

Opinion **Lex**

China/Ukraine: siding with Russia puts food security at risk

Shortages have already been a problem as extreme weather last year affected local harvests



China's grain supply shortfall should reach about 130mn tonnes in the next three years © Bloomberg

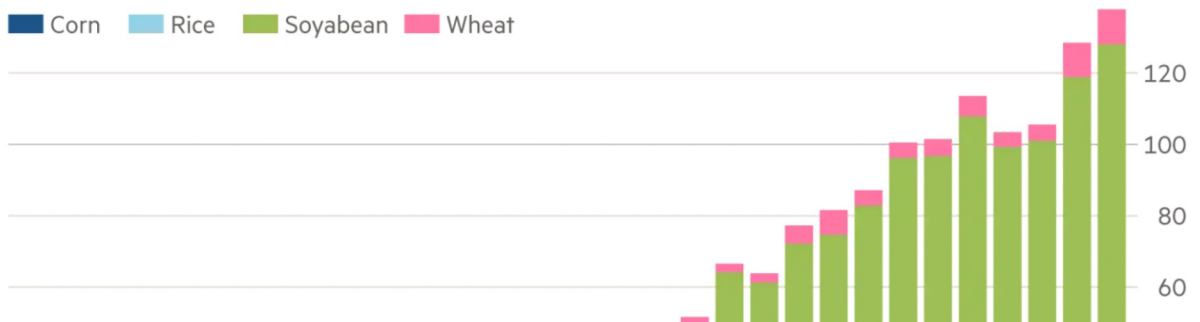
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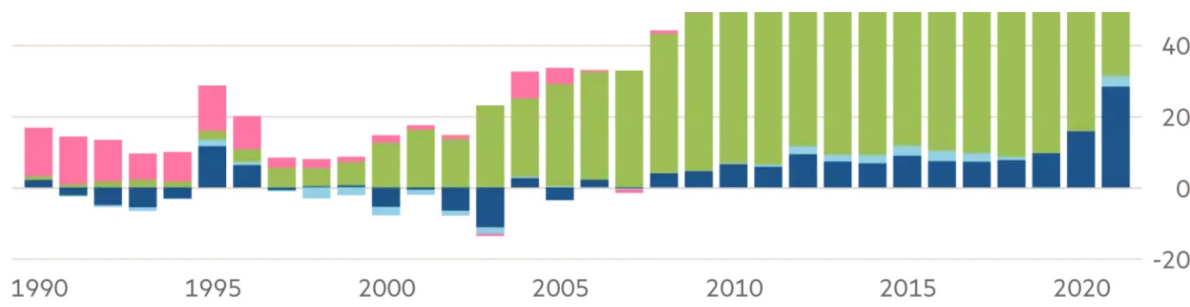
With so many mouths to feed, understandably China eyes self-sufficiency of food supply as important. It has successfully stepped up domestic grain production in recent years. But the country has some way to go. Russia's invasion of Ukraine must worry Beijing given the primacy of Ukrainian exports to Chinese food security.

China is the world's largest agricultural importer. Local production falls short of its needs and Ukraine's crops help fill the gap. Last year, China imported a record 28mn metric tonnes of Ukrainian corn, more than double from the previous year's 11mn. Ukraine is blessed with highly fertile black soil — more than a quarter of the global share — enabling it to produce more than 80 per cent of Chinese corn imports.

China food trade

Net imports (mn tonnes)





Sources: FAO; FT Research
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China has little leeway. Its grain supply shortfall should reach about 130mn tonnes in the next three years. Any resulting scarcity of animal feed would cause even more problems for local food inflation.

Shortages have already been a problem as extreme weather last year affected local harvests. China’s strict zero-Covid policy has amplified supply chain bottlenecks for imported food products. Last month, before the war began, Beijing had decided to release some edible oils from the country’s central reserves.



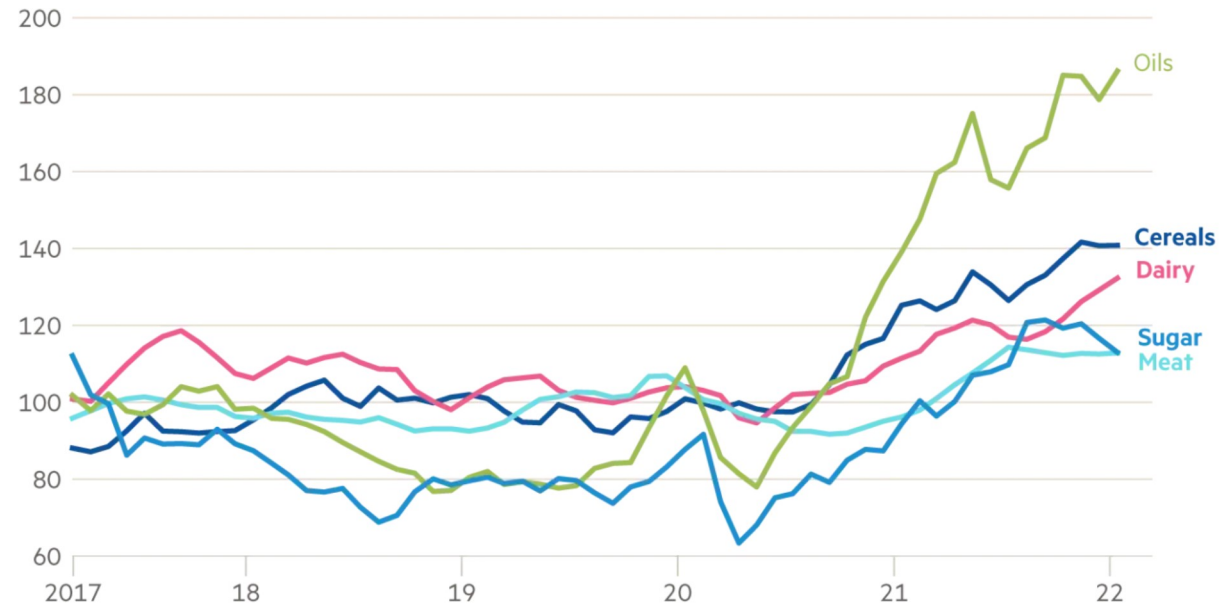
Source: Refinitiv
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While prices of imported wheat and corn have already surged to near record levels, soyabeans are the key weakness for China. It relies heavily on imports for more than 80 per cent of its consumption. Higher input costs for fertilisers and energy only

exacerbate a tricky situation, putting downward pressure on economic growth.

Food prices by type

FAO sub-indices (rebased)



Source: Refinitiv
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That should mean local food and meat companies face a grim outlook. Yet share prices of these companies, such as Cofco Joycome Foods, Jiangxi Zhengbang Technology and Tingyi Holding, have outrun the broader market indices. They have been perceived as havens during Beijing’s recent tech crackdown. However, soaring raw material prices and disrupted imports should squeeze foodmakers’ profitability.

Food security and keeping a lid on inflation is critical this year. President Xi Jinping now prepares to transition into his third term as leader at the National Congress of the Chinese Communist party in the autumn. Thus expect local food companies to take some pain to keep prices down.

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