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Development of township enterprise and alleviation of the employment problem in rural China

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ABSTRACT

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In contrast to the situation in western countries at the time of their industrialization, it has been and still is impossible for rural labour in China to move to the urban sector for employment. For this and other reasons, including shortage of arable land and population growth, lack of employment opportunities continues to be a serious problem in rural China. This article discusses the development of township enterprise in rural areas and its role in the alleviation of China's rural employment problem. It is suggested that the further development of township enterprise should be an important element of China's development strategy.

1. INTRODUCTION

As compared to 1950 when her population was 552 million of whom 461 million were classed as rural, China's population is now more than 1100 million of whom some 900 million are classified as rural (State Statistical Bureau, 1990). In consequence, the average area of arable land per rural person has fallen from 3.27 mu (0.22 ha) in 1950 to some 1.59 mu (0.11 ha) in 1990 (State Statistical Bureau, China Rural Statistical Yearbook, various issues; China Statistical Yearbook, various issues). In such circumstances, it is not unexpected that Chinese observers such as Mei (1986), Cong (1987),

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Cong and Zhang (1987), Anon. (1988), Chen (1988) and Wu and Hu (1989) are agreed that there exists a large number of able-bodied persons in rural areas who are surplus to agriculture's labour requirements.

Because of China's strongly enforced restriction on rural-urban migration, rural people have had virtually no opportunity to enter urban areas for employment (Chen, 1985; Du, 1987; Zheng, Chen and Jiang, 1987). However, in recent years, the rapid development of township enterprise in rural areas has provided local employment opportunities for a significant number of these people while also promoting the development of both rural areas and the national economy (Cong, 1987; Zhang, 1987). This approach of using local township enterprise to absorb surplus rural labour within a strongly enforced policy of rural-urban separation contrasts markedly with the development approaches used in other countries either currently or in the past. For this reason this paper focuses on the development of township enterprise in China and its contribution to the alleviation of the rural employment problem through the absorption of rural labour. The approach is largely descriptive and broad in its focus. Analytical assessment on a national or regional (provincial) basis relative to such labour surplus models as those of Lewis (1954), Fei and Ranis (1964), Jorgenson (1967) and others – as recently provided for India's semi-arid tropics by Walker and Ryan (1990) – must await the availability of more detailed data on such matters as the marginal productivity of labour and the extent of disguised unemployment, the rate of technical change and seasonality in employment. For present purposes, the judgement of the Chinese observers cited above, together with the extremely high population pressure on arable land and the rapidity and extent to which the rural workforce has availed itself of non-agricultural employment opportunities, are accepted as *prima-facie* evidence that China has a significant surplus of farm labour.

2. FORMATION AND DEVELOPMENT OF TOWNSHIP ENTERPRISE

A township enterprise is defined as any business within a rural area employing rural people which is owned by: (1) a people's commune – the highest level of local organization in rural areas; (2) a farm production brigade; (3) a farm production team; (4) a number of farm households; or (5) an individual farm household. Each township enterprise has its own independent accounting system, obligation to pay tax and legal personality.

Township enterprise emerged in China in the mid-1950s. It experienced a period of rapid expansion in the late 1950s and, due to political factors and changes in the national economy, a shrinking during the first half of the 1960s. After the mid-1960s, township enterprise recovered gradually

until the introduction of China's economic reforms late in 1978. Since then, but especially since 1984, it has grown rapidly to the extent that in 1988 it provided work for 24% of the total rural workforce in employment.

2.1 *Initial formation (1953–59)*

In 1953, the Communist Party of China (CPC) launched a movement for agricultural cooperation in rural China after completion of the nationwide land reform program in 1952. More than 10 million farmers who produced commercial handicrafts in the slack season, as well as professional craftsmen in rural areas, joined agricultural producer cooperatives. Through the efforts of these people, some farm tool-making and repair plants, farm product-processing shops and the like appeared which, at that time, were treated as subsidiary production units (or sideline activities) attached to agricultural producer cooperatives. According to statistics collected at the end of 1957, gross annual output by such enterprises amounted to 2.3 thousand million yuan (Zhang, 1985).

After the establishment of people's communes in 1958 as part of the government's program of enforced collectivization, commune-run industry expanded quickly under the influence of the Great Leap Forward program of 1958–59. By the end of 1958, the gross output of such enterprises had increased to 6 thousand million yuan. By the end of 1959, industrial enterprises run by agricultural communes numbered 700 000. The workers engaged in these enterprises totalled 18 million while the gross annual output was some 10 thousand million yuan (Zhang, 1985; Cong, 1987).

2.2 *Setback and reverse (1960–65)*

Many of the commune-run enterprises established during the Great Leap Forward of 1958–59 were based not on a realistic economic basis but on the whim of local leaders. Most of these enterprises had difficulties in surviving. Furthermore, over the period 1959–61 China suffered the worst famine of the century with some 30 million deaths. In part this was due to adverse weather but mainly it was caused by mistakes in central planning due to inflated grain production figures provided by ambitious cadres in support of agricultural collectivization (Drèze and Sen, 1990). Believing there was a massive grain surplus in the country, China's leaders ordered the acreage of rice to be reduced and state provisioning from communes to be increased. The resultant famine and its associated setback to the economy, combined with the problems inherent in many of the enterprises themselves, led to a sharp decline in commune-run industry (Zhang, 1985). By the end of 1961, such industrial enterprises numbered only 45 000 and

TABLE 1

Number and value of gross output of township enterprise 1957–65

Year	No. of enterprises (×1000)	Value of gross output (million ¥)
1957	n.a.	2300
1958	n.a.	6000
1959	700	10000
1960	117	1980
1961	45	1980
1962	25	790
1963	11	420
1964	11	460
1965	12	530

¥, yuan.

n.a., not available.

Sources: Zhang (1985, p. 17) and Bureau of Township Enterprise Management (1986, p. 321).

gross output had decreased dramatically to less than 2 thousand million yuan.

In 1962, the Central Committee of the CPC and the State Council stipulated, in their *Decision on the Development of Rural Subsidiary Production*, that “people’s communes and production brigades generally are not expected to run enterprises” (Anon., 1977, p. 199). Thus, commune-run industry declined further. As shown in Table 1, in 1962, the number of enterprises decreased to 25 000, and gross output fell to 790 million yuan. By 1963, commune-run industrial enterprises numbered only 11 000 and gross output had fallen to 420 million yuan. In 1963 the national economy began to recover. The rural economy, however, having suffered considerably from political ‘campaigns’, mistakes in central planning and natural disaster, did not recover so quickly. Agricultural production units were directed to concentrate on the production of grain in order to ensure food supplies. As a result, little attention was directed to the development of commune-run enterprise and there was little opportunity for such industry to re-emerge at that time although, as Table 1 shows, there was very slight growth between 1963 and 1965.

2.3 Slow development period (1966–78)

The Cultural Revolution began in 1966 and lasted for ten years. Many urban enterprises stopped production in order to ‘carry out revolution’.

TABLE 2

Value of gross output of township enterprise 1971–77

Year	Value of gross output (million ¥)
1971	10 200
1972	12 300
1973	14 100
1974	16 700
1975	21 300
1976	27 200
1977	39 100

Sources: Zhang (1985, p. 18) and Bureau of Township Enterprise Management (1986, p. 321).

Market supply was very short and the economy suffered severe decline. As reflected by the fact that no statistics on township enterprise are available for the period 1966–70, and only their value of gross output (but not their number) is known for the years 1971–77 (Table 2), little attention was paid by government authorities to what went on in the countryside during this period. Communes and production brigades again had the chance to establish industrial enterprises. These enterprises relied mainly on those skilled workers who were forcibly transferred or fled to the countryside from cities as the Cultural Revolution spread.

In the early 1970s, so as to speed up agricultural mechanization, the government encouraged agricultural communes and brigades to run a number of agricultural machinery workshops and farm machine-making and repair plants. These constituted a network across the countryside and helped to establish the basis of a machinery industry run by people's communes and production brigades. In the late 1960s and early 1970s they also began to run a variety of other enterprises, assisted by contacts between educated urban youth sent to work in the countryside and their parents working in the cities. Commune- and brigade-run enterprise gradually recovered with gross output rising from 530 million yuan in 1965 (Table 1) to 10 200 million yuan in 1971 (Table 2) and thence to 49 100 million yuan in 1978 (Table 3).

2.4 *Rapid development period (1979 to date)*

The Third Plenary Session of the Eleventh Central Committee of the CPC, held in December 1978, approved *Regulations Regarding the Rural*

TABLE 3

Number, value of gross output and number of employees of township enterprise 1978–88

Year ^a	No. of enterprises (million)	Value of gross output (000 million ¥)	No. of employees (million)
1978 (1)	1.52	49.10	28.26
1979 (1)	1.48	54.30	29.09
1980 (1)	1.43	65.70	29.99
1981 (1)	1.34	72.90	29.70
1982 (1)	1.36	85.30	31.13
1983 (1)	1.35	101.70	32.35
1984 (1)	1.65	143.30	38.48
(2)	6.07	171.00	52.08
1985 (1)	1.57	198.80	41.52
(2)	12.22	273.20	69.79
1986 (1)	1.52	245.87	43.92
(2)	15.15	354.09	79.37
1987 (1)	1.58	332.07	47.02
(2)	17.45	474.31	87.76
1988 (1)	1.59	436.27	48.94
(2)	18.88	649.57	95.45

^a Line (1) indicates the statistics for township enterprise owned and run by people's communes and production brigades. Since 1984, township enterprise owned and run by farm production teams, a number of farm households or individual farm households has also been allowed. The statistics for all types of township enterprise are shown in line (2). Sources: Bureau of Township Enterprise Management, Statistics of Township Enterprise, various issues; Editorial Department of China Agriculture Yearbook, various issues; and State Statistical Bureau, China Statistical Yearbook, various issues.

Affairs of the People's Commune: A Draft for Trial Implementation in which people's communes were exhorted "to actively develop commune- and brigade-run enterprises" (Anon., 1979a, p. 169). This reversed the policy established in 1962 (see Section 2.2 above). In July 1979 the State Council promulgated a circular *Regulations on Some Issues in Developing Commune- and Brigade-run Enterprise: A Draft for Trial Implementation*. These regulations strongly emphasized the significant role commune- and brigade-run enterprises were seen to have in the strengthening of the rural economy (Anon., 1979b, pp. 258–259). Following closely, the Fourth Plenary Session of the Eleventh Central Committee of the CPC, held in September 1979, led to the manifesto *Decisions on Some Issues in Speeding Up the Development of Agriculture* which made it clear that, under official policy, rural China had to take the "road of balanced growth of agriculture, industry and commerce" (Anon., 1979c). It was also pointed out that commune- and brigade-run enterprises needed to be substantially expanded so as to raise

the proportion of their value of gross output in the total product of the rural sector. In March 1984, 'commune- and brigade-run enterprise' was renamed as 'township enterprise' by virtue of a document issued by the Central Committee of the CPC and the State Council (Anon., 1986). Most importantly, this official document made it legally possible for individuals or groups of individuals to own and run township enterprises as an extension of the production responsibility system, thereby providing farmers with the opportunity for non-agricultural entrepreneurial activities. Township enterprise thus received strong impetus to its development (Wang, 1986). Since 1984, the Central Committee of the CPC and the State Council have also issued a series of documents guiding the development of township enterprise. These official documents further affirmed the status and role of township enterprise in rural and national development. Subsequently, the authorities implemented a series of measures supporting the development of township enterprise, including the establishment of the Bureau of Township Enterprise Management headquartered in Beijing, under the Ministry of Agriculture, Animal Husbandry and Fishery (Bureau of Township Enterprise Management, Collection of Documents on Policies for Township Enterprise, various volumes).

In consequence of these government initiatives, and particularly beginning in 1984, township enterprise entered a new period of rapid development as evidenced by the data of Table 3. By 1988, the number of township enterprises had grown to nearly 19 million with a total of 95 million employees and a gross output of 650 000 million yuan equal to 58% of China's 'total rural product of society' and 24% of the 'total product of society' (Bureau of Township Enterprise Management, 1989).

3. REASONS FOR DEVELOPMENT OF TOWNSHIP ENTERPRISE

The major reasons why township enterprise has emerged and developed in rural China probably lie in the administrative separation of the rural and urban sectors, the pressure for movement of agricultural labour into non-agricultural activities, the opportunity to supply specialized market demands, and the opportunity for small-scale industry. Some elaboration of these influences follows.

3.1 *Administrative separation between the rural and urban sectors*

Because of China's large rural population, the implementation of a Soviet-style strategy of aiming to develop state industry first and then to modernize agriculture would have required a huge amount of finance sourced from state industry. However, the low rate of return on industrial

investment limited the amount of finance potentially available from urban industry to support the modernization of China's agriculture (Chen, 1985). Moreover, few employment opportunities would be created for farmers by the development of urban industry. There were two reasons for this (Chen, 1985). First, during the 1950s and 1960s, capital formation and the use of industrial technology proceeded at a much higher rate in China's industrial sector than had occurred in the now-developed western countries at the time of their industrial revolutions. Employment opportunities provided by the development of the industrial sector were not as high as were created during the more labour-intensive European industrial revolution. Second, labour was abundant in urban areas to the extent that the development of urban industry barely met the requirements for increased employment of city residents, let alone offer scope for the absorption of workers from rural areas.

Because of these considerations, China has largely followed a path of separate or independent development of her rural and urban sectors. As an element of this strategy, strong administrative measures were implemented to separate rural from urban areas so as to prevent rural-urban migration and ensure that available employment went to city residents in order to maintain their income at a reasonable level. In consequence, during the late 1950s and 1960s, quite separate rural and urban economic systems evolved in China (Du, 1987). Because of the implementation of a strict household-register system, there was no possibility for workers from the rural sector to enter the urban economic system. Also, because strict capital controls were instituted between the city and the countryside, it was nearly impossible for surplus capital accumulated in agriculture to be invested in the urban areas where the economic return was relatively high (Zheng, Chen and Jiang, 1987). This surplus capital could only be used inside the agricultural sector. However, the large difference in return between capital invested in the agricultural and non-agricultural sectors, and the great disparity in income between farmers and city workers (State Statistical Bureau, 1987), strongly motivated farmers to start non-agricultural enterprises in rural areas. Such township enterprise became an attractive way for farmers to increase their income.

It would seem, therefore, that a major reason for the emergence of township enterprise in rural China was the enforced separation of the rural and urban sectors and in particular the administrative separation of their factor markets. Statistics bear this out. During the first Chinese five-year plan (1953–1957), when separation was not so strong, there was very little development of township enterprise. Later, as the administrative separation between the urban and rural sectors was better enforced and systematized, township enterprise began to develop (Du, 1987).

3.2 Pressure for movement of agricultural labour into non-agricultural activities

As noted in Section 1, the average area of arable land per rural person in China fell from 0.22 ha in 1950 to some 0.11 ha in 1990. This alone could be expected to cause farm work opportunities to diminish. The situation, however, was exacerbated by the rural economic reforms introduced by the Chinese government in late 1978. These were aimed at raising agricultural production through the provision of better incentives to farmers, including the production responsibility system (Anon., 1979a and 1979c). Implementation of these policies did indeed enhance farmers' profit incentives with the result that 'rights' to work land productively were strongly exercised to the disadvantage of those lacking such 'rights'. In consequence, the amount of surplus labour in rural areas increased and was estimated by Chen (1988) to have reached a figure of 150 million unemployed at the end of 1987. More recently available data for 1987 give an estimate of 133 million rural unemployed based on a rural population of 856 million of whom 523 million were of working age (16 to 60 years) while only 390 million (made up of 88 million in township enterprise and 302 million in agriculture and other activity) were in employment (Ministry of Agriculture, 1989, pp. 8–13; State Statistical Bureau, China Statistical Yearbook, 1989, pp. 94–96). This estimate of 133 million unemployed, however, is probably low as the employment statistics include persons still working beyond the age of 60 and count as employed any persons who work at least three months in the year (State Statistical Bureau, China Statistical Yearbook, 1987, pp. 801–802).

New patterns of rural economic development were needed urgently to provide this surplus labour with employment opportunities. These opportunities had to be found in rural areas, migration to urban areas being impossible because doing away with the administrative separation of the rural and urban sectors had not been included in the 1978 reforms. As indicated by the data of Table 3, as soon as it became allowable for them to do so in 1984, farmers met this situation, with the blessing of the government, by developing local farmer-owned township enterprise as a means of investment giving both improved income and work opportunities.

3.3 Opportunity to supply specialized market demands

In addition to the Han people (who constitute more than 90% of the population), China is a country with more than 50 significant minorities. The cultures of these minorities are quite diverse, as are those even within the Han majority. Different cultural customs produce different demands

for specialized products. It has been difficult for urban industry to meet the full range of these needs. Moreover, not only are China's rural areas vast, but they are also very scattered across natural geographical barriers. Very poor transport and communication systems have also made it difficult for distant enterprises to meet farmers' demands for small batches of specialized products suited to the production features of specific areas. Meeting these specialized requirements has provided the opportunity for different kinds of township enterprise to become established.

3.4 *Opportunity for small-scale industry*

Since the economic reforms of 1978, medium- and small-scale enterprises have had the opportunity to provide inputs for larger enterprises within the Chinese industrial system. Medium- and small-scale factories in rural areas have the particular advantage of plentiful labour and cheap sites. Further, some rural areas have special advantages in terms of location and natural resources. These conditions have likewise enhanced the possibilities for township enterprise in many rural areas.

4. CONTRIBUTION OF TOWNSHIP ENTERPRISE TO ALLEVIATION OF THE RURAL EMPLOYMENT PROBLEM

Within the constraint of rural-urban separation, the development of township enterprise has provided a means of absorbing labour from China's agricultural sector. On average, an additional 6.7 million rural workers obtained employment in township enterprise each year between 1978 and 1988 (the latest year for which data are available), during which period – as shown in Table 3 – the number of people employed in township enterprise rose from 28.3 million to 95.4 million. However, the absorptive capacity of township enterprise varies greatly across China on a provincial basis. In Table 4, China's 30 provinces are listed in order of the percentage of each province's total rural workforce employed in township enterprise in 1988. This data shows the development of township enterprise to be very unevenly spread with its contribution to the absorption of rural labour in different provinces ranging from 5% to 67% with a figure of 24% for China as a whole.

5. POTENTIAL OF TOWNSHIP ENTERPRISE TO ABSORB SURPLUS AGRICULTURAL LABOUR

It is certain that the movement of labour surplus to agricultural requirements into non-agricultural activity will be a formidable task in the future

TABLE 4

Production and employment statistics of township enterprise and total rural labour force by province in 1988

Province	Value of gross output of TE ^a (million ¥)	No. of rural workers in employment (million)	No. of employees in TE (million)	Proportion of total rural labour force employed in TE (%)
Shanghai	23 186	2.55	1.71	67
Beijing	13 955	1.89	1.09	58
Tianjin	12 791	1.72	0.88	51
Liaoning	32 044	8.28	3.49	42
Jiangsu	107 841	27.37	9.79	36
Heilongjiang	11 558	4.86	1.64	34
Hebei	41 626	22.26	7.03	32
Shandong	70 614	32.27	9.50	29
Fujian	16 414	9.57	2.75	29
Guangdong	47 632	22.49	6.45	29
Jilin	10 976	5.71	1.62	28
Shanxi	13 316	8.43	2.38	28
Henan	39 824	32.12	8.81	27
Zhejiang	60 717	19.88	5.40	27
Hubei	24 615	17.33	4.07	23
Anhui	20 950	21.67	4.75	22
Shaanxi	11 002	11.33	2.48	22
Inner Mongolia	3 554	5.20	1.00	19
Jiangxi	9 729	13.18	2.29	17
Hunan	19 924	24.65	4.27	17
Ningxai	1 072	1.33	0.23	17
Xinjiang	1 771	2.82	0.46	16
Gansu	4 711	7.82	1.26	16
Hainan	1 126	1.81	0.27	15
Sichuan	33 948	46.82	6.96	15
Qinghai	452	1.28	0.15	12
Guangxi	6 052	16.78	1.96	12
Guizhou	3 301	12.67	1.25	10
Yunnan	4 728	15.66	1.47	9
Tibet	137	0.89	0.04	5
All China	649 566	400.67	95.45	24

^a TE, township enterprise. In 1988, the exchange rate was 3.722 ¥ per US\$.

Source: Editorial Department of China Agricultural Yearbook 1989, pp. 241, 340, 346.

development of rural China. As noted in Section 3.2, it has been estimated that there were at least 150 million unemployed workers in rural areas by the end of 1987 (Chen, 1988). Such surplus labour might be employed in

three broad ways: by the non-agricultural sector in rural areas, by city enterprise, or by overseas labour markets.

How feasible is each of these alternatives? Not many rural workers can be expected to be absorbed by overseas labour markets. Insofar as there are already employment problems in urban areas, it is also questionable as to how many rural workers could be employed by city enterprises, even if rural-urban migration were to be permitted (Yang, 1989). Township enterprise will therefore have to continue to play a major role in absorbing surplus agricultural labour and this, from a policy point of view, must be seen as one of the most important reasons for its further development.

Provided that government policy and the socio-economic environment remain favourable for the development of township enterprise, the employment of 150 million workers by township enterprise by the end of the century would seem to be achievable. This would require the absorption of an additional 4.6 million workers on average annually from 1988 to 2000, some 2.1 million less than the annual rate of increase between 1978 and 1988. Stated another way, if – as forecast by Mei (1986) – agriculture will provide employment for at most 250 million in the year 2000, the employment of 150 million in township enterprise would require the proportion of the rural workforce employed in township enterprise to reach 30% compared with its level of 24% in 1988 (Table 4). To achieve employment for more than 150 million in township enterprise, however, would appear to be difficult. Currently, China is facing significant economic problems. This has again made the development of township enterprise difficult due to shortage of capital, energy and raw materials. In turn, this has had an adverse effect on the employment opportunities offered by township enterprise. Recently, it has been widely reported that a number of workers previously employed in township enterprise have had to find other employment due to a downturn in the business of township enterprise (Anon., 1989; Cao, 1989; Wu and Hu, 1989; Yang, 1989). In particular, Cao (1989) has estimated that about 10 million out of the 95 million employees of township enterprise in 1988 had to hunt for new employment in 1989.

Mei (1986) has forecast that, by the year 2000, China will have a total rural labour supply of 490 million persons of whom at most 250 million will be employed in the agricultural sector and 150 million in township enterprise so that there would be an unemployed surplus of 90 million in the rural sector. Using more recent data, others have made less optimistic forecasts. The *People's Daily* (Anon., 1988), for example, has suggested that there could be 150 or even 200 million unemployed workers in rural areas by the year 2000. This would seem to be a more realistic estimate in that (a) if China's population is conservatively taken as 1250 million in 2000 and 80% of this is rural, the rural population would be 1000 million (b)

implying, if the proportion of those aged 16 to 60 is 60%, an available rural workforce of 600 million so that (c) if 250 million were employed in agriculture and 150 million in township enterprise (d) there would be 200 million unemployed.

It thus seems unreasonable to expect that township enterprise could absorb all the surplus labour likely to be available in the rural sector by the year 2000. Therefore, while township enterprise should be encouraged so as to absorb as much as possible of the labour force surplus to agricultural requirements, it seems imperative that other initiatives will need to be taken in order to alleviate China's ongoing rural employment problem.

6. CONCLUSIONS

Without rural prosperity, China can not be prosperous. However, rural prosperity depends first on the transfer of a considerable labour force, surplus to agricultural requirements, into non-agricultural activities. How can this surplus labour be employed most effectively? In the context of China's social and economic conditions, it has been and is still impossible for large numbers of rural workers to move to urban areas for employment. This contrasts with the situation in western countries at the time of their industrialization. The rapid development of township enterprise has, to a significant degree, enabled surplus labour in China's agricultural sector to find non-agricultural employment while remaining rural-based. This has been and continues to be an important method of absorbing surplus rural labour, but one which differs from that used by many other countries.

Continuing rapid development of township enterprise would undoubtedly contribute to the further movement of China's agricultural labour force into non-agricultural activities. To this end the further development of township enterprise should continue to be an important element of government policy so as to ensure its potential role in the alleviation of China's rural employment problem.

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