

Recent Changes in Grain Policy and Food Security in China

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ABSTRACT

In 1999, grain production in China shifted from a long period of continuous increase to one decline and fluctuation. The recent annual production (approximately 450 million tons) is considerably lower than the demand (480~490 million tons). In the last two months, food security has once more become a common topic. Sharp price increases have been observed over the last two weeks, contrasting with the consistent decreases recorded over the past 6 years. This new trend may have stemmed from two principal factors: reductions in the planting area of grain crops under structural adjustments, and natural disasters. In spite of the recent fluctuations in the grain market, most analysts do not expect any essential change in the present stability of supply and demand.

The Chinese Government has always paid great attention to food security in view of its importance for national security. With China's large population and limited agricultural resources (land and water), it would not be realistic to expect that full self-sufficiency could be achieved nor to rely too much on imports. We need to judiciously use the international market to ensure food security based on a certain measure of self-sufficiency.

The reform of the grain distribution system should be further promoted. In a follow-up to the reform of the grain distribution system in the main grain distribution areas in 2001, several major grain production provinces (cities and counties of Anhui, Jilin, Henan, and Hubei) launched reforms of their own grain distribution systems in 2002 and 2003. In addition to the implementation of the reform of state-owned grain enterprises, enhancement of grain distribution efficiency, and reduction of distribution costs, attempts have been made to transfer some of the subsidies related to the distribution issues to grain-planting farmers.

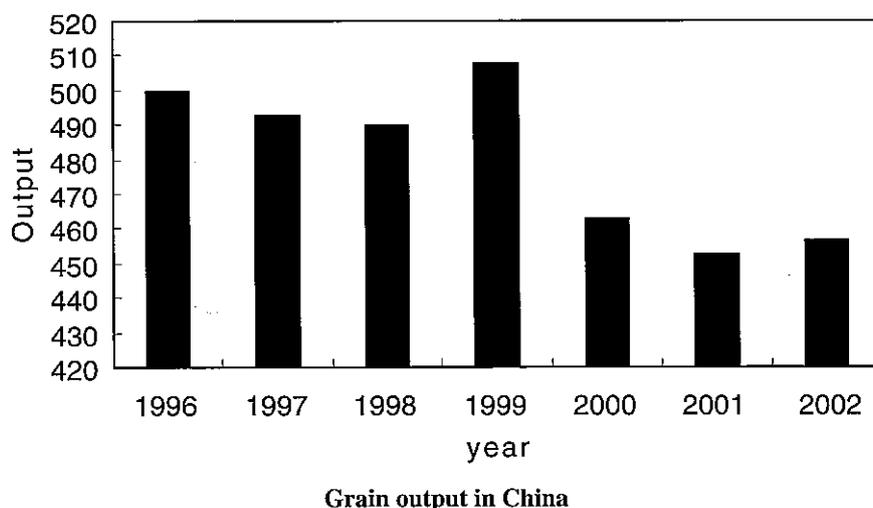
The government is implementing various support programs for the major grain-producing areas. Firstly, the programs are focused on the major grain production areas in central and western China, where low-income farmers are concentrated. Support is granted to grain-planting farmers through a combination of the grain distribution reform. Secondly, support is granted for safeguarding planting areas, increasing the number of varieties, and improving the quality in the major grain production areas to promote the establishment of industries related to a certain variety in the traditional grain production areas.

GRAIN SUPPLY AND DEMAND IN CHINA

Total grain supply

China's annual grain production was only 300 million tons in the early 1980s and was maintained at that level until the mid 1980s, when production reached 400 million tons. The grain output topped 500 million tons for the first time in Chinese history in 1996, but since 1998 China's gross grain output has been intermittently decreasing. The output fell to 46.21 million tons in 2000, and a further drop of about 15.03

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million tons is expected this year.

According to a nationwide sample survey of 136,437 rural households conducted by rural survey teams under the National Bureau of Statistics, as of March 31, 2003, farm households stored 235 kg of grains per capita in reserve, marking a decline of 52.3% from the 493 kg per capita held at the end of 2000. Among the grain reserves held by farm households, paddy, wheat, and corn account for 42.1%, 28.1% and 21.7%, respectively, while potato and bean crops account for 5.5%. Based on the results of this sample survey, rural households throughout the country stored 250 million tons of grains in total. In addition, the state reserve of grains reached about 260 million tons as the end of March 2002. With these abundant grain reserves, China's overall ability to meet the demand for grains will not be imperiled at any time in the near future.

After many years of steady growth, grain production in China has begun to fluctuate and even decline. Annual production in recent years (approximately 450 million tons) is considerably lower than the demand (480-490 million tons). As a result, the issue of food security has once again become a common topic of discussion over the past couple of months. Sharp increases in grain prices over the past two weeks have drawn great attention in the country, as these increases constitute a sharp contrast to the consistent price drops for grains recorded for the past 6 years. Some analysts attribute this new trend to two main factors: natural disasters, and a reduction of the total planting area of grain crops through agricultural restructuring. On the other hand, most agree that the present supply and demand for grains will probably remain stable, even though the market prices may continue fluctuating.

Total grain consumption

The growth of grain consumption exceeded that of production in the three years between 2000 and 2002.

Comparison of grain price fluctuation in fair trade markets

unit: yuan/100 jin

Grain Crops	October 2002	October 2003	Change (%)
early indica rice	49.16	51.25	4.25%
middle indica rice	50.81	52.15	2.63%
late indica rice	54.55	55.40	1.55%
round-grained non-glutinous rice	60.03	61.12	1.81%
wheat	52.00	53.41	2.72%
corn	44.53	50.81	14.10%
beans	125.00	144.52	15.62%

Last year's grain production went up marginally over the previous year, but it was still lower than the level of consumption. The output has dropped again this year, as a growing number of farmers have switched their production from grain farming to cash crops such as fruits and fresh vegetables. The annual average gap between grain output and consumption stayed in a range between 2.5 million tons to 3.5 million tons during the period of 2000-2002, and consumption is now projected to grow by 1% to about 489 million tons this year. The gap between production and demand is expected to exceed 40 million tons this year, but the national grain reserves will be more than sufficient to cover the shortfall. Therefore, the grain reduction this year will not affect the general balance between grain supply and demand.

Next year will be a decisive year. Currently, the grain reserves held by grain and feed processing enterprises and urban residents have dropped to low levels. If grain outputs continue to drop or stay at the 2003 level in 2004, the surplus grain reserve accumulated over the past several years will be consumed and the total national reserve will be lower than that in normal years.

Fluctuation of grain prices

According to the information provided by the Ministry of Agriculture's price information network, an organ that monitors grain prices in more than 160 fair trade markets, the grain price in October 2003 rose above the level set during the same period in the previous year. Between October 2002 and October 2003, corn and bean prices increased sharply, while rice prices went up substantially.

From mid-October, however, the price surge began providing Chinese farmers brighter prospects for improvement after what had been years of sluggish growth in farm incomes. The purchase prices of wheat, corn and paddy rice recently soared by up to 120 yuan (US\$14.50) per ton, driving up the prices of salad oil, meat products, and other grain-related products in major cities. This rise in grain prices, the first since 1997, appears to be good news for farmers, especially those who live in under-developed areas and rely on grain farming for a living. For several years of consistently low purchase prices for grains, these farmers could not reap profits after deducting their expenditures on seeds, pesticides, fertilizers, taxes and other fees from their revenues from grain sales. The reduction of corn production this year has indeed affected the market price. The price of corn for October 2003 increased by 14.1% over that of October the previous year. Though grain prices have fluctuated, they are now continuing on an upward trend and are expected to do so until the spring grain crops and early rice crops hit the market next year.

RECENT FOOD SECURITY AND GRAIN POLICY IN CHINA

Self sufficiency vs. complete dependence

The Chinese government has always paid great attention to food security, treating it as one of the most important issues for national security. China has a large population and very limited agricultural resources such as land and water. It would be unrealistic to expect full self-sufficiency or a complete dependence on imports. China must ensure its food security through a sensible combination of self-sufficiency and dependence, relying both on its own farmers and the international grain market.

Reform of the grain distribution system

The grain distribution system is still in need of further reform. A reform of the grain distribution system was launched in major grain distribution areas in China 2001. In the two years since, a number of major grain production provinces, including several cities and the counties of Anhui, Jilin, Henan and Hubei, have introduced similar reforms of their own. In parallel to the reform of the state-owned grain enterprises through enhancements in the grain distribution efficiency and reductions in distribution costs, attempts have been made at the central level to distribute some of the subsidies directly to grain farmers. The Chinese

Government might increase these subsidies to farmers in spite of potential obstacles. In keeping with the WTO rules and fulfilling the needs of the country, the government will need to provide massive assistance to Chinese farmers by reducing or eliminating the existing agricultural taxes and fees. The government has repeatedly emphasized rural economic reforms, including reforms on rural taxation, grain purchases and sales, and subsidies to farmers, the rural financial system, and rural medical and health services. Farm subsidization is one of the new policy proposals recently tabled. The government has made tremendous efforts to support agriculture and farmers in the past. Among other measures, the new rural economic reform will replace the state monopoly controlling grain purchases with a system that provides direct subsidies to grain farmers individually. Although the detailed plans for this reform remain to be finalized, the trend is inevitable. Chinese farm income has grown very slowly since 1997. For rural residents as a whole, the per capita income grew by only 3.8% annually between 1997 and 2002. The per capita income of urban residents, in contrast, rose by more than 7% per year during the same period. The per capita income of Chinese farmers last year was about US\$300, far below the US\$930 earned on average by the residents of China's cities.

Government support

The government is implementing various support programs for major grain-producing areas. Most of these programs are carried out in major grain production areas in central and western China, where low-income farmers are concentrated. The government supports these grain farmers through reforms of the grain distribution system by directly subsidizing the farmers instead of pumping money into the state distribution system. Support also comes in the form of money and resources to safeguard grain planting areas, increase grain varieties, improve the quality of grains, and promote the establishment of industries in traditional grain production areas specialized in producing certain varieties of grains.