

## Subsidies Won't Help China's Rural Communities

By Roy Prosterman  
And Brian Schwarzwald

Is China suffering from overinvestment, and a looming capacity overhang? Much of the answer, which is fraught with significance for both China and the global economy, turns on whether China can narrow the yawning income gap between its increasingly middle-class urban dwellers and the 800 million people living in the countryside. This rural population would dearly love to join the consumer economy, but the great majority of them are too poor to do so; indeed, more than a quarter of them live on less than \$1 a day. Overall, the ratio of urban to rural incomes is now 3.24 to 1, the greatest such disparity since economic reforms began 25 years ago.

Former Premier Zhu Rongji often referred to this urban-rural gap as his "biggest headache," and his successor, Wen Jiabao, has made addressing the gap one of his top priorities. The leadership's immediate prescription for what ails rural China has recently become clear, through the issuance of Central Committee Document No. 1 on Feb. 8. It aims to increase farmers' income through rural-sector programs that will cost an additional 30 billion yuan, or \$3.6 billion, in 2004, bringing Beijing's total funding for rural areas to a record \$18.3 billion. This will be combined with nationwide expansion of pilot programs to reduce farmer taxes by about 40 yuan per capita, which should save farmers around 32 billion yuan.

While it is welcome to see Document No. 1 focus on the problem in rural areas, it is vital to recognize that new central funding and tax relief are not cures for China's rural headache. Indeed, just to bring average per capita rural incomes up to half the level of urban incomes in 2003 would require an annual resource transfer to farmers of 1.323 trillion yuan. The 62 billion yuan represented by the combination of incremental rural funding and tax reductions is less than one twentieth of what would be needed to get halfway to income parity. Even transferring all of China's annual central-government tax revenue to the farmers—just over one trillion yuan—would fall short of what is needed. Any revenue transfer from the center, moreover, is sure to be partly eaten up by "administrative expenses," or literally eaten up by the cadres at the local level.

Thus Document No. 1 represents at best a short-term palliative for the rural-income problem. For a long-term solution, China urgently needs to focus on expanding the economic pie in rural areas. By far the best, and perhaps the only way to achieve this is to mobilize farmers' own enthusiasm to increase and diversify agricultural production. This, in turn, relies on providing China's farmers with the long-term security and marketability of land rights that facilitates more productive and efficient land use. The great majority of Chinese farmers have only tenuous rights, subject to being moved by the local cadres to another piece of land at will, and thus unable to invest in land improvements or many kinds of diversification. Nor have such rights been marketable. In a first important step, a 1998 law created 30-year land rights for farmers. However our research suggests that implementation of that law peaked at 40% of the households we surveyed.

The central government took an even more important step in the process of remedying this fundamental problem by adopting the Rural Land Contracting Law in August 2002. This law, which became effective a year ago this week, reaffirms in far greater detail that all farmers are entitled to 30-year rights that are secure and marketable. In practice, however, little has been done in the past year to extend such rights to more farmers. Three rounds of field interviews conducted by the authors with farmers in seven provinces since March 2003 indicate that awareness of the new rights remains low, and there have been few formal implementation campaigns.

Full implementation of the law would dwarf the impact of the programs that are the subject of Document No. 1. China's own prior experience in land-tenure reform during the initial years after the communists took power, and the experience of land reform in Taiwan in the 1950s, show that large increases in farmer incomes are the likely result. Based on those experiences, Chinese farmers' incomes from agriculture are likely to rise by 25-65% during the first five years after the implementation of the law, contributing an additional 250-670 billion yuan to the rural economy, without draining resources from other sectors of the economy. Ten years after implementation, the benefit could be in the order of 1.5 trillion yuan. Implementation of the law would also transform China's 135 million hectares of arable land into a highly valuable and marketable asset, creating estimated wealth well over 4 trillion yuan for farmers. Instead of short-term palliatives for low farmer incomes, it is time for China to carry through on the cure.

*Mr. Prosterman is professor of law at the University of Washington and president of the Seattle-based Rural Development Institute. Mr. Schwarzwald is the institute's China program manager.*