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China's Corn Surplus Persists, Despite Industrial-Processing Boom

China is using more of its corn to manufacture hundreds of industrial products, including starches, sweeteners, alcohol, amino acids, and citric acid. Chinese analysts estimate that industrial use may have reached 40 million metric tons in 2007/08, about a fourth of the country's corn use. Only the United States uses more corn for industrial processing.

Despite a decade of booming industrial use, China's corn supply still exceeds its demand. China's exports of unprocessed corn decreased in 2007/08 and 2008/09 due to the country's relatively high corn prices and government measures aimed at discouraging grain exports. Exports of industrial corn products, in contrast, grew from 1.4 million metric tons in 2004/05 to 3.4 million metric tons in 2007/08. Encouraged by tax breaks and other government support, industrial processing capacity outpaced domestic demand, and many processors looked overseas to sell their products.

The rising cost of corn in China could dampen growth in corn-based industrial processing. China's corn prices are generally 20-40 percent higher than U.S. prices. (Ocean freight costs and taxes prevent imported corn from being price competitive at the Chinese border.)

To bolster farm incomes and maintain incentives to plant grain, Chinese policymakers are now setting minimum purchase prices for corn and other grains that are tied to rising production costs. During 2008/09, the minimum price encouraged farmers to plant corn. However, many Chinese corn processors cut back

operations because they had to pay high prices for corn while starch and alcohol prices were falling.

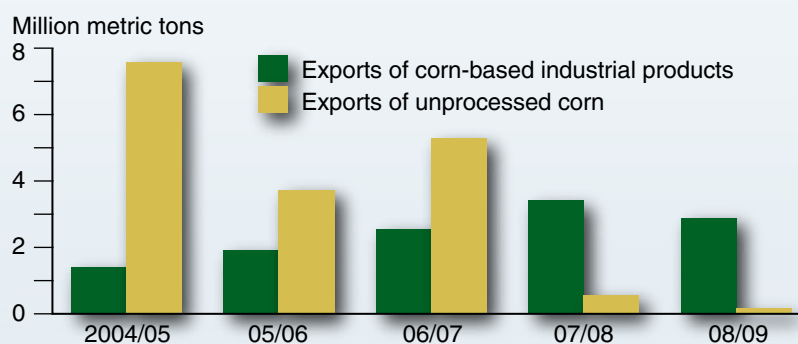
As the 2009 harvest approached, policymakers had to offer companies subsidies to process surplus corn from government warehouses. If policies keep ratcheting corn prices upward and the gap between Chinese and U.S. corn prices widens, the boom in China's industrial processing may cool off. *W*

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This finding is drawn from . . .

China Is Using More Corn for Industrial Products, by Fred Gale, Francis Tuan, Xiaohui Wang, and Zhi Cao, Outlook Report No. FDS-09K-01, USDA, Economic Research Service, December 2009, available at: www.ers.usda.gov/publications/fds/2009/12dec/fds09k01/

China now exports corn mainly as industrialized products



Note: Data are for October-September. Industrial products include corn starch, corn oil, milling and distilling residues, glucose, fructose, other sweeteners, lysine, glutamic acid, citric acid, dextrins, vanillin, and sorbitol.

Source: USDA, Economic Research Service analysis of China customs statistics.



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