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With these cautions in mind, the U.S. pork industry appears to have more to gain from the recent events in Taiwan than do the pork industries in other nations, but the net impact of a reduction in feed sales to Taiwan on U.S. corn and soybean markets will be small. The removal of Taiwanese pork from the Japanese market will not substantially affect pork consumption levels in Japan. However, significant adjustments will occur in the market shares of nations exporting pork to Japan. Modest increases in the world pork price will cause other pork-importing countries to reduce their import quantities, facilitation world market clearing until greater pork production is generated.

EMERGING ISSUES

Agricultural Impacts of China's Accession to the WTO

(Frank Fuller, 515-294-0470)

The People's Republic of China has requested—and will likely soon be granted—membership in the World Trade Organization (WTO). Given the size and importance of China's economy to the international market, both U.S. agricultural and nonagricultural markets will undoubtedly be affected significantly.

This article addresses important issues in China's accession to the WTO that relate to agricultural trade. Consideration is also given on how the nature of the accession agreement could affect U.S. agricultural interests.

In 1948 China signed the original agreement that established the General Agreement on Tariffs and Trade (GATT). Following the communist revolution, however, the new Chinese government withdrew from the GATT in 1950. In 1986, China applied to rejoin the international trade agreement, but negotiations to date have not resulted in satisfactory terms for reentry. China's absence from multilateral trade negotiations has resulted in a large gap between average tariff rates in China and the rates of most members of the WTO (established in 1995 as a formal organization of all nations participating in the GATT). Furthermore, decades of state control over the domestic economy and international trade promoted domestic marketing structures and restrictive, discretionary trading practices that are inconsistent with the rules negotiated under GATT. Before China will be allowed to enter the WTO, changes in Chinese domestic and trade policies must occur to ensure that the country enters on commercially viable terms.

Market reforms in the late 1970s and early 1980s stimulated broad-based economic growth that has increased the incomes of both rural and urban populations in China and, as a result, both the quantity and quality of Chinese food consumption has increased. Moreover, economic growth has induced demographic changes that significantly increased the demand for land, water, labor, and other resources for nonagricultural purposes. Consequently, resources remaining in the agricultural sector are forced to become more productive.

To slow the migration of productive factors out of the agricultural sector, the government of China limits the movement of labor from rural to urban areas, restricts the use of land for nonagricultural purposes, places priority on the distribution of water for irrigation in agricultural areas, imposes minimum production quotas for important grain crops, and restricts imports of agricultural commodities. Despite a high degree of government control, domestic and trade policies are not applied uniformly across all provinces and all commodities. Chinese agricultural trade policy thus frustrates agricultural exporting nations trying to create a market for their commodities in China.

Consequently, the agricultural component of the accession negotiations has focused on creating transparency in Chinese domestic and trade policies. In general, creating transparency involves codifying current nontariff trade barriers that are administered in a discretionary fashion into tariffs and tariff rate quotas that can be uniformly applied and more easily liberalized over time. To facilitate discussions, negotiators have divided China's trade restrictions into a number of broad categories. The five that are the most important to agriculture are trading rights, state trading, nontariff measures, import and export licensing, and sanitary and phytosanitary measures.

Trading rights, state trading, and import and export licensing are similar issues in the sense that all three address the question of who is allowed to trade agricultural products. Currently, only selected government and private agents are allowed to engage in international trade, and transactions made by these agents require an import or export license issued by the central government. Thus, regardless of any tariff barriers to trade, the binding trade restriction is most often the inability to trade because the agent either lacks the right to trade or the appropriate trade license.
World Trade Organization member nations are stipulating that China extend the right to trade to all enterprises within the nation over a specified period of time (most likely 3 years). Certain restrictions will apply to sensitive commodities and particular enterprises. In addition, China will be asked to follow explicit rules for granting trade licenses. Finally, state trading organizations will be asked to provide information about their pricing mechanisms, procurement prices, and contract terms of delivery and financing. China will also be expected to comply with the GATT principle of nondiscrimination and the stipulations in Article XVII that trade be motivated by “commercial considerations.” Unfortunately, the current GATT restrictions on state trading behavior are not stringent enough to have a significant impact on state trading organizations in China.

Transparency in Chinese trade policy will directly benefit U.S. agricultural commodity exporters. First, expanding trading rights to a wider range of Chinese enterprises will open new opportunities for U.S. agricultural exports. Agents previously barred from trade will be able to purchase the agricultural products they need from international markets when imported products are competitive with domestically produced goods. Second, establishing clear guidelines for the granting of import licenses will greatly reduce the uncertainty that currently plagues commodity exchange with China. Likewise, making information about state trading practices available may help U.S. exporters understand and adapt to the rules of trade with China.

Nontariff barriers to trade can encompass a variety of measures, including import quotas, domestic content requirements, import licensing requirements, trade related investment requirements, etc. Many nontariff barriers are dealt with in the conditions creating policy transparency. Others, such as import quotas and export subsidies, must conform with the agreements negotiated in the Uruguay Round. Import quotas must be converted to tariff-rate quotas (TRQs), which are a combination of tariffs and quantity restrictions. TRQs allow imports into the country at a low tariff rate up to a specified quantity (usually between 1 and 5 percent of consumption or trade during some base period). However, once the quota amount of imports has been reached, goods may continue to be imported but are subject to a higher tariff rate. The advantage of a TRQ is that imports may occur even after the quota level has been reached, and the reduction of tariff rates makes over-quota imports more likely.

In anticipation of WTO accession, China announced a system of TRQs for grain and oilseed products in 1996; however, quota levels were not specified. Thus, China retains discretionary control over the implementation of the higher tariff rates. Such discretionary control will not be acceptable to WTO members, and China must eventually agree to fixed quota amounts that may be expanded over the accession’s period of implementation.

Although China also has tariffs on meat imports, the real barriers to meat trade are structured as phytosanitary restrictions. Sanitary and phytosanitary measures are laws, decrees, regulations, requirements, and procedures that govern any phase of food, beverage or feedstuff production processes. Such measures aim to protect of protecting plant, animal, or human life from damage caused by the spread of pests, diseases, additives, contaminants, or toxins.

The Uruguay Round agreement addresses the use of phytosanitary measures as a barrier to trade. China’s measures must be brought in line with the stipulations of the GATT agreement. Of particular interest to the United States is opening China’s pork market to imports. Pork is by far the most important meat in the Chinese diet, and pork presently may not be imported into China for general consumption. If the United States can successfully negotiate an exemption to these restrictions for U.S. pork products and if a TRQ is established, U.S. pork exporters may find China to be a lucrative market for export of both muscle and variety meats. Other livestock products are not as important to Chinese consumers. Nevertheless, relaxation of current phytosanitary measures can only improve the opportunities for U.S. meat exporters.

Figure 1 demonstrates the pork export potential to China using the FAPRI 1997 baseline projection for China’s net imports of pork. Since the baseline does not incorporate changes in import policies, pork imports are assumed to be...
prohibited for health reasons. In the baseline China is projected to export approximately 200 tmt of pork annually. Net exports are indicated in figure 1 by negative unnumbers. According to the Uruguay Agreement on Agriculture, if China attains WTO membership in 1998 and the phytosanitary restrictions are relaxed, China could be required to establish a TRQ for pork products.

Although the specifics of the TRQ are negotiable, Annex 5, Section B, of the Agreement on Agriculture outlines the standard schedule for a developing country as 1.0 percent of consumption over some base period growing to 4.0 percent over 10 years. Using this schedule and 1994 to 1996 as the base period, Figure 1 shows China's potential net pork imports given market access requirements. Figure 1 displays China's net imports of pork, but total import levels following WTO accession are calculated as the difference between the WTO and baseline net import numbers. Following accession, China could import approximately 350 tmt of pork in 1998. By 2006, total pork imports could grow as large as 1.2 mmt, roughly ten times U.S. net exports of pork in 1996.

China's accession to the WTO is likely to increase the market for U.S. exports of agricultural commodities. China already imports significant quantities of wheat and some rice and corn. However, the future growth in import demand is expected to be in feed grains to satisfy the needs of China's rapidly growing livestock sector and oilseeds to meet the growing demand for vegetable oils. If WTO accession opens up China's meat markets to significant levels of imported meat products, China's demand for grain imports may grow more slowly. On the surface it appears that U.S. livestock producers stand to gain the most from China's accession to the WTO. However, stronger meat exports will increase the domestic demand for feed grains, raising prices and increasing returns to U.S. grain farmers. More thorough analysis is needed to assess the full impact of China's accession to the WTO on world grain and meat markets.

Budget Cuts Continue to Pressure the Agricultural Sector

(FAPRI Staff, 515-294-1183)

When Congress passed the 1996 Farm Bill, many agricultural reports gave the impression that U.S. agriculture would be spared further federal cutbacks. It is true that the ag producers have signed seven-year production flexibility contracts (PFCs) with the U.S. government. The contracts do stipulate a declining flow of income support payments. However, there is no guarantee that the agricultural sector will not suffer further budget reductions. Legislators and other policymakers from agricultural states are still defending agriculture from proposed budget cuts.

One example of current budgetary pressure on agriculture can be seen in the most recent CRP enrollment (see CRP article in this issue). The 1996 Federal Agriculture Improvement and Reform (FAIR) Act capped CRP enrollment at 36.4 million acres. With the recent sign-up, the CRP enrollment on October 1, 1997, will total 27.6 million acres. The Secretary of Agriculture wants flexibility to enroll acres over the duration of the FAIR Act, thus the 9 million acre difference between current enrollment and the cap. This is not a direct budget cut. However, the east-west movement of land enrolled in CRP does constitute a budget reduction because the average rental rate that accompanies this movement drops from $50 per acre to $44 per acre.

The current congressional debate over the elimination of the excise tax exemption for fuel ethanol is another example of budgetary pressure on the agricultural sector. Ethanol now receives a $.54 per gallon federal tax exemption, which translates into a savings of $.054 per gallon at the pump for 10-percent ethanol blend gasoline.

In the past, the Food and Agricultural Policy Institute (FAPRI) has been involved in several studies of the effectiveness of the ethanol tax exemption. However, these analyses were conducted under a very different underlying federal agricultural policy than is now in place. The FAIR