

Farmland

IN PERSPECTIVE

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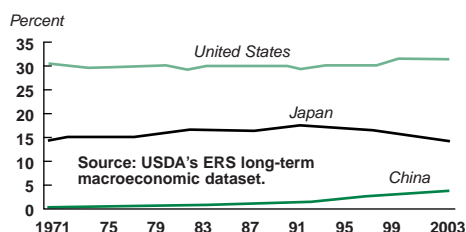
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The Forces Behind China's Dynamic Growth

China's dynamic economy has one of the highest sustained growth rates in the 20th century. It also has gone through profound institutional and structural changes. China has been in a long, gradual transition from rigid central planning toward a more decentralized, market-based economy since initiating economic reforms in 1978. With its accession to the World Trade Organization in 2001, China is playing an increasingly important role in world commerce. Foreign investors from around the world have been attracted to its booming economy. China is a major exporter of manufactured products. It also has become a major player in world markets for oil, metals and other raw materials, and commodities such as grain, soybeans, fruits, vegetables, and seafood.

China's spectacular growth translates into an increasing share of world GDP



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World Grain Outlook

By Darrel Good

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With world grain production and trade remaining dynamic, the United States seems well positioned to gain additional export market share for corn and hold market share for soybeans. Further erosion of the wheat export market share, however, appears likely.

Worldwide

A delicate balance of world grain production and consumption has existed for the last five or six years. USDA estimates of world coarse grain production and consumption indicate that annual world consumption has exceeded annual production in five of the past six years. The 2004-05 marketing year provided the exception, when world coarse grain production reached a record one billion tons. Early projections for the 2005-06 marketing year point to a return to a shortfall in production relative to expected consumption.

A similar pattern has been seen in the world wheat situation, with consumption exceeding production in four of the past five years. Again, the exception was 2004-05 when world wheat production reached a record 624 million tons. For the 2005-06 marketing year, world wheat production is again expected to fall short of consumption.

A very different pattern has emerged for soybeans, with annual world production exceeding consumption in seven of the past eight years. The exception was 2003-04 when both the U.S. and Brazil suffered a production shortfall. Early projections for 2005-06 reveal prospects for another year of rising world soybean stocks.

Corn

The United States dominates the corn export market and had 60% of market share in 2004-05. Argentina is usually the second largest corn exporter (18% market share in 2004-05), followed by China (9% market share in 2004-05). The corn import market is fairly stable, with Japan, South Korea, Mexico, Egypt, Taiwan, and Southeast Asia accounting for the lion's share of world imports.

For the near future, changes in world corn production and trade will be dominated by developments in the United States and China. The most uncertainty centers on China, since U.S. production will likely continue to grow and the

Continued on page 2

U.S. will supply most import needs. Corn production in China has stagnated at about 5 billion bushels due to limited land area and a lack of yield increases.

On the other hand, Chinese consumption of corn is currently growing at about 2% per year. As a result, Chinese corn exports declined from a record 600 million bushels in 2002–03 to 275 million bushels in 2004–05 and are projected at only 120 million bushels in 2005–06. Unless Chinese corn production increases significantly, the U.S. should continue to garner a larger share of the world corn trade. Along with increases in domestic use of corn for feed and ethanol, prospects for increased exports paint a very favorable picture for U.S. corn demand.

Wheat

The wheat market is unique: it has several large producing countries and a large number of trading countries. The largest exporters are the United States, Canada, Argentina, Australia, and the European Union. Market share varies from year to year, depending on regional production. Similarly, the large number of wheat importers includes North Africa, the Mideast, Southeast Asia, China, and Brazil.

The U.S. has lost market share as acreage and production in the U.S. has declined over the last 10 years. That trend may reverse a bit in 2006 with some expansion in

Chinese corn export & soybean and wheat imports

| Year | Corn Exports | Soybean Imports | Wheat Imports |
|----------------------|--------------|-----------------|---------------|
| Million Bushels | | | |
| 1998–99 | 131 | 141 | 30 |
| 1999–00 | 391 | 371 | 40 |
| 2000–01 | 287 | 487 | 10 |
| 2001–02 | 339 | 382 | 40 |
| 2002–03 | 531 | 680 | 15 |
| 2003–04 | 300 | 620 | 140 |
| 2004–05 | 275 | 920 | 250 |
| 2005–06 ¹ | 120 | 990 | 110 |

Source: USDA; ¹ Projected

U.S. acreage, but the long-term decline may continue after that.

The most uncertainty about world wheat trade centers on China. Chinese consumption of wheat declined in 2004–05 and is projected to do so again in 2005–06, mostly as the result of reduced wheat feeding due to ample domestic corn supplies. Chinese imports totaled 250 million bushels in 2004–05, but are expected to decline to 110 million bushels in 2005–06 due to a larger domestic crop. Many observers believe that China will be a larger importer in the next 5 to 10 years as domestic production fails to keep up with consumption needs.

Soybeans

Future production, consumption, and trade developments for soybeans will be focused in the U.S., Brazil, and China. China will be important due to the surge in domestic consumption

and imports during the past 10 years. China is the leading importer of soybeans with net imports of 900 million bushels in 2004–05.

The United States and Brazil will be in a bit of a battle to see who supplies the increasing world demand for soybeans. To date, both countries, as well as Argentina, have benefited from the growing world demand led by China. For 2005–06, it appears that Brazil will retreat from the recent aggressive increase in soybean area due to poor profit prospects — low soybean prices, high input costs, and an unfavorable exchange rate. Expansion potential still exists, however, and will return when profit prospects return.

Summary

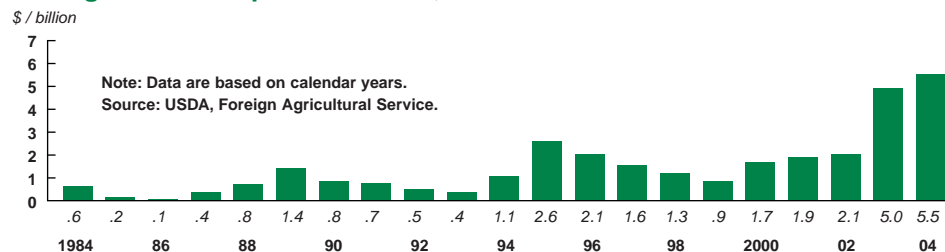
World grain production and trade remain dynamic with the U.S. well positioned to gain additional export market share for corn and hold market share for soybeans. Some further erosion in wheat export market share is likely.



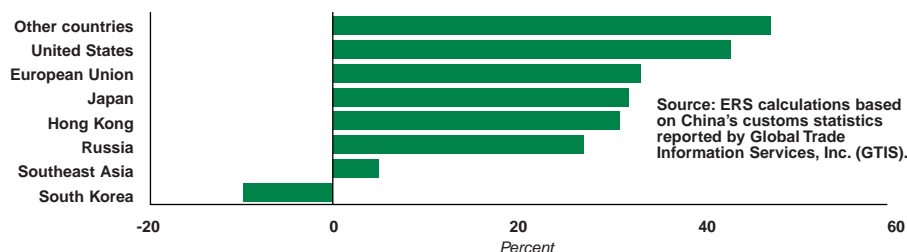
Darrel Good, a professor and extension economist for the Department of Agricultural and Consumer Economics at the University of Illinois, has major extension and research responsibilities in the area of agricultural price forecasting.

Dr. Good co-authored the textbook *Price Forecasting and Sales Management* and is a major author of the *Weekly Outlook* and *Grain Price Outlook* newsletters. He has written numerous articles and bulletins on the subjects of price forecasting, price outlook and the development of marketing strategies.

U.S. agricultural exports to China, 1984–2004



Growth in China's agricultural exports by destination, 2002–04



China's Growth cont. from page 1

Growth in Gross Domestic Product (GDP) averaged more than 8% per year from 1978 to 2002, according to the Economic Research Service (ERS) of the U.S. Department of Agriculture. In 2003, China's GDP grew 9.1% and many sectors grew in excess of 10%. Most analysts feel that the current pace of growth is unsustainable. Even the Chinese government is trying to rein in growth. It set a GDP growth target for 2004 of just 7%, but actual growth in the first half was 9.7%.

It is unprecedented for a large country to sustain such a high rate of growth over two decades. Changes that took decades to achieve in other

Hurricanes Hamper Crop Exports

Robust export prospects might normally translate into high prices for corn and soybeans, but that is currently not the case. Corn and soybean prices have been below the average price of the past two years.

- **The cash price of both commodities is being negatively impacted by disruptions in the export market due to hurricane activity in the Gulf of Mexico.**
- **Cash prices at the farm level are further depressed by higher transportation costs resulting from higher fuel prices.**
- **Cash prices are under the pressure of larger-than-expected production in 2005.**

Hurricane-related disruptions to petroleum refining facilities have contributed to the higher fuel prices. High fuel prices appear likely to persist for some time. However, optimism exists that export capacity will return to normal levels fairly quickly. Hurricane damage to export facilities was relatively minor; most delays are related to navigation issues.

About 60% of U.S. grain and oilseed exports move through Mississippi River export facilities, but the percentage is much higher for corn. The weekly report of the amount of corn moving through the Mississippi River facilities will provide a good barometer of the progress being made in restoring the export capacity there.

To reach the USDA's projection of 2 billion bushels of corn exports during the 2005–06 marketing year, shipments need to average 38.5 million bushels per week from September 2005 through August 2006, with 30 to 35 million per week going through the Mississippi River facilities. During the first four weeks of that period, corn shipments averaged only 28 million bushels per week, with only 19 million going through those facilities.

countries are occurring in China over the course of just a few years. While China routinely grows at rates of 7% to 10% annually, the United States achieved its position as the world's largest economy by sustained growth of about 3% over a period of 100 years. Japan's average growth rate between 1971 and 1991 was just 3.85%. Even the other "Asian miracle" countries have not grown as fast as China. South Korea, Taiwan, and Malaysia achieved growth rates between 1971 and 2003 of 7.06%, 7.35%, and 6.53% respectively, according to the ERS.

China is increasingly important to the global economy. Its share of world GDP has risen from less than 1% in the 1970s to more than 4% in 2003. China has the world's seventh largest economy, behind the United States, Japan, Germany, the UK, France, and Italy, and some economists estimate that China's economy is even larger than official statistics indicate. By 2015, if growth continues as projected, China will be the third largest economy, according to the ERS, with approximately 6.5% of world GDP.

Genetically Engineered Crops Gain Acceptance & Use

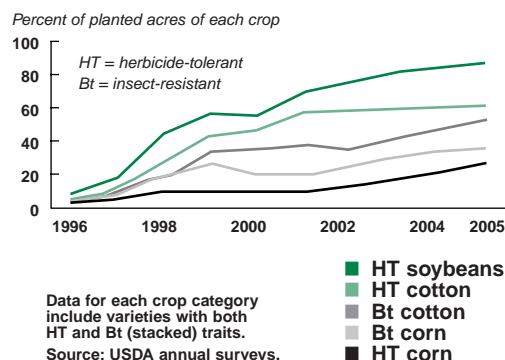
The adoption of first-generation genetically engineered crop varieties with enhanced input traits has increased rapidly despite consumer resistance in some countries. Acceptance has been driven by farmers' expectation of higher yields, savings in management time, and lower pesticide costs. Approximately 200 million acres of genetically engineered crops with traits for herbicide tolerance and insect resistance were grown worldwide in 2004. U.S. acreage accounted for 59% of the total.

Adoption of genetically engineered soybeans, corn and cotton by U.S. farmers has climbed most years since these varieties became available commercially in 1996. The adoption of herbicide-tolerant soybeans has been the quickest and widest, averaging 87% of soybean acreage in 2005. Herbicide-tolerant cotton follows with 61% of cotton acreage.

Insect-resistant crops contain a gene from the soil bacterium *Bacillus thuringiensis* (Bt) that produces a protein toxic to specific insects. Acreage shares are smaller as use depends upon high levels of infestations by the targeted pests. Bt cotton was planted on 52% of cotton acreage in 2005. Use of Bt corn reached 35% in 2005.

Additional existing herbicide-tolerant crops include canola and virus-resistant papaya and squash. Still other biotech crops are in various stages of development. The USDA's Animal and Plant Health Inspection Service, for example, has approved field testing for crops with resistance to virus, fungi, cold, drought, and salinity; crops that increase protein and oil content and produce naturally decaffeinated coffee; and crops with added vitamins and iron.

Adoption of genetically engineered crops grows steadily in the U.S.



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