

China Agricultural Market Outlook and Opportunities

1. Overview of Chinese Agricultural Resources

As of 2011, China has 1.38 billion people with over 900 million living in rural areas. The agricultural sector accounts for approximately 13% of China's GDP. Arable land in China is less than 1ha per household versus 100ha per household in the USA. Although Chinese agricultural technology is gradually improving, nevertheless, the overall production efficiency of the country continues to lag behind western nations. With a decreasing production of soybeans, corn and wheat, coupled with an increasing demand for these same products, China has changed from being a net exporter to being a net importer of major agricultural crops. The government has for some time now placed a great importance on improving efficiency and output of the agricultural sector through annual increases of allocated funds to support the industry.

2. Current Major Issues of Chinese Agricultural Industry

China is approaching a turning point in its food security strategy in that it will become more reliant on imports to meet domestic demand.

The two major challenges that China faces with the nation's food security are:

- (i) The elimination of hunger
- (ii) To meet the dietary aspirations of an increasingly affluent population.

In order to fulfill even the basic aim of hunger elimination, China will need to produce at least 580 million tones of grain by 2020, compared with a total output of 546 million tons in 2010.

Since the 1990s, rising incomes have accompanied major improvements in diet, with most Chinese enjoying significant increases in the consumption of non-staple foods - including meat, fish, fruit, eggs and dairy products. As incomes continue to rise, especially among rural residents, demand for non-staples and organic products will intensify, adding to China's food security challenge.

Food safety is another area of concern for the Chinese government. In recent years, a number of major incidents regarding poor food safety (that affected large areas of the population) has made this a priority issue for the national government. The Chinese population as a whole has lost confidence with domestically produced food – which in turn, has meant a marked increase in demand for quality imported food and beverages.

In addition to food security, China is faced with another issue: the scarcity of water. For example, the North China Plain, where much of China's wheat and cotton is produced, is severely deficient in water.

On January 31 2011, the Chinese national government released a document outlining a plan to accelerate water conservation reform and development in order to maximise this precious resource. This policy has become the government's top priority.

The agricultural sector accounts for 65% of China's total water use; however, only 45% of the water is consumed by the crops due to extensive waster in irrigation systems. The development on Irrigation manage-

ment strategies to improving water-use efficiency in irrigation conveyance system is another major issue in China.

3. Chinese Government Role in Agriculture

- Since 2000, US\$133.63 billion of loans have been issued by the government for agricultural support to China's Western Regions.
- The Agricultural Development Bank of China issued US\$60.6 billion in bonds in 2011 to support rural development.
- China's central government has allocated US\$4.2 billion to support farmers in growing improved varieties of crops such as rice, corn, and cotton, and also in purchasing of farm machinery.
- In 2011, the government has already handed out US\$13.4 billion in grants to eligible grain-growing farmers nationwide.
- It is estimated that the Chinese government will invest US\$608 billion into water conservation projects during the next ten years. This represents a doubling of funding over the previous decade.

Foreign owned enterprises that are either located in special economic and technology development zones or else, establish an institution, will attract a special tax rate of 15%.

The normal tax rate is 30%.

Furthermore, foreign owned enterprises that are involved in manufacturing within China, with an operation term of 10 years and over, shall be exempted from income tax for the first 2 profiting years, and enjoy a deduction of 50 percent income tax in the 3rd to 5th profiting year.

In addition, foreign owned enterprises that are engaged in agriculture, forestry and animal husbandry and are located in underdeveloped areas may qualify for tax exemptions.

4. A New Agri-Economic Future with Untapped Market Potential in Hi-Tech Agricultural Development.

As a large agricultural producing country, China has placed a considerable emphasis on developing and promoting agricultural hi-tech industrialization.

The hi-tech agriculture market is "the" emerging market in China in that a number of projects need to be urgently developed to solve the major national issues of food security and safety as well as water conservation.

Currently, Yangling is the only Agricultural Hi-Tech Demonstration Zone (AHIDZ) within China. In practical application, Yangling AHIDZ has already assisted in the development of over two hundred products throughout the country, however, it is still looking for new agricultural technologies from local and foreign owned industries.

5. China's Hi-Tech Agricultural Market Presents Great Opportunities

Some of the main areas for agricultural hi-tech application in demand in China include:

In China, there is a shortage of large-scale agricultural machinery and agricultural high-tech equipment. The current agricultural installed equipment is low tech and aged and needs replacement. Furthermore, the country is facing a major adjustment in the way it manages agriculture at the local level if it wants to conform to World Trade Organization practices of direct sales, distribution services, agricultural marketing network and operations.

The demand for crop seeds in China is over 12.5 billion kilograms per annum with the most popular seeds being for corn, rice, vegetables, cotton and grapes.

China's seed market is lagging behind most other countries in terms of output and quality. Local seed companies are usually small in scale, with many being acquired by large international company, which is consequently, causing a major rationalization of the industry.

In 2010, China's fertilizer production reached 66.20 million tons, an increase of 2.5% over the previous (and the highest recorded output ever).

From January-November 2010, the accumulative profits of the fertilizer industry totaled CNY 24.40 billion, an increase of over CNY 9.13 billion from the previous twelve months.

The use of organic fertilizer is also rising as the Chinese government encourages farmers to take it up in order to improve both crop yields and farmers' incomes. It has become one of the highest growth sectors in the agricultural market.

The impact of recent droughts in China is likely to see an increased demand for fertilizer. On average, fertilizer demand in China grew 7.9 percent in drought years, more than double the 3.2 per cent average in non-drought years.

The Chinese wine industry has entered a high-speed growth stage in recent years. Chinese grape wine enterprises represented by ChangYu, Dynasty and Great Wall now account for 40 percent of the regional market.

With superior advantages in raw material, quality, and cultural content, imported wine has dominated the Chinese high-end wine market. The imported wine volumes from France, Australia, Chile, USA, Italy and Spain, dominate this high-end market.

For example, imports of bottled wine in 2010 increased 61 percent over 2009 to reach 146 million litres (France 67 percent; Australia 27percent). The Chinese market is still relatively small, but those numbers represent a major increase and it is estimated that they will continue to expand by around 20 percent until 2014. However, education and promotion may be necessary to introduce more imported wines since many consumers do not understand variety and quality differences. In addition, sales of foreign standard lager have primarily been successful with joint venture productions in China.

The Chinese beer market has grown at an astounding pace in recent years, spurred on by the massive levels of foreign investment in the market. Despite its huge market size, there remains great scope for development, and many new opportunities are still available in China. The per capita beer consumption in China continues to rise, but future market development will rely on raising the average value of purchases as well as persuading Chinese consumers (especially the growing ranks of urban middle-income consumers) to trade-up to premium products and brands.

China's food processing industry was not affected by the Global Financial Crisis. For example, the total output value in 2009 reached RMB 4.5 trillion (\$662 billion), up nearly 20 percent from 2008.

Despite rapid development over the past three decades, China's food processing industry is still in its infancy compared with developed countries. For example, most processed food production is still fairly basic and focused on primary activities such as milling and animal slaughter while little value is added in the manufacturing process.

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