July 2015

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China’s Challenge: Conforming to Sanitary and Phytosanitary Measures for Agricultural Exports

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After 15 years of negotiations, China became a full member of the World Trade Organization (WTO) in 2001. Since then, with eliminated or lowered tariffs, China’s bilateral trade has grown significantly. In 2002, the value of Chinese exports and imports for agricultural products reached $14.5 billion and $16.1 billion, respectively, and its total value of exports in agricultural products increased by $1.2 billion from the previous year (see Figure 1).

However, several problems have emerged. Chinese farmers and exporters had anticipated a large, positive impact on domestic production with accession to the WTO, especially for labor-intensive agricultural products such as vegetables, fruits, livestock and poultry products, and seafood, but these expectations proved unrealistic. In fact, these products have been hardest hit by the need to meet significant sanitary and phytosanitary (SPS) standards, and this has prevented substantial growth in these agricultural exports. According to an investigation by China’s Ministry of Commerce, about 90 percent of China’s exporters of foodstuffs, domestic produce, and animal by-products were affected by foreign technical trade barriers, and China suffered losses totaling U.S.$9 billion in 2002.

SPS Problems Arising in China’s Agricultural Trade

China’s recent experiences with SPS barriers have been mainly with the European Union, Japan, and the United States. These three countries accounted for 41, 30, and 24 percent, respectively, of the trade losses attributable to SPS measures in 2002. And, because failure to pass SPS inspections often leads to closer inspection of future exports, China’s agricultural products have confronted much stricter inspection in these markets following several of the SPS-related problems.

Currently, Chinese exports of seafood, vegetables and fruits, tea, honey, poultry meats, and red meats are creating the most frequently encountered SPS problems. U.S. technical standards preclude imports of beef, pork, and poultry meat into the United States in an effort to prevent the import of highly contagious animal diseases that are endemic in China, including foot-and-mouth disease. From August 2002 to July 2003, the U.S. Food and Drug Administration refused 1,285 shipments of Chinese foodstuffs from entry into the United States. Agricultural and aquatic products accounted for 630 of these shipments, or nearly half of all refusals (see Table 1). Except for some problems related to labeling and packaging, most refusals result from violations of SPS measures. Excessive pesticide residues, low food hygiene, unsafe additives, contamination, and misuse of veterinary drugs have been major issues. Although China’s export mix varies from country to country, Table 1 clearly shows some common SPS problems with Chinese agricultural products.

Figure 1. Chinese agricultural product exports

Current SPS Conditions in Chinese Agricultural Production

SPS problems have existed in agricultural production in China for a long time but have only received worldwide attention since China’s accession to the WTO. The causes of China’s SPS problems can be attributed to many factors, most of which are common to developing countries.

First, China’s food quality regulatory and supervisory system does not yet provide the necessary guidelines for agricultural and food production. Current regulations in China, which are outdated and inconsistent with international standards, are insufficient to meet the present requirements of international trade.
Second, the lack of effective regulation and supervision to control agricultural production and processing, coupled with noncompliance with regulations, has resulted in Chinese producers often misusing or abusing chemical fertilizers, pesticides, and antibiotics. Antiquated production techniques and technology also have an impact. In animal production, there are persistent violations of regulations on drug additives and quality standards. According to a report for sample inspections by China’s Ministry of Agriculture in 2002, besides prohibited drug additives, lead, aflatoxin B1, and Salmonella were the most common adulterants or types of contamination found in animal feed.

Moreover, the scattered location and small scale of fresh produce and livestock operations in China contribute to the abuse of agricultural chemicals and noncompliance with regulations. For example, 92 percent of swine producers have an annual production with only one to five pigs. Controlling the use of chemicals and veterinary drugs in such a vast country—with more than 900 million farmers and countless household farming operations—is extremely difficult. Small-scale farmers have little or no motivation to comply with SPS regulations if they do not face penalties for noncompliance or if they face increased production risks. In addition, most farmers do not have access to information about SPS standards, nor do they have the required technologies or expertise.

### Table 1. U.S. Food and Drug Administration Refusals of Chinese Agricultural Foodstuff Shipments

<table>
<thead>
<tr>
<th>Product</th>
<th>Number of Refusals</th>
<th>Reason Cited</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seafood</td>
<td>34</td>
<td>Salmonella</td>
</tr>
<tr>
<td></td>
<td>19</td>
<td>Veterinary drugs</td>
</tr>
<tr>
<td></td>
<td>35</td>
<td>Filthy</td>
</tr>
<tr>
<td></td>
<td>34</td>
<td>Other (unsafe additives, poisonous, chloramphenicol, listeria, filthy, improper information or labeling)</td>
</tr>
<tr>
<td>Crushed Pepper</td>
<td>15</td>
<td>Pesticide</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>Filthy</td>
</tr>
<tr>
<td></td>
<td>1</td>
<td>Salmonella</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>Other</td>
</tr>
<tr>
<td>Honey</td>
<td>5</td>
<td>Chloramphenicol</td>
</tr>
<tr>
<td></td>
<td>1</td>
<td>Veterinarian Drugs</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>Unsafe additives</td>
</tr>
<tr>
<td>Fruit/vegetables</td>
<td>27</td>
<td>Pesticides</td>
</tr>
<tr>
<td></td>
<td>13</td>
<td>Other (unsafe additives/color, labeling, etc.)</td>
</tr>
<tr>
<td>Dried Mushroom/Fungus</td>
<td>50</td>
<td>Filthy</td>
</tr>
<tr>
<td></td>
<td>8</td>
<td>Other</td>
</tr>
<tr>
<td>Other Foodstuffs</td>
<td>115</td>
<td>Filthy</td>
</tr>
<tr>
<td></td>
<td>115</td>
<td>Unsafe additives/color</td>
</tr>
<tr>
<td></td>
<td>146</td>
<td>Other</td>
</tr>
</tbody>
</table>

*Note: Some products were refused for more than one reason and only the reason listed first is shown here.*

### China’s Progress in Resolving SPS Problems

Today, with increasing interaction with world markets, China’s government and traders have recognized SPS problems and are taking actions to improve the production and marketing environment. Besides updating agricultural and food standards and regulations, educating producers, and establishing demonstration farms that show safe production practices for agri-food products, the Chinese government is also trying to attract foreign direct investment (FDI) in agriculture. Such investment can introduce capital, advanced technology, and management and marketing skills to improve product quality, increase exports, and assist in the transition from traditional to modern agricultural operations. The United States, Japan, and South Korea are the most important investing countries.

The Chinese government has supported the development of leading large-scale enterprises, or “dragon-head” enterprises. Approximately 30 percent of all farmer households produce products sold to these industrial enterprises. The key dragon-head enterprises at the national and provincial levels are mainstays of the move toward a more industrialized agricultural system. Efforts to organize the small-scale farmers to operate as single large-scale entities would allow them not only to gain economies of scale but also to more easily standardize production and comply with SPS measures at lower costs.

Following the lead (and requirements) of the United States and other countries, China has turned to implementation of Hazard Analysis and Critical Control Point (HACCP) systems as another useful approach for reducing SPS problems. In 2002, China introduced regulations requiring export-oriented enterprises producing six kinds of food (canned food, aquatic products [excluding fresh, frozen, air-cured, pickled/salted products], meat and meat...
products, frozen vegetables, fruit/vegetable juice, and frozen convenience food containing meat or aquatic products) to pass a HACCP system examination for hygiene certification before producing, processing, or storing exported food. Use of HACCP systems is expected to improve greatly the sanitary situation of those exported foods.

Organic food production is getting more and more attention because of increasingly strong demand from the world market. World trade in organic foods totaled U.S.$21 billion in 2002 and the market continues to grow rapidly. Many Chinese producers choose organic food production to take advantage of relatively higher product market prices and a production technology that may favor smaller producers and those with relatively low labor costs.

**Market Opportunities for China in Response to Current SPS Measures**

Although SPS condition levels as a whole in China are low, the coastal and open provinces and regions have reached SPS conditions consistent with international standards as a result of their relatively open markets and exports to developed countries. These markets are now mostly controlled by the “invisible hand” of international market forces, and producers can quickly adjust production to market signals. However, large regional differences limit prospects in international markets, and it will take some time to make the necessary adjustments to improve the overall SPS conditions in China. During the transition, the potential for exports of China’s agricultural production will vary, depending on the level and changes in SPS requirements by major importing countries, Chinese producers’ adjustment, and the competition from other exporting countries.

As China works to respond to the SPS regulations of other countries, concerns have arisen that some countries will use SPS barriers to keep out lower-cost Chinese products in order to protect domestic markets by setting relatively high standards or strict inspections. As China faces more SPS conflicts, the government will participate in bilateral negotiations to resist unfair trade restrictions and discrimination and is likely to utilize the WTO to coordinate and resolve trade disputes. As a member of the WTO, China can participate in the negotiation and establishment of international regulations and standards to obtain a more equal position for its agricultural exports.

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