

Government measures to increase farmers' income and develop the rural economy in China

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Abstract

China is a large country with a huge population. How to feed and clothe some 22% of the world's population by cultivating 7% of global arable land has always been a major challenge for the Chinese Government. For this reason, China began to reform its agricultural sector in the late 1970s and early 1980s. After years of reform, primary food production has moved from insufficiency to self-sufficiency, with surpluses in bumper harvest years. This major change in demand and supply of farm products, which shows the remarkable achievement made since reforms and opening-up were implemented, is also an important landmark indicating that agriculture in China has moved into a new era.

Along with this, another important achievement made in the past decades is the strong growth of rural per capita income, increasing from 133 yuan per year in 1978 to 2366 yuan in 2001. The rate of income growth, however, has not been the same across time and between regions, and is now tending to decline.

The increase of farmers' income is the fundamental starting point of agricultural and rural economic work, which relates not only to rural development and stability but also to the development of the national economy as a whole. The Chinese Government therefore attaches much importance to raising farmers' income and has made great efforts in this area. These efforts include accelerating the restructuring of the agricultural and rural economies, extending the reform of rural taxes and administrative charges, increasing sources of income for farmers, and adopting effective measures to support agriculture and conform to World Trade Organization rules.

Changes to the Chinese rural economy following reform

CHINA is a large country with a huge population. How to feed and clothe 22% of the world's population from 7% of the world's arable land has always been a major challenge for the Chinese Government. For this reason, China began to reform its agricultural sector in the late 1970s and early 1980s and much progress has been made since then.

Fundamental change to the agricultural economic system

China started agricultural reform and adopted the household contract system in 1978. With the reform,

fundamental changes have occurred in five aspects of the agricultural economic system:

- Reform of the people's commune system, which was characterized by centralized labor and unified distribution. As a result, farmers are now free to make their own decisions in production and marketing, and have become relatively independent operators in these areas.
- Abandonment of the idea that grain production is the sole farming activity. As a result, diversified production and marketing activities and township enterprises have been developed. The emergence of township enterprises, in particular, has invigorated the overall rural economy.
- Reform of the unified purchase and marketing system for agricultural products. As a result, the market has played a much greater role in regulating the supply and demand of agricultural products and in the development of agricultural resources.

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- Breakdown of the structure of collective economic ownership. As a result, a pattern of public ownership as the main element, and common development of multiple economic components, has come into being.
- Introduction of indicative planning to replace mandatory planning in agricultural production. This has changed the way and means in which the government regulates agriculture.

Rapid growth of major agricultural products

Since 1978, the overall productivity of Chinese agricultural has improved dramatically, and the output of grain and livestock products has made great gains. Since the mid 1990s, production has moved from a position of insufficiency to self-sufficiency, with surpluses in bumper years. This major change in the pattern of demand and supply for farm products is also an important landmark indicating that agriculture in China has entered a new phase. In 2001, China's grain output reached 453 million tonnes, making it the biggest grain producer in the world. Meat output increased from 8.56 million tonnes in 1978 to 63.4 million tonnes in 2001 (Figure 1). At present, China's outputs of cereals, cotton, fruits, meat, eggs and aquatic products rank first in the world.

Improvement of agricultural structure

Before 1978, crop farming remained predominant in total agricultural production, accounting for 80% of the total value of agricultural output. In crop farming, grain production was given the highest priority. However, agricultural production has been greatly diversified since the reform. Looking at the total value of agricultural output, the share of crop farming has fallen markedly, from 80% in 1978 to 55% in 2001, while the shares of other sectors have been rapidly increasing. In the crop farming sector, the proportion of cultivated area and output value of grain production has shown a downward trend while that of cash crops has seen a significant increase (see Figure 2).

Current status in increasing farmers' income in China

Trends in farmers' net incomes

Following the introduction of rural reform in 1978, one of the most important achievements made by the Chinese Government has been to stimulate strong growth in farmers' per capita net incomes. The average net annual income of farmers has increased 16-fold, from RMB134 yuan in 1978 to 2366 yuan in 2001 (Figure 3).

The rate of increase, however, has not been constant. Looking at different periods, the rate of growth in farm incomes is tending to decline (Figure 4). The annual rate of increase in farmers' income averaged 17.7% between 1978 and 1984, 4.9% between 1985 and 1988, 1.9% between 1989 and 1991, and 4.6% between 1992 and 2000. What is worth noting is that, in the four years 1997 to 2000, the annual rate of increase in farmers' income fell by 4.4, 0.3, 0.5 and 1.7%, respectively, as compared with the previous year. The growth rate declined from 9% in 1996 to 2.1% in 2000. In view of this situation, measures were taken by all levels of government to increase farmers' income. Subsequently, the average net income of farmers reached RMB2366 yuan in 2001, an increase of 113 yuan or 4.2% compared with the previous year, arresting the decline that had occurred in the previous four years.

Issues relating to farmers' income

Though the growth in farmers' per capita net incomes recovered by 4.2% in 2001, some of the factors behind the recovery need to be considered.

The widening gap between urban and rural incomes

In 1978, the ratio between urban and rural per capita incomes was 2.57 to 1. By 1983, the ratio had fallen to 1.70 to 1. In 2000, however, it rose again, to 2.79 to 1 (Figure 5).

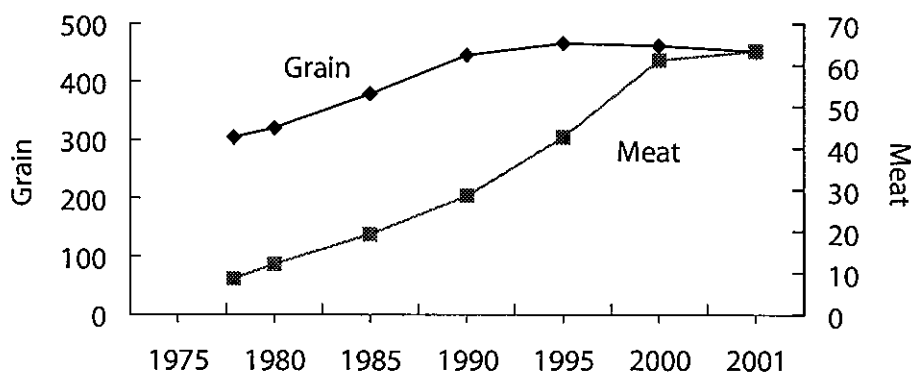


Figure 1. Grain and livestock (meat) production in China (million tonnes), 1978–2001. Source: China Statistical Yearbooks

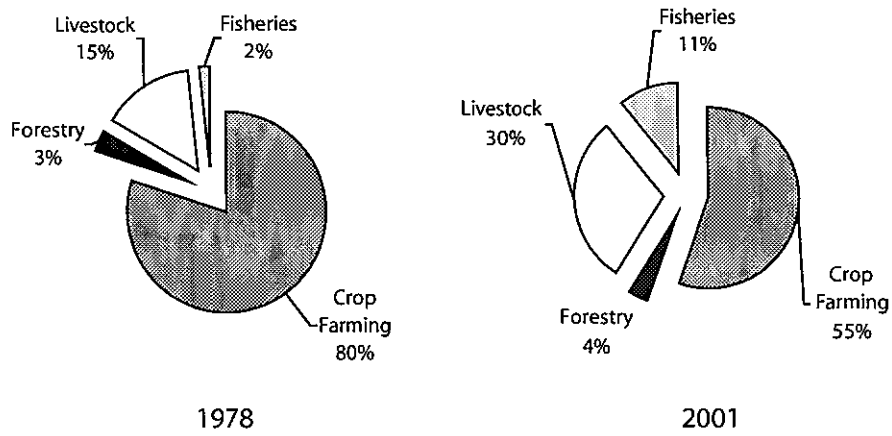


Figure 2. Changes in agricultural output in China between 1978 and 2001. Source: China Statistical Yearbook (Summary), 2002

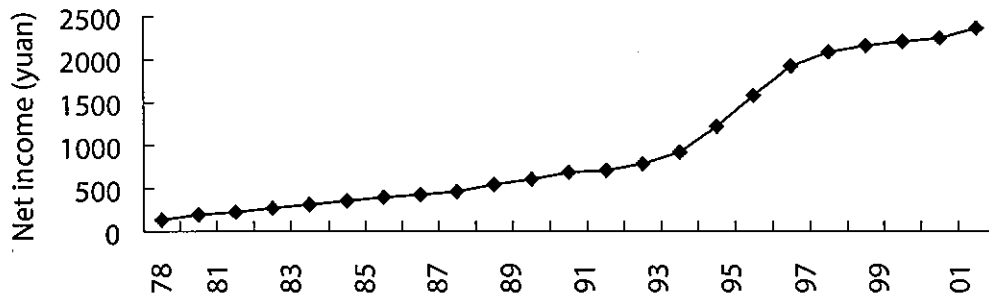


Figure 3. Trend in farmers' average per capita incomes in China, 1978–2001. Sources: China Statistical Yearbooks and Ministry of Agriculture data

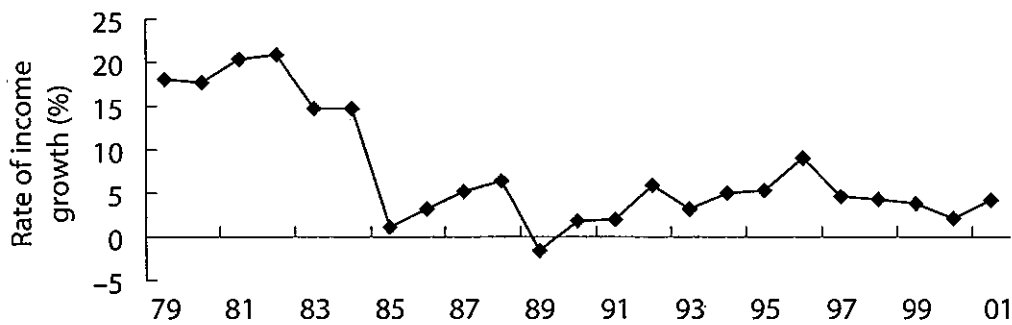


Figure 4. Rate of growth of farmers' average per capita net incomes in China between 1979 and 2001. Source: China Statistical Yearbooks

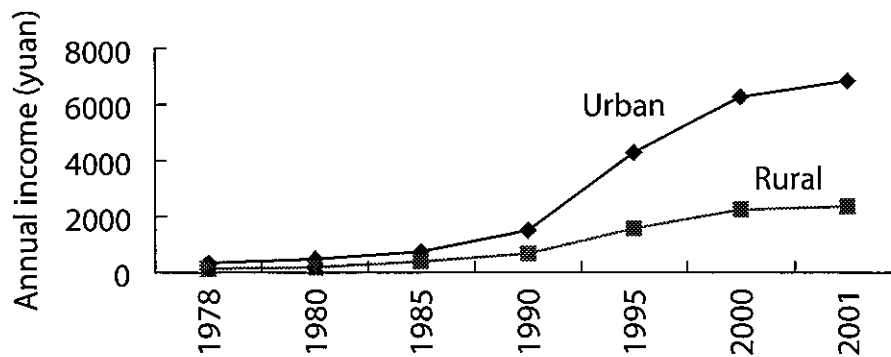


Figure 5. Comparison of trends in rural and urban incomes in China. Source: China Statistical Yearbooks

The widening gaps between different regions

According to statistics of the National Statistical Bureau, the annual rate of increase in farmers' per capita incomes in nine developed provinces in eastern China (excluding Hebei and Hainan provinces) was 3.86% between 1997 and 1999, while the rate of increase in 19 provinces in central and western China was 3.16%. In 1999, the per capita average net income of farmers in those 19 provinces was 16.2% lower than the national average and 41.1% lower than the average in the nine more developed provinces. In 2000, the lowest level of farmer net income — only RMB1374 yuan — was in Guizhou province, while the highest level, in Shanghai, amounted to RMB5596 yuan, four times that in Guizhou.

Incomes of non-farm households increased significantly while those of farm households increased only slightly or fell

According to a sample survey by the National Statistics Bureau, farmers' per capita net incomes in four different types of households¹ were RMB1933, 1980, 2805 and 5135 yuan. The incomes of farm-only households and farm households partly engaged in non-farm operations were, respectively, 14.2% and 12.1% lower than the national average, and 62.4% and 61.4% lower than the highest income levels of non-farm households.

Analysis of factors affecting farmers' income

Farmers' income by source

Farmers' per capita net incomes are comprised of inputs from three sources: income from wages, income from household operations, and income from transfers and property. Income from household operations can be further subdivided between two sources: income from agricultural operations including crop farming, livestock production, forestry and fisheries, and income from non-agricultural business (Table 1).

Three important conclusions can be drawn from Table 1:

- Income from household operations is the key source of farmers' per capita net incomes, amounting to 74.5% in 1985 and 61.7% in 2001.
- Among household operations, income from agriculture is the major source of farmers' income. Though the percentage of income generated from agriculture in farmers' total income showed a tendency to

decline between 1985 and 2001, it still accounts for nearly half of the total.

- Income generated from non-agricultural business is the main source of growth in farmers' income. The proportions of wages, mostly from township enterprise jobs, and of income from non-agricultural household business, predominantly in the service sector, have continued to increase since the reform.

Factors affecting farmers' income

Factors affecting farmers' income include agricultural output and market prices, the proportion of the rural labor force working in non-agricultural business, and state micro-economic policies.

Influence of agricultural product price

The contribution of crop farming to farmers' income has fallen in recent years. The slowdown in the rate of growth of farmers' income in 2000 was mainly due to a drop in grain prices, which led to an average fall in farmers' income of RMB85 yuan. The greatest losses were suffered by farmers in the major grain-producing areas. The main factor contributing to the recovery in growth of farmers' income in 2001 was a rise in grain prices. In 2001, the average composite price of grain sold by farmers was 1.09 yuan per kg, an increase of 0.1 yuan and 10% higher than that in the previous year. The contribution to farmers' per capita net incomes from grain production increased by 22.2 yuan.

Influence of non-agricultural employment

Statistics show that increases in farmers' income depend increasingly on the availability of off-farm job opportunities. In 2001, the surplus labor transferring out of agricultural activities accounted for 45.7% of the total rural labor force. Of this 45.7%, 27.1% were employed in non-agricultural business activities locally within the township, while the other 18.6% were employed in work outside the township. Employment in non-farm business activities outside the township has become the major form of labor transfer in rural areas. The rapid increase in income from off-farm labor has become a new contributor to the increase in farmers' income. In 2000, off-farm income, from working in towns and cities, contributed 40 yuan to the increase in farmers' per capita net income, some 86% of the annual increment. The proportion of total per capita net income that farmers obtained from working outside was 14.85% in 2000 and further increased to 15.9% in 2001.

The influence of micro-economic policies

There are three main micro-economic policies that affect farmers' income. The first one is the rural "tax for fees" reform, which was launched in 1996 and is designed to reduce the burden on farmers, by replacing

¹ Referring to farm households, farm households partly engaged in non-farm operations, non-farm households partly engaged in farm operations and non-farm households. They account for 19.2, 48.1, 29.4 and 3.3%, respectively, of the total rural households.

all "unreasonable" fees and charges levied upon farmers with an agricultural tax and agricultural tax supplement.

The second policy is the promotion of investment in state bonds. In the past two years, state bonds with a total value of RMB150 billion yuan have been issued by the government to support infrastructure construction. Over 40 billion yuan of this money was used in agricultural areas to support rural water conservancy, and environmental and poverty alleviation projects. The investment also provided farmers with opportunities to participate in rural infrastructure construction.

The third policy is returning farmland to forestry and grassland. The central government provides grain and cash subsidies to farmers who return their farmland to forestry and grassland. For each mu (15 mu = 1 ha) of farmland transformed, farmers received a subsidy of 100 to 150 kg of unprocessed grain and 20 yuan in cash, thus helping to increase farmers' income within those areas where this policy was implemented.

Measures and key works to increase farmers' income

THE increase in farmers' income is the fundamental starting point for agricultural and rural economic work, with a bearing not only on rural development and stability and the raising of farmers' living standards, but also on the development of the national economy as a whole. Chinese governments therefore attach great importance to increasing farmers' income. However, in the new stage of agricultural development, it is now impossible to achieve this goal through traditional agriculture or the development of township enterprises, or by an increase in the prices paid for agricultural products. Hence, to increase farmers' income requires new ideas and methods, new channels and new space. Structural adjustment of the agricultural sector is essential.

The objective of strategic, structural adjustment is to transform agriculture from traditional, quantity-oriented growth to a focus on quality-oriented growth. To achieve this, great efforts need to be made to:

- extend the use of improved crop strains and advanced technology;
- accelerate the development of high quality, special-purpose and pollution-free agricultural products;
- link farmers with markets by promoting joint operations between farmers and companies;
- integrate production, processing and marketing of agricultural products; and
- speed up the translation of scientific and technological achievements in agriculture.

Besides the activities mentioned above, the following specific measures have been developed by the central government to increase farmers' income.

Returning more farmland to forests

The achievements over the past two years have proved that returning arable land to forests (or pastures and lakes) is both an important measure for improving the ecological environment and promoting agricultural restructuring and an effective way of directly increasing farmers' income. With ample supplies of grain and other agricultural products, China is currently in a good position to accelerate the return of farmland to forests. More land will be restored to forests this year than ever before. This year a total of 39.2 million mu of farmland will be returned to forestry and grassland, with a subsidy of RMB780 million yuan.

Extending the reform of rural taxes and the administrative charges system

The reform of rural taxes and administrative charges is a fundamental way of reducing the burden on farmers. The central financial authorities will have a budget supporting these reforms. This year such reform experiments have been extended to 20 provinces and municipalities covering a population of 700 million.

Table 1. Sources of farmers' net incomes in China (1985 to 2001)

Year	Total (Yuan)	Wages (%)	Household operations (%)		Transfer and property (%)	Total
			Agriculture	Non-agricultural		
1985	398	18.1	66.4	8.1	7.4	100
1990	686	20.2	66.4	9.1	4.2	100
1995	1578	22.4	60.6	10.7	6.2	100
1997	2090	24.6	58.4	12.1	4.9	100
1999	2210	28.5	51.5	14.0	6.0	100
2000	2253	31.2	48.4	14.9	5.5	100
2001	2366	32.6	47.7	14.0	5.7	100

Sources: China Statistical Yearbooks and Ministry of Agriculture data

such reform have exceeded RMB20 billion yuan, lightening the burden on each farmer by 25 yuan and playing a distinct role in increasing farmers' income.

Making efforts to increase sources of income for farmers

These efforts include speeding up the development of rural secondary and tertiary industries, especially farm-produce processing and rural services, guiding rural enterprises to accelerate their restructuring, and technological progress and operational system renovation in order to reach a higher level of development. Expanded economic exchanges between towns and rural areas would significantly increase farmers' income. Local governments have been asked to abolish unreasonable restrictions, cancel improper charges and improve their services in order to make it easier for farmers to migrate to cities for work or business and to guarantee their legitimate rights and interests. Efforts have also been made to accelerate urbanization in a positive and sound manner and encourage the rural workforce to shift to non-agricultural industries.

Supporting agriculture more effectively

Government will adopt measures that conform to the World Trade Organization rules, and effectively safeguard the interests of Chinese farmers. Investment will be made in agriculture and rural infrastructure to improve production and living conditions in the countryside and the ecological environment there, with emphasis placed on support for projects aiming to conserve irrigation water, provide drinking water, produce and use marsh gas, and promote hydroelectric power generation, rural road building, and the fencing of grazing land. Support for agriculture will be strengthened in the fields of research, dissemination of agricultural techniques, prevention and control of plant diseases, pest control, information consulting and farmer training. Financial services for agriculture will be improved and more will be done to reduce poverty by encouraging rural development, increasing funding from various sources to aid the poor, and expanding programs that provide jobs for people as an alternative to relief payments.