

USDA estimates that China's production of wheat, corn, and rice fell by a combined 44 million tons in 2000/01, a decrease of 11.5 percent from 1999/00. Area sown to grain fell again in 2001 as many farmers devoted more land to cotton and other cash crops. Wheat and corn imports continued at minimal levels in 2000 despite double-digit decreases in production for both of these crops. In late October 2001, China still had no intent to import grain although there were signs of tighter grain supplies. Corn exports, helped by subsidies that will be discontinued after China's accession to the World Trade Organization (WTO), continued at a steady pace in 2001, with 3.6 million tons exported in the first 7 months. This amount followed near-record corn exports of almost 10 million tons during 1999/00, a year when domestic production dropped due to low prices and drought.

Meanwhile, China's demand for soybeans to feed its emerging livestock and edible oils industries continued to grow. Soybean imports are expected to top a record 13.2 million tons in 2000/01. China's procurement prices heavily favor production of corn rather than soybeans, a factor contributing to large soybean imports. Soybean imports were roughly equal to corn exports in recent years. The 13-percent value-added tax on soymeal imports favors imports of soybeans over soymeal.

China's agricultural sector is still feeling the effects of record grain harvests in 1998 and 1999 that filled storage facilities beyond capacity and put downward pressure on prices. Grain reserves remain large despite relatively low grain production in 2000 and low levels of imports, except for soybeans. In May 2001, USDA revised its estimate of China's grain stocks, an adjustment that increased estimates of world grain stocks by 164 million tons. An article in this report examines China's grain reserve policies and explains how USDA produced the new estimates. China's Ministry of Agriculture calls the revised estimates "close to reality."

The grain produced in China is often poor in quality. Bakers and millers are increasingly demanding high-quality wheat for breads and baked goods. The government is starting to move away from past policies that sought to increase quantity of grain produced without regard to quality. Protection, or support, prices for certain types of low-quality wheat and rice have been discontinued. Premium prices are offered for high-quality grains. New grading standards have been introduced for wheat and rice, but many farmers and merchants are still unsure of what constitutes "quality" grain.

The country's large grain stocks are being drawn down. Imports of wheat may bounce back and subsidized exports of corn and cotton will end following China's accession to the WTO. Dry weather in important growing regions of northern China during spring 2001 may have tightened grain supplies further, with an estimated decrease of 5 million tons each for wheat and corn in 2001/02.

Surging textile and apparel exports during 2000 boosted demand for cotton and encouraged farmers to increase cotton acreage in 2001. The newly established China National Cotton Exchange has sold 2.5 million tons of state-reserve cotton to domestic mills since December 1999 to curtail rising prices. China was again a net exporter of cotton in 2000, as imports registered low levels for the second consecutive year. Subsidized exports of cotton from Xinjiang province have continued in 2001, at a lower subsidy level, and imports should rise as domestic

supplies tighten. Farmers have readily adopted genetically modified pest-resistant cotton, the only major genetically modified crop currently grown in China.

The livestock sector is expected to play a key role in reshaping China's agriculture in the coming years. The expanding scale of the sector and the shift from backyard to modern feeding operations will expand the demand for feed ingredients, including grains and protein meals. Measures of comparative advantage indicate that China's livestock sectors are internationally competitive, while the grain sector's competitiveness has eroded. But sanitary issues will continue to be a barrier to exports in the near future.

China's economy is still one of the fastest growing economies in the world, with a reported 8-percent gross domestic product growth in 2000. A surge of foreign investment and continued government spending stimulated the country's economy during the first half of 2001. In the long term, greater openness to trade and social reforms will boost economic growth, stimulating demand for food and fiber. However, this optimism is tempered by stagnant agricultural incomes in recent years and the growing gap between China's booming coastal regions and poor interior provinces.

China's rural economy must redeploy its agricultural inputs as the sector modernizes and reshapes itself to face global competition. While much progress has been made, rural institutions and policies continue to impede the free flow of land, labor, and capital. Household registration and land tenure systems tend to exacerbate the surplus of labor in agriculture. Lack of land ownership and poor access to credit discourage soil conservation and other investments that have long-term productivity payoffs.

China's long-awaited WTO accession is expected in late 2001 or early 2002. This report includes a summary of the agricultural provisions of the 1999 U.S.-China bilateral agreement that serves as the foundation of China's terms of accession to WTO. Tariff-rate quotas will be established for major bulk commodities, and private trading enterprises will be allowed to participate in trade activities.

Major impacts on agricultural production, policy, and trade in China are expected after the country's accession to the WTO. Imports of wheat, cotton, soybeans, edible oils, and soymeal are likely to rise, as will China's rice exports. China's consumers would enjoy lower food grain prices. Corn exports from northeastern China will continue, but imports will increase in corn-deficit southern provinces.