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Voluntary - Public

**Date:** 3/21/2019

**GAIN Report Number:** CH19015

## **China - Peoples Republic of**

**Post:** Beijing

### **China's 2019 No. 1 Agricultural Document Doubles Down on Rural Reforms in the Face of External Pressure and a Slowing Economy**

**Approved By:**

Michael Ward

**Prepared By:**

Abraham Inouye

**Report Highlights:**

On February 19, 2019, the Central Committee of the Communist Party of China (CCCPC) and the State Council unveiled its first policy document for 2019. This document, referred to as the No. 1 Document, traditionally focuses on agricultural and rural issues and is considered to be a significant policy document that outlines goals for the upcoming year. In addition to continuing priorities such as food security and rural development, the document addressed China's slowing economy and "profound changes in the external environment." The document also confirms China's recent push to increase market access for countries that participate in its One Belt One Road Initiative. Finally, the document highlights some new development initiatives, including programs for soybeans, dairy, and infant formula.

## **Executive Summary:**

**General.** While certain policy priorities remain unchanged when compared to previous No. 1 Documents, a number of new initiatives were announced and existing initiatives expanded to cope with the new domestic and international challenges. Unlike previous No. 1 documents that focused on agricultural policies for that particular year, the 2019 document provides guidelines on agriculture and rural development for the next two years (2019 and 2020).

**Food Security.** Food security remains a top priority in the 2019 No. 1 Document. The policy paper reiterates that arable land must be kept above 1.8 billion mu (120 million hectares) with 1.65 billion mu (110 million hectares) dedicated to grain planting area. In addition, by 2020, nearly half of that grain planting area must be high-standard farmland. This year's No. 1 Document reiterates that China must be self-sufficient in rice and wheat, and corn production should be stable. Lastly, the document indicates that a new food security law is forthcoming.

The document also sets out new initiatives on soybeans (expand soybean planting area), rapeseed (specifically in the Yangtze River Basin), dairy (upgrade and renovate small and medium-sized operations), and infant formula. Additionally, China will resume expanding high-quality cotton production bases in Xinjiang Province. Finally, the document specifically promises advances in the prevention and control of animal epidemics, including African Swine Fever.

**Domestic support.** Domestic support and subsidies will continue to increase, but will be streamlined to comply with rules established in the World Trade Organization and favor sustainable development. The minimum procurement price system for rice and wheat will be further refined and producer subsidy programs for corn and soybean farmers will also be streamlined. The crop insurance program will be aimed at expanding area and covering more varieties. China will implement a cost-based insurance program for wheat, rice and corn and expand existing pilot programs on agriculture disaster insurance and “insurance plus futures”.

**International trade.** China will “scientifically” define the local supply level of major agriculture products and continue to utilize the international market to ensure sufficient supply. China will enhance agricultural cooperation with countries along the One Belt One Road Initiative, actively expanding imports of agricultural products in short supply at home and diversify importing channels.

**Agricultural technology innovation and rural financing.** China plans to focus on key agricultural core technologies, and promote domestic innovation in areas including biotechnology, heavy agricultural machinery, smart agriculture, and sustainable agriculture. The rural land transfer rules will be further liberalized to encourage adequate large-scale farming. The farmers or farm operators are entitled to mortgage loans for contracted farmland. In addition, the government encourages financial institutions to enhance credit support to programs focused on rural revitalization and poverty alleviation.

## *Food Security*

Food security remains a top priority in China. The leadership has repeatedly emphasized “absolute security” of staple grains (rice and wheat) and basically self-sufficiency of cereals. In policy documents, this goal has equated to 95 percent self-sufficiency for rice and wheat, and 50 percent for corn. While not entirely explained, this year’s No. 1 Document promised “scientifically determined” levels of staple grains. This move may be designed to give China more flexibility in actual production, while still politically maintaining “absolute security.”

The 2019 No. 1 Document reiterates that grain planting area will remain steady at 1.56 billion mu (110 million hectares) and arable land area must be kept above 1.8 billion mu (120 million hectares). In addition, the document reiterated its goal to establish 800 million mu (53 million hectares) of high-standard farmland by 2020.

While China has not provided an exact definition of high-standard farmland, FAS-Beijing understands this to mean farmland that has modern mechanization, is drought and flood resistant, and has appropriate usage rates of fertilizer and pesticides. The ultimate goal is to ensure and maintain China’s grain production capacity.

The 2019 No. 1 Document also states that the Chinese government will soon draft a national food security law. In addition to securing sufficient supplies of domestically-produced grains, China is also encouraging farmers to improve product quality or to produce the high-value commodities that are increasingly demanded by Chinese consumers and would otherwise need to be imported.

China will continue to adjust the grain and feed structure. Over the past three years, the country has reduced support for corn farmers after government-held stocks ballooned. As a result, corn acreage has decreased by more than 3.3 million hectares (from an estimated high of 45 million hectares in 2015), according to China’s Minister of Agriculture and Rural Affairs. However, the production of corn, China’s most important feed grain, will soon stabilize, according to this

### **Chinese Agricultural Slogans - By the Numbers**

1. “One Product for One Village” and “One Industry for One County.” This industrialization strategy of specializing in one commodity at a local level has proven effective across Asia. Strengthened by the widespread adoption of e-commerce in China, China is backing this agro-industrial strategy to increase rural income and replace farming jobs lost to modernization.
2. “Two Worries and Three Guarantees.” The two worries are food and clothes. The three guarantees are education, basic medical care, and safe housing. The 2019 No. 1 Document reiterates China’s commitment to achieve these goals by 2020.
3. “The Three Rurals.” This refers to agriculture, rural areas, and the rural residents. In this usage, “agriculture” generally means crop production, the “rural areas” refers to land reform, and “rural residents” refers to the livelihood of the rural population.
4. “The Four Comprehensives.” The No. 1 Document seeks to tie itself into China’s larger national policy as laid out by President Xi Jinping. The Four Comprehensives are: build a moderately prosperous society, deepen reform, govern the nation according to law, and strictly govern the Party.

year's No. 1 Document. Meanwhile, the government encourages farmers to expand planting area of other non-protein feed crops, such as silage corn and alfalfa.

In addition, China seeks to promote production of oilseeds. Industry has reported that China needs more than 90 million MT of soybeans a year due to increased demand for edible oils and animal feed. Nearly 85 percent of the soybeans consumed in China are imported. The push for self-sufficiency has intensified as the U.S.-China trade tensions developed. Retaliatory tariffs and other non-tariff pressures have led to tightened soybean supplies in China. The No. 1 Document stated that the country will “implement a soybean revitalization plan and increase soybean planting area through multiple approaches.” Details of the soybean plan have yet to be made public, but senior Chinese agriculture officials and experts have called for using subsidies to encourage farmers to rotate soybeans with corn in Northeast China and to increase the share of soybean production with the winter wheat in the Yellow and Huai River regions where double cropping is possible. (Note: The profitability of planting soybeans is generally lower than planting rice or corn.)

The document also supports boosting the production of rapeseed in the Yangtze River Basin. According to a crop production guidelines recently issued by the Ministry of Agriculture and Rural Affairs, China will increase soybean and other oilseed crops by at least 333,000 hectares in 2019. While 2018 official data has not been released by China yet, FAS-Beijing estimated total oilseed acreage at 23.9 million hectares in MY2018/2019.

China has also adjusted its policy on dairy production. The ongoing dairy support program will focus more efforts on “upgrading and renovating small and medium-sized dairy cattle farms”, the 2019 document said without further elaboration. Due to high production costs and food safety concerns, the Chinese dairy industry is faced with serious competition from overseas producers. China's dairy self-sufficiency rate has decreased from 94 percent in 2008 to 75 percent in 2016, according to industry reports. Although large dairy farms have managed to significantly reduce production costs, they are facing great challenges on the environmental front, especially with mitigating non-point source pollution from animal waste. The government tends to view family dairy farms and farm cooperatives as a more suitable model for dairy industry development in China. The document also mentions that the country will “implement an infant formula milk powders upgrading action.” Details of the action are not immediately available, but FAS-Beijing believes that it will aim to sharpen the competitive edge of the domestic dairy industry by improving product quality and safety levels. Currently, imported infant formula milk powder accounts for nearly half of China's powdered infant formula market, according to industry sources.

### *Domestic support*

China continues to emphasize reforming its policy regime on agriculture subsidies. While the overall level of domestic support will continue to increase, support will be streamlined to favor sustainable development as well as better compliance with WTO rules. The minimum procurement price system for rice and wheat as well as grower subsidy programs will remain in place but will be refined to follow the market rules. (Note: The National Development and

Reform Commission has just announced the minimum procurement prices for rice harvested in 2019, which are unchanged from the 2018 price level.)

The Chinese government is exploring many avenues to protect and support the livelihoods of farmers. For example, in addition to maintaining current crop insurance programs, many programs will be expanded to cover more regions and crop and animal varieties. In addition, China is facilitating pilot programs for full cost and income-based insurance for corn, wheat, and rice. Finally, the existing disaster insurance and “insurance + futures” pilot programs will be implemented in additional regions. Note, the agriculture-related insurance provided protection valued at 3,500 billion RMB in 2018, a 24-percent increase from the previous year, according to China Banking and Insurance Regulatory Commission. To avoid sharp price fluctuations of agricultural products, the government has backed adding additional crops to the list permitted to be traded on futures markets. For example, the world’s first apple futures contract started trading on the Zhengzhou Commodity Exchange in December 2017.

### *International trade*

China will “scientifically define the safeguard level of local key agricultural products” and use the international market to make up production shortfalls. As discussed above, China has set high food security goals which may not be possible. By characterizing the safeguard levels as scientifically defined, China is tacitly acknowledging a compromise between its political goals and economic reality. The country will “actively expand imports of agricultural products that are in shortages in the domestic market,” indicating that the government will encourage imports of agricultural commodities such as soybeans and tree nuts. However, China has recently been pushing to avoid overreliance on one supplier for its imports and is actively seeking to increase the number of suppliers for key commodities. As laid out in the No. 1 Document, China will specifically look to countries that participate in its One Belt One Road Initiative in an effort to diversify its suppliers. Lastly, China will increase its support for national champions in the agricultural and food sector, providing various types of support to Chinese food and agricultural companies for the purpose of investing in production bases outside of China’s borders.

### *Land reform and rural financing*

Rural land reform has been a focus of the Chinese government for decades. Due to the complexity of the process in China, current laws will need to be amended, notes the No. 1 Document. While protecting the contractual rights of farmers in the long term, the government is actively pushing for the consolidation of rural resources to achieve adequate scale farming by family farms and farmer cooperatives. “The operation rights of the contracted farmland are entitled to guaranteed financing,” according to the document. Reforms to rural residential land, which are expected to be complete by the end of 2020, will grant rural residents rights to run businesses on their residential properties or get more access to financing.

### *Agricultural technology and innovation*

China recognizes that science and technology will play a critical role in terms of achieving the goals stated in the No. 1 document, especially in terms of improving product quality and

increasing productivity. The No. 1 Document identifies biotechnology, heavy agricultural machinery, smart agriculture, and sustainable agricultural inputs as key focus areas. Specifically, the government supports qualified enterprises to take the lead in implementing technological innovation projects and joint efforts in researching and developing new rice, wheat, corn, soybean, and animal varieties.

Full Text of the 2019 No. 1 Document (in Chinese) available at:  
[http://www.xinhuanet.com/politics/2019-02/19/c\\_1210063174.htm](http://www.xinhuanet.com/politics/2019-02/19/c_1210063174.htm)