Introduction

A visitor to China today would have a hard time imagining what the country was like before reforms that began reshaping the agricultural landscape 30 years ago. China in the 1970s was poor and isolated. Rural workers toiled on collectively owned farms in teams directed by local officials. Industrial workers staffed large State-owned enterprises where output targets and prices were determined by central planners. Each region and city was expected to be largely self-sufficient in production of most goods. State-run marketing companies, subject to the decree of central planners, were in charge of the limited trade between the regions that existed. There was little private economic activity at this time, and millions of people survived on a diet of less than 2,000 calories per day.

Today, China is one of the world’s largest economies, a major importer and exporter, and a sought-after location for multinational firms. Rural workers raise a variety of crops on individually managed plots, engage in household livestock and sideline production, and travel all over the country to work in thriving industrial and service sectors. Most manufactured goods are produced in coastal areas and marketed throughout the country. The State-owned sector represents only about a third of economic output, and many remaining State-owned firms raise capital on stock markets and have joint ventures with foreign firms. Urban workers frequently change jobs, buy much of their food in modern supermarkets and convenience stores, and frequently dine in restaurants. Obesity has become a major public health issue.

Agricultural reforms played an important role in China’s economic resurgence over the past three decades (Rozelle and Swinnen, 2004). Re-establishing household agricultural production was the spark that ignited the process of establishing markets and relinquishing direct Government control over the economy. Responding to these changes, farmers immediately boosted rural incomes, lifted millions out of poverty, and improved the diets of Chinese citizens. By the 1990s, similar reforms took hold in the urban and industrial sectors, and their growth began to outpace agricultural and rural growth. But agriculture continued to play a critical economic role by meeting the growing demands of wealthier, mostly urban, consumers for fruit, vegetable, and livestock products as well as traditional staple grains. A seemingly endless supply of inexpensive labor released from collective agriculture fueled China’s booming manufacturing and urban construction sectors.

China is currently the world’s largest agricultural economy and a leading importer and exporter of agricultural products. China’s agricultural sector, however, is still changing as it responds to the rising and increasingly sophisticated demands of domestic and foreign consumers, adapts small-scale farm structure to global food markets, and competes with other sectors for labor, investment capital, and scarce land and water resources (Gale et al., 2002; Lohmar and Gale, 2008). While China has come a long way in its transition to a market economy, it still retains many of the institutional vestiges of the planned economy. Nearly all final products are bought and sold at market prices, but collective land ownership, ambiguous water rights, and
weak legal and financial systems confound market-driven resource adjustments, farm consolidations, and agricultural investment. In the absence of well-functioning market-supporting institutions, Chinese economic planners gravitate toward interventionist policies to resolve market failures. This, in turn, reduces the demand for market-supporting institutions that could resolve these issues in a more market-oriented and sustainable way. The path China takes and the policies chosen to address these issues will affect its long-run capacity to resolve them effectively.

Understanding China’s recent historical development is critical to assessing the implications for China’s role in world agricultural markets. The development of markets over the last 30 years, the remaining role of Government, and the emergence of market-supporting institutions are key issues underlying the evolution of China’s agricultural economy. An assessment of critical issues facing China’s agricultural economy—management of land and water resources, development of modern marketing chains, provision of food safety assurances, lagging rural incomes, and technology development and extension—illustrates how rapid economic growth is creating tensions stemming from the institutional legacy of the planned economy. How each of these issues is resolved will have important implications for China’s future agricultural production, consumption, and trade.