CHINA'S AGRICULTURAL REFORMS:
EXPERIENCE, EMPIRICAL EVIDENCE
AND TENDENCY

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ABSTRACT

After the founding of the People's Republic of China in 1949, a heavy industry-oriented development strategy was implemented by policy-makers in order to modernize the country. Agriculture accounted for more than 70% of total output value and the rural population constituted approximately 90% of the total population. In these conditions the commune system was implemented as the basic unit of agricultural production and organization for China's farmers; correspondingly, a centralized system of agricultural output and input was established. Before the end of the 1970s, although China's industrialization and urbanization had achieved much, the agricultural sector stagnated. The growth of agricultural production and farmers' incomes was very slow and this affected the further growth of industry.

Since the late 1970s the Household Responsibility System (HRS) that replaced the commune system appeared spontaneously and secretly in some rural areas; later it was accepted officially by the policy-makers. The HRS was gradually implemented throughout the whole nation. Thanks to the HRS, which greatly increased farmers' incentives to produce more food, grain purchase prices rose and farmers' incomes increased significantly. At the same time other industrial sectors grew. The success of reforms in the agricultural sector changed the ideology of policy-makers, and encouraged them to use a development strategy of comparative advantage rather than heavy industry development. The establishment of a market economy to replace the planned economy thus gradually became the goal of China's economic reforms.

From the mid-1980s the HRS was sustained in rural areas. At the same time several rounds of reforms about the grain marketing system commenced, but they all failed. The development of agricultural production and farmers' incomes stagnated – as did the incomplete market for grain procurement and marketing – and this encouraged farmers not to produce goods. During the mid-1990s severe inflation appeared in China due to rising grain retail prices and the
supply of grain was very problematic. Under these conditions a traditional administrative measure, namely the Provincial Governor Responsibility System (PGRS), under which the planned sown areas became compulsory, was implemented so that the goal of grain self-sufficiency was attained in every province. The PGRS only temporarily solved the problem of grain supply.

Due to a series of good grain harvests, difficulties in sales of grain and excess stock appeared in the later 1990s, during which time farmers' incomes grew much more slowly and the gap between rural and urban residents widened. From 1998 onward a new round of reform of the grain marketing system began. The feature of this new round of reform was that the central government wanted to solve the problems in the sale of grain and excess grain stock by monopolising the purchase and sale of grain by state-owned grain enterprises. The approaches used here departed from the goal of establishing a market-oriented economy. In 2000, experiments in letting market forces decide the production and sale of grain, took place in some coastal provinces in which grain production was not the main source of farmers' incomes. It was hoped these experiments would correct the unsuccessful measures of 1998 regarding changes in the grain marketing system.

After China's entry into the World Trade Organization (WTO), a number of promises about agricultural production and products had to be fulfilled. Facing international competition, the situation in the agricultural sector became more complicated. The scope for further reforms in China's agricultural sector will be limited.

In this thesis, four features of China's agricultural reforms, namely the HRS, PGRS and regional comparative advantage, grain marketing reform and problems concerning farmers' incomes, will be studied through an analysis of household survey data gathered in grain producing regions. The experiences about successful and unsuccessful measures adopted in China's agricultural sector will be discussed. It will be shown that the agricultural reforms in
China generally start at the bottom at local institutions and then become government policy. When these measures are suitable and successful, they are accepted by the central government and then popularised throughout the nation. At the same time, when facing difficulties in the reform process some centralizing administrative measures are implemented to solve economic problems. The tension between going forward and backward in the process of reforming the agricultural sector is explained partly by the fact that the policy-makers have no full or comprehensive blueprint for reform, although the goal is to establish a market-oriented economy. It is also partly explained by the fact that China’s policy-makers want to gradually change the country’s institutions in order to retain social stability. Thus some radical measures are not considered because they are seen as too risky. In other words, the goal of China’s agricultural reforms is certain, but the path and approaches are unclear; and the basic s’ logic for reform is to change the economic system and institutions of a stable society, or stabilise the social situation prior to the reforms.

According to the logic of China’s s and an analysis of the household survey data, some policy suggestions will be provided. At the same time the tendencies or trends in China’s future agricultural reforms will be predicted.

Key words: farmer, reform, HRS, PGRS, grain marketing system, income
TABLE OF CONTENTS

Candidate's Statement iii
Abstract iv
Acknowledgments vii
List of Figures xiii
List of Tables xiv
Glossary and Abbreviations xvi

CHAPTER 1: INTRODUCTION 1

1.1 Introduction 1
  1.1.1 The Achievements of Agricultural Reforms since 1978 1
  1.1.2 The Process of Agricultural Reform 5
  1.1.3 The Features of China's Agricultural Production and the
       Challenges after Admission to the WTO 10
  1.1.4 The Basic Premise of China's Reform in the
       Agriculture Sector 15

1.2 Purpose and Organization of the Thesis 15

1.3 Some Policy Recommendations 18

CHAPTER 2: MAJOR AGRICULTURAL POLICY
DEVELOPMENTS AFTER 1978 21

2.1 The Development Strategy of China's Industrialization 21
  2.1.1 The Heavy Industry-Oriented Development Strategy 21
  2.1.2 The Comparative Advantage Development Strategy 25

2.2 Basic Features of Agricultural Reform after 1978 28

2.3 Stages of Agricultural Reform 38
  2.3.1 The First Stage (1978-1984) 39
  2.3.2 The Second Stage (1985-1988) 40
  2.3.3 The Third Stage (1989-1997) 42
  2.3.4 The Fourth Stage (1998-present) 45

2.4 Summary of China's Experiments in Agricultural...
CHAPTER 3: RESEARCH PROBLEMS AND DATA RESOURCES

3.1 Introduction of Research Problems

3.2 Some Problems Relevant to the Aggregate Data

3.3 Notes on the Household Survey Data
   3.3.1 Choosing the Survey Sites
   3.3.2 The Sampling Criteria, Procedures and Sample Size

CHAPTER 4: HOUSEHOLD RESPONSIBILITY SYSTEM AND LAND REFORM

4.1 Introduction to the Household Responsibility System

4.2 Land Fragmentation due to the Household Responsibility System

4.3 Model, Data and Results

4.4 Conclusions, Further Land Reform and Policy Suggestions

CHAPTER 5: REGIONAL COMPARATIVE AND PROVINCIAL GOVERNOR RESPONSIBILITY SYSTEM

5.1 Introduction

5.2 Regional Comparative Advantage in China's Grain Production

5.3 Provincial Governor Responsibility System

5.4 China's Grain Production: the Provincial Models
   5.4.1 Data and Methodology
      5.4.1.1 Data
      5.4.1.2 The Model of Carter and Zhong
      5.1.1.3 Modified Model
   5.4.2 Results
      5.4.2.1 Results of the Model with P as the Dummy Variable to Test the Impact of the PGRS
      5.4.2.2 Results of Panel Data Methods
      5.4.2.3 Results of the Model without Dummy Variable P
5.4.2.4 Projections of Grain Production

5.5 Conclusion

CHAPTER 6: CHINA'S GRAIN MARKETING SYSTEM REFORMS

6.1 The Grain Procurement and Marketing System in China
   before Agricultural Reform in 1978
   6.1.1 The Grain Procurement System
   6.1.2 The Grain Rationing System

6.2 Overview of China's Grain Procurement and Marketing System Reforms from 1978 to 1997

6.3 The Grain Marketing System Reform in 1998
   6.3.1 The Introduction of the Grain Marketing System Reform in 1998
   6.3.2 Process of Grain Marketing System Reform since 1998:
      The Household Survey Results
      6.3.2.1 Changes in Market Channels
      6.3.2.2 Changes in Grain Stocks
   6.3.3 Conclusions about the Grain Marketing System Reform in 1998

6.4 The Reform Experiments in the Grain Marketing System since the End of 2000
   6.4.1 Experiments in the Grain-Importing Provinces
   6.4.2 Experiments in the Grain-Exporting Provinces

6.5 Conclusion

CHAPTER 7: PROBLEMS OF FARMERS' INCOMES

7.1 Introduction

7.2 Development of Farmers' Incomes since the Reforms

7.3 The Development of China's Township and Village Enterprises (TVEs)

7.4 The Agricultural Production after WTO Admission

CHAPTER 8: CONCLUDING REMARKS

8.1 Conclusion
8.2 Some Policy Suggestions and Trend of Agricultural Reforms
8.3 Limitations of this Thesis

BIBLIOGRAPHY

APPENDICES

Appendix A: Comparison of Estimated and Actual Grain Production, 1989-2000
Appendix B: Marketing Channels in Jilin, Jiangxi, Sichuan, Shangdong and Henan Provinces, 1999 and 2000