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Crops Wither and Prices Rise in Chinese Drought

By **KEITH BRADSHER**

HONG KONG — A severe drought in northern [China](#) has badly damaged the winter wheat crop and left the ground very dry for the spring planting, fueling inflation and alarming China's leaders.

President [Hu Jintao](#) and Prime Minister [Wen Jiabao](#) separately toured drought-stricken regions this week and have called for "all-out efforts" to address the effects of water shortages on agriculture, state media reported on Thursday. Mr. Wen made a similar trip just 10 days ago and called for long-term improvements in water management.

Rising food prices were a problem last autumn, even before the drought began, prompting the government [to impose a wide range of price controls in mid-November](#). The winter wheat crop has been parched since then in northern China while unusually widespread frost has hurt the vegetable crop in southern China. State media began warning a week ago that price controls on food might not be effective.

Some of the driest areas are close to Beijing, which has had no appreciable precipitation since Oct. 23, although there were brief snow flurries on Dec. 29. If the drought lasts 11 more days it will match one in the winter of 1970-71 as the longest since modern recordkeeping started in 1951, according to government meteorologists quoted by state media.

Particularly hard hit have been Hebei Province, which is next to Beijing and which Mr. Hu visited from Tuesday to Thursday, and southern Shandong Province to the east, which Mr. Wen visited on Wednesday and Thursday. The dirt in farmers' fields has become bone dry and is easily lifted by breezes, coating trees and houses in fine dust.

Food prices have been rising around the world, a result of weather problems in many countries, like the unusual heat wave in Russia last summer. High food prices have been among the many reasons for protests in Egypt and elsewhere in the Arab world.

But even a prolonged drought in China appears highly unlikely to cause acute food shortages. China has spent years accumulating very large government reserves of grain and also has \$2.85 trillion in foreign exchange reserves, giving it virtually unlimited ability to import food as long as major grain producers do not limit exports.

When commodity prices last surged in 2007 and 2008, however, [at least 29 countries sharply curbed food exports](#) in attempts to prevent domestic food prices from rising as quickly as world prices. And if China does become a large importer of wheat — it imports a lot of soybeans but tries to be essentially self-sufficient in rice and other grains for national security reasons — then it could push up world prices and make it harder for poor countries to afford food imports.

Gary Blumenthal, chief executive of [World Perspectives](#), a Washington-based agriculture trade consulting company, noted that wheat was grown in many countries and said that Chinese purchases would not necessarily result in a sustained jump in already high world prices. “The wheat market can restore any imbalances more readily than perhaps other grains,” he said.

China’s wheat imports have risen to 893,700 metric tons in 2009 and 1.2 million metric tons last year from just 31,900 metric tons in 2008, according to figures from [Global Trade Information Services](#), a data company in Columbia, S.C.

But those totals are small compared with global output that according to the [Food and Agriculture Organization of the United Nations](#) reached 682 million metric tons in 2009, the most recent year for which figures are available. China accounted for one-sixth of global wheat production that year, which could make a broad failure of the Chinese crop hard to replace immediately.

Higher food and energy prices are spreading to other parts of China’s economy, contributing to broader inflation. Prices rose 4.6 percent last year, according to the [consumer price index](#), but Chinese and Western economists say that the index understates the true extent of inflation because of methodology problems. The National Bureau of Statistics has said that it is trying to improve the index.

The government has cushioned the effects of rising food prices by encouraging provinces and cities to sharply raise the minimum wage, which has been climbing 18 percent a year in Guangdong Province, in southern China.

Accelerating inflation in China is starting to show up in the prices that American companies pay for imports from China. After years of showing little change, a United States [Bureau of](#)

Labor Statistics index of average import prices suddenly jumped 0.3 percent from September to October, then jumped the same amount in November and again in December.

As many Chinese exporters **demand double-digit percentage increases for the renewal of contracts this year**, American buyers have delayed signing contracts, **producing a hiccup in trans-Pacific trade**. Shipping lines are discounting rates and canceling some sailings this spring while waiting for exporters and buyers to reach deals.

But imports from China are equal to only 2 percent of American economic output, so most economists expect inflation in China to have a limited effect on broad price indices in the United States.