

Diversified food consumption in Asia and trends in agriculture and agricultural policies: China, India, Indonesia, and Thailand

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1. Introduction

Amid the development and globalization of the economy and the resulting changes in the international environment, Asian countries in recent years have been faced with the shared conditions of diversifying food consumption and a widening economic gap between agricultural and nonagricultural industries. Accordingly, extremely populous countries such as China and India have increasingly sought to secure a stable food supply and have adopted protective policies for domestic agricultural producers, which has resulted in increased financial burdens. On the other hand, in ASEAN countries, where balancing imports with the protection of small farmers is required in securing a stable food supply, governments have adopted policies to promote export of internationally competitive agricultural products, expand food imports, and stabilize the price of rice/income of farm households. Here, the trends in agriculture and agricultural policies in four major Asian countries (China, India, Indonesia, and Thailand) are introduced along with their own individual contexts, which have an influence on the global supply and demand of agricultural products and on the stability of food imports to Japan.

2. China: Reforms of food price/income policies since 2016

Food production⁽¹⁾ in China totaled 616.25 million tons in 2016, the second highest level in its history. Underlying this were the food price/income policies promoted during the “period of production support policies” starting in 2004, which provided farmers with an incentive to produce food, as reflected in the increased production. To be precise, the purchase prices of rice and wheat were raised substantially during the period of 2009–2013 due to a minimum purchase price program for rice and wheat, while those of corn and soybeans also saw significant increases during the periods of 2009–2013 and 2009–2012, respectively, supported by a temporary procurement and reserve program. (A target price program was introduced for soybeans in 2014.) In addition, the budget for China’s four major agricultural subsidies (direct payment to grain producers, a subsidy for improved seed strains, an agricultural machinery subsidy, and a general input subsidy) continued to show a substantial increase annually up to 2012.

However, the expanding subsidies backed by these policies resulted in growing concerns, such as increased financial burdens coupled with weakening international competitiveness associated with increasing product prices. For this reason, during the “period of production support adjustment” began in 2016, substantial changes have been made to the traditional food price/income policies, including a halting/cutting of the minimum purchase prices of rice and wheat, a shift to a producer support program (market pricing and separation of prices from support) with respect to corn and soybean producers, integration of some subsidies into the subsidies aiming at protection of soil capacity, etc. (Table 1). Continued observation is needed to understand policy trends and their effects in China. (Yoshinori KIKUCHI)

Table 1. Comparison between the periods of production support policies and production support adjustment

	Period of production support policies (2004 ~ 2015)	Period of production support adjustment (2016 ~)
Minimum purchase price program	Rice/Wheat Increase of purchase price	Purchase price Halt/cut
Temporary procurement and reserve program	Corn/Soybeans Increase of purchase price	Corn/Soybean producers Shift to a producer support program
Target price program	For soybeans	
Four major agricultural subsidies	Direct payment to grain producers Subsidy for improved seed strains Agricultural machinery subsidy General input subsidy	The three subsidies other than the general input subsidy were integrated into the agricultural support and protection subsidy.

Note: Operation of the minimum purchase price program, temporary procurement and reserve program, target price program, and producer support program is limited to specific provinces/regions.

Note (1): "Food" in China refers to rice, wheat, corn, kaoliang, foxtail millet, other grains, potatoes, and beans.

3. Direction of agricultural policy in India: Public distribution system

"Structural changes in food demand" has been promoted in India. Amid this situation, the country's public distribution system has been supporting an increase in the production of staple grains such as rice and wheat. As Figure 1 shows, the food subsidy spent in connection with the public distribution system have continued to increase due to an increased amount of rice purchased by the government, increased stocks and the expansion of negative margins since 2008/09, which hit a peak in 2014/15 of 7.1% of the overall expenditure of the central government that year. Despite this continuous increase in financial burdens, however, the Indian government is further intensifying its policies to maintain minimum support prices for rice and other crops at a high level through the public distribution system in order to attain stable procurement and resulting stable food prices, as well as to maintain an incentive for production. Thus, increasing the production of staple grains such as rice through production incentives is still regarded as a major agenda item by the Indian government.

Taking into account the enactment of the National Food Security Act in 2013, which provides a legal basis for the public distribution system, it is highly likely that the country's public distribution system centered around rice will be further maintained and reinforced. As observed so far, agricultural policies in India emphasizing support for production/consumption of staple grains are expected to be promoted for the foreseeable future.

(Takuji KUSANO)

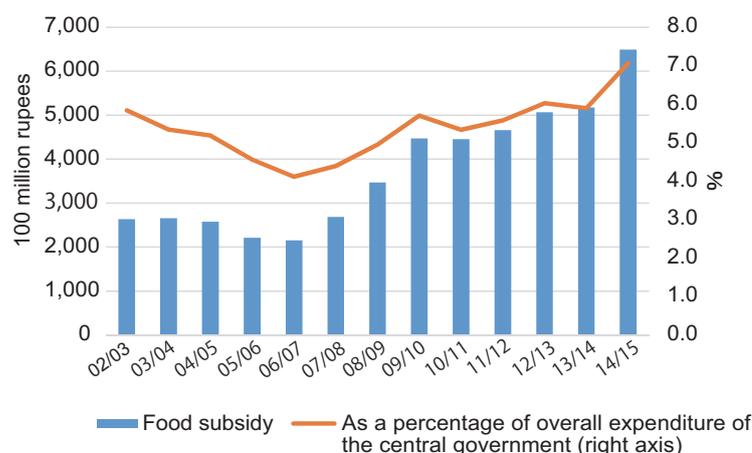


Figure 1. Changes in financial burdens (food subsidies) due to the public distribution system

Source: Multiple volumes of GOI, *Expenditure Budget*

Note. Real prices after being deflated by the wholesale price index during 2004/2005.
1 US dollar = 64.49 rupees (the average during April-December, 2017)

4. Indonesia as one of the "Newly Agricultural Countries: NACs" Diversification and specialization

Indonesia is rapidly becoming one of the "NACs" importing low-value foods and exporting high-value-added agricultural products, based on policies implemented to achieve a balance between food self-sufficiency and commercial agricultural development. As food consumption diversifies, the government is taking measures such as producer price support, maintaining of rice reserves by means of importing through a public food procurement corporation, stabilization of consumer prices by releasing rice reserves to areas in short supply of them, and distribution of low-price rice to the poorer classes, under the "self-sufficiency according to trends" policy, which aims for flexible imports while securing sufficient rice production capacity to support its people. Though these rice policies are limited and generally value market functions, the financial burdens of fertilizer subsidies to small farmers are increasing. At the same time, as a result of a rapid increase in wheat imports, Indonesia became the world's largest wheat importer in 2017.

On the other hand, among the various estate crops produced in Indonesia, production of palm oil has increased prominently (Figure 2), making the country the world's largest exporter ever beginning in the second half of 2000s. Its strong competitiveness in the global market is attributed to the fact that palm oil production requires large farms, a condition not satisfied by many countries. The Indonesian government introduced a "Newclear Estate Smallholder (NES) system" which arranges small farms around state farms to promote production, in addition to other efforts to establish a stable export structure, such as raising the crop's added value by reducing export taxes on refined palm oil and diversifying its destinations of export to newly developing countries. (Noriko ITO)

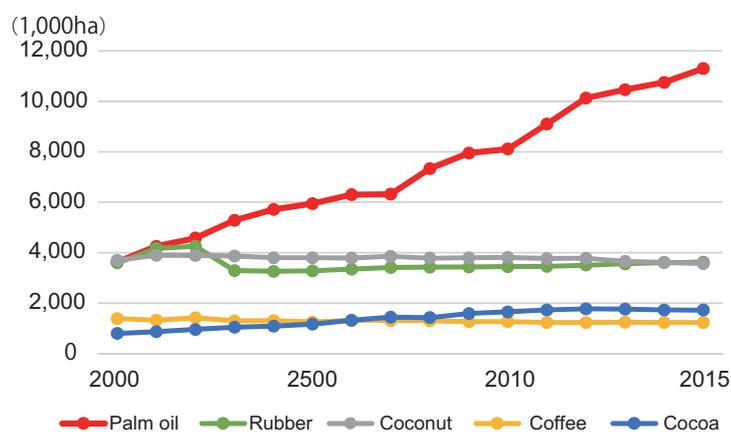


Figure 2. Harvested areas of estate crops in Indonesia

Source: Multiple volumes of Indonesian Statistics (*Statistik Indonesia*)

Note. The areas of harvest for palm oil are represented by the areas showing oil palm trees, the raw material for palm oil.

5. Trends in agricultural policies and political influences in Thailand

Around 40% of the overall population of Thailand is engaged in farming, where correction of the agro-industrial income gap is an important political agenda item. Amid political conflicts between conservatives and a rising force called pro-Thaksin, agricultural policies, especially those for rice production, have been major issues ever since the 2000s. On the other hand, expansion of agricultural protection is subject to restrictions on the level promised to the WTO. The level of agricultural protection (AMS: Aggregate Measure of Support) during the period when the Thai government's intervention into the domestic rice market peaked (2009-2013) still remains unreported to the WTO. It is very likely that the extent of rice protection in Thailand during this period exceeded the promised level (Figure 3). However, since its launch in 2014, the current administration has consistently remained faithful to the promised AMS level even though the agricultural policies have been changed every year. The expected long-term trend is a retreat from price policies coupled with a shift toward measures with a smaller market-distortion such as agricultural insurance.

In 2017, there were noticeable changes to other products, too. For example, in order to avoid a possible filing of a suit by Brazil and other countries with the WTO, domestic sugar production and distribution were liberalized. On the other hand, as a result of a significant drop in the export price of natural rubber, a rubber price support policy was introduced. Taking into account the upcoming general election, the political situation in Thailand is likely to wield not a small influence on the development of its agricultural policies. (Sotaro INOUE)

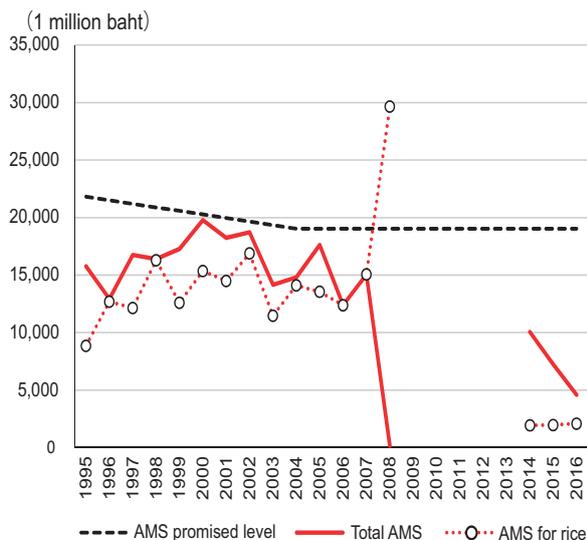


Figure 3. Amount of subsidies in Thailand reported to the WTO

Source: WTO official website

Note. 1 US dollar = 33.94 baht, yearly average in 2017

AMS for rice is not included in the total AMS in 2008 because the de minimis provision was applied.