

## **TOWNSHIP AND VILLAGE ENTERPRISES IN CHINA'S SUSTAINABLE DEVELOPMENT IN CHINA**

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## Summary

Township and village enterprises (TVE) have been playing an important role in China's economic development, especially in rural economic development. TVE development was a result of rural economic reform and has experienced five stages since its start in 1978. TVE has contributed greatly to rural development both in economic and social fields by alleviating rural employment pressure and lifting farmers' income. TVE has also contributed greatly to economic institutional reform and establishing a new market-oriented enterprise system. On the other hand, TVE development has resulted in severe environmental problems both in rural areas and urban suburbs. TVE development will face challenges from resource scarcity, environmental protection, economic structural adjustment, rural employment and other factors. Institutional, technical, economic and managerial measures will be taken to ensure sustainable development of TVE. Nevertheless, TVE will still play an important role in China's economic development and social progress, and will bring a new revolution in economic and social development.

## 1. Review of TVE Development in China

China's rural industry started in the 1950s. In the years before 1978, when the Chinese government adopted the policy of rural reforms, the rural industry had only experienced limited development. Since 1978 China has conducted rural reforms characterized by implementation of a household responsibility system in agricultural production and liberalization of rural markets. This has brought great opportunities to the development of rural industry.

- First, the farmers gained the rights to make their own decisions; this enabled them to conduct business activities beyond agricultural production.
- Second, the rural reforms have accelerated the development of agricultural production and farmers' income, which provided a necessary base for

non-agricultural businesses.

- Third, the rural reforms greatly increased the agricultural productivity and released a large number of rural labor forces from agricultural production.

With the persistence of many restrictions preventing farmers from migrating and finding permanent works in the cities, the rural industry became the best choice for farmers to make a better use of their resources and increase their income. As a matter of fact, the year 1978 marked a turning point for a rapid and sustained development of China's rural industry. To put it more clearly, due to the own natures of the rural industry and also the macroeconomic situation, the development of rural industry can be divided into several periods (see Table 1).

Year	Number of TVE (million)	Workers in TVE (million)	GDP by TVE (billion Yuan RMB)
1978	1.52	28.26	13.3
1979	1.48	29.09	14.8
1980	1.42	29.99	17.7
1981	1.33	29.69	19.6
1982	1.34	31.13	23.0
1983	6.06	32.35	27.4
1984	12.25	52.08	46.3
1985	12.25	69.79	73.6
1986	15.15	79.37	95.6
1987	17.50	88.05	128.6
1988	18.88	95.45	175.4
1989	18.68	93.66	247.2
1990	18.50	92.64	536.5
1991	19.07	96.09	655.0
1992	20.79	150.81	928.4
1993	23.21	112.78	783.4
1994	24.95	120.17	1150.0
1995	22.03	128.61	1459.5
1996	23.36	135.08	1765.9
1997	20.15	130.50	2074.0

Source: Bureau of TVE, Ministry of Agriculture, Journal of China's TVE, Issue 10, 1998.

Table 1: The growth of TVE in China

### 1.1. Primary period (1979-1983)

This is a period when the household responsibility system was widely implemented and the markets of most agricultural products were opened. When farmers realized that non-agricultural sectors could help them raise their income and realize full employment, and these activities were encouraged by the government, they began to take an active part in various industrial and service businesses. So this period witnessed a rapid development of the rural industry.

In 1978, the total employment of rural industry was 28.27 million; its GNP was 49.3 million Yuan RMB, and the total profits and taxes generated were 11 billion Yuan RMB.

By 1983, the total employment of rural industry reached 32.35 million, the GNP reached 100.8 billion Yuan RMB, and the total profits and taxes reached 17.7 billion Yuan RMB. These were 14.4%, 104.5% and 60.9% higher than the equivalent figures in 1978, respectively.

### **1.2. Rapid growth period (1984-1988)**

This period was marked by a new policy encouraging the development of private and joint venture enterprises as well as enterprises run by communes and villages. It was also in this year that the rural industry formally gained its name of Township-and-Village Enterprises (TVE). TVE were used to cover the enterprises ventured and run by farmers at township, village, cooperative and private levels. The businesses of TVE include agriculture, industry, commerce, construction, transportation and service.

During this period, a number of preferential policies were introduced to accelerate the development of TVE. By 1988, the total number of TVE reached 18.88 million, the total employment of TVE was 95.46 million, and the gross income of TVE was 423.2 billion Yuan RMB. The average annual increase rates of the four years were 52.8%, 4.5% and 60.9% higher than the 1978 figures, respectively.

### **1.3. Structural adjustment period (1989-1991)**

This was the period of China's major economic adjustment. After years of rapid economic development, serious structural problems emerged in this period. So the central government strengthened its control over the national economy and accelerated the process of economic structural adjustment.

As a result of this, loans for TVE were depressed and many new construction projects were cut. A large number of TVE with low efficiency and heavy pollution were closed down. This caused the average growth rate of TVE in this period to decrease by 42% compared with the previous period from 1984 to 1988. The numbers of TVE and the total employment in TVE actually experienced successive decreases in 1989 and 1990. Although the economic structural adjustment caused many difficulties for TVE, this was really a blessing in disguise. To overcome the macroeconomic difficulties, TVEs had to strengthen their management, improve the quality of their products, adopt more advanced technologies and try to explore overseas markets. As a result of this adjustment, the internal structure of TVE was greatly improved and most TVEs became more competitive. This laid a solid foundation for the further development of TVE.

### **1.4. Overall improvement and rapid growth period (1992-1994)**

After years of slow or even negative growth, the development of TVE once again gained a strong momentum from 1992. The period 1992 to 1994 was the second peak in the development of TVE. A major cause of this achievement was that the Chinese government reaffirmed the importance of TVE in the national economy and reiterated that the development of TVE was consistent with the socialist system. This removed the doubts by some local officials in developing TVE. Policy measures were taken to create

a better environment for the development of TVE. At the same time, the structural adjustment and improvement of competitiveness which had started in the previous period continued in this period. More and more attention was paid to product quality improvement and technological progress. It was also in this period that a number of large and medium sized TVE and TVE groups were built through merger and acquisition. This was a remarkable change in the development of TVE. The annual increase in the rates of gross production and profit of TVE were 68.5% and 67.4% respectively in the years from 1992 to 1994. The productivity and efficiency of the TVE also improved greatly in this period.

### **1.5. Moderate and stable development period (from and after 1995)**

The development of TVE entered a moderate and stable period in 1995. The growth rate was lower than before, but still remained at a reasonable level. Although deeply affected by the Asian financial crisis, the growth rate of TVE in 1998 was still as high as 17.8%. Other important things in TVE development in this period include the adoption of the Township and Village Enterprise Law (1996) and the accelerated progress in implementation of the national East and West Cooperation Program of TVE. The adoption and enforcement of the Township and Village Enterprise Law has improved the administration and regulation of the government and thus provided a more stable and preferential policy environment for the development of TVE. The national East and West Cooperation Program was made by the central government to strengthen the cooperation between the East and the West in developing their TVE. This program was first introduced in 1993, but came into full operation in this period. Many TVE managers and technicians from the West were trained in the East. A large number of new technologies were introduced to the TVE in the West. Further, the central government made some preferential policies, such as low interest rate and tax reduction, to accelerate the growth of TVE in the West. Now a more balanced and coordinated development of TVE between the West and the East is beginning to materialize in China.

## **2. The Increasing Importance of TVE in China**

TVE were first established mainly to increase the income of farmers. But with their unexpected rapid development, the contributions of TVE can be seen in almost every aspect of the economy. As a matter of fact, TVE have become important players in China's economic and social development.

### **2.1. An important component of the national economy**

After two decades of rapid development, TVE has assumed an important place in the national economy. The GDP of TVE reached 2074 billion Yuan (US\$ 249.9 billion) in 1997, which accounted for 27.7% of the national GDP. The taxes paid by TVE totaled 152.6 billion Yuan (US\$ 18.4 billion), 20.4% of the national total. Now the activities of TVE cover almost all sectors of the economy, and the products of TVE have taken a large share of the economy in many fields. The productions of TVE have taken a share of 40% for coal, 40% for concrete, 43% for food and drinks, and 80% for clothes in the total economy. Of all exports, one third comes from TVE.

	1990		1995		1996		1997	
	TVE	share(%)	TVE	share(%)	TVE	share(%)	TVE	share(%)
Total value added (billion Yuan RMB)	250.4	14.2	1459.5	25.3	1765.9	26.0	2074.0	27.7
Industrial value added (billion Yuan RMB)	185.5	27.1	1080.4	43.7	1262.8	44.2	1503.7	47.3
Taxes (billion Yuan RMB)	27.5	9.7	128.0	24.9	153.6	25.4	152.6	20.4
Exports(US\$ billion)	8.0	12.9	50.2	33.7	53.9	35.7	84.7	36.1

Source: Bureau of TVE, Ministry of Agriculture, Journal of China's TVE, Issue No. 10, 1998.

Table 2. The changing share of TVE in the national economy

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His main Publication: Many articles and books were published in Chinese and English. Several articles were awarded by the Ministry of Agriculture. These works covered the fields of agricultural development, policy reforms, rural development and international trade.