

The Future of Agriculture in the Era of Idea Economy

China Overseas Agriculture Development Alliance



- **Background of Chinese Agriculture**
 - ❑ The First Rural Economic Revolution
 - ❑ Problems Stemming from the First Revolution
 - ❑ Chinese Food Market Paradox
- **Facing the Challenge: The New Stage of Chinese Agriculture**
- **“Idea Economics” and the “Idea Agriculture”**
- **Agriculture Development and EU-China Bilateral Relations**

The First Rural Economic Revolution

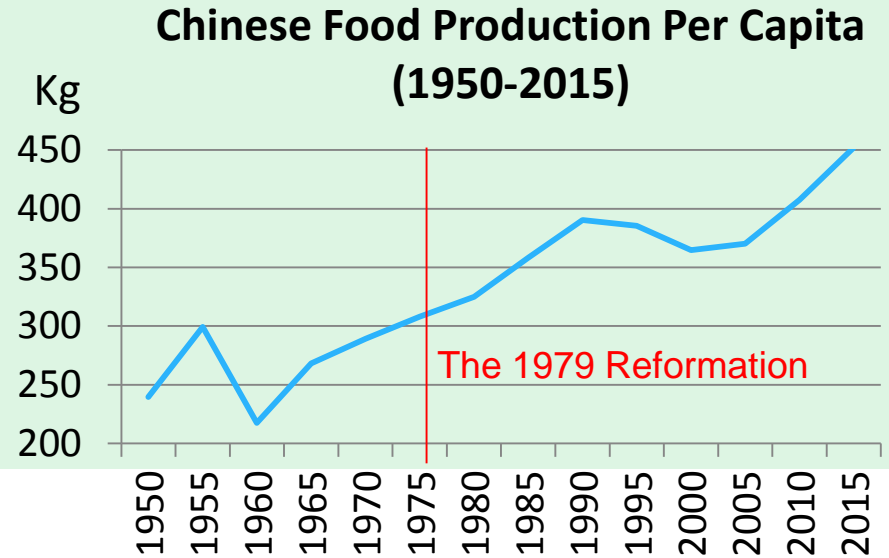
- Collective ownership in the 1950s significantly lowered farmers' motivations. This hindered advancements in grain production
- Under-productivity reduced per capital food production to less than 300kg per person
- China enacted coupon-based supply and rationing system (rationing includes food) to guarantee each citizen can have their basic needs met



Museum in Xiaogang Village, An Hui Province. This is the first place in China to start the Household-responsibility System in 1978.

The First Rural Economic Revolution

- After China initiated the first Rural Economic Revolution in the 1980s, farming output increased and it engendered a feeling of responsibility in the farmers' .
 - ① **Implemented a Household-responsibility System;**
 - ② **Unified Management Combined with Independent Management.**
- The Revolution also enhanced the factors of production in agriculture. Systematic use of fertilizers and pesticides massively increased food output. Chinese agriculture entered a period of stable and sustained growth.



Source: National Bureau of Statistics of China



Problems Stemming From The First Revolution

- Limitation in the size of cropland (about 2 acres per Family) prevented the use of modern technology in agricultural production.
- Limitation on the ability of individuals to secure capital meant single family farms are unable to access advanced technological farming solutions.
- Due to the above:
 - ① Chinese agriculture production have much higher cost than their international counterparts;
 - ② Chinese agriculture products cannot meet the ever growing demand for diverse, high quality, and high end products of its citizens.



Problems Stemming From The First Revolution

1. **Demographic Problem:** High production cost made farmers the poorest demographic group in China.
2. **Rural Problem:** Low income drives young farmers to renounce traditional agricultural works and move to cities for higher income occupations. Due to lagging development, rural areas and urban cities are divided.
3. **Agricultural Problem:** Low productivity and competitiveness, along with unstable and unreliable food production potentially undermines national food security.
4. **Product Structure Problem:** Chinese agricultural products cannot compete with cheaper products from abroad due to lack of product diversity and safety issues.
Increasing production simply increases losses

- Chinese agriculture market has been highly internationalized and commercialized
 - ▣ High-cost domestic agricultural products have to compete with low cost, higher quality imported products
 - ▣ Wealthy urban residents now seek products with higher added value: higher quality and more diverse product offering
- Therefore, China is importing large amounts of agricultural products even though it is able to produce more agricultural products than it can consume:
 - ▣ Chinese agricultural product output has increased for 12 straight year between 2003-2015
 - ▣ China became the world's largest agricultural product importing country since 2011. China imports agricultural products in every category

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The Second Rural Economic Revolution

1. While the individual still retains ownership of the land, the farmland management and production rights are concentrated in the cooperatives for large-scale and centralized management and operation.
 2. The introduction of social capital led to the introduction of a wide range of modern production technology to Chinese agriculture
- Results of this Revolution:
 - ① Improved productivity with lower cost and fewer/cheaper inputs
 - ② Widespread use of science and technology improved agricultural product quality
 - ③ Enhanced operating scale and scales of economy allowed market demand to meet market supply, and created a market full of diverse product offerings

Towards the Era of Idea Agriculture

- The Second Rural Economic Revolution eliminated the obstacles to productivity.
- Chinese Agriculture will gradually approach the **New Stage of Idea Agriculture**



- **Idea Economics and Idea Agriculture**
 - ❑ The Concept of Idea Economics
 - ❑ Foundation of Idea Economics
 - ❑ The Universal Values in Idea Economics
 - ❑ Agriculture Development in an Idea Society

The Concept of Idea Economics

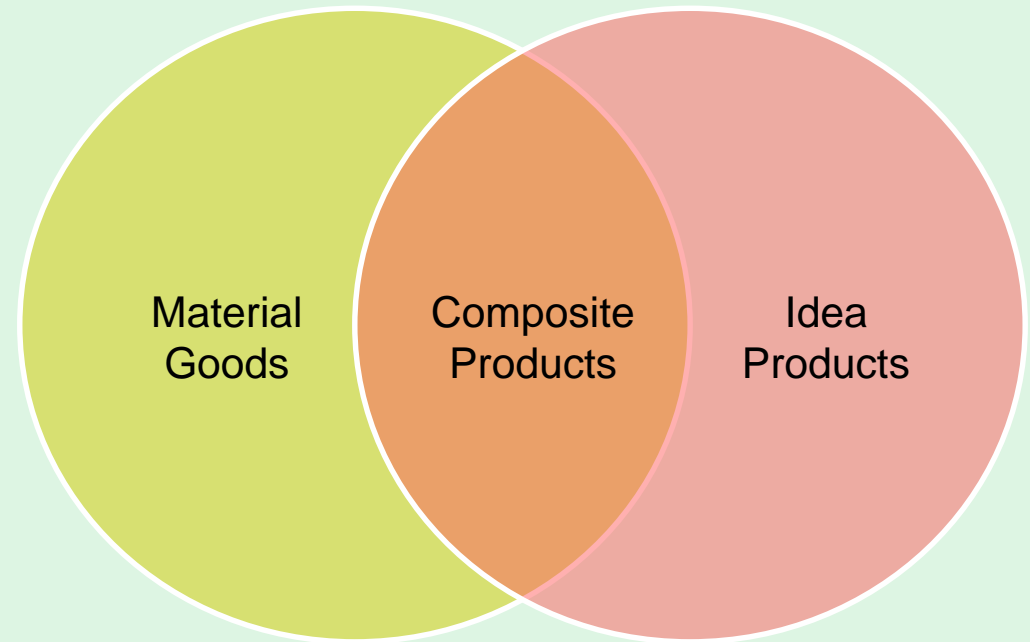
- Idea Economics has three categories for goods derived from production:

① **Material Products:**

- Basic products such as Food(to feed), Cloth(to keep warm), Shelter (to hide and live); or Ore, Fossil Fuel, Wood/Lumber, etc.

- ① **Idea Products:** Movie, Software, Ideas, Pattern, Literary Work, etc.

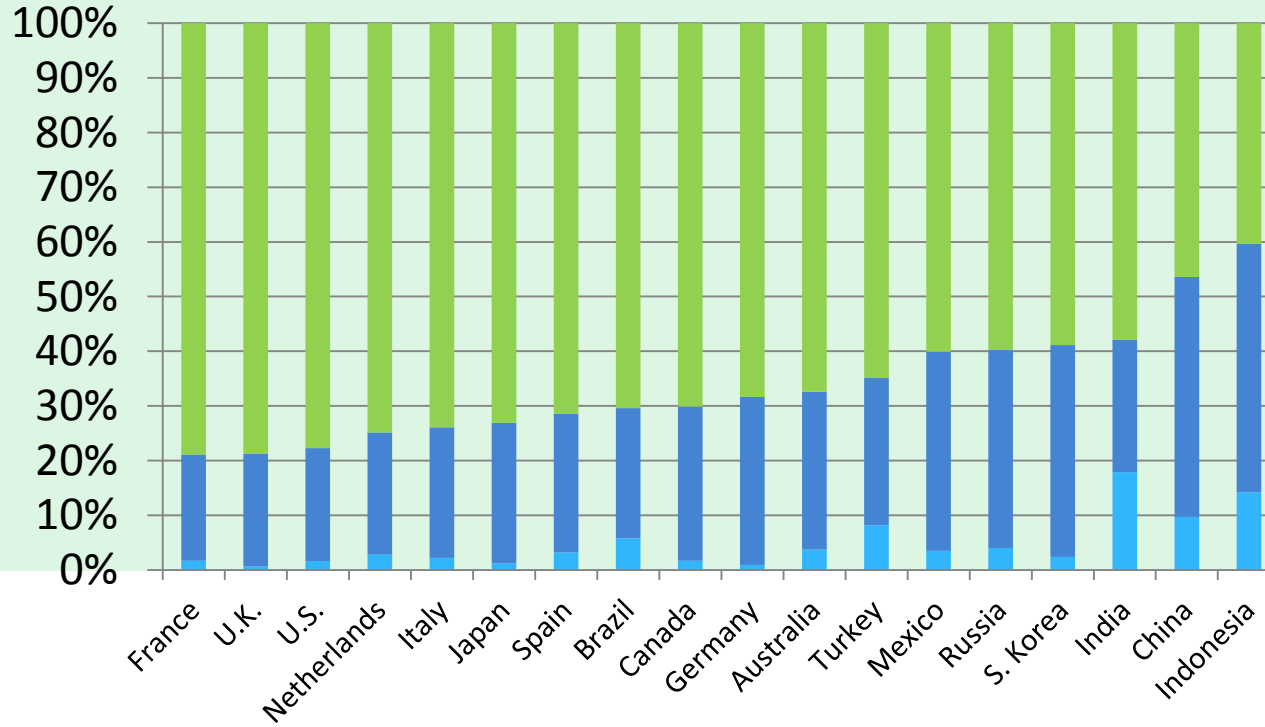
- ② **Composite products:** Fashion product, Souvenir, Medal, etc.



The Concept of Idea Economics

- Tertiary Sector (Service Sector) now the largest contributor to the world's most advanced countries

Countries by GDP Sector Composition in 2015 (%)



Service Sector in advanced countries(%)	
France	78.9
U.K.	78.8
U.S.A.	77.7
Italy	73.9
Japan	73.1
Brazil	70.4
Germany	68.4
Russia	59.7
India	57.9
China	46.4

■ Service
■ Industry
■ Agriculture

Source: List of Countries by GDP Sector Composition, 14 Jun 2015, Statistics Times, The World Factbook (sector composition)

Theories in Idea Economics

	Idea Economics	Traditional Economics
Market Environment	Imperfect/Limited Competition	Perfect Competition
Marginal Utility	Increasing Marginal Utility	Decreases after margin
Marginal Cost	Zero after first product	Increasing Marginal Cost
Value Creator	Both Producer (Source) and Consumer (Scale)	Only Producer
Value and Price	Value and Price are separate	Value = Price
Price	Strategic Pricing	Equilibrium Pricing (Price @ Supply = Demand)

Coexistence, Sharing, and Mutual Benefit

- These values replace competition in economics, and will be the dominant theory in the new era in the world's Economics.
- Achieving the premises and standards of democracy, equity, and justice.



Agriculture Development in an Idea Society

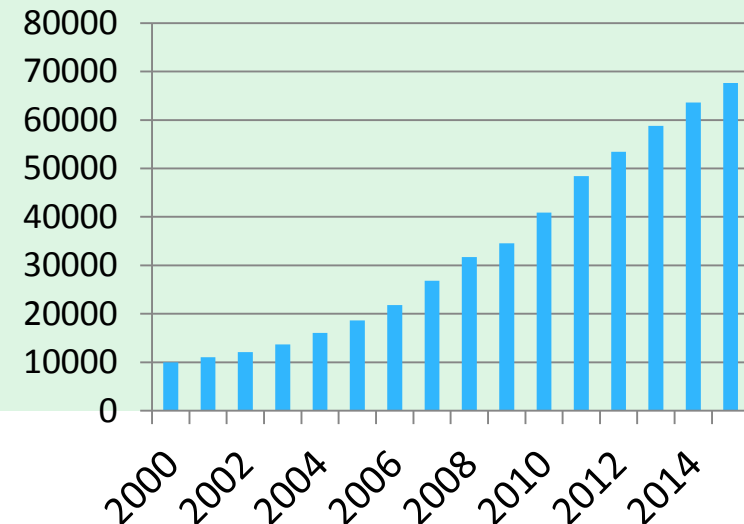
- Just as the Industrial Society transformed the agrarian society with machinery and standardized mass production, the Idea Society shall further change agriculture's industrial features through applied science, knowledge, technology, and other advanced methods.
- Agriculture shall no longer be a regular industry to produce food. It will become a health industry, an energy industry, a tourism and leisure industry, an industrial material industry, a hobby industry, etc.



- **Agriculture Development and EU-US Bilateral Relation**
 - ❑ European Predicament
 - ❑ Changing Demand in the Chinese Market
 - ❑ Idea Revolution in European Agriculture
 - ❑ Agriculture & the "One Belt, One Road" Policy

- Traditional industries had reached a state of peak stagnation, while the Idea Industry has not been developed properly. Traditional industry dwindles, leading to mass unemployment and economic recession
- When facing Excess Capacity and economic stagnation, China had actively developed its emerging industries (mainly those with substantial Idea economic values) while improving the old industries. This absorbed the unemployed workers and the misallocated capital when traditional industries shrunk, and helped to maintain original levels of employment and economic growth.

Chinese Annual GDP 2000-2015
(in Billions of CYN)



Source: National Bureau of Statistics of China

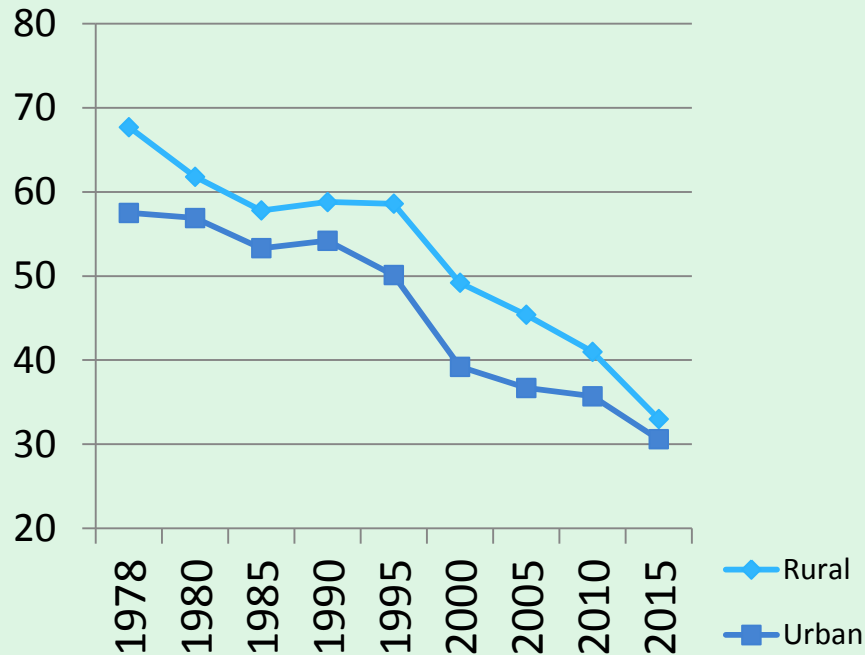


Changing Demand in Chinese Market

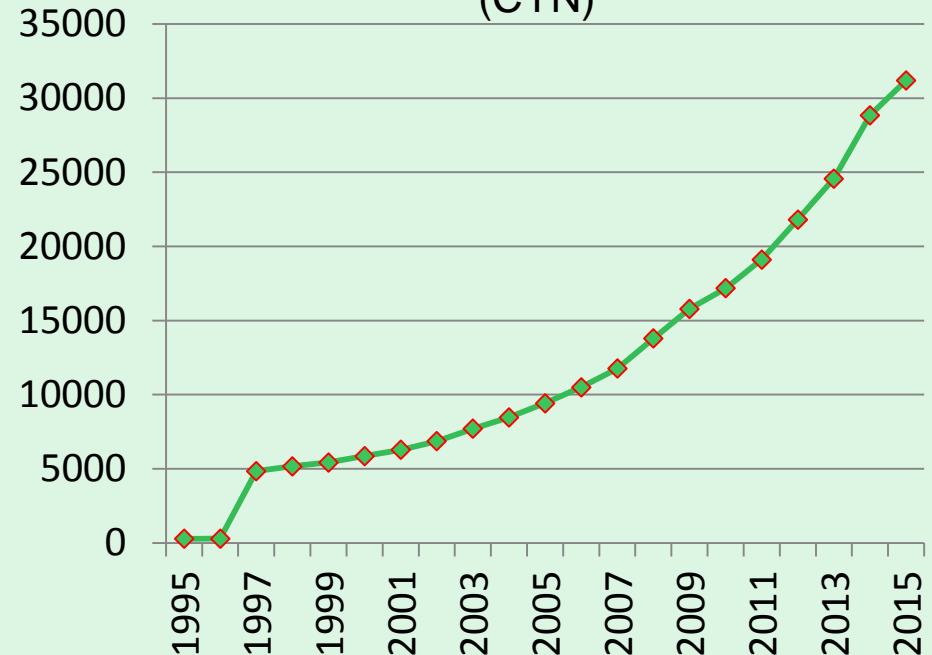
- The implementation of the policies under the Second Rural Economic Revolution, has reduced the cost on domestic agricultural products, while the output and productivity have increased. This will continue to reduce the role imported products play in the Chinese agricultural products market.
- As China and its people increase their living standard and economic well-being, demand shifts quality and more diverse products, with a focus on health. This opens the door for European agricultural products that are unique in taste, high in quality, and have brand recognition. (i.e. Olive Oil, Cheese, Butter, Health Food, Wine, etc.)

Changing Demand in the Chinese Market

Per Capita Annual Food Consumption Expenditure In China 1978-2015 (%)



Annual Per Capita Disposable Income of Urban Residents in China 1995-2015 (CYN)



Idea Revolution in European Agriculture

- Europe-China Agricultural Trade needs to be analyzed through the framework of the Idea Economy:
 - ① Chinese resident's per capita income and purchasing power are constantly increasing.
 - ② Environmental problems is not a problem that can be resolved in the short run
 - ③ European agriculture has unique production and regulatory environment when compared to China. Its products, particularly those that were produced or modified through traditional or advanced technology, will fulfill Chinese demand for diverse and high-quality products.

Chinese Premier Li Keqiang with European Council President Donald Tusk and European Commission President Jean-Claude Juncker
(Source: China State Council)



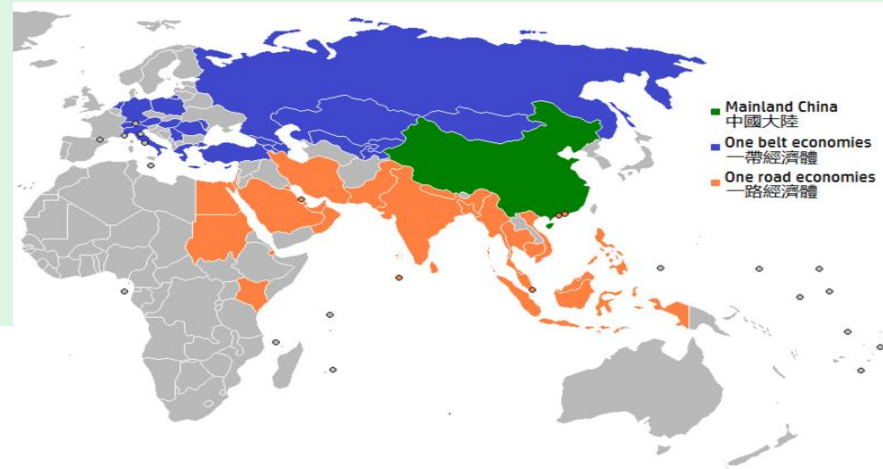


Idea Revolution in European Agriculture

- European exports to China will create two trends:
 - **Vertical improvement:** Deeper processing on original products to add more Idea values. This includes the rediscovery of existing products
 - **Horizontal Improvement:** Develop new products with unique features.
- We have a broad understanding of China-EU trade and cooperation, but need a lot of detailed and complex works. Such as: commercial organization, circulation (link) design, product development and custom production.
- From the initial link of production and circulation, we shall make adjustments on the factors and inputs to production, creating a new market based on Idea values, and to develop new market in Asia. This is the Ideal Agriculture in Europe.

Agriculture & the "One Belt, One Road"

- The "One Belt, One Road" policy in agriculture refers to Chinese efforts to infuse agricultural technology and capital to underdeveloped nations in Africa and South Asia, with the aim to resolve the problems of food security and poverty.
- The agricultural efforts under the "One Belt, One Road" Policy does not directly promote Chinese domestic agriculture, but it achieves the goal of sharing in the Idea Economy
- Due to the low degree of economic development and existing financial constraints, these nations cannot become commercial market for the world's major food producers.





THANK YOU