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## **China Agricultural Product Market Control Policy**

Zhen Zhong

Assistant Professor

School of Agricultural Economics and Rural Development

Renmin University of China

### **Introduction**

After more than 30 years of exploration and practice, marketing of agricultural products has been liberalized in China. Prices of agricultural products are formed according to supply and demand. The fundamental role of market in resource allocation has been increasingly strengthened. An agricultural product market system that is uniform across the country and liberalized and that features orderly competition has come into being.

At the same time, the state exercises macro-control in accordance with law on basis of respect for market regulation. To meet the need of China's accession to the WTO and to accommodate changes in domestic and international agricultural product markets, China's policies concerning agricultural product market control have been strengthened and improved in a constant manner. A mechanism for the operation and management of the agricultural product market has been formed, in which regulation by market serves as the main force. Regulation and control by the government are also supplementary.

### **Agricultural product purchase and price-supporting policies**

At present, all controls over agricultural product prices have been lifted and prices are determined by the market. At the same time, on the basis of respect for market forces, the state carried out purchases and pursues price-supporting policies for key agricultural products to exercise macro-regulation and control. The main policies include:

- **Minimum purchasing price.**

The policy of minimum purchasing prices serves as the backbone of China's agricultural product price policy regime. After the liberalization of the grain market in 2004, the central government carried out this policy in major grain-producing regions for key crops such as rice and wheat to ensure national food security and to protect the interests of farmers.

When prices on the market are lower than the minimum purchasing prices, the state

makes purchases at minimum purchasing prices through designated enterprises to prop up market prices. At this time, grain producers could choose to sell their products to the enterprises designated by the state, to sell them to the market, or keep their products for later deals.

The practice reduces market distortion and improves the health of the market and makes prices into the real indicator of market supply and demand.

The minimum purchasing prices are determined every year by the state according to changes in production costs.

In 2004, the state introduced minimum purchasing prices for rice. By 2012, the minimum purchasing prices for early-season indica rice, mid- and late-season indica rice and japonica rice have reached 120 yuan (RMB), 125 yuan and 140 yuan, respectively per standard sack of 50 kilograms, an increase of 71.4%, 73.6% and 86.7% respectively compared to 2004.

In 2006, the state introduced minimum purchasing prices for wheat. The minimum purchasing prices for red wheat, and for white wheat and mixed wheat were raised from 70 yuan and 69 yuan per sack, respectively in 2006 to 95 yuan and 93 yuan, respectively in 2011.

In 2011, the state decided to remove the difference in minimum purchasing prices between white wheat and red wheat. Therefore in 2012, the minimum purchasing price for white wheat, red wheat and mixed wheat would be raised to a uniform 102 yuan per sack.

The practice of minimum purchasing prices has enabled the state to have more commercial grains in hand, which has provided foundation for market regulation and control. Although grain prices have increased in recent years, the market has remained stable as the state adjusts the tempo of grain auctions and the amount auctioned.

The practice has been conducive to protecting the enthusiasm of farmers for production, to allow domestic grain market to remain stable, effectively countering the impact of roller coaster-style price fluctuations on the international grain market.

#### **- Temporary purchase and storage**

When important agricultural products such as corn, soybeans, rapeseeds and cotton hit the market, (in a bid to stabilize the agricultural product market and protect the interests of farmers), the state determines prices for temporary purchase and storage according to production costs. This is the situation of agricultural product supply and demand and of the domestic and international markets.

The state then asks designated enterprises to purchase a certain amount of agricultural products at fixed price during a certain period of time and in certain regions to quickly balance supply and demand.

The practice of temporary purchase and storage was first introduced in 2008. It has covered corn, soybeans, cotton and sugar, and measures for purchase has been improved on a constant basis.

In practice, in areas where the policy is in place, purchases were made without limit, playing a positive role in stabilizing the market, protecting the interests of farmers and mobilizing the enthusiasm of farmers.

#### **- Proactive regulation and control**

For fresh agricultural products such as live pigs that see wilder price fluctuations undergo long production cycles, the practice of controlling the range of price fluctuations has been used to prevent abrupt ups and downs. The state determines a reasonable pig-grain relative price range according to market changes. When prices run out of range, an emergency plan would be triggered to regulate supply and demand through the adjustment of reserves, thus stabilizing market expectation.

The practice has produced good results and played a role in promoting the healthy development of live pig farming and in stabilizing the market.

For agricultural products that are highly seasonal such as vegetables, efforts are being made to look into price regulation methods including insurance and subsidies to stabilize the market.

#### **Agricultural product reserves as a way to regulate supply and demand**

To balance the agricultural product market, China has formulated laws and regulations on mechanisms of central reserves and local reserves for key products such as grain, edible oil, sugar and live pigs, and on regulation and control.

When certain regions suffer from agricultural product shortages or difficulties in marketing agricultural products, the market would be balanced through the adjustment of local reserves; when this situation exists in even more regions, the market would be balanced through the adjustment of central reserves.

The purchase, sale and rotation of central and local reserves should, in principle be done openly on regulated wholesale markets. For example, in view of the fact that live pig prices saw bigger fluctuations, national authorities unveiled an Emergency Plan on the Prevention of Deeper Fall in Live Pig Prices ( Provisional ) in January 2009. In 2011, Emergency Plan on the Regulation and Control of Periodic Fluctuations of Live Pig Prices was released, which allowed fluctuations within a pig-grain relative price range of 6:1 to 8.5:1. The plan solved the major issues of timing and magnitude of strength of government intervention and pushed for the standardization and regularization of regulation of the live pig market.

#### **Agricultural product imports and exports as a way of regulating domestic supply and demand**

In compliance with WTO rules, China imposes tariff and quota regimes over imports of key agricultural products such as wheat, cotton and sugar. China's overall tariff level for imports of agricultural products is much lower than world average and there are no outstanding tariff peaks.

As of 2006, China has lifted quotas for soy oil, rapeseed oil and palm oil and lifted restrictions that imports of these products must be done through state-owned enterprises.

At present, on the condition that China honors its commitments to WTO accession and that it follows international rules, China uses the international market to regulate domestic supply and demand through the means of tariffs and quota regimes.

### **Remark**

In general, China's agricultural product market is becoming mature. Government intervention is in compliance with WTO and international rules. The policies have effectively ensured market supply and promoted sustained and healthy and stable development of China's agriculture and rural economy.

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