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## **China's Agricultural Policies in Relation to Trade: Evolution and Future Directions**

**Funing Zhong and Jing Zhu**

*Selected Paper prepared for presentation at the International Agricultural Trade Research Consortium's (IATRC's) 2017 Annual Meeting: Globalization Adrift, December 3-5, 2017, Washington, DC.*

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# **China's Agricultural Policies in Relation to Trade: Evolution and Future Directions**

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# Outline

- ★ **Policies prior to 1978 Reform**
- ★ **Policy changes during the reform**
- ★ **Future directions of policy evolution**



# Policies prior to the 1978 reform

## ★ Basic objectives

- To accommodate the “Heavy Industry First” development strategy through diverting resources
- To ensure food security (self-sufficiency in grain)

## ★ Implementation mechanism

- Agricultural marketing, pricing instead of taxing;  
State compulsory procurement associated with centrally set production plan
- Rural institutions, reducing resistance & costs  
Producer’s Coop (1954-58) & People’s Commune (since 1958)



# Policies prior to the 1978 reform

## ★ Consequences

- Fast growth in GDP but moderate growth in agriculture:  
6.3% vs. 2.0% p.a., from 1952 to 1978
- Fast declining of agriculture in GDP:  
from 50.5% in 1952 to 28.1% in 1978
- Slow declining of agriculture in employment:  
from 83.5% % in 1952 to 70.5% in 1978
- Fast declining of relative output per worker (agriculture vs. national average):  
from 84.4% in 1952 to 39.9% in 1978
- Low farm income and insufficient supply due to lack of incentives, partly contributed to poor performance of the whole economy and threatening to social stability



# Policy changes during the reform

## Changes in objectives

**Boosting agricultural production and food supply with stimulating incentives as one of the major tools;**

**Gradual shifting from increasing production to farmers' income with supporting production as one of the major tools.**



# **Policy changes during the reform**

## **Changes in tools**

**Raising procurement prices significantly first, and then allowing market to play its role in price determination and resource allocation;**

**Adopting HRS, leading to virtually family farming;**

**Encouraging development of non-agricultural sectors and rural/urban labor migration**

**New package since 2003:**

- Phase-out agricultural taxes and all other fees;**
- Direct payment to grain producers;**
- Comprehensive subsidies to inputs;**
- Support prices to selected crops in selected regions;**





# Policy changes during the reform

## New challenges

**Fast growing demand for food vs. resource and environment constraints**

**“Three highs (high production, high stock, and high imports)”  
due to price support and declined competitiveness;**

**Small size of farms with declining human resource;**

**Farm income still far lagged behind, and threatened by  
increasing imports.**



# **Future directions of policy evolution**

## **Focuses in objectives**

**Farmers' income and general welfare will center agricultural and related policies, and improving efficiency in agriculture will be given more attention:**

- Keeping production growth in farm sector;**
- Maintaining social stability;**
- Improving competitiveness in world market;**
- Reducing policy costs in achieving established goals.**

**Sustainability and environment issues, as well as consumers' welfares will also emerge as major policy concerns.**



# **Future directions of policy evolution**

## **Options in tools**

**Shifting price support to de-coupled or “semi-decoupled” support, and “Green Box” measures;**

**Encouraging entrepreneurship and resource allocation efficiency by removing possible barriers;**

**Improving social security net and human resource;**

**Increasing investment and expenditure on R&D and infrastructures;**

**Enhancing regulations for safer and quality foods, and cleaner and better environment.**



# **Future directions of policy evolution**

## **Implication to trade**

**Protection is still an important tool for safeguarding farmers' income and food security, with actual measures to be adapted to WTO rules and subject to trade disputes with major trading partners;**

**The degree of protection is likely to be influenced by:**

- urbanization and industrialization, as well as demographic changes;**
- demand for high value food;**
- progress in R&D, especially those leading to cost reduction;**
- social security programs;**
- political and social concerns for food security.**



Thanks!

