

**CHAPTER 3**  
**GEOGRAPHIC & SOCIO-ECONOMIC BACKGROUND,**  
**RURAL ENTERPRISES DEVELOPMENT IN HENAN PROVINCE**

In this chapter, the author introduced the general background of Henan province and the rural enterprise development in Henan province. By the introductory chapter, the reader may have a basic understanding on Henan province and also the history of RE development in Henan province.

**3.1 General Introduction to Henan Province**

**3.1.1 Geographic location**

Henan province is situated in the Middle East of China, in the middle and lower reaches of the Huanghe River, covering the southwestern part of the Huanghe-Huaihe-Haihe Plain. It boasts a large area of 167,000km between 31°23' and 36°22' N, and 110°21' and 116°39'E inhabited by 90 million and more people. Henan enjoys particularly favorable geographic and natural conditions. Stretching over the North Temperate Zone and the north subtropical zone. Henan has the climate advantages of both the south and the north, with a temperate climate, distinct seasons, a plentiful rainfall, fertile farmland, and exceptionally rich resources of animals, plants and minerals, which are favorable for the development of both industry and agriculture.

The terrain of Henan Province is characterized by the rugged and rolling country in the west, which slopes down toward the east, thus forming a complicated surface configuration. Within the province there are many kinds of land forms, including mountainous regions, hilly lands, plains, basins, etc. The height of the Funiu mountainous region in the west and the Taihang mountainous region in the

north are generally 1,000m above sea level, while the plain in the east is generally below 100m above sea level. Because of its complicated configurations, the province holds a rare area in the country, which reaches Huanghe River, Huaihe River, Yanazi River and Haihe River valleys, therefore, is rich in water resources.

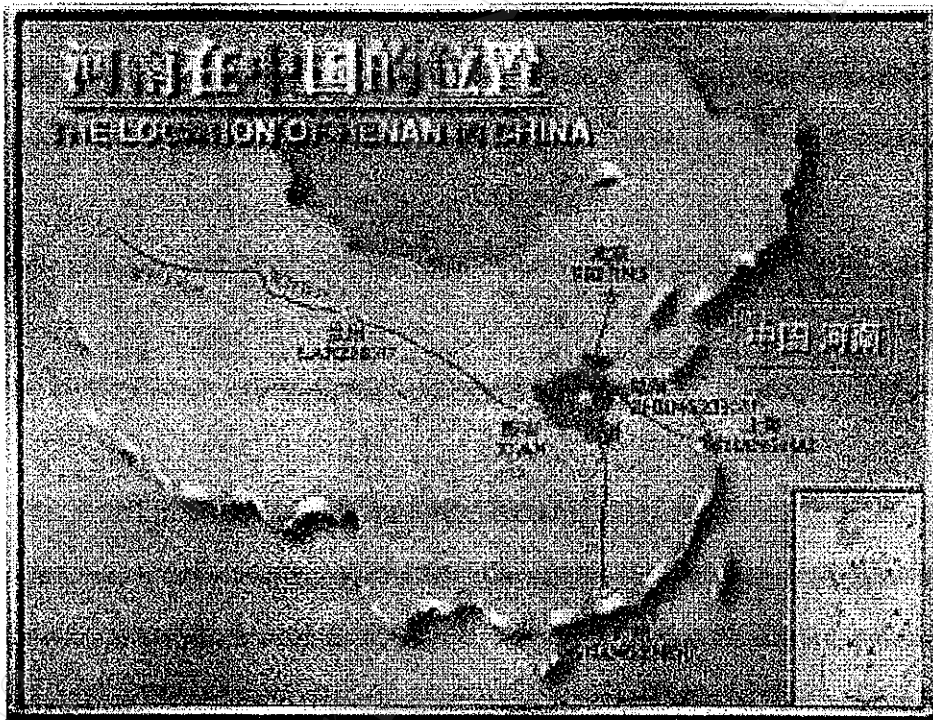


Figure 3.1 The location of Henan Province in China

Zhengzhou, the capital of Henan province, is the joint of Lanzhou-Lianyungang railways and Beijing-Guangzhou railways. The Beijing-Zhuhai and the Kaifeng-Luoyang expressways also cross here, offering the city exceptional convenience of transportation. Zhengzhou is famous as a commercial and trade city. It is one of the collecting and distributing centers of good in China.

There are in our province 4 prefectures (Shangqiu, Zhumadian, Zhoukou and Xinyang), 13 cities directly under the provincial government (Zhengzhou, Luoyang,

Kaifeng, Pingdingshan, Xinxiang, Anyang, Puyang, Hebi, Sanmenxia, Xuchang, Luohe and Nanyang), 40 districts directly under the municipal governments, and 116 counties.

### **3.1.2 Reform and opening policy**

In recent years, Henan Province has sped up the step of the reform and opening policy. The structural reforms of planning, finance, banking, price, foreign trade and investment has been deepened. The reform caused by joint venture, annexation, lease and auction of enterprises have advanced. Experiments of joint-stock system have further been normalized. The province has also deepened the reform of financial system, quickened the transition of the state-owned specialized banks to commercial banks, and added some new banks for political consideration, such as the China Agriculture Development Bank, Commercial Bank, China Investment Bank Henan Branch, and Guangdong Development bank Zhengzhou Branch.

In recent years, owing to the strategy of opening up leading foreign trade, the work for earning foreign exchange through export and for absorbing foreign investment has developed greatly. The 17 administrative regions and cities of the province have now the right of self-operated export in foreign trade. More than 100 enterprises have obtained the above-mentioned right. More than 1,000 enterprises have obtained the above-mentioned right. More than 4325 enterprises for joint venture, for cooperation or enterprises with sole foreign capital (in 1997) were completed and went into operation, which export about 1,000 kinds of products belonging to 30 classes. The value of of foreign exchange earning between 1992 and 1997 were 8.600 million US\$. US\$4,980 million of foreign investment was used actually.

Some high and advanced technological industry development zones have been or are being built in every part of the province, where preferential policies are adopted, such as exemption from duty, unity of management and simplification of procedures, etc. Zhengzhou High and Advanced Technological Development Zone is one of the models of the same kind of the whole country.

### **3.2 Chinese Rural Industrialization and Rural Enterprises Development**

Before 1949, China relied mainly on foreign capital to develop its industry, the level of industrial development was low while more than 80% of machine-building industry was based on repairing and semi-machine industry. There were almost no industrial enterprises in rural China, except for a few small agro-processing and hand-operated mills. After the withdraw of the Soviet advisers in 1957, rural industry was confined to the "communes" and "brigades" set up by Chairman Mao. The industries were mostly designed to mobilize what Chinese call the "four locals"--- local raw materials, local skills, local capitals and local markets. They are linked with capital-saving policies during the Great Leap Forward of 1958-60, the attempt brought little positive changes in rural economy. Many rural enterprises were closed during the retrenchment of 1960-1962. Then, agricultural declined. Increasing pressure on surplus agricultural labor and the needs of the State and Provincial leaders to establish and develop rural enterprises have taken rural industrial development policies back to be national priorities once again.

The volume of resources devoted to commune and brigade enterprises has expanded steadily since about 1964 under the national strategy for promotion of "five small industries". The "five small industries" comprised iron and steel, chemical fertilizers, farm machinery, cement, and energy, all with backward-production

linkages to agriculture. In 1971, more than half of the countries had established small machinery, chemical fertilizer, cement, and iron and steel plants and small coal pots. In 1972, 96% of all counties were reported to operate workshops for making and repairing farm machinery; and in 1974, 80% of counties posed small cement plants (Rawski, 1979). But, rural industries were considered one part of agricultural production at the period, the employees in rural industry followed the "working point distribution system" of production team.

Since the late of 1970s, the rural industrialization strategy and development pattern of China has undergone a remarkable transformation. Private industrial and other non-agricultural activities are now permitted, and rural industrial sector conducted accounting distribution system independently. During the period of 1982 to 1985, the Chinese government declared its new rural industrial development policy, rural industry had also benefited from tax advantages, and enhanced access to credit from the State banking system. The rural enterprises enjoyed a very high growth rate, averaging 28.6% from 1978 to 1987; the sector had a share of 34% of the gross value of industrial output, and employed a labor force of 88,050 thousand persons in 1987 (Deng, 1994).

In general, historical process of Chinese industrialization is summarized to be three stages before 1982, and after 1982 the "open policy stage" (self-defined, refer to the stage after Chinese government started open economy policy since 1982) as following:

The first Chinese industrialization		The second Chinese industrialization	
Heavy industry priority		Processing industry	
Capital intensive industry		Labor intensive industry	
Concentrated in big city		Developed in rural areas	

1 <sup>st</sup> stage :	2 <sup>nd</sup> stage:	3 <sup>rd</sup> stage:	<u>Open policy stage:</u>
Before 1949	1957-1964	1964-1982	1982-now
No industry enterprises in rural China; Only simple mills existed	Commune and brigade dominated	"Five small industries enterprise" popularized	Rural township enterprise --township level RE --village level RE --household or joint-household RE
Private entrepreneurship	Collective or state ownership	Collective, private or cooperative entrepreneurship	

Figure 3.2 Historical rural enterprises development in China

From many respects, the first Chinese industrialization implemented a national wide scheme under a highly centralized economic system. A strategy to give a priority to industry, particularly, heavy industry was highly capital intensive and concentrated mostly in big cities. In that period, industrial development and agricultural development were not well connected. Policies of restricting migration between town and country allowed only urban residents work in industrial activities. Farmers only use agricultural resources. There was a typical dual structure of modern urban industry and traditional agriculture. As a result, in 1978 an overall economic situation showed that industrial production system had been formed as a

main component of national economy. However, about 80% of total labor force in China still remained in rural areas, especially agricultural production sector.

### **3.3 Rural Enterprises in Henan Province**

#### **3.3.1 Historical process of rural enterprise development in Henan province**

Recall the past 50 years, the rural enterprise development in Henan province could be marked down six stages (Document of Rural Enterprise Administration of Henan Province):

##### **Firstly, burgeoning stage (1953-1978)**

Some counties had already set up their own small REs, although the technology, equipment, scale and business performance are all at the very low level, the initial brigade-based REs had founded the solid foundation for the future rural enterprise development.

##### **Secondly, the start stage (1978-1983)**

The Third Plenum of the CPC 11<sup>th</sup> Central Committee decide to start economic reform in the countryside. In 1980 the household contract responsibility system was promoted in the rural areas; the people's commune system, a combination of political and economic organization, was abolished. In 1983, the production value of the REs reached 4.06 Billion CNY, accounted for 17.3% of total rural production value.

##### **Thirdly, the first rapid increase stage (1984-1988)**

By the end of 1988, RE production value of whole Henan province reached 40 billion CNY, the average growth rate was 53.9% during these five years. RE

industrial production value completed 21.09 billion CNY, accounted for 27.0% of total industrial production value of Henan province.

Fourthly, reform and improvement stage (1989-1991)

The REs development changes from resource-oriented to market-oriented. The government promoted especially export-oriented REs development. By the end of 1991, Henan REs exported value reached to 1.38 billion CNY, compared with 1988, increased 165.4%.

Fifthly, second rapid increase stage (1992-1995)

In 1992, REs production value reached 124.53 billion CNY, compared with 1991, increased 47.2%, 8.2% higher than the average growth rate of whole China. In terms of the development level of the rural enterprises, Henan ranks 5<sup>th</sup>, next to Jiangsu, Zhejiang, Shandong, and Guangdong .

Sixthly, specification and reorganization stage (1996-present)

The core of this ongoing stage is to change the REs from the quantity and speed development to the quality and performance development. The RE development should and had already obtained big improvement on both production value and product quality.

Table 3.1 shows the historical rural enterprises development as following.



Table 3.1 Historical Rural Enterprises Development (1978-1997)

Year	Number of RE units (10 thousand)	Number of RE employee (10 thousand)	Total production value (100 million CNY)	Total net added value (100 million CNY)
1978	7.60	143.7	30.89	-
1979	6.99	155.1	32.05	-
1980	7.08	160.3	35.84	-
1981	6.13	152.3	34.65	-
1982	6.31	162.2	38.90	-
1983	6.20	172.1	46.08	-
1984	77.32	407.1	100.80	-
1985	123.51	555.7	165.86	-
1986	150.26	676.8	225.21	-
1987	175.52	779.8	295.96	-
1988	192.32	880.7	398.24	-
1989	197.37	895.6	481.71	-
1990	191.36	881.9	562.09	-
1991	196.86	936.9	846.26	241.4
1992	213.01	1017.6	1245.3	280.2
1993	204.34	1155.3	2190.9	469.3
1994	246.30	695.0	1796.1	583.1
1995	268.06	716.0	2701.5	873.1
1996	131.51	941.0	3991.2	1366.0
1997	165.74	1046.5	4972.9	1750.73

Source: Rural Enterprises Administration of Henan Province 1998

Note: The statistic of net added value started from 1991.

### 3.3.2 Current situation of rural enterprises in Henan province

By the end of 1994, rural enterprises in Henan Province have developed their business into 37 industries. Table 3.2 lists the industry type and number of rural enterprises with yearly production value over 3 million CNY.

Table 3.2 Rural enterprise industry type and number

(With yearly production value over 3 million CNY)

RE Industry Type	Number (Unit)	RE Industry Type	Number (Unit)
1. Coal Mining	92	20. Pharmacy	45
2. Ferrous Metal Mining	32	21. Chemical Fabrics	9
3. Non-ferrous Metal Mining	21	22. Rubber Goods Manufacturing	32
4. Building Materials & Non- Metal Mining	83	23. Plastic Goods Manufacturing	138
5. Food Processing	384	24. Building Materials & Non-Metal Manufacturing	389
6. Drink & Beverage Processing	100	25. Ferrous Metal Smelting & Rolling Processing	99
7. Feed Processing	23	26. Non- Ferrous Metal Smelting & Rolling Processing	71
8. Textile Industry	147	27. Metal Goods Manufacturing	64
9. Sewing Industry	84	28. Mechanical Industry	618
10. Leather & Fur Processing	96	29. Transportation Equipment Manufacturing	105
11. Timber Processing	77	30. Electric Machinery and Equipment Manufacturing	63

12. Furniture Making	34	31. Electronic & Communication Equipment Manufacturing	25
13. Paper Making	256	32. Metric Instrument Manufacturing	5
14. Printing Industry	39	33. Agricultural Industry	35
15. Stationary Manufacturing	5	34. Commercial Business	30
16. Arts & Crafts Manufacturing	87	35. Real Estate	124
17. Oil Processing	25	36. Transportation	19
18. Coal Processing	8	37. Others	63
19. Chemical Industry	294		

Source: Rural Enterprise Administration of Henan Province 1995

By 1998, Henan Rural Enterprises have realized net added value of 129.91 billion CNY, account for 30% of the GDP of the province and 55.8% of the rural society added value; the industrial added value of REs realized 96.03 billion CNY, account for 55.8% of the total industrial added value of the province. (Report of Rural Enterprise Administration of Henan Province)

Submitted total tax 6.37 Billion CNY, account for 21.9% of the total tax revenue of the province.

Employee number 7.688 million, account for two fifth of the total labor force, and one fifth of the surplus labor.

The average income from the REs is 560 CNY, account for 30% of farmer's total income. Rural enterprises have already become the main force of rural economy development of Henan.

The development of rural enterprises not only pushes agricultural development, farmer's income improvement, and rural economy, but also accelerates the procedure of industrialization and modernization of the economy.

มหาวิทยาลัยเชียงใหม่  
Chiang Mai University