Innovation, Agricultural Productivity and Sustainability in China
Table of contents

Foreword ......................................................................................................................... 3
Acknowledgements ........................................................................................................... 5
Acronyms .......................................................................................................................... 13
Executive summary .......................................................................................................... 17

Chapter 1. Overall assessment and recommendations ....................................................... 23
  1.1. A framework to analyse policies for innovation, productivity and sustainability in the food and agriculture sector ........................................................................................................... 24
  1.2. Policy challenges for innovation, agricultural productivity growth and sustainability in China ................................................................................................................................. 25
  1.3. Enhancing incentives for private investment in agriculture ........................................ 26
  1.4. Improve the framework conditions for structural change and innovation at the farm level ................................................................................................................................. 28
  1.5. Improving the environmental performance of agriculture .......................................... 30
  1.6. Rebalancing agricultural policy toward long-term productivity growth and sustainability .......................................................................................................................... 33
  1.7. Strengthening China’s agricultural innovation system ............................................... 34
  Note ................................................................................................................................... 37
  References ......................................................................................................................... 37

Chapter 2. Overview of the food and agriculture situation in China ..................................... 39
  2.1. General natural and economic context ........................................................................ 40
  2.2. Importance of agriculture in the economy ................................................................... 45
  2.3. Characteristics of the food and agriculture sector ....................................................... 47
  2.4. Productivity, competitiveness and sustainability performance ...................................... 57
  2.5. Policy challenges for innovation, agricultural productivity growth and sustainability in China ......................................................................................................................... 66
  Notes .................................................................................................................................. 68
  References .......................................................................................................................... 69
  Annex 2.A. Background table ............................................................................................ 74

Chapter 3. Economic and institutional environment in China .............................................. 75
  3.1. Macroeconomic policy environment and governance .................................................. 76
  3.2. Regulatory environment .............................................................................................. 81
  3.3. Trade and investment .................................................................................................... 86
  3.4. Finance policy .............................................................................................................. 90
  3.5. Tax policy ..................................................................................................................... 93
  3.6. Summary ...................................................................................................................... 95
  References .......................................................................................................................... 96

Chapter 4. Capacity building and public services in China ................................................ 99
  4.1. Infrastructure and rural development policies ............................................................. 100
  4.2. Land policies ................................................................................................................ 103
  4.3. Water policy ................................................................................................................ 107
4.4. Labour market and social security policy .................................................. 115
4.5. Education and skills policy ....................................................................... 118
4.6. Summary .................................................................................................. 120
Notes ............................................................................................................. 122
References ...................................................................................................... 122
Annex 4.A. Current and future water demand ................................................. 126
Annex 4.B. Recent water policies referred to in section 3 ............................. 127
Policies relevant to managing water quantity .............................................. 127
Policies relevant to managing water quality ............................................... 127
Policies relevant to managing water risk ..................................................... 128
Policies relevant to investment on water conservancy projects ............... 128
Annex 4.C. OECD principles of water governance ........................................ 129

Chapter 5. Agricultural policy in China ......................................................... 131
5.1. Agricultural policy objectives ................................................................ 132
5.2. Domestic agricultural policy .................................................................. 135
5.3. Agricultural trade policies ...................................................................... 149
5.4. General support to the agricultural sector ............................................. 150
5.5. Summary ............................................................................................... 152
Notes ............................................................................................................. 154
References ...................................................................................................... 155

Chapter 6. The agricultural innovation system in China ......................... 157
6.1. General innovation profile ..................................................................... 158
6.2. Actors, institutions and their roles in agricultural innovation system .... 160
6.3. Investments in agriculture R&D .............................................................. 166
6.4. Fostering knowledge flow: Intellectual property protection ............... 171
6.5. Facilitating knowledge flows and linkages within AIS ....................... 173
6.6. International co-operation on agricultural innovation ....................... 178
6.7. Summary ............................................................................................... 180
Notes ............................................................................................................. 182
References ...................................................................................................... 183
Annex 6.A. Background indicators of R&D outcomes ............................... 186

Tables

Table 2.1. Contextual indicators, 2015* .......................................................... 40
Table 2.2. Real GDP growth rate ................................................................... 41
Table 2.3. Importance of agriculture in the economy, 2015*...................... 45
Table 2.4. Average farm size in China overall, and in Northeast and North China combined, 1985-2013 ................................................................. 53
Table 2.5. Eutrophication in key lakes and reservoirs in China, 2006 to 2014 .. 62
Table 3.1. Key indicators of economic performance .................................. 76
Table 3.2. China's ranking in World Bank’s Ease of doing Business, 2016 .... 84
Table 3.3. Rural financial institutions in China ............................................. 93
Table 4.1. Evolution of China’s hukou system ............................................. 117
Table 5.1. China’s Minimum Purchase Price (MPP) and Temporary Purchase and Storage Price (TPSP) for grain, 2004 to 2016 ...................... 140
Table 5.2. China’s tariffs on agricultural products ....................................... 149
Table 5.3. China’s agricultural products in tariff-quota management ........................................... 150
Table 6.1. Major actors in the agricultural innovation system in China ........................................ 162
Table 6.2. Responsibilities of major participants in agricultural innovation system .................... 163
Table 6.3. Agriculture and food science R&D outcomes, 2007-12 ........................................ 176

Annex Table 2.A.1. Selected agri-environmental indicators in China, 1990 to 2011* ................. 74
Annex Table 4.A.1. Spatial distribution of water resources in China ........................................ 126
Annex Table 4.A.2. Projected water demand in China, 2000 and 2030 .................................... 126

Figures

Figure 2.1. Evolution of average real wage rate in China, 1994 to 2015 .................................... 42
Figure 2.2. Projection of China’s demographic structure, 2015 to 2100 .................................... 43
Figure 2.3. Drought-affected area in China, 1950 to 2009 .................................................... 44
Figure 2.4. Economic development and share of agriculture in the economy ......................... 46
Figure 2.5. Labour productivity growth, 2000-15 ................................................................. 47
Figure 2.6. China’s agricultural output indices, 1975 to 2014 ................................................. 48
Figure 2.7. Composition of China’s agricultural production value, selected years ................. 48
Figure 2.8. Food supply per capita in China, 1975 to 2013 .................................................... 49
Figure 2.9. Value of China’s agro-food export and import, 1995 to 2015 ............................... 50
Figure 2.10. Composition of China’s agro-food trade, 1995-2014 .......................................... 51
Figure 2.11. China’s self-sufficiency of grains, 1990 to 2013 .................................................. 51
Figure 2.12. Share of value added by domestic service industry in exports, 2011 .................... 52
Figure 2.13. Evolution of mechanically ploughed area in China, 1980 to 2016 ..................... 55
Figure 2.14. Income structure of rural household in China, selected years ............................ 57
Figure 2.15. Annual agricultural Total Factor Productivity (TFP) growth rates, 1991-2000 and 2001-2014 ................................................................. 58
Figure 2.16. China’s annual agricultural Total Factor Productivity growth rates, 1961 to 2014 .... 58
Figure 2.17. China’s annual growth rates in agricultural inputs and outputs, 1961 to 2014 ...... 59
Figure 2.18. Revealed comparative advantage in agro-food products, 2000-02 and 2012-14 .... 60
Figure 2.19. Revealed comparative advantage in agriculture sector by land and labour intensity, 2000-02 and 2012-14 ......................................................... 60
Figure 2.20. Trends in selected agriculture and environmental indicators ............................. 61
Figure 2.21. Nitrogen and phosphorus inputs in China, 1961 to 2015 .................................... 63
Figure 2.22. Pesticide use per hectare, 1991 to 2014 ............................................................ 64
Figure 2.23. GHG emissions (methane and nitrous oxide), 1990 to 2010 ............................. 66
Figure 3.1. Global Competitiveness Index: Macroeconomic Environment, 2016-17 ............... 77
Figure 3.2. Global Competitiveness Index: Quality of public institutions, 2016-17 ............... 78
Figure 3.3. Central-level institutional framework for rural policy ............................................. 79
Figure 3.4. Share of SOEs in workers, revenues and the number of firms in China, 2013 ........ 80
Figure 3.5. Integrated Product Market Regulation (PMR) indicator ....................................... 82
Figure 3.6. Barriers to entrepreneurship indicator for China by regulatory area, 2013 ............. 83
Figure 3.7. Tariffs for industrial and agricultural goods, 2015* ........................................... 87
Figure 3.8. Index of regulatory restrictions to trade and investment ...................................... 88
Figure 3.9. Trade Facilitation Indicators: China’s performance, 2017* ................................. 89
Figure 3.10. Foreign Direct Investment (FDI) Regulatory Restrictiveness Index by sector, 2003 and 2016 .................................................................................. 90
Figure 3.11. Global Competitiveness Index: Index of financial market development, 2016-17 .... 91
Figure 3.12. Total tax rate on enterprises, 2015 ................................................................. 95
Figure 4.1. Global Competitiveness Index: Quality of transport infrastructure, 2016-17 ......... 101
Figure 4.2. ICT penetration, 2016 ................................................................. 102
Figure 4.3. Proportion of rented farmland, 1996 to 2015 ................................. 105
Figure 4.4. Area of arable land converted to other use in China, 1997 to 2013 ........... 107
Figure 4.5. China’s legal framework on water ..................................................... 109
Figure 4.6. Global Competitiveness Index: Labour market efficiency, 2016-17........... 116
Figure 4.7. Education attainment, 2016 .............................................................. 118
Figure 4.8. Disparity of education attainment between urban and rural youth in China .... 119
Figure 5.1. Evolution of support for China’s agricultural producers, 1995 to 2016 .......... 137
Figure 5.2. Composition of the Producer Support Estimate, 2014-16 ....................... 138
Figure 5.3. Support to specific commodities in China: Single Commodity Transfer, 2014-16 139
Figure 5.4. Framework of supporting new types of professional farms ....................... 144
Figure 5.5. Support conditional on the adoption of specific production practices, 2014-16 147
Figure 5.6. Composition of support to agriculture in China, 2014-16 ....................... 150
Figure 5.7. Composition of support to agriculture, 2014-16 ................................... 151
Figure 6.1. Share of R&D by performers in China, 2015 ........................................ 159
Figure 6.2. Science and innovation in China, 2016 ............................................... 160
Figure 6.3. China’s public agricultural R&D system ............................................. 161
Figure 6.4. Investment in Agricultural R&D and innovation ................................. 164
Figure 6.5. Expenditures for public agricultural R&D in China, 2009 to 2015 .............. 167
Figure 6.6. Expenditures for public agricultural research by China and selected countries and regions, 2002 to 2010 ................................................................. 167
Figure 6.7. Share of agriculture R&D spending as a percentage of agricultural gross value added, 2015 and 2000* ................................................................. 168
Figure 6.8. R&D expenditure by research area and funding source in China, 2015 ............ 169
Figure 6.9. Distribution of agricultural R&D expenditure by area in China, 2015 .......... 169
Figure 6.10. Public agricultural R&D institutions at national and sub-national level in China, 2015 ................................................................. 170
Figure 6.11. Intellectual property protection, selected years ................................... 172
Figure 6.12. Contribution of Agricultural Science and Technology Progress to agricultural output in China, selected years ................................................ 175
Figure 6.13. Evolution of scientific output and impact in agricultural sciences, 1996 to 2012 .................................................................................. 176
Figure 6.14. Share of new plant variety rights granted in China, 1999-2015 .................. 177
Figure 6.15. International co-operation in agri-food R&D ...................................... 180

Annex Figure 6.A.1. Agricultural patent applications filed under the Patent Co-operation Treaty (PCT) in agriculture, 2006-11 ......................................................... 186
Annex Figure 6.A.2. Agriculture patents with a foreign co-inventor filed under the Patent Co-operation Treaty (PCT), 2006-11 ................................................................. 187
Annex Figure 6.A.3. Agriculture publications, 2007-12 ........................................... 188
Annex Figure 6.A.4. Agriculture citations, 2007-12 ................................................ 189
Annex Figure 6.A.5. International collaboration, 2007-12 ........................................ 190

Boxes

Box 2.1. Development of voluntary co-operatives in China ...................................... 54
Box 2.2. Evolution of mechanisation service providers ........................................... 56
Box 3.1. Political institutions in China ................................................................... 78
Box 3.2. Development of rural financial institutions in China ................................. 93
Box 4.1. China’s Land Administration Law ............................................................ 103
Box 4.2. Legal framework and governance of water in China ................................. 108
| Box 4.3. Major infrastructure investment in the Three Gorges Dam and the South to North Water Diversion | 110 |
| Box 5.1. Evolution of agricultural policy objectives in China | 132 |
| Box 5.2. New Food Security Strategy in China | 133 |
| Box 5.3. Zero-Growth Action Plan for Chemical Fertilizers and Pesticides | 135 |
| Box 5.4. OECD support indicators | 136 |
| Box 5.5. Policies supporting new types of professional farm operation in China | 144 |
| Box 5.6. Agricultural Resource Respite Pilot Policy | 146 |
| Box 5.7. Cross-compliance in the European Union | 148 |
| Box 6.1. Collaboration between public agricultural R&D institutions and private sector | 165 |
| Box 6.2. 13th Five-Year Plan for Agricultural Science and Technology Development | 166 |
| Box 6.3. R&D of farm machines and seeds in China | 170 |
| Box 6.4. R&D and production of transgenic crops | 177 |