

Testimony Before the U.S.-China Economic and Security Review Commission
Hearing on “China’s Agriculture Policy and U.S. Access to China’s Market.”

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Mr. Chairman, members of the Commission, thank you for the opportunity to appear before you this afternoon to discuss developments in China’s agricultural trade and implications for the United States. I have been asked to discuss areas in which China has become a major exporter of agricultural products, the global importance of these exports, and factors that underlie the export trends. In addition, I was also invited to reference market access issues faced by China’s agricultural exports.

China produces over 20% of the world’s cereal grains, 25% of the world’s meat, and 50% of the world’s vegetables. China is the world’s largest agricultural economy, and it ranks as the top global producer of pork, wheat, rice, tea, cotton, tomatoes, potatoes, eggs, wool, apples, walnuts, and fish, etc. In fact, the annual value of China’s agricultural output is about two and one-half times the U.S. total.²

After joining the World Trade Organization (WTO) in 2001, China increased its trade dependence on agriculture. As of 2011 it was the fourth largest exporter and second largest importer of agricultural products in the world, according to WTO trade statistics. Its import growth has been driven by a shift in its domestic production mix, and changing consumer diets with rising incomes and urbanization. China’s substantial increase in fruit and vegetable production is a major factor behind its agricultural export growth.

In agriculture, China’s major policy objectives are focused on increasing grain production and starting the transition to larger-scale farms. China has a relatively low set of agricultural import tariffs compared to other WTO members—the average applied MFN tariff on agricultural products was approximately 15% in 2011. Domestic support to agriculture in China remains below that for many developed countries.

With imports growing faster than exports during the post-WTO accession years, China reversed its long-time status as a net agricultural exporter to that of a net importing country since 2004 (see Figure 1).³ Most of China’s increased imports came from soybeans and cotton. Today cotton and soybeans account for over 40% of China’s agricultural imports, a very concentrated portfolio. China is the world’s largest importer of soybeans and cotton, accounting for over 60% of global soybean imports and approximately 40% of cotton imports.

It was expected that China’s production and trade of agricultural products would be significantly affected by WTO entry and this has turned out to be the case. China’s agricultural exports (imports) have increased by more than 12 (19) percent annually, and total agricultural trade more than 16 percent per annum from 2002

¹ I am grateful to Sandro Steinbach and Dingqiang Sun for excellent research assistance.

² According to FAO (faostat) the gross value of China’s agricultural output in 2010 was \$838 billion, compared to \$319 billion for the United States.

³ For the purpose of analyzing trade patterns, I mostly follow the classification of traded goods by Regmi et. al. “Market Access for High-Valued Foods” USDA, ERS. No. 840. Feb. 2005.

to 2011. These are truly impressive annual growth rates.

The changing structure of China's agricultural exports has been dominated by very strong growth in exports of horticultural products (e.g., garlic, apples, pears, and citrus), semi-processed food products (e.g., animal products, pet food), and aquaculture (e.g., fish fillets). From 2001-2011 the annual growth in exports of the various categories, from top to bottom, was 18 percent for horticulture exports, 14 percent for semi-processed foods, 13 percent for aquaculture, 12 percent for processed (e.g., apple juice, processed tomatoes), and less than 2 percent for bulk items such as tea or tobacco (see Table 2 and Figure 2).

Regarding accomplishments in world markets, China's exports of aquaculture products have grown from 8 percent of the world market in 2001 to 14 percent of the market in 2011, a remarkable achievement. China is very successful at exporting frozen fish fillets of various types, including salmon. There is a large fish processing industry in China that imports whole salmon and other fish from the U.S., Russia, and elsewhere and then, in turn, re-exports fish fillets. Another category that is also a strong export performer is horticultural products, rising from 2.5% to 5.6% of world exports, more than doubling its market share. But China's trade patterns have also been affected by concerns over food safety with some food products. For instance, the melamine-spiked milk scandal of 2008 has led to a surge in China's imports of milk powder—China's skim milk powder imports were up about 50 percent just in the past year, contributing to higher milk powder prices in world markets. China is responding to the food safety issue and has reorganized its food safety regulatory system, modeled on the FDA in the United States.

China's agricultural trade is more and more in line with its comparative advantage and it has noticeably increased imports of land intensive agricultural products. But what about its trade in labor-intensive products? Although exports of labor-intensive agricultural products did increase quite fast after WTO accession (especially for fruits and vegetables), the rate of increase for these years was lower than imports of land-intensive agricultural products (Table 2). For instance, the annual export growth rate for labor-intensive fruits and vegetables was 22 and 16.7 percent, respectively. At the same time, imports of land-intensive soybeans and cotton grew by 25 and 35.7 percent, respectively (Table 2).

Surprisingly, the import growth of labor-intensive agricultural products was also quite high (Table 3), in fact greater than the export growth rate of these products for the same period. Aquatic exports grew by 13.3 percent, slightly less than aquatic import growth of 13.5 percent. Horticultural exports grew by an impressive 18 percent per annum but imports grew even faster, at 21 percent per annum. So what do all these numbers suggest regarding China's trade? First, land intensive imports are growing faster than labor-intensive exports. Second, for labor-intensive products, imports are actually growing faster than exports. There are three likely factors behind these trends. First, there is growing domestic demand for high valued agricultural products including labor-intensive imports, increasing with income and urbanization. Second, China's agricultural labor is shifting away from agriculture to the higher paying manufacturing and service sectors. Third, China's labor-intensive agricultural exports face headwinds in world markets due to trade barriers and perceptions of poor quality.

The United States enjoys an agricultural trade surplus with China, which exceeded \$20 billion in 2012 (see Figure 3 for historical data). This is partly a result of reduced import trade barriers in China, and growing incomes and urbanization. China is the most important market for U.S. agricultural exports (accounting for 17.2 percent of U.S. agricultural exports in 2012) and the third most important supplier of U.S. agricultural imports (with a market share equal to 4.2 percent of U.S. agricultural imports in 2012). Based on value of trade, the top five U.S. agricultural exports to China (in order of importance) are soybeans, cotton, corn, hides/skins, and swine offal (Table 4). On the other hand, the top five U.S. imports from China are apple juice, dog/cat food, frozen tilapia fillets, canned citrus, and frozen salmon fillets. It is notable that the sum

total of China's agricultural exports to the U.S. represents only two-thirds of the value of just one single item that the U.S. sells to China—soybeans.

China is an emerging competitor for U.S. farmers in some specialty crops, and China has a positive trade balance with the U.S. on horticultural crops, although the total dollar value is a relatively small share of total agricultural trade. Figure 4 shows China had a trade surplus of \$40 million in horticultural products with the U.S. in 2011, down from \$157 million in China's favor in 2007. The 2011 \$40 million surplus is only 1 percent of the value of agricultural trade between the U.S. and China. China's growing demand for almonds, pistachios, and walnuts is a positive development for U.S. agriculture. And per capita consumption of these specialty crops is still very low in China. For instance, per capita consumption of almonds in China is only about 5 percent of the U.S. figure.

U.S. food products enjoy a certain advantage in China and there are growing opportunities for U.S. products, considered to be high quality. However, price remains an obstacle for U.S. products in the China market. Chinese consumers spend about 20 percent of their disposable income on food consumed at home, compared to less than 7 percent of income spent on at-home food in the U.S., on average.

Impediments to foreign market access are an issue for Chinese agribusiness firms. For instance, China's agricultural exports of horticultural products have been adversely affected by anti-dumping (AD) investigations against them launched by firms in both developing and developed countries. Globally, there have been about 23 AD cases against China's agriculture since that market opened up in the early 1980s and many of the AD actions in agriculture targeted horticultural products—resulting in very high tariff rates against Chinese firms. Most antidumping cases are nothing more than hidden protectionism. Under U.S. AD law China is treated as a “non-market economy” and as a result its exporters have been assessed tariffs higher than typical AD rates applied to so-called market economies.⁴ U.S. AD cases against China's exports have targeted imports of fresh garlic, preserved mushrooms, apple juice concentrate, shrimp, and crawfish tail meat. With the exceptions of honey and shrimp, these cases have had mixed success at keeping out Chinese exports for more than a few years (see Table 5). But in each and every case the U.S. consumer has paid higher prices as a result of the dumping orders. Honey from China has clearly been kept out. China's share of U.S. honey imports was around 30 percent when the AD case was initiated in 2000, and today that market share is near zero. Instead the U.S. imports honey from India, a higher cost supplier. This is called trade diversion, good for the honey industry in India and the U.S., but costly for U.S. consumers.

To conclude, after more than a decade following WTO accession, the value of China's agricultural trade has increased dramatically and China has turned into a net importer of agricultural products and now ranks as the number one foreign market for U.S. agriculture. Although considerable resource shifts have taken place from land-intensive towards labor-intensive agricultural products in both production and trade, this transfer remains well below the potential, partly due to trade barriers facing China's exports of labor-intensive agricultural products. Food, animal and plant safety are rightfully a concern of importing countries, but have unfortunately been used, like AD, for protectionist purposes. There is considerable interest in the impacts of China's rising income growth, a growing middle class and urbanization, and the associated changes in dietary patterns and food imports. These variables will only fully come into play if China's trading partners are willing to recognize that international trade is a “two-way” street.

⁴ U.S. Government Accountability Office (GAO) “U.S.-China Trade: Eliminating Nonmarket Economy Methodology Would Lower Antidumping Duties for Some Chinese Companies” (10-JAN-06, GAO-06-231).

Table 1. Annual Growth Rates of China's Agricultural Exports Since WTO Accession

	Aquaculture	Bulk	Processed	Horticultural	Semi-Processed
2001-2011 annual growth rate in value of exports	13.3%	1.7%	12.2%	18.0%	14.5%

Source: compiled from US COMTRADE data.

Table 2. Trade Growth Rate of China's Land- and Labor-intensive Agricultural Products, 2001 to 2011

Labor Intensive Exports		Land Intensive Imports	
vegetables	16.7%	cotton	35.7%
fruits	22.0%	vegetable oil	24.7%
aquatic products	13.3%	soybeans	25.0%
livestock products	7.7%		

Note: Growth rates were calculated using the regression method.

Source: compiled from UN COMTRADE data.

Table 3. Export and Import Trade Growth Rate of China's Labor-intensive Agricultural Products, 2001 to 2011

	Aquatic Products	Livestock Products	Horticultural Products
Exports	13.3%	7.7%	18.0%
Imports	13.5%	15.8%	21.0%

Note: Growth rates were calculated the regression method.

Source: compiled from UN COMTRADE data.

Table 4. Major U.S.-China Agricultural Products Traded Bilaterally in 2012

U.S. Exports to China		U.S. Imports from China	
Item	Value (Mil.)	Item	Value (Mil.)
Soybeans	\$15,374	Apple Juice	\$561
Cotton	\$3,686	Dog and Cat Food	\$467
Corn	\$1,658	Frozen Tilapia fillets	\$444
Hides and Skins	\$1,219	Canned citrus	\$233
Frozen swine offal	\$744	Frozen Salmon fillets	\$216

Source: USDA FAS GAIN Report 2/25/2013, based on China Customs Data.

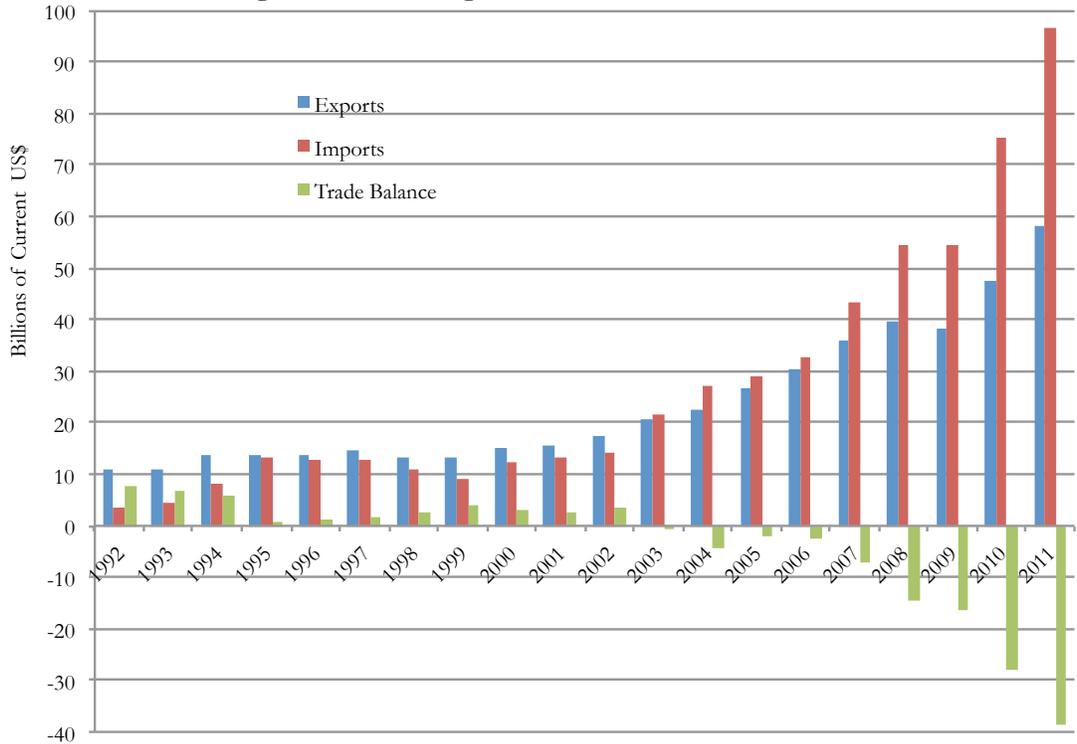
Table 5. China's Share of U.S. Imports of Targeted Agricultural Products

Year	Fresh Garlic (%)	Preserved Mushrooms (%)	Non-Fz. Apple Juice Conc. (%)	Honey (%)	Warm water shrimp (%)	Crawfish Tail Meat (%)
1992	18	25	0	45	19	83
1993	64	29	1	48	12	94
1994	29	28	1	43	8	100
1995	2	4	1	25	6	99
1996	0	54	2	25	3	100
1997	1	52	8	15	5	100
1998	1	41	19	23	2	90
1999	2	0	13	28	3	89
2000	1	6	17	30	6	82
2001	10	16	16	27	8	92
2002	4	18	24	8	11	84
2003	56	34	37	25	15	92
2004	70	42	57	33	11	90
2005	74	46	58	28	2	88
2006	78	44	55	26	2	96
2007	82	57	75	17	2	94
2008	82	58	81	11	4	93
2009	87	63	83	0	3	70
2010	84	66	86	1	4	90
2011	86	57	73	1	3	88
2012	84	60	84	0	0	88

Source: Updated from C.A. Carter, and C. Gunning-Trant "China's Food Exports Face Dumping Laws" *American Journal of Agricultural Economics*, Vol. 88, No. Issue 5, (2006): 1227-1234.

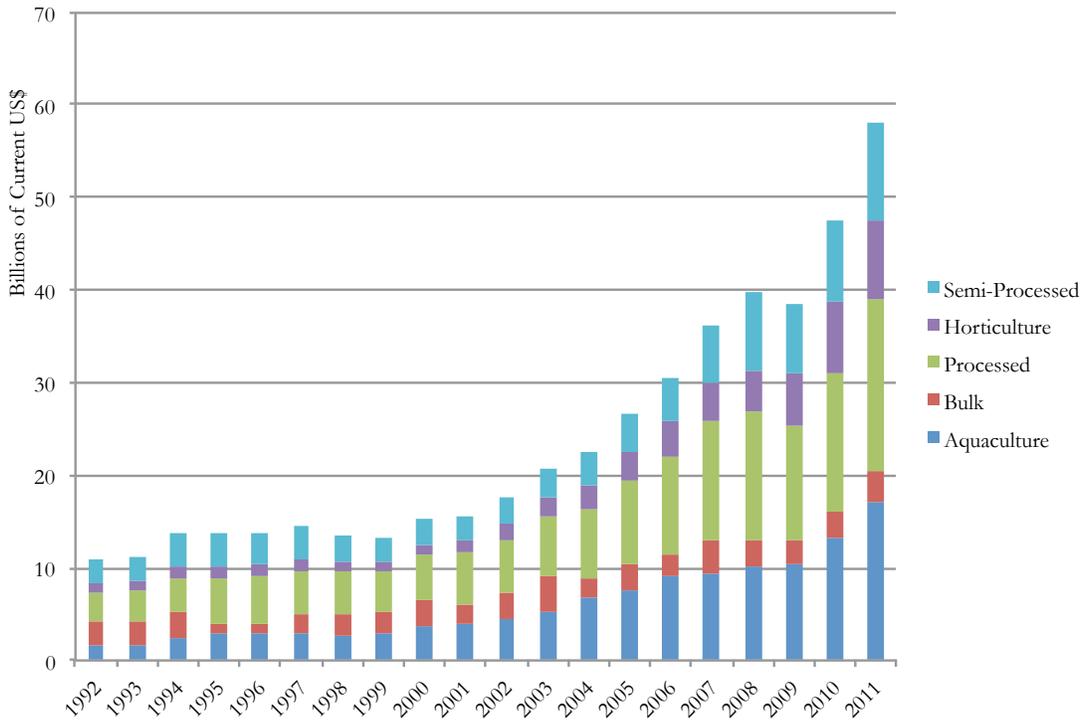
Note: Bolded figures indicate the year the AD case was initiated for that particular commodity. Market shares are based on quantities imported, based on U.S. trade statistics.

Figure 1. China's Agricultural Trade Balance



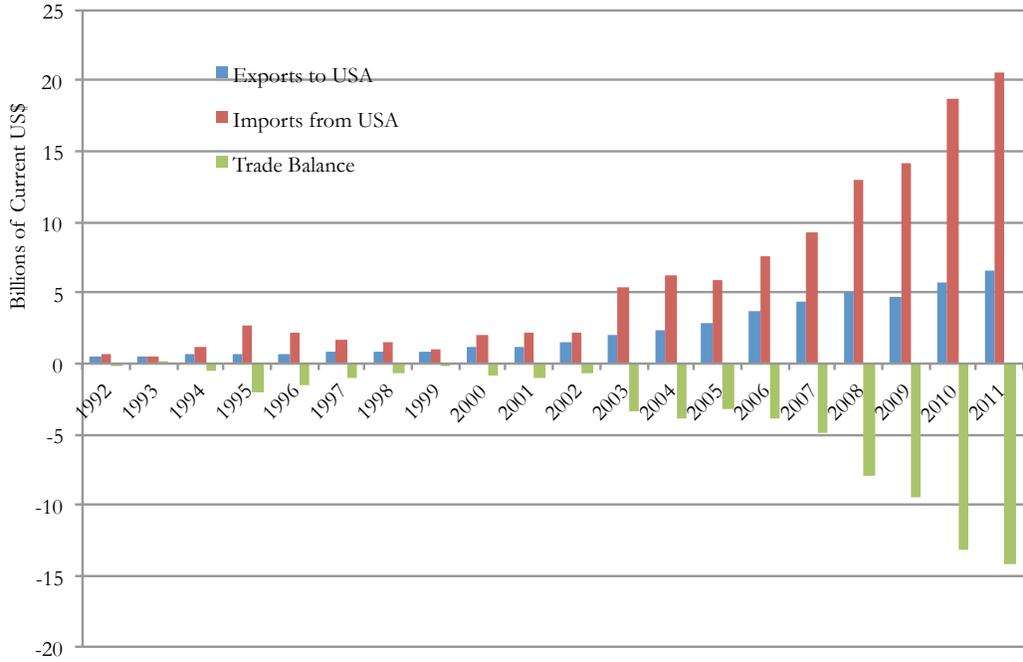
Source: UN COMTRADE Database.

Figure 2. China's Exports of Major Commodity Groups



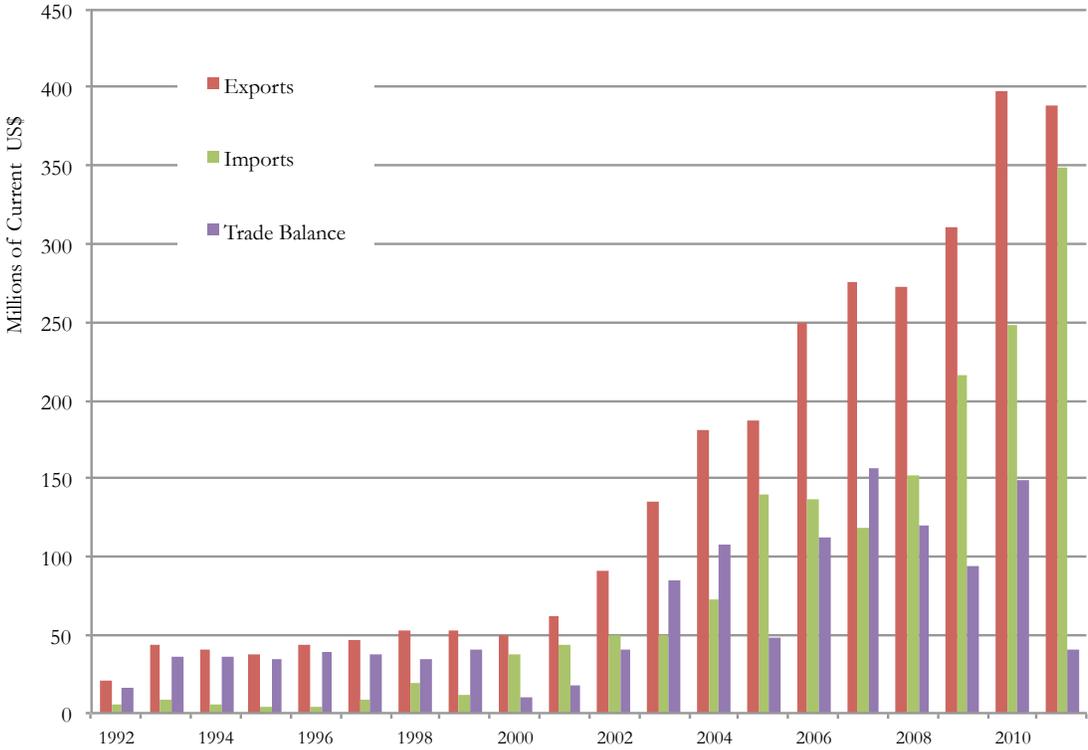
Source: UN COMTRADE Database.

Figure 3. China's Agricultural Trade Balance with the U.S.



Source: UN COMTRADE Database.

Figure 4. China's Trade Balance with the U.S. in Horticulture



Source: UN COMTRADE Database.