

Exporter Competition in China's Soybean Market and the Chance for Canada

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ABSTRACT

Because soybeans are high in protein, they are an important source for animal food. Additionally, they are also an important source for cooking oil and other cooking ingredients such as soy sauce and miso, indispensable to East-Asia diets. Therefore, soybeans are in high demand to maintain the dietary structure in China. However, China cannot produce enough soybeans to satisfy the domestic needs and as a result, annually it has to import a great amount of soybeans mainly from Brazil, the US and Canada. This essay will adopt abundant historical data to analyze the traditional export from the different nations and provide suggestions about what Chinese government can do to stabilize the soybean's market. At the same time, this essay will also provide the suggestion to the Canadian government to take advantage of the historical chance to export more agricultural products to China.

Keywords: *Soybeans, China, Brazil, the US, Canada, trade dispute, COVID-19*

1. INTRODUCTION

Traditionally, China mainly imported soybeans from Argentina, Brazil, and the US. However, when the relationship between China and the US has become increasingly precarious, how to fill in the huge gap in the soybean market due to the absence of US exporters has become a great concern for the policy makers in China. Soybeans are the most essential agricultural products and function as the basic input for other products, such as animal food. Therefore, Chinese government needs to secure the supply of soybeans and diversify the channels for its soybeans exports.

In 2016, China has imported 84 million metric tons of soybeans, and this figure continued to rise to 92 million in 2019, when the global import volume amounted to approximately 153 million, indicating that China's import volume takes up half of all the world trade [1]. Brazil is the major soybean exporter to China. In 2018, Brazil held the top rank as China's largest soybean supplier with a market share of 76 percent. However, at the same time, the value of US exports fell by 20% from \$21.5 billion in 2017 to \$17.2 billion 2018 [7] with a market share of 19% of all imported soybeans in China. The soybeans is the largest and the most concentrated segment, producing far-reaching significance both for China and the US market. This paper mainly analyzes the impact of the trade tension on the US market and Chinese market, and at the same time demonstrates how Canada can take advantage of this chance to promote the soybeans export as well as the exports of all agricultural products.

2. THE IMPACT ON THE US MARKET

The soybeans from Brazil and the US are complementary due to their seasonal differences. Generally speaking, the US suppliers usually export their soybeans in fall and winter, spanning from October to March, while the Brazil suppliers mainly export in the rest of the year. Therefore, the US and Brazil can keep its stable market share without price competition. Figure 1 demonstrates the monthly export volume of soybeans from Brazil and the US. Soy is the U.S.'s largest agricultural export, averaging \$20.9 billion per year and accounting for 16% of U.S. agricultural exports from 2014-18 [3]. China is the most important trading partner with the US in soybeans, which purchased more than half of all U.S. soy exports in the last 5 years [3]. Therefore, the escalation of bilateral trade tensions produced huge effects on the US agricultural sector. In 2017, 57% of U.S. soy exports, which amounted to \$12.2 billion, was exported to China, in 2018 it fell to 18% of the market share and \$3.1 billion. The \$9.1 billion drops arose from rising trade tension. As a response to the increased tariff imposed by the US government, in 2018, U.S. soy farmers also dropped their prices by as much as 24%. This price drop made the price of US soybeans at near parity or even below competing country prices even after the tariff imposition, but it didn't lead to any increase in US exports to China [3], reflecting the price is not the only factor to affect the trade volume between US and China. Figure 2 reflects the drop of the US soybeans export price since May 2018.

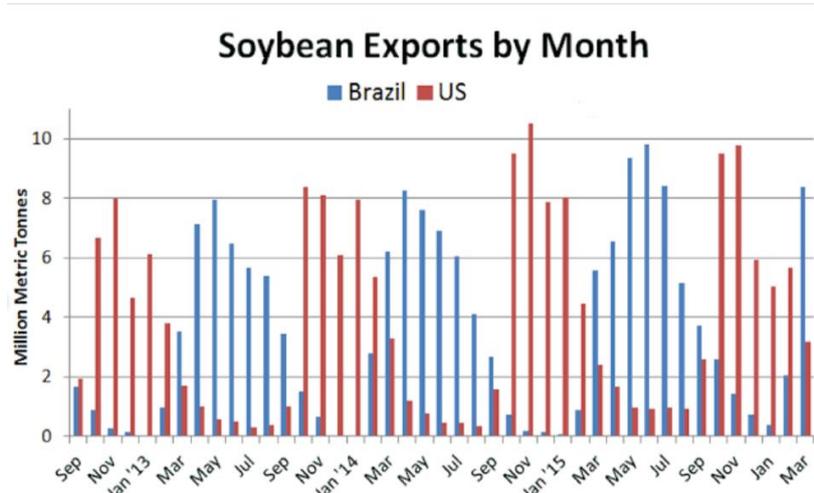


Figure 1 The Monthly Export Volume of Soybeans from Brazil and the US [2].

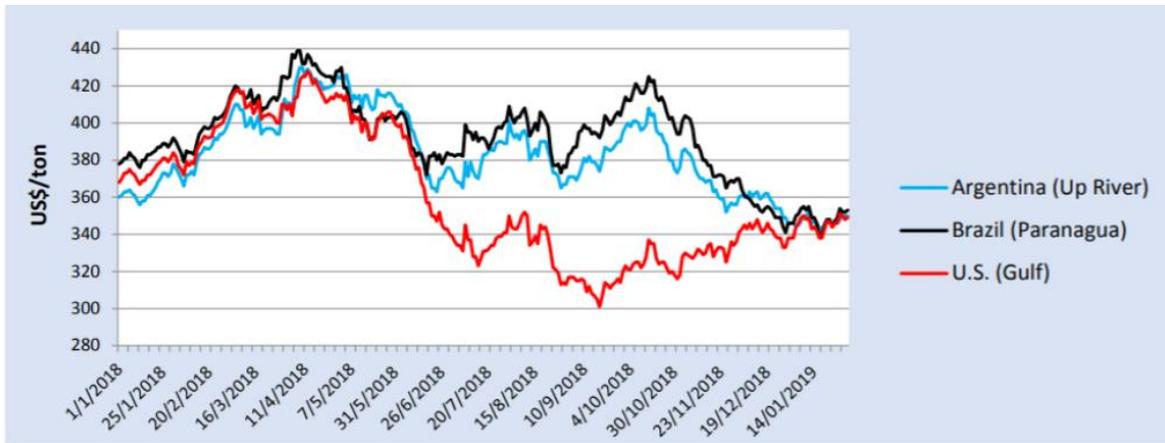


Figure 2 Soybeans Export Price in Argentina, Brazil, and the US [10].

3. THE IMPACT ON THE CHINESE MARKET

Soybeans is of critical importance to China because it is the major source for animal feed and cooking oil. At the same time, China has adopted the methods to contain the influence of the less soybeans imports from the US. In 2019, China's agriculture ministry made a plan to boost domestic soybean production by enlarging land area for the crop, increasing productivity and speeding up research [8]. However, the limited arable land in China could not afford its tremendous population and ever-escalating diet levels, so China's reliance on the imports of soybeans is hardly an altered fact. It is impossible for China to solve the soybean issues by more domestic planting. The huge fluctuation in soybean prices and quantity will worsen the domestic inflation and the conflicts between supply and demand. Therefore, China also needs to stabilize the supply of soybeans. One of the methods is to try to diversify the importers from more friendly countries such as Russian and countries involved in the Belt and Road Initiative. However, in terms of the huge quantity of

soybeans that China needs, it is impossible for China to import all the soybeans from its friendly neighborhoods. Currently, China has faced a harsh economic reality because of the outbreak of COVID 19. Not only many economic activities are halted, the food inflation is also soaring. For example, food inflation accelerated to 11.1% from 10.6% in May as pork price continued to rise [2]. Pork takes up an important proportion in Chinese people's dietary structure and an essential source of protein. Therefore, the rise of pork price has a noticeable effect on Chinese people's expenditures. Soybeans are the most important source of pig feed and cooking oil, and thus if the price of soybeans increases uninhibitedly, the price of the final product, such as pork price or cooking oil price, will be increasing more, further exacerbating the food inflation. To stabilize the pork of soybeans is of paramount importance to China's domestic market. Taking all these factors into consideration, China needs a reliable and capable trading partner to provide the soybeans at a steady price and considerable amount. Canada is such an ideal trading partner.

4. THE IMPACT ON THE CANADIAN MARKET

Now, Canada is among the top three soybean supplying countries to China, only next to Brazil and the US [1]. Previously, constrained by the weather condition, soybeans were limited to the deep southwest of Ontario. However, starting in the late 1970s and 1980s better short-season genetics transformed the crop to a point where now soybeans can grow in varying areas across Canada. In 2019, they are a staple in the crop mix of P.E.I., Quebec, Ontario and Manitoba [9]. Therefore, from the perspective of technology and natural conditions, there is no

bottleneck to limit Canada’s yield in producing soybeans. The unique weather condition makes Canada an ideal place to produce top-quality food grade soybeans, and traditionally, the soybeans produced by Canada is used to process edamame, tofu, soy sauce and miso [10]. Therefore, when industry is continuing to serve this premium market to maintain its market share, it should also diversify the type of soybeans to meet the needs of commodity soybeans, which are used to process soy protein, vegetable oil, and animal feed. Figure 3 shows the destination of Canadian soybean export by its export share in 2017. The data attests to the importance of Chinese market.

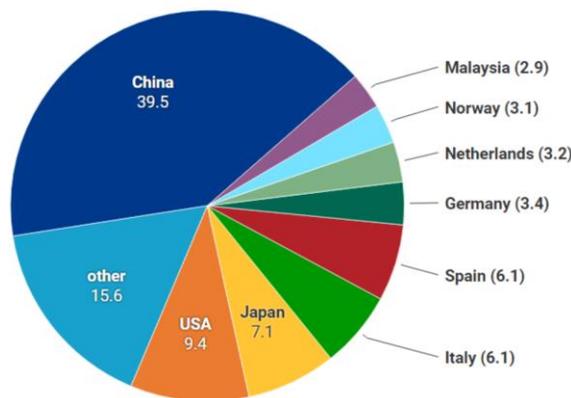


Figure 3 Canadian Soybean Export Destinations (Percent Share of 2017 Export Volume)[12].

Canada and the US are in a competitive situation in the exports of agricultural produce, including soybeans. Because Canadian prices are based off future prices on the Chicago Board of Trade, they are susceptible to the fluctuations of the US prices. For example, in the spring of 2018 when China implemented a 25% retaliatory tariff on US soybeans, the Canadian prices fell significantly as well, imposing both challenge and opportunity for the Canadian suppliers [4].

During the China and US trade dispute, China imported 44% of Canada’s entire 2018 harvest by the end of 2018 [4], which was a big surprise for the soybean suppliers and the Canadian government. Therefore for Canada, to maintain a stable relationship with the trading partners, such as China, is of critical importance to expand its export volume and reduce the risks.

with China because China has signed the agreement with the US government to buy 36.6 billion worth of American agricultural produce as the initial trade deal to settle their overall trade dispute [11]. However, under the influence of the COVID-19, many uncertainties arise to hinder the international trade. China import agencies now ask international shippers to sign the document, in which they guarantee that their cargos are not contaminated by the novel coronavirus. However, many exporters are reluctant to sign the document, afraid lest they will take unexpected liability [5].

In terms of COVID-19, Canada’s situation is much better than the US, and then it is believed that Canadian suppliers should be more confident to ensure the security of the cargos. Therefore, when Canada can take the initiatives to set the standards of the international shipments and expand the exports of the soybeans.

5. COVID-19 AND SOYBEANS

In the US, meat production is the most primary customer for the soybean industry [5], and thus during the COVID-19 period, the domestic need for the soybeans both within the US declined rapidly because of the shrink of the meat market. Additionally, short of adverse weather, US farmers are expecting a harvest this year. All of the demand shock and sufficient supply impose tremendous pressure on the downward of the price of the soybeans. Therefore, to save the fragile soybeans industry in the US, growers have hoped for the increase in soybeans trade

6. CONCLUSION

Soybeans are of critical importance for China, the US, and Canada. Canada is located in a subtle situation between the wrestling of two super powerful nations, and it should not wait passively for the chance. Firstly, the Canadian government should set up a stable and long-term benign relationship with the Chinese government and show that Canadian suppliers are reliable trading partners, whose policies are consistent. Secondly, the Canadian government has to acknowledge that the trade dependence

between the US and China is very high. These two nations will sign protective treaties to protect their domestic suppliers and thus they may sign some exclusive trading treaties, such as the Chinese pledge to buy a certain amount of the US agriculture produce. The Canadian suppliers should seek more flexible opportunities and diversify the products to meet the broad needs of the Chinese importers. With the upgrading of Chinese residents' dietary structure, the Canadian suppliers will have more chances.

The future study could specify the different types of soybeans, the crop yield, the distribution of each kind among varying nations, and the function for each type, and therefore find which type of soybeans that Canadian farms can produce more to form their scale economy and avoid the mere price competition with the US suppliers.

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