

Philippa Kelly
EU-China Trade Project
BEIJING



Impact of WTO Accession on Agriculture in China

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Presentation Guide



- Overall Impact
- Pre-accession agriculture developments
- WTO accession: outcomes for agriculture
- Post-accession: trade policies and access
- Current issues in rural China
- Foreign investment in agriculture in China
- China's future as an agriculture exporter and importer

Impact of WTO accession on agriculture in China



- Star billing for China agriculture issues
 - In China, not only WTO, but because agriculture a critical, central issue for government
 - Overseas, China first large agricultural producer and market to accede to WTO following Uruguay Round
- Accession impact on Chinese agriculture
 - Maybe not so large
 - Changes in Chinese agriculture more results of social and political drivers

Impact of WTO accession on agricultural imports



- Impact on agriculture imports much greater
 - overall growth in the economy
 - rising living standards
 - Changing consumption patterns
 - Meat, dairy, fruit, exotic imports, (Haagan Dazs)
 - Increasing industrialisation and processing capacity

Agriculture developments in China before WTO accession



- Following economic liberalisation and reform, post 1978 growth was dependent on changes in the agricultural sector
 - Decollectivization, price increases, relaxation of local trade restrictions - ignited take-off of China's agricultural economy after 1978
- Rapid economic growth boosted demand for higher value products
- Result: major shifts in the structure of agricultural production

Agriculture developments in China before WTO accession



- Major changes in external trade
 - 1980 ag products over 50% of total exports
 - By 2000 fell to 10%
- Composition of ag trade increasingly reflects China's comparative advantage
 - Fall in grains, oilseeds, sugar exports
 - Rise in higher-valued labour-intensive exports
- by late 1990s 80% of ag exports
 - horticulture, animal, aquatic products

Access for imported agricultural products to China



- Pre-accession
 - Bans on import of many agricultural products
 - Poor understanding of SPS issues
 - Opaque system of licences and import permits
 - Grey market

Negotiation of bilateral market access agreements



- Bilateral market access agreements
 - Australia
 - US
 - EU
 - Consolidation of schedules
 - Importance of negotiating SPS agreements

Negotiation outcomes



- Post-accession undertakings
 - Lifting of long-standing bans on import of: corn, wheat, citrus products, meat...
 - Commitment to curb export subsidies
 - Commitment to a cap for trade- and production-distorting domestic subsidies
 - Implementation of tariff-rate quotas
 - Commitment to eliminate import monopolies

Negotiation outcomes



- Tariffs: pre accession

China's Tariff Adjustments 1992-1999	
Simple average tariff rate	
As at	%
January 1992	43.2
December 1992	39.9
December 1993	36.4
July 1995	35.6
May 1996	32.0
October 1997	17.0
January 1999	16.5

Negotiation outcomes



- Tariffs: accession and beyond

China's Tariff Adjustments 2001-2004	
Simple average tariff rate	
As at	%
January 2001	15.3
January 2004	9.9

Negotiation outcomes



- Tariffs
 - China cut most tariffs **prior** its accession to the WTO in December 2001
 - As part of its accession commitments average agricultural tariffs were cut from 31 percent in 2000 to 17 percent in 2004

Negotiation outcomes

Tariff Rate Quotas		
Commodity	Million t	% dom consumption
Wheat		
Imports 1994-5	11.6	10.3
Imports 1997-8	1.5	1.3
TRQ upon accession	7.3	6% of 1998
TRQ 5 years after accession	9.6	9% of 1998
Maize		
Imports 1994-5	5.3	5.2
Imports 1997-8	0.3	0.2
TRQ upon accession	4.5	2% of 1998
TRQ 5 years after accession	7.2	4% of 1998
Sugar		
Imports 1994-5	3.0	27.9
Imports 1997-8	0.5	5.6
TRQ upon accession	1.6	18% of 1998
TRQ 5 years after accession	1.9	22% of 1998

Negotiation outcomes

Tariff Rate Quotas		
Commodity	Million t	% dom consumption
Rice		
Imports 1994-5	1.6	1.3
Imports 1997-8	0.3	0.2
TRQ upon accession	2.7	2% of 1998
TRQ 5 years after accession	5.3	4% of 1998
Cotton		
Imports 1994-5	0.8	16.9
Imports 1997-8	0.2	4.9
TRQ upon accession	0.7	17% of 1998
TRQ 5 years after accession	0.9	21% of 1998
Wool		
Imports 1994-5	0.2	48% of 1996
Imports 1997-8	0.1	29% of 1996
TRQ upon accession	0.2	52% of 1996
TRQ 5 years after accession	0.3	62% of 1996

Negotiation outcomes

Tariffs on farm products			
Product	Actual tariff rates 2001 %	1 Jan 2002 %	1 Jan 2004 %
Beef	45	23.2	12
Pork	20	18.4	12
Poultry	20	18.4	10
Dairy	50	20-37	10-12
Citrus	10	20	12
Tobacco	34	28	10
Vegetables	30-50	13-29	10-15
<i>Motor Vehicles</i>	<i>80-100</i>		25

Summary of post-accession agricultural trade policies



- Tariff-rate quotas
- State-trading
- Value-added tax
- Non tariff barriers
- Export subsidies
- Export quotas

Access for agricultural products to the China Market



- Post-accession
 - Not much easier – working with AQSIQ
 - Slightly less opaque administrative system
 - Incremental changes
 - Notification of first cases of food and mouth to the OIE

Domestic perception of China's WTO agriculture commitments



- Press and public opinion
 - Devastating impact on Chinese agriculture
- The Ministry of Agriculture reaction
- The Ministry of Commerce reaction
- Intervention by Vice Premier Wu Yi
 - Mandate for multilateral negotiation moves to Ministry of Agriculture, April 2002

What has China gained?



- A strong negotiating position
- Yet more stress on the system
- But a lever for further domestic agricultural reform

Attitudes to the current agricultural negotiations



- China considers it has already made massive commitments in agriculture
 - Far beyond most other members
 - Down payment for entry to the club?
- China has no water in its tariff rates
- Rural situation very fragile
- However, still pro agricultural trade

Current agriculture debates in China



- 2003-4-5 Agriculture again takes centre stage in domestic debates on economic and social development
 - 2003 solution of 'Sannong' made central task of CCP
 - both 2004 2005 No 1 Document focus on agriculture
 - possibly largest shift in China's agricultural policy ever attempted including
 - massive financial transfer to countryside
 - Elimination and reduction of agriculture tax

Current issues in rural China



- San**nong**

➤ “three-dimensional rural” issues

- **nongmin** – peasants (social)
- **nongcun** – villages (political)
- **nongye** – agriculture (economic)

Current issues in rural China



- Land - Dilemma of ownership reform

- fragmented holdings are barrier to
 - economies of scale
 - technical upgrading of agriculture
- privatization widely supported but 'unconstitutional'
- compromise policy of "hardening" contracts
- ownership vacuum is growing source of social unrest
 - Grossly undervalued relative to apparent scarcity
 - Value multiplies when converted to urban use
 - Real estate is no. 1 profitable industry
 - No. 1 attractor for rent seeking and official corruption

Current issues in rural China



- Land
- tiers of land rights
 - alienation
 - usage (*household contract applies*)
 - benefice
 - inheritance
- ownership vacuum
 - *de iure* owner: village
 - *de facto* owner: local government
- “development is trumps”
 - local govt controls changes in land use (public interest clause)

Current issues in rural China



- Water

- approaching crisis
- centralized control with poor micro-management
- like land:
 - non-commercially allocated, does not reflect market value
- subject to waste and misallocation
- solutions
 - appropriate technology
 - market signals

Current issues in rural China

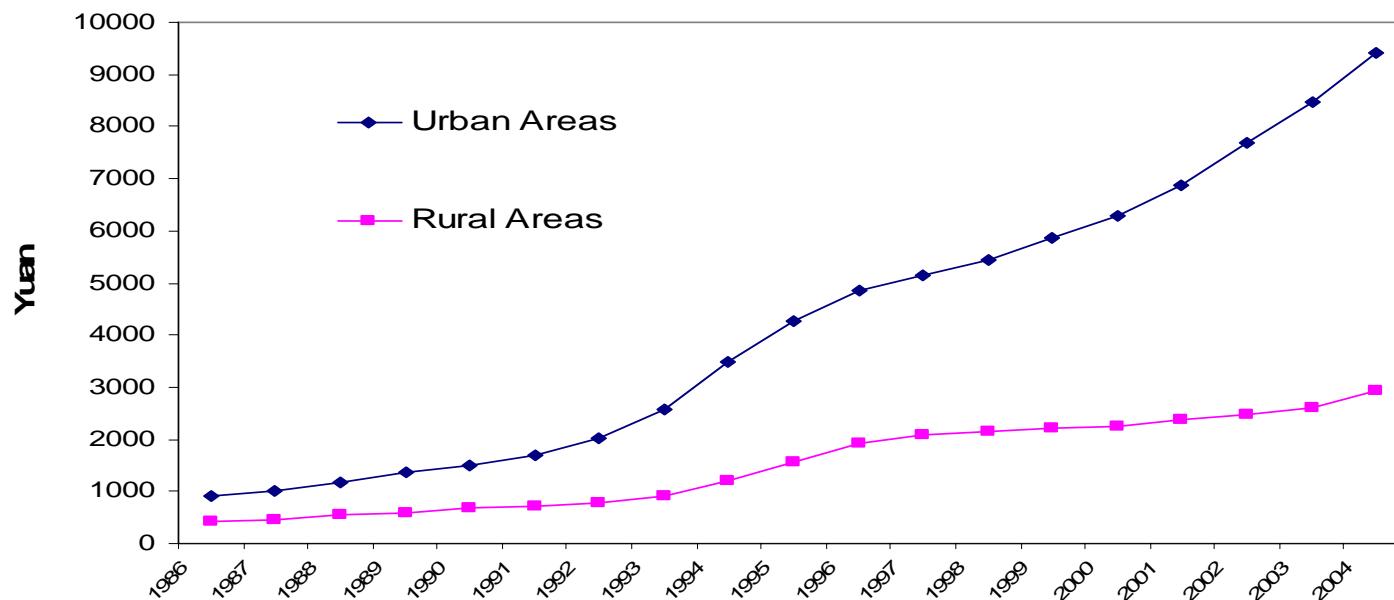


- Population
 - Population 1.3b
 - Rural residents 900m
 - Labour force 740m
 - (EU + North America = 430m)
 - Each year new urban entrants 10m
 - Laid off or jobless now 14m
 - Rural migrant workers in cities 120m
 - Below poverty line 30m
 - If raised only marginally figure will surge

Current issues in rural China



**Figure 1: Income Per Capita in China's Urban and Rural Areas,
1986-2004**



Sources: *China Statistical Yearbook*, various years.

Current issues in rural China



- Environment

- Pressure for development both industrial and agricultural

- Abundance of laws and regulations
 - Poor structure of administration

Rural issues promoted in central policy



- 'new development strategy'
 - sustainability: reduce strain on energy, resources
 - shift from quantitative targets, optimize industry mix
 - curb heavy industry duplication
 - raise service industry component
 - agriculture???
- 'harmonious society'
 - raising peasant incomes
 - alters incentive balance in labor market
 - contributes to migrant labor 'shortage'
 - Can urbanization be made more palatable

Foreign investment in agriculture in China



- Simplot, PepsiCo, Nestle, Boskovitch, Dole, Compass, etc have all tried farming or supervising farming in China
- McDonald, Yum Group (KFC), and others have tried to organise growers and agents to produce to consistent specification
- Only Simplot and Nestle still active in their own name
- Still cheaper to import French Fries and other vegetable products than produce in China

Foreign investment in agriculture in China



- Developing farming not comparable with industrial investment
 - Factory within four walls and a roof
 - Can impose generic systems, control security, and working environment
 - Can limit impact of external factors
 - *Farm has no walls or roof*
 - *Social issues, security issues, political issues, environment issues*
 - *Unable to limit impact of unexpected external factors, especially people and the weather*

Foreign investment in agriculture in China



- Main issues for contract farming in China
 - Heavy pest pressure
 - Fragmentation of farm units
 - Water problems (drainage and irrigation)
 - Problems in purchasing genuine inputs, such as pesticides and fertiliser
 - Poor quality seeds and plants
 - Poor infrastructure post harvest for storage or delivery
 - Poor infrastructure of support services

Foreign investment in agriculture in China



- Cost of production not as low/competitive as might expect
 - Land costs high (short supply)
 - Capital and labour costs high for foreign investors
 - Yields generally lower than western countries
 - Pest pressure leads to high pesticide costs
 - Inland transport expensive
 - Post harvest wastage high
 - No VAT rebates. Limited Tax breaks
 - Poor infrastructure of support services

China as a niche agricultural exporter



- China very unlikely to compete in world agricultural markets as it has with industrial goods
 - Comparative advantage not in agriculture
 - Massive domestic market to supply
 - China may well be a niche supplier high value added agriculture products, particularly to north Asian countries
 - horticulture
 - animal products
 - aquaculture

and finally the trend . . .

