Beijing abolishes centuries-old agricultural tax

By John Chan
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On January 1, the Chinese government officially abolished its agricultural land tax in a bid to defuse the growing unrest among the country's 800 million peasants—the vast bulk of the population. Beijing hailed the decision as a historic one: the final end to the 2,600-year-old system of "imperial taxation" on Chinese farmers.

The agricultural tax levied on each peasant family according to their land was the main source of government revenue during the centuries of imperial rule. Following the 1949 revolution, the Chinese Communist Party (CCP) retained the tax even after its land reforms eliminated the landlord-gentry class. The roots of the taxation system lay in China's backward, largely agrarian economy.

The National People's Congress finally abolished the tax on New Year's Eve as part of China's 11th Five-Year Plan (2006-2010). The plan, which is yet to be finally approved, also provided for 100 billion yuan (about $US12 billion) a year to rural areas including limited subsidies and services. However, the bulk of money—78 billion yuan—will be eaten up in providing compensation to provincial governments for the loss of revenue from the land tax.

The abolition of the agriculture tax is bound up with China's rapid transformation from a predominately agrarian economy to an industrial one in the past two decades. Agriculture now contributes just 13 percent of China's Gross Domestic Product (GDP) compared to the more than 86 percent from industry and services.

As a result of its economic expansion, China's tax revenue increased 20 percent last year to a record 3,087 billion yuan or $US382 billion. The agriculture tax is a greatly diminished source of government income. Three years ago, the tax was worth 60 billion yuan. By last year, most provinces had phased it out. The tax was worth just 1.5 billion yuan or less than one percent of total tax revenue.

The government hailed the decision as building "the new socialist village" and the state-owned media reported on the enthusiastic response of peasants. Li Sanhong, a villager from northern Hebei Province, purportedly declared: "It's really a great thing for us. We don't need to pay tax any more. We can tell our country is richer and stronger."

This propaganda is absurd. Far from creating "socialist villages", Beijing's market reforms have only widened the country's deep social divide. The gap between urban and rural incomes is now about three to one—among the highest in the world. Within rural villages and towns, the gulf between the wealthy few and the mass of poor farmers is widening.

When Chinese Premier Wen Jiabao first announced the plan to abolish the agricultural tax, it was to be carried out over a five-year period. But amid growing rural unrest, the regime was decided to implement its decision far earlier. In 2004, 74,000 protests and riots took place, involving more three million people—many of them were by the rural poor.

Clashes between police and peasants have become more bitter. In the village of Dongzhou in Guangdong province last month, paramilitary police opened fire on protesting villagers, killing at least three. Beijing fears that these localised protests will lead to the formation of a broader and more politically dangerous anti-government movement.

In real terms, the abolition of the agriculture tax does little to ease the economic burdens on China's rural poor. According to an agriculture ministry forecast, the decision will lift the average annual income of Chinese farmers this year to 3,250 yuan, an increase of just 6 percent compared to 2004. Rural incomes will still be less than half of the national average.

Cao Jinqing, an expert on rural issues from Huadong University of Science and Technology, told the *Los Angeles Times*: "It [the abolition of the agricultural tax] will give farmers psychological comfort. But the real financial benefit to farmers will be small compared to its political windfall." He estimated that in general the tax only amounted to about 10 percent of a farmer's income.

Farmers are still burdened with many local taxes and levies. These include a special product tax, a slaughter tax and a farmland utilisation tax. Township and village authorities collect levies for schools, family planning, support for army veterans, as well as for road construction and maintenance. Another source of government income is fines for violating Beijing's hated birth-control policy.

These financial burdens can be traced back to Beijing's fiscal "reform" in 1994, which transferred financial responsibility for services such as health and education from the central government to local authorities. The shift opened the door for a flood of arbitrary taxes and fees as local officials attempted to raise funds. The abolition of the agricultural tax will only compound the financial problems facing township and village authorities.

Meng Xiangui, a local Communist Party official in Xiangyang township in northeastern Heilongjiang province, told the Xinhua newsagency last year: "We often receive court summons as we have several million yuan in debt. Before the taxation reform, the township government could garner two million yuan every year. Now we have less than one million yuan allocated by the central government. We are incapable of repaying our debts, or, needless to say, building roads and water conservancy facilities for the farmers."

The financial position of this township is typical. The cutting of funding for rural education has led to 10 billion yuan of wages in arrears due to more than six million teachers. Healthcare and other social services have also been cut to the bone.

As well as taxes, farmers are also being hit by the impact of the market. Since entering the World Trade Organisation (WTO) in 2001, Beijing has slashed its average agricultural tariff from 54 percent to 15.3 percent, compared to the world average of 62 percent. In 2004, China had an agricultural trade deficit of $5.5 billion as a result of a jump in imports. Imported cotton alone increased 175-fold from 11,300 tonnes in 2001 to 1.98 million tonnes in 2004.

Commerce Minister Bo Xilai declared at the recent WTO conference in Hong Kong: "Not a single member in the WTO history has made such a huge cut in such a short period of time". The result has been devastating for ordinary Chinese farmers.

Oxfam Hong Kong reported in December that the import of cheap US cotton into China resulted in 2005 in the loss of $208 million in income for farmers and 720,000 jobs. Hardest hit were Gansu and Xinjiang, the country's two poorest western provinces. Sugar imports from the EU have reduced the annual per capita income of Chinese sugar growers by 300 yuan.

To compete the Chinese government initiated a program of industrialised agriculture in 2000. To create specialised crop belts in different regions such as corn and soybean, it encouraged agricultural businesses by providing preferential financial treatment and subsidies. By the end of 2002, there were 371 agricultural enterprises operating at the national level and some 1,000 more at the provincial level.

When Deng Xiaoping launched the CCP's "market reform" in 1979, the collective communes, which had provided a limited safety net for the rural population, were the first to be dismantled. Deng appealed to small farmers with the slogan "to get rich is glorious" painting a bright future for those who seized the new opportunities. However, only a small layer of peasants benefitted, along with local Communist Party bosses who seized collective assets as their own private property.

The income of the vast majority of farmers fell dramatically. The number of landless peasants has risen sharply, partly due to the seizure of land by local authorities for lucrative real estate or industrial development. Now faced with competition from mechanised farming overseas and within China, small farmers are going bankrupt. Many are forced to leave their land to become farm labourers or to move to the cities in search of work.

As many as 150 million rural poor had been forced to look for work in the cities. The Chinese government encouraged the establishment of job agencies nationwide, to facilitate the movement of rural labour to the cities and export zones. Once there, migrant workers are treated are second-class citizens: forced to obtain special residential permits and denied access to proper education and health care.

This process has been central to China's emergence as the so-called workshop of the world—a massive cheap labour platform for global capitalism. For all its high-sounding slogans about reducing the burden on farmers, Beijing is careful to ensure that its agricultural policies do not disrupt the continuing flow of cheap rural labour to urban areas.