

Agricultural Market and Policy in China: New Development Facing the WTO Entry

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Agricultural development is of special importance for a country like China with 70% of its population living in the rural areas. It is important not only for China's food sufficiency, but also for the rural employment and farmers' income. The performance of the agricultural sector in recent years is fairly good viewed from the production of most principal agricultural products. But the agricultural market situation is deteriorating in many aspects. This has caused many serious results and is threatening the sustainable development of agriculture. It is more likely that this trend will continue for some time. The new progress in China's negotiations for its entry into WTO has aroused more concerns for the future development of agriculture.

The analysis of this paper will focus on three things: 1. the most recent development of China's agricultural market and policy; 2. new progress of negotiations for China's accession to the WTO; 3. the prospects of China's agricultural development and policy suggestions.

1. The Most Recent Development of China's Agricultural Market and Policy

1.1 Production of principal agricultural products

Although China was severely affected by the heavy floods unprecedented for a century, its agricultural production continued a sustained growth in 1998. The productions of many principal agricultural products were increased and progress was made in the structural adjustment of agricultural production.

The sown area of grains was 113 million hectares in 1998, which was 624,000 hectares or 0.6% more than that of 1997. The production of summer harvested grains and early rice decreased by 14.6 million and 5.3 million tons respectively because of the heavy floods and the reduction of sown area of these grains. Thanks to the good harvest for the autumn harvested grains, the national total grain production reached a level of more than 490 million tons.

The planted area of cotton was 4.44 million hectares, which was 49,000 hectares or 1.1% less than that of 1997. The cotton production was 4.4 million tons, 4.3% less than in 1997. The sown areas of oil seed crops and sugar crops were both increased. As a result, the production of oil seeds increased by 6.3% to a total of 22.92 million, and the production of sugar crops increased by 4% to a total of 97.65 million tons. The fruit production was 54.9 million tons, which was 4.02 million tons more than in 1997. As for other major crops, because of the cut of planted areas, the production of jute was 260,000 tons with a decrease of 39.5%; the production of tobacco was 2.1 million tons with a decrease of 46%.

The production of animal husbandry and fishery experienced a rapid growth in 1998. The production of pork, beef and mutton was 43.55 million tons, which was an increase of 6.5% over 1997. The productions of milk and eggs increase by 6% and 3% respectively in 1998. The production of aquatic products reached 38.54 million tons,

which was an increase of 7%.

There were two important features in the agricultural production of China in 1998. The first one was that, although severe natural disasters happened and some structural adjustments were carried out in 1998, the grain production remained quite stable. This proved the substantial improvement in the comprehensive capacity of China's grain production. The second one was that the structural adjustment was becoming increasingly important and began to exert severe impacts on the productions of many agricultural products. Those affected included not only cotton, jute, tobacco and other cash crops, but also the varieties of grains with low qualities and weak demands, such as spring wheat and early rice. The sown areas of spring wheat and early rice declined by 5% and 4.4% respectively in 1998.

1.2 Market development of principal agricultural products

China experienced a deflation in 1998. The consumer price index declined by 0.8%. The commodity retail price index declined by 2.6%. Surplus prevailed in the markets of most commodities. This was the truth for both industrial and agricultural products. As a matter of fact, the price of agricultural products suffered a greater decline than most of the industrial products. The procurement price of agricultural products declined by 8% and the food price declined by 3.2% in 1998, but things were different for different food products.

The price of grains declined by 3.1% in 1998. There were some obvious fluctuations in the market development. The prices of most grains began to rise from June of 1998 and came back to decline in October. In December of 1998, the market price of grains was even 1.8% higher than the same period of the previous year. As for the major grain varieties, the price of rice increased by 6.1%, the price of wheat decreased by 3.5%, the price of maize remained at the same level as it was in the same period of 1997.

The price of cotton was determined by the government under the government procurement system. The procurement price of standard ginned cotton was lowered from 14000 Yuan/ton to 13000 Yuan/ton for the inner lands, and a change within 5% of the state price was permitted. The price was lowered from 13000 Yuan/ton to 12000 Yuan/ton for Xinjiang autonomous region.

The price of meat and processed meat products declined by 9.1% in 1998. The monthly fluctuations were even greater than that. A striking feature of the meat market in 1998 was the dramatic decline in the price of pork. The year-end prices of pork and piglets were 12% and 31.3% lower respectively than those of 1997. The depressed prices of pork and piglets forced many pig-raising farms into debts in 1998.

The prices of vegetables, fruits and aquatic products all declined to some extents. Although the consumer price index of vegetables just declined slightly by 0.1% in 1998, the year end market price of 12 major vegetables declined by 19.3% than that of 1997. The consumer price index of aquatic products declined by 6.1% in 1998, but the year end market price of 5 major varieties of aquatic products was 9.2% lower than that it was a year ago. The year-end price of 7 major varieties of fruits was 16.9% than it was a year ago.

The main features of market development in 1998 included: First, the prices of almost all major agricultural products declined; Second, there were great differences between price changes of different products, with the prices of pork, fruits and aquatic products declined more than the average; Third, the general trend of price fluctuations

in 1998 was that most prices declined greatly in the first half of the year and gained some slight increases in the second half of the year, thus resulting in a price decline of the year but with a much smaller extent than that of the first half of the year.

1.3 The development of international trade of farm products

China experienced a general set back in its international trade of farm products. The value of its exports and imports of farm products was US\$ 22.17 billions, which was 10.9% lower than 1997. Of this, the value of exports was US\$ 13.84 billions, which was 7.3% lower than 1997; the value of imports was US\$ 8.33 billions, which was 16.3% lower than 1997. The share of agricultural trade in the trade of the country also declined. China's agricultural exports accounted for 7.5% of the country's total exports in 1998, that was 0.6 percentage point lower than 1997. The agricultural imports accounted for 7% of the country's total exports, which was 1.0 percentage point lower than 1997. Great changes occurred to the components of China's agricultural trade. There were some striking features in the structural change. With regard to the exports, there was a rapid increase in the exports of grain and cotton, but at the same time the exports of animal products, aquatic products and edible plant oil declined remarkably. Although the export volumes of fruits and vegetables increased by large scales, the profitability of these exports greatly declined. Of all the imports, reduction happened to most major imported products with the greatest reduction happened to the import of cotton. As remarkable exceptions, the imports of rapeseeds and soybean were greatly increased.

The volume of grain exports was 9.06 million tons in 1998 with an increase of 6.3% over the last year. The volume of grain imports was 7.09 million tons with an increase of 0.5% over the last year. The net grain export was 1.97 million tons, which was 34% higher than 1997. The increase of grain exports was mainly caused by the rapid increase of rice export. The volume of rice export set a historical record of 3.75 million tons, which was 2.81 million tons or 3 times more than 1997. The net rice export increased from 0.61 million tons in 1997 to 3.50 million tons in 1998. The export of maize was 4.69 million tons with a decrease of 29%. The import of wheat was 1.49 million tons, decreased by 20%. The import of barley was 1.52 million tons, decreased by 19%. The import of soybean reached a record height of 3.20 million tons with an increase of 14%.

The export of cotton rose from 1,000 tons in 1997 to 45,000 tons in 1998. The cotton import dropped to 196,000 tons in 1998 with a decrease of 73.8%. The net import of cotton was reduced by 80% to just 151,000 tons in 1998.

The edible oil export was reduced by 62.4% to 309,000 tons while the import was reduced by 25% to 2.06 million tons. The net import was 1.75 million tons, 9% lower than 1997. As a result of the decrease of domestic production, the import of rapeseeds jumped from 55,000 tons in 1997 to 1.39 million tons in 1998.

The net import of sugar was 151,000 tons with a decrease of 60,000 tons or 82%. The total export of vegetables was 1.96 million tons with an increase of 21.6%. A striking point was that the value of these exported vegetables increased only by 1%. The same thing happened to the trade of fruits. The total export of fruits was 993,000 tons. The volume of fruit export increased by 9%, but the value of the fruit export actually declined by 4.3%. The import of fruits was 665,000 tons with an increase of 3.9%, the value of the import maintained at the level of 1997.

The imports and exports of animal products and aquatic products both declined

considerably. The export value of animal products was US\$ 3.24 billions, declined by 11.6%; the import value was US\$ 3.4 billions, declined by 9.9%. The export value of aquatic products was US\$ 2.84 billions, declined by 9.5%; the import value was US\$ 1.02 billions, declined by 15.7%.

Viewed from the regional structure of China's trade of agricultural products, the decline of agricultural exports was mainly caused by the sharp decline in the exports to Asian economies. The export value of farm products to Asian economies declined by 11.4%, the share of it in China's total export of farm products was reduced to 73%, 3.4 percentage points lower than it was in 1997. The exports of farm products to other major regions increased to various extents. China's imports of farm products declined for almost all major regions with Europe being the only exception. The imports from South America declined most severely by 30%. Although the imports from Europe increased by 1.4%, the total was only US\$ 17 millions, which was too much smaller than the imports from other regions.

1.4 New market policy developments in determining the performance of agriculture

The development of agriculture was greatly affected by many important factors such as the unforeseeable natural disasters, the prolonged effects of the Asian financial crisis, the slowing down of economic growth and people's income, the sluggish demands of both domestic and international markets, the maintenance of exchange rate of Chinese currency RMB.

Although the sector specific policies were cast into the shade by the unusual macroeconomic situation, the recent developments of agricultural policies should by no means be neglected. These new developments have impacted and will continue to impact the development of agriculture.

The most important policy development was the reform of grain marketing system implemented in 1998. The main contents of this reform were four separations and an improvement: separation of government agencies from enterprises; separation of the responsibilities of the central government from those of the local government; separation of grain reservation from grain trade; separation of new accounts from the old ones; improvement of the pricing system of grain. To ensure the success of the reform, some policy measures were taken by the government. One was the unlimited purchase of grains at protected prices; the second was the selling of grains at profitable prices; the third was the enclosed circulation of grain procurement funds; the last one was deepening the reform of the state grain enterprises. With the implementation of these policies, the price fall has been halted and losses of the state grain enterprises declined. Along with these positive progresses, some problems also rose with the reform. A striking one is that a monopolistic power was given to the state enterprises and weakened the competition in the grain markets. The objective of building up an independent management mechanism for the state enterprises has not been achieved. It became quite common for the state grain enterprises to press down the quality grades and lower the prices in their dealing with farmers. In some places, the state enterprises refused to purchase as more as farmers wanted to sell. So further reforms are required. To reduce the heavy burdens of the grain marketing system, the Chinese government recently made some new grain marketing policies in May 1999. these policies include to abandon the unlimited purchase at protected prices for some varieties with poor quality and little market demands; to widen the price difference of products with different quality; to fixed the grain subsidies

provided by the central for each provinces; to allow the grain processing and feed enterprises to procure grain for their own use.

Another policy development was the reform of the cotton marketing system. The objectives of the reform are to liberalize the cotton price, to broaden the channel of cotton circulation, to transform the management mechanism of cotton enterprises, and to establish a new system in which rational allocation of cotton resources will be realized by the market mechanism. The role of government will be mainly focused on the management of cotton reserve and quality control. To achieve these objectives, the Chinese government decided that it would no longer set official cotton price and let the cotton price to be decided by market from the starting point of the new cotton year of 1 September 1999. So the price difference will be increased for cotton of different varieties with different quality. The supply and selling cooperatives, state cottonseeds processing enterprises, state farms and certified textile enterprises will all be allowed to engage in procurement and marketing of cotton. After these reforms, the central government will make use of economic measures such as state reserve and adjustment of imports and exports to regulate the cotton markets and prevent the over fluctuation of cotton price. The provincial governments are asked to strengthen their administration of the cotton markets, to tighten the market access certification to maintain the order of cotton markets.

Reforms of the marketing systems of tobacco, silkworm cocoon, wool and other industrial materials were also advanced. The markets of meats, poultry, eggs, fruits, vegetables and other fresh products were further liberalized. The development of an efficient market system was accelerated. Great efforts were made at various levels to improve the market infrastructure and to promote the development of farmers' marketing organizations. Market legislation was strengthened to break down market blockade and protect the order of markets. Further steps were also taken by the Chinese government to improve the trade policies to promote the exports of quality farm products and to put down the smuggling of farm products.

2. The New Development of Negotiations for China's Entry into WTO and Its Impacts

The negotiations for China's entry to WTO have come to a critical stage. This year has witnessed a great progress in these negotiations. In April, China signed an agreement of agricultural cooperation with US and reached agreements on most issues in agricultural negotiations with US. With these agreements and those of other sectors, US, EU, Japan, Canada and other major members of WTO have expressed their strong supports for China's entry into WTO before the end of 1999. If China's entry into WTO can be realized by the end of this year, it would mean that China would begin to implement the policy reforms it committed from the next year. Although the negotiations have not been finished and the commitments China so far has made have not been made public, a release on the home page of USTR provided us some of the basic information about China's commitments on agriculture market access. The following analysis is based on this unilateral release by USTR.

2.1 Tariff reductions

China will reduce its overall average tariff for agricultural products from the current level of 21.2% to 17%. A striking feature of this is the tariff reduction will be much greater for most principal products, especially those that US has strong interests.

All these tariff cuts will be implemented by 2004. Specific examples of tariff reductions from present to 2004 include:

Soybean---- a 3% tariff will be bound on accession;

Meats---- from 45% to 12% for beef; from 20% to 12% for pork; from 20% to 10% for poultry;

Fruits---- from 40% to 12% for citrus; from 40% to 13% for grapes; from 30% to 10% for apples and almonds;

Wine----from 65% to 20%;

Dairy---- from 50% to 12% for cheese; from 45% to 19% for ice cream.

2.2 Tariff rate quota system

China's commitments follow WTO standards in eliminating all quantitative restrictions. In some particularly sensitive sectors, China will adopt TRQs. In general, the total levels of these TRQs are substantially above the present import levels on accession. More importantly, large and increasing shares will be allocated to the private traders to ensure these TRQs be materialized. Specific examples include:

Soybean oil---- TRQ will start at 1.7 million metric tons, rising to 3.3 million metric tons by 2005 and be eliminated by 2006. Private sector trade will begin at 50% and rise to 90%;

Wheat---- TRQ will start at 7.3 million metric tons, rising to 9.3 million metric tons. The private sector will initially receive 10% of this quota.

Corn---- TRQ will start at 4.5 million metric tons, rising to 7.2 million metric tons by 2004. Private sector trade will begin at 25% and rise to 40%.

Rice----TRQ will start at 2.6 million metric tons, rising to 5.3 million metric tons by 2004. Private sector trade will receive 50% of this quota.

Cotton---- TRQ will start at 743,000 metric tons, rising to 894,000 metric tons by 2004. Private sector trade will have 67% of this quota.

Barley---- No TRQ; and reduction of tariff to 9%.

2.3 Other trade measures

China agreed that SPS disputes should be settled scientifically and committed not to provide any subsidies for agricultural products.

2.4 General assessments of the possible impacts of China's commitments

The commitments of China on agriculture market access have several important features: the first one is that the tariff reductions for the principal products as grains, meats, soybean oil and cotton are much larger than the reductions required by the AOA of the Uruguay Round; the second one is that the TRQs of most products are well above the current levels of China's imports; the third one is the implementation period of these commitments is five years, only half of the period for developing countries allowed by the Uruguay Round agreement; lastly, large shares of the TRQs will be allocated to the private sector to ensure the fulfillment of these TRQs.

These features together with the fact that China has lost its advantages of lower prices in most principal products will bring a rapid increase in imports of many agricultural products. Of course, the market prices of meats, fruits, vegetables and some other products are much lower in China than those on the world markets, so China's entry into WTO will promote the increase of its exports of some agricultural products. But it needs to be pointed out that the main constraints for China's exports of many products are not the levels of prices, but the quality of products. So the increase of China's exports of

farm products cannot be taken for sure as the quality of these products could not be improved greatly in a short time.

There are also factors that can help to weaken the negative impacts on agriculture. One is that China has high self-sufficiency for agricultural products both at country level and at farmers' households level, so the market forces have relatively limited effects on such a type of agriculture. Another one is related to the fact that China is a large agricultural country. China is the number one in many areas of agricultural production. So although the TRQs for many products are well above the current imports, they can still take small shares in China's productions with only a few exceptions.

2.5 Product specific analysis of the possible impacts

The possible impacts on specific products by China's entry into WTO will depend on many factors, such as the amounts of TRQs, the ratios of TRQs in domestic productions and the relative prices of these products. The quality gaps should also be taken into consideration. But this factor is not as important for imports as it is for exports. Taking these factors into consideration, the impacts will vary for different products.

Wheat: TRQ for wheat will rise from 7.3 million metric tons to 9.3 million tons. The starting level takes about 6% of the wheat production in 1997, and it is lower than the average import of 8.88 million metric tons in the period of 1990-97. The average domestic market price of wheat in April 1999 was 1.42 Yuan/kg. This was much higher than the world price of 0.8Yuan/kg (Chicago Board of Trade, close price, 18 April, 1999). So there would be strong demand for wheat imports, but the impact of imports on China's wheat market and wheat production could not be too heavy. The TRQ in 2004 would take 7.5% of China's wheat production in 1997.

Corn: The starting level of TRQ is 6 times of the average import of 0.75 million tons of the period of 1990-97. But it only takes 4% of the domestic production in 1997. The average domestic market price of corn in April 1999 was 1.40 Yuan/kg. This was also much higher than the world price of 0.72Yuan/kg (Chicago Board of Trade, close price, 18 April, 1999). So there would be a rapid increase in China's corn imports. As the increase in corn imports can only take a relative small share of China's domestic corn production, the impact of corn imports on China's wheat market and wheat production could not be too heavy. But it will slow down the rapid growth of China's corn production. The TRQ in 2004 would take 7% of China's corn production in 1997.

Rice: The situation is much similar as for corn. Although the TRQ is times as the current import, the world price is higher than domestic price, and TRQ accounts only for 2% of the domestic production. The average domestic market price of corn in April 1999 was 2.33 Yuan/kg, the world price was 1.78Yuan/kg (Bangkok market price, f.o.b., with 25% broken grains, 18 April, 1999). The price difference was much smaller. So the impact of China's entry to WTO will be little.

Cotton: The impact on cotton will be great because the world price is lower than domestic price, the starting TRQ is much larger than the current import, and it takes more than 15% of China's production in 1997.

Edible plant oils: Because the TRQ is much larger than the current import, and the world price is much lower than the domestic price, the impact will be great for plant oils.

Others: China has strong price advantages in fruits, vegetables and fishery products, and has experienced continued surplus on the markets of these products, so the impacts on these products will be little. It can be projected the imports of quality products

of some of them will increase, but their impacts would be less significant. It is more likely China's exports of these products will increase remarkably. With the current market situation, the wool industry will be negatively affected. The extent of its impacts will depend on the results of negotiations with the major wool exporting countries such as Australia and New Zealand.

3. Conclusions and policy suggestions

The time and terms of China's entry to WTO are not clear at this moment. But one thing is clear for us: the world has entered an age of trade liberalization, and China will be increasingly affected by the development of world trade liberalization regardless of whether it is a member of WTO or not. China's entry into WTO will have some important implications for the agricultural sector: firstly, China will have to face stronger competitions from other countries; secondly, the impacts on different agricultural products will be quite different; thirdly, the farmers' welfare will be affected quite differently. Generally speaking, the structural impacts on agriculture will be greater than the overall impacts. So policy measures to meet the challenges of the entry to WTO should be taken with special attention to the structural issues.

With these conclusions in mind, our policy suggestions for China's agricultural development facing the entry to WTO are as following:

3.1 Capability building policies

The government should make policies to increase its investments in agriculture to expand the comprehensive capacity of agriculture and strengthen the competing power of the agricultural sector.

---increasing investment in agricultural infrastructure, such as the improvement of irrigation system, the upgrading of variety, the development of market system of agricultural products and agricultural inputs, the further development of agricultural products processing industry;

---increasing investment in agricultural R&D;

---increasing investment in agricultural extension with focus on improvement and strengthening the official agricultural extension system and the training of farmers.

3.2 Structural adjustment policies

Policies should be made to encourage the development of agricultural specialization and the quality improvement of agricultural products.

---adjusting the government investment pattern according to the comparative advantages of different sectors and different locations;

---abandoning the existing grain self-sufficiency policy for each localities and providing the flexibility for local governments and individual farmers to make structural adjustments according to their own conditions;

---improving the marketing system, further reforming the pricing system to increase the productions of quality agricultural products.

3.3 Income and employment policies

When we talk about the dead weight gains from trade liberalization, we must also be aware of the redistribution effects of trade liberalization. Undoubtedly some people will suffer losses from trade liberalization. As for the agricultural sector, with the existing circumstances, it is more likely that the farmers in the less developed areas, such as the North-East, the Middle and the West will bear most of the losses of China from its entry

into WTO. Further, the poor farmers with limited abilities to make necessary structural adjustments will suffer more than others. The lack of competing power in agriculture compared with foreign suppliers together with the less developed industry in these areas will result in decreases of farmers' income and increases of rural unemployment or underemployment. They would then cause serious problems for social and political stability. So the policy makers must be fully aware of the seriousness of the negative impacts of China's accession to WTO and take some concrete policy measures. These policies could be:

----making preferential policies for these areas to promote the development of non-agricultural sectors, accelerating the development of small towns;

----removing restrictions for rural labor mobility, deepening the urban reforms for household registration system, the employment system, the social welfare and security system to ensure that those negatively affected could find work opportunities in cities and other areas;

----enhancing the training for farmers to increase their ability to conduct new activities.

----building up a social security system in the rural areas to safe-guarding minimum living standards for farmers as that has be established in the urban areas.

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