

China is a country with a three thousand year history, yet it seems like 2008 is the year that it presents itself on the world stage.

The sense of nationalism within the country heightened by the Olympics, the rapid development in infrastructure and the increasing wealth is leading to a better standard of living for China's 1.3 billion inhabitants. Many challenges such as food and energy constraints remain however, and how China responds to these will have an impact upon the whole world.

On a recent trip I was interested to learn their attitudes to trade and to see if China was actually a threat or an opportunity. The same theme continued to emerge...self sufficiency. This is a focus of the Chinese government when it comes to agriculture, and with 1.3 billion people to feed, and 800 million farmers, it is a big task. China has been successful at increasing its annual grain production. In 2007, annual production was 500 million tonnes, up 60 percent on the 1978 record of 305 million tonnes. In a village I visited, the average farm size was 3.2 Mu (15 Mu = 1 hectare); rice yields were 3.75 tonne per hectare. Australian farmers are achieving yields of 12 tonne per hectare, so there is still opportunity to increase production, although due to construction the amount of productive soil in China is declining.

The four priority crops are rice, wheat, corn and vegetables. China also grows the most canola in the world. Annual production of wheat is 100 million tonnes, and 60 million tonnes is kept in reserves to both ensure supply, and sell onto the world market to manipulate price. Given that there is only around 100 million tonne of wheat traded annually on the world market, China is able to use its market power to influence price. Wheat products are generally consumed in northern China, while rice is the main staple of the south. A change is occurring however, and bakeries with refined flour products are appearing on street corners in all the cities. This creates an additional market for Australian wheat, as quality product is required to blend with China's lower grade wheat to produce flour for the bakery market.

The emergence of dairy is set to have big implications. The Chinese government aims to substantially increase the protein intake of children through dairy products. Current consumption levels of dairy products per child are 56 grams per day. They aim to increase this to 500 grams per child per day through fresh milk, yogurt and cheese. I saw generic advertising on Chinese television encouraging children to drink more milk.

There are an increasing number of corner shops selling dairy products, as well as Mc Donald's outlets that are doing a roaring trade in soft serve ice creams. I visited a dairy company milking 5000 cows; their animal welfare standards were good, as was their production levels. Their short term aim is to build another twenty four dairies each milking ten thousand cows. The constraints will no doubt be feed availability and sourcing the 240,000 cows!

Malt Barley is another import opportunity, as China currently imports 50 percent of its malt barley requirements. There is an increasing domestic market for Chinese beer and this would increase significantly if they learnt to serve it cold! Australia is well placed to continue to supply this market, and should be able to increase market share given a return to more favourable seasonal conditions in our grain growing regions.

The Chinese continue to be a market for chicken feet and offal, and I am unsure if the population will appreciate a good steak given their current culinary delights. However the market for Australian beef and lamb is in restaurants, not wholesale. When eating out at a restaurant in

Australia, the price of a meal may be 30 percent food and 70 percent labour costs. In contrast, the price of labour in China is still relatively inexpensive; a meal may be 80 percent food costs and 20 percent labour. It is currently only within the restaurant market that Australian beef and lamb producers are going to attract a satisfactory price. There may however be opportunity for mutton in China as current cooking techniques lend themselves to a slower cooking flavoursome meat.

Counter seasonal fruit that does not have a long storage life is the only fruit that has potential for Australia to export to China. Australia can export citrus and mangoes to mainland China. Table grapes, stone fruit and cherries are sent to Hong Kong. Also China is importing almonds from both Australia and California. The ability of China to produce horticultural products should be of concern to Australian growers. China is the largest producer of apples and pears in the world, but is currently exporting only 2 percent. Spoilage levels are at 30 to 40 percent and if China can refine their refrigeration and supply chain networks, they will be an even bigger force on the world market.

Australia sends a large portion of its wool to China. I toured a wool processing facility in Jiangsu province that scours Australian and South African middle micron wool and spins it before repackaging and sending to Italy. It was interesting to walk around and look at familiar names stencilled on wool packs. In our meeting I asked some probing questions relating to the decline in Australian flock size, and the impact on market supply. I also enquired about the image problem that the Australian wool industry is struggling with. It is disappointing that the proud Australian wool industry has politicised itself and lost focus, instead of promoting and defending a great product. There is still a future in wool, but price cost pressures will continue to put pressure on Australia's flock numbers.

China is a country that faces many challenges. It will continue to have a migration of ten million people shifting from rural areas to cities every year. The demands placed on housing and employment is enormous. A changing diet should provide some opportunities for Australian producers, but ensuring that the product we produce commands an appropriate and viable price will challenge our export market penetration. The focus on self sufficiency is a lesson for Australia. Whilst agriculture will always be export focused, it is important that Australia always asks, 'what is in our best interest first?'

Andrew Broad

VFF Vice President

[andyrach@activ8.net.au](mailto:andyrach@activ8.net.au)

0428 373136