



Regional Trade Opportunities for Asian Agriculture

David Roland-Holst

UC Berkeley

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Wawasan Open University, Penang, Malaysia



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1. How we got here

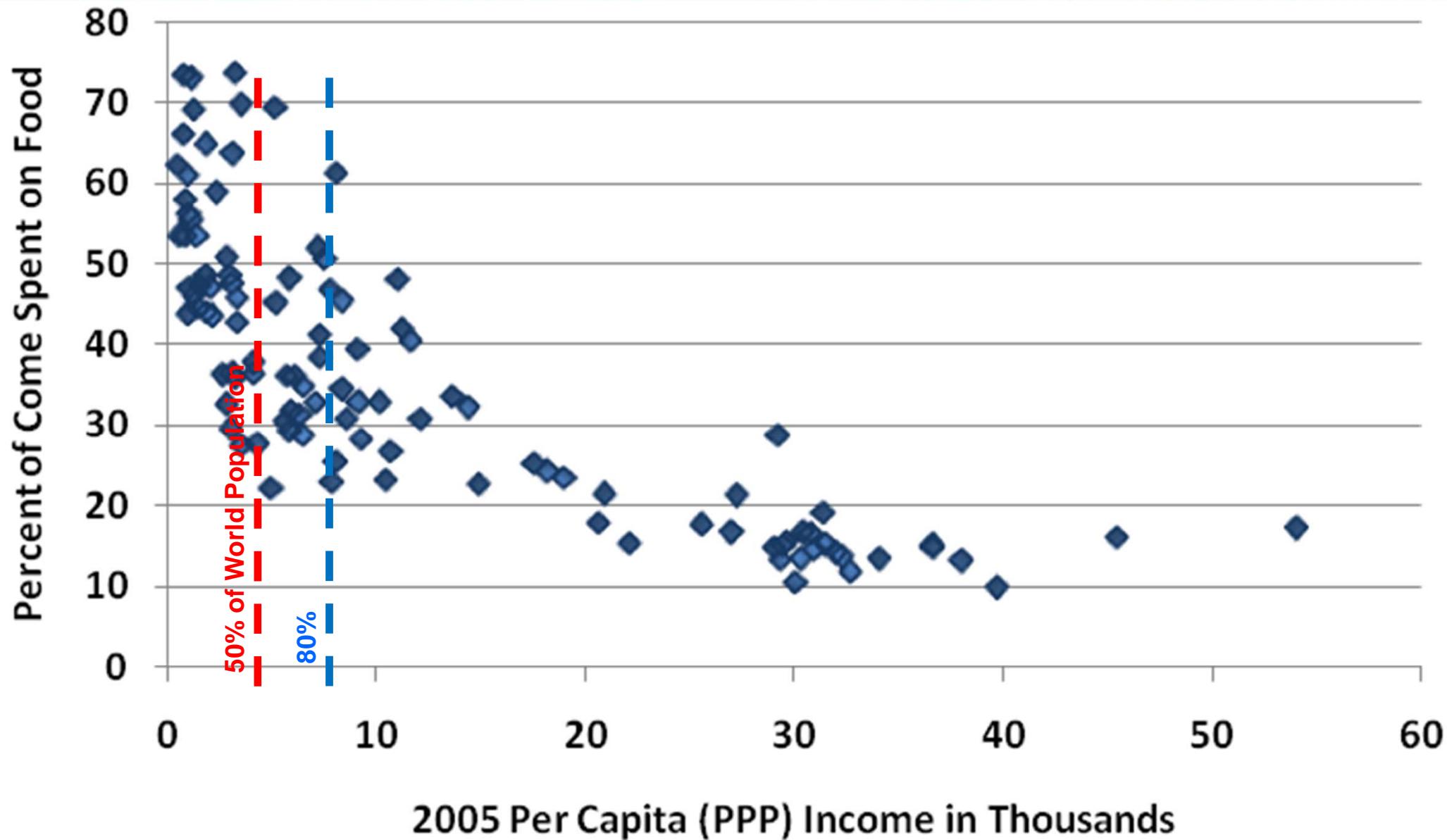
- Loss of momentum in the latest round of multilateral trade negotiations has improved the prospects for regional trade within Asia.
- This is particularly true for agriculture, a primary obstacle to WTO negotiations and a sector in which Asia has significant demand and supply potential.
- Historically, regional food trade has been driven by demand from higher income Asian economies. Historically, this provided important development stimulus to regional partners, including Taiwan, Thailand, Indonesia, and Malaysia.
- Regional AgroFood absorption is now accelerating rapidly from a new source, China.
- This could make a significant contribution to regional growth and poverty alleviation, contributing to two important ADB policy objectives – greater Asian cooperation and more inclusive development.



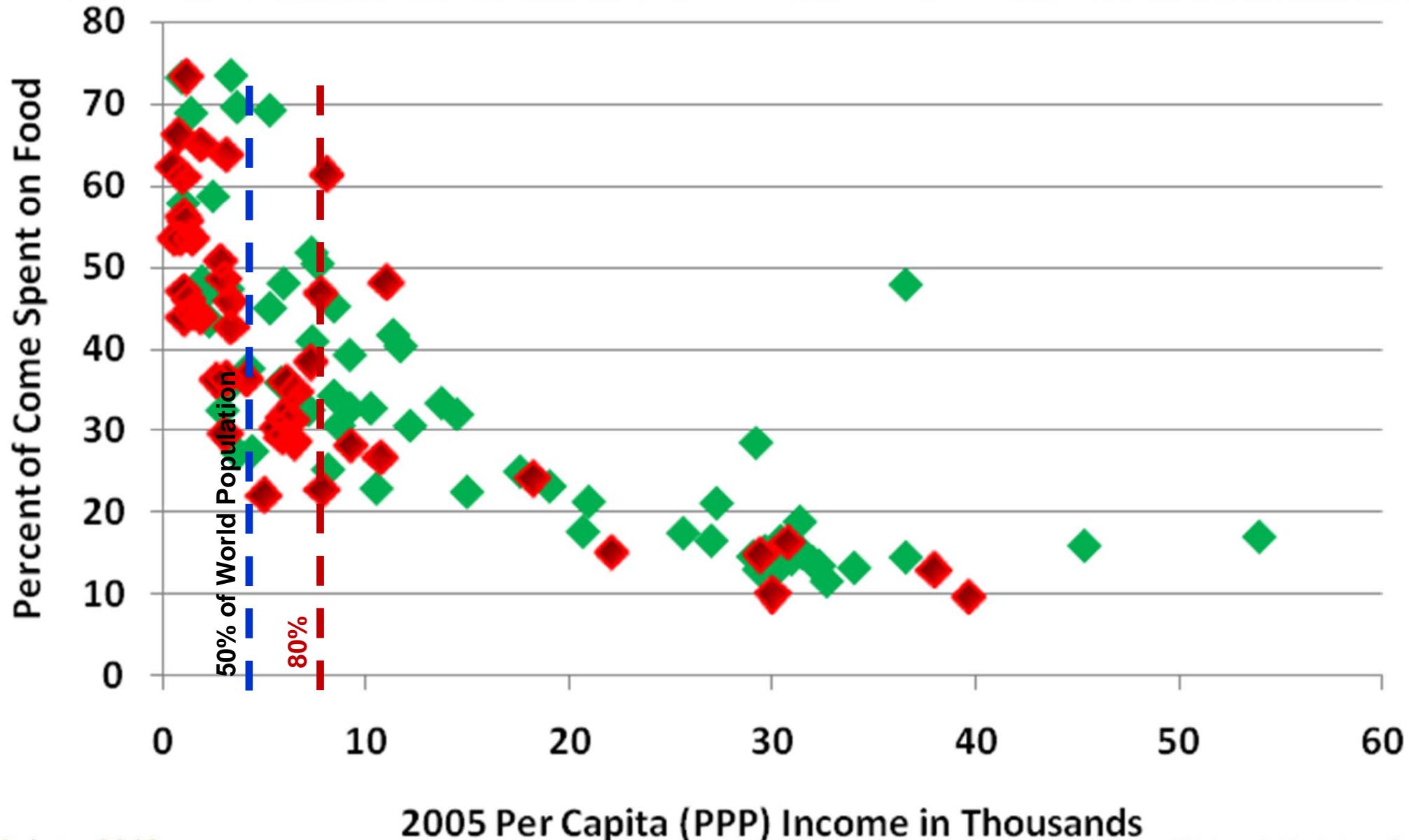
North-South Relations and the Cheap Food Consensus

- Higher income economies have long subsidized their own agricultural activities with the combined goals of supporting food security and powerful rural populations.
- In the South, many economic development policies have been built on bedrock of low wage industrialization, accompanied by food security (low prices) for politically sensitive urban poor populations.
- The result has been a *de facto* global consensus, supporting two generations of declining food prices.

Food Security and Income



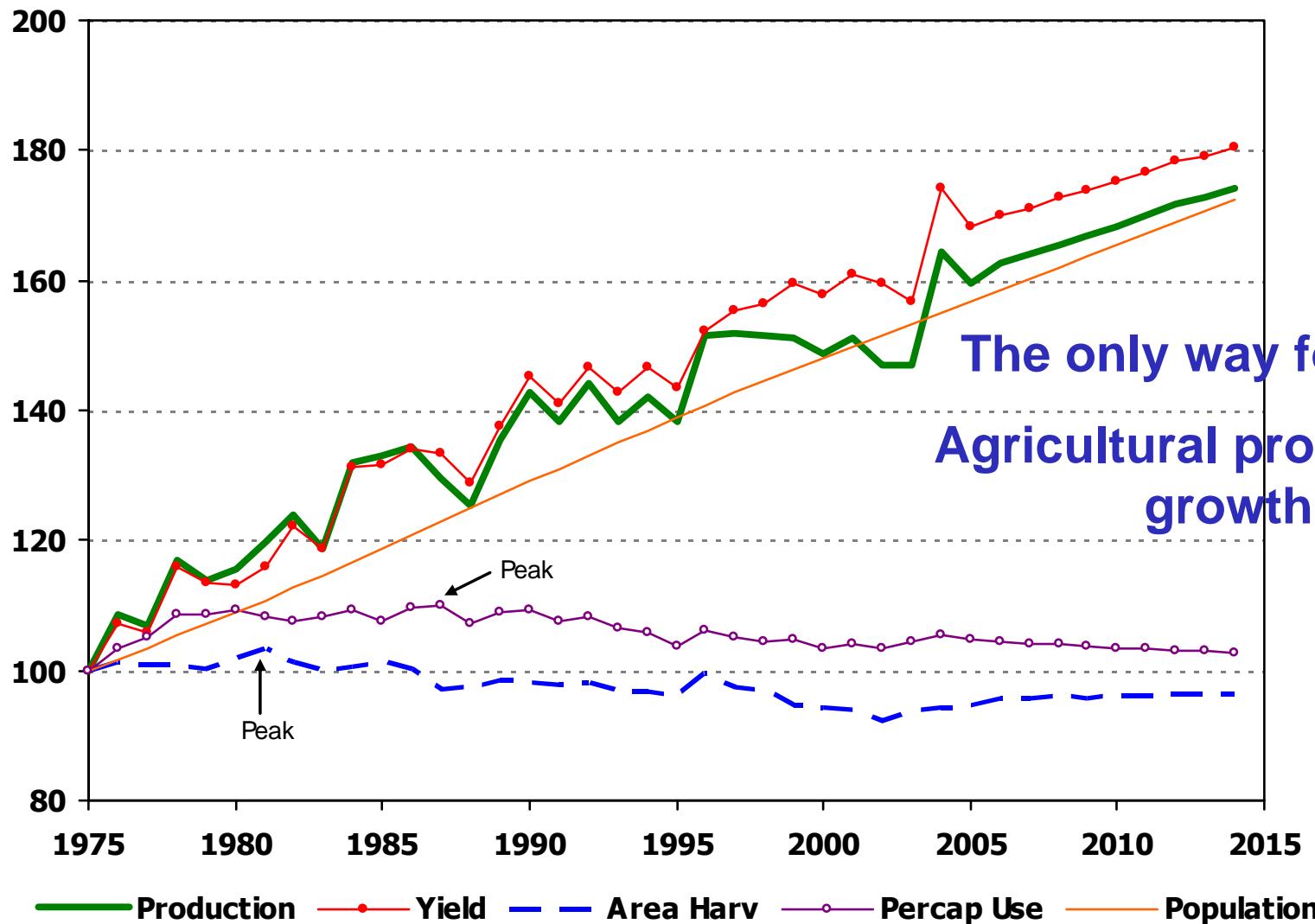
Food Security and Climate Risk: Tropical Countries in Red



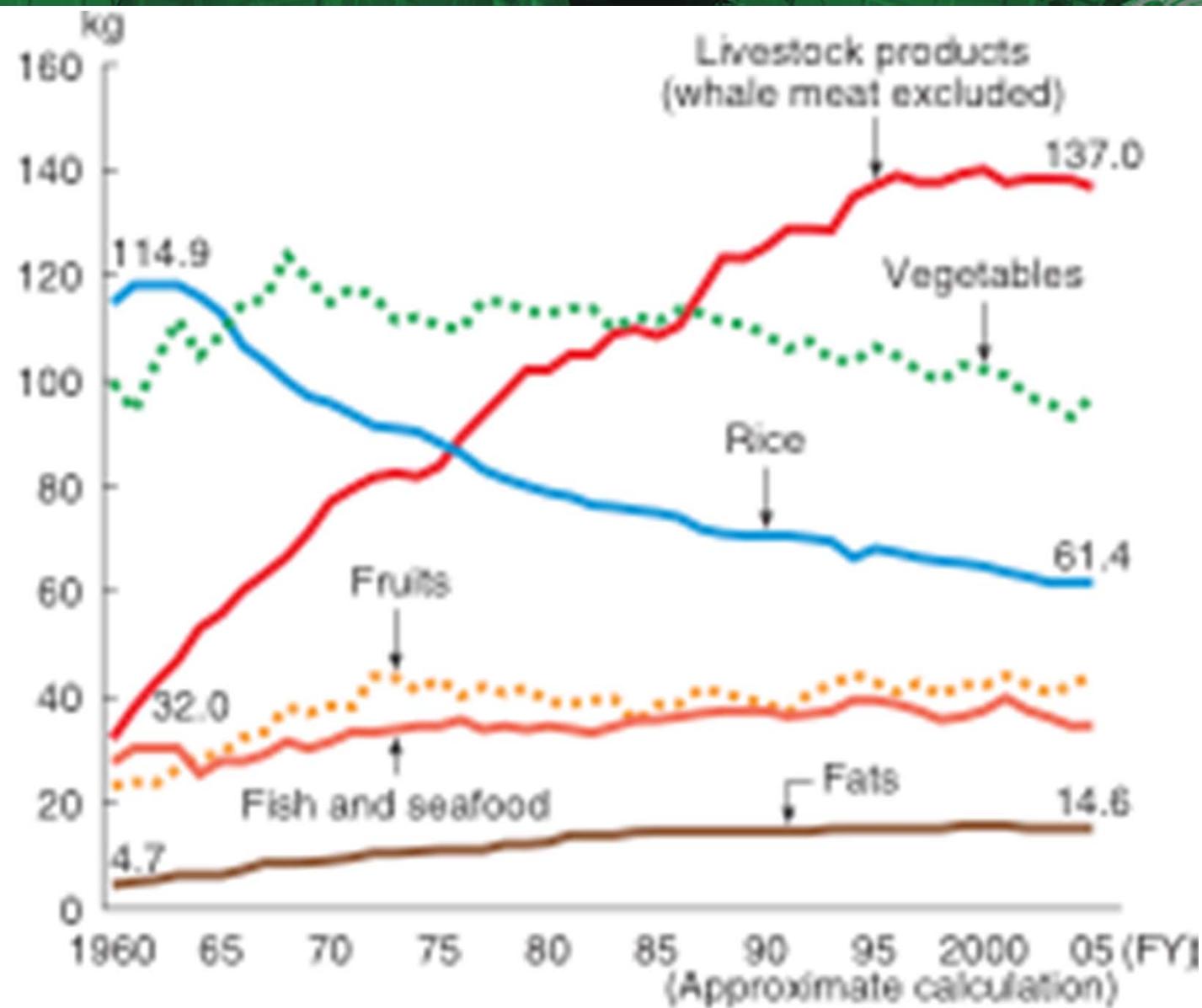
How we got here and how we go forward

Total World Grain and Oilseeds

Index: 1975 = 100



Historical AgroFood Model for the Region: Japan's Growth, Diet,

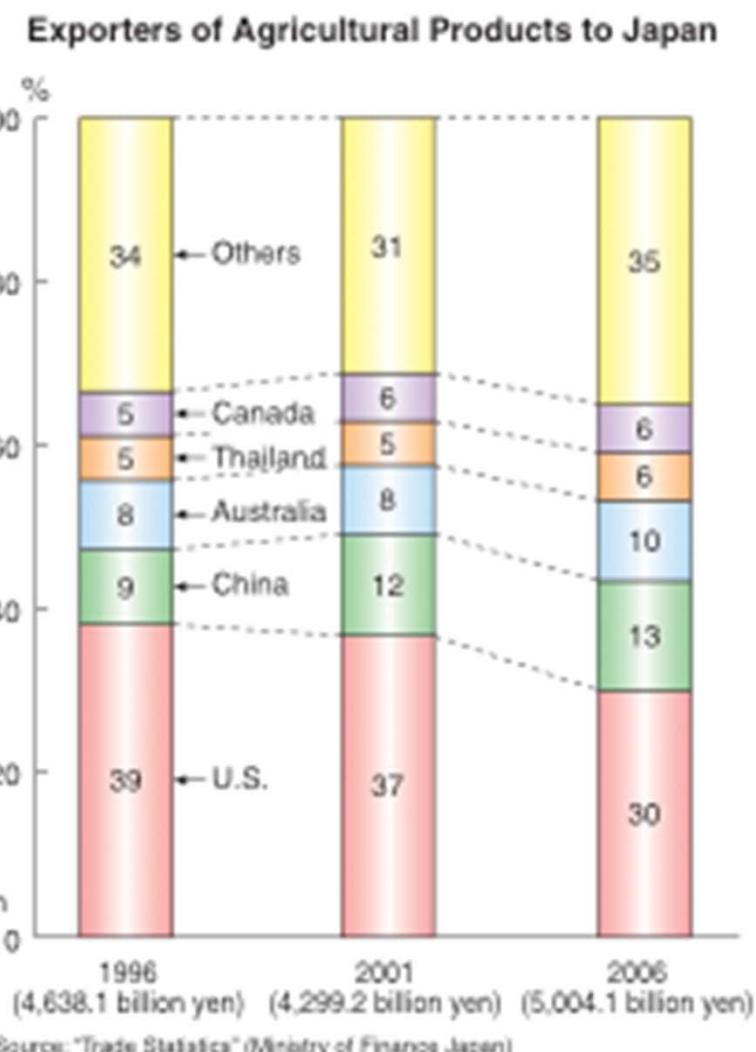


and AgroFood Absorption



Source: Prepared by MAFF according to "FAOSTAT" (FAO) and "Annual Total Export of Agricultural Products" (Department of Agriculture, China).

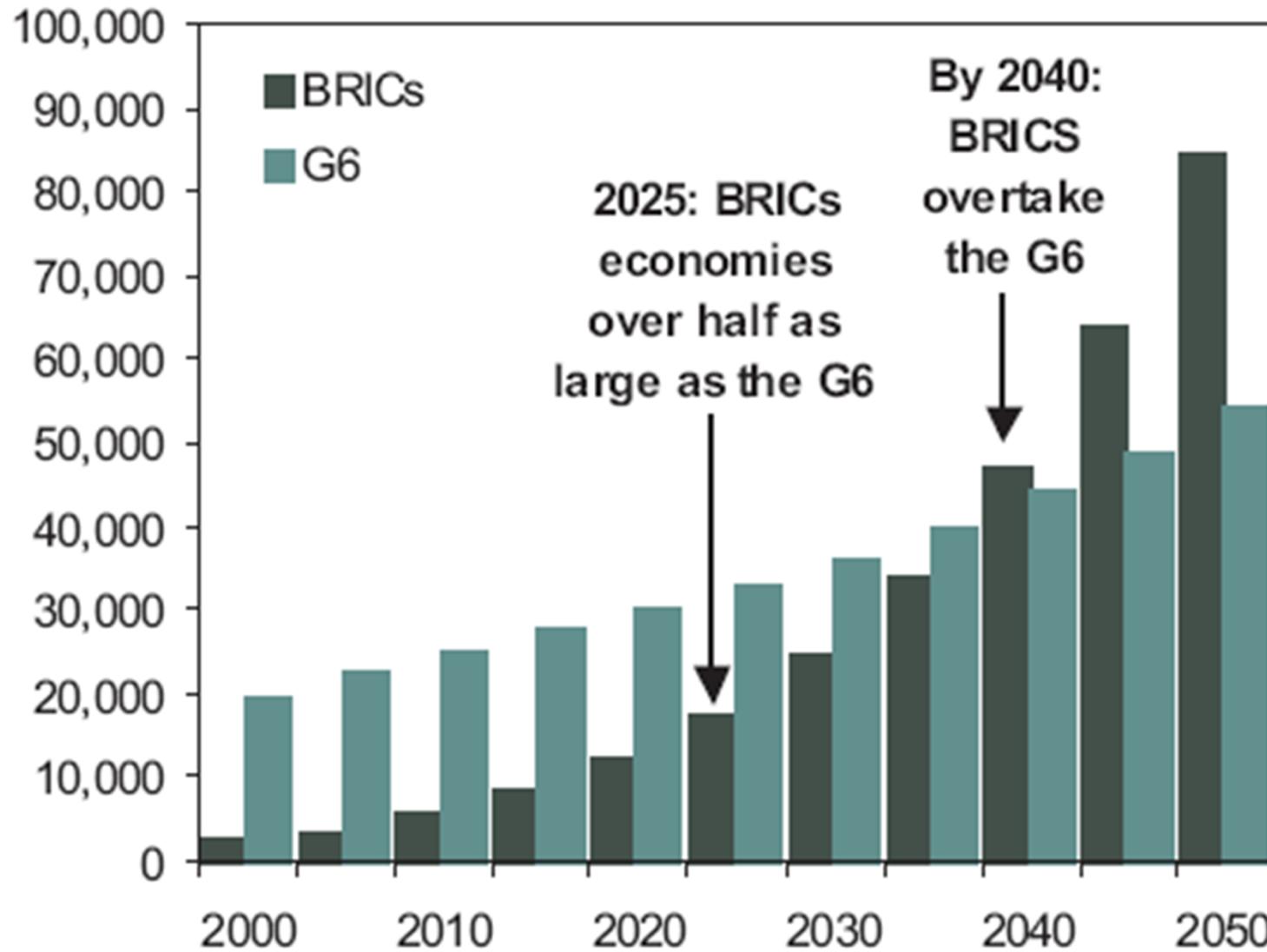
Notes: 1) The value of trade in the EU does not include that within the member states.
2) The value of trade in fishery products is included in the data obtained from China.



From 1965 to 1998, Japan's food self-sufficiency ration fell from 73% to 40%. where it has remained since.

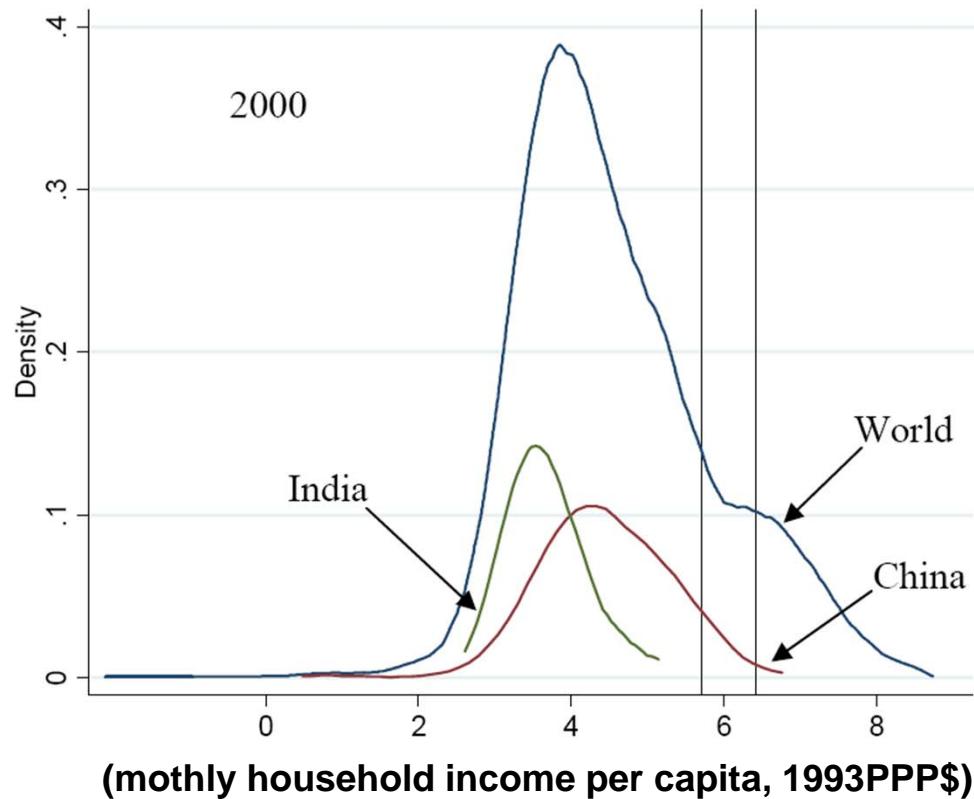
The New Model of Emergent Demand: BRICs and G6 GDP

(USD Billion)



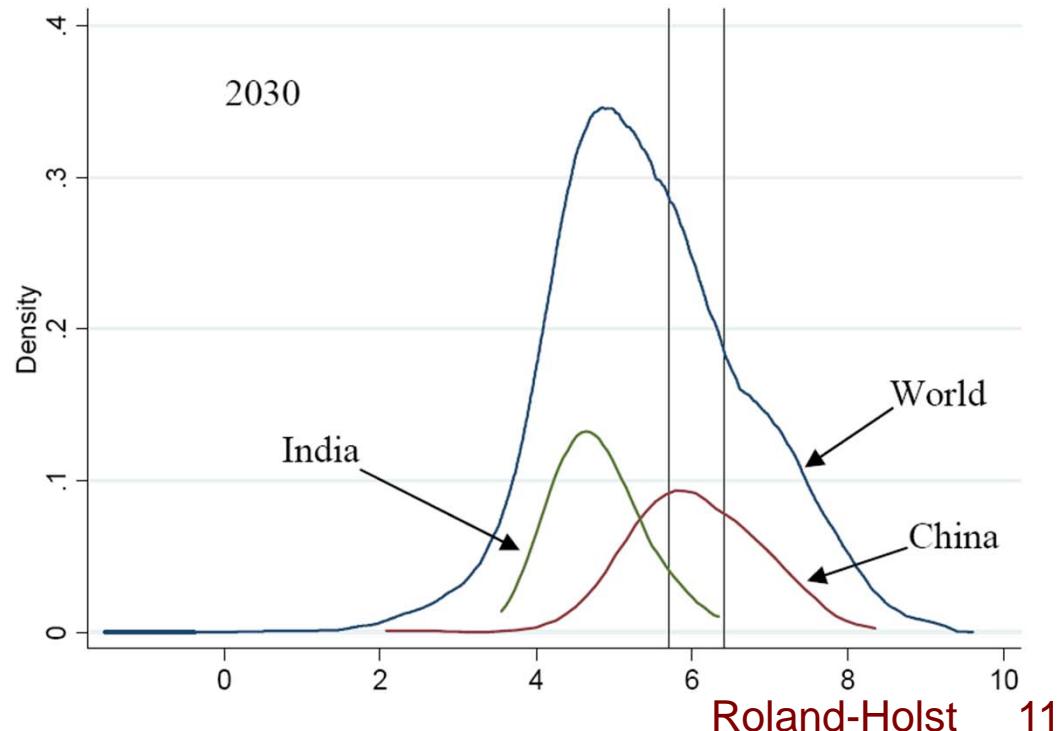
GS BRICs Model Projections. See text for details and assumptions.

Emergent Demand II: China and India in a Global Context

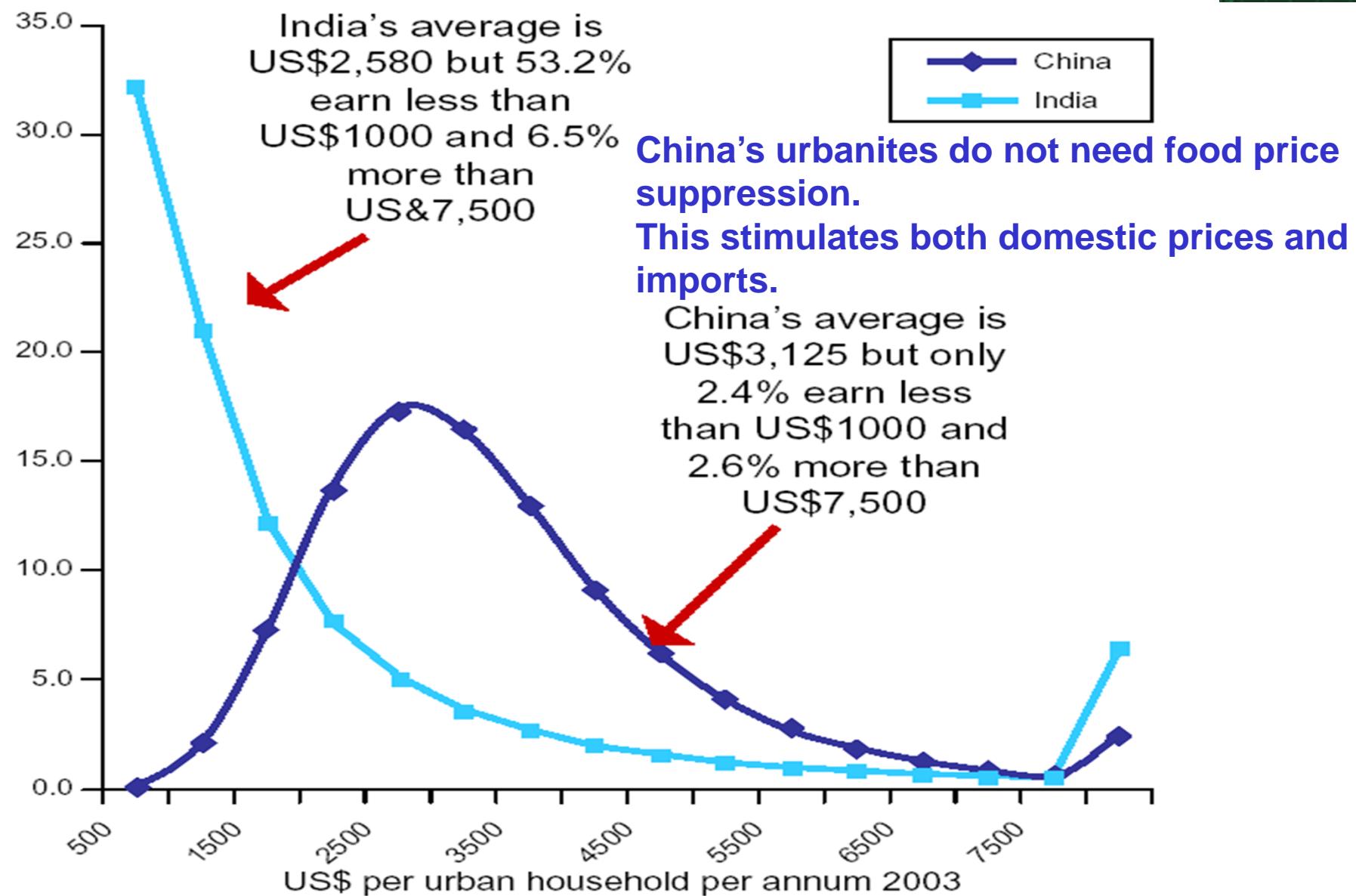


The World Bank estimates that China's progress across the global income distribution will be relatively inequality-neutral.

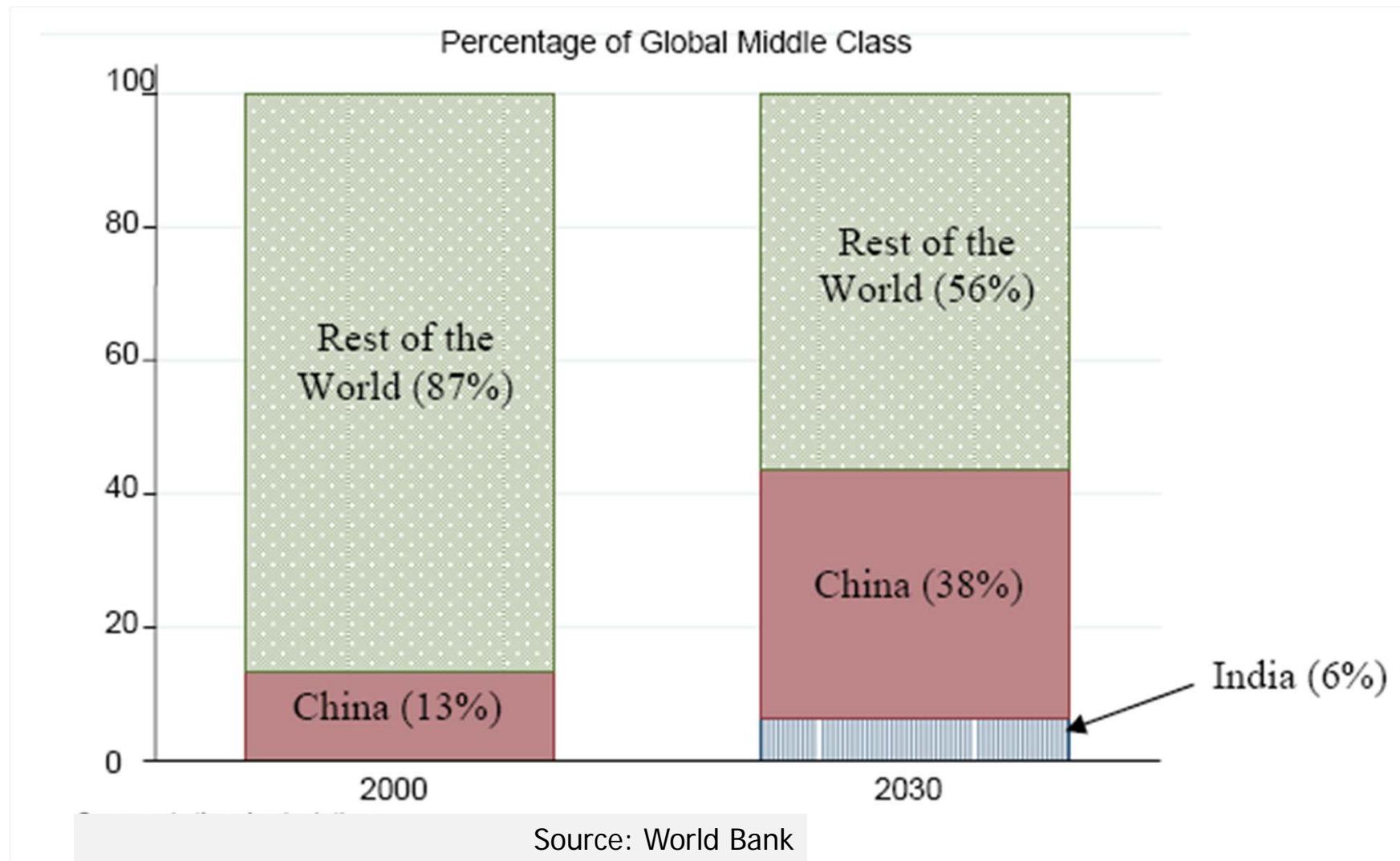
Because of greater inequality (Gini=.42 vs .29), China has more members of the middle class.



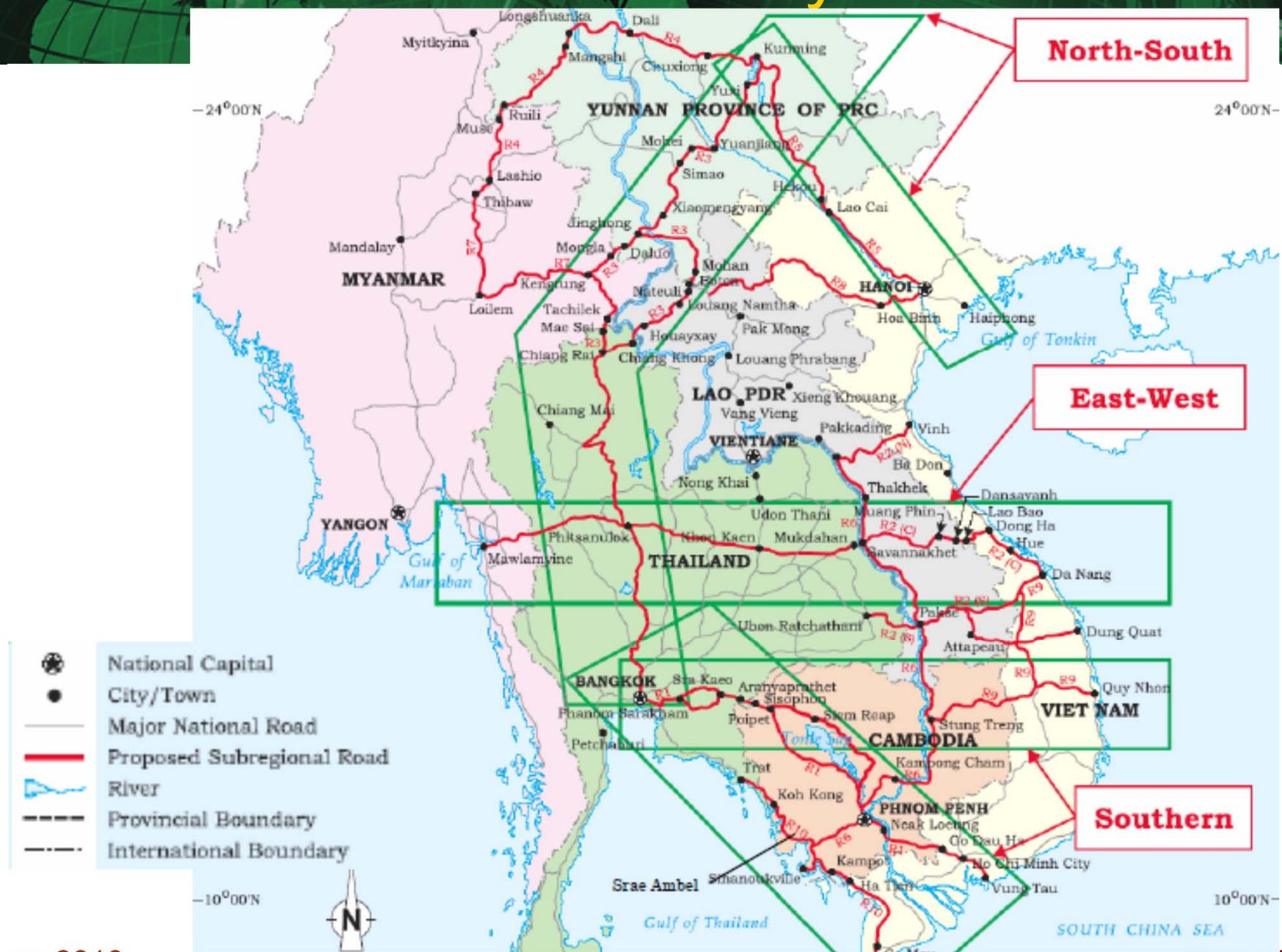
China's Urban Population will Accelerate Resource-intensive Regional Food Demand



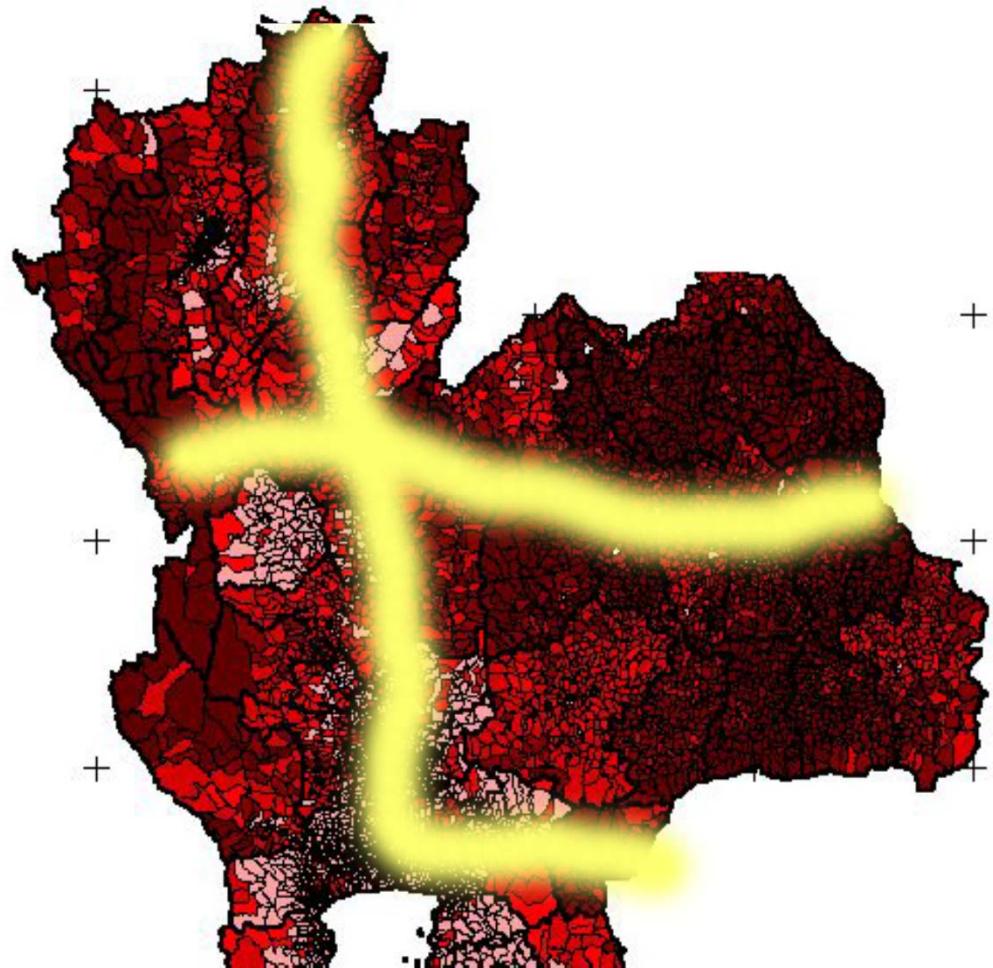
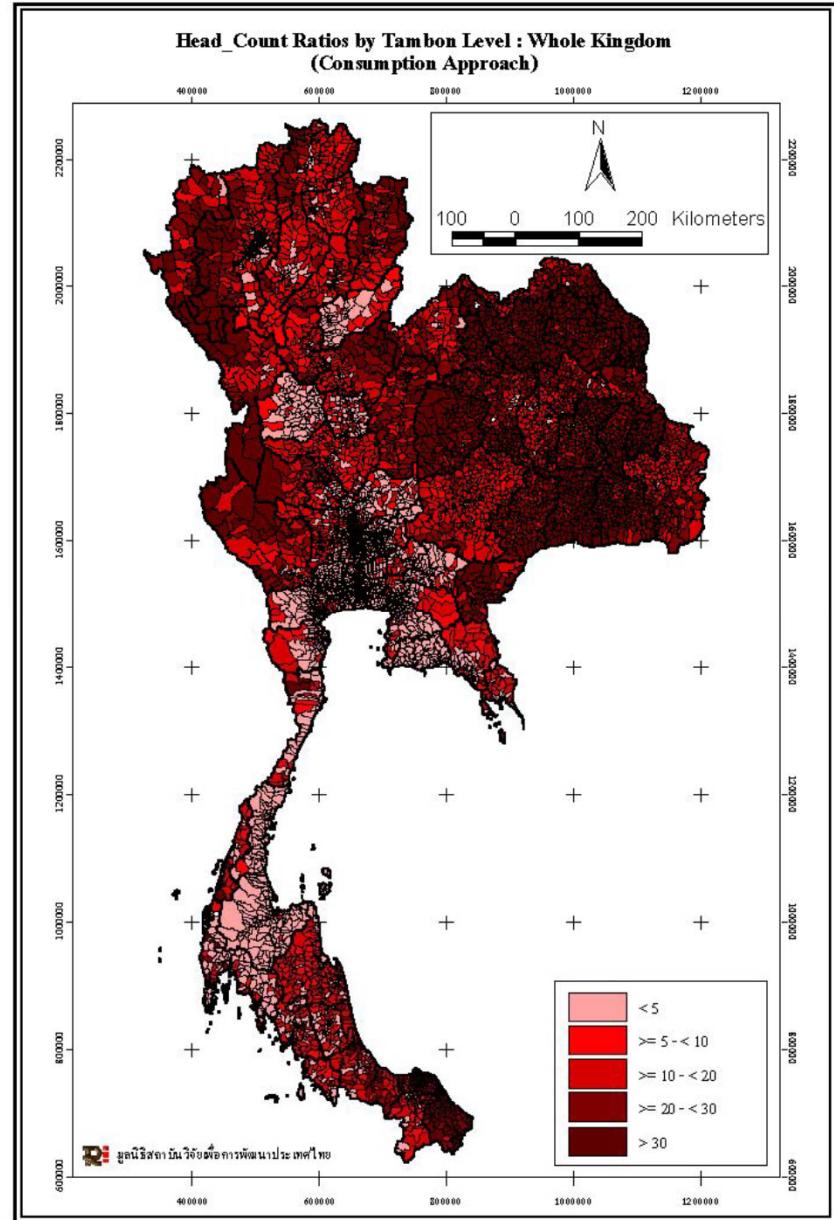
Asian Middle Class Emergence



On the Supply Side, the Region is Investing Heavily in Market Access



Market Access and Poverty Alleviation

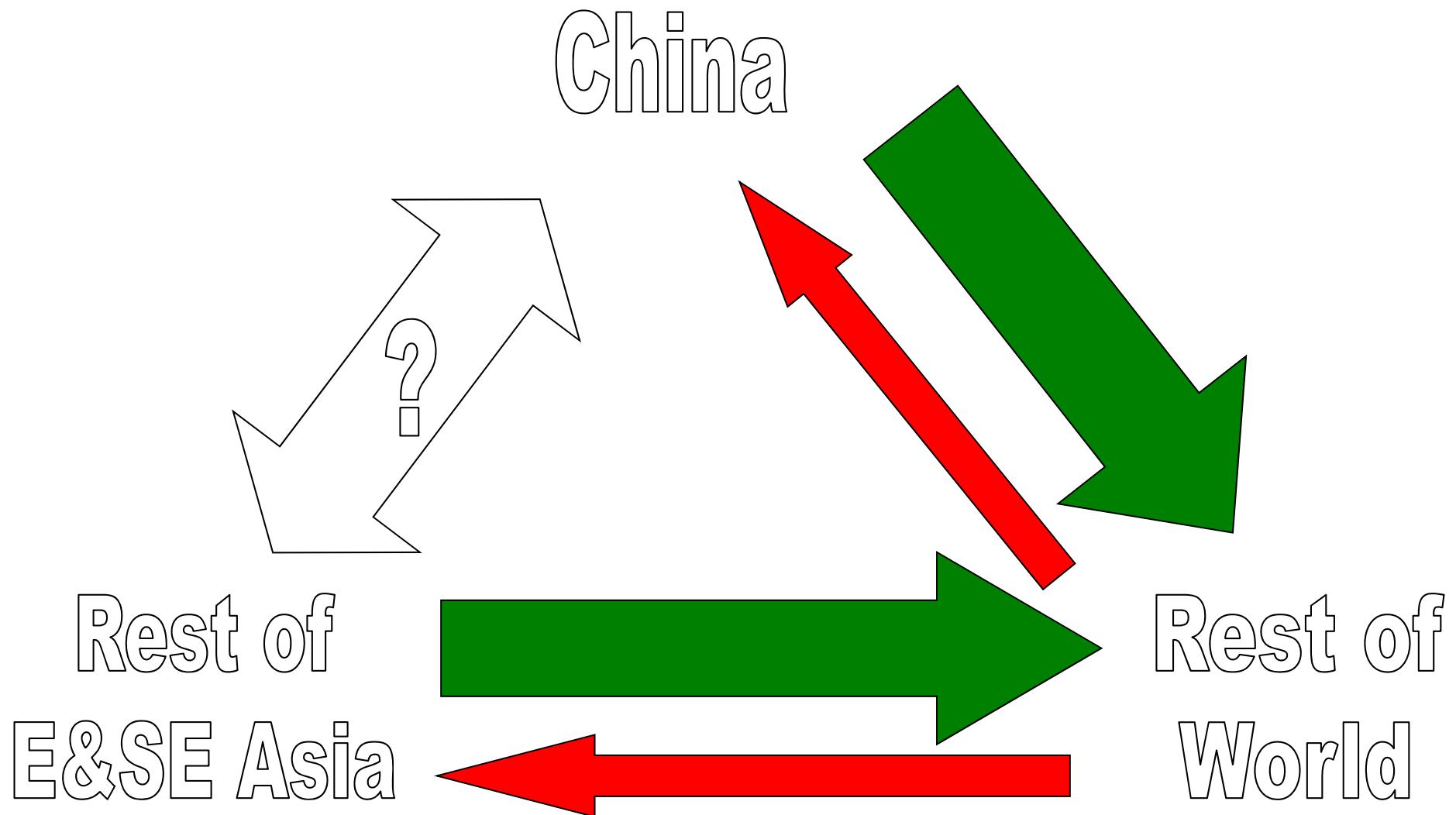


For example, Thailand's regional integration will advance self-directed poverty alleviation, improving market access for rural poor majorities, without unsustainable fiscal commitments.

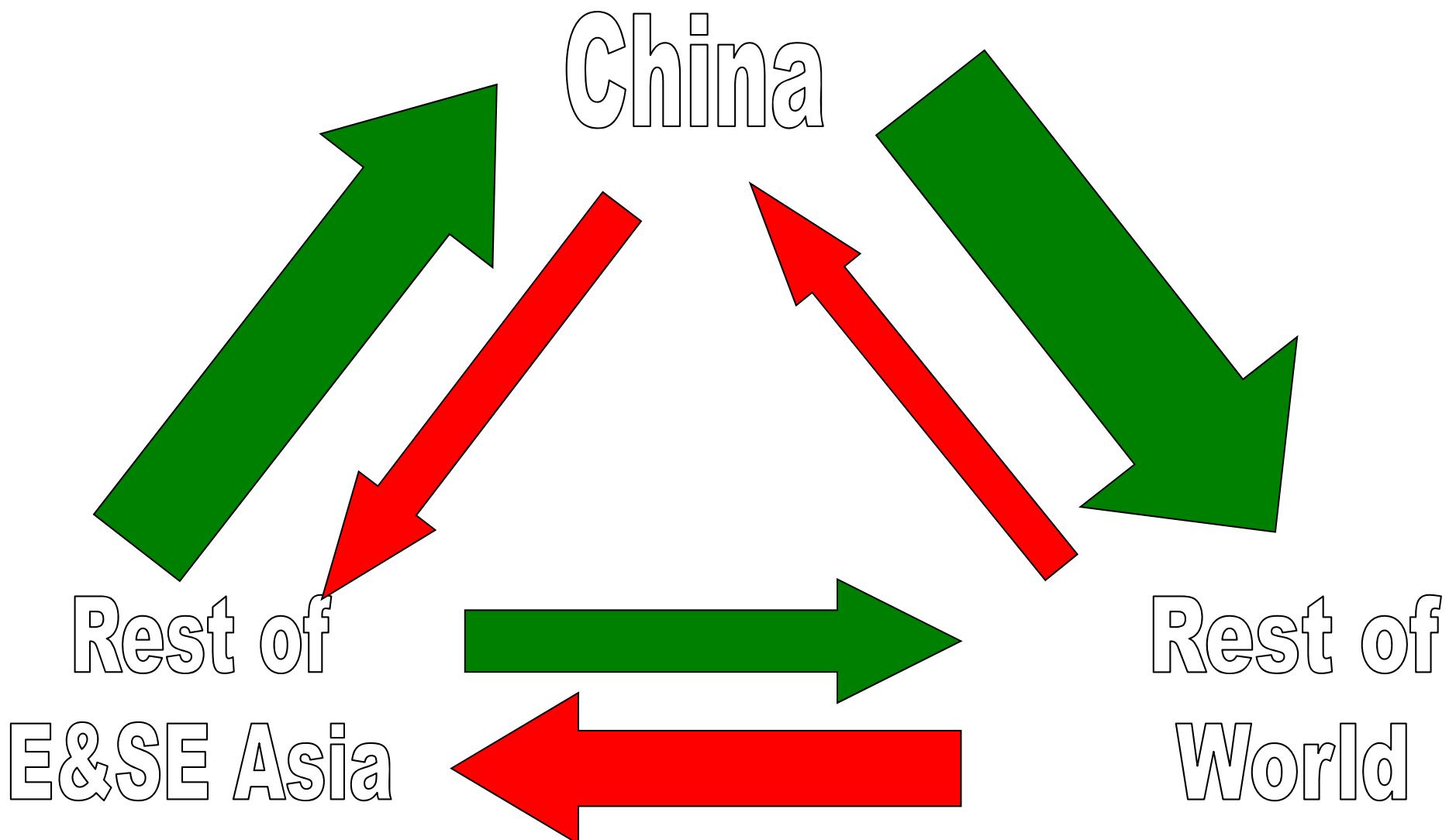
2. Evolving Asian Trade Patterns

- My own forecasts indicate the emergence of a systematic pattern of triangular trade between China, the Rest of East and Southeast Asia, and the Rest of the World
- China is a resource scarce economy, can cannot sustain export growth without increasing imports.
- This Trade Triangle reveals that China's export expansion offers significant growth leverage to its neighbors.
- Chinese absorption will emerge to dominate regional demand. Provided Asian economies do not isolate themselves from this process, the net effect of China's growth can be hugely positive.

Asian Trade Triangle 2000



Asian Trade Triangle 2020





China and Asia I

- Head-to-head export global competition with China will continue to be difficult.
- More attention should be given to leveraging opportunities presented by East Asia's fastest growing internal market.
- In these areas, the best strategy for East and Southeast Asia is to pursue globalism through more comprehensive regionalism.



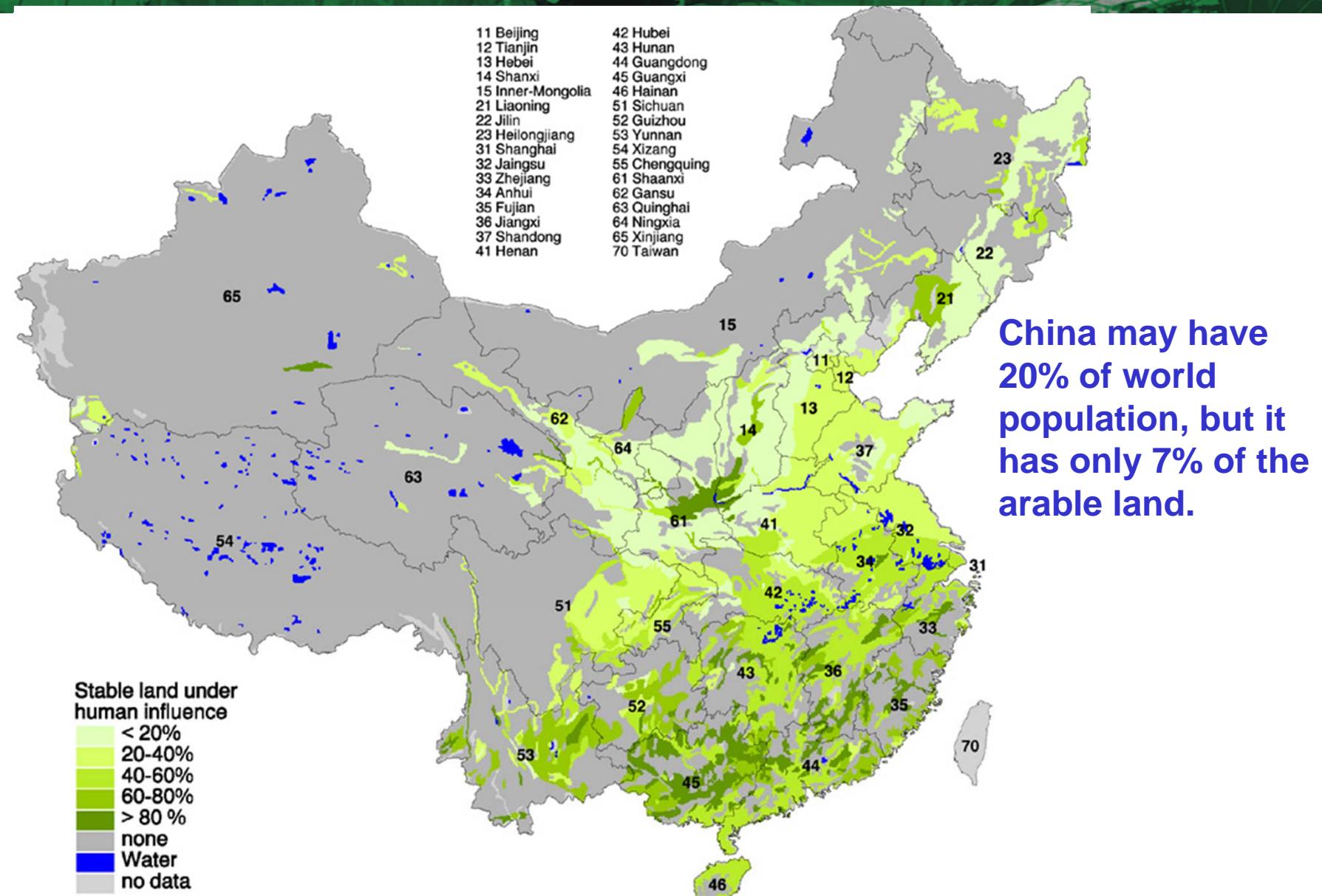
China and Asia II

- This is particularly true in sectors like agriculture, where Chinese competitiveness is limited or China is a net importer.
- Rising incomes in China are increasing the resource-intensity of food consumption (meat, etc.).
- Even if population remained constant over the next 20 years, China would have to double agricultural capacity to meet its changing food requirements.
- More likely will be a massive increase in agricultural imports.

3. Emerging Regional Agrofood Opportunities

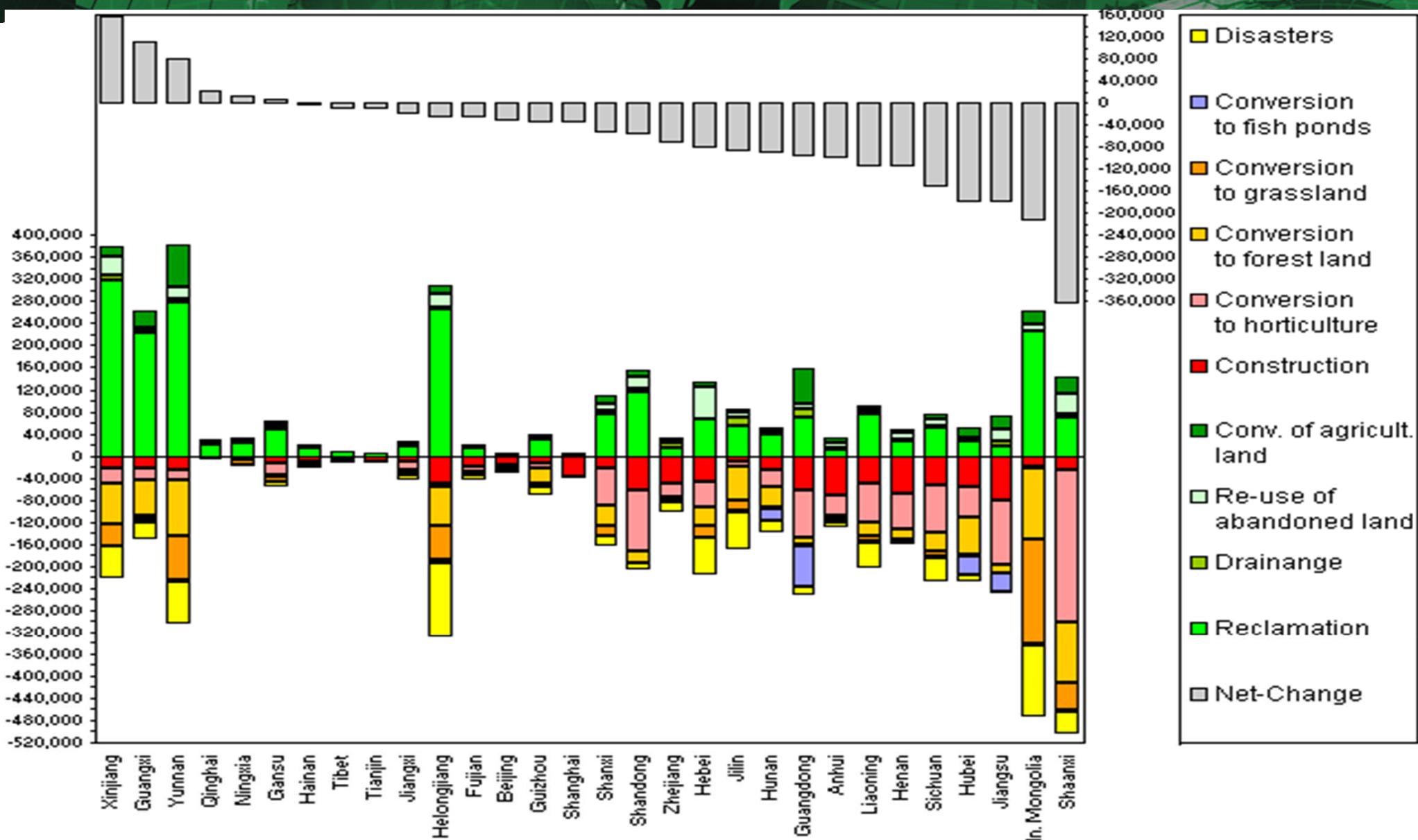
1. One of every seven farmers in the world is Chinese.
Should SE Asian farmers be worried about this?
2. No, because one of every five consumers in the world is Chinese.
3. China is the world's largest producer and consumer of food, but it has recently passed the tipping point in food self-sufficiency,
4. Within a decade, it will be the world's largest importer of food.

Supply Side: China's Farmland is scarce...

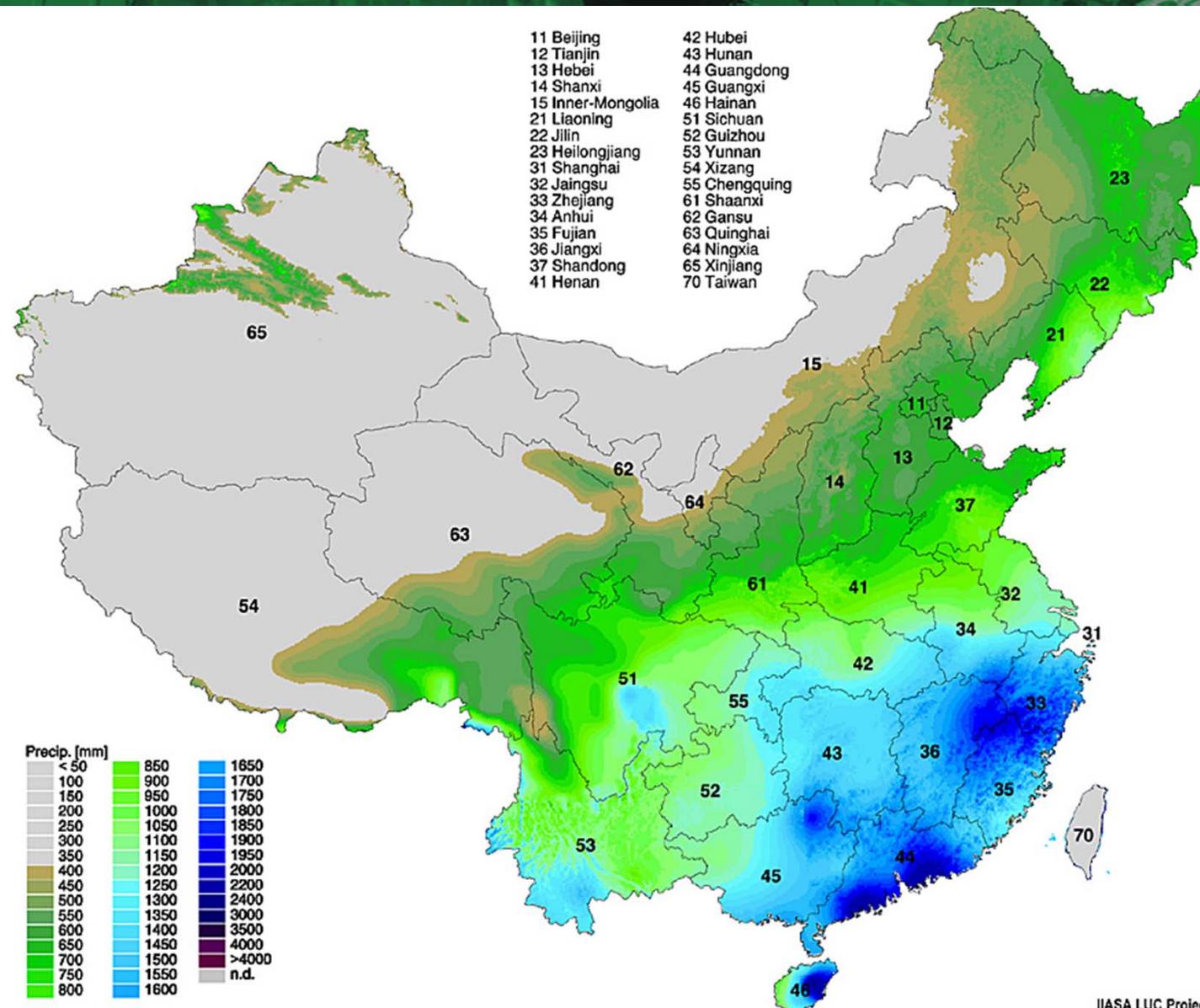


China may have
20% of world
population, but it
has only 7% of the
arable land.

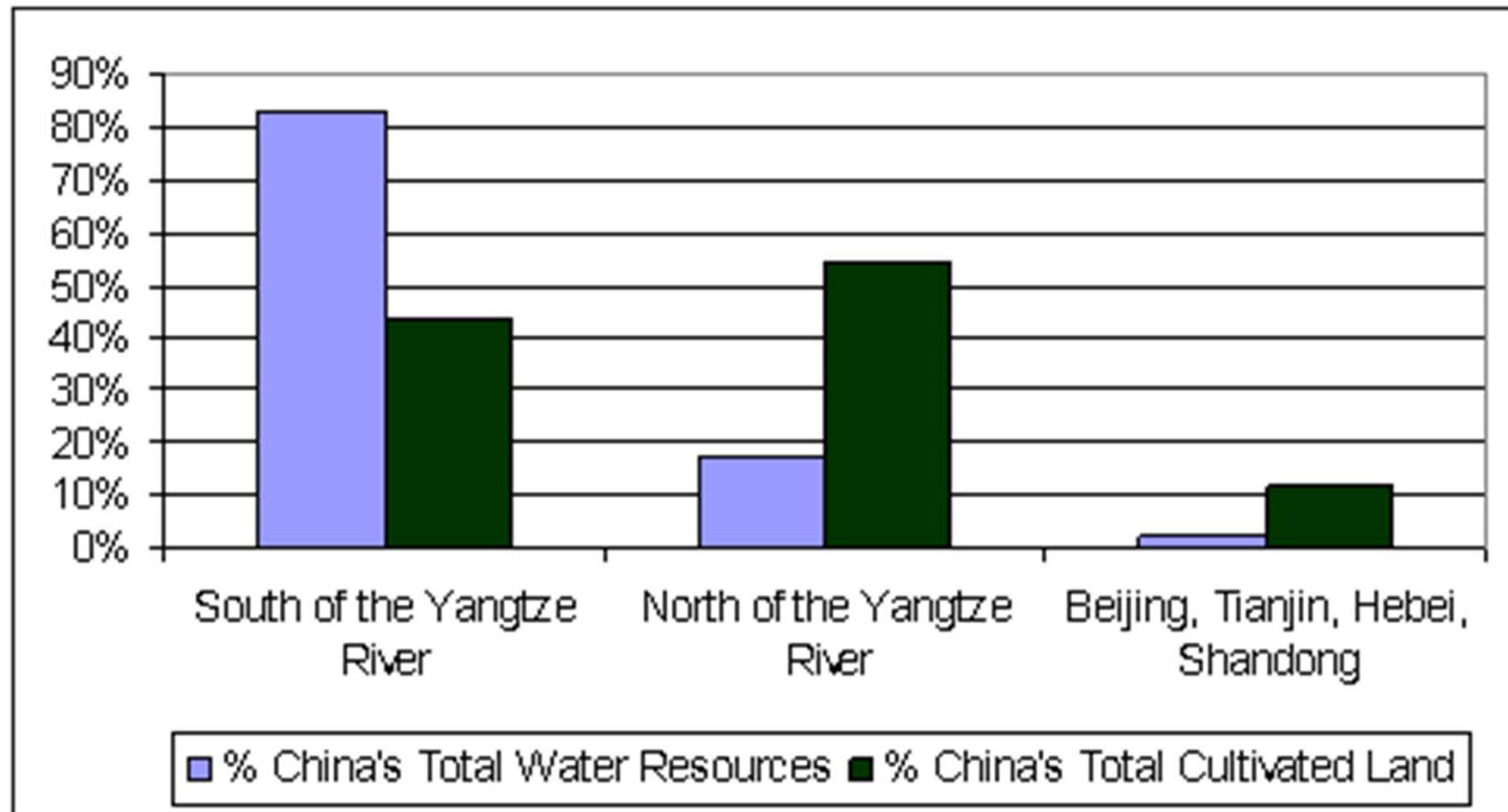
and shrinking.



Annual rainfall is limited...

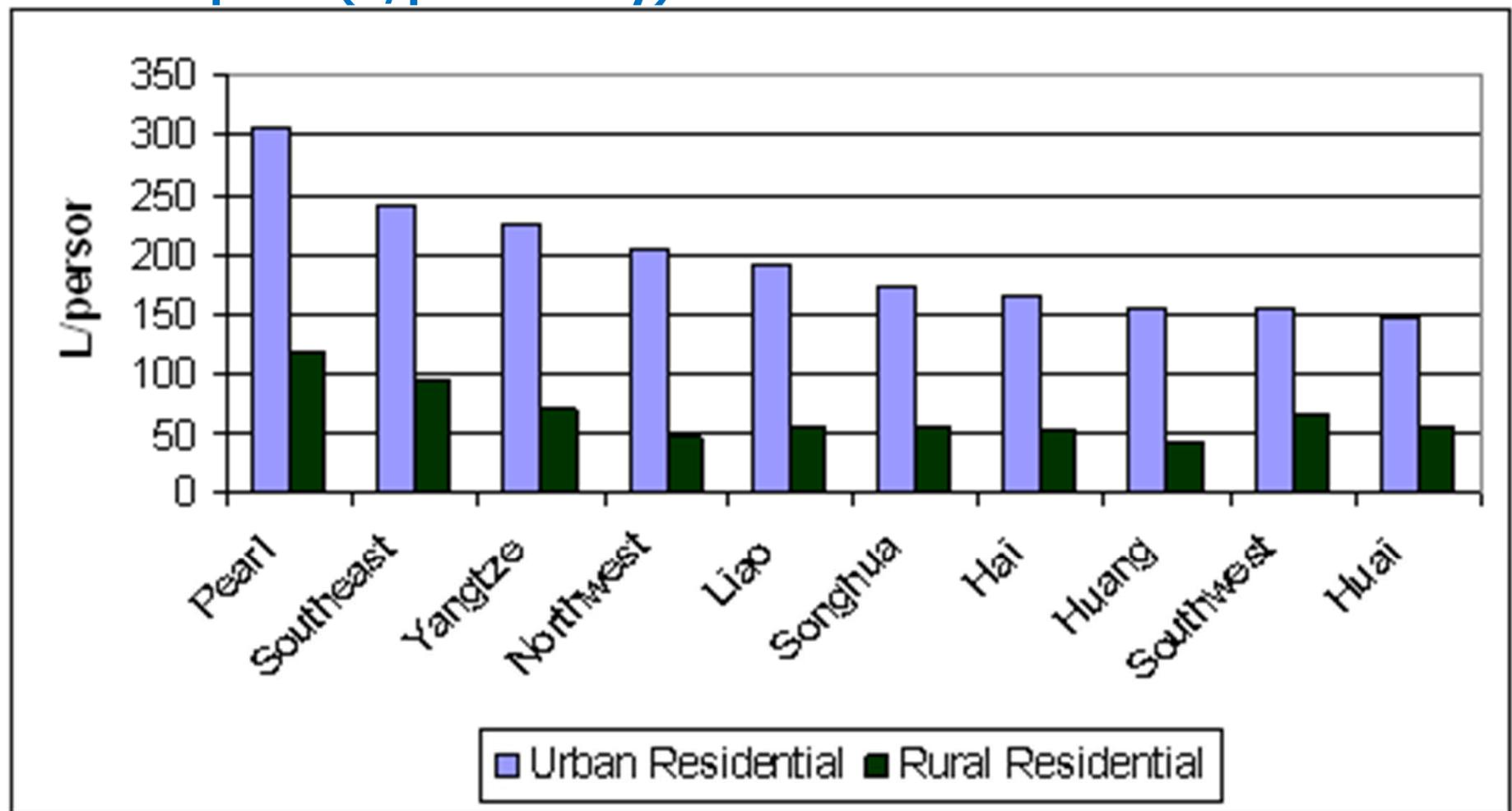


and water resources are distributed very unevenly



Thirsty Cities: Urbanites are more than twice as water-intensive

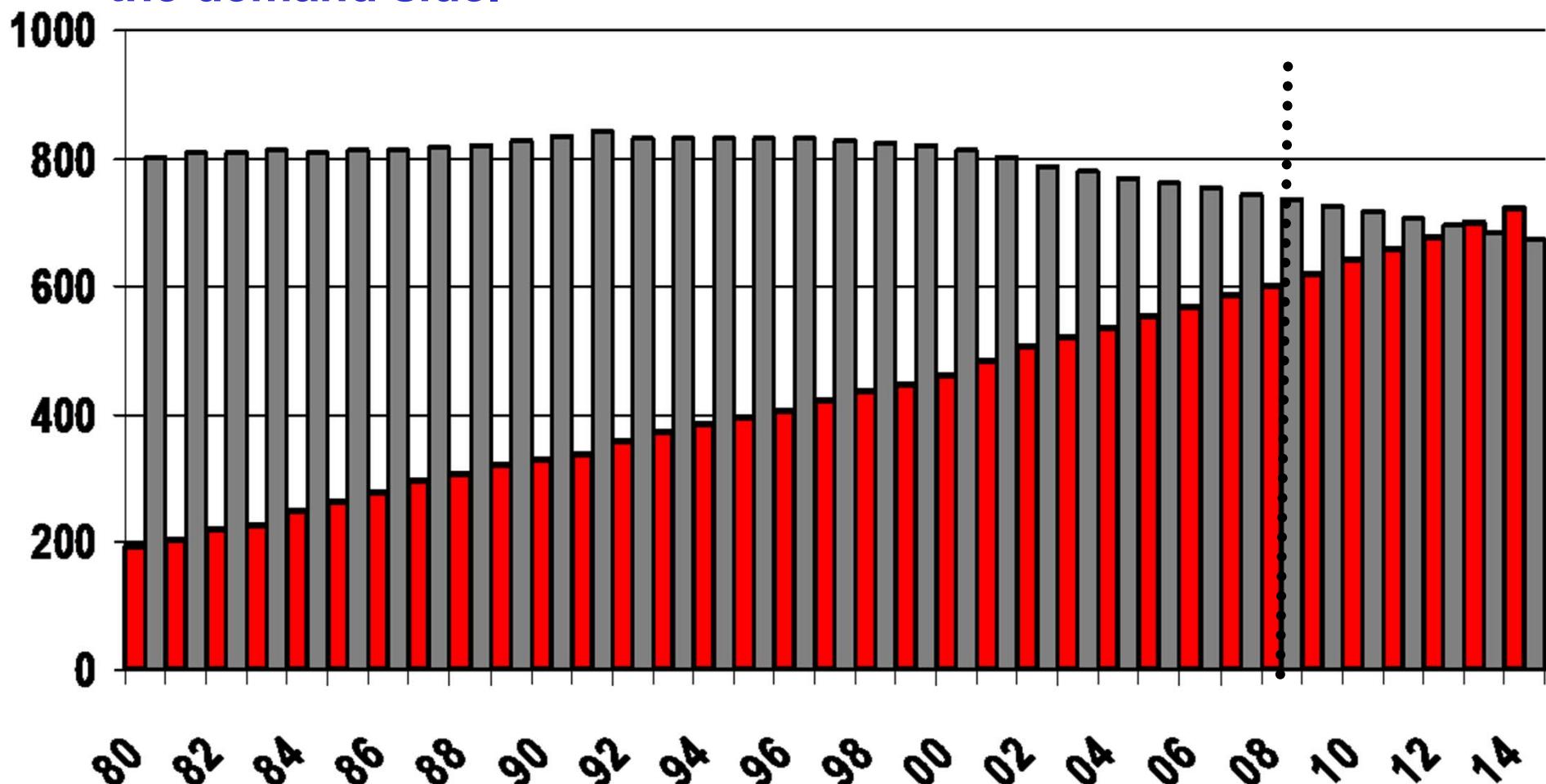
Urban and Rural Residential Per Capita Water Consumption (L/person·day) in China's River Basins



Demand: China's Population is Moving

(Rural and Urban, millions)

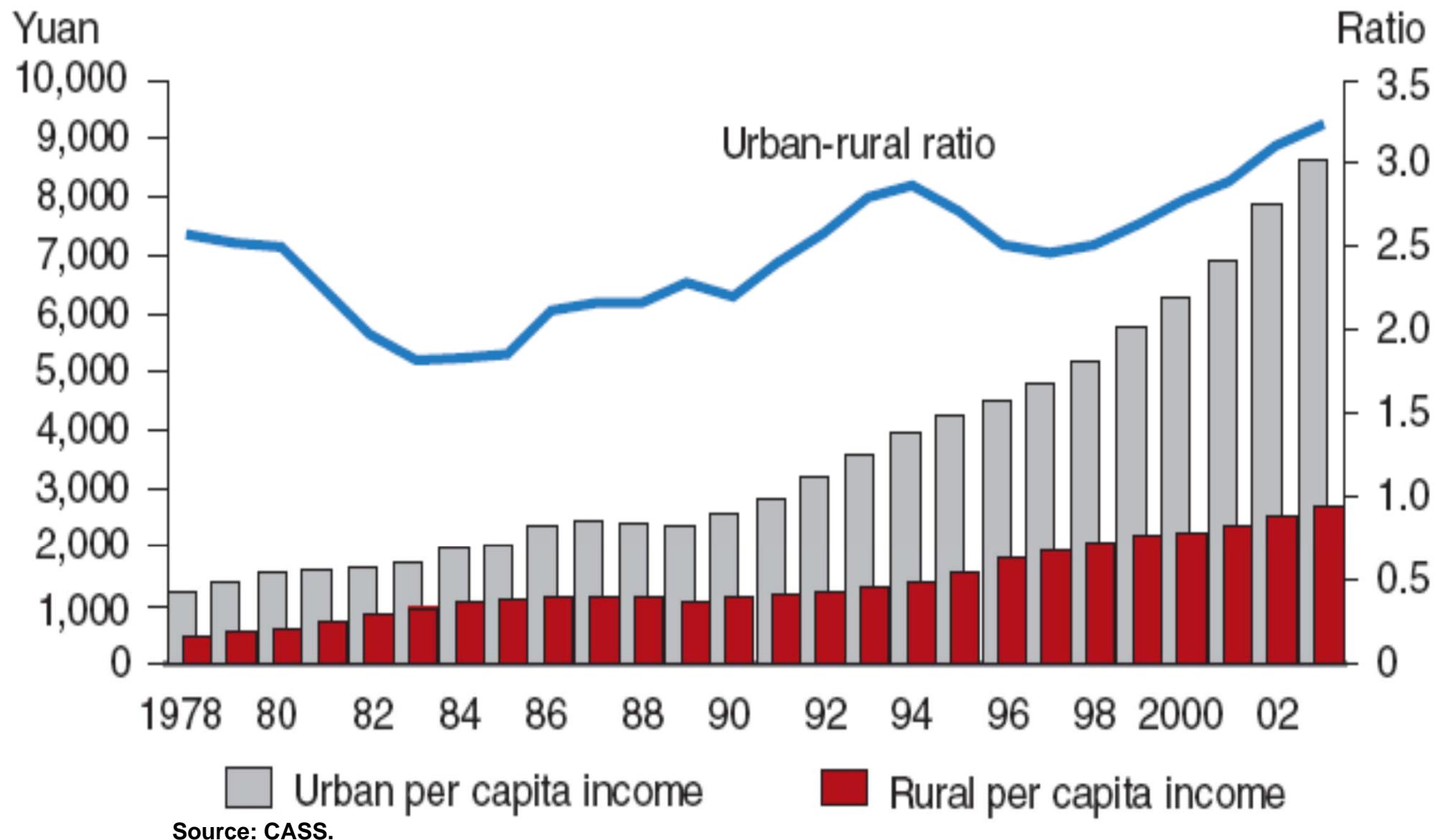
Half a billion people are moving from the food supply side to the demand side.



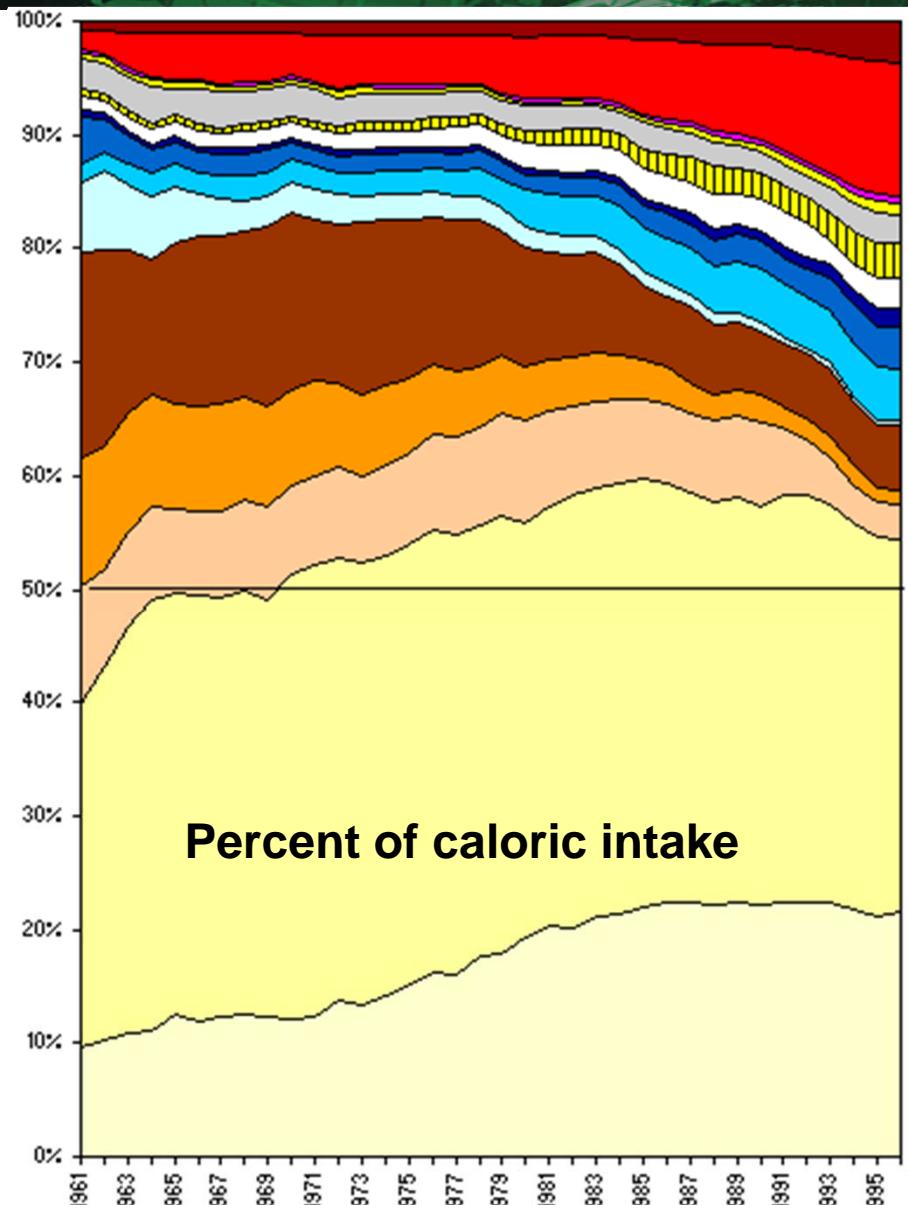
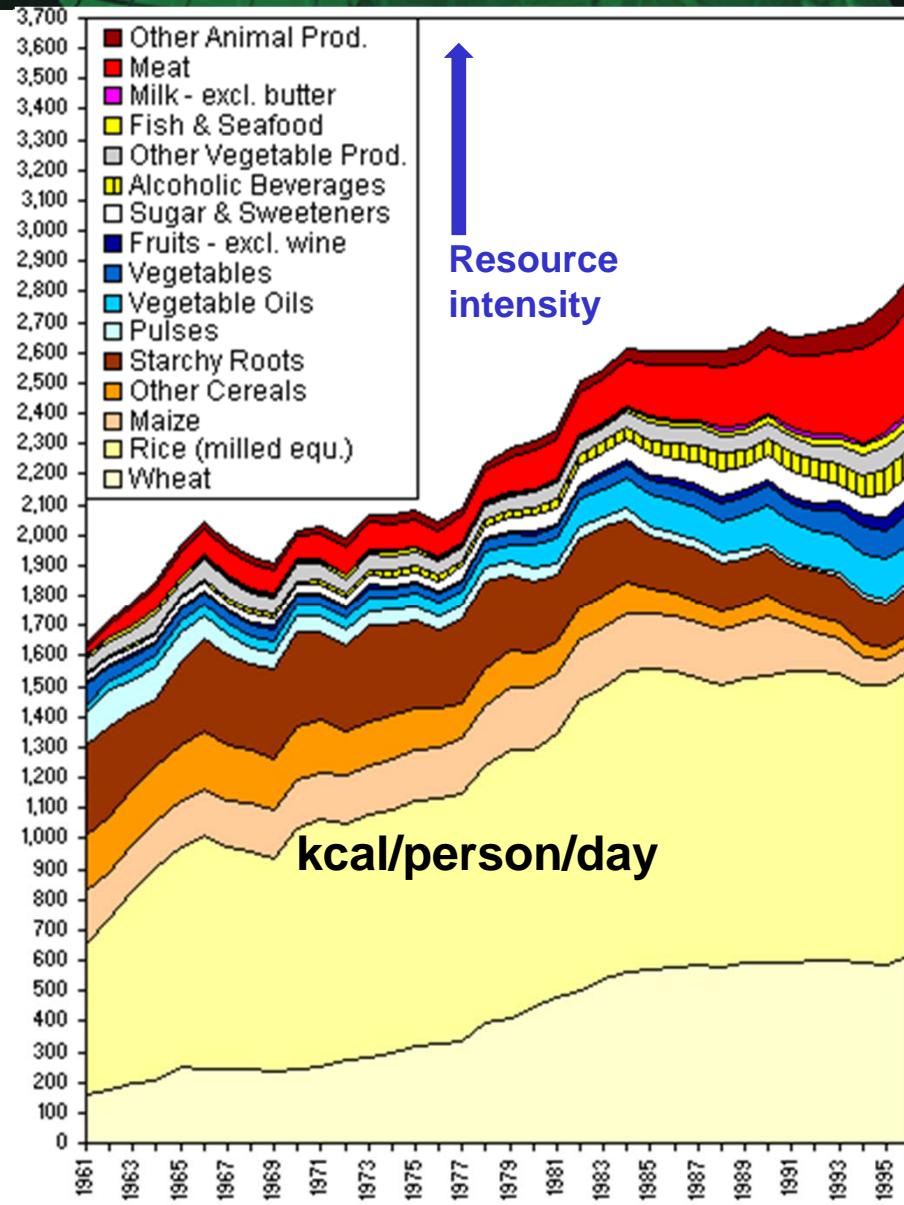
Source: CASS.

■ Urban Population □ Rural Population

Income and inequality are both rising

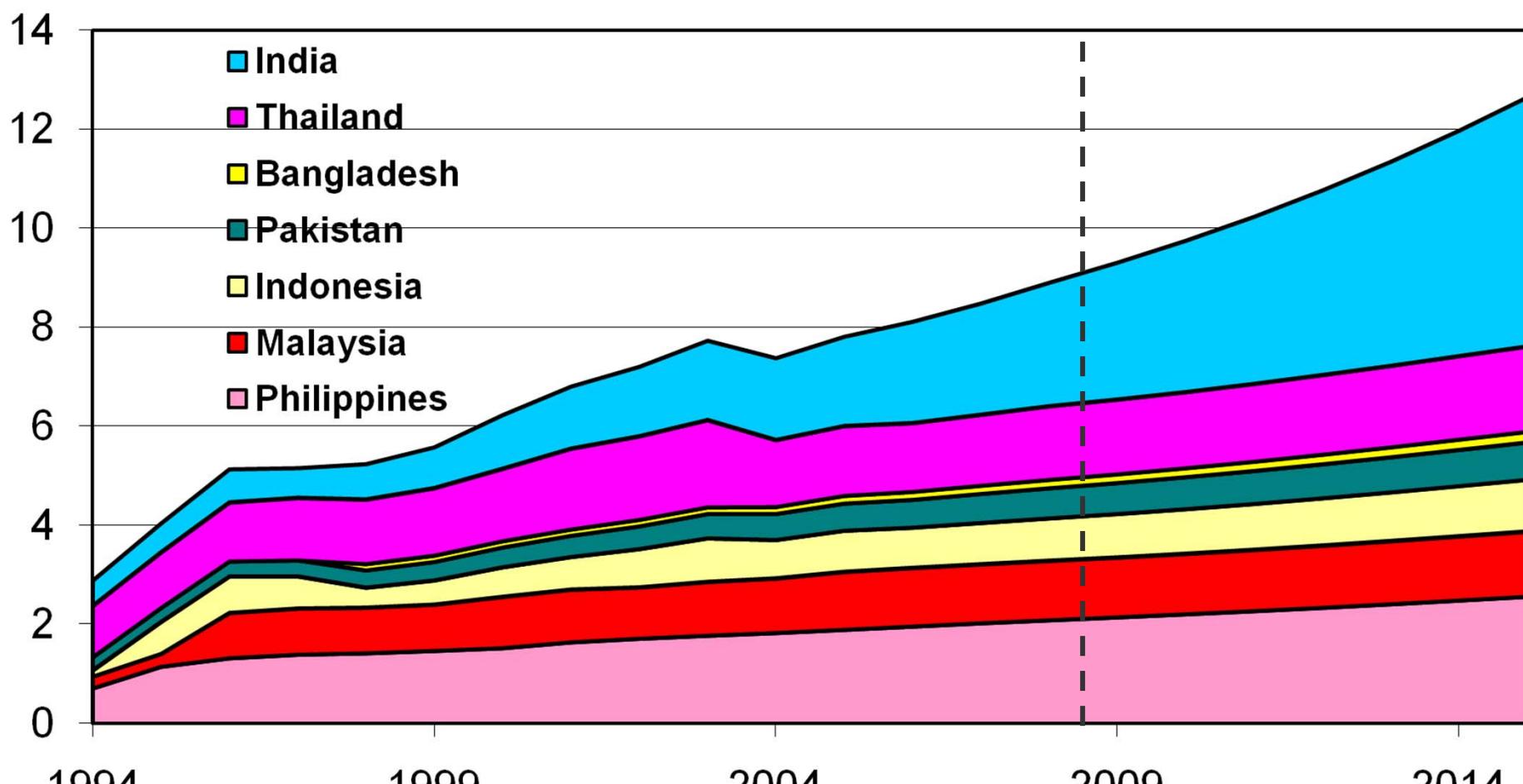


and Diets are Changing



How Big? Asia Pork and Poultry Production

Million metric tons

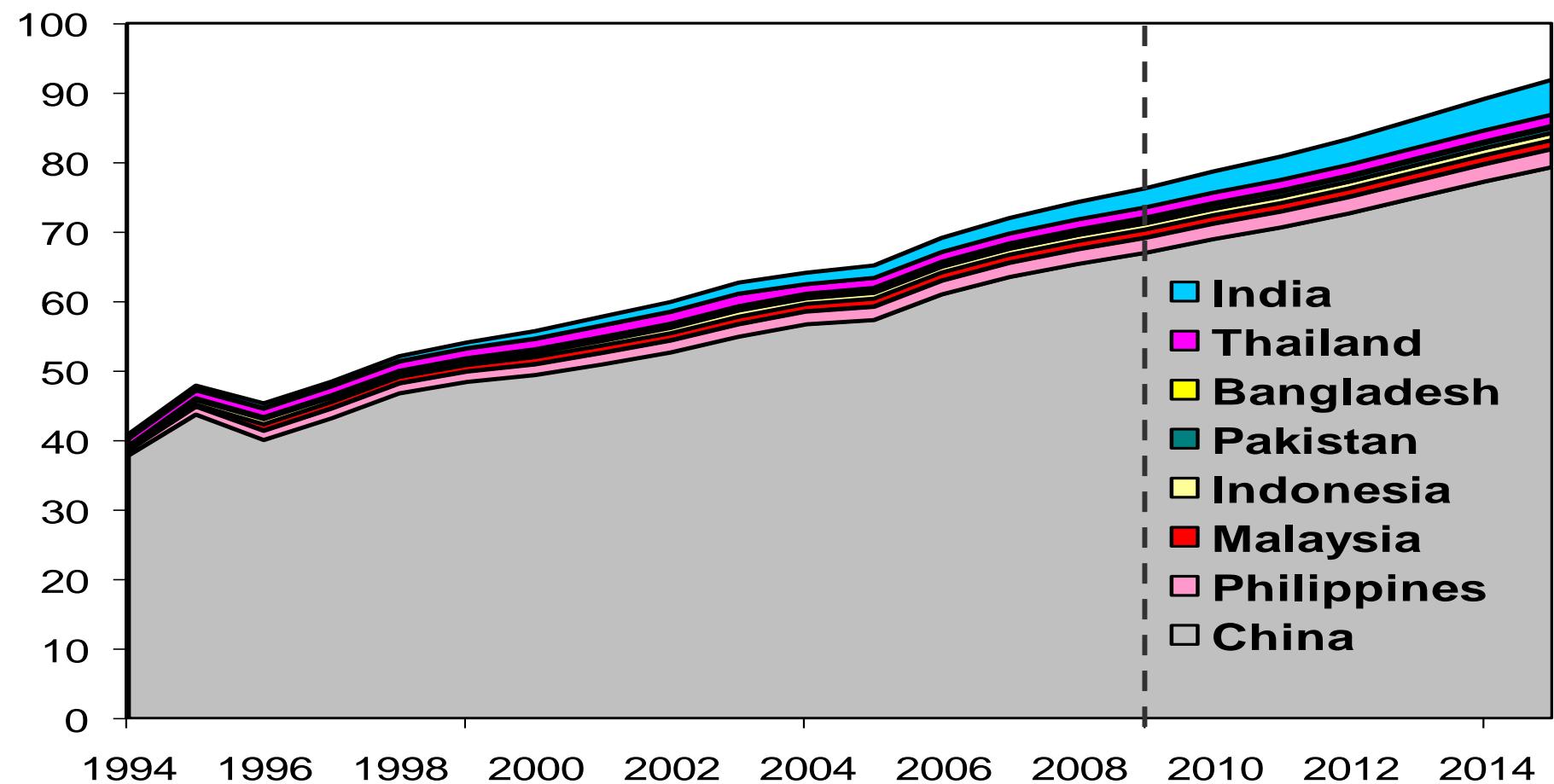


Source: USDA.

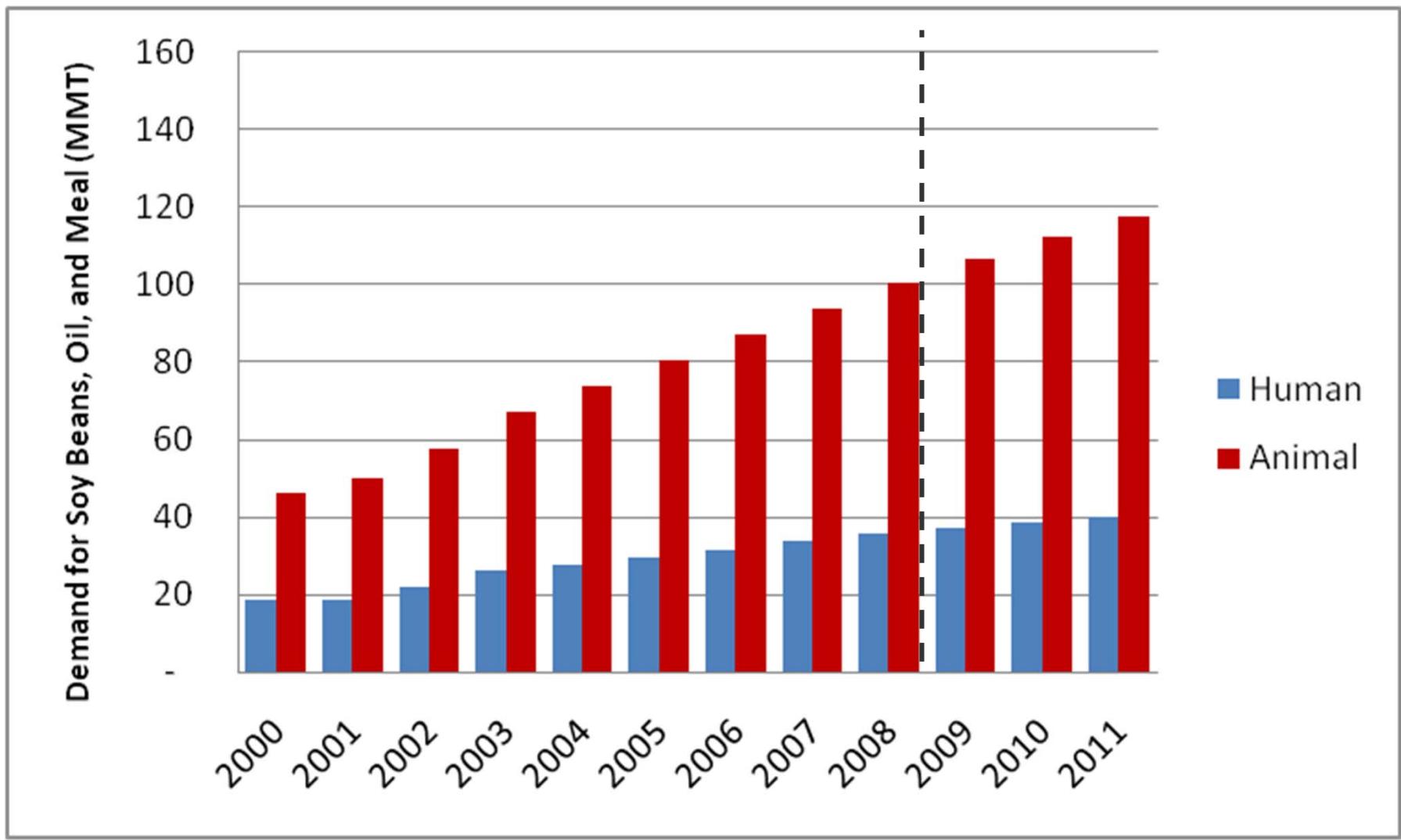
All Asia Pork and Poultry

Clearly, the impact of any imbalance in China's meat economy will fall on the price system.

Million metric tons



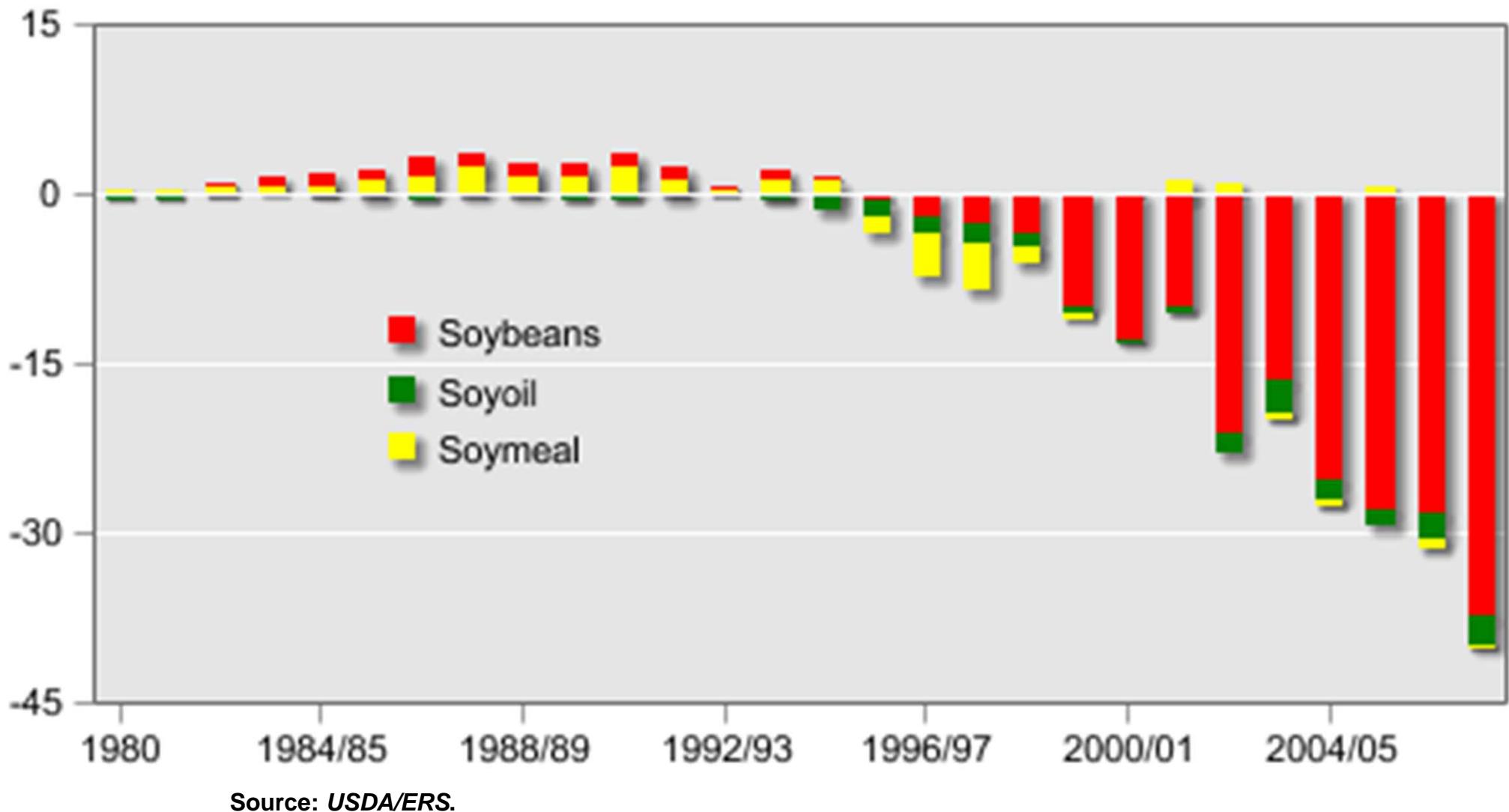
China Soy Demand



Source: USDA.

Trade: China's Soy Tsunami

Net trade in soy products (Million MT)



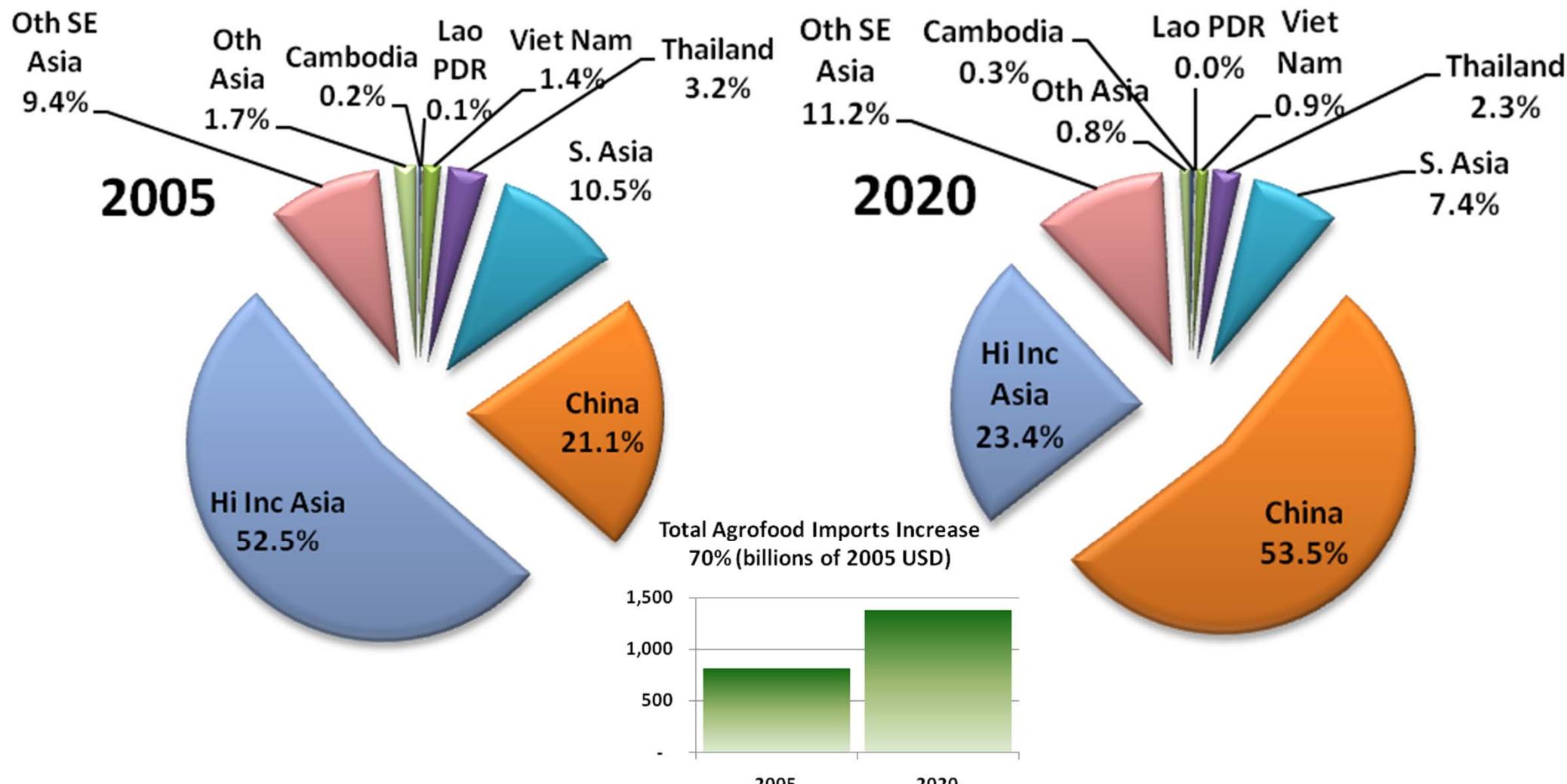
Source: USDA/ERS.



4. GMS AgroFood Growth Opportunities

- With 7 percent of world farmland, 20 percent of population, and the fastest growing middle class, China's AgroFood balances will exert enormous influence on global trade
- Despite its obvious importance, substantial uncertainty remains about China's future food self-sufficiency
- If import trends continue, there are significant opportunities to alleviate rural poverty at home and elsewhere in Asia.

Regional AgroFood Import Demand: Who will take these markets?



China's Import Trends 1

Growth rates are five-year averages of *annual* rates!

<i>Product</i>	<i>Millions in 2004</i>	<i>Annual Growth 1999-2004</i>
Almonds	4.048	22.5
Beef	7.110	4.4
Cereals	2,218.543	34.9
Cherries	2.334	160.5
Crustaceans	312.036	20.5
Blueberries	1.163	29.1
Fish - whole (chilled, frozen)	1,516.575	30.0
Fish - fillets (chilled, frozen)	45.556	24.9
Frozen Potato/French Fries	51.485	71.3
Grapes	67.546	23.4
Hazelnuts	2.297	17.6
Infant Formula	88.821	27.5
Juices and Concentrates	61.001	35.4
Lobsters (uncooked)	0.131	159.3
Mollusks	332.462	26.6
Oranges	36.994	31.4
Pistachios	17.432	21.9

China's Import Trends 2

Who will take these markets?

<i>Product</i>	<i>Millions in 2004</i>	<i>Annual Growth 1999-2004</i>
Pollock	1.250	1.9
Pork	54.452	17.5
Poultry	153.413	-17.8
Prunes	0.922	39.4
Raisins	14.666	104.5
Salmon	26.612	63.0
Scallops	8.023	15.5
Soybeans	6,956.654	50.9
Soy Flour	1.758	5.9
Thickeners	12.604	14.7
Whey Powder	119.744	15.6
Wine (containers less than 2L)	25.247	30.4
Wine (containers more than 2L)	24.436	-2.0



Thank you!