



The Rise of Chinese Agriculture

27 – 28 October 2016

Hunter Council Chamber, Victoria University of Wellington,
Wellington, New Zealand

VICTORIA

UNIVERSITY OF WELLINGTON
TE WHARE WANANGA
O TE ŪPOKO O TE IKA A MAUI



New Zealand Contemporary
China Research Centre

The Rise of Chinese Agriculture

27 – 28 October 2016

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Victoria University of Wellington,
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A conference organised by the
New Zealand Contemporary China Research Centre and the
Faculty of Agribusiness and Commerce, Lincoln University



New Zealand Contemporary
China Research Centre



Faculty of
Agribusiness
& Commerce

Conference Note

Chinese policymakers consider the agricultural sector to be central to the structural transformation of China's unbalanced economy and to the long-term goals of maintaining social harmony and achieving "all-round moderate prosperity". The latest No.1 Document released by the Chinese Communist Party Central Committee and the State Council in early 2016 signaled a relentless focus on 'accelerating the modernisation of Chinese agriculture' by improving the supply side, efficiency and quality of the sector and by pushing forward programmes to improve food safety, reduce agricultural inputs and the loss of arable land. The document announced a range of innovations and experiments. Similarly, the recently approved 13th Five Year Plan (2016-20) puts forward the goal of nurturing the creation of professional farmers and reforming rural land and land operation systems.

At the same time, a large and growing metropolitan population expects greater quality of product, security of supply and to have confidence in the safety of the food they consume. This urban population demand a world-class agricultural sector with strong links to high quality global producers. These two forces are driving unprecedented public-private experimentation and innovation and a reshaping of China's agricultural sector.

What these changes mean for businesses, governments and food producers outside of China remains unclear. Rationalising the food and agricultural sector in China is a task of extraordinary magnitude and one where Chinese policymakers fully acknowledge the vast challenge of moving away from small-scale, traditional farming systems. Based on previous experience and the progress to date, however, there is every likelihood that these efforts profoundly transform the sector and create new forms of competition and tighter regulatory requirements for international food exporters.

The modernisation of Chinese agriculture also creates opportunities for foreign companies to play a role in the development of the sector either within China or through joint partnerships at home. Of the later, the new focus on maintaining food security through access to global markets presents a shift-change in policymakers' attitudes to security of supply issues and increases opportunities for various forms of joint investment and partnership. At the same time the rapid expansion of public and private investment in domestic capacity within China presents a medium to long-term challenge for global food producers.

The Rise of Chinese Agriculture asks how Chinese agriculture is evolving and what this means for countries and companies that partner with China.

Conference Schedule

Day One: Thursday 27 October 2016

8.30am Registration

9.00am Opening

9.10am Introductory Remarks

ZHAO Weining

*Deputy Director General of Department of International Cooperation
Ministry of Agriculture, People's Republic of China*

HUANG Jikun

*Professor, School of Advanced Agricultural Sciences and Director, China
Center for Agricultural Policy, Peking University, China*

**TITLE: *Food Security and Policy in China: Past Experience,
Recent Challenges and Reforms***

Abstract: Despite remarkable achievements in the past, China is facing several challenges on ensuring sustainable growth of agriculture and raising farmers' income. The presentation will review China's agricultural and food policy with specific focus on recent challenges, initial policy responses and their consequences, and the re-adjustment in policies. Adjusting the national food security target in response to sustainable agriculture and major efforts to improve food security are impressive. To increase farmer's income, China has shifted its policy regime from taxing to subsidizing and protecting agriculture over the past decade. However, the results of these efforts are mixed. The good news is that some new efforts to solve these problems may bring China's market reform back on the right track though they still need to be evaluated. The presentation concludes by discussing the implications for China's policy reform and global trade.

Carl PRAY

*Professor II in the Department of Agricultural Food and Resource Economics,
Rutgers University, United States*

**TITLE: *China the Global Leader in Agricultural Research. What are the
Implications for Chinese and World Farmers?***

Abstract: A recent article in Nature calculates that Chinese expenditure on public sector agricultural research in 2009 has grown from \$294 million in 1960 to \$4.7 billion, while the US has grown from \$1.3 billion in to \$4.4 billion. This growth makes China the leading investor in government agricultural research

in the world. In addition private sector R&D has grown even more rapidly than private R&D since the 1990s. One result of the R&D growth was that Chinese agricultural productivity which grew more rapidly from 2001 to 2012 than any major country except Brazil. The R&D investments are also related to the recent acquisitions of foreign high-tech agricultural companies such as Syngenta by Chinese companies. This paper will examine the politics and policies that led to the growth in R&D since the beginning of the reform period in 1978 and the role of science and technology in the transformation of Chinese agriculture. It will contrast Chinese R&D and productivity growth with that of three other large agricultural countries – Brazil, India and the USA. Finally, the paper speculates on the implications of these changes for the competitiveness of global agricultural input markets and the availability of new technology for farmers around the world.

10.25am Morning tea

10.40am Panel 1: The Big Picture: Commercialization and Agricultural Policy

Chair: Peter HARRIS

Senior Fellow, New Zealand Contemporary China Research Centre

• **Qian Forrest ZHANG**

Associate Professor of Sociology, School of Social Sciences, Singapore Management University, Singapore

TITLE: *Betting on the Big or Assisting the Small: Market Dynamics, State Policies, and the Contest for the Future of Chinese Agriculture*

Abstract: In the past two decades, Chinese agriculture has undergone a fundamental transformation. Rural-to-urban migration has unleashed an exodus of agricultural labour to non-farm wage jobs. Those who remain in agriculture – a workforce that has become increasingly feminized and aged – commercialized their operation and are now mostly producing for market exchanges and cash income rather than self-consumption. A small portion of these family farmers have managed to scale up their production significantly through leasing in land and hiring labour. Urban capital has also made headways into agriculture by establishing large-scale corporate farms. Vertical integration, capitalization, and scaling up have become the dominant trends, and the three types of producers are vying for survival or dominance in this new landscape. Who has an upper hand in the intensifying competition for land, labour, market share, and policy favours? How do state policies shape

the dynamics of this competition? Do cooperatives offer a viable path for small farmers? This talk will discuss these questions.

- **Philippa JONES**

Managing Director, China Policy, China

TITLE: *Modernising China's Agriculture*

Abstract: 'Modernised' agriculture is a primary goal of the state. A growing stream of new policy and legislation is recasting the sights and sounds of the Chinese countryside. The 2008-09 stimulus saw funds, often in the form of subsidies, stream into rural communities. Providing temporary respite from the job losses on the eastern seaboard, the policies inflated prices, led to overuse of water and fertiliser, and resulted in overcapacity in many commodities. The reset is underway: nearing ceilings under WTO commitments support measures are looking to the environment, pricing policies are changing; and global engagement has become a priority. How will the world share in China's agriculture 2.0?

- **PENG Jianqiang**

Professor and Vice-President of Hebei Academy of Social Sciences, China

TITLE: *Analysis on the Situation and Prospects of Agricultural Development in Hebei Province*

Abstract: Agriculture in Hebei Province is characterised by its variety of resources, a close integration between cropping and animal husbandry, and its abundance of unique agricultural products. Current agricultural development in Hebei is facing resource and environmental challenges caused by major industrial and urban development across Beijing, Tianjin and Hebei. Its strategic future is also influenced by fierce competition within both the domestic and the international markets. The future of agriculture in Hebei will include moderate expansion in scale, an increase in new agribusiness models and modern technologies, value chain integration across primary and downstream industries, and more targeted development to suit the unique characteristics of the province.

- **LI Guanyou**

Ministry of Agriculture, Department of Industry Policy and Law, People's Republic of China

TITLE: *China's Agricultural Policy Outlook and Consumption Trends*

Abstract: In recent years, the Chinese government has been strengthening its support to agriculture by intensifying its efforts in promoting agricultural

infrastructure development, encouraging technology innovation and extension, maintaining stability of agricultural prices and improving agricultural subsidy programs, which has resulted in overall enhancement of the comprehensive production capacity of China's agriculture. In the future, agricultural policies will focus on the transformation of development patterns and structural improvement. Priorities for future agricultural policies will include improvement in sectoral structure, green development, innovation in science, technology and operation modes as well as international cooperation. In the next decade, the consumption of dairy products, beef and mutton are expected to grow rapidly in China while the fruit consumption of the nation will grow at a relatively slow pace. At the same time, the demand for imported specialty agricultural products and high quality fruits will continue to rise steadily.

- **Keith WOODFORD**

Honorary Professor of Agri-Food Systems, Lincoln University, New Zealand

TITLE: *China's Food Environment and the Associated Agri-food Trade Opportunities*

Abstract: To understand China's food environment, and hence the opportunities for international agri-food trade between China and Western countries, we have to understand the mega-forces that are driving both Chinese agriculture and Chinese food consumption patterns. The three dominant demographic forces are a population that will stabilise within ten years and which will then rapidly age, a decline in the national labour force which is already occurring, and continuing urbanisation. These forces have already created a labour shortage within rural China, and an increasing focus on technological advancement within Chinese agriculture. Alongside these forces lie Government policies which foster food security in terms of adequate supply of key food products, together with integrated supply chains which have food safety standards that are fully accountable, plus policies to raise rural living standards to approach those in the cities. The trend is therefore away from small scale production and processing and towards large scale 'national champions'. Linked to this is Chinese consumer unease about locally grown food and the greater confidence that is associated with food brands that come from overseas and which have consumer standing in the country of origin, together with the ongoing digital revolution. The key to successful food marketing in China is therefore a comprehensive understanding of Chinese consumers, together with the psychological and logistical pathways that lead to those consumers, all in the context of Chinese food-policy priorities and demographic change.

12.30pm Lunch

1.30pm Panel 2: Dairy, Beef, Sheep and Horticulture

Chair: Nick DALGETY,

Senior Policy Analyst, Policy & Trade, Ministry for Primary Industries

- **LIU Yuman**

Professor and Former Director of the Economic Research Division, China Dairy Research System, Rural Development Institute, Chinese Academy of Social Sciences

TITLE: Chinese Dairy Supply Chains, Current Difficulties and Future Outlook

Abstract: Chinese dairy supply chains are a complex system comprising dairy farmers, collecting stations and dairy processing companies that are of many different sizes and operational scales. This system is unique to China and very different to those in many other countries. The complexity of these supply chains has not only led to the difficulties that the Chinese dairy industry is currently facing, but also brought many uncertainties for its future development.

- **Lewis DAGGER**

Managing Director, Shennong Variety Management Ltd.

TITLE: Changes in the Chinese Agricultural Model: Challenges and Opportunities

Abstract: This presentation will focus on the changes that are occurring with the Chinese agricultural model (production to market), the factors driving this and what it means. The focus is on Horticulture. It discusses the challenges this is causing here in China and the opportunities that have emerged in New Zealand as an agricultural based economy along with the challenges and some strategies to address these.

- **Ben LIN**

President, Wellbright Foods Co. Ltd

TITLE: The Chinese Beef Market

Abstract: China is the third largest beef producer in the world after America and Brazil. Although Chinese per capita beef consumption has been growing rapidly it is currently only half the world average. The high cost of raising cattle and a drop in the number of breeding stock has resulted in increasingly large gaps in the market and higher prices for beef. The amount of beef imported into China has therefore increased in recent years. China's recent reopening to

American and Brazilian beef imports could have a large impact on Australian and New Zealand beef exporters.

- **LI Binglong**

Director of the Economic Research Division, China Sheep/Goat Research System, College of Economics and Management, China Agricultural University

TITLE: *The Current Situation of Meat Sheep and Goat Industry in China – Based on the Perspectives of Supply, Demand and Policy*

Abstract: This talk will present an overview of the Chinese sheep and goat meat industry from the supply/demand and policy perspectives. It will shed light on the production, consumption and trade, along with the major policies around these, in the Chinese sheep and goat meat industry.

3.00pm Afternoon tea

3.15pm Panel 3: Food Safety Policy and Consumption: Understanding the Chinese Market

Chair: Alex CHU

Former Associate Professor of Massey University

- **Mark TANNER**

Managing Director, China Skinny

TITLE: *The Ever-Evolving Chinese Consumer and their Food Preferences*

Abstract: Chinese brands and products are swiftly making inroads in almost every category in their local market, yet increasingly affluent Chinese consumers are still prepared to pay large premiums for imported food and beverage. This will explain how Chinese consumers are evolving, how their preferences are changing, factors influencing these choices and the opportunities they present for New Zealand food and beverage exporters.

- **LIU Peng**

Associate Professor, School of Public Administration Policy, Renmin University of China

TITLE: *From Centralized Regulation to Decentralized Governance: Understanding China's New Food Safety Governance Reform*

Abstract: China's new political leaders have successfully reconstructed its previous food safety regime and revised the food safety law greatly since 2013. This has empowered local governments and social organizations in food safety governance and arguably led to "decentralized governance" replacing former ideas like "centralized regulation". This paper explores this question based on a mixed study which combines both of empirical and normative analyses.

Firstly, it employs empirical evidence and data to portray the process and features of this new round of reform which can be defined as a “decentralized governance” model. Secondly, it provides a theoretical framework to explain and understand this transformation from a political perspective such as the political environment, regulatory failure and accountability facilitation. Thirdly, it offers an assessment framework to evaluate this new reform and discusses the prospect of “decentralized governance” in China’s food safety governance.

- **Sharon LUCOCK**

Lecturer in Agribusiness Management, Lincoln University

TITLE: *Through Different Eyes – Learnings from Kiwis Doing Agribusiness in China*

Abstract: During 2013 and 2014, I interviewed 28 New Zealanders, 1 Australian, and 9 Chinese, mostly in senior management positions, from 25 agribusinesses that had been operating in and/or exporting to China, to identify cross-cultural challenges within the agri-food business sector. It was evident that the confusions and frustrations Westerners experienced in their business dealings in China are the result of different world views that Chinese people possess compared to Westerners. Chinese people’s contextual world view has led to their pragmatic approach which then creates an environment that reinforces their cultural values and structures – an environment in which all actions and communications are understood within context, and words often convey messages which go beyond or even contradict their face values. Characteristics such as hierarchy and ambiguity become part of the social norm, concepts such as guanxi and face are part of the social currency, and behaviours such as avoiding conflicts and ‘going with the flow’ are accepted as common social actions. All of these elements thrive within a self-reinforcing sociological system which appears contradictory to non-Chinese. This presents challenges for foreign businesses.

4.30pm End of Day 1

Day Two: Friday 28 October 2016

9.00am Panel 4: Investment

Chair: Coral INGLEY

Professor of Management, Business School, Auckland University of Technology

- **Edward BUCKINGHAM**

Professor of Management, Director, Engagement, Monash Business School, Monash University, Australia

Title: *Prospects for Integration and Competitive Advantage in the Dairy Value Chain.*

Abstract: Growth in dairy industry exports, in particular to China, has followed the boom and bust cycle typical of commodity markets. During the 'boom' the emergent Chinese appetite for dairy products; a (sellers) market for land and stock; as well as new technologies and regulation transformed the sector. The dairy business cycle, now in the 'bust' phase, continues to be driven by these factors, albeit in new directions. Activities that link paddock to consumer are adjusting as the 'bullwhip effect' redistributes concentrations of value creation and capture. This presentation will explore the challenges faced by vertical integration and will speculate on the potential for new forms of collaboration in the dairy value chain. Will, for example, Australian and New Zealand-owned companies continue to dominate as producers and exporters, while Chinese-owned companies dominate in the importation and distribution of dairy products to their consumers? What scope is there for these roles to evolve? What can we learn from recent attempts to integrate? I will explore how constraints, especially monopsonies and monopolies, in perishable food product value chains set criteria for competitive advantages at different stages.

- **Terry LEE**

President of Overseas Investment Pengxin Group, Advisor – China Business Advisory Group for Auckland Tourism Events and Economic Development, Established Member of NZ Asian Leaders

Title: *Chinese Investment in New Zealand Agriculture: Beneficial but Challenging*

Abstract: Major Chinese agricultural companies are undergoing a transition from being domestic producers and marketers to become international enterprises. This reflects developments more widely in China's SOEs and private sector companies. Agriculture is a relatively small part of China's rapid growth in investment globally and a small part of China's investment in

New Zealand. The media and political profile given to agricultural investment proposals is, however, disproportionately high. Investment is a key factor in developing closer economic partnerships. The dairy sector is the largest single sector in China-New Zealand trade. The long term growth in dairy trade requires more than a focus on commodity trading. Shanghai Pengxin follows Fonterra's logical expansion into investment to underpin the growth of the two-way dairy relationship. That focus is on high end product, not on expanding into Fonterra's dominant place in commodity trade. The decision by Chinese agricultural companies to invest in New Zealand – Shanghai Pengxin was the first – is a vote of confidence in New Zealand as a long term partner for China. There is however public suspicion about the motives for Chinese investment in New Zealand's agricultural sector. This is compounded by regulatory hurdles that can become major barriers, and by public distrust which feeds political decision making that in turn undermines confidence in New Zealand as a suitable investment destination for a Chinese company. Investment from China in New Zealand's agricultural sector has proven to be beneficial to New Zealand in terms of improved market opportunities, improvements being made in farm operations through new capital being invested, investment in new manufacturing and processing plant, and employment opportunities for New Zealanders.

- **David COURTNEY**

GM Grower and External Relations Manager, Zespri Group Ltd

Abstract: Why would NZ kiwifruit growers invest in growing kiwifruit in China, where it originated? Isn't that akin to selling coals to Newcastle? This talk will discuss what China means to Zespri and New Zealand and why Zespri is trialing growing Zespri Kiwifruit in this strategically important market, in the context of its 12-month supply strategy.

- **Jason YOUNG**

Senior Lecturer, International Relations, Victoria University of Wellington

TITLE: *Investing in Chinese Agriculture: Negotiating Transition*

Abstract: Foreign direct investment (FDI) has helped integrate the Chinese economy into global trade and commerce stimulating economic growth and shaping a market-oriented reform agenda and the development of urban China. Policymakers are now squarely focussed on the transition of the agricultural

sector from smallholder, subsistence and fractured agriculture to a more standardised, commercial, high-tech and internationally competitive sector. What role is FDI playing in this transition? This talk presents the results of field research and interviews from Hebei Province and analysis of policy documents on the place of FDI in the transformation of China's agricultural sector. It identifies a series of rural institutions and a variety of views that foreign investors must negotiate when they invest in rural China.

10.15am Morning tea

10.30am Panel 5: China and Global Agri-markets

Chair: Crawford FALCONER

Professor of International Trade at Lincoln University and former New Zealand Ambassador to the WTO

- **LIU Shengjun**

Executive Deputy Director of CEIBS Lujiazui International Finance Research Institute

TITLE: “Big bang” in China’s Agri-sector and the Impact on the Global Market

Abstract: Over the past three decades, China’s agri-sector grew rapidly. However, it is still suffering from low productivity and low quality so far. The root cause lies in the small size each farmer owns under the current system. Under the New Normal of the Chinese economy, China has decided to make urbanization a future engine of the growth. To that end, the reform of land ownership and the Hukou system is crucial. With the new reform, more peasants are expected to move to cities for permanent living rather than temporary working. Urbanization will create new space for the development of modern agriculture with economies of scale. This will be the Big Bang moment for the agri-sector in China. More modern agriculture companies will emerge quickly. The new modern agriculture companies will impact the global market in several ways. First, they need to obtain modern agri-technologies from leading countries. Second, they can partner with MNCs to seize the opportunities in China. Third, they will be even stronger and specialized than current players in the global agri-market in outbound investment and competition.

- **Erlend EK**

Agriculture and Marine Research Manager, China Policy

TITLE: *New Food Security Policy and Global Agri-markets*

Abstract: The Xi-Li administration is pursuing a fundamentally new food security strategy. No longer preoccupied with absolute self-sufficiency, it focuses on capacity for agriculture production. This allows the market, including the global market, to allocate resources to a greater extent than ever before. In 2015 the Minister for Agriculture, not previously expected to globe-trot, travelled to more than 20 countries. This shift reaches deep into the country's political and social foundation and impacts world-wide agri-markets. The reengineering of support policies aim for sustainability of domestic agriculture; while Belt and Road and Capacity Cooperation strategies seek new platforms for global engagement. In 2016 the government will release a document to clarify its international cooperation's objectives and policy framework. This presentation will look at the current global challenges and opportunities emerging from China's fast changing agricultural markets.

- **XIA Youfu**

Professor, Executive Director and Chief Expert, China Strategy Research Center for Open Economy and International Technology Cooperation, University of International Business & Economics

TITLE: *Belt and Road Strategy and China's Outward Agriculture Development*

Abstract: From 2005 to 2015, China's exports and imports of agricultural products have been increasing rapidly from US\$55.83 billion to US\$186.1 billion, an increase of 233.3%. Among them, imports have increased from US\$28.65 billion to US\$115.92 billion, an increase of 304.6%. Soybean imports increased 26.6 million tons and US\$7.78 billion to 81.7 million tons and US\$ 34.8 billion, an increase of 207.2% and 347% respectively. Behind the rapid import development we find multinational grain merchants many oligopoly cases and distorted international grain markets, typically in the soybean trade. Thus China has suffered from great losses by paying a high price even though China is the world's biggest buyer. Through the Belt and Road strategy, China is hoping to establish a new model of international agricultural development and cooperation based on complementary advantages, mutual benefit, common development and common prosperity. Through a new model of trade and investment cooperation, China not only wants to ensure its own grain security, but also help many developing countries' agricultural development, and make new a contribution to the development of fair international agricultural trade.

- **Siah Hwee ANG**

*BNZ Chair in Business in Asia School of Marketing and International Business,
Victoria University of Wellington*

Title: *The Implications for New Zealand*

11.50am Concluding Remarks

- **Keith WOODFORD**

Honorary Professor of Agri-Food Systems, Lincoln University

- **Tony BROWNE**

Executive Chair, New Zealand Contemporary China Research Centre

12.30pm Conference concludes