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## **Toward a harmonious countryside: rural development survey results of the People's Republic of China**

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Asian Development Bank

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## ADB Economics Working Paper Series



### Toward a Harmonious Countryside: Rural Development Survey Results of the People's Republic of China

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Tun Lin

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# **Toward a Harmonious Countryside: Rural Development Survey Results of the People's Republic of China**

**Tun Lin**  
August 2010

Tun Lin is Natural Resources Economist in the East Asia Department, Asian Development Bank (ADB). The author would like to thank ADB colleagues including Yi Jiang, Raymond Renfro, Takeshi Ueda, Paul Vandenberg, and Guanghua Wan for insightful discussion; and Joy Quitazol-Gonzalez for research assistance. Shujie Li provided research assistance in preparing the 2010 survey data and updating the tables.

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## **Contents**

Abstract	v
I. Introduction	1
II. Priority Areas of the PRC's Rural Development	4
III. Roles of the Governments	6
IV. Demand for Social Services	9
V. Rural Governance	13
VI. Policy Discussions	15
References	17



## **Abstract**

The construction of a New Socialist Countryside (NSC) is among the highlights in the People's Republic of China's (PRC) 11th Five-Year Plan (2006–2010). The NSC aims to accelerate the development and modernization of the agricultural and rural economy in order to close the widening rural–urban income gap. In an effort to better understand the priorities of and binding constraints to the PRC's rural development, and to aid the development of the NSC, two surveys were undertaken by the Asian Development Bank in six rural areas—Chongqing, Inner Mongolia, Jiangsu, Liaoning, Shaanxi, and Shangdong. The 2007 survey collected village and household information on the first year of the NSC program, and the 2010 survey captured the possible changes after a few years of the program's implementation. A special feature of these surveys is that they allow for comparison of villagers' and village cadres' views on the priorities of the PRC's rural development. This paper summarizes the findings emerging from these surveys, particularly with respect to the challenges and priority areas of the PRC's rural development in 2007 and 2010. Among the key findings are (i) income growth remains the highest priority in the PRC's rural development agenda; and (ii) lack of capital and lack of necessary job skills are the most binding constraints for growth in agricultural income and nonagricultural income, respectively.





## I. Introduction

In its 11th Five-Year Plan (2006–2010), the People’s Republic of China (PRC) emphasized the construction of a New Socialist Countryside (NSC) program to accelerate the development and modernization of the agricultural and rural economy. The creation of the NSC is aimed at balancing economic and social development in the urban and rural areas in order to close their widening income gap. Key components of the Five-Year Plan include (i) developing modern agriculture by improving production capacity, promoting agriculture restructuring, strengthening the agricultural service system, and improving the rural distribution system; (ii) increasing villagers’ income by exploring ways of increasing agricultural and nonagricultural income, and improving policies that serve to increase income levels; (iii) improving the appearance of the countryside by strengthening rural infrastructure, improving rural environmental protection, improving rural healthcare and sanitation, and developing the rural social security system; (iv) assisting new villagers by improving rural education, increasing labor skill training, and improving rural cultural development; (v) increasing investment in agricultural and rural areas; and (vi) deepening rural reform (National Development and Reform Commission 2005). Under the Five-Year Plan, governments at all levels increased their expenditures on “agriculture, rural areas, and farmers” (*san nong*). The *san nong* expenditure from the national government, for example, increased from CNY298 billion (\$43.8 billion<sup>1</sup>) in 2005 to CNY725 billion (\$106.6 billion) in 2009, equivalent to a 144% increase. These expenditures were mostly on agricultural production support (irrigation and drainage, service roads, land improvement); farmers’ subsidies (grain production subsidy, quality seed subsidy, agricultural machinery subsidy); and rural education and health programs.

To better understand the priorities of and binding constraints to the PRC’s rural development, and to aid the development of the NSC, the Asian Development Bank (ADB) carried out two surveys—one in 2007 and another in 2010—in the rural areas of Chongqing, Inner Mongolia, Jiangsu, Liaoning, Shaanxi, and Shangdong.<sup>2</sup> The 2007 survey collected village and household information during the first year of the NSC program. The survey team visited 25 villages and interviewed a total of 651 people, including 594 villagers and 57 village cadres in the 12 counties of the six provinces

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<sup>1</sup> \$ refers to United States dollar. A conversion rate of \$1 = CNY6.8 is used in this paper to assist general readers in understanding the equivalent international value of the PRC’s local currency.

<sup>2</sup> The two surveys were, respectively, financed under ADB’s technical assistance TA 4790-PRC: Facility for Reform Support and Capacity Building; and RETA 6428: Supporting Strategic Knowledge Products and Research Networking. The survey team was led by Fengying Nie of the Chinese Academy of Agricultural Science.

through a multi-stage stratified random sampling method.<sup>3</sup> The 2010 survey was carried out in the same villages and with the same group of people to capture possible changes after a few years of implementation of the NSC. This paper summarizes some of the key findings emerging from these surveys.

These surveys reveal that the “old wisdom” appears to remain valid in the PRC’s course of constructing a “new countryside”. Specifically, the surveys show that:

- (i) Income growth, agricultural production growth, and village road improvement should remain the highest priority in the PRC’s rural development agenda.
- (ii) While providing capital to villagers is essential to improving agricultural income, enhancing job skills is essential to increasing income from nonagricultural employment.
- (iii) Improving agrotechnology, farmer training, and seed variety is the key to expanding agricultural production.
- (iv) At this development stage, most rural residents expect the national government to hold the primary responsibility for rural development, closely followed by the village collective and the county and township governments.
- (v) Government investments are expected to prioritize the development of village roads and farm irrigation systems.
- (vi) Littering, poor village streets, and water disposal system are seen as the most pressing problems in terms of rural living conditions.
- (vii) A high percentage of villagers are concerned with the affordability, accessibility, and quality of their medical care, children’s education, and old-age support services.
- (viii) Despite the high participation rate in the Rural Cooperative Medical Service (RCMS), participants’ satisfaction level was low, and nonparticipants doubted its effectiveness. In contrast, despite the high satisfaction level among its participants, the participation rate in the Rural Old Age Insurance

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<sup>3</sup> The survey selected two provinces in each of the eastern, middle, and western regions. Within each province, stratified sampling counties and towns in each “stratum” were selected according to their economic development status; and then the sample villages in each town, and the households in each village, were randomly selected. Due to funding constraints, the survey could only cover a small number of the villages in the PRC—the PRC currently has about 640,000 administrative villages, where about 70% of the country’s population lives.

(ROAI) remained low, and nonparticipants were mostly concerned with affordability.

- (ix) The overall assessments on rural governance—which include the participation and satisfaction of elected village cadres, use of villager representative meetings to make major village decisions, and publication of village affairs—were generally positive. However, large provincial differences exist.

One special feature of these surveys is that they allow for comparison of villagers' and village cadres' views on the priorities in the PRC's rural development, as both groups were interviewed. Villagers and village cadres are the major players of rural development, but their incentives and information differ. Compared to the villagers, the village cadres are often more exposed to the outside world and, therefore, possess more information about village development. More importantly, the village cadres, mostly elected by the villagers and supervised by township governments, have different incentives and priorities for village development. In the past, aligning the interests and priorities of villagers and village cadres was challenging, particularly because one of the most important tasks of village cadres was the collection of taxes and fees from villagers. With the abolition of the agricultural tax system in the early 2000s, the responsibilities of village cadres have changed dramatically from tax and fee collection to the provision of local public goods. In many cases, the village cadres are evaluated by both villagers and upper-level governments based on their performance on providing local public goods. In the 2010 survey, we found that the interests and perceptions of village cadres were better aligned as compared to 2007.

In the succeeding sections, the perceptions of the villagers and the village cadres on critical issues relating to the PRC's rural development, as based on the results of the two surveys, are summarized. The paper is organized as follows. Section II addresses the question of what survey respondents consider as the priority areas of rural development. Section III discusses the different views of the respondents on who should do what for rural development, with particular focus on the roles of government. The surveys assessed the demand for social services and the status of governance in the rural areas, and the findings are presented in Sections IV and V, respectively. Finally, Section VI concludes the paper with policy discussions.

## II. Priority Areas of the PRC's Rural Development

### (i) Income growth, agricultural production growth, and road improvement remain the highest priorities

Asked what the priority areas of rural development should be, the respondent villagers cited income growth (74% in 2010<sup>4</sup>) as the top priority, followed by production growth (36%), and village road improvement (31%). The village cadres generally agree with these three priority areas (Table 1). In 2010, the percentages of the villagers and village cadres who consider these three areas as priority areas are very close as compared to 2007—implying a convergence in perceptions of the villagers and village cadres.

**Table 1: Priority Areas of the PRC's Rural Development Identified by Villagers and Village Cadres**

	2007			2010		
	Villagers (percent)	Village Cadres (percent)	z-score	Villagers (percent)	Village Cadres (percent)	z-score
Income Growth	76	63	2.01**	74	80	-1.10
Production Growth	46	59	-1.95*	36	37	-0.26
Improved Village Roads	42	70	-4.46***	31	38	-1.15
Old-age Support	21	17	0.74	29	30	-0.14
Health Care Services	18	24	-1.03	25	19	1.32
Safe Drinking Water	15	8	1.58	18	9	2.45**
Solid Waste and Waste Water Management	22	15	1.44	17	18	-0.41
Improved Transportation Condition	18	13	1.24	13	18	-1.15
Improved Cultural and Entertainment Facilities	14	12	0.34	13	15	-0.56
Basic Education	11	13	-0.45	11	8	1.12
Democratic Governance	–	–	–	4	7	-1.04
Improved Communication	3	2	0.66	2	0	3.50***
Others	1	1	-0.33	2	1	0.30

– means not available.

\* statistically significant at 10% significance level; \*\* statistically significant at 5% significance level; \*\*\* statistically significant at 1% significance level.

Note: The numbers in the table show the percentage of survey respondents who provided positive answers to the question. The z-score measures whether the responses from the villagers and from the village cadres are significantly different in statistics.

Source: Staff estimates.

<sup>4</sup> The percentages presented in this paper, unless otherwise stated, refer to the 2010 survey results.

**(ii) Lack of technology and capital and expensive inputs are the most constraining factors to agricultural income growth; while lack of job skills constrain the growth of nonagricultural employment income the most**

According to the 2010 survey results presented in Table 2, the main impediments to agricultural income growth, as identified by respondents, are lack of capital (54%), high prices of agricultural inputs such as fertilizers (51%), and lack of technology (44%). Poor irrigation also appears constraining, but significantly less of a concern as compared to the 2007 results—a possible result of accelerating investment in land improvement under the NSC program in recent years. For the growth of nonagricultural employment income, the dominant constraining factor is lack of necessary job skills (55%). This is followed by low paying jobs (40%), lack of job information (34%), and high living costs (23%).

**Table 2: Top Constraining Factors for Villagers' Income Growth**

	Agricultural Income			Nonagricultural Employment Income			
	2007	2010	z-score	2007	2010	z-score	
Lack of Capital	53	54	-0.32	Lack of Necessary Skills	71	55	5.88***
High Prices of Agricultural Inputs	55	51	1.45	Low Paying Job	37	40	-1.17
Lack of Technology	57	44	4.45***	Lack of Job Information	41	34	2.34**
Poor Irrigation	45	26	6.88***	High Living Costs	21	23	-0.96
Small Production Scale	31	25	2.27**	Others	6	19	-6.91***
Scattered Land	27	18					
Lack of Sales Channel	26	27					
Others	2	4					

\* statistically significant at 10% significance level; \*\* statistically significant at 5% significance level; \*\*\* statistically significant at 1% significance level.

Note: The numbers in the table show the percentage of survey respondents who provided positive answers to the question. The z-score measures whether the responses from the villagers and from the village cadres are significantly different in statistics.

Source: Staff estimates.

**(iii) To expand agricultural production, the key is to improve agro-technology, farmer training, and seed variety**

Results of the surveys identify a few key areas for agricultural production development, including adoption and dissemination of new technologies, farmer training, and introduction of better seeds and varieties. Improvement of the irrigation systems, one of the primary areas of concern in 2007, has made significant progress by 2010 (Table 3).

**Table 3: Key Areas for Agricultural Production Growth Identified by Villagers and Village Cadres**

	2007			2010		
	Villagers (percent)	Village Cadres (percent)	z-score	Villagers (percent)	Village Cadres (percent)	z-score
Improvement of Technology Adoption and Dissemination	52	67	-2.21**	56	54	0.32
Farmers' Training	50	58	-1.14	52	65	-2.21**
Introduction of Better Seeds and Varieties	52	67	-2.33**	50	53	-0.43
Provision of Market Information	45	43	0.26	36	54	-2.91***
Improvement of Irrigation	54	38	2.39**	35	42	-1.14
Agricultural Insurance	30	25	0.67	25	21	0.76
Disaster Forecasting	28	12	3.41***	16	14	0.42
Others	4	0	4.80***	5	4	0.41

\* statistically significant at 10% significance level; \*\* statistically significant at 5% significance level; \*\*\* statistically significant at 1% significance level.

Note: The numbers in the table show the percentage of survey respondents who provided positive answers to the question. The z-score measures whether the responses from the villagers and from the village cadres are significantly different in statistics.

Source: Staff estimates.

From Tables 1 and 3, the priority areas of the village cadres and villagers are found generally consistent. Such consistency further improved from 2007 to 2010. At the beginning of the NSC program, as shown in the 2007 survey, village cadres appeared to have stronger interests than villagers in such areas as village road development, seed improvement, and technology improvement. These areas tend to be more closely related to the development of village collective enterprises, whose performance is linked to the remuneration of village cadres (to be discussed in a later section). Such priority differences diminished 3 years into the NSC program, as depicted in the 2010 survey, suggesting that the priorities of the villagers and the villager cadres became better aligned as the NSC program developed.

### III. Roles of the Governments

#### (i) Most villagers and village cadres expect the national government to hold the primary responsibility for rural development

Despite the agreements on what to do (priority areas) for rural development, villagers and village cadres have very different views on who should do what. Over half of the respondents, both villagers and village cadres, agreed that rural development efforts should be led by the national government, closely followed by the village collective and

the county and town governments. The opinions, however, are more divergent when it comes to the roles and responsibilities of the provincial governments, county and town governments, village collective enterprises, and villagers. A significantly higher percentage of villagers, as compared to village cadres, expect provincial governments, county and town governments, and village collectives to lead rural development (Table 4). From 2007 to 2010, the view of village cadres on the roles and responsibilities of these local governments has changed to become more in line with that of the villagers, but the difference remains large. For example, the percentage of village cadres who expected the provincial government to play the leading role increased from 1% in 2007 to 15% in 2010, but this is still well below the 34% perception of villagers in 2010.

Investments in rural infrastructure, including rural education and medical services, have been predominantly financed by the local governments, with minimal support from the national government, if at all. Hence, national expenditure in rural development evidently does not match expectations of survey respondents.

**Table 4: Lead Role for Rural Development—Perception of Villagers and Village Cadres**

	2007			2010		
	Villagers (percent)	Village Cadres (percent)	z-score	Villagers (percent)	Village Cadres (percent)	z-score
National Government	55	48	1.08	54	54	0.05
Provincial Government	29	1	11.15***	34	15	4.16***
County and Town Government	45	11	7.39***	52	17	7.21***
Village Collective	54	38	2.28**	51	41	1.77*
Villagers	42	38	0.58	21	19	0.47
Others	2	0	3.38***	3	6	-0.93

\* statistically significant at 10% significance level; \*\* statistically significant at 5% significance level; \*\*\* statistically significant at 1% significance level.

Note: The numbers in the table show the percentage of survey respondents who provided positive answers to the question. The z-score measures whether the responses from the villagers and from the village cadres are significantly different in statistics.

Source: Staff estimates.

Although Table 4 shows a clear and high expectation of the national government's support in rural development, there is indication that such expectation will fade over time once the area is developed and becomes richer. This is evidenced by the fact that for relatively richer coastal provinces such as Jiangsu and Shandong, the expectation or reliance on the national government is less than that in the inland provinces; while expectations on village collectives, villagers, and county and town governments are significantly higher (Table 5).



**Table 5: Lead Role for Rural Development—Perception by Villagers in Coastal Provinces and Inland Provinces**

	2007			2010		
	Jiangsu and Shangdong (percent)	Other Provinces (percent)	z-score	Jiangsu and Shangdong (percent)	Other Provinces (percent)	z-score
National Government	50	62	-2.80***	42	70	-6.62***
Provincial Government	31	25	1.55	30	39	-2.00**
County and Town Government	53	34	4.54***	56	47	2.03**
Village Collective	71	31	10.10***	64	36	6.69***
Villagers	51	30	4.94***	23	20	0.84
Others	1	3	-1.63	3	4	-0.69

\* statistically significant at 10% significance level; \*\* statistically significant at 5% significance level; \*\*\* statistically significant at 1% significance level.

Note: The numbers in the table show the percentage of survey respondents who provided positive answers to the question. The z-score measures whether the responses from the villagers and from the village cadres are significantly different in statistics.

Source: Staff estimates.

## **(ii) Government investments for development of village roads and farm irrigation systems are the most expected**

Asked what they think should be the priority areas for government investments, both villagers and village cadres highlighted village roads, farm irrigation, and rural environment improvement (Table 6). Since it is also important to mobilize villagers to make them more active, creative, and more predisposed to exercise their own initiative, the surveys asked which areas of investments villagers are most willing to contribute their labor and/or capital to. Again, the three priority areas above (village roads, farm irrigation, and rural environment improvement) were identified.

**Table 6: Priority Areas for Government Investment—Perception by Villagers and Village Cadres**

	2007			2010		
	Villagers (percent)	Village Cadres (percent)	z-score	Villagers (percent)	Village Cadres (percent)	z-score
Village Roads	67	82	-2.70***	49	60	-1.70*
Farm Irrigation	57	71	-2.09**	42	53	-1.89*
Rural Environment Improvement	38	48	-1.48	37	65	-4.76***
House Repair and Renovation	17	29	-1.94*	25	19	1.33
Construction of Village Clinics	23	36	-1.88*	24	15	1.90*
Improvement or Construction of Schools	19	12	1.57	22	6	5.01***
Construction of Village Activity Centers	16	41	-3.71***	18	28	-1.96**
Solid Waste Treatment	20	30	-1.51	17	35	-3.02***
Improvement of Access to Safe Drinking Water	14	33	-3.05***	17	32	-2.74***
Others	2	7	-1.30	2	2	0.09

\* statistically significant at 10% significance level; \*\* statistically significant at 5% significance level; \*\*\* statistically significant at 1% significance level.

Note: The numbers in the table show the percentage of survey respondents who provided positive answers to the question. The z-score measures whether the responses from the villagers and from the village cadres are significantly different in statistics.

Source: Staff estimates.

## IV. Demand for Social Services

In addition to the demand for income and production growth and for road development, demand for social services was also assessed in the surveys, particularly with respect to living conditions, access to affordable and quality old-age support, improved health care and education services, and access to entertainment.

### (i) Littering, poor village streets, and poor water disposal system are seen as the most pressing problems in terms of rural living conditions

The villagers and village cadres are generally consistent in their answers on the most pressing problems with respect to their living conditions, where over 40% of the villagers and village cadres cited littering, poor street conditions, and poor water disposal system (Table 7). These are followed by no streetlighting and lack of entertainment places. In comparison, fewer villagers and village cadres worry about problems such as poor village planning, old and shabby houses, and unsafe drinking water.

**Table 7: Most Pressing Problems for Living Conditions—Perception by Villagers and Village Cadres**

	2007			2010		
	Villagers (percent)	Village Cadres (percent)	z-score	Villagers (percent)	Village Cadres (percent)	z-score
Littering	54	52	0.32	48	50	-0.38
Poor Village Streets	52	65	-1.95*	43	30	2.22**
Poor Water Disposal System	43	42	0.02	41	33	1.45
No Street Lights	51	51	0.00	36	33	0.60
Lack of Entertainment Places	44	53	-1.31	33	56	-3.67***
Unsafe Drinking Water	20	18	0.43	25	18	1.39
Old and Shabby Houses	21	22	-0.11	18	24	-1.21
Poor Village Planning	21	26	-0.75	10	10	-0.03
Others	3	3	-0.17	6	3	1.72*

\* statistically significant at 10% significance level; \*\* statistically significant at 5% significance level; \*\*\* statistically significant at 1% significance level.

Note: The numbers in the table show the percentage of survey respondents who provided positive answers to the question. The z-score measures whether the responses from the villagers and from the village cadres are significantly different in statistics.

Source: Staff estimates.

## (ii) Over 60% of the villagers are concerned with medical care, children's education, and old-age support

As shown in Table 8, in 2010, more than 80% of the surveyed villagers are somewhat concerned or very concerned with their medical care situation, while 68% and 60% of these respondents are concerned with their children's education and old-age support, respectively. The 2007 survey results painted a similar picture. Among the three areas, villagers appear to show relatively less concern for old-age support because a large percentage of the elderly can rely on their children or own savings for support, whereas provisions of education and medical care services heavily rely on the society.

**Table 8: Villagers' Concern for Medical Care, Children's Education, and Old-age Support (percent)**

	2007			2010		
	Medicare	Children Education	Old-age Support	Medicare	Children Education	Old-age Support
Not Concerned	17	26	37	20	33	40
Somewhat Concerned	48	44	38	41	38	30
Very Concerned	35	31	24	40	30	30

Source: Staff estimates.

### **(iii) The biggest problems for medical care, schooling, and old-age support are, respectively, affordability, quality, and accessibility**

According to the survey results presented in Table 9, the primary problem with regard to medical care is prohibitive prices. In 2007, an estimated 84% of the total villagers found medical care services in their area as too expensive. The percentage did not have much improvement in 2010 at 79%. While prohibitive prices of medical care dampen their demand, the supply side of these social services appears of concern too. About 44% of the surveyed villagers complained about the inferior quality of medical care, such as poor medical techniques and unpleasant attitude of medical staff in local clinics.

**Table 9: Factors Constraining Villagers from Benefiting from Medical Care, Children's Education, and Old-age Insurance (percent)**

	2007			2010		
	Medicare	Children Education	Old-age Insurance	Medicare	Children Education	Old-age Insurance
Affordability	84	59	44	79	36	38
Quality	44	47	16	44	62	1
Accessibility	28	21	32	29	38	42
Others	6	5	9	8	20	19

Source: Staff estimates.

With regard to children's education, the top concern has shifted from the affordability issue in 2007 to the quality of education in 2010. Concern over affordability of children's education was lessened in recent years as the government deepened its rural compulsory education reform. The new compulsory education law was enacted in 2006. All tuition fees and miscellaneous fees were waived in the western provinces starting 2006, and in the central and coastal provinces starting 2007. Under a cost-sharing scheme between the national government and local governments, the governments also pay for poor students' boarding costs, school operational costs, and classroom renovation and maintenance costs. These measures have helped reduce the affordability concerns of education and, at the same time, make the quality concerns stand out more—in the 2010 survey, as high as 62% of the respondents voiced concern regarding the inferior quality of their schools. As the teachers' salaries are mostly paid by the local governments with very limited support from the national government, poor villages, towns, and counties have difficulties in recruiting and retaining quality teachers.

The rural aging population is increasingly concerned about their old-age support as the young people move to the urban areas. The surveys show that the old-age insurance scheme has become the most expected means of old-age support provision, followed by children's support and own savings. However, in the 2010 survey, 42% of the

respondents complained about the accessibility of such insurance and 38% complained about its affordability.

#### **(iv) Despite the high participation rate of the Rural Cooperative Medical System, the participants' satisfaction level was low, and nonparticipants doubted its effectiveness**

According to the surveys, a high percentage of the villagers, about 95% in 2007 and 97% in 2010, participated in the RCMS.<sup>5</sup> However, the surveys showed a low level of satisfaction among the participants. In 2007, less than 60% of the RCMS participants responded that they are “generally satisfied” or “very satisfied”, while the others are either “not satisfied” or “not sure yet”. Over half of the nonparticipants cited their concern for the effectiveness of the service as reason for their nonparticipation. A plan to further improve the RCMS was published and implemented in April 2009. Under this plan, the government commits an investment worth CNY850 billion (\$125 billion) by 2011 to improve grassroots clinics and hospitals, reduce medicine costs, and provide more subsidies to villagers' medical bills (Xinhua 2009a). The satisfaction level improved in the 2010 survey, where about 70% of the participants responded as “generally satisfied” or “very satisfied”.

#### **(v) Despite the high satisfaction level among its participants, the participation rate of the Rural Old Age Insurance remained low, and nonparticipants were mostly concerned with affordability**

Unlike the RCMS, the participation rate of the ROAI was found much lower, albeit with a much higher satisfaction level from the participants. According to the 2007 survey, about 35% of respondent villagers participated in old-age insurance, and among the participants, about 80% are “generally satisfied” or “very satisfied” with the service. The remaining 65% of respondent villagers did not participate in old-age insurance. When asked why, 44% of the nonparticipants quoted affordability concerns and 32% indicated unavailability of the insurance in their locality. When further probed whether they would contribute to a hypothetical option of an “old-age insurance fund” together with the governments, an overwhelmingly high percentage (88%) of the respondents said yes. In September 2009, a new plan to further reform the ROAI was announced, which emphasizes the shared contribution from individuals and all levels of governments. The plan aims to cover all rural residents by 2020 (State Council 2009). The effectiveness of the plan, however, has been brought to question in view of the 2010 survey results—the participation rates in old-age insurance further decreased from 35% in 2007 to about 20% in 2010, and concerns over accessibility and affordability remain.

<sup>5</sup> From 1949 to 1978, rural people in the PRC had essentially free access to health clinics run by “barefoot doctors”. But the system was dismantled in the early 1980s when the country began its economic reforms. In 2003, the PRC launched the rural cooperative medical care program, under which rural residents and governments jointly contribute to a cooperative fund. Participants could reclaim some of the costs of hospital care. The rate of reimbursement varies according to the ailment and the actual cost of medical expenses incurred (Xinhua 2009b).

## **V. Rural Governance**

### **(i) Overall participation and satisfaction levels in the election of village cadres are high**

Approximately 80% of the villagers surveyed participated in the election of village cadres, according to the 2010 survey, while the remaining 20% did not participate (Table 10). The major reason for nonparticipation of these respondent villagers is that they were not convinced that their participation would change the election outcomes. Among those who participated, 82% were generally satisfied or very satisfied (Table 10). The participation and satisfaction rates differ across provinces, yet are found to be closely related. All surveyed provinces showed around 90% or higher participation rates, except in Shangdong where the participation rate was only 60%. About 35% of participants in Shangdong were “unsatisfied” with the election as compared to only 5% in Chongqing, and 2% in Jiangsu.

### **(ii) Villager representative meetings are the most often used venue for decision making on major village affairs**

When asked who made decisions regarding major village affairs that are of everyone's concern, over 50% of the surveyed villagers in 2010 acknowledged villager representative meetings, 30% indicated village cadres, and the remainder did not know (Table 10). Provincial differences were also observed. In Jiangsu, for example, over 90% of the villagers acknowledged the decision-making role of villager representative meetings, while only 20% did so in Shangdong.

### **(iii) Publication of village affairs is perceived with mixed opinions**

About two thirds of the surveyed villagers agreed that the village affairs were timely publicized, and about 60% of these respondents were “generally satisfied” or “satisfied” with the publication of village affairs (Table 10). However, there are significant differences across provinces. For example, only 2% and 3% of the villagers in Jiangsu and Chongqing, respectively, were “unsatisfied” with the publication of village affairs, while over 30% in Shandong and Liaoning were unsatisfied.

**Table 10: Villagers' View on Rural Governance (percent)**

	2007	2010
Percentage of Farmers Participating in the Election of Village Cadres	81	80
Percentage of participants who are "Generally Satisfied" or "Very Satisfied"	77	82
Village Affairs were Made by:		
Village cadres	22	30
Village representative meetings	55	51
Don't know	24	19
Percentage of Farmers Agreeing that Village Affairs were Timely Publicized	65	67
Percentage of Farmers Who are "Generally Satisfied" or "Satisfied" with the Publication of Village Affairs	61	60

Source: Staff estimates.

#### (iv) Village cadres are not satisfied with their remuneration

In 2010, over 50% of the village cadres nationwide responded that they are not satisfied with their remuneration, while another 38% replied that they are only partially satisfied (Table 11). This could be a serious concern as village cadres need to be properly motivated to effectively manage the villages. Village cadres' remuneration usually is composed of a basic salary, which is financed by town and village fiscal budget, and a bonus, which is linked to the performance of village collective enterprises. From Table 11, the cadres are significantly more satisfied in Jiangsu province, where the village collectives are better developed compared to other provinces.

**Table 11: Villager Cadres' Satisfaction with their Remuneration (percent)**

	2007			2010		
	Not Satisfied	Partially Satisfied	Satisfied	Not Satisfied	Partially Satisfied	Satisfied
Jiangsu	0	45	55	6	63	31
Shandong	86	14	0	88	13	0
Chongqing	55	45	0	42	58	0
Liaoning	50	50	0	23	77	0
Inner Mongolia	60	20	20	67	17	17
Shaanxi	50	50	0	67	25	8
Nationwide	51	34	14	52	38	10

Source: Staff estimates.

## VI. Policy Discussions

The PRC government has accelerated its policy reform for rural development since its 16<sup>th</sup> Central Committee of the Communist Party of China meeting in 2002 under the general principle of “supporting agricultural development through industrial development, supporting rural development through urban development”. The national agricultural law was amended in December 2002 to accelerate agricultural production. Following the government economic working meeting in December 2004, a series of specific policies were implemented, including accelerating government agricultural investments and subsidies and exempting all agricultural taxes. Policies to promote social development in the rural areas such as the RCMS and the ROAI also started from 2003.

Despite the government's continuous endeavors, the PRC's rural development remains a complex and challenging task. To draw comprehensive policy conclusions on the PRC's rural development, more research is needed. The surveys presented in this paper helped shed light on villagers' and village cadres' views on the challenges and priority areas of the PRC's rural development in 2007 and 2010. A few policy implications for future reform are also suggested.

First, expenditures of the national government for rural development sorely do not match villagers and village cadres' expectation. To address this concern, governments' role—especially the national government's role—in rural development should be further emphasized. But as the region becomes more developed, reliance on the national government is expected to gradually lessen (as presented in Table 5 above). To accelerate its agricultural development, the PRC may be able to draw experiences from its own industrial development. The PRC governments acted as an active player and investor in the early years of the nation's industrialization. When the private sector grew in later years, the governments gradually transformed and limited its role to mere “referee”.

Based on the surveys, governments' investments in the development of village roads, farm irrigation, and rural environment are clearly expected at this early stage of rural development, and such expectation will decrease once the income level increases. The surveys also suggest to further increase governments' investments at this stage. However, in reality, governments' agricultural investment, despite its fast growth, still lagged behind the overall government expenditure. For example, governments' agricultural investment increased from CNY53.3 billion (\$7.8 billion) in 1994 to CNY431.8 billion (\$63.5 billion) in 2007, an increase of 710%; while during the same period, the overall government expenditure increased from CNY521.8 billion (\$76.7 billion) to CNY4,978.1 billion (\$732.1 billion), an increase of 854%. As a result, the governments' agricultural investment as a percentage of overall government expenditure had decreased from 10.2% in 1994 to 8.7% in 2007.



Second, income growth remains predominantly the highest priority for the PRC's rural development. According to the survey, the most binding constraints for agricultural income and nonagricultural income growth are lack of capital and lack of necessary job skills, respectively. National policies and strategies to overcome these constraints, such as improvement in access to agricultural credit and extension services and rural job training, are much needed.

Third, in terms of social development, policies to manage waste and to improve streets are most needed to improve rural living conditions. While pushing forward the ongoing reforms on rural medical care, children's education, and old-age support, the governments need to exert further efforts to improve the affordability and quality of these services. In fact, the governments, having realized the problem, are taking measures toward this direction. For example, when the RCMS was piloted in 2003, the governments subsidized the participation cost at about CNY20 (\$2.9) per year per capita in selected provinces. As of 2009, the governments' subsidies have been increased to CNY80 (\$11.8) per year per capita nationwide, accounting for 80% of the participation cost. The 2010 survey showed some positive effects of the measure.

Fourth, as improving rural governance is necessary to ensure the effectiveness and equity of the above measures, the survey results suggest three points:

- (i) Local governance has to be examined within the local context, and policies to improve local governance need to be designed and targeted at the local level, given the large provincial differences on the satisfaction level of rural governance.
- (ii) It is necessary to review the remuneration of village cadres and ensure they are properly motivated, especially in the regions where the village collective enterprises are not so well developed.
- (iii) Although the interests and priorities of villagers and village cadres are found generally aligned and improving, further improvements are needed with special attention paid to cadres' tendency to overlook certain local public goods that they have little control over or that are not directly related to the development of village collective enterprises.

Fifth, it is urgent and essential to establish an effective and transparent monitoring and evaluation system for the PRC's rural development at both provincial and local village levels. In fact, these surveys were part of the joint effort by the ADB and the Ministry of Finance in collecting necessary information to construct such an evaluation system. The initial framework design has been completed (see Nie 2009 and Lin et al. forthcoming), while the pilot testing, implementation, and improvement of the framework call for strong political willingness and organizational capacity.

Last, but not the least, development agencies such as ADB can be further engaged as the PRC develops its rural areas. The development agencies' long-term experiences in sectors such as agriculture, infrastructure, environment, and social development would prove to be an asset. With the rapid accumulation of wealth in the urban area and the alarming urban–rural income gap, the rural area is in far greater need of capital investments. The private sector has not yet been able to channel the investment from capital-rich cities to capital-poor rural areas in the past 30 years of reform. In fact, the funds flow has been quite the opposite—due to reasons such as lack of complementary investments, institutions, and infrastructure. This provides a good opportunity for the national government and development agencies to work together to demonstrate and to pave the way for greater private sector involvement in the future. To facilitate the involvement of the development agencies, two specific improvements are worth considering: (i) a better coordination mechanism between national government grants and development institutes' concessional lending; and (ii) a mechanism to share debt servicing (e.g., interest subsidy) between national and local governments when development loans are used for rural development projects.

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### **About the Paper**

The People's Republic of China's (PRC) 11th Five-Year Plan (2006–2010) emphasizes the construction of a New Socialist Countryside program to accelerate the development and modernization of the agricultural and rural economy. In an effort to better understand the priorities of and binding constraints to the PRC's rural development and to aid the development of the program, the Asian Development Bank conducted surveys in 2007 and in 2010 in the rural areas of Chongqing, Inner Mongolia, Jiangsu, Liaoning, Shaanxi, and Shangdong. Tun Lin summarizes the findings from these surveys.

### **About the Asian Development Bank**

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries substantially reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to two-thirds of the world's poor: 1.8 billion people who live on less than \$2 a day, with 903 million struggling on less than \$1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

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