



# Challenging assumptions

China's growth in demand for ag imports has always been a given, but the future isn't so clear

Farmers have heard the mantra time and again: the developing world, led by China, is growing; its expanding population is growing richer; it will demand more and more high-quality food; it won't be able to produce that food for itself as it runs out of land and water; and western Canadian farmers will be needed to feed that ever-growing hunger.

It's a set of assumptions, a belief system, that offers farmers a comforting view of the future, regardless of short-term setbacks like the rise of protectionism and China's present canola blockade. In the long run, demand will surge and prairie farmers will reap the windfall.

But what if some of those key assumptions prove to be false? What if one or two are disproven as the future unfurls?

Is the world's population growing inexorably larger and richer? Will it inevitably demand more and more food? Will it rely more and more upon Canada's farmers?

## Questions about China

Future Chinese demand for food products is key to many predictions about the ever-hungrier world demanding more and more agricultural products from the handful of surplus producers such as Canada.

That bullishness is supported by views like this from a report by Price Waterhouse Coopers: "The world economy could more than double in size by 2050, far outstripping population growth, due to continued technology-driven productivity improvements," the authors write in *The World in 2050*.



China's consumers are changing and the middle class market's growth is seen as a global economy driver over the coming decade. Families shop at an international supermarket in Beijing. | REUTERS/JASON LEE PHOTO

China's massive population grew from 800 million in 1970 to 1.4 billion today, and it is still growing, even if its growth rate has slowed.

Its economy has expanded more incredibly, with an annual growth rate sometimes higher than 12 per-

cent and never lower than six percent since 1990, making its economy today more than 200 times larger than it was in 1960 by one measure.

Its food imports have greatly increased as its expanding and

urbanizing population has demanded more and better food per capita, greatly benefiting Canadian canola growers in particular.

But can those trends be assumed to lead forever onward and upwards?

Two Canadian analysts believe confidence in China's long-term economic and demand growth are built upon foundations of sand.

Most analysts predict China's population growth will slow throughout the 21st century and perhaps fall moderately by 2100, while its economic growth will slow but still far exceed that of the industrialized West for much of that time.

Darrel Bricker and John Ibbitson savage those commonly held assumptions in their book, *Empty Planet*, which argues that the world's population is already beginning the process of severe depopulation, even if the number of people in the world is not yet declining. (Life expectancy growth is covering up a plunging birth rate in many places.)

"This idea that we have to get ready for nine and ten billion, the 11 billion people: they're never going to be here," said Bricker in an interview.

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## DANGEROUS ASSUMPTIONS

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China is the starkest example. “China’s probably, in the space of the 2020s, going to start to experience population decline,” he said. While many analysts expect China’s population to flatten by mid-century, and some expect it to decline to something above one billion people by 2100, Bricker and Ibbitson predict a much more dramatic population implosion: there could be fewer than 600 million Chinese.

“In any case, China appears to be on the verge of a deliberate, controlled, massive collapse of its population,” says *Empty Planet*.

China’s birth rate is already beneath replacement rates, and some analysts believe it has fallen far beneath officially reported levels.

That doesn’t support the notion that a huge Chinese population will be forever increasing its demand for food imports.

Wendong Zhang, an analyst and economist with Iowa State University, is one of the many who don’t see a population collapse anywhere near as severe as Bricker and Ibbitson envision. China’s population might flatten or fall back a bit by 2100, but it is unlikely to slump. Despite today’s plunging Chinese birth rate, its people are unlikely to abandon their family-centred culture.

“It’s very ingrained in the DNA,” said Zhang.

However, both Zhang and Bricker agree that China’s population will alter in the next few decades as the old grow older and fewer babies are born and the results of the now-abandoned one-child policy leave a shrunken middle-aged population.

If economic growth continues, Chinese food demand should remain healthy until mid-century.

“China will continue to be a significant buyer in a global market,” said Zhang.

“Over the next two decades at least, China will continue to grow at a reasonably high growth rate, which will guarantee a significant amount of income (to pay for food) that the Chinese domestic production cannot satisfy.”

Bricker said it’s likely the future population implosion of China won’t affect medium-term demand for food from a stable China, so Canadian farmers will probably see good demand until mid-century.

“In the short-term, there is going to be growing demand,” said Bricker.

“We are going to have a growing population up till mid-century, but at that point ... we’re going to tip over.... Longer-term, it’s going to become much more of a challenge.”

Both Bricker and Zhang agreed that bulk commodity exports will probably slow in coming decades as an aging Chinese population turns to a wider range of foods and its bulging senior population focuses on foods designed to boost health and longevity.

### How stable is China?

It’s been a fool’s gamble to bet against China’s economic growth and political stability any time since 1990. Every time the nation seems to stumble economically or politically, the nation’s communist government appears to act with deft skill to right its course far more effectively than the nations of the West have been able to achieve.

The recession of 2001 hardly



Workers sort cuts of fresh pork in a processing plant in Zhengzhou, China, in 2017. Many producers in Canada assume strong demand for pork will continue in that country. | REUTERS/DOMINIQUE PATTON PHOTO

seemed to affect China as its economic surge gathered steam. The 2008-09 financial crisis in the West was staved off by bold Chinese government spending with subsequent economic weakness reversed by further government spending and economic direction to private players. It is currently engaged in another (so far successful) spate of government spending and direction to mitigate the impact of the current worldwide economic slowdown.

With this sort of success and such a track record, why would anybody bet against the continuing growth and political stability of Chinese growth?

Few have. Those who have bet against China have tended to lose their shirts.

However, a growing chorus of analysts see China’s centrally directed, debt-based, infrastructure-focused growth model running out of steam and possibly heading toward crisis.

“Every year the challenges for Beijing get bigger, yet the responses only delay the reckoning rather than addressing the problem,” China-based analyst Christopher Balding said in a 2018 Bloomberg opinion piece before the recent reiteration of that policy.

In the 2000s, the Chinese premier described the country’s growth model as “unstable, unbalanced, unco-ordinated and unsustainable.” Little has changed.

If the growth model stalls due to ever-weaker effectiveness and a debt crisis, how could that affect demand for imports?

“China’s domestic debt has more than quadrupled over the past decade, leaving the economy vulnerable to ... a financial recession,” says a December 2018 McKinsey Global report.

“Some observers believe such a

collapse and consequent draw-down on global savings would have a knock-on effect on the global economy reminiscent of the 2008 financial recession. It would also put China’s long-term economic development at risk.”

Even without a crisis, countries have seen their growth not only slow, but entirely stop. Japan was predicted by many in the late 1980s and early 1990s to become the new world economic superpower, surpassing the United States. Then its growth stalled after 1990 and it has never grown since. It still imports many food products and much from Canada, but the demand is flat. Could that happen with China?

J.P. Gervais, chief economist of Farm Credit Canada, said analysts’ and economists’ optimism about China’s continued growth is partly a reflection of previously more cautious assessments.

“The one assumption that we’ve got wrong is that we always have underestimated the strength of demand coming out of China,” said Gervais.

“We have always underestimated China.... We have not been optimistic enough.”

The concern about slowing or stalled growth assumes continuing political stability, which China has certainly had since crushing the Tiananmen Square uprising in 1989. Is that stability still a good bet?

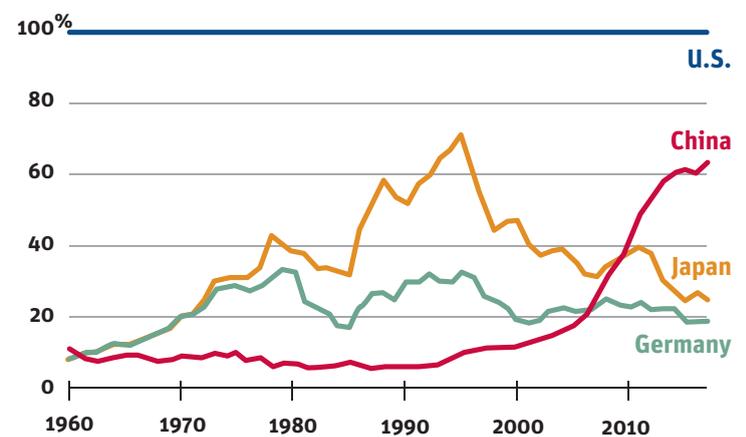
Most analysts and observers think it is, with the Chinese government’s ability to control its population and crush dissent an amazingly competent example of authoritarianism.

But others believe that’s also a risky assumption. Bricker thinks the predicted population implo-

### CHINA’S ECONOMIC EXPLOSION

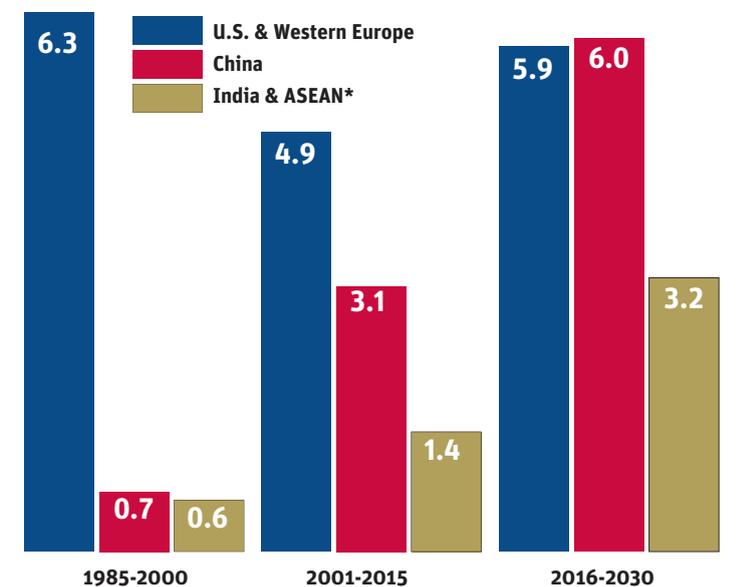
China is continuing its impressive growth path as it increases its urbanization that allows it to boost per capita GDP and productivity. Comparatively, countries such as the United States, Germany and Japan have experienced decreased GDP growth.

#### GDP evolution by country, 1960-2017 (U.S.=100, current \$basis):



China’s consumption growth over the next 15 years could be comparable with the United States and Western Europe, according to economist projections.

#### Incremental consumption growth (\$trillions):



\*Association of Southeast Asian Nations

Source: World Bank, Oxford Economics, McKinsey Globe Institute |

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Meat stalls are seen at a market in Beijing, China. The country is the largest pork consumer on the planet.

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sion and aging of China could spark political instability.

“China’s going to be dealing with a rapidly aging and then declining population,” said Bricker.

“China’s going to get old before it gets rich enough to be old.... It has the potential to be one of the biggest global security issues of this century because empires in decline are dangerous empires.”

#### China’s need for food imports

Few challenge the notion that China will need food imports for decades, as long as its current population holds, its economy remains healthy and it doesn’t find a method to magically transform its farming sector into an exponentially more productive industry.

However, Zhang said China does have the ability to substantially boost its agricultural production because much of its farming sector is still backward compared to that of the West.

“Their yields could significantly improve,” said Zhang, noting the possibility of China embracing genetic modification and other modern farming methods in areas not yet developed.

“If everything works out right, Chinese crop yields could be 30 percent higher.”

That would be a lot of extra crop, but still not likely to be enough if China’s population gets richer and hungrier because it already needs large imports of feedgrains and other products.

“In general, they’ll still be at a strategic disadvantage” compared to the U.S. in big, dryland crop production, Zhang said.

However, does China need crop supplies from Canada and the rest of North America?

#### Canada not so special?

Many Canadian farmers assume that the burgeoning world population and the rapid social development and urbanization of that population will

lead to much more demand for the crops and meat that Canadian farmers produce and that the rest of the world doesn’t have the land and resources to produce.

However, geopolitical tensions with the U.S. as well as a general discomfort in the Chinese government with reliance on imported foods from a few countries has been a major part of its vast Belt and Road Initiative. That strategy, the biggest development project in the history of the world, is partly designed to give China many more sources and options for imports.

“The grand strategy would be to become as diversified as possible, but there’s a subtle layer that China doesn’t want to be as reliant, especially on the U.S.,” said Zhang.

How would much easier access to Central Asia, Europe, Africa and Southeast Asia affect Canadian farmers’ competitive position in supplying China?

“Over time you’ll see more and more efforts to establishing these trade channels,” said Zhang.

There tends to be general confidence at farm conferences in the long-term demand for bulk agricultural commodities produced in Canada.

Whatever the short-term complications, such as China’s current canola boycott or U.S. actions during the recent North American Free Trade Agreement renegotiations, most farmers, analysts and economists see Canada as being in a fortunate position as a nation that can consistently produce food surpluses in a coming world that will have greater and greater food shortages.

But the question must still be asked: is that comforting vision of the future, especially in regards to China, really a safe assumption.

# Kazakhstan: the Saskatchewan of Asia

China has been making major investments in an effort to turn the landlocked country into an agricultural superpower

## CHINA’S MAJOR AGRICULTURAL IMPORTS

Oilseeds, meat, grain and oil and fat products are China’s leading agricultural imports.

Chinese agricultural imports (in \$billions)	2013		2017	
	China’s imports	Canada’s share	China’s imports	Canada’s share
Oilseeds and oilseed products	\$44.10	\$2.50	\$57.90	\$4.10
Meat and offals	\$6.10	\$0.39	\$12.30	\$0.71
Grains and grain products	\$5.20	\$0.48	\$8.30	\$0.64
Oil and fat products (animal and plant)	\$11.20	\$1.20	\$10.70	\$0.72

Source: Agriculture Canada | WP GRAPHIC

## CHINA’S BELT AND ROAD AG PROJECTS

- Chinese companies have 657 agricultural projects in Belt and Road countries, valued at \$9.4 billion — up 70 percent from five years ago.
- More than 400 senior agricultural experts from China teach modern farming methods to other nations.
- A state-owned investment firm is building a massive quarantine farm, near the Kazakh border, to hold livestock imported from Kazakhstan. The farm will have capacity for 100,000 cattle, 30,000 sheep and 12,000 donkeys and horses.

Meanwhile, Kazakh lentil exports to Turkey have boomed.

Lentil acres in Kazakhstan went from 17,000 in 2014 to 820,000 acres in 2017.

Wheat is Kazakhstan’s biggest crop and its largest agricultural export.

In 2018-19, wheat production was forecast at 14 million tonnes. Canada, in comparison, produced 31 million tonnes in 2018.

However, in 2017 the Kazakh government announced plans to move away from wheat. It cut subsidies for wheat and corn production and increased subsidies for oilseeds, World-Grain.com reported.

Kazakh data on oilseed acres indicates that rapeseed, flax, soybeans and sunflowers remain minor crops. However, the country is quickly moving toward its goal of 7.4 million acres of oilseeds by 2021. Last year oilseed acreage was 6.9 million, Black-seagrains.net said.

Vegetable oil crushing is also expanding.

The Kazakh Department of Statistics said the country broke vegetable oil production records for nearly every month in 2018.

Last June, for instance, it produced 29,200 tonnes of vegetable oil. That’s a tiny volume compared to Canada, which produced 360,000 tonnes of canola oil in January.

However, the 29,200 tonnes of vegetable oil could get much, much larger.

## LAND COMPARISONS

### Arable\* land (million acres):

Russia:	303
CANADA:	108
Ukraine:	79
Kazakhstan:	71

\* Arable land, not cropland

Source: World Bank | WP GRAPHIC

## QUICK FACTS

Kazakhstan is the world’s largest landlocked country, sharing borders with Russia, China, Kyrgyzstan, Uzbekistan and Turkmenistan.

- **Population:** 18.5 million
- **Land area:** ninth largest in the world
- **Labour force:** agriculture 18.1 percent, industry 20.4, services 61.6
- **Ethnic diversity:** Kazakhs 66.01 percent, Russians 21.05, Uzbeks 3.07, Ukrainians 1.7, Uighurs 1.44, Tatars 1.17, Germans 1.0
- **Major exports:** energy (78 percent), mining (8 percent) and agriculture (3 percent)
- **Capital:** Nur Sultan (formerly Astana)

Source: staff research | WP GRAPHIC

If China gets its way, Kazakhstan could become the Saskatchewan of Asia.

In February, Grain.org reported that Kazakhstan is “ground zero” for China’s agricultural plans in Central Asia. As part of the Belt and Road Initiative, a plan to strengthen investment and trade links with dozens of countries, China is committing billions to infrastructure in Kazakhstan.

A large chunk of the money is directed at agriculture.

“Chinese interests are eyeing Kazakhstan as a new source of wheat, sugar, meat and vegetable oil,” Grain.org said.

“Kazakhstan is already on its way to tripling wheat exports to China by 2020.”

Chinese firms have built a massive inland port in the town of Korghos near the border of China and Kazakhstan and a new livestock slaughter plant has been built near the border with China.