

## **MALAYSIAN PALM OIL EXPORTS TO EMERGING MARKETS: ANALYSIS OF POLICIES AND ECONOMIC TRENDS WITH EMPHASIS ON CHINA**

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### **Introduction**

Palm oil imports have come to play a very important role in providing a cheap and growing source of vegetable oil for the China market. From annual imports of less than 300 thousand tonnes prior to 1986, China's purchases have increased to more than 1.3 million tonnes in the last five years. This represents almost 20 percent of Malaysia's annual exports of palm oil and in the last five years, China has been Malaysia's most important market. Consequently, this study has sought to understand the forces that are driving China's vegetable oil market, project further growth in vegetable oil demand and draw implications for the Malaysian palm oil industry.

### **Materials and Methods**

The project consists of 5 inter-linked components. First, a set of edible oil balance sheets with time series supply-use balances for the major oilseeds produced in China were put together. These balances include major vegetable oils, including imports for which palm oil is a major component. Next we assembled a policy information database on the key trade, agricultural and food policies affecting vegetable oil consumption in China. The third component is the estimation and/or development of palm oil import demand model for projecting China's future imports. The supply and demand elasticities for the major oilseeds are estimated from annual time series using the balance sheet data. Policy parameters are calculated based on the policy mechanisms and other parameters, such as oil extraction rates from oilseed crush, are taken from industry or government sources.

### **Results and Discussion**

Research results indicate that China has very little scope for expanding domestic production of oilseeds without a major

change in grain policy that would allow land to shift out of grain production. Interviews and analysis suggest that any likely reforms in agriculture policy would continue to emphasise keeping land in grain production in order to achieve the government goal of grain self-sufficiency. Although soybeans, the major oilseed produced in China, are considered a grain for policy purposes, the yields per hectare are less than for alternative grain crops and, consequently, they are given less emphasis in pricing and procurement policies. We incorporate the economic and policy parameters into the projections model to develop a set of baseline projections for China for 2005 from the edible oil balance sheets and policy information databases. These projections show that China's demand for vegetable oils will increase by 3.4 million tonnes annually by 2005 given moderate-income growth of 3 percent for the next decade. Of this amount, China would be able to produce an additional 1.6 million tonnes of vegetable oil from domestic oilseed production, which leaves 1.8 million tons which would have to be secured from foreign sources. Palm oil's share of this market will depend on one key external factor-the price of palm oil relative to soybean oil-and 3 internal factors-the growth of China's food processing sector, changes in regional preferences for particular types of vegetable oils and government import regulations. Of the 1 to 1.2 million tonnes that China currently imports, a "core" demand of 500 thousand tonnes go to the food processing sector which has a strong quality preference for palm oil. The remaining 500 to 700 thousand tonnes go to various uses which are very price sensitive and do not have strong traditional taste preferences.

### **Conclusions**

China's rising income have resulted in major changes in food consumption patterns. A major food source at the heart of this change is vegetable oil where palm oil has contributed significantly to the growing demand. As the demand for vegetable oils is linked to its growing demand for protein meal for use in its expanding animal feed industry, China must either significantly increase its oilseed production or import growing quantities of meal or oilseeds for crushing. Although future palm oil imports by China is expected to be increasing, palm oil would faced potential competition from domestic oilseed production as well as from imports of competing oils and oilseeds.