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DEVELOPMENT OF TOWNSHIP ENTERPRISE IN CHINA

Z.Y. Zhou, J.L. Dillon and G.H. Wan

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Department of Agricultural Economics and Business Management, University of New England, Armidale, N.S.W. 2351, Australia.

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1. INTRODUCTION

In the modern history of China, there have always been some handicraft and workshop activities run by individual farmers. Scattered across her vast rural areas, these artisans constituted the historical base of rustic industry in China. After the foundation of the People's Republic of China in 1949, rustic industry entered a development period. From 1958, when the people's communes were formed in rural areas, to the beginning of the 1980s, many industrial enterprises run by communes emerged on the base of original rustic industry. Over this period, a spate of papers which considered, practically and theoretically, various issues relating to the development of rustic industry were published in magazines and newspapers.

At first, some articles used such terms as "commune-run industry" or "rustic (or rural) industry". Later, because these industrial enterprises were mainly run by communes and brigades, the notion "commune and brigade-run industry" appeared. Up to the late 1970s, communes and brigades ran not only some industrial enterprises, but also agricultural enterprises, commerce, transport services, building and construction

enterprises, etc. It was considered that the notion "commune and brigade-run industry" was unable to include all these activities. Therefore, the notion "commune and brigade-run enterprise" was adopted. This was expected to be able to encompass all kinds of enterprises run by communes and brigades as mentioned above, besides industrial enterprises (Gu and Yan 1985).

Since the introduction of the production responsibility system in rural China at the end of 1978, more surplus labor and capital have existed in the countryside. The changes in economic conditions require, economically, the mobility and the effective recombination of the production factors, such as labor, capital and technology, in a wider economic range of activities. Thus, a situation developed where multi-economic elements, i.e., not only collective economy but also individuals, ran enterprises (Wang 1988). All these enterprises are now classified into the following five categories: (1) Xiang-run enterprise; (2) Chun-run enterprise (Xiang and Chun are now the two levels of root administrative and economic organizations in the rural areas; before 1979, they were called people's commune and production brigade respectively); (3) Enterprises run jointly by some farmers; (4) Enterprises run jointly by various economic elements; and (5) Enterprises run by individuals. It is obvious that the notion "commune and brigade-run enterprise" is not an adequate name

for these various enterprises. Hence, in March of 1984, all these enterprises were uniformly named "township enterprise" by virtue of a document issued by the Central Committee of the Communist Party of China (CPC) (Anon. 1988, p. 438).

Township enterprise is thus made up of the enterprises run by the five types of economic organizations or elements listed above. Township enterprise, generally speaking, has its own stable organization, workplace, production facilities and workers. It has its own independent accounting system, obligation of paying tax, and legal personality. It is a relatively stable entity.

The business range of township enterprise involves primary, secondary and tertiary industry. Hence, township enterprise could be further broadly divided into the following categories: (1) township agricultural enterprise, (2) township industrial enterprise, (3) township building and construction enterprise, (4) township transport enterprise and (5) township tertiary enterprise.

Township enterprise, in a short time, especially in recent years, has developed vigorously. Up to the end of 1985, the total number of township enterprise units was 12.225 million. The gross output produced by township enterprise amounted to 273.23 billion yuan (BTEM 1986b, p. 9). Township enterprises are playing a more and more significant role in promoting the prosperity of the rural

economy and in promoting the social and economic progress of China. Therefore, such attention is currently being paid by Chinese authorities to the development of township enterprise. In this paper, after brief consideration of the formation and development of township enterprise, it is intended to examine why township enterprise could develop vigorously in rural China, and to appraise the possible role of township enterprise in promoting the prosperity of China's society and economy. The paper concludes with recommendations and suggestions for further development of township enterprise.

2. FORMATION AND DEVELOPMENT OF TOWNSHIP ENTERPRISE

In 1953, the movement for agricultural cooperation began in rural China. As the movement went further, more than 18 million farmers, who produced handicrafts for money in the farming slack season, and the scattered rural professional craftsmen, joined the cooperatives. Through the efforts of these people, some farm tool-making and repair plants, farm product processing shops and the like appeared. According to statistics collected at the end of 1957, gross output by such enterprises amounted to 2.3 billion Chinese yuan. After the establishment of the people's communes in 1958, commune-run enterprise expanded quickly. At the end of the same year, the gross output by commune-run enterprise was 6 billion

yuan. The workers engaged in these enterprises amounted to 18 million (BTM 1988a, p. 321).

In the early 1960s, China suffered from natural disaster. Agricultural production was severely set back. For the purpose of adjusting and developing agricultural production, the government decided that communes and brigades should not be encouraged to run enterprises. Thus, the development of commune and brigade-run enterprise was discontinued (see Table 1).

After 1966, communes and brigades once again began to have a number of industrial enterprises. This was done by relying mainly on those skilled workers transferred to the countryside from cities at the beginning of the 1960s. After entering the 1970s, so as to speed up agricultural mechanization, the government encouraged and supported the 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 communes and brigades. Afterwards, assisted by the contacts between the educated urban youth working in the countryside and their parents working in the cities, and with the help of city enterprises, communes and brigades began to run many enterprises. By so doing, commune and brigade-run enterprise gradually recovered and developed. However, because of the frequent impact coming from "leftist

Table 1 Basic Statistics of Township Enterprise 1969 - 1985

Year	No. of Enterprises (个)	Gross Output (元)
1969	117	1989
1981	45	1989
1982	25	788
1983	11	420
1984	11	400
1985	12	539

Source: The Editorial Department of China Agriculture Yearbook (1986).

Table 2 Basic Statistics of Township Enterprise 1971 - 1976

Year	Gross Output (元)	Industrial Gross Output (元)
1971	10288	7088
1972	12388	9488
1973	14188	10388
1974	16788	12988
1975	21388	16988
1976	27288	24388

Source: The Editorial Department of China Agriculture Yearbook (1986).

elements", commune and brigade-run enterprise did not develop quickly. The gross output shows only a yearly average increase of several billion yuan (see Table 2).

After the Third Plenary Session of the Eleventh Central Committee of the CPC held in December 1978, the Central Committee of the CPC, in its Decisions on Some Problems in Speeding Up the Development of Agriculture, made it clear that rural China had to take the road of comprehensive development of agriculture, industry, and commerce. It was also pointed out that, in order to construct small towns in rural areas, commune and brigade-run enterprise needed to be expanded. Later, the Central Committee of the CPC and the State Council issued a series of documents guiding the development of township enterprise (as the commune and brigade-run enterprise was renamed in 1984). These documents affirmed the status and role of township enterprise in developing the national economy. Subsequently, a series of measures supporting the development of township enterprise was adopted, including the establishment of the Bureau of Township Enterprise Management (BTEM) headquartered in Beijing (BTEM 1986a, p. 322). Thereafter, township enterprise entered a new period of quick development. The basic situation of the development of township enterprise in China from 1978-1985 is presented in Tables 3 and 4.

Table 3 Basic Statistics of Township Enterprises 1978 - 1985

Variable	Unit	1978	1979	1980	1981	1982	1983	1984	1985
Number	a	1.92	1.48	1.43	1.34	1.36	1.33	1.63	1.57
	b							6.87	6.19
	c								12.22
Staff	a	28.26	29.04	29.99	29.78	31.13	32.33	38.49	41.32
	b							32.83	33.24
	c								69.79
Gross Output	a	49.18	54.38	65.78	72.98	83.38	101.78	143.58	198.68
	b							171.88	245.58
	c								273.28
Gross Revenue	a	43.18	49.18	59.68	67.88	77.28	92.98	126.88	182.78
	b							153.78	226.38
	c								256.68
Tax	a	2.28	2.38	2.68	3.48	4.98	5.58	7.98	18.98
	b							9.18	12.68
	c								13.78
Net Profit	a	8.68	10.38	11.98	11.38	11.68	11.98	12.98	17.18
	b							18.78	23.88
	c								28.78
Fixed Assets	a	22.98	28.88	32.68	37.48	42.98	47.68	57.58	79.18
	b								
	c								
Working Capital	a	9.58	13.38	17.78	28.18	23.18	26.38	39.98	59.88

Sources: The editorial Department of China Agriculture Book (1986).

Notes: The statistical standard changed in both 1984 and 1985. Before 1984, only the statistics of the enterprises in the two levels of Liang and Chen were collected, which are shown in line (a) of each variable. Since 1984, the government has encouraged farmers to run various kinds of enterprises. Therefore, in 1984, statistics of enterprises run by economic blocs or groups formed by farmers, economic blocs or groups formed by different economic elements, or individuals were included; these are shown in line (b). In 1985, the basis of inclusion for individual enterprise changed; the statistics of new individual enterprises were included. These are indicated in line (c).

Table 4 Output of Main Products by Township Enterprise 1978 - 1986

Variable	Unit	1978	1979	1980	1981	1982	1983	1984	1985	1986
Electricity Generated	k w	2871.00	2898.00	3376.00	4021.00	4774.00	5647.00	5912.00	7864.00	8956.00
Coal	mt	90.73	181.40	187.11	221.1	137.76	161.29	202.21	227.79	280.07
Chemical Fertilizer	1000 t	378.00	1873.00	887.00	-	1119.29	1496.30	1376.40	679.30	780.00
Agricultural Chemicals	1000 t	95.00	41.00	34.20	34.90	49.70	49.90	53.10	59.40	-
Parts of Farm Machine	mp	450.40	129.00	234.51	-	257.45	511.34	494.79	505.09	-
Farming Tools	mp	374.14	533.59	489.53	343.91	349.31	334.00	381.09	464.29	495.37
Coconut	mt	3.32	5.40	4.70	9.10	12.22	15.29	19.36	29.05	37.69
Limestone	mt	34.95	34.77	32.24	-	32.17	40.62	107.53	91.33	221.52
Bricks	bp	73.83	-	110.43	124.05	132.39	170.51	202.71	250.47	344.60

Source: The Editorial Department of China Agriculture Yearbook (1979 - 1987).

From Table 3, it can be seen that as a result of government encouragement to farmers to run enterprises, especially on an individual basis, since 1984, the number of township enterprise units increased dramatically. By the end of 1985, there were 12.22 million. Of these, the enterprises run by (1) Xiang numbered 8.42 million; by (2) Chun, 1.15 million; by (3) economic blocs or groups formed by farmers, 1.12 million; by (4) economic blocs or groups formed by different economic elements, 0.28 million; and by (5) individuals, 9.25 million. The enterprises run by individuals accounted for the major number.

Due to the rapid increase in the units' number and quick development of township enterprise, its strength was consequently magnified, and its output of products increased (see Tables 3 and 4). Table 4 indicates that the output of most of the main products has been ever-increasing.

3. CAUSES OF DEVELOPMENT OF TOWNSHIP ENTERPRISE

3.1 Separation between Urban and Rural Economic Systems

After the foundation of New China, China followed Soviet Russian economic development patterns for nearly 30 years. It can be seen - from Stalin's expositions on the price scissors in the exchange of industrial products for

agricultural products - that, 50 to 60 years ago, the Soviet government established an economic development pattern such as intentionally to milk agriculture for the development of state-owned urban industry in the first instance. The intention was to follow this phase by drawing labor from agriculture into industry as industrial labor needs increased. As a result, agriculture would be forced to become less labor intensive and would be given technical and financial assistance by the then developed urban industries. Rural development would thus, it was thought, eventually catch up with urban development. This paper will not discuss what the Soviet farmers gained or lost from this development pattern. However, in terms of its aims, it has had some success since the beginning of the 1960s insofar as the Soviet rural labor force has decreased from 42 percent in 1960 to 14 percent in 1982 (Chen 1985).

Although China followed the Soviet economic growth pattern, she did not achieve the same success as the Soviet Union in changing the structure of the labor force and population distribution. This resulted from many causes, an important one of which was undoubtedly the fact that China had a much larger rural population than Soviet Union.

Because of China's huge rural population, if the Soviet strategy to develop state industry first and then to develop agriculture was to be effective in China, the necessary finance (which would have had to be drawn from state

industry) would have been huge. However, due to the lower industrial investment return caused by China's original economic system, only a little finance was available from the development of city industry to support agriculture. Moreover, the employment opportunity for farmers created by the development of urban industry was very limited. The following two causes might explain why this was so, at least to some degree. Firstly, the intensity of capital formation in China's industrial sectors in the 1950s and 1960s was much higher than that of the now-developed Western countries at the time of their industrial revolutions. Thus industrial technology has developed quickly in China and employment opportunities provided by the development of the industrial sector have not been as high as that created by the industrial sector in the European industrial revolution which was more labor intensive. Furthermore, as the intensity of capital-using techniques rose, the labor force needed per unit of capital was reducing. Secondly, in many cities in China, the rate of natural increase in population was high. The industrial reserve army in urban areas was very abundant. So much was this so that the development of urban industry failed to meet the requirements for increased employment of city residents, let alone to absorb the rural labor surplus.

As a result, in the process of economic development, not only did China follow the growth pattern of separating industrial and agricultural development, but also she had to

institute measures for separating urban from rural areas which were much more strict than those employed by the Soviet government. This was to prevent large numbers of farmers or their family members from entering the cities and to ensure that available employment went to city residents in order to maintain their income at a reasonable level. In consequence, quite separate urban and rural economic systems developed in China. Reflecting this, beginning in the early 1960s, economic exchange between rural and urban areas was largely severed. Because a strict household-register system was implemented, there was no possibility for those farmers who shifted from agricultural production 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 enter the urban economic system in order to find investment opportunities where the economic return was relatively high. This surplus capital could only be used inside the agricultural sector (Zheng et al. 1987). However, the large difference in returns between capital invested in the agricultural and the industrial sectors, and the great disparity in income between farmers and city workers, strongly motivated farmers to start industrial enterprises in rural areas. These enterprises, called township enterprises, became an attractive way for farmers to realize their wishes. Furthermore, it was a very effective and important way to reorganize rural production structures under the condition of rural and urban separation.

It can be seen, therefore, that the emergence of township enterprises in rural China resulted from the highly separate nature of the urban and rural economic systems and in particular from the administrative severance of factor markets between the urban and rural areas. Statistics indicate that, during the first Chinese five-year plan (1953-1957), rural industry did not develop quickly because the severance was not so strong. Even in Jiangsu Province, where township enterprise is now more developed than anywhere else, rural industry did not increase but declined somewhat during that period. After 1958, as the rural and urban economic separation was better enforced and systematized, township enterprise began to develop (Du 1987).

It should be pointed out, however, that further development of township enterprise in the long run necessarily requires an end to urban and rural separation in order to allow the equilibrating movement of resources on a rational basis and to give equal opportunity for economic development in both rural and urban areas.

3.2 Pressure for Movement of Surplus Farm Labor into Non-farming Rural Sectors

As the Chinese rural population and agricultural labor force increased, the arable land per rural laborer decreased gradually. It is easy to understand that, in such a

traditional rural economy based only on agriculture, the potential for increase in labor productivity and land productivity is not unlimited under given technology. Under such circumstances, the farmers suffered from underemployment as too many laborers were crowded onto the limited arable land. Therefore, new patterns of rural economic development were needed urgently in order to provide this surplus labor with employment opportunities. The development of township enterprise was the response of farmers in rural China. Generally speaking, the extent of township enterprise in different areas is inversely proportional to the area of farmland per person and is directly related to the surplus labor force in the traditional agricultural sector. This, to some degree, explains the economic process of the development of township enterprise (see Table 5). The most basic economic function of township enterprises is to provide employment opportunities for surplus farm labor. It should be recognized that this is the only way to solve the employment problem inside the separated rural economic system.

3.3 Need for Diversification of Market Demand

China is a country with more than 50 significant minorities in addition to the majority Han people who constitute more than 90 percent of the population. The cultures of the minorities and even within the Han majority are quite diversified. Different cultural customs produce

Table 5 The Relationship between the Development of Township Enterprise and the Farmland per Capita and Average Number of Family Members Employed in Township Enterprises per Household (1984)

Province	Gross Output by Township Enterprise (a)	Farmland Per Capita			Average No. of Family Members Employed in TE Per Household (e)
		Total (b)	Cultivated land (c)	Willy land (d)	
	(a 元)	(亩)	(亩)	(亩)	
Jiangsu	24300	1.45	1.45	0.63	0.81
Shandong	19510	1.60	1.65	0.82	0.10
Zhejiang	14160	1.62	0.87	0.75	0.33
Guangdong	10070	1.41	1.06	0.35	0.12
Sichuan	7160	1.39	1.13	0.32	0.06
Liaoning	6070	3.92	2.76	0.76	0.19
Shanghai	4810	1.82	1.82	0.90	1.25
Hubei	4730	2.22	2.10	0.12	0.09
Hunan	4420	1.04	1.60	0.16	0.04
Hubei	5710	3.00	1.57	1.51	0.11
Hunan	5300	1.09	1.17	0.72	0.06
Shanxi	4700	3.44	3.14	0.30	0.07
Beijing	3000	0.99	0.92	0.17	0.65
Anhui	3230	2.81	1.71	0.30	0.00
Fujian	2970	3.01	1.09	1.92	0.00
Tianjing	2770	1.60	1.66	0.02	0.66
Jiangxi	2560	3.00	1.40	1.60	0.00
Heilongjiang	2210	5.90	5.03	0.07	0.06
Jilin	2100	3.15	4.00	0.35	0.03
Henan	2130	3.06	2.52	0.54	0.03
Yunnan	1490	4.23	1.66	2.57	0.02
Guangxi	1230	1.64	1.03	0.56	0.03
Inner Mongolia	760	3.62	3.18	0.44	0.03
Inner Mongolia	670	6.22	6.00	0.22	0.03
Guizhou	620	1.90	1.10	0.40	0.03
Xinjiang	560	3.39	3.30	0.01	0.03
Ningxia	190	3.05	3.67	0.10	0.03
Qinghai	100	3.07	2.96	0.13	0.01
National Total	143300	2.39	2.05	0.54	0.13

Source: The Editorial Department of China Agriculture Yearbook (1985).

Notes: 1. 1 hectare = 15 mu.

2. Figures in columns (b) to (d) are sample inference data.

3. The general trend can be found. Because the development of township enterprise is also such related with the economic development level and population density in any province, the relationship between figures in column (a) and in columns (b) and (c) are not fully consistent as described. Provinces with more than 2500 million yuan of gross output by township enterprise are mostly located in the eastern or middle part of China, where the provinces are more populous. Provinces with less than 2500 million yuan of gross output are mainly located in the western part of China, which are now thought as relatively less-developed areas with less population.

different demands for products. China's vast rural and urban areas therefore constitute a huge market with diversified demands. As far as the current industrial level in China is concerned, it is difficult for urban industry to meet these diversified needs. Not only are China's rural areas vast, but they are also very scattered between natural geographical barriers. Hence, it is much more difficult for city enterprises to meet farmers' demands for small batches of highly specialized products which suit the production features of a specific area, and likewise to provide special articles for daily use in some areas or for local minority groups. Meeting these specialized requirements provides a possibility for different kinds of township enterprises to gain a foothold. In turn, these township enterprises take all opportunities they can to provide products meeting different special needs.

3.4 Need for Improvement in the Industrial System

China's industrial system has been gradually developed, with great effort, since 1949. It is not so perfect; there are many gaps and chinks. What is needed at this stage is a lot of medium and small-scale enterprises to serve the larger enterprises. People in the cities have been trying to take this opportunity and many people who had lost their job have started small factories to process parts for larger enterprises. However, in many aspects, these small urban factories are still not fully able to meet the

requirements. Similar medium and small-scale enterprises or factories in rural areas have the advantage of plentiful labor and cheap sites. Moreover, some rural areas have special advantages in terms of geographical conditions, natural resources, location etc. Thus, this also provides the preconditions and possibilities for farmers to run township enterprises in the rural areas.

In the foregoing discussion, some causes for the emergence of township enterprises were explored. There is, however, a vital factor affecting the strength of township enterprises. This is the policy factor. Although they have strong desires to run their own enterprises, it is very difficult or impossible for farmers to realize their desires if policy does not allow them to operate non-farming businesses or if the tax burden is so heavy that little capital can be accumulated in rural areas. After the Third Plenary Session of the Eleventh Central Committee of the CPC in 1978, which resulted in the successful reform of the rural economic system, the raising of agricultural product prices, and the policy of encouragement for farmers to run their own enterprises, farmers have taken advantage of the favorable political and economic conditions to realize their wishes. Thus, farmers have gained the possibility of developing and expanding township enterprises (see Table 3).

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4. SIGNIFICANT ROLE OF TOWNSHIP ENTERPRISE IN PROMOTING SOCIO-ECONOMIC DEVELOPMENT

Although the history of the development of township enterprise in rural China is not long, and although it has suffered from several setbacks due to economic and political causes, the fact is that it is now developing vigorously. Especially since 1978, practical experience has shown that the development of township enterprise has played an important role in promoting the development of China's society and economy in terms of the development of (a) rural society, economy, culture and ideology; (b) industrialization; and (c) the national economy.

4.1 Development of Rural Society, Economy, Culture and Ideology

The development of township enterprise has changed the traditional rural economic structure and become an important contributor to the rural economy. The proportion of rural gross output attributed to township enterprise increased from 26 percent in 1965 to 44 percent in 1985. Likewise, the proportion of rural gross output from the secondary and tertiary industries of township enterprise increased from 25.8 percent in 1969 to 43 percent in 1985 (Ministry of Agriculture, Animal Husbandry and Fishery (MLAHF) and State Planning Commission (SPC) 1987, p. 158). Due to the development of township enterprise, the traditional rural

economic structure involving only agriculture is being broken. A new economic structure involving significant industry and commerce as well as agriculture is being formed.

In their development process, township enterprises have provided greatly increased amounts of capital for agricultural modernization and forcefully promoted the development of agricultural production. Statistics indicate that, during the sixth five-year plan (1981-1985), township enterprise supplied agricultural production with about 10 billion yuan, which was three times more than the investment in agriculture, animal husbandry and fisheries supplied by the state (BTEM 1986a, p. 323). Because of the powerful financial support from township enterprise, agricultural production conditions have been greatly improved. Therefore, in spite of circumstances where the farming labor force decreased year by year, national production of grain increased by 19.1 percent from 1981 to 1985. Likewise, cotton production increased by 50 percent, oilseed by over 100 percent, and the production of other agricultural products also increased by significant amounts (BTEM 1986a, p. 323).

The development of township enterprise has opened up an important workplace for absorbing surplus labor from the farming sector. In 1985, the number of people engaged in township enterprise amounted to 89.78 million as

compared to 28.26 million in 1978. On average, more than five million rural laborers surplus to agricultural requirements were employed in township enterprises every year between 1978 and 1985. Up to now, township enterprises have absorbed one fifth of the rural labor force, which is about 40 percent of the surplus rural labor force (BTEH 1986a, p. 322).

The development of township enterprise has increased farmers' income and has become an important way for all farmers to attain a higher standard of living. Farmers' income has been greatly increased over a short period of time. The people engaged in township enterprises get wage income, which is usually higher than that earned by farmers working in the field. However, those farmers who do not work in township enterprises can also indirectly benefit from the profits of township enterprises. By various mechanisms, township enterprises divide part of their profit with the farmers who do not work in township enterprises. During the sixth five-year-plan (1981 - 1985), the farmers received, directly and indirectly, about 100 billion yuan from township enterprises. On average, this was more than 100 yuan per rural person. Distributed income per capita in the whole rural area was greatly increased, with the income received directly from township enterprises accounting for 54 percent of this increase. In some counties and Xiang of coastal provinces, along with three large cities (Beijing, Tianjing and Shanghai), more than 50 percent of farmers'

income came from township enterprises. For some of them, it was as high as 80 or 90 percent (BTEM 1986a, p. 328).

The development of township enterprise also plays a role in promoting the growth of small towns in sparsely settled rural areas. The development of township enterprise in a Xiang or Chun gives an impetus to the development of relevant industries such as transportation and service facilities etc. Subsequently, the development of the economy, and the concentration of the population, bring about the development of culture, education, health services and so on. As all this is superimposed on traditional rural markets, new economic and cultural centers are formed and new towns appear. Official statistics indicate that, due to the development of township enterprise, the number of small towns in rural China increased by 150 percent between 1960 and 1985 (BTEM 1986a, p. 325).

Not only did the development of township enterprise provide impetus for the growth of the rural economy, it also provided new ideologies. What is particularly worthy of mention is the development of new ideologies amongst farmers. Traditional ideologies with a history of several thousand years are being revised. Today, the working style, living style and social psychology are everchanging. Thus, the feudal patriarchal ideology which has dominated Chinese people's thinking and behavior for several thousands of years is being modified. The traditional social perspective is being replaced by more modern economic ideologies.

Farmers and others have become willing to place themselves in the midst of increasingly intense competition with its associated risks. All this is producing a very great motivating force for the society and economy of rural China to develop quickly.

4.2 Development of Industrialization

Since their emergence, township enterprises in rural China have contributed significantly to the establishment of the industrial system. In fact, they have become an important and essential component of the industrial system. Many township enterprises have become important suppliers to the large industrial plants in urban areas, or have become an important link in the chain of large industrial business groups. Most of these kinds of township enterprises are an extension of the industrial sectors headquartered in urban areas. The technologies and equipment employed in these township enterprises are generally supplied by city enterprises. Some of them are engaged in subcontractor production or the production of spares and parts for city enterprises. According to official statistics, about 50 percent of township machinery enterprises surrounding the three big cities of Beijing, Tianjing and Shanghai and in the two provinces of Jiangsu and Zhejiang serve large city enterprises (MAAHF and SPC 1987, p. 157; BTEM 1986a, p. 325).

The development of township enterprise is also helping to change the traditional city-based location pattern of industry and helping to build up a new type of urban-rural relationship. Nowadays, township enterprises can be found all over the country. By and large, there are enterprises in every Xiang and every Chun (BTEM 1986a, p. 322). This makes it possible to utilize, effectively and reasonably, different resources in different areas and to reduce the wastage of limited resources. To great degree, this also promotes the rationalization of industrial location and accelerates the progress of industrialization.

Not only is the development of township enterprise changing and rationalizing traditional industrial location, but also it is conducive to establishing a new kind of urban-rural relationship. Township enterprise affects cities by way of the supply of all kinds of services. The influence of city enterprises on the countryside occurs by way of cooperation with township enterprises in supplying capital, equipment, and technology. Thus, the strict separation between urban and rural markets is being broken and new economic relations are developing rapidly between urban and rural areas. This will help to form a new type of social and economic relationship integrating urban and rural areas, and between industry and agriculture. This integration will be to the mutual benefit of both urban and rural people.

4.3 Development of the National Economy

The role played by township enterprise in the Chinese economy has been widely recognized. In fact, it has become an integral part of the national economy. In 1985, the gross output of township enterprise amounted to 273.2 billion yuan, which was 18.8 percent of the social gross output, and was equivalent to the entire social gross output in 1986. The gross output of township industrial enterprises was 182.7 billion yuan in 1985, which amounted to 20 percent of the total gross output by China's industrial enterprises. The output of some products by township enterprises has amounted to a substantial proportion of national output. For example, in 1985, coal output by township enterprises amounted to 26 percent of national output, clothes about 50 percent, and construction materials over 50 percent (NAAHF and SPC 1987, p. 157).

In recent years, township enterprise has contributed significantly to fiscal revenue while fiscal expenditure of the government has decreased in rural areas. During the sixth five-year plan (1981 - 1985), the accumulated tax paid by the township enterprise was 36.8 billion yuan, with an average annual growth rate of 39.8 percent. Of this, the tax paid by the two levels of township enterprises in Xiang and Chun amounted to 32.6 billion yuan or 89 percent of the total tax paid by township enterprises (see Table 3). Thus

the contribution from township enterprise has become an important component of government income.

As well, township enterprises have borne a considerable part of expenditure in the rural areas which should have been covered by state finance. About 20 to 30 percent of the profit after tax of township enterprise was spent on rural culture, education, sanitation, sports and other public welfare activities, and some on rural administration (HAAHF and SPC 1987, pp. 157-58; BTEM 1986a, p. 323).

The significant role of township enterprise has been explored in the foregoing discussion. It should be noted, however, that this does not mean that township enterprise is necessarily better than the large urban enterprises in all aspects. Undoubtedly, large enterprises have their own advantages, e.g., theoretically, they can enjoy returns to scale etc. But, under the current level of industrial management in China, large enterprises are not always managed as efficiently as most township enterprises. Nor, due to difficulties of transport and communication, do they have the market advantages often held by township enterprises.

5. EXISTING PROBLEMS AND RECOMMENDATIONS FOR SOLVING THESE PROBLEMS

Township enterprise has some notable achievements. People have begun to recognize the significant role played

by township enterprise in promoting China's social and economic development (Chen 1985; Lu 1986; Du 1987; Zheng et al. 1987). However, there are still some problems and difficulties in the development of township enterprise which need to be overcome as soon as possible. In general, the equipment and technologies employed in township enterprises are relatively backward. The quality of some products is not always good. Some township enterprises lack management capacity and generate an unsatisfactory economic return. The expansion of township enterprise in some regions is occurring blindly due to lack of information. Environmental pollution caused by some township enterprises, industrial accidents due to lack of adequate safety measures, and the low level of workers' skills, are also of concern (Su 1987). The legal status of most township enterprises is obscure with the result that they are likely to have profits or property sequestered by other agencies (Jiang 1986). Relevant measures should therefore be applied to solve these problems and difficulties. Some recommendations and suggestions are given below.

5.1 Strengthen the Macro Management of Township Enterprise

The management departments at different levels (i.e., national, provincial, city or county) should pay more attention to strategic development planning of township enterprise. They should work out practicable and feasible

development plans and strategies to suit local conditions. These management departments should also help township enterprises to enhance their management, to improve the quality of their products, and to raise their economic return. For the development of township enterprise, the state should mainly point out the desired direction of development, make relevant policies to ensure fairness of opportunity and enact necessary laws with the aim of providing general guidance for the development of township enterprise rather than following a command policy of telling township enterprises what should be produced or what should not be produced.

5.2 Make Some Policies Supporting the Development of Township Enterprise

Regulations and acts relevant to the development of township enterprise should be promulgated. Some fundamental policies on the development of township enterprise should be fixed by law in order to ensure the legal rights of township enterprise. Tax policies should be worked out to suit the different situations in order to support effectively those desired enterprises which need support, especially the new enterprises. Credit policy should be in favor of those enterprises which play a more significant role. All this should be done, not to the extent of subsidizing township enterprises, but to the extent of removing impediments still remaining from China's pre-1978 economic policy framework.

5.3 Centralize Township Enterprise in terms of Location, and Locate Township Enterprise Rationally

When initiating township enterprises, attention should be paid to centralizing them in terms of location. Usually, they could be relatively centralized in small towns. This would be conducive to the efficient provision of energy, transportation, communication facilities, product sales and raw material supply. The construction of infrastructure, such as storage facilities, water supply and drainage will be facilitated. It would also be helpful for the construction of small towns themselves. Moreover, this would also be conducive to the management of township enterprise and to guiding its development.

The location and development of township enterprises should be well coordinated with the location and development of the national industrial system. Township enterprises should be developed enthusiastically and energetically, but with due consideration given for local economic and social conditions. In coastal and other developed areas, attention should be mainly put to developing export products, goods required by large urban enterprises, or goods which are relatively strongly demanded. Efforts should be made to improve product quality, to enhance the efficiency and effectiveness of enterprises, and to increase the economic rate of return.

In those areas where the development of township

enterprise has been reasonably successful but not as fast as hoped, attention should be given to running the existing enterprises well, while at the same time starting new enterprises for the processing of agricultural products and by-products, as well as tertiary industry. The objective should be to make full use of local resource advantages when developing new products and industries.

5.4 Develop Horizontal Economic and Technical Exchange and Cooperation among Township Enterprises

Experience indicates that the development of horizontal economic and technical exchange and cooperation among township enterprises is helpful to solve some of the problems and difficulties that they face. It has become a very effective way for expanding and strengthening the township enterprise movement itself, and for its further development (Anon. 1987; Wang 1987). Therefore, government administrative departments should try to create, enthusiastically, all favorable conditions for township enterprises' horizontal cooperation. The restrictions applied to contact between different industries, administrative areas and enterprise ownership should be broken. All kinds of effective ways should be taken, on the basis of equity, to organize and promote horizontal economic and technical exchange and cooperation among township enterprises for the mutual benefit of all.

5.5 Upgrade Technology and Promote Technical Progress

Technological innovation is, in a sense, a key factor in whether township enterprise can develop quickly and healthily. It should be taken as the point of departure for technological reform and development of township enterprise that those technologies under consideration should be able:

- * to develop those products in strong demand;
- * to improve the quality of products;
- * to save raw materials, fuel and energy;
- * to utilize resources efficiently;
- * to decrease environmental pollution;
- * to lessen the intensity of labor;
- * to improve working conditions; and
- * to ensure safe production.

The technological reform and development of township enterprises may be undertaken in cooperation with large urban enterprises, institutes, universities and colleges. This will assist technological transfer so that more advanced science and technologies can be introduced into township enterprises. For those township enterprises with a sound basis, foreign advanced technologies may also be introduced to equip the enterprises for growth.

5.8 Improve Internal Management of Township Enterprise

Township enterprises should make the improvement of product quality a central task, raising the economic rate of return as an enterprise goal. Thus, much effort should be devoted to improving internal economic management. Relevant management systems should be established. Some basic areas of management such as the provision of basic statistics, audits, standardization, and quality control should also be established as soon as possible. Township enterprise should try to practice overall quality control by establishing an inspection system at different levels of production.

6. SUMMARY

Without rural prosperity, China can not be prosperous. However, rural prosperity firstly depends on the transition of a considerable surplus rural labor force from farming into non-farming activities. How can this surplus labor be employed effectively? It has been proved that it was impossible for a large number of Chinese farmers to enter urban areas as happened in Western countries at the time of their industrial revolutions. From the rapid development of township enterprise, a way has been found which will enable surplus laborers in the farming sector to be transferred into non-farming activity while remaining rural based. That is, the surplus labor force in the farming-sector can be employed in non-farming sectors which are run by farmers

themselves inside the rural areas, rather than this surplus labor force pouring into urban areas. This is a special way of reducing the size of the agricultural labor force which is different from that of many other countries. Apparently, for a country with a large rural population, the rapid development of township enterprise not only provides employment opportunities for surplus rural labor and not only provides a better way for farmers to increase their standard of living, but also plays an important historical role in promoting the development of the national economy and the society as a whole. Due to the development of township enterprise, the strategic shift of the agricultural labor force into non-farming sectors will be conducive to forming a crisscross socioeconomic network of rural areas, small towns, and medium and large cities. Furthermore, it will help to realize urban-rural market integration, and help to bring about a prosperous society in China.

Township enterprises are playing a significant role in promoting the development of the society and economy of China. However, there exist some problems and difficulties in the development of township enterprise. These problems and difficulties should be solved quickly to ensure the healthy development of township enterprise and to enhance its role in the process of China's modernization.

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