

**C**hina's economy will grow steadily in the next 2 years. It is estimated that in 2002, the general consumption of grains will be 488.2 million tons, and in 2003, 494.4 million tons. The price in 2002 will pick up slightly. The output of grains will be restored in 2002, or no later than 2003. The increase of import and export of agricultural products will be faster. Import will conspicuously exceed export. The trade surplus of agricultural products will shrink further. In the following years, adjustment will be the main feature of the agricultural production and marketing and governmental policies.

### Macroeconomic Situation and Outlook

In 2001, China's GDP was RMB 9.5933 trillion (US\$1.15 trillion), which meant a growth rate of 7.3 percent, a bit lower than in 2000. The expected growth rate in 2002 is around 7 percent. The total trade volume was over US\$500 billion in 2001. The trade surplus dropped further, to US\$22.5 billion from US\$24.1 billion in 2000. With stable economic growth, China's foreign exchange reserves reached a new high of US\$212.2 billion. It is expected that in 2002, export and import will grow at the rates of 7 percent and 12 percent, respectively. The current account balance will drop by US\$3.3 billion. The annual CPI in 2001 was 0.8 percent. This figure will be replaced by 0.6 percent in 2002, and followed by 1.2 percent in 2003. In 2002, the FDI will grow steadily due to the 10.4 percent increase in 2001. Expansionary fiscal policy will carry on. The exchange rate of RMB will remain stable.

In 2002, with the macroeconomy maintaining good momentum, the demand for grains and food will increase. With the opening of the food market, sales and purchases will be active, thus lifting food prices. Development in the west; the restoration of forests, meadows, and lakes; and adjustment of the planting structure will reduce the output of grains and stimulate consumption.

### Food Prices and Consumption

In 2001, 482 million tons of food was consumed. If export and wastage are included, the total volume of consumption reaches 500 million tons, versus the year's supply of 470 million tons (yearly output plus import, exclusive of storage). The effective storage was 193 million tons, which could well cover the shortage of 40 million tons. The general picture of supply that exceeded demand was retained. After covering the shortage of 2000 and 2001, the effective storage is 150 million tons. General food prices picked up slightly in 2001 compared to 2000.

It is estimated that, in 2002, the general consumption of grains will be 488.2 million tons and, in 2003, 494.4 million tons. The price in 2002 is expected to pick up slightly. The storage should be used to cover the supply shortage. The central government will supply the storage with 50 million tons. However, the old storage has not been

disposed. Once the government sells the old storage, the rising price trend will be suppressed. Besides, because of the WTO import quotas, China's food market will be challenged. The generally slack picture of the international market will influence the domestic market.

### Food Processing and Marketing

China will make reasonable use of WTO rules. On the one hand, the government will provide more support to agriculture, especially the development of industries and products with competitive edges. The processing trade enterprises will be encouraged to participate in international competition. More attention will be paid to agricultural products with a competitive edge. Good agricultural products will be produced collectively by setting up a series of belts for famous-brand agricultural products. Quality control will be enhanced with various measures.

The leading trade and processing enterprises will be strengthened in terms of investment, taxation, and credit. New approaches will be taken, such as "enterprises plus farmer households," "contract farming" to combine the farmers and production bases into big company groups so that value-added agriculture will be promoted. Restrictions on the export of agriculture will be removed.

### Agricultural Production and Trade

In 2001, the grain output was 452.6 million tons, down 9.56 million tons, or 2.1 percent, over the previous year. The drop in output is mainly due to the following factors: the area of grain planted in 2001 was 106 million hectares, down by 2.1 percent to 2.30 million hectares, which is equivalent to 10 million tons of output. The drought was a bit more serious. The unit area yield was hence on a par with that of the previous year, but lower than that of normal years.

However, there are some underlying reasons. First, according to the cycles of output drop over the past 52 years, output drop occurs every 3 to 5 years. Along the cycles, output will be restored by 2002, or no later than 2003. The innate element for grain output reduction is the low marginal profits of food production. Between 1996 and 2000, food prices were in decline, which generated a net profit per mu after tax of 49.6 yuan and accounted for 22.6 percent of the 219.2 yuan in 1995.

In 2002, the area for planting grain crops increased by 0.3 percent over 2001. The proportion of wheat and rice will drop by 0.1 percent, and soybeans will drop by 0.4 percent, while maize will rise by 0.4 percent.

As a result of the shortage of rainfall in most areas, drought of various degrees in the north from winter 2001 to spring 2002, and possible insect pest problems due to the higher average temperature during the same period, the summer crop yield is not expected to increase significantly. Neither is the autumn yield, because the increased maize output in 2001 has lowered prices, and the export is

facing considerable pressure. The output of grains in 2002 will be equal to or a bit higher than that of 2001.

The general trade volume of agricultural products in 2001 was US\$27.9 billion, up 3.5 percent over the previous year. The export volume was US\$16.07 billion, up 3.5 percent, while the import volume registered an increase of 5.2 percent, with US\$11.83 billion. The total trade volume of agricultural products accounts for 5.47 percent of the national total trade volume, down 0.19 percent. The trade surplus of agricultural trade was US\$4.24 billion, down 3.9 percent compared to the same period in the previous year, and accounting for 18.8 percent of the national trade surplus. The export of cotton, sugar, and grains declined while the export of vegetables, livestock products, and aquatic products gained momentum.

Two factors will influence China's trade of agricultural products. First, the international economic environment contains a lot of uncertainties. China's export markets such as Korea, Hong Kong, and Malaysia, which depend to a great degree on the United States, will influence exports. Japan, the largest importer of Chinese agricultural products, still faces challenges in its economic recovery. The slow-down of the world economy will restrict China's expansion of exports.

Second, from January 1, 2002, China will implement its obligation to reduce tariffs. Along with opening agricultural product markets, a relatively fast increase in imports is unavoidable, especially soybeans, maize, wheat, rice, cotton, and quality fruits. At the same time, China will have more opportunities to export agricultural products.

Consequently, increases in the import and export of agricultural products will be faster. Imports will conspicuously exceed exports, and the trade surplus of agricultural products will further shrink.

### Food and Agricultural Policy

The government is determined to change its roles after entering WTO. Governmental procedures in relation to agriculture will be more transparent than before.

On July 25, 2001, the Ministry of Agriculture released the "Tenth Five-year Plan of Agriculture," an agricultural action plan from 2001 to 2005. It aims to carry out the strategic readjustment of agriculture, transform the mode of agricultural growth, hasten the use of science and technology to achieve sustainable agriculture, and increase farmers' incomes substantially.

After entering WTO, the import of some products will be accelerated, which will have direct impacts on agricultural production and the employment of farmers. The impacts mainly derive from import quotas. Food prices will increase, and rising farmers' incomes will be affected directly. A set of measures are anticipated to mitigate the situation.

The Ministry of Agriculture is readjusting its policies as China is faced with the difficulty of food selling, shifting rural labor forces, and increasing farmer's incomes while recognizing advantages. It is suggested that the overall arrangement of agricultural industries be optimized, paying special attention to food bases such as the wheat belt in eastern China, cotton belt in Xinjiang, and soybean belt in the

northeast and Mongolia to fulfill various agricultural plans in planting, farming, gardening, etc.; give full play to products and industries with a competitive edge; enhance the radiation effect of leading agricultural enterprises so as to develop "contract farming" and foster good combinations between enterprises and farmer households; and increase investment in agriculture, directing special attention to small and medium-scale infrastructure.

China will open its market of agricultural products. China is the world's biggest producer of grains, cotton, oil, meat, eggs, aquatic products, fruits, and vegetables. Among others, garden products, livestock, and aquatic products are the pillars of exports. With the nondiscrimination trade treatment of WTO, the export environment for agricultural products will be improved while the export market is expanded. At the same time, China will be able to participate in the new round of negotiations and has decision-making powers in stipulating new rules.

### Food Safety

#### FOOD SAFETY FOR THE COUNTRY

There are several factors affecting China's food safety. The increase in population and decrease in tillable fields present the first factor of food shortage. Since 1957, the farm area has been reduced by 20 million hectares. With the faster pace of urbanization, the decrease of farmlands will continue. It is critical to curb the population increase and subsequent farmland decrease in the coming 30 years, when China will be facing a crucial period of food safety.

Furthermore, the practice of clearing vegetation for land in many areas has caused serious problems, such as soil erosion, floods, and reduced water reserve capacity. Third, water shortage and pollution constitute another serious threat. The former restricts the output while the latter affects the quality of farm products.

Fourth, the institutional elements co-exist with the old planning adjustments exerting too much influence, and market measures are far from satisfactory.

Farmers' income and employment are the core challenges in the new era. The increase in farmers' income is very slow. In 2001, farmers' income began to recover due to the increase of non-farming incomes. After entering WTO, agricultural products will face increasing competition for sales. More rural laborers will be laid off, and farmers' incomes will experience direct repercussions.

#### MEASURES FOR FOOD SAFETY

1. National income distribution should be restructured to favor agriculture and farmers. As China has entered WTO, the government is restrained from lifting food prices to stimulate food production. The state will take more "green box" policies to back up food production. The state should make more investments in improving agricultural infrastructure, upgrading science and technology, sharpening its competitive edge, and increasing the aggregate productive capacity of key food supply areas.
2. The state should promote sustainable use of water. Both long- and

mid-term plans should be drawn up to develop and use water in a rational way. Measures should be completed so that water use is properly charged. A system where the state takes general charge of water and distribution should be established. The present irrigation system utilizes only 40 percent of the watering volume. Water-saving equipment and technologies should be promoted and extended at a faster pace.

3. The area of farmland must be strictly protected. While adjusting the structure of industry, the state should pay special attention to protecting land resources. Even in the period of reducing food output, the capacity of food production should be reserved. In case of any unsafe incidence, food plantation can be restored.
4. In developed economies, the development of science and technology accounts for 70 percent of agricultural growth contribution, while in China, the figure remains around 40 percent. With a limited (if not reduced) amount of farmland, the way to increase food output is to improve unit yield. Revolutionary progress can be made in upgrading seeds with the decoding of genes.
5. Both national and international early warning systems should be established to cover both food shortages and surpluses, as both will affect the links of supply and demand, production, and consumption.

### Food Safety for Consumers

In recent years, foodstuff accidents have occurred at an increasing rate. According to data from the Ministry of Public Health, 1998 saw 55 accidents of food poisoning, which affected 5,836 persons with 88 deaths. In 2000, the number of poisoning accidents tripled to 150, affecting 6273 persons, 135 of whom died. The main problems with foodstuffs safety are in production and processing. In production, the remaining pesticides exceed standards to serious degrees. In processing, the abuse of (illegal) additives is the most common. One of the worst cases is the production of poisoned rice.

Legislation should be accelerated to set up laws and standards related to food safety. Ecologically sound agriculture should be advocated while the borders should be well protected from unqualified foods. Monitoring and law enforcement should be strengthened. Consumers should be alerted and educated to enable self-protection. The administrative patterns of developed economies should be followed so as to improve the legal and standards systems. Among the initiatives by government departments in recent years is the “non-public-harm movement” launched by the Ministry of Agriculture, which aspires to ensure the safety of foodstuffs “from field to table.”

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