Grain Marketing System Reform:

A Case Study of A Major Paddy Production County in Southern China*

Zhang Hongyu and Liu Jianwen

Policy and Law Department of the Ministry of Agriculture of China

This paper examines the grain marketing system reform by focusing on a case study of Nanfeng County of Jiangxi Province. The paper evaluates the current grain marketing system and analyses the impact of the new grain marketing policy on farmers, consumers and government grain agencies. The study reveals many problems existing in the current grain marketing system and arrangements, and argues for further reform in the grain marketing system and for opening the grain purchasing market. (The original version of the paper is in Chinese. This is a reduced English version.)

Traditionally paddy is the major grain crop in southern China. Both in terms of sown area and output, paddy production plays an important role in grain production in Jiangxi Province. Nanfeng County of Jiangxi Province provides a good case study in which to examine China's grain production and marketing situation.

* Translated by Chen Chunlai.

1 Reasons for Choosing Nanfeng County

The main purpose of this study is to examine the impact of grain marketing policy changes in recent two years on grain production and marketing through a case study of a major paddy production county --- Nanfeng County. There are several basic reasons to choose Nanfeng County as the case study.

First, Nanfeng is a typical agricultural county in southern China, and paddy is the major grain crop of the county. Nanfeng has a total population of 270,000, of which 210,000 are living in the rural area and the rural labour forces are 110,000. The total area of Nanfeng is 1,909 km^2, and the natural conditions are very suitable for paddy production. Nanfeng has a total of 289,000 *mu* cultivated land, in which paddy fields are 239,000 *mu*. In 1999, grain sown area was 489,200 *mu*, in which paddy sown area was 388,000 *mu*, accounting for 79.3 percent of the total grain sown area. Apart from grain production, Nanfeng also has relatively well developed cash crop production, especially the production of "Nanfeng Honey Orange". However, in aggregate agricultural production in Nanfeng is still dominated by paddy production.

Second, income from grain production is always one of the major income sources of farmers in Nanfeng. In 1999, Nanfeng farmers' total per capita net income was 2472 *yuan*, in which income from crop production was 1249 *yuan*, accounting for 50.5 percent of the total. Farmers' per capita income from grain production was 991 *yuan*, accounting for 79.3 percent of the income from crop production and 40.1 percent of

the total net income. Therefore, the situation of grain production and marketing and grain price fluctuation has a large impact on Nanfeng farmers' income.

Third, Jiangxi Province is one of the sample provinces in the household survey undertaken in the joint research project of "Chinese Grain Market Policy with Special Emphasis on the Domestic Grain Trade". Therefore, choosing Nanfeng County as the case study will help to get additional information which is valuable for the analysis of the household survey.

Fourth, one of the authors (Zhang Hongyu) was the county leader in 1996-97, in charge of agriculture and rural works. This special relationship will also help the case study to be more accurate and reliable.

2 Grain Production and Marketing in Nanfeng County

Paddy is the major grain product of Nanfeng County. The annual sown area of paddy is around 400,000 *mu*. Nanfeng traditionally grows double-season paddy. During 1997-99, paddy sown area was 400,000 *mu*, 408,000 *mu* and 388,000 *mu* respectively, of which the percentage of early-season paddy was 44 percent, 39.7 percent and 42.3 percent respectively.

As a main paddy production area, Nanfeng's grain commodity rate is relatively high, and farmers usually sell more than half of their produced paddy. During 1997-99, the state grain purchasing enterprises purchased 62,000 tonnes, 55,000 tonnes and 76,000

tonnes of paddy respectively, and the individual and private grain dealers purchased around 20,000 - 40,000 tonnes of paddy from farmers.

In terms of grain sales after the implementation of the new grain marketing policy in early 1998, from June to December of 1998 state grain processing enterprises sold 11,000 tonnes of rice, and in 1999 state grain processing enterprises sold 26,500 tonnes of rice. Purchasing paddy and selling rice have been the basic grain marketing pattern of Nanfeng County. Guangdong Province has been the main grain sales destination of Nanfeng County. For many years, rice sold to Guangdong accounts for two thirds of Nanfeng's total sales of rice, and the remaining one third is sold to Fujian Province and other areas within Jiangxi Province. In addition, Nanfeng also exports a certain quantity of rice to the world market. During 1998-99, Nanfeng exported 13,000 tonnes and 10,500 tonnes of rice respectively. In the first quarter of 2000, Nanfeng has exported 42,000 tonnes of rice.

Nanfeng has an effective grain storage capacity of 110,000 tonnes. At the end of April 2000, the accumulated total grain storage was 99,500 tonnes. Nanfeng farmers do not traditionally store grains except keeping some grains for seed, own consumption and feed. However, because of the difficulties in grain selling channels in recent years, the quantity of grain stored by farmer households has increased greatly. For example, in Danyang Village of Taihe Town, the 100 farmer households of the village stored a total of 100 tonnes of paddy, averaging one tonne of stored paddy per household.

3 The practice of grain marketing policy reform in Nanfeng County

In 1998, the Chinese central government issued the new grain marketing policy, which is called “three policies and one reform”. The three policies are: first, state grain agencies will purchase without limit farmers’ surplus grains at the protection prices and private and individual grain dealers are prohibited from buying grains from farmers directly; second, state grain agencies will sell grains at the prices higher than the purchase prices in order to avoid losses in grain marketing; and third, grain purchase funds must be used only for grain purchase, so they take the form of “closed circulation”. The one reform is the reform of state-owned grain enterprises.

Nanfeng County implemented the central government’s new grain marketing policy. However, because of the differences in economic development among regions, the new grain marketing policy has not been fully implemented in other counties and regions. Under such situation, though Nanfeng County has tried hard to implement the new grain marketing policy, the outcome is not very satisfactory.

First, in 1998 market prices of grains were 6-7 yuan higher per 50 kg on average than those of state purchasing prices. Though the county government tried hard to strengthen grain market management and stop the private and individual grain dealers from purchasing grains directly from farmers, the government purchased only 55,000 tonnes of grains from farmers. This was only 50 percent of commercial grain. In 1999, to avoid the confrontation in grain purchases between the government and farmers, Nanfeng County implemented the grain purchasing prices set by Jiangxi provincial government. For the early season paddy, the procurement price was 57 yuan per 50 kg and the negotiated price was 50 yuan per 50 kg. For middle and late season paddy, the

procurement price was 64 yuan per 50 kg and the negotiated price was 58 yuan per 50 kg. The market prices of grain on average were 13-16 yuan lower per 50 kg of grains than those of the government purchasing prices. As a result, farmers were happy to sell grains to government. Therefore, in 1999 state grain agencies purchased 76,000 tonnes of grains from farmers, increasing 21,000 tonnes compared with the previous year, and covering 70 percent of commercial grain.

Second, in terms of grain sales, the grain purchasing prices of Nanfeng are higher than its surrounding regions. In addition, the costs of grain processing and transportation are also higher. As a result, it is more and more difficult for state grain agencies to implement the policy of selling grains at prices higher than the purchasing prices. As a result, since January 2000 state grain agencies have stopped selling grains. In 1998 in the beginning of implementing the new grain marketing policies, the government basically controlled grain purchase and sales, and the state-owned grain processing and marketing enterprises enjoyed a certain period of monopoly power. However, this kind of situation lasted for only 3-4 months. Since the second half of 1999, rice at the Guangdong grain market came mainly from Anhui, Jiangsu and Hunan provinces, where the procurement prices of late season paddy were only 40 yuan per 50 kg, or 16 yuan lower than those in Nanfeng County. After the completion of Jing-Jiu railway, the average transportation costs of per 50 kg grains from Anhui and Jiangsu to Guangdong are only 4.5 yuan. The transportation costs of per 50 kg grains from Nanfeng to Guangdong by road are 6-8 yuan. Based on the purchasing price, the break-even price of processed late season rice in Nanfeng is 62.36 yuan per 50 kg, while the selling price of late season rice at Guangdong grain market is only 47.5 yuan per 50 kg.

Third, in terms of grain market management, in 1998 apart from state grain agencies, there were more than 130 private and individual grain processing and marketing enterprises. After the implementation of the new grain marketing policies, the government strictly prohibited the private and individual grain dealers from purchasing grains directly from farmers. As a result, there were only 24 private and individual grain processing and selling enterprises approved by government to operate. However, in the second half of 1999, because of the lack of grain storage capacity, state grain agencies could not purchase all the surplus grains that farmers wanted to sell. Under such situation, though government grain purchasing prices were higher than the market prices, private and individual grain dealers became more active in buying grains directly from farmers. Since 2000, state grain agencies have in fact stopped purchasing grains from farmers, which has provided great business opportunities for private and individual grain dealers to buy grains directly from farmers.

Fourth, in terms of the grain consumption market of urban residents, in 1998 when the new grain marketing policies were introduced state-owned grain agencies in their own interest took every effort to expand grain sales. All county government employees were asked to buy grains from the four state-owned county grain stations. However, this administrative method failed within a month. As a result, the four state-owned county grain stations were closed down, and the 30 employees of the four grain stations were asked to retire or were transferred to other units. Currently, the grains consumed by the 78,000 county urban residents are mainly supplied by grain processing enterprises and private and individual grain dealers.

Fifth, in terms of grain purchasing funds, to ensure the implementation of "unlimited purchase of farmers' surplus grains at the protection prices", Nanfeng Agricultural Development Bank (ADB) provides loans to state grain purchase and storage enterprises on the principle of one kilo purchased grain for one kilo grain purchasing fund, thus ensuring the closed circulation of grain purchasing funds. In 1998 the ADB provided 55.85 million yuan of grain purchasing funds for purchasing 48,080 tonnes of grains. In 1999 the ADB provided 83.16 million yuan for purchasing 75,815 tonnes of grains. However, in 2000 the ADB changed their loan policy to "the quantity of grain to be purchased based on the quantity of grain sold and making no deficit". This new loan policy constrained the ability of the grain purchase agencies to get a loan from ADB to buy grains from farmers, which is one of the reasons why state grain agencies stopped buying grains from farmers this year.

Summarising the above problems, the core issue is the difficulties of selling grains at the prices higher than the purchasing prices. The grain purchasing prices in other counties in Jiangxi Province and in other neighbouring provinces are lower than those of Nanfeng County, which makes it more difficult for Nanfeng to sell grains, leading to a huge amount of increase in grain storage in Nanfeng County. For the grain enterprises, because they could not sell grains, they could not get loans from the ADB to buy grains from farmers. Consequently, state grain agencies have had to stop buying grains from farmers to avoid a huge financial loss. For the farmers, there has no profit from growing grains, and they even incur a loss to grow early season paddy. After the announcement that the early season paddy will be dropped from the list of protection prices, the sown area of early season paddy declined by 30 percent, and farmers also reduced the inputs in grain production. During January to April of 2000, total

agricultural loans were 8.68 million yuan, 1.92 million yuan less than the same period of last year, declining by 18 percent. The quantity of chemical fertilisers and pesticides used in grain production declined by 33 percent and 51 percent respectively.

4 Conclusion

The analysis of the grain marketing system and the implementation of grain marketing reform policies in Nanfeng has stressed the importance of how to accurately judge and handle the current situation of grain supply and demand in China, and how to design China's grain marketing system at the crucial moment of global economic integration and China's accession into the WTO. After several years of successive bumper harvests, China's agriculture has entered into a new phase and the basic structure of grain supply and demand has changed greatly, which is represented by an emerging temporary grain surplus. From the supply side, the average grain yield of 700-800 kg per mu is common, and some is more than 1000 kg per mu. From the demand side, though indirect grain consumption has increased, direct grain consumption has declined even more. Currently, the grain market price is low and there is a surplus of low quality grains.

Local cadres and farmers welcomed the policy of unlimited purchase of farmers' surplus grains at the protection prices. They also hoped that there would be a relatively stable protection price which was higher than the market price to ensure farmers to have a better income expectation from grain production. However, they are unhappy about the current situation. Since the grain purchasing market is closed and farmers

cannot sell their surplus grains. Therefore, the local cadres and farmers now hope to open the grain purchasing market, and to allow a multi-channel operation of grain purchasing in order to give farmers choices about how to sell their grains.

Based on the above analyses, this study has the following concluding remarks.

First, under the current situation of temporary grain surplus, it is important to seize this opportunity to adjust the agricultural production structure based on the principle of optimal resource allocation. Although Nanfeng country reduced the sown area of early season indica paddy this year, under the current production level, total grain output will still be higher than total grain demand. Consequently, grain price will hardly increase and there will still be difficulties in selling grains. Therefore, in the process of adjusting agricultural structure, some fundamental measures should be taken to improve agricultural structure and to solve the basic problems. The first is to grasp the opportunity of the temporary grain surplus to optimise the allocation of agricultural products, in order to improve agricultural efficiency and the quality of agricultural products. The second is to realise a new regional pattern of production of agricultural products through the adjustment of agricultural structure. The third is to increase the price differences based on grain qualities in order to lead farmers to develop high quality agricultural products. The fourth is to enhance resource and environmental protection and thereby to realise sustained agricultural growth.

Second, the current grain marketing policy of unlimited purchase of farmers' surplus grains at the protection price should be continuously implemented. However, the scope

of regions and grain products under the protection price should be appropriately reduced.

Third, the grain purchasing body should be increased and expanded to allow a multi-channel operation of grain purchase. Any state-owned, collective, individual and private grain marketing agencies and enterprises should be allowed directly to purchase and sell grains under the approval of relevant industrial and commercial administration and grain administration. This can also push the state-owned grain purchase and storage enterprises to accelerate enterprise reform and to improve efficiency through market competition.