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CHINA: A Preliminary Assessment of the
1985 Wheat Crop and Farm Policy

CHINE: Évaluation préliminaire de la récolte de blé
de 1985 et de la politique agricole

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CHINA: A Preliminary Assessment of the 1985 Wheat Crop and
Farm Policy

Summary

1. Chinese wheat imports from Canada, Australia and the USA, its main suppliers, are likely to decline in 1985 for the third year in a row. Near record wheat production and domestic purchasing levels as well as large carryover stocks in 1985 will probably depress demand for foreign wheat to below the 1978 and 1979 average level of 8 million metric tons (mmt). The demand for foreign wheat is not likely to improve in 1986 unless domestic production and purchases fall significantly. New internal grain taxation and purchasing regulations introduced this year have reduced incentives for grain growers and could lead to a decline in fall sown wheat acreages and a reduction in China's 1986 crop. However, we do not consider that the reduction is likely to be great enough to increase imports significantly. Canada's three year grain trade agreement with China expired on 1 August 1985 and China has so far shown no inclination to renew it. (CONFIDENTIAL)

(Version français au verso)

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CHINE: Évaluation préliminaire de la récolte de blé de 1985
et de la politique agricole

Resumé

1. Pour la troisième année d'affilée, les importations chinoises de blé canadien, australien et américain (principaux pays fournisseurs) diminuera probablement en 1985. La production et les achats intérieurs ayant presque atteint des niveaux accords et des stocks étant toujours disponibles des années passées, la demande de blé étranger diminuera probablement sous le niveau moyen de 1978 et 1979, soit 8 millions de tonnes métriques (mtm). Elle ne devrait pas augmenter en 1986, à moins d'un fléchissement sensible de la production et des achats intérieurs. L'adoption cette année d'un nouveau régime de taxation du blé domestique et de nouveaux règlements d'achat pourrait avoir un effet négatif sur les producteurs et entraîner une diminution des surfaces ensemencées à l'automne, ce qui se traduirait par une réduction des récoltes en 1986, mais on ne s'attend pas que celle-ci soit assez importante pour augmenter sensiblement les importations. L'accord triennal que le Canada a conclu avec la Chine en matière d'achat de blé a expiré le 1^{er} août 1985 et la Chine n'a pas encore manifesté son intention de le renouveler.

(CONFIDENTIEL)

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2. Chinese projections for the 1985 wheat harvest points to a near record level. The state statistical bureau has reported that the output of summer grain, over 90 per cent of which is wheat, is estimated to be 87.5 mmt, only slightly less than last year. Final summer grain production in 1984 appears to have exceeded 90 million metric tons since the official final estimate for 1984 wheat production is 87.6 mmt, an all-time high. China had three record summer grain and wheat crops in a row beginning in 1982, making it the world's top wheat producer followed by the USSR and the USA (the USSR's 1985 crop may top China's). A possible six per cent fall-off in output this year appears to be the result of some reduction in sown acreage, winter kill and stress during a dry spring growing season.

(CONFIDENTIAL)

3. Record crops of wheat (and other grains) since 1982 have pushed state wheat procurements from domestic producers to over 20 mmt annually compared with less than 15 mmt prior to 1982. Combined with relatively high levels of wheat imports up to the end of 1984, total annual state purchases of wheat reached about 30 mmt in 1983 and exceeded this in 1984. Record purchases by the state have strained both transport and storage facilities and produced annual levels of carryover stock which are unprecedented. Since 1983, the Chinese have allocated US \$1.4 billion for construction of more storage facilities, which by the end of

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1986 will have added storage for a further 35 mmt of grain.

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4. The relatively high level of grain reserves now in hand and continuing storage difficulties have obliged the government to lower the initial all-grains gross procurement target for 1985. This has not, however, significantly affected state procurement of wheat, which has a target of 20.6 million tons under existing contracts. The final wheat procurement figure for the 1985 procurement year ending in March 1986 may be closer to the 22 to 24 mmt estimated for 1984. Large internal purchases of wheat this year and storage problems will depress demand for imports and these could decline to below the 8 mmt average imported in 1978 and 1979, the years immediately preceding the rapid buildup in imports that accompanied the introduction of radical new farm policies. Imports will continue largely as a means of supply for some major seaboard urban areas which suffer as a result of the serious congestion of much of China's inland transport system.

(CONFIDENTIAL)

5. A senior Chinese commerce department official recently indicated that exports of summer grains by China will increase in 1985. Since wheat constitutes the bulk of summer grain production in China, this would probably include a rise in wheat exports. Although the Chinese claim that they would like to increase their grain reserves,

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storage problems and a desire to offset the costs of increased imports of manufactured goods, particularly from the USSR, may predispose them to ship possibly significant quantities of wheat to eastern territories of the Soviet Union. A rail line linking northern Chinese rail centres with the Trans-Siberian rail system of the USSR could be used to move supplies of wheat from Heilongjiang, a major spring wheat producing area. Sea shipment of farm products by China to USSR Pacific ports is also possible even though it would entail use of China's already overburdened coastal rail system. The USSR appears to be anxious to acquire Chinese farm products for its eastern regions since these are food deficient areas which must be supplied at high transportation costs by rail from distant western farm production areas. Early this year, China undertook to sell Tunisia 150,000 tons of wheat in exchange for fertilizers and other products and it has agreements to provide wheat as food aid to Angola, Mauritania and Senegal. (CONFIDENTIAL)

6. Canada's three year grain trade agreement with China calling for shipments of 10.5 to 12.6 mmt between 1 August 1982 and 31 July 1985 expired on 1 August 1985. China took the minimum of 10.5 mmt. The Chinese government has so far shown no inclination to renew the agreement. As a result, the only multi-year grain agreement which China has currently is that with the EEC which calls for 0.7 to 1.0 mmt each year for the period 1 July 1983 - 30 June 1986.

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Multi-year agreements with Australia, the USA and Argentina were allowed to expire at the beginning of 1985 without renewal.
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7. Medium and long-term grain production and imports may be significantly influenced by a new farm taxation and domestic grain purchasing policy which is based on a contract system and was instituted in January. In doing so, the Chinese government abandoned the long standing practice of acquiring tax revenues from the farm sector by imposing mandatory product quotas. Whether grain farm incomes are higher or lower this year partly depends on how taxes are to be assessed. The factor, however, which will be most decisive in determining grain farm incomes will be the level of prices in private sector markets. Although the price float in these markets is administered by the state, it is nevertheless allowed partly to reflect supply and demand conditions. Free prices are likely to come under pressure this summer and could fall as a result of a good harvest. For wheat farmers, prices may, therefore, closely approach a new state floor price which is set at the level of the 1984 initial fixed quota price. This amounts to the equivalent of Cdn \$4.03 per bushel or one-third higher in price than the 5 August Kansas City cash price for winter wheat. Last year, wheat farmers received Cdn \$8.00 per bushel for the large stocks of wheat sold to the state after meeting initial quota sales to cover basic taxes. (Although the

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domestic price of wheat in China is high, farm products are actually relatively low priced in relation to manufactured goods. This is a function of state choices and priorities.)

(CONFIDENTIAL)

8. The new government purchasing policy has been justified on the grounds that it is more efficient for the state and farm producers. It reflects official satisfaction with the large increase in grain production since 1981 and an attempt to increase the acreage of land sown to more valuable crops at the expense of grain without significantly reducing grain production. The state is clearly banking on increased investment and higher yields of grain to achieve its goals. Since the average price which farmers will receive for their grain this year will be lower than in 1984, many have correctly viewed the move as a means of reducing income from grain in the absence of much higher output and have reacted by reducing sowings of many spring and summer planted grain crops. While the policy is likely to prove more efficient over time, an immediate benefit to the government lies in the opportunity to reduce huge subsidies for food programs and to divert these savings to support new expenditure programs, such as recently announced salary increases for state service workers.

(CONFIDENTIAL)

9. Some farmers appear to have been quick to

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interpret this government move as reflecting a decision to shift incomes from the rural to the urban sector in the medium to long-term, a change they fear may reduce the yield on invested capital and they have responded by reducing new farm investment. This is not what the state wants, since reduced investment will slow the growth of farm, including grain, output. The regime attaches high priority to the continued growth of farm production since it is agriculture which remains the single most important source of economic surplus. Furthermore, it is this which ultimately determines the speed at which China can industrialize and raise farm investment and non-farm employment. The government's current dilemma illustrates the problems faced in attempting to simultaneously provide adequate incentives to both rural and urban sectors to increase output and improve productivity in keeping with the current regime's reform policies and programs. (CONFIDENTIAL)

10. The government has already indicated its concern over decisions by farmers to reduce grain acreage and cut new farm investment, although it almost certainly realized when it announced new regulations on grain taxation and purchasing that farmers would react defensively. Since the decision to change policy was not announced until March, the 1985 winter wheat crop which was sown in the fall of 1984 was not affected. Winter wheat acreage sown in the fall of 1985 could be affected. We do not currently consider,

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however, that any potential decline in wheat acreage and production in 1986 is likely to be significant enough to increase import demand. (CONFIDENTIAL)

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TABLE

CHINA: Grain Harvests, State Purchases and Imports, 1978-1985
(million metric tons)

	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
1. Total Grain Harvest	304.8	332	320.6	325	354.5	387.3	407	405p
2. Internal State Purchases of all Grain, Including Rice and Wheat Gross of Grain Resold to Farmers	61.7	72	73	78.5	92	120	125e	115e
3. Summer Grain Harvest, Including Wheat, Barley and Rye	59.4	64.9p	57p	60p	74.5	84p	93e	87.5
4. Wheat Harvest, Including Spring and Winter Wheat	53.8	62.7	55.2	59.6	68.5	81.4	87.6	82e
5. Internal State Purchases of Wheat	NA	12.7-13.7	8.2-8.7p	9.6p	12.03p	17e	22e	20.6
Total Grain Imports;	8.8	12.4	13.4	14.8	16.1	13.4		
a) of which Wheat is	7.7	8.7	11.0	13.1	13.5	11.0	9.5e	7.5e
7. Wheat Imports from Canada	3.3	2.7	2.6	3.1	3.5	4.6	3.1	2.5e
8. Wheat Imports plus Internal State Wheat Purchases (Row 5 + Row 6)		21.5	20.2	22.3	25.3	28.4	30	27.6
9. Total State Grain Acquisitions (Row 2 + Row 6)	71.1	82.9	86.6	92.0	107.6	133.1	133e	122e
10. Grain Exports					0.62	0.93		

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NOTES TO TABLE

p - preliminary
e - estimate

- row one 1978-83 from Statistical Yearbook of China 1984, p. 141; 1984-85 from press.
- row two 1978-83 from Statistical Yearbook 1984, p. 370; 1984-85, office estimates.
- row three 1978-85 from Chinese press or office estimates.
- row four 1978-83 from Statistical Yearbook 1984, p. 141; 1984 from press.
- row five 1979-1982 from Chinese press coverage of estimates of summer grains, which are largely wheat but include some barley and rye, and reflect initial procurement targets or mid-season data but not necessarily the final procurement total for the April - 31 March procurement year; 1983-84 relate to collection data of 10 August in each year; the initial target for 1984 was 18.5 mmt. 1985 relates to initial contract target, 51 per cent of which had been bought by 12 July.
- row six 1978-83 Statistical Yearbook 1984, p. 412.
- row seven 1978-85 from various sources or office estimates.
- row ten 1982-83 from Statistical Yearbook, 1984, p. 388.

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