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China's Food Security: Threats from Conflicts of Interest

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Synopsis

Conflicts of interest among the central government, local governments and farmers are threatening China's food security. The key to resolving them is to revive agriculture as a productive cash earner and contributor to the local economy.

Commentary

2011 WAS a good year for China where food security is concerned. The country's grain output increased by 4.5 percent over the previous year - the eighth consecutive year that China managed to harvest more grain. With record grain production amounting to 570 million tonnes, Chinese officials claimed that enough grain has been produced to meet the country's targeted output for 2020. However, as Chinese leaders acknowledged, the country's future food security is far from assured. There are three threats to China's future food security - depletion of natural resources; an aging rural labour force; and conflicts of interest among the central government, local governments and farmers.

Although China made tremendous progress in agricultural liberalisation, the central government still plays a key role in this sector. For historical and practical reasons, the local governments have significant autonomy over implementing agricultural policies and allocating funds. Furthermore, China's agricultural sector is still dominated by small household farming, employing hundreds of millions of farmers. To safeguard China's food security, the three key players – the central government, local governments and farmers - have to effectively work together to achieve this objective; yet, serious conflicts of interest exist among them.

Central government versus farmers

Since 1978, Chinese farmers have gone through a transformation. During Mao's era they were merely considered instruments of the central government's food security policy with little regard for their own economic interests. Now they have become independent economic entities motivated by profit.

China has a comparative advantage in labour-intensive agricultural products, such as fruits and vegetables. While the central government's effort to promote grain production certainly contributes to China's grain security, this comes at huge opportunity costs to the farmers as grain cultivation offers very low returns to them.

To address this serious conflict of interest, China eliminated agricultural taxes and increased support for the

agricultural sector in 2004. Raising farmers' incomes is now high on the government's agenda. However, even with strong central government support, returns of grain cultivation are still much lower than that of fruits, vegetables and other non-grain plantation.

Central government versus local governments

While the central government is committed to ensuring grain security for the nation and promoting farmers' incomes, the local governments show little interest in the agricultural sector. There are two major reasons. Firstly, agriculture does not help the local government's promotion system. Promotion of local government officials is strongly based on merit, especially their contribution to economic growth. However, agriculture, particularly the grain sector, generates little employment for the local economy and its contribution to GDP growth is negligible.

Secondly, agriculture is no longer a contributor but a liability to the local government's fiscal revenue. The local government officials' economic welfare is tightly linked to the total amount of fiscal revenue they can collect. After the agricultural tax reform in 2004, agriculture no longer contributes to local governments' fiscal revenue; instead, the local governments are required to contribute a large portion of their fiscal revenue to support the agricultural sector, especially local grain production.

Local governments versus farmers

Conflicts between farmers and local government officials have existed throughout China for decades. In the past, it was due to heavy exploitations by the local governments of agriculture and farmers. The 1994 fiscal reforms had forced the heavily indebted local governments to turn over a large portion of their fiscal revenues to the central government. Facing severe fiscal constraints, the local governments reached out to the poor farmers in the form of illegitimate fees and charges. This has led to massive peasant protests throughout the country, and severely damaged farmers' willingness to farm, which is partially responsible for the decrease of grain production in the early 2000s.

Since the abolition of agricultural taxes in 2004, local governments have found a new way to raise money - through land sales. Revenue from land sales is now the primary source of local governments' fiscal revenue. However, land is often illegally seized by local governments with little or no compensation to farmers, which harms their legitimate rights.

Since the abolition of agricultural taxes, the central government has increased financial support for China's agricultural sector. These supporting programmes are implemented by the local governments with money contributed both by the central and local administrations. Unfortunately, abuse and misallocation of the agricultural support funds by the local governments is very common, causing serious farmer dissatisfaction towards the local administrations.

Resolving the conflicts of interest

The key to resolving these conflicts of interest is to revive agriculture as a productive cash earner for the farmers and a positive contributor to local economy. However, given China's WTO commitments and small household farming practice, increasing government support for the sector can only achieve limited success. A potential solution should start with redefining China's policy on food security.

Considering the dramatic changes in diet and food preferences of the Chinese, China needs to replace the increasingly obsolete political promise of ensuring grain self-sufficiency with a grand food security concept that focuses on dynamic food self-sufficiency. It is in the long term interests of China and the world for China to adjust its agricultural plantation structures.

This can be achieved by reducing the land-intensive grain production, while promoting the cultivation of labour and capital-intensive foodstuffs, such as vegetables, fruits and aquatic products. At the same time, China can actively liberalise its agricultural trade, promoting export of non-grain foodstuff in exchange for grain imports.

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