

Malaysian Palm Oil Exports to Emerging Markets: Analysis of Policies and Economic Trends with Emphasis on China

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Introduction

The primary objective of this project is to develop a foundation of information on the markets and policies of key palm oil importing countries. China was chosen for two reasons. Firstly, it is the world's largest importer of edible vegetable oils and palm oil accounts for half of this demand. Second, China has only become a major importer of vegetable oils and palm oil in the last 5 years. Consequently, little is known about the uses of palm oil in the Chinese market or the potential for future development of this market for the Malaysian palm oil industry.

The specific objectives of the project are: to develop supply-use balances for all the major vegetable oils produced and consumed in China; to assemble and document agricultural, trade and food policies, which have a significant impact on the production and consumption of edible oils, particularly those, which affect the consumption of palm oil; and to build a palm oil import demand projections model to forecast future growth in China's imports of palm oil under alternative policy regimes and economic growth assumptions.

Materials and Methods

The project consisted of 6 interlinked components that have been conducted in sequence, except for the first two.

Development of edible oil balance sheets

Data from published Chinese statistical sources have been collected in a way to trace the sources and uses of the major vegetable oils marketed in China.

Assemble policy information database

The policies of trade, agricultural and food, which have either a direct or indirect effect on the import of palm oil have been identified in order to docu-

ment how each of the selected policies work and their importance for palm oil use and imports into China.

Develop palm oil import demand projections modelling framework for China from the edible oil balance sheets and policy information databases.

A modelling framework, which was as simple and transparent as possible has been developed. Only the major elements likely to affect import demand for palm oil have been incorporated in the framework.

Estimate, calculate or otherwise determine key parameters and incorporate them into the projections model framework.

Baseline projection of China's palm oil imports to 2005 has been developed by using "most likely" policy and growth scenario.

The effects of alternative policies and growth scenarios have been simulated.]

Results and Discussion

Compared with other developed and developing countries, the current consumption of oils and fats by the Chinese is still low. The per capita consumption varies from a high of 10 kilograms in urban coastal cities to a low of 5 kg in rural area. The average per capita for 1995 was estimated at 7.9 kilograms (6 year average) giving a total demand of about 11.5 million tons. This compared with a total supply of 11.9 million tons for 1995 provided an opening stock of about 400,000 metric tons of major vegetable oils. Hence a stable and relatively convertible position exists for oils and fats in the Chinese market beginning 1996.

With improved living standards and continue rise in consumption levels the per capita consumption of oil and packs amongst the Chinese population

is expected to increase to about 10 kg. The population control program is anticipated to either maintain current natural growth rate or to lead to a slight decline. Assuming that current natural growth rate is maintained the population estimated is 1.750 billion. This will translate into a demand of about 17.50 million tons of oils and fats (ranging from 11.94 under 0% growth in the economy to 33.83 under a 3% growth). The total availability of oils and fats is pegged about 10.00 million tons. A short fall of about 7.500 million tons to be source overseas can be expected. The Chinese consumers demand now is for high quality cooking oils, attractive and convenient packaging. In the food industry the preference has been for vegetable oil - e.g. palm oil in instant noodles production - as most Chinese consumer are beginning to pay greater attention to ingredient in the product label.

We forecast China's palm oil imports for 2005 using time-series forecasting technique. Import data from January 1996 to December 1998 were used. The forecast of 1.03 million tons calendar year 1999 represents an increase of 100 thousand tons over the 1998 calendar year imports of 931 thousand tons but a decline from 1997. Our projection for the year 2005 is 1.072 million tons. A key assumption in this projection is that the world price of palm oil weakens toward the end of the year allowing palm oil to compete in the more price-sensitive segments of China's vegetable oil market.

Conclusions

China will continue to be a very important market for vegetable oils. Domestic production cannot provide sufficient oils to meet consumers' demand and therefore China will have to depend on imports to fulfill its requirement. Palm oil has a niche in China's food

processing sector and parts of the restaurant and catering business, which is not likely to be taken over by other oils. For other uses and for penetrating into new markets, palm oil will have to be priced competitively.

Benefits from the study

The study is able to collect baseline data and develop a forecasting model on the palm oil import requirement of China up to year 2005. The findings of the study should be able to assist Malaysian palm oil agencies like PORLA et al., MPOPC and PORIM as well as palm oil refinery companies to develop and improve trade relationship with China while at the same time increase the competitiveness of the Malaysian Palm Oil industry vis-à-vis other palm oil producers and other types of oils.

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