

The demise of smallholder farming in rural China?

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Since assuming power in 1949, the upscaling of agricultural production has been a perennial goal of the Chinese Communist Party (CCP). But our research indicates that policies aiming to encourage smallholders to lease their land to larger operators are not necessarily being taken up by smallholders and nor are these policies necessarily beneficial.

Background

During the Great Leap Forward, Mao collectivised smallholder farmers to achieve economies of scale and modernise agriculture, with disastrous outcomes in terms of poverty, famine, and agricultural crisis. In the 1980s, the agricultural sector was de-collectivised under the Household Responsibility System. But, in an attempt to pursue upscaling again, in the 2000s the central government began providing subsidies to ‘dragonhead’ agribusinesses (lead firms, supported by governments at various levels) and promoting contract farming, with the latter seen as a ‘middle way’ of boosting efficiency whilst preserving the land rights of smallholder farmers.

The central government’s upscaling ambitions, however, generate political and economic tensions. On the one hand, the revolutionary role of the peasantry is central to the Party’s foundational myth and its ongoing legitimacy remains anchored to raising rural living standards. On the other hand, government rhetoric

regularly portrays smallholder farmers as ‘low quality’ and ‘backward’ and rural people as an impediment to progress. For example, a 2001 party document stated, ‘if 900 million peasants do not change their ways of earning a living, peasant prosperity will never take off, and the modernisation of the countryside will be difficult to realise’.



Tea-growing village in southern Shaanxi Province, July 2019. Credit: Sarah Rogers.

The CCP’s longstanding commitment to agricultural upscaling can be explained, in part, by the assumption that large-scale agriculture is inherently more efficient than small-scale farming. It can also be explained by the Party’s longstanding

subordination of the agricultural sector, and of small-scale farmers, to the goals of industrialisation and, now, urbanisation. In the socialist period, Beijing extracted a 'surplus' directly from the rural sector to promote industrialisation. In the market reform era, the government subsidised manufacturers while suppressing food prices and rural wages.

In the early 2000s, prompted by concerns about food security, stagnating rural incomes, and social stability, the Party began to address the 'urban bias' of its development strategy. Between 2003 and 2006, agricultural taxes were eliminated—a historic change given agricultural taxes had been collected in China for over 2,000 years. Beijing then introduced a range of new agricultural subsidies and rural development programs, such as the Building a New Socialist Countryside program. The reallocation of resources was enormous. Between 2008 and 2017, more than 20 trillion yuan (around 3.1 trillion US dollars) was channelled back into the countryside.

Rural households certainly benefited from these measures in terms of improved infrastructure, subsidies for crops, inputs and machinery, and a less predatory local state. Nonetheless, the biggest beneficiaries long-term seem to have been large agribusinesses, as subsidies and other benefits were increasingly redirected to them and they were better able to capture project funding. In the most recent round of major reforms, Beijing redoubled its efforts to promote upscaling. The 2013 No.1 Policy Document singled out four types of 'New Agricultural Operators' (NAOs) for special treatment—dragonhead enterprises, farmers cooperatives, family farms, and specialised large farms. These operators were to be 'supported and promoted through a favourable policy and legal framework and subsidies and bonuses.' As a result, the number of NAOs blossomed. In 2017, there were 129,000 registered agribusinesses (accounting for a third of total agricultural production), 877,000 large family farms, and 1.9 million farmers' cooperatives across China. In 2021, Beijing reaffirmed its commitment to supporting NAOs.

The central government has also implemented land reforms to remove a significant

obstacle to upscaling—the collective ownership of rural land. Under the ‘Three Rights Separation’ system, formalised in 2014, rural households can transfer their land ‘management rights’ to other agricultural operators while retaining their ‘contracting rights.’ Meanwhile, the village collective retains the ‘ownership rights’, preserving the principle of collective ownership of rural land.

The central government contends these reforms strengthen the legal rights of smallholders and help them ‘unlock’ the value embedded in their farmland by, amongst other things, enabling them to lease out their land and use it as collateral when borrowing money. Nonetheless, the primary aim is to facilitate the consolidation of land in the hands of large operators and the exit of ‘inefficient’ smallholders. The central government declared, ‘As the country promotes the development of modern agriculture, small farm sizes and low productivity can be ameliorated by letting farmers transfer farmland to others for modern agricultural production.’ In 2016, Beijing set a goal of achieving ‘appropriate-scale’ farming on 40 per cent of farmland by 2020. These goals dovetail with Beijing’s New-Type Urbanisation Plan (2014-2020), which aimed to shift 100 million rural residents to urban household registration. In short, the current policy framework encourages smallholder farmers to either upscale and ‘modernise’ or exit farming altogether, preferably by relocating to nearby towns and cities.

Our research

Our Australia-China research project investigated how these agricultural reforms to promote upscaling have reshaped the livelihoods of smallholder farmers and local political economies. In 2019, we first conducted a livelihood survey of over 900 smallholder farmers and then interviewed a wide range of farmers, agribusiness employees, village leaders, and lower-level officials. The survey covered land use, household livelihoods, and farming practices and how these had changed in the previous five years. Semi-structured interviews in the field then explored certain topics in more detail, such as smallholder farming practices, smallholder

involvement with cooperatives and agribusinesses, the operations of local agribusinesses, and local officials' approaches to land transfer. We conducted this fieldwork across four provinces in villages cultivating specific cash crops (apples in Hebei, tea in Shaanxi, oranges in Hubei, and coffee in Yunnan). We selected these hilly, poor inland areas because much of the recent literature focuses on broad-acre grain farming in the North China Plain and north-eastern provinces, whereas the extent and nature of land transfer in inland China was far less clear.

1. *Livelihood strategies*

A voluminous literature describes the 'greying' and 'hollowing out' of Chinese villages and how recent reforms encourage land consolidation and rural-urban migration. We therefore expected to find smallholder farmers leasing out their land to NAOs and exiting farming.

We certainly found some evidence of land consolidation. A handful of large farms (over 100 mu in size (6.6 hectares)) acquired around two-thirds of the leased land in our sample. However, only a small proportion of this land came from smallholder farmers. The largest farms expanded their land holdings primarily by clearing uncultivated hilly areas, reclaiming former wastelands, and acquiring land from government-controlled entities, supported by government subsidies and project funding.

Furthermore, the rates of land transfer were modest compared to those reported in the recent literature. They also differed significantly across the four study sites. For example, none of the orange growers in Hubei reported leasing out land in the previous five years, compared to 35.7 per cent of tea growers in Shaanxi. Notably, the transfers *between* smallholders tended to involve only small plots of land and informal agreements, eschewing the new 'three rights' legal infrastructure.

The main reason given by smallholders for not leasing out their land was that

farming was too profitable. Overall, smallholders placed a very high value on their landholdings, both financially and emotionally, with many hoping to pass their farms on to the next generation. Furthermore, our interviews with local officials revealed they were not using heavy-handed tactics to force smallholders to transfer land. Instead, they offered financial inducements, and where this was ineffective, they were effectively waiting for the farmers to grow old. For this reason, several local officials expected land transfers to increase in the coming years and decades.

We also discovered diverse livelihood outcomes for the smallholder farmers across the four study sites. For example, the orange growers in Hubei were earning high (and rapidly growing) incomes by rural standards from their small plots of land (on average 20,654 RMB per capita in 2018). Interestingly, across the four study sites, this Hubei cohort was the least reliant on off-farm work, with 93.3 per cent reporting that farming was their most important source of income. They were also the least likely to have engaged in land transfers and to sell their products to local agribusinesses. In short, the Hubei orange growers were flourishing as independent commodity producers.

Conversely, tea growers in Shaanxi were the most likely to have engaged in land transfers. They were also the most dependent on off-farm work, with only 38.8 per cent reporting farming as their most important source of income. The villagers here, however, were earning lower per capita incomes than the county rural average (6226 RMB vs. 7870 RMB). The surviving smallholder farmers were earning even less (3723 RMB). These results raise troubling questions about whether the government's poverty alleviation, rural development, and upscaling agenda is significantly improving the livelihoods of rural residents.

2. Local political economy

The second focus of our research was exploring how Beijing's policies are reshaping local political economies. Recent political economy research describes how the

current policy framework ties the personal fortunes of village leaders, local officials, and businesspeople to their ability to facilitate land transfers and vertical integration of smallholder farmers.

We uncovered clear evidence of these dynamics in the tea-growing villages in Shaanxi. With the help of local officials, dragonhead enterprises entered partnerships with newly created farmer cooperatives. These ‘paper marriages’ were needed because the government channels some subsidies to farmer cooperatives (e.g. machinery subsidies, land transfer incentives, ‘poverty alleviation’ funding) and others to dragonhead enterprises (e.g. enterprises that demonstrate a ‘company + farmers’ business model qualify for tax concessions and cheap loans). Farmland was also transferred from villagers to large enterprises through these cooperatives. In return, the villagers received land rent and shareholdings in the cooperatives, entitling them to (uncertain) future dividends. Local officials explained how facilitating land transfers helps them to meet Beijing’s poverty alleviation and land consolidation targets.

Similarly, in Hubei, we spoke with a village leader who organised a partnership between a farmer cooperative and a large orange-processing agribusiness. This partnership produced all the trappings of successful ‘agricultural modernisation’—sales agreements, demonstration farms, and land transfers. However, the agribusiness’s primary motivation for entering this partnership was to receive accreditation as a dragonhead enterprise and qualify for government subsidies rather than acquiring land or feedstock for its operations. Indeed, the smallholders later negotiated the return of their land, as they were unhappy with the rental price. For his part, the village leader who brokered the partnership was motivated by financial self-interest and a desire for political advancement. He eventually secured a controlling stake in the cooperative for himself, family members, and political allies.

Smallholders were aware of the self-serving activities of local officials and New Agricultural Operators and some disapproved of them. Given this, we were surprised

by the absence of overt resistance or conflict. Smallholders seemed to be navigating the local political economy using a strategy of selective engagement: they were willing to engage with government initiatives where they saw a direct practical benefit—for example, to participate in training programmes or gain access to subsidised fertilisers—but otherwise distanced themselves from the upscaling activities of local officials and NAOs.

Smallholders also insulated themselves commercially, avoiding sales contracts with local agribusiness, minimising debt, and maintaining control over production and marketing decisions. Indeed, another surprise was the low level of vertical integration through agribusiness observed across all four study sites. Even in Shaanxi, where Beijing’s upscaling agenda was most advanced, most smallholders chose instead to sell their tea through trusted local agents rather than to the local dragonhead enterprises.

This raises the question: How were smallholder farmers able to survive and sometimes even prosper despite the pressure brought to bear on them by Beijing’s upscaling agenda? We offer three main explanations:

- The first is geography—these villages are located in hilly, sometimes remote areas with fragmented landholdings, rendering much of the land unsuitable for broad-acre agriculture.
- A second explanation is the material requirements of the crops themselves. For instance, cultivating high-quality apples and oranges requires tree-by-tree interventions at specific times of the year. It also requires intimate knowledge of local soils, micro-climates, and the unique requirements of different fruit varieties. This makes some types of crops particularly well-suited to small-scale cultivation by older farmers who live on-site.
- Finally, and somewhat ironically, the success of many of the smallholders in the study villages can be attributed to historic investments by the state in infrastructure, agricultural subsidies, and training programmes. For example, the orange industry in Hubei is the product of state interventions

dating back to the 1980s, linked to the Three Gorges Dam project.

Concluding comments

Our research investigated how Beijing's recent policies to promote agricultural upscaling have reshaped rural livelihoods and local political economies. With the possible exception of the tea farmers in Shaanxi, we uncovered little evidence that recent reforms have significantly transformed smallholder farmers' livelihood strategies. Indeed, most continued to farm in a 'peasant-like way' that prioritises autonomy and resilience, with many earning good incomes by Chinese rural standards. Consequently, their appetite for land transfers was low.

We did, however, observe changes in the local political economies. Across all four study sites, we encountered examples of local cadres and businesspeople cooperating to enact Beijing's upscaling agenda by pursuing land transfers, assuming control of farmer cooperatives, forming joint ventures, and applying for NAO accreditation. These activities were motivated, first and foremost, by a desire to comply with Beijing's guidelines, if only on paper, and gain access to government subsidies.

We were also surprised by the limited engagement of villagers with these upscaling initiatives. The villagers distanced themselves from the self-serving schemes of local officials and businesspeople. Furthermore, vertical integration of smallholder farmers through local agribusinesses was limited. Nonetheless, smallholders were willing to engage with the state's agenda where they saw a practical benefit. For example, many farmers participated in training programmes and accessed subsidised fertilisers through local farmer cooperatives. They were also experimenting independently with new ways to apply fertilisers, manage pests, and sell their crops online, including through WeChat. In short, what we saw contradicted the stereotypical portrayal of smallholder farmers as poor, inefficient, and resistant to change—an image promulgated by the government's upscaling

rhetoric.

We cannot draw broad conclusions from the results of our four case studies. Nor can we account for the effects of the COVID-19 pandemic in these areas. Nonetheless, we make three broad arguments:

- First, our results demonstrate how Beijing's upscaling agenda interacts with local political economies in geographically contingent ways. As such, the trajectory of agrarian change unleashed by recent agricultural reforms remains uncertain.
- Second, significant space clearly still exists in China for smallholder farmers to flourish and modernise on their own terms, including to adopt better environmental practices on their farms. This point also speaks to the enduring role of experimentation and flexibility in China's local governance: local governments do not and cannot blindly force through central government directives.
- Finally, rather than assuming the demise of small-scale farming is both inevitable and beneficial to the state and to rural families, Beijing should consider redirecting some of the vast resources it currently provides to NAOs back into broad-based rural development initiatives. This would more directly support China's innovative smallholder farmers, recognise the ongoing importance of farmland to rural families, and help eliminate the perverse incentives, wasted resources, and unfair outcomes generated by the current policy framework.

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Main image: Orange orchards in Zigui County, Hubei Province, July 2019. Credit:

Sarah Rogers.