

POLICY REVIEW

Historical Evolution of the Chinese Rural Employment Policy

If we look into the large population flows between cities and the countryside, and the distribution of the rural labour force in the productive sectors, we can find clues to the rural employment policy. The changes in the Chinese rural employment policy are directly influenced by the State's economic policies. We can thus divide the changes into four stages.

The first stage was the period from 1950 to 1956. In this stage, national economic development was gradual. In the countryside, private ownership was transformed into collective ownership and the agricultural producers were grouped into cooperatives. The rural employment policy at this stage had the following characteristics.

- (1) All rural peasants were organised into cooperatives in 1953. They had to contribute their voluntary labour to tasks assigned by the cooperative. They also had to hand over farm products to the cooperative which in turn paid taxes to the State. Under this situation, the status of the individual peasant was that of a "quasi-commune member".
- (2) The number of commercial workers in the rural area was sharply reduced in 1954. The products of the peasants had to be sold to shops appointed by the State, and only those products that were not planned products could be sold and bought in the free markets.
- (3) The registration of urban households was strictly enforced and their grain consumption was tightly controlled by the State. All urban enterprises, State institutions, army, and other such organisations were instructed to first consider urban residents to the recruitment of permanent workers. They had to make contracts with the rural agricultural cooperatives on a planned allocation basis before they could recruit rural workers.

During this stage, the off-farm labour force was mainly transferred to the urban area. During the First Five-Year Plan period (1953-1957), 1.65 million off-farm labourers were thus transferred to State enterprises and institutions annually. In the same period, the non-agricultural labour force increased from 9.26 million in 1952 to 9.57 million in 1957. Towards the end of this stage, employment opportunities decreased and the population pressures increased in the cities. The Government then adopted the strict policy of restricting the flow from rural areas to urban areas.

The second stage was from 1958 to 1965. During this stage, the "Great Leap Forward" and the "People's Commune" were launched throughout China. In the second half of this stage, the economic situation worsened and the Government had to reduce the scale of capital construction. In the countryside, the management of the People's Commune was decentralised and the responsibility was

divided among production teams. During this stage, off-farm employment in China experienced many ups and downs. In 1959, compared to 1952, the net increase of the off-farm labour force was 64.90 million, of which 39.49 million were in cities, accounting for 60.8 per cent, and 25.41 million in the countryside, accounting for 39.2 per cent (the labour force working in the enterprises run by communes and brigades numbered 18 million). From 1960 to 1962, 11.31 million urban residents were transferred back to the countryside annually and, during the same time period, the non-agricultural labour force in the countryside decreased sharply to 0.71 million in 1963. During this period, the rural employment policy took the following course.

- (1) Individual ownership was banned in the countryside and collective ownership, as represented by the People's Commune became the only driving force of the rural economy in 1958. The Commune members were allowed to undertake sideline production, in a very limited sense, during their spare time. Such activities included hunting, fishing, processing, silkworm breeding, beekeeping, weaving, embroidery, and sewing activities. Even these activities had to be approved by collective management.
- (2) All commercial activities were regularised by the supply and marketing cooperatives. The peasants could sell their products and buy only needed goods at the market. The market prices were fixed to the same as those in the State shops. Commune members were not allowed to abandon agriculture and adopt a market economy. In 1963, with the recovery of the national economy, the Government allowed commune members to undertake short distance transport of seasonal products only for marketing - and that too only during the slack season and under the jurisdiction of the production team.
- (3) According to the regulations, the labour force engaged in agricultural production in the People's Commune could not be less than 80 per cent. Those involved in industry, transportation, capital construction (mainly on the farmland), education, health, and services could not exceed 20 per cent of the total labour force. With the deterioration of the national economy, the Government stipulated in 1959 that all urban enterprises must stop recruiting new permanent workers and part-time workers and reduce their staff in order to strengthen agricultural production. As a result, huge numbers of the rural population, who once worked in cities, were transferred back to the countryside.
- (4) The People's Commune could set up enterprises to undertake rural industrial activities, including farm machine repairing. The policy directive was to use local materials for production and to market within the local community. Funds and labour forces were provided by the People's Commune on an equal basis. In 1962, with the worsening of the national economy, the Government once again changed the policy and stipulated that the People's Commune and Brigades had better not set up enterprises, except for the processing of the rural farm products. Rural handicraftsmen, and peasants who had some special skills were also encouraged to devote themselves to handicrafts' production.

The period between 1966 to 1979 was the third stage, and during this time the "Cultural Revolution" took place in China. The national economy suffered a lot, and the rigid Commune System controlled the rural non-agricultural activities even more tightly. Individual non-agricultural undertakings such as commerce, transport, and family sideline production were restricted and in many cases abolished. Only the Commune- and Brigade-run enterprises could operate under the direction and management of the People's Commune. These enterprises depended mainly upon the use of local raw materials to develop small-scale

farm machinery, steel plants, power stations, fertiliser plants and coal mines for local production and consumption. The relatively independent Handicraftsmen's Cooperatives were brought under the control of Communes and Brigades. In the late 1970s, the undertaking was extended to farm forestry, fruit orchards, tea plantation, medicinal products, and aquatic products. In some areas where conditions were favourable, the Commune- and Brigade-run enterprises could manufacture some industrial parts for urban industry, could organise construction and transportation activities, and also could produce traditional handicrafts for export. During this stage, off-farm employment stagnated, for the most part, except for a few sectors. These were mainly concentrated within the rural area. In 1978, the total of the rural non-agricultural labour force was 31.49 million, of which 22.18 million were engaged in the Commune- and Brigade-run enterprises.

The fourth stage was from 1980 to 1989. During this stage, under economic reforms and the open policy, the Chinese national economy experienced rapid growth. The rural economic management system changed from a centralised to a more flexible and highly productive Contract Responsibility System. This has been the most dynamic stage in Chinese off-farm employment since the founding of New China. In 1988, there were about 120 million labourers who were working in non-agricultural sectors. Of these 92.95 million were working in township enterprises. The relevant features of the rural employment policies are as follows.

- (1) The peasant households were encouraged and supported to undertake family sideline production. Land under the cooperative was subcontracted to them and they were allowed to participate in specialised family operations. Peasants could voluntarily take part in or organise different forms or scales of specialised cooperatives and technical associations.
- (2) The rural free market was restored and developed, and the peasants were free to haul goods over long or short distances as long as commodity circulation was kept within the limits permitted by law. After fulfilling the state-fixed purchase quotas, the peasants could sell all of the remaining farm products in the free market.
- (3) The agricultural structure was readjusted and peasants were encouraged to engage in diversified activities including crops, forestry, animal husbandry, fisheries, and sideline production. The rural industrial structure and the rural credit system were also restructured to support post-production activities such as processing, storing, transporting, and marketing of farm products. Preferential treatment for loans and taxation was provided to rural mining and other production activities based on local resource exploitation.
- (4) In 1984, the Commune- and Brigade-run enterprises were renamed Township Enterprises, and their important role in developing the rural economy was affirmed. Accordingly the Government made a series of policies favourable to the development of township enterprises.
- (5) The transfer of technology and the flow of qualified scientists and technicians from urban areas were encouraged. Some peasants engaged in industry, commerce, and service sectors were allowed to settle down in towns if they could manage their own grain supplies. Urban technicians and managerial personnel were encouraged to take contracts and manage the township enterprises, train the workers, or even to work in the township enterprises. If urban technicians or managerial personnel went to work in township enterprises, they could still retain urban household registration. Peasants were allowed to move between rural areas, or between urban and rural areas), and change their economic undertakings and jobs.

Main Policies Affecting Off-farm Employment in China

Policies Before the Eighties

- (1) The Policy and Strategy for Developing Heavy Industry. From the First Five Year Plan to the Fifth Five-Year Plan, capital investment was concentrated on heavy industry while light industry was very short of investment. Heavy industrial investment accounted for 46.7 per cent of the total; agriculture, 10.8 per cent; and light industry only 5.6 per cent. Heavy industry held higher fixed assets but absorbed fewer employees in terms of employees per unit of assets. Light industry, especially the kind that depends on agricultural products as raw materials, could absorb more off-farm labourers. Raising agricultural efficiency required that much of the surplus labour force was shifted from agriculture into off-farm employment. The development of China's heavy industry had neither created enough job opportunities for surplus rural labourers nor absorbed all the urban labour force. On the contrary, it created a dual structure. China's value of fixed asset per person in industry increased 60 times from 1950 to 1988, at the rate of 12.1 per cent per year, and the output value per person increased by 7.9 times, at the rate of 6.2 per cent per year. The number of employees in industries, however, increased by only 6.5 times from 1952 to 1988. Theoretically, industry should have absorbed a labour force of 16.44 million, but actually, it absorbed only 8.415 million. In 1988, China had an agricultural labour force of 330 million accounting for 57.5 per cent of the total, 3.3 times greater than in industry.
- (2) Population Policy. Before the sixties, China had not carried out family planning. On the contrary, the top leaders criticised the theory and also those who advocated population control. They went along with the notion of "*more people, higher enthusiasm, more benefit for doing things*". Accordingly, the population increased rapidly and the cultivated land per person decreased as shown in Table 4.1. The comparison with the world average is shown in Table 4.2. Girls born in the late 1960s and early 1970s, a baby boom period, will therefore reach child-bearing age in the 1990s. Following the growth patterns over the past decade, the Chinese population growth is expected to increase to 1.3 billion by the year 2000. The total labour force is expected to increase to 650 million, 100 million more than in 1989. It is clear that the increment of the rural labour force surplus is positively related to the increase of population. The gap between the supply of and the demand for jobs has widened as a result of uncontrolled population growth.
- (3) Policies Separating City from Village. For a long time, policies were adopted to strictly control the influx of farmers into urban areas. Urban inhabitants had non-agricultural identification which gives them the privilege of receiving rations of State-supplied grain, edible oil, electricity, housing, and off-farm employment opportunities. Most rural inhabitants had to stay in the countryside and had to grow their own food.
- (4) The Commune System and Related Policies. Under the commune system, the following are the reasons that restricted off-farm activities.
 - (a) Low productivity in agriculture gave people the wrong impression that China had no surplus labour force or unemployment.

Table 4.1: Changes in China's Cultivated Land Pattern (1952-1987)

Year	Total Cultivated Area (million ha)	Cultivated Area Per Person (ha)	Cultivated Area Per Labourer (ha)
1952	108.0	0.19	0.62
1955	110.2	0.18	0.66
1960	104.9	0.16	0.62
1965	103.6	0.14	0.44
1970	101.1	0.12	0.36
1975	99.7	0.11	0.34
1980	99.3	0.10	0.34
1985	97.7	0.09	0.31
1987	95.9	0.09	0.30

Source: Chinese Science News, 1990.

Table 4.2: Comparison of China's Natural Resources with the World Average (1986)

Item	Cultivated area per capita (ha/person)	Forest Area per capita (ha/person)	Timber production per capita (cubic metre/person)	Grassland per capita (ha/person)	Water Resource per capita (cubic metre/person)
World Average 8,300		0.28	0.83	63.08	0.64
China	0.09	0.12	9.76	0.21	2,600

Source: Chinese Science News, 1990

- (b) All the labour force had to be managed by the Collective or the State. Farmers were not allowed to move out or find jobs freely. Jobs were assigned to individuals and they had little choice in the matter.
- (c) The State monopolised the purchasing and marketing of agricultural products. It banned farmers from leaving agricultural activities and taking up trade or other off-farm jobs. Those who took off-farm jobs or activities were punished, even sent to jails.
- (d) Farmers concentrated their activities mainly on grain production and were restricted from involvement in cash crop and sideline production.

Policies During the Eighties

After 1978, especially in the eighties, China's development strategy and related policies greatly changed. We have summarised the main points below.

- (1) Rural Responsibility System. This system and its related policies are distinctly different from those of the commune system. The implementation of the policy has enhanced agricultural productivity and revealed the nature of the surplus labour force as evidenced by low productivity (efficiency). The policy encourages households to undertake specialised productive activities and thereby accelerate agricultural growth. It has created favourable conditions for transforming traditional agriculture into a new pattern.
- (2) The Economic Reforms and Opening Up to the Outside World. This broke the domination of State monopolies on trade and pricing. The policy combines the planned economy with the market economy. It allows farmers to engage in industry, trade activities, and resettlement, even to receive investments from the outside world. In 1984, farmers were allowed to go to cities and towns for off-farm activities, on condition that they arranged for their own housing and rations.
- (3) Encouragement for Rural Enterprise Development. Private and collective groups were not only allowed to initiate and run local enterprises, but also given preferential loans and taxation privileges. The co-existence of State-owned and non State-owned enterprises has been pursued as a principle of the economic reform. Rural enterprises have boomed all over the country. By the end of 1989, township enterprises had created more than 93 million industrial jobs, with a State investment of 186 million yuan (\$ 39.5 million). In September 1990, the number of employees in the 18 million township enterprises had increased to more than 100 million.
- (4) Support to Minority Nationalities. The current policies encourage minority nationalities to develop their own industries by giving preferential terms of investment, loan, and technical assistance. More details are given in the following section.

Policies Pertaining to West Sichuan

Since the eighties, a series of profitable, off-farm employment policies has been implemented in the Hengduan Mountains of Sichuan.

- (1) Policy Incentive to Break the Traditional Agricultural Pattern. After 1980, the policy of grain production as the dominant activity was changed. Instead, the new policy encouraged comprehensive development that included crops, forests, animal husbandry, sideline production, and fisheries. Efforts were made to increase the output of cash crops, horticulture, livestock, forestry, and specialised local products. From 1979 to 1981, private forest rights were given and 4 million *mu* (267 thousand ha) of forest lands were legally handed over to individuals and production teams. Since 1985, State monopolies on the marketing and trading of agricultural products, animal products, and specialised local products have been discarded, except for timber and musk. At the same time, agricultural products were freely sold at prices determined by the market. The contract term on land use for planting fruits and forests was for up to 30 years. From 1981 to 1989, timber products were given tax-free status.
- (2) Preferential Policies for the Development of Rural Enterprises in West Sichuan. Collective enterprises that are being constructed in West Sichuan are no longer restricted by the State capital construction target. The projects with investments of less than one million *yuan* of fixed assets or less than half a million *yuan* of operating expenses can be approved by the prefecture government (without approval from the Province or the State). The township enterprises below county level with incomes of less than 3000 *yuan* per annum and those above county level with incomes of less than 1000 *yuan* per annum are given duty-free status for two years. Rural enterprises need to pay only half of the usual tax to the Government. Since the beginning of 1984, all rural enterprises below county level have been exempted from industrial, commercial, and income taxes for three years.
- (3) Training of Scientific and Technical Personnel. From May 1985, onwards all employees who graduated from the university, college, or technical school, and who want to work in the Hengduan Mountain Area, are exempt from probation (generally one year in China) and given full allowances. Since the beginning of 1984, all technicians working in the Hengduan Mountains get an additional allowance of six to fifteen *yuan* per month. Furthermore, since September 1984, all personnel who graduated from universities, colleges, or technical schools enjoy a salary grade which is one step higher than in other areas of China. New students from West Sichuan who want to enroll at the university enjoy an advantage of 40 marks over other students.
- (4) Special Financial Policy. Since 1980, the State started a special fund to support undeveloped areas and has been providing 10 million *yuan* per annum to West Sichuan. The State Planning Commission allocated \$ 3 million in foreign currency per annum to help them develop the economy. Since 1986, the Sichuan Provincial Government has, similarly, allocated 126.66 million *yuan* per annum. Since 1988, the provincial bank has set aside 20 million *yuan* each year for low interest loans to West Sichuan. The Provincial Planning Commission has allocated 1.6 million *yuan* to the region for assistance in local construction. The income from the production of gold in West Sichuan is distributed in such a way that 40

per cent goes to the province, 20 per cent to the prefecture, and 40 per cent to the county where it is produced.

- (5) Encouraging Investment from Other Places. The Sichuan Provincial Government has made a special regulation that projects in which other provinces invest (e.g., in mineral ore exploration, energy production, and transportation) are exempt from taxation for four years.

An Assessment of China's Policies

- (1) For a long time, China's policy-making did not result from scientific research or democratic decision making. It was, instead, the product of subjective will, especially that of a few main leaders. The situation is now changing.
- (2) The same policy was usually applied to the whole country without considering the variations in different regions. Thus the policies for the Hengduan Mountains on off-farm employment were no different from general state policies.
- (3) Policies changed very frequently. A typical example pertains to how city inhabitants were moved back to rural areas on three occasions. It happened between 1960 to 1962 when the number of urban employees decreased by 16.48 million and the urban population by 24.60 million. A second event took place between 1969 to 1971. About 17 million urbanities (most of them students) were sent to the countryside. The third movement was between 1988 to 1989. Ten million off-farm employees were forced back to their agricultural jobs.
- (4) The policies usually lacked standardisation and systematisation. Most of them were dictated by politics and other such matters.
- (5) The Ministry and Department of Labour and Personnel usually paid more attention to urban employment than to rural employment.

Programmes and Projects Related to Off-farm Employment

The State and local governments have organised a series of programmes and projects in the Hengduan Mountains of Sichuan Province. Some of these are aimed at alleviating poverty and others towards promoting commercialisation to enhance both employment and income levels. The main programmes and projects which are related to OFE are as follows.

- (1) Capital Assistance Programmes. In 1980, the State Government had established a "development fund for underdeveloped areas". About 10 million *yuan* was distributed to this region each year. In 1986, the "Special Development Fund for Liangshan, Ganzi, and Aba Prefectures" was set up. The total fund amounted to 120 million *yuan* each year. The capital was thus invested in the development of the economy and in education, science, and technology. Off-farm sectors got a large share of this. For example, a total of 13.2 million *yuan* per year (9% of the total) was invested in the off-farm sectors in Ganzi Prefecture between 1980 to 1988.

- (2) **Spark Programme.** This programme has been carried out in Sichuan Province from 1986. Liangshan Prefecture and Panzhihua Municipality were chosen as two key areas for demonstration of the programme. The purpose of the programme was to promote a rural commodity economy through advanced and practical techniques. Diversified agricultural activities and off-farm activities were the main targets. Specific programmes included the production of subtropical fruits, semi-soft fur, exploitation of small mineral deposits, and others. About 80 per cent of the programmes have been carried out in township enterprises. There are also 11 Spark Programmes which have been conducted in Ganzi Prefecture since 1986. The Spark Programmes have helped improve the technical level and economic efficiency of off-farm sectors in the demonstration areas. According to statistics, the Spark Programmes realised a profit of 62.8 million *yuan* in Ganzi Prefecture between 1986 and 1988, and thousands of farmers received training in the implementation of the programmes during this period.
- (3) **Anti-poverty Programme.** In order to alleviate poverty in some areas of the region, the State government distributed loans of 10 million *yuan* at low interest rates from 1988 onwards to the counties of Zhaojue, Butuo, Jingyang, and Meigu in Liangshan Prefecture. In 1989, the Provincial Government listed another 3 counties (Rangtang, Derong, and Maoxian) from this region as key poverty counties and arranged an additional loan of 10 million *yuan* at low interest rates. The anti-poverty programme has helped the development of OFE in the poverty areas as follows.
- (a) Providing funds for the establishment of the commodity base in livestock, fruit production, and processing of local products.
 - (b) Providing assistance for rural enterprises. Some relevant departments provide training to the employees. For example, Fengyi Gelatin Plant, the main rural enterprise in Maoxian County, was one of the rural enterprises which was set up with the anti-poverty fund. Technical assistance was provided by the Minority Nationality Committee of Sichuan Province.

Implications of Policies and Programmes in the Mountains

The main implications of policies and programmes, with respect to objective conditions in the mountains, are summarised in Table 4.3. As shown in the Table, the policies and programmes related to OFE have brought both positive and negative impacts. We take the policy of "*encouraging the comprehensive development of agriculture*" as an example. Diversified agricultural activities were limited in this region before 1980. This policy has led to the tremendous growth of diversified activities including livestock, horticulture, sideline activities, and cash crop production. With the implementation of the policy, resources such as grasslands (especially the grasslands in remote areas) have been used more fully. It has also led to better use of the slope lands. A lot of these, originally under crop cultivation, have been converted for horticultural purposes. This has not only promoted the productivity of slope lands but also led to the degradation of some resources. For example, some of the wild plants have suffered serious damage due to over use and irrational use. The programmes also have other effects. For example, after the capital assistance programme and the anti-poverty programme were carried out in the region, a large amount of capital from outside was transferred into this region, and some of it has brought more

advanced technology to agriculture and off-farm enterprises. Some of the poor counties have achieved great progress in OFE as a result. Meanwhile, the negative effects have also appeared. During our investigation in Wenchuan, Lixian, Maoxian, and other areas, we found that some rural enterprises pay more attention to getting funds from the relevant government departments than to collecting capital from other sources. It has also brought some negative effects regarding the efficiency of capital utilisation in some enterprises.

Table 4.3: Responsiveness and Sustainability Implications of Current Policies and Programmes

Policies or Programmes	Positive Effects on Sustainability	Negative Effects on Sustainability
Responsibility System	Improvement of farmer's initiative in off-farm activities; more independence in making use of resources, manpower, and capital.	Decline of collective self-help functions.
Encouraging a comprehensive agricultural base.	Inducement for fuller use of the diversities and riches of- or irrational use.	Degradation of some development of resources due to over use the resource
Preferential treatment for township enterprises	Alleviation of the pressure of increasing population on land; enhancement of rural economy; more opportunities for linking with the outside economy.	Damage to environmental resources due to heavy extraction of resources and poor protection of the environment; less inputs to traditional agriculture.
Allowing the farmers to go to cities and town for off-farm activities	More opportunities for improvement of employment and income; closer integration with the mainstream; alleviation of pressure on mountain resources.	Better educated manpower move out of the countryside.
Encouraging investment from the outside	Inducement for fuller use of 'niche' through investment and technology transfer from better-off areas.	Greater pressure on fragile resources.
Capital Assistance Programme	Transfer of outside capital to ease the shortage of capital for developing the commodity economy; closer linkages with the outside.	More dependency on the outside; decline of local self-help functions.
Spark Programme	Transfer of advanced and practical techniques to reduce the constraints concerning technology.	
Anti-poverty Programme	Reduction of gap between poverty-stricken areas and better-off areas through gainful activities; more opportunities for poor people.	More dependency on external assistance.