

A Giant Awakens: China's Global Economic Emergence and Implications for US Agriculture

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Introduction

- The landscape of international agricultural trade will change rapidly in the coming decade, and U.S. farmers have an opportunity to reap large gains from this.
- The current round of World Trade Organization (WTO) negotiations is a watershed event for global agriculture.
- For the first time in history, significant agricultural protection is on the bargaining table, including over \$300 billion of direct and indirect farm support in OECD countries.



Introduction

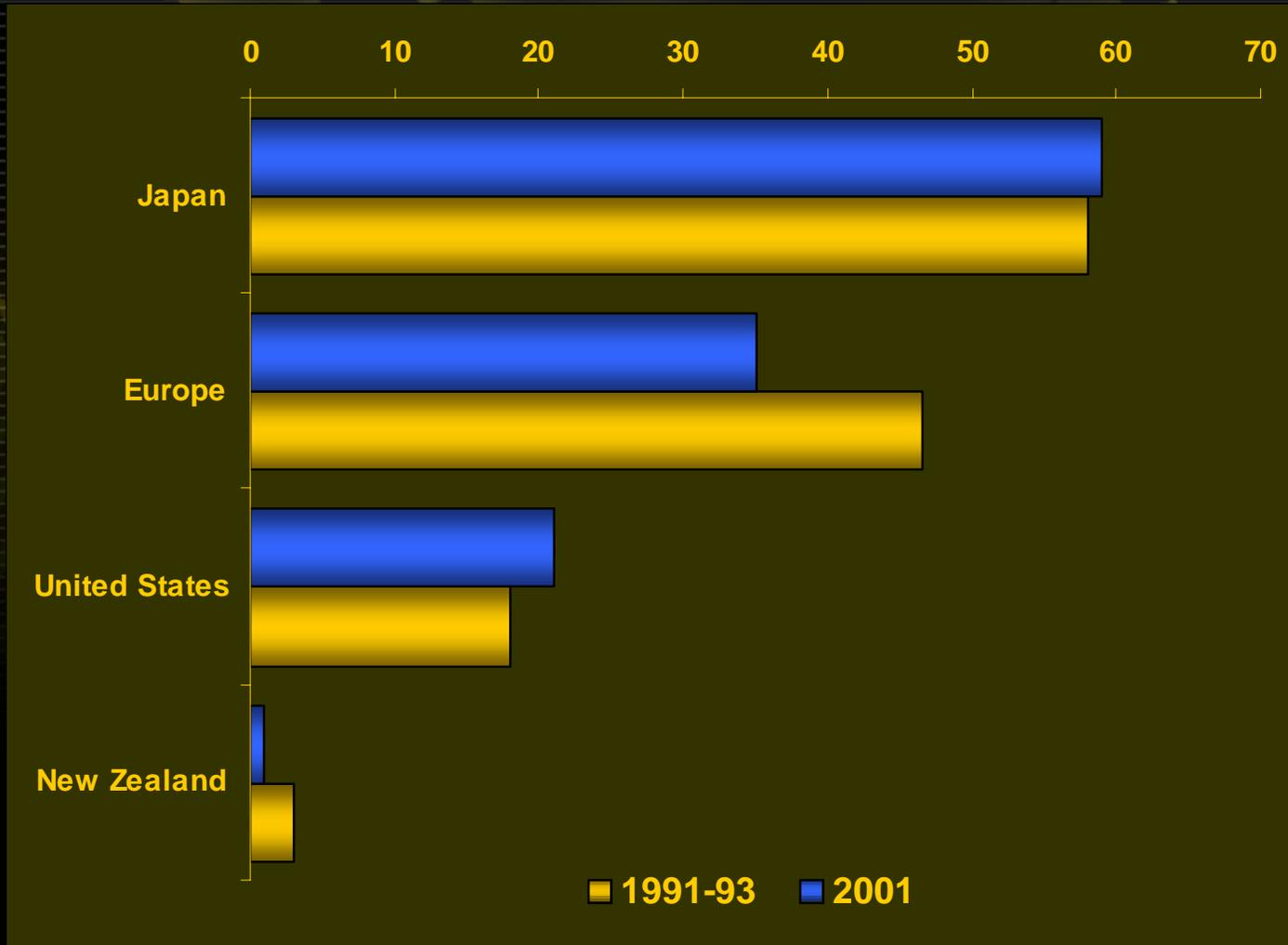
As a whole, United States agriculture stands to gain from further trade liberalization for three reasons:

1. U.S. average protection levels for farm and food products are lower than those of our major trading partners (Europe, Japan, and Korea)
2. The way we support agriculture at home is less trade distorting. This will tilt competitive advantage in our favor.
3. Huge potential markets will emerge in East Asia.



Agricultural Subsidies

(percent of producer price)

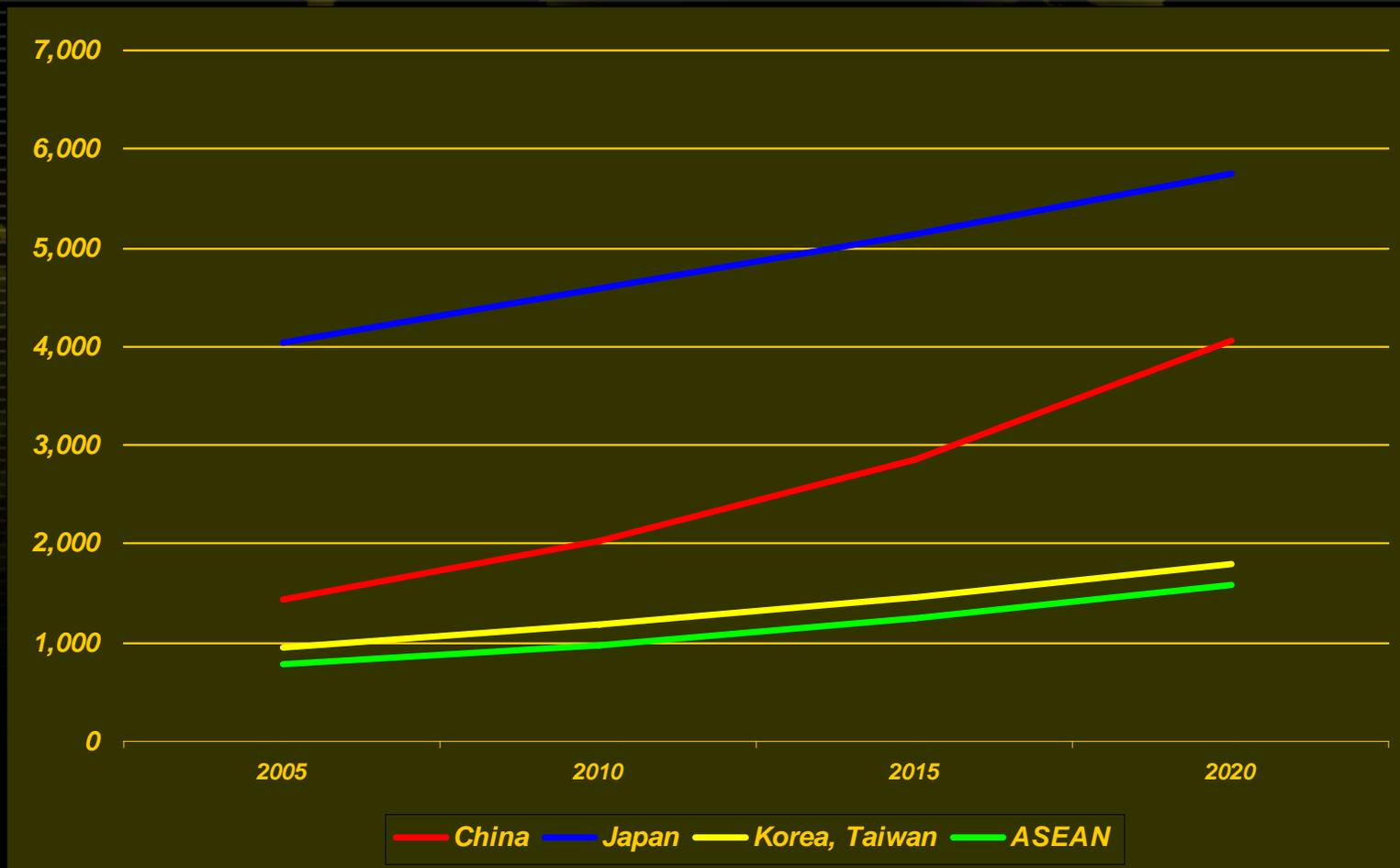


Emergent China and Other Asian Markets

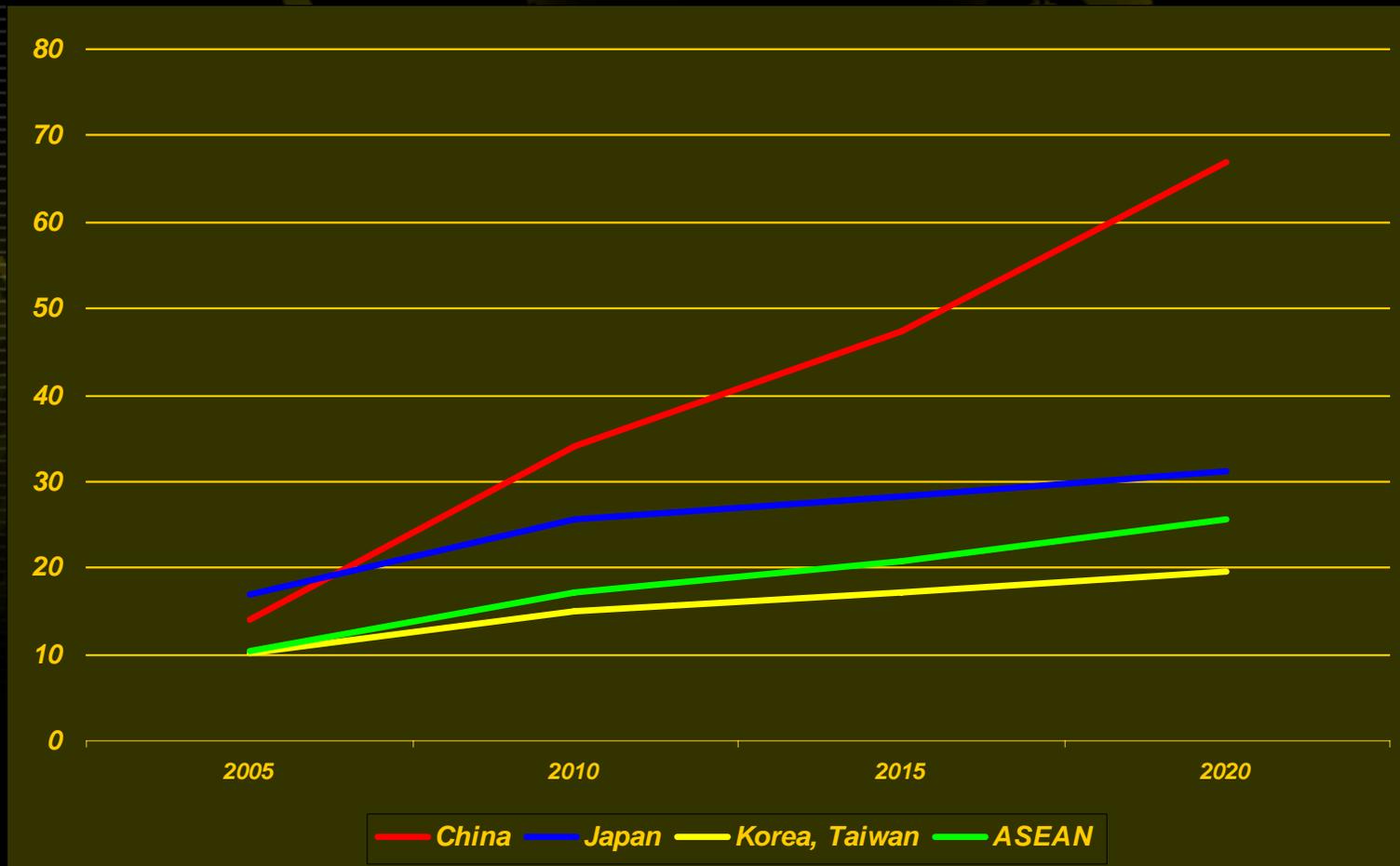


China's Robust Growth will Continue

GDP in 1997 USD Billions



China Will be Asia's Largest Food Importer (Net Food Imports in 1997 USD Billions)



Emergence of China's domestic market will overtake food capacity.



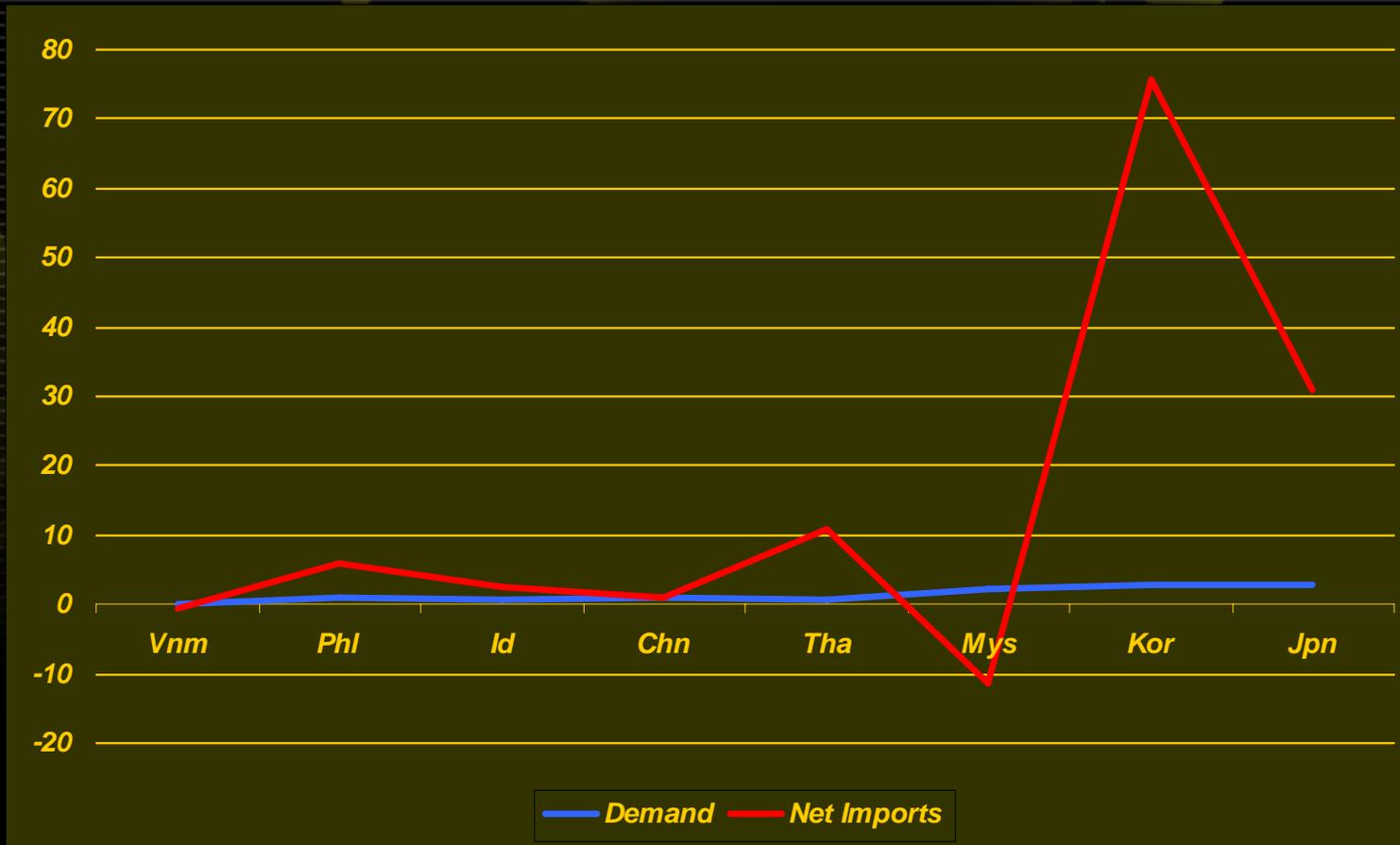
Asian Growth and Food Import Dependence

Three Examples



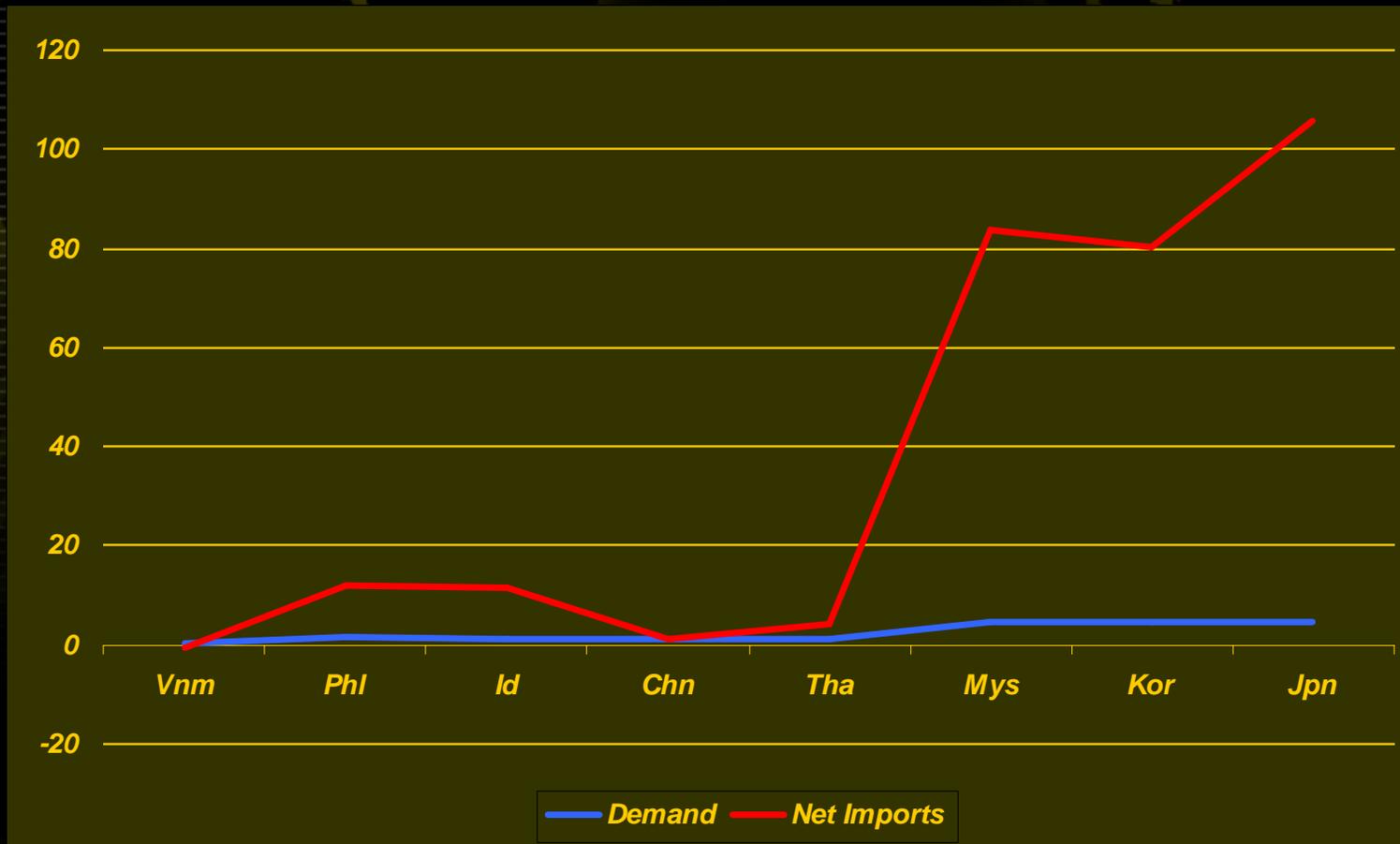
Meat

Domestic Demand and Net Imports per Capita (1997, China = 1)



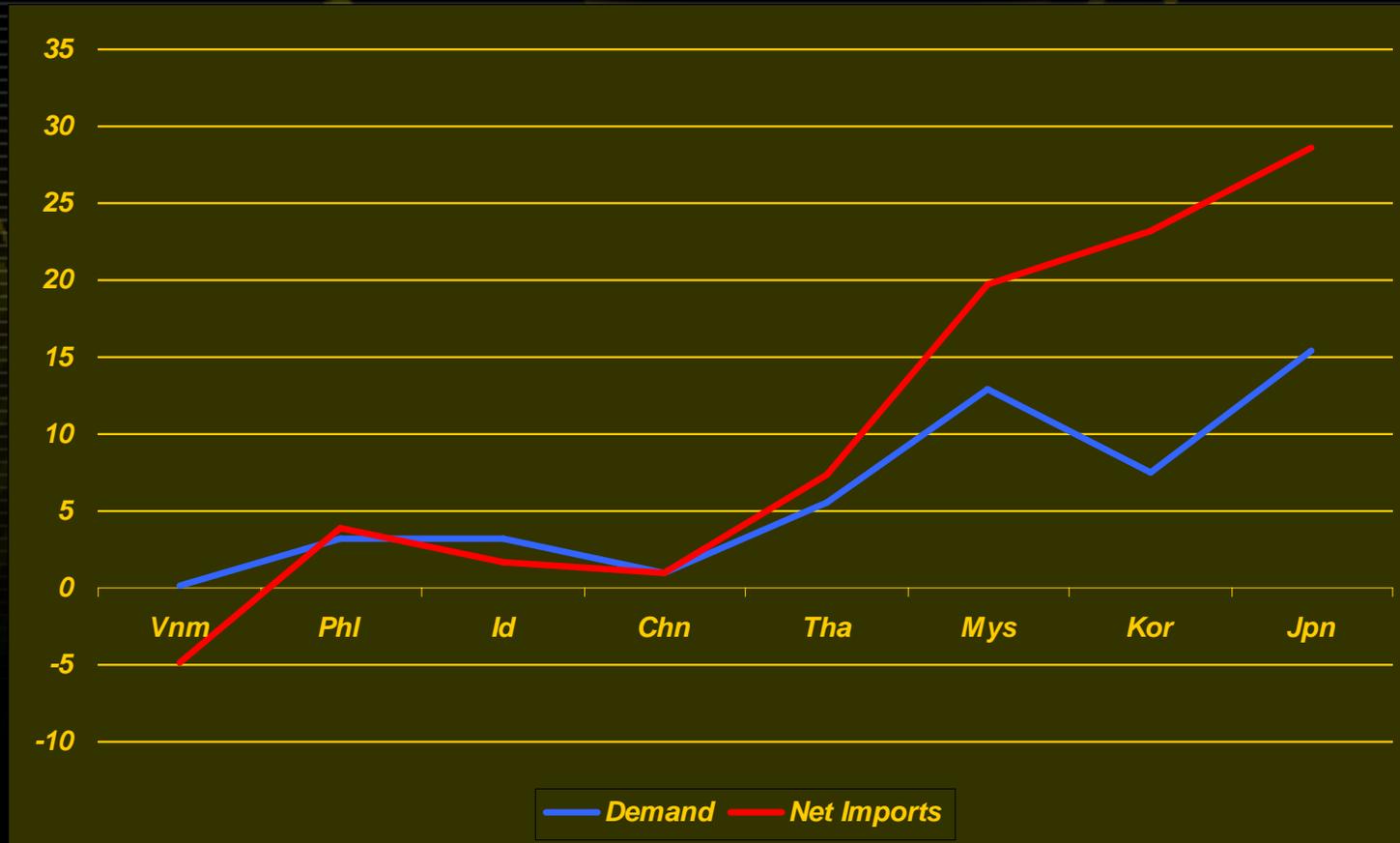
Cereals and Feed

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



Other Crops

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



Export Horizons

If significant OECD agricultural protection is ultimately removed, two major new opportunities exist for U.S. farm and food exports:

1. China – an emergent giant with scarce resources.
2. High income Asian countries – very high protection levels and significant purchasing power.



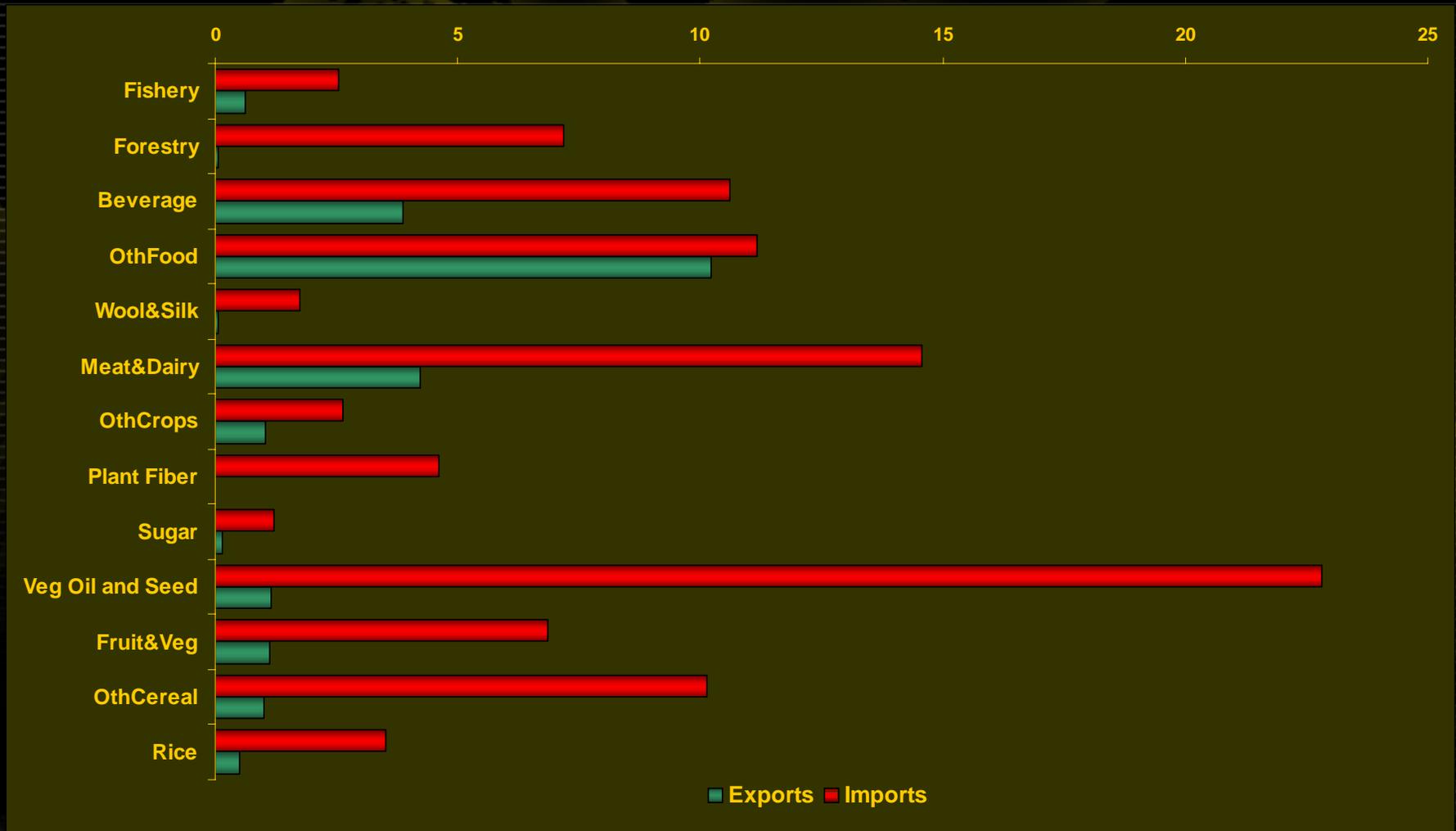
Agricultural Trade with China

- Our results indicate that China's completion of WTO commitments will stimulate growth and change its trade orientation toward significant food import dependence.
- The primary drivers of this process are rapid income growth and resource scarcity.

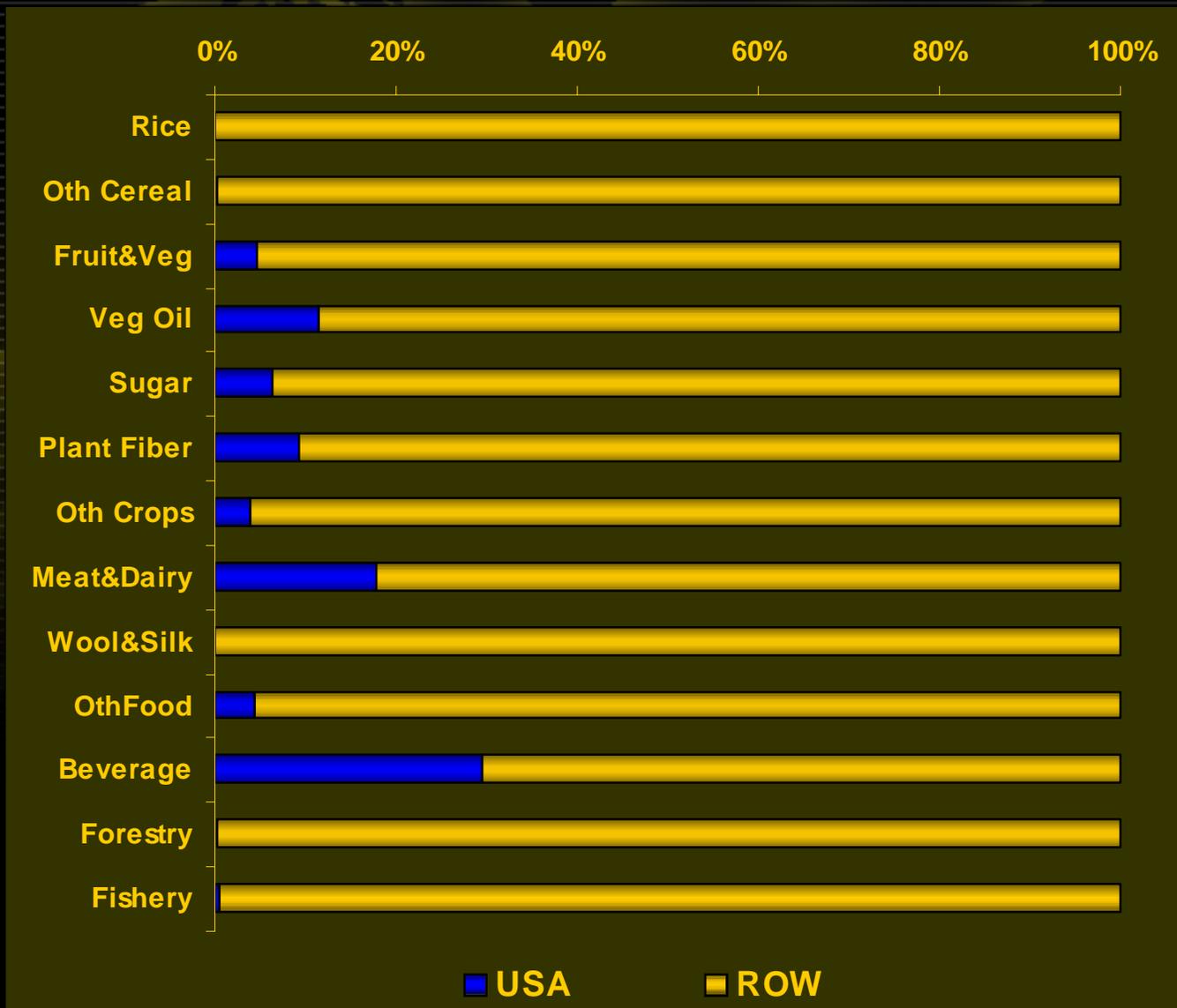


Chinese Agricultural Trade

(USD 1997 billions in 2010)



U.S. Share in Chinese Food Imports (2010)



Japanese Farm and Food Imports

- Given the scale of prior protection, imports will increase very sharply.
- Rice, Meat & Dairy, and Processed Food see most of the absolute growth, which far exceeds the value of new Chinese imports in the same categories.

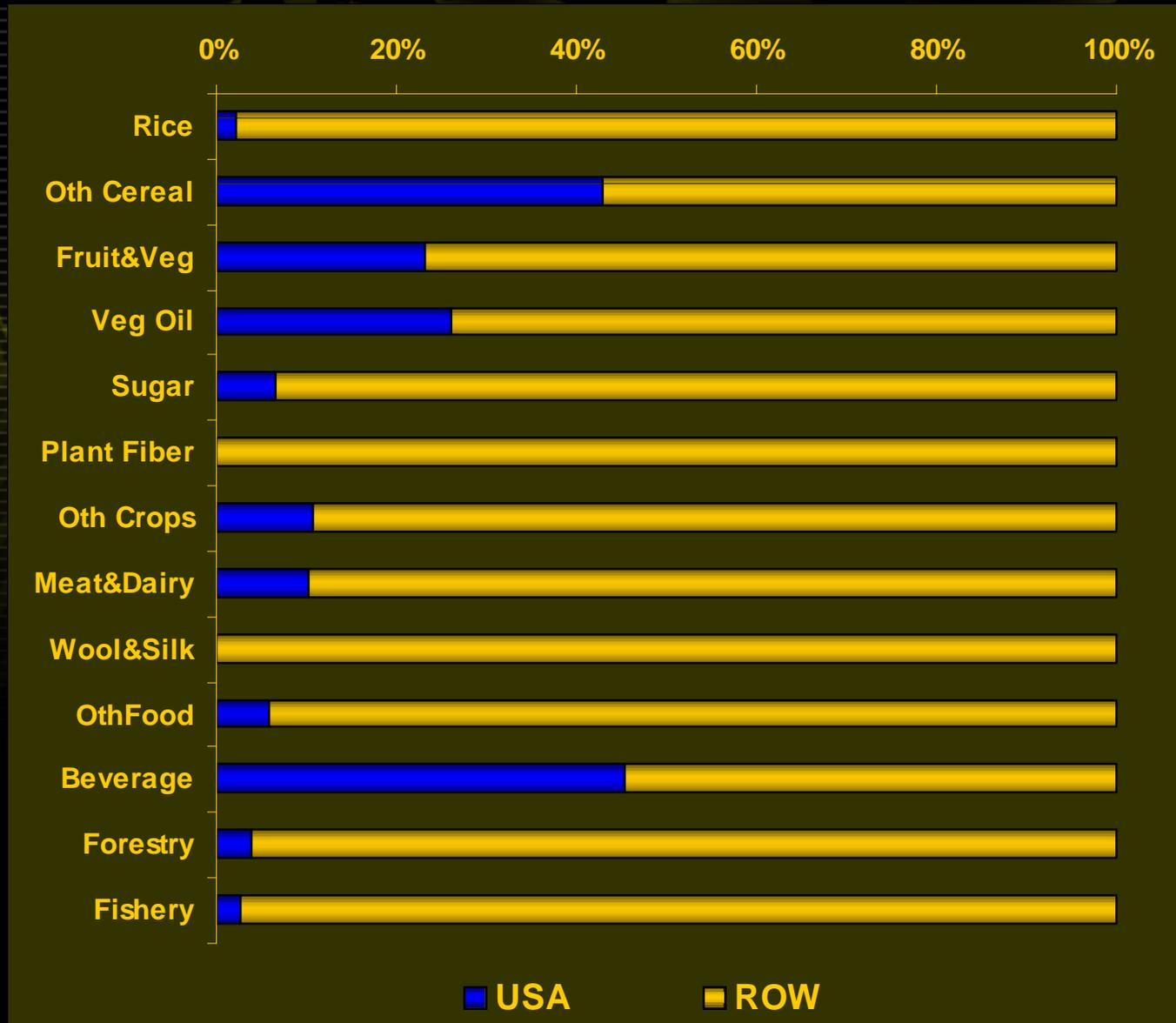


Japanese Agricultural Trade

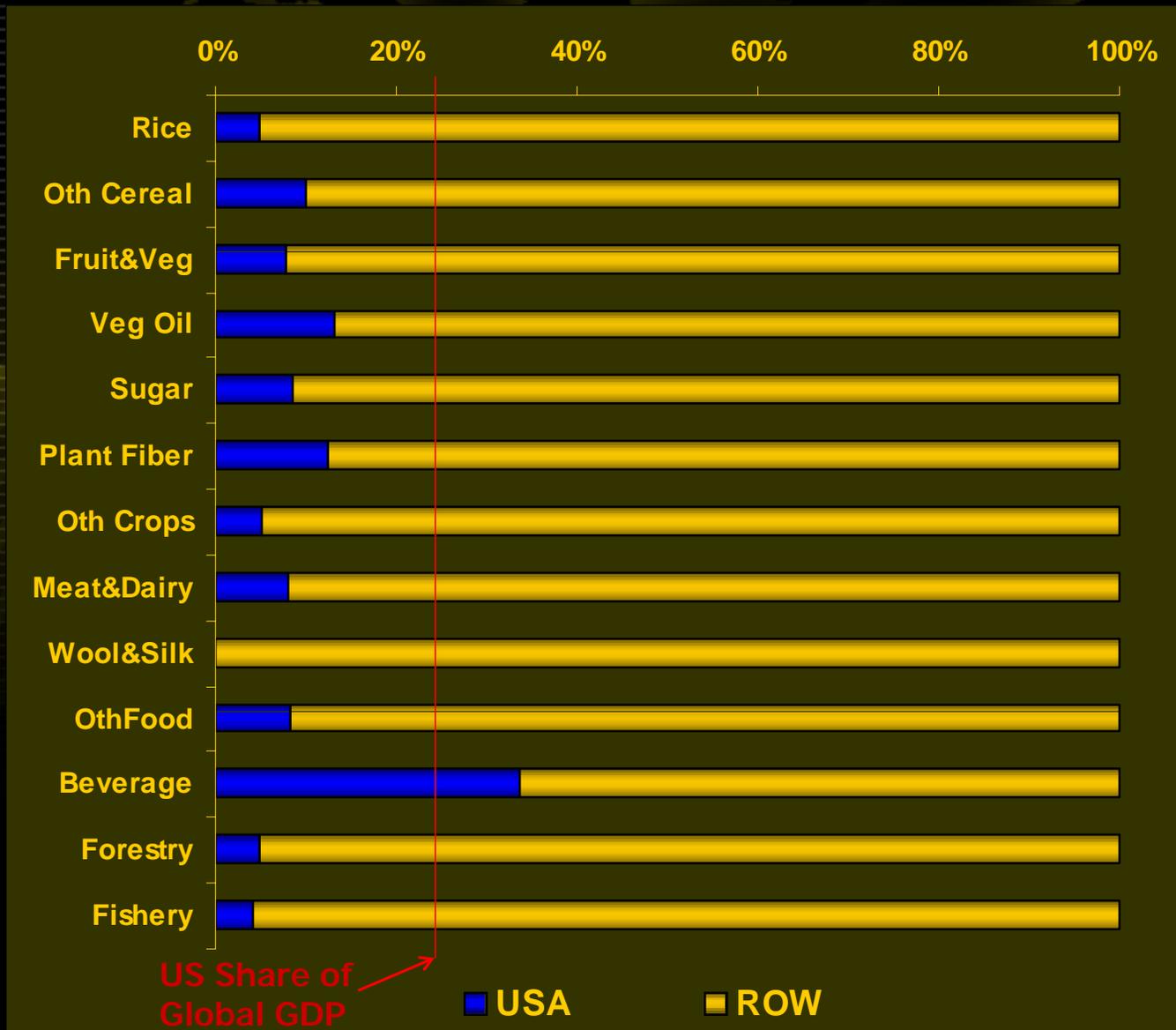
(USD 1997 billions in 2010)



U.S. Share in Japanese Agriculture Imports (2010)



U.S. Share in Global Food Trade (2010)



Investment Horizons

– The Multinational Era

MNC's now dominate global value creation:

- **The top 500 MNCs control 50% of global trade and 20% of global GDP.**
- **1998 sales of MNCs were \$11 Trillion, global exports only \$7 Trillion.**
- **Localization is the way to growth: Local sales by US affiliates exceed four times their exports to UK, Germany, Norway, Brazil, and Spain.**
- **80% of US-Japan trade is between affiliates.**
- **50% of China's exports to US are from US affiliates.**



Investment Horizons

Agriculture is a multinational under-achiever, generally a stay-at-home sector.

California farmers should follow food retailers and establish their own operations in Asia.

Double targeting: produce for export and for the domestic market.

Financial services are an essential source of comparative advantage for U.S. agriculture, both in trade and FDI.

US technological superiority in production, marketing, and finance can facilitate market entry and expansion.



Investment Horizons

Opportunities

- New capacity and new markets.
- Diversification toward superior growth.
- Substantial technological leadership.
- Advanced financial services support.

Challenges

- Land tenure and legal institutions.
- Structuring local partnership.
- Regulatory environment.



Multinational Strategic Development

MNC

Markets



Japan
Korea
China

Sources - Capacity



Intensive Crops
California
China

Extensive Crops
Southeast Asia
Eastern Europe
Former Soviet Union



A New Agenda for Agricultural R&D

- If they choose to globalize, U.S. farmers' primary source of comparative advantage will be technology.
- Historic barriers of scale and property rights are falling away (Brazil, China).
- Just as it did in semi-conductors and biotechnology, the public-private R&D supply chain can give US ag/food firms decisive competitive advantages in the global marketplace.



It is time for U.S. agriculture to take its rightful place among the knowledge-based industries of the 21st century U.S. economy, leveraging technological leadership into a global presence along with semiconductors, biotechnology, and finance.

