



*The World's Largest Open Access Agricultural & Applied Economics Digital Library*

**This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.**

**Help ensure our sustainability.**

Give to AgEcon Search

AgEcon Search

<http://ageconsearch.umn.edu>

[aesearch@umn.edu](mailto:aesearch@umn.edu)

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

*No endorsement of AgEcon Search or its fundraising activities by the author(s) of the following work or their employer(s) is intended or implied.*

# Insight into Financial Support for Rural Land Circulation: A Case Study of China Taiwan

SHEN Qi<sup>1\*</sup>, HU Zi-jun<sup>2</sup>

1. Chongqing Academy of Agricultural Sciences, Chongqing 401329, China; 2. Chongqing Operations and Management Department, People's Bank of China, Chongqing 401147, China

**Abstract** Based on the background of the second rural land reform in China Taiwan, we analyzed financial support measures and their effects. It comes to the insight into financial support for rural land circulation in China Taiwan for the new round of rural land reform in China mainland. It is proposed to: (i) put forth effort on rural infrastructure construction with financial special fund as major support and credit fund from policy bank as supplementary support; (ii) improve rural land evaluation, registration and guarantee systems and set up special loan for land circulation, to solve the problem of shortage of fund for farmers purchasing land; (iii) grant operating loans for rural large planting and breeding farmer households, to accelerate land circulation becoming effective; (iv) establish development fund for agriculture, farmers and rural areas, to ensure sustainable input into rural areas.

**Key words** China Taiwan, China mainland, Rural land circulation, Financial support, Insight

Since 1949, Taiwan has undergone three land reforms, which has imposed considerable impact on agricultural, industrial and social development<sup>[1]</sup>. The first land reform implemented a three-step moderate reform scheme, namely, 37.5 per cent rent limitation, sales of public farm land, and land to the tillers. This time of land reform solved the problem of uneven division of rural land ownership. However, with the development of Taiwan economy, especially rapid development of industry and commerce, drawbacks of the first land reform gradually appear, and small and separate agricultural mode of production fails to continue meeting demand of socio-economic development. In this context, Taiwan launched the second land reform in the 1980s, started to turn land parts into a whole, and expanded agricultural operation scale, bringing about the situation of "small landlord and big tenant farmers". This time, the land reform was oriented towards promoting land circulation and expanding operating scale of farms. With strong financial support, this time of land reform made significant achievement in intensive management of agriculture. Promoting rural land circulation is also a key point of the Central Committee of the Communist Party of China and the State Council tackling issues concerning agriculture, farmers and countryside, while enhancing financial support is also one of important contents of the reform of financial system. The Third Plenary Session of the 11th CPC Central Committee of the Communist Party of China clearly decided that farmers can transfer land contractual management rights in the form of subcontracting, hiring out, exchanging, transference, and shareholding cooperation, and de-

velop many types of moderately large-scale operation. In view of similarities between rural land reform in China mainland and these two rural land reforms in China Taiwan, we summed up supplementary measures adopted in financial support of land circulation in Taiwan, hoping to provide reference for land reform in China mainland.

## 1 Background of the second rural land reform in China Taiwan

During 1949 to 1953, China Taiwan carried out the first reform of land system<sup>[2]</sup>, to solve the problem of uneven allocation of rural land rights, turn land parts into a whole, and eliminate the landlord-based economy in rural areas<sup>[3]</sup>. Through this reform, it realized "land to the tiller", farmers' enthusiasm for production was summoned up, farmers' income was rapidly increased and the agriculture won considerable development in China Taiwan, which laid a solid foundation for developing capitalism. However, since the middle and later periods of 1960s, with rapid development of economy in China Taiwan, the first time land reform has also brought about many prominent problems.

In the first place, constant increase in agricultural operating households reduces agricultural operating area and hinders improvement of agricultural productivity. In 1952, there were 680 000 family farms in China Taiwan; in 1975, the figure exceeded 800 000. In 1952, family operating with the area less than 1 hm<sup>2</sup> accounted for 46.4%; in 1975, the proportion increased to 71.42%. In the entire 1970s, the agricultural growth rate of China Taiwan kept only at 3%, which is far lower than the level in the 1950s and the 1960s<sup>[4]</sup>.

In the third place, with increase in farmer households and inheritance of household property, land becomes more fragmented. By December, 1964, the total population of China Tai-

Received: May 12, 2012 Accepted: June 26, 2012

Supported by Soft Science Project of Science and Technology Commission of Chongqing Municipality (cstc2011cx - rkxA011).

\* Corresponding author. E-mail: 15980068@qq.com

wan exceeded 12 million, 5 million more than that in 1949; there were 834 827 farmer households, 213 952 more than that in 1949; average cultivated land reduced to 1.06 hm<sup>2</sup> from 1.39 hm<sup>2</sup> in 1949; the per capita area of cultivated farmland reduced to 0.072 hm<sup>2</sup> from 0.117 hm<sup>2</sup> in 1949<sup>[5]</sup>.

In the third place, both accelerated development of industrialization and constant expansion of urbanization lead to dramatic decrease of cultivated land. Only in 1969 to 1981, 168 000 hm<sup>2</sup> paddy field was used not for farming in China Taiwan. During 1981 to 1990, the paddy field reduced for 26 000 hm<sup>2</sup>.

It is indicated that the background of the second rural land reform in China Taiwan is very similar to that in China mainland. The household contract responsibility system, implemented in China mainland during 1982 to 1985, stimulated farmers' enthusiasm for production, and solved the problem of food and clothing in rural areas. With settlement of food and clothing problem and constant deepening of industrialization and urbanization, drawbacks of small-scale operation start to become prominent.

## 2 Financial support measures of the second rural land reform in China Taiwan and their effects

**2.1 Financial support measures** To get rid of crisis and bring into play important function of agriculture in economic development, China Taiwan carried out a series of agricultural policy adjustment in the 1970s, on the basis of which it launched the second time rural land reform in the 1980s. This time, the land reform was concentrated on promoting rural land circulation, expanding operation scale of farms, and raising agricultural production efficiency. In this time of reform, China Taiwan mainly took following financial support measures.

**2.1.1** Setting up special-purpose loan to support rural infrastructure construction. To improve operability of mechanization and modernization, China Taiwan started building rural infrastructure such as standard rural road, water supply and drainage facilities from the 1970s. In 1973, Taiwan set up the accelerated agricultural construction loan and auxiliary agricultural large-scale operation loan. In 1978, this loan was changed to non-interest fund and allocated by national treasury. It set up the special loan for accelerated rural construction, to support rural infrastructure construction.

**2.1.2** Providing loan and increasing loan amount for farms purchasing land, to help expand farm operation scale. In 1980, China Taiwan promulgated the *Statute for Agricultural Development*, in which Article 26 stipulates that competent agricultural authority should encourage and guide family farms to expand operation scale or conduct large-scale agricultural production in the form of joint operation, entrusted operation and cooperative farms, and raise and allocate fund to help farmer households. As recorded in *The Theory and Practice of Land Reform in the Republic of China*, during 1982 to 1986, China Taiwan allocated a total of 1.7 billion new Taiwan dollars for expanding operation scale of farms and assisting 3 837 farmer households in

purchasing land 1 570 hm<sup>2</sup>.

**2.1.3** Setting up agricultural mechanization fund to push forward agricultural mechanization. With expansion of scale, shortage of farmers' fund will also be aggravated, particularly on the part of purchasing agricultural machinery. Therefore, on the basis of original loan for agricultural machinery, China Taiwan set up agricultural mechanization fund in 1978. Annually, Central Bank of the Republic of China allocates 800 million new Taiwan dollars, Chinamerica Fund allocates 200 million new Taiwan dollars, Farmers Bank of China, Land Bank and Taiwan Cooperative Bank allocate 1 billion new Taiwan dollars, specially used for providing loan for farmers purchasing agricultural machinery. With the help of this fund, farmers can receive low-interest long-term loan when purchasing agricultural machinery. In case of new agricultural machinery, farmers can also obtain subsidy at the 10 to 50% of price of agricultural machinery.

**2.2 Significant effect brought about by the second rural land reform of China Taiwan** By 1987, the second time rural land reform of China Taiwan basically finished. With effective financial support, the development of both land system and agricultural economy strides in to a new historical stage.

**2.2.1** Agricultural production environment and conditions were improved, and infrastructure such as irrigation and water conservancy and road traffic facilities was also improved. Taiwan Farmland Irrigation Association is an organization responsible for establishment and operation management of farmland irrigation and water conservancy works and upgrade and improvement of farmland irrigation and water conservancy facilities. According to the data published by this Association, by 1987, it has had a total of 69 079.454 km irrigation canal, 52.35% higher than that in 1981; it has had 7 013 culverts with an increase of 24% compared with that in 1981.

**2.2.2** Farmer households possessed more and more land and scale of operation was expanded. In 1973, on average, each household possessed 1.02 hm<sup>2</sup> cultivated land; in 1984, the figure increased to 1.12 hm<sup>2</sup>, and in 1986, it increased to 1.15 hm<sup>2</sup><sup>[6]</sup>. During 1982 to 1986, the average cultivated land possessed by farmer households, who received special loan for scale of farm operation, increased to 1.27 hm<sup>2</sup> from 0.86 hectare, with expansion of scale up to 47%.

**2.2.3** Improvement of agricultural mechanization level laid a solid foundation for rural labor transfer. With support of agricultural mechanization fund, the agricultural mechanization level in China Taiwan is rapidly improved, and the level is only second to Japan. The acceleration of agricultural mechanization process promotes effective rural labor transfer and total number of farmer households and agricultural employment population decrease year by year. In 1984, total number of farmer households in China Taiwan was 797 700, 9.25% lower than in 1971; in 1986, the number reduced for 3.33% compared with that in 1984. Besides, in 1988, agricultural employment population in China Taiwan accounted for 13.7% of the total employment volume, dropping 16.8% and 5.8% compared with 1977 and 1980 respectively. In the first half of 1989, the proportion had a

reduction of 12.7%.

**2.2.4 Farmers' income level was raised somewhat and the agricultural economy of China Taiwan received further development.** The second time rural land reform promoted further development of agriculture in China Taiwan. During 1985 to 1988, the average agricultural growth rate of China Taiwan was 1.63%, 0.87 percentage points higher than the average level in the beginning of the 1980s. Meanwhile, farmers' income was also increased. In 1987, the annual income per family reached 303 500 new Taiwan dollars, 28.83% higher than that in 1982.

### 3 Insight into financial support in the second rural land reform

From the experience in China Taiwan, "allowance to rural land circulation" is only a policy condition of large-scale operation of land. Without effective financial support, it is impossible to really realize large-scale operation of agricultural production and industrialization management.

**3.1 Putting forth effort on rural infrastructure construction with financial special fund as major support and credit fund from policy bank as supplementary support** In view of fundamental role of rural infrastructure construction, the state finance should continue allocating special fund for rural infrastructure construction, such as setting up special fund for transformation of farmland irrigation and water conservancy, and special fund for rural road construction, etc. Besides, in consideration of long-term of rural infrastructure, it is proposed to bring into full play policy-related functions of policy-related banks, including Agricultural Development Bank, China Development Bank, etc.

**3.2 Improving rural land evaluation, registration and guarantee systems and set up special loan for land circulation, to solve the problem of shortage of fund for farmers purchasing land** Different from land privatization in China Taiwan, the land in China mainland is collectively owned. Therefore, after the land circulation is permitted, China mainland should firstly improve related systems, including rural land evaluation, registration and guarantee. On the basis of this, special loan is provided for land circulation with mortgage of land contract management right as a major part. For this special loan, different interest ratio is available according to application of land. For example, low interest rate or no interest rate in case of grain production, and high interest rate in case of agricultural production operation.

**3.3 Granting operating loans for rural large planting and breeding farmer households, to accelerate land circulation becoming effective** The experience of China Taiwan indicates that when rural land circulation develops to a certain scale, farmers will have to increase production input in purchasing agricultural production machines and tools, seed, fertilizer, etc, and there will be serious shortage of fund, which is beyond the capacity of petty loan. Therefore, it is recommended

to grant operating loans for rural large planting and breeding farmer households, to satisfy demand of large households for fund in purchasing means of production and production tools. In view of actual situations of rural finance, this loan can be undertaken by rural credit co-operatives, rural commercial banks and post-office savings banks.

### 3.4 Establish development fund for agriculture, farmers and rural areas, to ensure sustainable input into rural areas

It is not possible to solve the issue concerning agriculture, farmers and rural areas in one day. To ensure sustainable input into rural areas, we can learn from experience of China Taiwan. In certain period, the national treasury and central bank allocate certain amount for setting up development fund of agriculture, farmers and rural areas. Also, it is preferred to implement professional operation to provide effective supplement to financial fund and credit fund.

## References

- [1] HUANG ZR. Enlightenments of transferring the land contractual management right in Guangdong: experience from the second land reform in Taiwan Area[J]. Southern Rural, 2009(5): 11–13. (in Chinese).
- [2] XU XQ. Taiwan land reform study[D]. Beijing: Capital Normal University, 2005. (in Chinese).
- [3] LI F. Inspiration of Taiwan land reform[EB/OL]. (2009–2–12) <http://wenku.baidu.com/view/6984c33a87c24028915fc304.html>
- [4] YANG Z, LIANG SL. Experience of agricultural mechanization development in Taiwan, China and its revelation on the mainland[J]. World Agriculture, 2006(8): 21–23. (in Chinese).
- [5] WANG XP. Current rural land system in Taiwan Area[J]. Journal of Anhui Vocational College of Electronics, 2008(2): 114–116. (in Chinese).
- [6] ZENG ZY, CUI YZ. Enlightenments of Taiwan rural land reform on solving agricultural problems in China[J]. Productivity Research, 2005(9): 151–153. (in Chinese).
- [7] ZHANG GM, CHENG GC, ZHOU MF. Development strategies of Guangxi agricultural logistics in the context of rural land circulation[J]. Journal of Anhui Agricultural Sciences, 2011,39(36): 22615–22616,22632. (in Chinese).
- [8] LI CG. Countermeasures and investigation of land circulation in less developed agricultural area of Henan Province, China[J]. Asian Agricultural Research, 2010,2(4): 61–64.
- [9] PENG X, WEN Q. Study on land circulation and agricultural industrialization in plain farming area[J]. Journal of Anhui Agricultural Sciences, 2011,39(22): 13719–13721,13738. (in Chinese).
- [10] YAO T. Research on the impact of land transfer on county agricultural industrialized development[J]. Asian Agricultural Research, 2010,2(11): 48–53,59.
- [11] TIAN XY, LU Q, ZHOU J, et al. Study on the differences of peasant household land circulation under different conditions[J]. Journal of Anhui Agricultural Sciences, 2011,39(25): 15636–15637. (in Chinese).
- [12] CHEN Y, RUAN M, QIANG CW. Protection of collective rights of rural members in the process of land transfer under shareholding cooperative systems[J]. Asian Agricultural Research, 2010,2(7): 54–59.