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Project: Peanuts Trade Policy in China and Canada

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Abstract

Peanuts are one of the most important oilseeds crops and snack foods in the world Agro-food trade market. With China emerging as a new peanut exporter since the early 1980s, the predominant role of peanut exports of USA has been substituted by China. China has been a leading exporter in the world peanuts share. This research paper analyzes the basic facts in Chinese peanuts, the comparative advantage ,import and export policies and WTO influence on Chinese trade policy. Meanwhile the author also describes the international trade policy in Canada, especially in peanuts. The world is moving away from self-contained national economies toward an interdependent, integrated global economic system^[1].But many countries still use some protectionist trade policies to intervene and protect domestic interests of some political groups. From this paper, you can find some trade barriers in China and Canada. So a fair and virtual free trade in the global market still have a long march ahead. Finally I will thank Dr.Ali to give me this opportunity and push me to sit down and review the peanuts past and present situation in China and Canada. It is helpful to me to open my eye and look around the macro peanuts business. This paper is the summary of my past 8 years experience in the field of peanuts business. I just want to share my ideas to everyone, who is interested in doing the peanuts business in China and Canada. Hope it will be potential worthful and helpful. Wish you enjoy it and give your valuable comments.

Peanuts in this report include peanut kernels, peanuts with shell, peanut butter, peanut oil, peanut meal (as feed additives),all processed peanuts used in snack and candy industries.

Basic Facts in Chinese Peanuts

Peanuts are one of the most important oilseeds crops and snack foods in the world trade market. China plays an important role in the world peanuts share. Total peanuts growing area in 2005 was 48700 KM² (about 22.4% of world growing area). Total yield in 2005 was 14.4million ton (about 40% of world yield)^[2]. Main growing areas in China are Shandong province (31% of Chinese yield), Henan province, Hebei province, Liaoning province, Anhui province (See Figure 1). There are three main export ports of peanuts—Qingdao Port, Xingang Port and Dalian Port. Shandong province locates in the eastern part of China. The population is about 100 million. The agriculture income is the basic economic resource of this province. Shandong is the largest peanuts growing area and export base in China. Annual export quantity takes about 75% of national export quantity. Hebei province takes about 15% of national export quantity. Shandong has the suitable soil and climate condition for peanuts growing (dry sandy soil and dry moisture, mild temperature). The best quality peanuts are located in Jiaodong Peninsula (in the northern part of Shandong). The peanuts quality in Shandong is very famous in good shape, bright color, sweet taste and low Aflatoxin, such as Virginia (24/28, 28/32), Luhua (24/28, 28/32) and Baisha (35/40, 40/50). All these kinds of peanuts are the favorite for foreign buyers and special qualified for exporting European and Japan markets. Since 1980, Shandong provincial government has understood its potential advantage and launched the target to focus on peanuts industry innovation. They have invested too much money in R&D and cultivated a lot of new seeds for exporting market. So all provincial annual yield of peanuts increases step by step. Meanwhile export volume rises rapidly. From Shandong success case, I think we can apply Michael Porter's theory "National Competitive Advantage: Porter's Diamond" to explain

Shandong success (See Figure 3) I think factor endowments play the important role in Shandong case. Location, policy and first-mover implications help to achieve the competitive advantage in peanuts industry of Shandong.

Nowadays China is the largest country of exporting peanuts in the world and taking about 30% of the international trade share. The top four peanuts exporting countries are China, U.S.A, Argentina, and India. The following table shows the increasing quantity and export value in China (1990-2008) ^{[3][4]}:

	Export quantity	Export value (USD)
1990	380,000 MT	270 Million
1994	480,000 MT	320 Million
2008(JAN-MAR)	220,000 MT	330 Million

In 2008, we can see export quantity 220,000MT during first quarter (Jan-Mar, 2008).So it is definitely expected that export quantity in 2008 will be double or triple of the figure in 1990.

Now I will analyze and explain Chinese peanuts industry from the following angels: comparative advantages of Chinese peanuts, export and import policy, WTO influence on Chinese trade policy.

Comparative Advantages in China:

1) *Export unit price is lower than other competitors-US, and Argentina.*

The reason is that peanuts are intensive labor agro-food industry. The labor cost takes the most parts of total peanuts cost. Because the peanuts are root and stem plants and grow under soil. In the harvest season, it takes a lot of labor to pick up by hands. In order to keep the good quality, peanuts need labors to peel nuts and select based on different standard grade. However, the labor cost in China is much cheaper than other competitors.

Minimum wage level in USA federal level is \$6.55 per hour (based on US Fair Minimum Wage Act of 2007). China has not the mandatory national minimum wage level. According to the minimum wage level in Guangzhou city, which is the highest level in China, it is RMB 780/month, we can calculate and change into USD per hour. That is the minimum wage level in China equals to USD 0.65/hour. From these digital comparison, we can see the labor cost in China is roughly one-tenth of USA. So peanuts export price in China has absolutely advantages to win the dominant global market share.

From Figure 2, we can find the unit price in US is highest in these countries, around USD800-900/MT; average USD860/MT. The price trend is rising yearly. The price of Argentina ranks second highest position around USD 650-750/MT; average USD701/MT. The price general trend is fluctuate and slow rising. The price of China ranks third highest position based on average price USD674/MT. The price general trend is dropping in the beginning several years then slow rising forwarding years. The price in India is lowest based on average USD586/MT. The comparison of unit price mentioned above is based on the international trade standard price term: FOB export port(Free on Board) . Through comparing and analyzing these figures, we can see

peanut price in China is very close to Argentina but much lower than US close to 30% .So peanuts in China are more competitive in export price advantage.

2) *The better peanuts producing and export service chain*

Since the implementation of opening policy in 1978, the international trade of China has been developed astonishingly. Peanuts export brings new technology information and products standard to Chinese peanuts manufactures and exporters. In order to match the international export standard, the most peanuts processing manufactures in China began investing in processing equipments from selecting seeds, planting, and harvest processing to vacuum bags of package. Before 1990, the image of Chinese peanuts from foreign buyers was poor package. Since then the improvement in processing and service chain, the Chinese image has a big change. EU, Japanese and US markets have accepted the quality and package of Chinese peanuts. Peanuts export quantity in China increase gradually year by year.

The following is the Indian case to share everyone. In 2007, I have the purchase experience from Indian market. I have met a new Indian peanuts supplier from internet. He was interested in export peanuts to Canada and mailed the samples to me. The quality of his sample is very good and satisfied to me. So I began to negotiate every trade terms with the supplier. Every thing was accepted except the term of package. I insisted on mandatory vacuum bags or carton boxes package. The reason is that peanuts are easy to be oxygenized and deteriorated .In the bad package condition, peanuts can keep storage shorter less than two months and peanuts skin will be go dark color and produce Aflaxtoxin. Unfortunately, the Indian supplier can not find vacuum equipment in the Indian market. Finally we cancel this almost successful deal due to the package problem. From this virtual case, we can find following global market game rule; if you don't

follow the global trade regulation and standards, you will lose the global market share and competitive ability.

Export Regulations

a) Foreign exchange control and must register and write off.

China is the country of foreign exchange control .China has the national foreign exchange administration organization named as SAFE (State Administration of Foreign Exchange) and branches in all local provinces and cities. When the importer or exporter need to deal with international trade, you should first apply the foreign exchange permit (named as He Xiao Dan) from SAFE and fill out all trade details (trade amount, commodity name, specification and quantity) in the registration form. After you complete the deal, you need to write off from SAFE. The purpose is to avoid illegal trade and forecast out of control in foreign exchange.

b) Tax refund to stimulate export and adjust frequently according to the national economic situation

According to the theory of international trade policy ^[5], the main instruments of trade policy are described as below:

*Tariffs

*Subsides

*Import Quotas

*Voluntary Export Restraints

*Local Content Requirements

*Administrative Polices

*Anti-dumpling Policies

China uses voluntarily these trade policies to intervene and protect domestic economic development.

In order to stimulate the export of agricultural products, the Chinese government uses export tax refund as subsidies. The policy of subsidy can help the manufactures and exporters to reduce export products cost and have more competitive advantages in the global market. When the export volume was larger than import's and China had the negative pressures from US and EU in 2007-2008, China had to use the tax leverage and reduce tax refund rate to limit export to meet the balance between import and export. However, since the economic crises in Sept, 2008, Chinese export and import have dropped dramatically. In order to change the bad economic situation, China recently increases tax refund rate to stimulate export for lifting domestic growing. For example:

The latest tax refund rate is 13% for Blanched peanuts (processed products) .Raw peanuts is 0%.

c) *Import and export license*

Before China joined WTO in 2001, China was very strict in control of import and export enterprises. All foreign trade enterprises must obtain import and export license from the national authority. Then these qualified enterprises can operate import and export business. Actually, most of national holding enterprises will allow doing this business. The private enterprises will not be qualified and need to find the agents and pay the commission who have the license to finish the international business. Since 2001, the new policy of import and export license has been relaxed and more flexible. Most private enterprises will obtain the license easily when they can reach the minimum export quota in the term of one year. So far, all enterprises including nationalized and private) in China are treated as relative fair position to compete each other. It is obviously the great improvement in China. For example, in 1992, I found a job as the manager of

import and export in a private trade company, which had not import and export license. I remembered it was too difficult to engage in the international business. Because the government trade policy encouraged the development of national equity and restricted the private enterprises, so the private enterprises want to survive and must find a good export agent who charged a reasonable commission and good credit and reputation for money payback. Or the private enterprises must find another solution to set up the new company called as joint venture enterprise with the foreign countries to apply for the import and export license. It can not believable, even though a private company had no the qualified condition to join an exhibitor at Canton Fair, which is the largest Chinese export trade fair. Generally speaking, the private enterprises were in unfair treatment before 2000.

d) Mandatory and compelling entry-exit inspection rule from CIQ (Entry- Exit Inspection and Quarantine of China)

All export goods must be inspected according to Chinese export quality standard.

The normal qualified quality demands of peanuts by CIQ are Aflatoxin < 4ppb,

Moisture<9.0%, Imperfect 3% and Admixture <1% ^[6]. After approved, the custom will release the export cargo to ship abroad. If importing countries have extra and stricter quality demand, they will do more following the importing countries' instruction.

For example,

EU: Aflatoxin < 4ppb

Japan: Chemical <0.01mg/kg, imperfect 1-2%

Australia: no chromium

Canada: Aflatoxin < 15%

In other, all export manufactures and workshops must register and meet the quality standards of all workshop and equipments, especially for agro-foods products, and obtain the sanitation permit from CIQ then they can produce goods for exporting abroad.

e) No export tariffs on peanuts

In my past trade experience in China, almost all products have not any export tariffs. Only raw minerals products like lead and zinc powder need export quota for encouraging the domestic deep processing to increase additive export value. In other hand, some developed countries allocate some passive quota such as US quota in textiles to China for resisting more products exporting abroad.

Import Regulations

Have import duty on peanuts

	Preferred	General
Raw peanuts	15%	70%
Blanched	30%	80%

Why China charges heavy import duty?

The reason is that China has abundant peanuts resources, so the government does not stimulate importing peanuts. The preferred rate means the exporting foreign countries have tariffs free treatment agreement with China or are the members of WTO.

WTO Influence on Chinese Import and Export Trade Regulation

Since China joined WTO in 2001, China has increased all products export including peanuts due to lower trade tariffs barrier and lower transport and information technological innovation. So China obtains more opportunities and benefits from WTO and stimulates domestic economic booming.

- 1) Since China joined WTO in 2001, China has changed fixed RMB (Chinese Dollar) vs. US dollar exchange policy into Managing Floating Exchange Rate Regimes. RMB vs. US dollar has risen from 8.26:1 up to 6.83:1. If only considering currency exchange, current export cost has lifted up 17%.
- 2) Open domestic markets for foreign goods and less protectism, import tariff has dropped from 15.3% to 9.9% (2002-2005)^[7]
- 3) Due to CPI quickly rising (8.7% Feb 2008), labor cost and domestic demand increase, peanuts export in 2008 reached average USD 1495/MT FOB China^[8]. So the competitive advantage of Chinese peanuts becomes weak in the World market.
- 4) Food Safety Concerns

US peanut butter, toxic milk powder and pet food outbreak in 2008 have brought the negative effect on Chinese peanuts export. European Union (EU) and Japan are main export markets of Chinese peanuts. Due to more food safety concerns, EU and Japan have more strict import inspection limit on peanuts products, such as: Aflatoxin < 4ppb and other exam index demands. According to the advanced medical report, Aflatoxin in peanuts can make human get the fatal

disease of cancer. All these export quality restriction will impact on the peanuts industry of China.

The future challenge and opportunity of peanuts industry in China

Due to globalization influence, the Chinese monetary has risen and labor cost has also increased. The comparative advantage of Chinese peanuts in the global market is going to fall down slowly. How to combat with the global competition? I will issue some suggestions for all concerned experts to further discussion:

1) Scientific and Industrialized Revolution

According to China Statistics in 2005, the total peanuts export manufactures and trading companies in China are 876. The most enterprise are small scale and low management level. So China should learn the advanced technology and management from USA or other developed countries and set up industrialized and mechanized integrated farming producing and processing system (assembly line). Meanwhile, IT and computers should apply in the peanuts industry.

2) Chemical and Genetic Research and Development(R&D) Investment

Due to old degenerated peanuts seeds in China, we think China should explore and import new and better seeds (such as hybrid and genetic) to substitute old seeds, meanwhile use new pesticides to avoid and reduce Aflatoxin content rate.

If the peanuts industry of China applies the advanced management and farming technology, Chinese peanuts industry chain will reduce the export cost and improve products quality and win the global market competition.

Peanuts in Canada

Importing Peanuts Regulation of Canada

a) Canada is not growing peanuts due to cold climate. Canada imports peanuts mostly from China and USA every year. Normal transit time from the main Chinese ports to Vancouver, Canada is about 15-30 days. From signing sales confirmation to receiving ordered cargos, it will take about 60-75 days to finish all trade transactions.

b) If you want to engage peanuts import business, you need to apply import permit from CFIA(Canada Food Inspection Agency)

c) Import Tariff Principles

According to my working experience, I can summarize following main import duty principles of Canada.

If any importing products can be produced and grown in Canada, the import tariff will be charged. If it is the opposite situation, it will be duty free. For example, before January, 2007, fresh garlic will charge \$2.5/kg on anti-dumping penalty for importing from China and Vietnam. Some Canadian importers have illegally transferred the shipment from China to Philippines then ship into Canada to avoid the expensive anti-dumping cost. Because fresh garlic also grows in Canada, the Canadian federal government uses this government intervention to protect local farmers. Since January 2007, the anti-dumping policy has expired. In the following case, Canada grows the large area of wheat and exports wheat and flour abroad in millions tons every year. Canada charges seasonal import duty on flour, usually in harvest season during autumn, but other seasons duty free. Although most countries are nominally committed to free trade, they still tend to intervene in global trade to protect the domestic group interests. Canada also is a virtual case of trade for government intervention.

The following table is the import tariff of peanuts products in Canada:

	General	MFN	GPT MT
Raw peanuts	35%	Free	Free
Blanched peanuts	35%	6%	Free

MFN: Most favored nation tariff treatment countries, such as China

GPT: General preferential tariff treatment

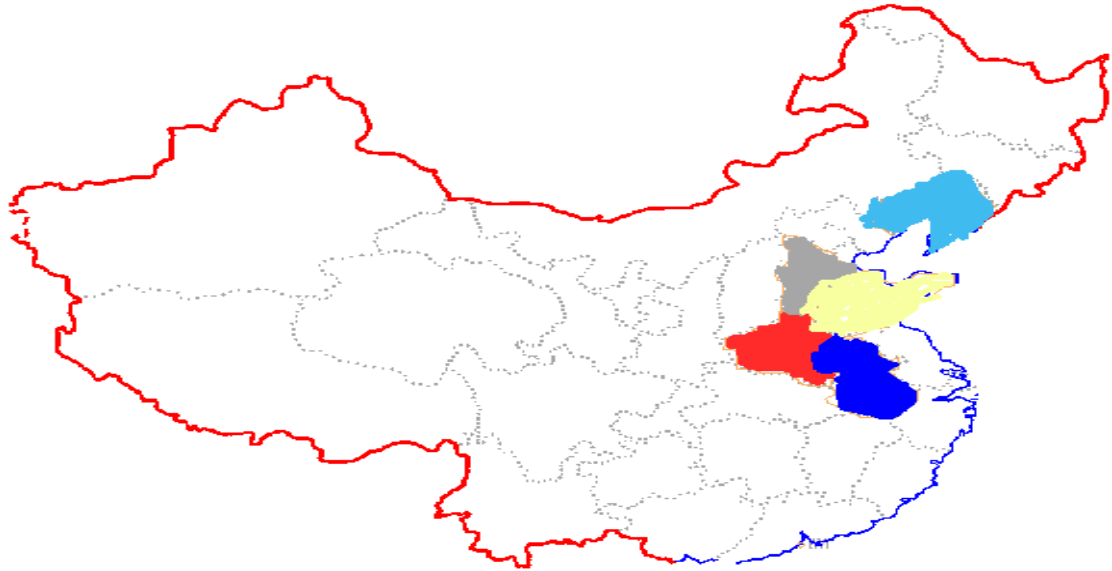
d) Import inspection regulation

Importing peanuts generally examine in random by Canadian Customer or CFIA each year and examination cost will be charged by importers. Usually Canadian Custom will focus on drug and forbidden products. CFIA will focus on food quality. In the reason of inflation, the examination service charges are currently on CAD 1500/40' full container and CAD1000/20'. New importers have more opportunities to be examined every time. When they get good credit in the record, the frequency of examination will be reduced to one or two times each year. The key quality parameter of peanuts: Aflatoxins less than 15 ppb (Max tolerated level from Health and Welfare Canada)^[9]. Generally speaking, the inspection regulation in Canada will be more flexible and relax able than USA.

Reference

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- [8] <http://www.agriffchina.com/wenben03.jsp?id=141933>
- [9] Canadian Food Inspection Agency

Figure 1 Peanuts Main Growing Area in China:



Note:

Yellow color: Shandong province (31% of Chinese yield),

Red color: Henan province,

Grey color: Hebei province,

Light blue: Liaoning province,

Dark blue: Anhui province

Figure 2 1996-2005 Peanuts Export Price List in the Largest Export Countries

Year	Unit:USD/MT										Average
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	
China	740.02	845.00	753.79	578.21	595.85	548	518.76	671.72	764.15	725.2	674.07
USA	779.58	859.23	875.59	872.99	833.82	865.8	786.32	878.51	933.23	921.66	860.68
Argentina	768.43	782.35	721.69	691.42	721.88	702.4	564.49	679.75	764.07	619.86	701.63
India	615.49	624.26	582.42	548.12	520.48	504.7	558.29	683.64	606.94	617.13	586.15

Data from: <http://www.fao.org/corp/statistics/en/>

Figure 3 National Competitive Advantage: Porter's Diamond

