

Monitoring Agri-trade Policy

MAP

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China: Out of the Dragon's Den

Summary

China is one of the fastest growing economies today and is the third largest trader after the EU and the US. It became a net importer in 2003 and its agricultural trade deficit was around \$6 billion by 2006. The EU has an agricultural trade deficit of €1.8 billion with China, with trade focused mainly on final products. The focus of this MAP is on trade, one of the key drivers of economic growth since China joined the WTO in 2001. China tends to import commodities and to export final products, reflecting the scarcity of natural resources and the abundance of relatively cheap labour. Increases in income and urbanization are leading to a shift in diets away from food staples and increased meat consumption. China's feed imports are expected to grow sharply over the coming decade and its dominance of world edible oils imports is consolidated. With exports, especially of fruits and vegetables, also on the increase, China's impact on world agricultural markets can only become stronger.

The role of agriculture in China's economy

With more than 1.3 billion of inhabitants, China is the most populous country in the world. Today China is one of the world's economic giants. In 2007 it was the world's 4th largest economy and is set to move into 3rd place this year, overtaking Germany. Since 1982 GDP growth has rarely gone below 9% and yet, in terms of GDP per capita, China is ranked as low as 104th in the world according to the IMF.

China's booming economic growth is mainly due to the ongoing reform process that, since 1978, has gradually transformed the country from a planned to a more market based economy, which has accelerated since its accession to WTO in December 2001. Since then China has carried out significant trade reforms including tariff reductions for both agricultural and non-agricultural products.

Although the growth of the economy has improved living standards, rural poverty remains a constraint to China's social and economic development. The urban-rural income gap, already among the widest in the world, with rural incomes less than a third of urban income, is continuing to widen. The share of the agriculture sector has been declining and accounted for just 11.9% of GDP in 2006. However agriculture is still a key employer at 39% of total employment, reflecting the large gap in labour productivity compared to the rest of economy.

The current surge in food prices is stoking inflation in China. With a high percentage of household budgets being spent on food, the government's response has been to increase production incentives for key products as well as to impose price controls, trade restrictions and to allow the exchange rate to appreciate.

Agricultural Trade

Trade has been one of the key drivers of economic growth since China joined the WTO in 2001. Since 2004 China is the third largest trader after the EU and the US and its total trade is equivalent to nearly 70% of GDP. China's economic growth and its accession to WTO have increased trading opportunities for the EU and others.

China became a net importer in 2003 and its agricultural trade deficit reached \$6.1 billion by 2006. The country tends to import commodities and to export final products, reflecting the scarcity of natural resources like land and water and abundance of relatively cheap labour. After WTO accession in 2001, trade in agri-food expanded sharply. In particular the value of imports grew dramatically in 2003 and 2004 following tariff cuts, especially commodities, mainly soybeans and cotton.

China's Trade with the EU27

The EU has an overall trade deficit with China and an agricultural trade deficit of €1.8 billion. The EU's main exports are spirits, flax (to meet demands of China's rapidly expanding textile industry) and whey. The EU's top agricultural imports from China included guts and bladders, cashmere, fruits, vegetables and nuts. China was the EU's 4th biggest supplier in 2007.

Outlook for Chinese agriculture and trade

The outlook for China over the coming decade is for continued expansion though growth is expected to slow down from the two digit rates seen in recent years.

Increases in income and urbanization are leading to a shift in diets away from food staples and increased meat consumption. Until now China's policy goal has been self-sufficiency in food grains and to encourage livestock production. Therefore its feed imports are expected to grow sharply over the coming decade. China is today the world's largest soybean importer (at 43% of global imports in 2006) and could increase its share to 57% with a decade.

China's dominance of world edible oils imports is also expected to grow. It is also predicted to become a net importer of maize, wheat, meats and dairy (though it is unlikely to become a major importer of dairy products in the near future). With exports, especially of fruits and vegetables, also on the increase, China's impact on world agricultural markets can only become stronger.