As you might imagine, we spend a
lot of time here at APAC looking at the
future of agriculture. We’ve also spent
a lot of time urging caution on the
part of folks who feel we are on the
brink of an agricultural boom.

One of the things we hear often
about lately is China’s prospects as a
huge grain consumer in the coming
years. Since a large share of U.S. grain
production is exported, export levels
can have a big impact on crop net
returns.

Oversimplified, the case for opti-
mism about China generally goes like
this (see figures on the next page):
China’s annual GDP growth is expect-
ed to hover around 8 percent to 9 per-
cent. With higher personal income,
the Chinese people generally will eat
more meat. More demand for
meat means in-
creased livestock
production,
which requires more feed grain. The
U.S. is the biggest feed grain exporter,
and there you have it.

According to the U.S. Department
of Agriculture (USDA), Chinese offi-
cials eventually expect to import
between 5 percent and 12 percent of
the country’s annual grain needs. For
a country with 1.2 billion people and
phenomenal GDP growth (i.e., the
money to spend), that’s a lot of grain.

Over the past few years, China’s
agriculture policy gurus apparently
concluded that with transportation
infrastructure and arable land lacking,
China should shift attention away
from grain production to fruits and
vegetables. This shift takes advantage
of China’s primary resource: cheap
labor.
For the United States, these policy shifts have major implications for feed grain producers around the turn of the century. Some projections put China feed grain imports in the range of 20-35 million metric tons by 2005. The high end of that range is more than a tenfold increase from the 2.8 million metric tons of feed grain imports which China averaged during 1994-96.

How would that affect U.S. feed grain producers? In about the ways you might imagine. By most projections, the United States will garner most of this higher demand, and corn export volume increases severalfold by 2005, according many forecasts.

Higher corn demand increases demand for its substitutes, like soybeans and wheat. Interestingly, however, export value for these commodities does not appear to reach historical U.S. record levels by 2005.

Moreover, the logic supporting these projections is not the sturdiest of foundations upon which to build optimism.

China’s ability to make the transition from grain to an agriculture which focuses on more land- and labor-intensive crops may not be as strong as expected. China has a few thousand years of tradition built into its production of grains, and that’s the kind of agriculture that will be hard to change in just a few years.

Speaking of culture, it’s not at all certain that people in an Eastern culture will eat more meat simply because personal income is higher. Currently, Chinese per-capita consumption of red meat is close to the level of Japan — a country with a relatively high level of personal income (see figure below). At the same time, Taiwanese consumption of meat is substantially higher than China or

The forecast: higher income dramatically increases meat consumption, but not as high as in some Asian countries
Although many anticipate record increases in U.S. corn exports...

...The total value of corn exports doesn’t quite reach record levels

Japan. The point is, the link between higher income and higher meat consumption is not at all certain.

Even as late as 1993, China was not only a net feed grain exporter, but it was a major exporter. Before allowing China to become a major corn importer, Chinese officials may instead turn to agribusiness for an aggressive response to that country’s domestic needs. Such a move requires resolving the intellectual property rights issues which currently keep agribusinesses out of China. Under such a scenario, the big agricultural opportunity in China might be for agribusiness and not for production agriculture.

Optimistic expectations for China’s feed grain demand also ignore the ability of other countries to bring additional production on line. After all, following the grain shortages of the 1970s, many countries had brought additional agricultural production on line by the early 1980s.

Finally, there are several political dimensions to consider: (1) It was not too long ago that the U.S. government linked progress on China trade issues with human rights concerns; (2) there have been relatively few countries this century which have had both central economic planning and rapidly expanding personal income; and (3) the influence of Western culture on China’s economic development will have unforeseeable impacts.

We hope that the current optimism is, indeed, warranted. But the bottom line with export forecasts or any time salesmen come calling is this: if it looks too good to be true, then it probably is.
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