CHAPTER-IV
Agrarian Reforms in other Transition Economies:
Lessons for Russia.
Since the emancipation of serfdom in 1861, Russia and Eastern Europe were destined for periodic transformation of the agricultural institutions and rural societies. The last decade after the collapse of the communist regime seems to have signalled another beginning of a cycle in this historical destiny. Each cycle initially had a clear concept of the transformation, such as creating commercial farms and independent peasantry instead of feudal rule; strengthening peasant farms by restriction or abolition of land ownership; creating collective farms by destruction of peasant farms, or, currently, privatising collective farms and introducing market economy into agriculture. These primary goals were however, not always achieved due to political, social and/or economic reasons. But throughout the history of the peasant economy and agriculture in Russia, it had always kept alive the form of community or collective farming in spite of its viability being always questioned.

After the collapse of the Soviet Union, Russia emerged again to arrange its entire economy and agriculture with new economic dimensions. There being no clear-cut theory for such a transition from a command administrative economy to a market economy, Russia again fell prey to trial and error in organising its economy in general and agriculture in particular. Because there is no historical precedence to which Russia could follow a success story of transition, with such a long and strong background of centrally planned economy where land was never a private property.

After the disintegration of Soviet Union, Russia ushered in a new era of economic relations, agriculture being the most vulnerable sector braving this transition.
Systematic decollectivisation of the agriculture and its reorganisation in the market economic conditions has puzzled the Russian Government and other policy makers. The path of farm reorganisation and restructuring of agriculture with privatisation of land and property relations drew attention of many international experts, who are still in search of ways and means for the Russian farmers.

International experience in other transition countries\(^1\) could not set a specific example to be followed in Russia. But other transition countries like the former Soviet Union countries, Hungary, Poland, Czechoslovakia, East Germany, Bulgaria, Romania and some Asian countries like China and Vietnam could definitely show some signs of agricultural restructuring. But for convenience and data limitations, some selected countries are discussed here for a comparative analysis of the process of transformation in agricultural sector.

Although rich in land and human resources, Russia lags behind other industrial countries in crop capacity, livestock breeding, and labour productivity. Agricultural growth in Russia is vital to both the betterment of the rural population and the economic recovery of the country as a whole. In Russia, security of land rights and farm reorganisation are necessary conditions for more productive farms.\(^2\) A decade after the break-up of the Soviet Union, an overall review of the

\(^1\) The term 'transition economy' is used to describe the new political geography of Central and South Eastern Europe, the former Yugoslavia and the Republics of former Soviet Union: see Junior R. Davis, "Understanding the Process of Decollectivisation and Agricultural Privatization in Transition Economies: The Distribution of Collective and State Farm Assets in Latvia and Lithuania", *Europe-Asia Studies*, Vol. 49, No. 8, 1997, p. 1409. Some former Asian Communist Countries are also included in the analysis. China is experiencing a different kind of transition.

state of agrarian reform in the republics that were formed in its demise is presented. It would be shown that the development of a new, economically viable agricultural sector, based on private farm enterprises, in most parts of the former Soviet Union (FSU) is still a far cry. Agrarian reform (including land privatisation, farm restructuring of the collective and the state farms, market liberalisation and particularly institution building) has not at all been comprehensive.

The Experience of Former Soviet Union (FSU) Countries: A Comparison

In most of the FSU, with some exceptions, such as Armenia, Georgia, and most recently Moldova, the agrarian structure was still dominated by large-scale enterprises, the heirs of the kolkhozy and sovkhozy even after a decade of reforms. Certainly they now show very different forms of ownership and management, leading to a large variety of agricultural enterprises, such as joint-stock companies, cooperatives, producers associations, workgroups and agricultural companies. Some of these transformed only nominally, changing merely their name.\(^3\) Many of them had retained centralised management as before.\(^4\)


Table 4.1

Number of Size of Peasant Farms in FSU (1992-1999)

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However, there were many more changes beneath this level, as greater financial autonomy was conferred on smaller units, and land was sub-contracted and leased to households, creating a great variety of company structures.

The original expectations that large numbers of small and medium-scale private peasant farms would emerge as the basis of a viable and dynamic agricultural sector in the FSU countries had not been materialised (see Table 4.1 and 4.2). Only in few countries, such as Armenia, Georgia (and part of the Baltic States), parcelisation of the land was pursued, which led to a predominant peasant farm and household plot sector. This could be at least partly traced to product specificity, as many of these producers were in intensive vegetable, livestock and fruit production, which requires smaller units for more efficiency. However, due to internal political reasons, some governments decided to break up the large farms and pursue a distributional land reform to win popular support.

Table 4.2

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It seems that the growth in number and acreage of private peasant farms was stagnating. In most countries, the growth of the total number of peasant farms has slowed down considerably (see Table 4.1), and the main agricultural producers (such as Russia and Ukraine) even show a decline in the number of farms. However, the stagnation in the emergence of farms was hiding new entry and exit numbers. The number of new peasant farms created on a yearly basis was sizeable in number in Russia.

However, the markets in which new farmers have to operate, with a lack of proper institutions, credit, extension services, tax ('rent seeking') authorities, and inefficient and fragmented markets, with high fuel and fertiliser prices, compel many private farmers to abandon their newly created farms. While numbers, acreage and share in agricultural land present in a picture of stagnation, every year in a country such as Russia, thousands of farmers start as private farmer, but a near equal number disappear again, because they were not able to survive in the inhospitable economic and institutional environment.

In Table 4.2, data is presented on the share of agricultural land held by peasant farms. Apart from Armenia, Kazakhstan and Kyrgyzstan, in most countries, this is lower than 10 percent. The data in Table 4.2 need to be qualified somewhat. First, in countries as Uzbekistan (but also Kazakhstan), the comparison should be made with arable land as large tracts of agricultural land are desert (or steppes). In the Uzbek case, this changes the percentages in 7.3 percent. However, for most CIS countries, it is unknown how much land of peasant farms is actually cultivated, so

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7 Max Spoer (1999), op. cit., p. 17
the share of agricultural land is used. Second, the hires of the sovkhozy and kolkhozy have entered in sub-contracting and leasing of land to families, but these units have not been formalised as peasant farms.

In spite of these qualifications to the official data, which present an underestimate, the final result is nowhere near the original expectations. One of the main reasons is that markets did not appear spontaneously, and when they did most often as monopolistic ones, the political connections 'ruled the waves'. They are politically dominated by the local or regional power elite, and remain fragmented and high-cost markets. They lack proper institutions that contribute to the construction of a new 'interlocking' rural market system. These 'missing markets' prohibit participation of many of the new peasant farms and provoke a tendency to barter trade and retreat into self-sufficiency production. But to the farmers, these 'mutant' markets are certainly not the agricultural markets that were expected to emerge.  

The share of privately produced output in total agricultural gross value added is much higher than the above phenomenon would suggest (Table 4.3). However, the current predominance of privately produced in the sector is taken to reflect a high degree of privatisation of land and the emergence of private peasant farm sector. What is ignored is that before the disintegration of the Soviet Union, already an estimated 30 percent of agricultural output (GVA) was produced on household plots, and dacha gardens, which represented not more than 2 percent of the land. This was made possible through a symbiotic (and even parasitic) relationship between private household plots and the collective or state farms, based on cheap inputs and labour.

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Table 4.3

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* The output ('volume indices') data of the private agricultural sector for Russia only include the household plots and peasant farms. In the Central Asian states 'peasant cooperatives' most likely included, over-representing 'private production'.

The privately owned household plots, located within the boundaries of the (former) collective or state farms, have increased somewhat in size, but remained small. The peasant farms in order to understand the difference are registered as independent enterprises. The land comes from former collective and state farms or established...
land reserves. The owners can be former workers or urban dwellers. Peasant farms are generally much larger (10-20 hectares on average or more), except in countries such as Armenia and Georgia, where parcelisation policies have been implemented and the boundaries between household plots and peasant farms are fuzzy.

In Table 4.3, all FSU countries show an increase in the share of private (peasant farm and household plot) production in gross agricultural output during the 1990s. This is most notable in Armenia, Azerbaijan, Kyrgyzstan and Kazakhstan (ranked in descending order). The difficulty in interpreting the data of the CIS Statistical Committee (StatKom SNG) is that the definition of ‘private production’ is not always fully clear, although it mostly refers to production from peasant farms and household plots. It does not include the large-scale ‘reformed’ companies, which—however—in some countries are considered as private enterprises. For example, it was estimated by OECD that Russia, by end of 1996, 58 percent of the land ‘private’ and 42 percent ‘public’. In the former category 3 percent represented household plots, 6 percent peasant farms and 49 percent was ‘owned by workers’ and pensioners’ collectives.’

During the first decade of reform household plots have increased in size, number and contribution to the domestic food market. This should, however, not be considered with the creation of a peasant farm sector. The latter, in average size and overall contribution (marketed) output is still quite small. Moreover, it seems that governments have lost their interest in peasant farms. While several market-

oriented governments such as in Russia actively supported and stimulated private farmers in the beginning of the 1990s, with e.g. privileged credits, state support for peasant farms is dwindling, despite their difficult position. In 1994 only 2 percent of the agricultural funds in Russia went to peasant farms, while a share of 15 percent was allocated in 1990.

As Table 4.3 shows a diversified picture of private production in the various FSU countries, some countries have shown very good results in private production. For example Armenia is very productive if we compare the share of the private sector with the share of private farms in total agricultural land (Table 4.1 & 4.2). At first sight it is surprising how the private farms and households in Armenia are able to produce 99 percent of gross value added on less than a quarter to a third of a agricultural land (in 1997).

The issue of superiority of private farms over collective farms needs a closer look, since there are number of factors affecting their production behaviour. In Armenia, the share of the private sector in arable land is much higher than in agricultural land. First, the private sector accounts for 67.8 percent of the arable land, with farms and households plots accounting for respectively 60.7 percent and 7.1 percent.

Second, more than 70 percent of the agricultural land, which is not held by individuals, is also not completely owned by the collective farms as one might assume. At least 20 percent of the land in each village has been set aside by the village council to allow for further expansion of the village settlement. Third, the

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14 Ibid., p. 128.
remaining agricultural enterprises are disintegrating. Of the 800 or so existing agricultural enterprises, less than 70 remained in 1995.\textsuperscript{16} Although it is difficult to weigh the various causes, the decrease of the collective sector as a consequence of land reform was probably stimulated or even spurred by the war. In the situation of disintegrating communication and infrastructure, the private sector with its self-subsistence character and informal, short distance marketing channels, proved to be more successful.

Fourth, the share of total livestock held by peasant farms and households is substantially higher than the share in agricultural land. In 1993 already more than 60 percent of the cattle and nearly 75 percent of the sheep were owned by these producers.\textsuperscript{17} Privately held livestock traditionally grazes not on private land but on state and collective land or communal pastures.

Statistical data of Statkom SNG about the emergence of farms in Georgia and their share of agricultural land are unfortunately lacking for most years. But it is clear that the number of farms in Georgia has not increased so rapidly in Armenia. Land reform in Georgia started ambitiously in the early nineties, but slowed down considerably after 1992.\textsuperscript{18} Although the official reforms stagnated, the land in private ownership increased rapidly. This is not because of the formation of peasant farms, but as a consequence of the expansion of private plots in Georgia is by far the largest in the FSU. It is much more than the 16.7 percent that private plots account for in Moldova, which has the second largest share of private plots in the FSU.

\textsuperscript{16} World Bank, "Armenia the Challenge of Reform in the Agricultural Sector, Washington, 1995, p. 32-34.
\textsuperscript{17} Ibid., p. 165
Moldova shows a pattern that forms a mix of the land reform-type in Armenia and Georgia.\textsuperscript{19} In the first phase, land reform lagged behind and the private sector expanded only through a rapid expansion of the private plots. In the second phase, after 1996, land reform advanced and the private sector expanded through the emergence and expansion of private farms. Meanwhile, the share of private plots in arable land decreased from 18.3 percent in 1995 to 16.7 percent in 1997, as the farm employees that wanted to increase private production, went out of the collective and began operating their own farms, instead of expanding their private plots.\textsuperscript{20}

After the first decade of transition, several countries indeed have a high share of the private sector in agricultural production, although the speed of the official reform policy was rather different. In the countries where regulations on private farming developed slowly, spontaneous development of private plots caused the expansion of the private sector, if the private sector played a large role during state socialism. In countries such as Russia and Ukraine, slow development of the peasant farms also coincided with an expansion of private plots, but their growth is not comparable with the rapid growth in the countries such as Georgia or Moldova.

**The Performance of the Agricultural Sector in FSU**

Having reviewed the agrarian reform in the different countries, it is imperative now to deal with the question whether these differences in performance could be linked to reforms that took place in these countries. A decade after the start of the reforms, the dramatic free fall of the economy of the former Soviet Union on the whole seems to have come to an end. The same could be concluded for the

\textsuperscript{19}FAO, *The State of Food and Agriculture*, 1996, op. cit., p. 221.

\textsuperscript{20}See, StatKom SNG, 1999.
production fall in the agricultural sector. In 1999, both GDP and gross agricultural output for the FSU on an average slightly increased with 3 and 2 percent respectively.\(^{21}\)

However, huge differences in performance exist within the FSU, with most countries showing positive growth towards the end of the 1990s and some still confronted with downward trend in GDP growth (Table 4.4)

| Table 4.4 GDP Growth Indices of the FSU (1990-1999) |
|-----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Armenia         | 58.2           | 53.1           | 55.9           | 59.8           | 63.3           | 65.4           | 70.1           | 72.3           |
| Azerbaijan      | 77.4           | 59.5           | 47.8           | 42.2           | 42.7           | 45.2           | 49.7           | 53.4           |
| Belarus         | 90.4           | 83.5           | 73.0           | 65.4           | 67.2           | 74.9           | 81.2           | 83.6           |
| Georgia         | 55.1           | 39.0           | 34.9           | 35.8           | 39.8           | 44.1           | 45.4           | 46.8           |
| Kazakhstan      | 94.7           | 86.0           | 75.2           | 69.0           | 69.3           | 70.5           | 69.2           | 70.4           |
| Kyrgyzstan      | 86.1           | 72.8           | 58.1           | 55.0           | 58.9           | 64.7           | 66.1           | 68.5           |
| Moldova         | 71.0           | 48.5           | 47.6           | 44.7           | 45.5           | 41.6           | 39.7           |                |
| Russia          | 85.5           | 78.1           | 68.1           | 65.4           | 63.1           | 63.7           | 60.6           | 62.5           |
| Tajikistan 100.0| 83.7           | 65.9           | 57.7           | 48.1           | 48.9           | 51.5           | 53.4           |                |
| Turkmenistan*   | 88.9           | 90.3           | 74.9           | 67.4           | 67.5           | 50.0           | 52.5           | 60.9           |
| Uzbekistan      | 88.9           | 86.9           | 82.3           | 81.6           | 83.0           | 87.3           | 91.1           | 95.2           |
| Ukraine         | 90.1           | 77.3           | 59.6           | 52.3           | 47.1           | 45.7           | 44.9           | 44.7           |
| CIS-12          | 86.1           | 77.7           | 66.7           | 63.2           | 61.1           | 61.7           | 59.6           | 61.3           |


In comparative terms, countries such as Azerbaijan, Georgia, Moldova, Tajikistan and Ukraine did worst in terms of GDP growth, showing a economic contraction to a level of around half of the 1990 GDP or less. Real GDP in the CIS countries as a

\(^{21}\) StatKom SNG, 2000, p. 7.
whole in 1995 was just 53 percent of its 1989 level.\textsuperscript{22} Azerbaijan, Georgia and Tajikstan recovered from their economic contraction in the second half of the decade, as conflicts have been contained and economic reforms have been implemented. Moldova and Ukraine, however, are still showing negative economic growth.\textsuperscript{23}

In \textit{Table 4.5}, growth indices are given for Gross Value Added of the agricultural sector for the same period. A similar picture evolves, namely with Azerbaijan, Georgia, Moldova, Tajikstan and Ukraine showing the largest contractions, with negative growth still continuing in the case of Moldova and Ukraine. However, the contraction in the agricultural sector was more dramatic than the overall economy.

In \textit{Table 4.4} and \textit{Table 4.5}, two indicators are presented, GDP growth (a macro-level indicator) and GVA (a sectoral-level indicator), in order to search for possible relationships between reform implementation and agricultural sector would be decisively positively, ten years seem to be sufficient to measure the impact. The problem is that most countries suffered a prolonged macro-economic crisis and severe contraction (and some countries even faced a war), which makes this exercise more complicated.

\textsuperscript{22} FAO, "The State of Food and Agriculture", \textit{CIS Sub-regional Review}, op. cit., p. 219.
\textsuperscript{23} Ibid., p. 221
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</thead>
<tbody>
<tr>
<td>Armenia</td>
<td>88.3</td>
<td>51.4</td>
<td>46.9</td>
<td>49.4</td>
<td>52.8</td>
<td>55.9</td>
<td>57.7</td>
<td>61.9</td>
<td>63.8</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>99.3</td>
<td>76.9</td>
<td>59.1</td>
<td>47.5</td>
<td>41.9</td>
<td>42.4</td>
<td>44.9</td>
<td>49.4</td>
<td>53.0</td>
</tr>
<tr>
<td>Belarus</td>
<td>98.8</td>
<td>89.3</td>
<td>82.5</td>
<td>72.1</td>
<td>64.6</td>
<td>66.4</td>
<td>74.0</td>
<td>80.2</td>
<td>82.6</td>
</tr>
<tr>
<td>Georgia</td>
<td>78.9</td>
<td>43.5</td>
<td>30.8</td>
<td>27.5</td>
<td>28.2</td>
<td>31.4</td>
<td>34.8</td>
<td>35.8</td>
<td>36.9</td>
</tr>
<tr>
<td>Kazakh</td>
<td>89.0</td>
<td>84.3</td>
<td>76.5</td>
<td>66.9</td>
<td>61.4</td>
<td>61.7</td>
<td>62.7</td>
<td>61.6</td>
<td>62.7</td>
</tr>
<tr>
<td>Kyrgyz</td>
<td>92.1</td>
<td>79.3</td>
<td>67.0</td>
<td>53.5</td>
<td>50.7</td>
<td>54.2</td>
<td>59.6</td>
<td>60.9</td>
<td>63.1</td>
</tr>
<tr>
<td>Moldova</td>
<td>82.5</td>
<td>58.6</td>
<td>57.8</td>
<td>40.0</td>
<td>39.2</td>
<td>36.9</td>
<td>37.5</td>
<td>34.4</td>
<td>32.8</td>
</tr>
<tr>
<td>Russia</td>
<td>95.0</td>
<td>81.2</td>
<td>74.2</td>
<td>64.7</td>
<td>62.1</td>
<td>59.9</td>
<td>60.5</td>
<td>57.6</td>
<td>59.4</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>91.3</td>
<td>64.7</td>
<td>54.5</td>
<td>42.6</td>
<td>37.3</td>
<td>31.1</td>
<td>31.6</td>
<td>33.3</td>
<td>34.5</td>
</tr>
<tr>
<td>Turkmen</td>
<td>96.0</td>
<td>87.4</td>
<td>96.1</td>
<td>83.5</td>
<td>69.1</td>
<td>68.7</td>
<td>..</td>
<td>..</td>
<td>..</td>
</tr>
<tr>
<td>Uzbek</td>
<td>99.5</td>
<td>88.5</td>
<td>86.5</td>
<td>81.9</td>
<td>81.2</td>
<td>82.6</td>
<td>86.9</td>
<td>90.6</td>
<td>94.7</td>
</tr>
</tbody>
</table>

Ukraine: 91.3 82.3 70.6 54.4 47.7 43.0 41.7 41.0 40.8


The overall 'blueprint' for transition of the agricultural sector was indeed unrealistic and naive. It included a package of reforms that focused on rapid privatisation of land and other assets, liberalisation of markets and deregulation. As the World Bank (1992) maintained, as long as these measures were implemented, it was expected that newly established private peasant farms would emerge rapidly.

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and soon dominate the sector. In drawing up this vision, too little account was taken of how independent private and collective productions were. It was evident from the analysis that the growth of private farms was much slower than envisaged and was actually stagnating, while in some of the European countries (Russia, Ukraine and Belarus) the number of farms was even declining. The emergence of peasant farms in these countries might even be more disappointing than official statistics indicate. Field research in Russia shows that private farms sometimes existed only on paper. But interestingly, the contribution of private production in overall agricultural output has increased substantially, mainly because of an expansion of private household plots. This has, however, hardly ever led to the establishment of viable private peasant farms, as the household plots were much smaller and still rather dependent on their existing (or re-established) symbiotic relationship with the large farms that were hires of kolkhozy and sovkhozy.

As part of the original reforms, it was assumed that the private (family-based) peasant farm would be more productive and efficient. However, the supposed efficiency of the peasant farm versus the large enterprises has not been shown. Studies at country level also show that the expectation of more productive peasant farms has not materialised. Moreover, some studies even state that peasant farms

25 The original outline of agrarian reform was conceptualized within the Bretton Woods Institutions, in particular by the World Bank, as part and parcel of the then prevailing 'Washington Consensus'. In a textbook set-up of a strongly market based agrarian reform, World Bank, advised rapid land and asset privatization, market liberalisation and deregulation. The report advocated that privately-run (family) farms by definition would be more efficient and productive than the existing large-scale state and collective enterprises, known as sovkhozy and kolkhozy (See World Bank, Food and Agricultural Policy Reforms in the Former USSR, An Agenda for Transition, Studies in Economies in Transformation, No. 1, Washington, 1992, p. 77.
are less efficient than the collective farms.\textsuperscript{28} This phenomenon seems to be largely due to the continuation of political privileges for large enterprises,\textsuperscript{29} the political interference of regional and local elites, and the inhospitable market environment for newly established private peasant farms. Another important factor is the very dependent mindset of farmers on state resources and a long socialisation of the farmers in a non-market command economic set-up - the adaptation to the market economic condition has been very slow and hence, pulling them back to take risk as private independent entrepreneurs.\textsuperscript{30}

It remains clear that there are structural factors, which hamper agricultural development. A private sector, with a mixture of enterprises, amongst which the peasant farms are most likely to be only a smaller section, needs to be further stimulated by focusing particularly on institutional development, rural finance, infrastructure and communications. Economic policy should not return to the simple assumptions of the early reform path, with its overall emphasis on privatisation and liberalisation as such. It should be based on integrated sectoral development and rural markets, in order to stimulate dynamic growth of a sector that, after a decade of reforms in many cases is still backward and stagnating.

\textsuperscript{28} Stephen K. Wegren, "Land Reform in The Former Soviet Union and Eastern Europe", op. cit., p. 115.
\textsuperscript{29} Iurii Aleksandrov, "Agrarian Reform Based on Social Agreement", \textit{Problems of Economic Transition}, 37(6), October 1994, p. 3.
\textsuperscript{30} Ibid., pp. 4 -5
Central East European Countries in Transition

In the transition from centrally planned to market-oriented economies, Poland, Hungary, Yugoslavia and East Germany, and many other countries also faced radical systematic transformations in all economic sectors. Within the agricultural sector, despite important differences from country to country, they faced a host of common problems and opportunities.

Socialist agriculture was everywhere a combination of large-scale socialist (state or collective) and small-scale private (mainly part-time and self-supply-oriented) farming, whose proportions were not everywhere the same. The main reason why these combinations of large-scale and small-scale farming differed was that socialism developed different models of ‘collective farming’, with different pricing and taxation mechanisms, and differing understandings of the role of private production. With the collapse of socialism, regimes were faced with the common task of providing compensation for historical injustices and restructuring large-scale farms, privatising them in the case of state farms. But although the underlying problem was the same, countries addressed it differently because their ‘collective farming’ experiences had been different, and these differences had impacts on the pattern of post-socialist development generally, and on farm reorganisation and restructuring of agriculture in particular.32

32 Ibid., p. 1199
Reforms started in 1989 in Poland and soon thereafter in many CEECs. The most important part of agricultural reforms is land reform. Restitution of collective farm land to former owners and sale of state farmland are the most common forms of land privatisation in CEECs. By 1995, more than 75 percent of agricultural land was in private ownership in all CEECs, except Bulgaria. The various methods adopted by the CEECs countries are given in the Table 4.6.

Table 4.6

<table>
<thead>
<tr>
<th>Country</th>
<th>Collective farm land</th>
<th>State farm land</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>Distribution</td>
<td>Distribution</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>Restitution</td>
<td>Mixed</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>Restitution</td>
<td>Sale (leasing*)</td>
</tr>
<tr>
<td>Hungary</td>
<td>Restitution + Distribution + Sale for compensation bonds +Sale for compensation bonds Sale (leasing)</td>
<td></td>
</tr>
<tr>
<td>Poland</td>
<td>---</td>
<td>Sale (leasing*)</td>
</tr>
<tr>
<td>Romania</td>
<td>Restitution + Distribution</td>
<td>Undecided + Restitution</td>
</tr>
<tr>
<td>Slovakia</td>
<td>Restitution</td>
<td>Sale (leasing*)</td>
</tr>
<tr>
<td>Slovenia</td>
<td>---</td>
<td>Restitution</td>
</tr>
</tbody>
</table>


34 Ibid., p. 179
The "collectivisation" of agriculture by the socialist countries had varying degrees of success. In Hungary and East Germany, collective farms ultimately embraced most of the agricultural land. In Poland and Yugoslavia, in contrast, peasant farming remained the dominant form of production. When we make any comparison among these transition countries with Russia or other countries, the common factors in the transition should be emphasised. They differ socially, culturally, economically, politically, geographically and mentally. So, only common thing among these countries is the transition from a command economy to a market economy. And within this transition, the aim is to see the different measures and paths taken by each country in reorienting and shaping their agriculture according the new economic conditions.

Experience of Poland

The cooperative movement in Poland underwent a process of adaptation from a centrally planned to a market economy like the movements in other ex-socialist countries. This complicated and complex process took place in two phases:

- destroying the old cooperative structure, and
- searching for and developing new forms of cooperative organisations and functions.

Unlike most other Central and East European Countries (CEECS), Poland did not extensively collectivise agriculture under Communism. Poland has a deeply rooted large private sector. Private farms comprised over 76 percent of the cultivated area, state farms 20 percent and collective farms accounted for the

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remaining 4 percent at the beginning of the transition.\textsuperscript{37} Polish agriculture had at its disposal about 18.7 million ha (1989) of arable land, i.e. 60 percent of the country's area. If we look at the basic agrarian structure in Poland in 1988, it seems to us that Poland had kept the peasant economy alive even in the socialist system (see Table 4.7). This is the basic difference in Poland and Russia and even in other former socialist countries.

Despite more than four decades of Communist rule, and the accompanying drive for collectivisation and centralisation, the agricultural sector in Poland preserved private ownership and a market orientation to a greater degree than in other East European countries.\textsuperscript{38} While most of the population became involved in cooperatives of one form or another, small-scale private farming persisted, and agricultural production cooperatives (collective farms) never developed a great portion of the country's agricultural land. Polish agriculture today continues to be dominated by small, subsistence-oriented farms.\textsuperscript{39}

\textbf{Table 4.7} \hspace{1cm} \textbf{Polish Agrarian Structure (1988)}

<table>
<thead>
<tr>
<th>Area harvested</th>
<th>Labour resources</th>
<th>Value of assets</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>'000 ha</td>
<td>%</td>
</tr>
<tr>
<td>Total agriculture</td>
<td>18.742</td>
<td>100</td>
</tr>
<tr>
<td>Private farms</td>
<td>14.295</td>
<td>76.3</td>
</tr>
<tr>
<td>State owned farms</td>
<td>3.521</td>
<td>19.7</td>
</tr>
<tr>
<td>Collective farms</td>
<td>701</td>
<td>3.7</td>
</tr>
<tr>
<td>Agricultural circles</td>
<td>59</td>
<td>0.3</td>
</tr>
</tbody>
</table>


\textsuperscript{38} Ibid., p. 8
\textsuperscript{39} Ibid., p. 8
It is clear from the above Table 4.7 that Polish agriculture was dominated by the peasant economy. This was a result of the failure of collectivising agriculture. Small farms were predominant, even if governed more by the logic of survival than by the logic of development and expansion. In Poland, less than a quarter of the agricultural land was in the socialised sector at the beginning of the transition.\(^{40}\) In Russia, the emerging atmosphere was not so conducive to the private farmers as the old institutions could not fulfil the basic necessity of the newly cropped-up farmers. But a lesson could be learnt from Poland that even in a hostile condition the private farmers should strive to achieve gradually with patience, the economic gains out of the present situations, for their own future prospects and betterment.

Agriculture accounted for 7 percent of GDP in 1996, but employed 27 percent of Poland's labour force.\(^{41}\) This proves the labour intensive farming of Polish agriculture. During the transition, Polish agriculture fared better than other sectors of the economy. This was because Polish agriculture has preserved private ownership and a market orientation to a great degree. The relationship between labour, ownership and management was maintained, at least in the private sector. An important asset of the individual agricultural sector was its great adaptability to the variable and sometimes extremely difficult conditions of management.

On the other hand, some elements inherited from the previous system remained, which put agriculture in a difficult situation vis-à-vis the new management criteria. Development took place in considerable isolation from the world market and objective market parameters.\(^{42}\) The possibilities for agricultural development were


strictly limited, among other things, by the ideology and political system. The farm size had upper limits and access to production factors was difficult. On the other hand, the state authorities ensured stable conditions of production, isolation from the most significant market fluctuations and guaranteed prices and the sale of the output. The beginning of the systematic transformation in Poland in 1990 caused a kind of “adaptation shock”. 43

In the last eight years since the beginning of the transition in the Polish agriculture, remarkable changes have occurred. Agricultural output has been extremely variable since 1989, but followed a declining trend until 1994, with some moderate recovery in 1995 and 1996. On an average, gross output was still below the average during 1980s. There has been a greater variability in crop yields, as the declining use of inputs has made crops more vulnerable to poor weather. Crop output continues to stagnate, although the livestock sector appears to be rebounding.

Average grain yields for the period 1991-1995 were 10 percent below the 1986-1990 average. The low yields were, in part, the result of a declining use of fertiliser and other chemicals, but Poland had suffered some extreme weather conditions, with droughts in 1992 and 1994 and flooding in the summer of 1997. However, despite the fall in real producer prices, area planted under cereals changed very little.

43 Ibid., p. 17
At least half of Poland's farms produce mainly for self-consumption and many landowners were reluctant to sell because of a lack of alternative employment opportunities. Even during the period of central planning, Polish agriculture was dominated by more than 2 million private farms, averaging 5 ha. in size. The private sector cultivated about 80 percent of the agricultural land and produced almost the same percentage share of output. The process of consolidation since 1989 has been quite slow, but the average farm size has increased to 8 ha. There was a growing class of commercially viable farms, but at least half the country's farms produced mainly for self-consumption. Though land sales are legal, yet many landowners were reluctant to sale because of lack of other viable employment opportunity.

Enterprise Restructuring

Unlike most other CEECs, Poland did not extensively collectivise its agriculture under Communism. By 1989, private plots and family farms accounted for approximately 80 percent of total agricultural area. State farms accounted for the remaining fifth of total agricultural area. The privatisation of state farms began in 1991 with a special agency created to manage the process—the Agencja Wlasnosci Rolnej Skarbu Panstwa (AWRSP). The AWRSP has been responsible for administering and privatising agricultural properties that belonged to the state as state-owned farms or had been transferred to the state land fund in return for a pension. The privatisation of state farms has proven difficult. The Agricultural
Property Agency (APA) was created in 1992.\textsuperscript{44} By the end of 1996, the agency had taken over about 4.5 million hectares as well as accompanying fixed and current assets.\textsuperscript{45}

As the size of family farms has been historically small in Poland, estimating the number of farm holdings is problematic. The 1996 Polish Agricultural Census defined agricultural holdings as units with at least one hectare of land but recorded the number of units below this threshold. On this basis, it was estimated that there were just over one million holdings with between 0.1 and 1.0 hectares of land, occupying less than 2.2 percent of total agricultural area. Just over 2 million holdings of more than one hectare were recorded (see Table 4.8). The majority of these holdings are of less than 5 hectares. At the same time, about 35.7 percent of the total agricultural area were cultivated by 8.4 percent of all farms, each with more than 15 hectares. It is observed that farm with holdings more than 15 hectares could able to generate an income above the poverty line for n full-time person. Farms with less than 5 hectares are heavily dependent on other sources of employment or social security benefits.\textsuperscript{46}

\textsuperscript{44} FAO, Central and Eastern Europe and Commonwealth of Independent States, Regional Overview, FAO Agricultural Series No. 31, 1998, p. 265.
\textsuperscript{46} Ibid., p. 446
As recorded in the Table 4.8, the number of farm holdings steadily decreased during the 1990s, from over 2.1 million in 1990 to 1.99 million in 1998. This trend reflects a withdrawal of labour from agriculture in a period of falling farm incomes caused by a cost-price squeeze and a fall in real government protection of agriculture.

However, it should be noted that, despite the worsening terms of trade, the rate of withdrawal has been relatively slow, the number of holdings has declined by about 0.7 percent per annum. Looking at changes within size categories, an interesting polarisation is apparent. The number of 1 to 2 hectare holdings has risen from 3,78...
300 to 4,495,000 since 1990 and the number of holdings with 15 hectares or more has also grown. In contrast, the number of medium-sized farms (by Polish standards) has fallen considerably, especially in the 5 to 10 hectare category. A number of factors have led to this trend. First, land sales have seen a reallocation of land to some larger producers, especially where there has been a foreign investment. Second, farmers' pensions are generous by Polish standards. To qualify for a farmer's pension, an individual must have a farm of more than 1 hectare. There is some evidence that in some cases the purchase of farm holdings or how they have been registered has been influenced by household strategies to qualify for farmers' pensions.\textsuperscript{47} The polarisation has left Poland with a wide array of farm sizes, which has potentially far-reaching consequences for competitiveness.

The Characteristics of Poland's agricultural transition:

Poland's agriculture possesses many positive characteristics,\textsuperscript{48} which should help it through the transition from a command economy to a market economy:

- compared with other countries in transition, the farm sector is large and has deep-rooted tradition;

- Polish farmers have consistently demonstrated their resilience and survival abilities; although the economic transition is difficult and sudden, they have imagination, strength and willingness to make it on their own essential ingredients for future entrepreneurs;

\textsuperscript{47} Ibid., p.447
\textsuperscript{48} T. Hunek, "Reorienting the Cooperative Structure in selected Eastern European Countries: Case-Study of Poland", FAO, Rome, 1994, p. 30.
- There is an abundant, albeit not always adequate or well distributed farm infrastructure, a well-developed rural road network, and electricity is available in almost all villages. Heavy farm subsidies during the years before transition have at least equipped the sector with machinery, without creating much indebtedness at farm level. This should alleviate the need for costly investments in the immediate future.

- Poland is geographically well situated for export markets both to West and East, possess an appropriate exchange rate, a convertible currency and has a substantially free trade regime;

- Most importantly, Poland has got a good technical knowledge base, and a substantial number of farmers, particularly younger ones, who are well educated. Crop husbandry is sound, but could be substantially improved. Although yield increases have been high over the past ten years, they remain largely below their potential. Animal husbandry is basically sound, and veterinary standards are high.

It is understood that the characteristics of Polish individual farms could be classified to four groups. The first is the garden-agriculture or hobby farm with less than 1 hectare. The second is the weekend farm with 1 to 5 ha. The third group is the perishing agriculture with 5 to 10 ha. The fourth group is the candidate to the Euro-agriculture with more than 10 ha (the basic standard of Euro-farm according to area, yield and efficiency).
Now, let us observe the farms with 5 hectares or more. More than 80 percent of this group produces agricultural products mainly for the sale of the market. 49 This group of farms possesses subjectively the desire to survive in the agricultural sector in the EU community.

Hungary

Like all other transition countries, Hungary is implementing far-reaching changes in the agricultural sector, reforms aimed at effecting a radical transformation of agricultural cooperatives and land ownership.

In Hungary, the overwhelming majority of agricultural cooperatives were farming (production) cooperatives. These “cooperatives” or collective farms dominated Hungarian agriculture, controlling 70 percent of all agricultural land as of 1989. In 1990, there were 1,268 such enterprises, each covering on an average 377 individuals. 50

State farms accounted for 15 percent of agricultural land. In 1990, there were 171 state farms, averaging about 7000 ha in size and employing 850 people each. The remaining 15 percent of Hungary’s agricultural land were operated under some 1.5 million small-scale farms, and about 550 private enterprises of various types. Small-scale farms contributed about one third of the country’s total agricultural output, producing largely vegetables, livestock and flowers. This category of farm includes “household plots” within collective farms, the analogous “auxiliary

farms” of state farm employees, and the “member farms” within special agricultural cooperatives.51

During the transition process, significant changes were carried out in the structure of agricultural production of Hungary. There was a drastic decline in agricultural production in Hungary since the transition. The agricultural production index in 1989 was 182 (1960=100), which continuously declined through 1993 to the minimum at 118, slightly increased through 1996 to 132 and again declined to 125 in 1998 and 128 in 1999.52 The agriculture’s importance to the national economy has fallen down from 7.8 percent in 1991 to 5.2 percent in 1997 on a basis of GDP accounts; the decline in export is more serious, from 10 percent in 1992 to 4.7 percent in 1997.53 But this decline is not real, rather it is due to the scissors-like difference due to the under-estimation of relative price of agriculture. This underestimation of agricultural products could be approximately 30-40 percent.54

Structural Change of Agricultural Production

The re-shaping of farming structures and its social impact

What is noteworthy in the Hungarian restructuring of farming units is its consistency and the efficiency of the restructuring forces. Essentially, everything had been achieved by 1995. Since then all that has happened is that the process, which forces the old players to change and set the new players on their new paths has reached their completion. The data suggest gradual but efficient adaptation to the market, which has probably been of greater significance than the legislation passed to achieve transformation.

51 Ibid., p. 17
52 Magyar Statisztikai Evkonyv (MSE) 1999, Budapest, 2000, p. 12-16.
54 Ibid., SYA 1998, pp. 28-29
Transforming Large-Scale Units

Although there is a clear tendency for the large-scale sector to shrink and for the small-scale sector to grow, economies of scale still prevail in Hungary - particularly in the western part of the country. The large or medium-scale successor units, however, do not have an equal chance for survival. Two tendencies have shown themselves clearly from 1994 onwards, (1) a shift from cooperative farming towards company farming and (2) a property concentration, both of which have slowly but steadily been reshaping Hungarian farm structure.55

These processes are major components of a secondary transformation of former collective farms as they adapt principles. The data are convincing: the share of companies in the control of tangible assets of agricultural corporations grew from 4.5 percent to 30.3 percent in case of limited liability companies, and from 5 percent to 18.7 percent in case of joint-stock companies from 1992 to 1997, whilst cooperatives’ share dropped from 77.4 percent to 51 percent.56

Significant changes were carried out in the structure of agricultural production in Hungary during the transition process to a market oriented economy. First of all, peasant farms have increased their share in land use so extensively that peasant farms occupy 54 percent of total productive land, 57 percent of the total arable land, and 50 percent of Hungary’s total land area in 1999. As a result, peasant farms now produce 46 percent of all agricultural output.57

56 Ibid., p. 6
57 Magyarország Mezogazdasága 2000, területi adatok, CD-ROM version, p. 184, p. 333; Translated to English by S. Shevins, Budapest University, Budapest.
Cooperative farms on the contrary, which have had a decisive role in land utilisation until the 1980s, have lost the dominating position, and their share in land use fell to 16 percent in 1999 from 58 percent in 1990. Consequently, cooperative farms and peasant farms replaced their position with each other.\textsuperscript{58} As a legal form of farming, a commercial company seems to keep a stable position between peasant farms and cooperative ones. In reality, however, they were expanding constantly. Specifically, this type of category includes state farms, and the state farms’ share, which was continuously diminishing to a negligible one from the initial domination in 1990, both in the number of farms and in land use.\textsuperscript{59}

Another structural change in agriculture, closely related to second stage of transformation is the concentration of production into large-scale farms both in the peasant farm category and in the corporate farm category.\textsuperscript{60} \textbf{Chart 4a and Chart 4b} (Number of Peasant Farm by Size of Land Use in 1990 and 2000, see Appendices) show that the dominant part of peasant farms, whose number was 1,394,000 in 1990 and 9,59,000 in 2000 were petty peasant farms with less than one hectare of land.\textsuperscript{61} In the Communist era, agricultural cooperative members and even the employed could hold a so called home benefit plot (\textit{haztaji}) - its size was usually 0.5 ha per family - and used to produce food on it for themselves and to sell.\textsuperscript{62} The massive number of current petty peasant farms is mainly of this origin, receiving additional land in the egalitarian land privatisation in early 1990s. This type of peasant farms, however, has a very small importance in the nation’s overall

\textsuperscript{59} The state farms number was 19 in 1999 from 139 in 1989. Most of them were transformed to joint-stock companies. MSE 1989-1999.
\textsuperscript{60} MM 2000, pp. 184-185.
\textsuperscript{62} Ieda, Osamu, “Re-transformation of the Cooperative Farm and Rural Society in Hungary”, Occasional Papers, Slavic Research Centre, Hokkaido University, Sapporo, Japan, 2001, p.4.
agricultural production. Their share is only less than 5 percent out of the total agricultural output of the peasant farm category in 2000, yet play an indispensable role in supporting a significant part of rural and local population, whose income opportunities are otherwise very limited. On the other hand, those peasant farms whose land use is more than 1 ha have increased to 2,70,000 in 2000 from 1,40,000 in 1990 and those of more than 10 ha multiplied to 50,000 from 2000 in 1990. This notable increase of larger peasant farms is another important result of land privatisation.

A real change in the second stage of the agricultural transformation, however, relates to not quantitative increase of peasant farms but to their qualitative aspects. At present, a small number of expanding peasant farms is dominating agricultural outputs. Hungarian statistics shows that 1.3 percent or 11,000 of largest peasant farms provide 30.9 percent of the total output created by the entire peasant category, and the share grows to 63.8 percent when the second largest cluster, whose annual output ranges from 1 million Ft to 5 million Ft, is added to the largest cluster.

Comparing these data with those of 1990, concentration of production has remarkably progressed, due to several thousands of large peasant farms that occupied only 6 percent of the total peasant land use ten years ago. Though no chronological figures are available for peasant farm production by farm size, it is clear that the peasant agriculture in Hungary got highly concentrated into large farms during the last decade, especially into the largest 10-20,000 farms, whose output is 30-50 percent of the total peasant agricultural production.

Remarkable changes are also apparent in the structure of the cooperative farm category. As mentioned before, commercial companies are expanding, and cooperative farms, in contrast, have lost their dominant role. The new forms of agricultural farms are growing in number - 11,072 or 4.6 times as many as that of cooperative farms\(^{64}\) and they cultivate land almost twice as much as the cooperative farms in 1999. Thus, it is clear that a comprehensive change had happened within corporate farming. Nevertheless, cooperative farms have not decreased in number. Rather, they have increased by 80 percent or by more than one thousand in number (from 1333 in 1989 to 1425 in 1999). This is partly because the huge cooperative farms, which were established in the 1960s and 1970s, have been divided into several medium-sized or village-sized farms, and partly because cooperatives are receiving new roles in the re-transformation process of corporate farms.

Among the rapidly increasing corporate farms, however, many might be out of function or exist only nominally. Firstly, petty corporate farms (those of less than 10 million Ft of annual output), numbering as many as 51 percent of the total number of corporate farms, yield only 1.8 percent of total agricultural output produced by the entire corporate farm category in 2000 - 617.8 billion Ft.\(^{65}\) Secondly, the nation-wide surveys of agriculture in 2000, show that the number of active corporate farms are only 8,382.\(^{66}\) Thus, almost 5,000 or 38 percent of corporate farms are actually dormant. Therefore, in spite of the rapid increase of entities, agricultural production per corporate farm has not so downsized.

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\(^{64}\) MSE, 1990-1999.
\(^{65}\) MM 2000, pp. 184, 457.
\(^{66}\) Ibid., MM 2000, p.184
Most observers of the socialised agriculture of Central and Eastern Europe generally agreed that the performance of Hungarian agriculture was the best in the region.\textsuperscript{67} The relative good performance of agriculture in Hungary was due, in part, to greater freedom given to agricultural enterprises than was generally true in the other transition agriculture.\textsuperscript{68} It is estimated that in Hungary, the share of agriculture in national employment declined from 17.9 percent in 1989 to 8.5 percent in 1995.\textsuperscript{69} It could be argued that Hungary has moved much closer to the long-run equilibrium level employment in agriculture. According to Swinnen, the farm restructuring has been successful according to the market principles.\textsuperscript{70}

Large-scale farming has seemingly been loosing out rather dramatically in Hungary although this extent has been modest compared to countries embarking on more radical restitution methods (Hungary embarked on compensation rather than restitution) as Lithuania and Latvia from among the Baltic states, Romania and Bulgaria from south-eastern Europe. Rather than deconstruction, what prevailed in Hungary was the related process of size-reduction and an accommodation to market relations. So, Hungary now resulted in a more medium than large-scale size farm structure on the one extreme, an emerging small-scale commercial farm category in the "lower-middle", and some eight to nine hundred thousand plot-farms on the other extreme.

\textsuperscript{68} Ibid., p. 15
East Germany

Large-scale production "cooperatives" known as LPGs, socialist farms, or collective farms were the predominant organisational forms in East German agriculture from 1950 to 1990. These were typically accompanied by the small private plots of members of cooperatives (which accounted for 9 percent of total agricultural output as of 1988).\textsuperscript{71} Thus, in terms of the task of land redistribution, the East German case has much in common with that of Hungary and Russia. However, unification of the two Germany in late 1990, and the somewhat lesser importance of the agricultural sector here as compared to its neighbours created unique conditions for the restructuring of agriculture in Germany.

In 1990, there were 3,800 agricultural production cooperatives or LPGs in Eastern Germany, cultivating more than 5 million hectare - 86 percent of the total agricultural area. In September 1989, the agricultural sector employed some 850,000 people. By March 1991, the figure was 5,70,000, with most of the job leavers being women.\textsuperscript{72} The agricultural sector, as a whole, employed 10 percent of the working population, and about 75 percent of those were employed by LPGs.

A number of new laws and policy initiatives comprise the legal framework within which changes in the agrarian structure of the Eastern Germany are occurring during the transition.

Germany legislature has made considerable amount of efforts to settle ownership questions and set forth the options open to farmers under privatisation and

\textsuperscript{71} Klaus Fischer, "Reorienting the Cooperative Structure in selected Eastern European Countries: Summary of Case Studies", FAO, UN, Rome, 1994, p. 29.
\textsuperscript{72} Klaus Fischer, "Reorienting the Cooperative Structure in East European Countries: A Case Study of East Germany", FAO, Agriculture in Transition, Central and Eastern Europe, 1, Rome, 1994, p. 31.
liberalisation. A number of new laws and policy initiatives comprise the legal framework within which changes in the agrarian structure of the Eastern Germany have been occurring since transition.

The unification of the Federal Republic of Germany and the German Democratic Republic had drastic implication on the agrarian structure in the GDR, since it required the transformation of the agricultural production cooperatives into other legal forms. This process was completed by the end of 1991. The new legislation foresaw that the agricultural production cooperatives, which had been established by coercion, could be transformed into one of the following legal forms of agricultural enterprises: 73

- individual holdings (family or tenant farms)
- personal companies
- capital companies
- cooperatives

Three of the most important laws passed in East Germany are the Union Treaty, the Agricultural Adjustment Law and the Set-Aside Programme. 74

Union Treaty

The Union Treaty is the legal foundation of reunification. The first important provision of the treaty is that all laws of the Federal Republic including those

74 Klaus Fischer, op. cit., p. 31
concerning agricultural relations and procedures for land transfer, tenancy and consolidation, apply automatically in the Eastern Germany as well.

**Agricultural Adjustment Law**

This law directly addresses the questions of land ownership and how to transfigure the socialist LPGs. In essence, it calls for the return of land and capital shares to the “original owners” or their successors from whom land and other property were taken after 1949. Even those landowners who had left East Germany would be able to claim their entitlements. The law includes a number of provisions - for the conversion of an LPG into a Registered Cooperative, the uniting of several LPGs to form one Registered Cooperative, or the creation of several cooperatives from one LPG. Farmers who join a Registered Cooperative, or any other group for the purposes of common production, would receive financial support from the government.

**Set - Aside Programme**

Under the Set-Aside Programme, which was aimed at reducing excess production during the first phase of transition, farmers or LPGs receive a compensation of DM (Deutsche Mark) or more for every 1.0 ha taken out of production.

**The Production Structure**

Under the new economic conditions, a number of new production structures were cropped up for restructuring. The basic aim was to readjust to the market economic conditions and making a viable economic unit. Various options were suggested - family farms, personal companies (general and limited partnership) and joint stock companies, and Registered Cooperatives.\(^5\)

\(^5\) Ibid., p. 33
In 1995, the average family farm size was reduced from 48 hectares in 1994 to 46 hectares, though the share in the total agricultural land increased from 20 percent in 1994 to 21 percent in 1995 (see Table 4.9). The composition of various production units show that during the transition, the family farms and the partnership farms have shown an increase in the share of agriculture. For family farms, the share of total cultivated land increased from 13 percent in 1992 to 21 percent in 1995 and their average size varied between 45 to 46 hectares. Partnerships are new types of collaborations, mostly a few persons (they employ approximately five labour units on an average) who are related to one another.  

Their share of total cultivated land increased from 14 percent in 1992 to 22 percent in 1995.

Table 4.9
Average Farm Size in Hectares Agricultural Land and Share in Total Agricultural Land of Different Organisations in East Germany, 1992-1995.

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<tbody>
<tr>
<td><strong>Family farms</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>average size</td>
<td>46 ha</td>
<td>45 ha</td>
<td>48 ha</td>
<td>46 ha</td>
</tr>
<tr>
<td>Share</td>
<td>13%</td>
<td>18%</td>
<td>20%</td>
<td>21%</td>
</tr>
<tr>
<td><strong>Partnerships</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>average size</td>
<td>626 ha</td>
<td>511 ha</td>
<td>469 ha</td>
<td>449 ha</td>
</tr>
<tr>
<td>Share</td>
<td>14%</td>
<td>18%</td>
<td>21%</td>
<td>22%</td>
</tr>
<tr>
<td><strong>Cooperatives</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>average size</td>
<td>1537 ha</td>
<td>1265 ha</td>
<td>1218 ha</td>
<td>1164 ha</td>
</tr>
<tr>
<td>Shares</td>
<td>44%</td>
<td>39%</td>
<td>36%</td>
<td>34%</td>
</tr>
<tr>
<td><strong>Companies</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>average size</td>
<td>1006 ha</td>
<td>892 ha</td>
<td>823 ha</td>
<td>772 ha</td>
</tr>
<tr>
<td>Share</td>
<td>29%</td>
<td>26%</td>
<td>24%</td>
<td>23%</td>
</tr>
</tbody>
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Former state and collective farms that have not been liquidated have typically been transformed into either “private cooperatives” or shareholder companies. They refer to both organisations as Large-scale Successor Organisations (LSOs). LSOs include cooperatives and joint stock companies in the analysis, both characterised by limited liability. Most of these LSOs are transformed collective farms. By 1992, 40 percent of the collectives had been liquidated, and 30 percent were transformed into cooperatives, 25 percent into companies, and 8 percent into partnerships.

Although cooperatives are generally larger than joint stock companies, the data do not allow disaggregation between them, such that any conclusion would apply to LSOs in general. The share of LSOs in total cultivated land decreased from 73 percent in 1992 to 57 percent in 1995.

The difference between family farms and partnerships with the LSOs is that the former is more specialised, but the output price differences between organisations are small (less than 5 percent) in 1994-1995. With market reforms and other price stabilisation measures and increased market transparency, the price differences are decreased.

A key question in transition is whether de novo farms are more efficient than restructured former state and collective farms. It is found that family farms are technically more efficient than LSOs in the beginning of transition, but only in certain specialisation. By 1995, there was no longer a significant difference between family farms and LSOs for both livestock and crop production. With

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78 Volker Beckmann and Hagedorn Konrad, op. cit., pp. 11-12.
79 Erik Mathijs and Johan F. M. Swinnen, op. cit., p. 102.
80 Ibid., p. 103
institutional restructuring and liberalisation of the external environment, the gap in efficiency has disappeared during transition for all specialisation. The improvements in technical efficiency in governance of the LSOs are also reflected in strong reduction in labour use, especially in livestock LSOs. Empirical analysis confirms that there are no increasing returns to scale beyond a certain minimum size, which is captured by partnerships but not by average family farms. LSOs in crop production exhibit decreasing returns to scale. Partnerships are the most efficient organization combing high levels of pure technical efficiency due to good labour governance with low employment, often relatives and full economies of scale by operating on large farms than average family farms. The analysis indicates a decline in the average technical efficiency of family farms and partnerships during transition.

Reforms in Former Czechoslavakia

The impact of transition in the Czech and Slovak Republics was initially limited. Most farms went through the transition process as prescribed by law but continued to function on a large-scale basis. Very little land and few assets were taken out of the farms, although most people retained, and very often, increased the size of their small-scale household plot, which continued to act as an important source of supplementary income.

Although the Czechoslovak restitution and cooperative transformation procedures were backward-looking and inimical in intention towards the cooperatives, the distinctive features of Czechoslovak cooperative transformation, together with the

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81 Ibid., p. 107
82 Ibid.
84 Ibid., p. 1210
absence of any effective bankruptcy legislation, paradoxically favoured the cooperative form's continuance.

In the early years following cooperative transformation, a second 'transformation', - transforming cooperatives into limited liability companies was witnessed. The structure of agricultural holdings in the Czech Republic continued to be one, in which cooperatives featured prominently. By 1994, cooperatives farmed 47.7 percent of agricultural land, other corporate bodies (successor companies to collective farms) farmed 25.7 percent, and private individual farms accounted for 23.2 percent. Over 80 percent of private individual farms were of less than 10 hectares, and around 2 percent of individual private farms were over 100 hectares.  

Farm Structure Development

The farm structure development during the reform period and its roots in the history was restructured agriculture in the Czech Republic. According to the Agro-census 2000, which covered 565 thousands farms of all categories shows that the farms occupy 3643 thousand ha of agricultural land. The share of the leased land is extremely high (91.6 percent in average; 71.8 percent in case of farms as physical entities; 98.7 percent in case of farms as legal entities.  

The farms as physical entities represent 94.6 percent of the total number of farms, in which the registered individual farmers represent 56.2 percent of the total number of farms. The farming of physical entities covers 26.4 percent of the total

85 Ibid.
acreage (23.7 percent in case of the registered individual farmers). The differences in the figures between the farms as physical entities and the registered individual farmers could be largely due to the category of households oriented more on the self-supplying.

The extreme differences among the categories of farms are in their average sizes. The average size of the farms as physical entities is 19 ha (28 ha for the registered individual farms, it means only 3.6 ha for the remaining farms - households). Contrary to this, the average size of the farms as legal entities is 991 ha, in case of cooperatives 1455 ha. 

The Czech agriculture is based on the typical dual farm structure, which has been gradually deepening. The dual structure can be shortly presented by the following figures: 5 percent of extremely large and mainly collective farms occupy 75 percent of agricultural land. It is frequently true, that collective farms or very large individual farms (estate farms) are influencing the quality of the rural living, changing villages into "stores of a cheap hired labour" (the dual agriculture is "consuming" rurality). Many villages, where agriculture was provided by large farms, were "sleeping", without any active living.

In Slovakia, as in the Czech Republic, the cooperatives continued to be important only more so, for reasons related to Slovakia’s vision of a separate Slovak identity. During transformation, 98 percent of cooperatives opted to retain the cooperative form and in 1994, cooperatives continued to farm 69.9 percent of agricultural land. Other corporate bodies farmed 4.6 percent of agricultural land, and private individual farmed only 5.2 percent. Of the latter, some 76 percent of private farms

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87 Ibid., p. 17
88 Ibid., p. 19
were under 10 hectares, and around 2 percent were over 100 hectares - figure vary similar to those of the Czech Republic. 89

CHINA'S EXPERIENCE

China's transition from a planned economy to a market economy began at the end of 1978. At the outset, the government did not have a well-designed blueprint. The approach to reform could be characterised as piecemeal, partial, incremental and experimental. Some economists regard this approach as self-defeating. 90 At the same time, the Chinese and some foreign observers perceived the new line in farm policies since 1978, as a radical break from the policies followed before the period. 91

Whether China's experience provides useful lessons for other transition economies is hotly debated. Some economists argue that China's success demonstrates the superiority of an evolutionary, experimental and bottom-up approach over the comprehensive and top-down "shock therapy" approach 92 that characterises the transition in Eastern Europe and the former Soviet Union. 93 Other economists argue that it is neither gradualism nor experimentation but rather China's unique initial conditions—namely, a large agricultural labour force, low subsidies to the population, and a rather decentralised economic system that have contributed to

89 Nigel Swain, "Agricultural Restitution and Cooperative Transformation in the Czech Republic, Hungary and Slovakia", op. cit., p. 1212
China's success. According to these economists, China's experience has no general implications because China's initial conditions were unique.

It is a matter of debate, whether or not China's experience provides useful lessons, or whether the nature and cause of the problems that China, Russia and other transition economies attempt to solve are similar. It is argued that the system of Central Economic planning and its related problems in the transition economies have the same root i.e. the attempt to pursue a capital-intensive heavy-industry oriented development strategy when the economy was constrained by capital scarcity. Therefore, China's approach to reform provides useful lessons for other transition economies. Both in Russia and China, the land was nationalised and agriculture was highly collectivised. The dual economy of both collective and state farms and the family, private (household) farms were indirectly practised in both the countries' agriculture. Hence, China's orientation to a market economy provides a useful background for Russia's transition in general and agriculture in particular.

The main content of the agrarian reforms China adopted after 1978 has been well analysed by Theodor Bergmann in the following eight points.\textsuperscript{94}

1. Technical modernisation and intensification were promoted by the production and provision of industrial means of production i.e. fertilisers, pump sets, tractors, farm machinery.

2. Administrative and productive tasks of people's communes were separated and new local administration was established, which was financed by the

\textsuperscript{94} Theodor Bergmann, op. cit., p. 8
villagers, as before. Thus, also the power of local officials was divided and cut down.

3. The responsibility system, based on contract with the peasant household, was introduced: Land and other means of production were given to the ultimate, effective working unit, generally the peasant household or the family with the obligation to utilise the land for farm production. For a few basic commodities, cultivation and delivery were fixed by contract. The producer could then dispose off freely the rest of the land and its products, either for home consumption or for free sale on peasant markets, springing up everywhere. But, "The system of collective ownership of land and large-scale machinery was maintained". A new system of contracts between local administration (village committee, village cooperative and the producers has been initiated. An agricultural tax was introduced.

4. Rural crafts of all types i.e. all non-cropping activities were promoted; animal husbandry, agriculture, silk-worm breeding, and silk processing, production of building materials handicrafts, small scale industries. Similarly, the cultivation of cash crops e.g. cotton, tobacco etc was promoted.

5. Peasant incomes were raised, by increasing prices for farm commodities, delivered to the official purchasing agencies.

6. In each region, production was adapted to the natural conditions. It implies more exchange and transportation between regions. This policy replaces the earlier one of regional self-sufficiency, which, to some extent, contradicted adaptation of cropping to the local conditions.
7. Service cooperatives for purchase and sale were re-vitalised and new market channels from the village to the town were established. Small urban centres in the countryside were revived.

8. One third of the agrarian population i.e. 70 million economically active persons should gradually moved into other economic sectors without causing a rural exodus into the large cities.

The Major pre-Reform Problems in the Chinese Economy

The traditional planned economic system in China was shaped by the adoption of a Heavy-Industry Oriented Development Strategy (HIDOS) in the early 1950s. At the beginning of the People’s Republic in 1949, the Chinese government inherited a war-torn agrarian economy in which 89.4 percent of the population resided in rural areas and industry consisted of only 12.6 percent of the national income. Soviet Union’s outstanding economic performance provided the Chinese leadership with both inspiration and experience for adopting a HIDOS. Therefore, after recovering from wartime destruction in 1952, the Chinese government set heavy industry as the priority sector of economic development. The goal was to build, as rapidly as possible, the country’s capacity to produce capital goods and military materials. This development strategy was implemented through a series of Five Year Plans.95

The development strategy and the resulting policy environment and allocation system also shaped the evolution of farming institutions in China. To secure cheap supplies of grain and other agricultural products for urban low-price rationing, a

compulsory procurement policy was imposed on the rural areas in 1953. This policy obliged peasants to sell fixed quantities of their produce including grain, cotton, and edible oils to the state at a government determined prices.96

Agricultural development required resources and investment as much as industrial development. The government, however, was reluctant to divert resources to agriculture. Therefore, alongside the HIODS, the government adopted a new agricultural development strategy that did not compete for resources with industrial expansion. The core of this strategy involved the mass mobilisation of rural labour to work on labour intensive investment projects, such as irrigation, flood control and land reclamation. It also intended to raise unit yields in agriculture through traditional methods and inputs, such as closer planting, more careful weeding, and the use of more organic fertilisers. The government believed that collectivisation of agriculture would ensure these functions. Collectivised agriculture was the institution that the Government believed would perform these functions. Moreover, collectivisation was viewed as a convenient vehicle for effecting the procurement of grain and other agricultural products to carry out an industrial development strategy.97

The Agrarian System before the Transition

It is unlikely that China's leaders had worked out a blueprint when they set out to reform the economic system.98 The goal of the reform in late 1978 was to rectify the structural imbalance incentives.99 However, what set the reforms apart from previous attempts were the micro-management system reforms that made farmers and managers and workers in the state enterprises as partial residual claimants.

That small crack in the trinity of the traditional economic system was eventually pried open, leading to the gradual dismantle of the traditional system.

The independent family farm was the traditional farming institution in rural China for thousands of years prior to the founding of the People’s Republic. Experiments with various forms of cooperative began even before the adoption of the HIDOS. The official approach to collectivisation was initially cautious and gradual. Peasants were encouraged and induced to join the different forms of cooperatives. Collectivisation was surprisingly successful at the initial stage. It faced no active resistance from the peasantry and was carried out in a relatively smooth manner. People’s Commune was formed out of the collectives.

The people’s Commune, which consisted of about 30 collectives of 150 households, was forced upon farmers in the fall of 1958. From the end of August to the beginning of November, within only three months, 7,53,000 collective farms were transformed into 24,000 communes, which consisted of 120 million households, representing over 99 percent of total rural households in China in 1958. The average size of a commune was about 5,000 households with 10,000 labourers and 10,000 hectares of cultivated land. However, the communal movement ended with a profound agricultural crisis between 1959 and 1961. The gross value of agriculture measured at the constant prices of 1952 dropped 14 percent in 1959, 12.7 percent in 1960 and a further 2.4 percent in 1961. Grain output was drastically reduced by 15 percent in 1959, 16 percent in 1960 resulting in severe famine, which had taken a heavy death toll.

Many attempts to improve the commune system with division of agricultural system into ‘production teams’ within the Commune did not work. This system finally abolished in 1978, with the introduction of household system.

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100 Ibid., p. 64
101 Ibid.
The Micro-Management institution reforms

The most important change in the micro-management institution was the replacement of collective farming with a household-based system, now known as the household responsibility system. In the beginning, the government had not intended to change the farming institutions. Although it had been recognised in 1978 that solving managerial problems within the collective system was the key to improving farmers' incentives, the official position at that time was still that the collective was to remain the basic unit of agricultural production. Nevertheless, a small number of collectives, first secretly and latter with the blessing of local authorities, began to try out a system of leasing a collectives land and dividing the obligatory procurement quotas to individual households in the collective. A year later, those collectives brought out yields far larger than those of other teams did. The central authorities later conceded the existence of new form of farming, but required it to be restricted to poor agricultural regions, mainly to hilly or mountainous areas, and to poor collectives in which people had lost confidence in the collective system. However, this restriction was ignored in most regions. Production improved after a collective adopted the new system, regardless of its relative wealth or property.103

Full official recognition of the household responsibility system as a nationally acceptable farming institution was eventually given in late 1981, exactly after the initial price increases. By that time, 45 percent of the collectives in China had already been dismantled and had instituted the household responsibility system. By the end of 1983, 98 percent of agricultural collectives in China had adopted the

new system. When the household responsibility system first appeared, the land lease was only one to three years. However, the short lease reduced farmer's incentives for land-improvement investment. The lease contract was allowed to extend up to 15 years in 1984. In 1993, the government allowed the lease contract to be extended for another 30 years after the expiry of the first contract.

The reform of the micro-management system had achieved its intended goal of improving technical efficiency. Empirical estimates show that almost half of the 42.2 percent growth of output in the cropping sector during 1978-1984, was driven by productivity change brought about by the reforms. Furthermore, almost all of the productivity growth discussed was attributable to the changes resulting from the introduction of the household responsibility system. Therefore, the reform in the system of micro-management in agriculture had created a flow of new resources, an important feature of China's reforms.

The Reform Approaches: A Comparison

There had been much discussion as to why China's reforms had been more successful than the reforms in Eastern Europe and the former Soviet Union. Except for the desirability of gradualism, the studies emphasised China's industrial structure (China had a large agricultural sector) or China’s decentralised regional economic structure. If China's success was mainly the result of her unique initial

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conditions then that success does not have any implications for other economies, where the initial conditions may be different. Nevertheless, the economic problems in pre-reform China namely, the structural imbalance and the low incentives, were common to all socialist economies because they all adopted a similar economic development strategy and because they all had a similar macro-policy environment, planned allocation mechanism, and puppet like state enterprises.\textsuperscript{106} Empirical evidence shows that, as in pre-reform China, Eastern European and Soviet economies were over industrialised, with oversized state enterprises; their agrarian relations, the light industries and the service sectors were underdeveloped.

China’s experience in agricultural reform provides valuable lessons for Russia and other reforming countries. It is remarkable that China has been able to feed at a reasonably high level over one-fifth of the world’s population with only one-fifteenth of the world’s arable land. The collective farming system was so detrimental to work incentives that despite sharp improvements in technology and increases in modern inputs in the 1960s and 1970s, grain production in China barely up with population growth.\textsuperscript{107}

The individual household-based farming system reform with open to a market economy has a great success. But for comparison, it should be kept in mind the present general conditions of China, Russia and other transition countries. After 1991, Russia and China’s economic and political conditions are different. China’s reform has been occurring within the system i.e. within the Communist regime. So, the role of agriculture in both the economies would definitely vary. The most


important lesson for Russia and other transition countries the Chinese bottom up approach to the agrarian issue i.e. the gradual introduction of market and reforms.

Agrarian Transition in Vietnam

Over the course of the last twenty years, Vietnamese agriculture has shifted from a centrally planned economy to a market-led, state-regulated economy increasingly dominated by the logic of the law of value. The process is commonly described as constituting a ‘transition’ from ‘socialism’ to capitalism. As a consequence, Vietnam is often grouped alongside the ‘transitional economies’ of Central and Eastern Europe, the former Soviet Union, Mongolia, China and Laos. However, placing Vietnam in such a grouping is deeply problematic because it fails to accommodate the unique characteristics of specific transitions. But as far as agriculture is concerned, the market reforms and the restricting of farm sector provide some valuable hindsights.

Vietnam’s post-unification agrarian structure was built upon an extensive collectivisation campaign conducted in the north of Vietnam between 1958 and 1960 and in the south of Vietnam between 1976 and 1978. Collectivisation transformed colonial agriculture and its reliance upon ‘fragmented holding, small-petty commodity production and households increasingly compelled to sell wage labour in order to survive’. In the south, collectivisation was not confronting colonial agriculture, with its export oriented landlord class reproduced through


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tenancy and share-cropping relations...and ...a large rural proletariat. Rather collectivisation sought to transform a production system that had already been changed through two agrarian reformations earlier.

Agrarian structure in the 1990s

During the 1980s and 1990s, Vietnam has witnessed a transformation in rural property rights. Peasant families fostered decollectivisation from below. This decollectivisation set the stage for changes in the agrarian structure that demonstrated fundamental shifts in rural relations of production in Vietnam.

Data presented in Fforde and de Vylder, show that in 1991, there was a clear difference amongst net savers in the rural economy. Thus, the poorest group in the rural economy, constituting 65 percent of the rural population, was net dis-savers. The richest, 15 to 20 percent of the rural population were net savers. Fforde and de Vylder note that this 'suggests that over one-half of the rural population was likely to be loosing control over assets'. Clear evidence indicates that a stratification of land holdings is beginning to emerge. Of course, it must be stressed that farms in rural Vietnam are small, and for many farmers holdings of land are insufficient to meet the subsistence needs of the household. The average size of a farm in the Mekong Delta is 1.2 hectares, and even this was four times the average size of a farm in the Red River Delta.

Land stratification is proceeding more quickly in particular parts of Vietnam than in others. Many peasants with small land holding have sold their lands. This has led to the land concentration in few hands, thus creating another stage of

111 Ibid., p. 466
112 A. Fforde and Vylder, de S, op. cit. p. 189.
feudalism. Mechanisms underpinning land concentration in Rural Vietnam have been explored in a recent study in one province where the problem appears to be acute. There are seven important reasons identified why rural households had liquidated landholdings as given in below:

1. Formal credit: as some people who took out formal loans for the first time found that they were unable to meet their obligations and as a consequence, had been forced to sell their land.

2. Output failures, which resulted in the need to sell land to repay accumulated debts.

3. The operation of land markets, which, although not officially recognised, had made the sale or mortgaging of land considerably easier while at the same time, serving to exclude those who lacked land from earning enough money to purchase.

4. The increased prosperity of some, which had given them both the resources and the willingness to buy additional land in order to enhance their productive base.

5. Many farmers with a very small-holding of land had come to believe that the returns to productive activity in farming were less than engaging in wage labour.

6. There were more wage labouring opportunities, and although rural wages are low the relative return to rural waged labour has increased.

7. Salinisation and poor irrigation had, on occasion, led to low land values that had in turn encouraged sales by very small farmers.\textsuperscript{114}

It has been found that during the process of market reforms and decollectivization, the landlessness has been increasing in Vietnam. In 1993, some 8.2 percent of rural households did not have any land. By 1998, this figure increased to 10.1 percent. In 1998, some 9.8 percent of agricultural households sold land, but only 2.5 percent of agricultural households purchased land.\textsuperscript{115} This gives a clear indication that the small farmers are being eaten away by the big farmers. If adequate steps are not taken to meet this crisis, this would again establish feudalism in Vietnam, and this provides enough evidence to other transition countries to draw similar conclusions from this example.

While several years ago, the question whether the market was necessary and, whether it was compatible with socialism, was the subject of debate, today the majority of the population after disintegration of USSR have opted for the market, and the debate has finally shifted to the plane of practical actions. World experience and the practice of capitalist countries, but also Eastern Europe, China and Vietnam and other transition countries had been offering convincing evidence that there was no alternative to the market.\textsuperscript{116}

During the first phase of the transition, there was a general consensus among policy makers that some types of medium or large-scale enterprises should be maintained and that among them agricultural production cooperatives may have a role in future agricultural development.\textsuperscript{117} They should, therefore, not be abolished at all costs. It had also been stressed that the advantages of all types of agricultural cooperatives, especially for small producers, and suggested that the choice of the

\textsuperscript{115} Ibid., p. 24
\textsuperscript{117} Food and Agriculture Organisation, "Land Reforms (Informational Notes)", Workshop on the Reorientation of Cooperative Structure in Central and Eastern Europe; Hungary, 21-27 June 1992, p. 49.
most appropriate type should be left to the primary producers on the basis of criteria of social gain and economic efficiency.\textsuperscript{118}

From the above analysis of leading transition countries both in Europe and in Asia, the most important factor of market reforms seems to be rested on farm restructuring and reorganisation. From the experience of all the countries, it is evident that both large scale farming and peasant family farming would be successful, provided that the proper legal and market reforms ensures various support services. The collective farms of the old regime if reorganised according to the market conditions would become successful. Given the experience of East Germany and Hungary, collective (cooperative) farms with proper downsizing and effective management would work under market economic conditions with better efficiency.

The individual private farms, under state protection during the initial stage of transition, perform better than the cooperative farms. But after a certain stage, the difference withers away. For both the reorganised cooperatives and peasant farms of medium-size demand competition and free market with various supports, survive both from within and outside the structure. Government should take care in implementing various laws and legislation regarding land reforms and privatisation, for effective transformation of the former collective and state farms into various types of farmers cooperatives based on market principles.

Since there is no such reform model, which could be applicable to all the transition countries, each country should learn from the success and failure of the reform measures taken by others and their results. There exists no such substantial

\textsuperscript{118} Ibid., pp. 49-50
evidence regarding the superiority of one type of farm organisation in the transition economies on the other. So experimentation is the only means of finding solutions. Already a decade has been passed Russia is still in trouble regarding the land reforms and privatisation. The much-awaited Land Code has not yet been taken the final shape. Since land privatisation is crucial to market reforms, Russia has failed to create proper market institutions, which could gear up the desired reforms and private production because of a non-existent land market.

Within the specified limits of land reforms and other fundamental problems discussed in Russia, the former collective and state farms need reorientation and reorganisation for effective and efficient functioning in the market economic conditions. The peasant farms comprising of small group of individual farmers also demand new laws and guidelines for the emergence of new type small-scales cooperative sector.