

Kostadinov, Anton

Conference Paper — Manuscript Version (Preprint)
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Suggested Citation: Kostadinov, Anton (2017) : EU – China food trade perspectives, ZBW - Leibniz Information Centre for Economics, Kiel, Hamburg

This Version is available at:

<https://hdl.handle.net/10419/149572>

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EU – China food trade perspectives

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III

Abstract

China's striving to ensure food security for its large population, and that problem I well known. In about one fifth of global population is living in China, in the same time should rely only 1/15 from rural land and 8% of fresh water. China's population grows not only as a numbers, but also it is urbanizing in a large scale, the disposable incomes are also growing. It all means that food consuming pattern in China is also changing, and food consumption in the country will grow in both dimension – as a quantity and as a quality.

EU – China trade relations are complicated and protectionism could be seen in both sides. EU have large trade deficits with China. The most member states have also large deficits, but not Germany and Finland. EU member states have very different positions about trade relations with China. In the food sector EU experiences overproduction, closed markets in Russian Federation, and internal market tensions. Furthermore, EU has placed a strong emphasis on speeding up Free trade agreements with so dynamic Asian countries, including China, but there are no plausible results yet.

Key words: China, EU food trade, food security

JEL: F15, F42

1. Introduction

EU – China trade relations could be described as very delicate. Trade is fast growing but there are several important issues. **First**, EU's record trade deficit with goods with China in 2015, but record surplus for trade with services, but trade with services is only a fraction from total trade, approximately 10%. After 2012, EU reported trade surplus with China in food trade. **Second**, trade rules are reflecting the most tensions in EU – China trade relations. **Third**, China is penetrating the EU market through separate market agreements with EU member states. Of course, the lack of cohesive EU position eases that. Furthermore, China is rebalancing its economy, and the country is reporting shrinking total trade surplus from USD 60b in 2015 to USD 40,5b in 2016. This tendency is in unison with Chinese road to the “New normal”. Yang

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Yao (2016) argues that there are strong signs that the Chinese economy is entering a stage of a “new normal.”. Penetration in EU market and shrinking total trade surplus are clear indicators for willingness of China to open further its economy and to trade more. However, this is a slow process.

2. Recent developments in China food trade

Fast industrialization in China in the past 40 years opened the way to global leadership. From the second poorest, China became second richest country in the world, and in 2018 is expected to surpass the USA. During that period China experienced economic growth between 7 – 10%. The role of new global power means China is seeking the new state of its political, economic and social systems. Zhang, 2014 argues that over the last two years, the new development model has been articulated with increasing force and clarity at the highest levels of China’s government (CCCPC, 2013; State Council, 2013; Anon., 2015b). The seeking of “New normal” means also China is preparing to jump up in the global value chain, to rebalance its economy as innovation based one. There three main factors influencing Chinese food trade relations. The first is urbanization, which is the largest movement of people ever. Di Chengfeng (2013) argues that more than 300 m. people are moving to urban areas. The second factor is growing disposable incomes of Chinese households fig.1. The third factor is soaring demand for foods in its both dimensions – as a quality and as a quantity.

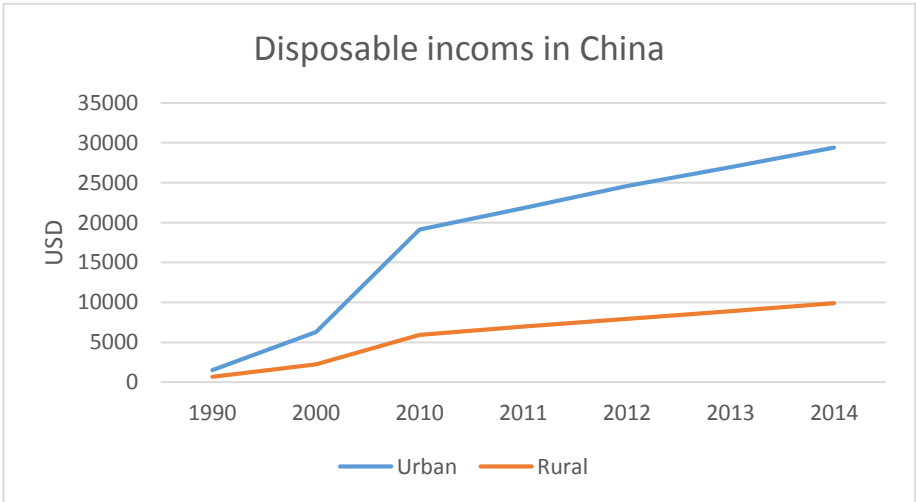


Figure 1 Disposable incomes in China

Source: World Bank statistics

Impressive changes in agricultural production in China, allowed the country to gain self-sufficiency in grain and net exporter of many agricultural products. At the same time disposable incomes of population in China are growing, faster in urban areas and slower in rural areas (Kate Stratford and Arianna Cowling). Higher disposable incomes of population means that

food consumption pattern is changing. Food consumption pattern in urban rural areas are different, but there is a clear tendency revealing China’s population diet change. People in urban area consume more processed food, also better quality foods with more protein.

Furthermore, there is a change in meet consumption pattern – move to consumption of better quality meet. To feed its 1,4 billion population China is facing big challenge, the country is losing arable land, per capita fresh water is only 31% of the world’s average, approximately 20% of the arable land in the country is poisoned with heavy metals. In 1995 China announced White paper on its grain issues, which declared the need of achieving 95% grain self-sufficiency rate.

Even later, in 2008, China announced its Long Term Grain Security plan. In the past there was a volatility in China’s food trade. During 50s China was food net exporter, and in 60s food imports were minimal. In 1995 grain imports reached 20m tons. China’s socioeconomic development, combined with the largest urbanization ever, have speeded up the demand for food in both dimensions, as a quality and as a quantity, and resulted in decline of self-sufficiency rate. One of possible path for China is to import more land-intensive foods in order to release the pressure on its own resources. But China long-term dependency on foreign imports may worsen even more food security problem in the country. China now is near the top of developing countries and is approaching the income levels of high income countries.

Fast and largescale urbanization was a major factor influencing food consumption in the country. China now is the largest pork meat, rice and wheat producer in the world, but it still need imports in order to balance internal consumption. China is importing not only raw

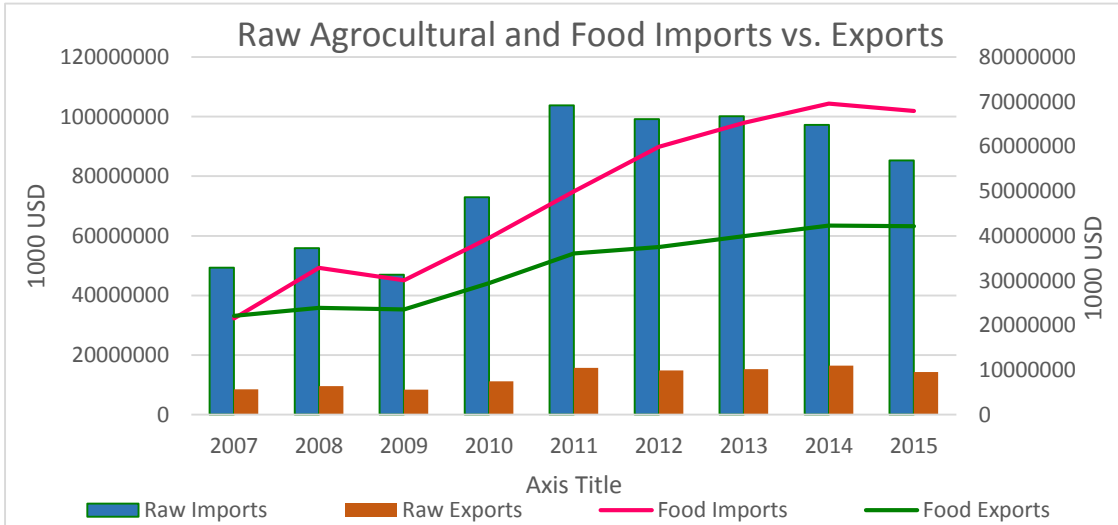


Figure 2 Raw agricultural and food imports and exports

Source: World Bank statistics

agricultural materials, but also processed food. In both categories China has large deficits (fig. 2).

China is making a lot of efforts to rebalance and consequently to open its economy. This active position is revealing the necessity to develop its trade relation, and in particular these with key food suppliers, as the EU is. China’s government is forced by rapidly growing urban population with growing disposable incomes, scarcity of arable land and fresh water to develop trade relations with key global market players. The EU seems appropriate supplier because it is producing high quality land-intensive foods.

3. Trade obstacles of EU – China food trade

The approach of the EU to China is controversial. Now China is second largest global power, but the role of the EU is diminishing as a global player. That concern also trade relations between the two. Since 2006 EU is emphasizing on Free Trade Agreement (FTA) with China, but at the same time doesn’t recognize China as a market economy. So far, there is no EU – China FTA, and there are still many tariff and non-tariff trade barriers. Trade disputes occur very seldom. John Fox & François Godement (2009) argue that at the bottom of that problem are some differences between EU member states and anachronistic beliefs that China will reform and liberalize its economy under pressure. EU established diplomatic relations with

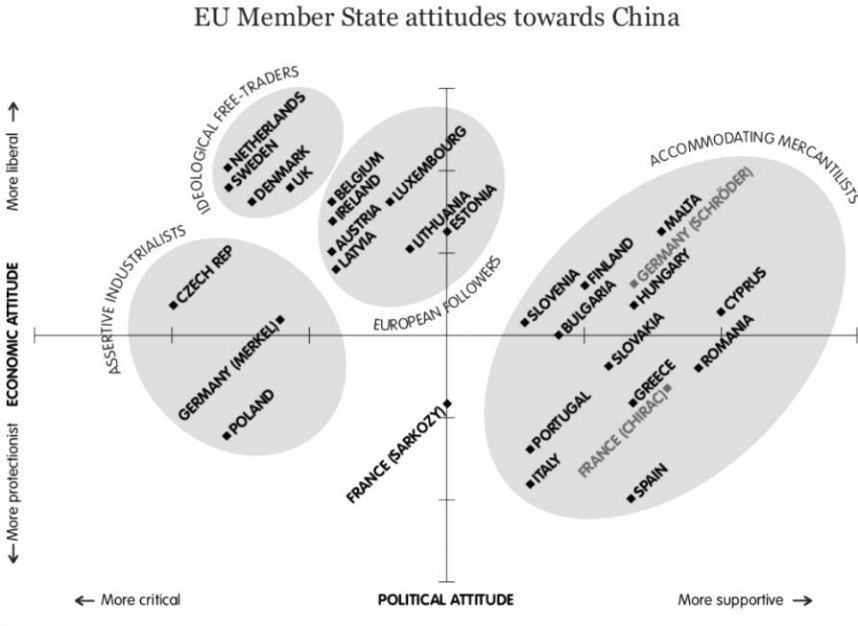


Figure 3 EU Member states attitudes towards China Source: A power audit of EU - China relations

China back in 1975, but China's economy, foreign policy and society has evolved. Now China is a global power and decisions taken in Beijing concerns the EU in every aspect. Differences in EU member states are decisive for relations with China. The analysis of John Fox and François Godement categorizes the Member States into the four groups shown on the chart: Assertive Industrialists, Ideological Free-Traders, Accommodating Mercantilists and European Followers fig. 3.

The lack of consistent approach of the EU towards China is based on deep differences between member states economies, and makes trade issues even more complicated. The group of Assertive Industrialists may not allow market forces to shape the EU-China trade relationship. Strong industry in this countries make them to support anti-dumping measures against subsidized goods coming from China. Yu Chen (2015) argues that the solar panel dispute was the biggest trade controversy between the EU and China. In 2013 China launched the investigation a day after the EU imposed anti-dumping levies on Chinese solar panel imports. Countries from this group tend to pressure China with sector-specific demands, to support protective "anti-dumping" measures against unfairly subsidized Chinese goods.

The countries from the group of Ideological Free-Traders are mostly innovative countries, and they are not willing to restrict trade with China. The actions of this group makes very difficult for the EU to apply coherent response to China's very carefully prepared trade policy.

The group of Accommodating Mercantilists tends to be the largest and here is valid the belief that political relations will lead to economic benefits.

The last country group of European Followers don't consider their relationship with China as so important for their economies. They rely on EU support to hedge their economies of being harmed by China.

Agricultural sector in the EU and China is very strong protected. Furthermore, both sides are using also non-tariff barriers, which additionally complicates food trade. China is long pushing self-sufficiency policy, but the EU spends nearly €50b per year for its Common Agricultural Policy. Agricultural markets in both sides are highly sensitive area of interests, and bounded by consistent policies, and with tariff and non-tariff barriers. Furthermore, China is following policy of government controlled agricultural sector, and controlled prices and quantities in order to sustain food self-sufficiency. What is important here is what agro-products Chinese tariff and non-tariff protection are stopping potential export from the EU. The EU is interested in China's market because of internal market pressure and export ban of Russian Federation.

Tariffs in agriculture are higher than in most industries, because of the above mentioned reasons. Jaques Pelkmans and Joseph Francois (2016) argue that European tariffs are centered mostly around relatively low threshold, but the EU’s non-tariff barriers are much more complicated and impenetrable than Chinese. There are product groups which are sensitive for both sides, and we can observe tariff peaks. In the most impacted product group for the EU, prepared fruits & vegetables, there are a lot of tariff peaks. This is also valid for China. Even though complicated trade barriers, the tendency of food trade growth after 2009 is clear. China is gradually scaling down its self-sufficiency policy, which is proven by rapid imports growth, and signing of several FTAs. Further EU – China food trade growth will depends mostly on coherent EU approach to China, because the reality is that China now is skillful pragmatic global power.

4. Developments in EU – China food trade

Only 14 years after China’s accession to World Trade Organization (WTO) in 2001, the country is ranking the second largest economy. In 2014 China was the biggest exporting economy with share of 12.4% of the world’s total. For 2014 Chinese imports were for 1.97 trillion USD, accounting 10.45% of the global total. Chinese food trade also boomed fig.4. After 2007 China is experiencing trade deficits with foods, and this gap is widening. The reasons for surging demand for foods as a quality and as a quantity has been discussed above.

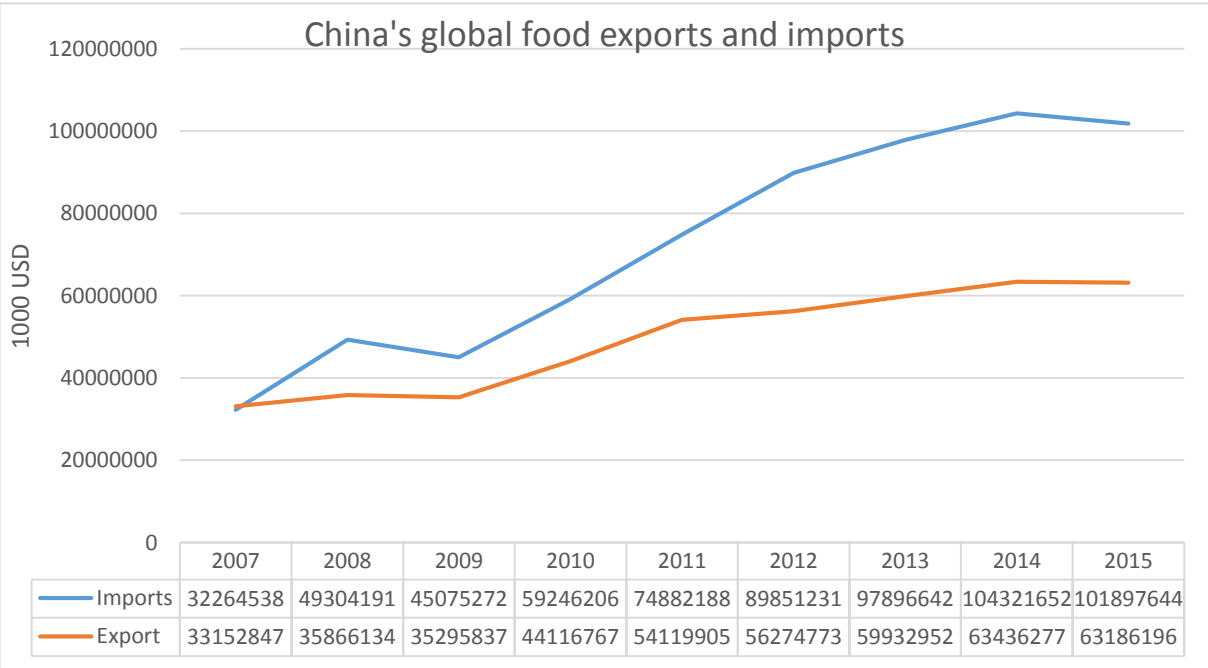


Figure 4 China's global food exports and imports

Source: World Bank statistics

China’s tightly controlled economic and industrial policies resulted in increasing food production in the country, but it is still not enough to equal constantly increasing demand. China is strengthening its food security program, but is still relying on large scale imports from abroad. Powder milk, imported from New Zealand and Algeria is an example. Local powder milk production is not able to provide food for more than 16 million burths per year. Polluted environment concerns already influence food trade policy and trade. The most important trading partners in food trade for China are the USA, EU, Brazil, Japan, S. Korea, New Zealand and Australia.

Food trade between the EU and China is approximately 3% of total trade volume. The soar of food demand in China can be found also in the positive food trade balance that the EU enjoys after 2012. This figure is not only valid for the EU, but also for other countries, Brazil and USA for example. The EU exports steadily grew till 2009, then the tempo seriously increased. For China the EU is third largest import partner after USA and Brazil.

For 2007 US food imports in China accounted for 28% of total food imports, Brazilian for 20%, but European only 8.2%, but in 2015 US accounted for 27%, Brazilian for 24%, and European only 13,4%. The EU share of food imports in China is growing in spite of record trade deficits the EU experience in other sectors. The largest export food market for China in 2015 was Japan with 29% share of total food export, the EU with 20,5% and the USA with 20,26%.

Leading export market for EU foods is USA with share 4,11% of total EU food exports. China’s market share is 1,88%, Japan’s 1,2%, and Russian federation 1%. The largest food imports in the EU arrive from Brazil with 10,7%, USA 9,56%, Argentina, 4,8%, and China with 4,32% share of total food imports.

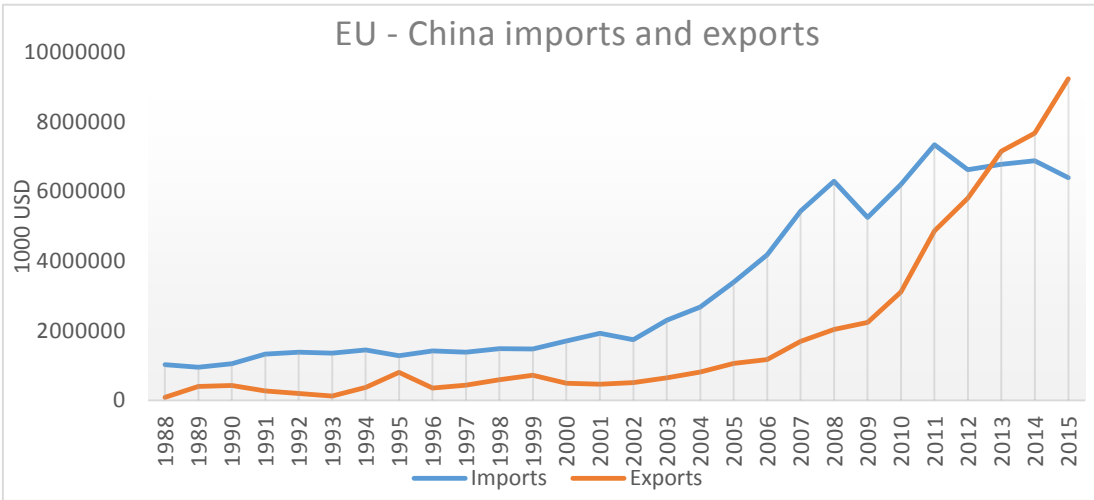


Figure 5 EU - China imports and exports

Source: World Bank

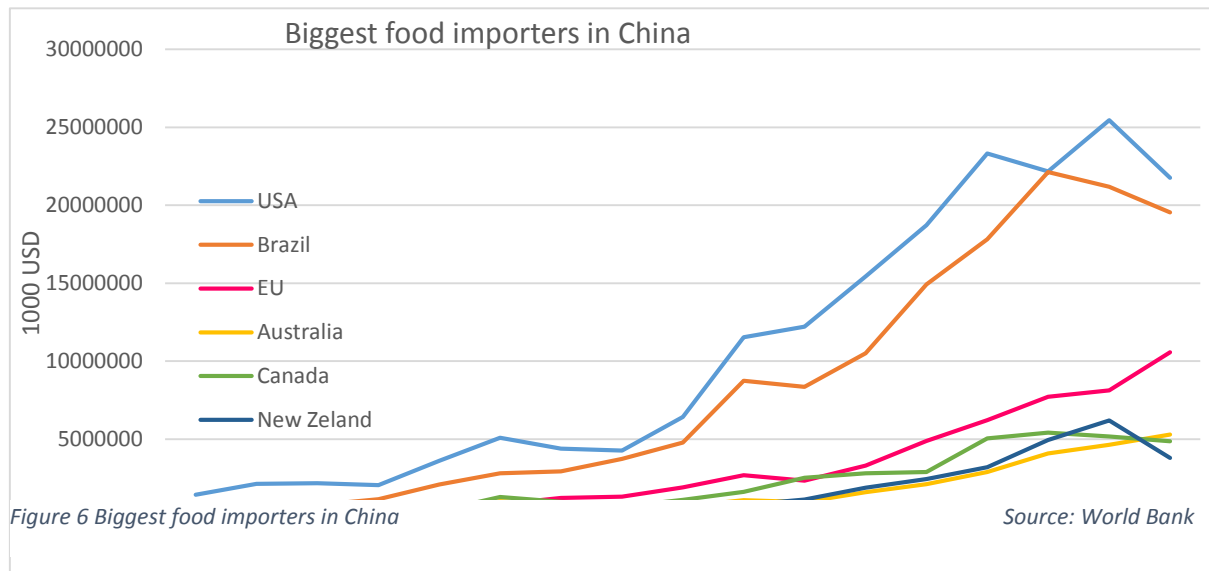
After 2012 the EU enjoys positive trade balance with China fig.5. EU agri-food exports to China grew with 39% from 2014 to 2015, but the imports with only 10,6%. The main export commodity going to China is the group of infant food and other cereals. Judith Banister, David E. Bloom, and Larry Rosenberg (2010) argues that there are difficulties of keeping food supply growing. Explanation for that aging of Chinese population. That is why Chinese government abolished 1-child policy, and now we have approximately 16,5 million births per year. Furthermore, in 2010 senior citizens accounted for 13.26 percent of the population, with 8.87 percent aged 65 or above. In 2025, the elderly population will account for more than 20 percent of the total with about 12 percent aged 65 or above (Li Jiabao).

5. Perspectives of EU – China food trade

The EU is China's number one trading partner, and a valuable supplier of high value added products. Because of high demand the importance of the EU as a food supplier to China is growing. Nevertheless, EU political influence is shrinking, with Germany, France and UK more important to China than the EU as a whole. China's pragmatic and aggressive approach toward the EU is showing that the EU needs new and better approach to China. In order China and the EU to open its market further for each other divisions between member states need to be diminished. China's strategy of separate trade agreements means weakening of EU position. Food security for both sides is strategic issue. Acceleration of food demand in growing economy like China, means that it will continue to be vulnerable to food insecurity. China probably will sustain self-sufficiency in some product groups like rice and wheat, but in others like meat, dairy products, and some processed foods will continue to be import dependent. Urbanization in China means that smaller proportion of people will produce foods, so urban population will consume more processed foods. Soil, water and air pollution means that there are serious risks on food security in the country. Exhausted natural resources is forcing Chinese government to diversify food suppliers in order to answer to soaring demand in the country. Trade relations between the EU and China are also shaped by some perception gaps. Both China and the EU impose legal, financial, and administrative blockages. Furthermore, most of the EU member states have significant deficits with China, but other like Germany and Finland are running surpluses.

As it is shown on the fig. 6 the EU is the 3rd largest food importer in China. Greater share of EU exports to China are based the most on beverages, the group of miscellaneous foods, cereals, and dairy products. Chinese food market will continue to grow and it means it would be destination for more European foods. The significance of the EU as a food supplier to China

will grow because more disposable incomes mean demand for more quality processed foods, such foods produced in the EU.



6. Conclusion

Maybe the EU is in decline because of economic sluggishness, demographic lethargy, military weakness, political disunity and etc. But rather, the EU will continue to be a global superpower during 21st century, and it has the resources for regional and global influence. Relations with China will be test point of the EU's ability to adapt to new global power as China is. Trade and investments are supposed to be the main driver for bilateral relationship. Food trade is essential part of that relationship, and that is why it will grow. Whether China will become even more attractive market for EU foods, depends on domestic developments. As a destination for EU goods, including foods, China has to maintain its economic growth rate, productivity, creating jobs and continue increasing living standard of its citizens. The challenge for the EU is to regain economic dynamism again, but to keep protectionist pressure at bay, the challenge for China is to develop its domestic market, to make it more competitive and open.

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