

Rising Food Prices and Government Responses in China

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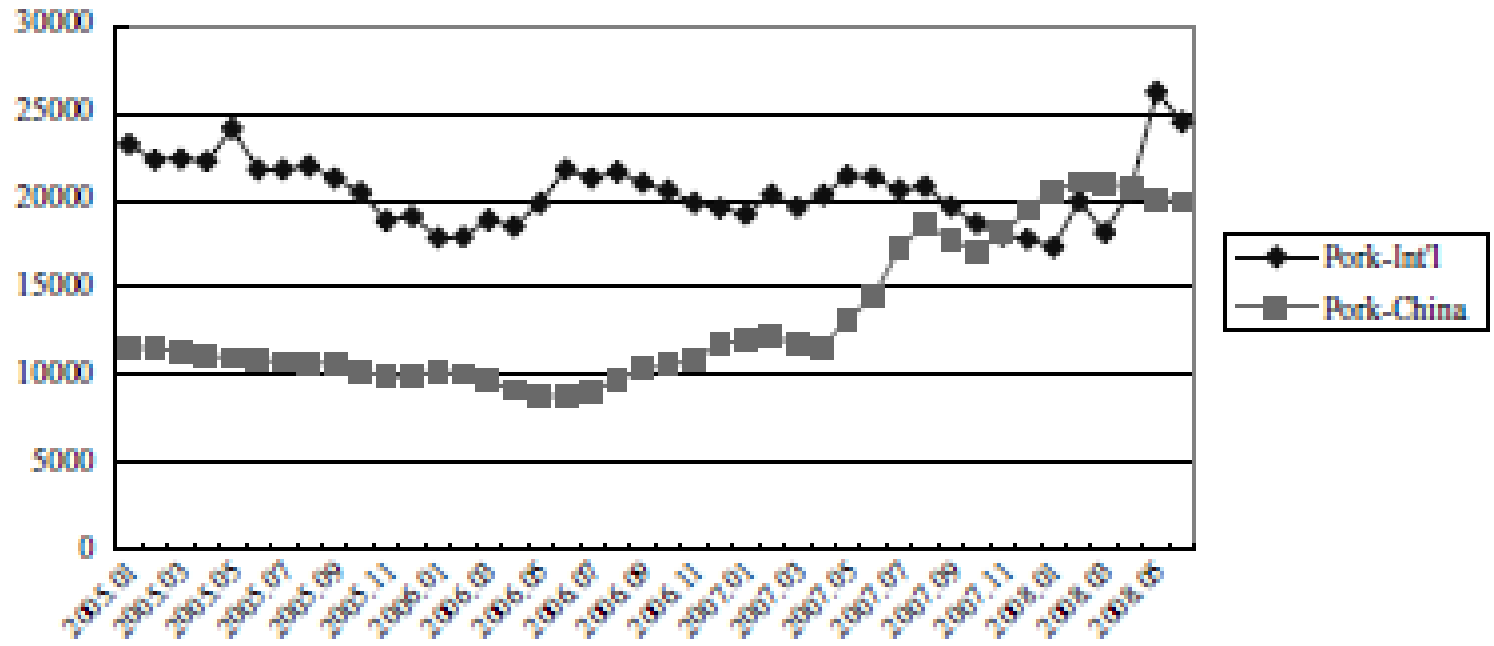
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Outline

- Have China's domestic food prices followed the same patterns of the international prices?
- How to explain the observed patterns?
- Major government responses.
- Future challenges.

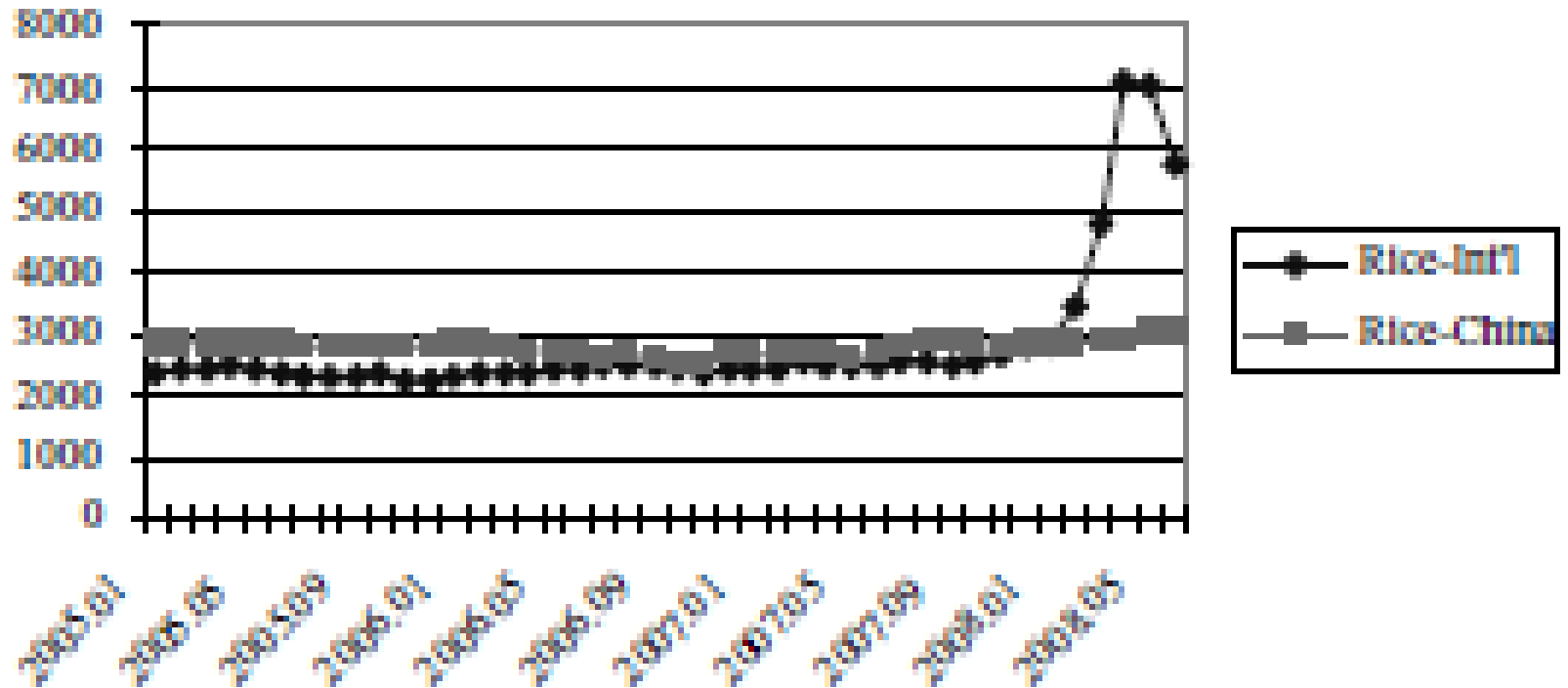
Pork Price



The rise in pork price doesn't seem to be correlated to international price!

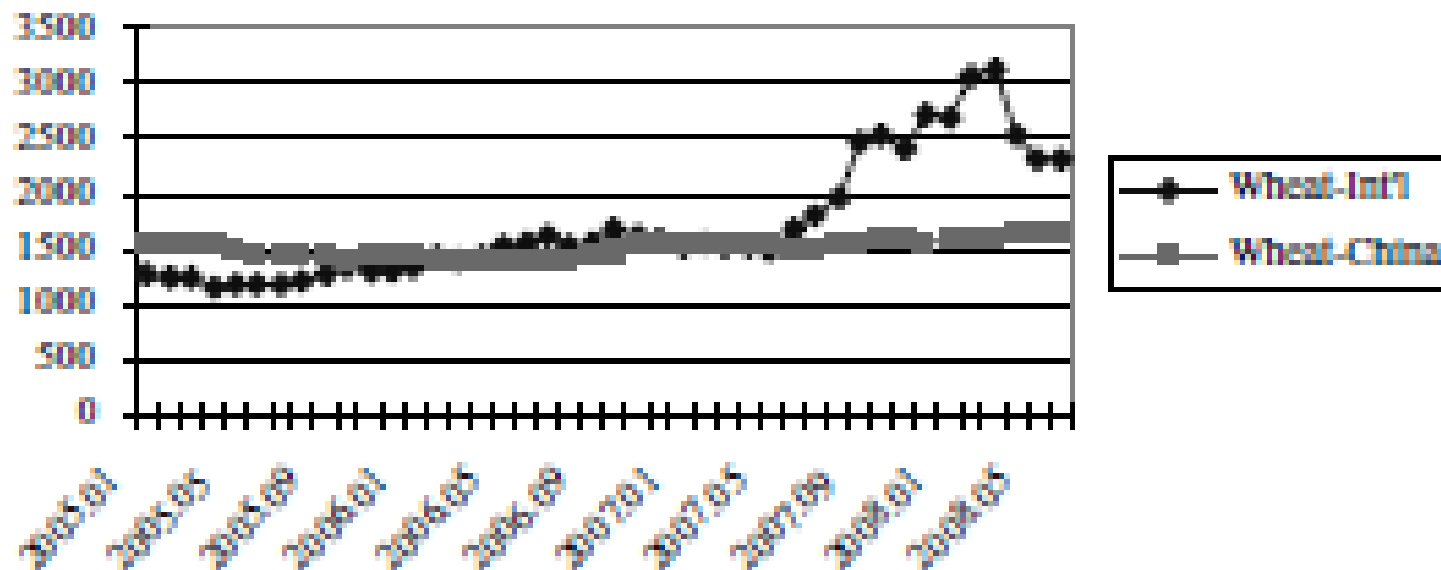
Source: Yang et al. (2009)

Rice Price



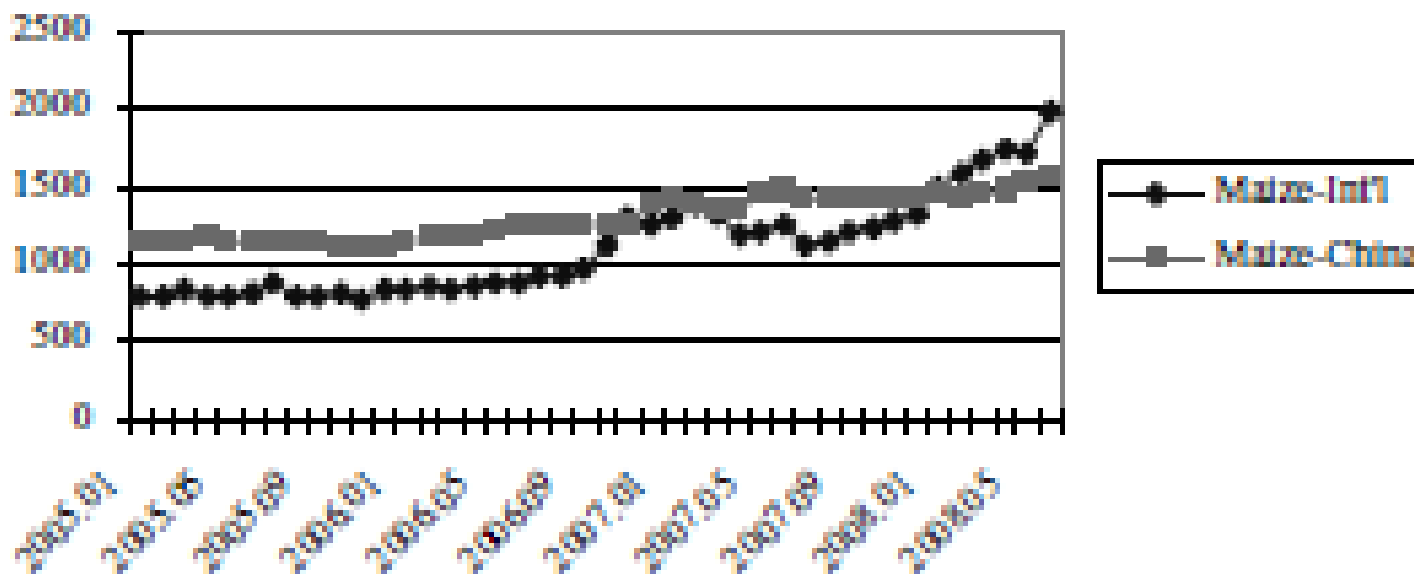
Source: Yang et al. (2009)

Wheat Price



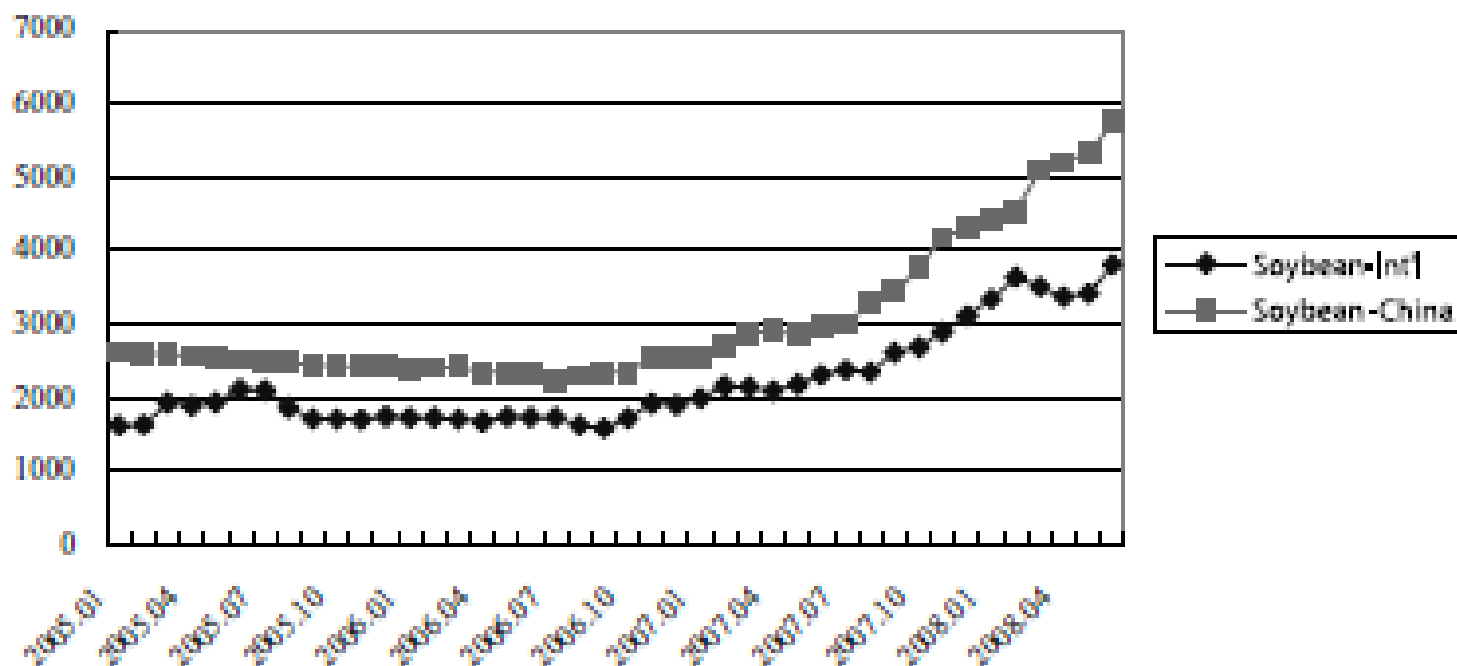
Source: Yang et al. (2009)

Maize Price



Source: Yang et al. (2009)

Soybean Price



Strong co-movement between the domestic and international price!

Source: Yang et al. (2009)

Why Different Patterns?

- The “grain self-sufficient policy” places a heavier weight on staple crops (rice and wheat) than soybean and feed grain.
 - The legacy of the Great Famine: strong belief that at the time of crisis it is hard to import a large amount of food grains.
 - Maintain stocks of staple grains.
 - The degree of trade barriers differs by crops.
 - Therefore, the available instruments are different across crops too.

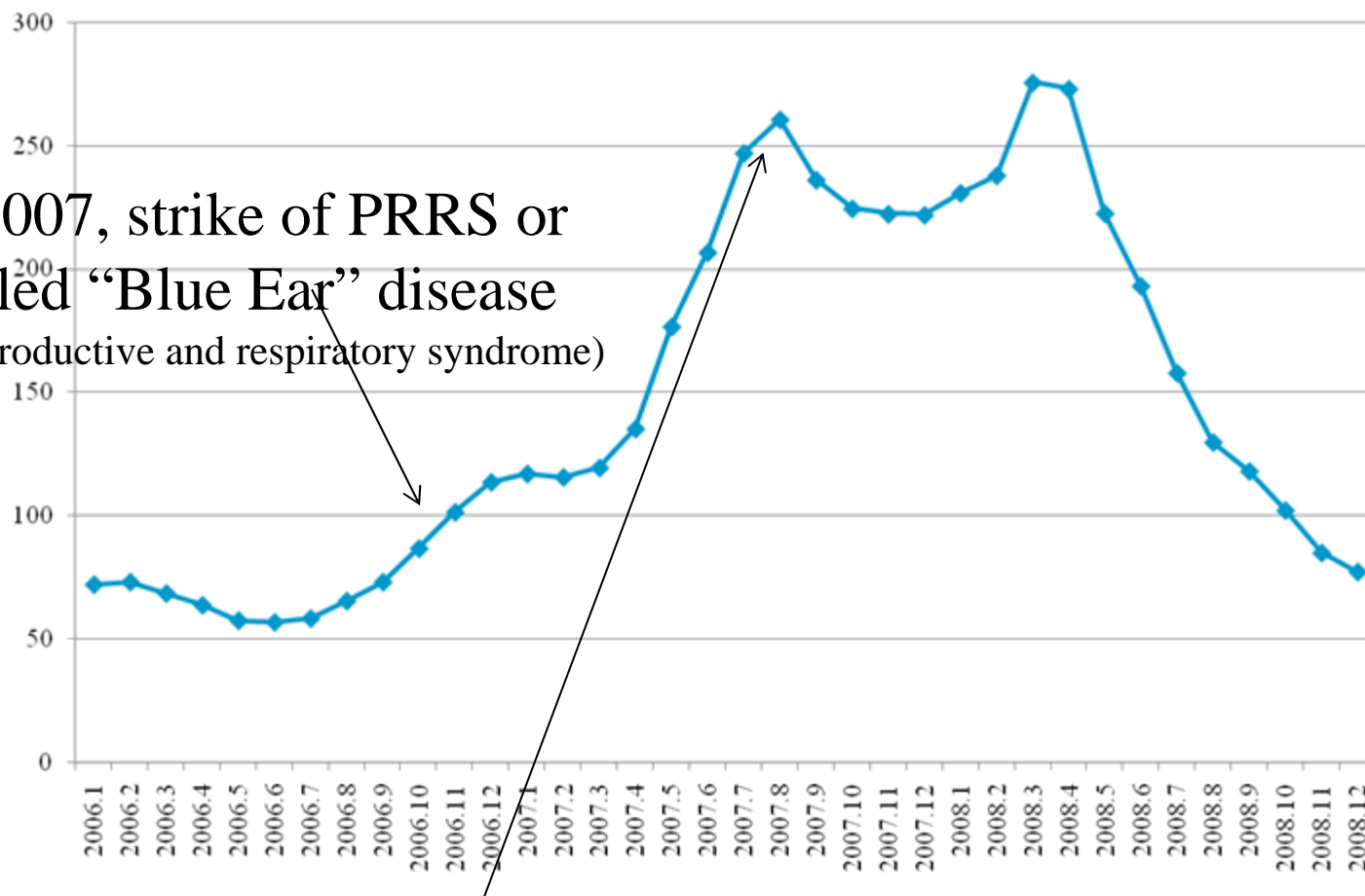
Official Documents Related to Rising Food Prices

| 时间 | 部门 | 文件 |
|--------------|-----|------------------------------------|
| 2006. 2. 27 | 发改委 | 关于公布2006年稻谷和小麦最低收购价格的通知 |
| 2006. 5. 16 | 发改委 | 关于印发2006年小麦最低收购价执行预案的通知 |
| 2006. 7. 13 | 发改委 | 关于印发2006年早籼稻最低收购价执行预案和做好早籼稻收购工作的通知 |
| 2006. 9. 2 | 发改委 | 关于印发2006年中晚稻最低收购价格执行预案的通知 |
| 2007. 12. 20 | 国务院 | 国务院办公厅关于进一步扶持生猪生产稳定市场供应的通知 |
| 2007. 3. 23 | 发改委 | 国家发展改革委关于做好当前化肥、农用柴油生产供应有关工作的通知 |
| 2007. 5. 25 | 发改委 | 关于印发2007年小麦最低收购价执行预案的通知 |
| 2007. 6. 4 | 发改委 | 国家发展改革委、国家烟草专卖局关于2007年烟叶收购价格政策的通知 |
| 2007. 7. 16 | 发改委 | 关于印发2007年早籼稻最低收购价执行预案的通知 |
| 2007. 7. 30 | 国务院 | 国务院关于促进生猪生产发展稳定市场供应的意见 |
| 2007. 8. 13 | 国务院 | 国务院关于切实落实政策保证市场供应维护副食品价格稳定的紧急通知 |
| 2007. 8. 20 | 发改委 | 关于当前的价格形势——国家发改委记者问 |
| 2007. 9. 2 | 发改委 | 关于切实做好今年中秋、国庆期间市场供应和价格稳定工作的通知 |
| 2007. 9. 22 | 国务院 | 国务院办公厅关于促进油料生产发展的意见 |
| 2007. 9. 29 | 发改委 | 2008年粮食、棉花进口关税配额数量、申请条件和分配原则 |
| 2007. 9. 7 | 发改委 | 国家发展改革委介绍猪肉等副食品价格的答记者问 |
| 2008. 1. 25 | 国务院 | 国务院办公厅关于进一步加强鲜活农产品运输和销售工作的通知 |
| 2008. 10. 19 | 发改委 | 关于提高2009年小麦最低收购价格的通知 |
| 2008. 12. 18 | 国务院 | 国务院关于实施成品油价格和税费改革的通知 |
| 2008. 2. 28 | 发改委 | 关于做好今年春耕化肥生产供应工作的通知 |
| 2008. 2. 8 | 发改委 | 关于公布2008年稻谷和小麦最低收购价格的通知 |
| 2008. 4. 15 | 发改委 | 国家发展改革委关于加强氯化钾及复混肥价格监管的通知 |
| 2008. 5. 19 | 发改委 | 关于印发2008年小麦最低收购价执行预案的通知 |
| 2008. 5. 30 | 国务院 | 国务院办公厅关于做好当前煤电油气运和农资供应保障工作的通知 |
| 2008. 6. 16 | 发改委 | 国家发展改革委 财政部关于清理整顿涉农价格和收费的通知 |
| 2008. 7. 9 | 发改委 | 关于印发2008年早籼稻最低收购价执行预案的通知 |
| 2008. 8. 11 | 发改委 | 2008年农产品进口关税配额再分配公告 |
| 2008. 9. 26 | 发改委 | 2009年粮食、棉花进口关税配额数量、申请条件和分配原则 |

None is about soybean.

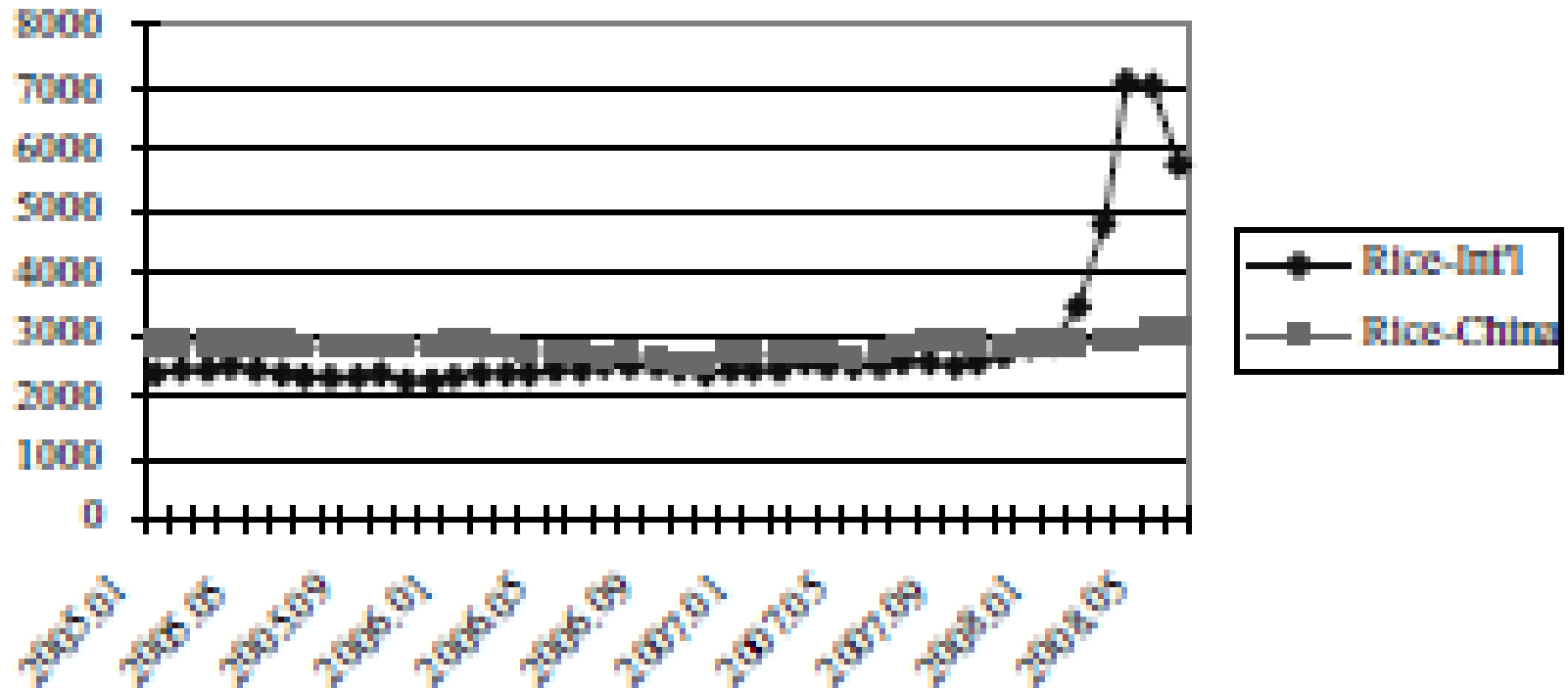
Pork Price Index

2006-2007, strike of PRRS or
so called “Blue Ear” disease
(Porcine reproductive and respiratory syndrome)



On July 30, 2007, the State Council issued an official document:
subsidies and insurance to pork producers; subsidies to low income consumers and college students; more investment on animal health

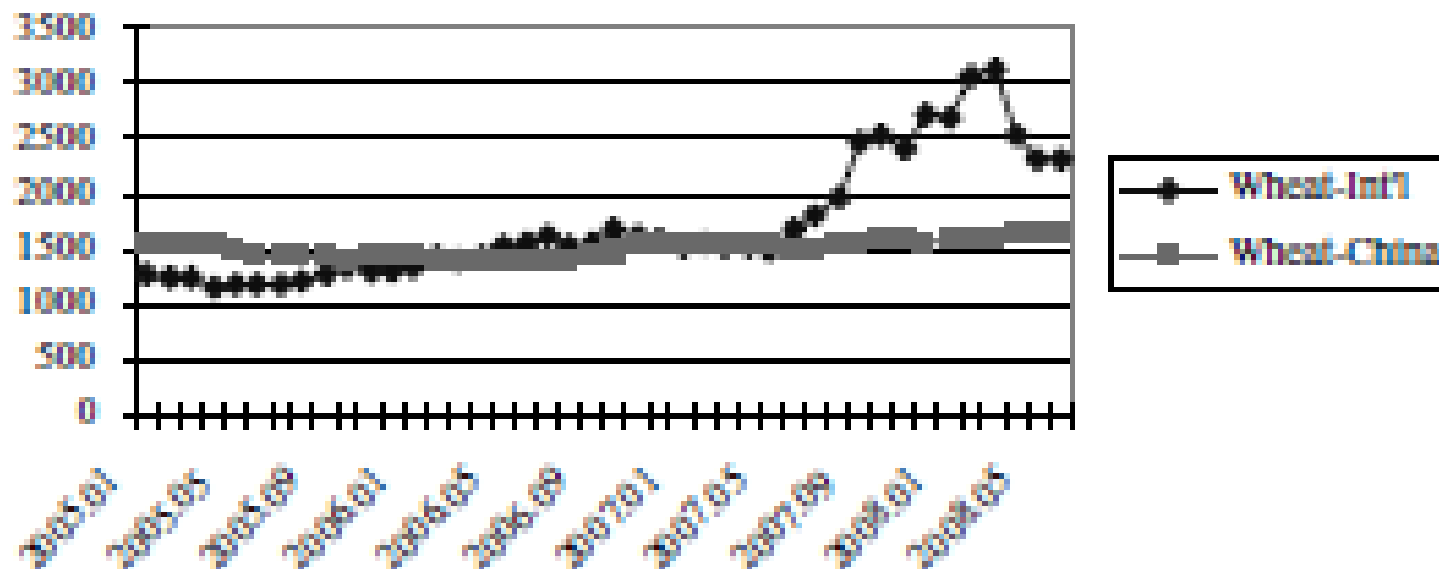
Rice Price



July 2006, announced minimal guarantee procurement price.
 From the late 2007 to early 2008, released state stocks of rice.
 July 2008, increased minimal guarantee procurement price.
 Late 2008, banned rice export.

Source: Yang et al. (2009)

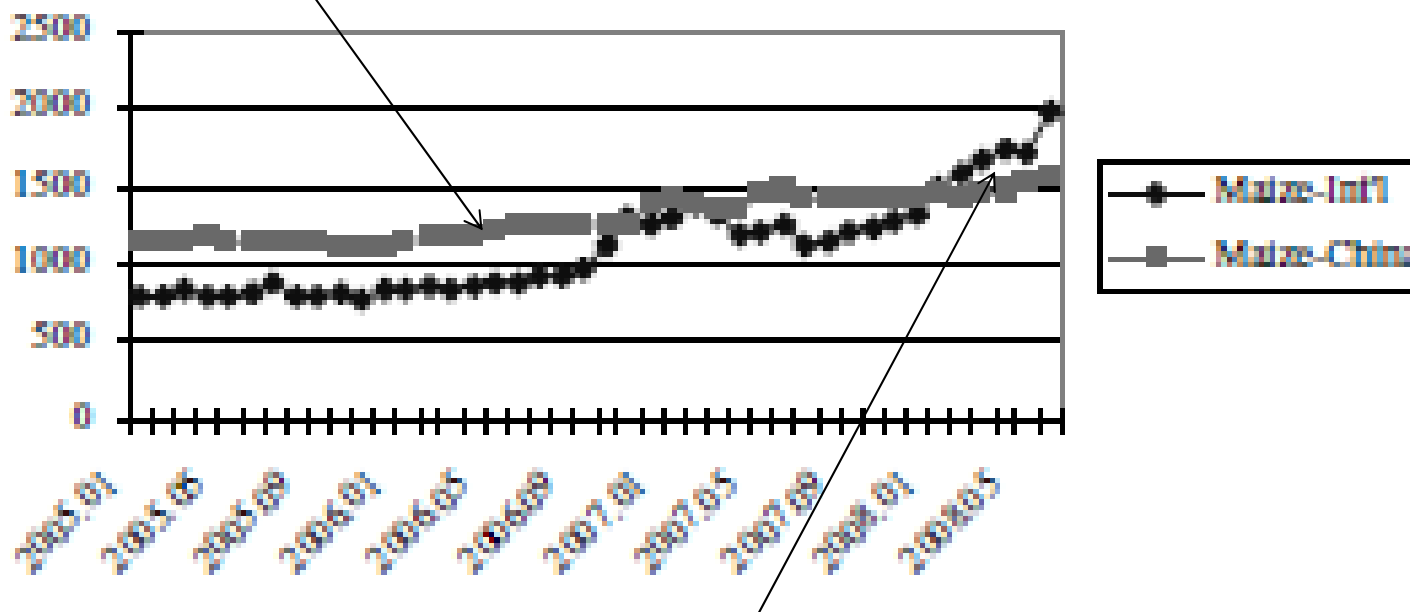
Wheat Price



From the late 2007 to early 2008, released state stocks of wheat.
 October 2008, increased minimal guarantee procurement price.
 Late 2008, banned wheat export.

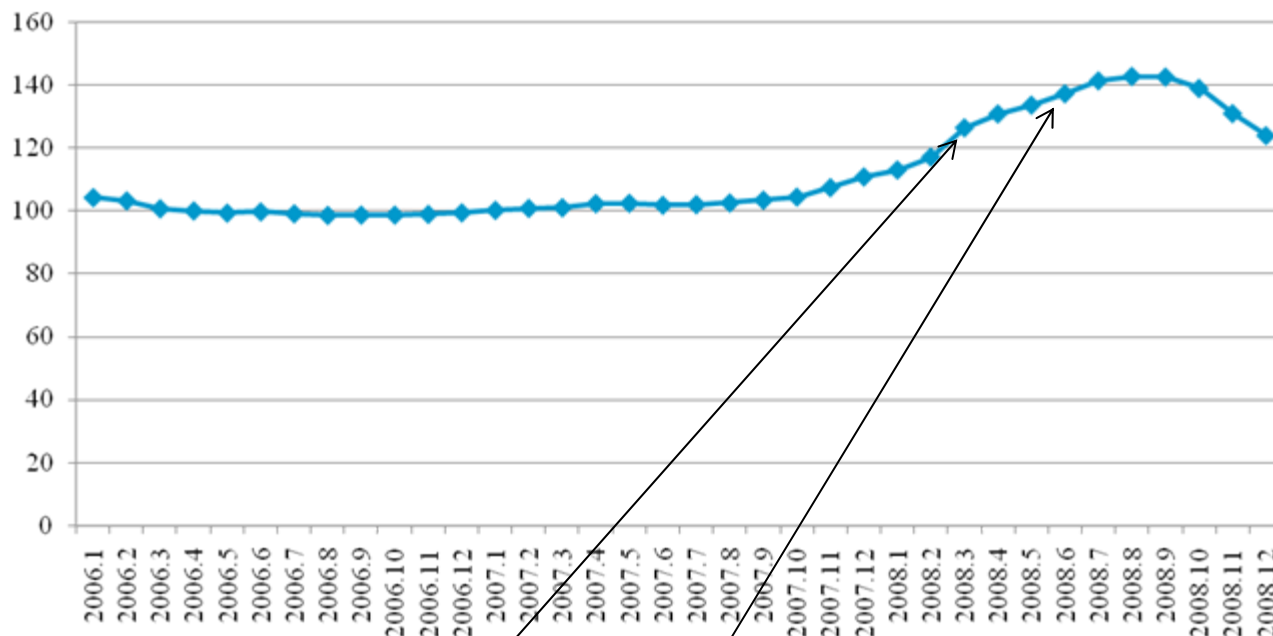
Maize Price

VAT rebates to maize exporters



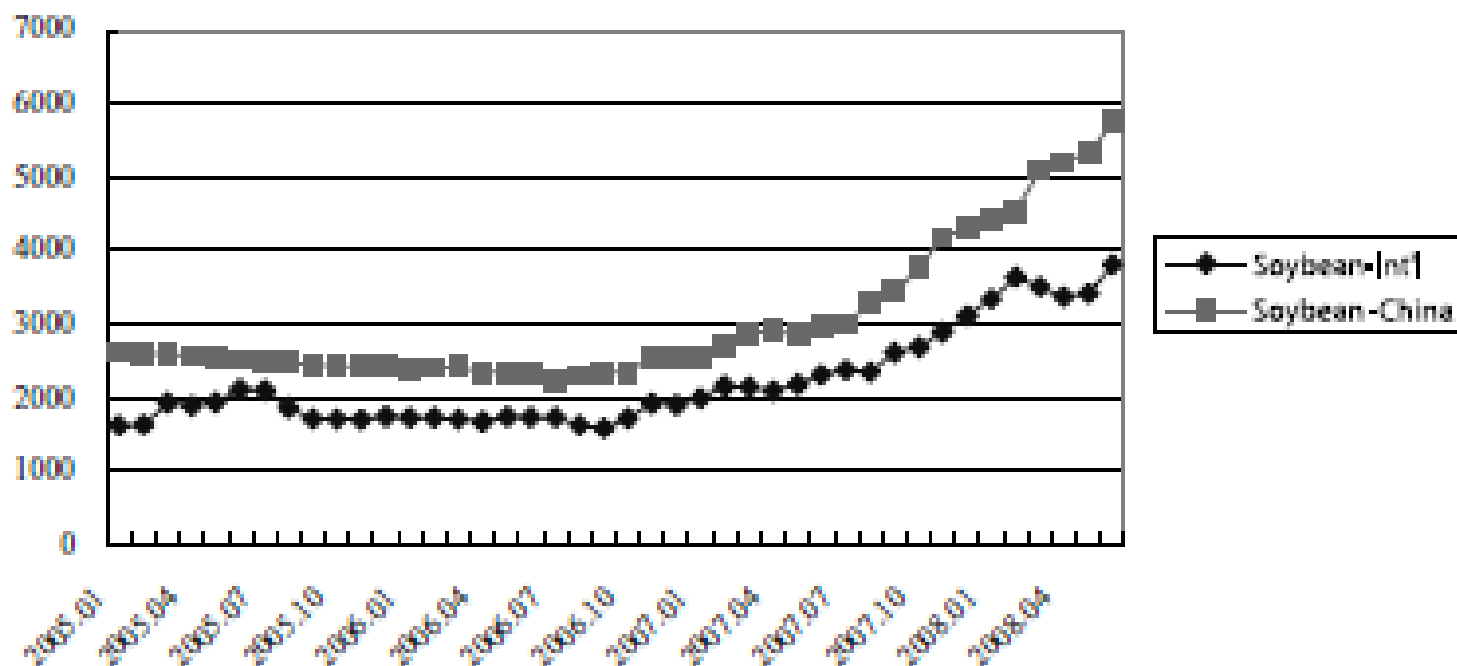
Late 2007-2008, released stocks of maize to the market
 In the early 2008, cancelled VAT rebate to maize exporters;
 In September 2008, imposed quota of maize export;
 In the late 2008, banned all food export.

Fertilizer Price Index



On February 15, 2008, levy 15% export taxes on fertilizer;
 April, 2008: triple the export taxes to 45%;
 May, 2008: 100% levy on all fertilizer products.

Soybean Price



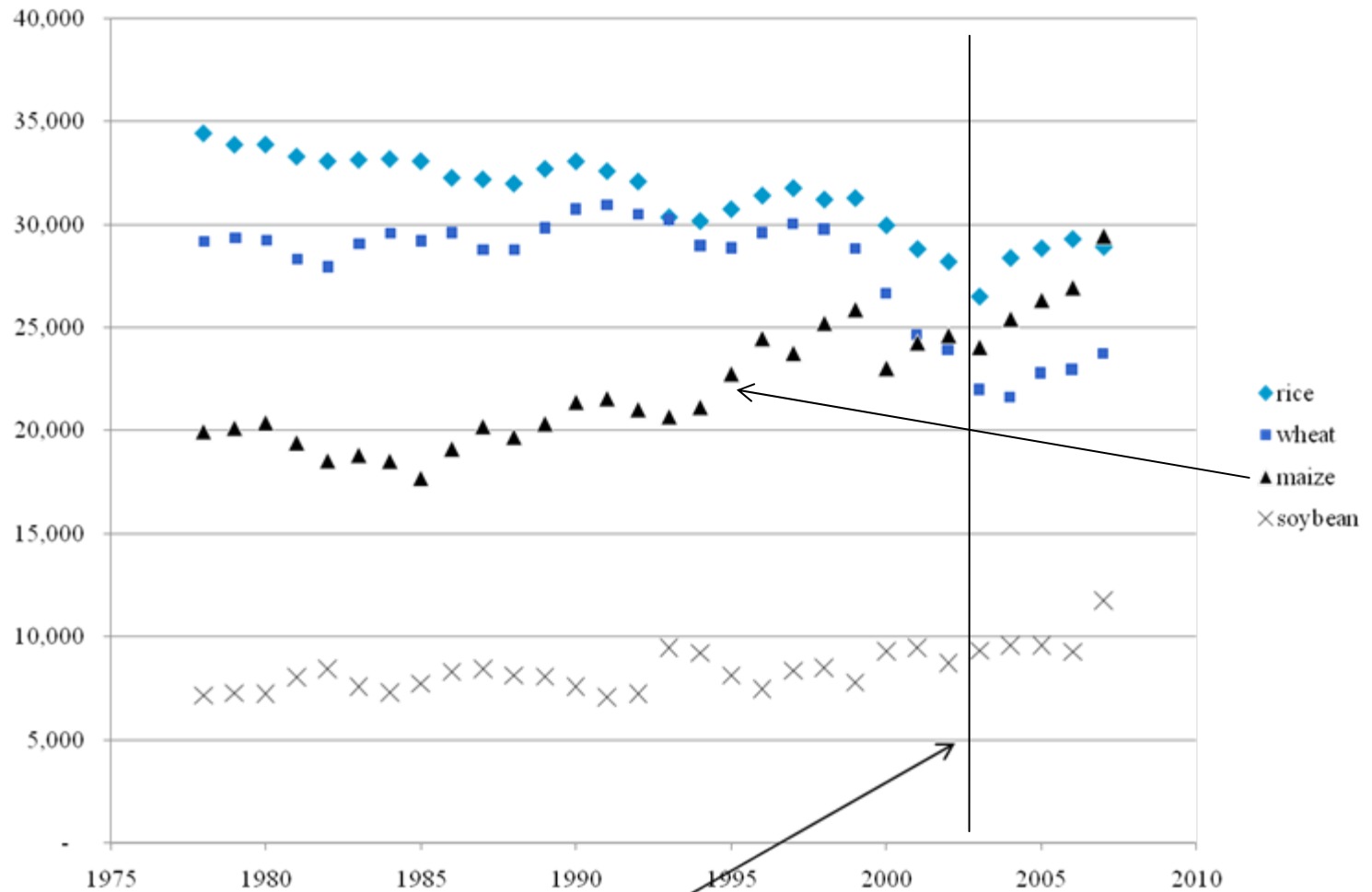
China has an open door policy for soybean. Strong co-movement between the domestic and international price!

Source: Yang et al. (2009)

Biofuels Policy

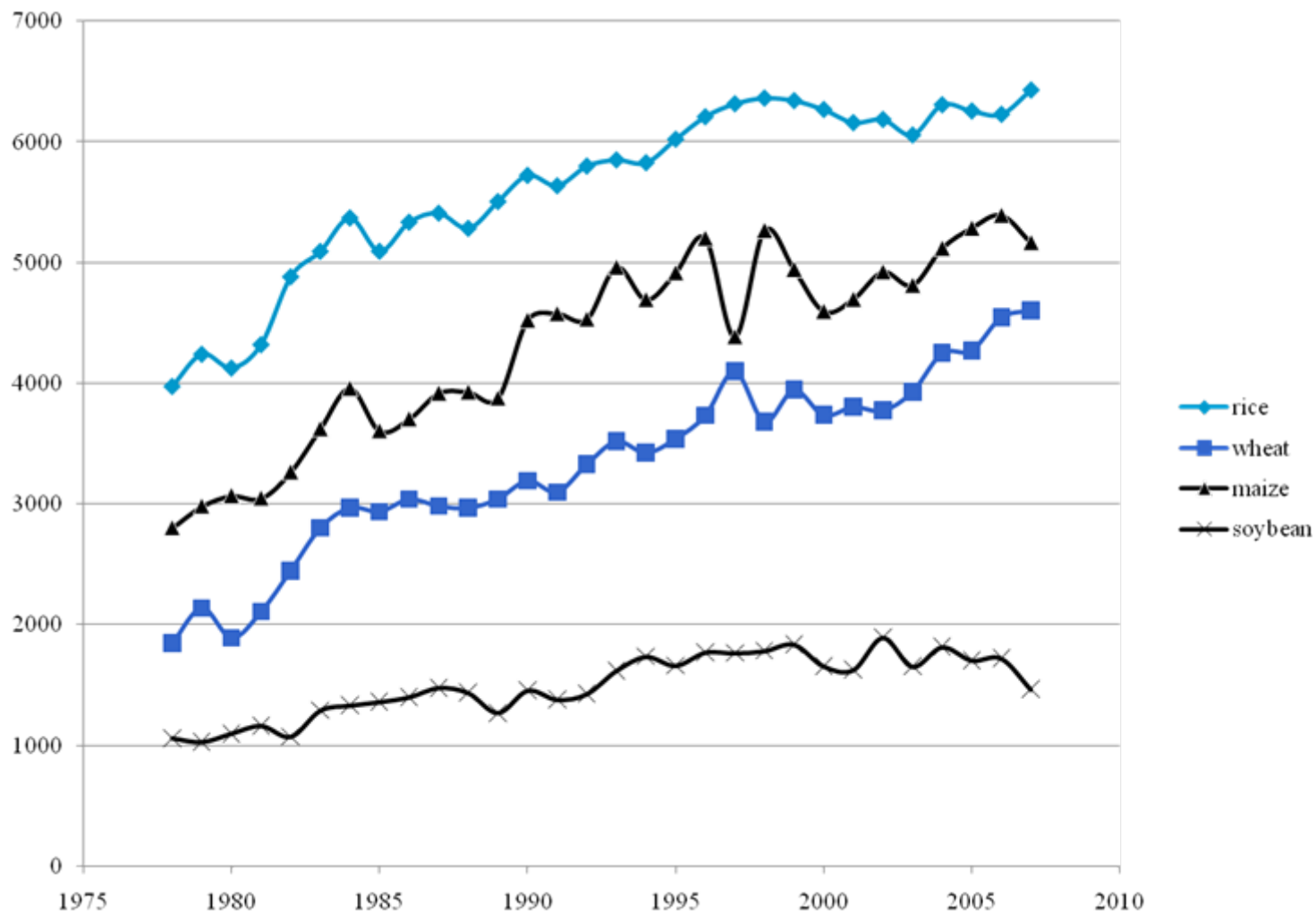
- In 2005, China embarked an ambitious “Middle-and Long-term Development Plan for Renewable Energy” with a target of ethanol output of 10 million tons by 2020!
 - In nine provinces, mandatory of misting of 10% bio ethanol in gasoline;
 - 1,370 yuan/ton subsidy to biofuels plants
- But the plan was never really off the ground due to the high food price.
- New guideline: “not compete with grain over land” and “not compete consumers for food.”

Acreages of Four Major Crops

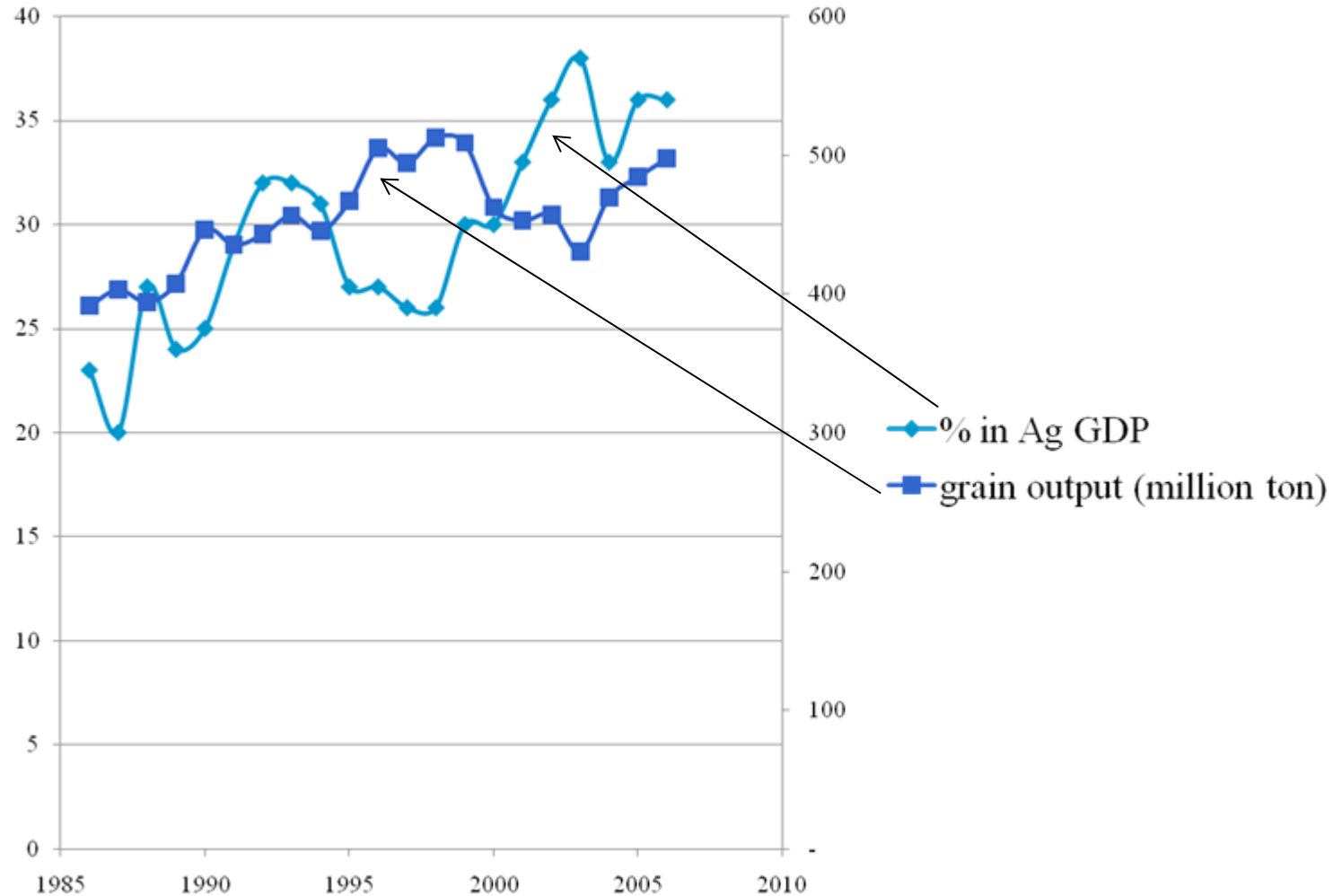


Year to start subsidies to grain producers

Yield of Major Crops (Kg/Hectare)



Ag R&D Investment and Grain Output



New Initiatives on Ag. R &D

- In the past two years, the government has dramatically increased investment in agricultural R&D. However, the official numbers are not available yet.
- For example, recently the government announced to establish 50 modern agricultural technology research centers with about one billion investment.

In Summary

- The government has acted swiftly and applied a variety of instruments to maintain domestic market price stable, including releasing grain stocks, subsidizing producers, and tightening export control.
- However, with the continuing decline in arable land and increase in wage rate, it may be more difficult for governments to control the acreage of grain production and cope with food price crisis in the future.