



TVEs and poverty reduction in China

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Hello, I am Tang Lixia from the College of Humanities and Development Studies, China Agricultural University based in Beijing.

Today I would like to share with you the story of poverty reduction in China. It is now well known that in the past 3 decades, China has been hugely successful in lifting millions of people out of poverty. If we were to use the international poverty line of 1.25 dollar per day, the number of poor in China declined from 835 million in 1981 to around 207 million in 2005. According to World Bank estimates, without China's contribution, the number of people living in absolute poverty on a global scale would have actually increased. If you read the large number of academic articles that deal with China's success in reducing poverty, you will most likely find that many of these conclude that pro-poor economic growth has been the key feature that explains this achievement. In this talk, I will highlight one important part of this success story, namely the role played by township-and-village enterprises in China's pro-poor economic growth.

Rather than using a "big bang" strategy and trying to liberalize, privatize, and quickly move to a capitalist market economy in other former socialist countries, China has adopted a much more gradual approach. We call this the "crossing the river by feeling the stone" approach, which basically means carrying out

piecemeal reforms rather than very radical changes. Available evidence thus far shows that such an approach has obviously worked in China, and the country has now become the second largest economy in the world while at the same time achieving enormous success in addressing issues of poverty within its borders.

At present, China's economy consists of the state-owned sector, the collective sector and the private sector. We must keep in mind that before China launched major economic reforms in 1978, the state-owned sector was dominant and was responsible for 78% of the country's industrial output. And foreign investments and private sector activities were severely restricted. Since 1978, however, China has gradually loosened state control of economic development.

China only started to support township-and-village enterprise development in the beginning of the transition from centralized planned economy to market economy in 1984. Several scholars have argued that the township-and-village enterprise sector has played an important role in China's gradual developmental approach, and that this was the Chinese government's organizational response to imperfect institutions. This is why I believe that the TVE story needs to be highlighted in this course.

A township-and village enterprise (hereafter I will call it TVE) refers to a business unit that belongs to all residents of a rural community. The rural community in China typically consists of townships and villages. A township can have on average around three thousand five hundred households and includes dozens of villages. A village typically consists of around 200 households. The original capital of TVE usually comes from community common property, , income from lease of common land or other fixed assets and capital raised directly from the community member.

The TVE is managed by ordinary citizens residing in the township or village. The TVE is different from private enterprises as it maintains a powerful linkage with the political authorities and can receive considerable financial support, advice and policy guidance from the government. The TVE further differs from state-owned enterprise, which still tends to dominate the Chinese economy. All necessary resources for state-owned enterprises come from government, especially financial resources, policy support and special privilege. By contrast, funding for TVEs come mainly from the assets of people in the community.

In last three decades, the TVEs have developed fast and become an important institution driving economic growth at local levels. The number of TVE has thus increased from around 1.4 million in 1979 to almost 31 million in 2012. TVEs are now equally found in the richer eastern parts of the country as well as in less developed and Western regions. Particularly interesting for our purposes here, TVEs are often very active in areas characterized by extreme poverty.

TVEs have contributed to Chinese economic growth in substantial ways. From this figure you can see that the output of TVE was about 10 thousand billion dollars and accounted for about 30% of the national industrial output in 2012. The TVEs are mainly involved in transportation, catering, textile, construction, printing and other labour intensive industries. They have been crucial in China's development as they usually offer non-agricultural employment to large numbers of rural labourers who do not have higher level education or specific professional skills.

I remember that when I was a child, there was a small village enterprise for shrimp meat in my village. All the women, the elders and even the children in my village went to our TVE to collect a few kilograms of live shrimp that we peeled at home. We could all earn around 1 yuan per kilo of peeled shrimp. My mother did it every day and I also helped when I came back from school. Due to this

activity, we were able to supplement the family income.

Available macro-level data shows that TVEs in China have hired a total of one hundred and sixty million workers and accounted for about 30% of rural labour in China in 2012. The average annual income of TVE workers was about 3000 dollar in comparison to 1200 dollars which was the average annual income of farmers in China. It is not just who directly work with the TVEs that have benefited. Other residents of the local community also benefit. For example, before I went to Beijing to study for my undergraduate degree, I received several hundred yuan from my village TVE every year because at that time I was still classified as a local resident.

In China's formal administrative system, the revenue budgets of towns are very minimal, and as such it is difficult for towns to fund certain basic services such as the road, school and health center. Similarly, at the village level, various types of village cadres receive small amount of financial compensation for their services. The point I am trying to make here is that townships and villages seldom receive major funding from higher level authorities for funding new and maintaining old public infrastructure and other types of social services. This was particularly the case before the year 2000. Thus, these local entities have to find money from other sources if they are to offer basic social services to local residents.

TVEs have thus become the solution to such lack of available public funding. Indeed, according to available statistical data, funding from TVEs account for almost 40% of the total expenditure in rural areas for schools, roads, health care services and pensions for the disabled, elders and the destitute. In some villages, TVEs also pay for the tuition fee and living subsidy for local students from poor families who wish to pursue undergraduate studies. In my own village, the TVE paid for an additional old age pension to all residents over 60 years of age. Even today, my mother receives around 1000 dollars every year from her village TVE,

which supplements her normal state pension.

TVEs contribute to poverty reduction by promoting economic growth, providing non-farm employment, paying higher salary, sharing profits in community, providing public service and special pensions. Furthermore, the TVE model appears to provide an alternative development approach of economic liberalization for transitional countries which are yet to develop strong local institutions. The TVE development story provides a useful reminder to us that local government can work as an influential driving force in economic transition and development. The TVE experience in China also shows that the poor benefit immensely from having their own resources to promote development and local welfare and not simply relying on the state for everything.