

ASPECTS OF AGRICULTURAL REFORMS IN CHINA AND ROMANIA

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Abstract

The purpose of this study is to compare agricultural reforms in China and Romania with respect to their similarities and differences in order to identify the best solutions and future challenges of each approach. Both countries underwent important structural reforms in order to modernize agriculture and develop their rural areas. Development policies were analysed in relation with the data regarding shifts in agricultural output and farm size. Reforms in China began in the `80s, while Romania followed in the `90s. Trying to address similar problems, the two countries adopted different strategies. Romania chose fast shock-type reforms, characteristic to most of the East European countries, while China opted for a slower, step-by-step solution. Romania adopted all the reforms needed for a shift towards a free-market economy at once, while China focused on market liberalization only after the decollectivization process was complete. The smooth path China has chosen allowed the farmers to adapt to the new demands. Still, the negative outcome in both countries was land fragmentation, preventing an important part of the rural area to join the newly formed efficient agriculture. Cooperative should not be imposed, as in the past, but promoted with long-term policies and funding incentives, as being the best way for small farmers to meet the quantitative and qualitative demands of the market and gain negotiation power in the product chain. In China's case, enforcing property rights for agricultural land and allowing their free trade will be very important for future development. For Romania, one of the most important challenges will be to increase the agricultural land utilised by medium size farms, together with better absorption of EU funds.

Key words: agriculture, China, development, reform, Romania

INTRODUCTION

The end of the twentieth century brought important reforms in the whole world, in all aspects of society and all economic sectors. In some cases, the focus on industrial development led to a diminished, or even neglected, role of agriculture. However, experience showed us the strong ties between the two of them, given the important roles rural development has in providing the basis for industrial development: supplying labour to industry, producing low-cost food (to keep industrial workers' wages down), producing crops as inputs in other parts of the economy, supplying exports and raising rural incomes, as a necessary aspect of society stability and sustainable development.

Thus, countries ignoring the important roles of agriculture in development failed to achieve healthy growth and to escape the middle-income-trap. Best examples are Argentina, Mexico, Nigeria and the Soviet Union. On the other hand, countries heavily

investing in agriculture, like Japan and South Korea, built up a strong base for sustainable development, escaping the middle-income-trap and becoming models to follow regarding development strategies in the contemporary world.

The second role of agriculture in industrial development, providing cheap food for the workers in various industries, to maintain their wages low, should be fulfilled by high productivity that would keep unitary costs down. This implies, at least to some extent, free market rules, in order to promote competition and incentives for raising productivity. Contrary to that, in China and Romania, food prices were kept down only by governmental decisions, ruling the prices in the planned centralized economy. Without higher productivity, low prices translated into low income for farmers.

In both countries, the `50s collectivization created an inefficient agriculture, providing insufficient products, disconnected from the market demands and run by an unmotivated

workforce. Agriculture was failing to fulfil its roles as a cheap food provider and a basis for social stability and industrial development.

MATERIALS AND METHODS

The data used for calculations was collected from China Statistical Yearbook [2] and Eurostat [3], covering data sets starting with 1980 until 2010. Calculations aimed to relate changes in agricultural output with their corresponding shift in China's development policies, while in Romania agricultural land fragmentation was analysed compared with the rest of European Union.

RESULTS AND DISCUSSIONS

Aspects of Agricultural reform in China

The land reform in China at the beginning of '50, redistributed agricultural land, taken from landlords and rich farmers, to all rural households. Soon, cooperatives' establishment and the shift to communes completely eliminated household farming. Later on, development policies focused only on industrialization and urban areas widened the gap between rural and urban population, while the existence of Hukou system, preventing people to freely move in search for economic opportunities and trapped significant parts of the rural population in poverty. The system itself designated rural dwellers as being second-class citizens, with limited, if any, access to investment, services and opportunities.

Rural areas in general and agriculture in particular, were left behind and at some point it was clear that the country's further development will not be possible unless agricultural reforms would be taken. Slowly, and step by step, each problem of the existing system was addressed separately.

The reforms started at the end of '70s by the abolition of communes and establishment of the household responsibility system. Agricultural land, even if still collectively owned, was contracted to households, on the basis of family size and labour force. This is what has driven the growth of agricultural output and productivity at the early stages of

the reform.

One of the first steps taken for reform, was raising incentives for above-quota sales. The raised incentives translated into higher prices (still controlled), with an immediate effect on increasing farm outputs.

Table 1. Increase in agricultural output value between 1980 and 2010

No.	Period	Total agriculture	Farming	Animal Husbandry	Fishery	Forestry
1	1980-1985	88%	72%	125%	294%	132%
2	1985-1990	112%	98%	146%	225%	76%
3	1990-1995	165%	140%	207%	315%	115%
4	1995-2000	22%	17%	22%	59%	32%
5	2000-2005	58%	41%	80%	48%	52%
6	2005-2010	76%	88%	56%	60%	82%

Source: own calculations

Farm inputs' prices were kept low, but insufficient availability raised the prices for additional inputs (mostly fertilizers) even beyond international prices. Private ownership of wells, pumps and irrigation equipment led to the establishment of private water markets.

Decisions that preceded the establishment of free market allowed farmers to sell some specific products within limited boundaries, like their counties. But real market liberalization for agricultural inputs and outputs started only in mid '80s and continued until late '90s. As a result, the number of private trading companies rose more than 20 times between 1980 and 1990. Also international trade was encouraged by lowering tariff and nontariff barriers and licensing of private companies to engage in such activities [1].

The results were spectacular right from the beginning, with increases of over 70% in farming, over 100% in animal husbandry and forestry and almost 300% in fishery, over the first 5 years (1980-1985). The rate of growth even speeded up in the following years, until mid '90s, as new reforms were enacted (Table 1).

High incentives and market liberalization determined farmers to naturally shift their production in a way that satisfied China's

comparative advantage, from land-intensive low value towards labour-intensive high value products. Most of the farmers benefited from the reforms, except the ones in poorer areas, where the specific conditions made shifting to high value crops hard. Thus, a fraction of Chinese farmers were unable to seize the new opportunities and were affected by the general demand for competitiveness, being left behind.

Overall, rural incomes have steadily increased during the reform era and farms, and even villages, became more and more specialized in one type of product, usually a high value product. This shift towards high value products can be easily observed by comparing the values of increase rates in agricultural output between 1980 and 2010: the sectors producing high value products, like animal husbandry and fishery, have increased at a higher rate than land intensive farming (Figure 1).

Agricultural research was also reformed starting in mid`80. Competitive grants were introduced and research units were encouraged to fund themselves by selling the results of their research. Overall, the reform weakened the system. Competitive grants may have had good results, but reliance on self-funding by free market failed [1].

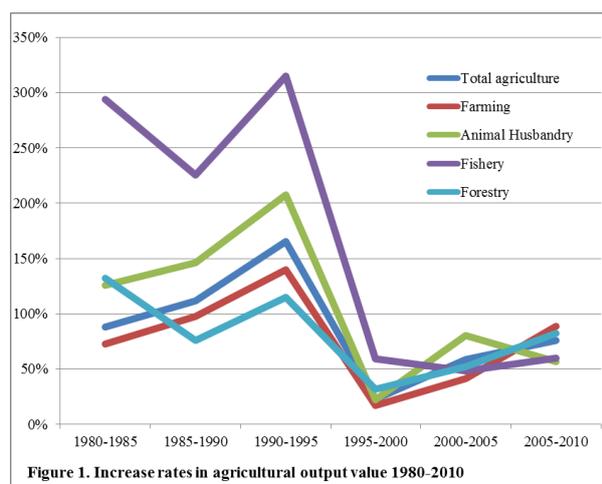


Figure 1. Increase rates in agricultural output value 1980-2010

After reforms begun, agriculture was the first sector to connect China to the world, by international trade. Both imports and exports have constantly grown.

Trading companies have grown, both for

international and domestic markets. Nowadays, most of the farm production is bought by small private traders and even farmers in remote poor villages are integrated that way in the national market. Product chains are developed, but the power is shifted towards traders and retailers.

Regarding land fragmentation, between 1980 and 2000, the land controlled by the average farm household has fallen from 0.71 to 0.55 hectare. Even so, the cooperatives are extremely rare, with only 2% of farmers belonging to one. By other developed countries' experience, participation of most of the farmers in cooperatives was an important step in development; examples are the Western European countries, Japan, South Korea and even U.S.

Aspects of agricultural reforms in Romania

Between 1949 and 1962, forced collectivization transformed Romanian rural area; agricultural production cooperatives were formed, following the Soviet model, alongside the already established state farms.

Between 1962 and mid-`80s, restructuring, modernization and investments had positive effects on agricultural production, especially in the case of the more specialized state farms, closer in many aspects to the American farms. Unfortunately, in the `80s, investments for modernization were halted and the incentives system for farm workers was abolished. The quantity and quality of production decreased and agriculture became even more disconnected from the market.

The beginning of `90s brought radical reforms, not only to the agricultural sector, but to all parts of Romanian economy and society.

Agricultural reforms during the `90s, in the East-European countries, were focused on establishing competition and free market trade. In Romania, the first step was shifting the land ownership from state to private, by restoration of private ownership and privatization. This was done too fast and not connected to the privatization of other agricultural assets, nor to the necessary reshaping process of agricultural structures. The 4,260 Romanian agricultural cooperatives, owning over 60% of the

agricultural land and over 70% of the arable land, were dissolved in a random manner and the result was excessive land fragmentation, unsuitable for any type of efficient farming. The cattle sector, for example, suffered a dramatic decrease, from 5.38 million heads in 1990, to only 2.07 million in 2014, with a minimum of 1.99 million heads reached in 2011 [5].

Negative experiences and memories of the '50s forced collectivization process caused strong reluctance in establishing cooperatives after 1990, even if they are the best way for small and medium farmers to meet the quantitative and qualitative demands of the industry and gain negotiation power, as seen from the experience of the Western European countries.

Even for the developed countries, agriculture was, and to some extent still is, strongly influenced by state's policies and intervention mechanisms. In Romania, after 1989, agriculture was not truly considered to be a priority for the country's development and the whole sector was thrown into the free market pit without any consideration or clear strategy [7].

Maybe the most important problem was the lack of investments needed to support the reforms.

In the absence of a coherent development strategy and proper structural adjustment, the distribution channels were distorted and eventually destroyed. The reforms privatized agriculture and freed the market, but disconnected one from the other.

Agricultural production decreased and food imports increased, to cover the country's necessities.

The industry delivering inputs for agriculture was also affected, both by shock-type reforms and lack of demand from the, now weakened, agricultural sector.

As it was seen, from other countries' experiences, sufficient investment in agriculture and adequate rural development policies are necessary for the development of the country as a whole, including industry and services. Thus, Romanian agriculture's downfall, after the early '90s reforms, constituted also an important brake in the

development of the other economic sectors [6].

After 2000, new strategies, also in the framework of EU accession, started to correct the mistakes and reshape Romanian agriculture in a more adapted way to modern markets, but this is still a long process.

Unlike the agriculture of the most other European countries, Romanian agriculture developed in a very different way: subsistence and small farms, as well as large farms, are predominant (Table 2).

Table 2. Utilised agricultural area by farm size in Romania and EU (2007)

No.	Farm size	Romania		European Union	
		ha.	% from total	ha.	% from total
1	0 to 9.9 ha.	6,846,950	49.78%	25,314,680	14.68%
2	10 to 99.9 ha.	1,733,730	12.61%	66,784,950	38.72%
3	100 ha. or over	5,172,370	37.61%	80,385,420	46.60%
Total		13,753,050	100%	172,485,050	100%

Source: own calculations

Romania developed a strong sector of large farms, some of them even bigger than their other European counterparts, but medium size farms utilise only a small fraction of the available agricultural land, more than three times lower than the European average, as subsistence and small farms control the rest of it (Figure 2).

Of all EU Member States, Romania has the highest number of farms and labour involved in agriculture (29% of all EU farms and 19% of total workforce), while Romanian small farms (less than 1 European Size Unit) account for more than half of the small farms in all EU.

After Romania's accession as a full EU member in 2007, Romanian agriculture continued its development in the framework of the Common Agricultural Policy. This brought both new competition and new opportunities for Romanian farmers. The direct payments system was established and new institutions were created to manage the European Agricultural Fund for Rural Development (EAFRD), in order to partly finance investment projects for the private sector. Large farms were the ones to benefit the most out of both systems, widening the

gap between them and the medium farms, let alone the small ones.

High bureaucracy and inefficient management of European funds are the most important problems Romania still has to overcome [4].

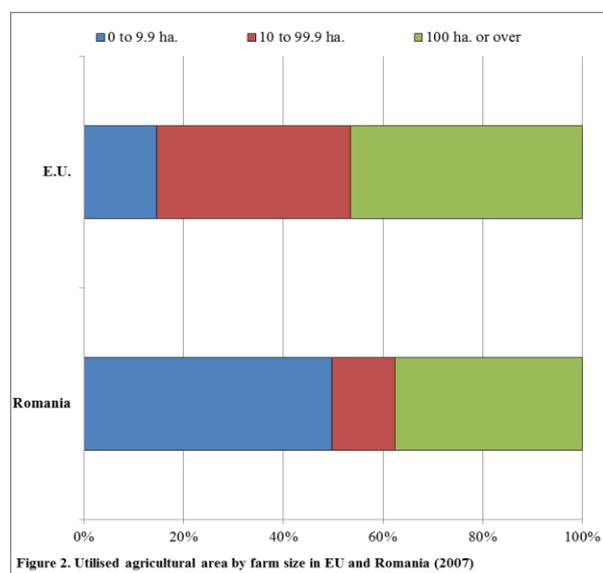


Figure 2. Utilised agricultural area by farm size in EU and Romania (2007)

CONCLUSIONS

In both countries, Romania and China, the agricultural reforms had the same objective: increasing the agriculture's efficiency by connecting it to the free market, raising farmers' incomes and providing the base for development for the other economic sectors.

Unlike Romania, in China the reforms were taken at a slow pace, step by step and with much caution. Firstly, the household responsibility system was established, farmers taking full responsibility of the land they were working. Then, incentives for above-quota sales were increased, followed by permission to free trade minor products in very specific conditions. Only after those preliminary steps were completed, free market trade for the important products was allowed.

If in China, and almost everywhere else in the world, one of the most important roles of agriculture after the reform was to supply labour force for industry, in Romania things were quite different. After intensive industrialization in the '80s, the '90s brutal reforms dismantled the newly formed industry, leaving an important part of the labour force unemployed. As agriculture was

more resilient to shocks, it was able to absorb a part of the labour force and ease the pressure on the labour market.

This is also one of the reasons Chinese government is so reluctant to allow free trade of land property rights; if any downfalls are to appear in the rest of the economy, at least part of the labour force will be able to return to their farms and survive on agricultural activities.

The future challenges Chinese rural areas are facing are related to urbanization and farms modernization. The two are strongly connected, as the necessary investments in the human resource needed in the cities relies on higher rural incomes, provided by more efficient farming. Increasing farms' sizes is crucial in this development and promotion of agricultural joint operations might also serve this purpose. Another important aspect is education, which needs to become a priority in rural development. More educated and skilled people leads to higher wages and more opportunities for migrants, but also to better and more efficient land usage by those remaining in the villages. New rural land laws and regulations aim to encourage farmers to invest and increase their farms sizes, but the difficulties they are facing in finding funding for that, are connected with the volatility of property rights. Enforcing property rights is also very important for future development, enabling farm owners to design medium and long term strategies, get access to credit and make investments. Also, the free trade of property rights will provide the smaller and poorer households with the necessary funding for migration, in search for better opportunities.

One of the most important challenges for Romanian agriculture will be to increase the agricultural land utilised by medium size farms. EU development funding should be directed to medium size farms. Small subsistence farms should not be promoted, but care has to be given to the social problems poor rural households are facing.

Collective actions between small farmers should be promoted in both countries, through cooperative structures for inputs acquisition, farming, distribution and even joint processing.

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