China’s Agri-food Trade

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China’s Agri-food Trade

“We possess all things. I set no value on objects strange or ingenious, and have no use for your country’s manufactures”

Emperor Qian Long (1736-1795) in a letter to the king of England.

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Some background

• China has long been a trading nation
  – >2000 years; Silk Road
• Tea exports to Britain
  – 1684: 5 chests
  – 1800: 10,500 tonnes
• Opium imports from the British
  – 1729: 200 chests
  – 1838: 40,000 chests
• Imported plants: China now leading producer of peanuts, maize
• Positive agri-food trade balance most years since 1949
• WTO accession in 2001
• Trade balance turned negative from 2003…

A common perspective may be…

• Rising affluence and urbanisation
• Changing food consumption patterns
• Rising imports of protein-rich and value-added foods from the developed world.
• Is this the reality?
Since WTO accession, export growth has increased, but imports have boomed

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Import growth out-pacing global growth
Total agri-food exports

China exports US$ billion

World exports US$ billion

China's share of global agri-food trade

...therefore share of global imports is rising
Commodity Composition of China’s Agri-food Import Growth: largely driven by industrial boom and the livestock sector

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Change 2002-2006</th>
<th>Share of change</th>
</tr>
</thead>
<tbody>
<tr>
<td>All agri-food</td>
<td>19,848</td>
<td>100</td>
</tr>
<tr>
<td>Soybeans</td>
<td>5,006</td>
<td>25.2</td>
</tr>
<tr>
<td>Cotton</td>
<td>4,687</td>
<td>23.6</td>
</tr>
<tr>
<td>Natural rubber</td>
<td>2,335</td>
<td>11.8</td>
</tr>
<tr>
<td>Processed food other than dairy &amp; meats</td>
<td>1,871</td>
<td>9.4</td>
</tr>
<tr>
<td>Palm &amp; soybean oil</td>
<td>1,754</td>
<td>9.2</td>
</tr>
<tr>
<td>Horticulture</td>
<td>958</td>
<td>4.8</td>
</tr>
<tr>
<td>Raw hides &amp; skins</td>
<td>727</td>
<td>3.7</td>
</tr>
<tr>
<td>Animal feeds</td>
<td>526</td>
<td>2.6</td>
</tr>
<tr>
<td>Wool</td>
<td>445</td>
<td>2.2</td>
</tr>
<tr>
<td>Cereals</td>
<td>339</td>
<td>1.7</td>
</tr>
<tr>
<td>Dairy</td>
<td>329</td>
<td>1.7</td>
</tr>
<tr>
<td>Meats</td>
<td>56</td>
<td>0.3</td>
</tr>
</tbody>
</table>

3 commodities explain 60% of import growth

Industrial demands account for 41% of import growth

Country Composition of China’s Agri-food Import Growth: basically a 3-4 country story

<table>
<thead>
<tr>
<th>Country/Region</th>
<th>Change 2002-2006</th>
<th>Share of change</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>1,9648</td>
<td>100</td>
</tr>
<tr>
<td>ASEAN 10</td>
<td>5,292</td>
<td>26.7</td>
</tr>
<tr>
<td>USA</td>
<td>4,516</td>
<td>22.8</td>
</tr>
<tr>
<td>Brazil</td>
<td>2,660</td>
<td>13.4</td>
</tr>
<tr>
<td>Argentina</td>
<td>1,507</td>
<td>7.6</td>
</tr>
<tr>
<td>South Asia¹</td>
<td>1,099</td>
<td>5.5</td>
</tr>
<tr>
<td>EU25</td>
<td>910</td>
<td>4.6</td>
</tr>
<tr>
<td>Australia</td>
<td>865</td>
<td>4.4</td>
</tr>
</tbody>
</table>

63% of the import growth supplied from these 3 sources

Just 4 trade flows account for 42% of import growth

¹ India, Pakistan, Bangladesh, Sri Lanka, Nepal, Bhutan
**Commodity Composition of China’s Agri-food Export Growth: expansion is a horticultural story**

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Change 2002-2006</th>
<th>Share of change</th>
</tr>
</thead>
<tbody>
<tr>
<td>All agri-food</td>
<td>8,155 U$million</td>
<td>100 %</td>
</tr>
<tr>
<td>Horticulture</td>
<td>2,623</td>
<td>32.2 %</td>
</tr>
<tr>
<td>Processed horticulture</td>
<td>2,024 U$million</td>
<td>24.8 %</td>
</tr>
<tr>
<td>Meats</td>
<td>652</td>
<td>8.0 %</td>
</tr>
<tr>
<td>Beverages</td>
<td>493</td>
<td>6.0 %</td>
</tr>
<tr>
<td>Miscellaneous edible processed foods</td>
<td>450 U$million</td>
<td>5.5 %</td>
</tr>
<tr>
<td>Preparations of cereals etc</td>
<td>407</td>
<td>5.0 %</td>
</tr>
</tbody>
</table>

57% of growth due to horticulture

**Country Composition of China’s Agri-food Export Growth**

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<th>Change 2002-2006</th>
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<tbody>
<tr>
<td>World</td>
<td>8,155 U$million</td>
<td>100 %</td>
</tr>
<tr>
<td>NE Asia¹</td>
<td>2,578 U$million</td>
<td>31.6 %</td>
</tr>
<tr>
<td>EU25</td>
<td>1,368 U$million</td>
<td>16.7 %</td>
</tr>
<tr>
<td>USA</td>
<td>1,210 U$million</td>
<td>14.8 %</td>
</tr>
<tr>
<td>ASEAN 10</td>
<td>776</td>
<td>9.5 %</td>
</tr>
</tbody>
</table>

40% of growth to near-Asian countries

¹ Japan, Republic of Korea, Hong Kong and Macao.
Summary of recent trade reforms

- China’s average agricultural MFN tariff has declined:
  - From 18.5% in 2002 to around 15% in 2005.
  - But the decline in China’s agricultural tariffs had commenced prior to WTO accession – in 1997 average agricultural tariff was around 33%.

- TRQs
  - For major grains & soybeans in 1996
  - Soybeans TRQ removed in 2002 & tariff = 3%
  - Vegetable oils TRQ removed in 2006
  - Cotton TRQ from 2002, but quotas significantly increased 2003-05
  - Also wool and sugar TRQs

- Rubber had been restricted by quota, these removed in 2005 & tariffs reduced

- STEs still involved in importing

- But private firms can access portion of quotas
  - 40% of maize, 67% cotton, 30% sugar

What’s driving imports?

- WTO accession – agricultural reforms?
  - Anderson projected only “modest” import impact, equiv. to 1% annual imports

- WTO accession: FDI?
  - FDI grew 10.5% p.a. 2000-2005
  - But also grew 10% p.a. 1993-98
  - Contributes to industrial growth
    - E.g. 2 million vehicles made before 2000, 6 million by 2005

- Removal of MFA quotas?
- Opening quotas to private trade?
- Expansion of cotton quota?
Incentives & distortions

- Industrialisation partly financed by transfers from Agriculture (Mao)
- Producers taxed from agric & trade policies in early reform years (rice, maize, cotton)
- Producer prices had been depressed due to compulsory purchases (grains, cotton)
- Positive protection to import competing (sugar, milk)
- SPS regulations of importers have restricted meats & FV exports
- New support policies for maize
- Now, China’s agriculture is one of least-distorted globally
- PSE of 8% in 2005 (OECD 2007).

Nominal rates of assistance: farmer versus border prices (Huang et al. 2007)
- includes border & domestic market distortions -
China's comparative advantages within agriculture

...and this reflects underlying trends in comparative advantages
Commodity shares in China agri-food imports
(shown commodities comprise at least 82% total agri-food imports)

Note share of total animal products declining: &
growth in vegetables, fruit & processed

Shares of China's agri-food exports
(commodities shown sum to over 80% total agri-food exports)
When will China import coarse grains?

- For some time, researchers have predicted this, but didn’t happen.
- Actual (Comtrade) was exports of 3.11 mt, and net exports of 0.88 mt.
- Maize the main export – barley the main import.

Net imports of maize vs meats (grain equivalents)

NE Asia = Japan, Korea & Taiwan
In last two years, China’s net exports of maize: 8.6 and 3 mt