

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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**Date:** 3/20/2013

**GAIN Report Number:**

## China - Peoples Republic of

**Post:** Beijing

### China No. 1 Document 2013

**Report Categories:**

Agriculture in the Economy

**Approved By:**

Michael Riedel

**Prepared By:**

Melinda Meador and Wu Bugang

**Report Highlights:**

This report presents Post's initial analysis of China's 2013 No. 1 Document, which includes a revised focus on nurturing new models of agricultural operations. Food security continues to be a focus of China's government and, given resource shortages and growing demand, agricultural imports will remain an important source of key agricultural products.

**General Information:**

2013 No. 1 Document (highlights)

The No. 1 Document, the Central Government's annual guideline related to agriculture and rural development, was issued on January 31, 2013. A summary of key policy initiatives includes the following:

*Subsidies:*

- Continue to increase subsidies that focus on key (grain) production areas and advantageous regions
- New subsidies to support specialized farmers, family-run farms, and farm cooperatives
- Begin pilot subsidies on low toxic and high efficiency fertilizers
- Implement subsidies on ocean fishing
- Increase premium subsidies on some agricultural insurance and activate trial insurance premium subsidies for seed breeding, fishery, farm machinery, and state-owned forestry insurance.

*Incentives to new farming operations:*

- Encourage and support rural contracted land transfer to specialized farmers, family-run farms, and farmer cooperatives for adequate scale production
- Complete registration of rural collectively-owned land and assign farmer contract rights to the collectively-owned land within five years to facilitate rural land transfer and nurture new agriculture operators
- Improve preferential tax policies on farm cooperatives and include cooperatives in national economic surveys
- Provide training to increase production skills and operation levels of specialized farmers, family farm operators

*Policies on corporate investment in agriculture:*

- Encourage industrial and commercial enterprise investment in greenhouse production, food-processing, livestock farming, but not industrial-scale field crop farms
- Control access and provide monitoring of industrial and commercial leases of arable land, avoiding non-grain or non-agriculture use of the land

*Food (grain) security initiatives:*

- Continue to increase minimum purchase prices for wheat and rice
- Stockpile corn, soybeans, rapeseeds, cotton, and sugar, if necessary
- Adjust import and export duties as required and diversify sources from overseas to boost supplies of agricultural products

*Support to rural development and well-being*

- Direct state-owned enterprise participation in and support of agriculture and rural development
- Encourage urban capital investment in rural infrastructure, medication, education, social service, and culture
- Support urban capital involvement in establishing new rural financial institutions

#### *Urbanization efforts:*

- Allow migration of rural labor to urban areas through relaxed restrictions over residency rights and establish minimum wages, public health, family planning and housing

#### **Background:**

The No. 1 document provides key central government policy guidelines on agriculture and rural development. Between 1982 and 1986, the central government issued annual No. 1 documents which established policy initiatives on rural and agricultural development during the early days of reform. This process was reinstated in 2004 and the document is released at the beginning of each year. While this document provides policy guidelines on agriculture in general, each year the specific target varies. For example, the No.1 documents in 2011 and 2012 focused respectively on irrigation and technology innovation. The 2013 document placed high importance on nurturing new models of agricultural operations.

#### **Initial Analysis on new policy developments (initiatives) of the 2013 No. 1 Document:**

##### *Nurturing new models of agricultural operations*

In a significant break from the past, the 2013 No. 1 Document stresses the significance of larger-scale household agriculture operations, such as family-run farms and farmer cooperatives, to China's agricultural development.

The central government's intention is to nurture farming models which operate on a scale sufficient to support a certain population in agriculture while improving productivity and profitability. Currently, each rural household operates on an average farmland of 0.5 hectares and per capita income of rural residents is less than one-third that of urban residents. Estimates show that for farm income to rise to the level of urban residents, the number of rural households in China should be reduced from current 250 million to around 30 million with each household operating on an average farmland of four hectares. According to a regional survey, if the operational scale of a grain household reaches 6.7 hectares or above, the land utilization ratio will be increased by 10 percent and the household income will be increased by 25 percent. Improved productivity and profitability by family-run farms is hoped to attract farmers, especially younger generations, to agriculture.

Currently, older workers, aged 50 year and older are primarily the agricultural workforce while younger generations of rural residents usually work in the cities.

To form new farming models, the 2013 No. 1 Document encourages and supports the transfer of rural land (which currently does not involve any certificate or legal rights) to specialized farmers, family-run farms, and farmer cooperatives. The document requires that the delineation and registration of collectively-owned rural land to farm households conclude within five years. This registration will provide the legal basis for land transfers to such agriculture models as family-run farms. (Note: China's rural land is collectively owned and has been contracted to rural households based on household sizes.) The policy paper also states that extra subsidies in agriculture will be geared towards these agriculture models. Although family-run farms have emerged in Shanghai, Zhejiang, and Jilin, the regulations on identifying and registering family-run farms is still pending as are supportive policies on taxation, land use, financing, and insurance.

While encouraging family-run farms and farm cooperatives, models implemented successfully in Asian countries (regions) like Japan and Taiwan, the central government seems to be discouraging industrial and commercial investment in large scale farming, especially for field crops. According to officials at the Ministry of

Agriculture, the government is drafting regulations to place strict controls on large-scale farming by industrial and commercial operations. An increasing amount of industrial and commercial capital has entered agriculture in recent years. By the end of 2012, a total of 18 million hectares of contracted rural land had been transferred, of which more than 1.8 million hectares was acquired by industrial and commercial companies. Relevant measures are under formulation to monitor the operations of industrial and commercial investors after they have acquired farmland to ensure its agricultural use. A leading policy-maker indicated that while corporate farms are still encouraged to engage in certain agricultural operations such as animal production, agro-processing, and greenhouse production, they will be restricted from conducting large scale crop production. Instead of following the patterns of the United States and South America, where large corporate farms occupy vast acreages with few workers, China will maintain a fairly large rural population in agriculture and the future of China's agriculture primarily lies in household farming, according to the policy maker.

China's new leadership has indicated that urbanization remains the driving force for future economic growth in China. The 2013 document indicates that the government will loosen restrictions over residency rights to allow rural residents to move to small and medium-sized cities. Policies on wages, education, health, and housing will also be formulated to allow new immigrants to enjoy the same rights as their urban counterparts. Currently, urban residents account for 52.6 percent of China's total population, and experts predict that China's urbanization is likely to reach 70 percent by 2030.

#### *Food security still a priority*

China's agriculture and rural development may be entering a new era alongside China's urbanization phenomenon. Production costs have increased significantly and shortages of resources (land and water) have become more serious. Food security and the supply of major agricultural commodities will become increasingly challenging in China. In recent years, the central government has been subsidizing grain farmers to maintain grain production and food sufficiency levels. According to the 2013 No. 1 document, agriculture subsidies will continue to support grain production, especially in key production areas. In addition, the government will continue to increase the minimum purchase prices for wheat and rice, which is a national policy to ensure grain farmers' returns and positive production signals. To curb price fluctuations and ensure adequate supply of other key commodities, China will implement temporary reserves of corn, soybeans, rapeseeds, cotton, and sugar when necessary, according to the 2013 policy paper.

China's political leaders maintain a public posture of equating overall food security with self-sufficiency, although the definition of self-sufficiency seems to have changed over time. Even though China has mostly eliminated malnutrition, since the 1990's the government has mandated that the country must maintain a 95 percent self sufficiency rate for grains, and specifically for wheat and rice, even while publicly acknowledging that overall grain and oilseed domestic production accounts for at most 90 percent of total consumption. In 2012, China imported 2.3 million tons of rice, an increase of 305 percent from the previous year. China has increasingly turned to the world to help ensure its food security. Given shortages of resources and growing demand, agricultural imports will inevitably become an important source of food security and supply of key agricultural products. Except for staples like wheat and rice, the government will direct imports of other key products like soybeans, edible oil, sugar, meat, and dairy products. However, the Chinese government is adjusting its policy to diversify import sources to ensure a sustainable supply and avoid price volatility.

According to the Ministry of Commerce, China will push for exchanges and cooperation with African and Central Asian countries to explore additional import avenues for grain and cotton products. Supplies for some state reserves including grain, cotton, edible oil, and sugar will also be sourced from the international market.