China’s Food Policy Transition: Retrospect and Prospect

Longbao WEI
China Academy for Rural Development, Zhejiang University
(National Research Base for Humanities & Social Sciences)

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Outline

I. Past: Development history and evolution characteristics of China’s food policy

II. Present: Prominent problems and present reform

III. Future: Stimulation, tendency and business opportunities
What did we do in the past?
<table>
<thead>
<tr>
<th>Time</th>
<th>Food policy</th>
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<tbody>
<tr>
<td>1978-1984</td>
<td>• Deregulation of the Unified Purchase and Sale System on grain</td>
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<td></td>
<td>• Transition from a centrally planned economy toward a market based economy</td>
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<td>1985-1992</td>
<td>• Canceling the Unified Purchase and Sale System on grain</td>
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<td></td>
<td>• Order and purchase grains by contracts</td>
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<td></td>
<td>• Government’s grain procurement coexisted with market circulation</td>
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<td></td>
<td>• Protective Price</td>
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<td>1993-2003</td>
<td>• Market-oriented operation mechanism under macro control</td>
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<td></td>
<td>• Reform of grain circulation system(1994)</td>
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<td></td>
<td>• System of provincial governor’s assuming responsibility for production(1995)</td>
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<td>From 2004</td>
<td>• Prices determined by supply and demand</td>
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<td>• Direct subsidies</td>
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Evolution characteristics of China’s grain market

• The development process was driven mainly by government and grain production were closely relevant with reform progress.
• Grain market experienced the alteration from shortage to equilibrium of supply and demand and the price formation evolved from government-oriented price to market-oriented price.
• Grain production per capita experienced the evolution of “insufficiency, basic survival, well-off life” process.
A simple analytical framework of China’s Food Policy

- Traditional food policy
- Food policy in reform period
- Future food policy

Industrialization development
International environment
Economic structure
• Grain economy is a subsystem of the national economy. Economic structure, industrialization development and international environment are the boundaries of the choices of food policy.

• Policy is the result of interaction and reciprocity of different interest groups in pursuit of their own interests.

• The nature of fluctuations is redistribution of interest groups which is dominated by the central government.
What are we doing now?
CURRENT STATUS
Food Total Output in China

Data source: FAO
However, In 2015, after achieving grain production continually increasing for 12 years, China have to face some hidden problems in the grain area, such as the grain supply had been being in a structural tight balance, the grain prices continually running high and the yield sustaining underpowered.
The prominent problem is that grain production, imports and stocks increased at the same time.

Data source: World Bank
Why?

Increase of domestic price

Increase of farmers’ income

Increase of grain production

Increase of stocks

Increase of stocks

Stimulating the imports

Restraining demand of domestic grain

Low international price

Difficult situation of sales of stocks
China’s Supply side reforms of agriculture

Core issues:

• To improve the overall efficiency of agriculture
• To boost the international competitiveness of agricultural products
Three aspects of the field of agriculture of supply side reforms

- One is to form new agricultural business entities which is adapt to the requirements of the market economy and vibrant.
The second is through structural adjustment to achieve cost reduction and short board in agricultural fields and reform to form high efficiency of new agricultural enterprises and new agricultural social service system.
The third is to form food industry with international competitiveness, straighten out the grain price mechanism, design and price of grain subsidy policy, and establish new food security view.
What shall we do in the future?
## New challenges

<table>
<thead>
<tr>
<th>Supply side</th>
<th>Demand side</th>
<th>International side</th>
</tr>
</thead>
<tbody>
<tr>
<td>• rising cost of labor</td>
<td>• Increase of per capita meat consumption</td>
<td>• Fluctuation of supply and demand in the international market</td>
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<tr>
<td>• Limited water and land resources and increasing pressure of</td>
<td>• Increase of feed grain demand</td>
<td>• Prices of the international market will affect the stability of the domestic</td>
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<tr>
<td>environment</td>
<td></td>
<td>market</td>
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<tr>
<td>• Slow pace of agricultural technological progress</td>
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<td>• Higher Domestic price than the international price</td>
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</tbody>
</table>
New favorable factors

- The growth rate of Chinese population has slowed down and aggregate demand for rice and wheat are decreasing.
- Financial incomes of government and foreign exchange reserves have been greatly improved, which enhanced our ability to import.
- The environment for China's international political and trade negotiations has improved significantly.
- ......
Simulation and prediction in the long run

The change of supply and demand in China in 2020 (Huang J. et al., 2012)

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Relative parameters</th>
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<tbody>
<tr>
<td>Benchmark scenario</td>
<td>assume that China’s annual growth rate of GDP was 8%, the average annual growth rate of population was 0.5%</td>
</tr>
<tr>
<td>High economic growth rate scenario</td>
<td>assume that the domestic economic growth rate increased by 10% which is 8.8%, other assumptions are consistent with the benchmark scheme</td>
</tr>
<tr>
<td>High technology development rate scenario</td>
<td>assume that the rate of technological progress increased by 10%, other assumptions and benchmark consistent scheme.</td>
</tr>
<tr>
<td>Scenario</td>
<td>Results</td>
</tr>
<tr>
<td>----------------------------------------------</td>
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<tr>
<td>Benchmark scenario</td>
<td>China's grain demand growth will higher than the increase in supply, food self-sufficiency rate will decline, the self-sufficiency rate of China's grain is 87% in 2020</td>
</tr>
<tr>
<td>High economic growth rate scenario</td>
<td>due to the further increase in grain demand, China's grain self-sufficiency rate will decline further</td>
</tr>
<tr>
<td>High technology development rate scenario</td>
<td>due to technology advancement, China's grain will be higher than the benchmark scenario, domestic food self-sufficiency rate will increase significantly</td>
</tr>
</tbody>
</table>
The tendency of food policy in China

- Keeping certain food self-sufficient rate and appropriately relying on the international market to regulate will be the best strategy for China.
The tendency of food policy in China

- Domestic side

- Two transformations:
  - from the “grain security” to “food security” (Jan. 2015)
  - from the "food security" to "food safety"

- The supply side reform
The tendency of food policy in China

- International side
  - participate in global and regional food safety governance mechanism construction (FAO, G20, APEC, AIIB and the Belt and Road Initiative)
  - promote technology transfer to improve grain productivity
  - help the development of agriculture in other developing countries to ease the contradiction between supply and demand in the international market
The business opportunities for the whole world

- the grain supply: a structural tight balance
- a net importer for a long period
- Chinese agricultural enterprises are involved into various risks, due to lack of natural resources, increasing costs and trade barriers
- oversea investment strategy called “Going Abroad”
- Agricultural Foreign Direct Investment
Benefits of FDI for host countries

- Increase of employment
- Improve the market access ability of agricultural products
- Generate demand for local products and services
- Agricultural technological progress
- Infrastructure improvements
- Generate new business opportunities in the local market
- Inspire innovation
THANK YOU!

GLOBALIZATION  •  INNOVATION  •  ENTREPRENEURSHIP  •  RESPONSIBILITY