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CHINA

Situation and Outlook Series

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Summary

Record 1996 Grain Crops, Grain Imports Down

U.S. agricultural exports to China for 1996 totaled \$2.1 billion, down from \$2.6 billion in 1995 because of smaller shipments of wheat and corn. For the past few years, China's agricultural trade continues to be characterized by exports of processed and high-value products and imports of more land-intensive and semi-processed goods. In 1996, China continued to be a net grain importer.

China's economy grew 9.7 percent in 1996 compared with 10.2 percent a year earlier. Authorities succeeded in limiting inflation during the year to 6.1 percent. For 1997, economic growth likely will be above 10 percent because credit restrictions were eased in the last half of 1996 and early 1997.

China's leaders are hopeful that total grain output for 1997 will match the record 490 million tons in 1996. In 1996, farmers reaped record wheat, rice, and corn crops because of higher area sown to grain crops, heavier input use, and increases in government purchase prices for grains. Market prices for grains fell in the last half of 1996 and early 1997, and farmers likely have shifted some area out of rice and corn into soybeans, fruits, and vegetables. However, the exception is wheat, where area is up, and output likely will be a record. Net grain imports in 1997 will be below the 9.6 million tons imported in 1996 because of China's record crops in 1995 and 1996.

Rice imports for calendar 1997 will include lower quality rice for poorer urban residents and higher quality Thai rice for higher income residents and are projected at 800,000 tons. Wheat imports are projected at 3.5 million tons, slightly above forecast imports for 1996/97 but down sharply from 12.1 million tons in 1995/96. Corn imports in 1997/98 are projected to be the same as a year earlier's forecast 50,000 tons.

Rice marketing in south China is changing as private rice merchants are beginning to displace the government-controlled rice marketing system. Private rice traders have become more active because economic reforms allowed for competition. Newly installed telephone networks give traders a communication tool to make milled rice contracts with merchants in urban areas and to make purchase contracts with farmers. These merchants are using newly available diesel trucks to efficiently transport rice from farm to mill and then from mill to urban markets. On-farm rice stock holding is also a key element in private rice marketing.

Total oilseed output for 1996 fell to 40.9 million tons, down 5.8 percent from a year earlier. Demand for edible

oil outstripped supplies, and imports totaled 3.4 million tons in 1996/97, up from 2.8 million tons a year earlier. China's oilseed meal imports are projected to total 3.1 million tons in 1996/97, up from 1.6 million tons a year earlier.

Cotton imports fell 18 percent in 1996 to an estimated 697,000 tons for August/July 1996/97. Domestic production for 1996/97 fell nearly 12 percent to 4.2 million tons. In 1997, sown area and output are expected to be lower than in 1996 because of relatively low incentives for cotton producers and because area sown to wheat increased.

In late 1994 and early 1995, China's leaders implemented the "governor's "grain bag" responsibility system" which was designed to increase China's grain self-sufficiency. Various policy instruments were employed to boost grain output in 1995 and 1996, and grain imports were reduced substantially in both years. But the decrease in grain imports was also accompanied by increases in imports of edible oil and chemical fertilizer. The policy arrests China's trend toward specialization and use of international markets.

China's horticultural economy is based on a wide diversity of crop-growing regions and a large labor force. Horticultural output has risen rapidly in the last decade to supply domestic consumers with an increasing array of products. Horticultural exports have increased substantially in this decade, and currently China is one of the world's largest horticultural exporting nations. In most years, horticultural exports more than balance the value of China's grain imports. In 1996, U.S. horticultural exports to China topped \$16 million; U.S. horticultural imports from China in the same year totaled US\$295 million.

China's institutional framework for delivering supplies, such as chemical fertilizer, pesticide, and plastic sheeting is complex. Government institutions continue to play an important role, but open markets are becoming increasingly important. Government and market institutions have the capacity to supply farmers with required input supplies for 1997.

On July 1, 1997, China regains sovereignty over Hong Kong, but the Basic Law provides that Hong Kong will retain its commercial autonomy and will remain a free port with very few tariffs. The structure of Hong Kong's agricultural trade is much different from that of China. Whereas most of China's imports are bulk and intermediate products, Hong Kong's imports are primarily consumer-ready products.