China’s Agricultural Development and Policy Readjustment after Its Accession to WTO

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I. Agriculture and rural development before WTO accession

When the negotiations on its accession to WTO reached their final stage, China was just in the period of the Ninth Five-Year Plan for the Development of National Economy and Society. As required by the Outline of the Ninth Five-Year Plan, China would accomplish two major goals in its national economic and social development. One would be to primarily establish the system of the socialist market economy. The second goal would be to realize a well-off standard of living. By accomplishing these two goals, an important foundation would be laid for the reform and development after entry into the 21st century and for the accomplishment of the third step strategic goal (basically realize modernization). While remarkable achievements had been made in agriculture and rural economy during the Ninth Five-Year Plan period, there had been outstanding problems that could not be ignored.

1. The development of agriculture and the rural economy during the Ninth Five-Year Plan period

Sustained growth in agricultural production. During the Ninth Five-Year Plan period, the gross value of agricultural production in China grew from RMB1199.3 billion in 1995 to RMB1421.2 billion in 2000, an average annual increase of 3.5% in constant prices, 0.5% lower than annual growth during the Eighth Five-Year Plan period. In 2000, the share of agriculture in GDP decreased to 15.9%, 4.6% lower than the figure in 1995. The reduced share of agriculture in the national economy is a normal development in a period of accelerated industrialization, but will not alter the important position of agriculture in the national economy. In the Ninth Five-Year Plan period, the annual population growth on
average was 0.91%, while agricultural growth was remarkably higher than the population growth, having provided a reliable guarantee for improved diet and nutrition status.

The agricultural and rural economic structures have been gradually improved. In agricultural production, the share of forestry, animal husbandry and fishery continued to increase compared to crop farming, representing that, promoted by technical progress, the capacity of crop farming in ensuring provision of farm produce and supporting agricultural restructuring is increasing.

<table>
<thead>
<tr>
<th>Year</th>
<th>Crop farming</th>
<th>Forestry</th>
<th>Animal husbandry</th>
<th>Fishery</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>58.43</td>
<td>3.49</td>
<td>29.72</td>
<td>8.36</td>
</tr>
<tr>
<td>2000</td>
<td>55.68</td>
<td>3.76</td>
<td>29.67</td>
<td>10.89</td>
</tr>
</tbody>
</table>

At the same time, the percentage of farmers’ income from secondary and tertiary industries has been increasing. In 1995, the average net income from secondary and tertiary industries accounted for 32.65% of the net productive incomes. And this percentage increased to 46.65% in 2000. The value-added of township and village enterprises (TVEs) was equivalent to 121.7% of the gross value of agricultural production in 1995 and increased to 191.1% in 2000.

The average standard of living of farmers continued to improve. In the Ninth Five-Year Plan period, even though the growth of farmers’ income slowed down year by year, the per capita net income increased from RMB1577.7 in 1995 to RMB2253.4 in 2000, an average annual increase of 4.7% after adjustment for price changes. This growth was higher that the target of 4% set in the Outline of the Ninth Five-Year Plan. Farmers’ livelihood also continued to improve. In 1995, spending on food made up 58.62% of per capita living expenses of farmers, and reduced to 49.13% in 2000. Compared with 1995, electric fans owned by every 100 farmers’ households increased by 34 sets, black and white TVs by 38
sets, color TVs by 32 sets, refrigerators by 7 sets, washing machines by 12 sets and motor cycles by 17 sets. The per capita housing space increased from 21 square meters to 24.82.

2. The most remarkable achievement made during the Ninth Five-Year Plan period: Production capacity of grain and other major farm produce greatly expanded and the historical transition from the long-standing short supply of major agricultural products to “balance in aggregate and surplus in years of good harvests”.

The featured situation of more people and less land in China originated from the middle or later period of the 16th century. In the late Ming Dynasty and the early Qing Dynasty, China’s population was less than 100 million and had 800 million mu of farmland. By 2000, the total population had grown to 1.266 billion while the farmland area merely expanded to 1.924 billion mu. The population grew by over 11 times while the farmland area increased by a factor of little more than two. It is thus clear that the pressure of population growth on demand for food has been a huge economic and social problem confronting China for close to 400 years. To alter the situation of food shortage, “taking grain as the key link” was stressed for years after the founding of the People’s Republic, but the problem was not resolved properly. The grain rationing system was terminated as late as 1992. Therefore, one can say that the food supply situation had not been eased until the early 1990s. Beginning from 1995, China had enjoyed good harvests in grain production for five consecutive years. In the first four years of the Ninth Five-Year Plan period, the annual grain production surpassed 500 million tons, leading to a continuing situation of supply exceeding the demand. The achievements in grain production made during the Ninth Five-Year Plan period are of historical significance in the development process of the Chinese economy and society.

The significant growth in grain production during the Ninth Five-Year Plan period had four main reasons:
First, the basic rural policies were stable and being continuously improved. The stabilized and continuously improved household contract responsibility system featuring a combination of centralization and decentralization has played an important role in mobilizing the enthusiasm of farmers and expanding grain production. In November 1993, the central government explicitly prolonged the land contract for another 30 years after the original contract period of 15 years expired. This policy gave farmers a sense of stability in terms of land contract rights and stimulated their initiative to increase investment in their farmland. Many farmers have been digging motor-pumped wells and irrigation ditches on the contracted land and purchasing sprinkler irrigation devices to develop water-saving irrigation. The reason why the farmers are willing to do so is that they believe that, since the land contract period has been prolonged, their investment not only could be gradually be recovered but also could be profitable. During the Ninth Five-Year Plan period, the area of irrigated farmland increased by 68.55 million mu or 9.3%. Obviously, the growth of grain production in this period was directly related to the stable and explicit rural policies.

The second was the effect of price policy. In 1994, there were higher rises in consumer prices. In order to make up for the loss of farmers, the government decided to raise the contract purchase price for grain by 40%. In 1996, the government further increased the price by 42%. The grain contract purchase price doubled within three years. These price rises directly stimulated the incentive for farmers to grow grain crops.

The third was the effect of technical progress. By the end of the Ninth Five-Year Plan period, nearly 40% of the agricultural growth in China was attributed to the scientific and technological progress in agriculture. The extension of several key technologies, in particular, played an important role in increasing grain production. The first was the “seed project”, under which a large number of improved varieties were introduced while poor varieties that did not suit the market needs were eliminated more rapidly. The second was the “White Revolution” under which mulching technology was extended in the cold and dry areas in the northern part of China. Covered with mulch films, the surface
temperature increases so that sowing time can be advanced and the period of crops can be prolonged. At the same time, mulching is also conducive to soil moisture conservation and repressing the growth of weeds. The application of this technology has played a key role in increasing the grain production in the cold and dry regions in northern China. The third is the water-saving irrigation technology. There is widespread water shortage in the northern part of China. In order to increase agricultural production, the restraints on water resources must be broken. The central government has outlined the guiding principles of giving equal importance to broadening water resources and economizing on water utilization with emphasis on economical use of water. During the Ninth Five-Year Plan period, water resource departments introduced a series of water-saving irrigation technologies and established a number of demonstration counties in application of these technologies. The flood irrigation practice of the past has been replaced by wide application of spraying, trickle and micro irrigation methods to meet the needs of crop growth with less water. The extension of these three key technologies played a vital role in increasing grain production during the Ninth Five-Year Plan period.

The fourth was favorable climatic conditions. The most serious threat to agricultural production in China is drought. But in the Ninth Five-Year Plan period, there were basically wet seasons for the five years. The situation in the regions that had suffered long-standing drought eased and there was a major increase in grain production.

Generally, the agricultural policies during the Ninth Five-Year Plan period were stable and explicit, and many of the scientific achievements were turned into real productive forces leading to growth in grain production. However, factors such as major rise in prices and favorable climatic conditions are not regular. We cannot rely on such a confluence of favorable factors in future. But due to the fact that over half of the farmland in China relies on Heaven for food, the situation is not so stable with regard to grain production capacity. Therefore the long-term development of grain production should never be taken lightly.
3. The biggest problem in China’s rural economy: difficulties in raising farmers’ incomes

Due to the changes in the patterns of supply and demand during the Ninth Plan period, there was an excess of supply over demand for most farm produce, leading to declines in prices and new difficulties in raising farmers’ incomes. In 1996, farmers’ net income increased by 9%, but the rate of growth declined to 4.6% in 1997, 4.3% in 1998, 3.8% in 1999 and only 2.1% in 2000. The decreasing growth in farmers’ income was the most outstanding problem with the development of agriculture and rural economy during the Ninth Five-Year Plan period.

The decreased growth in farmers’ income in recent years is only a superficial manifestation of the problem. The severity of the problem mainly lies in the sustained decrease of the income from agricultural production. Table 2 below shows the composition and changes in the per capita net income of farmers in the four years to 2000.

<table>
<thead>
<tr>
<th>Year</th>
<th>Productive net income</th>
<th>Net income from primary industry</th>
<th>Net income from secondary industry</th>
<th>Net income from tertiary industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>1987</td>
<td>1268</td>
<td>438</td>
<td>281</td>
</tr>
<tr>
<td>1998</td>
<td>2040</td>
<td>1237</td>
<td>499</td>
<td>303</td>
</tr>
<tr>
<td>1999</td>
<td>2079</td>
<td>1180</td>
<td>564</td>
<td>334</td>
</tr>
<tr>
<td>2000</td>
<td>2130</td>
<td>1136</td>
<td>598</td>
<td>395</td>
</tr>
<tr>
<td>2000 vs. 97</td>
<td>+142</td>
<td>- 132</td>
<td>+160</td>
<td>+113</td>
</tr>
</tbody>
</table>

It can be clearly seen from Table 2 that, while the productive net income of farmers in 2000 increased by RMB142 over 1997, the net income from agricultural production decreased by 132, a reduction of 10.4%. In the three years between 1998 and 2000, the average farmer’s income from agricultural production declined progressively, decreasing by RMB30 between 1998 and 1997, RMB57 between 1999 and 1998 and further by RMB44 between 1999 and 2000. According to the statistics in the agricultural survey, 59% of the rural households in China are “pure farmer households” (the family members mainly...
engaged in farming), and another 18% are “farmer households with combined occupations” (the number of family members engaged in farming is more than those engaged in non-farm occupations). These two types of households with farming as their main source of income account for 78% of households in rural China. It can thus be judged that, due to the progressively reduced income from agriculture in the last three years, the per capita net income of the farmer households with farming as the main source of income actually declined.

It was just under such circumstances that part of the agricultural provinces and the western provinces with under-developed non-farm industries faced a severe reduction in the per capita income of their farmers. In 1999 and 2000, farmers in six provinces and regions saw decreases in their per capita net income over the previous year. Table 3 shows the provinces and amounts of the reduction in income:

**Table 3. Declines in per capita farm incomes in six key provinces**

<table>
<thead>
<tr>
<th>Reduction in income in 1999</th>
<th>Reduction in income in 2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shanxi 86</td>
<td>Guangxi 184</td>
</tr>
<tr>
<td>Liaoning 790</td>
<td>Liaoning 145</td>
</tr>
<tr>
<td>Jilin 123</td>
<td>Jilin 238</td>
</tr>
<tr>
<td>Heilongjiang 87</td>
<td>Heilongjiang 18</td>
</tr>
<tr>
<td>Gansu 36</td>
<td>Shaanxi 12</td>
</tr>
<tr>
<td>Xinjiang 127</td>
<td>Ningxia 30</td>
</tr>
</tbody>
</table>

The provinces of Liaoning, Jilin and Heilongjiang saw reductions in per capita income for two consecutive years. The reduction in Jilin was as much as RMB361 in the same period and per capita income in the province was by 15% lower in 2000 than in 1998.

The net income from farming reduced for years running while the tax burden on farmer households mainly include taxes on agricultural and animal products, tax on special products and contract land deduction. These factors have deepened the feeling of the farmer households with farming as main source of income that “income can not go up and burdens can not come down”. This situation has forced some farmers go out for work in order to offset payment of agricultural taxes and fees with income from other sources while more farmers have had to reduce their spending on production and living. Since 1998, the per
capita spending on operation and living have decreased or stopped increasing. Table 4 shows the changes in this regard:

### Table 4. Changes in farm household spending, 1997-2000

<table>
<thead>
<tr>
<th>Year</th>
<th>Total spending</th>
<th>Household operation spending</th>
<th>Living expenses</th>
<th>Spending on food</th>
<th>Spending on garments</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yuan/person</td>
<td>Yuan/person</td>
<td>Yuan/person</td>
<td>Yuan/person</td>
<td>Yuan/person</td>
</tr>
<tr>
<td>1997</td>
<td>2537</td>
<td>706</td>
<td>1617</td>
<td>890</td>
<td>109</td>
</tr>
<tr>
<td>1998</td>
<td>2457</td>
<td>652</td>
<td>1590</td>
<td>850</td>
<td>98</td>
</tr>
<tr>
<td>1999</td>
<td>2390</td>
<td>600</td>
<td>1577</td>
<td>829</td>
<td>92</td>
</tr>
<tr>
<td>2000</td>
<td>2652</td>
<td>654</td>
<td>1670</td>
<td>821</td>
<td>96</td>
</tr>
</tbody>
</table>

There were successive declines in 1998 and 1999 in per capita spending on farm household operations with a cumulative 15% reduction between 1997 and 1999 (a reduction of RMB106). The increase in per capita spending on farmer household operations in 2000 was something of a recovery, but still left spending over seven percent lower than in 1997. On the other hand, this increase was passive, being due to increases in drought relief expenses and the rise in prices for fuels.

The changes in the per capita consumer spending of farmers have the similar characteristics: successive declines in 1998 and 1999 with spending in 1999 2.5% (RMB40) below the level in 1997. Although the per capita living expenditures increased by RMB93 in 2000 compared with the previous year, the change was to a large extent passive. First, the per capita spending on food continued to decrease after the successive decrease for two years, while spending on garments slightly increased but was still lower than the levels in 1997 and 1998. Second, much of the spending increase resulted from the rise in service prices, such as medical expenses which increased by RMB18 or 25%, transport by RMB24 or 35.5%, education and entertainment devices and services by RMB18 or 11%. The above expenditure increases, which were basically passive, increased by RMB60 or 65% of the total increase in living expenses. Therefore, even though there was an increase in farmers’ per capita spending on living, the amount of the spending that could be used to improve the
farmers’ quality of life was very limited.

The data described above regarding per capita expenditures on production and living of farmers are only national averages, and, very often, average figures conceal many real contradictions. The situation was more serious in terms of the reduction in spending for most of the farmer households that mainly depend on farming for incomes. And this is right one of the major reasons for the decline in farmers’ share of rural consumption evident in Table 5.

Table 5. Share of farmers’ in consumer spending at county and lower levels, %

<table>
<thead>
<tr>
<th>Year</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>40</td>
</tr>
<tr>
<td>1997</td>
<td>39</td>
</tr>
<tr>
<td>1998</td>
<td>39</td>
</tr>
<tr>
<td>1999</td>
<td>39</td>
</tr>
<tr>
<td>2000</td>
<td>38</td>
</tr>
</tbody>
</table>

Thus it can be seen that the decrease and stagnation in farmers’ spending has actually produced negative impacts on the expansion of the domestic market and healthy development of the national economy. Just as the central government pointed out at the Central Working Conference on Rural Issues, if increases in the capacity of agricultural production cannot bring tangible benefit to farmers, the good situation in agricultural supply will possibly be reversed. If there is no continuous improvement in the purchasing power of farmers, the policy for expanding domestic demand will not achieve the desired results. If farmers’ living standards cannot be improved, there is a risk of increased social instability in the rural areas. If the ability of agriculture to save and accumulate cannot be constantly strengthened, it will be difficult for China’s agricultural products to gain international competitiveness. If Chinese agriculture experiences major setbacks, the development of the whole national economy and society will be unfavorably affected. Therefore, the central government explicitly pointed out that the issue of increasing farmers’ income must be highlighted in the entire economic work.
II. China’s accession to WTO and the new stage of development of Chinese agriculture and rural economy

1. The initiation of the new stage and its central tasks

In October 1998, the Third Plenary Session of the 15th Central Committee of the Communist Party of China (CPC) adopted the *Decisions of the CPC Central Committee on Major Issues of Agriculture and Rural Work*. The judgment of “balance in aggregate and surplus in harvest years” for grain and other major agricultural products was made in the *Decisions*. Based on this judgment, the central government explicitly put forward at the National Conference on Rural Work at the end of 1998 that the development of Chinese agriculture and rural economy had entered a new stage. The main basis for the new stage thinking is the major change in the pattern of agricultural supply and demand. One of the key features of the situation is that the quantitative contradictions in the supply of and demand for agricultural products have basically been relieved. Another is that agricultural production in the past had mainly been restricted by natural resources but, presently, restrictions of market demand on production have become more acute. What farmers are worrying about is not whether enough products can be produced, but whether the products can be sold out and sold at good prices. Just because of such changes, the central government explicitly directed at the end of 1999 that the central task for agriculture and rural economy in the new stage should be implementation of strategic restructuring.

2. The crux of the strategic restructuring of agriculture and rural economy

Since China adopted reform and open economic policies, Chinese agriculture has experiencing restructuring. What then is the distinctive point of the present strategic restructuring? The distinction is that the starting point of the strategic restructuring lies in the adjustment of variety and quality instead of quantity. The adjustment in crop sowing area is no more than which crop should have more sowing area and which should have less.
This kind of adjustment was effective in the past, and is effective at the present and will still be effective in the future. But adjustment in quantity has major limitations. For example, judging from the existing production level and consumer demand for grain in China, the total sowing area for grain crops should be maintained at 1.65 billion mu to 1.7 billion mu with only about 50 million mu as a margin for adjustment. The strategic restructuring is greatly different. Adjustment can be made on every piece of land within over 2.3 billion mu of sowing area, such as replacing the unmarketable poor quality varieties with high quality marketable ones. Adjustment can be made not only on cultivated land, but also in forest products, fruits, animal products and aquatic products. Therefore, adjustments emphasizing on optimizing varieties, improving quality and efficiency can be made everywhere. Only by such strategic restructuring centered at quality and efficiency can the overall quality of Chinese agriculture be improved to meet the requirements and challenges posed by WTO accession and economic globalization, to ensure improvement in the people’s living standards and to accelerate the process of agricultural modernization in China.

3. The fundamental objective of the strategic restructuring is to make every possible effort to increase farmers’ incomes

The new stage of strategic restructuring was initiated early in 2001 when the central government specified that the fundamental objective of the strategic restructuring is to ensure increases in farmers’ income. By following this clue can we track the basic thinking of the Chinese central government on guiding agricultural and rural work. After entering the new stage and basically solving the quantitative contradiction in agricultural supply and demand, increasing farmers’ income has increasingly become a striking task. In November 2000, Secretary General Jiang and Premier Zhu stressed at the National Economic Conference that increasing farmers’ income should be a key goal in the entire economic work program.
The fundamental objective set at the Central Working Conference on Rural Affairs at the beginning of 2001 was to achieve growth in farmers’ income. In mid January 2001, the central government convened a National Conference on Agricultural Science and Technology, at which a group of agricultural scientists was commended and the Outline for the Development of Agricultural Science and Technology in the Next 10 Years was adopted. In February 2001, the State Council held a working conference in Anhui Province on the reform experiment in rural taxes and fees to explore fundamental solutions to the burdens on farmers. In just a few months at the turn of the century, the central government held a series of major conferences on rural restructuring, increasing farmers’ income and alleviating burdens on farmers. Thus it can be seen that the government has paid close attention on issues concerning agriculture, rural areas and farmers with the focus of attention on increasing farmers’ income.

Securing income growth for farmers is by no means a simple matter. The most important immediate cause of the slow increase in farmers’ income is the current difficulties in selling agricultural products and the declines in prices. However, problems of difficulty selling products and price declines are not only evident in agriculture, but in most other industries as well. Such a situation exists not only in China, but also in most other countries. Therefore, the current difficulties facing farmers’ income are to a great extent related directly with the economic cycles both at home and abroad. Achievement of sustained growth in farmers’ income is a complicated project of system engineering. It cannot be expected to solve the problem fundamentally by means of one or two specific policies. The key is to make great efforts to do excellent job in all aspects of agricultural and rural work. And this also depend much on the improvement in the situation in the national economy as well as the whole world economy so as to create a broader market for the agricultural development.

4. The basic direction of the strategic restructuring of agriculture and the rural economy
As directed by the Chinese government, at the new stage of agricultural development, the central task is to implement strategic restructuring of agricultural production. This restructuring is regarded as strategic for two reasons. One is to put the long-standing practice of pursuing quantitative growth in agricultural products onto the track of stressing optimized variety, improved quality and efficiency. The continued development of Chinese agriculture needs to continue to consider the constraints on the resource side and to pay more attention to constraints from demand side. To achieve this, there is a need to expand the regulation of agricultural production by market forces.

It can clearly be seen that the agricultural restructuring with the above goals will inevitably require changes in the relevant policies. Though these policy adjustments primarily resulted from major changes in the patterns of agricultural supply and demand in China, they are basically consistent with the direction of China’s WTO commitments. Even if there were no WTO accession issues, such adjustments in agricultural policies would be required. WTO accession will accelerate agricultural restructuring and adjustment in agricultural policies.

The restructuring of agriculture and rural economy, revealed at the end of the Ninth Five-Year Plan period, has five major orientations:

(1) Optimize varieties of farm produce and improve the product quality in an all-round way

Optimization of varieties and improvement in quality and efficiency should be the main orientation of adjustment for all agricultural production, including crop farming, animal husbandry, fishery, forestry and fruit production. Having solved the quantity problem in agricultural supply and demand, optimizing varieties and improving quality will inevitably become the main direction for continued development of agriculture, and this is also objective requirement for the current stage of agricultural development facing the changes
in the market supply and demand. It is preferable in agricultural production to have smaller quantities of higher quality products, to avoid wasting of the human, financial and material resources of farmers. To this end, the central government announced the termination of purchasing at protective prices for long-grained non-glutinous rice, northeastern spring wheat, southern winter wheat and other unmarketable varieties, starting from 2000. The purpose of this reform was to guide farmers to replace inferior varieties with superior ones. Fundamentally, optimizing varieties and improving quality and efficiency should be a long-term basic goal for agricultural restructuring in China.

(2) Expand processing of agricultural products

Agricultural processing will become more and more important in agricultural development in China. With continuous increases in people’s incomes and living standards, the Engel coefficients and income elasticity of demand can be expected to fall, which could pose a grave challenge to the continued development of agriculture.

Currently, the main factor restricting the growth of farmers’ income is the decrease of income from agricultural production. This is related to the stage of social and economic development in China. Profound changes have taken place in the current consumption structure of the Chinese residents. One is the decrease of the Engel coefficient and the associated decline in the income elasticity of demand for food. In 1991, the Engel coefficients of China’s urban and rural residents were 54% and 58% respectively. These declined to 38% and 48% in 2001.
Table 6: Changes in urban and rural resident income and spending 1996-2001

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>1996</th>
</tr>
</thead>
<tbody>
<tr>
<td>Per capita disposable income</td>
<td>6860</td>
<td>4839</td>
</tr>
<tr>
<td>Per capita consumer expenditure (total)</td>
<td>5309</td>
<td>3919</td>
</tr>
<tr>
<td>Food</td>
<td>2014</td>
<td>1905</td>
</tr>
<tr>
<td>Grain</td>
<td>188</td>
<td>272</td>
</tr>
<tr>
<td>Oil</td>
<td>59</td>
<td>69</td>
</tr>
<tr>
<td>Meat, poultry and its products</td>
<td>413</td>
<td>439</td>
</tr>
<tr>
<td>Aquatic products</td>
<td>152</td>
<td>132</td>
</tr>
<tr>
<td>Vegetables</td>
<td>194</td>
<td>207</td>
</tr>
<tr>
<td>Tobacco</td>
<td>104</td>
<td>84</td>
</tr>
<tr>
<td>Liquor and beverage</td>
<td>104</td>
<td>85</td>
</tr>
<tr>
<td>Fresh and dried fruits</td>
<td>131</td>
<td>118</td>
</tr>
<tr>
<td>Dining out</td>
<td>314</td>
<td>186</td>
</tr>
</tbody>
</table>

The decline in the propensity of households to spend their income on food is evident in Table 6. Between 1996 and 2001, per capita disposable income increased by RMB2021, and consumer expenditure increased by RMB1390, while food expenditure only increased by RMB109, even though expenditure on food eaten outside the home increased by RMB128. Thus, the urban resident expenditures on grain, oil, meat and vegetables decreased by RMB131.

Only by expanding farm produce processing and guiding the people to consume higher quality, more nutritious and safer food can the continued expansion of agricultural markets be achieved. Food processing can not only increase the value of agricultural products, but also guide consumption and develop new markets to make it possible to continuously increase farmers’ income. Two concepts should be altered in terms of developing agricultural processing industry. First, food processing should not be regarded as an industry with low technology content and without the need for much investment. On the international market, brand-name and marketable processed foods are all with high technology content., These products simply can not be produced without the application of advanced technology. Second, it should not be believed that unsaleable fresh products can
be processed into high-quality processed products. The raw materials for food processing should be special-purpose farm produce, such as special wheat and special grapes, which are distinctive from those directly used for food. Therefore, adjustments should be made in the varieties of agricultural products in order to achieve better results from food processing.

(3) Bring into play the local comparative advantages in agriculture

In the past, because there had been widespread shortages of agricultural products, the localities had no choice but to pursue higher degrees of self-sufficiency. Now that the supply and demand situation has changed, local authorities should be liberalized from such traditional thinking and practice and bring into play local comparative advantage in agriculture. Particularly, the coastal regions and suburbs of large and medium cities should make use of capital and technology-intensive techniques. These localities should properly reduce their grain production and develop higher value-added animal husbandry, fishery and horticulture so as to achieve better results and give more market space to the main grain producing regions in a pattern of mutual benefit and relative complementarity. At the same time, the various localities should be encouraged to develop their own agriculture with distinctive features.

In order to promote restructuring of the regional distribution of agriculture, the central government decided in 2001 to liberalize grain markets in the main coastal grain consuming regions including Beijing, Tianjin, Shanghai, Jiangsu, Zhejiang, Fujian, Guangdong and Hainan. Particularly, in the face of the challenges and opportunities after WTO accession, much more attention should be paid to giving play to local comparative advantage in agriculture. China has a large population and little land. Most of the land-intensive agricultural products, such as grain, cotton and edible oil are relatively high-cost in China. Most labor-intensive agricultural products, such as animal and poultry products, aquatic products, and horticultural products (fruits, vegetables, flowers, bonsai, etc.), have a comparative advantage in international markets. Currently, there is an urgent
need for Chinese agriculture to foster strengths and circumvent weaknesses and to give full play to China’s comparative advantage in international market competition. To tap the comparative advantage of Chinese agriculture on the international market, it is first necessary to bring into full play the agricultural comparative advantages of different domestic regions. In this way, it will be possible to create a pattern of mutual benefit and complementarity between regions to improve the competitiveness of Chinese agricultural products on international markets and to promote the development of China’s agriculture as a whole.

(4) While continuing to support the development of TVEs, make positive and steady efforts to advance urbanization.

In the second half of the Ninth Five-Year Plan period, the per capita net income of farmers increased although income from farming declined. This increase depended almost entirely on income growth from non-farm sectors. This shows that the fundamental way to enrich farmers is to reduce the number of farmers. Agricultural resources are limited and efforts should be made to transfer rural labor and population to allow the farmers remaining on the land to expand their scale of production. The township and village enterprises (TVEs) in the countryside have provided 130 million job opportunities to farmers and their role in alleviating unemployment problem can hardly be replaced. TVEs should be guided to conduct restructuring and institutional innovation to promote their further development and to make a greater contribution to increasing the employment and incomes of farmers.

Another major source of income growth of farmers during the Ninth Five-Year Plan period was transient employment of farmers in towns and cities. This part of income has been providing an increasing share in the net income of farmers. According to an estimation by Sichuan, there are 6 million farmers in the province going out for transient employment and remitting back nearly RMB30 billion each year. The transient employment of farmers should be encouraged while being managed to keep it orderly.
However, many large and medium cities have set up various restrictions and rules on farmers taking urban jobs, and many of these rules and regulations are both irrational and ineffective. On one hand, these transient farmer workers should be guided to flow in an orderly manner and to abide by relevant laws and regulations. On the other hand, the various rules and regulations restricting farmers seeking jobs in urban areas should be reviewed so as to alleviate the burden on the transient farmers. In the process of economic development in China, the transient employment of farmers will certainly be a long-term phenomenon. A large number of farmers will be transferred to non-farm employment but it is impossible for all of them to settle in towns at once. Therefore there will have to be a long period of transient employment. Conscientious research should be conducted and rational and effective policies should be adopted to guide and manage such a large scale and long-term population flow.

Developing small towns is an important way to transfer rural population and accelerate the process of urbanization in China. In the decisions adopted at the Third Plenary Session of the 15th Central Committee of the CPC, it was specified that developing small towns would be a major strategy for the development of the rural economy and society.

There are two trains of thought on the specific ways in which urbanization should be advanced. Some people believe that emphasis in this development should be placed on large and medium-sized cities. Through a host of analyses and researches, many scholars think that large cities can generate higher economic benefits and provide a large number of job opportunities. Another school of thought stresses the effect of developing small towns. Its advocates believe that the basic goal of urbanization at the current stage is to speed up the transfer of rural surplus labor and rural population and see developing small towns as more effective in achieving this goal.

The Chinese path to urbanization should be one with Chinese characteristics, featuring coordinated development of large and medium cities and small towns. Medium and small cities should be developed, the regional center cities should have distinctive features, and
large cities should bring into play their leading role and radiating functions. But measured with the goal of transferring the rural population, developing small towns is more realistic. The larger the cities and the higher the standard of living, the higher the requirement for social security. But at the current stage, it is still difficult for farmers to reach such levels. Presently, large and medium cities frequently provide job opportunities for transient farmers and opportunities for them to accumulate capital, but it is very difficult for these farmers to settle down in these cities. After a certain period of capital accumulation, rural residents typically leave the large cities, but not all of them return to rural areas. Some of them settle in small towns instead. This process of resettlement will provide practical opportunities for the development of small towns. However the development of small towns should not rush headlong into mass action and “blossom” everywhere, or it will become a disaster. There are about 45,000 towns and townships now in China, of which 19,000 are governmentally organic towns. Proceeding from China’s actual conditions and national strength, we should be practical and realistic when considering how many small towns should be established. In the construction of small towns, those towns with better basic conditions and development potential should be given priority. The most important pre-condition for the development of small towns is a prosperous local economy.

Construction of small towns is different from that of residential quarters. A residential district can accommodate several thousand or more residents and have sound environment and complete living facilities, while most of the residents are not employed with the district. The difference with small towns is that their basic function is to attract the transferred farmers and provide the farmers with job opportunities. Therefore, stress should be laid on giving play to functions of towns, and the basic function of a town is to create a prosperous local economy and to provide employment. The most basic judgment on whether there are conditions for constructing a town is whether a planned town can become a source of economic growth. Only by making this judgment when considering the construction of small towns can we achieve the goal of accelerated transfer of rural surplus labor and
population and provide better conditions for agricultural and rural development and provide more opportunities for income growth of farmers.

(5) Intensify the construction of ecological environment and implement sustainable development

In ecologically vulnerable regions such as those along the upper reaches of major rivers and arid areas, etc., the government should provide financial aid for farmers to return grain plots to forestry to conduct ecological construction including re-vegetation and soil and water conservation. Starting in 1999, experiments on returning grain plots to forestry were conducted in some provinces and regions. By the end of 2001, 11 million mu of grain plots had been returned to forestry nationwide. In 2002, the central government officially adopted policies for returning grain plots to forestry. The government will subsidize 300 jin of grain to farmers in the southern part of China and 200 jin to farmers in the north for every 1 mu of grain plots returned to forestry, plus RMB50 for each mu incurred in sapling and grass seed expenses and RMB20 in living expenses. Under this policy, implementation of returning grain plots to forestry not only can recover ecological environment effectively, but also give opportunities for farmers to get direct benefits. By the end of 2002, the total area of returning grain plots to forestry will reach 34 million mu and is expected to reach 100 million mu during the whole Tenth Five-Year Plan period.

III. Policy orientations for promoting restructuring of agriculture and the rural economy

To promote the strategic restructuring of agriculture and rural economy and to improve the overall quality and international competitiveness of Chinese agriculture, the Chinese government is accelerating a series of policy readjustments to fit in with the needs of current agricultural development. The main readjustments include the following:

(1) Accelerate the establishment of market information system for agricultural products and
provide farmers with timely, comprehensive, accurate and authoritative market
information on agricultural products.

(2) Accelerate the establishment of quality, security and standards systems and improve
means of inspection and testing for agricultural products, particularly food products,
guiding the farmers to produce high quality, low-residue and safe farm produce.

(3) Adjust the existing supportive and protective policies for agriculture and establish a
domestic protective system for agriculture that conforms to WTO rules.

(4) Accelerate the innovation of agricultural management system. Proceeding from China’s
stabilized household contract system, an integrated agricultural management system
should be developed with “company plus farmer households” as the main form to
improve farm organization and farmers’ access to markets.

(5) Further reform and perfect the circulation system for grain and other major agricultural
products to reduce circulation expenses and improve competitiveness.

(6) Further restructure the rural financial system and explore the establishment of an
agricultural insurance system that suits the national conditions in China.

(7) Restructure the agricultural science and technology research and extension systems and
intensify international cooperation and technology import to accelerate technical
progress in agriculture.

(8) Reform the household registration system in small towns and encourage the rural
population that has met necessary conditions to settle down in small towns.

IV. Remaining Policy Issues

A number of policy issues need to be examined in more detail in the future. Some of the
most important of these issues are:

1. Correctly analyze price issues for staple agricultural products, particularly grain,
soybeans and cotton. The relationship between producer prices, wholesale prices and
retail prices should be distinguished and the actual gap between prices for China’s
staple agricultural products and international market prices should be analyzed
objectively. As a matter of fact, monopoly still exists in the circulation of staple
agricultural products. Therefore, it is absolutely possible to reduce the circulation
expenses of China’s staple agricultural products by further reforming the agricultural
circulation system, in order to reduce the gap between the Chinese and international
market prices.
2. Issues concerning the comparative advantages of Chinese agricultural products. Labor costs give China a clear comparative advantage in many animal and aquatic products. However, given the aggravated “green barriers” in international agricultural trade, low labor costs are not enough to constitute international competitiveness. The key is to find ways to produce agricultural products that meet international quality and safety standards. At the same time, there is the question of other WTO members opening their markets to Chinese agricultural products.

3. The issue of reforming the foreign trade system for agricultural products. The key is to properly resolve the problems in giving non-state firms that have met the necessary conditions foreign trade rights for importing and exporting agricultural products.

4. In the transitional period, both tariff concessions and tariff-rate-quotas for imports of agricultural products are hard to bear. But it is crucial to study how to deal with the pressures from the international agricultural markets. Both research and preparations for the new round of WTO agricultural negotiations are obviously inadequate. The central government should set up special bodies to intensify research on the relevant countermeasures.