Slowing Economy: Effect on China’s Agricultural Imports

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Chinese port celebrates first shipment of corn from Ukraine
U.S. agricultural exports to China fell 16% in 2015

<table>
<thead>
<tr>
<th>Major Products</th>
<th>2014-15 change in value (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Soybeans</td>
<td>-27</td>
</tr>
<tr>
<td>Hides &amp; Skins</td>
<td>-15</td>
</tr>
<tr>
<td>Cotton</td>
<td>-22</td>
</tr>
<tr>
<td>Dairy Products</td>
<td>-35</td>
</tr>
<tr>
<td>Pork Products</td>
<td>-10</td>
</tr>
<tr>
<td>Poultry</td>
<td>-84</td>
</tr>
<tr>
<td>Sorghum</td>
<td>+44</td>
</tr>
<tr>
<td>Distillers Grains</td>
<td>+27</td>
</tr>
<tr>
<td>Corn</td>
<td>+56</td>
</tr>
<tr>
<td>Other feeds</td>
<td>+5</td>
</tr>
<tr>
<td>Hay</td>
<td>+28</td>
</tr>
<tr>
<td>Tree Nuts</td>
<td>+9</td>
</tr>
<tr>
<td>Fresh Fruit</td>
<td>+37</td>
</tr>
<tr>
<td>Ethanol (non-bev.)</td>
<td>+1,494</td>
</tr>
</tbody>
</table>

Agricultural Exports to China

Source: ERS analysis of USDA/FAS Global Agricultural Trade System data.

Note: calendar years.
Cotton: China’s slowing demand and policy-driven imports created a stockpile that needs to be digested

- China’s cotton consumption peaked in 2009/10
- China’s cotton imports peaked in 2011/12
- Both are declining as China tries to digest a 2-year supply of cotton in inventory
China feed industry output reflects slow-down

China feed, meat and egg output, 1982-2024

Puzzle: China’s import volume of many commodities has accelerated as the economy slowed.

Calendar year 2015:
- Oilseed imports were up 13% by volume
- Grain imports up 68%
- Beef imports up 58%
- Pork imports up 38%

Demand for high-end foods:
- U.S. salmon up 17%
- U.S. cod fish up 19%
- U.S. cherries up 28%

Source: ERS analysis of China customs data.
Depreciation of competitor currencies against the dollar erodes U.S. market share in China for some commodities.

Currency values vs. Chinese Yuan, 2014-16
US$ appreciated, other currencies depreciated against Yuan

Index (Jan2014=100)

Source: ERS calculations using data from Federal Reserve Bank of St. Louis.
China’s predicament:

Its commodities have flipped from cheap to expensive
Stockpiles are high after trying to prevent prices from falling

- Exchange rate **appreciated 35%** against dollar, 2000-14
- China’s farm prices **doubled** in Chinese currency.
- By comparison, CPI rose only 40%
- Global prices have **fallen** since 2013

Source: ERS analysis of China farm price data from China Development and Reform Commission and exchange rate.
In China, it’s all about the price

• Chinese authorities tried to insulate their market from falling farm prices since 2013
• Domestic prices are now 25%-40% higher than import prices
• Quotas limit some imports, but not all

Corn prices, 2000-15

Gap Between China and International prices

Source: ERS analysis of data from China National Grain and Oils Information Center and USDA.
Chinese officials cannot fully insulate Chinese prices from the world market

- China’s demand for soybeans boomed as world prices fell
  - imports displace domestic soybeans and other protein feeds
- China’s imports of substitutes for corn boomed
  - Displaced domestic corn and feed-grade wheat/rice, purchased by government

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**Soybean prices, 2000-15**

- China (Heilongjiang)
- Imported, coastal China
- U.S.

**China imports of corn substitutes**

- Corn imports
- Cassava
- Cassava starch
- Distillers dried grains
- Barley
- Sorghum

Source: ERS analysis of China customs statistics.
Near-term outlook

• China grain and cotton imports slow as Chinese authorities seek to dispose of stockpiles
  – Allow internal prices to decline
  – Limit imports when possible
  – Subsidize processors?

• Oilseed imports remain strong
  – China’s soybean production may rebound slightly
  – Domestic supply of rapeseed and cottonseed plunging

• Import demand for meats strong
  – High grain prices mean high production costs for livestock
  – Environmental concerns constrain livestock production

• High value of the U.S. dollar versus competitor countries remains a disadvantage for U.S. exports
China remains the predominant soybean importer

- USDA underestimated China’s soybean imports 10 years ago
- USDA now projects growth in imports to near 110 mmt in 2025
Moderate growth in corn and pork consumption/production

- China’s pork and corn production will grow moderately
- Corn imports recover after inventories are reduced, reach 6 mmt 2025
- Pork imports projected to be about 2% of consumption
10-year outlook

• Robust demand
  – income growth, urbanization, consumption patterns shaped by new habits, preferences and prices

• Supply depends on an ambitious makeover for Chinese agriculture
  – A new “great leap” to capital-intensive, high-tech farming faces institutional obstacles
  – Environmental and resource protection constrain production

• Markets for a new era
  – e-commerce
  – upgrading inspection/quarantine to accommodate increased trade
  – Overseas investment by Chinese companies to procure food supply, technology, and attain geopolitical objectives
  – Conflict between rigid “food security” concerns and flexibility needed for modern food market
USDA reports
China’s Growing Demand for Agricultural Imports

Development of China’s Feed Industry and Demand for Imported Commodities

“U.S. Agricultural Trading Relationship With China Grows,” Amber Waves magazine

“Get Ready for Chinese Overseas Investment in Agriculture,” Choices magazine