South Africa: Promoting Rural Development for Equitable Growth

-- Could China’s Experiences Be Relevant?

Guo Li
The World Bank, Pretoria Office

DRDLR Policy Workshop, Cape Town
February 18-19, 2011
Important Aspects of a Rural Development Strategy

China’s Experiences in the Past Three Decades

Conclusions
Why rural and agricultural development is important?

- **Supplying labour** to the rest of economy;
- **Producing low cost food** to keep wages down for workers in the industrial sector;
- **Producing fibre and other crops** for production in other parts of the economy;
- **Supplying commodities** that can be exported and earn foreign exchange;
- **Raising rural incomes**

Therefore: A strong option for poverty reduction, food security, and stimulating growth in other parts of the economy.
Relationship between agricultural and economic growths in 93 developing countries, 1980-1998*

* Huang et al., 2002
**Important Aspects of a Rural Development Strategy**

- **Clearly identified challenges;**

- **An enabling policy environment** (e.g., strong, sustained and focused political will; effective coordination among government agencies at different levels; market-oriented incentive; backed with solid public finance; sound macroeconomic policies, etc.)
**Important Aspects of a Rural Development Strategy**

- **Customized interventions to fit country’s specifics:** (land, water, technology, rural industrialization, education, health, poverty reduction, community mobilization, producer organizations, and environment, stakeholders’ participation, etc.)

- **Manage social impacts to ensure it is a broad-based growth process** (no loser economic reform, everyone should benefit from the process);
Important Aspects of a Rural Development Strategy

- Integrating the rural development strategy with national economic and social development plans;

- Detailed annual implementation plan with adequate budget and financial support;

- Effective M&E for policy improvement and program scaling up; enforceable accountability system;
**China: Rural Development in Past 30 Years**

<table>
<thead>
<tr>
<th></th>
<th>1980</th>
<th>1995</th>
<th>2009</th>
<th>30 years average annual growth rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GDP (billion yuan)</strong></td>
<td>452</td>
<td>5958</td>
<td>33535</td>
<td>9.9</td>
</tr>
<tr>
<td><strong>Agriculture output (billion yuan)</strong></td>
<td>192</td>
<td>2034</td>
<td>6100</td>
<td>6.3</td>
</tr>
<tr>
<td><strong>Farmers’ per capita income (yuan)</strong></td>
<td>191</td>
<td>1577</td>
<td>5153</td>
<td>7.5</td>
</tr>
<tr>
<td><strong>Grain production (million tons)</strong></td>
<td>321</td>
<td>467</td>
<td>531</td>
<td>1.7</td>
</tr>
<tr>
<td><strong>Rural migrant labors in off-farm jobs (million)</strong></td>
<td>20</td>
<td>127</td>
<td>250</td>
<td>n.a.</td>
</tr>
<tr>
<td><strong>Number of poor (million and %)</strong></td>
<td>250 (31%)</td>
<td>65 (7%)</td>
<td>35 ** (3%)</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

*current price;

** poverty line is adjusted this year to be consistent with the international standard, so the number of poor will increase to around 7%.
Decline of Rural Poverty

The fall in the poverty in China accounts for MOST of the entire world’s fall in poverty between 1985 and 2005.
Shares of output values within agricultural sector: 1980 to 2005

Within agricultural economy: falling the shares of crops, rising the shares of livestock and fishery
Structure of farmers’ income: 1978 to 2007
2007 yields comparison (unit: ton/ha)

<table>
<thead>
<tr>
<th></th>
<th>Grain</th>
<th>Maize</th>
</tr>
</thead>
<tbody>
<tr>
<td>World Average</td>
<td>3.35</td>
<td>4.97</td>
</tr>
<tr>
<td>China</td>
<td>5.43</td>
<td>5.41</td>
</tr>
<tr>
<td>South Africa</td>
<td>2.80</td>
<td>2.91</td>
</tr>
<tr>
<td>Mozambique</td>
<td>2.00</td>
<td>1.50</td>
</tr>
</tbody>
</table>

Source: FAO data for world average, China, South Africa; Mozambique data is from Ministry of Agriculture Evaluation Report 2009 and total grain yield is estimated.
Enabling factors behind the success....

- Land reform;
- Price policy changes;
- Market liberalization (regional integration and globalization);
- Investment into agricultural technology;
- Investment into water and other infrastructures;
- Rural industrialization and off-farm jobs;
- Specially designed national poverty reduction programs; and
- New subsidy programs

These are building blocks of institutional base and policy strategy for development
Land reform (the starting point of China’s economic and social transformation and growth in the past 30 years):

- Started in late 1970s, dismantling People’s Communes, relying on smallholder farming with increasingly improved tenures security, finished within 4 years (250 million farm households with average farm of 0.5 ha.);

- Allocated collective-land equally to all households in the village;

- Farmer’s use rights (under the collective ownership):
  - 1st contract: 15 years ended at mid- or late 1990s
  - 2nd contract: 30 years
  - Now is an open-ended contract (basically, use rights forever)
  - Plus plot-level certification and registration (just started);
Price: change of terms of trade (output/input price index)

- Price of outputs rose in China during the first 10+ years of economic reform; in the rest of reforming world (e.g., Central Europe and former Soviet Union, prices fell).
Market liberalization: Gradually liberalized national agricultural markets from early 1980s to early 2000
International trade:

- Falling tariffs
- Improved access

⇒

- Falling rates of protection (China becomes integrated into world markets)
- Rising trade
- Specialization into those commodities in which China has a comparative advantage
Agricultural tariff rate (%):
Prior to WTO accession (1992-2001): 42% → 21%
China’s WTO commitment (2001-2005): 21% → 11%
Investment in agricultural technology...

Since 2000, the rise in research investment is higher in China than any other country in the world...
In 2459 sample villages, there are 9138 projects; Nearly 4 per village during the study period ... or almost 1 per year; and most Focusing on provision public goods.
Around two-thirds of public good investment into 5 types of projects.....
By the mid-1990s, rural enterprises accounted for 20 percent of national employment, 28 percent of industrial output, and 48 percent of exports
Explanations for the success of rural enterprises in China

- Initial reforms in agriculture raised prices, improved incentives, and increased rural incomes
  - Gradual market liberalization eased tradeoff between agricultural prices and urban wages
- Free entry into new market niches, with little regulation or taxation
- Relatively undistorted output and input prices
- Well-educated labor force
- Active leadership by local government leaders
  - Collective ownership (township and village enterprises, or TVEs) until the mid-1990s, followed by widespread privatization
- “Rural” industry heavily concentrated in coastal areas, peri-urban areas
Specifically designed national poverty reduction programs....

- National poverty reduction campaign started in mid 1980s (central government poverty alleviation fund in 2007: 15 billion yuan; total 150 billion since mid 1980s);

- Starting from 1990, the Government basically implemented three 10-years programs (1991 to 2000; 2001 to 2010, and now is designing 2011-2020);

- Geographic areas focused: mainly western part of China, first targeted at county level in 1990s, then targeted at village level, and now focusing on household level).
**NEW SUBSIDY PROGRAMS....**

**TAX REDUCTION PROGRAM COMPLETED**

- Completely eliminated taxes
- Farmers now pay no taxes or fees
- No grain quota
Agricultural subsidies (100 million yuan)

3.1% of agricultural GDP in 2008
Future Policy Challenges.....

- Enlarging income gap between rural and urban

- Meeting food demand:
  - Food security: particular for land intensive products
  - Food safety: particular for high-value products

- Water security

- Small farming and agricultural modernization

- Biofuels

- Climate change

- ...

DRDLR: Creating Sustainable Rural Livelihoods
Concluding remarks....

The scope of China’s policy efforts during the transition era is impressive, which have been major driving forces of China’s agricultural development:

- Land property rights reform
- Pricing
- Marketing and trade liberalization
- Investments in technology and infrastructure
- Rural industrialization
- Specifically designed national poverty reduction program with solid public finance support
- Moving from taxing to subsidizing agriculture
- One of the most important characteristics of rural and agricultural reform in China is the pace (sequence) and nature (gradually approach) of reform....

AND....
**DRDLR: Creating Sustainable Rural Livelihoods**

**Strong Government Coordination at Multiple Levels**

CPC: China Communist Party;
CCCPC: Central Committee of CPC;
CLGEF: Central Leading Group for Financial and Economic Affairs (headed by the President);
CLGRW: Central Leading Group for Rural Works (headed by the Premier);
SCLGPAD: State Council’s Leading Group for Poor Area Development (headed by Vice-Premier);
DRC: Development Research Center (think tank of the State Council, headed by a minister).
The Great Wall... symbolizes a vision, enduring commitment, and superb capacity of mobilizing resources to materialize the vision. A successful rural and agricultural development requires the similar elements.

----- Minister Gugile Nkwinti (April 2010, Beijing)
THANK YOU!

Guo Li: gli1@worldbank.org