ACESA NEWSLETTER

Association for Chinese Economic Studies Newsletter No. 3 (March 2001)

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ABOUT ACESA

The Association for Chinese Economic Studies (Australia) (ACESA) was founded in 1987 at the Australian National University and was incorporated in 1998 in Canberra. ACESA is a non-profit and non-partisan organisation aimed at promoting research and exchange activities related to the Chinese economy. It strives to become a leading China research network in the West Pacific region. Its current members come from Australia, mainland China, Hong Kong, New Zealand, Singapore, Taiwan and the USA.

ACESA runs an annual conference and organises a regular policy conference series in China. The Association is run by the Executive Committee within the general policy guidelines set by the Council of Management. The Secretariat of the Association is located at the Australian National University. ACESA also maintains a website (http://ajrcnet.anu.edu.au/acesa.htm) and an e-mailing list (cesa-oz@anu.edu.au).

LETTER FROM THE PRESIDENT

Yanrui Wu

This is the first newsletter published after the current management committee took office in mid-September 2000. Thus, on behalf of the team (Zhangyue Zhou, Mei Wen and myself), welcome to the latest issue of the ACESA newsletter.

First of all, I would like to thank Guanghua Wan and his team for the excellent work they did during the last term. The last two years were critical to the institutionalisation of the ACESA. I am pleased that many members have participated actively in the work of and debates on the institutionalisation of the Association. I trust this tradition will continue in the future.

In September 2000, most ACESA members managed to attend the annual meeting at ANU. The meeting was a great success. Congratulations to Ligang Song and his team. Many individuals also contributed to the success of the meeting (refer to the separate report on p. 2). This year, Charles Harvie will convene the next meeting at the University of Wollongong. In addition, ACESA jointly with ANU and the Chinese Academy of Social Sciences will also hold an international conference in Beijing (see the announcement on p. 2 of this newsletter). Work on the two events is proceeding smoothly. I look forward to seeing you all at both meetings.

The newsletter serves as an important avenue for members of the Association to share thoughts and views and to exchange research findings. All members are encouraged and indeed expected to make contributions to the newsletter. After all, it is our newsletter! I look forward to seeing an increased number of contributions to the newsletter.

Other matters on our work agenda include fund-raising and membership drive. As in the past, the management committee expects the support of all readers of this newsletter. For suggestions and inquiries, please feel free to contact me or other committee members.

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CURRENT AFFAIRS

Membership

ACESA members receive the following major benefits:

- discount on ACESA conference/workshop registration fee (usually 20%) and further subsidy towards accommodation and travel expenses for students;
- access to the wide network of expertise for student members through the Student Academic Coordinator;
- free Newsletters and free subscription to the electronic mailing list;
- discount on subscription for the proposed ACESA journal (once launched);
- the input and assistance of other members with your research/thesis/projects/China contacts.

The membership fee is $30 a year for regular members, $10 a year for student members, $150 for 5-year membership and $300 for life-time membership. The application form can be downloaded from the ACESA web page or obtained by contacting the Secretary directly.

Academic coordinator for students

Dr Ligang Song has been appointed as the Student Academic Coordinator (SAC) to help students locate relevant expertise and introduce them to senior economists in their fields. Student members who need assistance or advice from senior members of the Association for their research are encouraged to contact the SAC directly.

Mailing list

To subscribe to the ACESA e-mailing list, send an email message to: listproc@anu.edu.au**.** Do not put anything on the subject line. The body of your message must have the following in the first line: sub cesa-oz <your name>

If you find it difficult to subscribe, contact Dr Ligang Song at ligang.song@anu.edu.au**.** To post a message, send it to: cesa-oz@anu.edu.au**.**

ACESA 2000 CONFERENCE REPORT

By Ligang Song

The China Economy and Business Program at the Australian National University and the Association of Chinese Economic Studies (Australia) jointly organised an international conference on *China: Growth Sustainability in the 21st Century* at the Australian National University on 9-10 September 2000.

The conference drew more than 60 scholars, China experts and graduate students from across the world to analyse the challenges facing the Chinese economy and to explore its growth prospects. The themes of the conference covered several important issues related to reform and growth, ranging from macroeconomic stability, financial system reform, the WTO accession, trade and investment, agricultural reform, to the dynamic development of the non-state sector.

A book based on selected papers from the conference is being published by the Asia Pacific Press. It is entitled *Sustainability of China's Economic Growth in the 21st Century*, edited by Ross Garnaut and Ligang Song.

ANNOUNCEMENTS

ACESA 2001 Beijing conference

By Yongzheng Yang and Yanrui Wu

Achieving Growth with Equity: An International Conference on the Chinese Economy
4-6 July 2001

In a joint effort with the Chinese Academy of Social Sciences and the China Economy and Business Program at the Australian National University, the ACESA will be holding an international conference on the Chinese economy in Beijing on 4-6 July 2001. The theme of the conference will be "Achieving growth with equity", which was chosen to reflect the lively ongoing debate in China on how to reduce regional and income disparities while sustaining the rapid growth of the past two decades. Key issues to be discussed during the conference include:

- Reform of the state-owned enterprises
- Financial sector reform
- Development of the western region
- Environment and sustainable development
- Income distribution
- WTO accession and globalisation
- Trade and foreign investment
- Private sector development
- Rural development
- Political economy
- China and the world economy

The conference organisers have put together a strong program committee. With the help of the extensive networks of the various China research groups around the world, the conference has attracted enormous interest all over the world.

The conference offers great opportunities to meet researchers from around the world and policymakers in China. A one-day tour to the Great Wall and other scenic sites around Beijing will be organised immediately after the conference. Some commercial publications will be produced out of the conference papers.

Contact Dr Yanrui Wu for more information yanrui.wu@uwa.edu.au.

ACESA 2001 Wollongong conference

By Charles Harvie

China's Economy: Confronting Restructuring, Stability, and International Competitiveness
July 14-15 2001

This international conference is the 13th Annual Conference of the Association for Chinese Economic Studies (Australia) (ACESA) and is to be held at the University of Wollongong in Australia. This conference offers a unique opportunity for scholars, policy-makers and practitioners from across the world to analyse the challenges and prospects facing the Chinese economy at the beginning of the twenty-first century.

The imminent membership of China to the WTO places the country on the threshold of immense trade and investment opportunities, but also carries with it dangers of potential economic instability if the necessary restructuring of the economy, and the attainment of international competitiveness by its enterprises, is not conducted in a satisfactory fashion. It is therefore timely and highly pertinent for the focus of the conference to be placed upon economic restructuring, its key components, and the potential problems that still need to be overcome if China's economy is to benefit fully from its participation in the global trading system.

The sub-themes of the conference include:

- Economic restructuring and macroeconomic stability
- Reform of the state-owned enterprises and growth of the private enterprise sector
- Reform of the financial sector and the development of the capital market
- Labour market reforms, migration and unemployment issues
- Income disparity problems and their alleviation
- Reforms of the social security system
- Demographic and social transformation
- Rural economy transformation and its implications
- Economic growth in the West
- WTO accession and trade liberalisation
- FDI and interactions among the Chinese economies of mainland China, Hong Kong, Taiwan and Macao
- International competitiveness

A group of distinguished policy-makers and scholars is being invited to address the conference. It is planned that a selection of conference papers will be published in volumes by a reputable publisher.

Those who intend to present a paper to the conference should submit a proposal, which will be then refereed by a panel, by no later than 31 March 2001. Contributors will be informed of the acceptance of their papers by 30 April 2001.

Graduate students are especially welcome to present their work at the conference.

For further information, please contact the conference convenor, Professor Charles Harvie of the University of Wollongong on Phone: +61 2 42 213702, Fax: +61 2 42 214962, or Email: charles_harvie@uow.edu.au.

New books

Lloyd, P.J. and Zhang, X.G. 2000, *China in the Global Economy*, Cheltenham: Edward Elgar.

Wan, G.H., MacAulay, T.G., Zhou, Z.Y. and Chudleigh, J.W. (eds) 2000, *Chinese Economy towards the 21st Century*, volume 2, The University of Sydney.

VIEWPOINTS

China's New Oil Giants Emerged on the World Scene?

By Yinhua Mai

The year 2000 saw significant moves in the reform of large State-owned Enterprises (SOEs) by the Chinese government. The government packaged the best assets of the two largest enterprises, also the two oil monopolists, into stock companies (PetroChina and Sinopec Corp.) and partially privatised them via the Hong Kong, London and New York stock markets.

This is the beginning of a new wave of partial privatisation of giant SOEs dominating or monopolising key manufacturing and services industries in China. More oil, telecommunication, and iron and steel companies are being restructured in preparation for their overseas Initial Public Offers in the coming years.

The key factor driving the progress in the reform of large SOEs was the massive net losses that occurred to the SOE sector in 1996 and 1997. According to the State Economic and Trade Commission (SETC), the SOE sector as a whole went 38 and 40 billion yuan (US$4.6 and 4.8 billions) in red in the year 1996 and 1997 respectively. This has prompted the government to let go of some of their good assets that they were previously reluctant to share with private owners.

The emergence of the new Chinese oil giants has reset the landscape of the Chinese petroleum industry. It also guarantees to change the landscape of the world petroleum industry as they are destined to satisfy China's appetite for oil and gas. PetroChina has already gained an aggressive image in its bidding for overseas oil resources.

An overhaul of the petroleum industry started from 1998 has created two vertically integrated oil monopolists out of the former state oil producer (CNPC - PetroChina's parent company) and former state refinery and petrochemical manufacturer (Sinopec - Sinopec Corp.'s parent company). It also made the two oil companies the two largest enterprises in China.

On the eve of China's entry to the World Trade Organisation (WTO), the government is helping the new oil giants to establish their monopoly status in the previously competitive markets for the distribution of oil products in China. Thousands of wholesale companies for oil products were either closed down or being swallowed up by the two giants. Similar restructuring was conducted over the retail sector. The number of petrol stations controlled by CNPC expanded from 6,820 in 1999 to 11,350 in 2000. Furthermore, the two oil companies were granted import and export rights for oil and petrochemical products.

Barred from choosing a "go it alone" strategy, multinational oil companies can only "do it together" with PetroChina or Sinopec Corp., if they are to access the vast Chinese markets. Major international oil giants have made a move to establish joint-venture retail networks with Sinopec in southeast China where the bulk of the Chinese market is. Integration with multinational oil companies gives PetroChina and Sinopec Corp. an opportunity to reduce the gap between them and their multinational rivals in terms of technology and innovation.

However, the Chinese oil companies will lose their monopoly power five years after China joins the WTO. Can the new Chinese oil companies survive market competition with their multinational counterparts?

The recent reform has allowed China's oil companies to shed, to a large extent, their renowned characteristics as typical Chinese SOEs, including heavy debt and social welfare burden, high level of redundancy, backward technology, and direct government involvement in daily business matters. The packaging into stock companies has also allowed them to gain reasonable financial health in terms of rates of return to capital employed and debt to net assets ratios.

Most importantly, the packaging into stock companies allowed the oil companies to establish an institutional framework to address corporate governance issues. Boards of directors (instead of government bodies) now assume the job of appointing senior managers and deciding where the companies will be heading. The oil companies each acquired three independent non-executive directors in their boards to represent minority shareholders. The managers were given stock options to tie their income to the interests of the shareholders. Internationally reputable accounting firms were appointed as auditors for PetroChina and Sinopec Corp.

While they still fall behind their multinational counterparts in terms of production and marketing capacities, production costs, technology, and financial health, the Chinese oil companies have a good potential in cost reduction. PetroChina is well placed compared with its multinational competitors in terms of the amount of oil resources it controls.

Whether PetroChina and Sinopec Corp. can become efficient business corporations will depend on the government's ability to complete the reform tasks it has set to do. Two issues are important here. One is to further reduce state share in the new oil companies to ensure more effective corporate governance. Currently, market influence over the Chinese oil companies is still very weak as PetroChina is still 90 per cent state owned and Sinopec Corp. 53 per cent.

The other key issue is for the government to unleash entrepreneurial spirit of SOE managers by adequately awarding top performers. More emphasis in SOE reform so far has been placed on changing the award system for workers. High rewards to managers who have turned losses to profits have been a sensitive issue. The current level of remuneration is too low to bring great performance out of the senior managers of large

SOEs, especially when compared with the multi-million-dollar remuneration packages for CEOs of their multinational competitors. According to PetroChina's annual report, remuneration for directors and senior managers is within 1 million yuan (US$120,000).

For Chinese oil companies to explore their potential competitive advantage over their multinational counterparts, the key is to motivate the management with an appropriate awarding system. In particular, *SOE managers should be provided with the opportunity to earn unlimitedly high income through legal channels.* This will unleash the entrepreneurial spirit that is flourishing in private enterprises in China.

(Dr Yinhua Mai is with the East Asian Institute of the National University of Singapore, eaimaiyh@nus.edu.sg. She has recently written a paper on "The Competitive Advantage of China's New Oil Giants".)

Deregulation and Reforms in China's Telecoms Sector

By Yanrui Wu

Mr Zhang, a Beijing resident, recalls that he used to go to the post office in order to make an international call. The rate paid was 25 yuan per minute. Nowadays, Mr Zhang has a telephone on his bedside, a mobile phone in his pocket and a desktop pc with email and internet access in his study. He pays for international calls at a rate of 5 yuan per minute. Mr Zhang's story partly reflects the changes and resultant consumer benefits due to deregulation and reforms in China's telecoms sector in the past decade.

The government-owned China Telecom has, for a long time, been the only provider. As an experiment, in 1994, the authority approved the establishment of the second national carrier, China United Telecommunications Corporation (Lian Tong or Unicom). Unicom has, however, experienced major problems in interconnection with China Telecom, the main owner of fixed lines. In addition, Unicom as a new entrant was too small to compete with the incumbent, i.e. China Telecom. However, following the restructuring of the administrative system of the central government in 1998, the organisational structure of China's telecoms sector has changed. One of the main initiatives was to break up China Telecom's four divisions of services into separate entities. As a result, four independent companies were formed. They are responsible for the fixed line, mobile, paging and satellite communication services, respectively. The fixed line services maintain the name China Telecom that was officially incorporated on May 17, 2000. The mobile service department of the old China Telecom became China Mobile (China Mobile Communications Group) which was formally established on May 16, 2000. A new company which will provide satellite telecoms services was also approved by the State Council. The paging arm of the old China Telecom has merged with Unicom. Although the split companies will operate in their respective areas, *they will eventually be allowed to enter each other's businesses*. The objective of the reform is to break the monopoly of the old China Telecom and hence to promote competition among the providers. In particular, after the restructuring, the new China Telecom, China Mobile and Unicom are compatible with each other in size and hence are more equal rivals. In terms of market shares, the three big players now dominate the sector. Other minor players include Jitong, Great Wall, China Satellite and Netcom.

Competition in the fixed line services has so far been limited, as the new China Telecom is still the overwhelmingly dominant provider in the market. Unicom is the second provider but its services through interconnection with China Telecom have been problematic. As a result, Unicom has been building its own fixed line network though the capacity of its network is still limited. With further deregulation, the situation in the fixed line services will change. One possibility will be the emergence of joint services by Unicom and the cable TV networks. The latter are at present not permitted to provide telecoms services. In terms of the length of fixed lines, the cable TV networks can match China Telecom. At the end of 1998, the cable TV network had over 77 million subscribers, with a density greater than that of China's telephone subscription during the same period. In particular, the cable TV networks have access to a large pool of households. However, the cable TV networks are owned and operated by hundreds of entities, and mainly suitable for one-way communications. There are also problems with interconnections as many networks are not connected with each other. At present, some small networks have been expanded to provide telecoms services to local communities. If regulatory barriers are removed, it is expected that more local cable TV networks will extend their services into the telecoms sector. For instance, Unicom may upgrade some cable TV networks to provide voice and data communication services. The target of Unicom is eventually to have a market share of 20 per cent in long-distance calls via its fixed lines. *It can be projected that the* *dominance of China Telecom in the fixed line services will continue in the near future*.

China's paging service sector, the largest in the world, is the most competitive area in the telecoms industry. The provision of paging services was deregulated in 1993. It was estimated that there were more than 2000 licensed providers in 1998. Unicom has a market share of about 50%. This sector is now experiencing mergers and bankruptcies. The direction of further growth is to provide two-way paging and data communications services. For example, Unicom is providing two-way paging services in Shanghai.

In the area of mobile services, the market is divided between the two main players, i.e. China Mobile and Unicom. China mobile has a nationwide GSM network. Currently, Unicom is granted a licence to build a nationwide CDMA network. In 1999, Unicom had a market share of about 15%. This share is expected to rise to 35% by 2005. The third provider is China Great Wall Communication Company (Great Wall) which was partly owned by the People's Liberation Army (PLA). It was intended to build a CDMA network in China. As the PLA has been banned from business activities, the future of Great Wall is uncertain. By the end of 2000, the total number of mobile phone users in China amounted to about 81 million. China is now the world's second largest mobile phone market, behind America. Although the two national carriers have dominated the market, competition between them has already lowered the cost of mobile phone services considerably. Two other licence holders, i.e., China Satellite and China Telecom, are also expected to provide services in this area. It can be predicted that competition will be tense in China's mobile phone sector.

Data communications are mainly provided by four networks, i.e. Chinanet (China Telecom), Uninet (Unicom), ChinaGBN (Jitong) and CNCNET (China Netcom). Each network has its own advantages. While China Telecom has its existing large customer base, Unicom's network is better positioned in terms of technology and network structure. In the meantime, Jitong (Jitong Communications Corporation), established in 1993, is working towards expanding its current network capacities and improving its speed. The newest entrant, CNCNET, is, however, exploiting services through broadband cable facilities. The owner of CNCNET is China Netcom which was founded jointly by the Chinese Academy of Sciences, the Ministry of Railway, the State Administration of Radio, Film and Television (SARFT) and Shanghai Municipality. CNCNET will be based on IP (internet protocol) technology to provide high speed voice and data services. In addition, there are also two free education networks, i.e. CERNET (Chinese Education and Research Network) and CSTNET (Chinese Science and Technology Network). In terms of capacity, ChinaNet and CNCNET are the largest.

As for internet telephony, five companies are licensed, i.e., Unicom, Netcom, Jitong, China Mobile and China Telecom. Unicom has a market share of 50%. Netcom, as a new entrant, is leading the development of broadband network for data communications. By the end of 2000, China had about 20 million registered internet users. The figure is expected to reach 100 million in five years. Currently, the five providers have a total capacity of 56 megabytes for internet telephony. It is reported that 10% of China's international voice calls were made through IP telephony in 2000 and this figure will jump to 35% in three years.

China's telecoms sector has moved away from state ownership and monopoly to state control through shareholding and competition. Both China Telecom and Unicom are partly floated. Jitong will also list in offshore stock exchanges. Though value-added services have been deregulated internally, participation of offshore investors and service providers in China's telecoms sector has to date been limited due to government regulations. The current situation will however change with China's accession to the WTO in the near future. Under the WTO agreement, China will allow foreign companies to hold shares up to 50%.

Although already one of the largest in the world, *China's telecoms sector will continue to expand in the coming decades.* This growth prospect is determined by several factors. First, China's level of economic development is still far behind the developed world. The current trend of robust economic growth will remain at least for another decade. Growth-driven demand for telecoms services will increase continuously. It is estimated that the number of telephone lines in China will increase from 160 million in 1999 to 370 million in 2010 and 1 billion in 2020 and that the number of mobile phone subscribers will reach 250 million by 2004. Second, though great in aggregate, China's telecoms sector is still small on a per capita base, which implies the huge growth potential for China's telecoms sector. In addition, development in China's telecoms sector is uneven. There are both regional and urban-rural imbalances. In general, the urban areas are much better developed than the rural areas. In 1999, the teledensity of 19.2 per cent in urban China was much higher than that of 3.9 per cent in rural

China. In addition, the central and western regions lag behind their coastal counterparts. Finally, reforms and China's WTO membership will lead to further deregulation and hence increasing competition in the telecoms sector. Growth will be driven by consumer demand for more and better services.

(Dr Yanrui Wu is with the Department of Economics of the University of Western Australia, yanrui.wu@uwa.edu.au. Recently he conducted a project on China's Telecoms Industry.)

Joining the WTO and China's Food Security

By Zhangyue Zhou

There has been plenty of food in China in recent years. This gives many people the impression that having food is not a problem in China. True, overall, food is not a problem for many at present, though it is still a problem for the less fortunate. However, will food never be a problem for China in the future? Maybe not!

I was glad to see the food security issue raised in a recent report by China's Xinhua News Agency (www.peopledaily.com.cn/GB/jinji/32/180/20010301/405840.html), particularly at a time when many considered there to be too much food grain. According to this report, food security was included for the first time in the agenda of the central government's Rural Work Meeting that was held in Beijing recently. Indeed, it is important to raise this issue at this point of time when many think there is plenty of grain and when China is about to join the WTO.

In order to join the WTO, it seems China has done much to sacrifice its agricultural sector, including opening its staple food market, to exchange for the WTO membership. It is my view that China should be extremely cautious in making promises for changes in trade arrangements that will affect future staple food imports into China.

The purpose of trade is to improve the standard of living of the citizens of a nation. This improvement cannot, however, be achieved without economic and social stability. Whilst many factors affect a nation's economic and social stability, foremost amongst them is the availability of food, especially for populous developing countries such as China.

Due to the extreme importance of food to developing countries, I have proposed that staple food markets in developing countries should not be coerced to open to the world market. This proposal was first put forward in a paper I presented in 1998 at the Taipei International Conference on East Asian Food Security Issues in the 21 Century. I later refined it and shared it in a memo with research team members who were involved in an ACIAR-funded research project on Indian agriculture. I still insist on this view.

Food has an immediate appeal to deeply-rooted human feelings because it is a matter of life and death. Given the importance of the staple food to the majority of the population in a developing country, I believe that *the decision as to whether the staple food market is to be liberalised should be left for that country to decide. A developing country should not be forced or enticed to open its staple food market to the rest of the world*. On the other hand, its non-staple food market and other agricultural product market may be subject to negotiation for access by other countries.

It is wise for China to insist on a 'self-reliance first policy' in supplying food to its huge population, even if at a higher economic cost. Even though the cost of importing grain is lower than the cost of producing it domestically, and China has enough foreign exchange to pay for the import, other issues cannot be neglected.

- It may appear that, at current prices, importing grain is cheaper. However, the world grain price may rise sharply if countries like China do import large quantities of grain. In addition, changes in the agricultural subsidy policies of the EU and the US could also cause price fluctuations. Further, the possibility of large-scale world unrest, which could result in a dramatic change in world grain prices, cannot be ruled out.
- China has a large rural labour force, most of which is engaged in food grain production. If a large quantity of food grain were allowed to be imported, what would the large rural labour force do? Even if there exist comparative advantages for labour to work in other industries, the shift cannot be made without major changes in certain social and economic conditions and it takes time for these changes to take place.
- The foremost important national goal is to maintain a country's economic and political independence. Experience has shown that the dependence of a nation's food supply on other nations often leads to its economic and political dependence on others. It is in the interest of China to try to avoid being heavily reliant on grain imports.

It may be the case that, to maintain a high level of self-sufficiency, China has to bear some extra economic costs. However, if China chooses not to bear some economic cost at present, it may ultimately pay high social and political costs, in addition to an even higher economic cost, in the future. *This is illustrated by the present Indonesian crisis.*

Cheap imports damage the domestic grains industry and undermine a country's long-term food security. In terms of damages that cheap imports can cause to a country's grain industries, two cases are worth noting:

- Daniel P. Moynihan, onetime American ambassador in India, in his book *A Dangerous Place* (1978, p. 17), noted about the PL-480 transactions in the 1960s: "The great symbol of American intervention in Indian life was the enormous rupee debt to U.S., incurred in payment for grain shipments, notably in the mid-1960s. The grain was eaten and soon forgotten. The debt remained, equal to a third of the Indian money supply, to be paid, if ever, by great grand children. Already it was being put about (in India) that far from being an act of generosity, the wheat had been 'dumped' on India to sustain American farm prices. Soon, surely, it would be 'discovered' that the larger purpose had been to injure Indian agriculture."
- During the 'Great Depression' in the early 1930s, a number of countries, especially the United States, in order to solve their food surplus problems, dumped a great amount of food into China's market, which seriously depressed grain prices in the market, leading to bankruptcy of many farmers. China's grains industry was seriously injured (Xu 1996, pp. 189-192).

When import source shrinks (due to reasons such as poor harvest of exporting countries, major world unrest, or disputes between the importing and exporting countries), a country's grains industry cannot recover over night in order to produce the needed grains (and in some cases, it is questionable whether the grain production capacity can be recovered at all, e.g., fields have been used for construction of roads).

Some of my colleagues may argue that we have to compromise in some areas in exchange for larger benefits in other areas in trade negotiations. That is legitimate. However, I personally hold the view that under no circumstances should the staple food market be part of the compromise deal. The reason: a reliable source of food supply is the foundation of a country's development. If this foundation, especially in a sizeable country like China, is left to be maintained by others who do not necessarily have a long term interest in the country's development, then one may wonder how such a country can sustain its long-term development.

A higher level of grain self-reliance in China is not only in the interest of China but also in the interest of everyone in the rest of the world. Any attempt by developed countries to coerce China to open its staple food market is short-sighted. This would also be very dangerous and potentially detrimental to long-term international peace and development.

For the sake of China's food security, for the sake of China's social stability and sustained economic growth and development, and for the sake of world peace, China needs to insist on a "self-reliance first" policy on its staple food supply. China must be extremely cautious in opening up its staple food market to the rest of the world and must not let the joining of the WTO jeopardise its long-term food security.

(Dr Zhangyue Zhou is with the Asian Agribusiness Research Centre of the University of Sydney, *zzhou@orange.usyd.edu.au.)*

References

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Xu, Z.L. (ed.) 1996, *Food Economy History of Contemporary China*, Chinese Commerce Press, Beijing.

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