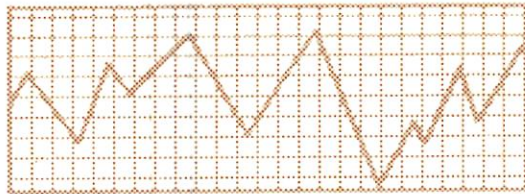




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WEEKLY OUTLOOK

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THE CHINA FACTOR

For about the past year, agricultural markets have been focusing on developments in China. The large population in China, now estimated at 1.2 billion; rapid economic growth over the past decade; and increasing grain consumption per capita have suggested the potential of larger agricultural imports in China for a number of years. In the case of corn, however, Chinese production expanded from less than 3 billion bushels in 1989 to almost 4 billion bushels in 1993. As a result, China became a major exporter of corn. Those exports reached 500 million bushels in 1992-93 and remained large, at 460 million bushels, last year. The 1994 corn crop was record large at 4.1 billion, but net corn exports from China are expected to drop to 20 million bushels this year. Exports will be almost entirely offset by imports, mostly from the United States.

In January of 1994 the Chinese government announced an increase in the state purchasing price of corn that was to take effect in April. The announcement led to stock piling in anticipation of the higher price. Prices had doubled by December 1994. As a result, the Chinese government increased the state purchasing price another 5 percent, suspended corn exports, and started purchasing U.S. corn. Domestic demand has remained so strong that exports have not been resumed.

Domestic consumption of corn in China grew at an annual rate of about 130 million bushels from 1989 to 1992. That growth totaled 280 million bushels last year and is projected at 260 million bushels this year. Demand for corn in China is increasing mainly as a result of large livestock operations to meet rising domestic and export demand for meat.

China is the world's largest producer of wheat, accounting for about 20 percent of the world crop in 1994. However, domestic consumption exceeds production so that imports are large in most years. Over the past four years, imports have ranged from 160 million to 580 million bushels. Imports this year are projected at 400 million bushels. Those imports are 240 million larger than imports of last year even though the 1994 harvest declined by only 125 million bushels. Domestic consumption is expected to be 8 percent larger than that of just 4 years ago.

China is also a major producer of soybeans, but production is highly variable. The crop was estimated at 378 million bushels two years ago, 562 million last year, and 507 million this year. China is typically a net exporter of a small quantity of soybeans. This year net, exports are projected at only 7 million bushels. China is usually a net exporter of small quantities of meal,

but an importer of soybean oil. Imports this year are projected at nearly 2.1 billion pounds, making that country the largest importer in the world. Imports of all vegetable oils are projected at 2.41 billion pounds, more than double last year's imports and about 12 percent above the previous high imports three of years ago.

Many grain and oilseed analysts in the United States are optimistic about the potential for exports to China in the foreseeable future, as economic growth continues. Some draw similarities between the explosion in grain sales to the former Soviet Union in the early 1970's and the potential in sales to China over the next decade. Together with rapid growth in demand in other Asian countries, and the trade expanding effects of GATT and NAFTA, the potential for U.S. agricultural exports appears very bright. Some would suggest that grain and oilseed prices may be on the verge of a rapid increase, led by world demand.

Whether or not that potential for rapidly increasing prices is met depends very much on the ability of world production to keep up with increased rates of consumption. Chinese government officials are optimistic that they can continue to expand production rapidly enough to keep imports at a minimum. Corn yields in China were record large the past two years, but were 40 percent less than the 1994 U.S. average corn yield. If China is not able to expand production rapidly enough to keep up with the current rate of consumption increases, will large imports be politically acceptable and economically feasible? If so, will the rest of the world, primarily, the United States, be able to expand production? With several million acres of crop land in the Conservation Reserve Program, the U.S. has potential to increase production in the longer run.

If production expands rapidly enough, larger exports can be accommodated without significant increases in prices. The real test may be this year, with significant corn acreage under the Acreage Reduction Program.



Issued by Darrel Good
Extension Economist
University of Illinois

Cooperative Extension Service
United States Department of Agriculture
University of Illinois
At Urbana-Champaign
Urbana, Illinois 61801