

China's "pork crisis": the capitalist market at work

Dragan Stankovic
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This year is the "Year of Pig" in the Chinese calendar, but it has not brought good luck for ordinary Chinese people. The country is suffering from a pork shortage and the price has jumped by 50 percent over the past year. The crisis is also driving up other food prices.

The Agriculture Ministry's most recent statistics show the price of live pigs soared by 71.3 percent from March to April, while pork prices increased 29.3 percent. Prices also rose significantly in May.

Pork is the main meat eaten in China because it is both traditional and relatively cheap. Annual per capita consumption is 20 kilograms—second only to Germany. In China, however, pork accounts for 4 percent of the consumer spending, compared to less than 1 percent in Germany where average incomes are higher.

Fearing unrest, the authorities in Beijing have reacted to news of rising prices with an element of panic. Chinese Premier Wen Jiabao has made public appearances in recent weeks to reassure people that the government will bring prices under control.

Wen travelled last month to Xian, the capital of Shaanxi province, on what was billed as an investigative tour. He told the media that China faced a serious nationwide pork shortage and exhorted farmers to provide affordable meat to the urban population. Speaking at a supermarket, he promised: "The government is going all out to ensure the supply of pork and keep it affordable." That week, pork prices in Xian jumped 21 percent.

At an emergency State Council meeting in late May, Wen ordered local governments to provide food assistance to poor urban families while subsidising farmers to produce more pork. The Education Ministry has ordered universities and campuses to subsidise pork rather than raising prices. The Railway Ministry has

given priority to the transport of pigs. The Commerce Ministry has even raised the possibility of releasing the country's "strategic reserves of pork".

The state-owned media highlighted a media statement from the General Office of the State Council, which declared: "Production and distribution of pork and its products relates to the lives of the masses and influences the overall situation." The guarded reference to "the overall situation" reflects concerns in Beijing that virtually anything can trigger social instability, in conditions of deepening unemployment, poverty and social inequality.

The *International Herald Tribune* on June 8 pointed to the impact of rising pork prices. "Pork is a critical source of protein for Chinese of all incomes, but particularly for low-income workers like those who keep American and European families well supplied with \$49 DVD players and other popular consumer products." At a local market in Guangzhou, working class shoppers could not afford to buy pork. Butchers suffered losses as unrefrigerated meat was not sold. "No business! I've lost 1,000 yuan in three days because the meat goes bad before I can sell it," Zhang Hanbiao, a local butcher, told the newspaper.

The immediate causes of the price rises are oversupply last year followed by an outbreak of pig diseases. Officially, only 18,000 pigs have died due to contagious "blue ear disease" or Porcine Reproductive and Respiratory Syndrome (PRRS). But critics have questioned the figure. Other estimates put the number of deaths at between half a million and 20 million pigs from various diseases.

These figures are still relatively small compared to the estimated 465 million pigs bred in China last year. The main factor behind the price volatility is the anarchy of the market, not just in pork production, but

the entire economy.

The British-based *Economist* magazine pointed out on June 7 that high prices in 2004 encouraged farmers to produce more, which led to a sharp fall in the next two years. “That in turn discouraged farmers from raising pigs. The inevitable result was today’s higher prices, which will probably lead to glut and falling prices tomorrow. Pigs may fly. But not forever,” the article commented.

After the decollectivisation of agriculture in the early 1980s, the Beijing bureaucracy left hundreds of millions of individual farmers at the mercy of market forces. A small layer of wealthy farmers have become commercial pig farmers and relatively better-off Chinese peasants raise a small number of pigs as a secondary income. The poorest rural households simply have none. In response to news of pig diseases, farmers are naturally cautious about expanding production, fearing heavy losses if their pigs get infected.

Another significant factor driving up pork prices has been in the rising cost of feed, mostly corn. The price of corn has risen by 30 percent over the past nine months, despite a bumper crop this year. Increasingly, corn is being used to manufacture ethanol as a replacement for petrol. The government plans to use ethanol for 15 percent of the country’s transport needs by 2020. In 2005, 23 million tonnes of corn or 16.5 percent of the harvest was used for industrial purposes.

Heavy government subsidies for ethanol production have created an investment bubble in corn processing. Last December the government suspended all new investment in ethanol projects in a bid to rein in the building of corn processing plants. Any new projects will need official approval. But the continuing corn price rises indicate that the measure has had only limited impact.

Zhang Zhongjun, deputy head of the China bureau at the UN Food and Agricultural Organisation (FAO) told *Christian Science Monitor* on May 31 that the use of corn for ethanol production in China would undermine social stability. “America and Brazil have huge land areas and plenty of water. China has a shortage of water and arable land... China cannot use food for fuel because food security is more important than energy and because food is politically very important.”

Pork is not the only food item hit by steep price rises. The Ministry of Agriculture reported that the price of

eggs jumped by 30.9 percent and rice and grain by 6 percent in April. Beef, fish and chicken prices have also increased in recent months. There are predictions that China’s inflation could reach 4 percent for 2007, more than double the 1.5 percent for last year.

The government’s main concern is the potential for social unrest. Inflation played a significant role in the eruption of the anti-government protests in May-June 1989 as millions of urban workers voiced their opposition to deteriorating living standards. The Chinese leadership is walking a thin line. It wants to ensure affordable food for urban residents, but it cannot afford to undermine the income of farmers whose poverty and discontent had long been a concern in Beijing.

The “pork crisis” is just one more indication of just how economically and politically volatile China has become after two decades of “market reform”.



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