

RURAL NONFARM ACTIVITIES IN CHINA:
GROWTH AND EFFECTS OF TOWNSHIP ENTERPRISES, 1978-1987

by

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ABSTRACT

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YOK-SHIU FREDERICK LEE

Submitted to the Department of Urban Studies and Planning
on May 17, 1988 in partial fulfillment of
the requirements of the Degree of Doctor of Philosophy in
Urban and Regional Planning

In this study, I analyze the dynamics of the post-1978 development of China's rural nonfarm activities and their effects on agricultural development, small towns, and the welfare of the peasants.

The success of the growth of the rural nonfarm sector has aggravated and sometimes created a number of secondary problems. The rural nonfarm activities have brought more jobs and higher income to the peasants in the more-developed areas. However, agricultural development has been retarded as rural industries capture the peasants' interests and energies. In areas where peasants are earning money from both farm and nonfarm work and can earn a much higher income from nonfarm jobs, agricultural duties have been demoted to secondary and lesser importance.

My in-depth analysis of the problem of the classification of China's small towns reveals that the post-1984 increase in the number of designated (officially urban) towns is largely the result of changing statistical definitions and does not, on the whole, reflect actual qualitative changes in rural economic conditions. The jump of China's de jure urbanization level from 20.8 percent in 1982 to 41.4 percent in 1986 was basically caused by changes in urban criteria that included huge numbers of de facto rural residents in designated towns and cities as part of the official urban population.

The development of spatially dispersed rural industries has only a limited remedial effect on the rural-urban gap, which is essentially institutionalized by a set of nonspatial programs, such as the household registration system. Despite some added earning opportunities from the expanding rural nonfarm sector, the peasants' relatively inferior social and economic position, vis-a-vis the urban industrial workers, has remained unchanged.

Thesis Supervisor: Dr. Karen R. Polenske

Title: Professor of Regional Political Economy and
Planning

PREFACE AND ACKNOWLEDGMENTS

In 1984, I began a study of China's small towns. I was interested in China's national urbanization policy, which since the early 1980s has emphasized a decentralized urbanization pattern. After making a trip to China in the summer of 1984 and talking to practitioners and teachers in the field of planning, I decided to undertake field research in the summer of 1985 in Taishan County of Guangdong Province. Much of the data gathered from the field research were about the small towns. I have also conducted library research on the same topic both before and after the field study.

As usually happens in the process of writing, the focus shifted. While sorting through the materials on the problem of small town development and analyzing the classification problems of China's settlements and population, my attention turned to the question of rural employment transition. This led me to conduct further literature research on this issue from late 1985 through 1987. This research proved crucial. First, it unearthed some important statistics that were not previously available on the rural nonfarm sector. Second, it gave me an opportunity to refresh my original conceptions of the intellectual problems and to reformulate the research questions.

During the course of reorganizing my thoughts, two key notions gradually emerged in my mind. None of them had been a part of my original conception of the research project. First, the rural nonfarm sector, not the small towns, is determining the shape of rural development activities in China. Second, the increasing number of rural nonfarm workers has some important effects on the agricultural sector, and the effects are mostly damaging. These are now the two major themes in my dissertation.

This study is an overview and analysis of important changes that have occurred in China's rural sector since the early 1980s. Because the bulk of research for this study was conducted from 1985 through late 1987, and because China's economic reform programs are still underway, there are inherent difficulties in trying to reach a balanced assessment of the accomplishments and shortcomings of the economic reform process that continues to unfold. Nevertheless, the reform policies have produced some significant effects that warrant a preliminary analysis.

Many people have assisted my research project by offering their criticisms and suggestions. I owe a particular debt to Karen R. Polenske, for many years my academic advisor and later the chair of my dissertation committee, who has given constant encouragement and support to my studies of Chinese economic development problems. Her detailed comments of my initial research proposals helped me refine the research questions, and her meticulous reading of countless drafts of my dissertation has been responsible for many improvements in it. Tunney F. Lee and Ralph A. Gakenheimer, members of my dissertation

committee, have been constant sources of invaluable advice and support for my research work. Xu Xue-qiang, an outside member of my dissertation committee, helped arrange my field study in China and offered useful suggestions at the early stage of my research work. My special thanks go to Shwu M. Chen and Casey J. Hammond, who have carefully read and discussed at length the entire manuscript at various stages, improving both its organization and style. I am grateful to Terry Hill for her professional editing of the final version.

I have benefitted from comments and suggestions on various parts of the dissertation from the following people: Dwight Perkins, Norton Ginsburg, Laurence Ma, Judith Banister, Leo Orleans, David Zweig, Clifton Pannell, Chung-tong Wu, and K.C. Tan. Fang Ming, Zhu You-xuan, Laurence Ma, Leo Orleans, and David Zweig have provided useful research materials. Karen R. Polenske and Tunney F. Lee have supplied newspaper clippings on China's economy.

I would like to express my deep gratitude to C.K. Yang and the Trustees of Lingnan University for their generous financial support that enabled me to attend M.I.T. and later to conduct field study in China. The Chinn Ho Foundation had also supported my first year in the Ph.D. program and its assistance is greatly appreciated. The East Asian Architecture and Planning Program at M.I.T. employed me as an administrative assistant for the last six years and greatly eased the financial burden of graduate studies.

I would also like to thank three teachers at the University of Hawaii at Manoa, who encouraged me to seek academic challenges beyond the horizon of Oahu. Herbert Barringer persuaded me to pursue doctoral studies; Ruth Dawson convinced me to apply to the most competitive programs; and Stephen O'Harrow confirmed the importance of urban and regional planning. Throughout the last seven years, they have continued to give me encouragement and support from far away.

My deepest appreciation belongs to my parents, Lee Yao-kit and Lun Yit-siu, and my wife, Amy S.L. Wong. My parents have sacrificed in many ways to ensure their children a good education from a young age. Amy is always supportive of my work, morally, financially, and otherwise. In the spring of this year, she gave birth to our son, Lee Jun, who brought great joy and provided the inspiration that I needed to complete this study on time. I will always be indebted to them.

ABBREVIATIONS

Statistical Publications in the Chinese Language

1986 JSJJNJ	1986 Jiangsu Jingji Nianjian (1986 Jiangsu Economic Yearbook)
GXJJNJ 1986	Guangxi Jingji Nianjian 1986 (Guangxi Economic Yearbook 1986)
ZGNCTJNJ 1985	Zhongguo Nongcun Tongji Nianjian 1985 (Statistical Yearbook of China's Rural Sector 1985)
ZGCSNJ 1986	Zhongguo Chengshi Jingji Shehui Nianjian 1986 (Statistical Yearbook of China's Cities 1986)
ZGNYNJ 1980	Zhongguo Nongye Nianjian 1980 (Statistical Yearbook of China's Agriculture 1980)
ZGNYNJ 1982	Zhongguo Nongye Nianjian 1982 (Statistical Yearbook of China's Agriculture 1982)
ZGNYNJ 1983	Zhongguo Nongye Nianjian 1983 (Statistical Yearbook of China's Agriculture 1983)
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ZGNYNJ 1985	Zhongguo Nongye Nianjian 1985 (Statistical Yearbook of China's Agriculture 1985)
ZGNYNJ 1986	Zhongguo Nongye Nianjian 1986 (Statistical Yearbook of China's Agriculture 1986)
ZGRKNJ 1985	Zhongguo Renkou Ninajian 1985 (Statistical Yearbook of China's Population 1985)
ZGTJNJ 1986	Zhongguo Tongji Nianjian 1986 (China's Statistical Yearbook 1986)
ZGTJNJ 1987	Zhongguo Tongji Nianjian 1987 (China's Statistical Yearbook 1987)

Journals, Periodicals, and Newspapers in the Chinese Language

BFLC	Beifang Luncong (Northern Forum)
BJDX	Beijing Daxue Xuebao (Journal of Beijing University)
CJKX	Caijing Kexue (Science of Finance and Economics)
CJYJ	Caijing Yanjiu (Study of Finance and Economics)
CSG	Chengshi Guihua (City Planning Review)
CSGH	Chengshi Guihua Huikan (Journal of City Planning)
CSGW	Chengshi Guihua Wenti (Problem of City Planning)
CSWT	Chengshi Wenti (City Problems)
CXJS	Chengxiang Jianshe (Urban Rural Construction)
CZ	Caizheng (Finance)
FJLT	Fujian Luntan (Fujian Forum)
FJSD	Fujian Shida Xuebao (Journal of Fujian Normal University)
GDSHKX	Guangdong Shehui Kexue (Guangdong Social Sciences)
GWYGB	Guowuyuan Gongbao (State Council Circular)
GZSK	Guizhou Shehui Kexue (Guizhou Social Sciences)
HQ	Hongqi (Red Flag)
JHLT	Jiangnan Luntan (Jiangnan Forum)
JHXX	Jiangnan Xuekan (Jiangnan Academic Journal)
JJDL	Jingji Dili (Economic Geography)
JJGL	Jingji Guanli (Economic Management)
JJWT	Jingji Wenti (Problems in Economics)
JJWTT	Jingji Wenti Tansuo (Inquiry Into Economic Problems)
JJYGL	Jingji Yu Guanli Yanjiu (Research on Economics and Management)
JJYJ	Jingji Yanjiu (Economic Research)
JLT	Jianghuai Luntan (Jianghuai Forum)
JZXB	Jianzhu Xuebao (Architectural Journal)
LLYK	Lilun Yuekan (Theoretical Monthly Journal)
LZDX	Lanzhou Daxue Xuebao (Journal of Lanzhou University)
NJDXX	Nanjing Daxue Xuebao, Dili (Journal of Nanjing University, Geography)
NKXB	Nankai Xuebao (Journal of Nankai University)
NXSH	Ningxia Shehui Kexue (Social Sciences of Ningxia)
NYJJ	Nongye Jingji Wenti (Problems of Agricultural Economics)
NYXDH	Nongye Xiandaihua Yanjiu (Research of Agricultural Modernization)
QS	Qiusuo (Search)
RKXX	Renkou Xuekan (Population Journal)
RKYJ	Renkou Yanjiu (Population Research)
RKYJJ	Renkou Yu Jingji (Population and Economics)
RMRB	Renmin Ribao (People's Daily)
RMRB(OE)	Renmin Ribao (People's Daily, Overseas Edition)
SHKXG	Shehui Kexue, Gansu (Social Sciences, Gansu)
SHKXJ	Shehui Kexue Jikan (Journal of Social Sciences)
SHKXS	Shehui Kexue, Shanghai (Social Sciences, Shanghai)
SHX	Shehuixue Tongxun (Sociology Bulletin)
SHXYJ	Shehuixue Yanjiu (Sociological Research)
SJJZ	Shijie Jianzhu (World Architecture)

TJSD Tianjin Shida Xuebao (Journal of Tianjin Normal University)
TJSH Tianjin Shehui Kexue (Tianjin Social Sciences)
XXYTS Xuexi Yu Tansuo (Study and Inquiry)
XZJJ Xiangzhen Jingji Shouce (The Handbook of Town Economy)
YNSH Yunnan Shehui Kexue (Yunnan Social Sciences)
ZGCZ Zhongguo Chengzhen (China's Cities and Towns)
ZGJJ Zhongguo Jingji Wenti (China's Economic Problems)
ZGNCJJ Zhongguo Nongcun Jingji (China's Rural Economy)
ZGSH Zhongguo Shehui Kexue (Social Sciences in China)
ZSDX Zhongshan Daxue Xuebao (Journal of Zhongshan University)
ZZXK Zhongzhou Xuekan (Zhongzhou Academic Journal)

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Chapter 1 AN OVERVIEW

The People's Republic of China is in the midst of a rapid rural employment transition. The rural economy is shifting from the predominantly agricultural employment structure of the past to a more industrial occupational structure. Because about 80 percent of China's population still reside in rural areas, tracing rural occupational changes in China will greatly enhance our understanding of that country. In contrast to the Soviet Union, which managed to reduce agriculture's share of total employment from 71 percent to about 50 percent within 12 years from the start of its First Year Plan (Riskin, 1987: 4), China is still largely rural--with 87 percent of its labor force engaged in agriculture in 1978--almost three decades after the introduction of state economic planning (ZGNCTJNJ 1985: 224).

INCREASING SIZE OF THE RURAL NONFARM SECTOR¹

From the start of rural reforms in late 1978 to 1986, China's rural nonfarm sector, as measured by the output value of township enterprises,² has multiplied rapidly at an average rate of 28 percent per annum (RMRB, 1987, July 31). In 1986, its revenue was equivalent to 48.9 percent of the entire revenue of the rural sector, and the

1 A definition of the rural nonfarm sector is given in the last section of this chapter.

2 Township enterprises are mainly rural industries but, they include construction, commercial, transport, and other nonfarm enterprises run by local authorities at the township, town, village levels as well as by the peasants themselves. A full discussion of the history and the recent development of the township enterprises is found in Chapter 3.

output value of its industrial component accounted for 23 percent of the nation's total industrial output value (RMRB, 1987, August 12). State planners have projected that by 1990 one-quarter of the rural workforce will be employed by the township enterprises (The Seventh Five Year Plan for Rural Economic Development, 1986-1990, 1986: 160). By the year 2000, 40 percent of the rural labor force will work in township enterprises, according to another central government projection (RMRB, 1984, March 18).

The growing size of China's rural nonfarm sector is represented in Tables 1-1 and 1-2. As shown in Table 1-1, the proportion of rural labor force (not counting those in designated towns) engaged in nonagricultural activities has increased steadily from 10.3 percent in 1978 to 19.8 percent in 1986. I have documented the increase in the number of workers in each category of the rural nonagricultural sector between 1978 and 1986 in Table 1-2.

PRINCIPAL RESEARCH QUESTION

Unprecedented in China's economic development experience, the tremendous growth of the rural nonfarm sector since 1978 has been received with mixed reactions by different quarters. Supporters point to the surging economic significance of the rural nonfarm sector. They emphasize the important role of rural nonfarm enterprises in providing added employment and earning opportunities to the rural surplus labor, in allocating parts of their profits to improve the social welfare of the peasants and to subsidize agriculture, and in enhancing the tax revenues of the state (RMRB, 1987, August 12). Critics, on the other

Table 1-1 SECTORAL COMPOSITION OF THE RURAL LABOR FORCE,^a 1978-1986

	1978	1979	1980	1981	1982	1983	1984	1985	1986
Rural labor force									
(thousand)									
Total	306,378	n.a.	318,359	326,723	338,665	346,898	359,676	370,651	379,898
Agriculture ^b	274,883	n.a.	287,787	296,464	300,624	305,011	302,972	303,515	304,679
Nonagricultural ^c	31,495	n.a.	30,572	30,259	38,041	41,887	56,704	67,136	75,219
(percent)									
Total	100.0	n.a.	100.0	100.0	100.0 ^d	100.0	100.0	100.0	100.0
Agriculture	89.7	n.a.	90.4	90.7	88.8 ^d	87.9	84.2	81.9	80.2
Nonagricultural	10.3	n.a.	9.6	9.3	11.2	12.1	15.8	18.1	19.8

Notes:

a Contrary to the broad definition of the rural nonfarm sector that I have adopted, the figures available to us and being used here do not include labor in designated towns. However, because the labor force in designated towns is largely engaged in nonagricultural activities, and because of the fact that village-to-town migration is strictly controlled, the omission of the labor force of designated towns in this table should not weaken our argument.

b Agriculture here refers to crop cultivation, forestry, animal husbandry, sideline production, fishery, and does not include state farms.

c Nonagricultural activities include township and village industries, construction, transportation, commerce, food services, education, health and social services, research, government, migrant contract workers in urban areas, and others.

d The 1982 Population Census produced a slightly different set of figures for the sectoral composition of the rural labor force: agriculture 87.8%; nonagricultural 12.2% (Ho, 1986, p.34). These figures may be more accurate. However, in order to preserve the consistency of the figures in the table; I did not use the 1982 Population Census figures.

Sources:

- 1978, 1979-1984: Calculated by the author using data in ZGNCTJNJ 1985, p. 224.
- 1985: Calculated by the author using data in ZGNYNJ 1986, pp. 152-154.
- 1986: Calculated by the author using data in ZGTJNJ 1987, pp. 135-136.

Table 1-2 OCCUPATIONAL COMPOSITION OF THE RURAL NONAGRICULTURAL LABOR FORCE, 1973-1986
(thousand)

Rural nonagricultural labor force	1978	1979	1980	1981	1982	1983	1984	1985	1986
Total	31,495	n.a.	30,572	30,259	38,041	41,687	56,704	67,136	75,219
Industry	17,340	n.a.	19,422	19,807	20,728	20,170	24,214	27,410	31,393
Construction	2,298	n.a.	2,830	2,973	3,789	4,825	8,114	11,301	13,006
Transportation	796	n.a.	900	1,013	1,147	1,609	3,164	4,341	5,061
Commerce	643	n.a.	1,114	1,209	1,304	2,062	4,217	4,626	5,318
Education and social services	4,841	n.a.	4,505	3,365	3,715	3,877	4,107	4,455	4,547
Government	368	n.a.	370	359	339	554	739	809	1,034
Migrant workers	1,901	n.a.	1,210	1,322	2,847	4,320	6,000	14,194	14,780
Others	3,308	n.a.	221	211	4,172	4,470	6,149		

Note: n.a. Not available

Sources: 1978, 1980-1984: Calculated by the author using data in ZGNCTJNJ 1985, p. 224.
 1985: Calculated by the author using data in ZGNYNJ 1986, pp. 152-153.
 1986: Calculated by the author using data in ZGTJNJ 1987, pp. 135-136.

hand, charge that rural nonfarm enterprises are unduly competing with state factories for raw materials and other inputs that are in short supply, that rural factories are polluting the countryside, and that rural industries are diverting meager resources away from farming, thus impeding long-term agricultural growth (RMRB, 1987, August 12).

Of the controversies surrounding the rapid increase of rural nonfarm activities in the People's Republic, I am focusing my attention on the following research question: To what extent and in what manner can China develop the rural nonfarm sector without impeding agricultural development, facilitate decentralized urbanization, and narrow rural-urban differences? Agriculture requires close scrutiny, because its growth or decline will influence the future course of rural nonfarm development and have a fundamental impact on China's overall development strategy. The future of the rural nonfarm sector itself also depends greatly on its performance in the context of national urban development policy as well as in its effect on the peasants' welfare and the rural-urban gap.

In the dissertation, I address the above issues by analyzing the growth and the effects of township enterprises in a framework of policy analysis. Simply put, three independent variables--rural surplus labor, the restriction on rural-urban migration, and economic underdevelopment--have shaped three key policies with regard to township enterprises: increased employment and income opportunities for the peasants, the building of small towns, and a rural occupational

transition away from agriculture.³

In relation to the three independent variables, I examine the effects of the efforts to develop the township enterprises in terms of: (1) the enhancement of the peasants' welfare, (2) decentralized urbanization, and (3) agricultural development. I place the discussion within a context broader than the immediate subject at hand, because these areas of concern refer, respectively, to the following areas of social science inquiry, namely, political economy of socialist societies, planning, and development. Thus, although in the dissertation, I focus on one sector in one country, the implications of my analysis are far greater.

MAJOR ARGUMENT

The major argument of the dissertation is that the success of the growth of the rural nonfarm sector in China has aggravated and sometimes created a number of secondary problems. By almost all accounts, township enterprises have succeeded in bringing more jobs and higher income to the peasants than they had earlier. Even though underemployment still exists and actually remains a major concern in the less-developed regions, the expansion of township enterprises is regarded as an expeditious solution to the problem of rural surplus labor in the economically more advanced areas.

The contents of national policy statements on township enterprises indicate that the central government is equally concerned with these

³ For the organization of arguments appearing in this and the next paragraph, I used Chapter 1 of Solinger's book, Chinese Business Under Socialism, as a model.

issues: rural surplus laborers, agricultural development, and the retention of rural labor in the countryside. Local cadres seem, however, to be less concerned now with agriculture, partly because they have less control over farming after the communes were abolished and partly because agricultural production has steadily improved since the introduction of the household responsibility system. At present, they are more interested in running the township enterprises, through which, with some exceptions, they often can control the distribution of the profits. Beginning in 1984, peasants were formally authorized to run their own nonfarm enterprises. Driven by enthusiasm for pursuing personal wealth, individual and other types of noncollective enterprises mushroomed in many parts of the advanced regions and some parts of the less-developed areas.

At the local level, extra budget revenues (for local authorities) and added incomes (for the peasants) are becoming the primary reasons for initiating rural nonagricultural enterprises. One of the larger societal goals--agricultural development--is, more through inadvertence than design, sacrificed for immediate gains in local employment and earning opportunities.

The major effects of rural nonfarm activities can be summarized here. From the perspective of economic development, agricultural growth is unduly impeded as rural nonfarm activities (industrial production in particular) capture the peasants' energies and deflect their interests away from farming. Nonfarm enterprises are commanding more attention and a better allocation of resources because both the local officials and the peasants find them financially more rewarding

than cultivation. The recent improvement in per capita agricultural productivity has not advanced further, in part because peasants who now receive nonfarm income work their fields half-heartedly and are not keen to produce more than enough to feed their own families. The amount of agricultural inputs, such as fertilizer, has declined, and in some extreme cases, farmland has been left fallow or even abandoned altogether. The plan to institute mechanized, large-scale, farming has encountered obstacles because the program of farmland consolidation has received very little support from the peasants. With a few exceptions, therefore, the gains in added employment, incomes, and local revenues are obtained at the expense of agricultural stagnation.

Two main concerns about the rural nonfarm enterprises may be analyzed from a planning perspective: excessive conversion of farmland and pervasive environmental pollution. First, the construction of rural factories and the expansion of small towns are absorbing agricultural land at a much higher rate than if the same amount of industrial and urban growth were to take place in larger cities. This is due partly to the lack of control over farmland conversion in the countryside and partly to the customary larger per capita housing space in the rural areas than in the urban areas. Second, environmental pollution has become rampant in areas populated with small factories. Many industries are located in the countryside, in large part because they are trying to evade the stricter enforcement of costly pollution control measures required of city industries. The environmental damage resulting from the rural factories may be more severe and more harmful because of the general disregard for pollution control in the

countryside. In addition, the widely dispersed rural industries are very close to the sources of food supply.

Concerning the effects of rural nonfarm activities on the general welfare of the peasants, I conclude that while nonfarm activities have increased the earning opportunities for the peasants, their social and economic position remains inferior to that of urban industrial workers. An important point here is that the fundamental rural-urban differences in China are created in the most part by nonspatial policies. As such, the development of spatially dispersed rural industries only have a limited healing effect on the rural-urban gap, which is institutionalized by some spatially related policies as much as by a set of nonspatial programs such as the household registration system.

DATA SOURCES AND METHODOLOGICAL ISSUES

Primary information for the dissertation comes from two sources: interviews with local officials in Taishan County, Guangdong Province⁴ and, more importantly, library research of Chinese publications. The interviews were conducted by me from mid-June to mid-July, 1985. I interviewed planning officials in the city of Jiangman, which has administrative control over Taishan County, as well as local cadres in the county seat (Taicheng), one county town (Gongyi), and four undesignated township towns (Dajiang, Doushan, Shuibu, and Sijiu) of

4 In the summer of 1984, I visited planners at the Ministry of Urban and Rural Construction and Environmental Protection and planning faculty members at Qinghua University, Beijing University, Nanjing University, and Zhongshan University. After this visit, I decided to conduct a field study in Guangdong Province with assistance provided by Zhongshan University.

Taishan County.

The bulk of information for the dissertation was obtained through library research in Chinese language sources catalogued at Yenching Library and the East Asian Research Center Library, both of Harvard University. I have also obtained secondary data on the topic from Western publications. These secondary sources were invaluable in the early formulation of my research approach.

Data from Interviews

When I went to China in the summer of 1984 and again in the summer of 1985, my research interests were centered more on the small towns and less on the rural nonfarm sector, which by now has become the primary focus of my dissertation. Accordingly, the information I gathered from the interviews was concentrated on issues linked to small town development. This information is developed in Chapters 5 and 7 in relation to various issues covering the growth of the small towns. Although the bulk of materials cited here originate from a wide variety of Chinese publications, the field study provided an important firsthand experience that cannot be otherwise duplicated. Impressions from the month-long trip to Taishan County and its surrounding areas have become part of an overall mental framework that gradually shaped the final form of this document.

Quality of China's Published Data

For about 30 years from 1949 to the late 1970s, Chinese statistics were seldom published. Researchers on China wrote of the "minimal data

problem" in studying China's social and economic development issues (Whyte, 1977). The Chinese government was obsessed with secrecy on economic and demographic data. When the Chinese authorities did publish some data, earlier researchers warned of the dangers of depending on Chinese publications: because they contained deliberate distortions, discontinuities in coverage, and unintentional inaccuracies (Oksenberg, 1969: 594-599).

Research on China, however, would be impossible without Chinese publications. To make full use of all available information, I tried to offset the inherent bias or inaccuracies of China's publications. I first assessed the principal strengths and weaknesses of each type of published source from China. Second, I made a special effort to use a wide range of materials. The goal of these two approaches was to achieve, in the words of a Sinologist, "intimate familiarity with the variety of sources available, and a careful cross-checking between them for consistency" (Walder, 1979: 568).

Since the early 1980s, the Chinese have begun to publish an enormous amount of data on various aspects of the country. The collected statistics are now published as quickly as possible in some detail. Most published data are also readily available in the West and locally in the libraries at Harvard University. The recent surge in the number and the variety of Chinese publications thus provided extensive sources for research materials on the topics explored here. The Chinese materials I consulted include a dozen statistical yearbooks and another dozen provincial yearbooks, about 110 titles of periodicals and journals (which include two dozen university journals), several

Chinese newspapers, and numerous books on the subject matter and related issues.

Although it is true that many Chinese publications in the past have been designed as tools of social propaganda rather than as tools for economic management (Travers, 1982: 480-485), publications in which writers articulating viewpoints divergent from official positions have appeared consistently dating from the beginning of the economic reform program of the early 1980s. These publications are especially valuable because they include frank discussions of specific policy issues. Moreover, regional policymakers sometimes use provincial yearbooks and provincial journals to express interests that are not compatible with those of the central policymakers. This information provides useful insights into the problem of policy implementation, revealing the factors underlying certain policy arguments.

Interregional Issues

Some readers may feel that because the data are geographically diverse they may be inconsistent. However, because the major objective of this study is to analyze the overall national trend and the effects of structural changes that accompany the rural employment transition, the geographical diversity of data sources should actually strengthen, not weaken, the major arguments.

This statement is made with the belief that national policies in China are more or less consistently implemented throughout the country. The fact that detailed information on specific aspects of the rural employment transition process can be located in different regions

strongly indicates that this process is taking place more or less consistently at the national level. There are bound to be some variations, in terms of degree and intensity, in how the employment transition takes place across regions, but this should not alter any principal conclusions. Moreover, the major underlying structural mechanisms that accompany the transition should be fairly consistent across regions, because in China most institutions are uniformly controlled by the central government.

It is true that there are enormous differences across and within regions in China. This study is, however, in large part, an examination of the effects of the growth of rural nonfarm activities, and it is in the more-developed regions where their effects are heightened. This does not mean that the less-developed areas are ignored in the study. In fact, the global figures of statistical yearbooks and the individual reports on specific localities, in combination, provide the most useful information for examining interregional issues. These are discussed in Chapter 4, where the growth process of township enterprises is detailed.

ORGANIZATION OF DISSERTATION

In Chapter 2, I delineate the three independent variables that have shaped policy on rural nonfarm activities. I argue that rural nonfarm sector policy is a compromise product between the pressure for economic development and the central planners' insistence on retaining the population in the countryside. I provide a framework for understanding the growth of township enterprises in Part I (Chapters 3

and 4) and the effects of township enterprises in Part II (Chapters 5, 6, 7, and 8).

In Chapter 3, I explain the meaning and objectives of township enterprises and the employment and income effects of their successful growth. The factors behind the successful development of township enterprises are discussed in Chapter 4. Exposition of these factors provides a basis for the exploration of the interregional issues.

I review the nature of small towns in Chapter 5, setting forth the argument that the recent upsurge in the number of designated towns should not be taken as an indication of a higher urbanization level in China. In Chapter 6, I look at the problem of peasant-workers and conclude that the peasants have not advanced their social and economic position vis-a-vis the urban industrial workers. Then, in Chapter 7, in an evaluation of the effects of the rural nonfarm sector from the planning perspective, I discuss the problems of excessive farmland conversion and environmental degradation and the effects of township enterprises on towns. In Chapter 8, I study the effects of the growth of the rural nonfarm sector on farming and show that agricultural development is impeded by competitions from rural industries. This chapter also includes a discussion of the problem of farmland consolidation. I conclude the study (Chapter 9) by summarizing the major arguments with reference to certain conventional beliefs in planning, development, and political economy of socialist societies and critically reviewing two major assumptions behind the rural nonfarm policy.

Before laying the framework for the development of China's rural

nonfarm activities in the next chapter, I will review briefly the role of the rural nonfarm sector in the development process from an international perspective.

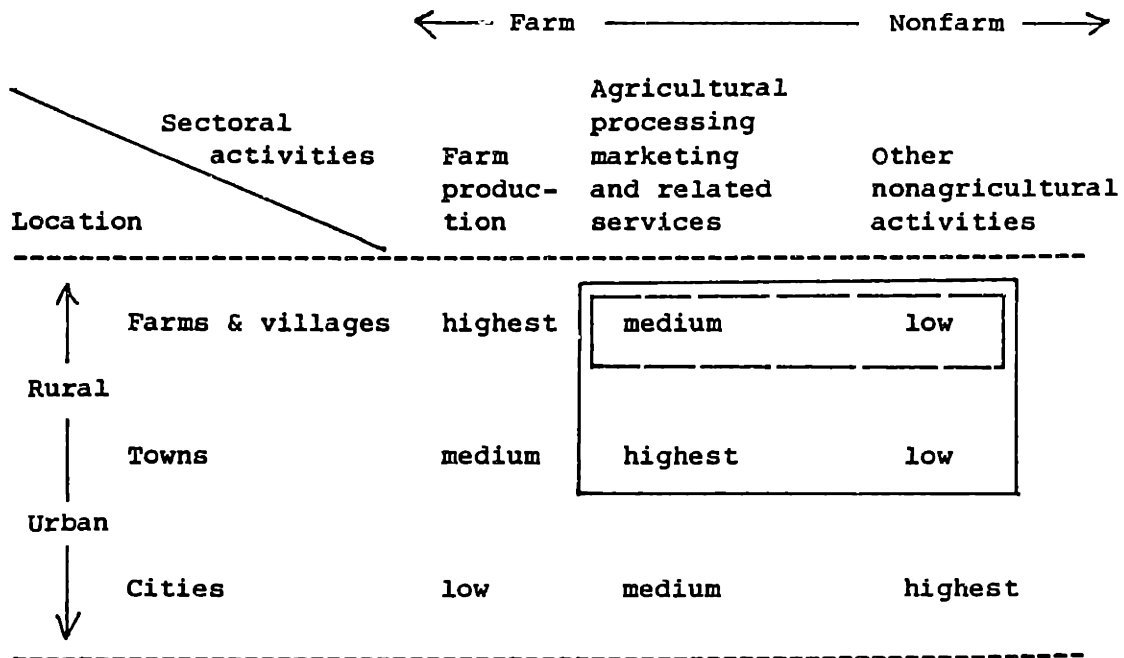
ROLE OF RURAL NONFARM SECTOR IN DEVELOPMENT

Both a narrow and a broad definition of rural nonfarm activities are schematically illustrated in Figure 1-1. The obvious drawback of this figure is a degree of arbitrariness in demarcating what is, in fact, a continuous spectrum. I should also like to emphasize that the figure is a generalized picture of most developing countries. China shares, to be sure, some universal patterns with other developing countries. At the same time, there are inevitably some discrepancies between the generalizations I give in the figure and specific application to China.

In Figure 1-1, I define rural farm and nonfarm activities by the location and the nature of such activities. I have adopted a broader definition than usual of rural nonfarm activities, because in China most of the nonfarm activities located in the small towns are operated by peasants who reside in villages. The employment and income effects of these nonfarm activities thus extend well beyond the small towns themselves. The welfare of the peasants as well as the agricultural sector is increasingly affected, for better or for worse, by nonfarm activities situated in small towns as well as those in the villages.

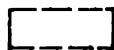
In many developing countries, rural nonfarm activities are quantitatively important. They are a primary source of employment and income for about one-quarter of the rural labor force. They also

Figure 1-1 SCHEMATIC ILLUSTRATION OF FARM AND NONFARM ACTIVITIES IN THE RURAL-URBAN SPECTRUM



Notes:

highest, medium, and low: Proportion of sectoral activities



Narrow definition of rural nonfarm activities



Broad definition of rural nonfarm activities

Source:

Adapted from Dennis Anderson and Mark Leiserson, Rural Enterprise and Nonfarm Employment, Washington, D.C., World Bank, 1978, p. 14.

provide important secondary income for small and landless farmers (Anderson and Leiserson, 1978: 7). The rural nonfarm sector is a significant source of employment and earnings for those farmers who can no longer find work in agriculture as agricultural productivity increases.

In most developing countries rural nonfarm activities have become increasingly concentrated in small towns as infrastructure improves and markets grow. According to Anderson and Leiserson (1978: 8), this process of development seems to have stimulated a pattern of decentralized urban growth. In this way, rural nonfarm activities are an essential link in the process of development and structural change from rural-agricultural to urban-industrial economies.

The effects of rural nonfarm activities on the welfare of the rural sector are, however, mixed. The implications are recorded primarily in two areas: the distribution of farm household income and agricultural production.

Analysts commonly asserted that rural nonfarm income helps equalize income distribution, both between the urban and rural sectors and within the rural sector. The empirical evidence gathered by Ho (1979) on Taiwan, for instance, suggests that "increase in nonagricultural employment opportunities for rural households ... undoubtedly [makes] it possible for a greater number of these small farmers to ... improve their economic position absolutely and relatively" (Ho, 1979: 92-93). The reason is that in most developing countries, access to farmland is the single most important determinant of farm income. Because off-farm income varies inversely with farm

size, one of the most important effects of off-farm income is its tendency to equalize average total farm household incomes across farm-size groups; that is, nonagricultural employment allows farm households with small farm land to augment their income to compensate for their lack of land.

Writing on the same subject six years later, Ho (1986) modified his earlier view. He found that off-farm income does not necessarily improve the distribution of income within the rural sector. This is because the distribution of off-farm income is more unequal than that of net farm income, so that "while the addition of off-farm income largely eliminate[s] the inequalities of income distribution from farm sources, those earnings themselves introduce another source of distributional inequality, which ... prove to be more substantial than those influencing total net farm income distribution" (Ho, 1986: 23-24).

The effects of the rural nonfarm sector on agricultural production are also two-pronged. On the one hand, rural nonfarm activities enable small farmers, particularly, to combine farming with part-time or full-time nonfarm employment. This relieves the pressure on farm household members to migrate to cities for jobs. The size of the farm labor force and the corresponding agricultural production output level are thus stabilized. On the other hand, increased involvement in nonagricultural activities by farm households can affect agriculture adversely. Rural nonfarm employment, for example, may attract the more able and productive farm laborers. These rural nonfarm jobs may prevent some household members from working during the peak

agricultural seasons, and divert scarce supervisory skills from farming. By drawing labor away from the farms, these jobs may also reduce the application of farming inputs that are complementary to labor (Ho, 1986: 24-25). As such, the development of the rural nonfarm sector may curtail both the quantity and quality of inputs into agriculture.

I will discuss the extent to which these effects of the rural nonfarm sector appear in China in the following chapters. As I will argue, the growth of the rural nonfarm activities in China has produced some secondary negative effects on the agricultural sector, despite of the generally well-publicized employment and income effects. Part of the explanation may be traced to some of the same factors found in most other developing countries, as discussed above. Many more reasons, however, may be attributed to China's specific institutional arrangements.

Chapter 2 MAJOR FACTORS OF CHINA'S RURAL NONFARM DEVELOPMENT

China's rural economy since late 1978 has undergone some fundamental reforms that changed the composition of the rural employment structure. In order to understand the effects of an expanding rural nonfarm sector, I first analyze the dynamics underlying the rural employment transition process.

As pointed out in the last chapter, three factors--economic underdevelopment, rural surplus labor, and the restriction of rural-urban migration--have shaped policies relating to rural nonfarm activities in China. Although the first two factors share some similar elements in affecting rural economic growth, these are sometimes at odds with the thrust of the third factor. My argument in this chapter is that China's policy on rural nonfarm activities is basically a compromised outcome between the mounting pressure of rural economic development (providing jobs to the rural surplus laborers being one of the most immediate issues) and the long-standing planning practice of the central authority to restrict rural-urban migration.

In the following, I discuss each of these three factors from an historical perspective and explain their respective influence on the rural nonfarm sector policy.

ECONOMIC UNDERDEVELOPMENT AND RURAL REFORMS

From the early 1960s through the late 1970s, commodity production and commercial activities in the rural areas were considered capitalist activities and were greatly curtailed. Self-reliance and self-

sufficiency were stressed; interregional trade was minimized; and the commercial functions of small towns diminished. Moreover, grain production was considered paramount in agriculture. Peasants were prohibited from engaging in nonfarm sideline activities (Liu Wen-pu, 1987:42). Individual private vendors were regarded as vestiges of capitalism and were therefore prohibited; and rural market places were repudiated (Wang Fang, 1984: 17). Most of these radical policies were reversed with the introduction of some major reforms of the agricultural sector in late 1978.

Fundamental Reforms in the Agricultural Sector

Post-1978 agricultural policy in China has been dominated by the idea that material incentives are crucial to increasing agricultural outputs. A series of measures concerning grain procurement prices, production specialization, private farming, and material incentives were formulated accordingly.

In March 1979, government purchase prices for grain were raised by 20 percent and a 50 percent premium was added for deliveries to the state in excess of planning quotas. By this measure alone, farmers' income has increased substantially. Moreover, a new emphasis on specialization and commercialization replaced the pre-1978 major policy goal of local self-sufficiency in grain production. Peasants are now given more latitude in deciding how to use their land in the most productive and profitable manner (Surls, 1982: 14).

Furthermore, policies regarding private farming were relaxed. The size of the private plots has been increased, with the legal maximum

limit set at 15 percent of the total land of a production team. Peasants are also allowed more time away from collective production to work on their own plots and other private sideline production activities. As a consequence, income from private activities accounted for more than one-quarter of total rural income by 1982 (Surls, 1982: 15).

Finally, perhaps the most significant change in agricultural development policy was the re-introduction of the production contract responsibility system,¹ which relies primarily upon material incentives to raise agricultural productivity. The contract responsibility system is basically a three-party contract signed by the state, the collective, and the peasant household (or a group of individuals known as a "work group"). Because agricultural output targets are still part of the state's planning function, the state works out a plan for rural production, designating the output level of certain crops and products for a particular area. Then, based on the state plan, the production team contracts out pieces of land to individual households (or work groups), with the stipulation that the latter must grow given quantities of specified crops (Lu Bai-fu, 1983: 14-15). At the end of the season, the household turns in the contracted amount of output to the team. Then, any surplus over this amount is divided between the household and the team according to the terms agreed to in the contract. The household has the sole right in deciding how to dispose

¹ Because of the diverse natural conditions and differing levels of development found in China's agricultural sector, the contract responsibility system encompasses a wide variety of forms (Tsou, et al., 1982). A detailed discussion of all these various arrangements, however, is beyond the scope of this study.

of its share. As such, the contract responsibility system is at the same time both a production plan and a mechanism for distribution.

Rural Reforms and the Rural Nonfarm Sector

Two elements of the agricultural reform program have particular relevance for the development of the rural nonfarm sector. They are the agrarian commercialization program and the production contract responsibility system, described by Yu Guang-yuan (1985: 34) as two cornerstones of the rural reform strategy. The key relationships between rural reforms and rural nonagricultural activities are best summarized in "Document Number 1, 1984" (Circular of the Central Committee). Parts of this document, released by the central government in mid-1984, are worth quoting at length:

The focus of rural work this year [1984] should be to raise the level of productive forces, free channels of circulation, and develop commodity production by stabilizing and improving the production responsibility systems....

We must mobilize and organize all available forces and gradually establish systems that will more fully serve the needs of commodity production, as well as satisfying peasants' demand for technology and capital; storage, processing, transport, supply and marketing facilities; market information and operational guidance.... It is the basis of the development of commodity production

As specialization in the use of labor amongst different occupations develops in the countryside, more and more people will leave farming in order to pursue forestry, animal husbandry and fish farming instead. Quite a lot of others will turn to small-scale industry or service trades in the market towns. This is part of the inevitable process of history. It will facilitate the further advance ... of agricultural production and create the conditions for changing the distribution of population and industry... (Circular of the Central Committee: 132,

The ultimate objective of rural reforms is to raise the level of agricultural productivity, and the above excerpts have summarized the Chinese planners' strategy to attain this objective. Specialization is identified as a major step towards higher agricultural productivity, but specialization requires a convenient supply of nonfarm goods and services. It demands a reduction of the agricultural workforce and a simultaneous expansion of the nonfarm sector.

Document Number 1, 1984, is a significant statement, because it is the first time in over three decades that the central policymakers in China have agreed on the need to reduce the size of the agricultural workforce. They accept that over-concentration of the labor force in agriculture is a major cause of the country's economic underdevelopment problem (Du Run-sheng, 1985; RMRB, 1987, August 10).

The need to overcome economic underdevelopment of the country as a whole, and the agricultural sector in particular, is therefore a fundamental force behind the policy to develop the rural nonfarm activities. However, an equally important force is the immediate pressure to provide jobs for a hundred million rural surplus laborers.

SURPLUS RURAL LABOR

The notion of surplus labor is closely linked to other concepts such as rural unemployment and underemployment. Rural unemployment is defined in the same way as urban unemployment: a person who wants to work, is actively looking for work, but cannot find work, is said to be unemployed. Very few people in China's rural areas are unemployed in

this sense. Nearly all members of the rural labor force are officially assigned or allocated to their jobs, whether under the commune system in the past or within the framework of the responsibility system of the present. The problem is that although most Chinese peasants have work, they are not very productive.

Under the commune system, the excess labor problem was sidestepped by assigning farm work to all commune members. Because there was not enough work to employ the entire rural work force full time, the commune members all worked part-time, sharing what work there was. The consequence of such a practice was commonly known in China's countryside as "five people doing the work of three." Formally this problem is recognized as invisible underemployment, where "either the full skill or the potential energy of a worker is not really used, even though his [or her] time may seem to be utilized" (Johnson, 1976: 352). By definition, invisible underemployment, as opposed to unemployment and visible underemployment, is harder to detect or measure. This may also be why the surplus rural labor problem was seldom mentioned in the past.

Major Causes of China's Rural Surplus Laborers

Major causes of the rural surplus labor problem are: a deteriorating land-to-labor ratio, a sudden expansion of the rural workforce since 1980, and the introduction of the household production responsibility system.

First, the amount of per capita cultivated land has declined from 2.71 mu in 1949 to 1.45 mu in 1983. Available data also show that the

amount of cultivated land per laborer has declined from 9.35 mu in 1952 to 4.81 mu in 1980 (Table 2-1). The reason for these declines is relatively simple and straightforward. Whereas the total national population has increased from 542 million to 1020 million and the total number of agricultural workers has increased from 173 million to 310 million, the total size of the cultivated land in the early 1980s has almost remained the same as that in 1949.

Between 1957 and 1979, despite the addition of almost 320 million mu of new farmland through rural improvement projects and reclamation, about 500 million mu of farmland were converted to urban, industrial, and other nonagricultural uses (Kirkby, 1985: 180-181). The result was a net loss of about 180 million mu of farmland between 1957 and 1979. Moreover, this loss negated the gains in cultivated land acquired in an earlier period from 1949 to 1957, thus reducing the amount of cultivated land in 1983 to nearly that in 1949.

Second, the impact of the decline in total cultivated land area was worsened by a sudden increase in the size of the rural workforce since 1980. Between 1970 and 1978, the officially registered rural workforce had an annual increase of between 1 million and 6 million people. In 1980, the rural workforce suddenly increased by 8 million, by 9 million in 1981, and by 10 million in 1982 (Kirkby, 1985: 184).

This sudden expansion of the rural labor force is largely due to the fact that each rural household was trying to register as many full-time workers as possible so that they could get more land under the household responsibility system. Many people who were previously considered partially active in the rural economy became full-time

Table 2-1 DETERIORATING LAND-TO-LABOR RATIOS

Year	Cultivated land (million mu)	Total national population (million)	Total agricultural labor force (million)	Cultivated land per capita	Cultivated land per agricultural laborer
1949	1,468	542	n.a.	2.71	n.a.
1952	1,619	575	173	2.82	9.35
1957	1,677	647	n.a.	2.59	n.a.
1962	1,544	673	213	2.29	7.25
1965	1,554	725	234	2.14	6.64
1970	1,516	825	278	1.84	5.45
1975	1,496	920	294	1.63	5.08
1977	1,489	n.a.	n.a.	1.57	n.a.
1978	1,490	958	n.a.	1.56	n.a.
1980	1,490	982	310	1.52	4.81
1983	1,479	1,020	n.a.	1.45	n.a.

n.a. Not available
1 mu equals 0.067 hectare

Sources:

For 1957 and 1977, Xia Chuang and Hu Yue, "An Economic Analysis of Country's Farmland Problem," ZGJJ, 1983, No. 1, p. 46.

For 1978 and 1983, Chen Wei, "A Discussion of the Contradictory Relationship Between Population and Farmland in Our Country," RKYJ, 1985, No. 5, p. 21.

For all the other years, Sun Xin, "An Analysis of the Causes and the Solutions of Our Country's Rural Surplus Laborers," LZDX, 1984, No. 1, p. 107.

members of the rural labor force. In the past, all men and women under 18 and over 55 were considered as "half labor power." By the early 1980s, however, many in this group, particularly women, were taking up a full share in farming tasks. Moreover, with the demise of the commune system, many rural cadres also registered as full-time farmers (Kirkby, 1985: 184-185).

Finally, when the responsibility system replaced the commune, the problem of invisible underemployment turned into one of visible underemployment. On the one hand, officials use the responsibility system to emphasize individual effort; consequently, workers have higher labor productivity. On the other hand, by distributing pieces of farmland to each individual household, the limited land-to-labor ratio remained unchanged. Higher labor productivity, coupled with a low land-to-labor ratio, compels people to cease working altogether during parts of the year (Li Pei-yi and Zhao Jian-ping, 1985: 29; Yan Gang and Tin Hung-bien, 1983: 22-23). This creates visible underemployment, generally discussed as the surplus rural labor problem.

Estimates of China's Surplus Rural Labor

No precise figure is available on the size of China's surplus rural labor, although it is commonly estimated to be about one-third of the total rural labor force (Yang Cheng-gang, 1983: 23; Li Qing-zeng, 1986: 9). Pieces of evidence also suggest that the surplus rural labor problem is highly susceptible to local conditions. Estimates of the surplus-to-total rural labor ratio at the provincial level ranged from

12.6 percent for Guangdong Province in 1985 (Zeng Bi-zhong, 1987: 7), to 23.4 percent for Shanxi Province (Li Pei-yi and Zhao Jian-ping, 1985: 29), and up to 66.7 percent for Yunnan Province in 1984 (Pu Chao-zhu, 1984: 2).

Estimates made at the county level show an even wider range. Although only 11.6 percent of Xiaoshan County's labor were considered redundant, the figure for Jixian County was 74 percent (Table 2-2). Available data on Jixian County are inadequate to explain its unusually high rate of surplus labor. It is possible, nevertheless, to give plausible explanations.

First, it is probable that much of Jixian County's farmland has been converted into nonagricultural purposes to accommodate Tianjin City's urban and industrial growth, resulting in an extremely low land-to-labor ratio and a high surplus labor rate. Although the material available does not justify an unequivocal statement, the fact that Jixian is a suburban county administered by Tianjin strongly supports this conjecture.²

Second, the researcher of the study on Jixian County may have exaggerated the actual extent of the surplus labor by assuming a much larger amount of farmland than most other Chinese researchers believe each rural laborer is able to cultivate. The authors of the study on Jixian have assumed that each laborer would be able to cultivate ten mu of farmland (Pang Zhuo-heng, et al., 1984: 16). In this respect, they

2 In a separate study of four cities in Jiangsu Province (Xuzhou, Suzhou, Wuxi, and Changzhou), Wang Ping-yao (1981: 27) shows that much of these four cities' urban growth activities had taken place at the expense of agricultural land in their respective suburban counties.

Table 2-2 ESTIMATES OF SURPLUS RURAL LABORERS AT THE COUNTY LEVEL

County	Estimated number of surplus rural laborers	Surplus laborers as percentage of total rural labor force	Year
Xiaoshan County, Zhejiang Province	70,600	11.6	1985
Nantung County, Jiangsu Province	155,000	20.4	1982
Taishan County, Guangdong Province	109,525	36.2	1984
Xinhui County, Guangdong Province	104,899	42.8	1984
Enping County, Guangdong Province	76,023	45.5	1984
Kaiping County, Guangdong Province	102,154	47.1	1984
Jixian County, Tianjin Municipality	n.a.	58 - 74	1984

n.a. Not available

a For Xiaoshan County, the surplus rural laborers included: (1) year-round surplus (59.3 percent); (2) the seasonal surplus (30.2 percent); and (3) the "irregular" surplus (10.5 percent).

b The authors of the study of these counties assumed the optimal size of farmland available to and cultivated by each laborer to be five mu.

c The author of the study on Jixian county assumed the optimal size of farmland per laborer to be ten mu.

Sources:

Xiaoshan County: Wu Zhi-hua and Meng Zhi-xian, "An Investigation of the People's Opinion on the Rural Economy," NYJJ, 1985, No. 11, p. 55.

Nantung County: Song Lin-fei, "The Rural Surplus Laborers and the Solutions," ZGSH, 1982, No. 5, p. 125.

Taishan County, Xinhui County, Enping County, and Kaiping County:
Data collected by author from officials at Jiangman City which administers these four counties in summer 1985.

Jixian County: Peng Zhuo-heng, "Some Lessons from a Study of Jixian County's Rural Area," TJSD, 1984, No. 3, p. 16.

differ sharply from most other researchers who usually use a figure of about five mu or less (Field notes; Ren Xin-bao, 1983: 38; Zhu Jin-kun and Wang Chun-yang, 1984: 44).³

I conclude that a surplus labor rate of over 70 percent may contradict some national patterns and therefore be too high. However, due to sparse data, vague criteria for determining the rate of surplus labor, and strong local variations, it was extremely difficult to arrive at any definitive estimate of the size of surplus rural labor in China.

Characteristics of China's Surplus Rural Laborers

The surplus rural laborers in China display some unique characteristics that have particular relevance to the development of the rural nonfarm sector. Almost all farm households claim that they have surplus laborers. This is because farmland is now distributed to all rural households according to the number of full-time workers in each household and because the overall land-to-labor ratio has remained very limited. Most of the surplus laborers, however, are just seasonally underemployed, although there are some people who are underemployed year-round and can be completely withdrawn from cultivation without decreasing the total farm output level (Bai Nan-sheng, 1985: 191).

3 This argument is further buttressed by the following observation. Under the responsibility system, farmland is distributed more or less evenly to an expanding rural workforce. As such, the size of farmland actually available to each rural laborer should approach that of the national average of cultivated land per laborer. In 1980, that latter figure stood at 4.81 mu and was decreasing (Sun Xin, 1984: 107).

Only those households with a higher than average number of able-bodied workers can actually spare some of their members from farm work throughout the year. For most households of average to below average size, each worker is essential in periods of peak demand for farm labor, because land is now divided into small pieces (Li Hong-ru, et al., 1985: 14; Zhu Bao-shu and Wang Gui-xin, 1985: 206; Liu Jian, 1985: 42; Wang Dai and Cai Fang, 1986: 34). Under the constraints of the responsibility system, most rural households have seasonally underemployed laborers whose contributions to the family's farmland is still crucial, but their members do possess surplus labor time that can be more productively spent during the slack seasons.

If a surplus rural laborer may be defined as a worker who can be completely removed from farming without causing any decrease in the total farm output level, then the reported estimates of surplus rural laborer may have been greatly exaggerated. Several analysts have found that the actual number of workers that can be completely removed from the farming workforce is substantially less than the estimated number reported at the aggregate level (Field notes; Bai Nan-sheng, 1985: 189-190; Zhang Xing-kai and Niou Wu-cheng, 1984: 27). This discrepancy is largely the result of an erroneous assumption used in making estimates of surplus laborers at an aggregate level: that parcels of land are consolidated to permit specialization, division of labor, and the utilization of agricultural machineries. The reality of the household responsibility system is that each household holds many small and

scattered plots.⁴

It is clear that surplus rural laborers in China are not all landless, year-round unemployed workers. Most are just seasonally underemployed. There is no strong incentive for them to leave agriculture altogether, where they are still very much needed and are guaranteed a piece of farmland to produce their own food supply. The structural characteristics of surplus rural labor therefore imply a transition in the nature of rural employment--a diversification of the rural employment structure away from agriculture alone to provide more nonfarm jobs for the peasants.

A strong institutional barrier has kept Chinese peasants in the rural areas, even when they decide to give up farming and want to move away from the countryside. That barrier is the long-standing planning practice of restricting the flow of rural-urban migration.

Restriction on Rural-Urban Migration

Immediately after 1949 and the restoration of the urban industries, peasants began to move to the cities, partly in response to the recruitment efforts of urban industries, partly in search of higher wages, and partly in the hope of improving their quality of life. Some of them were even encouraged by rural cadres to migrate to the cities (Aird, 1967: 382). Not all of the migrants, however, were able to find

⁴ The central government is now encouraging the consolidation of farmland through subcontracting; but this initiative has encountered resistance from the majority of the peasants. I discuss this problem at length in Chapter 8.

work. As early as 1952, when the flow of rural labor began to exacerbate the urban unemployment problem, the central government announced a directive to stem the "blind drift" of peasants into the urban areas.

The early efforts to control rural-urban migration were, however, not very successful. Similar directives to curb the flow were issued repeatedly in 1953, 1954, 1956, and twice in late 1957 (Chinese Legislation on Labor, 1980: 221). Despite these pleas from the central government, peasants continued to enter the cities. Official records show that by the end of the First Five-Year Plan (1952-1957) a total of eight million rural workers had migrated to urban areas during this period (Aird, 1967: 385).

Problems of Uncontrolled Rural-urban Migration

By the mid-1950s, the Chinese government realized that a persistent rural-to-urban labor flow had created a host of problems. The most immediate were increasing pressure on the urban housing supply and increasing demands for food that had to be transported into the cities. Moreover, because the rural migrants were more docile and willing to work for lower wages, they took jobs away from urban workers. The displacement of the latter led to antagonism between the two groups, creating a difficult political problem for the authorities (Aird, 1967: 383-384). In the rural areas, uncontrolled outmigration also affected farm production because many villages were depleted of labor power needed during peak farming seasons.

However, during the Great Leap Forward Movement (1958-1960),

restrictions on urban growth were temporarily lifted, leading to a massive movement of peasants into the cities. Between 1958 and 1960, the number of peasant migrants was reported to be 30 million, almost quadrupling the eight million rural workers who had moved into the urban areas from 1952 to 1957 (Zhang Ze-hou and Chen Yu-guang, 1981: 41).

Instituting the Household Registration System

By early 1959, with growing signs of a failing economy, rural-urban migration was once again promptly restrained. As the post-Great Leap Forward crisis deepened in the early 1960s, a new conception of the relationship between agricultural development and urban growth emerged: "the size of the urban population must be determined by the level of development in agricultural production" (Aird, 1967: 390). The level of production and the level of commodification of food grain became two central determinants of urban population growth. This rationalization was then used as the basis for instituting the household registration system, which rigorously checked the urban population size by distributing commodity grain and other daily necessities to the officially urban people through ration cards that were issued in conjunction with a tight residence control program.

Commodity grain is a distinctive Chinese notion and refers to that part of the total grain output obtained by the state from the peasants through production quotas and the agricultural tax. Around 1983, for example, the annual grain production was recorded at about 700 billion jin (350 billion Kg). Of this, 60 percent were consumed by the

peasants, and 20 percent were allocated for reproduction and reserve purposes. The remaining 20 percent were acquired by the state as commodity grain. Deducting the grain that was resold to the peasants (5 percent), about 100 billion jin of commodity grain (15 percent) were available for distribution to the nonagricultural (i.e., the officially urban) population (Zheng Zhong-han, 1984: 14).

Because China's huge population size and development priorities preclude large-scale food imports, some Chinese planners assert that the grain commodification rate basically prescribes the country's urban population level (Zheng Zhong-han, 1984: 14). Moreover, because the commodification rate of grain since the early 1950s has remained at between 15 to 20 percent (Kirkby, 1985: 59), and because the prospects of quickly and substantially raising this rate from the current level are not very good, advocates of controlled urban growth conclude that the size of the urban population will also be checked at a comparable level (Song Qi-lin, 1983: 8-9). Since the early 1960s, then, the stringent household registration program was justified by and partly maintained through the commodity grain distribution system.

Up to the present (1988), rural-to-urban migration has been strictly controlled. The major concerns that first led policymakers to impose control on the peasants' movement have remained influential: a low rate of job creation for the existing urban population and the underdevelopment of infrastructure, such as housing in the cities (Zhu Yun-cheng and Chen Hao-guang, 1982: 42). Because of the long-standing development bias in favor of heavy industrial growth since the 1950s, urban industries have become more capital-intensive and urban

infrastructure investment has been deliberately reduced (Wang Xiangming, 1986); consequently, large cities have very limited capacity to absorb rural migrants. Primarily fearful of overurbanization, Chinese policymakers who adopt the planning perspective therefore conclude that the surplus rural workers should only be allowed to work and settle in small towns where nonfarm activities concentrate.

OBJECTIVES OF THE RURAL NONFARM SECTOR

The major objectives of the rural nonfarm sector are, in summary: to raise agricultural productivity, to provide jobs for surplus rural workers, and to help develop small towns. The most direct result of a flourishing rural nonfarm sector is, of course, increased employment opportunities for peasants. It also alleviates the pressure for surplus workers to migrate to the large cities. Another important goal is to use parts of the profits from rural industries as well as other nonfarm enterprises to purchase agricultural inputs and farm machinery to raise the level of agricultural productivity. The Chinese call this method "yi gong bu nong" (to use industry to subsidize agriculture).

In addition, by urging those who are less efficient in cultivation, but otherwise skillful in nonfarm trades, to give up farming and their contracted farmland, the policymakers hope to consolidate large tracts of farmland into the hands of fewer, but more efficient, farmers. When the smaller pieces of farmland are consolidated into larger parcels, agricultural productivity can then be raised through the use of agricultural machinery and other large-scale farming techniques.

A further objective is to help develop the small towns. The expansion of the rural nonfarm sector fuels the growth of the small town, and the growth in small town amenities makes the nonfarm sector prosperous. The small towns are small and numerous. Chinese planners have been encouraged by the apparent success more-developed regions have had in generating abundant nonfarm employment in the towns that have absorbed surplus rural laborers. The planners believe that small towns are a viable alternative to the strategy of large cities urbanization (Xu Tian-qi and Ye Zhen-dong, 1985: 18).

Proponents of the small town strategy see a correlation between increasing the size of cities and urban problems, such as unemployment, traffic congestion, housing shortages, and pollution. They believe that small towns, because of their smaller population and physical size, are less likely to develop the problems often associated with large urban centers (Zhou Ru-chang, 1985: 5). Also, because the small towns are the economic, social, and political centers in the rural areas, and precisely because they are numerous, supporters of the small towns strategy claim that their influence will help modernize China's rural areas much more evenly and rapidly than will the growth of large cities (Guo Zheng-mo, 1986: 75). Finally, many Chinese planners are impressed by the tremendous growth of the rural nonfarm sector in the more-developed regions--southern Jiangsu Province in particular. They are convinced that small towns can develop on the economic strength of the rural nonfarm sector, which seems capable of generating employment opportunities for an increasing number of peasants who have left farming but not the rural areas.

In the following chapters, I analyze the growth process and the effects of the rural nonfarm activities and measure their successes and limitations against the objectives stated above.

Chapter 3 TOWNSHIP ENTERPRISES: SOME OVERALL TRENDS

In the early 1980s, after implementation of the production responsibility system, the rural areas underwent another important reform--the reform of the people's communes. By the end of 1984, a total of 91,171 township governments had been formed to replace the people's communes (Table 3-1). The number of people's communes in the corresponding period declined from 40,079 to 249 and that of the production brigades declined from 550,484 to 7,046.

With the demise of the commune and the re-institution of township government in the countryside, officials changed those terminologies that were associated with the commune (GWYGB, 1984: 155). Moreover, because the central policymakers saw a tendency toward centralization of rural nonfarm enterprises in township-administered towns, they believed that it was more appropriate to use "Township Enterprises" than "commune and brigade enterprises" to refer to the expanding rural nonfarm sector.

DEFINITION OF TOWNSHIP ENTERPRISES

The term "Township Enterprises" was first formally introduced in March 1984 in a State Council Circular, Document Number 1, 1984: "The Report About the Further Development of the Commune and Brigade Enterprises" (GWYGB, 1984: 146-155). According to this document, "Township Enterprises"¹ comprise five categories--in terms of

1 Throughout the rest of the entire dissertation, the term "Township Enterprises" (with upper case "T" and "E") is reserved as a reference to include all these five categories--in terms of ownership--

Table 3-1 NUMBER OF RURAL TOWNSHIPS (COMMUNES), 1983-1984

Rural townships/communes	1983	1984
Number of rural townships (communes)	56,331	91,420
1. Governments and communes separated		
Township governments	16,252	91,171
Village boards	199,657	926,439
Communes that became economic organizations	11,886	28,218
2. Governments and communes not separated		
People's communes	40,079	249
Production brigades	550,484	7,046
Production teams	4,575,000	128,000

Source: China's Agricultural Yearbook 1985, Beijing, Agricultural Publishing House, 1986: 94.

ownership--of rural nonfarm enterprises:

1. township enterprises (formerly the commune enterprises);
2. village enterprises (formerly the brigade enterprises);
3. cooperative enterprises run by commune members;
4. other forms of cooperative industrial enterprises; and
5. enterprises run by individuals (GWYGB, 1984: 146).

These five formal categories are commonly regrouped--again, in terms of ownership--into two major classifications: the collective enterprises (township and village enterprises); and the privately owned enterprises (cooperative and individual enterprises). While the operation of the former is controlled by township and village government officials, the latter is the private domain of the peasants.

The decision to include the cooperative and individual enterprises as integral parts of Township Enterprises was probably influenced by the fact that since the early 1980s, these enterprises have grown steadily in the rural areas. The central policymakers must have recognized the increasing importance of these enterprises and therefore decided to subject them to state regulation. The state's decision to formalize the private enterprises was also probably made to give them a legal status that would protect them from their opponents.²

Because cooperative and individual enterprises were not officially

of rural nonfarm enterprises, and should be differentiated from "township enterprises" (with lower case "t" and "e"), the former commune enterprises.

² Up to late 1987, private cooperative and individual enterprises were still being criticized by their opponents as capitalist; and the People's Daily continued to print extensive accounts to affirm their legal rights and economic importance (RMRB, 1987, August 5).

sanctioned until mid-1984, systematic data on these enterprises prior to 1984 were not available, but pieces of evidence were assembled to indicate that, at least in the more-developed areas, these enterprises were playing an important role in the rural economy as early as 1982. In Chendai Commune of Jinjiang County, Fujian Province, for instance, 65 percent of the rural enterprises in 1982 were cooperative enterprises run by commune members. These cooperative enterprises also accounted for 71 percent of the total output value of this commune's rural enterprises. In contrast, commune and brigade enterprises accounted for only 18 percent of the total number of rural enterprises in the commune and 15 percent of the total output value (Fang Xiao-qiu, 1983: 14). In Yichang region, Hubei Province, cooperative enterprises and individual enterprises had employed more than 40 percent of the region's rural labor force by the end of 1983 (Ma Jie, 1985: 56).

My point is that cooperative and individual enterprises were not launched as a consequence of the promulgation of Document Number 1, 1984. The document only formally incorporated these enterprises as part of Township Enterprises.

OBJECTIVES OF TOWNSHIP ENTERPRISES

I have identified two major policy objectives of Township Enterprises from Document Number 1, 1984. The first objective is "to subsidize agriculture" (zhi nong). Guided by the principle--to subsidize agriculture by industry (yi gong bu nong)--the Township Enterprises are expected to help modernize the agricultural sector through (a) the increased construction of agricultural infrastructure,

(b) the provision of agricultural machinery, and (c) the provision of services related to agricultural production.

The second objective is "to help prevent excessive rural-to-urban migration." Guided by the principle--to leave the land but not the rural areas (li tu bu li xiang)--the policymakers expect the Township Enterprises to help retain the rural labor force in the rural areas through (a) the provision of nonagricultural jobs for surplus and displaced farmers and (b) the development of rural market towns (GWYGB, 1984: 146).

From the perspective of the central government, the overriding concern in formulating these two objectives is the modernization of agriculture. The central planners believe that the modernization of the agricultural sector requires (1) the placement of surplus and displaced labor and (2) the accumulation and investment of huge amounts of capital. They also believe that Township Enterprises, which have some close ties to the farmers and agriculture, can effectively contribute towards satisfying these two requirements.

With regard to the placement of surplus and displaced labor, the central planners conclude that the modernization of agriculture primarily entails mechanization. As a result, surplus laborers would have to be removed from the agricultural sector to increase productivity. With little prospect of easing the strict control of rural-to-urban migration in the future, nonagricultural jobs would have to be created in the rural areas. Accordingly, they projected that Township Enterprises would need to provide employment for about 40 percent of the rural labor force by the end of the century (Beijing

Review, 1984, No. 50: 19). They also believe that the Township Enterprises would concentrate in small market towns; thus, they call for the latter's planned development (GWYGB, 1984: 148). The growth of the Township Enterprises is, therefore, in a sense, a major economic impetus for the development of the small towns.

With regard to the accumulation of capital, the central planners assert that the limit to expansion of the size of arable land has more or less been reached. The further development of agriculture depends primarily on raising labor productivity, which, in turn, demands huge amounts of capital investment. The policymakers believe that the Township Enterprises could assist the state in providing a major portion of the capital needed for agriculture's modernization. Their belief is based upon the fact that the commune and brigade enterprises have made considerable contributions towards agriculture in the past. Between 1979 and 1982, profits derived from commune and brigade enterprises for purchasing agricultural machinery and for financing the construction of agricultural infrastructure totalled 8 billion yuan. This amount is equivalent to about 73 percent of the state's investment in agriculture during the same period (GWYGB, 1984: 148). With the commune and brigade enterprises steadily growing in the early 1980s, and with the cooperative and individual enterprises beginning to prosper at the same time, the central government must have felt confident that the combined strength of the collective and the private enterprises would be able to shoulder a major part of the burden to modernize agriculture.

GROWTH PATTERNS OF TOWNSHIP ENTERPRISES

This section documents the growth patterns and some of the immediate effects of Township Enterprises, first by type of ownership and then by type of industry.

Type of Ownership

Between 1978 and 1985, the number of township (commune) enterprises increased from 320,000 to 426,000, corresponding to an average annual growth rate of 4.1 percent, although that increase occurred mainly from 1983-1986 (Table 3-2). During the same period between 1978 and 1985, the number of village (brigade) enterprises remained relatively stable. It declined (1978-1983), grew (1983-1984), and declined again (1984-1986), with the highest figure recorded at 1,248,000 in 1984 and the lowest at 1,003,000 in 1981. In 1986, there were 1,092,000 village (brigade) enterprises (Table 3-2).

In 1984, the privately owned cooperative and individual enterprises were combined with the commune and brigade enterprises and became Township Enterprises. Among the private enterprises, individual enterprises (numbered at 9,254,000 in 1985) accounted for more than three-quarters (75.7 percent) of the total number of Township Enterprises. The village (brigade) enterprises, which have been equivalent to more than three-quarters of the total number of commune and brigade enterprises up until 1983, accounted for about one-tenth (9.4 percent) of the Township Enterprises in 1985. Township (commune) enterprises accounted for only 3.4 percent of the total number of all Township Enterprises. Only 2.3 percent of Township Enterprises were in

Table 3-2 NUMBER OF TOWNSHIP ENTERPRISES, BY TYPE OF OWNERSHIP, 1978-1986

	1978	1979	1980	1981	1982	1983	1984	1985	1986
(thousand)									
TOTAL	1,524	1,480	1,425	1,338	1,362	1,346	6,065	12,225	n.a.
Township (commune) enterprises	320	320	337	335	338	338	402	419	426
Village (brigade) enterprises	1,204	1,160	1,088	1,003	1,024	1,008	1,248	1,150	1,092
Cooperative enterprises	--	--	--	--	--	--	906	1,121	n.a.
Other forms of cooperative industrial enterprises	--	--	--	--	--	--	213	281	n.a.
Individual enterprises	--	--	--	--	--	--	3,296	9,254	n.a.
(percent)									
TOTAL ^a	100.0	100.0	100.0	100.0	100.0	100.0	99.9	100.0	--
Township (commune) enterprises	21.0	21.6	23.6	25.0	24.8	25.1	6.6	3.4	n.a.
Village (brigade) enterprises	79.0	78.4	76.4	75.0	75.2	74.9	20.6	9.4	n.a.
Cooperative enterprises	--	--	--	--	--	--	14.9	9.2	n.a.
Other forms of cooperative industrial enterprises	--	--	--	--	--	--	3.5	2.3	n.a.
Individual enterprises	--	--	--	--	--	--	54.3	75.7	n.a.

Notes: n.a. Not available
-- Not applicable
a Details do not add to total due to rounding.

Sources: Number of enterprises: 1978, 1980, 1981: ZGNCIJNJ 1985, p. 8.
1979: ZGNYNJ 1980, p. 365.
1982: ZGNYNJ 1983, p. 23.
1983: ZGNYNJ 1984, p. 71.
1984: ZGNYNJ 1985, p. 126.
1985: ZGNYNJ 1986, p. 158.
1986: ZGTJNJ 1987, p. 205.

Percent: Calculated by author.

the category of other forms of cooperative industrial enterprises.

Between 1978 and 1984, village (brigade) enterprises always employed more workers than township (commune) enterprises. By 1985, however, the number of workers in township (commune) enterprises surpassed that in village (brigade) enterprises by one million (Table 3-3). The average growth rate of the number of workers in township (commune) enterprises between 1978 and 1986 is 9.4 percent per annum, almost doubling the 4.8 percent per annum for the village (brigade) enterprises.

In 1985, although individual enterprises accounted for 75.7 percent of the total number of Township Enterprises, they hired only 26.9 percent of all Township Enterprises workers. On the other hand, township (commune) and brigade (village) enterprises accounted for 12.8 percent of the total number of Township Enterprises in 1985, but employed 59.5 percent of the Township Enterprises workforce.

What this means is that the average number of workers in township (commune) and village (brigade) enterprises is much larger than that in cooperative and individual enterprises. The average number of workers in township (commune) and village (brigade) enterprises in 1985 was 50 and 18, respectively (Table 3-4). The comparable figure for the cooperative enterprises was 7. The individual enterprises employed an average of only 2 workers.

The predominant position of the township and village enterprises is further reflected by the revenue they generate. In 1985, the combined revenue of township and village enterprises was 182.7 billion yuan, or 71.2 percent of the total revenue of Township Enterprises

Table 3-3 NUMBER OF WORKERS IN TOWNSHIP ENTERPRISES, BY TYPE OF OWNERSHIP, 1978-1986

	1978	1979	1980	1981	1982	1983	1984	1985	1986
(thousand)									
TOTAL	28,265	29,093	29,997	29,696	31,129	32,345	52,061	69,790	n.a.
Township (commune) enterprises	12,998	13,144	14,038	14,175	14,950	15,669	18,792	21,113	22,749
Village (brigade) enterprises	15,267	15,949	15,959	15,521	16,179	16,676	19,689	20,408	21,167
Cooperative enterprises	--	--	--	--	--	--	5,219	7,714	n.a.
Other forms of cooperative industrial enterprises	--	--	--	--	--	--	1,341	1,749	n.a.
Individual enterprises	--	--	--	--	--	--	7,020	18,806	n.a.
(percent)									
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	--
Township (commune) enterprises	46.0	45.2	46.8	47.7	48.0	48.4	36.1	30.3	n.a.
Village (brigade) enterprises	54.0	54.8	53.2	52.3	52.0	51.6	37.8	29.2	n.a.
Cooperative enterprises	--	--	--	--	--	--	10.0	11.1	n.a.
Other forms of cooperative industrial enterprises	--	--	--	--	--	--	2.6	2.5	n.a.
Individual enterprises	--	--	--	--	--	--	13.5	26.9	n.a.

Notes: n.a. Not available
-- Not applicable

Sources: Number of workers: 1978, 1980, 1981: ZENCTJNJ 1985, p. 8.
1979: ZGNYNJ 1980, p. 365.
1982: ZGNYNJ 1983, p. 24.
1983: ZGNYNJ 1984, p. 72.
1984: ZGNYNJ 1985, p. 128.
1985: ZGNYNJ 1986, p. 160.
1986: ZGTJNJ 1987, p. 205.

Percent: Calculated by author.

Table 3-4 THE AVERAGE NUMBER OF WORKERS IN EACH OWNERSHIP
CATEGORY OF TOWNSHIP ENTERPRISES

Ownership category of township enterprises	Average number of workers	
	1978	1985
Township (commune) enterprises	41	50
Village (brigade) enterprises	13	18
Cooperative enterprises	--	7
Other forms of cooperative industrial enterprises	--	6
Individual enterprises	--	2

-- Not applicable

Source:

Calculated by the author on the basis of Tables 3-2 and 3-3.

(Table 3-5), while the combined revenue of cooperative and individual enterprises was 73.9 billion yuan, or 28.8 percent of the same total.

I should emphasize that the importance of township and village enterprises does not undermine the argument that in the more-developed areas, cooperative and individual enterprises have developed at a faster pace than collective enterprises. If anything, my finding only serves to illustrate the seriousness of the interregional issues that I discuss later.

Type of Industry

Table 3-6 presents the number of workers by type of industry in township (commune) and village (brigade) enterprises. Comparable data for cooperative and individual enterprises are unfortunately not available.

Between 1978 and 1986, the most rapid growth rate was recorded in the number of construction workers. During these eight years, the number of workers in construction enterprises increased more than threefold, growing from 2.35 million in 1978 to 8.07 million in 1986. This represents an average growth rate of 30.4 percent per annum. During the same period, the number of workers in industrial enterprises grew from 17.34 million (1978) to 30.41 million (1986), which translates into an average growth rate of 9.4 percent per annum. Meanwhile, the number of workers in agricultural enterprises dropped by more than one-half from 6.08 million (1978) to 2.41 million (1986). The number of transportation workers has remained relatively stable, with an average growth rate of only 0.7 percent per annum.

Table 3-5 REVENUE OF TOWNSHIP ENTERPRISES, 1984-1985

Ownership category of Township Enterprises	Revenue of Township Enterprises			
	1984		1985	
	billion yuan	percent	billion yuan	percent
TOTAL	153.7	100.0	256.6	100.0
Township enterprises	71.0	46.2	103.9	40.5
Village enterprises	55.8	36.3	78.8	30.7
Cooperative enterprises	12.0	7.8	23.1	9.0
Other forms of cooperative industrial enterprises	3.3	2.0	5.8	2.3
Individual enterprises	11.8	7.7	45.0	17.5

Sources: 1984: ZGNYNJ 1985, p. 179.

1985: ZGNYNJ 1986, p. 226.

Table 3-6 NUMBER OF WORKERS IN TOWNSHIP (COMMUNE) AND VILLAGE (BRIGADE) ENTERPRISES, ^a
BY TYPE OF INDUSTRY, 1978-1986

	1978	1979	1980	1981	1982	1983	1984	1985	1986
(thousand)									
TOTAL	28,265	29,093	29,997	29,696	31,129	32,346	38,481	41,521	43,915
Agricultural	6,084	5,330	4,561	3,800	3,440	3,092	2,839	2,524	2,408
Industrial	17,344	18,144	19,423	19,808	20,728	21,681	25,489	27,821	30,413
Transportation	1,038	1,169	1,136	1,074	1,129	1,097	1,293	1,142	1,098
Construction	2,356	2,984	3,347	3,488	4,213	4,827	6,835	7,899	8,069
Others	1,443	1,466	1,530	1,526	1,619	1,648	2,025	2,135	1,927
(percent)									
TOTAL ^b	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Agricultural	21.5	18.3	15.2	12.8	11.1	9.6	7.4	6.1	5.5
Industrial	61.4	62.4	64.7	66.7	66.6	67.0	66.2	67.0	69.3
Transportation	3.7	4.0	3.8	3.6	3.6	3.4	3.4	2.8	2.5
Construction	8.3	10.3	11.2	11.7	13.5	14.9	17.8	19.0	18.4
Others	5.1	5.0	5.1	5.1	5.2	5.1	5.3	5.1	4.4

Note: a Because comparable data for cooperative and individual enterprises are not available for 1984 and 1985, the figures in this table do not represent the entire scope of Township Enterprises, but only refer to township (commune) and village (brigade) enterprises.

b Details may not add to total due to rounding.

Sources: Number of workers: 1978, 1980, 1981: ZGNCTJNJ 1985, p. 8.
1979: ZGNYNJ 1980, p. 365.
1982: ZGNYNJ 1983, p. 24.
1983: ZGNYNJ 1984, p. 72.
1984: ZGNYNJ 1985, p. 129.
1985: ZGTJNJ 1986, p. 46.
1986: ZGTJNJ 1987, p. 205.

Percent: Calculated by author.

What are the consequences of these changes in the size of the workforce in each type of industry among the township (commune) and village (brigade) enterprises? First, from 1978 through 1986, industrial enterprises remained the largest employer, providing jobs to 69.3 percent of all township and village enterprises workers in 1986, up from 61.4 percent in 1978. Second, construction enterprises became the second largest employer. In 1986, they employed close to one-fifth (18.4 percent) of all township and village enterprises workers, a steady climb from 8.3 percent in 1978. Third, both transportation and the other types of enterprises have retained a relatively stable and small share (2.5 percent and 4.4 percent in 1986, respectively) of all township and village workers. Finally, agricultural enterprises, gradually shrinking over the years, secured only 5.5 percent of the township and village enterprises workforce, down from 21.5 percent in 1978.

In a nutshell, by 1986 township and village enterprises were overwhelmingly comprised of industrial and construction enterprises. They employed in that year a total of 87.7 percent of workers in all township and village enterprises.

TAX REVENUES AND WAGE INCOMES

In addition to increased employment opportunities, there are two other immediate effects of the growth of Township Enterprises: tax contributions to the state and increased wage income to the peasant-workers.

Tax Revenues

During the eight-year period, 1978 through 1986, the amount of taxes that township (commune) and village (brigade) enterprises remitted to the central government increased five-fold from 2.20 billion yuan in 1978 to 13.77 billion yuan in 1986 (Table 3-7). (Again, comparable data on cooperative and individual enterprises are not available.) In 1984, nearly one-fifth (19.5 percent) of the state's new tax revenue were derived from township and village enterprises (Fang Yi-ben and Yin Zheng-chang, 1985: 61). Another indirect, but important, contribution to the state is that Township Enterprises are providing increased employment opportunities to the peasants without requesting any financial support, saving the central government huge sums of money in subsidies.

Wage Income

The provision of nonfarm jobs also means higher income for the peasants. The total wage income earned by township and village workers, for instance, increased rapidly from 8.66 billion yuan in 1978 to 35.55 billion yuan in 1986, an impressive growth rate of 38.8 percent per annum (Table 3-7). By 1985, the average income of a township and village enterprises worker reached 460 yuan, while the rural per capita annual income was only 397.6 yuan (ZGNYNJ 1985: 58; ZGTJNJ 1986: 673). In that same year in the more-developed areas, up to 60 percent of the peasants' income came from the township and village enterprises (Zhang Zhuo-yuan, 1985: 66). As a whole, income from nonagricultural sources since 1978 has become increasingly

Table 3-7 TAX REVENUES AND WAGE INCOME GENERATED BY TOWNSHIP (COMMUNE) AND VILLAGE (BRIGADE) ENTERPRISES, 1978-1986^a

	1978	1979	1980	1981	1982	1983	1984	1985	1986
	(billion yuan)								
Tax revenues remitted to the state	2.20	2.26	2.56	3.43	4.47	5.89	7.87	10.86	13.77
Annual wage income earned by peasant-workers	8.66	n.a.	11.94	13.10	15.30	17.58	23.93	30.14	35.55

Note: n.a. Not available

a Comparable data on cooperative and individual enterprises are not available.

Sources: Tax revenues: 1978-1979: ZGNYNJ 1980, p. 366.
 1980-1984: ZGNCTJNJ 1985, p. 190.
 1985-1986: ZGTJNJ 1987, p. 205.

Wage income: 1978, 1980-1984: ZGNCTJNJ 1985, p. 190.
 1985: ZGTJNJ 1986, p. 218.
 1986: ZGTJNJ 1987, p. 205.

important to the peasants. In 1978, only 7.0 percent of the peasants' net income were derived from nonagricultural activities. By 1986, that figure had risen to 22.6 percent (Table 3-8).

SUMMARY

Township Enterprises have two major objectives: to subsidize the agricultural sector and to help prevent excessive rural-to-urban migration. Providing nonfarm jobs to surplus rural workers is one important way to help achieve both objectives. Beginning in 1984, private cooperative and individual enterprises were incorporated with collective township and village enterprises as integral parts of Township Enterprises. Although private enterprises were criticized by their opponents as capitalist, the central government affirmed their legitimacy because they provided important nonfarm employment and income opportunities to surplus rural laborers.

In 1985, private enterprises accounted for 87.2 percent of the total number of Township Enterprises but hired only 40.5 percent of the workforce. Collective enterprises, however, made up 12.8 percent of Township Enterprises but employed 59.5 percent of the workers of Township Enterprises. Moreover, the predominant role of collective enterprises is further confirmed by the fact that the revenue of collective enterprises was about two and a half times that of private enterprises in 1985. Nevertheless, private enterprises since the early 1980s have grown at a much faster rate than the collective enterprises and they are continuing to expand at a rapid rate.

The composition of the workforce of township (commune) and village

Table 3-8 PEASANTS' PER CAPITA NET INCOME AND ITS SOURCE COMPOSITION, 1978-1986

Peasants' per capita net income and its sources	1978	1979	1980	1981	1982	1983	1984	1985	1986
(yuan)									
Total	133.57	n.a.	191.33	223.44	270.11	309.77	355.33	397.60	423.76
Production	122.86	n.a.	166.39	194.51	237.15	272.91	315.06	350.07	374.68
Agriculture	113.47	n.a.	149.62	170.58	203.65	221.77	250.36	263.81	278.98
Nonagricultural	9.39	n.a.	16.77	23.93	33.50	51.14	64.70	86.26	95.70
Nonproduction ^a	10.71	n.a.	24.94	28.93	32.96	36.86	40.27	47.53	49.08
(percent)									
Total	100.0	--	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Production	92.0	--	87.0	87.0	87.8	88.1	88.7	88.0	88.4
Agriculture	85.0	--	78.2	76.3	75.4	71.6	70.5	66.3	65.8
Nonagricultural	7.0	--	8.8	10.7	12.4	16.5	18.2	21.7	22.6
Nonproduction ^a	8.0	--	13.0	13.0	12.2	11.9	11.3	12.0	11.6

Notes: n.a. Not available

-- Not applicable

^a This includes transfer income from the collective and the state as well as the monetary equivalents of gifts sent to the peasants from urban areas and from overseas.

Sources: All years except 1986: ZGTJNJ 1986, p. 674. The figures are based on a nationwide sample survey.

1986: ZGTJNJ 1987, p. 698.

(brigade) enterprises changed between 1978 and 1986. Industrial enterprises remain the largest employer during these years. They provided jobs to 69.3 percent of all workers in 1986, up from 61.4 percent in 1978. Construction enterprises have expanded rapidly and since 1982 have become the second largest employer. Close to one-fifth of all workers were hired in construction in 1986. By 1986 industrial and construction enterprises together employed 87.7 percent of the workers of township and village enterprises, whereas 12.3 percent of the workers found work in agricultural, transportation, and other types of enterprises.

There are two immediate effects of the growth of Township Enterprises: important tax revenues to the state and increased income to the peasants. In 1984, for instance, 19.5 percent of the state's new tax revenue came from township and village enterprises. The share of the peasant's net income that resulted from nonagricultural sources increased from 7.0 percent in 1978 to 22.6 percent in 1986.

The global figures in this chapter have outlined a general contour of the growth of Township Enterprises in China's rural economy. I will use the above account as the baseline to discuss important interregional issues in the next chapter.

Chapter 4 INTERREGIONAL ISSUES

China is geographically huge and vastly diverse. Interregional differences in terms of level of economic development are due, in large part, to variations of natural resource endowments. These differences are also the result of history, and more recently, have been exacerbated or mitigated by deliberate national development policies. In this chapter, I first document the interregional, as well as some intraregional, differences in the development of Township Enterprises since the early 1980s. I then account for the growth process of one of the widely publicized successful models--Sunan¹ model--of the development of township industrial enterprises. Next, I analyze the significance of construction enterprises in the less-developed regions.

My main argument in this chapter is that most of the factors contributing to the success of the Sunan model are region-specific. These factors are intimately linked to large urban industrial centers that account for only a relatively small part of China. The majority of rural areas are far away from large cities, and the underdeveloped infrastructure and transportation systems effectively prevent most rural people from ready access to any of the factors conducive to rapid rural industrial growth. From both the development perspective and the planning perspective, the successful Sunan model merely reflects an already well-developed region and does not constitute a development model in the sense that it can (or should) be readily transferred and replicated elsewhere. In the less-developed regions, the problem of

1 Sunan stands for Southern (nan) part of Jiangsu (Su) Province.

underdevelopment will require a package of solutions that extends beyond the current approach, which owes much of its logic from the experience of the Sunan model. The recent expansion of the size of migrant construction workers from the less-developed provinces strongly indicates that some large-scale interregional movements of the rural labor force can be an important option to help resolve the problem of interregional differences.

INTERREGIONAL DIFFERENCES

Despite years of industrial location policy that favored the interior provinces, the coastal areas are in general more industrially developed than the rest of the country. The sectoral composition of the rural labor force in each province may be considered an important aspect of the interregional imbalance between the eastern and the western parts of China. In seven coastal provinces (Jiangsu, Zhejiang, Liaoning, Guangdong, Shandong, Hebei, and Fujian) and the three municipalities (Shanghai, Beijing, and Tianjin), the proportion of rural labor force engaging in nonagricultural activities in 1986 ranged from 20.7 percent to 63.2 percent. In the three municipalities and several of the coastal provinces (Shanghai, 63.2 percent; Beijing, 54.6 percent; Tianjin, 48.0 percent; Jiangsu, 37.6 percent; Zhejiang, 34.0 percent; and Liaoning, 29.3 percent), the proportion greatly exceeded the national average of 19.8 percent (Table 4-1). In the western provinces, such as Ningxia, Guizhou, Inner Mongolia, Yunnan, Xinjiang, Guangxi, and Tibet, an average of 90 percent of the rural labor force were still tied to agricultural production.

Table 4-1 SECTORAL COMPOSITION OF THE RURAL LABOR FORCE,
BY PROVINCE, 1986 (percent)

Province ^{a,b}	Rural labor force		
	Total	Agriculture ^c	Nonagriculture ^d
National total	100.0	80.2	19.8
Shanghai	100.0	36.8	63.2
Beijing	100.0	45.4	54.6
Tianjin	100.0	52.0	48.0
Jiangsu	100.0	62.4	37.6
Zhejiang	100.0	66.0	34.0
Liaoning	100.0	70.7	29.3
Shanxi	100.0	72.2	27.8
Guangdong	100.0	74.6	25.4
Shandong	100.0	76.4	23.6
Hebei	100.0	77.7	22.3
Gansu	100.0	78.0	22.0
Fujian	100.0	79.3	20.7
Hubei	100.0	80.0	20.0
Jiangxi	100.0	82.5	17.5
Shaanxi	100.0	82.8	17.2
Hunan	100.0	83.9	16.1
Henan	100.0	85.4	14.6
Anhui	100.0	86.5	13.5
Heilongjiang	100.0	86.8	13.2
Qinghai	100.0	87.3	12.7
Sichuan	100.0	87.9	12.1
Jilin	100.0	88.0	12.0
Ningxia	100.0	89.2	10.8
Guizhou	100.0	89.9	10.1
Inner Mongolia	100.0	90.5	9.5
Yunnan	100.0	91.1	8.9
Xinjiang	100.0	92.6	7.4
Guangxi	100.0	93.2	6.8
Tibet	100.0	94.5	5.5

a China is divided into 21 provinces, 5 autonomous regions, and 3 municipalities. To simplify matters, however, these areas are hereafter referred to as provinces.

b The provinces are ranked, in ascending order, according to the percent of rural labor force in agriculture in each province in 1986.

c Agriculture refers to crop cultivation, forestry, animal husbandry, sideline production, fishery, and does not include state

farms.

- d Nonagricultural activities include industries run by township (commune) and village (brigade), transportation, commerce, food services, education, health and social services, research, government, migrant contract workers who work in urban areas, and others.

Source: Calculated by the author using data in ZGTJNJ 1987, p. 135.

This interregional imbalance in the distribution of rural nonfarm activities is intensified by the uneven distribution of rural population. I have ranked China's 29 provinces², according to their 1982 revenues of commune and brigade enterprises (Table 4-2) and their 1985 revenues of Township Enterprises (Table 4-3). In 1982, 73.4 percent of the total revenues of commune and brigade enterprises were concentrated in 10 provinces, which had 57.2 percent of the rural population. Over one-third of the total revenues (36.6 percent) were concentrated in just three provinces--Jiangsu, Shandong, and Zhejiang--which together contained 18.4 percent of the rural population (Table 4-2). At the bottom end of the scale, nine provinces, which include 14.1 percent of the rural population, accounted for only 4.6 percent of the total revenues.

By 1985, the degree of concentration had declined only slightly: 71.7 percent of the total revenues of Township Enterprises were concentrated in 10 provinces, which encompassed 61.6 percent of the rural population. As it did in 1982, the 1985 revenue of Jiangsu Province's Township Enterprises alone was larger than the combined revenues of the 14 least-developed provinces. The share of the bottom nine provinces has remained virtually unchanged: they contained 14.3 percent of the rural population, but accounted for only 4.7 percent of the total revenues (Table 4-3).

The problem of overconcentration becomes even more evident when

² China is divided into 21 provinces, 5 autonomous regions, and 3 municipalities. To simplify matters, however, these areas are hereafter referred to as provinces.

Table 4-2 PROVINCIAL DISTRIBUTION OF THE REVENUES OF COMMUNE AND BRIGADE ENTERPRISES AND THE RURAL POPULATION, 1982

Province	Percent of national total revenues of commune and brigade enterprises (1982 national total= 77.2 billion yuan)	Percent of national total rural population (1982 national total= 828.0 million person)
National total	100.0 ^a	100.0 ^a
<u>Top 10 provinces</u> ^b	73.4	57.2
Jiangsu	17.5	6.2
Shandong	10.6	8.1
Zhejiang	8.5	4.1
Guangdong	8.2	6.0
Shanghai	5.3	*
Hebei	5.1	5.6
Liaoning	4.8	2.7
Hunan	4.6	5.8
Sichuan	4.4	10.6
Henan	4.4	8.1
<u>Middle 10 provinces</u>	22.1	25.5
Hubei	3.7	4.7
Fujian	2.8	2.7
Shanxi	2.6	2.5
Beijing	2.3	*
Jiangxi	2.2	3.3
Anhui	2.0	5.3
Heilongjiang	1.8	2.3
Tianjin	1.7	*
Shaanxi	1.5	2.9
Jilin	1.5	1.8
<u>Bottom 9 provinces</u>	4.6	14.1
Guangxi	1.3	3.9
Yunnan	1.1	3.5
Inner Mongolia	0.6	1.6
Gansu	0.5	2.0
Xinjiang	0.5	*
Guizhou	0.4	3.1
Ningxia	0.1	*
Qinghai	0.1	*
Tibet	n.a.	*

a Details do not add to total due to rounding.

b The provinces are ranked, in descending order, according

to each province's share (in percent) of the national total revenues of commune and brigade enterprises in 1982.

* Value is less than 0.1.

n.a. Not available

Sources: Calculated using data in ZGNYNJ 1982, pp. 20, 80.

Table 4-3 PROVINCIAL DISTRIBUTION OF THE REVENUES OF TOWNSHIP ENTERPRISES AND THE RURAL POPULATION, 1985

Province	Percent of national total revenues of township enterprises (1985 national total= 256.6 billion yuan)	Percent of national total rural population (1985 national total= 844.2 million person)
National total	100.0 ^a	100.0 ^a
<u>Top 10 provinces</u> ^b	71.7	61.6
Jiangsu	15.1	6.1
Shandong	9.4	8.0
Zhejiang	9.0	4.0
Guangdong	7.7	6.1
Hebei	6.5	5.7
Henan	5.5	8.1
Liaoning	5.5	2.6
Sichuan	5.0	10.5
Hubei	4.0	4.7
Hunan	4.0	5.8
<u>Middle 10 provinces</u>	23.2	20.7
Shanghai	3.8	*
Anhui	3.2	5.3
Fujian	2.8	2.7
Shanxi	2.7	2.5
Beijing	2.2	*
Jiangxi	2.0	3.3
Shaanxi	1.9	3.0
Jilin	1.6	1.7
Heilongjiang	1.6	2.2
Tianjin	1.4	*
<u>Bottom 9 provinces</u>	4.7	14.3
Guangxi	1.1	4.1
Yunnan	1.1	3.5
Inner Mongolia	0.7	1.6
Guizhou	0.6	3.1
Gansu	0.5	2.0
Xinjiang	0.4	*
Ningxia	0.2	*
Qinghai	0.1	*
Tibet	*	*

a Details do not add to total due to rounding.

b The provinces are ranked, in descending order, according to each province's share (in percent) of the national total revenues of Township Enterprises in 1985.

* Value is less than 0.1.

Sources: Calculated using data in ZGNYNJ 1985, pp. 151, 226.

we consider the distribution of revenue of Township Enterprises within Jiangsu Province, which in 1986 still commanded the largest share (15.1 percent) of the country's total revenue from Township Enterprises. Following the convention commonly used by Chinese researchers, I divide Jiangsu Province into Northern Jiangsu and Southern Jiangsu. In 1985, Northern Jiangsu contained close to 60 percent of Jiangsu's rural population, but accounted for less than one-quarter (23.1 percent) of the province's Township Enterprises revenue (Table 4-4). In contrast, over three-quarters (76.9 percent) of Jiangsu's revenue of Township Enterprises was concentrated in Southern Jiangsu, which included 40.3 percent of the rural population.

Moreover, nearly half (48.7 percent) of the revenue was recorded in the rural areas of two cities--Suzhou and Wuxi, which together had only 13.9 percent of Jiangsu's rural population. In fact, Suzhou and Wuxi accounted for 3.7 percent and 3.6 percent, respectively, of the 1985 total national revenues of Township Enterprises. My calculation shows that in 1985, the revenue of Township Enterprises in either of these two cities was larger than that of any of the 18 individual provinces that had the lowest levels of rural nonfarm development.

I also find intraregional differences within some less-developed provinces. For instance, in Yunnan Province, where the entire 1985 provincial revenues of Township Enterprises was less than that of Suzhou or Wuxi, huge gaps existed between the province's suburban counties and its remote mountainous areas. In Kunming, Yunnan's provincial capital city, the 1985 rural per capita revenue of Township Enterprises was 332 yuan, which was actually higher than the national

Table 4-4 DISTRIBUTION OF THE REVENUES OF TOWNSHIP ENTERPRISES
AND RURAL POPULATION IN JIANGSU PROVINCE, 1985

Region ^a	Percent of provincial total revenues of township enterprises (1985 provincial total= 38.33 billion yuan)	Percent of provincial total rural population (1985 provincial total= 51.53 million person)
Provincial total	100.0 ^b	100.0 ^b
<u>Northern Jiangsu</u>	23.1	59.7
Xuzhou	2.7	11.6
Lianyungang	1.7	4.8
Huaiyin	2.1	15.7
Yancheng	4.4	12.5
Yangzhou	12.1	15.1
<u>Southern Jiangsu</u>	76.9	40.3
Nanjing	3.9	4.9
Wuxi	23.8	5.7
Changzhou	8.9	4.7
Suzhou	24.9	8.2
Nantong	9.4	13.0
Zhenjiang	6.1	3.8

a The division of Jiangsu Province into Northern Jiangsu and Southern Jiangsu is based on the convention commonly used by Chinese researchers. See Fei Xiao-tong, Four Accounts on Small Towns, 1985, pp. 75-76.

b Details do not add to total due to rounding.

Sources: Calculated by the author using data in 1986 JSJNJ, pp. III-35 (for revenues), III-17 (for population).

average of 303.9 yuan (Chen Yun-hua, 1986: 45). The per capita revenue in the province's less-developed areas, however, was about 60 yuan, and in the least-developed part of Yunnan--Xishuangbanna--per capita revenue was only 37 yuan (Chen Yun-hua, 1986: 45).

While the focus of the present discussion is primarily on interprovincial issues, some of the conclusions apply equally to intraprovincial matters. A complete discussion of intraprovincial problems is, however, beyond the scope of this study.

In order to illustrate and then examine the interprovincial differences in the development of Township Enterprises, I rank all 29 provinces, in descending order, according to their 1985 rural per capita revenue of Township Enterprises (Table 4-5).³ In Table 4-5, provinces that are ranked near the top are considered to have a higher level of development of Township Enterprises than those rated near the bottom. I use the rank order of all 29 provinces in Table 4-5 as a common reference framework to document the interprovincial differences of the development of Township Enterprises from 1982 to 1985--in terms of the relative size of the workforce in each type of industry in each province.

In all 29 provinces, the share of township and village enterprise workers⁴ engaging in agriculture has, without exception, declined from

3 Because China's rural population is unevenly distributed among the provinces, I believe the latest rural per capita revenue is a more appropriate measure of each province's level of development of Township Enterprises than each province's share of the national total revenues.

4 Comparable data on the privately owned cooperative and individual enterprises are not available. Nevertheless, as I have pointed out in the last chapter, because almost three-quarters (73.9 percent) of all Township Enterprises' workers in 1984 worked at

Table 4-5 RURAL PER CAPITA REVENUE (IN YUAN) OF TOWNSHIP ENTERPRISES,
BY PROVINCE, 1985

Province	Rural per capita revenue (in yuan) of Township Enterprises (National average = 303.9 yuan)	Ratio between each province's rural per capita revenue of Township Enterprises (Guizhou = 1.0)
Shanghai	2,276.5	37.0
Beijing	1,453.3	23.6
Tianjin	982.4	16.0
Jiangsu	752.4	12.2
Zhejiang	677.6	11.0
Liaoning	642.4	10.4
Guangdong	381.6	6.2
Shandong	358.0	5.8
Hebei	349.7	5.7
Shanxi	328.7	5.3
Fujian	312.3	5.1
Jilin	278.1	4.5
Hubei	264.4	4.3
Heilongjiang	217.9	3.5
Hunan	208.8	3.4
Henan	207.3	3.4
Shaanxi	198.3	3.2
Ningxia	192.2	3.1
Jiangxi	183.5	3.0
Anhui	181.8	3.0
Sichuan	144.6	2.4
Xinjiang	140.3	2.3
Inner Mongolia	134.5	2.2
Qinghai	107.9	1.8
Yunnan	95.7	1.6
Guangxi	84.7	1.4
Gansu	84.2	1.4
Guizhou	61.6	1.0
Tibet	18.9	0.3

The provinces are ranked, in descending order, according to the value of rural per capita revenue of Township Enterprises in each province.

Source: The rural per capita revenue of Township Enterprises of each province was calculated by dividing the total revenue of Township Enterprises in each province (ZGNYNJ 1986, p. 226) by the total number of rural persons in the respective province (ZGNYNJ 1986, p. 151).

1982 to 1985 (Table 4-6). While some less-developed provinces (such as Xinjiang, Inner Mongolia, and Qinghai) have recorded more dramatic drops than the others, the more-developed provinces (such as Jiangsu, Zhejiang, and Liaoning) have maintained a comparatively small proportion of their township and village enterprises' workers in agriculture throughout the 1982-1985 period.

The percentage of township and village enterprise workers employed in transport (Table 4-7) and other activities (Table 4-8) in each province changed only slightly and on the whole remained relatively stable from 1982 to 1985. In all provinces, by 1985, both transport and the other activities had retained a relatively small part of the township and village enterprise workforce.

As I have pointed out in the last chapter, at the national level, industry was the largest employer of township and village enterprises' workers from 1982 to 1986. At the regional level, however, industry was the most important employer only in the more-developed provinces (Table 4-9). For instance, in Jiangsu and Zhejiang, around 80 percent of township and village enterprise workers were engaged in industrial production from 1982 to 1985. In comparison, the share of township and village enterprise workers hired by industry in the less-developed provinces was mostly around 40-60 percent (Table 4-9).

By 1985, construction had become the most important source of rural nonfarm jobs in many less-developed provinces, employing from

township (commune) and village (brigade) enterprises, the omission of the data on cooperative and individual enterprises should not affect in any major way the overall conclusion of my dissertation.

Table 4-6 PERCENT OF WORKERS OF TOWNSHIP (COMMUNE) AND VILLAGE (BRIGADE) ENTERPRISES ENGAGED IN AGRICULTURE, BY PROVINCE, 1982-1985

Percent of township (commune) and village (brigade) enterprises' workers engaged in agriculture				
Province	1982	1983	1984	1985
National total	11.1	9.6	7.4	6.1
Shanghai	0	0	0	0
Beijing	1.4	1.0	1.3	0.1
Tianjin	*	*	*	*
Jiangsu	2.8	1.7	1.1	1.1
Zhejiang	6.3	4.8	2.3	1.5
Liaoning	7.1	6.0	4.8	3.9
Guangdong	10.5	9.9	8.6	7.2
Shandong	15.2	14.0	12.3	11.8
Hebei	9.8	8.5	7.7	5.4
Shanxi	14.2	11.8	7.9	5.7
Fujian	17.3	17.6	14.9	14.1
Jilin	17.6	15.7	11.7	10.1
Hubei	24.0	20.1	13.0	10.1
Heilongjiang	12.2	10.1	10.0	6.8
Hunan	24.2	22.3	19.2	17.5
Henan	8.3	7.9	6.1	5.4
Shaanxi	14.2	11.9	7.7	5.7
Ningxia	17.1	13.3	10.5	6.5
Jiangxi	12.7	10.9	8.6	7.0
Anhui	8.1	7.4	5.8	4.4
Sichuan	11.5	9.8	7.7	6.0
Xinjiang	24.4	20.6	14.4	11.1
Inner Mongolia	14.6	12.0	8.8	4.6
Qinghai	12.2	7.3	3.6	2.5
Yunnan	14.3	11.7	8.9	8.1
Guangxi	12.5	10.8	9.7	8.9
Gansu	10.4	7.5	4.0	2.3
Guizhou	9.5	8.8	6.1	4.2
Tibet	n.a.	n.a.	n.a.	5.7

Note: The provinces are ranked, in descending order, according to the value of the 1985 rural per capita revenue of Township Enterprises of each province, which I calculated and present in Table 4-5. This rank-order of the provinces is used in subsequent tables through the rest of the dissertation, unless noted otherwise.

* Value is less than 0.1.

n.a. Not available

Sources: Calculated using data in ZGNYNJ 1983, p. 24
(for 1982 figures); ZGNYNJ 1984, p. 72 (for 1983 figures);
ZGNYNJ 1985, p. 129 (for 1984 figures); and ZGNYNJ 1986, p.
161 (for 1985 figures).

Table 4-7 PERCENT OF WORKERS OF TOWNSHIP (COMMUNE) AND VILLAGE (BRIGADE) ENTERPRISES ENGAGED IN TRANSPORT, BY PROVINCE, 1982-1985

Percent of township (commune) and village (brigade) enterprises' workers engaged in transport				
Province	1982	1983	1984	1985
National total	3.6	3.4	3.4	2.8
Shanghai	0	0	1.6	1.3
Beijing	2.0	2.0	3.0	3.2
Tianjin	*	*	1.3	3.3
Jiangsu	3.7	3.5	3.2	2.6
Zhejiang	2.0	1.8	2.0	1.5
Liaoning	1.5	1.5	2.3	1.5
Guangdong	3.6	3.3	3.1	2.2
Shandong	3.7	3.5	3.8	3.5
Hebei	3.6	3.3	2.9	2.3
Shanxi	7.0	6.4	4.8	3.4
Fujian	3.9	4.0	3.6	3.4
Jilin	2.6	2.5	3.0	1.5
Hubei	3.6	3.7	4.2	3.7
Heilongjiang	1.8	1.5	2.4	1.9
Hunan	4.4	3.8	3.4	2.6
Henan	5.0	4.7	4.4	3.2
Shaanxi	5.2	4.3	3.2	2.2
Ningxia	13.3	7.9	4.1	2.6
Jiangxi	6.1	5.8	5.6	4.6
Anhui	6.2	5.9	6.2	5.7
Sichuan	3.6	3.8	3.6	2.8
Xinjiang	2.3	2.4	1.7	2.6
Inner Mongolia	2.9	3.2	2.8	1.8
Qinghai	5.5	3.4	1.9	1.1
Yunnan	1.8	1.6	1.9	1.9
Guangxi	4.9	4.3	3.8	3.3
Gansu	4.3	3.8	2.9	3.5
Guizhou	4.6	3.7	2.8	2.0
Tibet	n.a.	n.a.	n.a.	*

Note: The provinces are ranked, in descending order, according to the value of the 1985 rural per capita revenue of Township Enterprises of each province (see Table 4-5).

* Value is less than 0.1.

n.a. Not available

Sources: Calculated using data in ZGNYNJ 1983, p. 24 (for 1982 figures); ZGNYNJ 1984, p. 72 (for 1983 figures); ZGNYNJ 1985, p. 129 (for 1984 figures); and ZGNYNJ 1986, p. 161 (for 1985 figures).

Table 4-8 PERCENT OF WORKERS OF TOWNSHIP (COMMUNE) AND VILLAGE (BRIGADE) ENTERPRISES ENGAGED IN OTHER ACTIVITIES, BY PROVINCE, 1982-1985

Percent of township (commune) and village (brigade) enterprises' workers engaged in other activities				
Province	1982	1983	1984	1985
National total	5.2	5.1	5.3	5.1
Shanghai	0	0	3.1	1.8
Beijing	2.0	2.2	3.3	4.2
Tianjin	*	*	1.8	1.4
Jiangsu	1.7	1.5	1.6	1.5
Zhejiang	1.4	1.4	1.6	1.5
Liaoning	3.2	3.4	4.3	3.7
Guangdong	9.9	9.9	8.6	7.4
Shandong	7.4	7.9	7.9	9.9
Hebei	6.1	5.7	7.6	7.2
Shanxi	2.7	3.3	3.4	3.7
Fujian	5.3	5.1	4.3	4.7
Jilin	3.9	4.5	6.6	5.0
Hubei	9.2	8.3	8.3	8.4
Heilongjiang	3.1	2.7	3.9	5.3
Hunan	8.4	8.2	8.2	7.1
Henan	5.5	5.9	6.9	5.4
Shaanxi	6.6	7.3	6.9	6.8
Ningxia	2.3	2.6	2.3	3.4
Jiangxi	8.0	8.0	7.1	7.0
Anhui	6.1	5.9	6.3	6.4
Sichuan	5.4	4.9	5.2	5.4
Xinjiang	7.1	7.3	5.1	6.2
Inner Mongolia	3.5	4.8	6.3	6.2
Qinghai	7.1	6.3	2.0	2.1
Yunnan	5.1	4.7	3.4	4.6
Guangxi	9.9	9.6	10.0	8.9
Gansu	3.7	3.0	2.5	2.9
Guizhou	4.4	3.6	2.3	2.6
Tibet	n.a.	n.a.	n.a.	10.1

Note: Other activities include commerce, restaurant, and other services.

The provinces are ranked, in descending order, according to the value of the 1985 rural per capita revenue of Township Enterprises of each province (see Table 4-5).

* Value is less than 0.1.

n.a. Not available

Sources: Calculated using data in ZGNYNJ 1983, p. 24 (for 1982 figures); ZGNYNJ 1984, p. 72 (for 1983 figures); ZGNYNJ 1985, p. 129 (for 1984 figures); and ZGNYNJ 1986, p. 161 (for 1985 figures).

Table 4-9 PERCENT OF WORKERS OF TOWNSHIP (COMMUNE) AND VILLAGE (BRIGADE) ENTERPRISES ENGAGED IN INDUSTRY, BY PROVINCE, 1982-1985

Percent of township (commune) and village (brigade) enterprises' workers engaged in industry				
Province	1982	1983	1984	1985
National total	66.6	67.0	66.2	67.0
Shanghai	100.0	100.0	88.3	90.4
Beijing	80.6	75.6	72.2	74.4
Tianjin	88.2	85.8	83.6	84.8
Jiangsu	80.0	80.5	80.4	81.6
Zhejiang	79.3	80.9	82.3	83.6
Liaoning	74.9	74.1	71.0	71.0
Guangdong	62.1	62.4	63.1	65.4
Shandong	62.5	62.3	60.2	55.3
Hebei	66.8	67.1	63.3	68.2
Shanxi	66.3	66.7	68.8	74.0
Fujian	55.6	54.6	56.5	56.4
Jilin	64.7	64.3	62.8	66.5
Hubei	53.4	57.4	60.7	61.6
Heilongjiang	70.9	73.0	69.6	70.0
Hunan	48.8	50.1	50.7	51.4
Henan	63.9	61.8	59.9	60.6
Shaanxi	55.6	55.5	53.0	56.4
Ningxia	40.9	38.2	34.8	41.7
Jiangxi	59.9	60.7	61.7	62.4
Anhui	63.0	63.2	59.5	58.2
Sichuan	61.3	60.6	58.4	56.5
Xinjiang	38.0	37.3	39.8	42.0
Inner Mongolia	67.2	66.6	64.6	67.5
Qinghai	39.8	37.0	44.6	37.8
Yunnan	44.3	42.9	41.7	40.3
Guangxi	52.8	54.7	55.9	54.5
Gansu	46.9	44.6	39.1	40.9
Guizhou	68.8	69.5	69.8	73.2
Tibet	n.a.	n.a.	n.a.	57.2

Note: The provinces are ranked, in descending order, according to the value of the 1985 rural per capita revenue of Township Enterprises of each province (see Table 4-5).

n.a. Not available

Sources: Calculated using data in ZGNYNJ 1983, p. 24 (for 1982 figures); ZGNYNJ 1984, p. 72 (for 1983 figures);

ZGNYNJ 1985, p. 129 (for 1984 figures); and ZGNYNJ 1986, p. 161 (for 1985 figures).

one-third (Xinjiang, Yunnan) to even one-half (Qinghai, Gansu) of the township and village enterprises' workers (Table 4-10). In contrast, construction workers in the highly developed provinces, such as Jiangsu and Zhejiang, accounted for about 11-13 percent of the township and village enterprises' workforce in the entire 1982-1985 period.

Amid these changing patterns of occupational make-up of the township and village enterprises in all 29 provinces, two phenomena stood out. First, industrial enterprises were more highly developed in the coastal provinces than in the interior regions. The rural areas in Southern Jiangsu, and especially those of Suzhou and Wuxi, contained the highest concentration of township industrial activities. Second, construction enterprises have expanded tremendously in many less-developed provinces since 1982 and have replaced industry as the most important employer of rural nonfarm laborers.

What are the reasons behind the rise and the continuing dominance of industrial activities in the more developed regions, and the growing importance of construction enterprises in many less-developed provinces? I answer this question within an interregional framework in order to illuminate the issue of underdevelopment of the less-developed regions.

INDUSTRIAL ENTERPRISES: THE SUCCESSFUL MODEL

By the end of 1987, Chinese writers had identified at least half a dozen models of the development of township industrial enterprises.⁵

⁵ I have gathered literature on six such models: (1) Sunan model, Southern Jiangsu Province, which I discuss extensively in this section; (2) Wenzhou model, Zhejiang Province (Hu Zhao-liang, 1987; Lin

Table 4-10 PERCENT OF WORKERS OF TOWNSHIP (COMMUNE) AND VILLAGE (BRIGADE) ENTERPRISES ENGAGED IN CONSTRUCTION, BY PROVINCE, 1982-1985

Percent of township (commune) and village (brigade) enterprises' workers engaged in construction				

Province	1982	1983	1984	1985

National total	13.5	14.9	17.8	19.0
Shanghai	0	0	7.0	6.5
Beijing	14.0	19.1	20.2	17.3
Tianjin	10.6	12.9	13.1	10.4
Jiangsu	11.7	12.8	13.6	13.2
Zhejiang	11.0	11.1	11.8	11.9
Liaoning	13.4	14.9	17.5	19.9
Guangdong	14.0	14.5	16.7	17.8
Shandong	11.2	12.2	15.8	19.5
Hebei	13.6	15.5	18.6	16.9
Shanxi	9.8	11.8	15.0	13.3
Fujian	18.0	18.7	20.7	21.4
Jilin	11.2	13.0	15.9	16.9
Hubei	9.8	10.5	13.6	16.2
Heilongjiang	12.0	12.7	14.1	16.0
Hunan	14.2	15.6	18.6	21.4
Henan	17.2	19.7	22.7	25.4
Shaanxi	18.3	21.0	29.2	28.9
Ningxia	26.4	37.8	48.2	45.8
Jiangxi	13.3	14.6	17.0	18.9
Anhui	16.7	17.6	22.2	25.3
Sichuan	18.2	20.9	25.2	29.3
Xinjiang	28.3	32.3	38.3	38.1
Inner Mongolia	11.7	13.5	17.6	19.9
Qinghai	35.4	45.7	47.8	56.5
Yunnan	34.5	39.1	44.1	45.1
Guangxi	19.9	20.6	22.7	24.4
Gansu	34.7	41.1	51.5	50.4
Guizhou	12.8	14.4	19.1	17.9
Tibet	n.a.	n.a.	n.a.	26.7

Note: The provinces are ranked, in descending order, according to the value of the 1985 rural per capita revenue of Township Enterprises of each province (see Table 4-5).

n.a. Not available

Sources: Calculated using data in ZGNYNJ 1983, p. 24 (for 1982 figures); ZGNYNJ 1984, p. 72 (for 1983 figures);

ZGNYNJ 1985, p. 129 (for 1984 figures); and ZGNYNJ 1986, p. 161 (for 1985 figures).

Among these, I will focus on one--Sunan--because it illustrates the activities in an area (Southern Jiangsu Province) having the highest concentration of township industrial enterprises. I select Sunan also because it has influenced central policymakers in the formulation of national policy on Township Enterprises. It is the first model to be labelled as such and has since been repeatedly referred to and intensely discussed by Chinese researchers. The performance of the Sunan model has now become the yardstick by which researchers compare the strengths and weaknesses of the other models.

The Sunan Model

The Sunan model is about the development of township (commune) and village (brigade) industrial enterprises in Southern Jiangsu Province. Because of the impressive growth of rural industrial activities in the region since the late 1970s and the subsequent jump in the region's living standard, the experience of Southern Jiangsu was hailed by some of its supporters as a successful model that can be and should be replicated elsewhere in China (Li Xue-gan, 1987: 47; Wan Jie-qiu, 1987: 65).

The Sunan model is perceived by some of its proponents as something more than a formula for rural industrialization. Its supporters argue that township industrial enterprises in Sunan helped develop agriculture by subsidizing the investment costs of agricultural

Kai-zhi and Ye Da-yuan, 1987); (3) Gengche model, Jiangsu Province (Li Yang, 1986; Cai Ze-hua, 1986); (4) Fuyang model, Anhui Province (Chen De-lin, 1987); (5) Daqiuzhuang model, Tianjin Municipality (Feng Lan-rui, 1987); and (6) Haian model, Jiangsu Province (Yin Zheng and Chen Yi, 1985).

inputs, which fueled the growth of small towns. Thus, it is a model for agricultural development and for rural urbanization (Bao Yong-jiang, 1986: 181). The Sunan model, in the eyes of its proponents, embodies an overall development strategy that can be applied to China's rural economy. As such, it carries a significance well beyond Southern Jiangsu Province, and its benefits and liabilities are hotly debated in China.

The discussion of the merits and the drawbacks of the Sunan experience is part of an overall evaluation of the effects of the Township Enterprises, elaborated in Part II of this study. In the following section, I focus on the transferability of the Sunan model to other parts of China. I argue that the growth process of township industrial enterprises in Southern Jiangsu Province was tied to that region's unique resources and cannot be readily replicated elsewhere. To substantiate this argument, I first examine closely the underlying factors that have contributed to the growth of township industrial enterprises in Southern Jiangsu Province.

Impact of the Cultural Revolution

The initial development of the rural industries in Southern Jiangsu can be traced to the early 1970s. At that time, normal production schedules in urban industries were severely interrupted by political campaigns tied to the Cultural Revolution. Because the rural areas were generally less susceptible to the disturbances of the Cultural Revolution, commune and brigade industrial enterprises sprung up, particularly in areas near large urban centers, to fill the vacuum

in industrial production created by unrest in urban areas. In most instances, commune and brigade industrial enterprises were formed when urban factories decided to relocate some of their production capacity to the rural area to continue operation on a reduced scale (Fei Xiaotong, 1985: 28-29; Gao Pei-yi, 1985: 64). Urban industries would, in many cases, send technicians, supply the raw materials, provide links to the market, and even arrange to have electricity supplied to the rural factories that they had helped establish (Meng Chen, et al., 1984: 52). The development of the commune and brigade industrial enterprises was also aided by low interest rates or sometimes interest-free government loans and generous tax concessions (Liu Shi-qiang, 1985: 29-30).

Only scanty statistics are available on the commune and brigade industrial enterprises during the 1970s. From 1970 to 1978, the total output value of the commune and brigade industrial enterprises in Jiangsu Province jumped from 0.7 billion yuan to 6.3 billion yuan (Jiangsu, 1986: 7). In 1970, the value of commune and brigade industrial enterprises output in Jiangsu Province was equivalent to only 0.6 percent of the total output value of that province's rural economy. In 1978, the comparable figure rose sharply to 30.0 percent (Jiangsu, 1986: 7), making the commune and brigade industrial enterprises an important part of the rural economy.

The impact of the Cultural Revolution alone cannot, however, explain the uninterrupted development of the commune and brigade industrial enterprises from the late 1970s to the present. By 1984, the value of commune and brigade industrial enterprises output in

Jiangsu surged to 22.6 billion yuan, equal to 50.1 percent of the total output value of that province's rural economy (Jiangsu, 1986: 7). The growth of the commune and brigade industrial enterprises beyond the mid-1970s thus demands some other explanations.

Linkages with urban industries

Most commune and brigade industrial enterprises were established with the direct assistance of urban factories, and many commune and brigade industrial enterprises were sustained by subcontracting relationships with urban industries (Gu Song-nian and Ren Xin-bao, 1982: 41; Wu Da-qian and Wu De-fu, 1985: 35). The motivations of the urban industries in initiating or strengthening their ties with commune and brigade industrial enterprises are keys to understanding the continued growth of the rural industrial enterprises.

Strong linkages between urban factories and commune and brigade industrial enterprises were recorded in the municipalities of Beijing, Shanghai, and Tianjin. Although I do not know the proportion of urban industries having ties to rural industrial enterprises, 60 to 80 percent of the total output value of the Township Enterprises in these three municipalities around 1984 apparently resulted from subcontracting for urban plants (Gao Pei-yi, 1985: 64).⁶ In Shanghai, 70 percent of the clothing industry in 1984 was operated by commune and

6 A highly publicized case of urban-rural industrial linkage is that of the Beijing Washing Machine Factory--often referred to in Chinese sources as the "Bai Lan's way" ("bai lan zhi dao"). "Bai Lan" is the brand name of the products of the Beijing Washing Machine Factory, which has subcontracted 98 percent of its parts manufacturing activities to commune and brigade industrial enterprises (Gao Feng, et al., 1985: 17).

brigade industrial enterprises. Large proportions of Shanghai's textile industry, bicycle manufacturing industry, machine tool industry, and lightbulb industry, in particular, have also been transferred to the rural factories (RMRB, 1984, September 16).

In Songling Town of Wujiang County, southern Jiangsu Province, 37.5 percent of the industrial enterprises in 1969 had ties to urban industries (Table 4-11). By 1982, the comparable figure rose to 74.4 percent. The proximity of Songling Town to several large urban centers is an important factor that explains the gradual increase in the influence of urban industries in its industrial development. It is only 16 kilometers south of Suzhou, 60 kilometers south of Jiaxing, and 100 kilometers west of Shanghai (Meng Chen, et al., 1984: 51). The experience of Songling Town is probably typical of rural industrial development in southern Jiangsu Province. There are, however, exceptions to this proximity rule: Closeness to large cities does not automatically or necessarily lead to urban-rural industrial linkages.

The cities of Nanjing and Xuzhou in Jiangsu Province are two such exceptions. The urban industries in both cities have established few links with nearby rural communities. In the case of Nanjing, the high level of military manufacturing activities in the city greatly restricted the opportunities for urban-rural industrial cooperation (Fei Xiao-tong, 1985: 119).⁷ The primary industries in Xuzhou, on the other hand, were mining and heavy industries, activities that generated

7 Beginning in late 1984 and early 1985, Nanjing's urban industries began to initiate subcontracting and other cooperative relationships with rural factories in the city's rural areas. See Fei Xiao-tong, 1987: 57-58.

Table 4-11 LINKAGES BETWEEN URBAN INDUSTRIES AND RURAL INDUSTRIES,
SONGLING TOWN, WUJIANG COUNTY, JIANGSU PROVINCE

Year	Total number of industrial enterprises in Songling Town, Wujiang County	Linked with urban industries	
		Number	Percent
1969	8	3	37.5
1974	23	11	47.8
1980	34	23	67.6
1982	43	32	74.4

Note: The type of ownership of these industrial enterprises was not specified in the source.

Source: Meng Chen, et al., "The Process of Economic and Cultural Development in Songling Town, Wujiang," SHX, 1984, No. 3, p. 51.

little backward or forward linkages with the rural areas (Zhu Tong-hua, et al., 1984: 53; Fei Xiao-tong, 1985: 90).

What are the motivations, then, of those urban industries that have established subcontracting or other types of cooperative relationships with rural enterprises? The frequently cited reasons were congestion and shortage of industrial and manufacturing space in the city (RMRB, 1984, September 16; Su Jan-ya, 1984: 36). The partial transfer of Shanghai's textile industry to the commune and brigade industrial enterprises was, to a certain degree, an attempt to resolve the space shortage problem within the city.

Another common concern among urban industries was the limited number of full-time workers that could be hired. The central government had imposed stringent hiring rules upon urban industries to control the urban population size. By setting up backward linkages with commune and brigade industrial enterprises, many urban factories could circumvent the state's limit on the size of their workforce and yet fulfill their production quota (Fei Xiao-tong, 1985: 60).

An additional reason was that the urban industries were short of the necessary capital to expand their production. In this case, the urban industries would agree to locate some of their manufacturing activities in rural communities if the latter could provide free land, and promise to share investment costs and profits (Li Xiao-pe and Li Wei-zhong, 1985: 35; Zhou Yu and Zhang Tie, 1985: 74-75; RMRB, 1984, February 20).

Shortages of land space, labor, and capital were the most obvious and commonly mentioned reasons behind many urban industries' drive to

establish subcontracting and other cooperative arrangements with the commune and brigade industrial enterprises. There is, however, a less widely discussed, but important, consideration for some urban industries. Some urban industries have moved all or parts of their operations to the rural areas because they wanted to evade pollution control regulations in the city or to minimize the pollution control expenses (RMRB, 1984, April 9; 1985, October 11; Shi Shan, 1985: 13; Liu Qi and Wei Qing-quan, 1985: 196).

In Shanghai's suburban counties, up to one-third of the commune and brigade industrial enterprises in 1984 were fertilizer plants, paper mills, and chemical factories that originally came from the city. Many of them reportedly did not install any pollution-control devices. There were protests from some peasants against the deadly polluting industries (Zhang Fu-bao, 1984: 301). Many rural communities, however, seem to have concluded that the employment and income benefits of industrial development could compensate for the damages it caused to their environment (Zhu Zu-si, 1983: 34; RMRB, 1985, November 5).

Restricted transferability

The development of commune and brigade industrial enterprises in southern Jiangsu Province is unique in the following two aspects: First, the majority of the subcontracting and cooperative relationships between urban industries and rural factories were economically and technologically dependent upon the urban industries. The demand for urban-rural industrial linkages was largely driven by the production needs, cost-reduction measures, and noneconomic considerations of the

urban factories. Second, the commune and brigade industrial enterprises have increasingly become an integral part of the urban industrial economy. For example, in 1985, 67.9 percent of Jiangsu's township industrial output value was tied to the production of electrical appliances, petrochemical products, textile, and metal goods, all of which were urban-based industries (1986 JSJJNJ: IV-62).

Although I am unable to determine the exact degree, the available data show that the primary economic impetus behind Sunan's township industrial growth was largely urban-based and was exogenous to Sunan's rural economy (Xia Xiao-jun, 1986: 18; Liu Shi-bai, 1986: 5). As such, there is very little reason to expect the same kind of vigorous industrial development to take place in those rural areas that are well beyond the economic influence of large cities (Ren Xiao-de, 1985: 60-61).

In conclusion, the Sunan model epitomizes the growth of township industrial enterprises in one of several economically well-developed regions--southern Jiangsu. In most parts of the less-developed areas, there is not one model of rural industrial development that can be called successful. The promises of the Sunan model as an overall development strategy for other parts of the country are overstated because the majority of China's rural population are removed from large urban industrial centers by the underdeveloped infrastructure and transportation systems.

CONSTRUCTION ENTERPRISES

The number of workers in township and village construction

enterprises increased by more than threefold from 1978 to 1985 (Table 4-12). This rather impressive expansion of the rural construction workforce was primarily a result of a tremendous growth in demand for rural and urban housing in the entire country. The best indicator of this increased demand for housing is the annual newly constructed housing floor space. From a 1978 total of 138 million square meters, the annual newly constructed housing floor space jumped abruptly to 465 million in 1979. Then, it expanded steadily through the early 1980s (Table 4-13). Another big increase came in 1986, when the newly constructed housing floor space in the rural areas ballooned by more than 40 percent from 700 million square meters to 1,000 million square meters (Table 4-13).

The threefold increase in the number of rural construction workers from 1978 to 1985 means that they have become an increasingly important component of the country's overall construction workforce. In 1978, rural construction workers made up only 27.6 percent of the nation's construction workforce. By 1985, about 60.0 percent of the country's construction workers came from the rural areas (Table 4-12).

Rural Construction Workers for Urban Projects

Unlike those peasants who are employed in rural factories, a majority of the rural construction workers are employed in large cities and other urban and mining areas away from their rural homes. In 1983, the proportion of all township and village construction workers who worked in urban and mining areas was 62.5 percent. By 1985, nearly three-quarters (5.80 million) of all township and village construction

Table 4-12 PROPORTION OF TOWNSHIP AND VILLAGE CONSTRUCTION WORKERS TO TOTAL NUMBER OF CONSTRUCTION WORKERS, 1978-1985

Year	Number of township and village construction workers (million)	Proportion of township and village construction workers to total number of construction workers
1978	2.36	27.6
1979	2.98	30.4
1980	3.35	32.1
1981	3.49	32.3
1982	4.21	35.5
1983	4.83	37.6
1984	6.85	47.7
1985	7.89	60.0

Sources: 1978-1984: Bai Nan-sheng, "The present state and development of the construction industry and the rural labor transition," in A New Stage in National Economic Development and Agricultural Development, Zhejiang People's Publishing Society, 1987, pp. 269, 284-285.

1985: ZGNYNJ 1986, p. 325.

Table 4-13 NEWLY CONSTRUCTED HOUSING FLOOR SPACE EACH YEAR, 1978-1986
(million square meters)

Year	Newly constructed housing floor space each year		
	Total	Rural areas (million square meters)	Urban areas
1978	138	100	38
1979	465	400	65
1980	592	500	92
1981	698	600	98
1982	718	600	118
1983	815	700	115
1984	707	600	107
1985	825	700	125
1986	1,121	1,000	121

Note: Figures for the rural areas are rounded.

Source: ZGTJNJ 1987, p. 710.

workers (7.89 million) had left the rural areas for construction jobs in large urban areas and mining centers (Table 4-14). Comparable data were obtained for Anhui Province (70.0 percent, 1984), Guangxi Province (66.7 percent, 1985), Shandong Province (40.5 percent, 1984) and a county in Henan Province (33.3 percent, 1985).

There is another way to look at the importance of rural construction workers in the urban areas. In the city of Tianjin, 28.6 percent of the urban construction jobs in 1983 were held by rural work teams (RMRB, 1984, July 12). In the city of Qingdao, the comparable figure was even higher. In 1984, township and village construction workers built 90.0 percent of that city's new urban housing stock (RMRB, 1985, May 17).

In many cities, rural work crews have become the major source of labor power for the construction industry, surpassing in great number the cities' own construction workforce. For instance, in Shandong Province, the number of construction projects completed by rural workers in 1983 was five times higher than that finished by state construction companies (Lu Li and Wang Xiou-yien, 1984: 34).

The practice of hiring rural labor to work on urban construction projects dated back about 30 years. In the city of Hangzhou, for example, 70 percent of the construction force in 1955 was reported to own agricultural land (Howe, 1971: 83). This system of maintaining a high proportion of peasants in the urban construction labor force is well-received by all the parties involved. It permits the peasants to engage in nonagricultural activities in the cities and yet complies with the government ban on permanent rural-to-urban migration. The

Table 4-14 PROPORTION OF TOWNSHIP AND VILLAGE CONSTRUCTION WORKERS
EMPLOYED IN URBAN AND MINING AREAS

Geographic area	Year	Total number of township and village construction workers (million)	Township and village construction workers employed in urban and mining areas	
			million	percent
Nationwide	1983	4.83	3.00	62.5
	1985	7.89	5.80	73.4
Anhui Province	1984	0.29	0.20	70.0
Guangxi Province	1985	0.12	0.08	66.7
Shangdong Province	1984	0.74	0.30	40.5
Lin County, Hunan Province	1985	0.30	0.10	33.3

* Figures are rounded.

- Sources:
- a Beijing Review, 1984, No. 46, p. 7.
 - b ZGTJNJ 1986, p. 46.
 - c RMRB, 1986, January 11.
 - d ZGNYNJ 1985, p. 129.
 - e ZGNYNJ 1985, p. 85.
 - f ZGNYNJ 1986, p. 325.
 - g Lu Li and Wang Xiou-yien, 1984, p. 34.
 - h RMRB, 1986, July 17.

arrangement brings the peasants to work in cities through a contract system for some fixed-term projects. Upon the completion of their contracts, the peasants are to return to their rural homes (Emerson, 1983: 9).

The system is also favored by city construction companies, which try to minimize costs by retaining a high proportion of temporary rural workers. Temporary workers do not enjoy any of the fringe benefits, such as housing and subsidies, to which permanent state workers are normally entitled. They also receive lower wage rates and much more restricted labor insurance coverage than permanent state employees (Walder, 1984: 32; RMRB, 1984, May 5). From the perspective of urban construction companies that want to control their labor costs, the ideal construction worker is a peasant with seasonal availability and a secondary income from agriculture.

The consequences of this arrangement are twofold: First, the construction industry has become a major channel for illegal migrants to enter the urban labor force. Between 1966 and 1976, a total of 13 million peasants succeeded in migrating to the urban areas, despite strict government prohibitions against such rural-to-urban movement (Kang Yong-he, 1982: 17). Although the evidence here does not justify an unequivocal statement, it appears that many contract workers may have succeeded in remaining in the cities when their contracts expired.

Second, the system prohibits the growth of a stable and skilled urban construction labor force that would be required in the long run. For this reason, Howe (1971: 150) has characterized the construction industry as the most unstable industry in China. Subsequently, when

urban construction projects, urban housing in particular, began to proliferate in 1979, the only way to accommodate such a sudden increase in demand for construction workers was to allow the influx of more contract peasant workers. The steady growth of the township and village construction workforce from 1979 to the present is therefore, in a sense, an inevitable result of an acute contradiction embedded for some time in the construction labor management system.

Significance of Migrant Construction Workers

In many less-developed parts of the country, the migrant construction workers are a major source of capital for the development of other types of rural nonfarm activities in their local communities (Lu Li and Wang Xiou-yien, 1984: 36; RMRB (OE), 1986 July 17).

However, in the most backward regions, which do not have much in the way of natural resources to support any nonfarm enterprises and which do not enjoy the benefits of linkage with urban industries, the remittance from migrant construction workers merely represents a supplementary income (RMRB, 1985 August 10; 1987 September 30).

Some early evidence reveals that the recent increase in interregional gaps is due largely to the fact that while rural industries have flourished in the more-developed parts of the country, the surplus labor problem has remained basically insoluble in many less developed regions (Liu Yi and Hu Xiao-jun, 1987: 10; Xia Si-ping and Shao Xiang-neng, 1987: 28). In connection with this problem, and from the perspective of planning, the steady expansion of the migrant construction workforce carries a significant message. It strongly

suggests that the export of surplus laborers from the less-developed regions is a viable option to resolve the problem of underdevelopment and, subsequently, to reduce interregional differences (Liu Yi and Hu Xiao-jun, 1987: 10; Wang Shou-nan and He Mao-gui, 1985: 55). It also challenges the view of mainstream Chinese planners who want to minimize interregional movement of rural laborers.

The main conclusion of this chapter is that the successful story of Southern Jiangsu Province cannot be replicated in many parts of the country that do not have any of the same conditions conducive for development of local rural industries. From the point of view of officials in the less-developed regions, the export of surplus laborers--such as construction workers--to the more-developed parts of the country represents a real alternative to tackling the problem of chronic underdevelopment within the constraints of limited local resources.

China's de jure urbanization level has doubled in four years, jumping from 20.8 percent in 1982 to 41.4 percent in 1986 (Table 5-1). The Chinese State Statistical Bureau officials explained that this unprecedented increase was largely the result of an increase in the number of urban towns since the mid-1984 relaxation of criteria for urban town designation (ZGTJNJ 1987: 89). This is, however, only a partial explanation. My own analysis shows that much of the gain in the town population was in fact due to the post-1984 practice of expanding the administrative boundaries of urban towns. Many newly designated urban towns (and some existing towns as well) have enlarged their administrative territories to include a huge number of agricultural residents in their official urban population. Most of these rural persons, however, judged by strict occupational and residential criteria, should not have been counted as urban population. The inclusion of many agricultural persons in the urban sector since mid-1984 has thus greatly exaggerated the actual urbanization level.¹

Before presenting the analysis, I define the types of settlements in China and clarify similarities and differences between them. This has been a source of confusion for many researchers in the West. My

¹ Many cities have also expanded their administrative boundaries to include suburban counties and counted the rural residents as official urban population. This practice has led to an increase of the de jure urbanization level. My concern here is primarily with the urban town population component of the urbanization level, and I do not discuss in great detail the city population component of the urbanization level. For the latest discussion on the overall urbanization level issue, please read Banister, 1986; Chan and Xu, 1985; Ma and Cui, 1987.

Table 5-1 URBANIZATION LEVEL IN CHINA, 1949-1986
(percent)

Year	Urbanization level (percent)
1949	10.6
1952	12.5
1957	15.4
1962	17.3
1965	18.0
1970	17.4
1975	17.3
1980	19.4
1981	20.2
1982	20.8
1983	23.5
1984	31.9
1985	36.6
1986	41.4

Note: The urbanization level is the ratio between population residing in officially designated urban areas (cities and designated towns) and the total population.

Source: ZGTJNJ 1987, p. 89.

discussion in this chapter prepares an indispensable groundwork upon which I discuss the effects of Township Enterprises on small town development in Chapter 7.

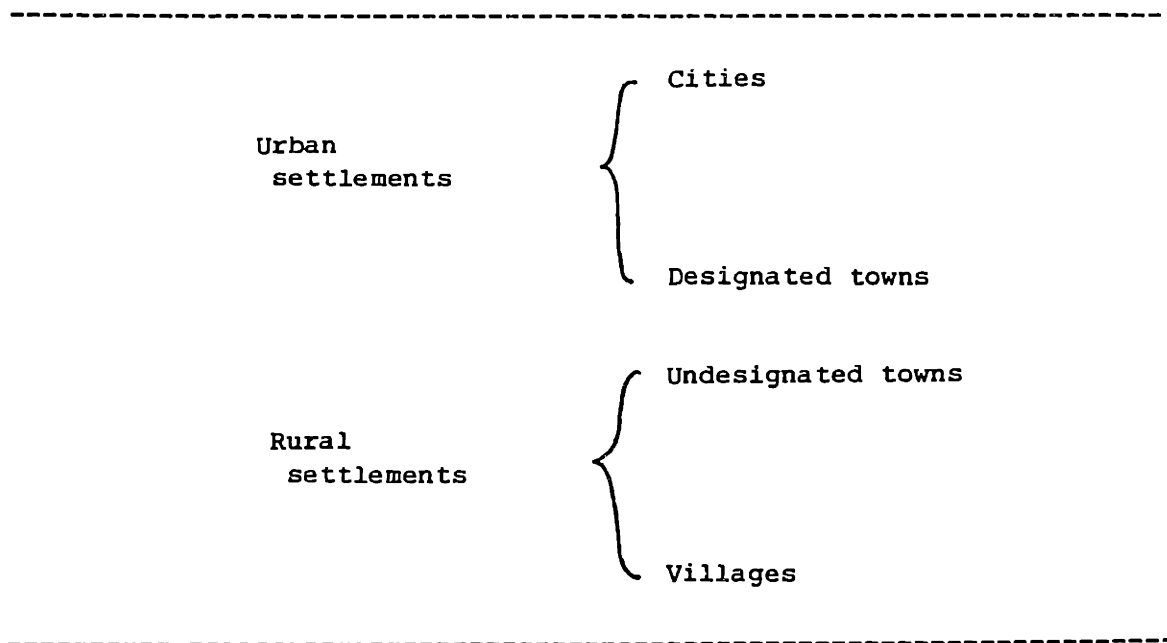
OFFICIAL CLASSIFICATION OF SETTLEMENTS

In China, settlements are classified according to a set of administrative standards as either urban or rural. As shown in Figure 5-1, cities (cheng shi) in China are urban settlements, and villages (nong cun) rural settlements. Officially designated towns (jian zhi zhen) are included in the urban sector, while undesignated towns (fei jian zhi zhen) are counted as part of the rural sector (Zheng Zhonghan, 1983: 119).

Some Western researchers considering problems of urban and rural development in China have adopted the official dichotomous categorization (urban vis-a-vis rural) of China's settlements and population (Chan and Xu, 1985; Goldstein, 1984: 6-11; Orleans, 1982; Orleans and Burnham, 1984). These authors are generally using Chinese examples for comparative study purposes, but mostly they are interested in the urban-rural relations and pose their research questions and design their methodologies accordingly (Cell, 1979; Murphey, 1980). Usually researchers on urban-rural relations include only the designated towns in the urban sector, following the official urban demarcation of such settlements.

The official dichotomous simplification, however, inadvertently overlooks some intrinsic differences between cities and towns, on the one hand, and the subtle, and yet important, differences and

Figure 5-1 SCHEMATIC ILLUSTRATION OF THE OFFICIAL DEFINITION OF URBAN AND RURAL SETTLEMENTS IN CHINA



Note: A designated town is an official administrative unit that reports to the county government, forming the lowest echelon of the vertical hierarchy of the national urban system.

similarities between designated and undesignated towns, on the other. The official classification of settlements is problematic in another manner. Although many under-qualified small towns are officially designated and included in the formal urban sector, certain small towns--although they exceed the urban criteria--are left out and treated as part of the rural sector. Therefore, the inclusion of designated towns (and the exclusion of undesignated ones) in the urban sector often creates serious problems in the interpretation of information about the "urban" and the "rural" sectors, hence the analysis of the urban-rural differences.

Classification of Small Towns

A classification of the small towns in China is depicted in Table 5-2. First, although some writers in China consider small towns to include small cities (xiao cheng shi) and satellite cities (wei xing cheng shi) (Xue Bao-ding, 1984), I exclude both for the following reasons. In terms of the sources of investment capital, small cities and satellite cities enjoy some forms of state support (Zhang Yu-lin, 1985: 12). Small towns, however, are expected and explicitly instructed to rely upon local resources for development (Yu Zhang, 1985: 27; Bu Jue-cha, 1983: 21; Du Yian-shuang, 1983: 28). In addition, small cities and satellite cities are intrinsic parts of the urban system (Yang Zhen-hua, 1983: 18). Saying this, of course, I do not deny their influence on rural and agricultural development, but that influence is primarily restricted to their surrounding suburban areas. My point is that small cities and satellite cities, prescribed

Table 5-2 CLASSIFICATION OF SMALL TOWNS IN CHINA

Types of small towns	Administered by
Designated towns (jian zhi zhen)	} County governments
County seats (xian zhengfu suo zai di)	
County towns (xian shu zhen)	
Undesignated towns (fei jian zhi zhen)	} Township governments
Township seats (xiang zhengfu suo zai di)	
Rural market towns (nong cun ji zhen)	

by their given priorities in the urban network, would very likely allocate their resources towards satisfying the needs of the urban system before that of the rural sector, which the small town development policy is expediently designed to serve (Wang Xiang-ming, 1982: 34).

Second, designated towns (jian zhi zhen) and county towns (xian shu zhen) are equivalent terms, and can be used interchangeably (Tang Wen-xiang, 1984: 19). Designated towns are administered by the county government, and county seats (xian cheng, or xian zhengfu suo zai di) are county towns that serve as the seats of the county government as well;² however, in the recent past, not all county seats were designated towns. In 1982, for example, about 370 county seats in China (out of a total of 2074 counties) were undesignated (the former figure is from Li Meng-bai, 1983: 16; the latter is from BR, 1984, No. 21: 25). With the changes in town designation norms and the subsequent proliferation of designated towns since 1984 (with 9,130 designated towns by the end of 1985), county seats are now generally designated towns.

Third, undesignated towns are better known in the Chinese language as rural market towns (nong cun ji zhen) or simply as market towns (ji zhen).³ They are administered by township governments, whose primary responsibilities also include agricultural and rural development at the

2 To avoid confusion, in the following discussion, I reserve "county towns" exclusively to mean designated towns that are not county seats.

3 Before 1983-1984, undesignated towns were popularly called commune towns (gongshe ji zhen).

township level. Township seats (xiang zhengfu suo zai di) are market towns that also serve as the seats of the township government.

Importance of Undesignated Towns

Government officials and academics in China who express support for the small town development strategy invariably consider rural market towns to be indispensable to making the policy a success (RMRB, 1984, June 5; Zheng Zhong-han, 1984: 4; Tang Wen-xiang, 1984: 19; Wu Guo-bing, 1981: V-36; Wang Yu-zhao, 1985: 41; Xue Bao-ding, 1984: 15; Wang Ruo, 1985b: 23-24). The undesignated towns are, therefore, an important subcategory of small towns. They demand close attention in this study for several analytical and methodological reasons.

With regard to analytical consideration, the formulation of the small town policy is, to a large extent, justified by the high expectations placed on the combined potential of the designated towns and the rural market towns. An example in support of this claim is the policy allowing limited and localized village-to-town migration. Central planners use this policy, conceived in accordance with the larger objectives of rural nonfarm and small town development, to allow peasants with certain skills to migrate to market towns only. County seats, not to mention cities, are explicitly excluded from the migrant's choice of destination (GWYGB, 1984, No. 26: 919).⁴ I, therefore, take into account rural market towns, along with the designated towns, to ensure a thorough analysis of the rural nonfarm

4 There is, nonetheless, some movement of peasants into the county seats and cities. This issue will be discussed further in Chapter 7.

sector and the small town development experience.

There is also a methodological rationale for including rural market towns. A main objective here is to examine the effects of rural nonfarm activities on the small towns and on agricultural development. The vast number of market towns (about 53,000) and their usually short spatial distances from the villages guarantee that they, along with the designated towns, will perform a vital role in agrarian commercialization and rural nonfarm development. Their relationships with the rural nonfarm sector and agricultural development are fundamental to understanding the problems and the prospects of the latter two issues.

My final reason for the inclusion of rural market towns is closely related to the small town classification problem. Simply stated, the differences between designated and undesignated towns are more artificial than real. Although some provinces maintain broader criteria for town designation, thus pushing some underqualified settlements into the official urban sector, some well-qualified rural market towns have refused to be inducted into the urban ranks. What are the reasons that discourage some well-qualified rural market towns from becoming designated towns? A review of the history of changing urban criteria of small towns helps answer this question.

History of Changing Criteria for Designated Towns

The Chinese government has revised the criteria for town designation three times: in 1955, in 1963, and most recently in November 1984 (Chan and Xu, 1985: 592-593; Wu You-ren, 1985: 30). To

give the reader a sense of change and continuity, I begin the discussion with the earliest set of criteria. The 1955 norms for town designation were: (1) seats of county governments (xian zhengfu suo zai di), and (2) settlements with a population of 2,000, of whom at least 50 percent were nonagricultural.⁵ Settlements with a population over 2,000 that did not meet the criteria of nonagricultural predominance were denied the town status (Chan and Xu: 592-593).

These criteria were revised in 1963, when the economy was undergoing a period of readjustment after the failure of the Great Leap Forward movement. The previous criterion of designating county seats as towns was withdrawn. Moreover, stricter standards with regard to nonagricultural predominance were adopted in designating towns, namely: (1) settlements with a population of more than 3,000, of whom more than 70 percent were nonagricultural, or (2) settlements with a population of 2,500 to 3,000, of whom more than 85 percent were nonagricultural (Zhang Wu-dong, 1983: 220). One of the immediate effects of this tightening of town designation criteria was that many county seats and previously designated towns lost their formal town status. In 1963, before the implementation of the revised standards, there were 4,429 designated towns in the country. A year later, the total number of designated towns declined by almost one-third to 3,148. (In Table 5-3, I document the number of designated towns for all 29 provinces, municipalities, and autonomous regions.) The stricter criteria also

5 Nonagricultural population is an administrative concept used in China to classify the population. It is often used to represent--but is not the exact equivalent of--the urban population. I discuss this population classification problem further in the next chapter.

led to an instant reduction of the urban population by 25 million people (Gu Qing-zhong, 1985: 1-2).

With the introduction of a series of economic reform policies in 1979, China's economy experienced some rapid and substantial changes. Important changes in the rural areas such as agrarian commercialization and the development of Township Enterprises (xiang zhen qiye) brought increased attention to the revitalization of the small towns (RMRB, 1984, June 5). The 1963 criteria for town designation were therefore relaxed in November 1984 to accommodate the growing demands for town-building activities in rural China (GWYGB, 1984, No. 30: 1012-1014). The 1984 criteria were: (1) seats of county government; (2) seats of township government, where the total township population was below 20,000, of which 2,000 nonagricultural persons reside in the township seat, or where the total township population was more than 20,000 and the number of nonagricultural persons residing in the township seat was more than ten percent of the total township population. The policymakers also stipulated that seats of township government located in areas of national minorities, mountainous regions, and near national borders could be designated as towns even if their nonagricultural population was below 2,000 (GWYGB, 1984, No. 30: 1012-1014).

The policymakers' overall objective for this revision was to lower the criteria for town designation and in effect to allow for a rapid growth in the number of designated towns. Casual observation of the country's total number of designated towns, particularly between 1982 and 1986, as shown in Table 5-3, would suggest the ensuing success of the recent relaxation of criteria. However, a closer examination of

Table 5-3 NUMBER OF DESIGNATED TOWNS, BY PROVINCE

Province ^a	Year										
	1953	1957	1963	1964	1977	1981	1982	1983	1984	1985	1987
Anhui							118		152		307 ^h
Beijing								14			
Fujian							119				
Gansu		66		39 ^e	29		45	53	82		
Guangdong							132				
Guangxi							92				
Guizhou							93				
Heilongjiang			138 ^d	93			101		192	214	
Hebei							50				
Henan	120 ^b			122			109	112	369		
Hubei							127		455		
Hunan							187	231			600 ⁱ
Jiangsu	424	272 ^c					114	135	146	245	
Jiangxi							106				
Jilin							101				
Liaoning							93			394	
Neimengku							102				
Ningxia							14				
Qinghai							7				
Shanghai							33				
Shandong							97				
Shanxi							48		45		
Shannxi							81				
Sichuan							309				
Tianjin							7				
Xizang							9				
Xinjiang							64				
Yunnan		173	21 ^e	126 ^f			128			131	
Zhejiang							165				
National total	5402	3621	4429	3148		2843	2664	3200 ^g	5698	9130	10,000 ⁱ

Notes: Blank cells in table mean that data are not available.

a Including municipalities and autonomous regions.

b Figure is for 1950.

c Figure is for 1958.

d Figure is for 1960.

e Figure is for 1961.

f Figures are for 1965.

g Figure is rounded.

h Figure is for 1986.

i Figures are rounded.

Sources:

- Figures for 1982: 10 Percent Sampling Tabulation on the 1982 Population Census of the People's Republic of China, edited by Population Census Office under the State Council and Department of Population Statistics, State Statistical Bureau, People's Republic of China, China's Statistical Publishing Society, 1983, p. 470.
- Anhui: Wang Yu-zhao, "To Develop a New Era in Constructing Small Towns," Study Materials for Economists, 1985, No. 2, p. 41.
- Gansu: Liu Min, "To Accelerate the Construction of Small Towns and To Invigorate the Economy of Gansu," SHKXG, 1985, No. 4, p. 26. Figure for 1984 was taken at year-end.
- Guangdong: Wei Qing-quan, et al., "Some Thoughts Regarding the Development of Cities in Guangdong Province," JJDL, 1983, No. 3, p. 213.
- Guizhou: Writing Group on Guizhou's Market Town Economy, "Preface to 'Guizhou's Rural Market Town Economic Problems,'" GZSK, 1984, No. 5, p. 21.
- Heilongjiang: Figures for 1960 and 1964 are from Li Hong-lie, "The History and the Structural Characteristics of the Urban Economy in Heilongjiang Province," XXYTS, 1985, No. 3, p. 95. Figures for 1984 and 1985 are from Zhang Yu-sheng, et al., "A Study of the Urban Economic Development Strategy in Heilongjiang Province," JJDL, 1986, No. 2, p. 144.
- Henan: Dong Shi-gui, "To Accelerate the Development of Henan's Small Towns Under the Reform Movement," ZZXK, 1984, No. 4, p. 42.
- Hubei: Figure for 1983 is from Wu You-ren, "The Problem of Town Designation and the Relationship Between Town and Countryside in Jiangsu Province," NJDXD, 1985, p. 30. Figure for 1984 is from Kang Jiu-sheng, "The Proportion of Urban Population Does Not Indicate the Urbanization Level," ZGCZ, 1987, No. 1, p. 42.
- Hunan: Figure for 1983 is from Gao Zhen-min, "A Summary of the Conference on the Problem of Small Town Population in Hunan Province," RKYJ, 1985, No. 1, p. 63.
- Jiangsu: Figures for 1953 and 1958 are from Tang Wen-xiang, "A Discussion on the Balance of Labor Power," NJDX, 1984, No. 1, p. 21. Figure for 1983 is from Jiangsu Province Social Sciences Academy, Jiangsu After Thirty Years, 1949-1984, Jiangsu People's Publishing Society, 1984: 133. Figure for 1984 is from Zhang Ping, "The Uninhibited Development of Small Towns," CXJS, 1984, No. 12,

p. 22. Figure for 1985 is from 1986 JSJNJ, p. IV-94.

Liaoning: Zheng Zhong-han, To Construct Socialist Small Towns, Jiangsu People's Publishing Society, 1984, p. 85. Figure for 1985 is from Bai Yu-long, "Several Problems of Small Town Construction in Liaoning," ZGCZ, 1987, No. 1, p. 37.

Shanxi: Wu You-ren, "The Problem of Town Designation," 1985, p. 30.

Sichuan: Zheng Zhong-han, To Construct Socialist Small Towns, 1984, p. 85.

Yunnan: Figures for 1955, 1961 and 1965 are from Fu Shi-ming, "A Discussion of Yunnan's Small Towns," YNSH, 1985, No. 1, p. 29. Figure for 1985 is from Wang Ruo, "The Existing Situation and the Future Prospect of the Small Towns in Lunan Yi Autonomous County," JJWT, 1985a, No. 7, p. 24.

National total: Figures for 1953, 1964, and 1982 are from Zhou Yi-xing, "Urban Development Strategy Requires a Stage-by-Stage Perspective," Department of Geography, Beijing University, 1983, p. 15. The national total figures for these three years were taken at the first, second, and the third population census respectively.

Figure for 1957 is from Morris Ullman, Cities of Mainland China, 1961, p. 3.

Figure for 1963 is from Zheng Zhong-han, To Construct Socialist Small Towns, 1984, p. 91.

Figure for 1981 is from Zheng Zhong-han, "A Discussion on Small Towns," ZKSH, 1983, No. 4, p. 119. This is a year-end figure.

Figure for 1983 is from Beijing Review, 1984, No. 21, p. 25.

Figure for 1984 is from Wu You-ren, "The Problem of Town Designation," 1985, p. 29. This figure was taken in June 1984.

Figure for 1985 is from RMRB(OE), 1986, June 14. This is a year-end figure.

Figure for 1987 is from RMRB, 1987, October 16. This is a rounded figure.

the available evidence reveals that this cause and effect relationship between relaxed criteria and the increasing number of designated towns was somewhat less than apparent: By June 1984, five months before the State Council announced the revised criteria, the total number of designated towns had already surged to 5,698 from about 3,200 a year earlier (Xu Hua-dong, et al., 1985: 34).

Besides the criteria relaxation in November 1984, there are two other reasons for the sudden increase of designated towns in the first half of 1984. First, many provinces had relaxed their criteria for town designation much earlier than the national government. For example, in Gansu Province, settlements with a population of more than 2,000, of whom at least 25 percent were nonagricultural persons, could be granted the town status (Xu Hua-dong, et al., 1985: 34). In Liaoning Province, settlements with a minimum population size of 5,000 and an industrial output value of over five million yuan could be designated as towns, whereas in Anhui Province, a less-developed region, the population requirement was dropped to 1,000 and the industrial output value requirement lowered to one million yuan (Xu Hua-dong, et al., 1985: 34). In Hubei Province, even a town's primary functions could be considered as the major criteria for official designation.

However, some provinces have, prior to 1984, retained stricter standards for town designation than did the central government. A good example is the standards applied by officials in Hebei Province to the Luannan County seat. In 1981, despite the fact that there were 6,761 nonagricultural persons among a total population of 10,559, a statistic

far surpassing the national norms, provincial government officials, for some unknown reasons, denied this county seat town status (Wu Xue-wei, 1983: 25).

My point here is that some provinces, by early 1984 or even earlier, had lower standards for town designation than the central government was willing to tolerate. Indeed, the 1984 State Council actually cautioned local governments from being overzealous in granting such status in their circular on loosening the criteria for town designation (GWYGB, 1984, No. 30: 1012-1013).⁶

The second reason for the sudden increase in the number of designated towns in the first half of 1984 was linked to the taxation policy. Before January 1984, the income tax applied to Township Enterprises was only 20 percent, whereas the rate applied to enterprises run by designated towns (hereafter town enterprises (zheng ban qiye)) was 55 percent. Because of this discrepancy in the income tax rates, some designated towns deliberately sought to be downgraded to rural market towns in order to reduce their income tax payment.

For instance, in the latter part of the 1970s in Jiangsu Province, many designated towns attracted by the lower income tax rate levied upon Township Enterprises rid themselves of that official designation

⁶ The central government's reservation about a speedy proliferation of designated towns was based upon some genuine concerns. They are: the limited supply of capital for infrastructure investment and job creation; the limited supply of skilled administrative and planning personnel at the local level; the danger of indiscriminate conversion of the already meager agricultural land into town-building purposes; the problem of supplying grain to an expanding nonagricultural population; and the risk that the town-building and other related efforts may impede the growth of agricultural production (GWYGB, 1984, No. 30: 1012-1013).

(Zhao Chang-zhi and Xue Feng, 1983: 35; Wu Rong, 1983: 64). Although I am unable to collect disaggregated time-series data on designated towns for all the provinces, municipalities, and autonomous regions in China, the case of Jiangsu Province strongly suggests that the taxation policy was partly responsible for the 1982 decline in the overall number of designated towns.

My argument above is further buttressed by looking at the effects of a change in the taxation policy at the beginning of 1984. In January of that year, the 55 percent income tax rate became applicable to both the Township Enterprises and the town enterprises (GWYGB, 1984, No. 7: 218). Without the benefits of a lower income tax rate, many previously designated towns rushed to reclaim their former status in the early half of 1984 (Fei Xiao-tong, 1985: 94), a surge that continues to this date. Thus, the income tax rate is an important factor, first deterring (before January 1984) and then stimulating (after January 1984) the rate of small town designation.

Nevertheless, despite the rapid increase in the total number of designated towns since 1984, some Chinese researchers point out that certain rural market towns still refrain from seeking upgrading. There are several explanations for this. First, although the same income tax rate now applies to both Township Enterprises and town enterprises, the former are still favored by other tax rates. These tax rate differences, as they now exist in Jiangsu Province, are listed in Table 5-4.

In addition, the conversion of a market town into a designated town administratively separates a township government from its economic

Table 5-4 TAX RATES FOR ENTERPRISES RUN BY DESIGNATED TOWNS AND TOWNSHIP ENTERPRISES

Type of tax	Tax rates (percent)	
	Enterprises run by designated towns	Township Enterprises
Income tax	55	Also at 55 percent, but can be reduced, deferred, or exempted
Energy tax	15	Exempted
Tax on new building	10	Exempted
Industrial- commercial tax	5	3

Source: Xu Hua-dong, et al. "The Problem of Small Towns Designation," CXJS, 1985, No. 2, pp. 34-35.

backbone, the Township Enterprises. Undoubtedly, many township government officials oppose upgrading their market towns for fear of losing control over the Township Enterprises, their main source of revenue (Yang Ming-guang, 1985: 41). Moreover, because of the lighter tax burdens levied upon the Township Enterprises, some market towns are actually in a better financial position than designated towns in providing investment capital for town construction (Chen Feng, 1985: 63).

Undesignated Towns versus Designated Towns

So far, I have discussed primarily the reasons that discourage market towns from seeking formal designation. My analysis of the town designation problem would not be complete, however, without at least mentioning the basic rationales on the part of the undesignated towns to join the urban rank. Several economic and noneconomic considerations have influenced the market town authorities in choosing to seek formal designation.

In principle, when a town receives formal designation, it enters the lowest echelon of the urban hierarchy at the county level, where county governments are administratively and financially responsible for the welfare of the designated towns; that is, designated towns are entitled to a share of the county's industrial and infrastructure investment funds (Du Yian-shuang, 1983: 27). This translates into increased industrial employment opportunities, improved transportation and communication links, and a higher priority in receiving energy sources, such as electricity, than were available without the

designation. It also means the installation or improvement of social infrastructure and amenities, like banks, schools, and hospitals (Fang Ming, 1986). Other benefits accrue as well because the improved infrastructure facilitates agrarian commercialization in the locality by providing better access to credits, market information, and technology.

In practice, however, the limited financial resources available at the county level are usually spent on the county seats. Other designated towns often receive only a small and insignificant amount of funds from the county authorities (Yu Zhang, 1985: 27; Bu Jue-cha, 1983: 21; Zhao Pan-qing and Zhang Shou-zheng, 1986: 325). Researchers at the Policy Research Office of the Yeyang Prefectural Party Committee in Hunan Province, for example, found that between 1971 and 1983, a total of 13.33 million yuan were used for small town construction in the counties of Linxiang, Pingjiang, and Huarong. They also revealed that 95 percent of this money was channeled into the county seats of these three counties, leaving only five percent for all remaining designated towns (Hunan Province, 1984: 16-18).

The important point is that the number of the designated towns is not solely dependent upon the urban criteria set by the central and the provincial governments. From the perspective of prospective candidates for town designation, it is more than a matter of mechanically reacting to some tightened or loosened urban criteria; it also involves weighing the incentives and disincentives to gaining town status. Although there are ample reasons for becoming a designated town, there are also circumstances that discourage some well-qualified

settlements from wanting to be counted as towns in the formal urban sector.

SMALL TOWNS AND THE URBANIZATION LEVEL

During most of the 1960s and 1970s, the urbanization level in China, defined as the size of population residing in officially urban areas divided by the total population, has remained at around 17 to 18 percent. By 1981, the urbanization level surpassed the 20 percent mark. Then, it abruptly jumped from 23.5 percent in 1983 to 31.9 percent in 1984. Two years later in 1986 it climbed to 41.4 percent, an unprecedentedly high level for China (Table 5-1).

The Chinese State Statistical Bureau has identified the 1984 relaxed criteria for town designation as a predominant factor in the big jump in the urbanization level between 1983 and 1986 (ZGTJNJ 1987: 89). My examination of the existing evidence, however, does not fully support this explanation. In fact, my own analysis shows that the drastic rise in the number of designated towns between 1983 and 1986 should only have increased the urbanization level in the corresponding period by about 6.8 percent, under the best of circumstances. That is, the 1984 relaxed criteria for town designation can explain only a limited part of the 17.9 percent jump in the urbanization level during the aforementioned period.

If I assume that, on average, each of the newly designated towns has a population of 5,000, and about 6,800 towns were designated between 1983 and 1986, the total size of the population reclassified as urban was around 34.0 million, about 3.4 percent of the urban

population. Even if I assume a higher average population size for each newly designated town--10,000, which is an extremely favorable estimate⁷--the urbanization level will then be increased by 6.8 percent. This still leaves unexplained a large part (11.1 percent) of the sudden surge in the urbanization level (17.9 percent increase in three years).

After disaggregating the composition of urban population growth (Table 5-5), I find that city population growth accounted for only 5.1 percent of the total urban population growth between 1983 and 1986. The expansion of town population in the same period, on the other hand, has raised the de jure urbanization level by 12.8 percent. If I accept these figures, then the average population size of each newly designated town would have to be about 19,000. Because the average population size of undesignated towns in 1985 in one of the economically most developed provinces--Jiangsu--was about 4,500 (A Regional Analysis of Small Towns, 1987: 238), my calculation shows that each of the 6,800 newly designated towns should have increased its population by more than 400 percent in three years.

Although the Chinese government began to allow village-to-town migration in 1984, it is extremely unlikely that this flow of migrants could have been a major source of the enormous upsurge of the town population because the rate and size of this population movement are

7 This is an extremely favorable estimate because the average population size of undesignated towns in 1985 in one of the economically most developed provinces--Jiangsu--was about 4,500 people (A Regional Analysis of Small Towns, 1987: 238).

Table 5-5 COMPOSITION OF URBAN POPULATION GROWTH, 1982-1986

Year-end	Total national population	Urban population by residence		
		Total	City	Town
	(in million)			
1982	1,015	212	145	66
1983	1,025	241	175	67
1984	1,035	330	191	139
1985	1,045	382	212	171
1986	1,057	438	233	204
	(in percent)			
1982	100.0	20.8	14.6	6.2
1983	100.0	23.5	17.0	6.5
1984	100.0	31.9	18.5	13.4
1985	100.0	36.6	20.3	16.3
1986	100.0	41.4	22.1	19.3

Note: a The total urban population figure is the sum of city population and town population.

Sources:

Population figures: For 1982, Statistical Yearbook of China 1983, pp. 106, 107.
 For 1983, Statistical Yearbook of China 1984, pp. 84, 85.
 For 1984, Statistical Yearbook of China 1985, pp. 188, 189.
 For 1985, ZGTJNJ 1986, pp. 91, 94.
 For total urban population in 1986, ZGTJNJ 1987, p. 89. For city population in 1986, RMRB, 1987, July 8.

Percent: Calculated by the author.

rigidly controlled by local authorities.⁸

Instead, much of the sudden expansion of the town population can be attributed to the new governing structure of "town administering village" (zhen guan cun). Under this new governing system, the administrative boundary of a designated town is enlarged beyond the built-up area of the town itself to include its surrounding villages. One purpose of the "town administering village" system is to use the towns' nodal influence to help invigorate the agricultural economy (Zhou Yi-xing, 1986: 11). Another purpose is to broaden the tax base of the towns so that they can draw upon the countryside's resources to finance the expenses of town construction (Su Zu-qin, 1987: 29-30).

The adoption of the "town administering village" system creates a statistical problem, however. In reporting the size of town population, the State Statistical Bureau does not distinguish the resident population of designated towns from the larger agricultural population who live within the administrative boundaries of the designated towns (Zhou Yi-xing, 1986: 11; Su Zu-qin, 1987: 28). Consequently, the formal expansion of town boundaries includes a huge agricultural population who by strict occupational and sociological standards should not be counted as part of the urban population.

I have found several pieces of evidence that strongly support this argument. For instance, only 28.0 percent of the 1983 total town population were agricultural persons. By the end of 1984, after the introduction of the "town administering village" system, 61.1 percent

⁸ I discuss the village-to-town migration issue in greater detail in Chapter 7.

of the town population were composed of agricultural persons (Kang Jiusheng, 1987: 42). These global figures are confirmed by reports on a region and a province.

In Yiyang Prefecture, Hunan Province, the number of designated towns jumped from 24 in 1978 to 42 in 1985, and the average population size of each designated town increased from 7,672 in 1978 to 13,303 in 1985 (Table 5-6). However, the proportion of nonagricultural population in each town declined dramatically from 87.1 percent in 1978 to 41.3 percent in 1985. This means that, on the average, the newly designated towns contained a much higher proportion of agricultural persons than the pre-existing towns.

A similar trend is also recorded in Guangxi Province, which is one of the least-developed regions in China. The number of designated towns almost doubled from 124 in 1982 to 244 in 1985. The total population in designated towns exploded from 2.0 million in 1982 to 9.5 million in 1985 (Table 5-7). The proportion of nonagricultural population in the designated towns, however, dropped even more drastically from 75.7 percent in 1982 to 17.9 percent in 1985.

Although the available evidence is sparse, it supports my central argument: Beginning in mid-1984, the officially reported town population has included many rural residents and, therefore, has exaggerated the actual urbanization level.

CONCLUSION

If the "town administering village" system continues to be applied to other parts of China, the official urbanization level will

Table 5-6 PROPORTION OF NONAGRICULTURAL POPULATION IN DESIGNATED TOWNS
IN YIYANG PREFECTURE, HUNAN PROVINCE

Year	Total number of designated towns in Yiyang Prefecture, Hunan Province	Average population size of each town	Proportion of nonagricultural population in each town (percent)
1978	24	7,672	87.1
1981	24	9,198	82.6
1984	28	10,574	69.9
1985	42	13,303	41.3

Source: Xie Cheng and Shi Xiang-yun, "A look at the relationship between rural occupational transformation and small town construction from the perspective of changing productive forces," RKYJ, 1986, No. 2, p. 23.

Table 5-7 PROPORTION OF NONAGRICULTURAL POPULATION IN DESIGNATED TOWNS
IN GUANGXI PROVINCE

Year	Total number of designated towns in Guangxi Province	Total population in designated towns (million)	Proportion of nonagricultural population in designated towns (percent)
1975	120	1.1	77.3
1980	123	1.9	77.5
1982	124	2.0	75.7
1984	240	9.1	17.5
1985	244	9.5	17.9

Source: Number of towns and population figures are from GXJJNJ 1986, p. 743.

Percents are calculated by the author.

Note: a The 1982 population census reported only 92 designated towns for Guangxi in 1982. The data in this table were collected by the Public Security Bureau of Guangxi Province and were published in the Guangxi Economic Yearbook 1986. I do not have enough information to resolve this discrepancy over the number of designated towns in 1982. Nevertheless, because the information in this table is consistent with the overall trends in China, and because it had been systematically collected by the Public Security Bureau of Guangxi Province, I believe it fairly represents the general demographic conditions of designated towns in Guangxi Province.

easily exceed the 50 percent mark before 1990. My own examination of the evidence shows that much of the post-1984 increase in the official urbanization level was, in fact, the result of incorporating a huge number of agricultural people within the expanded administrative boundaries of the newly designated towns. The post-1984 urbanization level has been, therefore, systematically inflated by the inclusion of de facto rural residents.

Some researchers in the West have interpreted the increase in the number of designated towns since 1984 as an indication of the revitalization of the small towns in China (Tan, 1986a; 1986b). Such a view needs to be modified in the light of new information from China. First, the administrative expansion of the town boundaries allows many previously underqualified settlements suddenly to become eligible for town designation. Second, in many less-developed regions, it is simply status and prestige, rather than economic necessity, that propel some local officials to seek designation (Cheng Gan-yuan, 1986: 217).

In other words, the quantitative increase in the number of designated towns is not the result of actual qualitative changes in the demography and the economy of the rural areas. Formal designation also does not automatically translate into economic growth. Instead, it is the development of the rural nonfarm sector that forms the economic impetus for the revitalization of the small towns and their immediate rural surroundings. In Chapter 7, I will assess the effects of rural nonfarm development on the small towns, from both the development and the planning perspectives.

The population in China is administratively classified by a household registration system into two groups: the agricultural population (nongye renkou) and the nonagricultural population (fei nongye renkou). The major difference between the two is that whereas the latter is guaranteed by the state a supply of commodity grain and other subsidized urban rations, the former is not. This distinction, however, does not truly reflect an individual's occupation or his/her residential location. Thus, a rural commune member who has a nonagricultural job and even resides in an officially designated urban area for an extended period of time is classified as an agricultural person because he/she is still administratively tied to his/her commune and is not entitled to receive commodity grain and other subsidized urban rations from the state. Such a person is usually called a peasant-worker (nong min gong) (Tang Wen-xiang, 1984: 20-21; Chan and Xu: 588-589; World Bank, 1985: 44; Zhang Yu-lin, 1986a: 196; Bl acher, 1985a and 1985b; Walder, 1984). The growth of the rural nonfarm activities has been, accordingly, accompanied by an increasing number of peasant-workers.

Peasant-workers are quantitatively as well as qualitatively important in rural nonfarm development and the small towns. In certain more-developed regions, peasant-workers may constitute as much as 30-40 percent of the total day-time population¹ of certain small towns (Ma

¹ Day-time population refers to the resident population and the non-resident workers who come to the towns in the morning and return to their homes outside the towns at night.

Yu-xiang, 1982: 68; Wang Ping-yao, 1982: 20; Wu You-ren, 1985: 33) and account for 30-70 percent of the workforce in county-level enterprises (Zhang Yu-lin, 1986a: 202). By mid-1985, the total number of peasant-workers in the country was estimated to have grown to about 36 million, or about 4 percent of the total rural population, and 10 percent of the entire rural labor force (Muo Fu-min, 1985: 40). Compared with the early and mid-1970s, peasants-workers have become an important rural labor component. Increasingly, they are playing an influential role in the rural nonfarm sector and the small town development process.

This observation alone makes them methodologically a discrete and indispensable part of the study, because they contribute significantly to the growth of the rural nonfarm sector, a major source of economic vitality for small towns and rural areas in general. Moreover, precisely because they are "both farmers and workers," their choice and level of activities will simultaneously affect the farm and the nonfarm sectors. They hold the key to understanding the dynamics that link the growth processes of agriculture and nonagricultural activities--two complementary, yet often competing, forces in China's rural areas.

In this chapter, my major argument is that the welfare of the peasants is still inferior vis-a-vis that of the urban workers. Although some peasants are allowed to pursue higher-income nonfarm work; these peasants are categorized as peasant-workers and remain fundamentally agricultural population without the benefits of state-subsidized goods and employment security enjoyed by nonagricultural population.

OFFICIAL DEFINITIONS OF CHINA'S POPULATION

It is important to recognize that urban and nonagricultural populations are defined differently by the Chinese, although the two terms appear to be synonymous to the West. In China, while most nonagricultural persons reside in urban areas and can be considered as urban persons, not all do. For instance, state employees and cadres living in rural areas are officially nonagricultural people (World Bank, 1985: 44). Before the third national population census in 1982, the Chinese government used nonagricultural population figures, which were readily available from the public security bureaus, as the nation's urban population figures (Yao Cong-fang, 1984: 15). This method, though convenient for the authorities, apparently led to an under-estimation of the true size of the urban population, because it excluded all agricultural persons who lived within the boundaries of urban areas and who were de facto urban residents.

The 1982 national census introduced the residence criterion in calculating the urban population and as such included the peasant-workers and the agricultural population living within the boundaries of cities and towns for more than one year (BR, 1983, No. 7: 28). As a result of this change in definition, published Chinese urban population figures jumped abruptly to 206 million in 1982 from 138 million in 1981 (BR, 1983, No. 7: 28). This sudden increase, however, may exaggerate the actual size of the urban population, because many Chinese cities have annexed huge neighboring suburban and rural areas and therefore have counted a considerable number of agricultural persons who still live in villages as their total city population (Li Mu-zheng, 1984: 3).

One example is that of the city of Liupanshui in Guizhou Province. Based on figures obtained through the 1982 census, out of a total city population of nearly two million, only 14.2 percent were registered as nonagricultural persons (Wu Xue-wei, 1983: 24). More detailed information is not accessible, but apparently many peasants were enumerated in the census as Liupanshui's official city population.

This is not an attempt to resolve the "demographic mystery" of China's urban population, a complicated problem that has engaged many scholars (Chan and Xu, 1985; Goldstein, 1984; Orleans, 1982; Orleans and Burnham, 1984; Ma and Cui, 1987) and surely will intrigue more to come. I only wish to point out that the official dichotomous classification of China's population does not accurately depict the actual social and economic composition of the Chinese people, particularly in the rural areas. This problem becomes particularly crucial when I try to study the small towns, where peasant-workers may comprise more than one-third of the day-time population.

The nature of peasant-workers can be deduced from their other names: "temporary workers" (lin shi gong); "contract workers" (he tong gong); "population of both peasants and workers" (yi nong yi gong renkou) (Blecher, 1985a: 111-113; Walder, 1984: 28-30). They have been described by some Chinese writers as representing "a special form of urbanization of the rural population" (Yao Shi-mou and Wu Chu-cai, 1981). Most consider them an important source of labor for the rural nonfarm sector (Tang Wen-xiang, 1984: 20; Feng Hua, 1984: 13-16). In general, as these various names suggest, a peasant-worker holds a temporary nonagricultural job, usually, but not necessarily, in an

urban area, during the slack farming season and returns to the fields at the busy peaks of the agricultural cycles. There are some peasant-workers, however, who work year-round for more than a dozen years as highly skilled technicians in the urban areas. By western standards they undoubtedly would be considered to be urban population, but due to the stringent regulations of the household registration system, they are still classified and treated as agricultural persons (Ma Qing-yu, 1983: 127). Why was such an inflexible household registration system instituted in China in the first place?

Rural-Urban Migration

Immediately after 1949 and the restoration of urban industries, peasants began to move to the cities, partly in response to recruitment efforts of the urban industries, partly in search for higher wages, and partly in hope of finding an improvement over their rural lives. Some of them were even encouraged by rural cadres to migrate to the cities (Aird, 1967: 382). Not all of the migrants, however, were able to find work. By 1952, when the influx of rural laborers began to exacerbate the urban unemployment problem, the central government announced a directive to stem the "blind drift" of peasants into urban areas. Since then, the control over the recruitment of peasants by urban enterprises has been a longstanding preoccupation of the central government.

Early efforts to control rural-urban migration were, however, not very successful. Similar directives to curb the flow were issued repeatedly in 1953, 1954, 1956, and twice in late 1957 (Chinese

Legislation on Labor, 1980: 221). Despite these pleas from the central government, peasants continued to enter the cities. By the end of the First Five-Year Plan (1952-1957), official records showed that a total of eight million rural workers had migrated into the urban areas during this period (Aird, 1967: 385).

By the mid 1950s, the central government realized that a persistent rural-to-urban labor flow has caused a host of problems for both the cities and the villages. The most immediate problems were increasing pressure on the urban housing supply and increasing demands for food that had to be transported into the cities. Moreover, because the rural migrants were more docile and were willing to work for lower wages, they took jobs away from urban workers. The displacement of the latter often led to antagonism between the two groups, creating a difficult political problem for the authorities (Arid, 1967: 383-384). In the rural areas, uncontrolled outmigration also created a problem for farm production because many villages were depleted of labor power to cope with the peak farming seasons.

Even so, during the Great Leap Forward movement, restrictions on urban growth were temporarily lifted, leading to another massive movement of peasants into the cities. Between 1958 and 1960, the number of peasant migrants was reported to be 30 million, almost quadrupling the eight million rural workers who had moved into urban areas from 1952 to 1957 (Zhang Ze-hou and Chen Yu-guang, 1981: 41).

Instituting the Household Registration System

By early 1959, with growing signs of a failing Great Leap Forward

movement, rural-urban migration was once again promptly restrained. As the post-Great Leap Forward crisis deepened in the early 1960s, 20 million people were sent from cities to the countryside (Zhou Qi-ren and Dai Xia-jing, 1987: 4). At about the same time, a new conception of the relationship between agricultural development and urban growth emerged: "the size of the urban population must be determined by the level of development in agricultural production" (Aird, 1967: 390). The level of production and the level of commodification of food grain became two central determinants of urban population growth. This rationalization was then used as the basis for instituting the household registration system², which rigorously checked the urban population size by distributing commodity grain and other daily necessities to city dwellers through ration cards that were issued in conjunction with a tight residence control program.

Commodity grain is a distinctive Chinese notion and refers to that part of the total grain production obtained by the state from the peasants through production quotas and the agricultural tax. Around 1983, for example, the annual grain production was recorded at about 700 billion jin (350 billion Kg). Of this, 60 percent were consumed by the peasants, and 20 percent were allocated to reproduction and reserve purposes (Table 6-1). The remaining 20 percent were acquired by the state as commodity grain. Then, deducting the grain that was resold to

2 No information is available on the exact date that the household registration system was first instituted. According to Zhou Qi-ren and Dai Xia-jing (1987: 4), the household registration system was introduced prior to the Great Leap Forward movement and was toughened in the early 1960s along with the fortification of the rural commune system.

Table 6-1 THE ALLOCATION OF GRAIN (circa 1983)

Purposes	Percent (approximate)
Consumption by peasants	60
Reproduction and grain reserves	20
Commodity grain	
Resale to peasants	5
Subsidized sale to the nonagricultural population	15

Source: Zheng Zhong-han, To Construct Socialist Small Towns,
Jiangsu People's Publishing Society, 1984, p. 14.

the peasants (5 percent), about 100 billion jin of commodity grain (15 percent) were available for distribution to the non-agricultural (i.e., the officially urban) population.

Because China's huge population size and development priorities preclude large-scale food imports, advocates of the household registration system assert, the grain commodification rate prescribes, more or less, the country's urban population level (Zheng Zhong-han, 1984: 14). Moreover, because the commodification rate of grain since the early 1950s has remained at between 15 to 20 percent (Kirkby, 1985: 59), and because the prospects of quickly and substantially raising this rate from the current level are not very good, the size of the urban population will also be checked at a low level (Song Qi-lin, 1983: 8-9). Since the early 1960s, then, the stringent household registration program was justified and partly maintained by the commodity grain distribution system.

Up to this date, rural-to-urban migration is still strictly limited. The major concerns that first led the policymakers to impose controls on the peasants' movement into the cities have remained influential: a low rate of job creation in urban areas and the underdevelopment of infrastructure such as urban housing.

Because of the long-term development bias in favor of heavy industrial growth since the 1950s, urban industries have become more capital-intensive and urban infrastructure investment has been deliberately reduced (Wang Xiang-ming, 1986). Consequently, urban industries and cities have very limited capacity to absorb rural migrants. Primarily fearful of overurbanization, Chinese policymakers

concluded that most of the surplus rural laborers should continue to live in the villages, but some of them may settle in small towns. Accordingly, they strongly favor the development of the rural nonfarm sector, which helps retain the peasants in the countryside and also supports the development of small towns.

PEASANT-WORKERS

Along with the household registration system came the institution of peasant-workers.³ Peasant-workers were first introduced systematically in 1959 in the mining industry for the purpose of assuring a stable supply of healthy workers for this demanding occupation (Chinese Legislation on Labor, 1980: 44-45). Under this arrangement, peasants were recruited to work as temporary miners for a specified time period, after which they would return to their farmland. The temporary miners, however, were not considered to be nonagricultural persons, although all permanently-hired miners were. Peasant-workers were also extensively employed in the timber industry, transportation, and other infrastructure construction activities (Ma Qing-yu, 1984: 239). Thus, in a sense, the Chinese industrial workforce was expanded without a corresponding increase in the amount of commodity grain and other subsidized urban rations that the state is

3 A study of the peasant-workers suffers from a particularly serious data problem. Despite recent increased access to data sources on China, specific information on peasant-workers is still very limited. No systematic figures, time-series or other, have been released. This may reflect an actual lack of statistics about this type of population. It may also indicate the difficulties in obtaining the exact number of peasant-workers, because they are not officially tallied by the public security bureaus or by other government agencies. Figures on peasant-workers should therefore be taken as estimates only.

obliged to supply the nonagricultural population.

In late 1977, the state formally extended this peasant-worker system to county-run industries, the lowest echelon of state-owned enterprises, with the explicit objective of controlling the size of the nonagricultural population (Ma Qing-yu, 1984: 239). To be sure, since the early 1970s, Township Enterprises have depended upon the peasant-workers as their major source of labor supply. Through the latter half of the 1970s, the number of peasant-workers has increased steadily, particularly in the small towns. After 1978-79, peasant-workers were actively recruited by nonfarm enterprises in the small towns. A 1983 survey of the peasant-workers in the town of Zhenze of Wujiang County, Jiangsu Province reveals that 80.5 percent of the 1,325 peasant-workers who work in that town were recruited after 1979 (Zhang Yu-lin, 1986a: 204).

"To Leave the Land, But Not To Leave the Rural Areas"

"To leave the land, but not to leave the rural areas" (li tu bu li xiang) has become one of the catch phrases now commonly found in Chinese literature that discuss peasant-workers. I do not have sufficient data to determine exactly when and from where this idea came into existence. It was seen in a Chinese article as early as 1982 (Wang Xun-ren, 1982), and before it was formally adopted as a national strategy by the central government in Document Number 4, 1984, it had already been put into practice for two years by local authorities in certain parts of China (Chinese Communist Party Yunnan Province, 1983: RMRB, 1984, February 16).

Despite the fact that this phrase is now a popularly known central government policy that governs the processes of rural occupational transition and rural population movement, there is still confusion and dispute about its exact meaning. Some Chinese writers have accused the central government of ambiguity in the delivery of this policy in 1984 (Wang Dai and Cai Fang, 1986: 58; Yang Yi, 1985b: 1). The central government, however, may have deliberately avoided a detailed interpretation of this policy out of a concern over China's regional differences and have left this task to local decision-makers, but there is no concrete evidence to support that this is the major reason. In any case, a lack of specification has led to a diverse and sometimes even opposite interpretations of the policy's intentions among the Chinese planners.

A clarification of the various interpretations of this policy needs to precede an evaluation of its implications for the following reasons. First, the literal interpretation of the policy does not adequately reflect the ways that it is actually implemented. For example, "to leave the land" (li tu) conveys the meaning that a peasant is to leave farming for a nonfarm job. In reality, many peasants may retain and work on part or all of their contracted farmland while at the same time being employed in a nonfarm position. Should these peasants who engage in both farm and nonfarm activities be considered as truly "li tu"? Although I may never be able to resolve the true intentions of the author(s) of this policy, a clarification of its major goals will provide a framework for understanding the consequences of its implementation.

The second reason to clarify the various interpretations of the policy is analytical. Whether a peasant (or a rural household) is totally separated from farming or is still partially tied to the land (for income and food supply) has entirely different consequences for rural and agricultural development. As I will argue later on, a proper and complete understanding of the phrase will reveal that this policy prescription has significant negative implications for the agricultural sector that should not be overlooked. Many researchers realize that this policy has important effects on China's small town development and her urbanization pattern. The policy's effects on agriculture, however, have received relatively less attention. My position is that an analysis of this policy is incomplete without an evaluation of its implications for both the urban and the agricultural sectors.

The third reason is methodological. A detailed discussion of the various interpretations of "li tu bu li xiang" will set the stage to analyze a closely related policy on village-to-town migration in the next chapter. The popular slogan of the migration policy is "to enter towns with self-supplied food grains." That is, peasants are permitted to migrate from villages to towns if they can supply their own food grains, among other requirements. Many researchers thus interpret the migration policy as an attempt to ease the control imposed by the "li tu bu li xiang" strategy, which discourages the peasants from leaving the villages. Because of this, a review of the objectives and the actual implementation of the "li tu bu li xiang" policy helps understand the village-to-town migration problem.

Interpretations of "not to leave the rural areas"

I will first discuss the second part of the slogan: "not to leave the rural areas" (bu li xiang). There are two ways (both legitimate) to interpret the Chinese word "xiang" (rural areas). A narrower definition of "xiang" would refer to it as villages only (Luo Han-xian, 1985), whereas a broader definition would include villages as well as all types of small towns (designated and undesignated) (Fei Xiao-tong, 1984). Because both of these definitions are legally acceptable, and because the central government did not explicitly specify the meaning of the word "xiang," it is thus left to the individual decision-makers and academic researchers to determine the boundary of "xiang" and therefore the exact purposes of the policy.

The problem is that two distinctive settlement patterns may be advocated by two different groups of planners, with both supporting the small town development policy but each holding onto a different interpretation of "xiang." If "xiang" is narrowly defined, then, peasants are urged to work in the small towns but are not encouraged to migrate away from the villages. They have to retain their agricultural household status and maintain their residences in the villages. If the broader definition is adopted, then, the peasants' relocation from the villages into the towns is tacitly condoned. Even though they still are not granted the nonagricultural household status, they may now migrate to the towns where they work (Fang Ming, 1985: 212).

In both instances, the small towns are supposed to prosper and their economic bases generate jobs for surplus rural labor. Whereas in the former case there will be no obvious changes in the overall rural

settlement pattern, in the latter there will be an increasing concentration of resident population in the small towns. These two distinctive alternatives, of course, signify two very different small town development processes.

The available evidence from the more-developed regions indicates that the narrower definition of "xiang" has been followed by local planners, although the available data do not unequivocally support such a conclusion. In the more-developed areas, while there has been an expansion of economic activities in the small towns, their resident population size has grown at a much slower pace. As mentioned earlier, peasant-workers are making up a substantial proportion (30 to 50 percent) of the day-time population in the small towns. Most of these peasant-workers commute by bicycles each day between their homes in the villages and their jobs in nearby towns.

At this point, it is not important to judge the validity of the respective arguments of the two interpretations of "xiang." What is important to realize is that the existence of these two different interpretations reflect some real disagreements among planners at almost all levels as to which settlement policy is more appropriate. These disagreements are also the source of much confusion for many researchers of the problem.

Interpretations of "to leave the land"

The literal meaning of "to leave the land" (li tu) merely says that a rural laborer is leaving farming for a nonfarm job. A precise interpretation will, on the other hand, consider a rural worker as a

clear-cut case of "li tu" only if he or she gives up both the farming job and the claim to any contracted farmland (Shan Yong-tang, et al., 1984: 36-37). Only a tiny fraction of the peasant-workers will, however, be considered as "li tu" under this strict interpretation, because an overwhelming majority of those rural labor who have year-long nonfarm jobs have retained their title to at least parts of their contracted farmland (Yang Yi, 1985b: 1).

It is important to realize that it is very rare to see an entire household leaving the land. In almost all instances, it is the able-bodied members of a family who leave farming for non-farm jobs (Mei Tai-he and Ding Zhao-xiang, 1984). The reality is that while many rural laborers may entirely give up farming for nonfarm employment, very often they retain their title to parts or all of their contracted farmland. They usually ask their non "li tu" family members and relatives to help cultivate their land. During the busy harvesting and planting seasons, they may temporarily leave their nonfarm positions to return to work alongside their families in the field (Field notes, 1985).

In the rural areas, therefore, a substantial number of households is concurrently involved in agriculture and industry or other trades. For example, a 1984 study of four villages in Wujiang county, a more developed part of Jiangsu Province, showed that between 44.3 percent to 69.7 percent of the households in four villages were concurrently engaged in farm and nonfarm activities (Zhang Yu-lin, 1986b: 181-182).

CONCLUSION

Several observations can be made with regard to the implementation of the "li tu bu li xiang" strategy. First, local authorities have effectively kept the peasants from leaving the farm areas. This stipulation has been readily enforced because it is basically a reconfirmation of the existing household registration system and therefore has not provoked much complaint from the rural population. Saying this, of course, does not mean that the household registration system is popular among the agricultural population. Indeed, the household registration system is the fundamental institutional constraint that prohibits the peasant-workers from leaving their land. Increasingly, the peasant-workers as well as some planners are voicing demands to modify the state's restriction on village outmigration (Liu Ya-jian, 1986).

Second, an observable consequence of the growing importance of peasant-workers in the rural areas is the changing composition of the day-time population in small towns. Both Tables 6-2 and 6-3 serve to illustrate the day-time population mix of small towns in selected parts of China. In the absence of more extensive and detailed data, Table 6-2 can only serve to indicate the general magnitude of temporal changes of the day-time population composition in small towns. The information contained in Table 6-3, though still limited, reveals several previously little known aspects of peasant-workers.

First, peasant-workers are not restricted to designated towns but are found in both designated and undesignated towns. However, because undesignated towns usually have a smaller formally registered

Table 6-2 COMPOSITION OF POPULATION^a IN SMALL TOWNS
(percent)

Small towns ^b located in	Population categories	1953	1979	1984
Jiangpu County, Jiangsu Province	Agricultural	30.6	22.6	n.a.
	Non-agricultural	69.4	53.9	n.a.
	Peasant-workers ^c	0.0	23.5	n.a.
	Total	100.0	100.0	n.a.
Yiyang County, Hunan Province	Agricultural	n.a.	23.1 ^d	20.0
	Non-agricultural	n.a.	53.7	51.1
	Peasant-workers	n.a.	23.2	28.9
	Total	n.a.	100.0	100.0

n.a. Not available

a The nature of the population is not defined in the sources. In all likelihood, they would represent the day-time population. Please read the text for further clarification.

b Small towns here refer to both designated and undesignated towns, following the definition suggested in Figure 2-1B. Unfortunately the number of towns in each location is not available.

c Peasant-workers in Jiangpu County include those who were engaged in commercial activities as well.

d These figures for Yiyang Prefecture were of 1978.

Sources: For Jiangpu County, Zhang Fu-bao, "A Preliminary Research on the Development of Smaller Towns in Jiangpu County, Nanjing," JJDL, 1982, No. 2, p. 140.

For Yiyang Prefecture, Yang Ming-guang, "A Study of Rural Market Towns," NYXDH, 1985, No. 2, p. 41.

Table 6-3 COMPOSITION OF DAY-TIME POPULATION IN 190 SMALL TOWNS IN JIANGSU PROVINCE, 1984 (percent)

Level of economic development	Region	Type of small town ^a	Day-time population		
			Total	Registered residents ^b	Peasant-workers ^c
↑ More developed	Southern Jiangsu	County seat	100.00	79.93	20.07
		County town	100.00	78.98	21.02
		Township town	100.00	48.14	51.86
↓ Less developed	Central Jiangsu	County seat	100.00	86.19	13.81
		County town	100.00	82.43	17.57
		Township town	100.00	63.65	36.35
↓	Northern Jiangsu	County seat	100.00	90.40	9.60
		County town	--	--	--
		Township town	100.00	82.97	17.03

Notes: -- Not applicable

a The data presented in this table were average figures for a total of 190 small towns in Jiangsu Province: representing 51 small towns in Southern Jiangsu; 83 in Central Jiangsu; and 56 from Northern Jiangsu. The break-down of the 190 small towns into county seats, county towns, and township towns is not available, however.

b Registered residents in small towns include both nonagricultural and agricultural persons who legally reside within town boundaries.

c The majority of the peasant-workers reside in their home villages. But there are some peasant-workers who live in factory dormitories, with their relatives in the towns, or even their own houses in the towns. They are, however, not considered as formally registered residents of the small towns.

Source: Jiangsu Province Research Group on Small Towns, "The Objectives and the Experience of Small Town Construction in Jiangsu Province," SHXYJ, 1986, No. 4, p. 17.

population than designated towns, the influx of peasants makes up a higher percentage of the day-time population in the former than in the latter. Such a pattern is recorded in all parts of Jiangsu Province, regardless of the level of development.

Second, the presence of peasant-workers in small towns seems to be directly correlated with the level of regional economic development. They are most visible in undesignated towns of the more developed Southern Jiangsu areas, accounting for over half (51.86 percent) of the day-time population. In county seats of the less-developed Northern Jiangsu regions, they comprise only 9.60 percent of the day-time population (Table 6-3).

Third, only a small number of peasant-workers reside in small towns, though they are certainly not counted as part of the formally registered population (Walder, 1984: 28-30; Yang Ming-guang, 1985: 40). Most peasant-workers are commuters, who travel by bicycle for distances between one to five kilometers each day between their jobs in towns and their homes in nearby villages (Zhang Yu-lin, 1986b: 206).

As a whole, the prolific increase of peasant-workers after 1978 is basically an attempt to resolve the contradiction between the rigid household registration system and an increasing demand for, and particularly the supply of, nonfarm labor. Here, an example will suffice to indicate the seriousness of this contradiction, while leaving the finer points for later discussion. In Yunnan Province, the annual quota for peasant reclassification to nonagricultural status is set at 0.2 percent of the current nonagricultural population size in each county. During the first seven months of 1982, however, Lancang

County in Yunnan Province received a total of 963 applications, a figure 23 times the county's annual allotment for reclassification (Yang Ying-xin, 1984: 39). This may, of course, be an unusually extreme case. But, as evidence in the next chapter demonstrates, the mounting pressure for surplus rural laborers to migrate into urban areas is an undisputed fact in China's rural areas.

In conclusion, peasant-workers are an unavoidable product of the rigid household registration system, which recognizes and sternly controls two kinds of population: agricultural and nonagricultural. The hiring of peasant-workers by Township Enterprises is a mechanism to increase the nonfarm work force without exceeding the legal limit on peasant transition to nonagricultural population. By requiring peasant-workers to maintain their agricultural household status, the state is relieved of the burden to supply commodity grains and other subsidized rations to them. The peasant-workers' dual existence as a peasant (by administrative criteria) and a worker (by occupation) has, in effect, reinforced the peasants' inferior welfare position vis-a-vis the urban workers'.

One of the major objectives of the development of Township Enterprises is to help restrict rural-to-urban migration by providing nonfarm employment within the rural areas. An equally important goal is to facilitate the growth of small towns, which have an interdependent relationship with the rural nonfarm sector (GWYGB, 1984: 146). Beginning in the early 1980s, and officially sanctioned in 1984, selected peasants have been migrating from villages to towns, contributing to the social and economic transformation of the latter. From the perspective of planning, all of these policies tend towards a common societal goal--decentralized urbanization.

In this chapter, I discuss in great detail how Township Enterprises and the peasant migration have contributed to the development of the small towns. My major argument is that although rural industrial development has helped finance the construction of small towns, its rapid and largely uncontrolled growth has caused irreparable harm to the rural environment. In the more developed regions, decentralized urbanization is synonymous with decentralized industrial production. The proliferation of township industrial enterprises has brought jobs, profits, and unfortunately, environmental damages, to the rural communities. The important lesson for planning is that while decentralized urbanization may have helped reduce tensions in overurbanized areas, it has also allowed some basic industrial pollution control measures to be overlooked or compromised in scattered rural locations.

TOWNSHIP ENTERPRISES AND SMALL TOWNS

Township Enterprises run by township governments are located mostly in township level (undesigned) towns, where one of their most important functions is to provide financial support for the construction of town amenities. Because profits earmarked for town construction are always used within the same towns to which the Township Enterprises belong, we must first understand the underlying ownership-location pattern of Township Enterprises.

The ownership structure of Township Enterprises determines, to a great extent, their locational distribution. Direct evidence that can be used to establish the causal relationship between ownership and location is scanty. Single statements such as this one: "70 percent of all commune-brigade enterprises in Jiangsu Province are located in small towns and market towns" (Yang Chong-guang and Liao Kang-yu, 1984: 62) are obviously not sufficient for our purposes here. Nevertheless, a set of data recently became available that helps clarify the ownership-location relationship between Township Enterprises and the small towns.

In Table 7-1, I present the output value of all types of industrial enterprises in 190 selected county seats, county towns, and township seats in Jiangsu Province, disaggregated by type of ownership within each type of settlement. The data in this table provide an inferential evidence for a link between the ownership structure of the Township Enterprises and their locational distribution. They do not, however, contain a breakdown by location of each type of ownership of the Township Enterprises. To remedy this shortcoming, I use other

Table 7-1 OWNERSHIP COMPOSITION OF INDUSTRIAL ENTERPRISES (IN OUTPUT VALUE TERMS)
IN 190 SMALL TOWNS IN JIANGSU PROVINCE, 1984

Owned by	County seats		County towns		Township seats	
	Output value (million yuan)	Percent	Output value (million yuan)	Percent	Output value (million yuan)	Percent
TOTAL	1615.39	100.00	1024.46	100.00	1307.67	100.00
County government	817.06	50.58	462.75	45.15	98.29	7.52
County-collective	401.77	24.87	202.25	19.73	60.12	4.60
County-town gov't	183.92	11.38	132.31	12.91	0	0
Township gov't	138.86	8.60	212.13	20.74	1003.94	76.77
Village	63.15	3.91	11.80	1.15	115.54	8.84
Sub-village entity	8.65	0.51	1.62	0.16	18.26	1.40
Individual	0.85	0.05	1.14	0.11	3.87	0.30
Others	1.16	0.07	0.46	0.04	7.65	0.58

Source: Jiangsu Province Research Group on Small Towns, "The Objectives and the Experience of Small Town Construction in Jiangsu Province," SHXYJ, 1986, No. 4, p. 16.

supplementary evidence to illuminate the meaning of the data in Table 7-1.

The table shows that half of the output value of industrial enterprises in county seats (50.6 percent) was produced by county government enterprises. Indeed, up to 86.9 percent of the industrial output value in county seats were produced by county-level entities (the county government, the county collective, and the county-town government). Only 13.1 percent of the industrial output value in the county seats were linked to Township Enterprises.¹

Second, a somewhat similar ownership structure of industrial output value was found in the county towns, except that the share of Township Enterprises was a little larger: More than one-fifth (22.2 percent) of the industrial output value here was created by Township Enterprises.

Third, 88.3 percent of the industrial output value in the township seats were linked to Township Enterprises. Only 12.1 percent of the industrial output value in the township seats were produced by county government and county collective enterprises. By definition, no county town enterprises were found in township seats.

How does this information help delineate the relationship between ownership and location? Even though the total industrial output value of Township Enterprises is not available, it is reasonable to state that an overwhelming proportion of the township enterprises were

¹ Township Enterprises refer to enterprises owned by township governments, village governments, sub-village entities, and individuals. I discuss the definition of Township Enterprises in greater detail in Chapter 3.

located in township seats. This point is supported by the relatively high level of concentration of Township Enterprises in township seats, as alluded to above, and also by the absolute size of the industrial output value of Township Enterprises (1003.94 million yuan) located in township seats.

Township Enterprises were also found in county towns, though at a much lower concentration level. Only a very small proportion of the village enterprises were located in township seats. Village enterprises, particularly the sub-village and individual enterprises, were almost invariably located in scattered locations in rural areas close to the villages.

The last observation, however, needs to be qualified. There is no doubt that strict regulations over rural migration have prevented massive inflows of rural resources into designated towns and that most of the sub-village enterprises have remained in the rural areas. Nevertheless, the developers of a substantial number of these enterprises have opted to locate right outside the boundaries of designated towns to take advantage of the towns' social and economic infrastructure (Fei Xiao-tong, 1985: 29). Therefore, even though officially they are independent of the political authorities of the designated towns, they are in effect well-integrated into the economic and social structure of the designated towns.

FINANCIAL RESOURCES FOR TOWN CONSTRUCTION

There are four identifiable sources of capital for town construction. The first is investment by the state government, in the

form of state budgetary grants. These grants are derived from state revenues such as industrial and commercial taxes, real estate taxes, and other public infrastructure construction fees. They are distributed to county-level authorities for town construction purposes. The state also channels investment money to towns through vertical hierarchies such as the education and public health ministries. Almost all of the state's investments are, however, allotted to the designated towns that are recognized as the lowest echelon of the formal urban system. Undesignated towns in general do not receive much direct state financial support (Tang Zhong-xun and Ye Nan-ke, 1985: 60; NYJJ, 1986: 60). The second source of capital is the Township Enterprises. Township authorities control a substantial portion of the profits of the collectively owned township and village enterprises and use some of the profits to finance the construction of undesignated towns (Yu Zhang, 1985: 27). Since 1980, bank loans became the third source of capital. The fourth important source of capital is the rural migrants, who may either invest separately or pool their money together for cooperative undertakings in towns (Tang Zhong-xun and Ye Nan-ke, 1985: 60).

Among these four sources of capital, state investment seems to be the most steady. However, the state's support, circumscribed by its distribution structure, is, by and large, committed to designated towns only. Because undesignated towns receive virtually no assistance from the state, profits of Township Enterprises have traditionally been the most important source of capital for financing their development. Jin Da-qin (1987: 34) estimated the proportion of profits of Township

Enterprises reserved for town construction at 20 to 30 percent.²

Since February 1985 the state has begun to levy a one percent construction and maintenance tax in undesignated towns as an attempt to provide them with more stable and formal revenue (Cheng Gan-yuan, 1986: 216). Compared to the designated towns, which are supported by a five percent construction and maintenance tax, plus other kinds of levies and state appropriations, the undesignated towns seem to have many fewer resources for their own development. Although this is probably true in many less-developed areas, a closer examination of the data from the more-developed regions strongly suggests that the undesignated towns may actually be in a better financial position than the designated towns.

In the economically advanced regions, township seats are expanding because they are, by tradition and by their rural (undesignated) status, the centers of rural economy. They naturally have become the sites for a major proportion of the Township Enterprises. County towns are greatly hampered by their urban (designated) classification; their ability to absorb rural resources is highly restricted by administrative guidelines governing the flow of rural capital and rural labor into designated urban settlements. Empirical evidence gathered on the prosperous southern Jiangsu Province confirms that, in that region, the economies of township seats are usually growing faster than

² This remark needs to be qualified, however. Because not all Township Enterprises are always profitable, and certainly not every region has lucrative Township Enterprises operations, profits of Township Enterprises as a steady or a readily available source of investment funds are a phenomenon largely confined to the more-developed regions.

those of county towns (Zhang Yu-lin, 1985: 17).

The development of county towns falls behind that of the county seats because the county-run enterprises located in county towns are totally controlled by the county government. County-run enterprises do not have any direct administrative or economic ties with the county towns in which they are situated. They often operate in total independence of their hosts, complete with their own economic and social amenities (Fei Xiao-tong, 1985: 71-72; Fieldwork, 1985).

Moreover, as I have already pointed out in the last chapter, the limited financial resources available at the county level are usually spent in the county seats. Other designated towns often receive only a small and insignificant amount of funds from the county authorities (Yu Zhang, 1985: 27; Zhao Pan-qing and Zhang Shou-zheng, 1986: 325; Bu Jue-cha, 1983: 21).

Enterprises run by the county towns themselves thus are the only major source of economic strength that the county towns can fully rely upon (Zhu Tong-hua, 1984: 11). However, as indicated in Table 7-1, the size of county town enterprises is generally a small fraction of the entire rural economy, and therefore, they offer a much smaller economic impetus than either Township Enterprises or county-run enterprises for the development of the county towns.

To recapitulate this section, the central planners' decision to impose a one percent and a five percent construction and maintenance tax on the undesignated towns and designated towns, respectively, was an attempt to assure a more stable, formal, revenue for town development. The relative size of this tax income, however, was

extremely inadequate to meet the costs of town-building activities. According to a study in Taicang County, Jiangsu Province, the construction and maintenance tax revenues could compensate for only three to four percent of the total basic construction investment costs in the small towns (Jin Long-bu, 1987: 30).

Designated towns have to rely on county-level funds, in addition to state investment, to finance their construction. County-level resources are, however, controlled by county authorities who, in many cases, use the money primarily to build the county seats and leave very little money for the other county towns.

In regions where Township Enterprises have prospered, their profits are the most important source of capital for the construction of undesignated towns. In areas where the collective township and village enterprises are particularly underdeveloped, however, wealthy peasant migrants have become the most important source of funds for the construction of town amenities since 1984.

VILLAGE-TO-TOWN MIGRATION AND SMALL TOWNS

Before discussing the effects of peasant migrants on the development of small towns, I first review the objectives and requirements of the village-to-town migration policy. The policy on village-to-town migration was promulgated by the State Council on September 13, 1984 and was published in the People's Daily a week later. This might suggest that the central government initiated and then implemented this migration policy. A thorough review of the pertinent literature, however, reveals that although the central

planners officially sanctioned village-to-town migration in 1984, they probably did not initiate the idea. As early as 1978 there were already a very small number of peasants reportedly leaving the villages and moving into towns in the Yueyang region of Hunan Province. A survey study of 24 small towns in five counties has shown that village-to-town migration in this region took place as early as 1978. As indicated in Table 7-2, out of a total of 917 migrant households that moved to the towns from 1978 through 1983, only 29, or 3.2 percent, did so in 1978. All of these early migrants were, however, former town residents who were transferred to the villages in the 1962 "sending-down movement" (He Pei-jin and Zhang Ping-yong, 1985: 32). Thus, it was not until 1979 that "real" peasants first began to move to towns.

This population movement in Yueyang continued to expand steadily for several years through 1981. By 1982 the size of this flow showed a noticeable jump (Table 7-2). In fact, 68.6 percent of all the migrant households in this region moved to the towns in 1982 and 1983. Apparently, by 1982, peasants in other parts of the country were also leaving the agricultural sector for small towns in such a sizeable manner that this resettlement activity was considered at that time as "a new thing in China" (Chinese Communist Party Yunnan Province, 1983: 61).

Like other "new" ideas in any society, the "new thing" in this case obviously had its supporters, but there was also resistance, particularly at the local level, against the peasants resettling in the towns (Kong Qing-rong, et al., 1984: 56; Zhou Pei-wen, 1985: 78). Most

Table 7-2 VILLAGE-TO-TOWN MIGRANT HOUSEHOLDS IN THE YUEYANG
REGION OF HUNAN PROVINCE, 1978-1983

Village-to-town migrant households	
Year	Percent
1978-1983	100.0
1978	3.2
1979	4.2
1980	10.0
1981	13.7
1982	26.9
1983	41.7

Note: A total number of 1,943 peasant households migrated to the towns in the Yueyang Region of Hunan Province from 1978 through 1983. Out of this, 917 migrant households were randomly selected for a study referred to by He Pei-jin and Zhang Ping-yong (1985).

Source: He Pei-jin and Zhang Ping-yong, "Important Steps to Develop the Small Town Economies," ZGNCJJ, 1985, No. 4, p. 32.

of those opposed were local officials in various departments and bureaus such as the bureaus of commerce and industry, the public security bureaus, the retail sales departments, and the town employment bureaus. The bureaus of commerce and industry and of public security were concerned with the burden of a heightened demand for law and order that came with an abrupt increase in town population. The retail sales workers were worried that competition from migrant entrepreneurs might reduce their market shares and incomes (He Pei-jin and Zhang Ping-yong, 1985: 34). The town employment bureaus were against the inflow of migrants because they were afraid that they might take jobs away from the local people, and this would greatly increase their workload (Kong Qing-rong, et al., 1984: 56).

These concerns and the resistance of local officials may have, in part, prompted the State Council to promulgate the village-to-town migration policy in 1984. By formalizing and legalizing an already existing village-to-town migration, the central planners openly admitted the necessity of such a population movement. The policy, however, is more than an official blessing on the new phenomenon. It also specifies clearly the conditions and the requirements under which such movement can take place, that is, the state accepted the need for village outmigration, but it also saw the danger of an expanding and uncontrolled outflow of peasants into the towns and therefore established a set of rules to regulate this activity.

Four Major Criteria and Multiple Objectives

The policy on village-to-town migration clearly spells out the

conditions and the criteria for such an activity to take place, specifically stating that peasants may migrate to market towns (undesignated towns) only and may not enter county seats (designated towns) (GWYGB, 1984a: 919). In reality, however, peasants are moving into undesignated towns as well as designated towns.³ This is understandable because as far as the local county governments are concerned, they see no harm in letting more skilled migrant workers into the county-administered designated towns, as long as the total number of migrants within their jurisdictions does not exceed a certain limit.

In order to control the total number of migrants, the local authorities stringently enforce the policy's other requirements. A potential migrant must fulfil four major requirements before he or she is allowed to move from a village to a town. These four requirements, which were cited by county government officials interviewed by the author in Taishan County, Guangdong Province, are: (1) the prospective migrant must show that he or she has found a permanent place to stay in the town; (2) he or she must have obtained a business license from the local bureau of industry and commerce; (3) he or she must have sub-leased his or her contracted farmland so that the land is not abandoned; and (4) he or she must supply his or her own food grains (Field notes, 1985).

I discern from a reading of these four major criteria that this

³ There is also a substantial number of peasants moving into the cities since the early 1980s. This is an important problem in its own right. A complete discussion of this problem is, however, beyond the scope of my dissertation.

policy actually has several other implicit objectives in addition to preventing a substantial outflow of peasants away from the villages. By regulating and channelling this population movement into the small towns, such a strategy has been widely regarded as a viable alternative to large city urbanization. Moreover, because the migrants in this case are required to supply their own food, secure their own home and jobs, the policy was seen to have resolved the longstanding constraints of food supply and capital shortage that have curbed the country's urbanization level.

Furthermore, the policy is also conceived to help promote agricultural specialization and mechanization. One objective of the policy requiring migrants to sublease their land is not just to release surplus rural labor but also to transfer land into the holdings of the more efficient, full-time farmers. In effect, this policy is a step forward compared to the policy of "li tu bu li xiang" because a deliberate break between the migrants and their land may lead to a total transformation of the rural sector.

The above discussion of the policy's multiple objectives suggests that, at least in theory, some of them are in conflict with each other. For example, on the one hand, the policy is intended to allow more migrants to leave the villages and sublease their land. On the other hand, the policy is also designed to curtail the outflow of peasants. There is, therefore, an inherent contradiction between these two goals. How these seemingly clashing objectives are attained or compromised is discussed in the following.

For many prospective migrants, the least difficult requirement is

to arrange for their own food supply, if they retain their own food grain land, which many do, and obtain their main food supply from this source.

Alternatively, they can apply for a "higher-priced food products supply certificate," which guarantees their food supply, at extra costs, from the market. This certificate, however, may be difficult to obtain. It is even tougher to arrange a permanent place to live in the towns and to obtain a business license. Then, even if a peasant can manage to fulfill all these requirements, there is still the problem of satisfactorily subleasing their land, a process in which many peasants encounter enormous institutional constraints. Complicated arrangements, which may have to be made to the migrant's disadvantage, are often required to sublease contracted responsibility land successfully.

The criteria for village-to-town migration, as described above, are very stringent and apparently they are vigorously enforced by local authorities. If they were not, the magnitude of recent village-to-town migration would be enormous. The following figures support this statement. In the first half of 1985, out of about 4,000 prospective migrants who wanted to resettle in Longgang Town, Jiangsu Province, only 515, 13 percent, were given the permission to do so (Cheng Chundao and Li Zhao-jiang, 1985: 57). In the same period, 580 rural households in Changsanqiao County of Sichuan Province applied for permission to move away from their villages, and only 211 households, or 36 percent, succeeded (ZGNYNJ 1985: 101). In Taishan County, Guangdong Province, about 15,000 peasants applied for permission over a

four-month period in late 1984 to move into Taishing, the county seat. Approximately 6,000 of them, or 40 percent, were allowed to make the move (Field notes, 1985).

Even though the Chinese government does not publish systematic figures on this matter, the numbers that I have been able to locate so far indicate a rather intense pressure for more village outmigration opportunities. They also reflect the considerable difference in income level between the full-time farmers and the nonfarm town workers. For instance, in the study of 24 small towns in the Yueyang region of Hunan Province, cited earlier, the average per capita income for a peasant household was reportedly 295 yuan. For a migrant household, the comparable figure was 592 yuan (He Pei-jing and Zhang Ping-yong, 1985: 32).

On the whole, the rather conservative migration rates indicate the presence of some constraining factors on the capacity of the small towns to accommodate the migrants and a strict enforcement of the criteria for village-to-town migration. The migration is a regulated and highly competitive process.

Effects on Small Town Development

The effects of village-to-town migration on small town development are twofold. First, the inflow of peasant migrants has become a major source of nonfarm population growth in the small towns. Second, the migrants are an important source of capital for constructing the small towns. The migrants have, of course, also brought with them skills and other intangible qualities such as entrepreneurial spirit to the towns.

These are, to be sure, important contributions to the revival and growth of the small town economy. However, a lack of documentary data prevents us from firmly substantiating their significance.

With regard to the first effect, some scattered data show that the migrants have effectively accelerated the growth rate of the nonfarm population of the small towns. For instance, in 1984 alone, five million peasants nationwide entered cities and towns to engage in nonfarm activities (Zhou Ru-chang, 1985: 6). The People's Daily reported that by early 1987, half a million peasants in Sichuan Province had entered towns, supplying their own food grains (RMRB, 1987, June 12). In Shanghai, a city with an urban core population of about six million, 30,000 peasants had by mid-1986 migrated to the city core and its outlying county seats, again relying on their own food supply (WHE, 1986, October 15).

A similar trend has also been recorded at the local level. For example, in the town of Zoushi, Taoyuan County, Hunan Province, the migrants (about 4,200) in 1984 made up close to one-half of the town's total resident population (about 9,000) (Luo Han-xian, 1985: 5). Such a high proportion may be an exceptional case and may only occur in the more-developed regions. In the four counties in Guangdong Province surveyed by the author, the percentage of migrants among the total nonfarm population in undesignated market towns in 1984 ranged from 15.72 to 21.97 percent (Table 7-3). Because most of the migrants entered the towns in 1983-1984, it is fair to say that their influx has directly and greatly increased the towns' nonagricultural population.

The significance of the migrants, however, lies beyond their sheer

numbers and physical presence. Often they also bring with them a much needed input to small town construction: capital. For many undesignated towns, peasant migrants have become the alternate source of capital, second only to Township Enterprises' profits. In the less-developed areas, where the collective township and village enterprises are underdeveloped, the migrants have actually become the single most important source of investment money (Xu Shi-dian, 1984: 20; RMRB, 1985, January 2 and January 4; CXJS, 1986: 32; An Jian, 1986b: 25).

The migrants contribute capital to the town building process in two major ways. First, they may build their own industrial, commercial, and residential spaces in the small towns. Such investment brings vitality to the small town economies and directly changes the towns' physical appearances. For instance, in Cangnan County of Wenzhou City, Zhejiang Province, peasant-migrants were required to pay land-use fees and public infrastructure fees to the town authorities. These fees then became the single most important source of capital to finance the construction of town amenities (Chen Ding-mo and Li Tie, 1987: 38-39). In 1985, 92 percent of all the new buildings in the towns in Cangnan County were financed by the migrants (Huang Yue-hu, 1985: 70; Sun Cheng-kan, 1987: 43).

In the Yueyang region of Hunan Province, a survey of 24 small towns showed that the migrants have built 62.2 percent of the total new floor space (He Pei-jin and Zhang Ping-yong, 1985: 34). In Chenggu County, Shaanxi Province, the peasants in 1984 contributed a total of 5.02 million yuan towards the construction of the small towns of the county. Their investment was 92 percent of the total small town

Table 7-3 RATIOS BETWEEN MIGRANTS AND TOTAL NONFARM POPULATION
IN UNDESIGNATED TOWNS, 1984

County	Total nonagricultural population in the designated towns within each county	Migrants	Ratio between migrants and total nonfarm population
	(1)	(2)	(3) = (2)/(1)
Enping County	34,937	6,680	19.12
Kaiping County	31,628	4,971	15.72
Taishan County	36,305	7,975	21.97
Xinhui County	69,873	11,003	15.75

Source: Fieldwork notes taken by author from county officials in
Taishan County, Guangdong Province, 1985.

construction costs in that year (RMRB, 1985, April 30). According to two separate reports from Anhui Province, the average investment provided by each migrant household ranged from 4,700 yuan to 15,500 yuan in 1984 (AHJJNJ 1985: 269-270; An Jian, 1986a: 25). In Guanyun County of Jiangsu Province, and Nanhui County of Shanghai Municipality, the average investment per migrant household in 1985 and 1986 was around 7,500 yuan (Li Zhong-jun and Zhao Xiao-xun, 1987: 39; Zhang Dai-Yang, 1986: 26).

Second, instead of building their own houses and shops, the migrants may jointly invest their money to form cooperatively run enterprises. This kind of investment is particularly significant in the less-developed areas where there has been little development of Township Enterprises. By contributing to the growth of the Township Enterprises, the migrants help to strengthen and expand the towns' economic base. In a sense, this kind of investment is more important than merely adding individually owned buildings to the small towns because it helps build a self-sustaining financial capacity in the towns.

Joint investment in cooperative enterprises is now commonly found in areas where previously there had been relatively little Township Enterprises development. The prevalent mode of practice is known as "to bring in a laborer with an investment" (*yi zi dai lao*). This arrangement usually allows a peasant to become a nonfarm worker and a legal town resident, if he or she invests a specified sum of money in a town enterprise in addition to fulfilling all the other requirements for migration (Tang Zhong-xun and Ye Nan-ke, 1985: 63). For instance,

in Rongcheng County, Shandong Province, with a 3,000 yuan investment, a peasant could in mid-1984 become a factory worker and gain the right to move to the towns. The People's Daily reported that within two days following the announcement, 750,000 yuan were collected from 250 prospective peasant-migrants (RMRB, 1984, August 12).

In short, most of the migrants are welcome because they bring with them capital, which is generally in short supply in the small towns. The peasants are also receptive to this arrangement because it opens up an opportunity for them to engage in higher paying nonfarm work and to reside in the towns.

INDUSTRIAL POLLUTION AND FARMLAND CONVERSION

I pointed out in Chapter 4 that many urban industries have deliberately relocated or subcontracted portions or even all of their production to township factories in order to reduce or eliminate the costs of pollution control (Long Dun-quan, 1984: 29; Zhang Fu-bao, 1984: 301; RMRB, 1987, February 17). This is, however, only one of the major reasons for the proliferation of highly polluting industries among the Township Enterprises. According to a study conducted by the Jiangsu Provincial Environmental Bureau, rural enterprises were creating considerable environmental damages because rural industrial projects were chosen with little or no regard for their potential threat to the environment (Beijing Review, 1987, No. 23: 28). For many local-level rural authorities, the employment and revenue benefits of industrial growth far outweighed the potential damage that industrial pollution could cause to their environment (Shi Shan, 1985: 13).

Another reason is that because of their small scale of operation, many rural industries cannot afford to purchase the proper equipment to control the emission of pollutants effectively.

The cumulative effects of poorly regulated rural industrial growth are long-term damages to the rural environment and an unusually high incidence of work-related health problems (Su Ru-wei, 1987: 47-48). For instance, in 1985, over 10 million mu of farmland in China were contaminated, to varying degrees, by township industries (Yang Yi, 1985a: 41). In Tianchang County, Anhui Province, 77.4 percent of the township factories exceeded the state's standards on noise pollution (RMRB, 1987, February 9). In 1986, a nationwide survey of 12,097 township industrial enterprises revealed that over 90 percent of these rural factories were operating without adequate pollution control devices. The air particle counts in the work place, for example, were way above the state's maximum criterion. This has caused lung diseases among the township industrial employees at a much higher rate than state workers in similar industries (Su Ru-wei, 1987: 48; RMRB (OE), 1985, December 19).

In addition to the problem of environmental pollution, Chinese planners have complained that as a result of decentralized urbanization, farmland had been excessively converted to nonagricultural uses. Lin Zhi-qun, chief of the State Housing Bureau, claimed that the farmland shortage problem has been compounded by decentralized urbanization because, on a per capita basis, rural small town growth consumed twice as much land as large city development (Lin Zhi-qun, 1985: 10). Numerous Chinese newspaper accounts and journal

articles have carried stories of excessive farmland conversion (Shou Min, 1984: 19-20; Xu Jing-bin, 1985: 50; Zheng Ho-hai, 1985: 53; RMRB, 1985, June 29; July 29). In the absence of detailed land use data, however, it is difficult to ascertain the degree to which farmland is being excessively converted into nonagricultural purposes in the small towns.

CONCLUSION

There are three major sources of funding for small town development: Township Enterprises, affluent peasant-migrants, and the state. State appropriations for town construction are controlled by county authorities who spend most of these funds in the county seats. Undesignated towns received very little financial support from either the state or the county governments (Hu Li-sheng, 1987: 45). The two most important sources of capital for construction of undesignated towns are profits of Township Enterprises and investments from affluent peasant migrants. In certain less-developed regions, rich peasant-migrants have actually become the single most important source of finance for town construction.

One of the assumptions implicitly held by proponents of decentralized urbanization is that, in contrast to the larger cities, small towns have more space for industrial development and for the housing of rural surplus workers. Although the evidence is inconclusive, the available information on farmland conversion suggests that, in China, a larger piece of arable land per capita may have been taken up for industrial and urban development purposes in small towns

than in larger cities.

In areas where Township Enterprises have prospered, they are providing important income opportunities as well as financial resources for town construction. Unfortunately, township industrial enterprises have also become the major source of environmental pollution in the countryside. Considered from the planning perspective, a decentralized urbanization strategy may have helped offset the potential social problems associated with large urban areas. However, the alarming level of environmental degradation is a strong indication that basic industrial pollution control measures can more easily be overlooked or compromised in the small towns and the countryside than in large cities.

Chapter 8 TOWNSHIP ENTERPRISES AND AGRICULTURE

The development of Township Enterprises has two major societal goals: "to prevent excessive rural-to-urban migration," and "to subsidize agriculture;" (GWYGB, 1984, No. 5: 146). I have discussed the problem of controlling village outmigration in the last chapter. In this chapter, I examine how rural nonfarm activities--rural industry, in particular--subsidize agriculture.

Contrary to the central planners' intention of using profits from rural industries to support agricultural infrastructure, local officials have used the profits primarily to augment farm workers' income. As a result, long-term agricultural productivity has suffered. I discuss here the distribution pattern of the profits of rural industries and the reasons behind the local cadres' choices in distributing these funds.

I also discuss the effect of rural nonfarm development and rural outmigration on one of the larger problems of agricultural development--farmland consolidation. My major argument is that the successful development of rural nonfarm activities and even the outmigration of nonfarm rural workers do not necessarily lead to a consolidation of farmland into the hands of specialized farmers. Rural pricing, agricultural taxation, and the rigid household registration systems have all effectively obstructed the transfer of farmland from the less-efficient to the more-efficient producers.

SUBSIDIZING AGRICULTURE

Township and village enterprises have helped reduce the state's burden by allocating some of their after-tax profits to subsidize agriculture directly. That subsidy comes in three forms: (1) purchasing farm machineries; (2) investing in farmland infrastructure; and (3) giving monetary aid to poor production teams. For instance, between 1979-1982, township and village enterprises allocated eight billion yuan of their profits to subsidize agriculture, a sum of money that was equivalent to 73 percent of the central government's investment in agriculture during these years (Zhang Zhuo-yuan, 1985: 64). Then, between 1981-1984, around five billion yuan of township and village enterprises profits were diverted to the agricultural sector, an amount that was three times the state's investment in agriculture in the same period (RMRB, 1985, December 7).

As early as 1978, however, the level of financial subsidy that township and village enterprises extended to agriculture began to diminish notably. In 1978, 38.5 percent of township and village enterprises profits were used to subsidize agriculture. By 1984, only 6.6 percent were used for this purpose (Table 8-1).

The profits of township and village enterprises were also allotted to fulfill two other non-reinvestment purposes. First, in 1982, up to 21.7 percent of the enterprises profits were distributed as extra income to those team members who continued to work on the farmland. Although township and village enterprises profits were not used for this purpose in 1978 and 1979, data are insufficient to establish the exact time that this became routine practice. Nevertheless, by 1984

Table 8-1 DISTRIBUTION OF AFTER-TAX PROFITS OF TOWNSHIP (COMMUNE) AND VILLAGE (BRIGADE) ENTERPRISES, 1978-1985

Purpose of profit distribution	1978	1979	1980	1981	1982	1983	1984	1985
(billion yuan)								
TOTAL	6.82	8.05	9.46	10.00	10.35	10.45	9.97	n.a.
Reinvestment	3.09	4.06	4.70	4.30	4.76	5.06	6.10	7.94
Assist agriculture	2.64	2.69	2.27	1.70	1.43	1.36	0.66	0.68
Purchase farm machinery	1.15	1.13	0.91	0.70	0.53	0.41	n.a.	n.a.
Farmland infrastructure	1.18	1.17	0.94	0.80	0.71	0.72	n.a.	n.a.
Aid to poor teams	0.31	0.39	0.42	0.20	0.19	0.23	n.a.	n.a.
Distribute to farm workers ^a	--	--	n.a.	n.a.	2.25	1.70	0.64	0.62
Collective welfare ^b	0.40	0.49	0.68	0.70	0.94	1.14	1.57	1.98
Others	0.69	0.61	n.a.	n.a.	0.97	1.19	1.00	n.a.

(percent)												
TOTAL ^c	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Reinvestment	45.3	50.4	49.7	43.0	46.0	48.4	61.2					
Assist agriculture	38.5	33.3	23.9	17.0	13.8	13.0	6.6					
Purchase farm machinery	16.9	14.0	9.6	7.0	5.1	3.9	n.a.					
Farmland infrastructure	17.1	14.5	9.9	8.0	6.9	6.9	n.a.					
Aid to poor teams	4.5	4.8	4.4	2.0	1.3	2.2	n.a.					
Distribute to farm workers	--	--	n.a.	n.a.	21.7	16.3	6.4					
Collective welfare	5.9	6.1	7.2	7.0	9.1	10.9	15.7					
Others	10.1	10.1	n.a.	n.a.	9.4	11.4	10.0					

Notes: -- Not applicable n.a. Not available

- a Team members here refer to those who have remained in farming jobs and not the peasant workers.
- b Collective welfare includes rural highway, schools, theatres, market town infrastructure (see Zhang Zhuo-yuan, 1985, p. 64).
- c Details may not add to totals due to rounding and, for 1980 and 1981, incomplete data.

Sources: 1978-1979: ZGNYNJ 1980, p. 366.
 1980-1981: ZGNCJ.JNJ 1985, p. 190.
 1982: ZGNYNJ 1983, p. 83.
 1983: ZGNYNJ 1984, p. 124.
 1984: ZGNYNJ 1985, pp. 181-182.
 1985: ZGNYNJ 1986, pp. 217-218.

the share of profits assigned to this purpose had dropped to 6.4 percent.

Second, the share of profits that went to collective welfare-- which includes rural highway, schools, theatres, market town infrastructure (Zhang Zhuo-yuan, 1985: 64)--has grown gradually since 1978 and by 1984 constituted 15.7 percent of township and village enterprises profits (Table 8-1). In certain more-developed areas, township and village enterprises profits have become the major financial source for the construction of undesignated towns (Wu Da-qian and Wu De-fu, 1984: 34). Between 1977 and 1981, for instance, township and village enterprises profits accounted for 85 percent of the total infrastructure investment for undesignated towns in Shanghai's rural counties (Gong Jie-min and Xiong Shi-ping, 1983: 46).

What are the major reasons for these temporal changes in the distribution pattern of the profits of township and village enterprises? First, the decline in the level of support for agriculture is primarily a result of the demise of the commune and its many functions. An important function of the commune was to channel rural resources toward the collective agricultural sector. Irrigation equipment and farm machinery, for example, were purchased by the commune to be used on its collectively owned farmland. However, with "decommunization" coming as a natural and necessary consequence of the household contract responsibility system (Shue, 1984: 259-260), the collective's role in providing communal services was diminished. The level of financial subsidy that went from township and village enterprises into agriculture was accordingly reduced over the years.

Second, to distribute some township and village enterprises profits to team members who have remained working on the farmland is basically a strategy to provide this group with an additional wage to augment their lower and unstable income from farming. This is intended to minimize the income gap between farming jobs and nonfarming jobs within the same rural community, and thus to alleviate the negative impacts that a big income gap may have on the morale and the output level of the farm workers (RMRB, 1985, October 8).

Third, the increase in the amount of profits slated for collective welfare was due to two major factors. One, the demise of the commune and the post-1979 nationwide campaign on constructing small towns must have greatly influenced the local cadres to commit a larger proportion of the township and village enterprises profits into improving or building the market town infrastructure. The transfer of enterprise ownership from the commune to the township government has helped facilitate such a priority shift on the part of the local cadres.

Two, local cadres must have recognized the prospering township and village enterprises as a new source of local finances. Different kinds of "management fees" or "mandatory contributions," previously imposed upon the peasants by the local cadres, are now being levied against the township and village enterprises. Some enterprises even had reportedly been forced to make "contributions" that were more than their earnings (RMRB, 1985, December 14). To be sure, this decision to shift the burden from the agricultural sector to township and village enterprises is a calculated effort to avoid a deterioration of the output level of agriculture. This is the same concern that underlies

the decision to provide a stable basic income to team members who hold farming jobs.

From the point of view of many local cadres, distributing the profits of township and village enterprises to the peasants as extra income, and turning towards township and village enterprises--rather than the peasants--for "mandatory contributions" serve the same goal: to appease the peasants and to maintain the output level of agriculture. For them, both of these two methods of using the profits are valid forms of "subsidizing agriculture."

Such interpretations of "subsidizing agriculture," however, may have obscured the original intentions of the central policymakers. Formerly, "to subsidize agriculture" meant the use of township and village enterprise profits to purchase farm machinery, to invest in farmland infrastructure, and to subsidize the poor teams. The thrust of these activities was to improve the long-term production capacity of the agricultural sector. Now, "to subsidize agriculture" may mean distributing township and village enterprises profits directly to the peasants. The primary effect of this financial subsidy is an increased income level for some peasants. Most of this extra income, however, has gone into personal consumption rather than into productive investment in agriculture (Wang Dai and Zhu Gang, 1986: 24). As a result, the long-term production capacity of the agricultural sector has been greatly impaired (Xu Yun-quan, 1985: 11; Gu Song-nian and Yan Ying-long, 1985: 59). Dispersing profits of township and village enterprises directly to the peasants is therefore a temporary remedy that closes the income gap between farm workers and nonfarm workers but

will actually prolong and aggravate many problems existing in the farm sector.

In Jiangsu Province, for instance, the state of the irrigation system and farm machinery has reportedly deteriorated since the advent of decommunization, seriously hampering the further development of agriculture (RMRB, 1986, February 17). This apparently has prompted the central and the provincial governments to urge local authorities to emphasize investment in agricultural machinery and farmland infrastructure over giving profits directly to the peasants in the interest of improving agricultural productivity (RMRB, 1987, March 23; 1986, April 26).¹

PROBLEM OF FARMLAND CONSOLIDATION

In addition to using profits from township and village enterprises to subsidize agriculture, the central policymakers are also looking to the development of rural nonfarm activities to help develop the agricultural sector in another manner. By permitting and actually urging those who are less efficient in cultivation but otherwise skillful in nonfarm trades to give up their land, planners hope to see a consolidation of farmland into the hands of fewer, but more efficient, farmers. When smaller pieces of farmland are consolidated

¹ In this respect, provincial officials in Jiangsu Province are the most vocal (Sun Han, 1986; Chen Sheng, 1986; Wu Rong and Li Peng, 1986: 15; Shi Fu-yuen, 1986: 21). Central authorities have also pleaded with local officials to reduce the burden placed on township and village enterprises in financing small town construction for the same concern--to make sure there is adequate investment in agricultural infrastructure (RMRB, 1985, July 22; July 29).

into larger parcels, then, agricultural productivity can be raised through the use of agricultural machinery and other large-scale farming techniques.

As I have pointed out in the last chapter, it is very rare to see an entire household leaving the land. In almost all instances, it is the able-bodied members of a family who leave farming for nonfarm jobs (Mei Tai-he and Ding Zhao-xiang, 1984). The reality is that although many rural laborers may entirely give up farming for nonfarm employment, very often they retain their title to parts or all of their contracted farmland. They usually ask their non "li tu" family members and relatives to help cultivate their land. During the busy harvesting and planting seasons, they may temporarily leave their nonfarm positions to return to work alongside their families in the field (Field notes, 1985). In the rural areas, therefore, a substantial number of households are concurrently involved in agriculture and industry or other trades. A 1984 study of four villages in Wujiang county, a more developed part of Jiangsu Province, for example, showed that between 44.3 percent to 69.7 percent of the households in four villages were concurrently engaged in farm and nonfarm activities (Zhang Yu-lin, 1986b: 181-182).

To explain this issue further, I need to point out that, for distribution purposes, farmland is divided into three categories: (1) food grain fields (kouliang tian); (2) responsibility fields (zeren tian); and (3) fodder fields (siliao tian). Food grain fields are distributed on a per capita basis to each household, and the products from these fields are retained by the households for their own

consumption requirements. Responsibility fields are assigned to each household, according to the number of able-bodied laborers in each family. The output from these fields is what the peasants are obligated to produce for the state. Fodder fields are distributed to those households who keep livestock (Wang Guo-xiang, 1986: 21).

It is obvious that each household will try to obtain as many food grain fields as possible to ensure an adequate food supply for everyone in the family. For reasons discussed below, many rural laborers are trying to contract as little responsibility land as the state will allow, and almost all rural households keep some livestock and thus receive a share of the fodder land. Therefore, one of the inevitable consequences of distributing land in this fashion is the tendency to equalize the share of land contracted by each household, which I discuss in more detail below. According to several Chinese researchers, this phenomenon has been observed on a widening scale in the rural areas (Wang Guo-xiang, 1986: 21; Yang Yi, 1985b: 2).

Two Major Tendencies

Two major unintended consequences of rural nonfarm development have arisen in rural China: (1) the tendency of more and more individual rural laborers and households to be concurrently engaged in farm and nonfarm work; and (2) the tendency to equalize the share of land contracted by each household (Dong Han-ying, 1986: 52).

These are, of course, contrary to the original intentions of the central planners who wanted to encourage an exodus of the less-efficient workers from the land into the rural nonfarm sector, and a

consolidation of larger pieces of farmland into the hands of fewer, but more efficient, producers. They envision a division of labor in the rural areas, where farmers and nonfarm workers would both increase their productivity through specialization and commercialization, but the current situation indicates that they apparently did not fully anticipate the concerns of the peasants. They have also failed to consider thoroughly the policy's implications for the rural sector and agriculture. The relevant question here is this: Why does a rural worker who has a full-time nonfarm occupation still want to maintain a share of the farmland?

Some analysts believe that the traditional conservatism of the peasants has prevented them from giving up their contracted farmland, which many consider their private property (Mu Hong-tao, 1985: 7). Although this may be true, there are several real economic concerns that heavily influence a rural worker's decision to keep a piece of farmland while at the same time opting for a nonfarm job.

First, a rural laborer who works in the rural nonfarm sector is, in almost all instances, a peasant-worker who is by law required to maintain his or her agricultural household status. This means that he or she is not entitled to receive subsidized commodity grain and other subsidized urban rations from the state. To ensure an adequate and stable food supply, the peasant-worker naturally wants to keep a share of the food grain land.

In the last several years food grain has once again become available on the market. One might expect that because the peasant-workers can now buy their food grains from the market, their need for

farmland will diminish. In some localities "market grain supply certificates" were issued to the "li tu" peasants as a way to guarantee their food supply (Chinese Communist Party Yunnan Province, 1983: 62). The problem, however, is that the supply of market grain is often unreliable, and the price is more than double that of the state's commodity grain (Mu Hong-tao, 1985: 7). This only reinforces the peasant-workers' determination to hold onto their land.

Second, a claim to part or all of his or her contracted farmland insures a peasant against any unexpected downturns in nonfarm endeavors. The peasant-workers are fully aware that the rural nonfarm sector, unlike the state sector, does not guarantee stable income or year-long employment. Therefore, they are naturally conservative and are reluctant to sever all of their ties to the land (Wang Guo-xiang, 1986: 22-23; Xu Jing-yong, 1984: 55).

Third, the non "li tu" members of a household are generally capable of cultivating the extra land kept by the "li tu" members. They do not consider the extra land unmanageable. This is because one result of the equalization of land distribution is a low land:labor ratio. The average size of land contracted by each household is currently recorded at about eight mu, which is a comparatively low figure by world standard and by China's own standards (Liu Gang, 1986: 7). Therefore, even though the non "li tu" members are usually comprised of the elderly, women, and the young, they are still able to attend to the farming needs of the entire household (Shan Yong-tang, et al., 1984: 37; Yang Yi, 1985a: 40). That is, maintaining additional shares of the land is not a great extra burden on the family members of

the "li tu" peasants. Peasant-workers, and their families as well, do not see any disadvantage in retaining shares of the land.

Fourth, subsidies derived from the profits of rural industries had previously been diverted to the agricultural sector to help develop the latter. Since the establishment of the household responsibility system, these subsidies are distributed to the peasants according to the size of their contracted responsibility land. Although farming the responsibility land represents a drain on the peasants' resources, the financial subsidies in many circumstances have turned farming into a marginally profitable business (Chen Sheng, 1986: 33). While the first three factors explain the motivations behind the "li tu" peasants' determination to keep their food grain land, the last factor explains their decision to keep their responsibility land.

All of the above factors have effectively persuaded the "li tu" peasants to keep their shares of the land. As a result, two unintended consequences for the agricultural economy have emerged. One unintended result is that the average household is now primarily interested in small-scale, self-sufficient production. That is, each household works on several small pieces of farmland and its production is primarily geared towards satisfying the food consumption needs of its members. Another unanticipated consequence is that an overwhelming majority of the rural households is now concurrently engaged in farm and nonfarm work. In many cases, nonfarm work has become the primary source of income for the rural households.

Negative Effects on Agriculture

The two unanticipated tendencies in the agricultural economy have had several negative effects on agriculture. First, it is obvious that with small and scattered parcels of land contracted by different households, economies of scale in agricultural production are not realized. Because land is not being consolidated into the hands of the full-time producers, the condition for the mechanization, specialization, and commercialization of farm production is not achieved (Chen Sheng, 1986: 33; Sun Han, 1986: 10). According to one analyst, if the size of a household's farmland is less than 20 mu, then the investment cost of using a small tractor alone is about 150 yuan per mu (Liu Gang, 1986: 7). Considering the fact that the average household works on about eight mu of land, and that the land is made up of small pieces scattered in different locations (RMRB, 1987, October 23), such a cost figure means that agricultural mechanization is entirely out of the question for the majority of the farming households.

Second, the satisfaction of their own consumption needs has become the top priority of most agricultural producers. They are increasingly disinterested in fulfilling their obligations for the state's grain procurement quota (Yang Yi, 1985a: 40). This may stem from the traditional mentality of self-sufficiency characterizing the small-scale producer, as some people have suggested (Wang Guo-xiang, 1986: 23), but it is more likely that the decline in producing and supplying commodity grain to the state is the result of rural households and laborers concurrently engaging in farm and nonfarm work. In areas

where the rural nonfarm sector has flourished, proceeds from farm activities may constitute only 10 to 20 percent of a rural household's total cash income (Yang Yi, 1985a: 40).

For many peasant-workers, farming has become a "sideline" business and a secondary income source (Huang Huan-zhong and Sun Xin-ya, 1986: 46). Because many peasants now derive their primary income outside of agriculture, the immediate objective of farming thus becomes that of fulfilling their own consumption requirements. As a result, peasants' interests in cultivation and their investment in agricultural production have both declined. In some localities, farmland has even been partly or totally abandoned by peasants who find nonfarm work substantially more lucrative (Liu Rong-qin, 1987: 46; Shi Fu-yuen, 1986: 18-19). A study of Langfang Region, Hebei Province, showed that five percent of the region's farmland were abandoned, and about 20 to 50 percent of the rural households were neglecting their farming duties (Cao Meng-jiao and Lu Zong-xiao, 1987: 32).

Third, there is a noteworthy characteristic now commonly found in households that are involved in both farm and nonfarm activities. Because it is generally the male adult and the more skillful able-bodied laborers who are hired away by rural nonfarm enterprises, agricultural growth inevitably suffers as the average level of competence of the remaining non "li tu" agricultural workforce declines (Xiong Cheng-jia, 1986: 57; Liu Fu-chen and Guo Wei-guo, 1985: 18).

Finally, there is an alarming phenomenon that is closely linked to the above argument. One of the original goals of the central planners was to see a consolidation of land into the hands of skillful full-time

farmers, but increasingly even this group of specialized rural laborers has begun entering the nonfarm sector (Li Jian-de, 1986: 35). On the one hand, they realize that they possess the knowledge and skills to make an occupational transition as well as secure a much higher return from nonfarm work. In many areas, rural laborers can double or even triple their earnings by switching to construction or mining jobs (Zhao Hing-han, 1986: 27; Cheng Lu, 1987: 85). On the other hand, they see persistent obstacles in consolidating more farmland into their hands as they have anticipated. For a majority of these skillful peasants, the logical conclusion is thus to join their neighbors and enter the rural nonfarm sector.

In conclusion, many peasants have only nominally left their land. Many rural workers have taken up nonfarm positions, but they have not given up their land. This has greatly hindered one of the higher objectives of rural nonfarm development--the consolidation and the transfer of farmland to specialized farmers. Because land continues to be evenly distributed among most households, and because most households are concurrently engaged in farm and nonfarm work, the implications for agriculture are largely discouraging.

EFFECTS OF VILLAGE OUTMIGRATION ON AGRICULTURE

The village-to-town migration policy has been considered a relatively significant step in China's overall development strategy because it is the first systematic attempt to relax some controls of the household registration system. This policy is also significant because it requires migrants to sub-lease their land and thus creates a

favorable condition for large-scale farming.

How successful has the village outmigration policy been in trying to break the link between the migrants and their land? The preliminary results from the more-developed regions are not very encouraging. They indicate that certain institutional and economic obstacles have prevented most migrants from subleasing their land. In other words, the implementation of the village-to-town migration policy has had only very limited success in bringing about a total transformation in China's rural areas.

For instance, in the Yueyang region, a study of 917 migrant households in 1985 revealed that only 20.4 percent of these households have subleased all of their farmland and another 26.6 percent have subleased parts of their land (He Pei-jin and Zhang Ping-yong, 1985: 33). What it means here is that 79.6 percent of these migrant households have retained all or part of their farmland even after they have moved to the towns.

Why did the majority of the migrant households fail to subcontract their farmland, as intended and required by the state? One may immediately point to those factors that were previously cited in unravelling the nonfarm peasant-workers' reluctance to relinquish their land. The migrant households may have kept their land for the same reasons: a reliable and inexpensive food supply, an insurance against any downturns in their nonfarm pursuits, or because they may have family members and relatives who still reside in the villages and can till the land for them.

I, however, have discovered that these factors can only furnish a

partial answer to the problem of low farmland subleasing activities among the migrant households. As will be shown, the migrants' own reluctance is only part of the problem. An unforeseen difficulty, which is the other part of the problem, is the lack of interest among the full-time farmers to accept more farmland (Li Zhong, 1987: 46; Guo Zheng-mo, 1986: 74-75; Pan Qiong-lin, 1985: 37; NYJJ, 1986: 56).

Problem of Farmland Subleasing

The extremely low rate of farmland subleasing has been documented in several instances. A survey study undertaken in Ezhou City of Hubei Province reported that in 1983 only three percent of the city's agricultural land has been subcontracted, involving only five percent of all the agricultural households (Wang Xing-long, 1984: 24). In Bangshan Commune, Longhai County, Fujian Province, out of a total of 1,695 specialized rural nonfarm households, only nine had subleased their land to other farmers (Xu Jing-yong, 1984: 55). Another survey conducted in Gudianzi Township of Jilin Province recorded that in 1983, when farmland subleasing was first practiced, only seven households out of a total of 5,965 families were involved in such an activity. A year later, in 1984, the number of households that have subleased their land jumped to 36, which was still a very small part of all the households in that township (Zhao Jun-xiang, 1985: 40).

The hesitation of full-time farmers to accept more land has also been recorded in two survey studies. In 1985, a survey of 100 rural households in Xiaoshan County, Zhejiang Province showed that only one

percent of those interviewed were willing to lease more land from the others (Wu Zhi-hua and Meng Zhi-xian, 1985: 54). In 1986, a survey of 173 rural households in Fengci Township, Nanhai County, Guangdong Province, reported that only two percent of those questioned were willing to take on more land. Only eight percent in the same study said that they were willing to sublease their land, and an overwhelming 90 percent expressed no interests in either reducing or expanding their land holdings (Li Zhong, 1987: 46).

Before I detail the reasons behind the reluctance of the full-time farmers to accept more land, first it is instrumental to understand the prevailing arrangements of farmland subcontracting. There are basically two kinds of arrangement: (1) subcontracting without compensation; and (2) subcontracting with compensation.

Under the first kind of arrangement, the lease-holder turns over his or her land to the lessee with only one condition: the lessee will fulfill all the obligations as specified in the original contract between the leaseholder and the government. In general it means that the lessee will fulfill the state grain procurement quota and pay taxes to local authorities, as prescribed in the original contract. Aside from this requirement, the lessee does not have to compensate, in any manner, the original contractor (Lu Hou-da and Chen Hong-er, 1984: 9).

The second kind of arrangement--subcontracting with compensation--requires the lessee to fulfill extra requirements. In addition to the terms of the original contract, the lessee will have to compensate the original lease-holder in three major ways:

(1) Compensation by supplying foodstuffs. The lessee will either

guarantee to supply low-priced food grains or ensure the supply of a specific amount of food grains, free of charge, to the original leaseholder. The latter may also sometimes request an additional supply of other agricultural products such as fresh vegetables (Lu Hou-da and Chen Hong-er 1984: 9).

(2) Compensation by paying cash. The lessee will turn over a part of his or her extra income derived from the transferred land to the original leaseholder. In one study conducted in Gudianzi Township of Jilin Province, the original contractors took away 26.4 to 51.3 percent of the lessees' income (Zhao Jun-xiang, 1985: 41).

(3) Compensation by contributing labor. In some instances certain households that are short of able-bodied laborers may keep only parts of their land and sub-lease the rest. The lessee, in this case, will help the original leaseholder to cultivate that part of the land that is still kept by the latter (Li Zhong-xian, 1985: 38).

The available data show that an overwhelming majority of those households that are willing to sub-lease their land have asked for some forms of compensation from the lessees (Zhao Zhi-yuan, et al., 1985: 46). In 1985 in Yingshan County, Shanxi Province, for instance, close to 90 percent of all the land subleasing cases involved compensation (Li Zhong-xian, 1985: 37). Moreover, the majority of the leaseholders would lease out only parts, but not all, of their land. It should also be clear that leaseholders are not relinquishing the legal title to their contracted land. They are only transferring, usually on an annual basis and sometimes on a seasonal basis, the right to cultivate the land to the lessees (Li Sheng-wen, 1987: 39).

Why do most land transfer cases require compensation? Most leaseholders, for a variety of reasons, are not keen on sub-leasing their land. One of the major reasons is that they want to assure themselves a stable and inexpensive supply of food grains from their own land. Because the subleased land is, to the leaseholders, an important source of low cost food grains, it is understandable that, in almost all instances, the lessees are asked to guarantee the former an inexpensive or sometimes free food supply (Li Zhong-xian, 1985: 37; Zhou Qi-ren, et al., 1985: 15). The leaseholders may require compensation also because they want to recoup their previous investment (infrastructure, fertilizer, etc.) in making the land productive.

There are, to be sure, ongoing debates on the exact nature of this kind of compensation because it has a clear connection to sensitive issues such as exploitation and land ownership. Supporters for this kind of arrangement point out that such compensation greatly facilitates the process of transfer of farmland. Moreover, because the arrangement has to be a mutual agreement and both parties must have gained from it, the practice should be sanctioned and extensively promoted (Zhao Zhi-yuan, et al., 1985: 46; Li Zhong-xian, 1985: 38). Critics, on the other hand, are quick to challenge the legitimacy of this type of compensation. They question whether such compensation constitutes a form of exploitation by the leaseholders, and whether the compensation should go to the collective--which is the legal owner of agricultural land (Zhao Jun-xiang, 1985: 42-44).

While the legitimacy of compensation in land subcontracting is an important issue to analyze, to go further into it is beyond the scope

of this study. The relevant question here is: Why are full-time farmers unwilling to increase their land holdings?

It is natural to believe that most farmers are not interested in leasing more land because they refuse to shoulder the burden of compensation. What is intriguing here is that even when the leaseholders are willing to sublease their land without asking for compensation, it is still very difficult to find someone who would agree to take on more land (Yang Yi, 1985a: 40).

It is pertinent to recall that when someone subcontracts a piece of land from a leaseholder "without compensation," the former still needs to satisfy the latter's tax obligations to the central and local authorities. The lessee will fulfil the grain procurement quota to the central government, and he or she will pay local taxes and other fees to the local officials (Wu Xiang-yu, 1986: 27). The main obstacle that discourages full-time farmers from acquiring additional land, even when compensation is not demanded, is that the economic burden of these government levies has outweighed the gains from cultivating a larger farm.

The amount of a peasant's tax payment is, by and large, calculated on the basis of the size of his or her farmland (Zhou De-zheng, et al., 1984: 18). If one acquires more land, one's tax assessment also increases, regardless of whether one's income has actually become larger or smaller. Compared with the fixed income tax rate of the nonagricultural sector, the progressive land tax in the agricultural sector thus makes large-scale production very unattractive to full-time farmers. To them, farming more land simply translates into shouldering

a higher, but unjustifiable, financial burden.

That burden has two major components: (1) a low state grain procurement price despite rising production costs (RMRB, 1987 November 24); and (2) rising level of local levies. First, while most inputs into agricultural production have become more expensive since 1980, the state's grain procurement price has not been raised high enough to fully cover the increased cost of production (RMRB (OE), 1986, January 6; Zhang Wen-hui, 1986: 58). For instance, in 1986 it cost 0.26 yuan to produce one jin of grain in Yunnan Province, the state procurement price was however set at 0.162 yuan per jin. Grain cultivation has therefore become a marginally profitable or even money-losing business. Farmers mandated to sell their grains to the state were, in effect, forced to take heavy losses (Hai Zuo-liang, 1986: 61).

Low prices for agricultural products have also led to a larger income gap between full-time farmers and nonfarm rural workers. Whereas the income per workday for the former in 1985 was estimated at 4.9 yuan, the corresponding figures for the latter ranged from 8.4 yuan (for sideline and commercial undertakings) to 15.0 yuan (for industrial and transportation activities) (RMRB (OE), 1986, May 12). Earnings from nonfarm jobs could double and even triple that of full-time farming positions. An inevitable result is the refusal of almost all farmers to subcontract more land from their nonfarm neighbors (Li Sheng-wen, 1987: 40; Li Wei-wu, 1985: 24). For many in the villages, it makes more economic sense to become a part-time farmer and also to engage in some sort of more lucrative nonfarm activities. In many areas, nonfarm pursuits have actually become the most important

economic undertaking for many peasants, who look upon farming with much less enthusiasm and relegate it to a much lower priority (Chinese Academy of Agriculture, 1986: 30-33).

The second major component of the financial burden is the rising levels of local taxes. In many localities, types and rates of taxes have increased repeatedly since the early 1980s, sometimes well beyond the limits set by the central and provincial authorities. A study in Gucheng County of Hubei Province revealed that in 1985 there were 19 different kinds of local taxes imposed upon the peasants, up from only five types of taxes in 1982 (Pan Wen-hui, 1986: 20-21).

Moreover, peasants are often forced to finance local highway construction, small town infrastructure development, and educational and recreational facilities, all of which are supposedly the responsibilities of various local government offices (Pan Wen-hui, 1986: 21; Zhan Qing-lan and Fu Quan-de, 1986). Such demands are particularly serious in areas where collective enterprises are underdeveloped and local officials see peasants as their only major source of revenues.

In a nutshell, because local taxes are determined by the size of a farmer's land holdings and because local taxes have rapidly risen in the last several years, many farmers have lost interests in subcontracting more land from those who want to give land up (Yu Shi-zhen and Chen Qiao-nan, 1985: 59).

It is apparent that a major way to convince the peasants to undertake large-scale cultivation is to reduce their economic burden. A logical solution would be to mitigate the two major components of the

burden by increasing the procurement prices for grains and reducing local taxes (Zhu Ji-yu, 1986: 18). In reality, however, state prices and local levies prove to be very difficult to modify. Instead, the most commonly adopted strategy is to use the profits from rural nonfarm enterprises to augment the farmers' income. These profits are also used to finance some of the local expenditures, thus relieving part of the farmers' tax obligations (Cheng Chun-dao, 1986: 43; Ye Yen-yu, 1984: 15).

For instance, in the township of Luyang, Kunshan County, Jiangsu Province, full-time farming households in 1985 were given a subsidy of 20 yuan per mu for the extra land that they have leased. In addition, they were exempted from paying the labor expenses for using collectively owned agricultural machinery and were promised favorable terms in the provisions of agricultural inputs and other related services (Chen Gen-xiang and Xu Ruen-quan, 1986: 43). To be sure, such a practice is only feasible and has only been reported in areas with well-developed rural nonfarm enterprises that can provide the necessary financial sponsorship (RMRB, 1987, May 23).

Although this subsidy has lured some peasants into farming larger tracts of land, such a practice is not without shortcomings. It is true that this arrangement has facilitated the concentration of some farmland, but the long-term productivity of the agricultural sector may at the same time have been greatly compromised. The problem here lies with the fact that the subsidy can only lure the peasants to accept more farmland, but it cannot induce them to sustain, much less improve, the productivity of the land that they have leased (Yang Yi, 1985a:

40). This is because most subcontracting agreements run on a short term basis (one to two years). The lessees do not have any compelling reason to enhance the fertility of the land beyond the duration of the agreements. The results are a reduced application of fertilizer and other inputs, minimal attention to the condition of the leased land, and a rapid deterioration of the farmland's long-term productive capacity (Zhao Jun-xiang, 1985: 44).

An examination of the problem of farmland subleasing reveals a major obstacle standing in the way of agricultural development. Even when the migrants are willing to give up their land, the rising level of the land tax burden has effectively discouraged the more efficient farmers to sublease more land to engage in large-scale production. The current practice of using profits from rural nonfarm enterprises to augment the full-time farmers' income can only lure the peasants to increase their land holdings nominally. However, without raising the price levels of agricultural products and revising the land tax system, income subsidy alone will not prompt the farmers to increase yields or to invest in making the land more productive.

CONCLUSION

The major lesson of this chapter is that the development of the rural nonfarm sector and even the outmigration of rural workers to the small towns do not necessarily and automatically lead to a rural division of labor that permits a higher concentration of farmland in the hands of the more efficient producers. Higher prices for farm products and lower agricultural taxes may be more effective in

stimulating the farmers to increase their productivity. However, both of these options require some basic restructuring of the national pricing and taxation systems that are not prone to quick adjustments.

To break the link between the peasant migrants and their land is an even more delicate and difficult task. One possible solution is to grant migrants nonagricultural household status. Only after their economic security has been guaranteed would they be willing to give up their land. However, this means that Chinese planners will have to rethink the overall rural and urban development strategy and revamp the household registration system.

Another possibility, which requires much less monumental work, is to design another policy that will actively encourage the grouping of small pieces of farmland into larger tracts to permit large-scale production. This policy will no doubt require a reaffirmation of the collective interests above that of the individual. Because local officials would be able to draw on the experience of the former collective system, they might be more receptive to this solution to the farmland subleasing problem.² A third strategy is to introduce a land market mechanism.³ However, this entails the free sale of farmland among the peasants, would be looked upon with skepticism by hardline politicians.

2 In August 1987, People's Daily reported a successful program of consolidating farmland initiated by local officials in Beijing's Suenyi County (RMRB, 1987, August 12). Only one month later, however, People's Daily printed a commentary that criticized the consolidation of farmland through administrative coercion (RMRB, 1987, September 14).

3 Dwight Perkins suggested this strategy to me at one of our conversations in late 1987.

Chapter 9 CONCLUSION

The development of the rural nonfarm sector has been designed to support two major societal goals: To use rural industries to subsidize agriculture and to restrain rural-to-urban migration. First, framers of official policies in the central government wanted to divert profits from rural nonfarm activities to subsidize the agricultural sector. Officials in Beijing hoped the rural industries would use some of their profits to help finance the construction of farmland infrastructure and to buy agricultural inputs and farm machinery in order to sustain and improve the long-term agricultural productivity. Second, the central planners thought that by providing additional and off-season employment for rural surplus workers, the rural nonfarm activities would help keep the peasants in the countryside. The central government urged the development of the small towns to facilitate the agrarian commercialization program as well as to accommodate those rural laborers who no longer worked on farms and wanted to move away from the villages.

In terms of the first objective, the evidence from China suggests that the success of the rural nonfarm sector in providing more jobs and higher income to rural workers is overshadowed by its inadequacies in mobilizing resources to improve long-term agricultural growth. With regard to the second objective, while rural-to-urban migration has not mushroomed, since 1984 an increasing number of peasants have begun working and residing in large urban centers for extended periods. Moreover, decentralized urbanization--understood as the development of

small towns--is at best a regional phenomenon. The shortfalls of the rural nonfarm sector in achieving the central planners' larger objectives compel us to re-examine the major underlying assumptions that central planners used in the formulation of the rural nonfarm development policy. Before reviewing two of the major assumptions at the end of this chapter, let me recapitulate the key arguments of this study.

AGRICULTURAL DEVELOPMENT IMPEDED

In terms of the number of enterprises and the size of the workforce, the rural nonfarm sector has steadily grown since the early 1980s. This sector has provided increased employment and income opportunities to rural communities, particularly those located near urban industrial centers. The sector's share of the rural labor force jumped from 10.3 percent in 1978 to 19.8 percent in 1986. By 1986, it made up 22.6 percent of the peasants' per capita income, a notable gain from a mere 7.0 percent in 1978.

The successful development of the rural nonfarm sector, however, has not translated into more financial subsidies to the agricultural sector. Contrary to the expectations of the central planners, the proportion of the collective nonfarm enterprises' profits that were used to subsidize agriculture actually dropped from 38.5 percent in 1978 to a dismal 6.6 percent in 1984. To make things worse, this decreasing level of subsidy (in both relative and absolute terms) was used to augment peasant incomes rather than to boost investment in agriculture.

Moreover, an increasing number of rural workers and households are concurrently engaged in farm and nonfarm work, and in certain more-developed regions, farming has become a "sideline" business and a secondary income source. Conventional wisdom in the field of development holds that when an increasing number of peasants leave farming for nonfarm work, farmland will be consolidated to yield a higher land:labor ratio and the per capita agricultural productivity will rise. However, evidence from China reveals that many peasants have only nominally left their land. Although many rural workers have taken up nonfarm positions, they have not given up their land. Even when they are willing to sublease their land, they have great difficulties in finding other farmers who are interested in working it.

One major problem is that earnings from rural nonfarm jobs could double or even triple that of full-time farming. Farm product prices were raised in 1979 and 1980 but they have remained unchanged since then. Prices for agricultural inputs such as fertilizer, however, increased continuously through the early 1980s. In other words, the terms of trade have been steadily turned against agriculture after some improvements in 1979 and 1980. An inevitable consequence is that many farmers refuse to subcontract more land from their nonfarm neighbors or even to improve their own land. It makes more economic sense to engage part-time or full-time in the more lucrative rural nonfarm sector than to remain a full-time farmer.

In areas where rural nonfarm activities are highly developed, peasants look upon farming with much less enthusiasm and give it a much lower priority than in those areas where they are less fully developed.

Per capita agricultural productivity has stagnated or declined because peasant households are interested in farming only to assure an adequate food supply for themselves and their livestock. Many rural workers are trying to contract as little responsibility land as the local officials will allow, and they are increasingly disinterested in fulfilling their state grain-procurement obligations. In certain localities, farmland has even been left fallow or abandoned altogether.

China's recent experience with the rural nonfarm sector, therefore, strongly suggests that Chinese policymakers looking for a basis for a decentralized urban-industrial development strategy might further examine agriculture's role as a leading sector for the development of local industries and commerce in rural areas. This requires a new look at the intrinsic nature of the problem of the agricultural sector and, as this analysis would suggest, a commitment to improving the terms of trade for the farm sector.

RURAL-URBAN GAP PERPETUATED

From the standpoint of political economy, the continuing expansion of the rural nonfarm sector has not altered the bifurcated social structure in China, in spite of a steadily changing rural occupational structure. As far as the central planners are concerned, for purposes of economic development and planning, it is necessary for the state to maintain the longstanding bifurcated household registration system. Even though the central planners see the need to resolve the rural surplus labor problem and allow a shift of peasants out of agriculture, they are steadfastly restricting the shift of agricultural population

into the nonagricultural category.

By limiting the size of the nonagricultural population, the state is actually trying to limit its burden of financial subsidies guaranteed to this population. By retaining rural workers in the countryside, the state also hopes to minimize expenditures on housing and other infrastructure in urban areas where the nonagricultural population reside.

Although the inferior economic position of the agricultural population is slightly improved when they are given access to nonfarm earning opportunities, the overall welfare of the peasant-workers is still inferior to that of nonagricultural persons. Compared to full-time farmers, peasant-workers are undisputedly earning a higher income. Peasant-workers are, however, required to maintain their agricultural household status and do not receive commodity grains and other subsidized rations from the state. Moreover, unlike the nonagricultural population, peasant-workers are not guaranteed permanent job security and do not have access to other social and economic benefits enjoyed by state workers.

Allowing the peasants to engage in rural nonfarm activities and to migrate into small towns while preserving their agricultural household status does not, therefore, do much to redress the longstanding rural-urban economic and social gap in China. For the time being, the increase of peasant-workers has actually, in a certain way, reaffirmed the household registration system and has reinforced the fundamental differences between the nonagricultural and the agricultural population.

From the perspective of political economy of socialist societies, an important lesson is that, to a great extent, the fundamental rural-urban differences in China are the results of nonspatial policies. Some Chinese policymakers believe that the proliferation of rural nonfarm enterprises helps reduce rural-urban differences because they make higher nonfarm income available to the peasants. My argument, however, is that the development of spatially dispersed rural nonfarm activities has only a limited ameliorative effect on the rural-urban gap, which is institutionalized to a large extent by a set of nonspatial programs such as the household registration system. Aside from some increased earning opportunities, the inferior social and economic position of the peasants, vis-a-vis the state industrial workers, has remained unchanged.

A DUAL URBAN STRUCTURE

Between 1983 and 1987, the number of designated (i.e. officially urban) towns in China increased almost threefold from about 3,200 to over 10,000. Official figures suggest that the corresponding increase in the population in the newly designated towns has pushed up the de jure urbanization level by 13.1 percent between 1982 and 1986. As a result of this expansion of the town population and a simultaneous growth of the city population, China's de jure urbanization level was doubled in four years, from 20.8 percent in 1982 to 41.4 percent in 1986.

A casual observer may accept these numbers at face value and may even attribute the increase in the number of designated towns to the

successful growth of the rural nonfarm enterprises. An in-depth analysis into the problem of the classification of small towns in China, however, reveals that the post-1983 increase in the number of designated towns should not be taken as a sign of a successful nationwide decentralized urbanization program. The majority of newly designated towns are simply the result of alternations in statistical definitions. The doubling of the de jure national urbanization level from 20.8 percent in 1982 to 41.4 percent in 1986 was primarily the result of a new "town administering village" system and a new "city administering county" system. Both of these systems have included huge numbers of de facto rural residents as part of the official urban population.

Moreover, with some exceptions, the quantitative increase in the number of designated towns is not the result of actual qualitative changes in the demography and economy of the rural areas. Formal designation also does not automatically translate into economic growth. In many parts of China, there is tremendous difficulty in providing capital to finance the construction of small towns. Resources from the state for small town construction are meager. Rural industries and rich peasants have become the two main financial sources for small town construction (Hu Li-sheng, 1987: 45). However, rural industries have only prospered in certain already well-developed regions. The highly uneven economic development levels in China mean that many less-developed regions do not have any resources for town-building activities. The scope of decentralized small town urban growth is basically limited to certain more-developed parts of the country.

Apparently it is financially just as difficult to construct 50,000 small towns as to build 100 large cities to accommodate the surplus rural workers (Zhang Xiu-zhi, 1987: 44; Zhong Ming-xi, 1985: 22). From the perspective of the state, however, there is a real difference between a large city urban growth strategy and a decentralized small towns urbanization policy: Whereas the state will have to finance the building of large cities, the construction of small towns is basically the responsibility of the rural sector. Although peasants are allowed to migrate into towns, they are required to provide their own food supply, employment, and housing. They can become legal town residents, but they are still denied the official nonagricultural household status.

In a sense, the central planners are deliberately extending the dualistic social structure to the national urbanization process. If the current policy is to prevail for the long-run, the decentralized urbanization strategy will in effect create and solidify a dual urban system--with the established, state-financed, network of cities developing independently of an emerging multitude of small towns whose growth is largely supported and constrained by the rural sector.

PROSPECTS OF THE RURAL NONFARM SECTOR

The larger objectives of the rural nonfarm sector were formulated on the basis of certain assumptions about the Chinese economy held by central planners before 1984. The structure and the condition of China's economy is, however, continuously changing under the influence of economic reform measures, and some of these assumptions may no

longer be entirely valid. Understanding how the underlying factors have altered will help us assess the future effectiveness and limitations of the rural nonfarm sector.

Two major assumptions are particularly relevant to this study. The first is the optimistic projection that the rural nonfarm sector would be able to employ 40 percent of the rural workers by the end of this century. The second is the view that structural constraints over rural-to-urban migration will remain effective, at least in the near future.

The first belief, to be sure, is biased because it is influenced by the growth and performance of rural nonfarm activities in one of the highly developed regions--Southern Jiangsu Province. In my analysis of interregional differences, I challenged the validity of this assumption by pointing out the disparities in the economic conditions and the resulting gaps in rural nonfarm development between different provinces. In other words, the effectiveness of the rural nonfarm policy is more or less geographically limited to the already well-developed regions.

Some recently available basic indicators on the operating efficiency of Township Enterprises suggest that the effectiveness of the rural nonfarm sector in job creation may be further hampered (Hu Bi-liang, 1987: 21). The rising costs of raw materials and other inputs, the higher tax rates, and increasing competition in the market, among other factors, have all constrained the long-term expansion of Township Enterprises.

With regard to the second assumption, although the central

government has not relaxed any of the formal controls over rural-to-urban migration, there is nevertheless an increasing number of peasants migrating to the larger cities. As a result of economic reforms, since the early 1980s peasants have moved to and settled in large urban centers. They are now commonly referred to as the "floating population"¹ in the cities.

Most of these migrants are typically engaged in the urban construction industry, as noted earlier, and increasingly in the urban service sector, which is rapidly expanding as a consequence of urban economic reforms. City officials are complaining about the increased burden that the "floating population" has placed on the urban transportation and infrastructure systems. Nevertheless, they also tacitly approve the influx of the migrants because these migrants perform service jobs for the convenience of city residents.

In conclusion, the declining operating efficiency of Township Enterprises and the increasing size of the "floating population" raise the question of whether the rural nonfarm sector is the only viable strategy to resolve specific problems, such as the rural surplus labor problem, and larger societal issues, such as agricultural development and rural underdevelopment. The recent upsurge in rural-to-urban and rural-to-rural migration strongly suggests that interregional migration

1 To be sure, "floating population" refers to both short-term visitors and long-term migrants. Beijing officials estimated that 57.2 percent of that city's "floating population" in 1986 was living in the capital city continuously for periods of more than three months. In Zhengzhou, 63.8 percent of the floating population in 1986 stayed for periods of more than half a year. Interpretations of these figures, however, were not given in the source ("A Summary Report," 1988).

could play a much larger role in the overall economic development policy. The assumption that rural-to-urban migration cannot be relaxed should be reconsidered.

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