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BOOK REVIEWS

Towards a Market Economy in Central and Eastern Europe.
Edited by HERBERT GIERSCH (1991) (Springer-Verlag (for the Egon-Sohnen Foundation), Berlin). Pp 169, ISBN 387-53922-0.

The papers in this book were presented to a May 1990 conference which was held with the assistance of the Egon Sohnen Foundation. The topics range from the postwar economic recovery in West Germany to the impact of German unification, and to privatisation and liberalisation in the former U.S.S.R., the former Czechoslovakia, and Hungary and Poland. Although the contributions have to some extent been bypassed by events, they are still of interest, and the re-appraisal of the factors and events that led from the post-war situation of destruction in West Germany to the *Wirtschaftswunder* or economic miracle will be of continuing interest.

The first contribution by Herbert Giersch, deals with the post-war recovery of Germany, looking for lessons in this for economic transformation in central and eastern Europe. He attributes the recovery and high growth rates achieved to the desire to recover earlier living standards, the availability of a large, mobile, highly skilled and educated labour force, and the rapid recovery of the well developed banking and financial system. He finds that the importance of the post-war assistance provided through the Marshall Plan has been exaggerated, with currency reforms and convertibility being of substantial importance. The West German and West European economies are not considered to be suitable models for eastern European countries to follow because of the extent to which they are social market economies with a high level of government involvement. For example, in the FRG, government absorbs (including transfer payments) 50 per cent of GNP.

The second contribution, by Holger Schmieding, deals with the same period, focusing on the 1948 economic reforms which allowed West Germany to move from central planning to more or less free markets. From 1936 the Nazi government had turned the economy into a centrally-administered 'war economy'. After the war the Allies took over the direction of the economy, which was in a state of collapse in many areas. While the prices of many goods had been frozen, the currency had been inflated tenfold to finance the war. In the immediate post-war era it had lost much of its function as a store of value and, in turn as a medium of exchange, leading to a 'cigarette-based' economy. Once it was recognised that the economic weakness of Germany was having a depressing effect on European trade and industry, encouraging the growth of communism, Allied policy changed towards freeing up the economy and encouraging reconstruction in the three Allied zones of occupation. The replacement of the discredited Reichsmark with a new currency, the 'Deutsche Mark' (DM), breathed new life into the economy. Each individual was given 40 DM and a further 20 DM two months later, with further allowances for

firms and public authorities, and provisions for Reichsmark bank balances to be exchanged for DMs on a ten for one basis. Schmieding describes the currency reforms as (P. 34) 'an immediate and tremendous success' and goes on to describe how it led to the revitalisation of the economy. He does not see the Marshall Plan receipts as having been a major source of growth, although they were useful in assisting food imports and in alleviating the balance of payments constraint.

From these post-war German experiences Schmieding derives a number of lessons for central and eastern Europe today. These include the need for a tight monetary policy and hence firm currency, and the need to liberalise all sectors at the same time. However, he recognises that the economies of eastern Europe are disadvantaged by their lack of the institutional infrastructure of a market economy, by the influence of the previous communist labour market with its lack of unemployment, and by the need for completed new investment in plant and machinery rather than just for repairs.

Jan Wineicki by contrast deals with the issue of economic breakdown in Soviet-type economies. He attributes this to their inefficient use of resources, with for example oil and steel being over-used in production and consumption because their prices were kept at low levels relative to the value of industrial output, or to world prices for these commodities. Soviet bloc countries, other than the Soviet Union itself, found themselves highly reliant on the U.S.S.R. for resource imports due to falls in domestic resource availability, and they were negatively affected when the availability of these resources from the U.S.S.R. declined. Their lack of development of exports which were competitive on a world market basis made it difficult to obtain the foreign currency needed to obtain replacement resources on the world market. Hence their economies were forced to decline or restructure. The emphasis on investment in heavy industry also had negative consequences, leading to inefficiency, backwardness and obsolescence. The lack of investment in the service sector, which became more crucial in the 1970s as more resources were devoted to propping up industry, led to a longer-term decline in the efficiency of services such as water mains. Official figures over-estimated growth by 50 per cent from 1961 to 1974, and in the next decade gave positive figures when the real situation was one of stagnation. In the last decades of the Soviet system environmental damage increased, life expectancy fell, except in Czechoslovakia, and the benefits which were available for distribution to the *nomenklatura* or party officials decreased in value. In 1989 the system began to break down.

In the later chapter Vladimir Zuev deals with the last years of the U.S.S.R., following the 1987 change of heart of the Communist Party of the U.S.S.R. in favour of a more market-oriented economy. The introduction of price increases as part of the movement to a market economy led to panic buying and widespread concern. The population's desire for security rather than possible gains, and the dangers of nationalistic feel-

ings in the Republics, were rightly identified by Zuev as sources of future difficulties.

In the fourth chapter Vaclav Klaus, now Prime Minister of the Czech Republic, argues that the previous Soviet system was still a form of market economy, with prices being based only partly on bureaucratic decisions, but the absence of genuine market prices prevented an efficient allocation of resources from being made. He discusses the Czech government's intention to introduce voucher privatisation schemes which would allow large companies to be privatised. Karol Lutowski's discussion of the equivalent process of privatisation in Poland follows, preceding Tamas Bauer's chapter on economic reform in Hungary, where the process of liberalisation dates from 1968.

The last two chapters by Heinz-Dieter Hausteine and Hans Willgerodt respectively, deal with aspects of German unification. Hausteine focuses on the situation in the former German Democratic Republic (GDR) immediately before and after unification with the Federal Republic of Germany. Willgerodt deals with the monetary union between the GDR and FRG, whereby the GDR's Ostmark was converted to DM on a 1:1 rate for a fixed amount per individual, a rate of 2:1 for further amounts and bank balances, and 3:1 for non-resident currency holders.

The volume is an interesting collecting of articles dealing with different points in time in the process of economic liberalisation and privatisation. However, it does not extend to the discussion of more recent issues such as the successes and failures of privatisation, or to the prospects of eventual inclusion of central and eastern Europe in the European Union.

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Renationalisation of the Common Agricultural Policy? Edited by RASMUS KJELDAHL and MICHAEL TRACY (Institute of Agricultural Economics, Copenhagen and Agricultural Policy Studies, Belgium, 1994). Pp. vii + 109, ISBN 2-9600047-2-8.

In spite of its name, the Common Agricultural Policy (CAP) of the European Union (EU) is anything but common. Member countries of the EU have a degree of independence over agricultural policies both within and outside the CAP. Recent reforms to the CAP including a move away from price based support to area based payments have enhanced the scope for national rather than supranational control. The focus of this book is an examination of the recent reforms and the extent to which they have led to a 'renationalisation' of the CAP.

Tracy defines 'renationalisation' as implying 'a shift of competence back from EU institutions to national ones . . . in terms of decision making, of financing or of implementation'. Questions about whether recent reforms to the CAP have led to greater renationalisation and whether this is desirable were raised at a conference held in Copenhagen in November 1993 and this book is an edited proceedings from that

conference. However, readers seeking a comprehensive and systematic treatise on renationalisation will be disappointed. As with many other edited conference proceedings, there is considerable overlap, and a lack of cross referencing and logical consistency between the various contributions. Furthermore, the book is limited in its coverage of member countries (Denmark, France, Germany and the Netherlands to the exclusion of important southern member countries) and in the depth of analysis (with no rigorous analysis of the implications of the renationalisation).

Despite these shortcomings, many insights can be gleaned for those willing to sift carefully through the material. For instance, Kjeldahl provides a useful classification of policy measures by their extent of national or supranational control in the areas of decision making, financing and implementation. Wilkinson describes in detail several specific cases of the renationalisation process in his paper.

One theme to emerge from the various contributions is that the move from price support to more targeted forms of support has led to pressure for a further renationalisation of agricultural policies. The increased administration associated with the new measures is more suited to national rather than supranational control. The key member countries of France and Germany have sought more flexible, unilateral ways to compensate their farmers for the loss in price support despite being 'committed' Europeans. Moreover, when applied to the extreme heterogeneity that characterises EU agriculture, common rules associated with some of the new measures (such as a uniform, EU-wide, rate for land set-aside) impose their own distortions which member countries will seek to redress.

Another major theme implicit in the book is the trade-off between greater flexibility and targeting of agricultural policies offered by renationalisation on the one hand and its threat to the fundamental EU (customs union) criteria of market unity on the other. The debate over renationalisation is not about equity or commonality of measures for all EU farmers, but that national measures do not result in distortions or unfair competitive advantages. Thus the EU faces within its borders the debate that has occurred on the international stage, namely the extent to which particular agricultural support measures are or can be 'decoupled' from production decision. For some of the new measures such as the so-called 'environmental aid', however, even the decoupling provisions have been removed.

Wilkinson reminds us that agricultural policy reform in the EU, as in other countries and in other policy areas, is a political game and a marketing exercise. To avoid the negative connotation, 'renationalisation' is referred to as a 'targetting', 'discrimination' as 'differentiation', and 'subsidies' as 'incentives'. The papers by the Danish and Dutch contributors, however, suggest that selling the notion of greater national aids will not be easy. The member countries with more competitive and efficient farmers, with large agricultural sectors relative to other sectors, and without the desire or ability to initiate their own national measures will closely scrutinise national policies for potential distortions and competi-

tive advantages. Several authors allude to the need for farmers (and decision makers) to focus on better management rather than national or EU subsidies, although the selective data used to support these arguments are largely irrelevant.

The political economy of CAP decision making is discussed throughout the book, although readers will find little that has not already been presented in the plethora of literature on this topic. Of more interest is the discussion of changing agricultural policy objectives and a changing agro-political environment in France and Germany.

Readers interested in the CAP could do worse than invest in this modest book. Long-standing 'CAP-watchers' will find a number of new insights. For more general readers, if nothing else, the book will help dispel some of the myths surrounding the CAP and European agriculture such as uniform policies and agricultural structures, policy regimes immune to internal and external pressures, and the myth of a reform process that is revolutionary rather than evolutionary.

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Constructing the Countryside. By TERRY MARSDEN, JONATHAN MURDOCH, PHILIP LOWE, RICHARD MUNTON and ANDREW FLYNN. (University College London Press, London, 1993.) Pp. 220 + iv, ISBN 1-85728-040-7.

This book develops an argument that focuses on rural change within the broader international environment of social and economic dynamics. The transformation to a service-oriented economy is given particular attention. This rural change has resulted in a new and wider range of demands being placed on rural areas.

The approach used is through a case study of the U.K. in the last 20th century, with issues summarised in three questions: (1) international social and economic pressures; (2) state regulation of rural change; (3) a break with the past application of social theory to the rural arena. Indeed, the case study is put forth as an appropriate methodology for researching the rural land development process. Analytical concepts used are the changing relationships between *production* and *consumption*, *commodification* of social and economic processes, *representation* as a social and political process for defining contests over resources, and *property relation* as a guide to change at the local level. In the case study, background is given in the form of two phases that have shaped the contemporary regulation of U.K.'s international trade and economic relations: the *Imperial food order* (1860s to the 1930s) dominated by the U.K. where in the role of agriculture was as a source of cheap wage goods, and the *Atlanticist food order* (1940s to the 1970s) dominated by the U.S.A. where a more intensive development of agriculture was encouraged as part of a shift towards a mass consumption economy. The contradictions

in the 1980s and the 1990s are given as indications of instability that can give way to potential for new influences to gain control over the changes in rural areas.

The land-development process serves the authors as an 'observational window' for understanding wider rural change. Among the demands that have been and are being put on land include national food supply, public access, freehold rights, and environmental demands, with agriculture no longer the 'unquestioned apex of a rural land-use hierarchy'. The demands on rural land use for consumption have become more important than production.

Changes identified as resulting from the post-WWII productivist agricultural regulation and policy are: release of agricultural labour, rapid adoption of technologies by farmers, and a real increase in the price of property. The ultimate consequences were the progressive middle-class takeover of rural living space and the growing dependence of farmers on agribusiness. With the changing mix of social groups laying claim to rural space both nationally and locally, aesthetic interests in the countryside have taken precedence over economic interests.

While the book's content is specific to the case of the U.K., there is much learned about rural changes in modern capitalist economies. The concepts and methodology used can be generalized. The detailed discussion of the Imperial food order and the Atlanticist food order provide an international perspective and insight to the shaping of the political, social and economic forces at work in the current global food system. The analytic framework of 'actors and processes' is relevant to other European, Australasian, or North American countries.

The book is well organised with the development of the theme and analytical concepts early in the book, followed by the U.K. case, and the presentation of the authors' assessment of the forces which determine rural land use and how this land use can be better understood. *Constructing the Countryside* provides a useful reference for practicing professionals and students in rural planning and agricultural economics.

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Selected Issues in Livestock Industry Development. By EDWARD PATRICK CUNNINGHAM (EDI Technical Materials, The World Bank, Washington, D.C., 1993). Pp. vii + 111, ISBN 0-8213-2083-1.

This Economic Development Institute (EDI) publication evolved from a series of seminar papers presented to World Bank staff concerned with the place of livestock within the broad scope of economic and social development, particularly in developing countries. The first four chapters deal with livestock studies in a global context, covering bio-diversity, the international implications of the European Economic Community (EEC) market, the overproduction situation in Europe and technical and economic issues, namely dairy breeding and production in the tropics, live-

stock strategies in the Mediterranean, and likewise in Latin America, cost-benefit studies in livestock improvement, biotechnology, and the role and management of agricultural research.

It is essential with this publication to read carefully the words set out in the foreword and earlier. Otherwise the reader will have little perspective on the objectives of EDI publications, such as supporting training activities, or the relevance of the heavy emphasis on the EEC livestock industry in what one would expect to be a publication mainly concerned with developing countries. It is only in these preliminary parts of the publication that the relevance of aspects such as the dominance of meat production in agriculture in the EEC is discussed. The rest of the publication is an eclectic collection of separate subjects with no attempt in the main text to draw together their common relevance. Collectively, the chapters are aimed at providing linkages between technology and the economic or marketing framework, including the issue of sustainability.

The initial chapter on bio-diversity describes a comprehensive history of breed development and raises an interesting issue of bio-diversity declining due to pressures for productivity increases. However, no specific solutions to this perceived problem are offered whereas it would appear easier solutions might apply to a situation when a species is 'endangered' for this reason than for other reasons, such as an increasingly hostile environment.

Many detailed statistics on economic trends in production, consumption, inputs and so on for the EEC livestock market are given in the chapter on the international implications of the EEC market. The suggestion in the chapter that the EEC livestock market was essentially producing for internal demand will take many readers by surprise. The EEC's livestock production at the time this publication was put together amounted to around 10 per cent of world trade. Moreover, this surplus was heavily subsidised when placed on the world market. Thus, many (see, for example, ABARE 1993) would also question the assertion that EEC livestock policies paralleled those of the United States.

The chapter on over-production in Europe and North America again provides detailed statistics on economic trends in the livestock sector in these two markets. But again, a more favourable light appears to be placed on European policies than would appear justified. For example, an appropriate criticism of Producer Subsidy Equivalents (PSEs) being based on possibly unstable measures of world prices is made. However, this limitation of PSEs would not affect relativities between such measures for Europe and North America which show Europe applied much greater subsidies to livestock production than did North America.

Useful output and other trends are given in the chapter on global supply and demand. However, the discussion supporting these projections seems to ignore the important role of trade in giving the developing world an adequate and secure supply of all foods in the long term, concentrating instead on a self-sufficiency approach. The trade option appears to be dismissed through a courageous assumption that both the biological and

economic efficiency of the feed to meat conversion process are similar in all locations. Comparative advantage is ignored and the existence of different transport costs for frozen meat versus an equivalent converted amount of bulk grains ensures trade in grains appears more economical. But trade in frozen meat, and livestock for that matter, does exist and this contrary evidence to the hypothesised theory is not rationalised.

A short, mainly technical chapter on dairy breeding and production in the tropics that sets out the advantages of controlled breeding programs is followed by discussion of livestock strategies in the Mediterranean. In this latter chapter a north/south Mediterranean distinction is made. The south is not as self-sufficient as the north in livestock production and again self-sufficiency policies are advocated with little justification or consideration of trade policy options.

The chapter on patterns of economic development in the livestock industry in Latin America makes some useful points about development, such as its broad characteristics with 10 major factors, representing most fields of economics, being put forward as requiring consideration in dealing with development issues. However, again the benefits of trade appear to be under estimated. Trade liberalisation is said to benefit exporters and hurt importers. But a general equilibrium view should be taken of the impact of trade liberalisation. Some current importers will become exporters because of the incentives to increase domestic production from the higher world prices induced by falling subsidies in developed countries (see Tyers and Anderson 1992).

Some interesting discussion on public service type investments and appropriate discount rates is given in the chapter on the international implications of the EEC market. The dangers of arbitrarily adjusting discount rates down for public investments is inadvertently given in the discussion of what would appear an over-investment in publicly funded research on improving productivity in European livestock when a surplus was being produced at an economic loss (for more details on the impact of market distortions on research benefits, see Alston *et al.* 1988).

Much technical detail is provided in the chapter on biotechnology. The implicit closed system, or non-trade assumption, appears again in this chapter where it is suggested the major challenge in this area is in the poor countries, presumably because of weaker self-sufficiency ratios and not because of better economic returns.

The discussion of management of agricultural research, in what is probably the more interesting and informative chapter, points to the importance of not just delivering results to scientific colleagues but to propagating them more widely to end users. This chapter also contains some extremely useful diagrams, illustrating well the development stages of a project.

In summary, the publication is a very readable piece, especially given it is covering what could be very technical and 'jargonistic' subjects. It does a good job of linking the technical discussion with the economic and marketing framework, and the discussion of management of agricultural

research is most useful. However, the treatment of self-sufficiency and the benefits of trade, plus the jaundiced assessment of the costs of EEC policies, are disappointing.

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Challenges of Economic Reform and Industrial Growth: China's Wool War. Edited by CHRISTOPHER FINDLAY (Allen & Unwin 1992) Pp. xiv + 239, ISBN 1 86373 204 7.

This book presents a useful addition to the growing literature already available on the structure of various segments of the Chinese economy. Focusing on the wool sector, the work is in part a result of the same long-term research project, between a number of Chinese institutions and the Wool Research and Development Organisation, that delivered the more wide ranging *New Silk Roads: East Asia and World Textile Markets* (1992), edited by Kym Anderson. With its narrower focus, this book takes the reader further into the structure and conduct of the Chinese wool economy. Nine papers, including a detailed introduction and overview section co-authored by the editor, Christopher Findlay, and Andrew Watson of the University of Adelaide, review and present the supply, demand and other market features that are at the basis of this industry. While at times the findings of these sections lack synthesis, and consequently the flow of the whole book is a little disjointed, each section is eminently readable for both those experienced and new to this area, and provides a valuable collection of policy-focussed analyses.

Challenges of Economic Reform and Industrial Growth: China's Wool War relies little on formal empirical analysis, instead uses descriptive methods to try to come to grips with the complexity of influences on the wool sector. The main exception to this approach is the general equilibrium model that is utilised to examine exchange rate impacts by Martin, although this too is built upon a more heuristic analysis in a preceding chapter. The application of the model reflects the tendency to avoid having technical material as the core focus of the collection. Details of the model and the data base are covered extensively in the appendix. The entire edition is well appended, referenced and indexed.

The book contains a number of interesting chapters that approach the Chinese wool industry from different perspectives. Byron's chapter on the demand for wool products in China combines a fairly standard Engel

curves analysis with a review of summary statistics from other Northeast Asian economies, in an effort to isolate some of the variables that might lie behind China's demand for wool and wool products. The next chapter, by Martin, presents itself as a very detailed analysis of many of the variables that may be underlying China's over-valued exchange rates (a policy which was abandoned in 1994), and the likely results of inevitable reforms. As indicated earlier, these hypotheses are supported by observations from a general equilibrium analysis. In the following chapter, Anderson continues his established interest in changes in comparative advantage with development, to form an hypothesis on the likely changes to the future of China's self-sufficiency policy, in particular the future of imports of fibre in the late 1990s. This discussion is followed by an examination of derived demand, by Findlay and Ze, which looks with some depth into the growth of the wool textile industry, with special reference to the chequered patterns of competitiveness within this sector. The subsequent chapter, by Crowley, Findlay and Gibbs, builds on the previous traditional analysis of labour factor intensity, with an interesting analysis into the nature of competitiveness in providing services to this industry. This is achieved with a rather novel survey analysis of Chinese export penetration, relative to those for other Asian exports, into the relatively open Australian market. The findings have interesting implications for future trade and investment in market services, and in the strategic role of Hong Kong. The penultimate chapter by Zheng, Findlay and Watson examines the mixed incentives of past reforms on resource management issues, as well as some of the more technical issues underlying China's impoverished wool supply. The final chapter combines many of these observations in a discussion of the 1985 "Wool War", perhaps as a cautionary tale of the dangers of staggered reforms and uneven mixtures of centralisation and regional autonomy.

The *de facto* companion to this book, Anderson (1992), is a collection of articles on the changing structure of the world textile markets. From this research, it is apparent that one of the primary concerns of the changes in China in the broader context is the impact the economy will have on the international trade in fibres. Traditionally, the aggressive export orientated textiles industries of Japan and Asia have had an almost insatiable demand for raw wool fibre. However, the introduction of China as a new major exporter, and at the same time as an increasing processor of its own fibres, has posed a number of questions about the impact of Chinese policies on the world fibre markets. Such analysis would follow closely on the issues of supply, demand, and export competitiveness. However, with any such rapidly changing economy, these often point to more fundamental concerns about the very nature of the Chinese economic 'reform process'. A process whose distinctive features have been gradualism and experimentation, partial corrections, decentralisation and self-reinforcing reforms.

The real question against which a book such as this should be measured is in terms of its ability to address these issues. More specifically, what

does the book reveal about the influences of reforms on the future supply and demand for wool fibres, and what are the implications of these for Australia's future trading position?

Looking firstly at the questions of supply and demand, we see that the findings of the book are essentially mixed ones. The chapter by Byron argues that the demand for fibres can be expected to grow through income effects, based on Engel curves analysis. The data sets used for these estimations are limited, and could be allocating institutional change effects on income-based analyses. Similarly, the relevance of domestic consumption effects in total demand could be limited in the context of an opening economy, which then begs questions on the influence of economy-wide reforms. The Martin analysis on the effects of the deregulation of the foreign exchange system argues that devaluation of the over-valued Yuan will cause a significant increase in exports of raw wool, despite these income effects. These findings run counter to the analysis of Anderson, in Chapter 5, whose more theoretical analysis demonstrates how import dependency will increase as the role of the manufacturing industry increases.

Perhaps the trade-off between these two points of view is found in the analysis of the likely impact of reforms on the Chinese textile industry. The chapter by Findlay and Ze, on the factors influencing the demand for fibres by the textiles industry argues that, although the nature of performance between subsectors is extremely varied, there appears some evidence of declining competitiveness, as capacity utilisation and profitability has fallen, and that demand is likely to become more constrained over time; the net effect being conditional on the results of a number of reform influences. These notions of declining competitiveness, are supported by the Crowley *et. al.* analysis of service provision, which suggests that even as an exporter, the Chinese ability to influence the world textile trade may be limited.

On the production side, environmental problems and difficulties in resource allocation caused by the piecemeal nature of policy, together with the presence of strong interregional tensions, are indicative of some of the great uncertainties that accompany large scale reforms. The possibility of a collapse forcing China into stagnation should not be dismissed out of hand.

The discussion in the final two chapters serves to illustrate that Chinese imports of raw material may increase as domestic productivity continues to fail, while underscoring the importance of the dynamics and uncertainty in arriving at forecasts on the future directions of this trade. The emphasis of trade reform has always been on export promotion to finance 'modernisation' imports, and the import sector has never been seen as a source of competition. Now, however, with China once again seeking to resume its seat in the GATT, the new wave of trade reform can be expected to focus on liberalising the import regime and making it more transparent.

Clearly, at the core of much of the current uncertainty are issues of macroeconomic management, especially the problems of rising inflation-

ary pressures, and government attempts to dampen growth and create a 'soft landing'. This is not directly addressed by the book; however, as attested by its prominence in the USDA's 1995 *China Situation and Outlook* (Colby, Cook and Tuan 1995), it has important implications for income effects, investment, and other growth-related issues. This is also intriguing as it is in many ways reflective of the 'on again-off again' nature of the government intervention in trade, the continued over-investment in state enterprises, and the consequences of urban and autarchic policy biases, especially in the perpetuation of the current irresponsibility in fiscal and monetary policies. These are serious issues suggesting that the gradual approach has limitations, and that China will eventually approach these limits. The argument can be further made that, as long as state-owned enterprises remain dominant, they will never be able to achieve efficiency at internationally competitive levels, so that so long as this position is maintained, China will always be a highly protected economy, and the benefits of present reforms will dwindle.

It is apparent that the analysis of the trade implications of the Chinese reform process is incomplete. This is especially the case if one considers the analysis from the sole perspective of the Australian wool producers who supported this research financially. Specifically, further research into the essentially dynamic nature of source-direction trade impacts of the collection of interventions that make up the 'reform process' is required. This would necessitate a better understanding of the Chinese economy, focusing on its broader industrial organisation features, to do justice to the topic. Particularly, the implications of inflation, stalled reform and indebtedness in state enterprises, growing government deficits, inappropriate resource allocation, the uneven development of industries and infrastructure, and the influences of growing social problems of corruption, migration, and poverty. While making a contribution to some of these, the book has, in some ways, followed the path of many of the current publications on China. That is, it provides a great deal of information that is insufficiently developed, with respect to theory and empirical specifications, to yield conclusive results for analysis and policy purposes.

In conclusion, *Challenges of Economic Reform and Industrial Growth: China's Wool War* makes a worthwhile, but nevertheless partial, contribution to the growing literature on China. The book could serve as valuable background material to anyone conducting research into the nature of the reform impacts on Chinese industry and, particularly, the structure of the Chinese wool and textile sectors. It could also prove a useful reference for advanced undergraduate students.

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Agribusiness Reforms in China: The Case of Wool. By JOHN LONGWORTH and COLIN BROWN (CAB International 1995) Pp. xvii + 260, ISBN 0 85198 951 9.

A significant amount of literature on the impact of reforms and the likely future developments and opportunities in various sectors of the Chinese economy has recently emerged. While the wool industry has been receiving an increasing share of this attention (see, for example, Findlay 1992; Anderson 1992; Longworth and Williamson 1993), not much specific research has been undertaken on the wool marketing system. *Agribusiness Reforms in China: The Case of Wool* is intended to fill this void. Most previous studies on the Chinese economy are based on aggregated data and information obtained from high level bureaucracies often keen to promote their achievements which may not reflect the true nature of the marketplace. This book, which stems from an Australian Centre for International Agricultural Research (ACIAR) project departs from the norm by utilising primary survey data at numerous levels of the market, carried out from 1989 to 1993. On this ground alone, *Agribusiness Reforms in China: The Case of Wool* is a worthwhile contribution to the literature.

The Chinese wool industry has a complex marketing chain from production through various stages of processing to the final product stage. In their insightful book, Longworth and Brown take the reader through this chain and analyse how it has been affected by the reforms. Concentrating on the raw-wool end of the market rather than the wool-product end of the market, the research portrays how both domestic and imported wool reaches the mill. Reviewing the reforms and the resulting changes is the prime objective of their study. Falling short of a discernible analytical framework, the work is well appended and indexed, and allows those interested in specific aspects of the marketing chain to find the information in the relevant chapters independently of one another.

Chapter 1 outlines the Chinese wool industry and its problems. Chapters 2, 3 and 4 provide a review of the current situation in the Chinese wool industry and how it has developed, focussing on the period since the reforms. Specifically, the current institutional and emerging wool production and processing systems are discussed. The increased need for a marketing system due to the rapid expansion, diversity and changing requirements of the wool processing sector is highlighted. The important issue of wool quality and how its significance has changed leading to the current standards and the emerging problems are detailed.

The remainder of the book tends to concentrate on the current situation in the Chinese wool industry. Chapter 5 deals with the distortions that exist in the market and the role of price setting institutions. There is an intriguing discussion on the so-called 'open' versus 'free' markets and why a genuinely 'free' market in wool in China is yet to materialise. This discussion underscores the challenges faced by local bureaucracies to influence the market. Chapter 6 investigates the system of fibre inspection and associated activities as they relate to wool marketing. The link between fibre research and fibre inspection is explored and the challenges facing fibre inspection procedures stressed. The structure and role of the supply and marketing co-operatives (SMCs) and their position in the market is analysed in Chapter 7. This is of critical importance for any potential investors into agribusiness, as these co-operatives play a significant role in the marketplace and can substantially influence the opportunities that exist in the market.

Chapters 8, 9, and 10 survey auctioning and processing in the wool industry. In chapter 8, two key auctions held in 1991 are reviewed and the auction data analysed via hedonic pricing analysis of the quality characteristics. Chapter 9 aims to look at the adverse effects of the rapid expansion and the likely impact of the new selling arrangements, and Chapter 10 deals with the problems in wool processing. Throughout these chapters, the authors discuss the future prospects for these operations and the perplexities that they will potentially face. In particular, there is great uncertainty about the future role of auctions, while the different types of mills in China will require wide ranging strategies from entrepreneurs.

The final chapters move away from sectoral to much broader considerations. Chapter 11 examines the wool trade, outlining the many recent changes in the institutions, policies and administrative arrangements influencing the importation of wool. How these recent developments are likely to affect the domestic wool textile industry, such as, the move to a single exchange rate and the reduction in tariffs, are discussed. Problems with the importing system for mills, such as, a lengthy chain is also analysed. The final chapter brings the issues facing the domestic wool processing industry to the fore, and looks at the potential in the Chinese wool market. The interesting discussion of 'things are not always as they seem' (p182) highlights the existence of a policy mirage, which is most insightful to anyone not familiar with the difference between stated and implemented policy in this country. The prospects for Chinese wool imports and exports are explored in rather general terms. The authors envisage that China's imports of raw and semi-processed wool are expected to rise, as are exports of wool textile products from China, with no direct implications being drawn for Australia. This is of particular concern, as the research reported in the book was substantially supported by the ACIAR.

To properly evaluate the contribution of the preceding material, it would be useful to consider the book in terms of a number of key questions. How can Australia take full advantage of the transformation of

wool production and marketing in China? How can Australia participate in joint ventures with the Chinese or other overseas interests? How effective are the linkages between Australian wool producers, marketers and traders and their Chinese counter-parts? Can strategic alliances be made to enhance the returns to Australian producers? Is Australia projecting a clear image to the Chinese market of its wool products?

Longworth and Brown diagnose various opportunities in the Chinese agribusiness sector including the significant logistical role created by the distance between production and processing and the potential linking up with SMCs in joint ventures. Further, they examine opportunities for joint ventures in processing by focussing on the emergence of township enterprises. However, the book contains no formal analysis of supply potential and its constraints; despite this being a major determining factor of opportunities in agribusiness. Potential entrepreneurs will require much more detailed information on the logistics of the market and the restrictions on foreign involvement than is provided in the book. Particularly, the underlying supply and demand conditions that will determine the scope of these opportunities need to be specified. Market access and the nature of competition from other wool exporters for shares of the Chinese market are pivotal to this concern.

In the first and final chapters, the authors argue that the book is a reflection of the whole agribusiness sector in China. In some ways, the discussion of the wool industry provides an example of how the whole agribusiness sector in China is being modernised. However, agribusiness is an extremely broad field encompassing input supply industries, commodity processing, manufacturing and distribution, which deals with all the features of the market including structure, conduct, performance, quality and risk management. *Agribusiness Reforms in China: The Case of Wool* fails to cover all these aspects and, more specifically, does not provide much detail on the input supply industry and distribution system in the Chinese wool sector. Yet, such aspects are extremely important and have been influenced substantially by reforms. Further, there are fundamental differences among Chinese industries in the degree to which they have been deregulated or impacted by reforms making any generalisations rather implausible.

Similarly, throughout the book, the authors attempt to make a strong case for a free market system, and claim that further reforms in the Chinese wool industry would be highly beneficial. This may be true in certain instances; however, the relatively low income levels of Chinese wool producers imply that any hardship that needs to be borne in the short term, as the market deregulates, could be extremely detrimental. Additionally, the failure of the wool auctions in the early 1990s suggests that the Chinese are still reluctant to opt for a totally free market system and moves in that direction may yield more social problems than benefits. At the core of this concern are two key issues. The first being whether increasing provincial autonomy and self-sufficiency will deteriorate the growing disparities in China leading to increasing social and political

conflicts; and the second, whether with reforms and further difficulties for the central government, the present social safety net could collapse, pulling millions back into poverty.

A final issue to address is what are the future outcomes of present reforms. As pointed out by the authors, the Chinese have a dilemma facing them in terms of the protection of their wool industry, as wool is one of the main obstacles for China rejoining the GATT; yet China is set to still protect its wool growers who are already low income earners relative to other producers. Should China be forced to cave in and reduce the quotas, this might lead to opportunities for major international wool exporters. Much of the future course of regional trade in wool fibres will depend on the response of major suppliers of the Chinese market, in particular, Australia.

On the whole, *Agribusiness Reforms in China: The Case of Wool* is a valuable source of information for any researcher, policymaker and entrepreneur likely to be involved in the Chinese wool industry. Although somewhat disjointed, it provides substantial details on the structure and operations of the wool marketing system in China. More formal treatment of the entire industrial organisation of the wool marketing sector in China would have enhanced the exposition and rigour of the analysis. An additional chapter on the implications of the analysis for the Australian wool industry would also have improved the book's relevance to wool marketing and trade.

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