

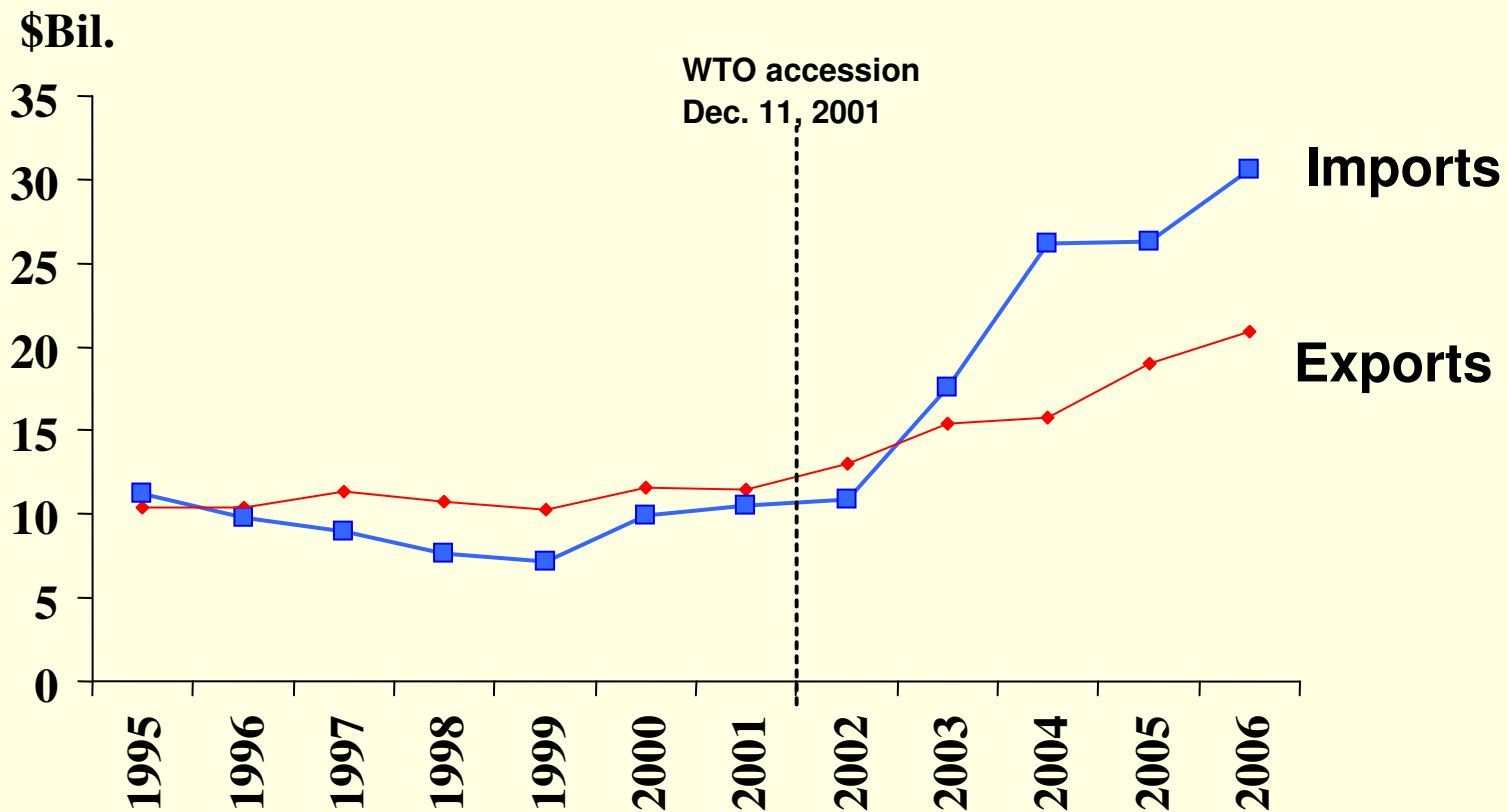
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# A Tale of Two Commodities: China's Trade in Corn and Soybeans

Fred Gale  
Economic Research Service  
U.S. Dept. Agriculture

# Agricultural trade increased after WTO accession

China agricultural trade, 1995-2006



Source: Estimated by ERS from China Customs Statistics.

## China's agricultural import growth 2001-06 concentrated in a few commodities

Commodity	Increase (mil\$)
Cotton	4,797
Soybeans	4,680
Natural Rubber	2,438
Palm oil	1,871
Fruit/ vegetables	917
Soybean oil	779
Animal hides	761
Wool	470
Dairy	346
Cereals	213

47% of the  
Increase in  
agricultural imports

# China maintained self-sufficiency in grains

Commodity	Estimated Self-sufficiency	
	2001	2006
Rice	91%	100%
Wheat	86%	103%
Corn	93%	100%
Soybeans	54%	35%
Cotton	96%	69%

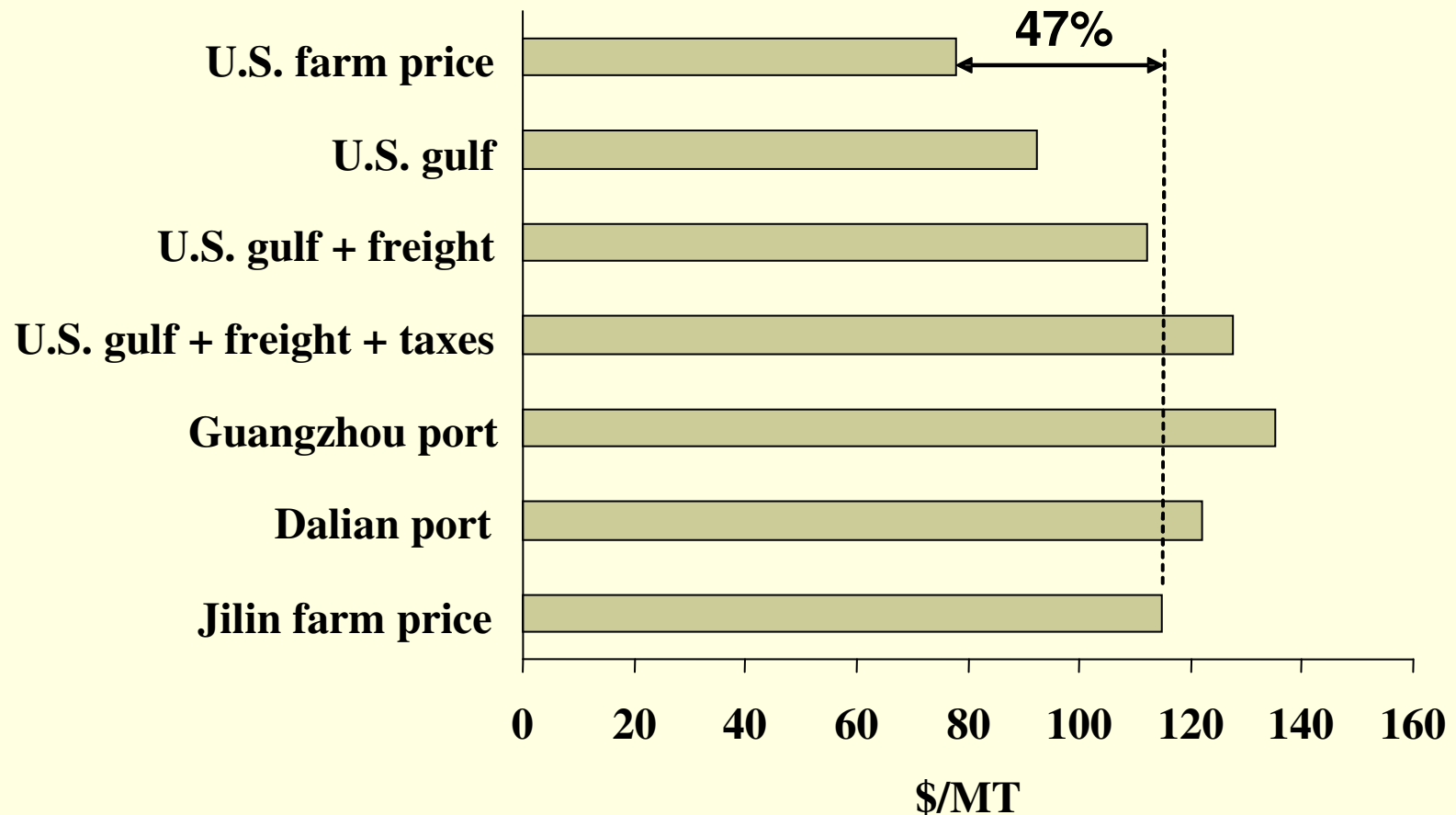
Source: Calculations based on USDA Production, Supply and Demand Estimates

# Two Commodities: Corn and Soybeans

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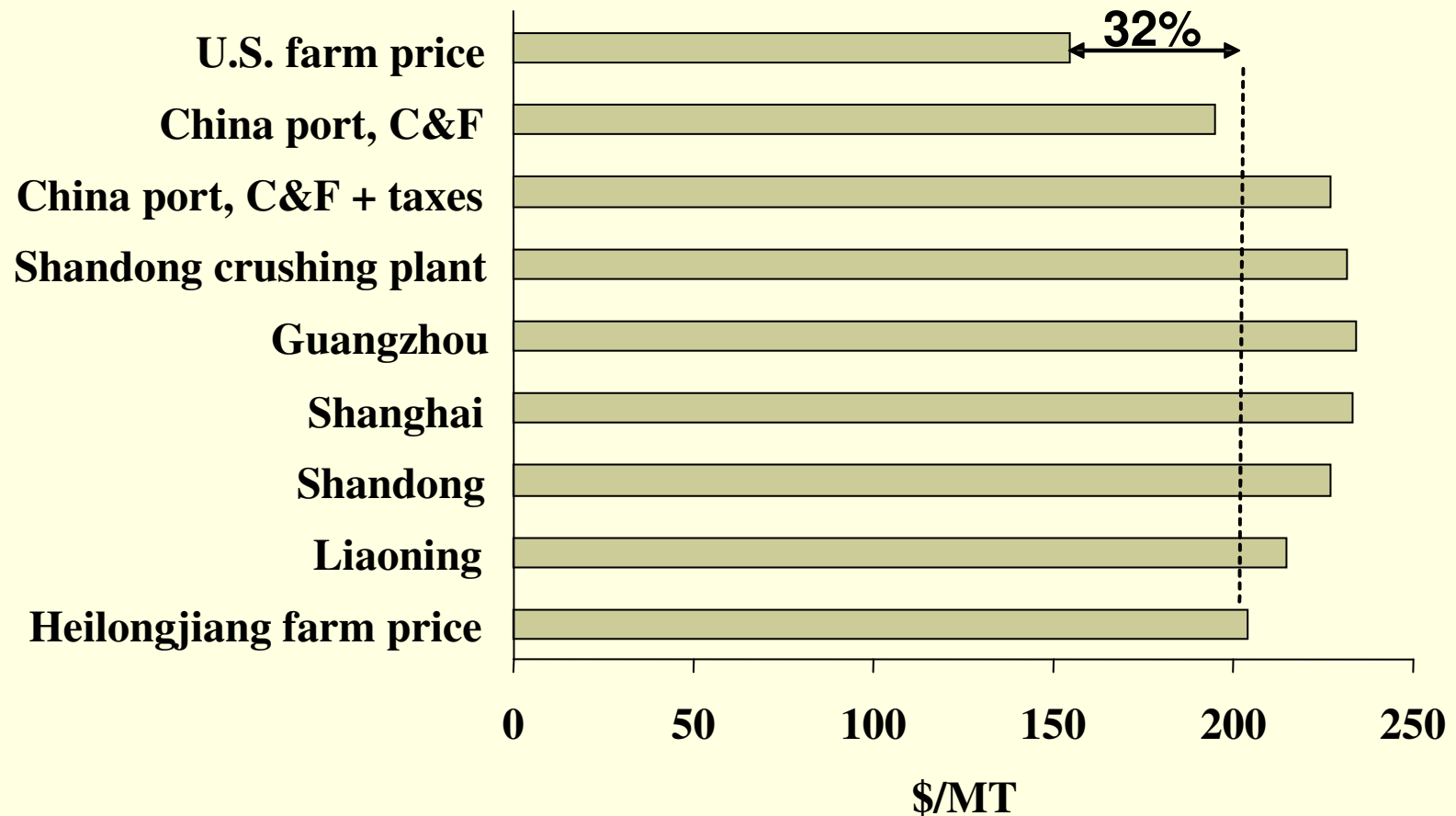
- Land-extensive crops
- Not China's comparative advantage
- China prices above international prices
- Pre-WTO: positive rates of protection
- Traditionally staple foods; now mostly animal feeds
- Both grown primarily in northeastern and northern China—compete for planted area

# China farm price of corn 47% above U.S. price in December 2001



Source: ERS calculations using data from China National Grain and Oils Information Center and USDA/NASS.

# China farm price of soybeans 32% above U.S. price in Dec. 2001



Source: ERS calculations using data from China National Grain and Oils Information Center and USDA/NASS.

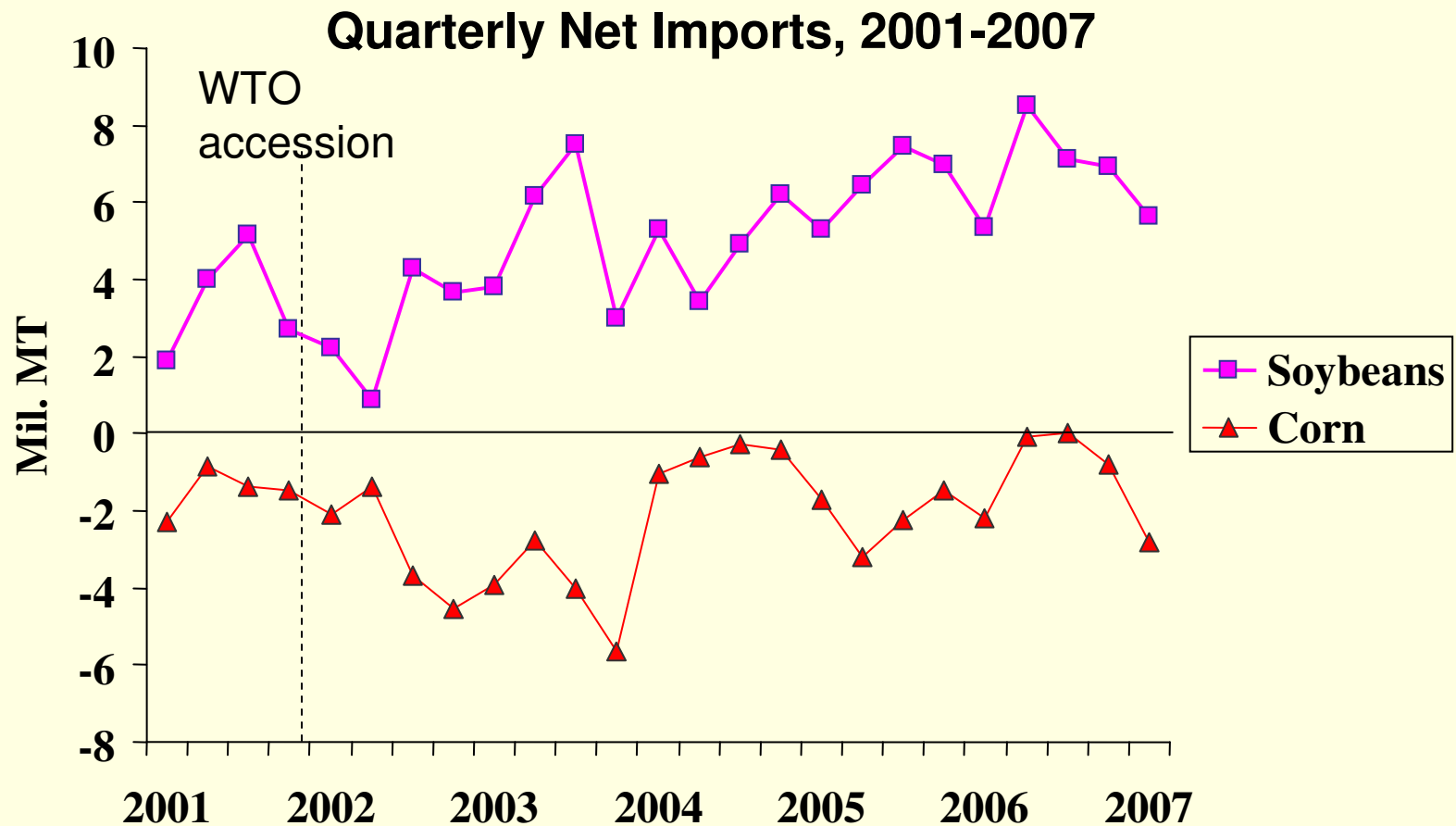
# Lower barriers to corn imports

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## Corn TRQ established by WTO accession

- 1% in-quota tariff
- 7.2 million metric ton quota
- Elimination of export subsidies
- Soybean trade liberalized pre-WTO
  - Tariff 3%
  - No quotas
- Most projections anticipated China's corn exports fall; corn imports would gradually rise

# China remained a net exporter of corn, and soybean imports rose even higher



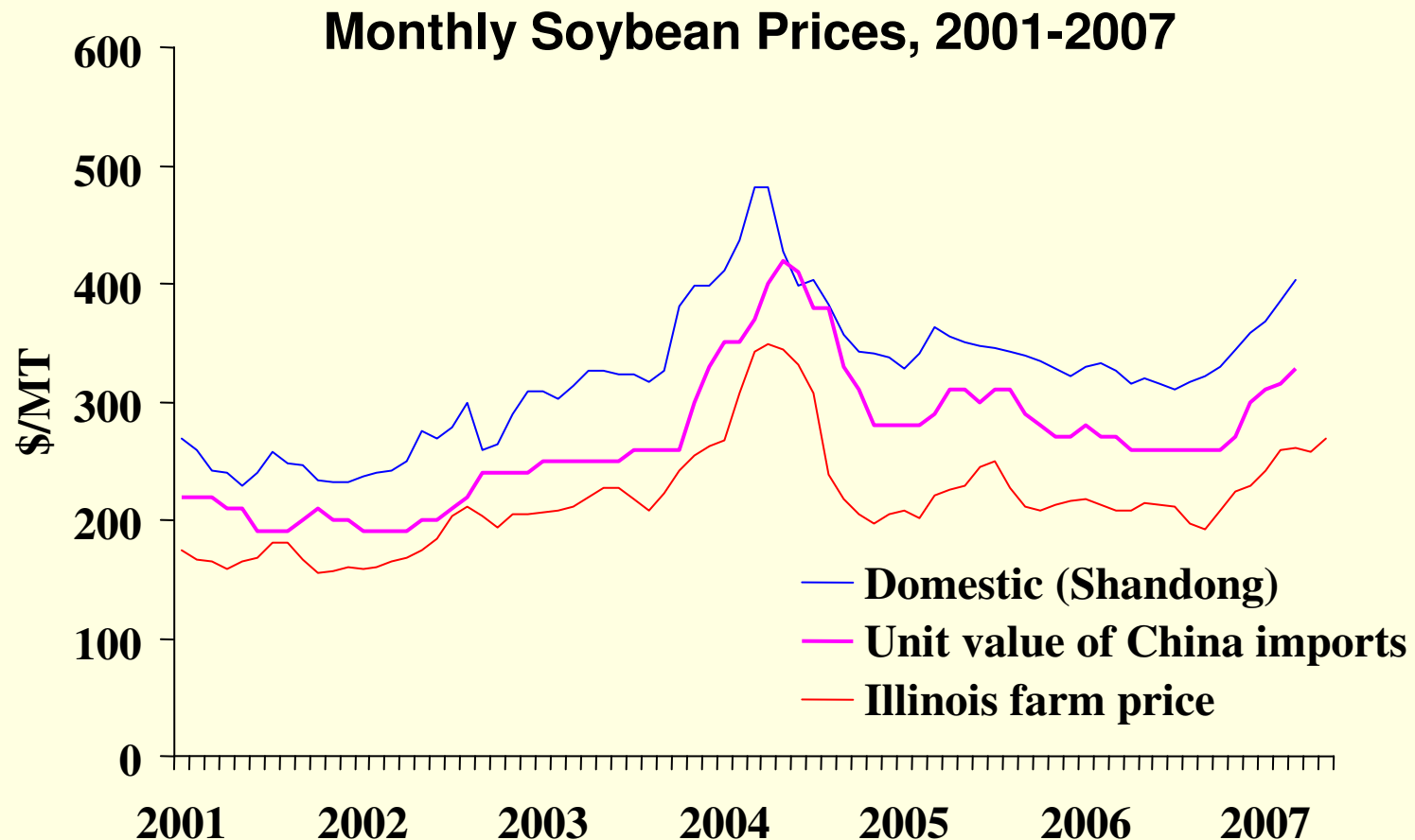
Source: China Customs Statistics.

# Possible nontariff protection measures

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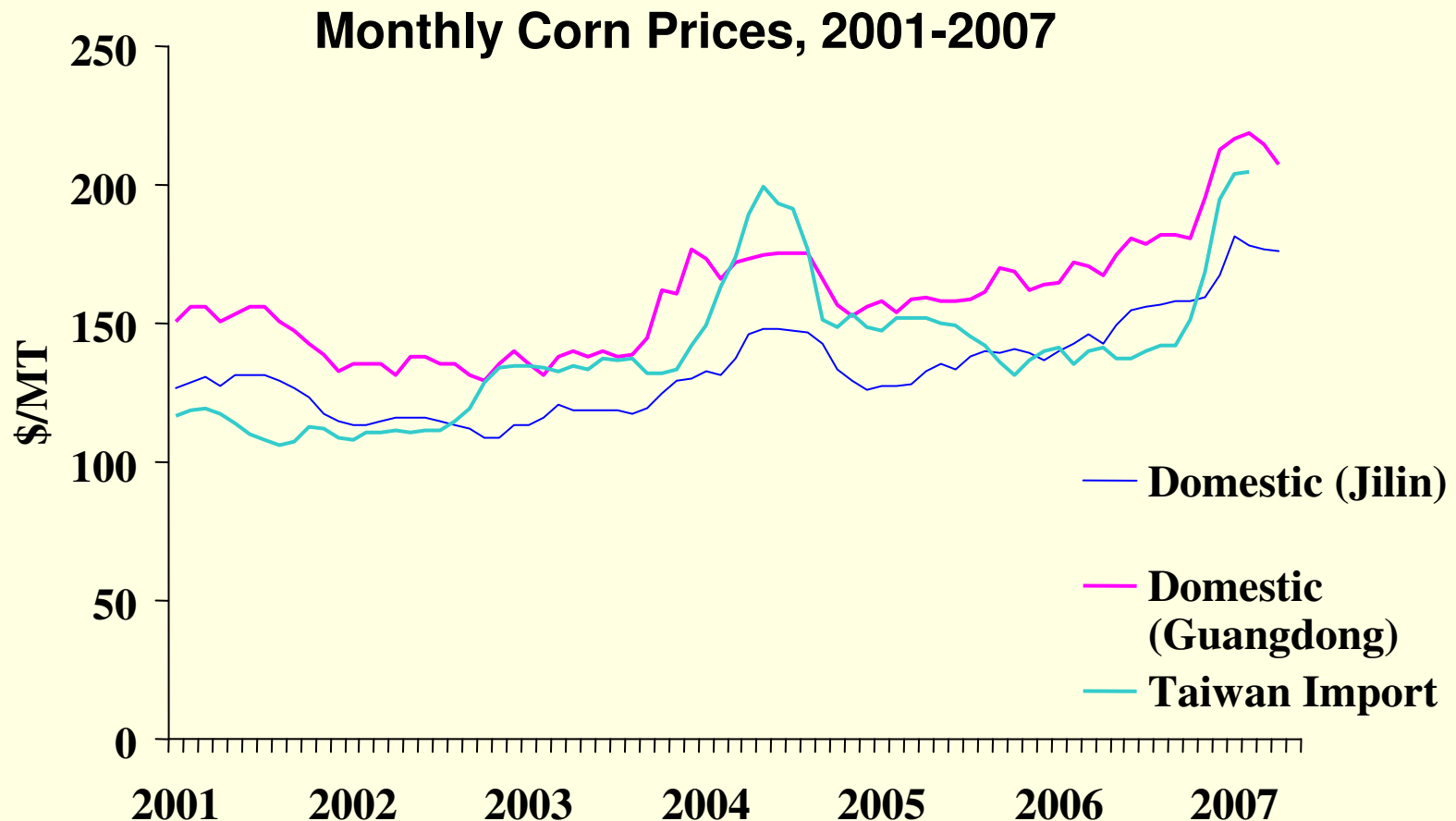
- Value added tax on imported commodities of 13%?
- Uncertainty about approval of genetically modified imports?
- TRQ allocation mechanism?
- Domestic subsidies and inducements to plant grain?

# Chinese soybean prices consistently above U.S. price



Source: China National Grain and Oils Information Center, China customs statistics, and USDA/NASS.

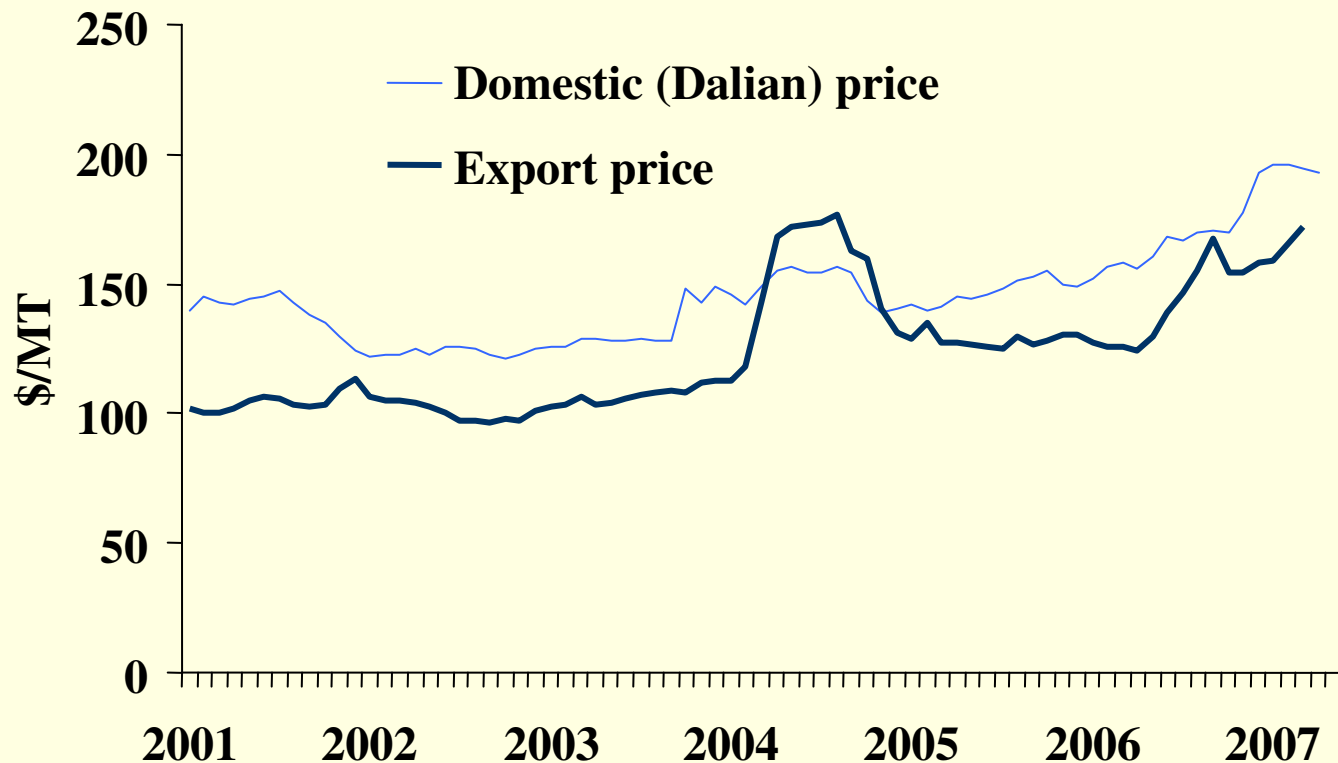
# Guangdong Province's corn price usually above "border price"



Source: China National Grain and Oils Information Center and Taiwan Customs statistics

# Surplus corn exported below domestic market price

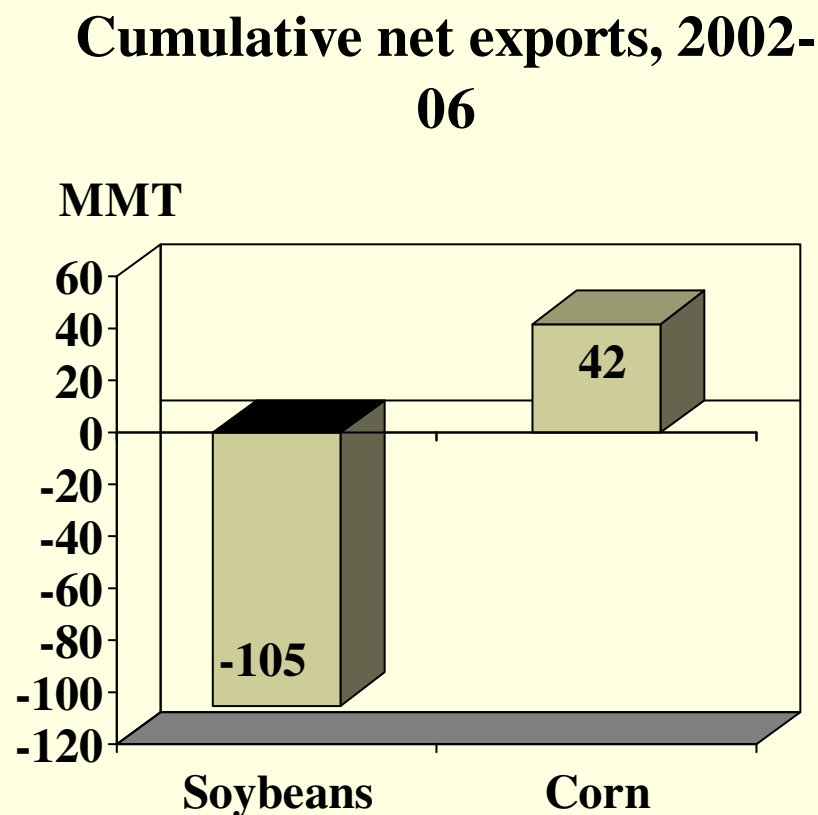
**China corn prices: monthly, 2001-07**



Source: China National Grain and Oils Information Center and China Customs Statistics.

# Trade policy supports domestic corn price

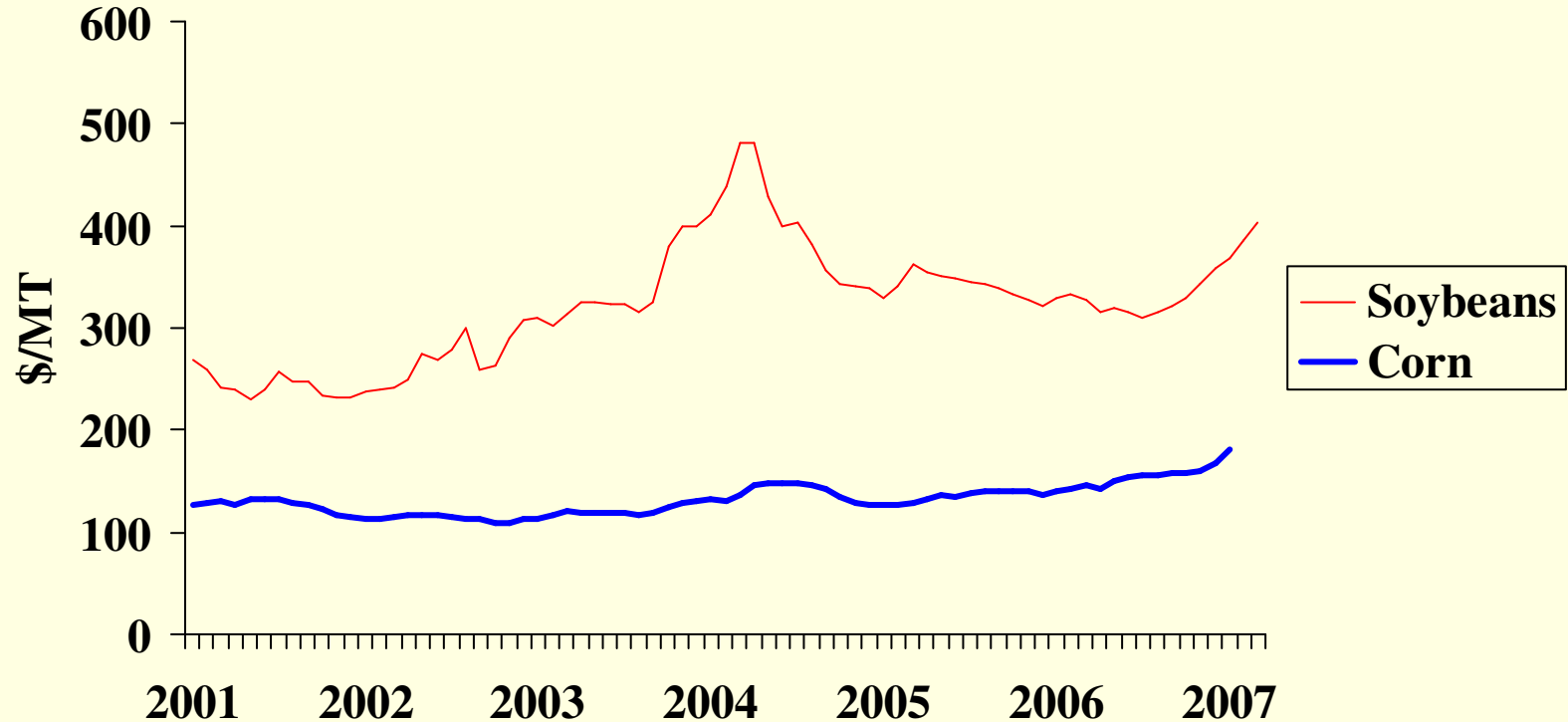
- China exported 42 MMT corn (from excess stocks) during 2002-06 below market prices at cost of \$1 billion.
- If exported corn had been sold in domestic market, corn prices would have fallen



Source: China customs statistics.

# Despite free trade, soybean prices have not fallen relative to corn prices

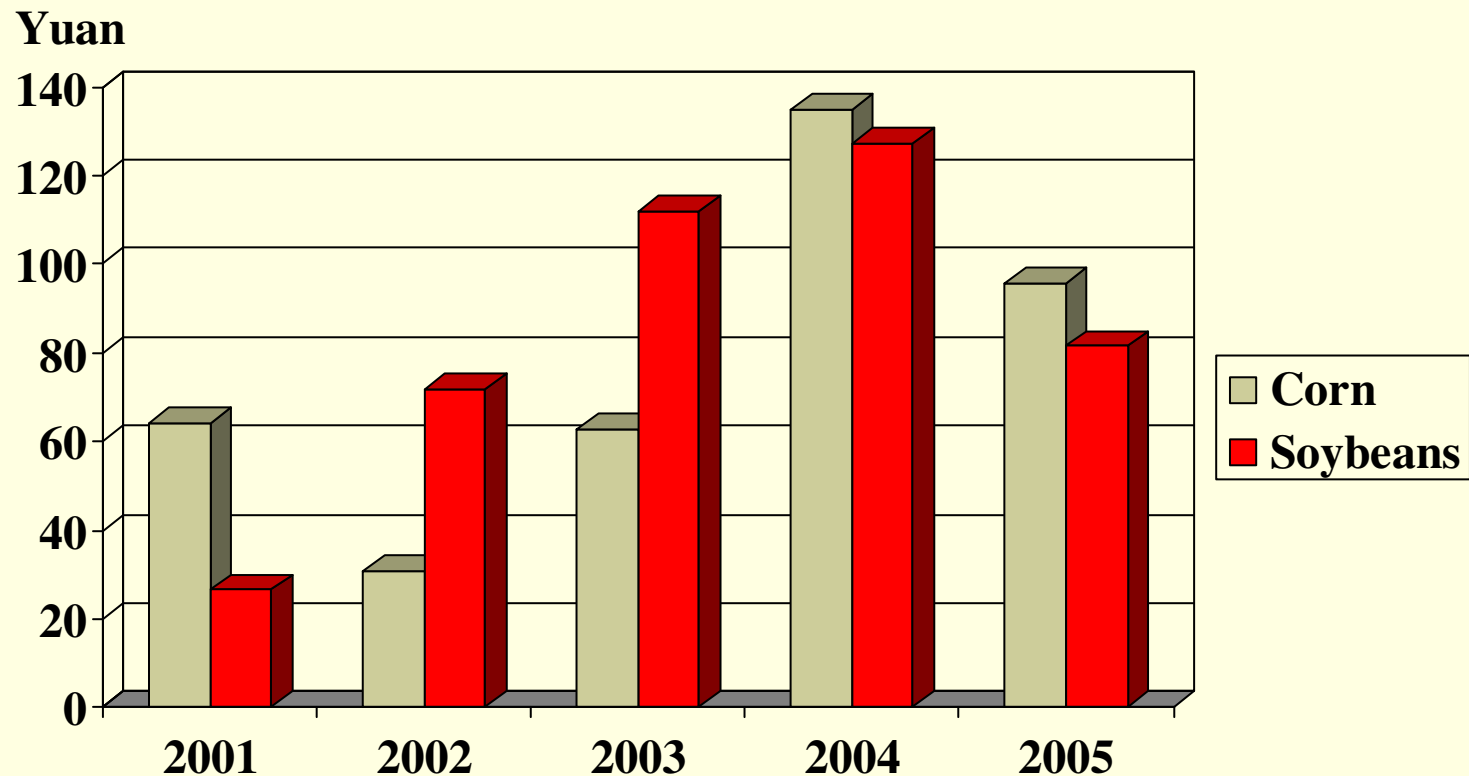
China commodity prices: monthly, 2001-07



Source: China National Grain and Oils Information Center.

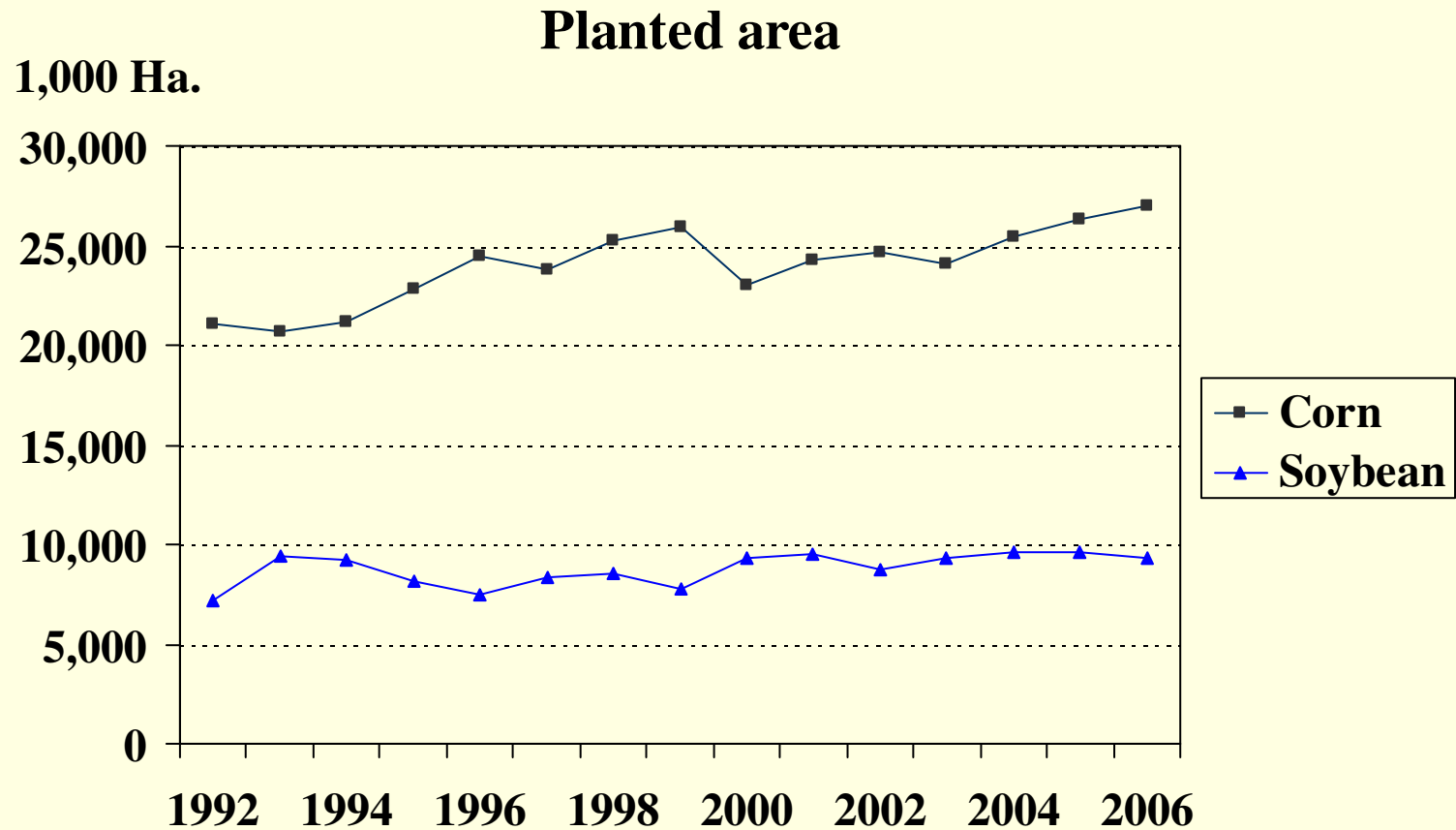
# Soybean profits have not fallen

Estimated profit per mu (1/15 hectare)



Source: China National Development and Reform Commission.

# Soybean area did not decline



Source: National Bureau of Statistics and USDA estimate for 2006.

# An ironic outcome

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- Most observers expected China's demand for corn to have an impact on world markets
- China's corn imports have not yet materialized; China's rising demand emerged in the soybean market
- It is demand from the U.S. (driven by ethanol) that is impacting China's corn market

# China's agricultural trade: liberal, but controlled

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- Low tariffs, but other measures control trade
- Rapid industrial and construction growth
- China agricultural imports channeled into a few commodities with rapidly growing demand
- Domestic policies pushed resources into grain production since 2004
- Not much change in relative prices
  - High field crop prices
  - Low fruit/vegetable prices