

A Special Feature Brought to You By **Singapore Management University**



# Exploring China's vibrant rural economy

SMU's Associate Professor Forrest Zhang pioneered research into China's agrarian capitalists

**W**HEN he was a graduate student studying land transfers in China's Zhejiang province over 10 years ago, Singapore Management University (SMU) Associate Professor Forrest Zhang noticed something unusual. Farmers were renting their land to entrepreneurs who wanted to expand the scale of their farms. "It gave me a clue that capitalised farming was possible," he said.

Prof Zhang had hit upon one of the major trends in rural China. The small family-owned farm is being replaced by large-scale farming enterprises. Land was being commodified.

As China industrialised and rural labour moved to the cities, family plots left behind by farmers were being consolidated into larger plots. The rising affluence of urban consumers also meant higher consumption of meat, poultry, dairy products and fruits, giving opportunities for entrepreneurs to farm and grow these products.

In 2008, Prof Zhang published the first study in the English-speaking world about China's new breed of agricultural capitalists. Last month, he and a colleague, Prof John Donaldson, completed a three-year study involving visits to over 100 villages across China.

In the last 10 years, differences in agricultural income have become one of the biggest sources of inequality in China, he said.

#### A lively rural landscape

One might think that rural China is just made up of abandoned villages and left-behind children tended to by their grandparents.

But in his travels around China, Prof Zhang saw another side – a rural China that was lively and productive.

Around the Chengdu region, families no longer live in small houses next to their farms. Instead, newly constructed, well-designed communities of two-storey and three-storey houses have sprung up, looking like gated communities, Prof Zhang said.

People living there are in their 40s and 50s, and commute to their farms by motorised vehicles. Their children often go to school or work in the city.

"They have all the modern amenities every family should have, like gas, electricity and running water, all connected to the municipal system. They have cars, sometimes more than one. When you enter their homes, you see electrical appliances," he said.

In rural areas, transport links have also improved. In remote, mountainous Yunnan province, one can now drive for 40 minutes up a mountain to visit a village of just 80 households. In the past, one needed to walk for a day with a horse or donkey just to get to the market, he said.

Rural villages are finding niches in China's economy. Some grow Chinese herbs. Others collect pine mushrooms which are highly sought after in Japan, or the rare and expensive cordyceps fungus prized in traditional Chinese medicine. Pine mushrooms are also known as song rong in China and matsutake in Japan.

One village specialised in growing edible roses. Yet another one made stevia, a sweetener and sugar substitute, Prof Zhang said.

"There was no local market. But entrepreneurs wanted to capitalise on the suitable climate and thus brought in other countries. So they found the village, brought the technology and knowhow, and signed a contract with the farmers."

#### Diseconomies of scale

China's vibrant rural economy is not without its challenges.

A key problem is the difficulty of finding young people to work in the space.

"The larger producers rely on the casual labour of other elderly, who otherwise stay at home and don't have marketable skills," Prof Zhang said.

Yet, he does not see a crisis. As farming becomes more profitable and when downturns hit urban regions, people will return to agriculture, he said.

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Associate Professor Forrest Zhang, SMU School of Social Sciences

Getting large-scale farms to become profitable can be a challenge, too.

Rural governments have given many incentives to lure large-scale producers to enter the field, even to the point of being aggressive about pursuing land transfer schemes.

But just because a farm is large does not necessarily mean it becomes more profitable. In fact, it can become even less so.

"Agricultural labour is difficult to supervise. It also takes so long for the entire production process to end, you don't really know what the labourer did or whether he was productive or not, there are so many other factors contributing to the growth of plants," he said.

Smaller family farms, by contrast, don't depend on hired hands and can be more committed, he said.

Once large-scale farms fail and move somewhere else, farmers who have rented out their land to the various companies are left in the lurch. The landscape has already been transformed, with different plots of land combined together and irrigation canals rebuilt.

"All these families have to re-divide the land, that becomes a very messy process and creates all kinds of conflicts," he said.

"We have seen evidence that because of their aggressive push for land transfer, local governments forced out family farms which were actually more productive than agribusinesses. This creates two problems: Agricultural production will decline, and you damage the livelihoods of rural households which depended on family farming."

Two sides of a coin  
 Sometimes, challenges and opportunities are on both sides of the same coin.

For example, farms do not tend to produce basic crops like rice, wheat, corn and soybeans. Subsidies offered to do so are too little, Prof Zhang said.

Meanwhile, environmental issues also arise from over-application of fertiliser and over-use of

pesticides, which lead to soil being degraded over time.

On the other hand, as China becomes more prosperous, farms growing higher-value crops like vegetables and fruits will do well, he said.

Firms can also produce and market organic food – produced after restricting the use of pesticides and fertiliser – after obtaining the requisite certifications.

There is a Singapore company successfully pursuing this strategy, Prof Zhang said.

"There's huge demand for organic food in Chinese cities nowadays. With organic certification, you have better traceability, and can guarantee food safety, which is a major concern among consumers."

Another opportunity he highlighted is in providing technology to help agricultural needs. The Chinese have to rely on tech due to their labour shortage, Prof Zhang said.

"I have seen examples of irrigation technology from Israel, seeds and pesticides from a Dutch and British company, even in vegetable growing, where a lot of seeds are provided by Dutch and American companies," he said. "Singapore companies doing hydroponics and related technologies can find a welcoming market."

Ultimately, corporate farms will do well if they can provide a differentiated product, said Prof Zhang.

The secret to success is knowledge, because there are fewer economies of scale available compared to running a factory.

"Agriculture is dependent on land. You really need to have the know-how."

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