

## **Minnesotans Travel to The Land of a Thousand Opportunities**

With a population of 1.2 billion moving toward modernization and a higher standard of living, China stands out like a neon light as a potentially lucrative market for agricultural commodities. Then again, it could become a major competitor to the United States in the world market for those commodities.

To sort out the fact from the fiction, three corn producers joined a trade delegation from Minnesota on a mission to China in November.

“We need to know where they’re at, where they’re headed with renewable fuels,” said Ron Obermoller, who farms in Brewster and serves as a board member of the Minnesota Corn Growers Association (MCGA). “We need to know where they’re going to be on the world market for exporting corn, to position ourselves in the global market.”

Rodney Moe, president of the MCGA, and Roger Moore, a Blue Earth corn producer who serves on the MCGA board of directors, had questions as well: Is the standard of living going to keep increasing, so China consumes all of its corn and needs to import corn, much like they’ve done with soybeans? Or are the Chinese going to continue to eat rice so they have corn to export?

Led by Governor Tim Pawlenty, the trade mission included more than 200 business, government, academic and civic leaders. Governor Pawlenty delivered the keynote speech at the World Biofuels Symposium in Beijing, where his support of renewable energy alternatives was warmly received.

Moe, Obermoller and Moore were part of a food, agriculture and renewable energy group that split off from other parts of the trade delegation to spend three days visiting farms and an ethanol plant in Jilin Province, a corn-growing region north of North Korea. They also toured agricultural processing plants in Shanghai.

After the 11-day trip, Obermoller’s concluded that China is becoming a consumer-driven country. “I can’t imagine how the government is going to control the masses if they don’t increase the cost of living. With the numbers of people they have there, it will be an astronomical market if they become a totally market-driven economy.”

### **A land of many surprises**

Before he traveled to China, Moe had pictured a country with fairly modern corn harvesting techniques. Instead, he discovered the 98% of the corn grown in China is hand-picked. Furthermore, the corn is stored in a crib in front of the farmer’s hut.

“I have a hard time figuring out, when they talk about China exporting corn, where all the corn will come from,” said Moe.

Moore was surprised at the difference between China’s large cities and the rural areas. Shanghai and Beijing are two of the world’s most advanced cities, with elevated freeways and hundreds of skyscrapers.

“The standard of living in the rural area is very low, compared to the city,” Moore explained. “In fact we had it calculated that most corn farmers in the rural area are probably living on \$300 a year in disposable income.”

China has a third of the world’s farmers and one fourteenth of its farmland. About 800 million, or 65% of China’s population, are farmers working plots that average a sixth of an acre, earning a third of the income of city dwellers. Tens of millions of people leave farms every year to work at the factories.

Obermoller had expected to see malnutrition in a portion of the population due to corn exports. Instead, he said the people are well fed.

“In China, whenever the people are hungry, there’s a new government installed. So that’s priority number one for the government, to make sure everybody’s fed. They’ve fed everybody and they’re going on to ethanol and increasing the standard of living. I’m really impressed with what they’re accomplishing over there.”

### **Common ground**

The highlight of the trip for Obermoller was talking face to face with farmers in the Jilin Province. When the group walked down a path at one village, they found one man, to whom they handed a business card translated into Chinese.

“He figured out that we were farmers, and all of a sudden there were twenty men out there talking with us. It doesn’t matter where you go in the world – there seems to be a common bond with the farmers.”

With the help of a translator, the Minnesotans asked questions about farming in China, and the Chinese asked just as many questions of the Minnesotans. Although the younger generation of Chinese learn English at school, the older generations do not understand or speak English.

Moe said the village secretary, who divides the land into 2 to 3-acre sections per farmer, joined the group, too, in conversation about each other’s culture.

“Then, out of the blue, he invited us to tour his house. So we went in, right into his bedroom. They sleep on a sort of cement pad with water pipes that run through it. When they burn corn stalks, that boils the water that runs through the pipes and warms the cement pad. It’s quite an ingenious invention.”

At a soycrushing plant the group visited, Moe spoke with two young women who worked there. They were excited to meet people from Minnesota – home of their idol, the Timberwolves' Kevin Garnett.

### **Back in time**

Through village tours and conversations with farmers, the Minnesotans learned how their corn production methods differ from those of the Chinese. One main difference is the lack of mechanization.

“It was like going back 80 years,” Moore said.

Although corn is planted mechanically, using a 15-horsepower tractor, every other aspect of raising corn is done by hand. They hand-thin the crop as it grows.

“One of the farmers told us that two years ago they had quite a drought in that area,” said Moe. “The people were hand-watering their corn.”

China's growing season parallels ours, so the corn had been harvested by the time the Minnesota delegation arrived. Corn was drying on roofs or patios of the farmers' houses. Farmers were gathering the corn stalks left after harvest and hauling them back to their houses to use as fuel to keep warm through the winter.

“They'll clean the field down like a cement floor,” Moe explained. “There's nothing left when they get done. It almost looks like they've taken a broom and swept the ground because it's so clean.”

Moe questions the long-term effect of the soil when all organic matter is removed. Since farmers don't own the land and may not farm the same piece of land from one season to the next, there is no incentive to build up nutrients in the soil.

### **More ethanol requires more corn**

During a tour of the Jilin Fuel Alcohol Co. plant, the largest ethanol plant in the world, the delegation discovered some curious things.

“For one thing, they were running the plant at less than half capacity,” Moe said. “For an American plant to run efficiently, it would have to be running full time.”

Obermoller thought the plant seemed to be built for show. “Their offices would rival anything you'd see here, with marble floors, huge rooms, gold fixtures. I think their plant was built on a little over 300 acres.”

Cost and return on income did not seem to be important at that plant, Obermoller added. “I think they're more interested in owning the technology and having the plant

operate so they can replicate it in case there are problems with the world's fuel supplies."

The second-largest consumer of oil – 6.5 million barrels of crude oil used per day – China recently enacted a renewable energy law that calls for increased use of ethanol and biodiesel fuel. This would alleviate problems with supply as well as air pollution. Sixteen of the world's 20 most polluted cities are in China.

To produce ethanol with their existing technology, the Chinese need corn. The source of corn for ethanol plants probably comes from the government, not from individual farmers. "When each farmer has a little pile of corn out on his patio, it takes a lot of farmers to provide corn for the ethanol plants," said Obermoller.

During the delegates' tour of the Jilin plant, the road was blocked off to prevent any corn deliveries. However, they saw a line of government-owned 18-wheelers lined up on a road near the entrance.

The country operates a reserve program similar to the one in the United States 20 or 30 years ago, where government-owned facilities store corn. Obermoller thinks when the corn is three or four years old, it goes to the ethanol plants.

He expects China to begin importing corn within the next 5 years. "It depends on how many hiccups are they going to experience. If they continue to eat more meat I'd be real surprised if they don't start importing corn within a couple of years. But if they have problems with avian flu or other diseases, then I can see it being pushed back."

### **A thousand markets**

Moore believes there is a good chance that China will be importing corn for use in their current and soon-to-be-built ethanol plants. "It's our hope as corn growers that they will need to import quantities of Minnesota-grown corn, as a commodity or as value-added livestock or distillers dried grains with solubles."

Obermoller agrees that pork and poultry are good ways for Minnesota to ship corn into China. "They eat a lot of pork and poultry. With the avian flu, they may have to import poultry."

However, the Chinese like to buy a live bird. In Beijing, 10% of the households have a refrigerator. "So that means 90% of the people have to go to the market every day and get fresh food. Some of this is their culture. It's not just economics."

One of the government's main concerns, he said, is that too many of the farmers will move to the city to gain a higher standard of living. The problem is that the cities can't handle them. One way to stem this flow is to raise rural incomes, for instance by increasing their productivity through better genetics in dairy livestock and seed.

That will be difficult until patent rights are enforced in China. “The Chinese like to steal everything,” said Obermoller. “They’ll begin to market it against you to the rest of the world. There’s a lot of opportunities, but there’s also a lot of potential problems. So you aren’t going to go in there and take over the market.”

Obermoller does not expect China to be an exporter in the food and ag sector. “Not with that kind of population. By the same token, maybe they’re an ethanol or biodiesel market.”

Last quarter there was a trade imbalance of \$3 billion between the United States and China, and China is being pressured to find ways to import more to be a good trading partner. The food and ag sector provides many opportunities to create more balance.

Added Obermoller, “There is not one large market in China; but there’s a thousand little ones. When you’ve got 1.2 billion people with small markets, it’s still pretty sizable.”