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Market Economy Series



The Reform and Development of China's Rural Economy

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Foreword

Along with the development of the socialist market economy and the new problems it poses, how to improve agriculture so that it keeps up with China's economic advance has become a salient issue. Agriculture is now the weakest part of the national economy. If this trend continues, then not only will a solid foundation be lacking to ensure rapid overall economic development, but there also will be sharp social conflicts that will seriously influence national economic development and social stability. At present, the most outstanding contradictions in the rural areas are as follows: the contradiction between the demand for and supply of agricultural products results in continual price rises and inflationary pressure; the slow income increase of the farmers will delay the scheduled realization of the goal of farmers attaining a moderately high standard of living; and the failure to improve farmers' purchasing power and expand the rural consumption market will restrict the development of industry and the economy as a whole. From the long-term point of view, agriculture in China is also bedevilled by difficulties such as population increase and constant demands for a higher standard of living and the quickening of the process of industrialization in the countryside. What is more, agriculture is severely hampered by factors such as the chronic shrinking of arable land and weak infrastructure. Thus, from an overall and strategic point of view, the deepening of the rural reform is an imperative task if China is to succeed in developing agriculture, improving the rural areas and giving farmers a well-off standard of living.

In March 1995 the International Seminar on China's Rural Economic Reform was held jointly by the China (Hainan) Institute for Reform and Development, the Chinese Society of Economic Restructuring and the United Nations Development Pro-

gram. Over a hundred experts from home and abroad gathered in Haikou, capital of Hainan Province, and held wide-ranging and profound discussions on many important issues arising from the course of China's rural economic reform. These included the reform of price policy and the purchase and sale system of agricultural and sideline products, village organization and property rights structure, the outflow of surplus rural labor, the transformation of government functions and overall rural development.

This book is based on research done by the China (Hainan) Institute of Reform and Development, and papers and materials related to the seminar, as well as views announced by experts in the field of agriculture. Valuable research and deliberations on China's rural reform made by many experts and the experience of rural development in other countries are both included in the book.

Gao Shangquan and Chi Fulin served as chief editors of this book. The latter was also responsible for finalizing the manuscripts. The chief compiler was Zhu Huayou.

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The authors
June 1995

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Chapter I

Perfecting Macroeconomic Policies and Deepening Rural Economic Reform

I. China's Rural Economic Reform Is a Breakthrough for the National Reform

(I) Carrying Out China's Rural Economic Reform by Stages

From the end of 1978, when the Third Plenary Session of the 11th National Congress of the Communist Party of China (CPC) was held, to 1994 China's agricultural reform went through the following three major stages: The first stage was from 1978 to 1984, when China set up and gradually implemented the contract responsibility system based on the household and with remuneration linked to output in the rural areas. The second stage was from 1985 to 1991, when China reformed the system of state monopoly purchase and quotas, and gradually lifted controls from the market and prices of agricultural products. The third stage was from 1992 to 1994, when the country started the transition to the rural market economy in an all-round way.

1. Setting up and extensively carrying out the contract responsibility system based on the household and with remuneration linked to output.

The agricultural reform started with the Third Plenary Session of the CPC's 11th National Congress, held in December 1978. The session paid particular attention to agricultural problems: "The session holds that the whole Party must concentrate its main energies on the development of agriculture, because agriculture as the foundation of the national economy has suf-

ferred serious damage in recent years and as a whole is very weak now.... For this purpose, we must first mobilize the socialist enthusiasm of China's hundreds of millions of peasants, must be fully concerned with their material interests economically and truly guarantee their democratic rights politically." In accordance with these ideological guidelines the plenary session put forward a series of political and economic measures for developing agricultural production. The adoption of these measures was aimed at lightening the burden on peasants, mobilizing their initiative and freeing them from anxiety.

China's rural economic reform started with the contract responsibility system based on the household and with remuneration linked to output, commonly known as the fixing of output quotas based on the household or the contract responsibility system based on the household.

At the start of the rural economic reform in the 1980s China's rural contract responsibility system based on the household confronted serious political, theoretical and ideological obstacles. At that time, there was no single Party or government document supporting the fixing of output quotas based on the household. On the contrary, some documents clearly expressed negative attitudes toward the measure. However, it needs to be specially stressed that, along with the nationwide discussion in 1979 of the question of practice being the only criterion to judge the truth, people began to bravely break the ideological shackles which had hampered their thinking for quite a long time. It was in this situation, characterized by the relaxing of political ideology, that the broad masses of peasants and cadres in the rural areas started to sum up their historical experiences and explore the road of rural reform, by fixing output quotas based on the household in particular, in accordance with local conditions.

Setting up and extensively carrying out the contract responsibility system based on the household and with remuneration linked to output, and the reform of—and eventual abolition of—the people's commune were two major features of the first stage of China's agricultural reform. These two reforms advanced virtually side by side.

In October 1976, when the “gang of four” was being smashed, China’s economy, including the rural economy, was on the verge of collapse. The annual income per capita of one third of the country’s agricultural production brigades was less than 40 RMB yuan (about 25 US dollars according the exchange rate at that time), and the grain ration per capita was less than 150 kg (nearly 200 kg in south China, where paddy rice is mainly grown). More than 200 million peasants did not have enough to eat and wear, relying on government-supplied relief grains. In this situation the main leaders of the CPC Central Committee continued to carry out the “left” line, and so the peasants’ urgent requirements for changing the situation in which they had no incentive for production, private plots and rural markets were abolished and sideline production was forbidden went unheeded.

In 1978 Anhui Province suffered from the most serious drought in 100 years: Many reservoirs dried up; the province ran short of drinking water for both people and animals; the output of summer grains was reduced; autumn planting met with difficulties; the cultivated land was parched and cracked; and wheat and rape could not grow at all. After close investigation and study the leaders of the CPC’s Anhui Provincial Committee, who had held full discussions with both cadres and the masses, called for all peasants in the province to try every means to grow half a *mu* (one *mu*=1/15 ha) of “life-saving wheat.” They allowed individuals to develop farmland which it was impracticable for the collectives to till. In addition, commune members were encouraged to open up wasteland to grow wheat, on which the government would not impose any levy or compulsory purchase. It meant the adoption of an unusual method—“tiding over the drought by borrowing land.”

Although the fixing of output quotas based on the household was carried out in some regions, serious differences of opinion on this question existed within the central government and among local cadres at various levels. The essence of the dispute was whether the fixing of output quotas based on the household meant adhering to the socialist road or to the capitalist road. The new system nearly foundered in some places because of such

ideological disputes. But in the end the remarkable results achieved through fixing output quotas based on the household gradually convinced everyone of its practicality, thus forming a more favorable social environment of public opinion for its universal adoption.

From September 14 to 22, 1980, the CPC Central Committee held a special symposium attended by the first secretaries of the CPC Party committees of all provinces, autonomous regions and centrally administered municipalities to discuss how to perfect the agricultural production responsibility system. A summary of the symposium was promulgated, expounding for the first time in the form of a formal document of the Central Committee the nature of the fixing of the output quotas based on the household, and clearly pointed out: "On the condition of socialist industry, socialist commerce and collective agriculture occupying absolute predominance, and under the leadership of production brigades, the practice of the fixing of output quotas based on the household is part and parcel of the socialist economy and does not mean straying from the socialist track. So people don't need to worry about the danger of the restoration of capitalism." This document was warmly received by the peasants, thus quickening the development of the fixing of output quotas based on the household.

The preliminary achievements some regions made through the practice of this new system prompted many other places to adopt the method. In spite of serious natural disasters in 1980 the agricultural production of Anhui, Gansu, Guizhou and Shandong provinces and the Inner Mongolia Autonomous Region, which had all adopted the fixing of output quotas based on the household, increased by a large margin, a fact which greatly encouraged the cadres and masses of other provinces to make up their minds to follow suit. From then on, the fixing of output quotas based on the household was not only carried out in remote mountain areas, but plains and coastal regions, and in both poor and rich production brigades. The result was that all these places without exception increased their agricultural production.

The CPC 12th National Congress held in September 1982 reaffirmed the fixing of the output quotas based on the house-

hold. Hu Yaobang pointed out in his report, *Initiating a New Situation of Socialist Modernization in an All-Round Way*: "In recent years, various forms of production responsibility systems have further emancipated the productive forces and must be pursued for quite a long time to come. We can only gradually perfect them on the basis of practical experience and must not make changes rashly against the will of the people. Nor must we take the road back." In November 1982 the CPC Central Committee held the Rural Ideological and Political Work Meeting and the Meeting of Agricultural Secretaries, at which the document titled *Certain Questions on Current Rural Economic Policies* was formulated. It was printed and distributed on January 2, 1983. This document fully affirmed and spoke highly of the fixing of output quotas based on the household, and pointed out: "Since the Third Plenary Session of the CPC's 11th National Congress, tremendous changes have taken place in China's rural areas. The change with the most profound influence is the universal practice of various forms of agricultural production systems, in which the contract responsibility system based on the household and with remuneration linked to output is playing the leading role. This system follows the principle of linking unified and disparate operations, thus bringing into full play the collectives' advantages and individual enthusiasm. Following the promulgation of the document, 1983 became a year when China's rural reform developed in depth, and the fixing of output quotas based on the household rapidly became a main economic form in the countryside. By the end of 1983 some 179 million rural households had adopted the fixing of output quotas based on the household, making up 94.5 percent of the country's total.

During the course of the rural reform the leading bodies of the people's communes and production brigades in some regions had fallen into a state of paralysis or semi-paralysis, and much work had no one in charge of it. So they were not able to undertake the heavy economic and political tasks. The resolution of the CPC Central Committee—*Certain Questions on Current Rural Economic Policies*—issued on January 2, 1983 put forward for the first time the reform of the system of the people's

communes and pointed out that the reform would be carried out from two aspects, i.e., the practice of the production responsibility system, especially the contract responsibility system based on the household and with remuneration linked to output, and the implementation of the separation of government administration from commune management.

As a matter of fact, the practice of the contract responsibility system based on the household and with remuneration linked to output has done away with the highly centralized management system of the communes and the attitude of "all eating from the same big pot," which stifled initiative in the past. As to the separation of government administration from commune management, the CPC Central Committee adopted extremely careful and steady reform principles, pointing out that "the system of integrating government administration with commune management should be replaced by the separation of government administration from commune management step by step. The replacement will not be carried out unless the people's communes are ready for the change. Before the separation of government administration from commune management, communes and brigades should perform their administrative functions to ensure the normal operation of political work. After the separation of government administration from commune management, organizations of political power at the basic levels should be set up in accordance with the Constitution." Under the unified leadership of the CPC Central Committee, Sichuan, Anhui, Jilin, Henan and Gansu, which took the lead in practicing the fixing of output quotas based on the household, made experiments in separating government administration from commune management so as to accumulate experience.

On October 12, 1983 the CPC Central Committee and the State Council formally promulgated the Circular on Separating Government Administration from Commune Management and Setting Up Township Governments. The circular pointed out: "Along with the reform of the rural economic system, the existing rural system which involves integrating government administration with commune management is not appropriate. The Consti-

tution clearly specifies that township governments should be set up in the countryside and government administration must be separated from commune management. Separating government administration from commune management and setting up township governments should be connected with the election of deputies to township people's congresses and should, in general, be finished before the end of 1984."

The change in the people's commune system went on smoothly. By the spring of 1985 the work in China's rural areas on separating government administration from commune management and setting up township governments had been completed. Before the founding of townships China had over 56,000 communes; after the separation of government administration from commune management, 91,138 township (town) people's governments were set up, under which were over 940,000 village committees. The completion of separating government administration from commune management and setting up township governments marked the formal end of the people's commune system in the rural areas throughout the country.

2. The initiation of the reform of the circulation system of agricultural products marked the expansion of the agricultural reform from the micro to the macro dimension.

The extensive practice of the contract responsibility system based on the household and with remuneration linked to output in China's rural areas emancipated China's peasants in two aspects: 1. property rights; and 2. status. Though these aspects were incomplete at first, the preliminary conditions started to emerge for the overall development of the rural commodity economy in China.

During the course of the rural reform the peasants have gradually won more freedom to engage in economic activities, while obtaining more property rights. It is the basic guiding principle of the rural reform to show full concern for the peasants' material interests economically and guarantee their democratic rights. Since 1978 the CPC Central Committee and the State Council have worked out and issued a series of important policies and some documents which have helped to eliminate

some of the fetters of the old system, such as by changing the principle of taking food grains as the key link, allowing peasants to engage in household sideline occupations and develop a diversified economy, allowing various commercial organizations and individuals in the countryside to engage in transportation and sales activities, and allowing peasants to engage in various trades under the premise of supplying a sufficient quantity of food grains by themselves. All these are directional changes in the long-standing policies on restricting peasants' freedom of operation and personal freedom. Between 1979 and 1985, 45.772 million rural laborers transferred to non-agricultural fields. In addition, several hundred thousand to one million rural people moved to cities to engage in commercial and service activities. The number of peasants who leave their homes to serve as temporary workers totals six million every year, and each year cities and towns employ about one million peasants on average. In short, by 1985, thanks to the stimulation of the rural reform, nearly one fifth of rural laborers had changed their jobs, homes or actual social status. Thus essential changes had taken place in the peasants' modes of life, production and social contacts. This shows that the peasants, who make up 80 percent of the total population in China enjoy the freedom of changing their occupations and social status in step with economic development.

In the course of the fixing of output quotas based on the household, the CPC Central Committee and State Council began to lift the long-standing strict ban on allowing peasants to enter the circulation field. In 1984 the central government showed great concern for the development of rural commodity economy. On January 1, 1984 the CPC Central Committee promulgated the Circular on Rural Work, which pointed out once again: "Only as long as we continue to develop commodity production can we further promote the social division of labor, push the productive forces to a new level, make the rural areas rich and prosperous, enable our cadres to learn how to make use of the relations between commodities and money and the law of value to serve the planned economy and speed up China's socialist agricultural modernization."

In accordance with the aforementioned decision of the central government, the State Commission for Restructuring the Economy, the Ministry of Commerce and the Ministry of Agriculture, Animal Husbandry and Fisheries decided to adopt the following reform measures in the field of circulation of agricultural products: First, as for developing multichannel circulation, they pointed out that "China should develop a diversified economy, including state-owned, collectively-owned and individual economies, adopt various economic forms and implement multichannel circulation. Farmers should be encouraged to enter the circulation field, and should be allowed to engage in the exchange of commodities. We should not restrict farmers' business activities and allow them to become an important supplementary force to the state-owned commerce and supply and marketing cooperatives, depending on actual conditions."

Second, with regard to the readjustment of the policies on purchasing and marketing agricultural and sideline products, they decided to go on reducing the varieties for planned purchase and purchase by state quotas. The three varieties for planned purchase are grain (rice, wheat and corn), oil-bearing crops (peanuts, vegetable seeds and cotton seeds), and cotton (cotton within the grades and cotton linters). Eighteen varieties for purchase by state quotas will be reduced to nine varieties, i.e., pigs, jute and bluish dogbane, ramie, tea, cattle hides (only the hides of cattle slaughtered by the state), sheep's wool, bamboo, *gaozhu* (a kind of bamboo) and vegetables (only those destined for large and medium-sized cities and the main industrial and mining areas). The government will lift control from the purchase and marketing of goat and sheep skins, cashmere, beef, mutton, fresh eggs, apples, oranges and tangerines, and tung oil. Flexible policies on the management of Chinese herbal medicines and forestry products will be adopted. Chinese herbal medicines purchased in accordance with state quotas will be reduced from 30 varieties to 24. Control of small amounts of timber and timber products, as well as bamboo among forestry products will be completely relaxed, and various channels will be made available for their handling. Meanwhile, some timber markets will be