
Fred Gale, USDA/ERS

China's Food Market Revolution Reaches the Countryside

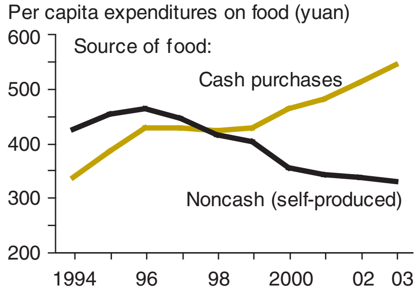
Evidence of China's thriving food industry—bustling restaurants, modern supermarkets, and glitzy hotel banquet rooms—abounds in the country's prosperous coastal cities. But to get a complete picture of food markets in the world's most populous and fastest growing country, one must take a closer look at food consumption patterns in China's vast rural hinterland—home to over 60 percent of China's 1.3-billion population.

Rural households in China grow much of the food they eat and subsist on food expenditures that averaged just $107 per person (30 cents per day) in 2003. Yet, while their low level of food expenditure suggests high poverty, China's rural population is generally not malnourished. China's rural households—historically cash-poor but with plentiful labor and an egalitarian distribution of communal land—meet most of their basic nutritional needs on a diet composed mainly of rice, wheat flour, other grains, and vegetables that they grow themselves. They consume relatively little meat, fish, dairy products, or processed food. By minimizing cash outlays on food, households can save their cash for school fees, house construction, consumer durables, and other goods and services.

While rural consumption patterns still differ sharply from those in urban areas, the last decade saw a slow but steady trend toward commercialization in rural food markets. While rural consumers' per capita purchases of food remain small in dollar value, their inflation-adjusted cash expenditures on food increased more than 70 percent during 1994-2003. The value of self-produced food consumed by rural people declined over the same period, and the cash share of rural food expenditures rose from 45 percent to over 60 percent.

The revolution that has transformed China's urban food markets is starting to spread to rural areas, as greater availability of cash income, more efficient markets, better communications, and improved transportation help bring rural people into the mainstream of the economy. Supermarkets and restaurants are opening in small towns and villages, and food product distributors are now including rural areas in their marketing plans. While there is still a long way to go, the advance of China's food revolution into rural areas promises to unify the country into a national market and substantially change the mix of foods consumed by the Chinese people. AW

Rural Chinese housholds now purchase more food with cash



Note: Expenditures in constant 2000 yuan, deflated with China consumer price index for food.
Source: ERS calculations based on data from China National Bureau of Statistics.

Fred Gale, fgale@ers.usda.gov

This finding is drawn from . . .

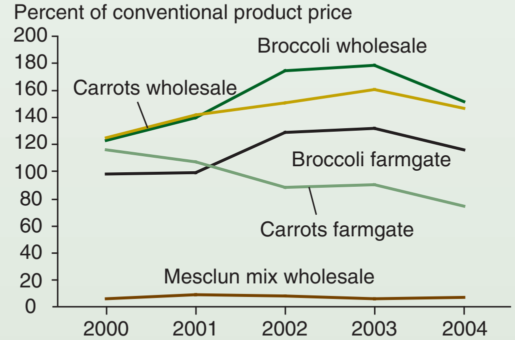
Commercialization of Food Consumption in Rural China, by Fred Gale, Ping Tang, Xianhong Bai, and Huijun Xu, ERR-8, USDA, Economic Research Service, July 2005, available at: www.ers.usda.gov/publications/err8/

Organic Price Premiums Remain High

Organic products often sell for higher prices than conventionally produced goods. The price premium results from higher production and distribution costs for organic food, as well as consumers' willingness to pay extra for organic food. As long as demand increases faster than supply and prices of conventionally produced food remain constant, organic food will continue to sell for higher prices. The price premiums and profitability earned by organic producers to date have contributed to growth in certified organic farmland and, ultimately, market expansion—organic food retail sales reached an estimated $10.3 billion in 2003, up from $3.5 billion in 1997 (retail sales estimated by the *Nutrition Business Journal*).

A recent study by ERS examined price premiums for organic broccoli, carrots, and mesclun (lettuce) mix. During 2000-04, the highest premiums (near 100 percent over conventional) were observed for broccoli and carrots, and premiums were higher at the wholesale level than at the farmgate level. Annual organic price premiums for mesclun mix at the wholesale level (farmgate prices are not

Wholesale price premiums for organic broccoli and carrots exceed 100 percent



Source: USDA, Economic Research Service.

Earthbound Farm

available) ranged from 6 to 9 percent over the 5-year period. Price premiums for organic mesclun have always been much lower than for other commodities. Mesclun, first introduced as an organic crop in the 1990s, initially sold for high prices that attracted both organic and conventional producers to the market. As the supply of organic and conventional mesclun increased, the prices of both declined, although organic products maintained a small premium.

As farmers receive higher prices for their organic products, they increase production, and attract other farmers to the organic sector. At the same time, as the price differential between organically and conventionally grown products diminishes, more consumers are likely to purchase organic food. Relative changes of supply and demand will determine whether price premiums continue for organic farmers and businesses. If supply begins to grow faster than demand, price premiums will decline. Recent trends in price premiums for broccoli and carrots suggest that even though certified organic acreage is rising rapidly, demand appears to be growing fast enough so that farmers and wholesalers are maintaining a large organic premium for these products. W

Carolyn Dimitri, cdimitri@ers.usda.gov

Lydia Oberholtzer, loberholtzer@ers.usda.gov

This finding is drawn from . . .

Price Premiums Hold on as U.S. Organic Produce Market Expands, by Lydia Oberholtzer, Carolyn Dimitri, and Catherine Greene, VGS-308-01, USDA, Economic Research Service, May 2005, available at: www.ers.usda.gov/publications/vgs/may05/vgs30801/

ERS Organic Farmgate and Wholesale Prices database, www.ers.usda.gov/data/organicprices/

F I N D I N G S

Some Improvements Are Projected for Global Food Security

As we approach 2015, the milestone set by the World Food Summit in 1996 to reduce global hunger by half, how close are we? According to ERS projections, the number of people consuming below the nutritional requirement is estimated to decline about 27 percent between 2004 and 2014. Performance by region varies significantly, with the sharpest declines projected for the Asian and Latin American/Caribbean regions, each at 46 percent. The number of people consuming below the requirement is projected to increase in the Commonwealth of Independent States, but that number relative to total population will remain small. In Sub-Saharan Africa, a 15-percent increase in the number of people with a consumption shortfall is projected.

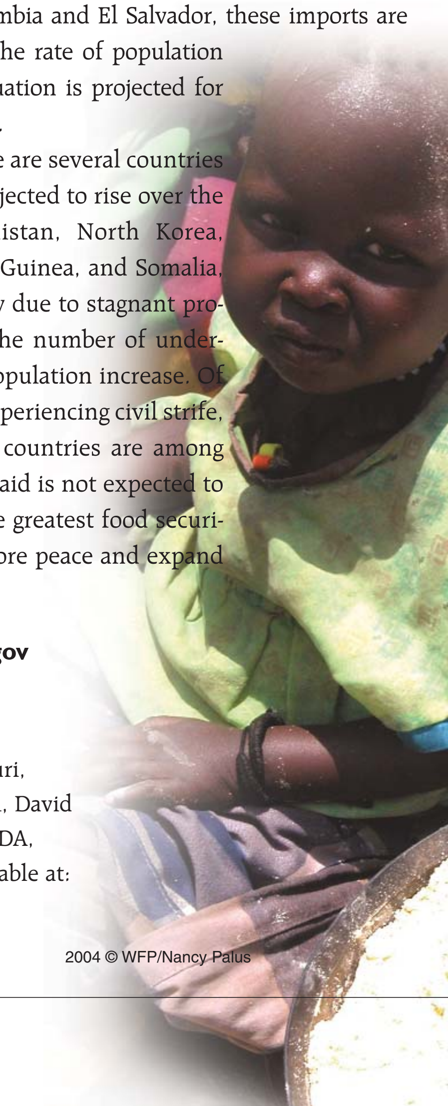
Countries with the greatest improvements in terms of the projected decline in percentage of undernourished people include India, Colombia, the Dominican Republic, Ecuador, El Salvador, Peru, and Kenya. Because India is the most populous of all the study countries (over 1 billion in 2004), even a small decline in percentage terms translates into a large decline in the number of hungry people. The number of undernourished people in the country is projected to decline from 432 million to 123 million during the next decade. In most cases, the improvements in the countries above are expected to be driven by higher export earnings, which will result in higher food imports. For example, in Colombia and El Salvador, these imports are projected to rise at more than five times the rate of population growth. A similar but less pronounced situation is projected for the Dominican Republic, Ecuador, and Peru.

In contrast to the success stories, there are several countries where the number of hungry people is projected to rise over the next decade. In countries like Afghanistan, North Korea, Nicaragua, Tajikistan, Uzbekistan, Angola, Guinea, and Somalia, deterioration in food security is principally due to stagnant productive capacity. As a result, the rise in the number of undernourished people will mirror the rate of population increase. Of the countries cited above, all but two are experiencing civil strife, further jeopardizing food security. These countries are among the largest recipients of food aid, but food aid is not expected to increase much to alter the projections. The greatest food security challenge these countries face is to restore peace and expand economic activities. W

Shahla Shapouri, shapouri@ers.usda.gov
Stacey Rosen, slrosen@ers.usda.gov

This finding is drawn from . . .

Food Security Assessment, by Shahla Shapouri, Stacey Rosen, Birgit Meade, Margriet Caswell, David Schimmelpfennig, and Carl Pray, GFA-16, USDA, Economic Research Service, April 2005, available at: www.ers.usda.gov/publications/gfa16/


2004 © WFP/Nancy Palus