

China: Market or Competitor?

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Crops**

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Executive Summary

The supermarket revolution has arrived in China and is spreading as fast as or faster than anywhere in the world. As the demand for vegetables, fruit, nuts and other high valued products have risen, urban retailers are finding new venues from which they can sell to the increasing prosperous city residents. However, the experience of many developing countries suggests that there could be serious distributional impacts of the rising of supermarkets. There is concern among policy makers and academics that poor, small farmers might be excluded from market. One of the main goals of our work is to understand what types of farmers have been able to participate in the horticultural revolution, how they interact with markets and how supply chains affect their production decisions. Using a unique set of spatially sampled communities in the Greater Beijing area, in contrast to fears of some researchers, we find small and poor farmers have actively participate in the emergence of China's horticulture economy. There is almost no interference by the government in any part of the production or supply chain. Moreover, there has been almost no penetration of modern wholesalers or retailers into rural communities. In the work we document seven characteristics of China's food economy that we believe account for this set of findings.

Understanding the nature of the domestic sector is also an important starting point for understanding China's position as an emerging exporter and potential importer of world horticultural commodities. In this work, we examine the cost of production of producing fruits and vegetables in China. We find that farmgate costs are extremely low for many crop, especially relative to production costs in the US (maybe only 10 percent of the California cost). Mostly this is due to low levels of wages. However, we also find that in the case of some crops, productivity is rising.

In the work we identify and study the major exporting zones and marketing chains through which horticultural crops bound for international markets pass. Major growing areas in Shandong Province, China's vegetable and fruit basket are mapped. We also visited traders and other government officials charged with promoting and monitoring China's horticultural commodities. We find the level of protection coming into and going out of China is falling after WTO. Although China faces increasingly higher protection in many of its trading partners, its exporters compete so that international

prices are commodities leaving China are often not much higher than the domestic price. Obviously, the importers in East Asia are earning the rents, not China's exporters. The pattern of trade is increasing following China's comparative advantage, with rising exports of fruits and vegetables (labor intensive crops) and rising imports of land intensive crops (e.g., soybeans and cotton).

In short, China's horticultural economy is relatively free and very dynamic. If China gains access to foreign markets, they can greatly expand supply. However, most of China's future horticultural market will be inside China itself. The sector needs to mature and will have to undergo dramatic changes before it can truly be called a modern horticultural economy.

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