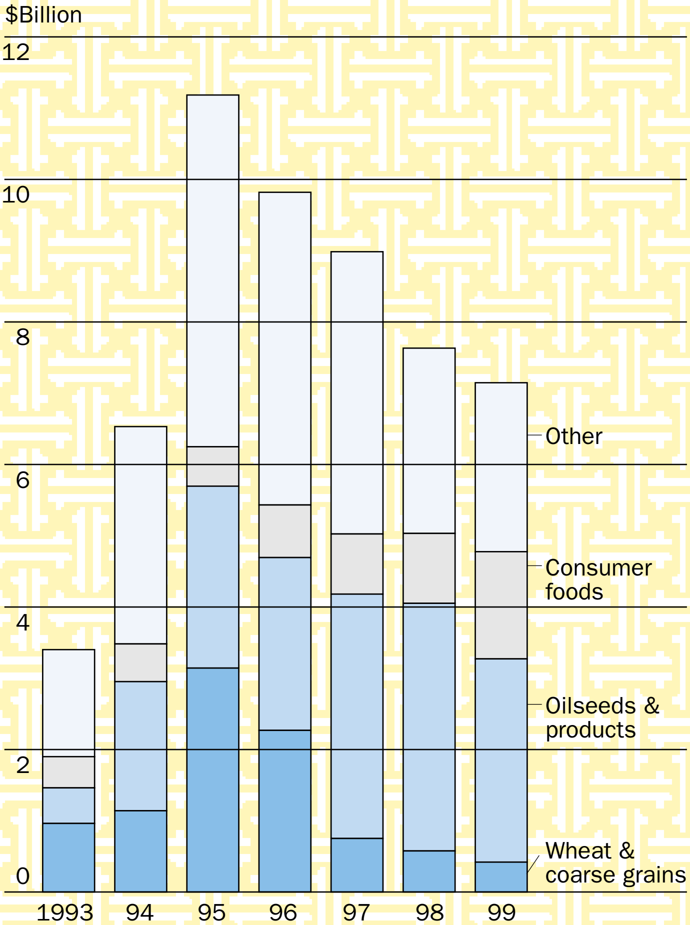
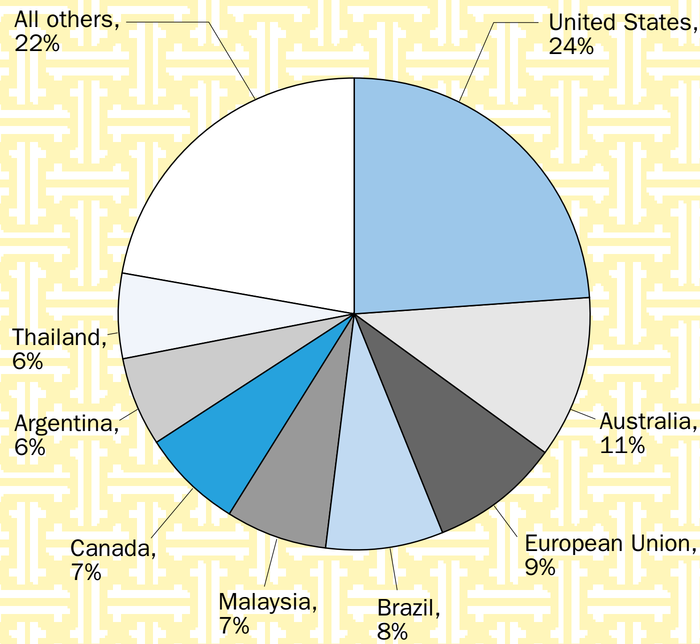
Sizing Up the China Market

China's Agricultural Imports From Around the Globe Totaled More Than $7 Billion in 1999



Source: FAS from U.N. statistics on China's imports.

United States Is Largest Supplier of Agricultural Products to China



Average shares of China's total ag imports by value, 1997-99

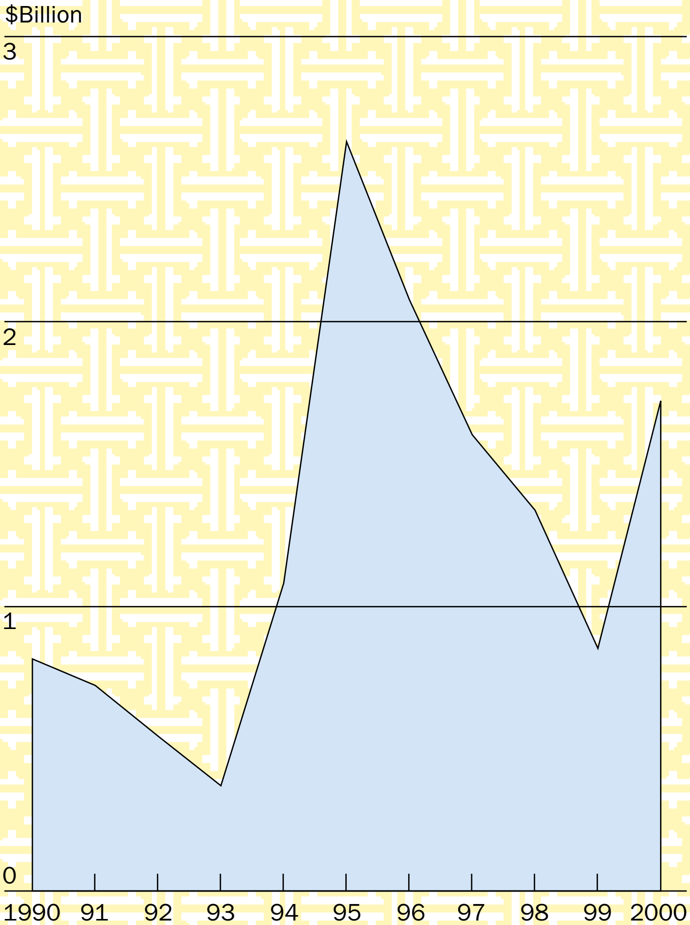
Source: FAS from U.N. statistics on China's imports.

China is the world's largest producer and consumer of agricultural products, an important exporter and often a U.S. trade competitor in corn and other products. With 1.3 billion people and a GDP growing about 7% a year, it is also a major market with significant growth potential. Despite China's zeal for self-reliance, the demand fueled by rising incomes, middle-class expansion and changing diets is likely to outpace agricultural productivity as economic and trade reforms proceed.

China's agricultural imports from all sources were reported at $7.1 billion for 1999, down $4 billion from 1995's spike but more than double 1993's imports. Grain purchases have slumped as China expanded production. For oilseeds and products, the mix has shifted, but imports have risen to $3-$3.5 billion a year–more than 40% of total agricultural imports during 1997-99, up from 23% in 1993-95. Consumer food imports climbed 240% since 1993, topping $1.5 billion in 1999.

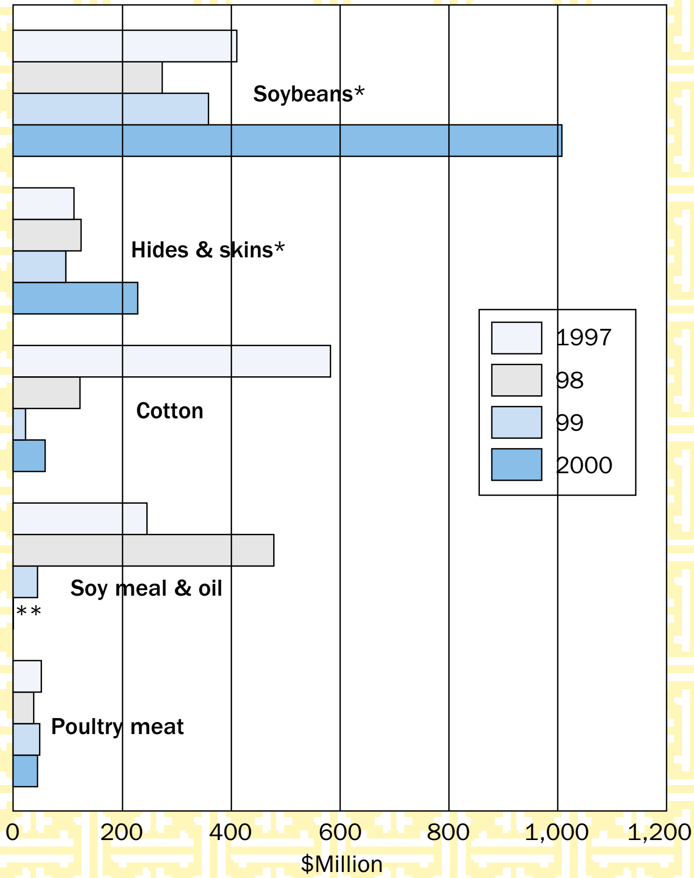
The United States is the No. 1 agricultural supplier to China, but there's a lot of competition. The U.S. market share of China's imports averaged 24% during 1997-99, up from 17% in 1992-94 and twice the share of No. 2 Australia. Based on 1999 U.N. data, the U.S. share was 58% for soybeans, 39% for soy oil, 44% for hides and 64% for poultry meat. Canada's market share has shrunk by nearly two-thirds since 1992, while the United States, Argentina and Brazil gained share.

U.S. Agricultural Exports to China Fluctuate, Doubling to $1.7 Billion Last Year



Source: FAS from U.S. Census Bureau export statistics.

Soybeans Led the U.S. Sales List in 1999 and 2000



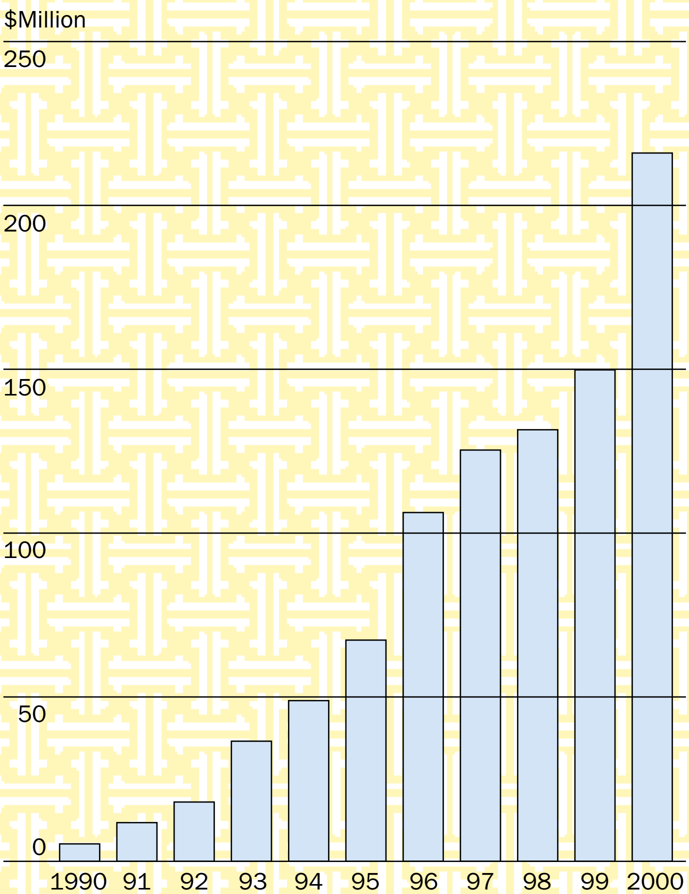
**Record sales to China in 2000.*
***Less than $1 million in 2000.*
Source: FAS from U.S. Census Bureau export statistics.

U.S. agricultural exports to China have seen wide swings in recent years. Sales surged above $2.6 billion in 1995 when China was facing a serious grain shortage. That year, shipments of U.S. corn, as well as cotton and soy oil, reached record levels. By 1999, exports had slowed to $855 million, but value then doubled to $1.7 billion last year, led by $1 billion in U.S. soybean sales to China. U.S. exports of hides and skins also set a record at $229 million in 2000.

Our top five agricultural exports to China last year, by value, were soybeans, hides and skins, cotton, poultry meat and planting seeds. Two years earlier, the top five were soy oil, soybeans, soy meal, hides and cotton. In 1996, cotton and wheat led the list. Two notable changes in the last few years are China's reduced grain imports and its shift toward smaller imports of soy oil and meal in favor of more raw soybeans to keep crushing facilities on the coast busy.

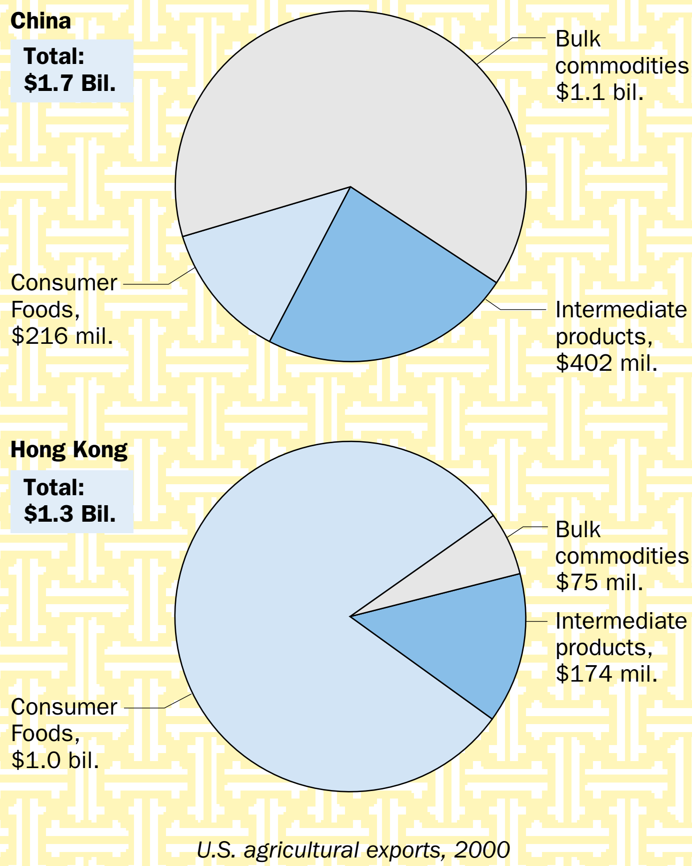
Bulk commodities hold a volatile but dominant role in our trade with China, followed by intermediate products such as cattle hides and soy oil and meal. Consumer foods claim a small but steadily growing share. Last year, direct U.S. consumer food exports to China reached $216 million, with record sales of fruits and vegetables, red meats, snack foods and pet foods. Exports of poultry meat, the leading U.S. consumer food export to China, were valued at $45 million.

U.S. Consumer Food Exports to China Follow Steady Upward Path



Source: FAS from U.S. Census Bureau export statistics.

Bulk Commodities Dominate Direct U.S. Sales to China, While More Consumer Foods Flow to Hong Kong



Source: FAS from U.S. Census Bureau export statistics.

Hong Kong is the real hub for consumer foods, which make up 80% of U.S. agricultural exports to this Special Administrative Region of China. Top sellers: poultry meat, fresh fruit, red meats. For the last 2 years, Hong Kong was our No. 1 poultry meat export market. As much as two-thirds of Hong Kong's imports may make their way to the mainland. U.S. agricultural exports to the two markets combined totaled $3.0 billion in 2000, with forestry and fishery products adding another $390 million.

A commitment by China to freer markets and the rules-based World Trade Organization (WTO) trading system would be a major plus for future U.S. export opportunities. Although final conditions for WTO entry are still being negotiated, China agreed to broad, market-opening measures as part of the U.S.-China accession agreement signed in late 1999. USDA economists project that China's commitments, when fully implemented, could add around $2 billion a year to U.S. agricultural exports.

In the U.S.-China accession agreement, China agreed to cut tariffs to an average 14% for priority U.S. agricultural products, down from 31%. It also agreed to end import bans and establish expanding tariff-rate quotas for bulk commodities; eliminate export subsidies; cap and then reduce trade-distorting domestic subsidies for agriculture; expand trading rights and abide by the WTO agreement requiring sanitary/phytosanitary import restrictions to be based on sound science.