

# China Agriculture Policy Review

*One in a series of policy notes on work of the OECD of interest to Canada*

## China: Key Player in Global Economy

Senior food and agriculture officials from China and OECD countries met in Paris for discussions on domestic and trade policy issues in June 2005. The meeting assessed the challenges facing the agriculture and agri-food sectors of China as an increasingly important player in the global trading system. Ongoing dialogue with China on agricultural policy issues and its future directions will foster a better understanding of global challenges and opportunities that lie ahead. This policy note provides a preview of key findings of the country review to be published soon.

## Fundamental Reforms, Phenomenal Results

China has carried out fundamental reforms of its economic policies since 1978, resulting in a gradual transition from a centrally planned economy towards a market-oriented economy.

Its economic performance during the reform period has been remarkable. Growth in real GDP averaged above 9% between 1990 and 2004 and has been accompanied by even more rapid growth in trade and investment.

A number of factors have contributed to this growth. These include the transfer of resources from state enterprises to private enterprises (higher productivity activities),

urbanization, in tandem with trade liberalization. Trade reforms have included:

- Shifting from a planned trade regime to one based on tariffs
- Limiting the role of state trading enterprises
- Significantly reducing import tariffs
- Removing quantitative import and export controls
- Extending rights to engage in foreign trade to a larger number of firms
- Reforming the foreign exchange system

China's accession to the World Trade Organization (WTO) in 2001 is an important landmark along its course of reforms over the last twenty five years.

## Appreciation of Yuan

China has recently revalued the Yuan and removed the currency's decade-long peg to the U.S dollar, introducing a more flexible exchange rate linked to a basket of floating world currencies. This major development will have positive effects in China and for Canadian producers too.

The appreciation of the Yuan makes Chinese exports less competitive in world markets. It also results in higher incomes in China as well as lower prices for imports. The extent of the impact on imports will vary, however, from product to product.

Over the medium term, other broad adjustments in trade are likely in other Asian import markets, as these countries realign their currencies with regard to the Yuan. The higher Yuan will spur increased demand for agri-food products in this region.

Canadian producers will benefit from the higher prices, but the benefit will vary by sector according to the change in prices.

### **Agriculture's Importance to China's Economy**

China's land area is vast. However, farmland (cultivated land) is only 130 million ha, accounting for only 13.5% of China's land surface. Cultivated land is mainly located in the east, while grasslands are concentrated in north and west China. With 10% of world's farmland, Chinese agriculture feeds 21% of world's population.

Currently, China has about 200 million farm households with an average land allocation of 0.65 ha. China has a comparative advantage in the production of labour-intensive crops such as fruits and vegetables and a disadvantage in the production of land-intensive crops such as grains and oilseeds.

China's per capita water endowment is only between one-third and one quarter of the world average. Agriculture is the main user of water accounting for over 70% of total use in China. The annual use of water in agriculture is about 40 billion m<sup>3</sup>. In order to assist agricultural production, water for agricultural use in China has been available at a low price.

### **Rapid Growth Profoundly Changed Agriculture**

In the 1990s, the principle objective of China's agricultural policy was to increase agricultural production, especially production of food grains. Under the policy reforms, China replaced its Commune system with family farms and ensured that almost all rural households have access to land.

Since 2000, improving farmers' incomes and narrowing the urban-rural income gaps have been top priorities for the Chinese government. This represents a fundamental shift in the government's agricultural policy agenda, while food security remains an important policy objective.

As a result of the policy reforms and developments, China's agricultural production rose sharply, rural industries absorbed a large part of farm labour, the incidence of poverty and the level and quality of food consumption improved significantly.

Reflecting changes in consumer demand, the composition of production in China continues to shift from crops to livestock production. While crops accounted for 65% of the total value of primary production in 1990, the share fell to 50% in 2003. During the same period, the share of livestock production increased from 26% to 32%.

Policy constraints, such as China's focus on self-efficiency in grain production and the ability to meet other challenges, like establishing traceability systems to improve food safety and quality standards will have a bearing on future trends.

China's economic performance has also been favorable for the development of agriculture through stimulating demand for agri-food products and further structural adjustments. China's food consumption has significantly increased, while its upstream and downstream sectors started to operate in line with market principles.

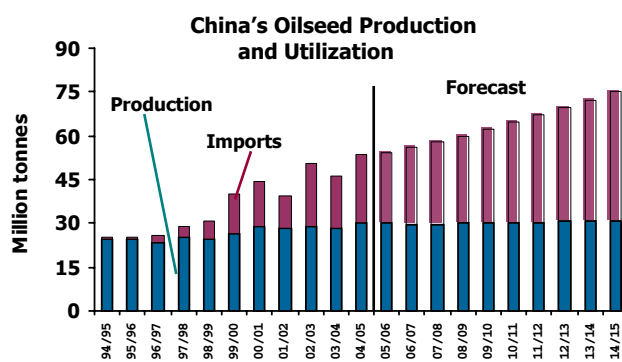
## Box 1 – Agricultural Imports Markets: China a Growing Market

The rising incomes of China's 1.3 billion consumers fuel strong demand for agricultural commodities, particularly oilseeds and wheat. Traditionally, China's self-sufficiency policy was regarded as the key to achieving food security. As a result of reforms of the grain and oilseed marketing system in the early 1990s, oilseeds and vegetable oils were generally removed from the national quota procurement and pricing regime. In the mid 1990s, China switched from being a net exporter to a net importer of soybeans, and the volume of soybean imports rose rapidly.

China has now developed into the world's largest importer of oilseeds, accounting for about 30% of global oilseeds trade. The OECD projects that China's oilseed imports more than double by 2014.

Recently, Chinese grain prices have increased, which indicates some signs of scarcity in domestic markets. Between February 2003 and February 2004, for example, wheat prices increase by 36%. If this trend ensues and China continues to draw down domestic stocks, China's trade position is expected to switch from net exporter (7 million tonnes in 2003/04) to net importer (34 million tonnes by 2014).

### Chinese demand in oilseeds and oilseed products has risen rapidly



Source: OECD

### China's TRQ Performance for Selected Products

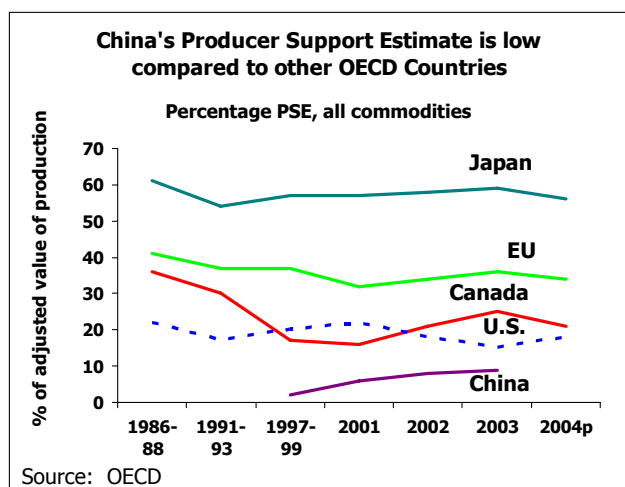
Quota Volume	2002	2003
Thousand tonnes (% fill)		
Soybeans	2,518(35)	2,818(67)
Palm oil	2,400(71)	2,600(90)
Rapeseed oil	878(7)	1,018(15)
Wheat	8,468(7)	9,052(5)
Corn	5,850(0)	6,525(0)
Rice	3,990(6)	4,655(6)

Source: OECD

Since the WTO accession, China's imports of agri-food products have increased from US\$12 billion in 2001 to US\$19 billion in 2003. Nevertheless, China's tariff-rate quotas (TRQ) have generally not been filled and in the case of cereals, the fill rates are very low.

## Balanced Support to Achieve Development Targets

China's rapid agricultural growth has been achieved with very low levels of support. Since 1997, China's level of support to producers fluctuated at low levels. The percentage Producer Support Estimate (PSE) rose recently to 9% in 2003, but is still well below the OECD average of 30%. Although China's Total Support Estimate (TSE) is relatively high at 3.5% of GDP in comparison to most OECD members, this measure reflects expenditure on general services, in particular investments in agricultural infrastructure.



Since the early 1990s, China accelerated the process of transition towards a market economy. To remain competitive in its domestic markets, the government has placed a strong emphasis on improving the efficiency of agricultural production.

The high share of general services is a positive feature of China's policy, as these kinds of services are less likely to influence producers' production decision than other forms of support. General services also have the advantage of enhancing the sector's productivity and ability to compete.

## Market and Policy Implications

China is emerging as an increasingly prosperous country. Rapid growth is expected to continue, with actual rates depending on global economic conditions. The Chinese economy is increasingly trade-oriented and open to foreign investment.

As China's domestic markets become increasingly integrated with world markets, agricultural policy developments will have a global impact. The sheer size of the Chinese market makes it extremely sensitive to changes in the trade regime induced by even small relative adjustments in domestic supply and demand.

Food security issues will remain important for China's large population and continue to significantly influence the development of Chinese agricultural policies. Of importance will be the provision of food safety agencies and agricultural price information and services which provide widespread benefits to producers and consumers throughout the economy. Also essential will be the collection and provision of reliable statistics to assess the results of reforms and formulate targeted policy responses.

### For a link to the report see:

OECD Review of Agricultural Policies — China <http://www.sourceoecd.org/agriculture/9264012605>

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