

Policy Pennings by Dr. Daryll E. Ray

Perfect record on predicting China corn imports so far: Always wrong

The new-price-plateau discussion has continued unabated as soybean, wheat, and corn prices continue to push the upper limits of price charts. Price run-ups like the current one are exceedingly rare. For the most part the current price climb has been driven by the ethanol market demand for corn, supplemented by crop production problems in the rest of the world. Production problems elsewhere have resulted in increased export demand.

In this atmosphere we continue to hear excitement about the potential to export corn as well as soybeans to China. Exporting large amounts of corn to China has long been the dream of US corn farmers. The logic seems impeccable. With a growing middle class, Chinese consumers will begin to shift away from a plant based diet to one that includes more meat. And, given the limited amount of land in China, they will have to import corn to feed the animals that the middle class customers demand.

At the time the 96 Farm Bill was passed the UDSA projected that China's net corn imports would be 421 million bushels of corn by 2005 with imports growing year by year. Six years later when the 2002 Farm Bill was being considered, the projections had the Chinese importing 268 million bushels by 2011. As we prepare to adopt a new farm bill (2007/2008), USDA projects Chinese imports of corn at 114 million bushels by 2016.

At present, we continue to hear people talk about how important China is going to be as an importer of corn and coarse grains. Their argument is the same as it was back in 1996, "the Chinese middle class will be demanding more animal protein that will be produced using US corn." Before jumping on that bandwagon once more, let's take a look and see what has been happening over the last 12 years.

In 2005, China was projected to have net corn imports of 421 million bushels. In

actuality, China had net corn EXports of 144 million bushels. In 2006 Chinese net corn exports had increased to 207 million bushels. For the past twelve years we have been using the wrong sign when it comes to Chinese corn trade. We have been projecting imports when they have been busy exporting corn. We should mention that in 2002 China EXported 599 million bushels of corn, more corn than we expected them to import in 2005.

How can that be?

A look at Chinese corn production numbers tells part of the story. In 2000, China produced 4.2 billion bushels of corn. By 2006, that number had risen to 5.7 billion bushels of corn, an increase of 1.5 billion bushels over a period of six years.

This production gain was brought about by the usual two factors, an increase in acreage (13 percent) and an increase in area planted (21 percent).

What is the potential for the future of corn production in China? Certainly \$4.00 plus corn will help corn maintain its present level of planted acres. Those prices may also trigger the Chinese to begin to make shifts in cropping practices and changes in the varieties of corn they plant.

At present the Chinese corn yield stands at 85 bu/ac. If the Chinese were to bring their yield up to 150 bu/ac, their corn crop would be an astounding 10 billion bushels; the size of the US corn crop a couple of years ago!

Is that kind of increase possible? Given the way they have defied our expectations for the last 12 years, we would be hesitant to bet against such an increase.

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