



## Shandong Agricultural Products Exports: Growth, Problems and Countermeasures

Bing Li

School of International Trade

Shandong Economic University

Jinan 250014, China

School of Int'l Trade and Economics

University of Int'l Business and Economics

Beijing 100029, China

E-mail: [libingchina@sina.com](mailto:libingchina@sina.com)

*This research paper is financed by the Shandong Natural Science Fund Project (2007ZRB01493), Shandong Social Science Fund (07DJGZ05) and Shandong Soft Science Project (2008RKB269).*

### Abstract

This paper analyses the reasons of the export growth for the Shandong agricultural products which can be attributed to the Shandong agricultural export enterprises' efforts and Shandong provincial government's strong supports. Though Shandong agricultural products exports achieved a big success all over the China, there are still some internal problems and external constraints that hinder its further and sustainable developments. Existing main problems for the exports of Shandong agricultural products include poor export product structure, too concentrated specific export markets, small enterprise scale, disordered competition among Shandong enterprises and seriously lagged behind agricultural products branding and marketing network construction. The external constraints for the exports of Shandong agricultural products such as the fast appreciation of the RMB, the rise in the cost of domestic production, new form of international trade protection from EU and Japan and some unexpected events against the normal development of Shandong agricultural exports. Therefore, it is essential to put forward countermeasures to further improve the quality of agricultural products, establish the multi-level export promotion system, foster leading enterprises, support brand-building, maintain the key markets and expand new markets, absorb more FDI and establish more trade associations to develop Shandong regional agricultural products exports in a sustainable way.

**Keywords:** Export trade, Shandong agricultural products, Sustainable development

### 1. Introduction

Shandong is a major provincial exporter of agricultural products, whose agricultural products exports are about 1/4 of the China's total exports. From the "10th Five-Year Plan" period to 2007, Shandong agricultural exports grew from USD2.79 billion to USD9.35 billion with average annual growth rate of 20% or more. Shandong ranks the biggest exporter for eight consecutive years in China and the proportion of Shandong's agricultural exports in the total provincial agricultural output amounted to more than 15%.

In 2007, agricultural exports in Shandong Province maintained sustained growth after successfully overcoming the trade technical barriers and the influences of national foreign tax rebate policy adjustment under the background of the appreciation of the RMB and the pressure of rising production costs. According to the data issued by the Office of the Shandong Foreign Trade and Economic Cooperation, farm produce in Shandong Province have been exported to 165 countries and regions by the end of 2007. Shandong province's agricultural exports have been pulling GDP growth by 2%, providing jobs for more than 16 million people, contributing up to 25% to the farmer's income growth.

### 2. Reasons of export growth for Shandong agricultural products

The export growth of Shandong agricultural products can be attributed to the Shandong agricultural export enterprises' efforts and Shandong provincial government's strong supports.

Following the principle of "unification, simplification, coordination and selection", Shandong agricultural enterprises

have developed standardized production bases rapidly and the number of the bases has reached over 1,700 in 2007. The testing passing rate of the agricultural products in the standardized production bases and pollution-free, green food production bases has exceeded above 97%. There are 110million Chinese Mu agricultural exports enterprises' own vegetable bases, 372 scaled poultry farms, 174 pigs and cattle farms, 16 rabbit production fields, 20 sea water products centers which have basically formed a strong standardization bases system.

Leading export enterprises have strengthened agricultural scientific and technological innovation, which has become an important way to enhance the core competitiveness of enterprises in coping with the increasingly fierce competition. Shandong Province currently has more than 30 state-level agricultural industrialized excellent enterprises, such as Lu Hua Group, the Jin Luo Group, Ling Hua Group, the West Wang Group and Feng Xiang Group, which all have played a leading role in the development of Shandong rural economy with their specific and scientific advantages.

Shandong provincial government also provides strong supports to improve the agricultural export policy system. In September 2006, Shandong provincial government issued a "Further Opening up Agriculture Industry" official file. In October, the provincial government formulated and implemented "Shandong Province Agricultural Products Quality and Safety Supervision and Management Regulation", which became the first administrative regulation for the local government to regulate the export of agricultural products on quality and safety.

Shandong provincial government, in recent years, has implemented the regional animal and plant diseases and insect pests control system, strengthened no-provision animal disease model zone construction, further promoted the "company + base" business model of agricultural products exports, and helped agricultural products export enterprises establish a free-cultivation and free-breeding bases to improve export competitiveness of agricultural products.

Shandong Inspection and Quarantine Bureau has invested over RMB80 million to purchase laboratory equipment to strengthen infrastructure construction and do research and training which provide a strong technical guarantee for the export of agricultural products. In 2006, in response to the Japanese "the Positive List System", the said Bureau actively carried out multi-residue detection technology research and developed more than nine residual gas chromatography and mass spectrometry detection methods, and tested a variety of 251 kinds of pesticide residues in one-time testing.

### **3. Main problems and constraints of Shandong agricultural products exports**

Though Shandong agricultural products exports achieved a big success all over the China, there are still some problems and constraints that hinder its further and sustainable developments.

#### *3.1 Existing main problems for the exports of Shandong agricultural products*

The first problem is that export product structure is still not optimized yet. The export consists of too many primary products which have small margin of added value. In recent years, restructuring of agricultural products always heads for the increase of quantity, not much for increase of quality. Many such low-quality products are not suitable for market development and having little profit margin.

The second problem is that Shandong agricultural export market is still relatively too concentrated to specific countries. Japan is the largest agricultural exporting country for Shandong Province, accounting for 40% of total Shandong's agricultural export. In 2004, Shandong exported USD1.28 billion to Japan, accounting for 37% of total provincial agricultural export. In 2006, Shandong exported USD2.87 billion to Japan, accounting for 35.5% of the total exports. In 2007, the amounts went USD2.85 billion, 30.8% of the total. Although the share dropped, Japan market is still the largest export market for Shandong Province. EU, the United States and South Korea are the other major agricultural export countries and regions for Shandong. The changes on agricultural imports policy in these countries shall have a great impact upon the export of Shandong agricultural products.

The third problem is that the enterprise scale of Shandong province is still small and competition is in disorder. The general small-scale agricultural products enterprises and the rapid expansion of the same companies lead to intensified competition and cause the serious damages to interests of agricultural industry. According to WTO commitments, China gradually granted the import and export licenses to all businesses. The number of enterprises joined the team of agricultural exports reached 20,000 in 2007, but the small-scale enterprises' average export value was only about USD1 million while the enterprises with an export value of over USD10 million are less than 3% of the total enterprises.

The fourth problem is that agricultural products branding and marketing network construction are seriously lagged behind. Shandong domestic enterprises export largely depended on foreign sales agents and foreign marketing. Although the scale of agricultural exports continues to expand, OEM production is currently the main way of export due to absence of brand building. This caused the lack of well-known brand in the international agricultural products market and not only resulted in Shandong Province agricultural exports meager profits, but also caused Shandong Province exports of agricultural products strong dependence on foreign investors.

### *3.2 Existing main constraints for the Shandong agricultural products exports*

The appreciation of the RMB is a major external constraint against Shandong agricultural products exports. Since RMB exchange rate formation mechanism reform in 2005, the flexibility of the RMB exchange rate is growing rapidly. On April 10, 2008, the exchange rate of RMB against the U.S. dollar broke 7, appreciation about 18.2 % compared to that before the reform. Currently RMB continues to remain strong. Because agricultural production and processing enterprises have low levels of overall profit margin, the appreciation of the RMB further reduced the profit margin of the export of agricultural products.

The increased production cost is the second main constraint. On one hand, because of the increased prices of oil, fertilizer, farm diesel and plastic materials, the costs of agricultural cultivation, breeding, fishing and transportation go up and these pull the agricultural raw materials prices up accordingly. For example, mackerel fish price rose from RMB2,000/ton by the end of 2004 to RMB10,000/ton in 2007. On the other hand, as a labor-intensive industry, because of tight labor and employment supply, wages of migrant workers rose, too. This greatly affected the products processing enterprises. The average wage in Yantai Long Da Group has been rising from RMB500 in 2002 to RMB1,000 in 2007, which shall add more than RMB100 million on annual wage spending.

The increased international agricultural trade protection is the third major constraint. In contrast to China's gradual opening up its domestic market according to WTO requirements, the international agricultural trade protection has become increasingly popular. Countries all over the world use the issues around the ecological environment, animal welfare, intellectual property, quality standards, and other forms of social responsibility to protect its agriculture. In 2006, the implementation of "New Food Law" of EU and "Positive List System" of Japan had had the greatest impacts on China's export. In June, 2006, China's total agricultural products exports to Japan were USD596 million, USD131 million less than that in the same period 2005, down 18%. In the same month for Shandong Province, the exports to Japan was USD215 million, down 7.8%. As a No.1 leading agricultural products exporter, Shandong Province is faced with an unprecedented pressure on exports of agricultural products.

Some other unexpected factors constitute other constraints. "Paper Stuffed Steamed Bread," and the "Poisonous Dumplings" events triggered Japanese consumers doubts and worries on Chinese-made products. Some Japanese companies even reject China's food shelving. Those are unexpected factors which caused Shandong agricultural exports to the Japanese market decline in the second half of 2007.

## **4. Countermeasures for Shandong Agricultural Products Exports**

Shandong agricultural products exports are faced with many problems and constraints, but there are still some necessary countermeasures that can be adopted to keep the sustainable developments of Shandong agricultural products exports.

### *4.1 The quality and safety of Shandong agricultural products should be further improved*

The quality and safety of agricultural products are the keys to keep the export sustainable development for Shandong Province. Improving the quality and safety of agricultural products exports not only can deal with the current positive list system of Japan, but also can strengthen the core competitiveness of Shandong agricultural products in the future. Measures should be taken to support enterprises obtaining ISO22000 certification and HACCP certification. System of quality tracing back should be established to promote the setting of good agricultural products practices. Central test laboratory should be established for the regional testing convenience and good regulation.

### *4.2 The multi-level export promotion policies system should be established*

In order to implement the national and Shandong Province's guidance upon expanding agricultural opening to the outside world and promoting agricultural exports, successful experience of exporting agriculture abroad should be studied carefully to construct and further improve the multi-level system of export promotion policies. Shandong provincial government should establish and expand the finance, taxation and insurance mechanism to strengthen the support of the agricultural products exports.

### *4.3 New sectors development should be accelerated*

Following the changes of demand in high-end markets, Shandong should not only continue to develop traditional sectors in aquatic products, vegetables, animal products, fruits and other traditional agricultural exports on the basis of comparative advantages, but also accelerate the development of new sectors in flowers, seeds and edible fungi. Thus a new export structure of mutual promotion and coordination of traditional and new sectors could be set up.

### *4.4 Cultivation a number of leading enterprises should be the focus*

Flexible mechanism and efficient functioning are the essences of agricultural industry management which focuses on the leading role played by the leading enterprises. The measures should be taken to further support and nurture a number of leading enterprises with wide association of industries, high technology, strong international competitiveness, good efficiency and mass job creating functions.

#### *4.5 Brand-building and intellectual property right protection should be promoted*

Independent brand is a powerful weapon for the expansion of exports and it is conducive to the maintenance of old customers and new market development. It is necessary to actively promote the changes from OEM production to independent brands production. Focuses should be put on brand-building in large enterprises which should be supported to develop their own products intellectual property rights and conduct trade mark registration and product quality certification abroad.

#### *4.6 Marketing maintenance and diversification should be paid same attention*

Shandong should continue to maintain and explore key markets such as Japan, the European Union, the United States and other agricultural products export areas, which are the high-end market with high prices and good profit return. Shandong should also develop emerging markets in South Asia, the Middle East, Latin America, Russia and other regions to diversify the market structure to ensure the sustainable development and avoid market risks.

#### *4.7 FDI in agriculture industry should be strengthened*

Foreign-invested enterprises in Shandong Province play a big role in promoting agricultural exports. In future, Shandong Province should further strengthen the foreign direct investment in agriculture industry and optimize the agricultural FDI structure and quality to attract more FDI in agriculture and in promoting the agricultural products exports.

#### *4.8 New key products trade associations should be established*

Following the successful experiences of forming garlic and rabbit meat export associations, new trade associations on aquatic products, poultry meat, vegetables, fruits, peanut and other key export products should be established to guide the development of agricultural industry and prevent the disorderly competition by the domestic enterprises in the international market.

### **5. Conclusions**

Through the analysis of Shandong agricultural products, it is clear that there are still some problems and constraints in Shandong agricultural products exports. Therefore, it is essential to put forward countermeasures to further improve the quality of agricultural products, establish the multi-level export promotion system, foster leading enterprises, support brand-building, maintain the key markets and expand new markets, absorb more FDI and establish more trade associations for the sustainable development of Shandong regional agricultural products exports.

### **References**

- China Statistical Bureau. (2008). [Online] Available: <http://www.stats.gov.cn/index.htm> (Retrieved from April, 2008)
- Ni, Yueju. (2006). Japan's "Positive List System" Implementation and Impacts on China's Food and Agricultural Exports, *Journal of International Trade*, Volume (7): 20-23 (In Chinese).
- Xie, Zhengqin. (2006). Political Economy Analysis of Agricultural Trade Protection. *Jiangsu Journal of Commerce*, Volume (12): 37-38 (In Chinese).
- Yang, Lianna. (2007). Structural Analysis of China's Agricultural Products Exports to the EU. *Economic and Commercial Management*, Volume (4): 15-19 (In Chinese).