

Commodities dominate PRC trade flows

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In June, the Dragon Boat Festival is one of four annual traditional celebrations and public holidays in the People's Republic of China (PRC) which also marks mid-year in the economic calendar. Agriculture products are an important part of the Dragon Boat Festival by the tasty "zongzi" (rice dumplings) which are prepared by glutinous rice and pork pieces wrapped in a bamboo leaf. United States (U.S.) agriculture shipments of grain (corn, wheat, soybeans) to China are a bright export indicator to satisfy the growing consumer appetite for less traditional products such as beef.

The U.S. has the world's most productive farmers that grow and export agriculture products such as corn a grain used to feed livestock of pigs, cattle (meat and dairy) and poultry. In China, urbanization and increasing incomes are bringing more meat and dairy products to the tables of consumers. However, inflation pressures and poor weather conditions are offsetting some of the demand in China, but creating opportunities for the U.S. and other competing foreign agriculture producers to increase grain supplies in China.

United States' farmer acreage is also harvesting corn for ethanol production and inventories are lower with prices per bushel more than double from a year earlier at \$7.8 a bushel, according to the *Wall Street Journal*. The United States Department of Agriculture (USDA) reports that China surpassed Canada as the number one destination for U.S. agriculture exports of \$17.5 billion in 2010 up from \$11.2 billion in 2009 with forecasts of exports in 2011 to China at \$20 billion or \$1.5 billion over total exports to Canada. Number three export market Mexico was up thirteen percent in 2010 at \$14.6 billion.

114 tons compared to 1.5 tons in China and annual meat production is 6,750 kilograms per U.S. farm and 156 kilograms in China per farm on average. In terms of produce availability, China has much room to grow. Fluid milk availability per capita in China was only 3.4 gallons and 10.4 gallons in the U.S. in 2008 and for meat in 2008 only 49 kilograms per person was available compared to 71 kilograms per person in the U.S., according to the USDA, National Bureau of Statistics.

In March, the PRC National
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People's Congress approved the 12th Five Year Plan (2011-2015). This Plan outlines policies and calls for more domestic consumer driven economic growth, but manufactured exports, large infrastructure investments and foreign direct investments will again dominate the next several years as components of growth for gross domestic product (GDP). Until social safety nets are established in China, raising consumption levels will be a challenge as consumers have the highest savings rates in the world and account for only one third of GDP whereas in the U.S.A. two thirds of GDP depends on consumer purchases. The PRC government is promoting imports of consumer goods and agriculture, but not enough to change the U.S. trade deficit with China of \$273 billion in 2010 and was \$21.6 billion in April, 2011.

Iron ore, coal and copper are some other commodities continuing in demand by China to feed

the urbanization, industrialization and modernization of society. The Western Development Strategy is becoming more of a government focus in the face of higher labor and raw material costs in the Pearl River and Yangtze River deltas and coastal areas as well as the need to spread conditions for economic prosperity and attracting more investments to inland areas.

Steel production for new buildings and facilities in the less developed inland regions will continue to dominate trade patterns for the foreseeable future. In the U.S.A., Port of Longview is also improving its capacity to handle coal exports from domestic producers to meet the demand in Asia.

There is competition to supply the PRC consumer and industrial growth. The intra-Asia trade patterns are bolstered by the Association of Southeast Nation (ASEAN)-China Free Trade Area of 2010 that is reducing all trade tariffs to zero in the region by 2015. There is an abundance of raw materials flowing into

China for industrial construction from Indonesia and Vietnam as well as from other neighboring nations such as Mongolia and Kazakhstan. However, Southeast Asian port capacity is limited to handle the China demand and seeking investments to improve port infrastructures and operations. Also, border crossings in Mongolia and Kazakhstan are undergoing feasibility studies to construct rail, road, and logistics infrastructures. Some of the capital is coming from China where outbound direct investment totaled \$220 billion from 2006-2010 or about ten times the pre-2005 totals (\$12.3 billion, 2005; \$65.3 billion, 2010), according to the Ministry of Commerce, PRC.

October will mark the next rest period in China. The mid-Autumn Festival is celebrated with moon cakes in the lunar calendar. This period is also known as the Moon Festival for the cakes or pastries made with a thick filling from lotus seed paste and a round egg yolk center to honor the bright mid-Autumn harvest moon.