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Stronger Currency Boosts Chinese Purchasing Power

When converted to U.S. dollars at current exchange rates, Chinese retail food prices are about a fourth of the level of U.S. food prices. Prices of vegetables, which constitute a major portion of most Chinese meals, are as low as a tenth of U.S. prices. The average per capita urban household income in China—when converted to dollars at the official exchange rate—was about $1,600 per year in 2006. With low domestic prices, Chinese consumers can maintain a comfortable lifestyle on seemingly meager incomes—as long as they consume domestic foods.

Imported fruits, for example, are usually eaten only on special occasions or given as gifts in China. U.S. apples are considered a luxury item because they cost several times as much as Chinese apples. Cheaper domestic apples are purchased for everyday consumption.

Since the incomes of Chinese consumers have little purchasing power on world markets, China does not import much food. China's imports have boomed for soybeans, cotton, and vegetable oil, but prices of most imported agricultural commodities are too high to make major inroads in the Chinese market. It has been estimated that less than 5 percent of items in Chinese supermarkets are imported.

Appreciation of the Chinese exchange rate may make imports more affordable for Chinese consumers. After remaining fixed at about 8.3 yuan to the U.S. dollar for a decade, the Chinese yuan has been allowed to appreciate gradually since July 2005. With an ongoing trade surplus, rising foreign exchange reserves, and continuing pressure from trade partners, further appreciation of the yuan is expected.

Normally, a stronger yuan would make imports more attractive to Chinese buyers, but a surge in world prices and record-high ocean shipping rates have kept imports of most grains and meats from being price competitive in China despite the modest currency appreciation. A much larger currency appreciation would be needed to make imports of vegetables, fruits, and processed foods price competitive. These products have especially low prices in China.

Price inflation in China could improve the price competitiveness of imports without an appreciation in the exchange rate, but China has experienced only moderate, intermittent ups and downs in food prices since the late 1990s. A sharp increase in pork prices in China during 2007 led to a Chinese commitment to import U.S. pork during 2007-08. However, the rise in Chinese pork prices was more a reflection of cyclical forces in the hog sector rather than an indicator of broad-based inflation. Chinese hog prices began falling in August 2007, as a major disease outbreak was brought under control and farmers expanded hog inventories in response to record-high prices and government subsidies for breeding sows. Chinese corn and oilseed prices surged in 2006 and 2007, but those increases also appear to reflect world market conditions rather than Chinese inflation.

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This finding is drawn from . . .

China Currency Appreciation Could Boost U.S. Agricultural Exports, Fred Gale and Francis C. Tuan, WRS-0703, USDA, Economic Research Service, August 2007, available at: www.ers.usda.gov/publications/wrs0703/