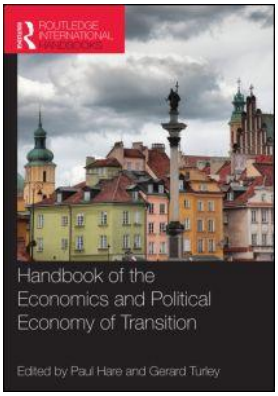

Handbook of the Economics and Political Economy of Transition

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The Rural Economy and Households in China and Russia

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THE RURAL ECONOMY AND HOUSEHOLDS IN CHINA AND RUSSIA

A comparison

Michael Cuddy, Pauric Brophy and Hongmei Liu

Introduction

Dispersed population, or lack of population concentration, and heavy dependence on the primary sector are key factors in defining rural and its attendant endemic problems. Heavy dependence on agriculture with its low value added and declining terms of trade gives rise to low incomes per capita relative to non-farm activities. Low value added combined with productivity-enhancing technology gives rise to surplus labour and out-migration. Over a long-term horizon, changing technology, the evolving economic environment and policy intervention inexorably leads to a relative decline in the employment provided by the agricultural sector in most developed economies. The speed with which such structural adjustment takes place determines the level and extent of inequality between farm and non-farm and rural and urban households.

China and Russia were the two major societies that embraced communism as a political system and central planning as an economic mode of organization. The communist political system is still in place in China, although there are some interesting experiments in local democracy, while the central planning system has been gradually transformed over time toward a 'constrained' market economy. Both communism and central planning were simultaneously replaced by democracy and market capitalism in Russia in the early 1990s. The transition from a centrally planned system to a market system and from state/communal farms to private farms has been much more gradual and has extended over a much longer period in China than in Russia. In fact, the process was quite abrupt in Russia. Also the nature of the transfer of ownership/use of land from public to private has been quite different between the two countries.

These different approaches to the transition process have important implications for the rural economy and rural households. They influence the speed of structural change, which is part of the longer-term efficient sectoral allocation of resources, and thus the level and extent of income disparity between farm and non-farm and urban and rural households.

The aim of this contribution is to examine and evaluate the rural economy and the rural household in China and Russia under the still evolving transition process. The general political

and administrative context within which the rural economy is developing is examined in the next section, followed by a statistical overview of the rural economy in both countries. The agricultural sector, which is normally the core of the rural economy, is examined next. The importance of non-agricultural activity and the sources of household income are then explored; finally, income disparities and migration are examined, prior to a short concluding section.

Political environment for economic development

The political and administrative system in China is communist, akin to what it was in the Soviet Union. There is a dual system: the Government structure, which includes the judicial, legislative and executive arms, extends from the national to the local level; there is the corresponding Communist Party structure, which includes the executive and legislative arms and the political arm, where the latter is synonymous with the legislative arm of government. The Party, in general, oversees all aspects of government administration. There is a relatively high level of autonomy at the provincial and local levels, although subject to central government legislation.

Some democratic processes have been introduced in recent years at the lowest administrative level. Six members of the seven-member village councils are democratically elected by its citizens, while one member is appointed by the Party. The village mayor is also elected by vote of the local citizens. At the national level, a meeting of the National Congress in 2002 agreed to broaden its membership to non-Party members, in particular the business community.

The transition process in rural China moved slowly through the 1970s, 1980s and into the 1990s. The breaking up of the communal or state farms into family household units began in 1978. The central government confirmed the land-use right for rural households for 15 years in 1983, then, lengthened this lease period to 30 years in 1993. In 2009 the central government made clear that the land-use right, obtained by farmers though contract with the village committee, will be permanent (Xu Xiaorui, 2011).

Four important institutional initiatives followed, which achieved the twin objectives of improving economic efficiency and at the same time not offending the centres of power (Qian, 2002). These four initiatives are: (i) a 'dual-track' approach which liberalized prices at the margin while retaining plan prices and quotas. This allowed producers to sell their excess production through the market once the plan targets were achieved; (ii) local governments were allowed to establish and operate enterprises, Township and Village Enterprises (TVEs), which were more efficient than state-owned enterprises (SOEs) and gave a greater share of value-added created to the local authorities, than would be the case with private enterprises; (iii) these TVEs generated funds for the local authorities, which were retained locally and used to stimulate local economic activity and provide local social infrastructure; and (iv) anonymous cash transactions were allowed and earnings and wealth could be hidden in anonymous bank accounts. This prevented the State from taking excessive amounts of privately earned money, which provided a huge local incentive to work and invest. By the mid-1990s, over 95 per cent of rural land belonged to the family household units for private use (rather than ownership), while the TVEs were predominantly transferred to private ownership.

The recent political and administrative experience in Russia has been quite traumatic. The Communist system of the Soviet period was replaced by a democratic system during the 1990s. The system of government, in principle, is somewhat akin to that of the US: there is a constitution, a President, who is elected by the people, with significant executive powers, and upper and lower houses of Parliament. There are regional and local governments, with chief executives and elected legislative bodies. Initially the chief executives were elected by popular vote. However, this was replaced by direct appointment by the President in 2005. Although the

regional and local authorities are subject to the federal government, they have responsibility for certain functions, particularly in regard to the local planning and economic development. The central administrative system is structured according to the ministerial functions, which are exercised from the national to the local level.

However, despite this formal move to a democracy, the institutions required to support the working of the democratic process were only slowly put in place and still remain quite weak.

A privatization process had already commenced in Russia in 1990/91, towards the end of the communist period in the USSR. This process, mainly 'employee lease-buyout', was continued in Russia after independence and was replaced by 'mass privatization', based on the November 1990 Law of Land Reform, which was essentially completed over the period 1992–94. The privatization of state farms (*kolkhozes* and *sovkhozes*), which accounted for nearly 95 per cent of the land area, was completed over this period.

The brutal nature of the transition from the communist to the democratic system of government, combined with the massive privatization process (land, industrial and service enterprises and natural resources) led to a chaotic environment, where political influence was used to acquire economic ownership and control. The institutional structures capable of coping with private economic entities rather than state entities have only gradually adapted to the new demands.

Despite being elected to better the social and economic wellbeing of their citizens, heads of local authorities used the administrative areas under their jurisdiction as personal fiefdoms, the economic spoils of which could be used for personal enrichment, to be shared with their local business or personal associates (Cuddy and Gekker, 2002). The chaotic privatization process and its aftermath, combined with a drastic reduction in government expenditure, led to a cumulative decline in economic activity. Between 1991 and 1998 industrial output and agricultural output had declined by 42 per cent and 62 per cent, respectively (Thiromirov, 2000). In addition, the drop in value-added creation and the failure of the central government to put in place an effective tax collection system left government coffers empty and the consequent impoverishment of public service institutions. The old system of control was unable to adapt to the new demands and the putting in place of a new system could only take place over an extended period of time.

In contrast to China, the Russian local authorities had great difficulty extracting taxes from the newly created private enterprises. At the same time revenues generated at the local level were taken over by the regional or federal government. Consequently, there was no incentive to create additional local revenues or to create a positive environment for local enterprise, as the local authorities benefited little from the success of private business. Zhuravskaya (2000) suggests that local governments in Russia generally over-regulated business in contrast to their Chinese counterparts who actively promoted entrepreneurial activity.

Despite the achievements of Vladimir Putin (inaugurated as President of Russia in 2000) in rescuing the country from economic anarchy and re-establishing order and centralized control, the market environment is still quite hostile, with considerable risk involved in any private business venture. Although, a considerable amount of legislation has been passed in order to create a supportive market environment, the implementation and enforcement of this legislation is very often rudimentary. The current problems in Russia relate to extremely weak or non-existent institutional structures, which will require a considerable period of time to evolve.

A statistical overview

Overall, China is economically less advanced than Russia. Its GDP per capita is €2,485 compared to €8,953 for Russia (UNDP, 2010). China is four times more dependent on agriculture for employment of the labour force than Russia (Table 27.1). Industry is relatively less important and

services are considerably less important in China than in Russia. Public services are, in particular, much more important in Russia than in China. The share of value added in the agricultural sector is low compared to the corresponding employment share in both countries, indicating the relatively lower incomes to workers in the agricultural sector in both countries. However, the position of the agricultural sector is relatively worse in China than in Russia. On the other hand, the earnings in the industrial sector in China are relatively better than in Russia.

China is considerably more dependent on the rural economy than Russia in terms of the percentage of the population, which lives there: 54.3 per cent in China versus 27 per cent in Russia (Table 27.2). The income per capita in rural areas in China is 30 per cent of that in urban areas while in Russia the corresponding figure is only 16 per cent. However, the income per capita in rural China is only about half that in rural Russia.

The sectoral structure of the rural economy is quite different between the two countries. There is a very high engagement in agriculture in China relative to Russia, a higher level of engagement in industry and a considerably lower engagement in services (Table 27.3). Off-farm employment provided by TVEs is very important in supplementing farm incomes in China, as will be shown below.

Taking the percentage of the workforce engaged in agriculture as an indicator of the level of economic development, the divide between the two countries is quite evident. On the other hand, the high dependence on agriculture in China indicates the very significant potential redeployment of labour into urban areas and alternative economic sectors, thus contributing to economic growth in China.

Agriculture

The areas of arable land in China and Russia are almost exactly the same at 122.5 and 123.4 million hectares, respectively (Table 27.4).[1] Given that the population in China is almost 10 times

Table 27.1 Sectoral shares (%) of GDP in China and Russia, 2008

Sector	*China*		*Russia*	
	Labour	*GDP*	*Labour*	*GDP*
Agriculture	39.6	11.3	10.0	4.2
Industry	27.2	48.6	31.9	33.8
Services	33.2	40.1	58.1	62.0

Source: NBSC, 2010; *Goskomstat*, 2011.

Table 27.2 Share of population and income per capita in rural and urban economy of China and Russia, 2008/09

	China		*Russia*	
	Population share	*Income per capita (€)*	*Population share*	*Income per capita (€)*
Rural	54.32	560	27.0	1015
Urban	45.68	1866	73.0	6336

Source: Derived from Goskomstat of Russia, 2011; National Bureau of Statistics of China, 2010, Zvyagintsev *et al.* (2007) and World Salaries, 2008.

Table 27.3 Sectoral shares of employment in rural China (2006) and Russia (2003)

	China	*Russia*
Agriculture	56.8	36.6
Industry	26.0	22.2
Services	17.2	41.2

Source: Adapted from NBSC (2010) and Bogdanovskii (2008).

Table 27.4 Total arable land area and land area per capita in China and Russia 2010

	China	*Russia*
Total arable land and permanent crops (Mil. Ha)[a]	122.5	123.4
Land area per capita (Ha)[b]	0.092	0.870
Land area per person engaged in agriculture (Ha)[b]	0.315	12.394

Source: a FAO (2010); b Derived from land area and data in previous tables.

that of Russia, the land area per capita in Russia is almost 10 times that in China. Also, given that China has a much higher percentage of its workforce engaged in agriculture, the result is that the land area per person in agriculture in Russia is nearly 40 times that in China. However, although the household distribution of agricultural land in rural China is quite equitable, it is quite the opposite in Russia.

The communal farms in China (the communes) created under the communist regime were broken up following a government decision in 1978. Family farms were created with each household being allocated land on the basis of the family size. Farmers were initially required to sell part of their harvest to the state at a fixed price and the remainder could be sold on the open market. This was subsequently replaced by a system of taxes, which was removed completely through legislation, which came into effect on 1 January 2006. Although the land is still formally in collective ownership, farmers now hold 30-year leases on the 'use' of the land. This land use privilege can be inherited or traded on the land market.

The state farms in Russia, which comprised the major part of Russia's agricultural land, were privatized in the early 1990s. They were originally vested in the farm workers, including the farm manager, pensioners and social service workers, all with an equal share. These farms operated initially as a form of workers' co-operative. Members of the co-operative were allowed to leave and take their land share of the farm. Only a relatively small number initially took this route. The majority of shareholders leased their land share to the enterprise (Serova, 2003). The lease of land shares became even more important after 1998. While approximately 5–6 per cent of farmland shares change between users annually, this is now predominantly among the large enterprises. On the one hand, farm land is transferring from financially weak or bankrupt farms to financially strong farms and, on the other, there are investors from outside of agriculture, agribusiness (distribution, factor inputs, use of outputs – vertical integration) and oil, gas and financial institutions, who are investing in the more profitable farms. Some of these companies lease up to 300,000 hectares each in several regions. Thus there is an increasing concentration in land use. Although the predominant corporate form of the farm enterprise is like a production co-operative (46 per cent), the more successful are joint stock companies or farms that have a strong manager.

The household 'subsistence' plot in Russia is a carry over from the Soviet period of the small family land holding for self-sufficient food production. In some cases, this household plot has been

increased by adding a 'share' from the farm enterprise (the privatized state farms), which has been taken in the form of land. These individual farms now engage in commercial production.

Only 4.5 per cent of the arable land area of China is in State farms, with 95.5 per cent in individual family farm units (Table 27.5). The average size of the individual farm is about 0.67 ha (Eastwood *et al.*, 2004). In Russia, 86.1 per cent of the land is in 'farm enterprises'. The average size of these farms is about 5,000 ha. The individual farms account for about 7.9 per cent of the land area with farms which have an average size of about 50 ha. The household plots account for 6 per cent of the farmland with an average size of about 2 ha.

Despite the large share of the land area in farm enterprises, the output of these farms accounts for less than 50 per cent of the value of Russian agricultural production (Figure 27.1). Indeed, private household plots, with only 6 per cent of the land area, have challenged these large farms for the biggest share of total production. The share of output (by value) from the individual farms seems to have plateaued at less than 8 per cent, corresponding to its share of land area farmed.

Three factors explain this seeming anomaly. First, the financially stronger farms in Russia, approximately 40 per cent of all farms, produce 70 per cent of the total value added (Uzun, 2001). Indeed, at the very upper end, 7 per cent of farm enterprises account for nearly 50 per cent of the sector's sales. Second, the agricultural enterprises are engaged in extensive production in contrast to the highly intensive nature of production on the private household plots.

Table 27.5 Land use share (%) by type of farm in China and Russia (2000)

Type of farm	*China*	*Russia*
State-owned	4.5	
Farm enterprise		86.1
Individual farm	95.5	7.9
Household plot		6.0

Source: Adapted from National Bureau of Statistics of China (2010) and Serova (2003).

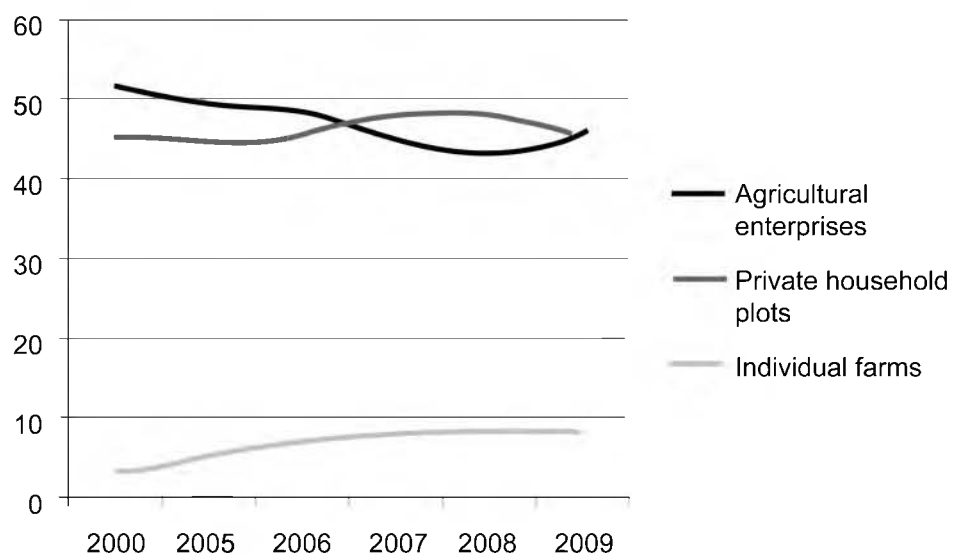

Figure 27.1 Share of agricultural output (value) in Russia by farm type, 2000–09
Source: Derived from *Goskomstat* (2010).

Thirdly, it is also partly explained by the higher unit value of output on the private household plots, for example vegetables and fruits. Nevertheless, the agricultural enterprises dominate production of the principal agricultural commodities in Russia, producing, for example, about 85 per cent of grains and over 75 per cent of sunflower seed (USDA, 2005). In 2003 private farms accounted for 14.4 per cent of Russia's total grain production (up from 6.8 per cent in 1995), 21.8 (10.9) per cent of sunflower seed, and 10.1 (4.0) per cent of sugar beet. Private household plots produce 93 per cent of the country's potatoes and 80 per cent of the vegetables, either for personal consumption or for sale in local markets.

Despite the fact that both countries have comparable arable land areas, agricultural production, across the top 20 products in both countries, is 8 times higher in China than in Russia (Table 27.6). This is because of the sheer human intensity of production on very small production units. Indicative of this is the fact that the top three agricultural commodities in China are pig-meat, rice and vegetables, which are intensively produced, in contrast to the top three in Russia, cow milk, wheat and beef, which are extensively produced. The fact that the number of persons engaged in agriculture in China is 66 times that in Russia and that output in China is only eight times that of Russia, suggests that the higher levels of technology used in the extensive production and land productivity in Russia have been able to narrow very significantly the gap that might otherwise exist on the basis of relative numbers engaged.

According to Huang and Pieke (2003), more capital intensive production combined with a decline in demand for agricultural produce has led to an increase in the underemployment or surplus labour in rural China from 33 per cent in 1988 to 60 per cent in 2000. However, under the *hukou* registration system introduced in the mid-1950s, peasants and their children (except

Table 27.6 Value of agricultural production in China and Russia by main products

Rank	*China*		*Russian Federation*	
	Product	*$m*	*Product*	*$m*
1	Pigmeat	47774	Cow milk	7822
2	Rice	36561	Wheat	6670
3	Vegetables	23807	Beef	3629
4	Hen eggs	19298	Potatoes	2829
5	Wheat	15806	Chicken meat	2319
6	Chicken meat	12957	Pigmeat	2034
7	Beef	12069	Hen eggs	1770
8	Cotton	11134	Sunflower seed	1549
9	Asparagus	10120	Sugarbeet	1318
10	Garlic	9706	Tomatoes	459
11	Cow milk	9535	Apples	421
12	Apples	8574	Vegetables	417
13	Potatoes	8486	Barley	394
14	Tomatoes	8035	Cabbages	337
15	Maize	6959	Onions	316
16	Groundnuts	6754	Sheep meat	308
17	Watermelons	6657	Currants	274
18	Cabbages	5178	Cucumbers	191
19	Tobacco	5172	Garlic	175
20	Spinach	5112	Rye	168
Total value		269694		33400

Source: FAO, 2010.

in certain circumstances) were not allowed to become city dwellers.[2] So migration was restricted, creating a very significant labour pool in rural areas.

Although the farm enterprises have shed labour, there is still a significant excess of labour on the Russian farms. While all farms are shedding labour, the outflow from insolvent farms is most marked, where insolvent farms have less than half the labour force of solvent farms of comparable size.

Non-agricultural activity and income sources

Employment in the agriculture sector is considerably more important in rural China than in Russia (Table 27.7). Employment in industry is broadly similar in both countries. Employment in commercial services is very similar in the two countries. The big difference is in the share of employment in the social services, which is considerably more important in Russia than in China, 28.3 per cent versus 1.7 per cent. This is because social services in rural China are generally very poorly developed with only limited state support. For example, basic education is financed mainly from household savings (Wang and Moll, 2010). Health services must, also, be paid for from rural household savings (Gustafsson and Li, 2004).

One of the important outcomes in the development of rural China has been the emergence of TVEs in the 1980s. These were enterprises established and managed by the town and village councils, primarily for the benefit of the local community. Profits from these enterprises were spent on growing the enterprises or on local social infrastructure. Although still so called, they are now mostly privatized. What remains in the hands of local administrations is mainly in the limited social services. Over 75 per cent of rural non-agricultural enterprises in 2008 were TVEs.

The harsh transformation of Russian rural society, which began in the early 1990s, is still working itself out. The privatization of the state farms has led to a very significant shedding of labour and the ancillary economic and social activities, which were internalized within the state farms during the Soviet period. These services which were shed are now developing as private entities or are being provided by the state. Consequently, the share of agricultural employment is rapidly declining while industry, trade and consumer and social services are increasing (Figure 27.2).

Table 27.7 Sectoral composition of rural employment in China and Russia

Sector	*%*	
	China	*Russia*
Agriculture	56.8	36.6
Non-Agriculture		
- *Township and Village Enterprises*	32.7	
- *Private and self-employed individuals*	10.5	
Industry	22.8	22.2
Construction	3.2	
Transport and storage	2.5	13
Wholesale and retail	7.9	
Hotels and catering	2.5	
Social Services	1.7	28.3
Other	2.5	
Total	100.0	100.0

Source: Adapted from *China Labour Statistical Yearbook*, 2009, and Bogdanovskii (2008).

Household income sources are quite different between the two countries as might be suggested by the sectoral composition of employment. However, some additional insights emerge. Dependence on agriculture is confirmed by the fact that 64 per cent of rural household income in China comes from household operations, primarily agriculture (Table 27.8). Twenty-eight per cent of income comes from wages and salaries, which are mainly in the non-farm sector. Transfers account for only 6 per cent of household income and these are predominantly through family remittances.

It is interesting to note the rapid growth in rural household income in China over a twenty-year period, by almost a factor of six over this period (Figure 27.3). Indeed, there has been almost a doubling of rural household income since 2000. These increases are driven by increases in food prices, raising the returns from household operations, and from increases in wages and salaries from non-agricultural activities.

The household income structure is very different in Russia where 58 per cent of household income comes from salaries, 41 per cent from non-farm and 17 per cent from farm sources (Table 27.9). The 17 per cent from farm sources arises from the salaried employees of the privatized state farms. While it is obvious that a very large percentage of rural households generate income from their household plots (91 per cent), it is surprising that 90 per cent of farm

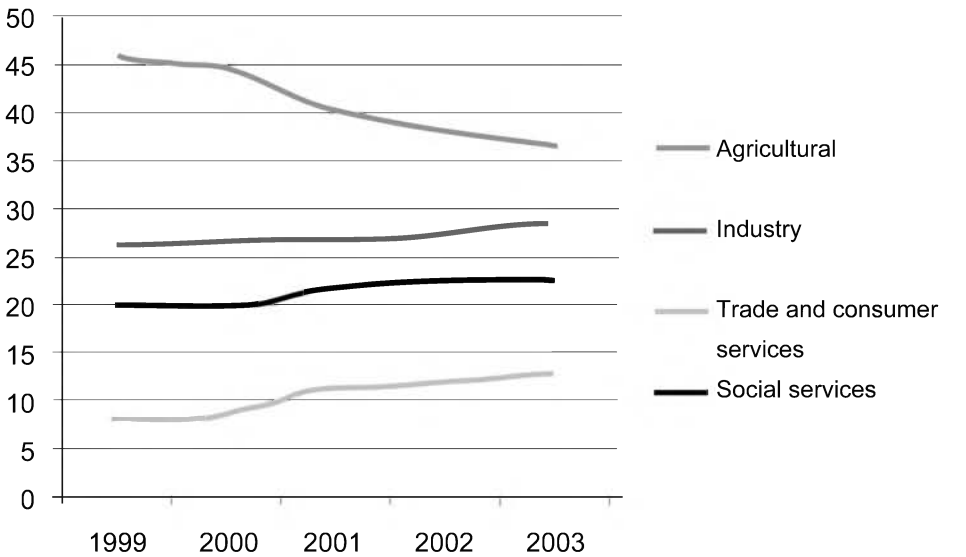

Figure 27.2 Share (%) of rural employment by sector in Russia, 1999–2003
Source: Derived from Bogdanovskii (2008).

Table 27.8 Structure of rural household income in China, 2008

Source	*%*
Household operations	64
Wages and salaries	28
Transfers	6
Property income	2
Total	100

Source: NSBC, Rural Household Survey, 2010.

Table 27.9 Structure of rural family income in Russia

Source	*Share of income (%)*	*Share of households (%)*
Income from household plot	17	91
Salaries from agricultural employment	17	90
Salaries from non-agricultural employment	41	
Salaries from off farm self-employment	2	18
Transfers	18	66
Other income	5	42
Total	100	

Source: Derived from Zvyagintsev *et al.* (2007).

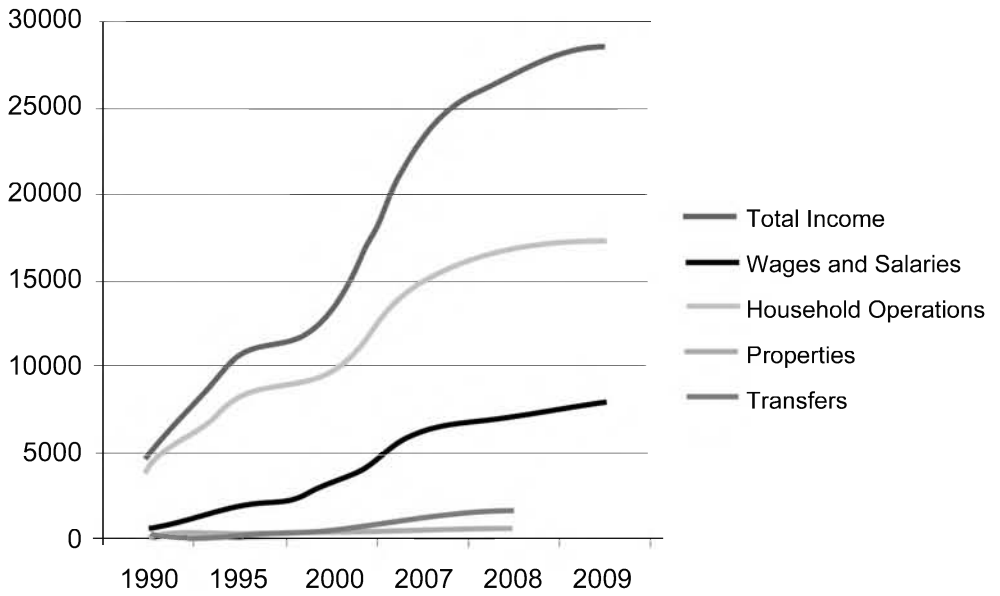

Figure 27.3 Total rural household income and its components in China, 1990–2009.
Source: NSBC, Rural Household Survey, 2010.

households have some sort of salary income. It is clear that a large part of the non-farm salaries come from employment in the social services while the second major component comes from industrial employment. It is also noteworthy that 66 per cent of rural households receive transfers of some sort, mostly from the state, in contrast to China. Finally, although accounting for only a small percentage of household income, 18 per cent of households are engaged in off-farm self-employment.

Income disparities and migration

The UN Gini indices[3] for China and Russia, respectively, are 46.9 and 39.9 (UNDP, 2010). Since incomes per capita in urban areas in both countries are multiples of the incomes per capita in rural areas, this significant difference in Gini indices is explained primarily by the large

percentage of the population in rural China compared to rural Russia (Gustafsson *et al.*, 2007). The difference in Gini indices is mitigated by the fact that the urban/rural income divide is much smaller in China compared to Russia (a ratio of 3:1 versus 5:1). Whereas the Gini index is similar in urban areas in China and Russia, it is higher in rural China than in rural Russia. One of the big contributors to rural income disparities in China is off-farm income (Benjamin *et al.*, 2004, Cuddy *et al.*, 2008). Rural households with off-farm incomes have consistently higher incomes than those without any off-farm income. Given the continuing divergence between farm and non-farm incomes (Figure 27.4), this latter will be a continuing source of inequity between urban and rural and between those rural households with and without non-farm income.

A particular factor in Russia, which gives rise to declining regional and rural economic circumstances, is the former spatial distribution of industry, which was determined by political decisions rather than considerations of economic advantage. Market forces are now sweeping away those industries which are in non-competitive locations and sectors.

Public policy has contributed to income inequality in China and to greater equality in Russia. The first example is through income transfers. The rural population in China is not covered by pensions whereas the urban population is; all citizens are eligible for pensions and social welfare in Russia. In addition, the Chinese urban population has obtained housing subsidies whereas the rural population is not afforded the same privilege. Transfers are very important in rural Russia: transfers are received by 66 per cent of rural households and, on average, account for 18 per cent of rural household income (Zvyagintsev *et al.*, 2007). Transfers account for only 6 per cent of rural household income in China and these are primarily remittances from family members working in the cities.

Whereas rural industrialization in China is an important factor in closing the urban/rural income gap in China, this is not the case in Russia. However, a system of 'fiscal federalism' in Russia helps to redistribute regionally the revenues from localized natural resources, thus reducing the interregional and urban/rural income inequality (Mahler, 2011).

Although household income is the most important element in determining the standard of living of rural households, access to social services provided by the state is also extremely important. The introduction of the 'household responsibility' system in China in 1978 pushed

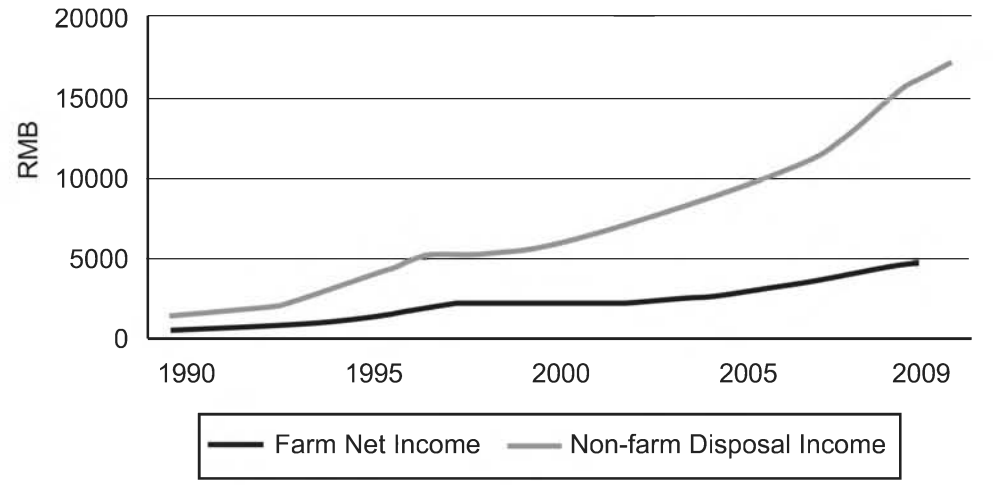

Figure 27.4 Disparities in farm and non-farm incomes in China
Source: Lijuan (2010), www.china.org.cn/opinion/2010-02/03/content_19362162.htm.

responsibility for education and healthcare onto the individual. This situation has effectively continued in China up to the present time (Gustafsson and Li, 2004). Something similar happened in Russia following the break up of the state farms, particularly with respect to healthcare. Also, throughout the 1990s, the weak public finances particularly affected the provision of health and education services and rural areas were most seriously affected. These difficulties have now been largely resolved with respect to the education sector. However, a significant reform of the health service has led to a hybrid system, which is a combination of central finance and health insurance (Gordeev, 2009). However, there is no distinction between the treatment of urban and rural areas with respect to the provision of education and health services and so this is not a contributing factor to disparities between urban and rural Russia.

The upshot of urban/rural income disparities is a migration from rural areas to urban centres. Despite the existence of local registration systems, the *hukou* in China and the *propiska* in Russia, migration continues to be one of the major demographic phenomena in China and Russia. Traditionally the migration movement in China was from the rural West and Central regions to the urbanized East. In general, this continues to happen but migration flows have also been heavily influenced by political encouragement for migration to ethnic minority regions in order to ensure political and social stability. Thus, whereas migrants as a share of the provincial population are highest in Beijing, Shanghai and the highly urbanized province of Guandong, they are also high in the Uygur province of Xinjiang (Figure 27.5). The major outmigration is now from the Central region, the main beneficiary being the East region and to a far lesser degree the West region.

Internal migration in Russia has been traditionally from the more rural east of the country to the more urbanized west. However, most rural regions in Russia are losing population to the urban centres. This internal migration in Russia has been compounded by the inflow of ethnic Russians from the countries of the former Soviet Union (Figure 27.6). The government has been quite successful in curbing both these migration flows through external and internal controls. However, some of this success may be due to an upturn in the internal local economies and external economies, post 1998.

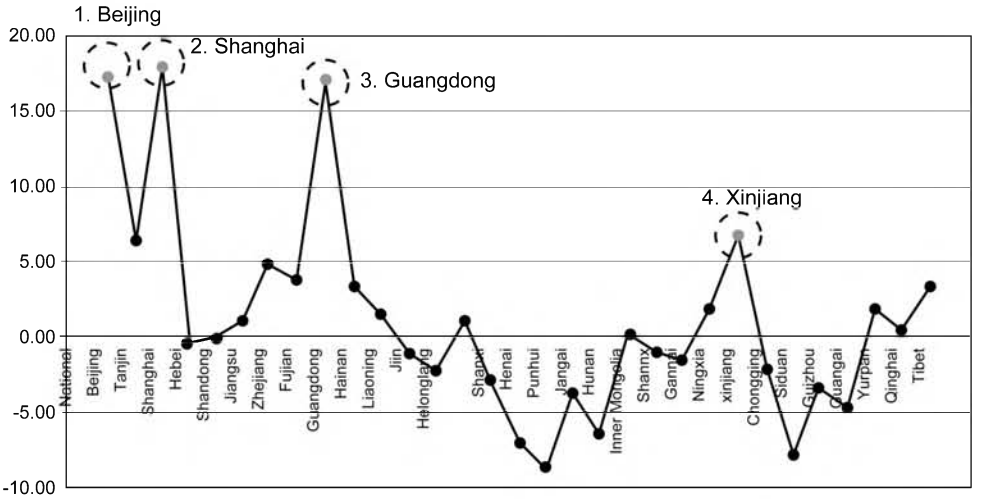

Figure 27.5 Net Migration to population by Province (2000)
Source: Bao (2008), with permission.

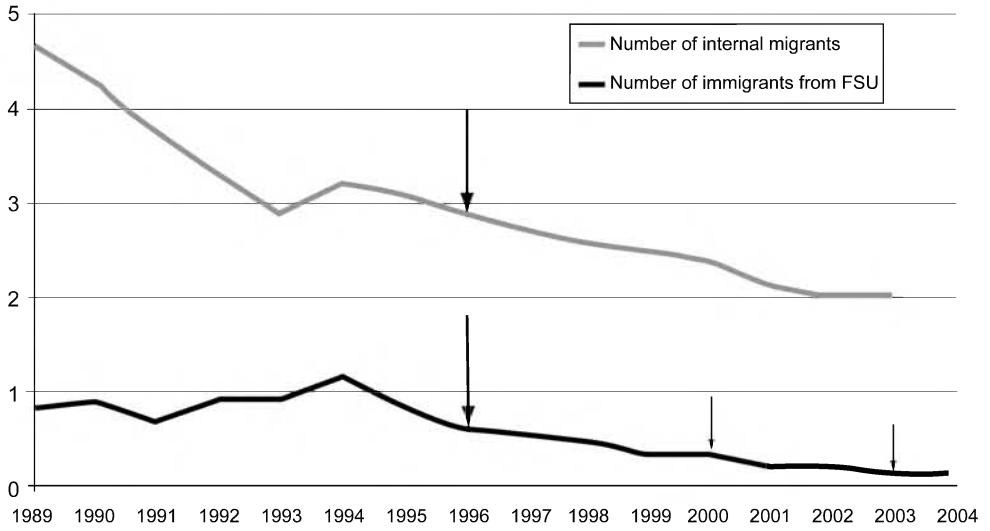

Figure 27.6 Migration flows in Russia and the impact of legislative restrictions
Source: Andrienko, Y. and Guriev, S. (2005), with permission.
Note: Arrows show changes in legislation.

Conclusion

China is in transition from a centrally planned to a 'constrained market economy' with some level of democratization at the lower administrative levels of the communist political system. Russia is in transition from a communist to a democratic political system and from a centrally planned economic system to a market driven system. Whereas the transition has been taking place in China over a very long period, the change in the political and economic systems in Russia was very abrupt, while the institutions supporting these systems have been adapting to these radical changes. The systemic transformations in both China and Russia, and their relative speeds, have had an important impact on the rural economy and rural households, which are central to long term structural change and sectoral resource allocation in these countries.

The two countries were at different stages of development at the beginning of the transition, with Russia already quite industrialized and, therefore, far less dependent on the rural economy and the primary sector than China. However, the political decision to break up the communal farms in China into individual extremely small private plots has important consequences for the efficiency of production and the long-term viability of farm households, in the absence of alternative income sources. In contrast, the state farms in Russia were not broken up but were mostly transferred into private ownership as going concerns. Although many of these farms have not yet achieved financial sustainability, a strong land market is gradually moving bankrupt farms into alternative viable corporate ownership. The potential shown by these farms which have achieved financial viability augurs well for agricultural production and efficiency in Russia. However, increasing numbers of rural households are becoming employees of corporate owners rather than farm holders. A special feature of rural Russia is the ownership by all households of the 'household plot'. The intensive cultivation of these plots has acted as a safety net for rural households during the more turbulent years of the transition.

Despite the very intensive cultivation of the family farm in China, only a subsistence livelihood can be realized from the farm alone. The TVEs heralded new income opportunities for

rural households in off-farm employment. Initially in public control, these enterprises have gradually moved into private ownership in a constrained market environment. In the absence of social welfare transfers, this off-farm income makes the difference between poverty and a more comfortable existence in rural China. Income from off-farm employment is the major factor influencing income inequality in rural China. Rural households in Russia live in far less precarious circumstances: most households have salaries from farm or off-farm activities; most households cultivate the household plot and two-thirds have some income transfer from the state. Consequently, there is a much higher level of income equality in rural Russia than in rural China. A further factor influencing the relative living standards in rural China and Russia is the access to social services. Whereas the access to education and health in rural Russia is primarily through state provision, in China rural households must pay for these services out of savings.

The inevitable migration from rural to urban areas due to living standard inequalities has been mainly from West to East in China and from East to West in Russia. Although migration in China has been essentially internal, in Russia there has also been significant migration from the former republics of the Soviet Union to Russia. The strong rural/urban migration is likely to continue in China, given the disparities in living standards between urban and rural areas and the low potential for agriculture in raising rural household income levels. However, this is likely to be influenced by government policy, which is currently addressing the urban/rural imbalance in a meaningful way. Developing urban centres in the more rural provinces, in order to stem migration to the East coast cities, is likely to be an important element in the policy mix. Government policy is also likely to continue to direct population flows to provinces with high levels of ethnic minorities.

Although Russia has taken some successful initiatives in curbing migration from external and internal sources, the same level of migration pressure does not exist in rural Russia as in China. Also, there is greater potential for labour absorption in rural Russia, as the current financially distressed farms gain financial viability through improved management, credit injections, and new ownership. This labour absorption can come from on-farm employment owing to expanded production and from off-farm employment in the food processing sector.

The challenges facing rural China and Russia derive from the stage of development of these economies when the transition process began, from the transformation process and the speed of the transformation. It is clear that the challenges facing rural China are far greater than those facing rural Russia, mainly because of the enormity of the rural population in China. However, the constrained market system and the continuing central political control are likely to favour China in addressing these challenges in the coming decades.

Notes

1 Arable land in China dropped dramatically from 130 million hectares in 1996 to about 122 million hectares in 2008 owing to rapid urbanization and natural disasters (*China Daily*, July 5, 2011).
2 The rule has been ignored at times when urban centres wish to increase their labour pool and it is re-imposed or enforced in times of high unemployment.
3 The Gini Index is the Gini Coefficient multiplied by 100. The Gini Coefficient is a measure of inequality derived from the Lorenz curve, which plots the cumulative share of the population, from lowest to highest income, against the cumulative share of income. The higher the Gini Index the greater the level of inequality.

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