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The School Meals Program

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Agricultural Trade Opportunities with China

by Dermot J. Hayes

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CHINA NOW produces about 52 million tons of pork and 14 million tons of poultry per year. Increased consumer demand, a reduction of available producers and available land, disease, and other factors all contributed to a spike in pork prices in the summer of 2008 and 2011. The Government responded to these price increases by allowing for short term, massive increases in meat imports. It must now decide whether it wishes to achieve food security and affordability by allowing imports to moderate price levels or to target meat self-sufficiency by means of trade barriers.

China has begun transformations that have the potential for large impacts on world agriculture and financial markets. In November 2013, the Party will hold an important meeting (The Third Plenary Session) to create the economic model to drive China to the next income level. It now seems likely that the key decision will be to allow markets to allocate resources. If this occurs, then Chinese trade patterns will become much more predictable and governed by the laws of comparative advantage.

Premiere Li Keqiang has already announced his intention of cutting the rural population of China, currently about 642 million, in half. The relocation of rural residents to urban areas will drastically cut the amount of workers available for what has historically been a very labor-intensive agriculture system. China has been able to feed a population more than four times greater than the United States using about 80% as much crop land by essentially substituting labor for land, growing multiple crops on the same acre within the same year, farming mountainsides by hand, and raising livestock using household and

restaurant waste. In the future though, this system will become unsustainable.

Growing Needs

China's middle class is projected to climb from 247 million to 607 million—far surpassing the entire population of the United States. Along with the increase in middle class citizens will come a rapid increase in per capita disposable income.

Meat consumption data for China shows that as incomes grow and families move from rural to urban areas meat consumption grows dramatically. Out of necessity, many rural Chinese families subsisted on starch-based diets, and as recently as 1990, consumption of beef, poultry, and pork was only one-third the levels consumed in China today. Since 1990, pork consumption in China has grown 140%, and broiler consumption has grown by almost 500%.

With this increase in livestock production came an increase in the need for livestock feed. Currently, China already imports 60 million tons of soybeans per year—nearly all the feed necessary for its livestock industry.

What can Japan, Taiwan, and South Korea teach us?

Japan, Taiwan, and South Korea reached China's current standard of living in 1980, 1990, and 1993, respectively, and as similar land-scarce countries, their methods of dealing with rising consumption may provide a predictable model for China's current transition.

All three countries saw a large increase in the volume of both feed and



livestock imports that directly correlated with their standard of living. All three countries eliminated the domestic production of animal feed. Interestingly, China now imports as many soybeans per capita as these three countries did at the same phase of development. However, China is 140 million tons behind in terms of corn imports. This means that any market liberalization will lead to dramatic “catch up” of corn imports.

Japan, Taiwan, and South Korea imported very little meat prior to reaching China's current level of development, then meat imports picked up rapidly after labor scarcity forced a modernization and rationalization in agriculture. These countries now import from 20% to 50% of their meat needs. The recent purchase of Smithfield foods by a consortium that includes the Chinese sovereign wealth fund, coupled with the trade history of other land-scarce Asian countries suggests that China has the potential to import very large quantities of meat.

Current trade complications

A number of trade complications between the United States and China have prevented US producers from fully taking advantage of agricultural needs in China, especially where pork, beef, and poultry are concerned. Some of these trade barriers are artificial, such as subsidies and import duties, and are meant to allow domestic livestock producers in China to remain competitive so as to retain food independence.

Technical barriers, whether artificial or not, have also proven to be a factor in the unstable demand for US products in China, and have prevented many producers from developing markets in China. China has been historically unaccepting of certain practices that are common in the United States, such as using genetically modified strands of soybeans, wheat, and corn, and the use of ractopamine in pork. China has restricted US beef imports due to the outbreak of BSE in the US beef herd. US political officials have also shown a

general distrust of Chinese food quality standards, and have placed restrictions on poultry imported from China, furthering trade complications.

Overcoming Complications and Leveraging Trade Opportunities

The United States, and Iowa in particular, as a significant producer of livestock and livestock feed grains, could create mutually beneficial trade opportunities with China. However, the Chinese government is concerned about the possible impact that large-scale purchases would have on prices in world markets. One such way of overcoming current trade complications would be through the use of long-term production contracts, either with livestock producers, feed producers, or both. In this type of scenario, a US farmer could enter into a contract with a Chinese company willing to pay for feed, construction costs, or any other barrier currently restricting a US farmer from producing livestock for China's market. The Chinese investors

could retain ownership of the animal, with both parties benefiting from a contractually obligated purchase amount and price, thus helping stabilize demand.

Secondly, China has more labor than almost any other country. If it were to further open its market to imported livestock feed, it would free millions of acres of arable land and laborers for production of labor-intensive crops, such as berries, fruits, vegetables, flowers, spices, honey, and dozens of other products. US imports of processed fruits and vegetables has already risen to \$1 billion in 2012, and lessening the restrictions on a free-market would allow the United States to become a major exporter of feed grains to China, while at the same time offsetting the trade by becoming an even larger importer of China's value-added agricultural products.

View the accompanying figures to this article at www.card.iastate.edu/ag_policy_review. ■

Country of Origin Labeling continued from page 3

direct beneficiaries of COOL. Stronger demand for US cattle and hogs from COOL increases farm prices most likely by only a few percentage points. Even if COOL helps improve the profitability of farms, not all farmers support COOL, as some see the policy as unnecessary government intervention.

For consumers, the impact of COOL is less straightforward. The costs from COOL to packers percolate all the way down to consumers who must then pay a higher price for meat. There are certainly consumers willing to pay a premium for COOL in red meat that covers the costs of COOL. Those consumers, however, are too few, as otherwise packers would have exploited that market niche at a large scale. This indicates that the increase

in retail prices from COOL is most likely more than the value that the average consumer places on COOL for red meat, suggesting that mandatory COOL has a negative impact on the average consumer.

Consumption of beef in the United States totals about 25 billion pounds per year while consumption of pork totals about 23 billion pounds per year. If COOL increases retail prices on average by one cent per pound more than the value that consumers place in COOL, then COOL in red meat creates a loss to consumers of nearly half a billion dollars per year.

Conclusion

A manifestation of the distributional effects of COOL is the recent lawsuit against the USDA regarding the rules of COOL. The parties involved in the lawsuit illustrate well those who gain

and those who lose from COOL. The American Meat Institute, the largest meat industry association, leads the lawsuit and is joined by several other associations representing meat processors, along with trade groups from Canada and Mexico. Note that National Cattlemen's Beef Association joined the lawsuit, highlighting that the regulation does not receive the support of all producers. In early hearings, other producer groups and one activist group intervened in favor of the USDA. A preliminary injunction stopping the latest COOL rules was declined in the middle of September. The lawsuit now follows its course and along with the outcome of the litigation at the WTO, will define the future of COOL in the United States. ■