Report on Financing Rural Road Construction

Task Force on Sustainable Transportation

I. Overview

1. Range of “Rural Roads”

The phrase “rural roads” is quite familiar to people now. In the present highway categories in China, however, according to highways’ positions and requirements of administration and management of the highway network, highway is divided into national highway, provincial highway, county road, town road and other roads. Rural roads are not included above. Rural road is actually a kind of inkling and there is no clear definition for it in the relevant regulations at present. Up to now, in transportation industry, the rural roads are regard as the roads that include county roads and town roads. To make the concept clear to the public, the “rural roads” in this report refers to county roads, town roads and village roads.

In the current regulations, county roads refer to the main roads with political and economic significance, connecting counties, counties and towns in the whole county, and it needs to be confirmed as county roads. Town roads refer to those serving the production and life of the farmers in towns and villages, connecting towns, towns and the outside world, not belonging to county road series. In the Highway Law, there is no definition of village roads. For a long time, village roads are thought to be the roads used by local villagers without being paid enough attention or listed in the statistics of state’s highway length. With the growth of the economy in the rural areas, the rural residents need the rural roads more eagerly than ever and their requirements are higher and higher. Rural roads have become one of the most important infrastructures to improve farmers’ living conditions and to develop rural economy. The importance of constructing village roads is arousing more and more people’s attention. In the second general investigation into the national highway organized by the Ministry of Communications of China in 2000, village roads has also fallen into the sphere of the investigation for the statistics. And the concept and statistics range of village roads were defined as: the rural roads are those built by manpower with roadbed’s width of 4.5 meters at least, not belonging to town or above highway series, connecting villages, the villages and the outside world, and mainly serving the village (including natural village) economy, culture and institutions. The village roads and the relevant statistics in this report are based on this standard.

2. Functions of Rural Roads

Rural roads, as the main means of transportation for towns, villages and the outside world, are scattered everywhere in the rural area, accounting for over 76% of the total length of the highway in the whole country as a significant part of national highway network.

After the 16th CPC National Congress put forward the grand goal of “building the well-off society
all-roundly” and the state put high attention to “Agriculture, Countryside, and Farmers,” great changes have taken place to the countryside in China. Rural roads, as important basic infrastructures in the countryside, are necessary and also the guarantee of the economy growth of the countryside. The condition of rural roads directly influences the economy development in the countryside. Without convenient traffic, it is hard for the transportation of the goods and passengers in the countryside. As the saying goes, construction of the highway is the key to affluence. It shows that roads have much influence on the development of the countryside. It is quite important to further develop and construct the rural roads for three dimensional rural issues (agriculture, countryside and farmers).

The improvement of rural road conditions can not only accelerate the rural economy and bring better life for the farmers, but also help the concept of sustainable development be introduced and the leap-forward development be realized. At present the main stems that make the rural road network being are relatively underdeveloped, and the rural road construction runs far behind the demand for it, so the optimization of the transportation structure and the integrated function are much restricted. Only when the rural road construction has been promoted can the integrated function be brought into play and the sustainable transportation development be set on a good base.

II. Development of Rural Roads
1. Present Status of Rural Roads Construction

The development of Chinese rural roads is in accordance with the historic periods of China’s social economy and politics. It is a process of expanding, a process from popularity to gradual improvement, and from open to traffic to unobstructed.

Soon after liberation, there was no public traffic in most of the countryside area in China. In 1952, there were only 47,000 kilometers county/town roads. After “Three Years’ Recovery”, “Great Leap Forward”, “People’s Commune” and the period that all the farmers were called to learn from Dazhai (a modern commune), under the condition with little investment, the rural roads witnessed rapid development mainly backing on farmers’ own force—construction by farmers. Till the end of 1978 before reform and opening up policy was carried out, there were 586,000 kilometers county/town roads open to traffic, 44.4% of which were in accordance with the highway technology standards. By then, road was not constructed open to traffic in only two counties.

In 1978, China carried out reform and opening up policy. The countryside economic system reform featured fields being contracted by farmer greatly stimulated farmers’ working enthusiasm and this resulted in great changes in rural economy. Commodities’ circulation volume became larger and the proportions of Class II and III industry were larger, and more roads were needed accordingly. Promoted by the market demand, more rural vehicles appeared and the rural roads’ traffic volume was larger, which resulted in higher requirements on rural roads’ length, quality and highway networks’ functions.

1. Under such a situation, all departments, ranging from the Central Government to the local departments, all realized the importance of rural roads to the growth of countryside economy and that building roads is the key to affluence. The investment to rural roads construction was larger. Except the traditional measure of
constructing with farmers’ force and government’s support, the state carried out policy of “Replacing the Subsidies with Employment” and Aid-the-Poor policy through traffic construction, which greatly promoted the development of rural roads.

After over twenty years’ development, great achievements have been won in China’s rural roads construction and the total length was extended rapidly. With the rapid growth, rural roads account for a larger and larger proportion in the highway network. By the end of 2002, 1,337,000 kilometers county/town roads were constructed in rural area of China. During the 24 years from 1978 to 2002, 751,000 kilometers county/town roads were constructed. During the Sixth, Seventh, Eighth and Ninth Five-Year Plan period, the annual growth of roads length was respectively 10000, 13000, 22000 and 42000 kilometers. The development of county/town roads showed a growing trend.

Village roads were not listed in national roads statistics indexes in the past, so the exact number of village roads was not available. With the economy growth in the countryside and the enhancement of people’s consciousness on rural roads, however, in the second general investigation into national roads in 2000, village roads were included. The specific statistics result was that there were 1,165,400 kilometers village roads in the whole country in 2000.

By the end of 2002, 1,198,700 kilometers roads appeared, 2.9% up over the previous year. Table 2-1 is the length statistics on national rural roads open to traffic from 1996 to 2002.
Table 2-1 Rural Roads’ Length Across China

<table>
<thead>
<tr>
<th>Year</th>
<th>Total (Kilometers)</th>
<th>County roads (Kilometers)</th>
<th>Town roads (Kilometers)</th>
<th>Village roads (Kilometers)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>847905</td>
<td>378212</td>
<td>469693</td>
<td>——</td>
</tr>
<tr>
<td>1997</td>
<td>880182</td>
<td>379816</td>
<td>500266</td>
<td>——</td>
</tr>
<tr>
<td>1998</td>
<td>920960</td>
<td>383747</td>
<td>536813</td>
<td>——</td>
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<tr>
<td>1999</td>
<td>987931</td>
<td>398345</td>
<td>589386</td>
<td>——</td>
</tr>
<tr>
<td>2000</td>
<td>2195685</td>
<td>406736</td>
<td>623549</td>
<td>1165400</td>
</tr>
<tr>
<td>2001</td>
<td>1277364</td>
<td>463665</td>
<td>813699</td>
<td>——</td>
</tr>
<tr>
<td>2002</td>
<td>2535574</td>
<td>471239</td>
<td>865635</td>
<td>1198700</td>
</tr>
</tbody>
</table>

Rural roads are different from trunk highways. Comparison on rural roads’ development status is often made with accessibility. Therefore, the length of the roads connecting towns and villages and the technology grade are the main number indexes of rural roads’ development. In recent years, while more rural roads appear, more and more roads reach the countryside and the technology grade in county/town roads construction is upgraded. The conditions of the roads are obviously much better.

· **Enhanced Accessibility**
Rural roads reaching the countryside is the basic condition for rural residents to enjoy the convenience of road transportation. In 1994, all counties in China were equipped with roads. The proportions of town and village roads were respectively increased from 91.5% and 65.8% in 1978 to 99.5% and 92.3% in 2002, and the numbers of towns and administration villages with roads respectively grew by 8% and 26% as well. Most of the rural residents have got the basic condition taking roads transportation.

· **Enhanced Grades and improved pavement of the roads**
Before China carried out reform and opening up policy, the rural roads were in low grade and of poor quality. Most of the roads were off-grade roads and many were not paved. By the end of 1978, there were only about 260,000 kilometers graded county/town roads, accounting for 44% of the total length of the country/town roads. After China carried out reform and opening up policy, with the economy development in the countryside and higher demand for road transportation, the technology grade of county/town roads was much higher. 110,000 kilometers graded roads were constructed during the Seventh Five-Year Plan period, 140,000 kilometers during the Eighth Five Years’ period and 210,000 kilometers during the Ninth Five Years’ period. By the end of 2002, 995,000 kilometers of the county/town roads were graded, which was 74.4% of the total county/town roads length, including 62,700 kilometers Grade-II highways.

By the end of 2002, 1,191,000 kilometers roads were paved, which accounted for 89% of the total length of county/town roads, and 795,000 kilometers roads were of senior or medium grade, which accounted for
67% of the total length of the paved roads.

2. Main Problems in China’s Rural Roads Construction

In recent years, the government pays high attention to agriculture, countryside and farmers and Chinese rural roads’ construction has witnessed rapid growth. However, it is still not in accordance with the requirements of the sustainable development of rural economy, mainly shown as follows:

The overall development of rural roads is not so satisfying and the depth of the accessibility is not enough. By the year 2002, there were still 184 towns and over 54,000 administration villages that were not equipped with roads. The farmers in these areas could not enjoy convenient transportation for that reason that this restricted the local economy development to a large extent.

The low density of rural roads network, backward construction grade and poor condition of the rural roads are still the general problems in the widespread rural areas. 95% of the county/town roads are of third or below grades, 55% of fourth grade, and 25% off-grade, especially in undeveloped areas and mountain areas where few bridges and roads are seen with rather weak ability to fight natural calamities.

The difference between the economy development in western area and eastern area in China results in the gap between the rural roads development in the eastern, central and western areas, and gap between poor areas and developed regions. Currently, the target for the development of the rural roads in the eastern regions is already “grade-II road connecting counties, graded roads for towns and blacktop roads for villages” , while that for the development of rural roads in the western area is still “graded road for counties, blacktop roads for towns and roads for villages”. The gap between the East and West of China is obvious. Most of towns and villages lie in the Central and West of China, where there are still 169 towns (92% of the total) and over 45,000 administration villages (82% of the total) without highway.

There is still a long way to go in the construction of rural roads, which is a important infrastructures in the social economy development in the countryside.

III. Demand of funds to the Construction of the Rural Roads

1. Rural Roads Development Trend

In 2002, the 16th CPC National Congress put forward the grand goal and strategic deployment of “building the well-off society all-roundly” and pointed out that “constructing modern agriculture, developing rural economy and increasing farmers’ income are the significant tasks in building the well-off society all-roundly. For that reason, the state planned to invest RMB 50 bln. in the construction of rural roads in three years, including RMB 15 bln.of the state fiscal bonds and RMB 15-20 bln. of the vehicle purchase taxation of the Ministry of Communications. The new government formed in 2003 has taken the three dimensional rural issues as key emphasis in work. In that year, Ministry of Communications took “letting farmers walk on blacktop road and cement road” as goal and gave much support and more financial aid to rural roads construction. Besides, it planned to invest RMB 30-40 bln. of the vehicle purchase tax in five years for county/town roads construction so as to further mobilize the local government’s working enthusiasm in
building rural roads.

In order to call attention from the whole society and the central government in the countryside, rural problems are put forward in the No.1 Document of the Central Government in 2004, which clearly points out that the government should strengthen construction of “Six Small Projects” including rural roads and expand the investment scale and construction area. In 2004 “National Transportation Working Conference”, the Ministry of Communications again point out that the government should invest more funds to speed up rural transportation infrastructure construction focusing on increasing farmers’ income, and pay more attention to the poor areas in West China so as to create good conditions for the adjustment of the agricultural structure, the growth of rural economy and increase of the farmers’ income.

The high attention on the three dimensional rural issues from the central government will greatly mobilize the local governments’ working enthusiasm in solving relevant problems of agriculture, countryside and farmers. Since people all realize that building roads is the key to affluence, rural roads construction will be taken into consideration prior to other issues in solving problems of agriculture, countryside and farmers. Instructed by the policy of the central government to invest more in rural roads construction, local governments have successively made a series of “practicing measures” and preferential policies to speed up the construction and development of the rural roads. They encourage the mass to put in work and the local financial and transportation departments to offer financial aid so as to make the construction of the rural roads up to a higher level.

2. Rural Roads Development Scale and Construction Capital Demand during the 11th Five-Year Plan Period

According to “National Rural Roads Construction Plan” made by the Ministry of Communications, the goal of national rural roads construction in 2010 and 2020 is to improve and enhance the roads’ grades while building new roads and bituminous pavement and cement roads in counties. In other words, while solving the problem of reaching many places, we should also make the roads unobstructed. By the year 2010, almost all the towns and administration villages with roads traffic conditions will be equipped with highways, and county/town roads are planned to be up to senior or secondary senior pavement standards. All towns and administration villages will have highways by then. By 2020, the government will try to make all town and administration villages up to top or secondary pavement standards and all administration villages with roads equipped with regular bus. During the 11th Five-Year Plan period, 46,000 kilometers county roads and 130,000 kilometers bituminous /cement roads will be constructed in counties in the whole country, and 280,000 kilometers rural roads and 540,000 kilometers bituminous /cement roads will be constructed in the villages. To realize the above target, according to the forecast of Planning and Research Institute of Ministry of Communications, the total capital demand in rural roads construction during the 11th Five-Year Plan period will total RMB 385.2billion. (shown as Table 3-1).
Table 3-1 Rural Roads Construction Scale and Demand to the Funds during the 11th Five-Year Plan Period

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>County roads</th>
<th>Town and village roads</th>
</tr>
</thead>
<tbody>
<tr>
<td>Newly constructed length (km)</td>
<td>325810</td>
<td>46248</td>
<td>279562</td>
</tr>
<tr>
<td>Newly constructed bituminous pavement (km)</td>
<td>675533</td>
<td>132949</td>
<td>542586</td>
</tr>
<tr>
<td>Demand to the funds (RMB 100 mn.)</td>
<td>3852</td>
<td>1093</td>
<td>2760</td>
</tr>
</tbody>
</table>

To realize the sustainable development of rural roads’ construction, abundant capital investment is demanded. Seen from the data in above table, during the 11th Five-Year Plan period, RMB 77 bn. is demanded to be invested in the construction of rural roads per year averagely, far more than the present investment amount of RMB 50 bn. Therefore, under the present situation, it will be a main issue how to raise enough funds for rural roads construction during the 11th Five-Year Plan period.

IV. Analysis on Rural Roads Construction Funds
1. Funds Source for the Construction Rural Roads

For a long time, the rural roads construction in China had no fixed capital source, and the capital investment to rural roads construction was closely related to the development of the countryside in different historic periods. Before reform and opening, rural roads construction mainly depended on the force of the mass. After a few times’ socialism construction, promoted by the mass movements, rural roads’ situations were improved. During that period, the capital source for rural roads construction was narrow, mainly from farmers. After reform and opening, with the reform on rural economic system, farmers’ working enthusiasm was enhanced and rural economy witnessed rapid growth. As a result, the demand for highway traffic was larger and the government put more in the rural roads construction. POLICY OF “REPLACING THE SUBSIDIES WITH EMPLOYMENT” played a significant role in the construction. Currently, rural roads construction is entering a new development period, especially with more attention from the Central Government on the three dimensional rural issues, people have higher working enthusiasm in rural roads construction. Many methods and channels are used in raising construction funds.

The social environment, economy development and rural roads situations in different areas in China are quite different from each other, so the rural roads construction capital channels are different. On the whole, the rural roads construction funds mainly come from two channels: central funds and local funds.

(Voluntary labor offered by local farmers: It means people living along the road work for the construction of the roads voluntarily.)

1. Central funds
Central funds include the investments from the central financing department and the Ministry of Communications (MOC).

**Central financing funds**

The investments from the central financing department mainly refer to state financing budgetary funds (except vehicle purchase tax), central financing special-purpose funds and POLICY OF “REPLACING THE SUBSIDIES WITH EMPLOYMENT” for Aid-the-Poor.

State financing budgetary funds are the state financing funds, listed in state financing budget.

Central financing special-purpose funds are bonds issued by central financing, i.e. government bonds. After 1998, the Central Government carried out active financial policies. In order to expand the domestic demand, the central financing issued bonds (government bonds) to raise funds for infrastructure construction and state key project construction. Roads infrastructure construction is also one of its important parts.
-----POLICY OF “REPLACING THE SUBSIDIES WITH EMPLOYMENT” mainly comes from central budgetary allocations and local budgetary capital. It is a special poverty supporting policy for the countryside. Local farmers get the poverty alleviation funds through contributing their work. This is a project aiming to improve the infrastructure condition and promote the economy development in poor area. Rural roads construction is one of the significant contents of POLICY OF “REPLACING THE SUBSIDIES WITH EMPLOYMENT” project of the state. Since 1984, the state has successively constructed seven groups of POLICY OF “REPLACING THE SUBSIDIES WITH EMPLOYMENT” plans. In 2001, about RMB 850 mln. was invested in the rural roads construction through POLICY OF “REPLACING THE SUBSIDIES WITH EMPLOYMENT”.

▲ Investments from the MOC (Ministry of Communications)
The investments from the Ministry of Communications are mainly vehicle purchase taxes paid to the state. Vehicle purchase taxes are special funds for highway construction, belonging to State Budgetary Appropriation. Vehicle purchase tax was firstly demanded to be paid in 1995 as accessory charge in vehicle purchase. It belonged to extra-budgetary funds at that time paid to and under the management of the Ministry of Communications. In 2000, it was called vehicle purchase tax. Although it is state financial fund belonging to State Budgetary Appropriation, it is still managed and used by Ministry of Communications. Every year, some of the vehicle purchase taxes are used as special funds for rural roads construction. The capital investment from the Ministry of Communications is mainly used as subsidy for rural roads construction. Although this part of capital does not take a high proportion in the total capital investment to the rural roads construction, it plays an obvious active role in instructing local capital investment direction, evoking farmers’ roads construction enthusiasm and promoting the local rural roads construction.

2. Local funds

▲ Local financial funds

Local financial funds are mainly the financing funds of the local governments and the local financial special-purpose funds.

-----Local financial funds include the financial funds from the provincial, local/city, county/town governments. Among the local financial funds for rural roads construction, county/city/town financial funds are the majority.

-----Local financial special-purpose funds: The central government arranges the local financial departments to use such funds and responsible for the repayment (local financial government cannot issue governments bonds according to relevant laws in China). Such funds belong to national governmental bonds with the same nature of central financing special-purpose funds started in 1998.

▲ Investments from local transportation departments

The local transportation departments mainly include provincial (municipality) departments of transportations and city/county departments of transportations.

The capital investments from the provincial departments of communications are mainly transportation fees
imposed and managed by the departments of transportation such as auto road toll and surcharge for passenger/cargo transportation. The capital investment amount from provincial departments of communications to rural roads construction is not certain, usually according to the actual situation of roads construction and maintenance based on overall consideration, so there is some uncertainty and unsteadiness in it. The capital investment from provincial departments of communications is mainly used as subsidy for county/town highway construction.

The capital investment from the city/county departments of transportation is mainly the road toll from local tractors, motorcycles and agricultural trucks, also called tractor road maintenance fee or truck road maintenance fee. Since the tractor road maintenance fee is not much and the tractors are scattered in every corner in the countryside, it is hard to get the tractor road maintenance fee. That is why not many tractors are involved and the fee from this channel is little. However, tractor road maintenance fee is mainly used in rural roads, so it is the main stable capital source for rural roads construction.

▲Investments from farmers

The investments from farmers are mainly the funds raised from farmers who invested capital instead of work, and the money raised, investments and donation from enterprises.

※ Farmers’ labor contribution or capital investment:

It means that the rural residents with work force and vehicle (tractors or autos) drivers have to offer labor for the roads construction and maintenance. The county/town governments organize the farmers for rural roads construction. Those who cannot offer work can pay in cash, i.e. capital investment, instead of labor investment. This project was put into operation in 1950. In the 38th item of Road Law issued in 1998, there are relevant regulations about county/town governments’ organizing farmers in contributing work for rural roads construction and maintenance, so this project is based on relevant laws.

Farmers’ labor contribution or capital investment, as the principal funds raising way in county/town highway construction, plays a very important non-replaceable role in China’s rural roads development. Since farmers are demanded to take such an “obligation”, the payment they get is far less than what they contribute and this results in much lower cost on rural roads construction. Farmers’ labor contribution or capital investment is the majority of the rural construction capital. With the economy development, however, three dimensional rural issues are more urgent and many rural labors are flowing outside the countryside. In the meantime, with the implementation of the policy of alleviating farmer’s burden of the Central Government, it is harder and harder to organize a large number of farmers for rural roads construction and maintenance. In 2000, “Notice on Making Experimental Reform on Rural Taxes and Administrative Charges” jointly issued by the Central Committee of the Communist Party of China and the State Council clearly says that the labor accumulation and voluntary labor service should be cancelled in the countryside. Farmers’ labor contribution or capital investment system will also be cancelled. Instead, “One project, one price” system will be put into operation.

According to “One project, one price” system, about the capital raising for public welfare establishments’ construction in the villages, decisions should be made by all villagers or villagers’ representatives after discussion in meeting. Upper limit is set for that so as to alleviate farmer’s burden from
imposed fees and apportion. Relevant affairs in the construction of rural roads especially roads to villages through organizing farmers’ labor in the past will be decided by “One project, one price” system.

▲Investments from other channels:
Besides farmers’ labor contribution or capital investment, the capital sources for rural roads construction also include money raised, investments from enterprises that gain benefits from the construction, donations from individuals and units at home and abroad and social donations as well. Although from many channels, it only takes a rather small portion of the total capital investment to rural roads construction.

▲Loans from banks
Loans from bank include domestic bank loans and loans from overseas.

※Domestic bank loans:
Loans from domestic banks, mainly used in the construction of those rural roads with large traffic volume that can realize “building with loans and repaying loans with road toll”. Some domestic bank loans are borrowed and repaid by local departments of transportation. The loans for rural roads construction are repaid with the transportation fees (including road toll and bridge toll).

※Loans from overseas:
Mainly from international financial organizations such as the World Bank and Asian Development Bank. These loans are mainly of two types: First, assistance loans, which are mainly used in Aid-the-Poor development of depressed area; Second, “overall responsibility loans”, loans for rural roads projects and other senior grade roads charges projects to be repaid by the loans applicant.

2. Analysis on Present Investment on Rural roads Classified Construction

For a long time, China’s roads construction focused on local (provincial and municipality) area and this system has been taken till now. The main funds source for highways construction and maintenance like auto road maintenance fee and roads passenger/cargo transportation surcharge, bridge/road toll and other transportation fees are all imposed and managed by provincial (municipality) departments of transportation. The transportation fees except vehicle purchase taxes are imposed and used by local government, so the national ways and provincial ways are mainly constructed by local departments of transportation (mainly provincial departments of communications), but the situations for the rural roads construction and relevant capital source are quite different.

1) County roads construction
The capital sources for county roads construction are a lot. Local tractors’ road maintenance fees are imposed and arranged by county/city transportation departments. These transportation fees are the stable capital source of county roads construction. The investments from provincial communications departments and Ministry of Communications (including ministry’s traffic Aid-the-Poor) are also the main capital sources of county roads construction.

County roads construction projects are usually reported by county/city departments of transportation to
provincial departments of communications, which then make relevant plan and offers a certain amount of subsidy (including investment from Ministry of Communications) according to local traffic situation and development demand. “Farmers’ labor contribution or capital investment and vehicles’ contribution” is a popular way in county road construction, taking significant shares in county construction investment. With the deepening of rural tax reform, it will be gradually cancelled.

The financial aids from the Central Government and local financial departments are also a kind of capital source for county roads construction, but the situations differ from place to place. In some developed regions, especially the developed counties/cities in East China with strong financial strength, the investments of financial aid are in large amounts. In most counties/cities where the financial status is poor, the investment to the county roads construction is limited. Among both POLICY OF “REPLACING THE SUBSIDIES WITH EMPLOYMENT” from the Central Government and local governments and the Aid-the-Poor special funds from the state, some are used in county roads construction.
Other fund raising methods like domestic loans and foreign investment are also used in county roads construction, but they are not the main channels. Local departments of transportsations decide which way to choose accordingly and the application is not so popular.

(2) Town roads construction

To help the finance of local departments of transportation for construction, in view of the actual situation of rural roads’ being constructed by the farmers along the roads. “Road Law” clearly puts forward that “town and nationality town people’s governments are responsible for the town road construction and maintenance as well as management of the local area”. Therefore, town roads construction funds are mainly raised by the town people’s governments. Since the town government’s financial situation is usually not good, except few towns, almost all town governments can hardly spare financial funds for town roads construction. “Farmers’ labor contribution or capital investment and vehicles’ contribution” and local raised funds are still the most important fund sources for current town roads construction. The rural tax reform has great influence on raising funds for town roads construction.

To town roads construction, the provincial and city transportation departments have also offered some investments and subsidy but the situations in different areas are obviously different according to economy development and social demands as well as the capability of the provincial and city transportation departments.

To poor area, especially the national and provincial undeveloped counties, sometimes POLICY OF “REPLACING THE SUBSIDIES WITH EMPLOYMENT”, Aid-the-Poor funds for roads construction from the state and the Ministry of Communications are invested in town road construction. All these funds are assistance funds to instruct and promote the local town roads construction.

(3) Village roads construction

Village roads have been regarded as villagers’ own roads, which are used and constructed by the villagers themselves. Therefore, the funds for village roads construction all come from the villagers without any
financial aid from the county/town governments. Usually, the village roads are constructed by villagers with “farmers’ labor contribution or capital investment and vehicles’ contribution” as well as raised money. After reform on rural tax and fees, the village roads construction and maintenance will be conducted by the villagers through “One project, one price” system.

With the economy development and perfection of roads net, village roads construction will be put more attention by the public, especially the demand for roads’ reaching all villages is more obvious. Some provincial, city or county departments of transportation have given some financial aid to the village roads construction but in rather small amounts.

3. Total Investment to Rural Roads Construction and the Growth of the Investment

Currently, investments to village roads construction are not included in relevant statistics, so the rural roads construction capital statistics in this report only include the investments to county/town roads construction.

(1) Total investments to county/town roads construction

In recent years, the investments to rural roads construction keep growing. In 2002, the total investments to county/town highway construction grew by 282% over 1996, absolutely obvious. Table 4-1 shows the total investments in many years to rural roads construction in eastern area, Central China and western area. From the data in the table, we can see that the total investments to rural roads construction kept growing especially from 1998 to 2002 promoted by state policies.

Table 4-1 Total Investment to County/town Roads Construction and the Distribution to Different Regions (Unit: RMB 100 million)

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</thead>
<tbody>
<tr>
<td>Total</td>
<td>175.6</td>
<td>199.2</td>
<td>373.3</td>
<td>336.3</td>
<td>307.4</td>
<td>358.2</td>
<td>495.0</td>
</tr>
<tr>
<td>East China</td>
<td>108.7</td>
<td>93.9</td>
<td>196.7</td>
<td>154.3</td>
<td>125.2</td>
<td>147.3</td>
<td>203.6</td>
</tr>
<tr>
<td>Central China</td>
<td>40.0</td>
<td>66.0</td>
<td>92.8</td>
<td>78.2</td>
<td>84.0</td>
<td>80.1</td>
<td>152.2</td>
</tr>
<tr>
<td>West China</td>
<td>26.7</td>
<td>38.7</td>
<td>83.7</td>
<td>98.3</td>
<td>98.2</td>
<td>130.7</td>
<td>139.2</td>
</tr>
</tbody>
</table>

![Graph showing the growth of total investments to rural roads construction from 1996 to 2002](image)
In 1998, the state carried out active financial policy to invest more in roads infrastructure construction. The total investment to roads construction in that year was up to RMB 216.8 bln., RMB 91.2 bln. more than that in 1997. Meanwhile, with the rapid growth of the overall scale of the roads construction across China, the total investment to rural roads construction also grew by 73.6% over the previous year, creating a new record in the history. After 2000, the three dimensional rural issues became urgent. The new government formed in 2002 put the three dimensional rural issues as work emphasis and carried out relevant policy to invest more in the countryside, which further promoted the rural roads infrastructure construction. The total investment to rural roads construction in 2002 amounted to RMB 49.5 bln., 38.2% up over the previous year. Besides, the state carried out the seven-year program to help 80 million people out of poverty in 1993 and the Ministry of Communications carried out traffic Aid-the-Poor policy, which also greatly promoted the rural roads construction in poor area.

(2) Analysis on difference in investments to Eastern, Central and Western Region

The economy development situations in eastern area, Central China and western area are quite different and the eastern area’s economy development is more rapid than that in other areas. The investments to rural roads construction are also quite different.

The rural roads construction mainly depends on local funds, so the economy development situation often decides how much to invest in rural roads construction. The economy in eastern area develops better, so the investments to rural roads construction are more. The economy in western area develops slowly, so the investment to rural roads construction is little. The total investment to rural roads construction in western area in 1996 was RMB 2.67 bln., only 1/4 of that in eastern area. With the implementation of China Western Development strategy, the state’s preferential policy and more investment to western area as well as Aid-the-Poor funds for transportation, the total investments to western rural roads construction grow a lot and the differences between the East China, Central China and West China are narrowing. By the year 2002, the total investment to western rural roads construction amounted to RMB 13.92 bln., about 70% of that to eastern area. The differences between western area and eastern area are not so obvious now. However, the obvious difference between East China, Central China and West China cannot be changed in the near future, so the difference in rural roads development will exist for a long time.

(3) Comparison on investments to county roads and town roads

Table 4-2 shows the investments to county roads and town roads construction (including newly building and rebuilding, same in the following). We can see obviously from the data in the table that most of the funds invested in rural roads are used in county construction, which accounts for 76% or more of the total funds. Only 2% or so of the investments are used in town roads construction. This also shows that the obvious difference in county roads and town roads construction capital channels results in the obvious difference in investment amounts to roads construction. Of course, the county roads’ traffic volume is larger and the technology demand is higher, so the prices are higher and investment should be more. This is also one of the reasons why more investments are put in county roads instead of town roads.
Table 4-2 2001 and 2003 Investments to County/town Roads Construction

<table>
<thead>
<tr>
<th>Year</th>
<th>Total investment (RMB100mln.)</th>
<th>proportion (%)</th>
<th>County roads (RMB100mln.)</th>
<th>Ratio (%)</th>
<th>Town roads (RMB100mln.)</th>
<th>Ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>358.17</td>
<td>100%</td>
<td>273.11</td>
<td>76.7%</td>
<td>82.84</td>
<td>23.3%</td>
</tr>
<tr>
<td>2002</td>
<td>495.01</td>
<td>100%</td>
<td>381.90</td>
<td>78.7%</td>
<td>103.13</td>
<td>21.3%</td>
</tr>
</tbody>
</table>

4. Analysis on Rural Roads Construction’s Capital Structure

As we say above, the capital source for rural roads construction ranges from central to local government, from the financial aid from governments to the transportation fees, from farmers’ labor contribution to social funds as well as domestic and foreign loans. The sources are a lot but the amounts are usually rather small. Table 4-3 is 2000-2002 capital structure of rural roads construction. We can see from the capital structure in the table that rural roads construction funds mainly come from local governments (about 60-70% of the total).

Table 4-3 2000-2002 Rural roads Construction Capital and Capital Structure (Unit: RMB100mln.)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>State subsidy allocations</th>
<th>Internal earmarked revenue</th>
<th>Social funds of state revenue</th>
<th>Internal revenue</th>
<th>Vehicle purchase tax</th>
<th>Special funds of local revenue</th>
<th>Domestic loans</th>
<th>Foreign loans</th>
<th>Project revenue</th>
<th>Non-project revenue</th>
<th>Funds raised by local governments</th>
<th>Auto road maintenance fees</th>
<th>Funds raised by farmers/worker capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>307.4</td>
<td>0.03</td>
<td>6.77</td>
<td>17.4</td>
<td>1.12</td>
<td>10.6</td>
<td>195.5</td>
<td>45.76</td>
<td>30.54</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>100%</td>
<td>2.2%</td>
<td>5.7%</td>
<td>0.4%</td>
<td>3.5%</td>
<td>63.5%</td>
<td>14.9%</td>
<td>9.9%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2001</td>
<td>358.2</td>
<td>6.57</td>
<td>28.4</td>
<td>1.45</td>
<td>8.59</td>
<td>247.7</td>
<td>69.9%</td>
<td>34.64</td>
<td>31.47</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>100%</td>
<td>1.8%</td>
<td>7.9%</td>
<td>0.4%</td>
<td>2.4%</td>
<td>69.9%</td>
<td>9.7%</td>
<td>8.8%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td>495.0</td>
<td>2.72</td>
<td>17.2</td>
<td>23.67</td>
<td>38.9</td>
<td>8.21</td>
<td>377.9.</td>
<td>25.38</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>100%</td>
<td>0.5%</td>
<td>3.5%</td>
<td>4.8%</td>
<td>0.1%</td>
<td>7.9%</td>
<td>1.7%</td>
<td>5.1%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note:
1. (1) includes Aid-the-Poor funds from the state; (2) includes central POLICY OF “REPLACING THE SUBSIDIES WITH EMPLOYMENT” funds; (3) includes auto road maintenance fees.
2. “Funds raided by local governments” include funds from local financial departments, county/city
departments of transportation and social funds as well.
3. Auto road maintenance fees are transportation fees investment of provincial departments of communications.

Funds raised by local governments’ include the various transportation fees imposed by the departments of transportation, local governments’ financial aid and social funds and donations. The other important sources are the investments from provincial or municipality departments of transportation, mainly transportation fees like road maintenance fees, passenger/cargo transportation surcharges and road toll, which account for 10-15% of the total rural roads construction funds, but showing a dropping trend, a result of rural tax reform. Domestic bank loans are becoming the main sources of rural roads construction capital and accounted for 7.9% of the total rural roads construction in 2002. Other capital sources only contribute a rather small portion to the rural roads construction funds.

State revenue funds (including POLICY OF “REPLACING THE SUBSIDIES WITH EMPLOYMENT”) and the vehicle purchase taxation from the Ministry of Communications are not large in amounts, but the growth rates are large and they both belong to policy investments, which play significant roles in instructing and promoting rural roads construction. In 2002, the investments from state revenue and vehicle purchase taxes of the Ministry of Communications were RMB 3 bln. more than that in 2001, and the investments to rural roads construction were RMB 13.7 bln. more compared with that of the previous year. The promotion function is obvious.

We learned from the investigation that the different economic development levels result in the obvious differences between East China, Central China and West China’s rural roads construction capital structures. In East China where the economy develops well, the local governments have abundant funds and transportation fees, so the local governmental capital and funds from transportation departments to the rural roads construction are obvious more than that in Central China and West China. In undeveloped western area, however, the proportions of state subsidy, POLICY OF “REPLACING THE SUBSIDIES WITH EMPLOYMENT” and Aid-the-Poor are obviously higher than that in Center China and East China. The state’s preferential policy and Aid-the-Poor policy for West China greatly promote the rural roads construction in poor area.

V. Suggestion on Fund Policy for the Development of Rural Roads

To solve the capital problem in developing rural roads, the most important thing is to build stable capital supply guaranteed by laws and systems. It is the most urgent difficult task to clarify the governments’ responsibilities and build special capital system for constructing rural roads.

1. To Clarify Government Should Take Major Responsibility in the Construction of Rural Roads

As we say above, the development of rural roads in China, without abundant fund, cannot meet the demand. This is directly related to the fact that it is not clear who should take the main responsibility in investing in rural roads construction.
We learn from economics that social products are divided into three categories: private goods, public goods and quasi-public goods. Public goods have three obvious features: usage’s indivisibility, consumption’s non-competitiveness and benefits’ non-excludability. Rural roads have these three features and the features can hardly be changed with technologies. In other words, even if the technologies could be changed, the cost would be far more than the benefits, so rural roads are typically public goods. According to the annual development report of the World Bank in 1994, when dividing public facilities, rural roads are also classified as public facilities with commodity index of 1, so rural roads can be regarded as a kind of pure public facility. However, rural roads’ benefiting area is limited. County roads mainly serves the production and life in the county while town/village roads mainly provide residents in towns with production and life services, so rural roads are also local public facilities.

We divide social products’ economic natures aiming to effectively provide responsibility entities with all kinds of goods under market economy conditions because providing public goods to the whole society is one of the main responsibilities of the government. In other words, one of the purposes for the citizens to pay taxation is to purchase public goods. Public goods can only be provided to the whole society most effectively when they are provided by the government, which has been clearly explained in theory and also proved in practice. Since rural roads is a kind of public facility, it of course should be constructed by the government. Besides, rural roads are local public facilities, so it is necessary to clarify that local governments are rural roads suppliers and should provide farmers with rural roads.

According to relevant theory in public finance, only when the investment responsibilities of the governments are divided and the investment obligations and ranges of the governments are clarified can the governments’ public financial funds play active roles in different fields and bring their resultant force into fully play for the highest comprehensive efficiency so as to finally benefit the whole country and society to the largest extent. The local governments in China include provincial, city, county/city and town governments. The investment responsibility division of the local governments should be based on “benefiting area rule” and “principle of bringing efficiency into fully play”. According to “benefiting area rule”, the benefiting area decides which government should take the responsibility to invest. According to the second principle, governments’ jurisdictions decide their investment responsibilities. County and town governments can master the local social demand information more directly, exactly and all-around, so they can conduct more direct and better planning, construction and management on local rural roads projects so as to gain the highest returns on investment in the end. Therefore, county/town governments should be the rural roads’ responsibility entities. However, the county/town governments’ positions are different. Under the current system, county governments often take a hand in the affairs of the town governments and have stronger financial capability compared with town governments, so county governments should take more responsibilities in rural roads construction. Since administration villages are not governments with legal positions and have no taxation imposing right, they should not take too many responsibilities to supply rural public goods. Combining the rural taxation system reform, it is necessary to make reform on the rural public goods. We should first clarify in the laws and regulations the following things: County governments are the suppliers of county roads (including roads connecting counties, connecting counties and towns and the outside world) and town roads connecting towns; town governments are the suppliers of roads within towns and the roads connecting towns and villages; administration villages are only responsible for the construction of roads within villages. Only after all these are clarified can the local
governments take their own responsibilities and a new rural roads construction system instructed by the Central Government, participated mainly by the local governments, also all aspects of the society will finally come into being.

Besides clarifying rural roads supply responsibilities and obligations of local governments in laws and regulations, to form long stable rural roads development funds, it is necessary to set rural roads construction service special funds in financial system to demand a certain amount of capital among the fiscal annual budget for support rural roads construction. According to the county/town financial budget, to meet the capital demand for rural roads construction, 8-10% of the county/town governments’ fiscal budget should be spared for rural roads construction. According to the current financial income of county/town government, 36~40 billion RMB can be gained every year.

2. To Improve ability of County/town Government to invest in the Rural Roads

If rural roads supply is the responsibility of county/town governments, undoubtedly, rural roads construction funds should mainly be supplied by the county/town governments. After China made taxation system reform and carried out system of tax allocation, according to governments’ function division, based on division of duties and expenditure responsibilities, the local governments have also made relevant divisions in tax revenue’s ascription, i.e. divisions of economic right and duties and responsibilities.

A series of financial and tax reform including implementation of system of tax allocation are made mainly to divide the positions, duties and responsibilities of the Central Government and the local governments. To financial management below provincial government, Ministry of Finance only gave some instruction opinions in Document No.23 Cai Di Zi in Mar. 1996. According to the actual situations, the provincial and municipality governments respectively made some preferential policies to benefit provincial financial force concentration, which resulted in non-standard and non-united system of financial management below provincial governments. Currently, the common features of the financial systems below provincial governments are that the local governments try their best to draw as much capital as possible from the below fiscal revenues to guarantee their financial returns and take over almost all the tax categories with considerable revenues and huge growth potential. This is an important reason why although the local governments’ financial revenues’ total amounts are larger and take a growing proportion in the national financial revenues, the county/town financial statuses are still poor or even worse.

Currently, the financial revenues below county governments only account for 21% of the total national financial avenues and can only supply 69% of the state working staff. It is already not easy for the financial revenues to keep the basic operation of the county/town governments, so the expenditure for public products is rather limited. Most of the governments can only keep running with the revenues and some even cannot keep running smoothly. If too many functions are given to county/town governments without relevant economic right, the county/town governments will surely not be able to shoulder these functions and exist only as departments or go back to the former status. In other words, they’ll transfer the rural roads construction task to farmers and farmers will then be forced to contribute their labor; moreover, they will often be switched to other purposes. Therefore, only after the financial ability of county/town governments is strengthened can the local governments take their responsibilities. The key to solve this problem is to
enhance the county/town financial revenues. The county financial revenues mainly come from the local agriculture and taxation of the administration for industry and commerce as well as the revenues of other departments. As of shared taxation of the departments with their upper authorities, the upper financial departments often use the executive power to give pressure to its affiliated departments so as to make them guarantee the upper authorities’ financial revenues. As a result, it is harder to the below governments to realize the planned financial revenues. To enhance the financial revenues of the county/town governments, on one hand, we should depend on developing county or town economy. On the other hand, we should adjust the specific measures in the current system of tax division that guarantees the financial revenues of the upper authorities regardless the below governments’ financial status. Taxation is closely related to economic status, so we suggest a system of “sharing risks and benefits” to enhance the county and town governments’ financial revenues. In such a way, when the financial revenues of the Central Government and provincial governments obviously grow, the financial revenues of the county governments will also witness rapid growth.

The financial revenues of town governments mainly come from agricultural taxation and financial departments. China is a large agricultural country. Most of the town financial revenues depend on agriculture to a large extent. However, agriculture economy is backward, and most of the town-owned enterprises are labor-denseness extensive operation businesses whose contribution to town tax revenues is limited. To difficult county financial revenues, the financial revenues of town governments are in even worse status. To make town governments capable to support rural roads construction, larger revenue growth space and taxation distribution should be given to the town governments. To undeveloped towns, it is necessary to give them more financial subsidy.

In addition, more development decision-making power should be given to the county/town governments and the exterior positive benefits created by roads construction like land increment and source development benefits should be used. The government should permit rural roads construction’s combination with land development and source development so as to improve the county/town governments’ supply capability.

3. To Develop New Fund Channels for the Construction of Rural Roads

After the state paid high attention to the three dimensional rural issues and took some measures to promote the rural economy development, the demand volume for rural roads grows a lot. Meanwhile, however, influenced by the rural taxation reform, administration expenses like towns’ unified planning and villages’ profit deduction and reserving are cancelled and agricultural tax will be cancelled in five years as well. All these new policies will have great influence on rural roads construction capital. The former capital source for rural roads construction is less and it is necessary to develop new rural roads construction capital channels and put them in rural roads construction.

(1) To make vehicle usage tax as the special funds for the construction of rural roads

In many countries, road users are usually demanded to pay various types of taxes, including vehicle use tax as the roads infrastructure construction funds. For historic reason, there is no perfect taxation system for roads construction capital source in China. As local tax, vehicle use taxation is not specially used in vehicle use-related roads construction. Instead, it is included in local financial revenue. We suggest make the
vehicle usage tax as rural roads construction funds to be true to name and make it as the capital compensation

The Provisional Regulations for Vehicle and Vessel Usage issued in 1986 imposed classified, graded and rated taxation systems for vehicle usage, which require that each passenger vehicle has to pay RMB 60-320 each year and each truck has to pay RMB 16-60 for each ton cargo per year. With the rapid economy development in China, residents’ income are much higher now so the standards in vehicle use taxation system are a little bit low, so the taxes from road users are not enough for road construction. We suggest the government make high vehicle use taxation standards to make the taxation in accordance with the vehicle consumption and road source occupy price.

(2) To use roads construction taxation in rural roads construction
Currently, the taxation for roads construction is under many items in various categories. According to relevant statistics, the roads taxation is of 128 categories in total, some directly from transportation fees like road maintenance fee, transportation and management fees and passenger/cargo transportation surcharges, such as water conservancy funds, which belong to governmental funds. The taxation mainly comes from the provincial/municipality departments of communications and imposed by local tax bureaus, some are taxation directly imposed from roads construction such as construction safety business tax from roads construction units and enterprises. The taxation is imposed by the local taxation bureaus as part of the local governments’ financial revenues. Besides, some taxation is charges directly imposed from the construction projects including expropriation expenses, dismantling charges, registration charges and administration expenses. Such charges are in many names and mainly come from roads construction units and construction enterprises, but the departments that impose the charges include various organizations in all lines like land, forestry, water conservancy, environmental protection, cultural relic, auditing, electric power, public security, fire control, grain, earthquake and technical supervision, etc., and other functional departments such as labor service, city management, notarization and family planning. In few regions, some charges items obviously intercross and sometimes a few departments impose the same charges at the same time.

Besides canceling all kinds of unreasonable charges to relieve roads’ burden, various taxation imposed by local taxation departments from departments of transportation and roads project construction units actually all come from roads construction funds. On the whole, returning taxation imposed from roads construction projects to local governments’ transportation department and using them in local rural roads construction actually reduces roads construction cost and adds capital investment to rural roads construction. We suggest all kinds of taxation be returned to roads construction as special-purpose funds for rural roads construction.

(3) To use the taxation imposed during operation of turnpike roads in the construction of rural roads
Turnpike road: some bank loans are used in roads construction in case of shortage of capital. After the roads is constructed, the vehicles that use the roads have to pay road toll, which is then used to repay the loans. This is a significant policy of the state made to overcome shortage of construction capital and promote roads development. Various taxation, including sales tax, city construction tax and income tax, that the enterprises managing turnpike roads have to pay after imposing road toll adds the roads operation cost and
this is not favorable for the government to overcome the shortage of construction funds. Therefore, it is an effective measure for the government to add roads construction capital investment to use the taxation imposed for turnpike roads for local rural roads construction. We suggest sales tax and income tax from turnpike roads be used as special funds for rural roads construction of the local governments.

Taxes mentioned above all are local taxes, imposed and administrated by local government. That means local government can allocate theses revenue. In addition, these revenue are administrated by finance department, and not for special purpose. It is easy to adjust because few departments involved. It is feasible for local government to invest these revenue into the construction of the rural roads.

4. To Transfer more Financial Revenues from the Central Government and Provincial Financial Departments as Special Funds for the Construction of County/township Roads

In the past ten years, Chinese government has made omni-directional fundamental reform on income, expenditure and macroeconomic control. It has carried out a series of significant measures and made great achievements in the reform. One of the achievements is stable growth of financial revenues. Both the central and local/provincial financial revenues have witnessed rapid growth and the macroeconomic control ability of the central government and provincial governments have been strengthened. Through revenues’ returning, general financial transfer payment and special transfer payment, the financial revenues of the Central Government are used in local construction and play significant roles in promoting coordinated development of local economy.

As social public goods, rural roads should be supplied by the government of course and they are the most economical supply way. Besides, it is reasonable for the local governments to supply rural roads. However, China’s financial and taxation system is not so perfect and the county/township governments are weak in finance and can hardly supply rural roads. Therefore, it is reasonable for the high authority, including the Central and Provincial financial departments to invest in rural roads construction. The financial revenues of the Central Government and Provincial governments keep growing every year. It will certainly promote the development of the countryside and the poor area’s alleviating poverty and becoming prosperous to transfer the revenues for rural roads construction.

Currently, only a rather small amount of the central and provincial financial revenues are transferred to be used in rural roads construction, which is about 5-7% of the total rural roads construction funds. We suggest more revenues of the central and financial governments be transferred for rural roads construction and portion should be 10-13% (RMB 8-10bln. per year) of the total rural roads construction funds.

5. To Use More Transportation Fees in the Construction of Rural Roads

Currently, the transportation fees used in roads construction are mainly imposed and managed by Ministry of Communications and provincial departments of communications. The tenet of the transportation fees is “coming from vehicles and used on roads” . Rural roads are a significant parts of highway network. It is necessary to use transportation fees for rural roads construction. However, transportation fees are not enough to commute the highway construction funds. The transportation fees of the Ministry of
Communications and provincial departments of communications are even not enough for national way and provincial way construction, so the investment to county and township roads construction is of course little. Rural roads construction funds include the road toll from tractors imposed by transportation departments. As we say above, however, the road toll from tractors is little and transportation through tractors and agricultural automobiles will gradually disappear with the development of transportation. What’s more, rural roads’ traffic volume is small and it is not suitable for the policy of “building roads with loans and repaying loans with charges” to be carried out in the countryside for rural roads construction. Therefore, it is reasonable for the Ministry of Communications and provincial departments of communications to invest more in rural roads. Rural roads cover a wide area and the roads are featured low grades and low prices. Little investment will result in obvious effect, so the investments from the Ministry of Communications and provincial departments of communications will play a significant instruction function in the rural roads construction.

When the shortage of the capital of Ministry of Communications and provincial departments of communications is serious, it will certainly influence the construction of national way and provincial way to enlarge the investment scale to rural roads construction. With the improvement of citizens’ living standard, however, cars are now entering common families in China. The rapid growth of vehicle number will certainly provide transportation departments with considerable transportation fees every year. We suggest some of the transportation fees imposed by the Ministry of Communications and provincial departments of communications be used in rural roads construction. The investment from the Ministry of Communications should accounts for 10-12% of the total rural roads construction funds, i.e. RMB10bln per year. The investment from provincial departments of communications should take about 20-25% of the total rural roads construction funds, i.e. RMB 14 bln. per year.

6 Early Implementation of Policy on Fuel Tax Collection

In our country, the fuel tax has been decided to levy, but it has not been carried out for reasons at present. The fuel tax should be carried the earlier the better, and a portion of it should be invested to the rural road construction. This will with three merits, (1) the control of the central and the provincial governments on the road construction will be strengthened, (2) the increasingly austere situation of fuel supply and environmental pollution may be ameliorated,(3) the social justice will embodied more apparently, for those using road more frequently will be charged more.

7 Fund Raising from Different Channels or Fund Saving of Rural Road Construction by Bringing All Initiatives into Play

Since rural road construction is beneficial to both the state and the people, while China is with a long tradition of collecting money for the road/bridge construction, enthusiasm from all sides should be brought into play to let the funds for the rural road construction collected from all ways or saved considerably, which could be an efficient way to compensate the shortage of the rural road construction investment. Examples are as follows:

(1)To Establish a Financing Mechanism Involving All Aspects of the Society
Funds can be raised by encouraging donations by the society, enterprises and individuals and giving a certain kind of mental or honorable rewards to enterprises and individuals; or by implementing the process of marketization and honoring enterprises or individuals with the right of giving names to rural highways and bridges.

(2) To Adhere to the Policy of Replacing the Subsidies with Employment
Replacing the Subsidies with Employment has become an effective highway construction policy in our country and has played an important role in the rural highway construction in China for a long time. Taking the year 1998 as an example, the Replacing the Subsidies with Employment amounted to 1,175,000 Yuan, and quite a few rural highways in poverty-stricken areas were developed by means of Replacing the Subsidies with Employment. Replacing the Subsidies with Employment can solve the fund shortage of highway construction as well as the living difficulties of the local people. This policy serves two ends and should be implemented firmly and continuously.

(3) To Implement Well Specific Discussion on Specific Issue to Build Rural Highways
After the tax reform, the method of Specific Discussion on Specific Issue has replaced the original rural highway construction mechanism in which farmers raise funds while voluntary workers and other farmers invest money as well as labor, to become a new fund-raising manner of rural highway construction by farmers. Judging from the development course of rural highways in China, the role played by farmers in rural highway construction by working voluntarily or with a low pay can not be neglected. Therefore, the new fund-raising manner of Specific Discussion on Specific Issue should be carefully studied to give full play to farmers’ initiatives of building rural highways voluntarily.

8. Rules for the investment on the rural roads:

At present, the balance of the economy development between the east, middle and west areas has not been well kept, and the status, phases and the emphases of the rural road development in areas are different. To this situation, the following rules should be followed in the for the rural road investment:

To accord with the character of our socialism marketing economy and the current practice of finance and investment.

To carried out the reform of the taxes and fees without increasing the burden of the farmers

The guideline to persist in is that the local governments, supported by the central government and fully relying on the strength of the governments and the whole people, will play the main role.

From the viewpoint of the areas, the investment from the central government should preferentially be given to the middle and the west, especially to the west and the poor areas (both of the middle and the west). When the problems of “Reaching Rural areas” and “Smooth Transportation” approach, we should solve the former in priority. And when the problem of “Smooth Transportation” approaches, we should let the rural roads with exploitation potential and promotion to the local economy be solved first.
Within the same area, the inter-county and inter-village rural roads, which need urgently to be connected with the investment, should be given the priority, while the roads which will carry a heavy traffic and be eagerly requested to achieve a rapid progress in economic, and the buildings to act as the joints of a road, such as the bridges and culverts, should be invested in priority.