# Rural Development through Rural Industrialization: Exploring the Chinese Experience

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#### Introduction

China provides an excellent example of how a rural development strategy focusing on rural industrialization can bring about significant, and mostly positive, change not only in the lives of rural people but also in the structure of the rural economy. China's rural enterprises, widely known as Township and Village Enterprises (TVEs)<sup>1</sup> have remarkably contributed to economic growth, rural development and institutional transformation. The Chinese experience is an important area of investigation largely because the huge participation in rural industrialization by rural people resulted in a fairly diversified industrialization over a quarter century. This makes the features of industrialization in China quite successful and different from those of other countries. However, there has recently been a debate in China about the form in which TVEs should be encouraged. This study analyses the growth and development of TVEs in China as a means of rural development and not merely as a part of overall industrial process especially since it impacts on the largest section of the Chinese population. The study concentrates on the case study of the food processing sector which has been selected on the basis of its importance to the overall growth and development of the local economy as well as its forward and backward linkages with agriculture. However, a few TVEs from other sectors have also been studied. The study is primarily based on the premise that employment should be the primary objective of development as it is the most powerful means of distributing income to the poor. The economic condition of the rural poor cannot be improved substantially by welfare schemes alone. The Chinese experience of dealing with poverty and raising the standard of living of people through development of TVEs has largely been successful and could usefully provide lessons for developing countries. The privatization of TVEs has also affected its contribution to rural development; despite this, the contribution is still remarkable. Furthermore, the Chinese experience presents important lessons, especially on employment generation, geographical location, innovation and on the important role of local government in developing countries including India where industrialisation has not been adequately diversified.

## Methodology

The study analyses rural industrialization and rural development issues and investigate the issues from an interdisciplinary, mainly political economic perspectives. Empirical evidence for this study was collected in Shaanxi, Anhui and Zhejiang provinces in 2006 through structured

questionnaire and in-depth interviews with (a) managers/owners and employees of TVEs; (b) village, township and county officials and; (c) Party Officials who deal or have dealt with TVEs. Detailed case studies of TVEs were conducted in three counties (Bai Shui, Pu Chang and Xun Yi) in Shaanxi, four counties/cities (Feixi, Shuangfeng, Tong Cheng and Hefei city) in Anhui. While the study was also pursued in the villages of Yiwu (Zhejiang province), conducting case study of TVEs was not feasible there. Twenty-eight food-processing enterprises were covered from three types of value addition (i.e. primary, secondary and high end processing) and ten enterprises were covered from other sectors of TVEs.

Research methods include (a) interviews of concerned people (as mentioned above) (b) survey and (c) case studies including site visit observations.

## What makes a rural village rich?

The most striking feature of China's economic reform is that it led to a creation of a whole new economic sector of TVEs which became a very dynamic element in China's economy. Agriculture provided more than 50 percent of China's GDP in 1952 but it fell to 14 percent in 2004, over the same period TVEs went from none to one third of GDP. Thus, the importance of non-farm economic activities in China has been recognised.

The most significant question that comes to mind is: what makes a rural village rich? Apart from the historical development of a village, the amount of village funds accumulated makes a village rich. Hence, the contribution of the TVEs to village funds becomes crucial, largely because these funds are invested for the welfare and development of the village. As has been noted, "villages and townships without TVEs had no sources of funding other than farm households" (Bernstein, 1999: 209) and thus fiscal burdens became a barrier to development. In 2001, there were nearly 10,000 villages with an annual income of more than 100 million Yuan each. All these villages have realised rural industrialisation by developing TVEs. This is a fundamental way for peasants to raise their income (He 2006).

Apart from visiting county (*xian*) headquarters, towns (*zhen*), townships (*xiang*), I studied 15 villages (*cun*) in the three mentioned provinces. The villages in Yiwu<sup>2</sup>, Zhejiang province were very developed with a per capita income ranging from 5,000 to 10,000 Yuan. But these villages might not be called traditional villages. The newly transformed villages are a result of local government initiatives and the high level development of TVEs. The local government had implemented a program of action for the integration of urban and rural areas which is the first of its kind in China. In Yiwu, more than 320 villages have been renovated.<sup>3</sup> Furthermore, excellent physical infrastructure including highways to the villages was also evident. All these became possible primarily because the high growth of TVEs provided the government with enough revenues.

Che village<sup>4</sup> is the most developed among the remaining 10 villages. The village has decided to be a Non-Grain village. The per capita average income of the villagers was 2200 Yuan in 2005. Note that the contribution of TVEs was one of the main reasons for its development. The village gets annual rental of more than 70,000 Yuan from its three private enterprises<sup>5</sup>. This income has been spent on creating welfare facilities for the villagers. Moreover, majority of the workers of these enterprises are residents of Che village. Empirical studies by some scholars have also established that there is a correlation between the development of TVEs and the level of development of the area, except for the poorest village that receives additional help for development (Croll, 2000).

Fu Zhuo village<sup>6</sup> provides innovative experience in the area of TVEs. Its main livelihood are apple orchards. However, the village is also famous for "Family Restaurants" which offer organic food and well furnished rooms to customers. It has been developed on the principle of *yi cun yi pin* (one village-one product). 50 households out of 282 run restaurants and construct additional rooms in their private houses. People from other counties especially from urban areas or even foreign tourists visit this village to enjoy the food and peaceful environment at a very reasonable price. All 50 households are doing good business and they also employ other people from the village especially during peak season. This is an example of an innovative and successful experience in the merging of TVEs and rural development. This idea was mooted by the county government and was implemented well through the effective cooperation of the village government.

Gaoxi village<sup>7</sup> also needs to be acknowledged due to a different reason. Although the average per capita income of this village is not high (1080 Yuan), the village has good infrastructure facility. This is because the village started a reconstruction campaign a few years ago. The dynamic leadership of the village committee head is one of the main reasons for such kind of development. The Communist Party was visible at every level and in many cases the post of (elected) Village Head and Party Secretary was held by the same person. The campaign for Building A New Socialist Countryside was quite popular among the Party members. While TVEs benefited from preferential policies especially property rights protection and funding support, some scholars also termed the role of the local government as "the bargainer on behalf of local non-state sector" (Yang, 2003: 9). Local government now plays a different but still important role in the era of privatisation. Significantly, it was noticed that there is a healthy competition among village heads to do a good job for their respective villages (including to establish TVEs if possible). For example, the village head of Gaoxi village visited Xunyi County to see their high level of development and fixed his own development priorities along the same lines.

The TVE sector in China has contributed immensely to many areas of rural concern, such as employment generation and support for agriculture and social development. The Chinese rural enterprise experience has revealed that rural enterprises have absorbed a large number of the country's excess rural workers. In 1978, Commune and Brigade run enterprises employed only

28.26 million people. The total employees of TVEs reached 92.65 million people in 1990, 128.62 million in 1995 and 135.08 million in 1996, surpassing even SOEs in employment generation. The number of TVE employees decreased in 1994, 1997 and 1998. Since mid-1990s these enterprises have been involved in structural adjustment and institutional innovation leading to a decrease in employment generation. The contribution, however, is still remarkable. Moreover, the employment generated by TVEs rose to a historic high of 138.66 million in 2004 (see table I). Thus, it is easy to agree with the recent research findings of Zhixiong Du and Yoichi Izumida that the property rights transformation of TVEs has had a positive impact on their performance including employment generation (Du and Yoichi, 2006). As compiled in Table I, the share of employment provided by TVEs in total rural employment was more than 27 percent in 2003 while its share in national aggregate employment was 18.24 percent. In fact, if we look at figures from 1996 to 2004 the number of enterprises has declined while employment has increased. This is the phase of privatization and the market is the guiding principle. It was obvious during my field study that TVEs are fast becoming a part of the modern industrial system. The government is also encouraging these enterprises to shift to Development Zones mainly established in urban areas. However, the field study establishes that average TVEs employ 70-80 percent of the rural population even if it is based in an urban area.

Rural enterprises have raised peasant income. Government sources suggest that the average income of Chinese peasants from TVEs reached 760 yuan in 2000, which accounted for 33.7 per cent of their net income (He, 2006). With the construction of more than 200,000 new projects completed in 2004, the total payroll of TVEs increased by 2.7 million in 2004. The total salary and wage payment of TVEs reached 975 billion yuan, an increase of 7.5 percent over 2003 (Analysis, 2006). These figures represent the great potential of rural enterprises in coping with the unemployment problem and raising the income of rural residents. According to another case study, a TVE of a small village employed one person from each household (Ma and Yang, 1995). This example cannot be called representative. However, it represents wonderful scattered examples of rural employment generation in contemporary China.

The development of rural enterprises also holds the key to stabilizing population movements. Estimates suggest around 100-130 million people in China are involved in migration from rural to urban areas. The problem would be worse if the TVE did not employ a major part of surplus rural labour. China's experiences in the last two and half decades also suggest that urbanization can also be achieved by transformation in rural areas. Such "transformation of rural areas has mainly been driven by two forces, the development of Township and Village Enterprises and the inflow of foreign investment" (Yu 2000: 414).

Nevertheless, the fact remains that most of the TVEs are largely concentrated in coastal areas where foreign direct investment was also easily available. Rural enterprises have the capacity to correct regional imbalances by initiating industrial activities in backward areas where a large-scale sector is unwilling to invest. The difference between poor and rich rural areas is mainly a

result of rural industrialisation. It can be said that, on the one hand, those areas who rely on agriculture for their major source of income are poor, on the other hand, areas dependent largely on rural industrialisation for their income are no longer poor.

Gendered and skilled employment is another area where the coastal region has an advantage over the central and western regions. The proportion of women workers in TVEs located in the eastern region is fairly high, about 45 per cent, whereas this proportion is much lower in regions with less developed TVEs, 25 per cent for the central region and 24 per cent for the western region. Thus, reasonably gendered employment has also been proved to be advantageous for the eastern region. Skilled employment is another area where the eastern region has significant advantage. The percentage of employed people with special training is 3.13 for the eastern region, 2.12 for the central region, and 2.07 for the western region (Township and Enterprise Bureau, 2001). Other levels of technical and educational qualification of workers suggest a similar trend. Obviously, workers with skills can be useful in the technological upgrading/ development of the enterprise. The eastern region has benefited from the services of skilled employees in the technological upgrading of rural enterprises.

Significantly, rural enterprises can also be a problem, creating regional disparities during the era of gradual opening up but it can also be the solution since the government's agenda has begun to include the goal of gradually narrowing the gap between regions through the promotion of the development of rural enterprises in central and western China.

The role of TVEs in China's rural development has also been impressive in areas of rural concern like agriculture and social welfare. This was a unique experience as far as rural enterprises and rural development is concerned. Apart from generating employment and raising rural income, these enterprises have promoted a wide variety of undertakings in rural areas including agriculture, education, healthcare and other welfare services like constructing local roads and helping poor families.

As far as the law relating to TVEs is concerned, Articles 2 and 3 clearly suggest that supporting agriculture and social welfare is the task and obligations of TVEs. Article 17 directs that a certain proportion of after-tax profits prescribed by the peoples' government in provinces, autonomous regions and municipalities directly under the central government will be invested in agriculture and rural social undertakings (Law of 1996). TVEs contributed part of their profit every year to agriculture in the form of a grant. Between 1978 and 2000 this grant exceeded 140 billion yuan. The agriculture fund laid aside by TVEs in the past decade has more than doubled, averaging an annual increase of 7.9 percent. Moreover, there is evidence that the development of TVEs had much to do with the increase in grain yield. Agriculture benefited from subsidies provided by TVEs. The per hectare grain yield increased in those areas where TVEs were more developed. On the other hand, the per hectare grain yield dropped in areas where TVEs were underdeveloped (He, 2006: 87, 115 and 127).

Meanwhile, massive privatisation of ownership has affected rural development quite substantially. In the recent wave of massive ownership restructuring, most collective TVEs have been sold to their managers and/or other individuals. Unlike collective enterprises, private enterprises do not carry an obligation to support agriculture and social development. However, as officials of local government argue, private enterprises are a significant source of revenue for local government which can be used for agriculture or social development. Also, majority of enterprises maintain that apart from giving taxes to the government they also provide money for education and social development. However none of the sampled enterprises mentioned money for healthcare.

## A brief comparison with India

By and large the pattern of industrial development/growth in developing countries (except China) has favoured only a small percentage of the population living in urban areas. The Chinese experience with rural development has endorsed the hypothesis that rural industrialization is an essential requirement for the development of rural areas. While the rural non-farm sector has played a significant role in the economic transition of both India and China over the past two decades, compared to China, rural non-farm employment has increased only moderately in India.

In India, the small-scale sector including traditional village enterprises contributes nearly two thirds of organized sector employment. However the growth in output and employment in the Indian rural industrial sector has been stagnant and comparatively low. The difference in the patterns and development of rural industrialization are the result of the institutional differences between the two countries, especially in the structure and functioning of their local governments, credit institutions, government support and infrastructural (physical and social) support. Differences in the performance of rural enterprises in China and India are obvious. A thorough comparative study of these differences might be examined mainly to understand why these factors have generated such a variation in the performance of rural enterprises in India and China.

The Indian government's emphasis on small-scale enterprises is quite different from the Chinese emphasis on rural location and employment for local residents. For small-scale enterprises in India, geographical location does not really matter, while reorganization of rural settlement mostly in favour of small rural towns received a high priority in China.

The Chinese experience also suggests that this was a "bottom-up" approach, and public policy provided sufficient scope for peoples' and local government initiatives. Therefore local government played a most important role in the establishment and development of TVEs in China. By law, Panchayats in India are responsible for the preparation and implementation of plans for economic development. However, Central Government policies and interventions to

promote rural industrialization have largely ignored the role of Panchayats. This could be one of the reasons for the relatively low level of rural industrial development in India.

## The importance of the food processing sector

The food processing industry is of enormous significance for the development of large agricultural countries like China. Rural areas, rural enterprises and the agri-food sector have played key roles in China's ongoing reforms and development. The Chinese Government has also accorded the sector with a fiscal/tax concession to encourage commercialization and value addition to agricultural produce. The vital importance of the food processing sector in improving the income of peasants and generating employment in rural areas has been recognized.

The growth and development of the food processing industry is also expected to strengthen the linkage between the industry and agriculture through different channels: (a) fast growth in food processing sector would have a backward linkage effect for the agriculture sector, perhaps enhancing the profitability of food crops; (b) the production and cultivation of vegetables and food crops under the quality guidelines of modern food processing industry would make the agricultural production function more efficient; (c) the demand for consistency in quality may help standardize the environment for cultivation and crop preservation; (d) direct links between farmer and industry would get rid of middlemen and agents; (e) improvement in the value addition chain (from fresh to processed) can lead to favourable terms of trade for agriculture in domestic as well as international markets.

In contemporary literature, some experiences have been identified as successful in rural industrial development i.e. the Wuxi model (encouraging primarily collective enterprises), the Wenzhou model (encouraging mainly private enterprises) and the Nanhai model (encouraging both collective and private enterprises). However, property rights transformation has reduced the importance of these experiences significantly. It has been estimated that more than 90 percent of China's TVEs are now privately owned.

It was evident during my field study that the Dongzhen experience was impressive and successful. Dhongzhen is located in the middle of Anhui province. TVEs emerged in the early 1980s earlier than in other areas of Anhui province. In the first stage local farmers started food processing as family business and the TVE bureau was established early compared to other regions. Dongzhen County was an agricultural county with a large number of rural labour. It was the initiative of the county government to develop institutions so that more farmers could be employed in the non-agricultural sector. The key industries of Dongzhen County are printing package industry and agricultural food industry. It is interesting to note that 130,000 out of the 750,000 total population, are employed in 17,000 TVEs. While geographical location and proximity to raw materials were useful, efforts of the local government proved to be crucial. The

local government even arranged vocational schools for the locals. The other main reason for the success is that it created a network of salespeople not only in the county but also all over China. The head of the TVE bureau of the county became so popular that he was elected to a good position in the Party although he was not an officially nominated candidate for the post.

The system of agricultural industrialization has also been successful in Anhui province. Since the 1990s, agricultural industrialization has developed rapidly. Agricultural industrialization is a kind of integrated management that combines agriculture production, trade and agriculture product processing. Put differently, it not only connects tens of thousands of small farmers households and small-scale production with the big market, it also links city with countryside and modern industry with the backward agriculture sector

Some important points have emerged in the field study:

- By and large local governments have played an important role in the establishment and development of TVEs in China and the experience with agricultural industrialization in Anhui has been quite successful.
- All elected Village Heads see TVEs as an effective means of rural development. The elected Village Heads expressed their support of the establishment of TVEs as an effective means of rural development in China; they also exerted effort to establish rural enterprises in villages where the spread of enterprise was absent.
- The development of TVEs calls for strong support for new technology. The owners/shareholders/CMDs have become more aware of new technology and the impact of market changes on their enterprise.
- Government support was crucial. Most people acknowledged crucial government support for the development of TVEs, especially in providing land. Officials of the TVEs of Baishui county also praised the government for advertising local products, mainly apples, at the provincial and national levels.
- Financial constraint is one of the most critical problems facing TVEs. Leaders of almost 50 percent of the TVEs maintain that they have investment opportunities which promise a high rate of return, but they are unable to carry it forward largely because of insufficient capital/bank loans. Financial mismanagement was also reported at the county level. 10
- Government regulations are not implemented in some areas. It was found that some enterprises did not implement government regulations especially in labour welfare and management. Women workers are disadvantaged. Maternity leave ranges from 30 to 90 days without salary in most small enterprises.
- The privatization of TVEs has affected rural development in China\_especially agriculture and social development. TVEs face many problems ranging from shortage of capital, technology and raw materials, lack of skilled workers to shortage of good managers,.
- By and large TVEs attach high importance to quality control. However, performance in one surveyed enterprise (apple juice production) was unsatisfactory while another (a joint venture in the same production line) seems to be unsatisfactory.<sup>11</sup>

- Corruption at the local level especially in collecting taxes was also acknowledged by the officials of TVEs.
- While the reason for the success of TVEs varied from enterprise to enterprise, some common reasons were also cited by majority of respondents. These are: (a) market decisions; (b) capability of owner/CMD, (c) crucial role of management; (d) trust among employee and customers, (e) vital role of technology, (f) government support and (g) ownership reform.

#### Conclusion

A significant aspect of China's economic reform has been the introduction of new institutions like TVEs, which have been vital for rural development as well as for China's industrial growth. It is remarkable that China's industrialization has taken place for a considerable part in the rural areas since the reform and opening up policies were implemented. The TVE lie at the heart of China's rural development. Impressive rural industrial growth has raised the income of the rural people and is therefore a powerful force in poverty reduction in China. The agriculture sector alone is not sufficient for sustainable rural development. Besides a diversified agriculture, employment through rural industrialization is a sustainable and alternative solution to the eradication of poverty. The Chinese experience illustrates that rural industrialization can play a crucial role in (a) raising the income of rural people; (b) solving the unemployment problem of the countryside; (c) checking rural to urban migration; (d) supporting and enhancing the effectiveness of agriculture; (e) contributing to social sector development especially health and education; and (f) transforming the socio-economic environment of the countryside.

The growth and development of TVEs in China have undoubtedly attracted great attention from the world in general and developing countries in particular. By and large, the Chinese experience presents proof of vitality despite periodic problems. It has also provided an example of replacing traditional industrialization strategy by a new way of industrialization. The conclusion that can be drawn is that the experience of one country might not apply in another country. However, the Chinese experience provides important lessons on innovation, geographical location, employment generation, and in the very significant role of local government for developing countries where industrialization has not been adequately diversified.

The development and expansion of rural enterprises, linked as they are now with government policy and the urgent need to bridge economic disparities countrywide depend finally on a host of considerations that need to be privileged in Chinese policy.

• The agriculture sector alone is not sufficient for sustainable rural development. Besides a diversified agriculture, employment through rural industrialization is a sustainable and alternative solution to the eradication of poverty in China and India. Furthermore, agriculture has to be agro-business rather than subsistence agriculture.

- A comprehensive and effective legal structure needs to be established to safeguard the rights and interests of workers, as well as to prevent irregularities in financial matters especially at the local level.
- Since workers, especially women, face disadvantages in regard to wages and contracts, there is a need to create a more gender friendly labour policy as well as to properly implement existing policies.
- Since rural enterprises have proved to be an effective solution to the problems of rural development, central government should consider ways and means of implementing preferential policies effectively in central and western China.
- Tax advantage should be granted to rural enterprises in proportion to their contribution to local economic development, especially to agriculture and social development.
- Rural enterprises have reached a level of production where more technical inputs are required. The state should play an active role in promoting the technological development of rural enterprises so that their products are more acceptable in the international market.

### **Endnotes:**

<sup>&</sup>lt;sup>1</sup> Article 2 of the Law of the PRC on Township and Village Enterprises (1997) defines TVEs as "various types of enterprises set up with investment mainly from rural collective economic organizations or peasants at township and towns (including villages) and is responsible for supporting agriculture".

<sup>&</sup>lt;sup>2</sup> I visited village 2 of Dacheng Town; Yongsheng village, Jiangdong Block; Hengtong village of Chengxi; Qiyi village of Chengxi and; Xiangpei village of Shangxi Town.

<sup>&</sup>lt;sup>3</sup> Data provided by Yiwu Municipal People's Government

<sup>&</sup>lt;sup>4</sup> Che village (Xunyi county, Shaanxi province) has 190 households and 801 populations.

<sup>&</sup>lt;sup>5</sup> data provided by village goverment

<sup>&</sup>lt;sup>6</sup> Fu Zhuo village (Baishui county, Shaanxi province) inhabited by 282 households with a total population of 1400 is located 8km from county headquarters.

<sup>&</sup>lt;sup>7</sup> Gaoxi village (Baishui County, Shaanxi province) has a total population of 1198 and is located in the southwest part of Lingqao Township.

<sup>&</sup>lt;sup>8</sup> By and large this was a common position of all local officials interviewed by me.

<sup>&</sup>lt;sup>9</sup> Data provided by the county government

<sup>&</sup>lt;sup>10</sup> Mr Xiao Jian Min, (Ex Director of Economic and Trade Department, Baishui County) said that although the county has huge public deposits, they were able to give only 30-40 percent of the deposit in form of credit to people.

He acknowledged that they were not able to formulate a good policy to provide credit to people mainly due to experience of bad loans in the past

Table I: Contribution of TVEs to Rural Employment, 1978-2004, (Unit 10,000)

Year	Total	Total number	National	Whole Rural	TVE's Contribution to	
	number of	of	Aggregate	Employment	Employment	
	TVEs	Employment	Employment		Share 1	Share 2
1978	152	2,827	40,152	30,638	7.04	9.23
1980	142	3,000	42,361	31,836	7.08	9.42
1985	1,222	6,979	49,873	37,065	13.99	18.83
1989	1,869	9,367	55,329	40,939	16.93	22.88
1990	1,873	9,265	64,749	47,708	14.31	19.42
1991	1,909	9,614	65,491	48,026	14.67	20.01
1992	2,092	10,645	66,152	48,291	16.06	22.00
1993	2,453	12,345	66,808	48,546	18.48	25.43
1994	2,494	12,017	67,455	48,802	17.81	24.62
1995	2,203	12,862	68,065	49,025	18.90	26.24
1996	2,336	13,508	68,950	49,028	19.59	27.55
1997	2,015	13,050	69,820	49,039	18.69	26.61
1998	2,004	12,537	70,637	49,021	17.75	25.57
1999	2,071	12,704	71,394	49,982	17.79	25.94
2000	2,085	12,820	72,085	48,934	17.78	26.20
2001	2,115	13,086	73,025	49,085	17.92	26.66
2002	2,133	13,288	73,740	48,960	18.02	27.14
2003	2,185	13,573	74,432	48,793	18.24	27.82
2004	2,213	13,866				

<sup>&</sup>lt;sup>11</sup> Although it is difficult to reach on a conclusion due to full non-cooperation by the company.

<sup>12</sup> For example, on April 27,2006 just before President Hu Jintao speech to the Nigerian Parliament, The president of Nigerian Senate delivered an introductory speech. Fascinatingly, he praised the performance of China's TVEs in producing rural development the whole speech was dominated by reference to TVEs.

Share I: percent of employment in TVE's to the national aggregate employment

Share II: percent of employment in TVE's to the whole rural employment

**Source:** Compiled from: National Bureau of Statistics, *China Statistical Yearbook* 2004 and 2005; (Beijing: China Statistics Press, 2004&2005) and Township and Village Enterprise Bureau of the Ministry of Agriculture, *China's Township and Village Enterprise Yearbook* 2003(Beijing: China Agricultural Publishing House, 2003).

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