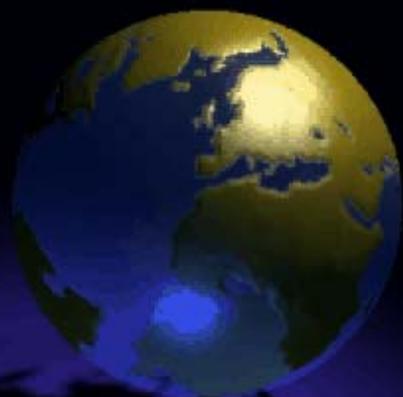


# Leveraging China's Emergence for Viet Nam Economic Growth: Opportunities for Agriculture

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# Overview 1

- China's rapid and sustained economic emergence is a watershed event, for the global economy generally and for East Asia in particular.
- Initial reactions of regional partners, who perceive China as a strong export competitor and magnet for FDI, have been somewhat defensive.
- Closer examination reveals a more complex picture, one that presents as many opportunities as threats to East Asian policy makers.



# Overview 2

Because of its size and stage of development, China will play two roles in the region with unusual prominence.

1. It will stiffen export competition in a broad spectrum of products, particularly in markets outside the region.
2. The growth of China's economy will make it the region's largest importer, and this absorption will create unprecedented opportunities for regional exporters.



# Overview 3

- Although it is a large economy, China is relatively poor in natural resources, both in per capita and per hectare terms.
- As this economy grows and incomes rise, China's import dependence will grow dramatically, particular in resource-intensive products.



# Overview 4

- For Vietnam, the most important component of this emergent import dependence is food.
- In both absolute and relative terms, trade with China can be to agriculture what trade with the US and EU are to manufacturing.
- Unlike OECD countries, China does not significantly protect its domestic agricultural producers, and its external needs will grow dramatically over the next two decades.



# China's Emergence and the Asian Trade Triangle

- The economic emergence of China has fundamentally changed world trade patterns.
- Using a global forecasting model, we predict that China will become the region's largest exporter, but also its largest importer.

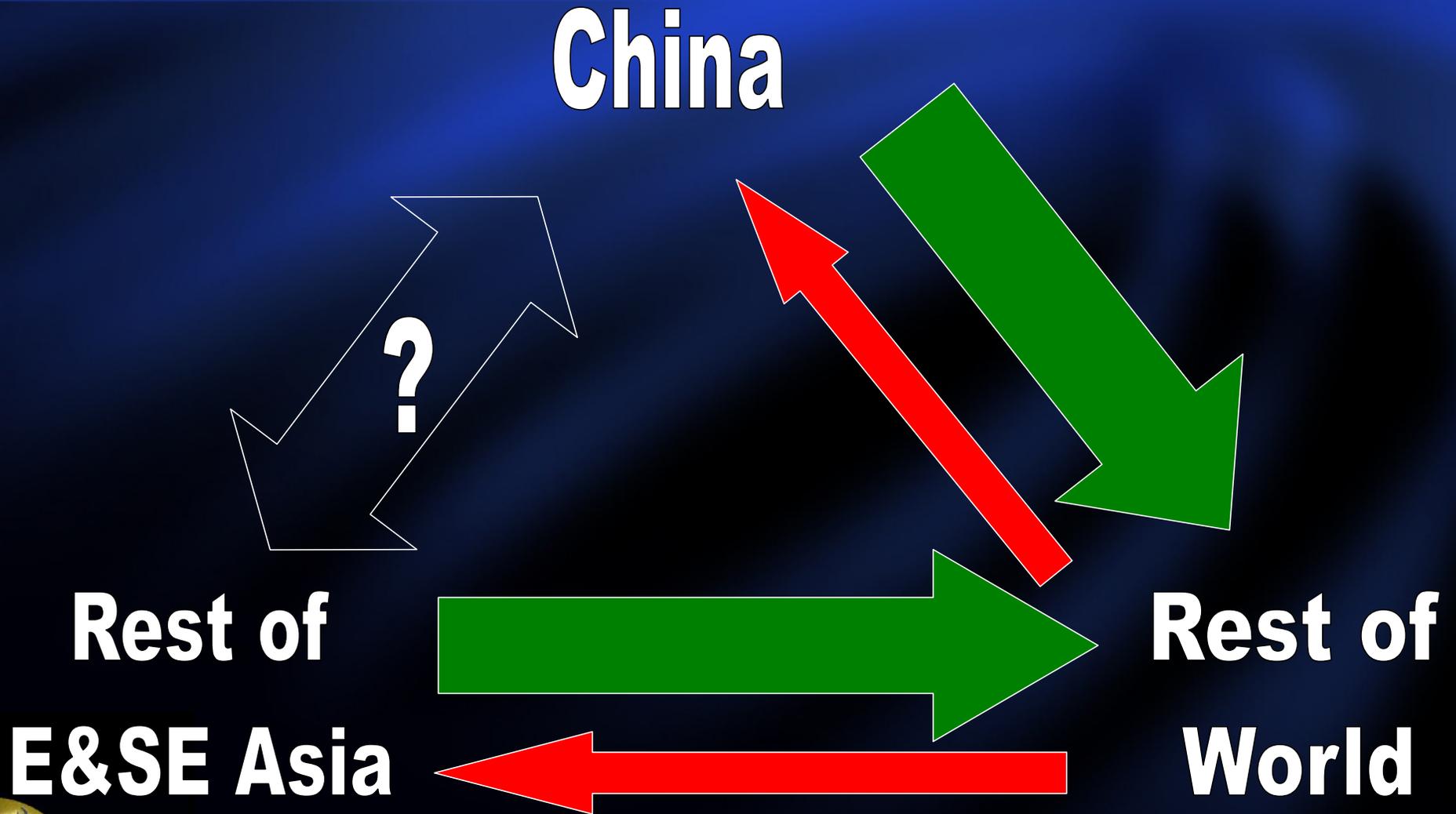


# The Asian Trade Triangle

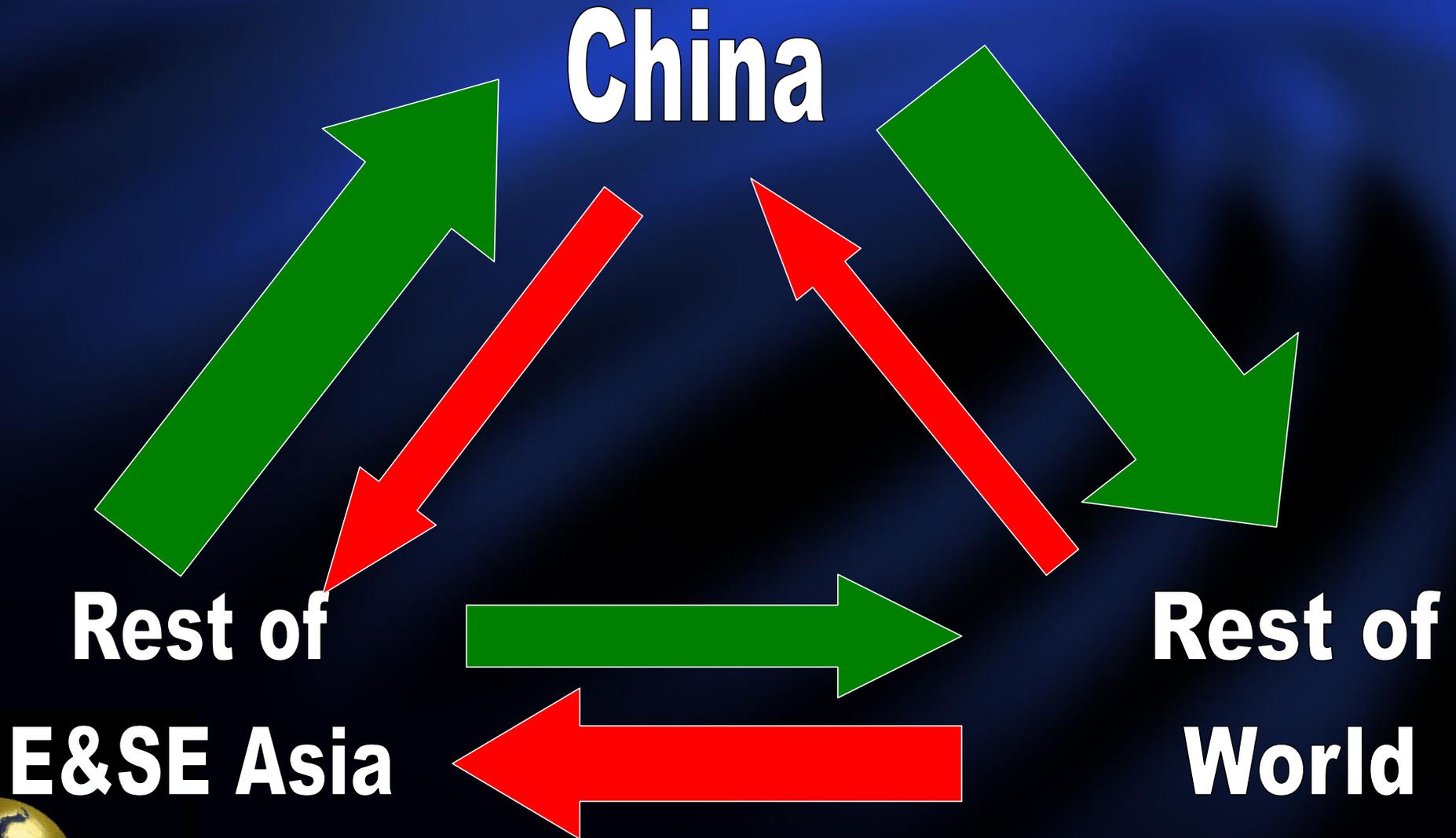
- Our forecasts indicate the emergence of a systematic pattern of triangular trade between China, the Rest of East and Southeast Asia, and the Rest of the World
- This Trade Triangle reveals that China's export expansion offers significant growth leverage to its neighbors.
- Chinese absorption will emerge 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.



# Trade Triangle 2000



# Trade Triangle 2020



# China and East Asia 1

- 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 East Asia 2

- 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.



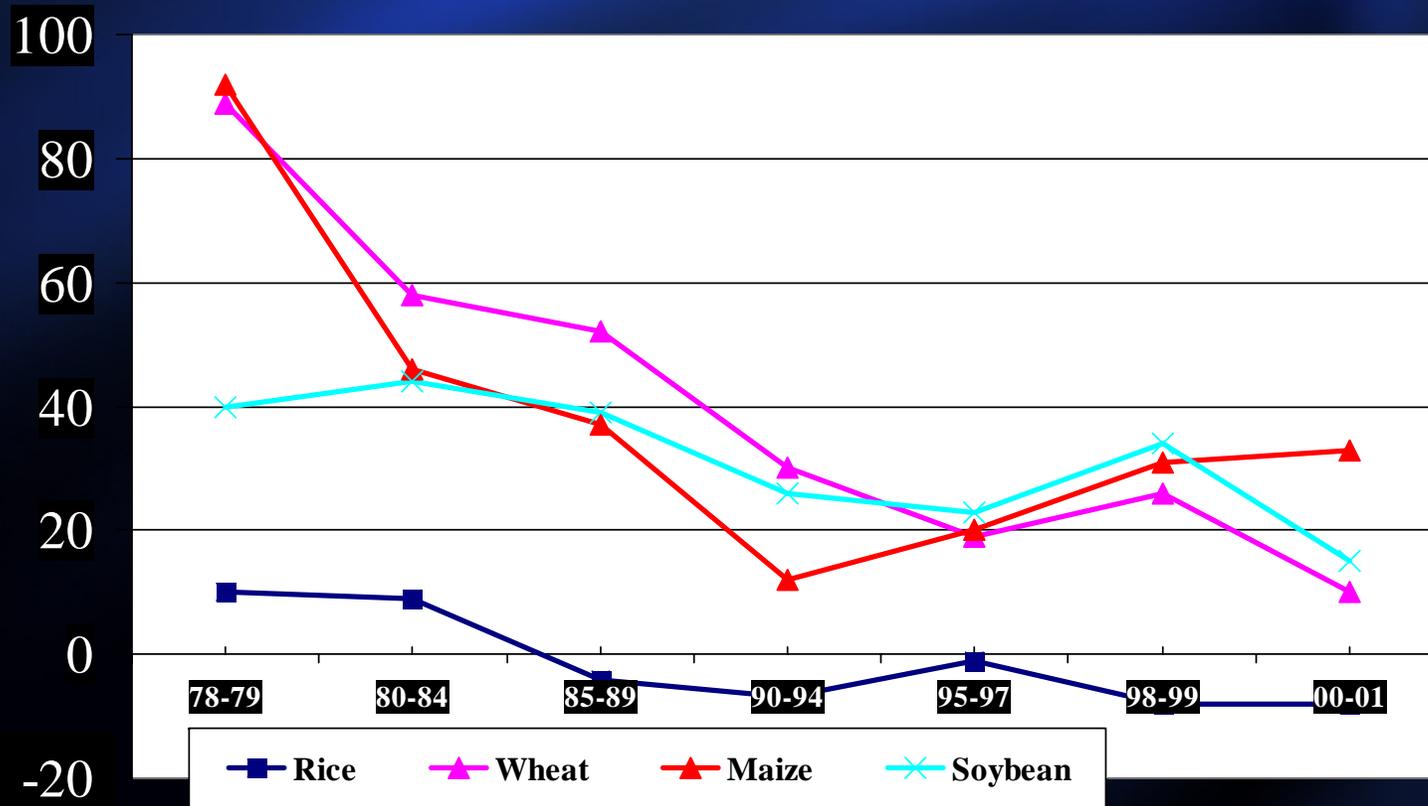
# China and Agricultural Trade

- Import barriers to agricultural products are falling on average, but can differ significantly by variety and region.
- Overall, demand forces will dominate to create many opportunities, but they may be identified selectively.



# China and Agricultural Trade

## Nominal Protection Rates



Source: Huang 2001

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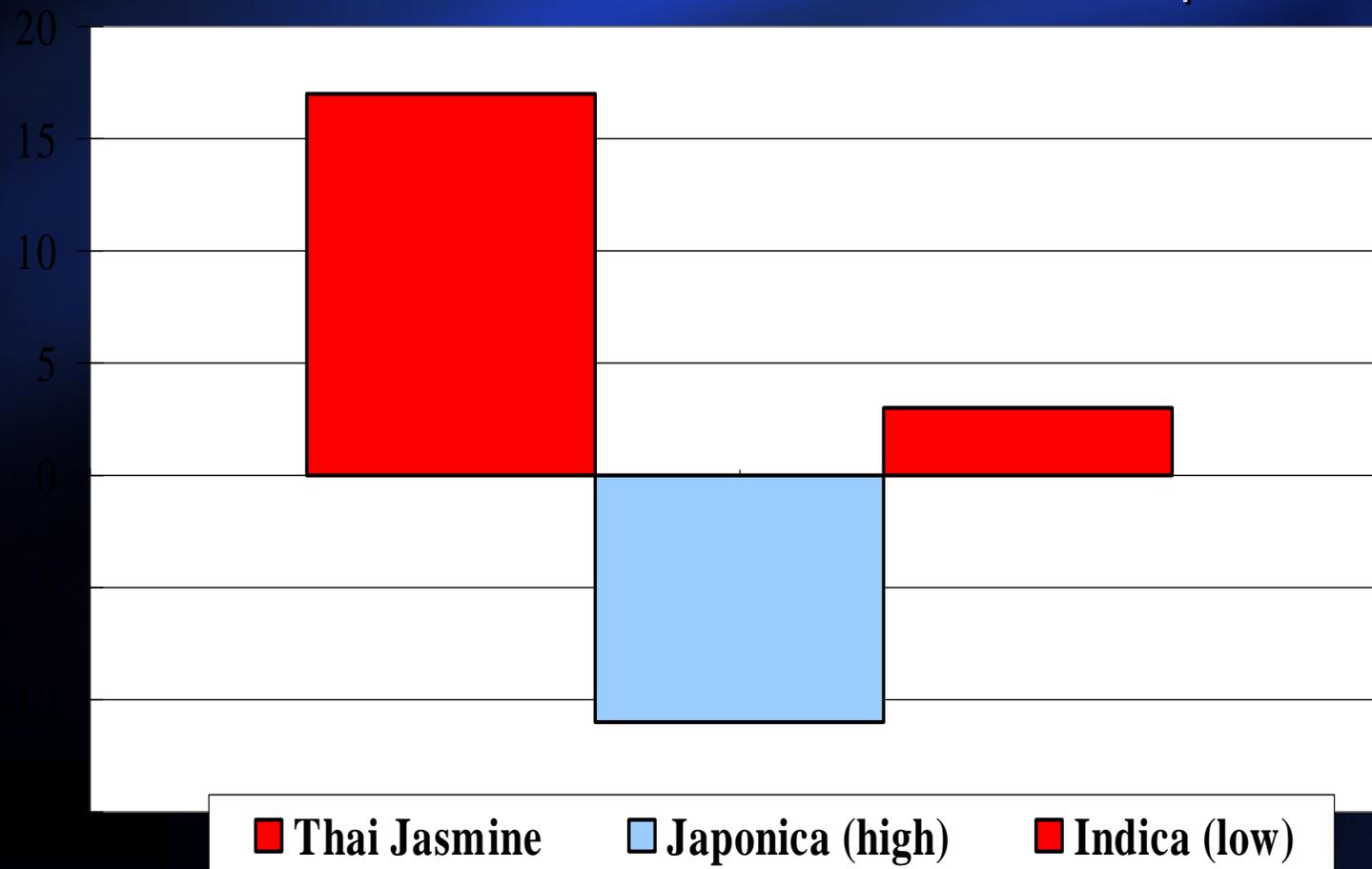
Falling on average with reform and WTO accession!

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# China and Agricultural Trade

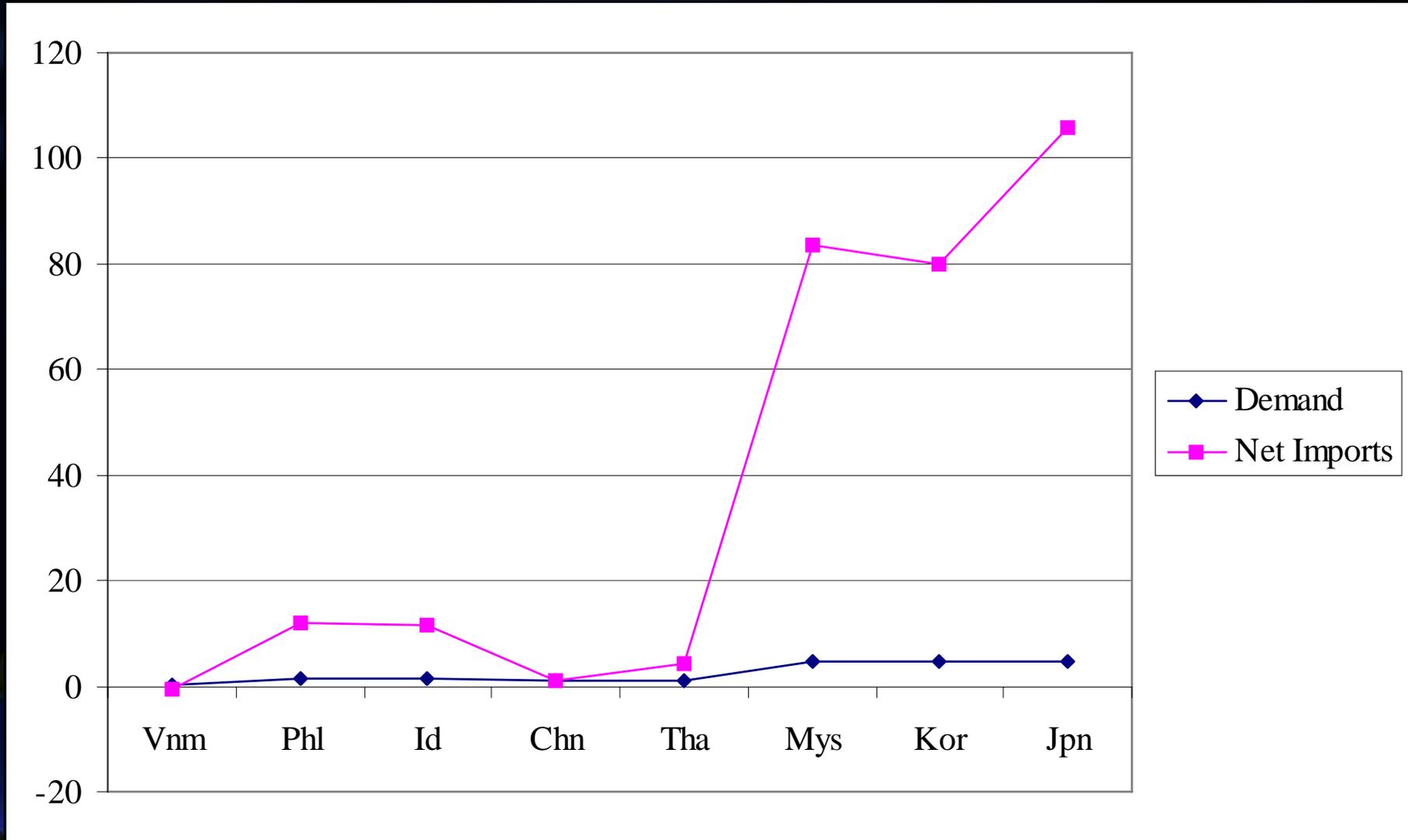
## Nominal Protection Rates for Rice, 2001



Source: Huang 2001

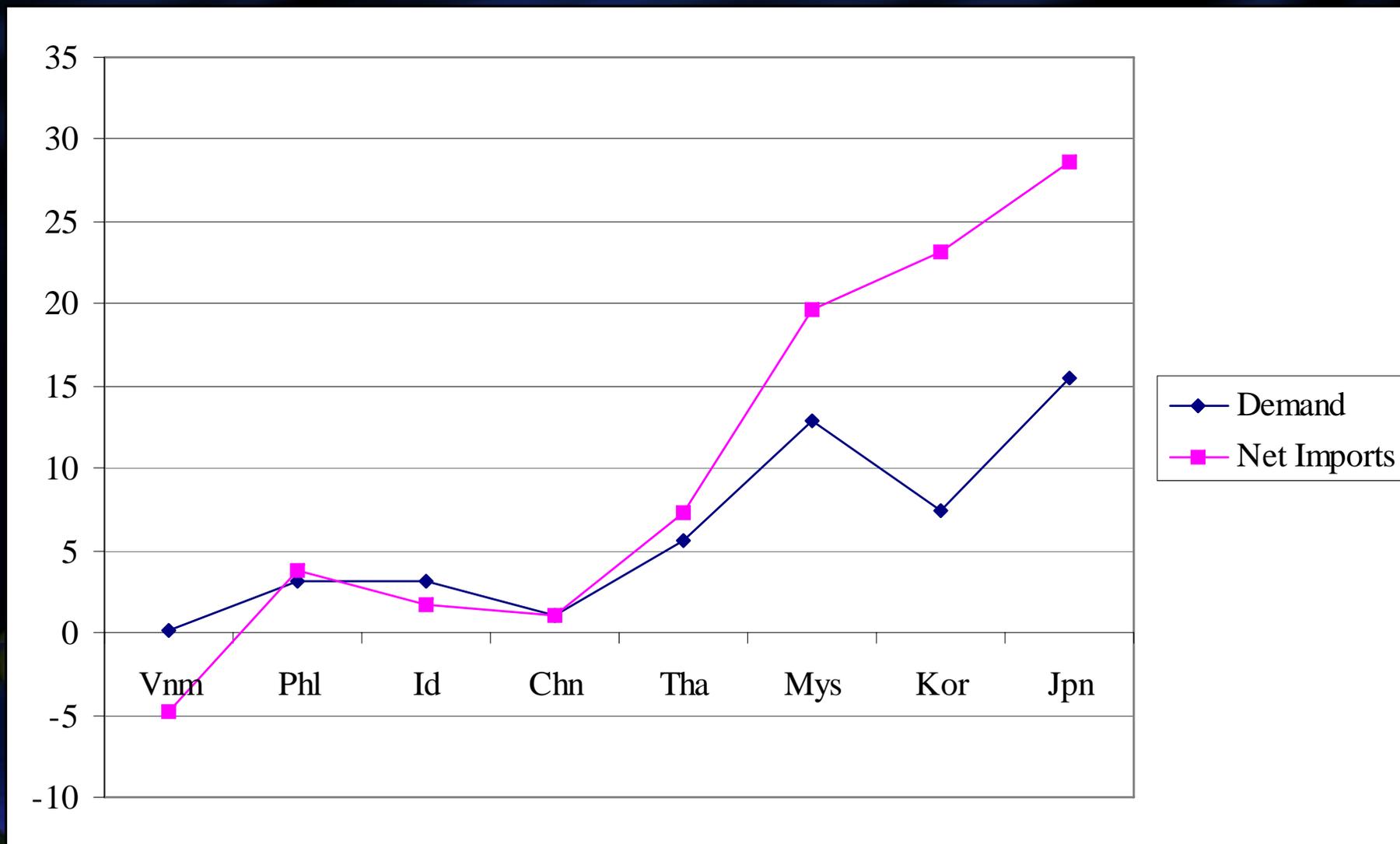


# Cereals and Feed: Domestic Demand and Net Imports per Capita (1997, China = 1.0)



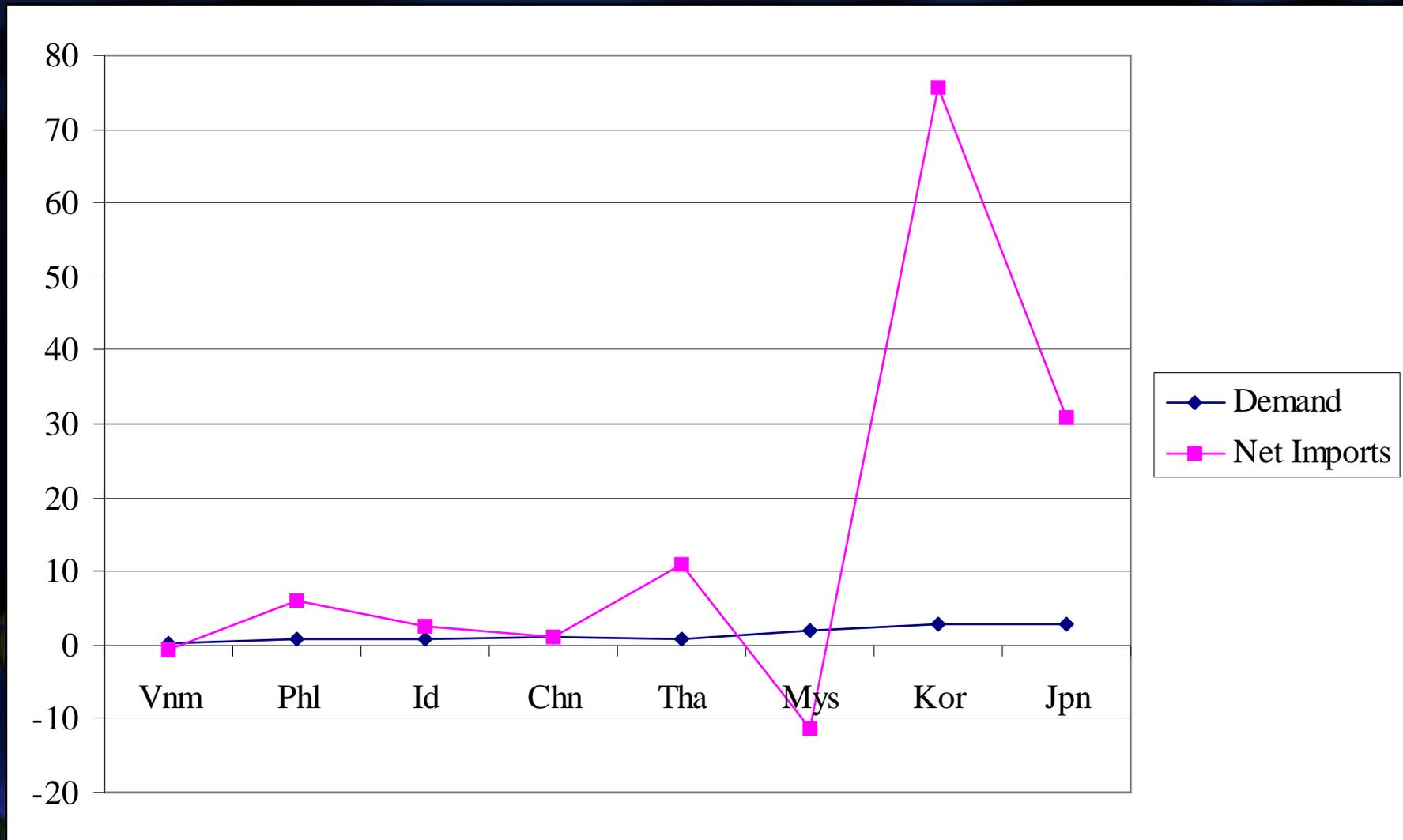
Source: Author's estimates from GTAP V.

# Other Crops: Domestic Demand and Net Imports per Capita (1997, China = 1.0)



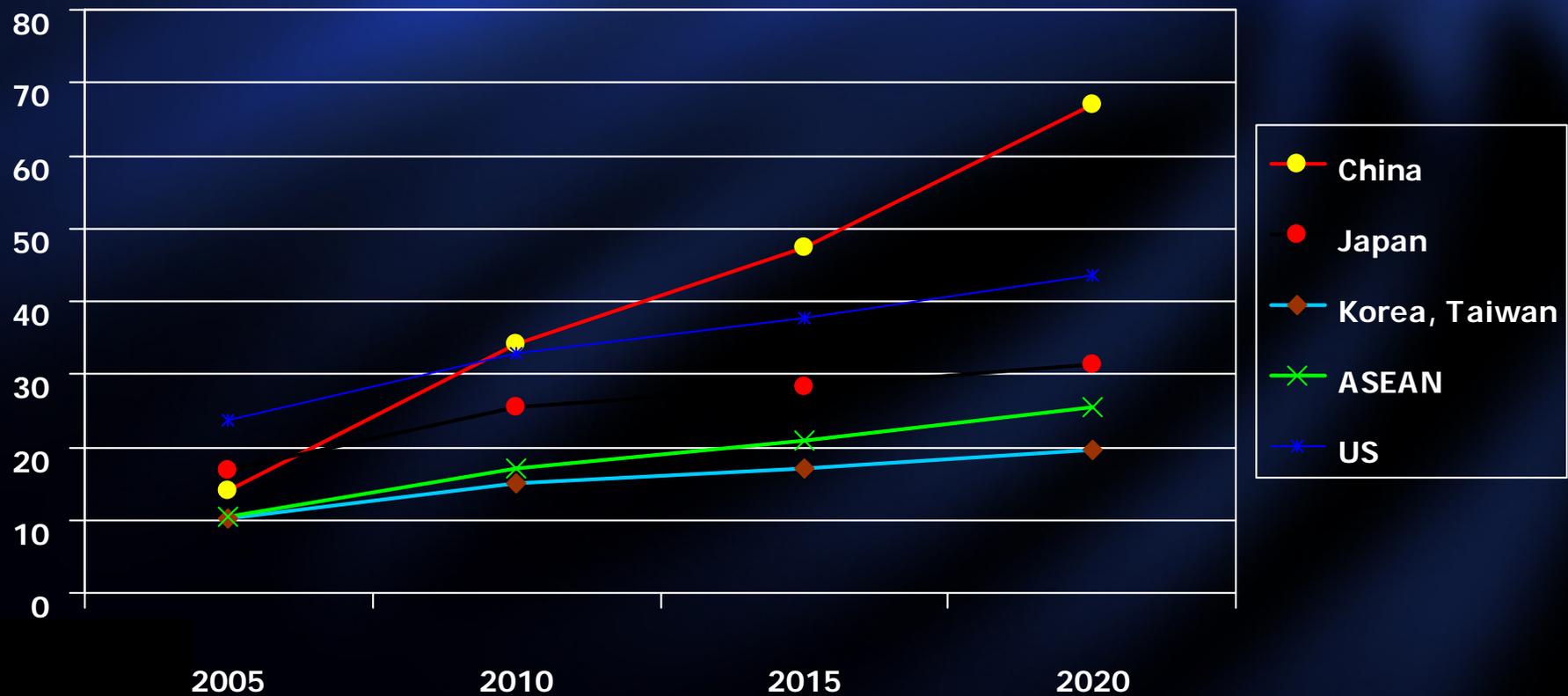
Source: Author's estimates from GTAP V.

# Meat: Domestic Demand and Net Imports per Capita (1997, China = 1.0)



Source: Author's estimates from GTAP V.

# China will be Asia's Largest Food Importer

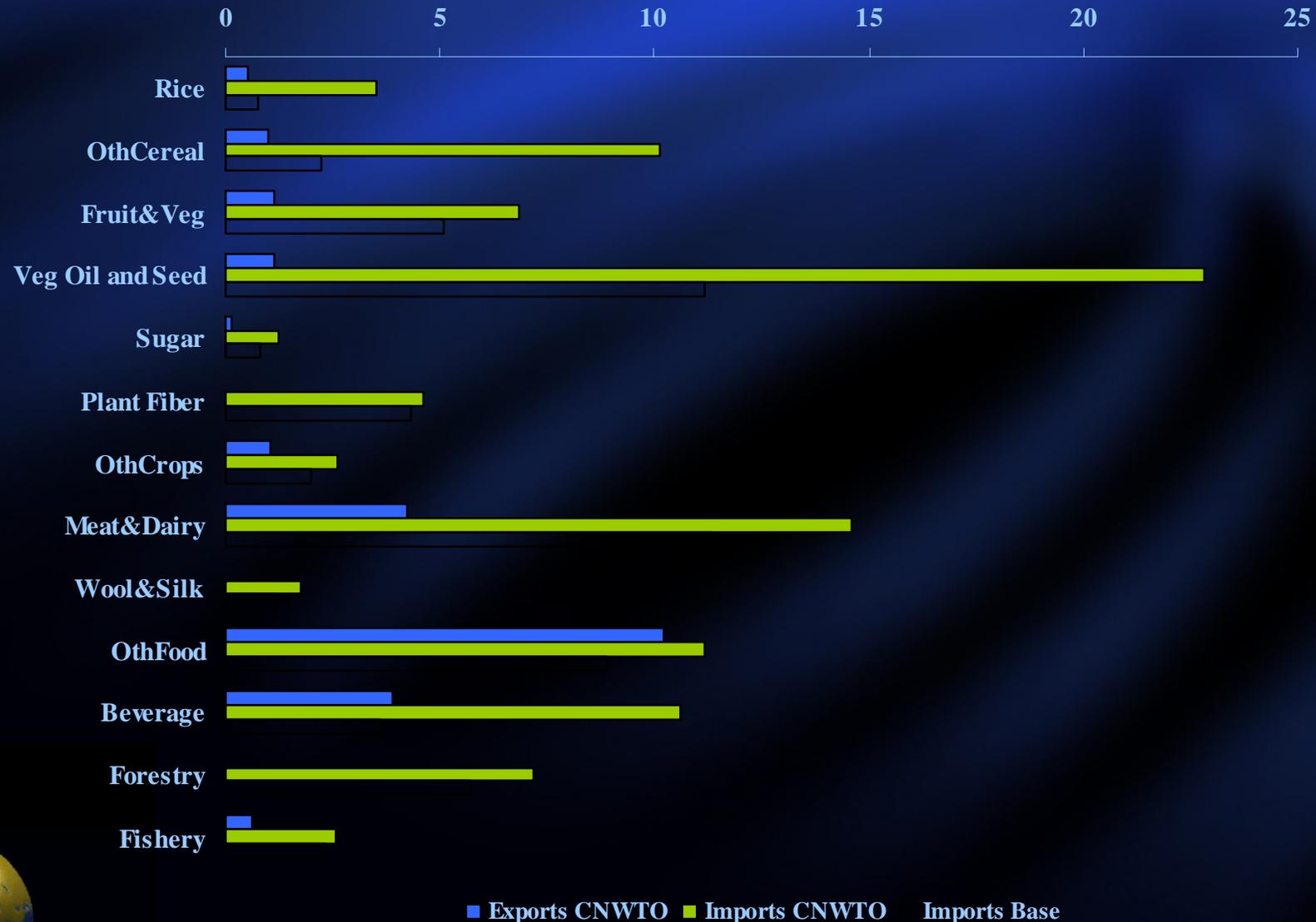


Source: Author's estimates.



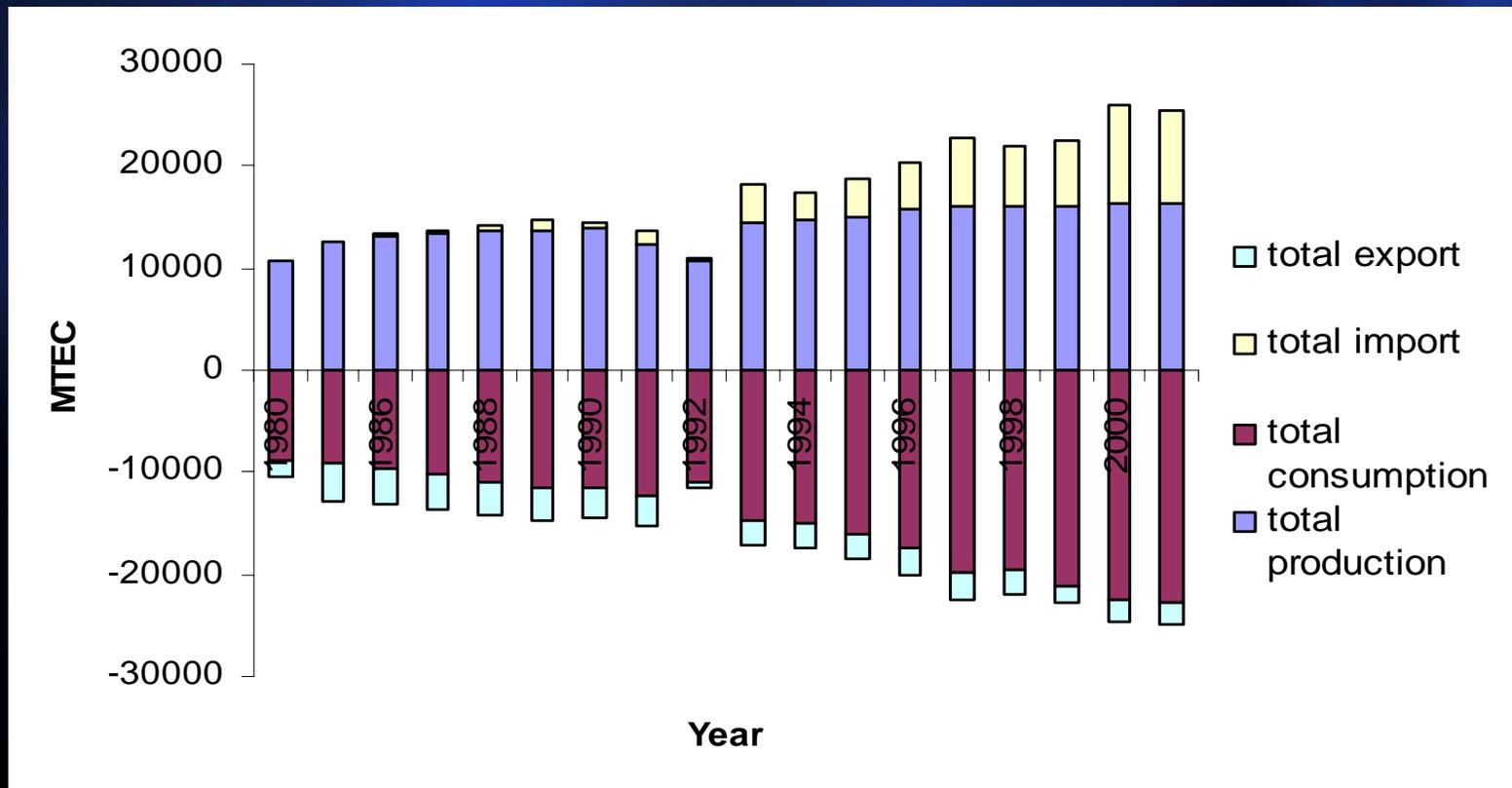
# China's Emerging Food Gap

(USD 1997 billions in 2020)



# Another Strategic Sector with “Import Surprise”

## Chinese Energy Fuels: Supply and Demand



Source: Chinese Ministry of Energy.

# Vietnam's Regional Competitiveness

In the ASEAN context, Vietnam is at an emergent intermediate stage of export development.

The country has definite comparative advantages, particularly in an East-Asian context.

Many of these are also highly scalable, especially in agriculture.



# Vietnam's Regional Trading Position from a Macro Perspective

## Vietnam as a Percent of ASEAN

<b>Real GDP</b>	<b>3.80</b>
<b>Total Exports</b>	<b>3.09</b>
<b>Total Imports</b>	<b>3.36</b>
<b>Exports to China</b>	<b>1.29</b>
<b>Imports from China</b>	<b>6.86</b>

Higher import dependence.

Export competitiveness needs to be improved.



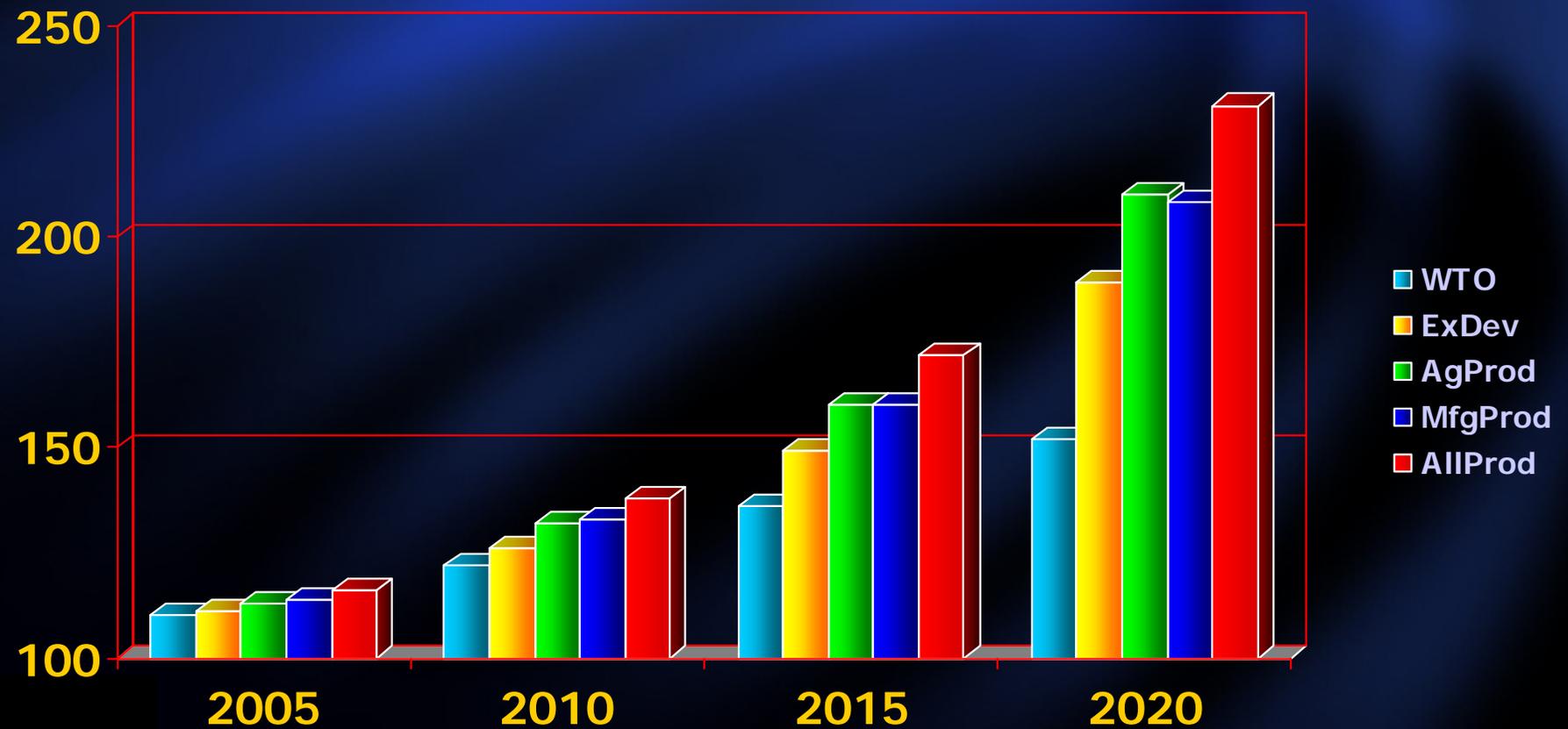
# Simulation Scenarios

To better understand the implications for Vietnam, we combined the global forecast results with the MARD CGE model:

- Baseline – Domestic economic reform.
- WTO – Vietnam implements its current offer.
- ExDev - Export Development – Vietnam maintains its existing ASEAN trade share of exports to China, but with accelerated Chinese import demand. Includes WTO.
- AgProd - ExDev with 2% annual factor productivity growth in agriculture.
- MfgProd - ExDev with 2% annual factor productivity growth in manufacturing
- AllProd – ExDev with 2% annual factor productivity growth in both agriculture and manufacturing.



# Trade and Economic Growth: GDP to 2020

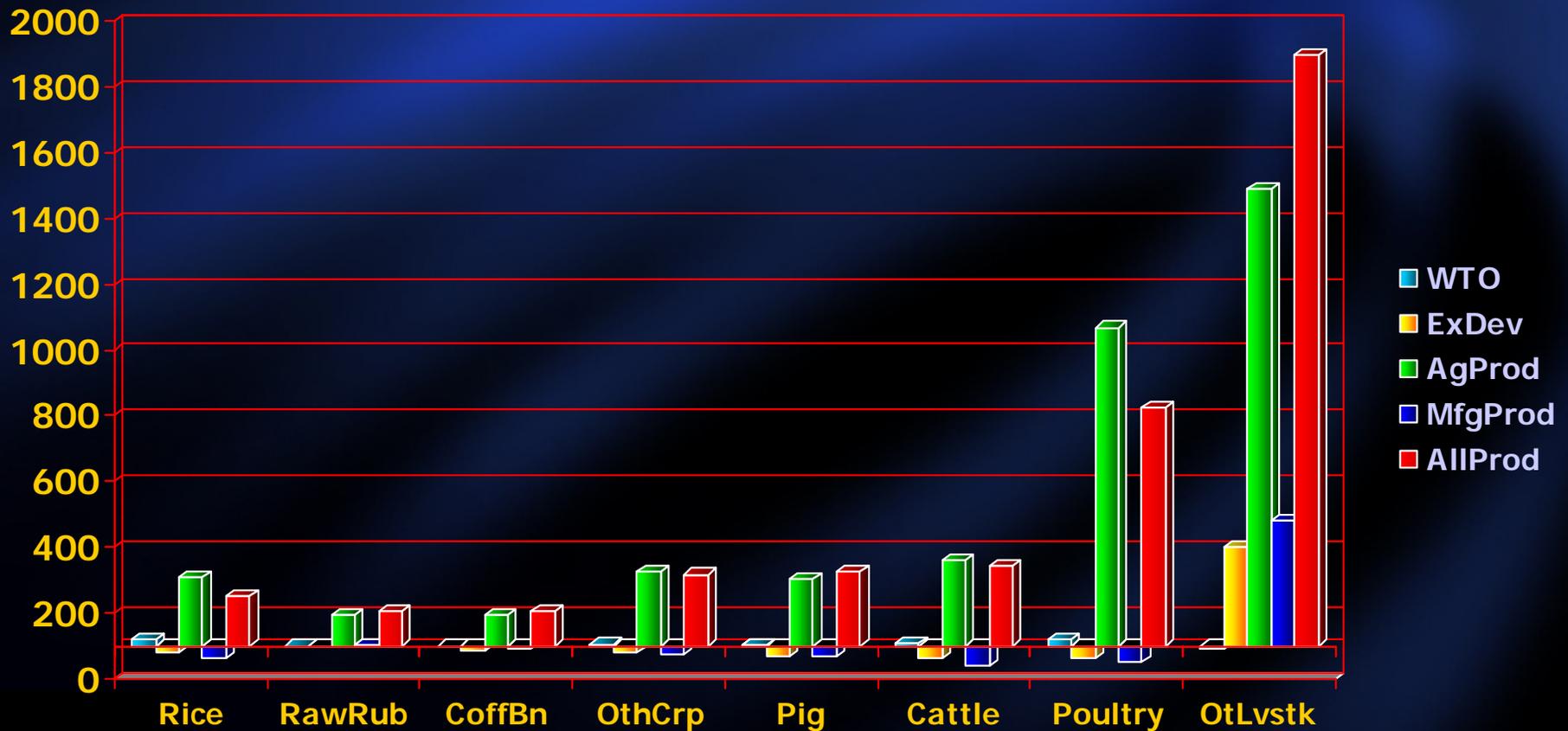


Values are normalized to Baseline2000=100  
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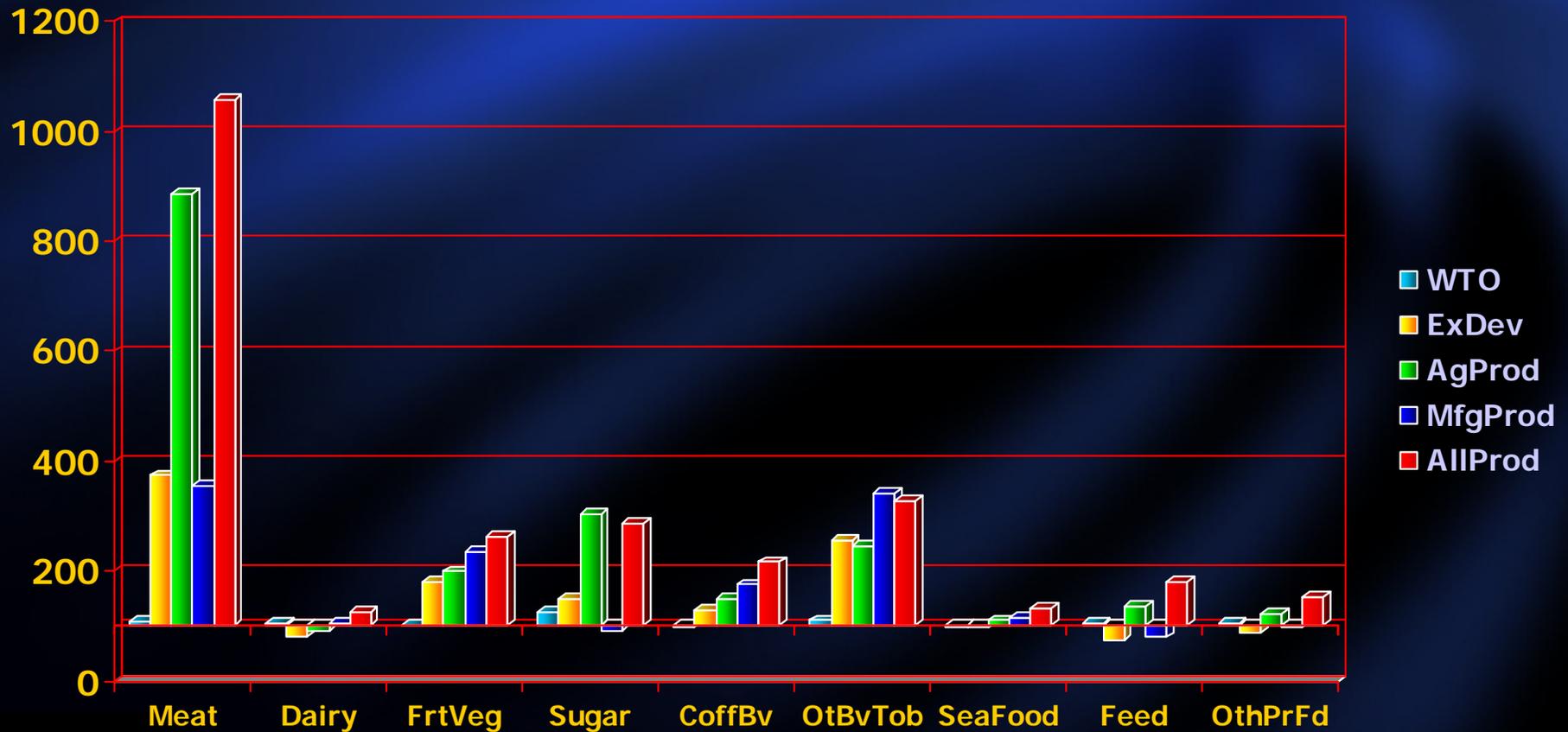
# Exports of Primary Agricultural Products



Values are normalized to Baseline2000=100



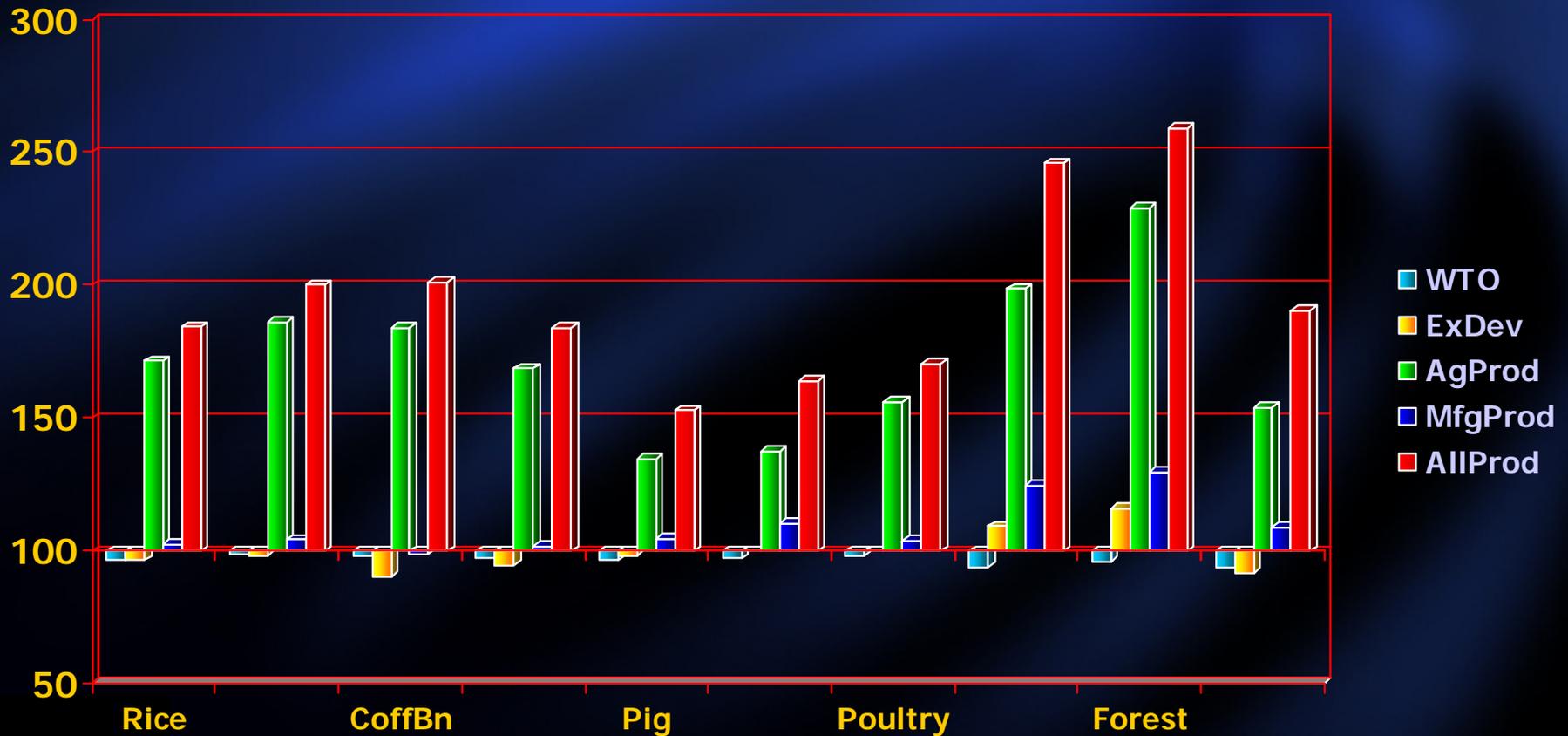
# Exports of Processed Food Products



Values are normalized to Baseline2000=100



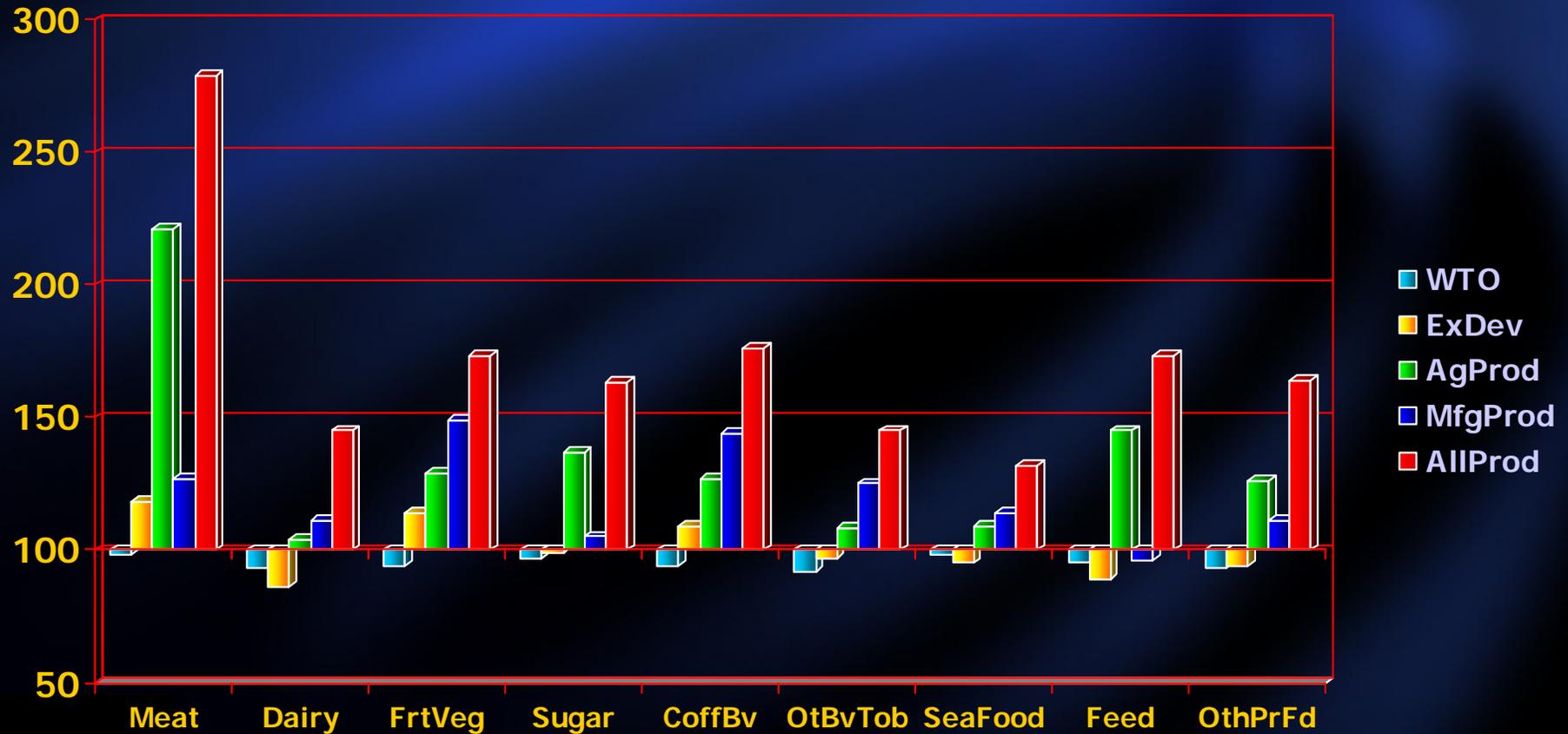
# Output of Primary Agricultural Products



Values are normalized to Baseline2000=100



# Output of Processed Food Products



Values are normalized to Baseline2000=100



# Summary of Results

1. Agricultural exports to China have enormous growth potential.
2. This growth would be broad based and pro-poor, reducing regional inequality and poverty.
3. Without productivity growth, this new demand will simply divert trade and domestic resources, creating food inflation and reducing growth elsewhere.
4. Agriculture and industry should not compete for capital, technology, and other productivity resources. Each gains from the other's advancement.



# Conclusions 1

1. China is a very effective international competitor, yet it is a resource constrained economy.
2. The growth of China's economy will therefore offer historic opportunities to regional exporters.
3. An East Asian Trade Triangle will emerge, where China develops a sustained trade deficit with East Asia and a surplus with Western OECD economies of nearly equal magnitude.
4. In other words, most of China's trade surplus will ultimately accrue to its regional neighbors. This has profound implications for patterns of both North-South and regional capital accumulation.



# Conclusions 2

5. As Chinese absorption emerges to dominate regional demand, agriculture will be an increasingly prominent part of this demand.
6. All official and most unofficial estimates understate the magnitude of this import dependence, yet it is very important for policy makers to anticipate.



# Conclusions 3

7. Vietnam can respond to this opportunity by a combination of trade negotiation, export promotion, and a wide variety of measures to increase domestic productivity.
8. The last policies are particularly important, because without them increased Chinese demand will not make its full contribution to sustained growth.



# Conclusions 4

9. Agriculture based growth will more directly address the needs of the rural poor majority
10. This provides an essential balance to industrial-urban development, reducing social dislocation and regional inequality



# Discussion

