rights; establishing production, operation, and distribution methods characterized by rural household operations; and integrating community management and services to create the current arable land property rights arrangement. In 2011, the Ministry of Land Resources, Ministry of Finance, and Ministry of Agriculture jointly issued the "Notice on Accelerating the Work of Promoting Issuance of Rural Collective Land Registration Certificates Establishing Rights," which further standardized such work and clarified the scope of rights-establishing rural collective land certificates, as well as the legal bases, principles, and methods of the work of surveying rural land registrations; it also

⁸The term refers to trees that produce edible oils, such as tea trees cultivated specifically for tea seed oil production—translator's note.

established the rights of rural land ownership as lying with rural collectives holding rights to land. By the end of 2011, the rate of issuance of rights-establishing land registration certificates was 70%, and the rate for rural homestead plots and collective construction use land was 80%.⁹

(2) Reforms to forest property rights

The nine southern provinces of China are forested areas in which most forests are collective. Since the outset of reforms and the introduction of the rural household contract responsibility system, there have been two rounds of reforms to the forest property rights system. In the early 1980s, officials copied the reforms to arable land property rights in reforms to collective forests, and launched the work of stabilizing mountain and forest rights, demarcating mountainous/hilly land retained for personal use, and establishing the forestry production responsibility system. By the end of 1984, the work in these three aspects in forestry had been basically completed, with 77.5% of counties and 88.2% of production teams having completed tasks under the system. However, after that work was completed, there was no marked development in collective forests. Under those conditions, a new-round reform of collective forest property rights was launched in 2003. In June 2008, the CPC Central Committee and State Council issued the “Opinions on Comprehensively Promoting Reforms to the Collective Forest Rights System” on a foundation of earnest summarizing of forestry reform experience; this document signified the entry of reforms into a new stage of comprehensive promotion. By the end of 2011, 26 provincial-level governments had basically completed the reform tasks of clarifying property rights and contracting them to households, with 95% of rights-establishing and demarcation tasks and 87% of certification issuance tasks completed.¹⁰

The major difference between the two rounds of forestry reforms was: in the reforms of the early 1980s, a certain proportion of forest land had to be operated by collectives, and the form of operations adopted by rural population was determined by the government; their rights to operate such land were not clearly demarcated. In the second round of reforms, their operation rights were clearly demarcated, including their rights to transfer land or put it up as collateral for a loan.

(3) Reforms to natural grassland resources property rights

In the early 1980s, officials drew from experience gained in reforms to rural arable land property rights and began gradually promoting the household contract responsibility system over pastoral and herding households. Adjustments and reforms were made to collective ownership structures, management systems,

⁹Xu, Shaoshi. “Speech at Nationwide Land Resources Work Conference.” Official Website of Ministry of Land and Resources of China. January 7, 2012, http://www.mlr.gov.cn/xwdt/jrxw/201201/t20120107_1055778.htm.

¹⁰“Zhang, Jianlong. “Proposes Five Focus Areas for Deepening Forestry Reforms at the Nationwide Forestry Reforms Department Head Conference.” Rural Forestry Reforms and Development Bureau, March 12, 2012, <http://lgs.forestry.gov.cn>.

operations methods, and other areas for collectively owned herds in the major pastoral regions. In the 1990s, officials in pastoral regions began gradually promoting the grassland compensated contracting and usage responsibility system. In the 21st century, as the agricultural tax was abolished, the grassland compensated contracting system was returned to the grass-and-livestock dual contracting system. From the beginning of reforms through the first decade of the new century, officials constantly promoted and improved the grassland contracting system in pastoral areas while also actively exploring and adjusting the ideology of the development of the grassland herding industry. However, no road to sustainable development was found. This period happened to be a time when conflicts over grass and livestock in pastoral regions began to intensify, and grasslands deterioration was becoming increasingly severe.¹¹ This led to disputes over the natural grassland household contract responsibility system.

4 Rural Environmental Pollution: Prevention and Abatement

1. Prevention and treatment of rural industrial pollution

China's rural environmental protections began with prevention and treatment of township and county industrial waste. In 1983, the Ministry of Urban and Rural Construction and Environmental Protection held the first nationwide conference to study the problem of TVE environmental pollution in Shunde County, Guangdong; this signified that the work of environmental protection in China had been extended to the countryside. In September 1984, the State Council issued the "Regulations on Strengthening Environmental Management of Township, Town, and Neighborhood Enterprises," the first set of rules establishing environmental management over TVEs. In 1985, the Ministry of Agriculture organized the first nationwide TVE environmental pollution general survey. In 1989, the State Environmental Protection Authority, Ministry of Agriculture, and National Bureau of Statistics jointly organized the second nationwide TVE environmental pollution general survey. In 1995, the State Environmental Protection Authority, Ministry of Agriculture, and Ministry of Finance and National Bureau of Statistics of China jointly organized the third nationwide TVE environmental pollution general survey. Since 2000, as industrialization and urbanization have accelerated, prevention and treatment of rural industrial pollution have been incorporated within the view of environmental protection policies of urban-rural integration; no more policies or measures specifically targeting rural industrial pollution prevention and treatment have been issued.

¹¹Ma, Youxiang. "Conditions and Tasks in the Work of New Government Administration and Management of Grasslands." China Grasslands website, July 2, 2012.

2. Prevention and treatment of pollution from husbandry

Since 2000, there have been enormous changes in the size of the husbandry industry, methods employed in husbandry, and regional distribution; these have led to increases in total pollution caused by the industry, expansion of the scale of pollution, and an exacerbation of the degree of pollution. In 2001, the State Environmental Bureau issued the “Management Methods for Preventing and Controlling Pollution from Husbandry,” which called for comprehensive inspections and monitoring of wastewater treatment facilities, excrement storage and treatment facilities, construction of facilities for disposal of dead livestock and fowl, and whether emissions of pollutants are within legal limits; this symbolized a wide deepening of the work of environmental regulation and management for the husbandry industry. In 2007, the State Environmental Bureau and Ministry of Agriculture began the work of drafting the “Regulations for Prevention and Treatment of Pollution from the Husbandry Industry.” At the same time, the central government actively raised funds to launch model programs in prevention and treatment of husbandry pollution facilities for methane gas production, composting, and other methods, summarizing and promoting a series of comprehensive applicable technologies and models, suited to economic needs, for the prevention and treatment of husbandry pollution.

3. Prevention and treatment of agricultural non-point source pollution

ANPSP prevention and treatment began in 1998; the program included prevention and treatment of pollution from the burning of straw, pollution from chemical fertilizers and pesticides, and soil pollution. In 2003, the State Environmental Protection Authority, Ministry of Agriculture, Ministry of Finance, Ministry of Railways, Ministry of Transportation, and State Civil Aviation Administration jointly drafted the “Measures for Banning Straw Burning and Comprehensive Usage Management.” In that same year, the State Environmental Protection Authority issued “Several Opinions on Strengthening the Work of Rural Ecological and Environmental Protection,” which called for: actively exploring effective means to prevent and treat pollution from pesticides, chemical fertilizers, and agricultural plastic sheeting, and to promote reasonable usage of agricultural chemicals. In 2005, the “Resolution of the State Council on Implementing the Scientific Development Perspective and Strengthening Environmental Protections” raised the concrete demand to “strengthen rural environmental protection, with a focus on preventing and treating soil pollution.” In 2006, the Ministry of Environmental Protection and Ministry of Land Resources jointly launched dedicated work of conducting a nationwide survey on present soil conditions and in prevention and treatment of pollution. At present, officials in all locations are examining and analyzing the program’s data.¹²

¹²As of the end of 2009, 180,000 soil and agricultural product samples from 65,637 survey locations had been collected and analyzed. Over 4.7 million pieces of observation data and 2.05 million pieces of outdoor environmental data had been entered into the database, with over 10,000

4. Protection of the rural living environment

The rural living environment includes: rural drinking water safety, environmental and sanitary work, rural living garbage, treatment of wastewater from living, construction and beautification of rural villages, and so on. This work has received a great deal of attention since 2005, with methods having been developed in some regions that can be applied elsewhere. In 2008, the central government established the rural environmental protection dedicated fund with an outlay of 500 million yuan. In 2009, the outlay was increased to one billion yuan, and again to 2.5 billion in 2010. From 2008 to 2010, 6600 villages in 31 provinces (and autonomous regions and centrally-administered cities) and the Xinjiang Production and Construction Corps received money from this fund.¹³ In May 2010, the Ministry of Finance, Ministry of Environmental Protection, and eight provincial-level governments signed an agreement to launch models of rural environmental clean-ups over contiguous areas. In 2011, nine more provinces signed such agreements, increasing the total of participating provincial-level governments to 17. As of the end of 2011, a total of eight billion yuan had been dedicated to comprehensive rural environmental clean-up work, with an additional investment from local governments totaling 9.7 billion yuan, with clean-up being conducted in 16,300 villages, benefiting a total of 42.34 million people.¹⁴

5 Development: An Assessment

1. Achievements

Rural natural resource management and environmental protection have yielded three achievements. First, the rural ecological environment has been improved. Specifically, the trend of rapid loss of arable land has been turned around, double growth of both forest area and standing stock volume has been achieved, and the worsening situation of the land has been improved. Second, officials have preliminarily established a policy framework for management of rural natural resources. Specifically, they have issued a series of relevant laws and regulations, ensuring legal protections for rural natural resources management. Policy tools are

(Footnote 12 continued)

images created and over 15,000 person-times of training conducted. After this program is completed, we will have nationwide data on soil pollution, the scope of pollution, and primary sources and degrees of pollution, which will lay a foundation for management of the environment and soil.

¹³Zhang, Nan, "Looking Back on New Glory Created During the 'Eleventh Five-Year Plan'; Exploring New Roads; Realizing New Crossover," *China Financial and Economic News*, January 13, 2011.

¹⁴"The Central Government Allocates 5.5 Billion Yuan to Comprehensively Treating Rural Environment This Year." *China Financial and Economic News*, February 9, 2012.

becoming more diversified daily, with a gradual transition from coercive of prohibitive policies at the outset of reforms toward use of more incentive-based policy tools. Third, objectives of macro policies for rural natural resources management are becoming clearer. Specifically, officials have established arable land resource management policies targeting food security objectives, have implemented forest resource management policies targeting land ecological security and protection of timber market stability, and put in place grassland management policies with a strategy of placing priority on the environment.

2. Challenges

The challenges facing the development of rural natural resource management and environmental protection can be summed up in the following four areas.

First, cross-departmental cooperation is needed in rural natural resource management initiatives. China's current natural resource management organizations and bodies are descended from the natural resource industry system. Although major strategic changes are taking place in all departments, there are still clear departmental interests in the policy objectives set and measures adopted; as such, natural resource management has been artificially separated. Cross-departmental cooperation in management of rural natural resources first and foremost requires no conflicts in the long-term strategies and short-term measures of all relevant departments. Second, cooperation needs to be strengthened at the action level, including horizontal and vertical cooperation, inter-departmental cooperation, and cooperation between NGOs and communities.

Second, reforms to the rural natural resource property rights system need to be deepened. The arable land property rights system, centered on the household contract responsibility system, has had some successes, which have exerted a profound influence on arable land resource management. However, many challenges have been encountered in the simple extension of reforms to the arable land system onto forest and grassland resources.

Third, innovations are needed in the strategy and mechanisms of management of rural environmental protections. China's environmental monitoring and quality management system, centered on cities and industry, is already obviously unsuited to the current pace of socioeconomic development. Although achievements have been made in some areas in recent years, the regional disparities and complexity of the pollution in problem in China have created massive difficulties for again resolving the problem of rural environmental management. Over the long term, China's rural environmental protection strategy is part of the overall environmental protection strategy; as the nation continues to industrialize and urbanize, some environmental protection problems can be resolved within the strategy for integrated development for urban and rural areas. In the short term, however, as China's environmental protection strategy is built on a foundation of environmental protections skewed toward cities and industry, the work of rural environmental protection will require dedicated attention and support from a number of policies.

Fourth, we face challenges in pollution prevention and control in modern agricultural development. Separation between planting and husbandry within agriculture, rapid changes in agricultural input and insufficient quality and industry standards have imposed difficulties on the scientific management of quality and safety of agricultural products. As no substantial progress has been made in standardized monitoring of agricultural pollution sources, we lack scientific bases for establishing and implementing policies for agricultural pollution prevention and treatment. On the whole, the task of managing the quality of inputs within management of safety and quality of agricultural products will be arduous, and we will face challenges in pollution prevention and treatment in the development of modern agriculture.

Outlook for Rural Development in China

After more than 30 years of development, China's comprehensive agricultural production capacity has increased, market mechanisms are playing a greater role, and supply and demand for agricultural products is growing increasingly stable. The primary tasks in agricultural development in China at present are: accelerating technological innovations, realizing great economies of scale, specialization, and organization; increasing the appeal of agriculture as a job choice, the level of marketization of resource allocations, and the quality of agricultural products; strengthening the international competitiveness of our agricultural products; and lowering the cost of balancing supply and demand for agricultural products.

1 Transformation in Agriculture, Rural Areas and Rural Population

1. Transformations in agriculture

The 21st century has been the century in which biology and life sciences lead global development. The technological revolution these two fields launched has driven the formation of new agricultural production. Industrialization of the use of microorganism resources has upgraded the previous two-dimensional agriculture composed of plants and animals into a three-dimensional agriculture composed of plants, animals, and microorganisms. The industrialization of the use of algae resources has driven land-based agriculture to become an agriculture that incorporates the land and the sea. Chinese officials should take a cue from the new agricultural revolution, using it as guidance and motivation, to make breakthroughs in innovating in key technologies, promoting high technology, increasing farmer quality, and reforming the science and technology system. They should also accelerate the transition of agriculture from one based in resources to one based in science and make technological progress the primary motivator of agricultural development.

In the 21st century, stable operations of the national economy will provide a good external environment for agricultural development, and the diversity in demand for agricultural products will provide more opportunities for agricultural development. Constant improvements to the agricultural technology system and infrastructure system will provide strong support for agricultural development. Against this background, there will be abundant opportunities and hope in Chinese agriculture, despite challenges and difficulties.

(1) From plurality to specialization

The basic characteristic of traditional agriculture is diversity, while the basic characteristic of modern agriculture is specialization. The first symbol of agricultural development is the transformation from diversified toward specialized agriculture. At the micro level, resource allocations for diversified agriculture are extremely complex, while they are extremely simple for specialized agriculture. At the macro level, there is great similarity in the resource allocations for diversified agriculture, while there is a great degree of difference in the resource allocations for specialized agriculture.

(2) From functional simplicity to functional complexity

Another symbol of agricultural development is the transition from single-function to multi-function agriculture. Agriculture's functions include more than production of grain and other agricultural products and by-products, but also include environmental protection and transmission of history and culture. The emergence of multi-function agriculture will guide the people to a new conceptual understanding of agriculture, one developed with new methods. It will also make the extensions of agriculture richer, the industry system stronger, and the status of agriculture within the economy and society will grow more important. There are three characteristics of multi-function agriculture. First is emphasis on "green," meaning strengthening of market competitiveness on the strength of resource efficiency, centered in renewables, and focused on industry greening. Second is emphasis on integration, meaning integration of primary, secondary, and tertiary industries through use of the natural environment, farm landscapes, agricultural equipment, farming culture, rural life, and other resources. Third is emphasis on culture. By integrating culture and agriculture, one can give play to the value functions of the history and culture of farming, traditional ethnic culture, and local culture.

(3) From maximizing output to maximizing production capacity

A more important symbol of agricultural development is the transition from maximizing output to maximizing production capacity. Over recent decades, agricultural yields in China have been maximized through inputs of chemical fertilizers, pesticides, and agricultural sheeting, eliminating the restrictions on economic growth of shortages of agricultural products. However, excessive use of chemical

fertilizers has caused water eutrophication. Excessive use of pesticides has caused increases of toxic substances in the soil. Excessive use of plastic sheeting has caused an accumulation of a large amount of insoluble chemicals in the agricultural soil level. All these factors have weakened the sustainability of agricultural production capacity. To eliminate these negative influences, we must launch a new round of technological innovations; bring about replacement of high-energy resources by low-energy resources, a replacement of non-renewable resources with renewable resources, and a cycle of resources to products back to resources; bring about integration of more reasonable product output and more sustainable production capacity; and give rise to a sustainable agriculture of basically balanced supply and demand, complete meeting of standards of all products, great resource economization, fundamental elimination of pollution, ecological succession, and stability in production capacity.

2. Transformations in rural areas

(1) From protection from the land to social security

As in financial and human resources, we need to increase the efficiency of land resource flows. It is unwise to rely on the land for protections while undermining its ability to create wealth. In guidance of land flows, we must not only protect the lawful land rights of rural population, but also elevate the land protection system into the social security system and resolve conflicts between large-scale operations demanded by agricultural development and the need to protect the function of land as a buffer against risks for the rural population.

A social security system is superior to the private security system based on household self-help with in three ways. First, it is more effective. The more aid and assistance the system can offer, the stronger the protection. Second, it is more adaptable. Social security relies both on contributions from individual households and on surpluses in social disposable funds, while a private security system relies solely on individual households' own financial wherewithal; thus the former is clearly much more adaptable than the latter. The third is a systemic soundness. Household protection relies solely upon traditional ethics; while the social security system relies on traditional ethics, commercial insurance, community senior care, the minimum living standards guarantee system, social charity, and a slew of other institutions. After over 30 years of development, China's countryside is coming to initially possess the conditions for social security to replace household protection, to stably promote replacement of the latter by the former; this will become an important aspect of rural development in the future.

(2) From protecting income to defending rights

Relatively speaking, income equality is difficult to realize and opportunity equality is difficult to measure, but rights equality is easy to assess. The 17th CPC National Congress proposed gradually realizing objectives of fairness in rights, including

fairness in education for urban and rural residents, fairness in employment for urban and rural residents, fairness in living protections for urban and rural residents, and fairness in electing delegates to people's congresses for urban and rural residents. By giving rights to rural population, we cause them to have equal treatment, meaning equal employment rights and equal rights to political participation; this should become an important aspect of rural reforms.

(3) From protection in documents to protection in laws

In the 21st century, the CPC Central Committee has issued 13 consecutive Documents Number One, all of which play an extremely important role in promoting agricultural growth, increases to rural incomes, and development of the countryside. However, the once-a-year format of these documents is not the best choice for deploying government work. The 13 documents have already given rise to a "three rural issues" policy system that conforms to the demands of the socialist market economy. From now on, we need to solidify this policy framework in the law, and replace the document-oriented macro policy environment with a law-oriented macro policy environment.

3. Transformations of rural population

(1) From full-time farmers to part-time farmers

China's peasant society has a long history. Throughout that history, peasants had to engage in both agricultural production and in other household sideline industries. They had to both plant the fields and raise livestock. They had to grow grains and also produce other agricultural products. There were no full-time farmers with precise divisions of labor at this time. This situation lasted until the early 1980s.

After reform and opening up, non-agricultural employment opportunities expanded rapidly, and government controls on employment grew constantly more relaxed, while the number of rural population engaged in non-agricultural production constantly increased. Although some specialized emerged, on the whole, agriculture in China at this time entered a development phase primarily of part-time farmers, and the transition from full-time to part-time farmers was basically completed.

(2) From part-time farmers to professional farmers

Part-time farming is advantageous to lowering the risks of rural households but disadvantageous to driving agricultural modernization. The work from now on will be to drive another transformation, from part-time farmers to specialized farmers. As the rural employment structure changes rapidly, the stability of income from both agricultural and non-agricultural employment will continue to increase, and hidden unemployment in agriculture will be basically eradicated, and the conditions will basically be laid for the transformation from part-time farmers to specialized farmers. This is the most important change happening in rural China, and is also the most profound change happening in all of Chinese society.

2 Objectives, Tasks, and Measures

1. Rural development objectives

China's rural development objectives can be summed up as marketization, rule of law, and democratization.

(1) Marketization

Marketization reforms targeting China's agricultural products have been completed; now we must deepen marketization reforms to production factors. To deepen factor market reforms, we must eliminate all institutional obstacles preventing market mechanisms from playing a decisive role. The central and all other levels of government bear a great responsibility, but are capable of making an enormous contribution.

Financial market reforms should adopt methods that combine quantity-adding reforms and existing-capacity reforms. With rigorous oversight and effective prevention of financial risks, we should push commercial finance onto the market; expand policy banks into comprehensive policy banks that support agricultural production and construction of rural infrastructure, agricultural restructuring, and exports of agricultural products; give private finance a legal status, create conditions for regional financial institutions to develop, and effectively resolve the enormous problems of private lending, which also lacks a legal status; and give rural population the right to use their land as collateral for bank loans.

The prerequisites to land market reforms are equality in rights between all market entities and prevention of the government abusing its powers to requisition land. We need to drive transfers of agricultural use land, encourage movements of rural population, and organically integrate agricultural population movements, expansion of the average size of agricultural operations, and increase agricultural competitiveness. Land transfers must be made voluntarily by rural population with other means of making a living. Transfers of their land are like idle capital being deposited in a bank or used as an investment. We must accelerate construction of the rural social security system to eliminate coercive land transfers. We must give appropriate economic compensation to rural households defending the red line of 1.8 billion mu of arable land. The government should replace the monopoly on the tier-one construction use land market with planning and management over land usage and effective laws. The law must be used to protect rural population lawful rights to rural construction use land and homestead plots, and to ensure openness, fairness, and justice in land transactions.

We must deepen reforms to the household registration system, eliminate this institutional obstacle to coordinating urban and rural development, and make household registrations into only proof of residence in a certain place. We must eliminate all rules that prevent rural laborers from equal employment opportunities and build mechanisms for equal employment for urban and rural laborers. We must develop an integrated urban-rural, nationwide labor market and guide rural population to transfer from agriculture to non-agricultural industries, from the

countryside to cities. Cities may not be allowed to postpone household registration system reforms for reasons of “lacking only labor, not residents.”

(2) Rule of law

Traditional rural communities were relatively closed societies of people who knew each other well; they could be administered through traditional rules set by villagers. As the degree of openness of rural communities grows greater, and the proportion of interchanges in economic and social activities between strangers grows greater, it is becoming increasingly urgent to administer these areas per the law. There are two areas of work for promoting rule of law. The first is to make institutional arrangements whereby government officials must govern in accordance with the law, and common citizens must abide by the law in their operations. The second is to increase consciousness of respect for the law among officials and regular citizens. We must do both at the same time in order to resolve problems of local officials abusing their power, or some citizens, particularly entrepreneurs, who wantonly violate agreements.

(3) Democratization

Democratization is the basic characteristic of civil society. Village elections promoted since the outset of reforms have in essence been a replacement of the former top-to-bottom official appointment system with a bottom-to-top election system; this is an exploration in democratization. To better satisfy the desires of rural population to participate in community management and drive development of rural grassroots democracy, we should gradually expand the scope of village elections and gradually increase the degree to which elections replace appointments.

2. Tasks of rural development

(1) Improving rural communities' living environment

We should begin construction of rural communities, create a new rural living situation, allow rural population to live in communities of beautiful environments and complete facilities for life, and allow them to enjoy public services near to where they live; on the basis of rural living conditions, rural citizen demands for their living environment, and the standards of the *xiaokang* society; in accordance with the objectives of accessible services in communities, ecological living environment, and promotion of low-carbon lifestyle; abiding the principles of a single plan, one building strategy, and unified management; making use of the opportunity provided by rural housing construction and rebuilding of dangerous structures.

(2) Improving rural infrastructure

Rural infrastructure is composed of three categories: infrastructure for living and production, including drinking water, irrigation, electricity, roads, wastewater treatment, and garbage processing; development infrastructure including education and healthcare; and environmental infrastructure, including clean energy, green housing, and the environmental protection system. Infrastructure is a public good or

quasi-public good, making it not very suitable to marketized construction and maintenance methods. The government must bear the bulk of responsibility for improving rural infrastructure, and must establish policies and plans that meet policy objectives of equalizing access to basic public services. As the market economy has grown ever stronger and the government withdraws from competitive industries, it must also constantly increase investments into rural infrastructure. First, we should increase the amount of national debt used for investments into rural infrastructure construction. Infrastructure plays an important role in driving economic growth and social progress in rural areas, and as such should be made a focus area for national debt investments. Second, we should use policies to guide rural population to use the method of “one matter, one discussion” to construct and maintain community infrastructure, to ensure sustainability of the use of said infrastructure. Third, we should use fiscal subsidies to guide social capital into participating in the construction of agricultural and rural infrastructure.

(3) Advancing social development

We should improve the quality of rural compulsory education, increase the supply of non-standard education, and create conditions for increase in the quality of and their ability to grasp new technologies. We should improve the new rural cooperative healthcare system, expand the scope of its protections, increase the level of its protections, and ensure that rural population can afford to see the doctor, buy medicine, and have in-patient procedures. We should improve the system for giving aid to rural population with grave illness or injuries, increase aid standards, expand the scope of aid given, and ensure that vulnerable groups have no worries about life. We should build a rural senior care system that integrates in-home care, community care, and social care. We should effectively resolve the question of who will take care of rural population when they grow old.

3. Measures for rural development

(1) Reciprocity between people’s livelihood and civil rights policies

Civil rights are institutional protections for citizens to lawfully maintain their rights to dignity, freedom, and their own interests. When civil rights are lacking, the people cannot express their wishes, maintain their rights, or prevent others, particularly the government, from infringing upon them. When civil rights are lacking, the people have no assurances for the safety of themselves or their property, and there are no protections for human dignity or freedom. There can be no stable expectations for opportunities or choice, and there is no legal basis for participation in management or decision-making.

Over the past nearly 30 years, rural policies have been made along the mainline of increasing rural incomes. We must persist in this mainline, but at the same time we must improve the rural policy system while persisting in another mainline: rights of rural population. We must strengthen reciprocity between policies for people’s livelihoods and civil rights, and bring about equilibrium between such policies. We must establish laws, regulations, procedures, and mechanisms to

strengthen and protect civil rights, and ensure that official authorities at all levels of government are employed for the people, out of consideration of the people, and in the interests of the people.

(2) Reciprocity between subsidy and compensation policies

The objectives of government fiscal transfer payments to rural population change as the level of economic development increases. The initial objective was to protect yields of agricultural products, particularly grain. Thereafter the objectives expanded to include protection of agricultural product quality and agricultural sustainability, and finally landed on environmental compensations. During that time, fiscal transfer payments have transitioned from subsidies to compensations. Subsidy policies embodied the government's relationship of support for rural population, while compensation policies embody the government's relationship of fair transactions with rural population. Current methods include doing both at the same time and making both reciprocal with one another. From now on, we need to gradually expand the replacement of subsidies by compensations, gradually increase compensation standards, and grow the scope of compensations, per the central government's ability to make transfer payments. This will be a gradual, orderly process.

(3) Reciprocity between reform pilots and reform experiments

China's reform method is to feel the stones while crossing the river, meaning first launching pilots, then summarizing universally applicable experience, and then promulgating nationwide. This method reduces social impacts of errors in reforms to the greatest extent possible, but there are problems of sluggishness in releasing policies. Analyzing and assessing reform plans using the theories and methods of experimental economics can be useful to resolving the problems of relative sluggishness in releasing policies.

The reasons that reform methods have expanded from pilots into experiments are as follows. To determine whether a reform strategy will be approved of or can be expanded, one can employ a method of performing pilots in real situations or performing simulations in a laboratory. The former produces valuable conclusions or information based on the actual results of the pilot, while the latter produces probabilities and distributions of responses of interested parties to certain reforms, also yielding valuable conclusions or information. The holding of hearings to collect opinions of interested parties toward proposed reforms is an elementary method of experimentation.

3 Overall Design of China's Rural Development Policies

1. Policies for developing rural population capabilities

Labor is the most changeable form of productivity. We should fully invigorate the potential to create income and ability to innovate of rural population first by

developing their capabilities; this is the key area for driving rural development, growing wealth of rural people, and simultaneously building *xiaokang* society in urban and rural areas. Governments at all levels must participate in the development of rural people's capabilities and use investments in human capital to grow and enrich rural areas.

(1) Strengthening construction of rural population capabilities

The government needs to create conditions for construction of rural population capabilities and establish growth of rural incomes on a foundation of increases personal capabilities and strengthening of employment competitiveness. First, we need to develop higher education in agriculture and forestry, vocational and technical education, and adult education, to improve conditions for rural population to study, grasp new knowledge, and obtain new technologies and new experiences. Second, we need to fill out the contents of training programs, innovate in training methods, improve training mechanisms, and increase the ability of rural population to use technology, innovate, and found new businesses in rural production and operations. Third, we need to guide urban teachers, doctors, technicians, and cultural workers to head to the countryside, to help bring and encourage graduates from vocational schools to work in the countryside. Fourth, we need to give appropriate subsidies to rural population participating in training programs.

(2) Giving rights to rural population

We need to continue deepening reforms to the system and give rise to a macro policy environment with equal treatment for all. First, we need to give rural population the rights to freely choose their occupations and move about the country. We need to deepen reforms to the household registration system, eliminate all institutional barriers preventing rural population from entering cities, and protect the lawful rights of rural population to work and live in cities. Second, we need to give rural population the right to freely join or withdraw from rural collective economic organizations. Rural household cooperation a method for increasing scale efficiency and decreasing transaction costs. However, it is possible that the benefits of such efficiencies are shared commonly or are monopolized by small numbers of leaders. To ensure that the benefits of such arrangements are shared commonly and not monopolized, we must give rural population to the right to freely join or leave collective economic organizations, and make this a fundamental principle of rural economic collective organizations that must be abided. Third, we need to give rural population the same right as urban population to operate collectively owned construction use land. The basis of cooperation in rural collective economic organizations is the issuing of shares for collectively held land. We should give rural population sustained income from their shares along with stable employment opportunities, while also decreasing the land costs of urbanization and difficulty facing both industrialization and urbanization.

2. Policies for strengthening agricultural competitiveness

China, with the world's largest population at 1.3 billion, must complete the important task of building an agriculture that is competitive and able to directly allow specialized farmers to grow wealthy.

(1) Increasing comprehensive agricultural production capacity

We must defend the red line of arable land and drive protective cultivation; strengthen construction of irrigation works, shelter belt forests, and other infrastructure; increase the ability of agriculture to withstand climate change; improve the comprehensive agricultural development system, which encompasses the improved varieties in planting and husbandry system, the system for innovation and application of new agricultural technologies; the system for protection of animals and plants; the agricultural product quality and safety system, the agricultural product market information system, the agricultural resources and environmental protection system, and the agricultural services system; and increase the total factor productivity, comprehensive production capacity, and level of sustainable development of agriculture.

(2) Strengthening the agricultural technology dissemination system

We need to change the current method of dividing the agricultural research system into administrative districts. At the top, we need to build national bases, regional agricultural research centers, vocational schools, a technological innovation system that integrates all agricultural related enterprises, and an agricultural information network at the four levels of the nation, province, prefecture, and county. At the bottom, we need to build a network for technological dissemination held together by technicians, focusing on model households, and able to unite all rural households. We need to develop a system of pre-production, in-production, and post-production services, and enable small rural households to adapt to the agricultural demands of scale operations, standardization, and modernization.

(3) Improving agriculture-supporting policies

Agriculture's low status is a characteristic of the transition from the dual economy. After traditional agriculture is replaced, this situation will gradually disappear. China has yet to complete the transition away from the dual economic structure; officials still objectively need to implement agricultural supporting policies, including policies to provide incentives for rural production and to protect agricultural production capacity. The former is a fast variable; it will have a one-off effect. The latter is a slow variable; its effect will be sustained. The former should become the focus of agricultural supporting policies. In agricultural support, we need to not only protect rural income and national food security, but must also guarantee sustainable development in agriculture and the ability to use agricultural resources and the rural environment for a long time to come.

In agricultural production, we need to create diversified investment mechanisms, with rural households as primary entities, as well as an agricultural subsidy system

of clear objectives, direct beneficiaries, and simple operations, and mechanisms to distribute the risks of major disasters to agriculture.

In protecting of agricultural development, we need to strengthen the accountability system for arable land protection and accelerate the construction of high-standard farm fields, the return to cultivation of barren land, and land reorganization. We need to give capital support to rural population willing to develop farm fields and build rural infrastructure. We need to drive participatory management; develop a new agricultural-use industry; increase the level of modernized agricultural equipment; develop modern circulation; give rise to a diversified, multi-level market circulation system; and build an integrated market system of orderly competition.

(4) Building mechanisms for linkage with global agriculture

In theory, flows of resources at the global scale can both optimize resource allocations and give rise to “win-win” situations. In reality, global economic integration brings more benefits to consumers and more opportunities to producers. First, the proportion of consumers to producers of agricultural products will gradually grow as the economy develops. It would clearly be one-sided to sacrifice the interests of producers to benefit consumers. Second, agriculture is both land-intensive and water-intensive, meaning that imports of agricultural products are in essence imports of the right to use land and water resources in foreign countries; this is beneficial to the sustainable use of China's agricultural resources. Third, as supply of agricultural products increases, options for balancing supply and demand multiply, and the costs for government adjustments to supply and demand decrease. Finally, linkage with global agriculture will drive development of competitive and comparative advantages of China's farmers, as they come to understand signals on international markets; this will give rise to an internationally competitive agricultural production and operation system.

3. Policies to promote rural development

(1) Developing county economies

Since reform and opening up, most contributions made by rural population have gone to cities, expanding the disparity in development between rural and urban development. To turn this trend around, we should make development of county-level economies the primary measure for coordinated urban–rural development. Specifically, we should replace the system of prefectural management of counties with direct provincial control of counties, giving counties more autonomy in development and policymaking, and invigorating county economies. We should focus on county seats for construction of urban areas, develop competitive characteristic industries, and broaden channels for employment of rural labor and transfers of rural population. We should develop county economies through enterprise agglomeration and allow said enterprises to enjoy the benefits of external scale economies thus created.

(2) Promoting rural harmony

Rural harmony encompasses harmonious interpersonal relationships, harmonious village relationships, and a harmonious relationship between people and nature. The promotion of rural harmony calls for primarily the following: building harmonious concepts, exalting the spirit of harmony, making harmony fashionable, developing a harmonious environment, enjoying harmonious life, and turning conflict into harmony. First is studying. Make taking the initiative, self-discipline, self-awareness, and doing good deeds methods of rural citizen life by developing their interest in studying. Second is inclusiveness. With an open-minded attitude, merge emphasis on the traditional cultural values of unity and harmony and being good to people with emphasis on national laws, market principles, and modern culture into an organic whole. Third is contribution. On the strength of a correct outlook on life, proper values, and proper behavior and character, give rise to common concepts of “all for one, one for all” and build an environment where everybody is willing to make contributions for community benefit and volunteer to provide services to other people.

Cultivate interpersonal relationships of mutual respect, mutual love, mutual trust, mutual aid, mutual accommodations, mutual alarm, mutual encouragement, and mutual solace. Make the wishes and demands of harmoniously living together, giving mutual help and protection, and mutual encouragements into a reality. Organically integrate construction of cultural facilities, development of image-oriented cultural activities, cultivating civilized social trends, and fostering harmonious concepts beneficial to the temperaments of rural population. Organically unify the digging up of the modern value of traditional culture and the guiding of rural population to participate in cultural public benefit activities; build a new situation of harmonious rural construction.

(3) Shoring up governance mechanisms

First, we should protect the rights of rural population to manage and make decisions about community public goods. We should establish positive induction-oriented institutional arrangements such as “one matter, one discussion” in place of coercive institutional arrangements such as “compulsory labor service” and “accumulation of labor,” replace top-to-bottom with bottom-to-top, and replace “rural population should do” with “we want rural population to do.” Second, we should develop all manner of rural citizen organizations, and fully let them play a role in increasing rural incomes, increasing public services, maintaining social stability, mitigating community conflicts, and other areas. We should achieve the goal of matching a strong society with a strong government through the development of village autonomous organizations, economic cooperation organizations, and social benefit organizations. Third, we should deepen reforms to the management system of township and county organs and county fiscal administration; improve the divided tax system below the provincial level; improve methods of fiscal transfer payments; ensure normal operations in rural grassroots organs; and ensure stable development of rural social enterprises. At the systemic level, we need to reduce administrative

levels, downsize government organ workforces, and lay a foundation for increases to administrative efficiency. Fourth, we should standardize the behavior of governments and officials. The primary duties of the government are to protect citizens' lawful property rights, maintain fair competition, and provide public goods. To standardize the behavior of governments and officials, we must establish advanced models, but even more we must strictly abide compulsory regulations restricting government actions.

(4) Improving comprehensive planning for rural renewal and revitalization

Renewal and revitalization of rural areas is an important part of building a comprehensive *xiaokang* society in rural China. We must adopt a holistic approach to formulating renewal and revitalization plans, carrying out renewal and revitalization work and undertaking construction. The approach calls for coordinating renewal and revitalization at the village, township, and scenery area levels so that nature, society and people can all benefit. The shared objective is to make sure members of the rural population can live a materially comfortable, emotionally fulfilling and spiritually enriching life in the countryside.

The focus of rural renewal and revitalization must be improving the overall appearance of rural areas and strategic and tactical transformation. Specifically, instead of tackling one small area at a time, coordinated planning is called for that would cover larger areas and include both the built and natural environments. Rural renewal and revitalization is more likely to succeed when it involves participation of all stakeholders, including members of the rural population, the market and the government. Not just rules that regulate but also a comment and assessment system should be put in place to encourage rural residents to get involved. Moreover, to facilitate intensive and efficient land use for rural construction, mechanisms should be put in place to effect functional swaps between plots of land in different areas, and compensate those who either refrain from using or make use of lands as needed.

4. Policies to improve governance

The government needs to establish an impartial, transparent agricultural administrative management system of strong services and standardized behaviors. To do so, we must complete the transition from "managing rural population" to "serving rural population" as quickly as possible.

(1) Compliance with the law

Rural stability is the foundation for long, peaceful rule of the nation. The government must protect the rights of rural population to autonomy in production and operations and property ownership, protect their democratic rights, and prevent any governmental infringement upon rural population's rights. In any administrative or economic means the government employs, it must rigorously abide the established principle of "administering per the law," and all actions must have legal bases and legal authorities.

(2) Optimizing organizational structure of the government

The government needs to optimize allocations of disposable public resources and improve both the quantity and quality of public services. Officials need to replace the mentality of making decisions for the people with the mentality of serving the people; replace the mentality of bragging about government achievements with the mentality of fulfilling duties; replace the mentality of being leaders of the people with the mentality of being stewards of the people; and replace the mentality of unrestricted control of public resources with the mentality of oversight over the control of public resources.

As the government's powers and obligations are more asymmetrical than those of companies and NGOs, the government hand over to companies and NGOs all functions that companies and NGOs can perform, and concentrate its efforts in things that companies and NGOs cannot do, while at the same time assessing and screening companies and NGOs performing public functions.

(3) Improving the monitoring and evaluation system

In recent years, marked progress has been made in the rural monitoring and evaluation system. Now we need to build up that system from the foundations that have already been laid. First, we need to improve methods of rural monitoring and evaluation. We need to replace top-to-bottom monitoring and evaluation into a combination of top-to-bottom and bottom-to-top and mutual verification. Second, we need to improve the rural monitoring and evaluation system. We need to shift emphasis from monitoring and evaluation of economic changes to a system that monitors and evaluates the economy, society, and the environment. The system for monitoring rural incomes needs to be expanded to encompass all rural development. The environmental monitoring system needs to be expanded from sole focus on plant ground coverage to a system that monitors plant ground coverage, groundwater levels, and ecological service values. Third, we need to implement a public matter announcement system. We need to increase the transparency of public matters and uphold the rights of rural population to oversee. Fourth, we need to build rural emergency response mechanisms. The rural monitoring and evaluation system is the source of the government's information for drafting rural advancement policies. As such, once the monitoring and evaluation system is established, the prerequisite for the emergence of a rural emergency response mechanism will have been fulfilled and its realization but a matter of time.

Postscript

In 2013, *China's Rural Development Road* was published in China as part of the series “Socialist Economic Development Road with Chinese Characteristics” by Economic Management Press. The book’s authors comprehensively, systematically summarized the development experience in the important fields of rural economic and political society since the founding of People’s Republic of China, focusing on complete research and commentary on the development road taken in rural China following reform and opening up. The book is of relatively great value in theory, policy, and application. The Social Sciences Academic Press has now published *China's Rural Development Road* internationally as part of the series “Research of the Chinese Dream and China’s Development Road.” The authors of each chapter, through collaborative efforts, have revised the content of their chapters, updated data, and condensed the original version of over 600,000 Chinese characters, into the final English version of about 150,000 words for foreign readers, while maintaining the basic structure and style of the original edition.

Zhang Xiaoshan and Li Zhou worked together on readying the manuscript for the English edition. A number of researchers contributed toward the writing of the 16 chapters that make up the book. Chapter One (“Rural Development in China: Review and Reflections”) was written by Zhang Xiaoshan; Chapter Two (“Development of the National Management and Basic Operations for Agriculture”) by Guo Lulai; Chapter Three (“Development of the Circulation System for Agricultural Products and Factors of Production”) by Li Guoxiang; Chapter Four (“The Development of Township and Village Enterprises and Transformation of the Ownership System”) by Tan Qiucheng; Chapter Five (“Rural Cooperative Economic Organizations: Development and Innovations”) by Yuan Peng; Chapter Six (“Development of the Rural Labor Market”) by Zhang Xinghua; Chapter Seven (“Development of the Rural Land System”) by Wang Xiaoying; Chapter Eight (“Reforms and Development of the Rural Financial System”) by Li Jing; Chapter Nine (“Development of Rural Fiscal Administration and Taxation”) by Zhu Gang; Chapter Ten (“Development of China’s Agricultural Technology System”) by Cao Jianhua and Li Chenggui; Chapter Eleven (“Construction and Development of Rural

Towns and Villages”) by Zhang Jun; Chapter Twelve (“Rural Governance in China: Review Outlooks”) by Dang Guoying; Chapter Thirteen (“Development of the Rural Social Security System”) by Cui Hongzhi; Chapter Fourteen (“Poverty Alleviation in Rural China”) by Wu Guobao; Chapter Fifteen (“Natural Resource Management and Development of Environmental Protection in Rural China”) by Sun Ruomei and finally, Chapter Sixteen (“Outlook for Rural Development in China”) by Li Zhou. We have also decided not to include “Major Events in China’s Rural Development (1978–2012)”, which originally appeared in the appendix in the Chinese language edition of the book. For this we offer our apologies.

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