



CHINA. THREAT OR OPPORTUNITY.

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Introduction

Much is also written about the potential market of 1.3 billion people; 20% of the world's population. Plenty is written and spoken about the threat to national markets from China

When the threats to Agriculture from China are discussed, oversupply of products such as Garlic, Onions, and Broccoli, are cited as previous indicators of the chaos to come. Some of this discussion is valid. Indeed there will continue to be price pressure, and change in Market supply dynamics in the future, with products such as Apples. But there are fundamental aspects to the character of China's agriculture that suggest that a much more complex and durable re-orientation of the world's agricultural market is taking place.

This paper sets out try and explain more about China and its character, particularly from a food, and agricultural point of view, and to examine and discuss the threats and opportunities likely to occur as a result of China's rapid re-integration into the world's community.

What is China?

It's a big place teeming with people.

The numbers are beyond comprehension, so lets firstly compare China with a country that we are much more familiar with; the USA. Both countries are geographically about the same size, 9,600,000 square km. But that is where the similarity ends. 290,000,000 live in the USA. 1,300,000,000 live in China. There are 2 million farms in the USA. 220 million farms in China.

And of course a significant and enduring difference is the two nation's contrasting history. In contrast to the USA's history, the Chinese can trace their ancestry back thousands of years. For most of that time the China can claim to have been the most advanced civilization in the world. Only in the last three hundred years did other countries of the world significantly advance ahead of China.

Zhongguo-centre of the world.

And it's important to understand that China and its people consider that its rightful place is at the centre of the world's community. Even the name conveys this. "China" in pingyin is Zhongguo. Zhong means middle. Guo means kingdom. Middle kingdom of the world. (Our maps have the UK at the center; China on the edge. Theirs have China in the middle UK falling off the edge.)

So here in the central kingdom of the world resides 20% of the world's population, farming 7% of the world's farming land, and producing a vast tonnage of food for its people: Maybe 500,000,000 Tonnes of Fruit and Vegetables a year. (Figures vary widely from 350,000,000 to 800,000,000; This is a typical example of how difficult it is to find out the true situation in China. Probably no-one knows).

So what is China now? It is Land of contrasts and contradictions, a nation that is changing collectively; but with individual ambition. Everyone wants to improve themselves or their children. There is an absolutely capitalist attitude to doing business. Anyone who tries to get involved in China who does not understand that faces deep trouble.

Whatever China and its people are today will probably not be what they will become tomorrow, but whatever happens, the impact on the world is here to stay, and to further grow. China's development has only just started.

China's food -At the core of its culture

There is one thing I can confidently predict about China and its people. Food will continue to play an important part in their lives. Food is at the core of Chinese culture. "Chi fan le ma?" literally means, "Have you eaten yet?" In my early days in China when asked "Chi fan le ma?" I would retort that no, but I would do later. I gradually realised that this is a form of greeting like "How are you doing".

Wherever you conduct business in China, it is planned around meal times; generous hospitality with huge lunches and dinners. "Guanxi", personal relationships are of inproportionate importance, and most of this is developed over the dinner table.

If your knowledge of Chinese food is your local takeaway, you will not appreciate the wide variety of dishes available in various regions, but there are some basic common factors about all Chinese cuisine. It is fresh produce based.



Buy today what you eat today.

Chinese prefer “Warm meat”. Beef Chicken Lamb Pork. Consumed one day after slaughter. Cold meat is considered as unfresh, a real problem for retailers trying to develop a robust food chain. Fresh Fish is even more extreme; held alive in tanks in shops and restaurants and prepared immediately before cooking. Fresh vegetables and fruit are usually bought from daily “wet markets” and have little “shelf life”. Recently dairy products have rapidly found favour; They are regarded as healthy and consumption of milk based products is rapidly increasing. (consumption has increased from 5kg/ head /annum 10 years ago to 13kg /head. To put this in perspective, Americans consume 100kg/head).

China- A fast food culture, and a nation of travellers.

The Chinese love to eat out, not just for business but with family and friends. On street barbecue vendors are common, and in recent years, western fast food outlets have developed quickly in China. KFC and MacDonald’s are now common sights in many cities, along with Pizza Hut, which is gaining popularity. A number of Chinese chains are also evolving in western type food, and also Chinese food, such as fast noodles.

The Chinese people; as their incomes rise like to adopt certain aspects of Western lifestyle, and the opportunities for this are rapidly increasing.

Hyper markets such as Metro, Wal-Mart Carrefour, and soon Tesco are present, as are most of the International Hotel chains. Chinese people are becoming more and more interested in travel, both home and abroad. They are experiencing more and more westernised films and TV including Chinese versions of shows such as Pop Idol. However they like to combine western concepts with Chinese, rather than substituting one for the other.

The access to all these new influences is available to a tiny minority with rapidly rising incomes, but this is still a lot of people!

What’s the difference?



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China: An agricultural nation

So China is a rapidly evolving market with quantum changes in lifestyle within one generation but it must not be forgotten that Agriculture continues to be a key influence on China. 750 million rely on the rural economy for income. 49% of the labour force is still involved in Agriculture. The farm size is small, about 0.1 ha per person, with the land often fragmented into different parcels around the village. Effectively the farms are run as market gardens, with most farmers relying on hand labour for many tasks, though there is some common ownership of rudimentary tractors, combines and other equipment.

Growing enough food to feed everybody continues to be a challenge. There is less farming land per capita in China than any other country except India. (Only 15% of land can be farmed.)

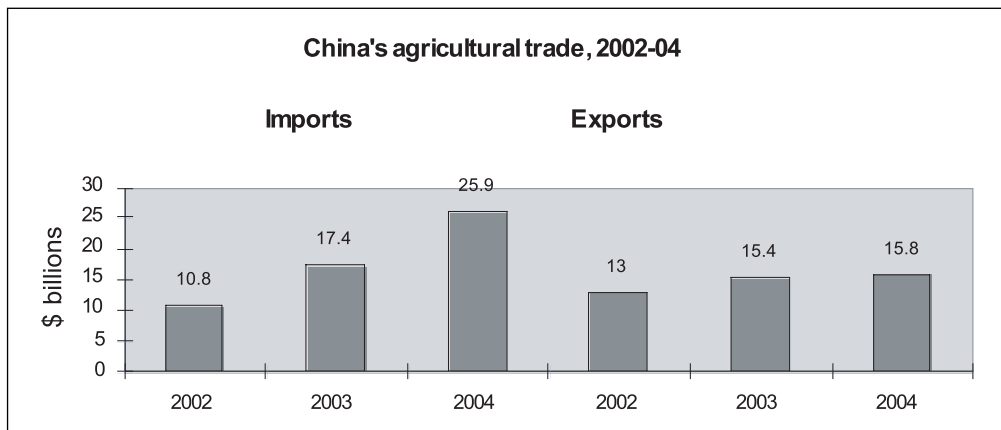
Water resources as well as land resources are huge problem, critically restricting development. Although multi billion Euro projects are now underway to build water transport canals from South to North, most of the water supplied will be designated to supply industry and urban populations.

During the early stages of the establishment of the Communist regime in China, food production was a major challenge, particularly during the late 1950,s through to the end of the 60's. From that period, China developed essentially a self-sufficiency in food.

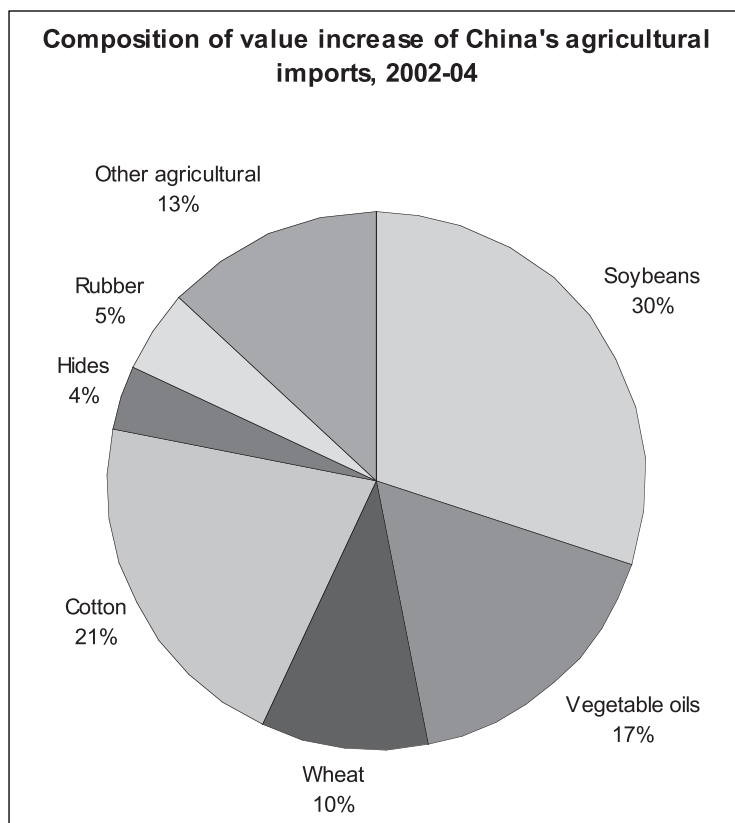
China an importing nation.

However, the challenge to remain self sufficient is becoming more difficult, and there is evidence that China will not be able to produce enough food of the range that its people desires in the coming years. Already financially China is a net importer of food and feed. China cannot produce enough food to feed its burgeoning demand.

The level of food and feed imports must surely rise as diet changes, and more and more people leave the countryside, with at least 200, million expected to migrate in the next 20 years.



This trend will continue with an increasing demand for commodities as demonstrated below:



The numbers of new consumers who will begin new lives in cities and large towns is considerable. As discussed before, some 200 million people must migrate from the countryside in the following 20 years, if rural incomes are to be sustained, and the industrial economy continues to develop. That is equivalent to the whole population of Germany, France and Britain combined, suddenly wanting to go to the market to buy their food, and experience new tastes and experiences.

China- farming’s problems

So why cannot China’s farming respond and produce the food demanded? Farming in China has particular problems. As well as farming myself in Shandong province, where more produce is grown than any other region of the world, I have travelled to many parts of China and experienced the following common phenomena:

Heavy pest pressure.

This is due to the intensive way that the land is farmed with two or three crops a year depending on the region, and the use of polythene covered “greenhouses” for winter production, that are effective winter resorts for pests and diseases.

Fragmentation of farm units.

While there are some massive livestock units and huge (15,000ha) ex-state farms on the Russian borders, the average farm size is around 2 mu per person. (15 mu = 1ha.). Attempts to consolidate the farming areas are often frustrated, as farmers guard their right to their land jealously, and the allocation is arranged at village level by the village leaders. The average farm unit allocated to a family member varies, but in Shandong it is around 2 mu. (15 mu = 1 ha.) This may not all be in one block, but spread around the village. It is difficult to persuade farmers to amalgamate their land.

Water problems.

China’s climate would seem extremely challenging to those of us from the UK used to a relatively benign climate. As well as having to cope with extreme temperatures in most regions, farmers in the south are continually battling with too much rain during a large proportion of the summer, while farmers in the north rely on a relatively short rainy season in June, and July to sustain crops for the whole year. In addition desertification is a threat in the west and north. China is currently developing two of 3 planned water transport canals with a budget of some 40 billion euros, to transport water from the south to the parched north, though some 80% is expected to be allocated to industrial and city use.



Soil problems: Low Organic Matter

On taking control of our farm in Shandong we discovered two features that I believe are common to many soils in China, extremely low organic matter, and a soli pan at a few centimetres in depth. Both these features are indicative of soil that is being worked very hard with little opportunity to recover. While only one crop a year is grown in the frozen North, two crops a year are grown in Mid China, and 3 crops a year are grown in South China.

Soil problems: Salinisation after intensive irrigation.

Crops in North China have to be irrigated continuously if growing between March, and June. The cold winters desiccate the soil, and there is no significant rain to replace the depleted moisture till June. This intensive irrigation leads to salinisation, and acidification of the predominantly silt soils, in the prime growing areas.

Purchase of inputs.

It is difficult for farmers to buy good quality inputs, partly for financial reasons, and partly because of the fragmented supply chain.

Ineffective post harvest infrastructure.

Post harvest storage of produce tends to be ineffective. The cool chain remains a major problem for producers trying to deliver product with a reasonable shelf life.

Incomplete support structure.

In Britain we are accustomed to a comprehensive support structure, from government departments and agencies to many commercial support organisations, and individual consultants. We take this for granted. China has a government agriculture support service, but it is a huge task communicating with 200 million farms. There is very little commercial support for the industry. The need for this not yet understood, and generally there is little margin in the food chain to pay for such support. Sino Analytica is one of very few such independent organisations supporting food businesses in China. This lack of pro-active support services is restricting the development of a robust food chain from the farms to the table

China- threat or opportunity or both?

So what does this mean for the world's agriculture? Is China a threat, opportunity or a combination of both?

Well it's certainly a threat to certain particular segments of the industry. With its annual production of fruit and vegetables, being somewhere around 400- 800 million tonnes. (570million was a figure suggested last year), if China produces any sort of surplus, this can rapidly lead to glut. This has been witnessed with Garlic, to the USA, Broccoli to Japan, and will almost certainly be witnessed in the near future in the Apple and Pear industry. But China is not the "best place to grow" many products. Its climate, water problems, and pressure on soils, really does limit China's potential.

Many people do not understand this, pointing out that as the prices for food are so low, it is a cheap place to grow. But farmers do not adequately calculate the real costs of production, and many families subsist on an annual income of 200GBP per year.

My prediction is that although in certain markets, China will be influential exporters, overall, I think the overall emerging challenge to feed its people, will overshadow the food industry for the foreseeable future. We have already seen the impact on other commodities such as oil, steel and copper. Now we are going to see the dramatic impact on commodities such as Soya, vegetable oils, Wheat Barley and Maize. Feeding the world is going to become an increasing challenge, especially with India, another country short of land, also experiencing rapid growth and development, and presumably a greater demand for food.

Opportunities for the UK industry?

Frozen exports to China have very limited potential, and for those UK companies with niche sales to Japan, Hong Kong, and East Asia, these sales will ultimately be replaced by Chinese companies.

There will be some opportunities for the sale of good quality barley possibly for the rapidly expanding beer industry, but the market is extremely price sensitive. (A pint of my local beer, Tsingtao beer in the shops is 20pence). Wheat sales will have to compete with Canada and USA.

There is limited opportunity for farming in China, as a western organisation. I cannot think of one western company that has come to China to farm who has succeeded, to the point of being profitable.

There is an opportunity to sell agricultural technology to China, and we could write a whole paper on this. The problem is getting a sustained return for the investment in time and technology.



Dairy production is an interesting area I believe, with a rapid increase in demand as noted earlier. But multi-nationals such as Nestle are already managing their own dairy herds and dairies here but facing very stiff competition from local organisations such as “Bright “ milk.

In developing any agriculture business in China, businesses in the UK and the rest of Europe face stiff competition from the “Asia Rim” countries such as Canada, USA, Brazil, and other South American countries and Australia. My personal view is that these countries have much stronger agricultural support presence in China, with a number of “seed corn” projects supported by their governments, with inward investment supporting educational establishments, and lobbying the government in Beijing

Finally what should UK growers be wary of in the near future. Fruit such as Apples and Pears must be an immediate concern. Frankly in my experience a Chinese Fuji apple competes well on the market in taste and keeping ability than most fruit available here, and vast quantities can be produced. Other competition depends on the development of cool chain air-freight from China. If this is developed in the near future then fresh vegetables similar to the produce from Africa, will be easily shipped from China, and with the time difference, just in time deliveries are possible. Fresh Flowers from Yunnan province will most certainly be a factor in the flower industry in Europe soon.

Other problems for the UK grower are when produce from other countries is displaced from 3rd markets by the Chinese. Onions are an example of this, where USA exports to Japan, have been largely displaced by Chinese exports to Japan. These onion growers now need to find new markets.

Summary

China’s impact on the world economy is not temporary. It will become a dominant feature. It is not surprising that this is happening now; it is amazing that 20% of the world’s population opted out of the world’s economy for so long.

China is impoverished for resource-Land, Energy, Water. China’s farmers are good farmers. New techniques and seeds are not going to dramatically transform yields. There are too many other dominant limiting factors, not least a very difficult climate.

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Chinese farmers will continue to produce the labour intensive crops- need to buy better technology and seeds, but have no money. Even though 200 million will leave the countryside in the next 20 years, 500 million will remain, and it will continue to be a challenge to increase farm incomes above subsistence level. They cannot significantly increase their incomes by growing commodity crops.

Chinese diets will continue to evolve increasing this demand for commodities for animal feed milk, and for producing western style products.

More commodities but not vegetables and fruit, will be imported from the world market. More fruit and vegetables will be exported.

Conclusion

The world is going to see the demand for foodstuff commodities to rise exponentially in the coming years. Driven by demand from China, and probably India. I believe that most people do not fully understand the implications of this.

For most of us China is just a distant place that produces cheap DVDs and T shirts. Through this paper I have tried to portray a more agriculturally oriented country, and outline some of the impacts that this predominantly rural economy is likely to have on all of us as it maintains its rapid transformation, to a modern industrial economy, a transformation that it has barely started!

I hope that after considering this paper, you will have some insight into this transformation. And consider that China **WILL** have an impact on your farming and food businesses, but perhaps not in the way you had anticipated.