



April 10, 2002

## China Steps Up Wheat, Flour, and Product Exports to Asia

### Summary

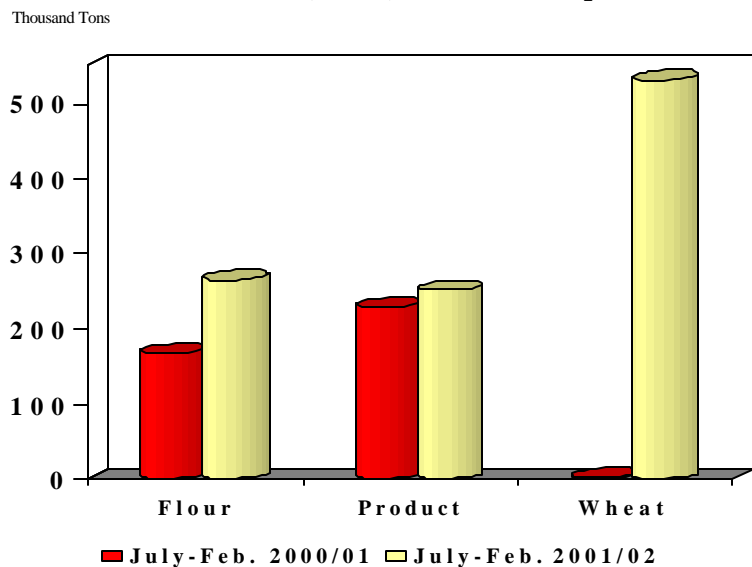
China is pushing large amounts of wheat into feed markets leading to greater competition while stepped-up flour and product exports are creating worries for Asian flour millers.

### Feed Quality Wheat Exports Soar and Intensify Competition

Shipments of feed quality wheat, which constitute all of Chinese wheat exports, have taken off this year. Exports through February totaled more than 500,000 tons compared to only 2,000 tons this time last year. The main destination has been S. Korea which has taken over 400,000 tons. The wheat has been priced very low in order to compete with abundant and cheap supplies from India and Ukraine. However, the Chinese wheat has not only created more competition for these other wheat suppliers but also for U.S. corn sales as it is readily substituted for corn in Korean feed rations.

Also of concern for the United States are the shipments of Chinese wheat to the Philippines which are said to be impacting Soft Red Winter (SRW) sales.

Chinese Wheat, Flour, and Product Exports



### Meanwhile, Flour and Products Sale Cause Concern

With Chinese flour and product sales to date 30 percent greater than last year, many Asian millers are concerned about these cheap supplies which are driving down domestic prices. Indonesia, in particular, has seen large shipments of low-priced flour. Furthermore, other millers throughout the region, particularly in Taiwan, are concerned about this flour hitting their countries in the near future. Taiwan currently does not permit Chinese flour imports. However, Taiwan's entry into the WTO means that potentially large amounts of Chinese flour could be purchased starting in July when the government will decide whether to allow imports. While millers and bakers in Taiwan report that the quality of flour and wheat products from China is poor, the economic downturn has forced bakers and millers to desperately search for ways to cut costs.

**However, Future Exports Will Depend on Governmental Policies**

The large exports to date are, in part, stimulated by government subsidies likely used in an attempt to clear out some low-quality stocks before WTO accession. China's entry into the WTO precludes such direct export subsidies and it remains to be seen whether the government will try to identify other possible means of facilitating exports. Under normal market conditions it is somewhat doubtful that wheat exports are viable long-term. In fact, Chinese wheat has recently lost some price competitiveness in relation to Indian and Ukrainian feed quality wheat. Meanwhile, flour exports have benefitted from the governmental policies but extremely low labor costs and cheap freight rates could allow continued high levels of flour and product exports to S.E. Asia and lead to flour entering Taiwan in the near future.

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