

Chapter I

INTRODUCTION

1.1 Statement of the Problems

It is generally considered that agricultural development has two dimensions, one is the production sector, the other is the marketing sector. Marketing helps realize the values of production. In recent years, achievement of agricultural technology has induced the occurrence of the *Green Revolution* in the agricultural production sector. With the utilization of chemical fertilizers and modern varieties, agricultural productivity has increased rapidly. During this period we have also observed a lot of changes of agricultural marketing in developing countries; agriculture became more commercialized, more agricultural cooperatives were organized and more agricultural products became raw materials of agro-industry. But these marketing changes can hardly compare with the dramatic changes in the production sector. The failure to synchronize the progress of the two sectors has caused a lot of problems in coordinating agricultural development. In China it has been found that the lagging marketing sector has resulted in increasingly acute bottlenecks (*Chang, 1990*) in agricultural development; Increasing agricultural production and raising rural income are regarded as inseparable dual goals for China's rural economic development strategy (*Du, 1987*).

Agricultural marketing used to be defined as the act of selling and purchasing. Now, the definition has been extended to include the performance of all business activities involved in the flow of agricultural products from farmers until they are in the hands of the ultimate consumers (Kohls & Downey, 1972; Beierlein & Woolverton, 1991). Pricing is the setting of prices by price mechanism, government policies and regulations, social institutions and norms. Pricing is generally considered as one part of marketing in market economies, but in the centrally planned economy like in Hunan province where the government sets commodity prices for the marketing sector, pricing becomes an exceptionally highlighted segment which could function itself alone sometimes.

Rabow (1969) presented a useful definition of a system and talked about systems analysis as follows: *a system is an assembly of components that perform together in an organized manner. A component of a system may itself be a smaller system, sometimes called a subsystem. The systems approach is a method of dealing with complicated systems. It consists essentially of breaking up a systems problem into a number of component or subsystem problems* (Purcell, 1979). Therefore, agricultural pricing and marketing system is defined as: an organized assembly of all interdependent factors and their linkages in both the pricing system and the marketing system.

Agriculture is undergoing dramatic changes on both the production sector and marketing sector in Hunan province. Firstly, it is shifting from subsistence production to commercial production; Secondly, it is shifting from government full-control marketing to free marketing.

Those changes indicate that the marketing of agricultural products is becoming increasingly important to agricultural development. Having been long accustomed to the cradle-to-grave marketing system, both economists and farmers find that it is difficult to use their previous experience and theory to help them adjust appropriately to the dynamic and stormy marketing system.

The economy of Hunan province is largely based on agriculture. During the period 1949-1990, the agricultural market severely fluctuated again and again despite great efforts has been made to stabilize it. This market instability has caused huge economic losses to the farmers, the government, and finally to the whole people and the entire economy.

In the effort to stabilize the agricultural market, various measures have been used by the government in its market management, those including the implementation of the marketing monopoly and rationing system, price fixation, price liberalization, subsidization at production, marketing of input and output etc. But it seems that those measures always create side-effects which may undermine the marketing system more severely and themselves are hard to cure. For example, the price liberalization in 1982-1986 period, it was followed by the outbreak of the *Ramie War*, *Cotton War*, *Silk Cocoon War* in the late 1980s, which are characterized by the sudden soaring and nose-diving of market prices and volume of output. Are those "Wars" directly caused by the "liberalization"? Could they be offset by substantial increases of agricultural production? How do farmers react when agricultural market situation changes? These questions have not been so thoroughly studied

and justified.

The hypothesis is that once the principle of interactions among output, stock, market volume, market price are revealed and understood, it is possible to set up an alarming system which can promptly and precisely signal to people any irregular market moves. This would give the government time and information to prevent the occurrence of market disasters. In addition, marketing study helps market price and supply predictions, therefore it avails government choices in the implementation or suspension of marketing policy among alternative strategies.

1.2 Objectives of the Study

This research, in general, is to contribute to the understanding of the agricultural market, to the knowledge of the effects of market prices and government policies on the supply of agricultural products in Hunan. Specifically, the objectives of this study are as following:

- 1) To describe the structure and to evaluate the performances of the agricultural pricing and marketing system.
- 2) To quantitatively analyze how agricultural production responds to price, institutional and economic factors.
- 3) To identify major marketing factors that constrain agricultural production and to find out potential measures for improvement.