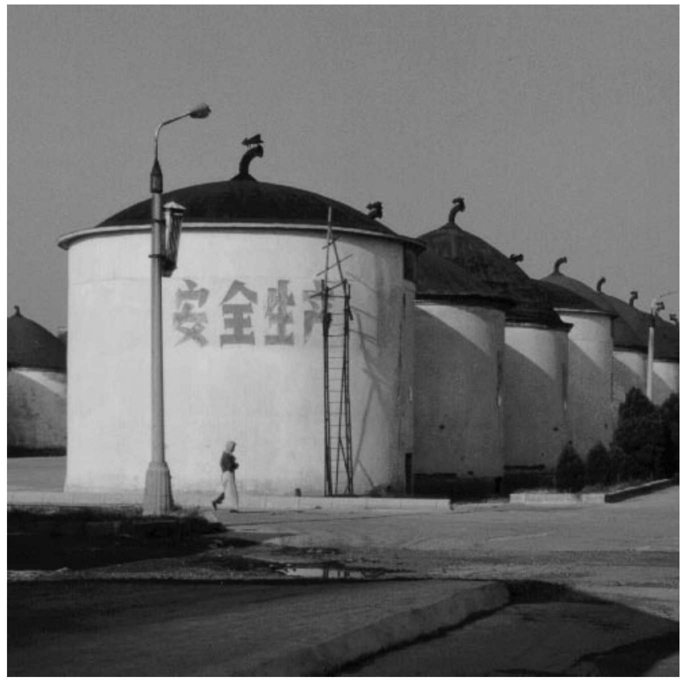
Special Article

State Trading & Management of Grain Marketing in China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The role of state trading enterprises in the People's Republic of China is a key agricultural issue as China seeks membership in the World Trade Organization (WTO). Despite more than 15 years of economic reform, the government's state trading enterprises (STE's) continue to provide China with enormous power to manage the level and direction of the trade flows of several major agricultural commodities, including wheat, rice, and corn.

This control reflects multiple goals that include securing food supplies, protecting domestic production from foreign competition, stabilizing domestic grain prices, and controlling grain trade and the flow of foreign currency. However, WTO members are concerned that the lack of transparency in China's STE activities enables organizations to engage in trading practices that would place competitors at an unfair disadvantage.

China's state trading enterprises are key participants in international grain trade. From 1992 to 1997, China's state trading regime managed an annual average 16.1 million tons of wheat, rice, and corn (imports 8.2 million and exports 7.9 million). The U.S. share of these imports averaged 31 percent during the period (ranging from 45 percent in 1994 to 21 percent in 1997), accounting for 35 percent of U.S. agricultural exports to China.

Wheat dominates China's state grain imports, with annual average imports valued at about $1.3 billion during 1992-97. Annual wheat imports amounted to nearly 8 million metric tons or more than 7 percent of world wheat imports during that period. China exports corn and rice through STE's and captured nearly 9 and 5 percent of world corn and rice exports during 1992-97. Annual average export revenues were $703 million and $230 million.

Unlike some other STE's which are single national entities responsible for exporting a crop to maximize producer revenue (e.g., the Canadian and Australian Wheat Boards), state trading in China involves the entire chain of marketing organizations at the central and provincial levels engaged in domestic and international marketing. Examining each area is necessary to understanding the role of state trading in China because the policies and institutions of both are intertwined, and any attempt to successfully reform state trading practices will have to go beyond the traditional concept of just disciplining single enterprises.

Domestic Grain Policy Returns to Intervention . . .

Before 1980, government central planning dominated domestic grain marketing. The government's Grain Bureau purchased, transported, stored, milled, and retailed all grain leaving the farm. Then in the 1980's and early 1990's, open markets became increasingly important as the government was no longer the sole purchaser and many provinces began phasing out a ration system that allowed urban consumers to purchase grain at low fixed prices (*AO* March 1997). But current grain policy, initiated in 1998, led to a reversal of the use of open markets for domestic distribution and an increase in government intervention in grain production and marketing. This relatively recent return to intervention in the domestic market has led to higher grain output and reduced demand for imports.

China's government and party leaders focus greater attention on domestic production and marketing policies for wheat, rice, and corn because these crops typically account for 88 percent of total grain output (based on the government's definition, which also includes other coarse grains, soybeans, potatoes, and pulses). Leaders have paid less attention to the production and marketing of other grains such as oats, sorghum, millet, barley, dry peas, and beans. State trading is not used for international marketing of these or most other crops, but is used for vegetable oil, wool, tobacco, and cotton.

As was the case prior to the 1980's, central and provincial governments exert considerable control over all aspects of China's food grain sector. Government-owned and managed Grain Bureaus located at province, prefecture, and county levels draw up grain supply-and-use tables to determine grain availability and needs for each administrative unit. Geographic units are classified as surplus if grain output exceeds local consumption

State Trading in China Handles Nearly $2 billion in Grain Imports

	1992-98 average	
	Imports	Exports
	$ million	
Total grain*	1,847	1,076
Wheat	1,261	
Rice	179	230
Corn	148	703
Soybeans		121
Vegetable oil	1,102	
Sugar	382	
Tea		317
Tobacco	185	
Cotton	872	102
Processed silk		267
Unbleached silk		531
Crude oil		2,488
Refined petroleum	2,411	830
Coal		912
Chemical	2,787	
Tungsten		2
Antimony		47

*Includes some minor grains. State trading accounts for virtually all imports and exports of these commodities.

Sources: Government of China; Economic Research Service, USDA; and *China in the World Trading System: Defining the Principles of Engagement*, Kluwer Law International, 1998.

Economic Research Service, USDA

requirements, self-sufficient if output equals local requirements, or deficit if output is less than requirements.

Central and provincial governments determine the quantities of grain they need to purchase, and set purchase prices for wheat, rice, and corn procurement quotas. Farmers who have been assigned quotas must deliver the specified grains to local Grain Bureaus, which provincial and local governments use to manage the purchase and sale of key grains. Grain Bureaus also purchase above-quota grains at local market or support prices. Grain Bureaus are responsible for distributing major grains to military units, wholesale markets, feed mills, grain storage facilities, and grain and food processors, and part of the supply for urban residents in large cities.

Governors from surplus and deficit provinces jointly work out the major movement of grains across provincial borders. The movement of grain within provinces is managed jointly by provincial and local government leaders. For example, even though Liaoning Province is grain-deficit, grain from surplus counties in the province would be transferred internally before grain is brought in from other provinces. The national grain supply-and-use balance sheets enable national government leaders to assess grain export opportunities and import requirements.

Find more information and discussion of state trading enterprises at www.econ.ag.gov/briefing/wto/state.htm

. . . While STE's Continue to Manage Foreign Grain Trade

Current grain trade policy dates back to 1949 when China's leaders established a Customs Bureau, set up tariff schedules, organized a system to issue import and export quotas and licenses, and constructed an exchange control system. Along with its government-controlled economic planning system, China established foreign trade corporations to manage the import and export of grains, edible oils, and foodstuffs.

China's imports and exports of grains (wheat, rice, and corn) are determined by the central government in an annual plan formulated by the State Planning and Development Commission (SPDC), in consultation with the State Council (China's highest administrative body) and the Ministry of Foreign Trade and Economic Cooperation (MOFTEC). Related government departments, including the Ministries of Agriculture, Internal Trade (Commerce), and Foreign Trade, and the State Administration of Grain Reserves (SAGR) are consulted during the planning process. While China's National Cereals Oils and Foodstuffs Import and Export Corporation (COFCO) is highly visible in the world arena, its role is mainly as an agent. Upon approval by the State Council, the plan targets are transmitted to MOFTEC, which delegates the actual trading process to COFCO. COFCO receives a fee for its services.

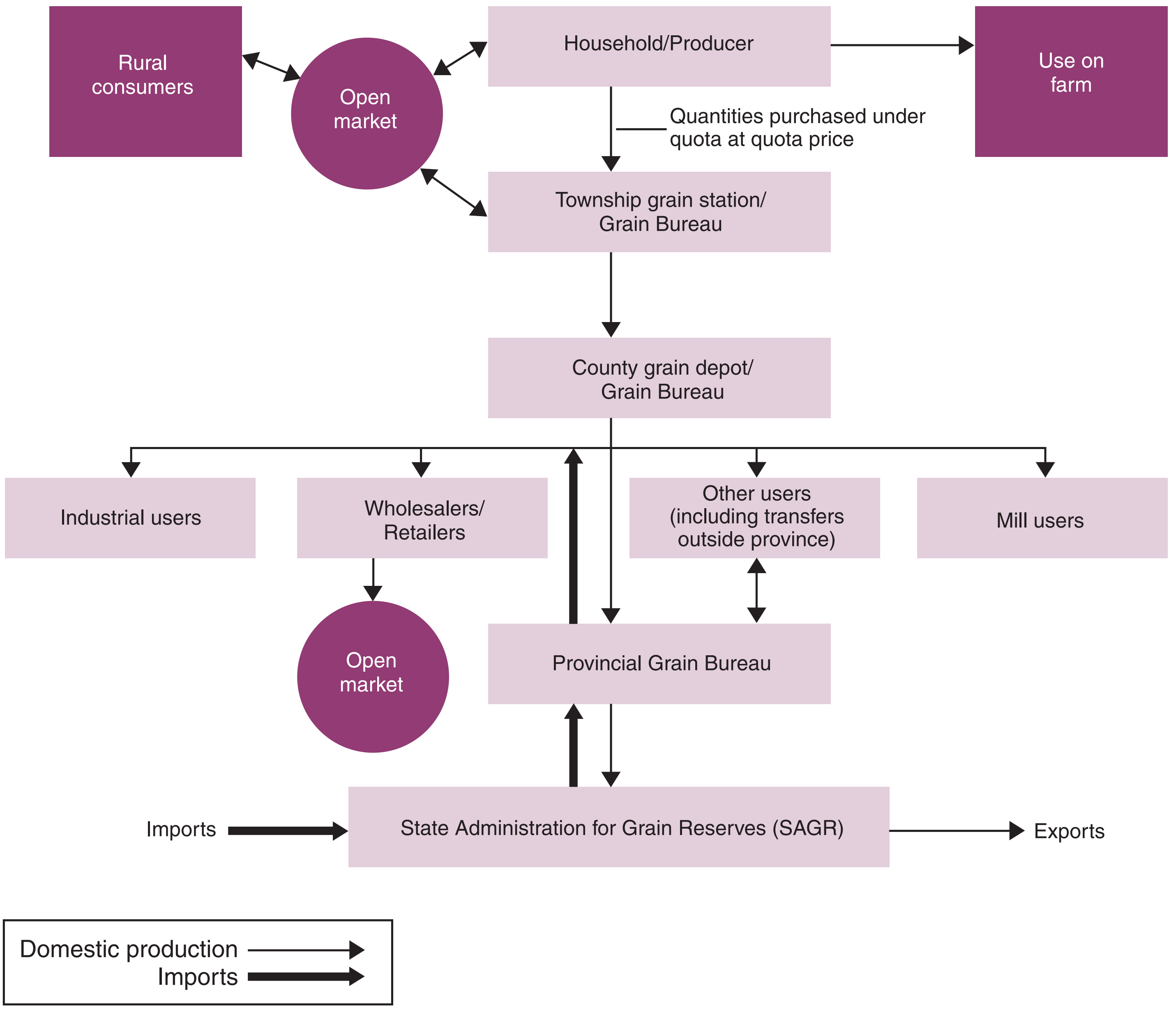
For grain *imports*, MOFTEC orders COFCO to purchase specified quantities and to transfer them to Grain Bureaus at "Government Fixed Imported Grain Transfer Prices" (GFIGTP's). The GFIGTP's are generally based on average procurement prices for the same type of grain purchased in nine cities: Dalian, Qinghuangdao, Tianjin, Qingdao, Lianyungang, Shanghai, Xiamen, Zhanjiang, and Guangzhou. The GFIGTP's are independent of import prices.

When COFCO makes a purchase on the world market and the import price is higher than the average procurement price, the Ministry of Finance subsidizes COFCO for the loss. USDA analysts estimate that from 1985 to 1998 China's central government allocated nearly 39 billion RenMinBi (RMB)—more than US$8 billion—in an effort to insulate its domestic wheat market from international price fluctuations. When the import price is below the average procurement price, the government pockets the difference.

Procedures for importing grains, like decisions on import quantity, are hierarchical in nature. For example, if a provincial Grain Bureau cannot find wheat in the domestic market to meet its requirements, the governor can send a request to the SAGR in Beijing to obtain imported wheat. SAGR evaluates the request, along with requests from other provinces, and forwards a plan to import wheat to SPDC, MOFTEC, and the State Council.

If the State Council approves the application, MOFTEC directs COFCO to purchase a given quantity of wheat to be delivered to certain ports. The provincial Grain Bureau obtains bank loans and contacts COFCO to negotiate the contract with a foreign

China's Grain Marketing System in 1998



Economic Research Service, USDA

wheat supplier. COFCO arranges for the shipment, delivers the cargo to the designated port, and clears it through Customs, the China Commodity Inspection Bureau, and health and quarantine inspections. SAGR and the local Grain Bureaus then transport the wheat to storage and flour mills. Imported wheat is mostly for consumption in urban areas.

In the case of grain *exports*, MOFTEC is responsible for selling the quantity of grain prescribed in the annual plan. The quantities of grain to be exported are acquired by the provincial Grain Bureaus based on the "Government Fixed Exported Grain Transfer Prices" (GFEGTP's). These prices are calculated as the sum of the fixed procurement price in the province where the export grain originates, plus a price differential that reflects quality variations and additional grain processing costs for meeting export standards and contract requirements.

The procedure for exporting grains is similar to that for imports. Upon approval from the State Council, SAGR decides how to allocate the export quotas to various provincial Grain Bureaus. The provincial Grain Bureaus then determine how much grain would come from various prefecture/county Grain Bureaus. The

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Institutional Players in China's Grain Sector

The **State Council (SC)** is China's highest administrative organ. The primary policy making body, the SC decides the quantities of grains to be purchased by the state, the level of procurement prices, stock building and stock use, and the level and direction of grain trade (imports vs. exports).

The **State Planning and Development Commission (SPDC)** is a high-level advisory body that makes economic policy recommendations to the State Council leadership. It recommends action to build or release grain stocks to achieve political and economic objectives, and it recommends the level of grain imports and exports.

The **State Administration for Grain Reserves (SAGR)** draws up grain balance sheets for the entire country and manages the central government's strategic grain reserves. SAGR became part of the State Planning and Development Commission in the 1998 government reorganization.

The **Ministry of Foreign Trade and Economic Cooperation (MOFTEC)** employs experts on international trade policy and trade conditions. It exercises a supervisory role over China's foreign trade corporations and it allocates trade quotas and issues import and export licenses.

The **China National Cereals Oils and Foodstuff Import and Export Corporation (COFCO)** negotiates prices and signs trade contracts, arranges shipping, and ensures shipments pass border inspections. COFCO reports to MOFTEC.

The **Grain Bureau** manages domestic marketing of grains at provincial, prefecture, and county levels. In 1982 it was reduced from a ministry to a bureau within the Ministry of Commerce (Ministry of Internal Trade). In the 1998 government reorganization, SAGR took over Grain Bureau functions at the national level. The system determines the fixed grain quotas that farmers must deliver to local grain stations.

approval for exports is transmitted to MOFTEC, which directs COFCO to negotiate prices with foreign buyers. The provincial Grain Bureau and its local Bureaus that receive export quotas would then deliver grains to ports for COFCO's delivery to foreign destinations.

Prior to 1989, China's COFCO had domestic monopoly power to import or export grain for the central government. COFCO had many branches in various provinces carrying out marketing functions for the central COFCO. Beginning in 1989, many provincial COFCO branches were transferred to provincial governments and given authority to trade specified commodities. Central COFCO, however, remained the central government's agent for wheat, rice, and corn trade.

WTO Membership Under Consideration

Although the volume of foreign trade has expanded dramatically since 1980 while government control over foreign trade has lessened in general, China continues to exercise considerable control over the import and export of wheat, rice, and corn. On the domestic front, current grain policy initiated in 1998 has increased government intervention in grain marketing and led to reversal of the use of open markets. With the holding of large grain stocks, strong controls over domestic marketing, and the tools to manage grain imports and exports, China is in a powerful position to determine the level and direction of foreign grain trade.

On the whole, China has met its objectives to maintain control over foreign trade and to secure food supplies for its people, but this has been accomplished at a considerable cost. The collective result of domestic policies and actions by STE's can restrict access to domestic markets or push excess commodities into world markets, which is a source of concern for WTO members.

Negotiations for China's WTO membership are ongoing, and the final accession commitments are unknown until an agreement is signed. Nevertheless, the broad outlines of China's most recent commitment offer, as reported in the U.S. press, suggests that agreement will have a significant impact on the role and behavior of China's STE's.

China offered in April to bind all tariffs against future increase at their current level and to reduce tariff levels for a large number of agricultural products beginning in the year 2000, continuing through 2004. China would establish tariff-rate quotas (TRQ's) for several bulk agricultural commodities (major grains, in particular). For these products, a specified quantity of imports would be allowed at a low duty, and any additional imports would be assessed a high duty. (Current quota duties are generally more than 100 percent.) TRQ quantities would increase annually through the year 2004 and be subject to specific disciplines to put import decisions on a commercial rather than an administrative basis. These disciplines are designed to ensure a transparent and consistent system for allocating shares of the TRQ to end-users and ensure that quota-holders are not impeded in utilizing their quotas.

In addition, a specific share of each quota would be reserved for state trading enterprises (such as COFCO), and a specific share reserved for any other entity that has a license to trade. Finally, any quota reserved for a state trader not utilized by a predetermined date would automatically become available to be imported directly by any entity with a right to trade.

The potential for policy reform in China's agriculture is immense and the international community is currently engaged in discussions to move China toward a system that is more trade friendly. The ability to assess the effects of these reform attempts will depend, in part, on an understanding of China's complex agricultural system, including the changes it is undergoing and the implications for world food and farm trade. AO

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