Agricultural Economic Transformation in the Peoples Republic of China

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➢ The Peoples's Republic of China (PRC) is a nation in transition. Over the past decade, a number of economic reforms have been instituted. Recent events suggest that political reforms are likely to be much more contentious and will progress at a slower pace. Still, economic modernization promises to enlarge China's role in the global economy. China's emergence as a major agricultural importer and as a potentially large exporter will influence international markets. While China remains an important growth market for U.S. agriculture, the rate of growth will be strongly influenced by China's ability to generate foreign exchange and to overcome several internal challenges.

The United States and the Peoples Republic of China (PRC) have an important emerging economic and diplomatic relationship. This relationship holds particular significance for agriculture. When the United States and the PRC began the process of normalizing diplomatic relations in the early 1970s, agricultural interests saw the PRC as an enormous export market. These great hopes have not fully materialized. This situation, in part, reflects unrealistic expectations owing to a lack of understanding about the PRC.

While we have learned a great deal over the intervening years about the PRC, its people, its politics, and its agriculture, misconceptions continue to plague us. Our purpose here is to add a bit of clarity and perspective to the continuing complex change taking place in the Chinese agricultural economy.

Economic Reform

The Chinese economy, and in turn Chinese society, is in the process of a major transformation. With the establishment of the PRC in 1949, "class struggle as the key link" became the dominating ideology. This ultimately led to the disastrous "Cultural Revolution". During this period, China's inward looking policies limited economic growth and development.

In contrast, the last decade has been the most progressive in Chinese history. An important turning point came in 1978 when leaders of the Chinese Communist Party realized the imminent need to build a stronger, more open economy. New policies were formulated which energetically pursued real economic development. Since then, the focus has been on modernizations in industry, agriculture, science and technology, and national defense. The result has been fundamental change in Chinese society.

The national economy showed an amazing resurgence. Best estimates suggest that GNP grew by 123 percent from 1978 to date. An 11.8 percent average annual increase in the gross value of industrial output fueled economic expansion. There are visible signs of improvement in the standard of living for the average Chinese citizen. New construction is changing the skylines of China's major cities.

Chinese Agriculture

While industrial growth has been the primary force behind China's economic success, agriculture has played a major role as well. Policy reforms since 1978 are transforming Chinese agriculture from a rigid commune system to a contract responsibility system (mainly on a household basis). Chinese farmers have enthusiastically responded to the opportunity to "work their own land".

Along with restructuring agriculture, the Chinese government has raised commodity support prices and has introduced policies aimed at increasing investment in agricultural production. The combined effects of these policies has given rise to a 6.7 percent average annual increase in agricultural output over the past decade. Furthermore, these new agricultural enterprises now contribute more than half of China's total agricultural supply.

Grains are the primary crop product on China's farms and China is one of the world's largest grain producers—over 400 million metric tons in 1984. Rice, wheat, and corn account for 44 percent, 23 percent and 17 percent of Chinese agricultural output respectively. China also produces sizeable volumes of soybeans, legumes, and root plants such as potatoes and sweet potatoes.

Even with China's substantial production capacity, Chinese agricultural policymakers face the challenge of feeding a large and growing population with a shrinking resource base. China must feed 22 percent of the world's population with seven percent of the world's arable land. Though the rate of growth has slowed, population pressure continually threatens to overwhelm improvements in productivity. Officially the Chinese annual population growth rate stands at 1.42 percent—an additional 15.4 million people annually. According to *The Peoples Daily,* an official Chinese newspaper, the population topped 1.1 billion in early 1989. As a consequence, per capita food production remains relatively low. For example, annual grain production currently stands at less than 400 kilograms per capita, whereas the U.S. annually produces about 1,500 kilograms of grain per capita.

Marked improvements in farm yields have been, in part, offset by declines in arable land. State Land Administration statistics indicate that the net decrease in arable land totaled one million hectares in 1985, 640,000 hectares in 1986 and 480,000 hectares in 1987, but only 33,000 hectares last year. Loss of arable land has undercut the Government's policy of pressing

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for maximum growth in agricultural production. Declines in arable land have offset, in part, yield increases. Recent steps appear to have had some success, however, in stemming these losses.

Economic growth has intensified competition for shrinking water supplies. Industrial and consumer demands for water are increasing rapidly. As a consequence, water resources are, in effect, being mined in some areas. In the areas around Beijing and Tianjin, ground water reserves are dropping at the rate of one meter per year. Thus, Chinese agriculture also faces increasing scarcity of water for irrigation. Although China leads the world in irrigated agriculture, irrigation has declined in recent years after peaking in 1978 at 48.6 million hectares. It has declined an average of 2 percent per year since then.

Chinese agricultural planners are also attempting to accommodate a growing demand for meat products. Chinese meat consumption continues to be low by international standards with per capita meat consumption averaging about 17 kilograms annually as recently as 1985. Urban dwellers average 24 kilograms per capita while rural dwellers consume about 12 kilograms. One of the most difficult challenges is to find an appropriate balance among production and imports of food grains and feed grains.

Inflation and Pollution

Economic growth in China is producing at least two undesirable side affects: inflation and pollution. Inflation has increased significantly and the rate officially reached 18.5 percent in 1988. Consumer demand has expanded rapidly as a result of structural reforms and the economic growth which they fostered. However, remmants of the old planned economic system have prevented sufficient supply response in many basic consumer goods.

Under the old system, which was modeled after the Soviet Union's, the prices of commodities did not reflect either their value (as measured by the cost of production) or the influence of market forces. The so-called "no-inflation" policy in China actually meant that the gap between the actual prices and the real value of commodities was widening. Economic reform has unleashed market forces which should eventually correct this misalignment. In the meantime, the economy must struggle through this period of inflationary adjustment.

Industrial expansion is also intensifying concerns about long-term environmental damage. In some areas, pollution and environmental damage has become quite serious. Antiquated equipment at some village and township factories is causing harmful pollution to rivers and to cultivated lands. The worsening pollution in the Yangtze River is worrying national authorities. Unless effective measures are taken, the national economic growth may be significantly hindered and human health threatened.

Chinese-U.S. Agricultural Trade

Improving diplomatic relations between the PRC and the U.S. can only serve to enhance prospects for increased bilateral trade. The United States is now China's second leading trading partner totaling $10 billion through 1988. Though self-sufficiency in basic food products remains a national goal, it is clear that China will have to rely on imports in the long run particularly of wheat and feed grains, considering the continuing growth in population.

For exporters like the United States, China's 10-year-old feed industry holds real potential. Its ambitious target is to produce 100 million tons of animal feed by the year 2000. But last year's output was just over 20 million tons. To reach the target much of the feed grain will have to be supplied either by tapping domestic resources or, more likely, by imports. In the next decade China will likely be a bigger importer, due to the increasing demand for better quality food and more animal protein, rather than be a large grain exporter.

The primary constraint to increased agricultural imports is a lack of hard currencies. Development of countertrade arrangements may partially reduce this constraint. But it is also important for the PRC to participate in world markets as an exporter in order to earn foreign exchange. Textile exports are particularly important as a source of hard currency. Restrictive import policies by the United States under the Multifiber Agreement to some extent restrict the PRC's agricultural imports and in turn limit U.S. farm exports.

The pressure to generate foreign exchange may lead China, from time to time, to export corn or soybeans in competition with the United States.

In any case, there is substantial room for growth between China and the United States. According to official statistics, China's exports to the U.S. account for only 0.7 percent of all U.S. imports. Further, China's imports from the United States are only 1.9 percent of total U.S. exports. Progress towards improved bilateral economic cooperation has encouraged direct U.S investment in China. There are currently 630 U.S. financed projects in China totaling more than $3 billion. The potential for further U.S. investment is substantial as well.

The Future

China is a nation in the midst of a real, if sometimes painful, transformation. It is moving toward a more open progressive economy. These on-going changes are evident, not only in the performance of the economy but, in the attitudes of the people. A spirited, occassionally confrontational, public debate over the nature and pace of economic and political reforms is occurring. Events of the past few months confirm that the Chinese Communist Party will not accept a Western style political system. Conflict may create uncertainty with respect to China's external economic relations. Still, the economic modernization in China will continue.

Clearly, the Chinese people and their leadership are going to have to resolve many of these conflicts in their own way and on their own terms; however, the United States certainly will be called upon to participate in the restructuring and reenergizing of China's economy. Investment, technology, and expertise from the United States will play an integral role in China's long-term development. And, of course, U.S. agriculture has a large stake in China's economic development. The potential benefits to both sides from such cooperation are enormous. For the United States, patience and understanding are prerequisites.