

China's New Grain Marketing Policy^{*}

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This paper introduces and evaluates the new grain marketing policies issued by the Chinese government and implemented in 1998. The key elements of the new grain marketing policy consist of “three policies and one reform”. This paper presents a relatively detailed description and a brief evaluation of the implementation of the new grain marketing policies. (The original version of this paper is in Chinese. This is a reduced English version.)

1 Background and the main content of the grain marketing policy

In order to rationalise the grain marketing system, to control the declining trend of grain price at the market and to help farmers to overcome the difficulties in selling grains, the State Council issued the “Decision on Deepening the Reform of Grain Marketing System”. The document requires that efforts should be made to promote the reform of grain marketing system with “three policies and one reform” as the key elements. The following are the main contents of new approach.

^{*} Translated by Chen Chunlai.

(1) *To purchase farmers' surplus grain at the protection price.* It was required that state-owned grain purchasing and storing enterprises everywhere should purchase farmers' surplus grain at the protection price. The protection price should be set according to the quality of grains. The state-owned grain purchasing and storing enterprises should not degrade grains and must not set any limitation on the amount that the farmers want to sell. While purchasing, the agriculture tax should be collected based on the relative regulations of the state, but other fees and charges collected by village and township administrations are absolutely banned. Except the state-owned grain purchasing and storing enterprises, individual, private and other enterprises are prohibited to purchase grains directly in the rural areas.

(2) *To sell grain at the reasonable price by state-owned grain purchasing and storing enterprises.* The state-owned grain supply centres and grain depots including their processing enterprises should sell grains at a reasonable price based on the purchasing price plus reasonable charges, at the lowest possible profits. They must not sell grains at a loss to any grain processing, wholesale and retail enterprises in one way or another. The state-owned grain processing, wholesale and retail enterprises which keep separate accounts should only purchase as much as they can sell. They should set the retail price by themselves and take responsibility for their own profits and losses.

(3) *Enclosed operation of the grain purchasing fund.* In order to avoid IOUs in grain purchase, the supervision is to be exercised to prevent grain purchasing and storing enterprises from diverting the grain purchasing fund to other purposes. The grain purchasing fund is to be supplied and managed by the means of "connecting storage and loans" and "returning money after the sales of grains", ensuring that all the

principle and interest on loans are returned to the Agricultural Development Bank immediately after the sales of grains.

(4) *Accelerate the reform of state-owned grain enterprises.* The state-owned grain enterprises should actually transform their management mechanism and be market-oriented and assume the sole responsibility for their own profits and losses. They should make a greater effort to improve their management, reduce distribution costs and increase competitiveness in the market. The state-owned grain enterprises should raise efficiency through the methods of personnel reduction, and re-deployment of laid-off staff.

2 The implementation and evaluation of the grain marketing policy

The new policy was implemented in 1998. In general, progress has been achieved in the reform of grain marketing system, and the target set by the Party Central Committee and the State Council was initially fulfilled.

The majority of state-owned grain purchasing and storing enterprises seriously implemented the policy of unlimited purchasing farmers' surplus grain that farmers want to sell at the protection price. In 1998 the state-owned grain purchasing and storing enterprises purchased 96.05 million tonnes of grains, which basically met the grain selling demand of farmers.

Most state-owned grain enterprises sold grains at reasonable prices. Localities introduced some concrete measures and policies to encourage the state-owned grain enterprises to sell grains at reasonable prices. In the second half of 1998, the market price for grains began to rise and the sales of grain at a loss were avoided in some regions. As a result, some state-owned grain purchasing and storing enterprises benefited a lot and began to make profits.

The goal of enclosed circulation of the grain purchasing fund was realised. The supply of grain purchasing fund was ensured through the strict management of Agricultural Development Bank at various levels. The return rate of the money from grain sales and the recovery rate of loans both reached 100 percent. The misappropriation of grain purchasing funds was put to an end and the phenomenon of IOUs to farmers was stopped.

New progress has been made in state-owned grain enterprise reform. Many state-owned grain enterprises reduced their staff and distributed them in various ways. Some provinces established the county grain purchasing and storing companies, which take charge of and manage the business of grain purchase and storage in local areas. Moreover, many state-owned grain enterprises took measures, like a check-up system, competitive posting and so on to break the “big-pot” system, to improve the management and to intensify the appreciation of the market discipline.

However, there are also some problems in the implementation of the new grain marketing policy. First, the policy of unlimited purchase of farmers’ surplus grain that farmers want to sell at the protection price has not been fully implemented. For

example, some state-owned grain enterprises in some regions limited or rejected purchases of grain, and some reduced the grain grade and price during the purchase. Second, some state-owned grain enterprises could not re-sell grain at reasonable prices. Because the market price for grain is low, most of the state-owned enterprises faced great difficulties to sell grain at a price higher than the purchasing price. Third, the economic efficiency of state-owned grain enterprises is still poor and many are still making losses.