

# *Current Situation and Transformation Strategy of China's Agricultural Trade under the Belt and Road Initiative*

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**Abstract:** The Belt and Road Initiative is a major strategy under the new normal of China's economy, and it is also an important measure to expand opening up to the world and promote foreign trade. Along the Belt and Road are rich agricultural resources and plenty of great agricultural countries. Agricultural cooperation with foreign countries is an important part of BRI and has brought unprecedented chances and challenges. In order to better adapt to the changes of agricultural trade pattern and seize the opportunity of the times, this article first analyzed current situation and future development of agricultural trade between China and countries along the Belt and Road, based on related materials and large amount of data analyses. Considering trade background, opportunities and challenges of international agricultural trade of China is discussed in depth, according to which the article gives suggestions for speeding up agricultural transformation and development in the new period.

## 1. Introduction

The Belt and Road Initiative (BRI) is short for the “Silk Road Economic Belt” and the “21st Century Maritime Silk Road”, aiming at improving China's leadership in economy through large-scale infrastructure construction in neighboring countries [1]. Since 2013 when president Xi Jinping proposed this initiative, China's direct investment in countries along the Belt and Road has exceeded 80 billion dollars, with 82 overseas economic and trade cooperation zones established and 244 thousand jobs created. As of July 27, 2019, there have been 138 countries joining the BRI. The economic and trade relationships between China and alongside countries have been deepened as the increase of participating countries.

Agricultural exchange and trade have long been the major way of cooperation of the Silk Road. In the new era, as global food safety problem remains serious and international market uncertainty raises, agricultural cooperation is still an important part of BRI. Many of the countries along the Belt and Road are agricultural countries, in the economic system of which, agriculture occupies a large proportion higher than global average. As a great country with 1.4 billion people, China plays a

significant role in international agricultural development. At the meantime, with the accelerating and deepening of the reform and opening up, China is having a more crucial position in international agricultural market. China has expressed that it will fasten its pace in agricultural industrial restructuring and build a new international relationship of agricultural cooperation to push ahead global sustainable development of agriculture. However, influenced by traditional agricultural structure and other factors, the development of China's agricultural economy is facing great challenges from the world, affecting agricultural imports and exports. A long-term international strategy is needed to break such barriers.

Taking the agricultural trading pattern between China and countries along the Belt and Road as the starting point and combining their trade background, this article makes a systematical analysis of the opportunities and challenges in international trade faced by China's agricultural products, and then gives advice for China's agricultural transformation in the new period.

## 2. Current Situation of Agricultural Trade between China and Countries along the Belt and Road

### 2.1. Countries along the Belt and Road

On March 28, 2015, National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce of China jointly issued the "Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road", deciding the basic trend of BRI. As for the countries involved in the initiative, this article agrees with the 64 countries mostly approved and the regional section from Belt and Road Portal developed by the State Information Center. Details are shown in Table 1.

Table 1: Countries along the Belt and Road.

Region	Countries
Central Asia	Kazakhstan, Kyrgyzstan, Turkmenistan, Tajikistan, Uzbekistan
Northeast Asia	Mongolia, Russia
Southeast Asia	Vietnam, Laos, Cambodia, Thailand, Myanmar, Malaysia, Singapore, Indonesia, Brunei, Philippines, East Timor
South Asia	India, Pakistan, Sri Lanka, Bangladesh, Nepal, Maldives, Bhutan
West Asia and North Africa	UAE, Kuwait, Turkey, Qatar, Oman, Lebanon, Saudi Arabia, Bahrain, Israel, Yemen, Egypt, Iran, Jordan, Syria, Iraq, Afghanistan, Palestine, Azerbaijan, Georgia, Armenia
Central and Eastern Europe	Poland, Albania, Estonia, Lithuania, Slovenia, Bulgaria, Czech Republic, Hungary, Macedonia, Serbia, Romania, Slovakia, Croatia, Latvia, Bosnia and Herzegovina, Montenegro, Ukraine, Belarus, Moldova

Source: Belt and Road Portal.

### 2.2. Scale of Agricultural Trade

According to data from the Ministry of Commerce, China's total value of imports and exports of agricultural products has reached 21.647 billion dollars in 2018, an increase of 8.3% from last year. The volume of agricultural trade between China and countries along the Belt and Road is 51.54 billion dollars, growing 12.22% year on year. This accounts for 23.8% of the gross volume, which slightly rises from 2017. The proportion is much larger than that of the United States (17.69%), China's largest trade partner of agricultural products.

### 2.3. Structure and Characteristics of Agricultural Trade

The volume and ratio of agricultural trade between China and countries along the Belt and Road from 2014 to 2018 are shown in Table 2.

Table 2: 2014-2018 agricultural trade between China and countries along the Belt and Road.

Region	2014		2015		2016		2017		2018	
	Total imports and exports (million dollars)	Proportion (%)	Total imports and exports (million dollars)	Proportion (%)	Total imports and exports (million dollars)	Proportion (%)	Total imports and exports (million dollars)	Proportion (%)	Total imports and exports (million dollars)	Proportion (%)
Central Asia	1132.89	2.58	1043.14	2.35	809.77	1.87	919.20	2.00	1010.11	1.96
Northeast Asia	4079.19	9.30	3818.07	8.60	4276.93	9.90	4529.74	9.87	5698.26	11.05
Southeast Asia	29575.10	67.41	30565.75	68.86	29882.66	69.17	31988.50	69.69	35413.64	68.70
South Asia	4248.46	9.68	3245.83	7.31	2982.06	6.90	3010.61	6.56	3506.90	6.80
West Asia and North Africa	2664.53	6.07	2738.89	6.17	2736.85	6.33	2990.25	6.51	2992.53	5.81
Central and Eastern Europe	2170.88	4.95	2974.45	6.70	2514.92	5.82	2461.32	5.36	2925.09	5.67
Total	43871.07	100	44386.15	100	43203.21	100	45899.64	100.00	51546.53	100

Table 2 leads to following conclusions:

(1) The trade volume is inversely proportional to geographical distance. As shown in the table, from 2014 to 2018, the agricultural trade value between China and countries in these regions from high to low is Southeast Asia, Northeast Asia, South Asia, West Asia and North Africa, Central and Eastern Europe, and Central Asia. Except the five countries in Central Asia, the total value falls as distance getting further.

(2) Distribution of trade is largely uneven. In the six regions mentioned in Table 2, during this period, the agricultural trade between China and the eleven countries in Southeast Asia has become about 30 billion dollars per year, accounting for 70% of the total value. This even exceeds the number between China and the US, China and Europe, and China and Japan, making Southeast Asia China's largest trade partner. Specifying to countries, the trade value between China and Thailand, Vietnam, Indonesia, and Malaysia have reached 80% of that of the whole region and is keep growing. Other regions show similar trading structure, such as Kazakhstan in Central Asia, Ukraine in Central and Eastern Europe, India in South Asia, and Turkey and UAE in West Asia and North Africa.

(3) The trade structure between China and countries along the Belt and Road is complementary. This reflects that such trade is still in a lower level, which relies too much on the difference in resources. Also, the agricultural trade is mainly around labor intensive and land intensive products instead of processed products with higher added value and technology. The agricultural trade structure remains to be improved.

### 2.4. Analysis of the Growing Speed of Agricultural Trade

Figure 1 shows the trend in agricultural trade volume between China and the countries along the Belt and Road from 2014 to 2019. According to the figure, the amount of agricultural trade slightly fell from 43,871.07 million dollars in 2014 to 43,203,210 in 2016, then rapidly increased to 51,546.53 in

2018. It has a volatility growth trend with an average annual growth rate of 4.37%. It is worth noting that the growth rate is relatively fast in 2016-2018. If this growth rate is maintained, the trade volume is expected to exceed 55,000 million dollars by the end of 2019.

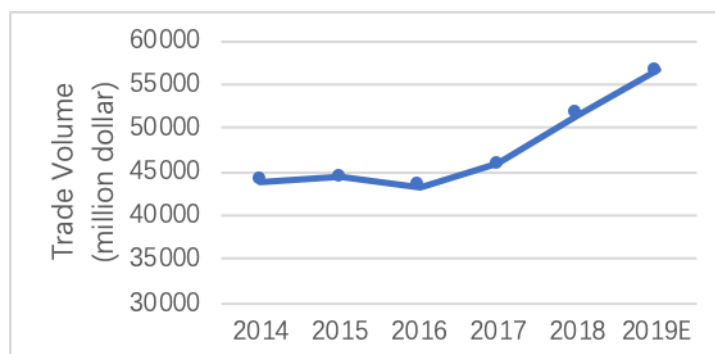


Figure 1: Trend in agricultural trade volume between China and countries along the Belt and Road, 2014-2019.

### 3. Opportunities and Challenges Facing China's Agricultural Trade under BRI

The Belt and Road Initiative not only creates a grand blueprint and injects power to China's agricultural products enterprises to go global, but also bring unprecedented opportunities and challenges to Chinese agricultural enterprises.

#### 3.1. Opportunities

##### (1) Relatively relaxed international environment

BRI provides a broader market for China's agricultural exports. China has reached consensus in multiple aspects with many countries along the Belt and Road. Most countries have indicated that they will vigorously support the deepening of BRI. Most of them being developing countries makes it conducive to formulating a more reasonable testing standard, reducing discriminatory treatment, creating more common interests and improving the export environment of China's agricultural products.

##### (2) Huge space for trade cooperation

At the 2nd Belt and Road Forum for International Cooperation held in April 2019, China and the participating countries reached a consensus that they would deepen cooperation in agriculture and other fields, promote all-round opening up of agriculture, and jointly push forward the sustainable development of agriculture. China has a comparative advantage in terms of capital, market, information, technology, talents and other high-end resources. There is strong complementarity between China and the countries rich of natural resources, leaving huge room for cooperation of implementing key construction projects and building agricultural trade infrastructure.

##### (3) Desire for developing agriculture from countries along the Belt and Road

The vast majority of the countries along the Belt and Road are developing countries, some of which have rich agricultural resources and great development potential [2]. 29 countries' per capita arable land area is larger than world average and 14 countries have over 0.1 hm<sup>2</sup> arable land area per capita. Among them, per capita arable land area in Kazakhstan is 1.73 hm<sup>2</sup>, Russia 0.85 hm<sup>2</sup>, Ukraine 0.72 hm<sup>2</sup> and Thailand 0.25 hm<sup>2</sup>. Some countries such as Russia, Ukraine, and Thailand have relatively low yield levels. A slight improvement in agricultural science and technology, agricultural

machinery, infrastructure and other aspects can achieve substantial increase in production. At the same time, with the rapid growth of population, their demand for technologies concerning agricultural products and industry will grow rapidly [4]. Therefore, these countries have great potential in developing production of land intensive agricultural products, and strong demand for international cooperation in agriculture, which provides a material basis and prerequisite for agricultural investment cooperation.

#### (4) Perfecting infrastructure of agricultural cooperation under BRI

Basic service policy and infrastructure construction are the premise and propeller for agriculture to go global. Since the Belt and Road Initiative, China has actively engaged with countries along the Belt and Road to jointly build a BRI cooperation framework. Nowadays, the bilateral and multilateral cooperation mechanisms are perfecting, and rapid progress has been made in connectivity, especially in terms of policy coordination, facilities connectivity, and financial integration. It has created a solid foundation for Chinese agriculture to go out in the new era.

### 3.2. Challenges

The Belt and Road Initiative has brought both development opportunities and challenges for agricultural exports. There remain many problems in the transformation and upgrading of China's exporting of agricultural products.

#### (1) Threaten of foreign tariff barrier escalation and anti-dumping

The implementation of BRI does not mean the disappearance of tariff barrier. By 2018, China's agricultural import and export is having an increasing trade deficit, and the rate of importing agricultural products accelerated, as the export volume of traditional agricultural products slowing down. Also, with the impact of the US trade war, agricultural export has been hindered.

Developed countries further improve their trade standard, which spreads from a single product to the entire industrial chain, forming multiple barriers such as technology, property rights and certification [5]. Some developing countries also begin to set up a strict standard fence, issuing more technical standard barriers, and quarantine inspections year by year. When a country feels that its industry is threatened, it will increase import tariffs for protection. In particular, China's agricultural products has comparative advantages and low export price. It is easy to be investigated by some countries on the grounds of dumping.

#### (2) Primitive cooperation and unbalanced agricultural export structure

At present, labor-intensive products are the majority of China's agricultural exports. These products have low added value and low prices, bringing low profits. As a result, it is difficult for them to compete with the scientific and technological products in developed countries. The export of agricultural products involves cooperation in deep processing of agricultural products, comprehensive development of resources, research and development of agricultural machinery equipment, production materials, and in-depth technology. However, China's agriculture currently has a relatively primitive cooperation, with few achievements and no strong competitiveness.

In addition, the uncoordinated proportion of export structures continues being a drawback of China's agricultural exports. The source of trade is highly concentrated in a few countries, and the ports are mainly concentrated in the southeast coastal areas. The trade channel is narrow. It is geographically concentrated in neighboring countries such as Japan, South Korea, Russia, etc. China has also established good trade relations with Brazil, Turkey, Mexico and other relatively far countries. However, currently, the growth of agricultural trade in relatively backward countries such as Africa is getting faster than China's. The structure of agricultural products faces severe challenges. The proportion of agricultural exported from neighboring countries such as Japan and South Korea

is also declining. As for import, most of the agricultural products imported have higher added value and high prices.

In short, most of the import and export of agricultural products is highly concentrated, which has increased China's dependence on exporting countries and imported products. Less of rationality leads to high trade risk.

### (3) Risk of public voices like new colonialism criticism

When China gradually emerges and quickly gets globalized, the world has been caught in a period of turbulent adjustment of interwoven economic and security crisis, and rising anti-globalization and populism. Under current situation, China's moving against the trend will inevitably encounter severe external challenges. Some countries have even dazzled the China threat theory. As China keep rising and its government push ahead, overseas agricultural investment is easy to be suspected that it is directly guided and supported by the government. The rapid increase in the scale of grain imports in China in recent years has further aggravated the attention of the international community. With foreign political purposes and western media's prejudice against Chinese enterprises, some media with ulterior motives give misleading comment on China's agriculture internationalization, distort the image of China's overseas agricultural investment, and label it with New Colonialism, New Imperialism and Resource Plundering [6].

### (4) Climate problems

The close relationship between agricultural production and climate is obvious. The going out of agriculture must consider the possible influence of climate change. Along the Belt and Road, there are common climate risks, but their types and extents vary between regions. Among the key areas of BRI construction, Southeast Asia, South Asia and Central Asia have a series of climate risks. Central Europe faces relatively small climate security risks.

## **4. Transformation Strategy for Agricultural Trade Under BRI**

### **4.1. Improve International Agricultural Trade System, Reduce Institutional Risks**

Chinese government should improve multi-faceted system construction, prioritize economic and trade relations with countries having higher institutional levels, and promote bilateral cooperation in investment and trade. First, formulate a sound international trade system to achieve sustainable development of agricultural economy. Combining China's advantages and characteristics, institutional innovation is used to drive agricultural development, and government plays its role in guiding and serving, establishing a sound coordination mechanism and policy support system. All relevant departments work together to improve the guarantee mechanism for China's agricultural development policy and service. Second, China should guide the establishment of an international business activity insurance with an encouraging nature, encourage the construction of high-level non-official Chinese business chambers, which mainly serve Chinese enterprises, and attract more enterprises from countries along the Belt and Road. Third, China should actively promote the reform of the WTO trade governance system and provide legal system to guarantee the promotion of BRI. China should actively work to promote innovation in WTO system, trying to transit the current unconditional MFN status and national treatment to conditional differential treatment and promoting small-scale but highly deep economic and trade cooperation between China and countries along the Belt and Road.

### **4.2. Improve Infrastructure Construction, Reduce Trade Costs**

Improving the relevant infrastructure construction is the prerequisite for building a long-term agricultural product trade cooperation mechanism with countries along the Belt and Road. In terms of international logistics and transportation of agricultural products, we will improve transportation capacity, construct corresponding infrastructure, and provide basic support for promoting the development of agricultural trade, thus improving international trade advantage of Chinese agricultural products to a certain extent. For example, Chinese government can provide relevant funds to support the construction and renewal of important transportation hubs along the line to improve construction efficiency. Professional cold chain cars can be used to transport crops, vegetables and other products with high requirements for logistics. In addition, China should gradually enhance the level of agricultural trade and service, aiming at the entry and exit declaration and inspection and quarantine procedures of agricultural products. Through improving the standardization and rigor of the corresponding agricultural product trade procedures, the Belt and Road Initiative shall get higher international recognition.

### **Promote the Upgrading of the Agricultural Industry Value Chain, Strengthen Brand Building**

At present, the technical content and added value of China's export agricultural products are low. China should take into consideration the upgrading and integration of the agricultural product industry chain, a diversified promotion and marketing system, and a comprehensive after-sales service system. Through in-depth exchanges with countries along the Belt and Road, Chinese agricultural enterprises should be committed to introducing advanced technologies and business models and renewing the varieties of agricultural products in response to preferences of consumer countries. In the cultivation of agricultural products, the cultivation of improved varieties is carried out, and the products are continuously developed in processing technology. The agricultural industry chain will be gradually extended from the current stage of planting to the processing industry and service industry, and the types of agricultural and sideline products and related types of products will be increased to optimize the industrial structure of agricultural products.

Brand is an important guarantee to enhance the competitiveness of the enterprise market. Based on improving the industrial structure of agricultural products, Chinese agricultural enterprises should also be committed to brand building, focusing on building their own international brands and carrying out differential marketing promotion in conjunction with the social culture of consumer countries to deepen the recognition of Chinese brands by foreign consumers. China should take advantage of the development opportunities of the Belt and Road Initiative to enhance the influence of Chinese agricultural products in overseas markets and realize the branding of these products in international market as soon as possible.

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