

Conclusion

China has come a long way in the last 30 years. Since reforms began in 1978, China has risen out of the inefficiencies of planned production and marketing to experience one of the longest and most robust periods of sustained economic growth in world history. This fact is even more impressive given China's large size, and the implications of its rising affluence reverberate around the world. As the world's largest agricultural economy with 1.3 billion increasingly wealthy consumers and 200 million farm households, a ripple in China's agricultural production or consumption can translate into a wave on world agricultural markets.

China is entering a new stage in its reform of markets and production practices. Agriculture now must supply quality, safety, and other attributes rather than just quantity. The environmental and natural resource costs of maintaining high agricultural output are becoming increasingly evident. The objective of maximizing economic growth has given way to a more nuanced set of goals that focus on income distribution and eroding physical and social infrastructure in rural areas. Officials now emphasize the importance of spreading technology, investment, and education to rural areas.

These issues stem from China's enormous success at generating wealth and industrial development over the last 30 years and are not unique to China. Many of these problems also have market-based solutions, but require more modern market-supporting mechanisms, such as clearly defined property rights and open, contestable, dispute settlement institutions. Such modern market-supporting institutions, however, are still in their infancy in China. The urgency of these problems, coupled with Government's continued tendency toward interventionist solutions that carry over from the collective era, results in policy solutions that could be effective, but are not necessarily efficient, and may not be adaptable to future problems. Establishing modern marketing institutions can help resolve current and future issues; however, establishing these institutions is costly and time consuming. The cost of interventionist policies is less expensive, in the short run, because the institutional legacy of the planned economy lends itself to such policies.

China's future agricultural production, consumption, and trade will depend, in part, on how these issues are resolved. Interventionist policies intended to address short-term crises may have unintended long-term consequences. In the 1990s, China sharply raised grain prices and pressured farmers to increase grain output. The resulting production surge depressed grain prices and disrupted markets during 2000-03. Such policies can also postpone needed economic adjustments, consequently building up greater pressure. Restrictions on rural-urban migration in past decades facilitated urban income growth and kept cities free of slums, but it built up a huge reservoir of surplus rural labor. The land tenure system preserved short-term stability and equality, but it has prevented adjustments needed to commercialize agriculture and generate higher per capita farm income.

Establishing independent market-supporting institutions will allow those affected by problems to address them as they arise. In addition, the path taken by policymakers in China will affect the distribution of the economic

value of production. With interventionist policies, local leaders and their agents in Government-invested businesses will want a portion of the economic returns as compensation for their efforts, dulling the incentives for producers and other businesses to respond effectively. Modern market-supporting institutions, on the other hand, will provide more opportunities for producers or more efficient processors and traders to organize themselves and directly reap the benefits of these actions.

The economic and agricultural production growth China has achieved thus far has been relatively easy to produce by establishing incentives, market-based trading, and allowing regional specialization. In order to achieve further growth, China will need to confront the more difficult issues outlined in this report. China's officials recognize many of these issues and are experimenting with many innovative policies, reforms, and plans. While many policies remain interventionist and were established by bureaucratic decree, China is tentatively increasing the authority and activity of the courts and the sanctity of laws passed by the National People's Congress, strengthening and clarifying property rights, establishing a land registration system, and experimenting with water rights trading. Reforms are evolutionary and exploratory rather than revolutionary. Continued movement to establish these institutions bodes well for China's ability to guide itself through the more complex issues that face such a large, diverse, and rapidly developing economy.