

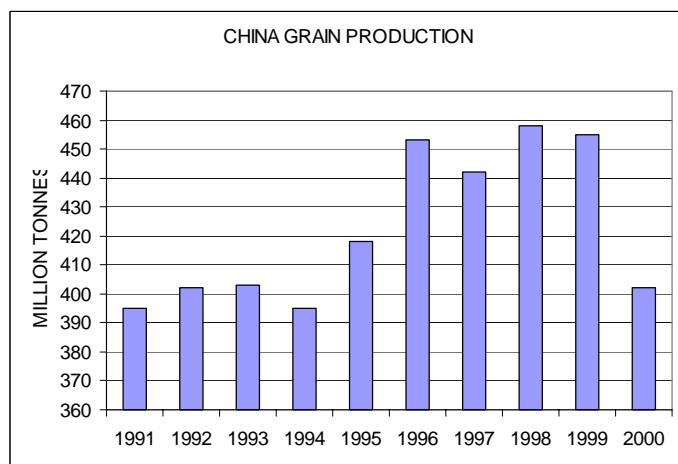
China's WTO membership will have significant impact on world farm trade

With China's membership of the World Trade Organisation confirmed by WTO trade ministers in Doha, the world's most populous nation will soon become subject to the trade liberalising rules of the Organisation.

WTO membership will have serious implications for the country's agricultural trade relationships with the rest of the world. Operating a complex state trading system for grain and other agricultural commodities, it also has high import tariffs and operates various export subsidy systems. It is nonetheless likely to become a powerful operator in both the WTO negotiating system and an important force in world agricultural trade, both as an exporter and an importer of grains and meat products.

As a recent OECD analysis of China's relationship to the world agricultural trading system summarises the current position: "On the domestic front, high input subsidies and administrative measures push farmers to produce more cereals and oilseeds than under free market conditions. On the trade front, tariffs and non-tariff measures allow China to ward-off supply from international markets. State Trading Entities (STEs) manage and control trade flows for cereals. High tariffs and quantitative restrictions have been limiting access to China's market for vegetable oils. Import licences are still required for almost all agricultural products."

China's absorption into the international agricultural commodity markets is expected to result in significant improvements in access to China's vast domestic market for other exporting countries. Expected changes will include tariff reductions, higher import quotas, and more transparent rules-based and contestable sanitary and phytosanitary regulations. Eventually, it can be expected that the role of STEs - hitherto the main trading agent for cereals - will be curtailed and private traders will receive access to tariff rate quotas. However, it is unlikely that the institutional structure of the domestic trading system will change very rapidly. The grain processing sector - feed mills, flour mills, and other facilities - is likely to remain largely in public hands for some time. This could limit the likely benefits from freer trade in primary commodities.



In the oilseeds sector there is less direct government intervention than in cereals; this is because there is much greater emphasis and dependence on imports. The policy regime is relatively liberal with the result that over the past ten years, freer trade in conjunction with a liberalised domestic policy

regime has brought about rapidly rising imports of oilseeds, oil meals and vegetable oils. With the development of a domestic oil crushing and processing industry, there has been a growing differentiation in trade towards increased imports of oilseeds at the expense of meals and vegetable oils.

China's freer entry into the global meat trading complex could have a dramatic impact. According to its own official statistics, China is the world's leading producer and consumer of meat and meat products. Until recently it has remained largely self-sufficient in these products with rising domestic demand being met by higher domestic production. Because much of domestic production comes from small-scale subsistence farming, the needs of the local communities in rural areas were always met. With increasing urbanisation and industrialisation this equilibrium is being disturbed, with increasing demand for industrial production and imports.

In addition to any direct subsidies, there are indirect export subsidies on cereals as state trading agencies are empowered to purchase low-price 'quota grain' from the domestic procurement system and sell it on the world market at prices below the level of domestic market prices. It is likely that when China joins the WTO, other signatories will challenge the legitimacy of these exports.

Because of the current lack of transparency about China's agricultural trade measures, it is difficult to assess what the eventual impact of WTO membership would be on China's agricultural trade with the rest of the world. The effects of likely tariff cuts on international cereal prices and trade appear to be limited, with low in-quota tariffs for wheat and coarse grains resulting in only a modest increase in imports to China and a moderate increase in international prices. For rice, no noticeable change in trade volumes is expected. China is essentially a low-price producer - not necessarily a low-cost producer - of cereals, particularly of rice. Farm-gate prices for cereals are at, or below, world prices, with, until 1997, farmers being taxed on their output.

Imports of vegetable oils and soyabeans are expected to increase though a combination of increased demand and further liberalisation of the import regime making domestic production less competitive. In the meat sector liberalisation and increased consumer demand will have the effect of increasing domestic pig production and also increasing poultrymeat imports. The FAO calculations suggest an output increase of about 800 000 tonnes of pig meat, a modest increase of about 2% relative to OECD 'baseline' (no change) production volume estimates of more than 50 million tonnes in 2005. China's part in the international poultry trade will increase with its demand for poultrymeat imports calculated to increase by about 20% or 200,000 tonnes.

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