

## THE FOOD MARKETING SYSTEM IN CHINA: WITH PARTICULAR REFERENCE TO THE SHANG- HAI AREA

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### I. Introduction

China, the largest country in the world with a quarter of the world population, covers an area of 960 million hectares of which 100 million hectares is farm land, cultivated by a 800 million farming population, to feed 1 billion people. In such a vast country, the food marketing system, especially the marketing system of perishable food, such as fruits, vegetables, meat and fish, must function efficiently to ensure timely distribution of available food to the consumers and also reflect effectively the consumer demand on the production planning and pricing policy. In China, where the economy is based on planned production and planned distribution, it is an enormous task for the state to maintain an efficient food marketing system.

After the Cultural Revolution and the consequent change in the policy of the Chinese government information on Chinese agriculture is increasingly available as more visitors to China publish their study reports. Such information makes a contribution in fostering understanding between China and other countries. However, technical information on food marketing is still not readily available in an organized way.

Since 1979 Chinese agriculture has entered into a new era. The government policy on diversification of agriculture fosters specialization of production and the "production responsibility system" stimulates efficiency in production and marketing. Such change in the government policy was officially endorsed and the supplementary and regulatory role of the market, on the basis of a planned economy was recognized by the Communist Party of China in June, 1981.<sup>1</sup>

The results of the policy change are seen in the popularity of production contracts, free markets in limited scale private entrepreneurs and

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<sup>1</sup> "It is necessary to have planned economy and at the same time give play to the supplementary and regulatory role of the market on the basis of public ownership." Resolution of Communist Party of China History, 1949–81, Beijing, Foreign Language Press, 1981, p. 68.

advertisement. Along with such change, marketing will become increasingly important, and the efficiency of the food marketing system will be the critical factor in making such government policy change effective.

The purpose of this paper is to describe the present food marketing system in China, with particular reference to the Shanghai area, to foster an understanding of the Chinese economy and its agriculture. Also an attempt will be made to assess the future role and direction of the food marketing system in China.

## II. General Structure of the Food Marketing System in China

Procurement and marketing of agricultural products in China are handled by the Ministry of Food, Ministry of Commerce, Ministry of Light Industry, Ministry of Forestry, State General Administration of Aquatic Products and the National Federation of Supply and Marketing Cooperatives. All the domestic transactions are subject to their administration and management. External transactions of agricultural products are under the jurisdiction of the Ministry of Foreign Trade. The divisions of responsibilities are as follows:

Agency	Responsible Commodities
1. Ministry of Food	Grain, edible oil
2. Ministry of Commerce	Meat, poultry, eggs, vegetables
3. Ministry of Light Industry	Sugar, crops
4. Ministry of Forestry	Timber and other forest products
5. State General Administration of Aquatic Products	Fish and Fishery products
6. National Federation of Supply and Marketing Cooperatives	Cotton, hemp, tobacco, silk, tea, fruit, etc.

All agricultural produce is classified into three categories, in accordance with their importance to the national economy and people's livelihood.

*Category I Items* (State monopoly): Produce which is monopolized by the government for procurement and distribution purposes include grain, edible oil, timber and cotton. These products are procured and distributed by the government in accordance with specified quota at the government price. However, to provide an incentive to the farmers, the government buys at "above-quota price" (higher than the quota price) the surplus quantity offered by the farmers after fulfilling the quota.

*Category II Items* (Purchase by contract): Hemp, silk, tobacco, tea, sugar, crops, fishery products, meat, poultry, eggs and medicinal herbs belong to this category. The producers of these products must sell to the government up to the specified quota in accordance with the state plan. The

balance can be sold to the state or to other markets as producers like.

*Category III Items* (Open sale): The Ministry of Commerce may purchase other items in compliance with market demand by negotiating with and contracting to production units. The producers may sell to the state as well as to market.

The marketing channels for the Category I Items and the Category II Items are different because of the importance of the items in terms of the people's life. Since the Category I Items are critically important for the people, procurement is strictly based on a quota and distribution on a rationing system. Under the overall control of the Ministry of Food, the Grain Bureau of provincial and city governments manage the grain procurement and distribution system.

To manage the procurement and distribution of the Category II Items for the urban population, several special companies are organized under the Second Commerce Bureau in most of the cities (First Commerce Bureau deals with industrial consumer goods). The companies operating under the Second Commerce Bureau are Vegetable Company, Staple Foodstuff Company (for meat) Poultry Company, Fishery Products Company and the Sugar-Salt-Cigarette-Wine Company. In addition, the Fruit Company operates separately under the National Federation of Supply and Marketing Cooperatives. Although many large cities have all the above six companies some medium and smaller cities have a fewer number of such commodity companies.

### III. Grain Marketing

#### 1. Procurement Quota and Price

Grain being a Category I Item the procurement and distribution belongs to a government monopoly. Each production unit of a people's commune<sup>2</sup> is allocated a certain quota of grain to deliver to the government at the government price. The base for fixing the quota is the average production of the past three years. From this figure, a specified quantity for the producer's food, seed fodder and tax are deducted, and the balance to be sold to the state under the quota system.

However, in fact, the quota is substantially below the actual surplus after deducting for the producers' use and the quota does not change for at least several years once it is decided. The surplus quantity after having fulfilled the quota can be sold to the government at an above-quota price

<sup>2</sup> In rural areas, in general, a people's commune consists of about 5,000 households, and each commune has about 12-15 production brigades, each of which has about 200-300 households. Each production brigade has about 7-10 production teams, each of which has about 20-30 households. The production team is the lowest unit of a people's commune.

which is 50% more than the quota grain price. At the moment, the quota paddy price is 0.26 Yuan/kg (\$0.15/kg) and the negotiated price after having met the quota obligation is 0.38 Yuan/kg (\$0.23/kg).<sup>3</sup> Therefore, the above-quota price is an incentive for producers to produce more food grain, and at the same time the relationship between the quota procurement quantity and the above-quota procurement quantity affects the farmers income.

Therefore, the quota is deliberately kept at a low level to provide incentives to the producers. Normally the above-quota purchase quantity is about 25% of the quota purchase, and in some area the negotiated quantity is about 50% of the quota purchase. However, the harvest was poor in the Shanghai area in 1980, and therefore, in Malu People's Commune in Jiading County of the Shanghai area, 2,300 M/T of paddy was sold to the government at the quota price, while only 600 M/T was sold at the above-quota price. Paddy yield was about 4,000 kg per hectare on single cropping and about 7,350kg per hectare on double cropping.

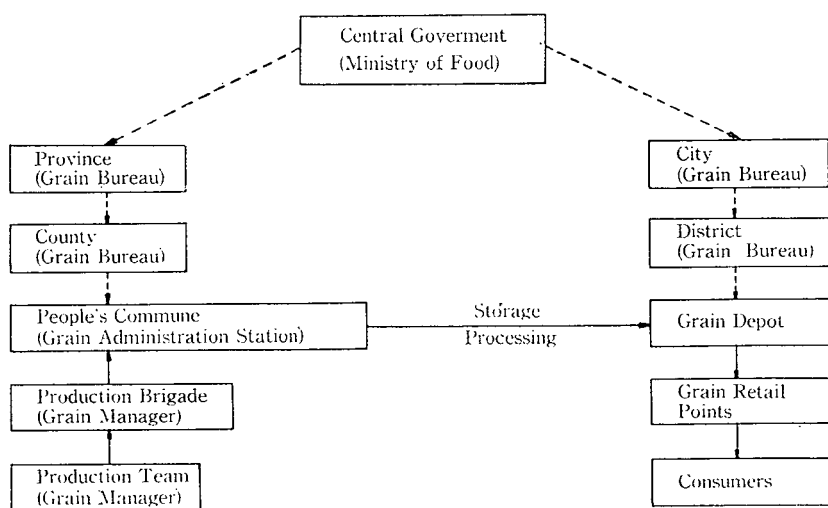
The government grain procurement prices for producers were raised by 20% for quota grain in 1979 and the above-quota premium was increased from 30% to 50%, while keeping the consumer price at a stable level.

## 2. Marketing Channel

At the central level, the Ministry of Food, with its 2 million staff mem-

CHART 1

GRAIN MARKETING CHANNEL



Note: -.-> Shows flow of management communication

—> Shows physical flow of grain

<sup>3</sup> US\$1 = Renminbi Yuan 1.67 (Shanghai, 10 Nov. 1981).

bers, manage the entire grain procurement and distribution system.

When grain is delivered to the Grain Administration Station (GAS) of the People's Commune, the grain is inspected in accordance with the government grading standards, and a different price is paid for different grades. Although grading of one sample takes about 1/2 hour it usually does not cause much problem because the grain is delivered from the production team in bulk in large quantity, and therefore, the number of delivery lots are fewer than in other Asian countries where such delivery is made by individual farmers. The GAS often has grain elevator, storage and rice mills.

For example, Xingiao People's Commune GAS of Songjiang County in the Shanghai area has 29 staff members divided into 6 divisions, i.e., Purchase Division, Fodder Division, Supply Division, Storage Division, Processing Division and Administration Division. These divisions shoulder the work of grain and edible oil purchase, storage, processing, and supply and rationing for 23,000 people in the commune and the supply of Shanghai city. Generally, the rice milling rate is 72%, while husk constitutes 18%, rice bran 7%, and broken rice and others about 3%.

The quota grain procurement price and ration selling price are shown in Table 1

TABLE 1 GRAIN PROCUREMENT AND SELLING PRICE

(Yuan/kg, 1981)

	Procurement		Selling	
	Paddy/Wheat	Rice/Flour	Rice/Flour	Subsidy
Japonica Rice	0.272	0.380	0.328	0.052
Indica Rice	.234	0.340	0.286	0.054
Wheat	0.300	0.400	0.340	0.060

Note: US\$1 = 1.67 Yuan

In Shanghai City<sup>4</sup> there are 11 Grain Depots, serving as grain terminals as well as wholesale distribution points. There are about a little over 1,351 Grain Retail Points in the Shanghai metropolitan area, with over 20,000 staff members serving the grain rationing for a 6,000,000 urban population, i.e., 1 Grain Retail Point serving about a 6,000 people or about 1,500 households in designated area. The Grain Retail Point is paid 20 Yuan per ton of grain distributed. On the average each Grain Retail

<sup>4</sup> Shanghai is one of the three municipalities directly under the jurisdiction of the Central Government. It is comprised of a 6 million urban population in 12 districts and a 5.5 million suburban population in 10 counties. In the 10 counties there are 34 towns and 205 People's Communes, 2,958 Production Brigades and 29,304 Production Teams. There are also 15 state farms. Of the total suburban population of 5.5 million, 4.4 million is agricultural population with a 2.8 million agricultural labor force cultivating 354,000 hectares (312,000 hectares are under collective cultivation and 24,000 hectares are private plots, with 18,000 hectares under state farms).

Point sells about 90 mt of grain per month and earns about 1,800 Yuan (20 Yuan x 90 mt) as its retail commission. Each Grain Retail Point has 10–15 staff members (large GRT) or 5–6 staff members (small GRT).

### 3. Ration

Grain is strictly rationed to insure the minimum requirement to everybody at the government price. Although the average rice ration is taken as 15 kg per person per month, in fact the ration is finely broken down based on the 30 years of experience of the grain ration system. The present ration is as follows:

TABLE 2 RICE RATION IN SHANGHAI CITY, 1981

Classification	Quantity (kg/month)
Heavy Laborer 1	23
2	24
3	25
Light Laborer 1	14
2	15
3	16
Brain Worker	14
Middle School Student	15
Primary School Student	13
Newly-born baby	3.5
Each additional age	0.5

The ration coupons are issued once every three months.

In the rural areas, grain supplies are more variable, depending upon the area's agricultural development and the grain production in that province. In general, however, it was said that the government maintains the minimum consumption level of 200 kg per capita per annum in rice growing areas and 150 kg per capita per annum in other areas. Nationwide, the average grain distribution to commune members was about 245 kg per capita (about 200 kg in processed form, or 17 kg per capita per month) in 1979.<sup>5</sup>

## IV. Vegetable Marketing

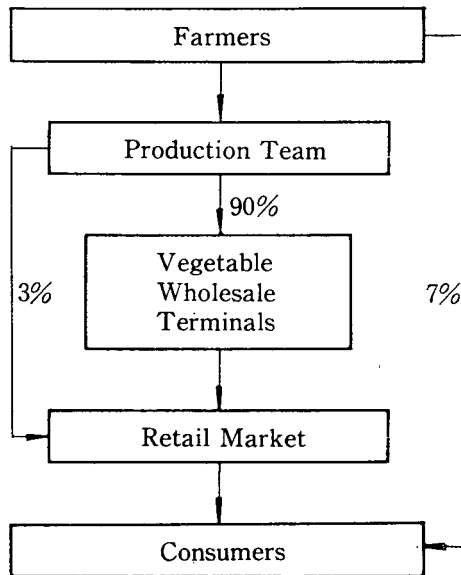
### 1. Marketing Process

Vegatables occupy a very important part of the Chinese diet, and are one of the Category II Items. Therefore, production is planned and a quota allocated to production teams and distribution also is planned and regulated, although it is not rationed.

<sup>5</sup> World Bank, China, Socialist Economic Development, Annex C, Agricultural Development, June 1981, p.36.

In vegetable marketing, the Vegetable Company is the key organization in managing the entire marketing system for urban areas. The Vegetable Company is one of the 6 commodity marketing companies operating under the guidance of the Second Commerce Bureau of the municipal government. In general, vegetable marketing channel is as follows:

CHART 2 MARKETING CHANNEL OF VEGETABLES IN THE SHANGHAI AREA. 1980



The production of vegetables is planned in accordance with market demands, and each production team is assigned a sales quota. The excess quantity after fulfilling the quota will also be procured by the government.

The Vegetable Company is also responsible to regulate and adjust the production and delivery for seasonal adjustment.

The production team submits a report everyday about the quantity and kind of vegetables to be delivered for sale on the next day to the vegetable terminal. Transport to the vegetable wholesale terminal must be arranged by the respective production team itself. Each people's commune under which production teams fall is assigned to a certain vegetable wholesale terminal for sales purposes. The vegetable wholesale terminal is a kind of wholesale center in the urban areas and is supervised by the Vegetable Company. For example, *Zhong Shan West Road Vegetable Terminal* in Shanghai is one of 24 vegetable terminals operating in the Shanghai area.<sup>6</sup> *Zhong Shan West Road Vegetable Wholesale Terminal* serves

the marketing needs of the 306 production teams of *Lunghua*, *Honqqiao* and *Maylung* People's Communes and supplies vegetables to the 129 vegetable retail markets in the Shanghai area. It has 152 staff members divided into six divisions. Of the 152 staff members, 69 persons are marketing extension and guidance workers whose job is to assist production teams to make realistic production plans to promote grading standards, to understand market trends and to assess the quality of vegetables.

When vegetables are delivered at one of the vegetable terminals, the staff at the vegetable terminal inspects and weighs the vegetables to determine prices which are paid according to grades. However, when supply exceeds demand the vegetable terminal will buy the vegetables at the government floor price.

The retail market buys vegetable from the designated vegetable terminal up to the pre-planned quantity. However, the retail market buyer can change the buying plan within 10% of the pre-approved plans to provide flexibility in meeting supply and demand. There are 152 retail markets in Shanghai municipality, all of which are owned by the government and supervised by the Vegetable Company.

For vegetable packing, a steel wire basket is used. The cost of using the basket is shared between the production team and the retail market. The production team pays Yuan 0.01 per day per basket, and the marketing sector, i.e., retail market, pays Yuan 0.025 per day for each 30 kg of vegetables carried to retail market. If the rented baskets are not returned within a day, a penalty rental charge of Yuan 0.02 per day per basket is charged.

Sangjiaoji Market in Shanghai is one of those 152 retail markets. It has 6,000 m<sup>2</sup> of floor space with 813 employees daily selling 65–70 mt of vegetables and other food items worth about 35,000 Yuan serving about 15,000–20,000 people everyday starting from 4.30 a.m. to 10.30 a.m.

Besides 152 retail markets there are 57 road-side markets in Shanghai to supplement the government retail markets with permanent premises<sup>7</sup>. The produce coming from private plots is sold at these road-side markets freely without being subject to government pricing regulation. A so-

<sup>6</sup> At the moment in Shanghai each wholesale terminal handles separate commodities, such as vegetables, eggs, poultry, meat, fruits, each of which is managed by separate companies under the Shanghai City Government Second Commerce Bureau, and fish which is handled by the Fishery Company under the Fishery Bureau, except fruit which comes under Shanghai Supply and Marketing Cooperatives. It is being contemplated that four of the above companies will be merged into a large corporation handling several commodities and the existing 24 wholesale terminals will be merged into 8 larger terminals, each handling several commodities.

<sup>7</sup> In a typical Asian metropolitan area, one retail market can serve about 3,000–4,000 consumer households within 15–20 minute walking distance from the market. Shanghai metropolitan area has about 1.2 million households for whom about 300 retail markets are needed.



called free market is attached to the government run road-side markets to accommodate the marketing needs of the produce coming from private plots. The farmer who brings his produce to sell at such a free market pays a 2% market tax, or about 0.40 Yuan per person per day.

One sampled farmer-seller replied that the he comes to the market once a week each week selling about 20 Yuan worth of vegetables, from his private plot (0.05 Mu or 33m<sup>2</sup> per family member, or 0.2 Mu or 132 m<sup>2</sup> for his four-person family). Although he wanted to come to market more often, he does not have enough quantity of cabbage to come to market everyday.

## 2. Pricing and Marketing Costs

At the moment in the Shanghai area, about 90% of the produce is traded through the vegetable terminals operated by the Vegetable Company, about 3% is sold directly from the production team to the retail market and 7% is sold directly from individual farmers to urban consumers at the free market. (See Chart 2.)

For the government-controlled channel, which shares 93% of the total volume, both procurement price and sales price are fixed by the vegetable company, taking into consideration the supply-demand situation and seasonal differences. For all the vegetables handled by the Shanghai Municipal Vegetable Company through its vegetable terminals, the average price in 1980 was as follows:

TABLE 3 AVERAGE PRICES OF ALL VEGETABLES MARKETED THROUGH THE SHANGHAI MUNICIPAL VEGETABLE CO., 1980

Marketing Stages	Price per Jin	Price per M/T
1. Vegetable Terminal paid to Production Teams	Yuan 4.68	Yuan 93.60
2. Retail Market paid to Vegetable Terminal	3.99	79.80
3. Consumer paid to Retail Market	5.98	119.60

Note: 1 Jin = 50 kg    1 Yuan = US\$ 1.67

The difference between the vegetable terminal's buying price from the production team and its selling price to the retail market (Yuan 93.60–79.80 = Yuan 13.80 per M/T) is subsidized by the government, although the retail market is given an adequate price margin to maintain its financial viability. In 1980 about 1.15 million tons of vegetables were consumed in Shanghai, of which 93% was supplied through the arrangement made by the Vegetable Company. For this operation, the total subsidy provided by the government was Yuan 24 million (US\$ 14.4 million) which can be broken down as follows:

Price difference between Vegetable Company's buying price and selling price (Yuan 93.6 - 79.8 = Yuan 13.8/mt)	Yuan 16 million
Administration Costs	4 million
Physical Losses (4.1%)	4 million
Total	Yuan 24 million

In the case of retail markets, the management must ensure that their operation is on a self-financing basis and therefore, an adequate price margin is allowed. For example, the Sangjiaoji Retail Market in Shanghai which sells vegetables, fish, meat and eggs, achieved a gross income of over 3.3 million Yuan (30.75% of the sale) in 1980 and the details are broken down as follows:

TABLE 4 BREAKDOWN OF EXPENSES, SANGJIAOJI RETAIL MARKET, SHANGHAI, 1980

Items	Amount ('000 Yuan)	%
Total Annual Sales	10,963	100
Cost of Goods	7,592	69.25
Gross Profit	3,371	30.75
Distribution of Gross Profit:		
Transportation	348	3.17
Packaging	113	1.03
Tax (3%)	329	3.00
Administration	683	6.23
Salary	1,805	16.46
Physical Losses	39	0.36
Others	54	0.50
Total	3,371	30.75

After cultivation on private plot was allowed since 1979, production from such private plots is increasing. Of the total vegetables consumed in Shanghai in 1980, about 7% was supplied by individual farmers who cultivated such private plots. The farmer brings vegetables directly to the free market and sells directly to consumers. Since there is no price control on these sales, the price is 50-100% higher than the price at the government-controlled markets, although in general the quality of the produce is better and fresh. For example, 1 kg of cabbage was priced at Yuan 0.12/kg at a government-controlled road-side market, whereas a farmer selling at the nearby free market charged Yuan 0.24/kg.<sup>8</sup> The advantage of buying at the free market is that a customer can buy any amount without restriction and does not have to stand in a queue, and also can select appropriate quality.

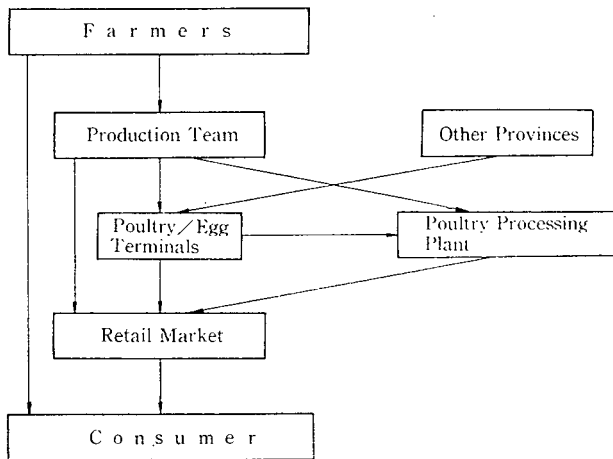
<sup>8</sup> Field observation at Wu Yuan Road-Side Market in Shanghai on 11 Nov. 1981.

## V. Marketing of Other Commodities

### 1. Poultry and Egg Marketing

In Shanghai like in other cities in China, the Poultry and Egg Company is established under the Second Commerce Bureau of the Municipal Government. There are 2 poultry wholesale terminals and 4 egg wholesale terminals in Shanghai, managed by the Poultry and Egg Company. In 1980, 12 million chickens and 60,000 mt. of eggs were supplied to Shanghai City through the 6 wholesale terminals, which amounts to 2.5 kg of poultry and 10 kg of eggs per capita per year. The marketing channel is as follows.

CHART 3 POULTRY AND EGG MARKETING CHANNEL IN THE SHANGHAI AREA, 1981



Although private sales by individual farmers directly to urban consumers at the free market is allowed, the quantity is still small (3% of poultry and 1% of eggs). The major supply is through the government controlled channel. Imports from other provinces are arranged through the Ministry of Commerce of the Central Government, while marketing within the province is controlled by the Second Commerce Bureau of the Provincial Government. In order to expedite the flow, direct delivery from the production team to the retail markets is encouraged, but the price is regulated by the Government. There is no price regulation in free markets.

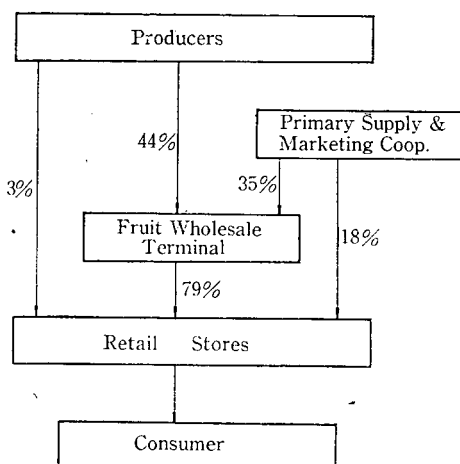
### 2. Fruit Marketing

Fruit marketing in the Shanghai area, like in other cities and provinces, falls under the responsibility of the Shanghai Supply and Marketing Co-operative, under the overall coordination of the National Supply and Mar-

keting Cooperatives, whereas vegetables, poultry, eggs and most other perishable food item marketing is the jurisdiction of the Second Commerce Bureau, which is coordinated by the Ministry of Commerce.

In the suburbs of Shanghai there are 220 production teams, and 15 state farms and one people's commune engaged in fruit production. In 1980, 163,000 mt of various fruits (82,000 mt of oranges, apples, pears and bananas, and 66,000 mt of melons and 15,000 mt of other fruits) were supplied to Shanghai City, of which 35,000 mt (21.5%) were produced and supplied from the Shanghai suburban area. The marketing channel and shares of each channel are as follows:

CHART 4 FRUIT MARKETING CHANNEL FOR SHANGHAI CITY, 1980



Note: Producers include the production teams and state farms in the Shanghai suburban area as well as producers in other provinces. About 79% of the total fruit consumed in Shanghai city is imported from other provinces.

The purchasing and selling prices of fruits are regulated by the government in accordance with the quality. All the fruit retail stores are owned by the Government or cooperatives and therefore, the fruit shop keepers are public employees.

## VI. Growing Importance of Marketing

In the past, under a strictly planned economy, marketing, which is defined as "the business activities which direct the flow of goods from producers to consumers", played only a marginal role. However, there is growing evidence which indicates that the food marketing as well as the general

agricultural marketing system will gain dynamism and will play increasingly important roles in shaping the future Chinese economy.

### 1. Diversification and Specialization

In the past, the main emphasis of agricultural production in China was on local self-sufficiency of food, especially grain, irrespective of soil and agro-climatic conditions of an area. Since the people's commune is a basic economic unit, commune-level self-sufficiency of food was the key emphasis of the government policy. Recently, however, the government has begun to encourage diversification of the activities of communes and at the same time specialization of crop production, by taking advantage of the local environment, soil and agro-climatic conditions.

Although the effects of such a new policy, i.e., diversification and specialization, are still in an earlier stage, the impact is growing rapidly. As the crop diversification and specialization process progresses and gains its momentum, the efficiency of the marketing system will become the critical bottleneck. During the local commune-based self-sufficiency period, under the strictly planned economy, marketing played a relatively minor role, because the perimeter of movement of goods was narrow, and the marketing system was not dynamic enough to reflect consumer demand to the production planning and resource allocation. However, as the diversification and specialization process continues, agricultural produce will have to be transported a longer distance in larger quantity and will have to be stored for a longer period. At the same time, the recent emphasis on 'supplementary role of market mechanism will make use of the marketing system to monitor consumer demand and have it reflected in the farmers production planning and resource allocation. Such change will require the development and improvement of all aspects of agricultural marketing in China, including packaging, storage, transport grading, marketing information, rural assembly markets, urban wholesale markets, urban retail markets and the planning capability at higher levels and managerial capability at middle-levels.

### 2. Production Responsibility System

In order to provide incentives for farmers to increase productivity, the government adopted a "Production Responsibility System" in 1979. Under the new policy, the people's commune, while retaining the ownership of land, makes contracts with its production teams or even with individual farmer member of the commune. Under the contract, the production team or individual farmer delivers a fixed quantity of the produce to the commune and disposes any surplus in a manner beneficial to the producer. The contracted production team or individual farmer does not have to work on a commune farm on a collective basis, but can work on the contracted plot according to their own work schedule..

The government found that the new policy is very effective in increasing productivity. For example, the 12 Production Teams of Chuxian County in Anhui Province survived in the last 20 years only with the grain provided by the Government. And in 1978, the area was badly hit by drought. In that year, the farmers in the 12 Production Teams were given a production contract, under which the farmers were free to dispose of any surplus produce beyond a certain fixed quota. One team which had never harvested more than one ton of rapeseed in any year harvested 4 tons. Rapeseed production for the brigade as a whole showed a 9.4-fold increase over the previous year, and grain output rose by 77.7% over 1978's. There was sufficient produce to eat and more to sell for cash. Linchang Production Team of Danzi People's Commune in Anhui Province, under the system, increased its grain output from 19 tons in 1978 to 40 tons in 1979. For the first time in 20 years the team was able to pay in full the state agricultural tax and fulfill its quota of grain to be sold to the state.<sup>9</sup>

Supported by the government, such a production responsibility system, in other words, "contract farming", is spreading rapidly. Since 1979 about 70% of the country's 5 million production teams have carried out the system of earnings according to output.<sup>10</sup> Although general satisfaction has been voiced about this system, the peasants are still worried about how long this policy will last, after the initial success. In this regard, Vice Premier Wan Li, who spoke on behalf of the Central Committee of the Communist Party of China, said that "as long as the public ownership of the essential means of production (mainly the land) is maintained; we shall not change what the peasants refuse to change, and only change what the peasants would welcome".<sup>11</sup>

This policy, combined with the government emphasis on crop diversification and specialization, will bring about increased production of specific produce in certain areas in accordance with the market and demand situation and, therefore, will require marketing to play an increasingly important role.

### 3. Free Market

Under the new government policy, a farmer can cultivate a "private plot" of 0.05 mu (33 m<sup>2</sup>) per family member, or about 130 m<sup>2</sup>, if he has a family of a wife and two children. The production from this plot can be sold at free markets described in this paper. He can decide what he wants to grow. The produce from such private plots which is brought by the farmer directly to retail markets is popular, despite the higher price, because of its freshness and immediate availability without queuing up. It is expected that

<sup>9</sup> "Greater Responsibility on the Farm: Report from Anhui", in *China Reconstructs*, October 1981 issue, pp. 23-30.

<sup>10</sup> China Daily (English Edition), 11 November 1981.

<sup>11</sup> China Daily (English newspaper published in Beijing), November 11, 1981.

a greater quantity of produce will be produced from such private plots, since the Chinese Agricultural Bank started to provide production loans even to individual farmers to cultivate such private plots.

In addition to the produce coming from private plots, the production responsibility system will encourage an increasingly larger quantity of agricultural produce to be disposed off at such free markets.

Being a "free market", it has many problems inherent in such a free market system such as seasonal price fluctuation, price bargaining and price setting mechanism, lack of marketing information on price and quantity movement, etc.

As the number of free markets increases and the volume of sales grows the complex marketing problems that will arise will require the efficient operation of the agricultural produce marketing system.

#### 4. Private Enterprise

Due to the increase of the labor force, the government alone cannot create enough jobs. Therefore, the government encourages various self-employment activities which will reduce the workers dependency on the government to provide jobs. As the result of such policy change many private enterprises have come up and some of them are very successful. Restaurants, road-side food stalls, camera shops, tea stands, beauty shops and fruit and vegetable stalls are some of the popular self-employment businesses.<sup>12</sup> It was reported that a "limited liability joint stock company" was established in He Lung Jiang Province in early 1980 consisting of 50 shareholders, mostly government employees and factory workers, contributing shares at 500 Yuan per share, which made a net profit of 4,000 Yuan in the first 10 months of operation.<sup>13</sup>

As the Chinese economy gains dynamism, a greater number of larger private enterprises will come into being and many of them will be related with various food marketing activities, such as varied food retailing, wholesaling and processing. Such change will require the efficiency of the marketing system.

#### 5. Advertisement

There was advertising in socialist China in the late 50's and early 60's. But in 1967, as the cultural revolution began, advertising was criticized as a symbol of capitalism and disappeared from China for more than 10 years.

After the economic reform began in 1979, many business enterprises had to survive on their own by promoting the sale of their products. Advertising itself has no political color. Both capitalism and socialism can use it.

<sup>12</sup> "Jobless Youth Start Small Business", in *China Reconstructs*, Oct, 1981 Issue, pp. 4-7.

<sup>13</sup> *Beijing Weekly Review* (Japanese Edition), 3 Nov. 1981.

Also, advertising helps the sale of products so that factories can increase their production and continuously provide jobs for workers.

Based on the above reasoning, advertising has begun to play an increasingly important role in the Chinese economy since 1979. State-supported publications quote many success stories in advertising. A small plant manufacturing dumpling machines in Beijing (Beijing No. 2 Service Machinery Plant) tried a TV commercial on 2 December 1980. Fifty inquiries were received in the first day and 353 machines were sold within 3 months, whereas the total sale in the proceeding 10 months was only 349 units.<sup>14</sup>

Various Chinese news media have begun to carry ads. The Central TV Station in Beijing, through its two channels with a 210 million audience, carries advertising for domestic as well as foreign products. Newspapers, magazines and radios have begun to carry ads and many billboards (some are very large) in big cities. In order to improve the quality of ads, the Advertising Art Association is being formed and "China Advertising", a monthly magazine, has begun publication. Along with the popularity of ads, the State Industry and Commerce Administration Management Bureau has begun to regularize false and exaggerated advertising.<sup>15</sup>

The recognition of the role of advertisement opens a door to marketing to play much more important and influential roles in food and agricultural marketing, especially processed foods.

## VII. Conclusion

It seems that, so far, the food and agricultural marketing system in China has been operating fairly well in "distributing" the farm produce to the urban consumers to meet their basic needs. Like in many other fields local and simple technology has been used rather satisfactorily, such as simple farm-level packing of vegetables, low-costing but effective grain storage, and the low-costing processing of various produce. Because of careful handling of produce, post-harvest losses are kept at a low level. The retail distribution system in urban areas is capable of meeting the basic needs of metropolitan consumers. Because of the group work experience by the farmers at the village level, group marketing from farms to assembly points is fairly well-organized.

However, the recent change of government policies giving emphasis on crop diversification and specialization, the production responsibility system, and the farmers' favorable reaction to the new system, the govern-

<sup>14</sup> "Advertising Reappears in China", *China Reconstructs*, October 1980 Issue pp. 31-32.

<sup>15</sup> Op. cit.



ment encouragement of the use of the market mechanism "to supplement the planned economy" and other related changes indicate that the existing marketing system will have to be reviewed, with a view to examine the suitability of the present system in coping with such a rapidly changing situation. The pricing policy may have to be reviewed, as to how to reduce or readjust the government subsidy on not only grain but also on vegetables, meat and many other items. Wholesale markets will need to be allowed to play an important role in determining the market prices of various commodities by reflecting both production and demand situations, and for this purpose the present wholesale markets will have to be reviewed both in terms of their functions, management and physical designs and structures to perform such functions. Urban retail market facilities will have to be expanded and their functions also will have to be reviewed. As the crop diversification and specialization policy begins to show results, commodities will travel a further distance, and therefore, the transport and handling facilities will have to be improved and strengthened. For this purpose, the improvement of grading and packing will become more important. At the same time, a marketing information system will have to be developed to collect and provide timely information on price and the supply and demand situations of various commodities so that it will contribute to an efficient price formation process. The key resource for all these improvements is trained manpower. Therefore, a massive training program will have to be launched to produce necessary planners, managers and technicians for the expanded marketing activities.

A comprehensive plan for agricultural marketing development will be very timely work, if the present economic readjustment process is to be carried out effectively.