

# MAP

## Monitoring Agri-trade Policy

Directorate-General for Agriculture and Rural Development



## China: Out of the Dragon's Den?

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### Introduction

Today China is one of the world's economic giants, the 4th largest in 2007 in terms of GDP. Annual growth has rarely gone below 9% for nearly three decades and should remain strong despite the global economic slowdown and rising domestic inflation, partly driven by the current surge in food prices. With a high percentage of household budgets being spent on food, the government has introduced measures within the food and agriculture sector to address food supply and tackle inflation. Other concerns for China include the growing income gap between urban and rural areas and the need to address structural under employment in agriculture.

The focus of this MAP is on trade, which has been one of the key drivers of economic growth since China joined the WTO in 2001. After WTO accession, trade in agri-foods expanded sharply, especially imports of soybeans and cotton and exports of fruits and vegetables. China is now the third largest trader after the EU and the US. It became a net agricultural importer in 2003 with a deficit of over \$6 billion by 2006, mainly importing commodities and exporting final products, reflecting the scarcity of land and water and the availability of relatively cheap labour.

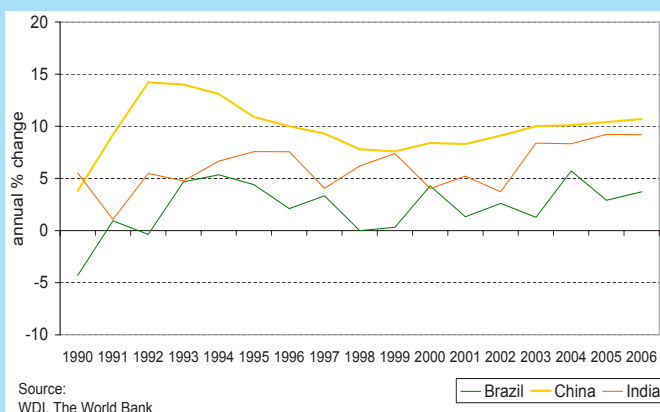
Increases in income and urbanization are leading to a shift in diets away from food staples to proteins, especially meat. Increased meat demand is likely to lead to sharp growth in feed imports and China's dominance of world edible oils imports is also expected to grow. Meanwhile it is likely to consolidate its position as a leading exporter of horticultural products. China's agricultural trade deficit is set to grow over the coming decade, offering trading opportunities for the EU and its other partners.

## Economic Environment

Today China<sup>1</sup> is one of the world's economic giants. In 2007 it was the fourth largest economy in terms of Gross Domestic Product and this year it is on course to overtake Germany as the world's third biggest economy.

China's growth is mainly due to ongoing economic liberalisation, which started in 1978 and accelerated since its accession to WTO in December 2001. This turned the country into a global economic power, which has achieved an average growth rate of nearly 10% per year over the past 3 decades, ahead of other emerging economies, India and Brazil as shown in graph 1.

**Graph 1: GDP growth in China, India and Brazil**

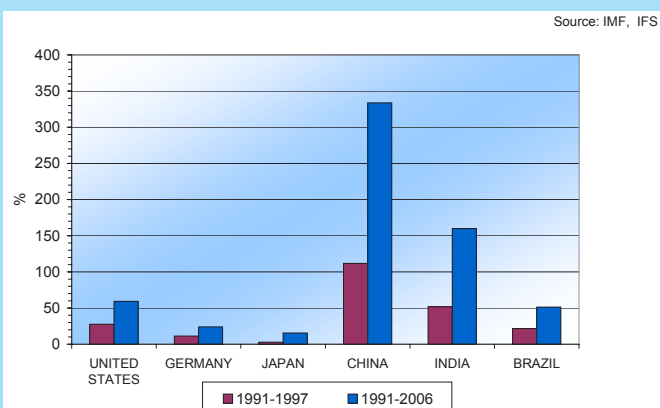


Since 2003 GDP has grown by 10 % or more, reaching 11.9% in 2007, the fastest growth for 13 years. In 2008 however, according to China's own forecasts, growth could ease back to around 10%, as the government introduces measures to control inflation at the same time as exports to the US are likely to slow down. Nevertheless the government's target of doubling GDP between 2000 and 2010 should be achieved.

The impact of accumulated growth in China, India and Brazil, compared to the top 3 economies, is shown in

graph 2. China achieved a remarkable 330% growth from 1990-2006, far ahead of its nearest rival India which "only" managed around 160% growth over the same period, despite high annual growth rates (MAP 03-07).

**Graph 2: GDP accumulated growth, constant prices**



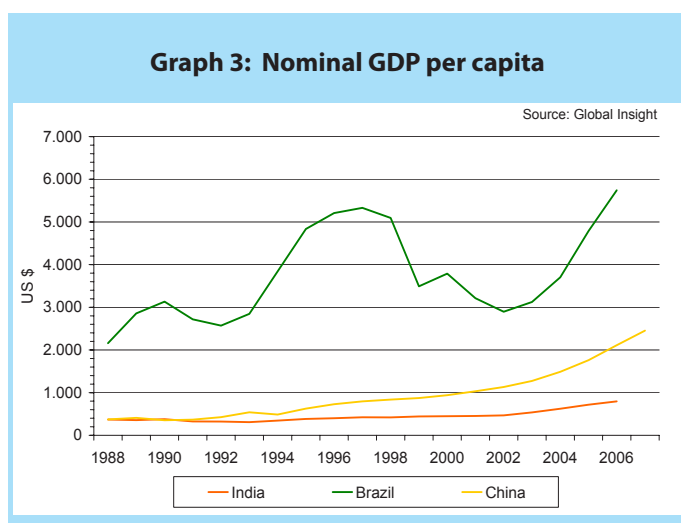
With more than 1.32 billion inhabitants in 2007, China is the most populous country in the world and should peak at around 1.46 billion by 2030 according to the UN. As a consequence of the "one child" policy, China is now one of the most rapidly "aging" countries in the world. By 2022 the population over 60 years will exceed that under 14 years of age.

The OECD considers that the urban share of the population at 41% (2003) is low compared with countries with a similar level of development, though a rapid increase is projected. By 2016 the urban population will be bigger than the rural population and the urban share should reach 60% by 2030 says the UN.

The growth of the economy has improved living standards in China. According to OECD, income growth has lifted 400 million people out of poverty between 1979 and 2002. Nevertheless, household incomes remain low and indeed inequalities have widened.

<sup>1</sup> In this MAP we refer to mainland China throughout.

Rural poverty remains a constraint to China's social and economic development with an estimated 88 million farmers earning less than \$1 a day at purchasing power parity in 2002 (World Bank definition of poverty). Of those defined as poor, some 99% live in rural areas.



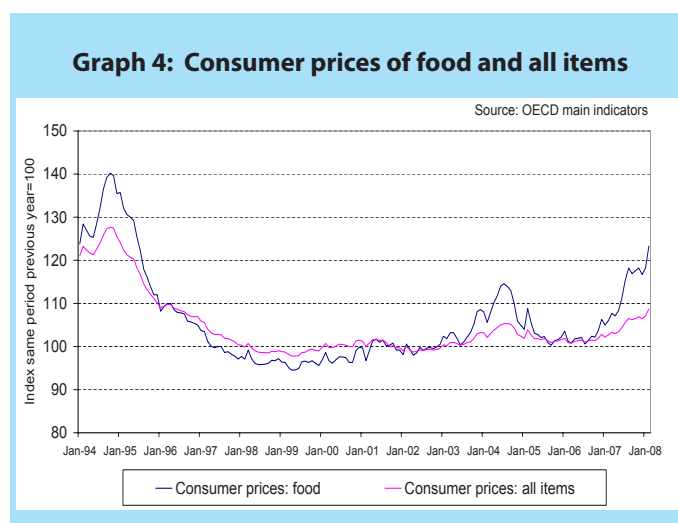
In terms of nominal GDP per capita, China is ranked as 104th in the world, with an estimated \$2,450 in 2007, up from \$2,110 in 2006. This compares with \$5,740 in Brazil and less than \$800 in India (2006), as shown in graph 3 above.

One of China's main concerns now is consumer price inflation, which, having been brought under control in 2005 and 2006, is now on the upturn (see graph 4).

In 2007 inflation reached 4.8%, more than 3 times higher than in 2006 and well above China's 3% target. In March 2008, inflation reached a 12 year high of 8.3%, pushed up by soaring food and energy costs, which rose 21.4% in the year to March 2008.

Although the share of food in household spending is falling as incomes rise, it was still high in 2005, according to OECD (37% for urban households and 46% for rural households). Therefore, tackling inflation is now a key government policy objective. The government's

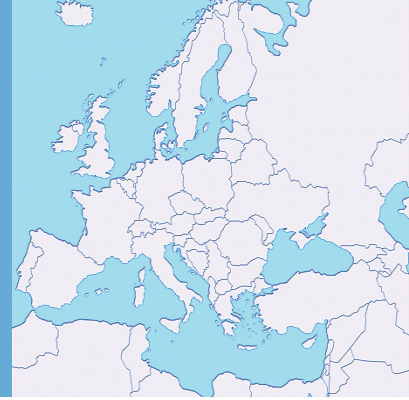
response has been to impose price controls for key products i.e. grains, edible oils, meat, milk and eggs. It has also introduced trade restrictions and increased incentives for the production of staples.



China has also allowed its currency to appreciate in recent years, partly to contain inflation and partly in response to criticism that the yuan was being kept artificially low in order to boost its competitiveness in global markets. Until July 2005, the currency was pegged to the US\$. China then moved to a managed floating exchange rate regime against a basket of currencies. Since then the yuan has appreciated by around 19% against the US\$.

Industry and services are the main drivers of the Chinese economy, together accounting for over 88% of GDP in 2006. The importance of agriculture has declined with its share in overall GDP falling from 27% in 1990 to below 12% in 2006, according to the World Bank (graph 5).

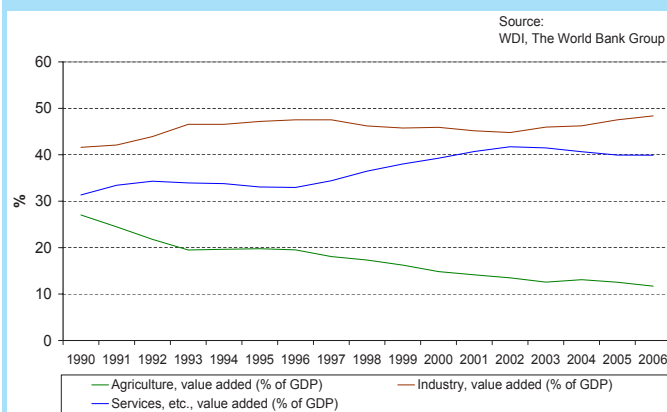
Yet agriculture is still a key employer at 39% of total employment, reflecting the large gap in labour productivity compared to the rest of economy and under-employment in the sector. OECD noted that labour productivity in non-agricultural activities was more than four times that of agriculture in 2001. The productivity gap has created an urban-rural income gap in China which is among the widest in the world.



## Agriculture Structure

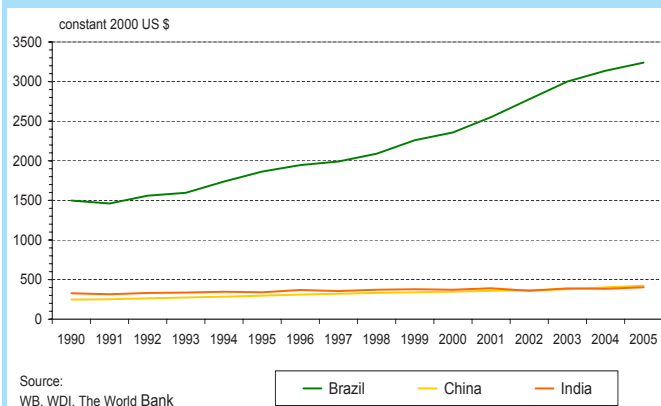
The Bank of Finland Institute for Economies in Transition (BOFIT) data shows that in 2007 monthly net income in rural areas was still only one third of that in urban areas.

**Graph 5: Main sectors of China's economy in GDP**



Compared to other emerging economies, agricultural value added per worker is low; \$423 in 2005 (measured in constant 2000 prices in US\$), slightly ahead of India at \$403 but only around one eighth of that of Brazil at \$3,240, as shown in graph 6 below.

**Graph 6: Agriculture value added per worker**



With a total area of 9.6 million squared km, China is the third largest country after Russia and Canada. Its agriculture is dominated by small scale farming, with around 200 million farm households of just 0.6 ha. Grassland is nearly 42% of land area and forests 16.6%. Arable land accounts for only 13.5% (122 million ha), just above the minimum level of 120 million ha (set under the 11th Five Year Plan in 2006 to ensure a high level of food self-sufficiency). There are even projections that the area of arable land may fall as low as 115 million hectares by 2030. Given the constraints on land, growing consumer demand will have to be met by a combination of higher yields and imports.

## Agriculture Policy

China's agricultural policy is now facing a number of challenges. Historically the objective of food security, especially grain self-sufficiency, has been the key driving force behind policy and the provision of an adequate supply of affordable food is still a top priority today.

Before 2004 state pricing and state procurement were in place for key agricultural commodities, aimed at keeping prices low for urban consumers. China's protective price support was notified to the WTO as negative Aggregate Market Support (AMS) for 1999-2001 (the latest period of notification), because the world market reference price was above the domestic price for rice, wheat and maize (although cotton support was positive).

In 2004 government policy shifted away from taxing agriculture to providing a net transfer to the sector in order to support rural incomes (WTO Trade Policy Review Report (TPR) 2006). A minimum purchase price scheme was introduced for key grains (which applied to rice and wheat in 2005). Most markets were liberalized, with producers permitted to switch out of grain into other sectors. However the state is still involved in procurement of grain. The government also introduced



other measures to raise producers' disposable income, including direct subsidies (based on the area of maize, rice or wheat), input subsidies, lower taxes and land reform.

According to OECD, the overall level of producer support is low, but has grown in recent years. It estimated that support to producers as measured by the Producer Support Estimate (PSE), rose from 3% in 1995-97 to 8% in 2003-05 (still well below the OECD average of 30%). However producer support is mainly market price support and the level varies between commodities. The highest support applies to those commodities that are imported but also maize and rice which are exported. On average producer prices were 5% higher than equivalent world market prices of 2003-05. However prices for cotton, sugar and maize were 20% higher while wheat prices were 10% lower than equivalent world market prices.

The TPR report also agrees that transfers to producers have increased but claims that domestic support is still negligible or even negative if taxes applied to agriculture are included. The report also states that the challenge of food security can lead to constant modification of China's agricultural policy to deal with production surpluses or shortages. In 2007 the government provided an estimated 42.7 billion yuan (\$5.9 billion) in grain and input subsidies, up 63% on 2006. Early in 2008 the government announced new measures to stimulate production of grains. These include an increase in minimum grain prices of up to 9% as well as further subsidies for production, inputs, processing and distribution. For 2008 total subsidies are estimated at 75.9 billion yuan (US\$10.8 billion).

## Key Agricultural Sectors

The table shows the composition of China's production ranked by value for 2003-05. The top sector is paddy rice followed by fresh vegetables. China is also the world's leading producer of its top 10 sectors, except for maize, in

which it is ranked second. Fruits and vegetables account for six out of the top 10. Furthermore all the sectors within the top 11-20 are specialist fruits and vegetables, with the exception of cows milk (the 14th sector in value terms) and other eggs.

**Table1: Top 10 sectors of China & world rank**

Commodity	Rank China	World Rank 2005	Production Avg 2003-2005	
			Billion \$	Million T
Paddy rice	1	1	37,2	176,1
Fresh vegetables (other)	2	1	26,1	140,0
Hen Eggs	3	1	20,1	23,5
Maize	4	2	14,7	126,4
Wheat	5	1	14,3	91,6
Sweet Potatoes	6	1	10,7	106,7
Potatoes	7	1	10,2	70,4
Asparagus	8	1	9,1	5,7
Garlic	9	1	8,1	10,6
Tomatoes	10	1	7,1	30,2

Source: FAOSTAT, world rank calculated by DG Agri

There has been a reallocation of resources in line with China's comparative advantage says OECD. The share of cereals in total area fell from 63% in 1991 to 50% in 2003, while the share of fruit and vegetables rose from 8% to 18%. Within the cereals sector too there has been a shift away from rice and wheat into maize, to meet growing feed demand, in line with changes in food consumption patterns.

China is also the world's leading producer of pigmeat in volume terms, and ranks as the second and third chicken and beef producer. Pork is the most popular meat in China, accounting for 50% of animal protein although poultrymeat, fish and eggs are also growing in importance.



## Trade Policy

Before China's accession to the WTO in 2001, foreign agricultural trade was monopolised by a small number of State Trading Enterprises (STEs). Despite reforms, state trading persists for grains and other sectors which operate Tariff Rate Quotas (TRQ). Following WTO accession, tariffs were entirely bound and significantly reduced. Applied tariff rates are generally close to bound rates. According to the TPR report, average agricultural tariffs fell from 23.1% in 2001 to 15.3 % in 2005. They remain largely unchanged since then. Only the soybean tariff was cut to 0-3% from 2002 (compared to 114% out-of quota rate in 1997). Preferential tariff rates apply to imports from ASEAN, some Asian and Pacific countries and African Less Developed Countries.

Furthermore, import quotas were converted to TRQs which remain for imports of key products, e.g. wheat, rice, maize, sugar, wool and cotton. In January 2006 TRQs for edible oils were removed and replaced with import licences. OECD (2006) notes that the highest over-quota tariff of 65 % may be charged on wheat, maize and rice imports, but that in-quota tariff rates are much lower (see table 2).

There is variation in the level of protection applied across commodities, with the lowest tariffs in those sectors where China has a comparative advantage. Meanwhile sectors such as grains, sugar and tobacco still benefit from a higher level of protection than average.

However there are other measures, including import prohibitions and export restrictions, which hamper the development of trade. In terms of exports, China has notified the WTO that it does not subsidize agricultural exports. Nevertheless it offers other programs intended to boost exports. These include subsidies of sales from government held reserves, waivers for transportation taxes, subsidies for port fees, and rebates of value added tax. In addition export restrictions are applied to avoid domestic shortages of grains and cotton.

**Table 2:**  
**China's Tariff Structure for selected products (2008)**

Product	Average Applied (%)	In-Quota (%)
Animal products	12-20	
Dairy	10-12	
Cereals & Rice	65	1
Sugar	50	15
Soybeans	0-3	
Other oilseeds	9-15	
Edible Oils	9-10	
Oilcake	5	
Fresh vegetables	10-13	
Spirits	10	
Wine	14	
Beer	0	
Cotton	40	0-1
Flax	6	

Source: FAPRI 2008<sup>2</sup>

## Trade Flows

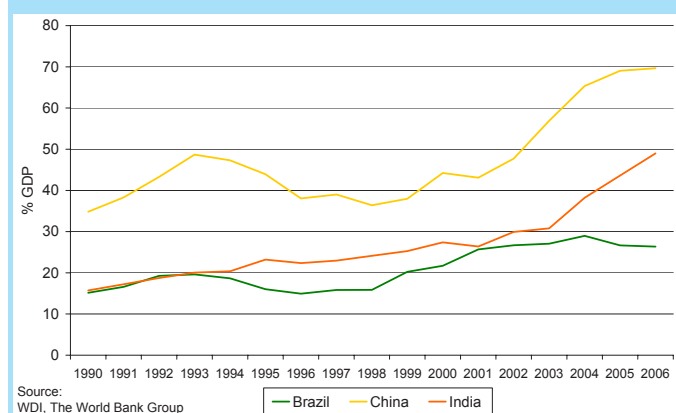
Since joining the WTO in December 2001, China's growth seems to have been driven largely by exports and investment according to the TPR report. The UN's COMTRADE data shows that in 2004 China overtook Japan as the world's third largest trader after the EU and the US, accounting for 6.7% of world trade. In 2006 total Chinese trade amounted to nearly 70% of GDP, up from 43% in 2001 and well above that of India (49%) and Brazil (26%) as shown in graph 7. In 2006 China had an overall trade surplus of over \$200 billion.

The share of agri-food trade in total Chinese trade has been steadily declining indicating slower growth in agriculture than in other sectors of the economy. In 2006 exports of agricultural products

<sup>2</sup> FAPRI is the Food and Agricultural Policy Research Institute

accounted for only 3.4% of overall Chinese exports while the corresponding share for imports was 6.5%. China was the 5th largest exporter (4.8%) and the 4th largest importer of agricultural products (6%) in 2006.

**Graph 7: Trade as % of GDP**



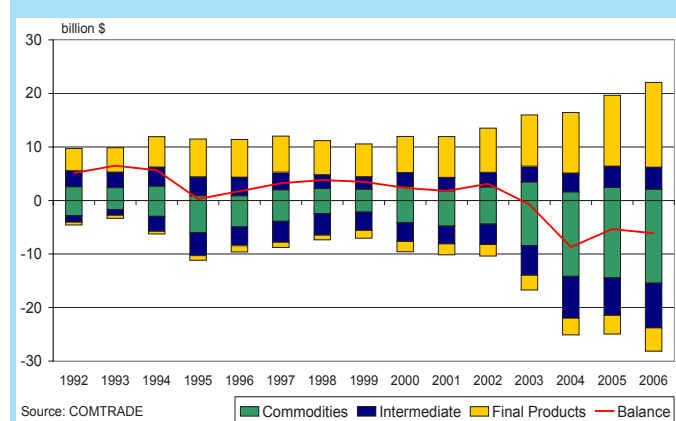
Having been a net exporter of agricultural products until 2002, China became a net importer in 2003. By 2006 the agricultural trade deficit was \$6.1 billion. China tends to import commodities and to export final products (see graph 8), reflecting the scarcity of the country's natural resources such as land and water and abundance of relatively cheap labour.

After WTO accession in 2001, trade in agri-food expanded sharply, with exports nearly doubling in value by 2006 (to \$22 billion) and imports growing almost threefold (to \$28 billion). In particular the value of imports grew dramatically in 2003 and 2004 (by 60% and 50% respectively) following tariff cuts (almost \$15 billion in just 2 years). Almost \$10 billion of this growth was due to commodities, mainly soybeans and cotton.

The composition of China's trade has changed considerably. From 1999 to 2006 the value of commodity imports grew sevenfold to reach 56% of agri-food imports by 2004-2006. From 1999 to 2006 the share of imports of intermediate products fell from 48% to 30% and final product imports dropped from 20% to 14%.

Turning to exports, the share of final products has grown since China's WTO accession and in 2004-2006 accounted for 70% of global Chinese agri-food exports. Meanwhile the share of commodities has declined to 10 %, while intermediate products have been stable at around 20%.

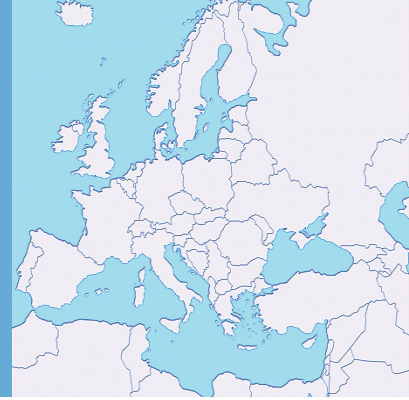
**Graph 8: Structure of agricultural trade**



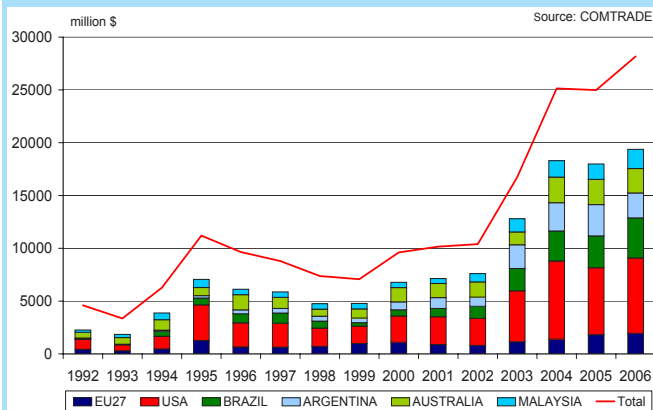
## China's main import partners

Given the importance of commodities in imports, it is not surprising that China relies on a few key suppliers (as shown in graph 9). In 2006 just 6 countries supplied almost 70 % of imports. China biggest import partner is the USA, which accounted for 25% of imports in 2006. Brazil and Argentina were in 2nd and 3rd place respectively with 13.5% and 8.4% of imports. The EU was ranked 5th with 6.9%, after Australia.

In terms of market share Brazil gained from the liberalisation of trade with China after WTO accession, increasing its market share from 11% to 13.5%. Meanwhile the EU and Australia both lost ground. Although the value of the EU's imports rose from \$800 million to nearly \$1.95 billion, the EU's market share fell from 7.6% to 6.5%. Australia fared even worse with a drop from 14% to just 8.2% (largely due to the loss of cotton market share to India and the US).



**Graph 9: China's agri-food imports by origin**

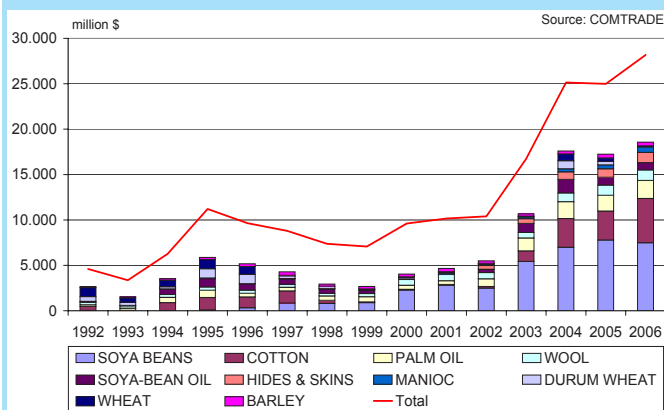


twenty seven-fold from just \$180 million in 2002 to \$4.9 billion, as the textile industry has expanded. In 2006 China accounted for nearly half of global cotton imports (46%). It also dominates the global wool trade (62%). Wool imports have grown by over 60% and now represent 4% of agricultural imports. Hides and skins have also seen strong growth of 280% and now account for 3.7% of the value of imports.

Edible oils such as palm oil (7.2%) and soybean oil (4%) have also increased sharply, reflecting changing consumption patterns, with China accounting for 31% and 23% of global imports (2006).

The evolution of imports is shown in graph 10. Seven out of the top ten imports are commodities. China's top import is soybeans, valued at \$7.5 billion in 2006 and accounting for 28% of the value of agricultural imports in 2004-06. Compared to 2002 (the year tariffs were cut to 3%) this represents a tripling in the value of imports. Indeed China dominates the world soybean trade, accounting for 44% of world soybean imports in 2006, up from 21% in 2002.

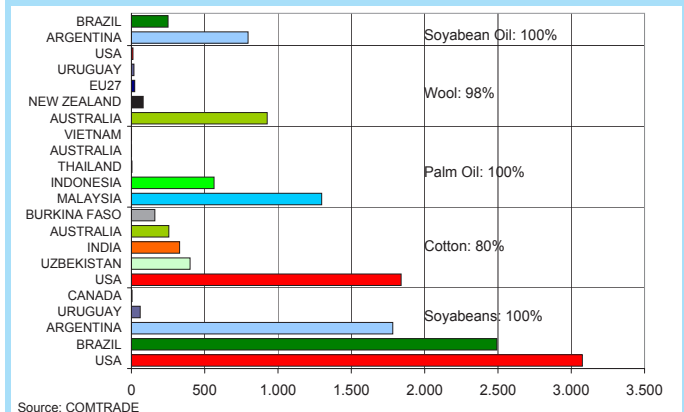
**Graph 10: China's top 10 agricultural imports**



The second most important import is cotton, which accounted for 14% of import value in 2004-06. The growth in this sector has been phenomenal, rising

Graph 11 highlights the dependence of China on its key suppliers for its top 5 imports for 2004-2006. Soybean imports are supplied by the USA (41.5%), Brazil (33.5%) and Argentina (24%) with a small amount coming from Uruguay. The USA has lost market share to Brazil since 1999 when it had 58% of the market, compared to Brazil's 19%.

**Graph 11: China's top 5 imports by origin**  
Average 2004-2006 (million US \$)



The USA is also the biggest supplier of the second most important import i.e. cotton, with nearly 50% market share, compared to just 30% in 1999. India, as the third biggest supplier (after Uzbekistan), has also increased its market share from 1% to nearly 9%. This growth came at

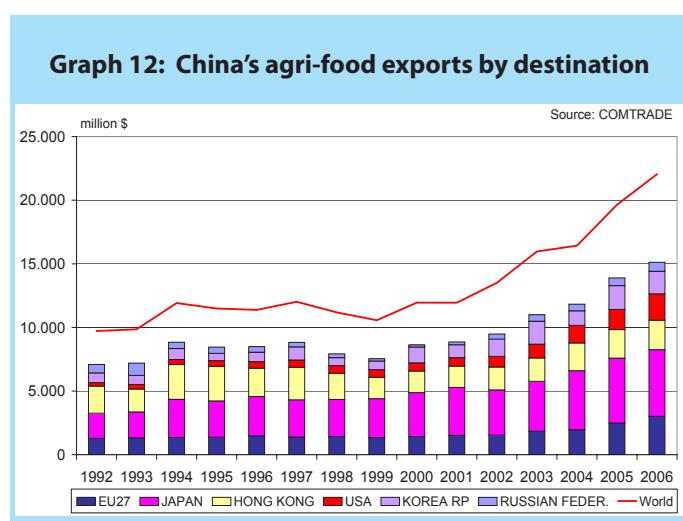


the expense of Australia whose share dropped from 28% to below 7%.

The concentration of suppliers is even more pronounced for edible oils. There are just 2 suppliers of palm oil, Malaysia and Indonesia, with the former accounting for 70% of the trade. Argentina dominates the soybean oil trade accounting for 76% of China's market, leaving the rest to Brazil. Similarly for wool, Australia and New Zealand are the key suppliers with Australia accounting for 86%.

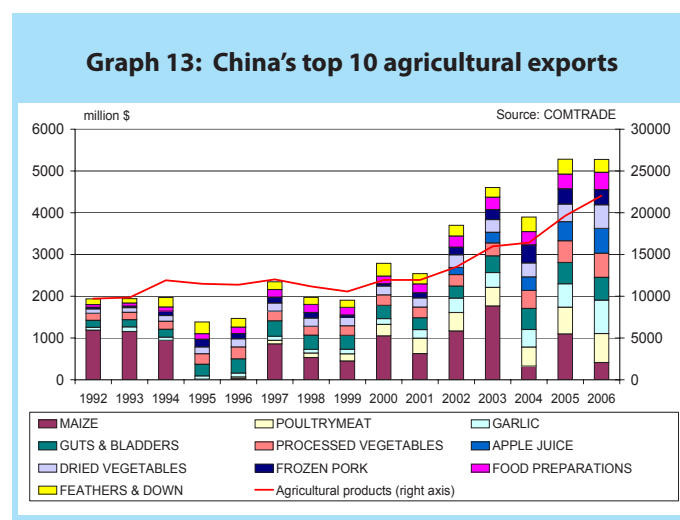
## And China's exports....

China's main export partners have remained remarkably constant (see graph 12). Japan is by far the biggest market accounting for 24% of total agricultural exports, with the EU in second place at 14% in 2006. Hong Kong and the USA lie in 3rd and 4th place respectively. Within this group, however, there has been some diversification. Both Japan and Hong-Kong's shares have fallen since WTO accession, while those of the US and EU have expanded (the latter increasing from 11.4% in 2002 to 13.6% in 2006).



Exports have grown since WTO accession in 2001. They are dominated by final products, with 9 out of the top

10 exports falling into this category. Maize tends to fluctuate sharply and have been largely responsible for the fluctuation in overall exports. Three of the top 10 products are vegetables. Graph 13 ranks exports on the basis of average 2004-2006 trade.

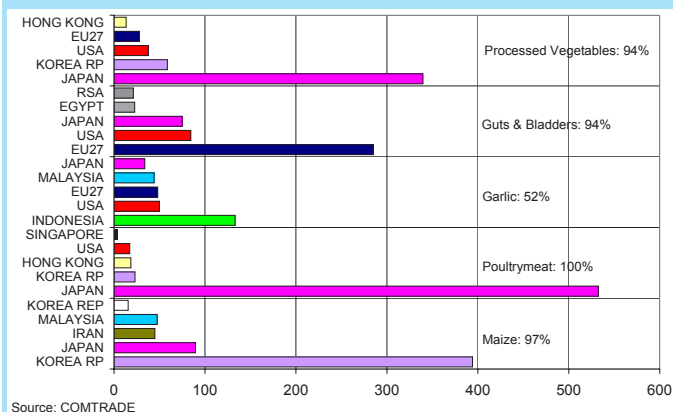


The top 3 products, maize, prepared poultrymeat and garlic, each account for around 3% of total agricultural exports. However China dominates a number of these markets in global terms. In 2006 it accounted for one third of total prepared poultrymeat exports, but 83% of garlic, 68% of dried vegetables and 61% of global apple juice exports.

Graph 14 shows the destination of the top 5 exports and concentration in key markets. Japan is the top market for poultrymeat, with 89% of exports and processed vegetables, absorbing two-thirds of China's exports. It is also a significant market for the other top exports of maize, garlic and guts and bladders. The maize market is concentrated on a few neighbouring countries which account for 97% of exports. Meanwhile the EU is the top market for guts and bladders, accounting for 55%, followed by the US at 16%. The EU and the US are also important markets for garlic (both 8%) and processed vegetables, in which the EU absorbs 5.5% of exports.



**Graph 14: China's top 5 exports by destination**  
Average 2004-2006 (million US \$)



## Chinese Trade with EU-27

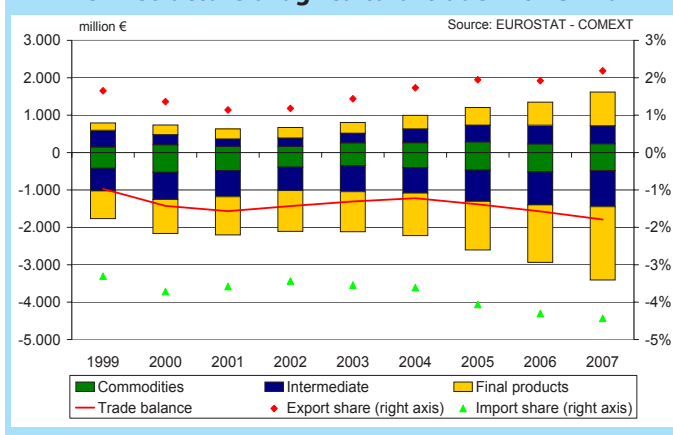
Here we take a closer look at the EU's declared trade with China, based on Eurostat COMEXT data expressed in Euros. The EU had an overall agricultural trade deficit with China of €1.8 billion in 2007 as shown in graph 15. While the value of EU agricultural imports grew from €1.8 billion to €3.4 billion, exports increased from roughly €0.8 billion in 1999 to €1.6 billion in 2007.

China is the EU's 10th biggest market (considering individual countries), but accounts for just 2.2% of the EU's total agricultural exports. This may be explained partly by non-tariff measures, including China's sanitary and phytosanitary rules. Meanwhile the EU's imports from China are equivalent to 4.4% of total EU agri-food imports, compared to 3.3% in 1999. So China has gained market share overall and was ranked as the EU's 4th biggest supplier in 2007.

The EU's exports of commodities to China grew by 57% between 1999 and 2007. This growth was fuelled by exports of raw materials for the textile industry (cotton, flax and hemp). However final products showed the biggest growth overall, increasing more than four-fold from €200 million in 1999 to €900 million in 2007 and now account for 55% of exports.

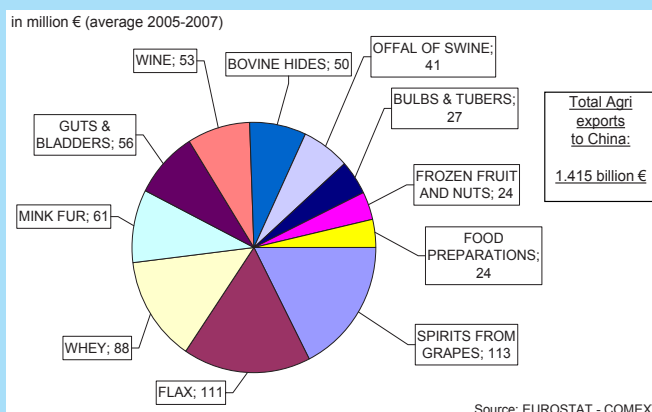
Turning to imports, the EU's imports of commodities from China have been relatively stagnant between 1999 and 2007. Meanwhile intermediate products grew by 60% over the period and final products grew by 260% to reach nearly €2 billion, 57% of total imports.

**Graph 15:**  
EU27 structure of agricultural trade with China



The breakdown of the EU's exports to China, ranked by the average 2005-2007, is shown in the graph below. The EU's biggest export is spirits from grapes, followed by flax and whey. Of the products shown, most are final products. Only flax is a commodity, while furs, hides, guts and bladders are intermediate products.

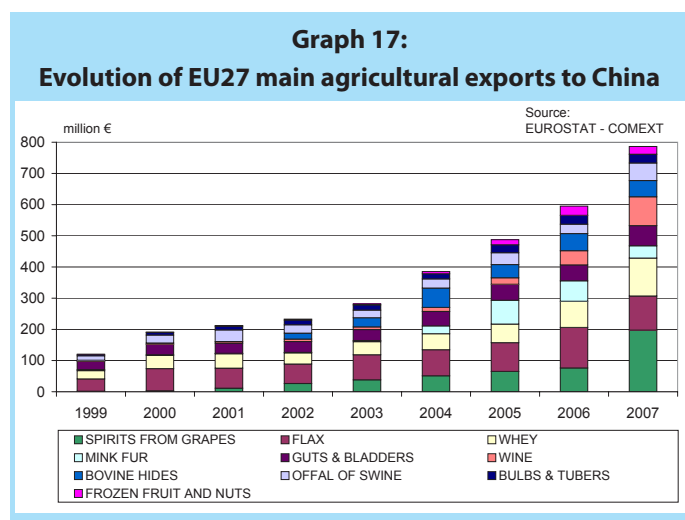
**Graph 16: EU27 main agricultural exports to China**





The trend in EU exports to China is shown in graph 17. Exports of grape spirits have grown rapidly since 2001 and were valued at nearly €200 million in 2007. Wine exports have grown more slowly to around €90 million. The EU faces higher duties on wine than on spirits (as seen in table 2).

The growth of the Chinese textile industry fuelled EU flax exports which grew by 76% between 2002 and 2007. It also explains the growth in exports of cattle hides and mink fur, which jumped from an extremely low base to around €50 and €40 million respectively in 2007.



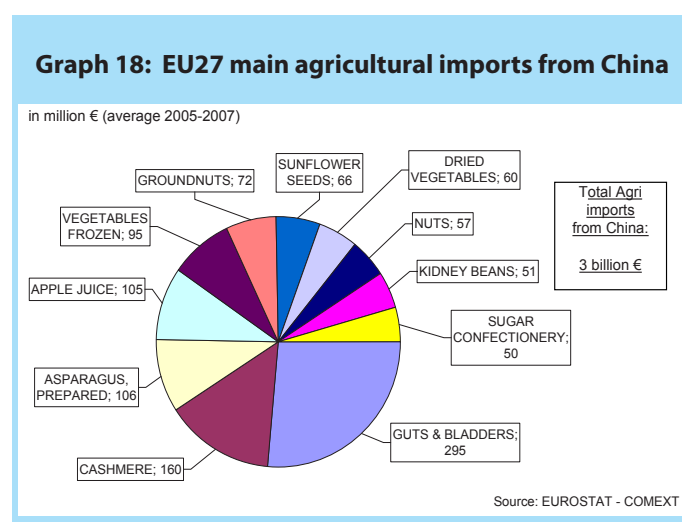
The importance of the Chinese market for the EU depends on the product. Although grape spirits is the biggest category, China accounts for just 7.5% of EU exports. By contrast China absorbs 91 % of all EU flax exports. It also buys 39% of EU exports of hides, 26% of guts and bladder exports and 25% of whey exports.

On the other hand, although wine is the EU's fifth largest export to China, this market represents only 1.4% of the EU's wine exports. The CATSEI<sup>3</sup> report anticipates further

3 CATSEI - "China's agricultural prospects and challenges" Dec 07 report for Chinese Agricultural Transition, Trade, Social and Environmental Impacts (CATSEI) research project, financed within the EU Research Framework Programme.

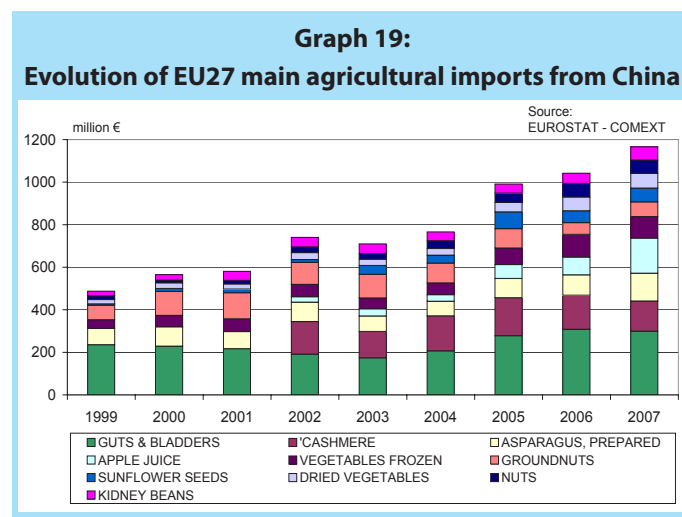
expansion in exports of EU high quality products and the trade in fruits, vegetables, bulbs and also poultry to continue as "two-way traffic".

Turning to imports, the breakdown of the EU's imports from China is shown in graph 18.



Final products account for all but two of the top products shown. The largest import is guts and bladders (valued at nearly €300 million) followed by cashmere wool.

The evolution of imports is shown in graph 19.



Since 1999 guts and bladders is the biggest product imported from China. Trade flows in both directions with over half the EU's imports of this product worldwide coming from China. The EU also imports nearly 80% of its cashmere from there. Meanwhile imports of final products, mainly fruits, vegetables and nuts account for the rest of the top imports.

Nearly 50% of the EU's apple juice imports now come from China, the value of which has grown from €26 million in 2002 to €165 million in 2006. Sharp increases have also been recorded since 1999 in EU imports of asparagus, frozen vegetables and dried vegetables. China now supplies over 60% of EU asparagus imports, nearly 50% of dried vegetables imports and around 40% of frozen vegetables imports.

## Outlook for agricultural trade

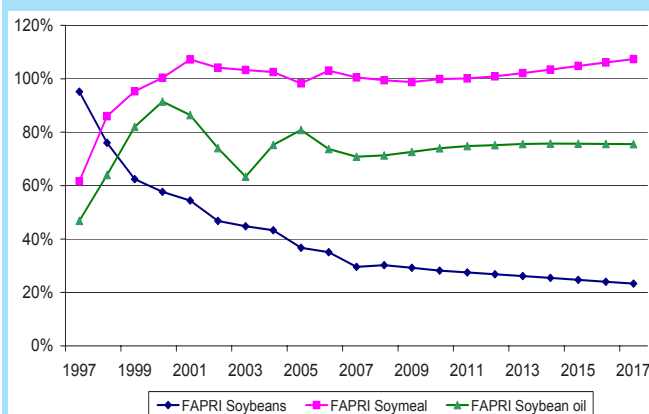
FAPRI's latest projections are for growth in overall agricultural trade but imports are expected to grow faster than exports. However the agricultural trade deficit will still be small relative to the size of China's overall trade surplus. Trade in food and feed between China and the rest of the world will be "a busy two-way traffic"<sup>4</sup> since its potential exports of fruits and vegetables grow (possibly up to 40-50 million tonnes by 2030) alongside imports of both food and feed.

Increases in income and urbanization are the main driving forces behind the westernization of diets and especially increased meat demand. Given China's intention to encourage domestic livestock production, its feed imports are forecast to grow over the coming decade. FAPRI is projecting domestic use of soybeans to grow by 40% in the next decade. China gave up its self-sufficiency policy for oilseeds over a decade ago (as shown in graph 20).

Self-sufficiency in soybeans (which accounts for 80% of oilseeds consumption) has fallen from 95% in 1997

to 30% in 2007. Since 2002, more than half of soybean consumption is covered by imports. When considered as a share of the world market, China's imports are large. It is the world's leading soybean importer (43% of the value of global imports in 2006) and is expected to reach 57% by 2017/18, as its net imports increase from 34 million tonnes in 2007/08 to 52 million tonnes. This enables China to maintain self-sufficiency for soymeal, even becoming a net exporter by 2011/12.

**Graph 20: Self-Sufficiency of Soybeans, Meal & Oil**



The growth in livestock feed demand means that China is also expected to switch from being a net exporter of maize (900,000 tonnes in 2007/08) into a consistent net importer of 2.6 million tonnes by the end of the coming decade (see graph 21).

For the food staples, rice and wheat, consumption is projected to stagnate or even recede as diets are diversified.

As rice production is expected to remain roughly unchanged, (the decline in area is offset by improved yields), FAPRI forecasts a reduction in stocks and an increase in net exports over the projection period, from 435 million tonnes in 2007/08 to 740 million tonnes by 2017/18. Meanwhile China becomes a net wheat importer in 2011/12 and reaches 1.4 million tonnes of

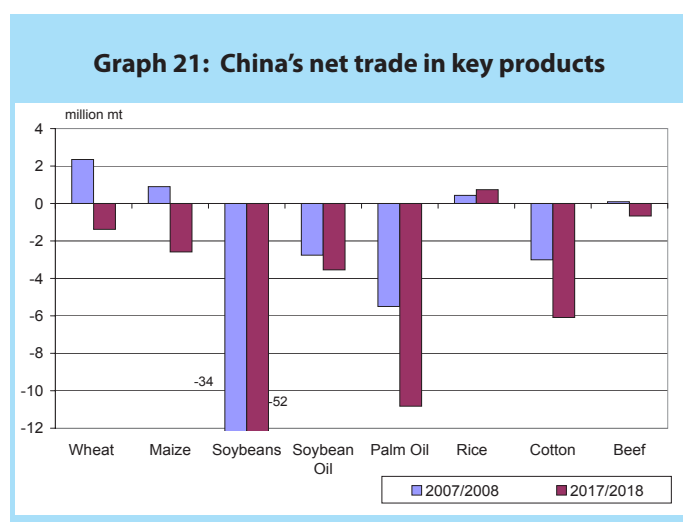
<sup>4</sup> CATSEI



net imports by 2017/18, having been a net exporter of 2.35 million tonnes in 2007/08.

Turning to edible oils, China is likely to remain among the leading importers. In 2006 it overtook India as the world biggest soybean oil importer, consuming 23% of world imports. The volume of net imports is projected to grow by 50% over the decade, from 2.8 to 3.5 million tonnes reaching over 30% of global imports by 2017. China remains at roughly 75% self-sufficiency for soybean oil.

China is also the world's leading palm oil consumer, absorbing 31% of world consumption in 2006. Its net imports are forecast to nearly double from 5.5 to 10.8 million tonnes over the coming decade. Palm oil used for food consumption accounts for 63% of China's total palm oil net imports over the outlook period, with per capita food consumption growing faster than that of other edible oils. Industrial use of palm oil is expected to rise by 87% over the next decade.



Despite efforts to expand domestic livestock production, demand growth is such that China may become a net importer of meat. Having been a small net exporter of beef until now, it is expected to become a net importer (670,000 tonnes in 2017/18). For pork, expanding production is unlikely to cover growing

per capita consumption so that China switches from being a net exporter (310,000 tonnes in 2007) to a small net importer (160,000 tonnes in 2017/18).

Meanwhile China will continue to be an active trading partner in the world poultrymeat market, both as an importer and an exporter. China is currently a net importer of 160,000 tonnes of broiler meat (two thirds of poultry) in 2007 and FAPRI projects that net imports will grow to 690,000 tonnes by 2017/18.

In the dairy sector, rising yields combined with a steady expansion of the herd result in a 3.9% annual increase in milk production according to FAPRI. As milk powder production has increased, China became a small net exporter of whole milk powder in 2007.

However strong demand pushes up net imports of butter, cheese and skim milk powder over the decade, albeit from relatively low levels. In any case China is not expected to become a major importer of dairy products in the projection period. Expectations concerning the EU's opportunities to export dairy products are modest since Oceania and the US are strong competitors.

Finally Chinese cotton consumption continues to grow, as a result of the boom in the textile industry. In 2007/08, China accounted for more than 43% of total world consumption. Strong demand growth should push up imports as there is little possibility of expanding the cotton area. Net imports rise from 3 million tonnes to over 6 million tonnes by 2017/18. With China expected to import from 31% to 38% of its total mill use in the next decade, it becomes the dominant destination for the cotton trade.



## Conclusions

Given the pace of economic growth, thanks to increasing market liberalization, it is likely that China will achieve its target of doubling GDP between 2000 and 2010. One cloud on the horizon though is growing inflation, which is being stoked mainly by the rise in energy and food prices. With a high percentage of household budgets being spent on food, the government's response has been to increase production incentives and to impose price controls, trade restrictions and to allow its exchange rate to appreciate. It remains to be seen whether these measures could put a damper on economic growth at a time when exports to the US could slow down.

China is facing several challenges, with continued imbalances in its economy. Although agriculture contributes less than 12 % to GDP, it provides 39% of jobs, reflecting the large gap in labour productivity compared to the rest of the economy and underemployment in the agriculture sector. Today the urban-rural income gap is among the widest in the world, with rural incomes less than a third of urban income. Restructuring of the economy is inevitable and it is estimated that China needs to create another 100 million jobs in the coming decade to accommodate the expected exodus of rural workers.

China's economic growth and its accession to WTO in 2001 have increased trading opportunities for the EU and others. Since then, it has reduced its tariff protection and this trend is expected to continue. Non-tariff measures still persist however which may partly explain the EU's difficulties in expanding exports outside of the niche food and drinks markets.

China's \$6 billion agricultural trade deficit is expected to grow over the next 10 years, but this can easily be financed thanks to its growing overall trade surplus. China is expected to continue to import commodities and to export final products, reflecting the scarcity of the country's natural resources such as land and water and abundance of relatively cheap labour.

Increases in income and urbanization are leading to a shift in diets away from food staples and towards proteins, especially meat. If China continues to import feed and encourage livestock production, then its feed imports should grow sharply over the coming decade. China is today the world's largest soybean importer (at 44% of global imports in 2006) and this is projected to grow to 57% within 10 years. China's dominance of world edible oils imports is also expected to expand. Nor are these the only markets in which China's influence looms large. It is also predicted to turn into a net importer of maize, wheat and meats. With exports, especially of fruits and vegetables, also on the increase, China's impact on world agricultural markets can only become stronger.

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