

China's WTO commitments in agriculture

Does the impact depend on OECD
agricultural policies?

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Presented by Wusheng Yu

Larry Combest, R-Texas, US House Agriculture Committee Chairman, on China's WTO offer:

"The uniqueness of this agreement is that the Chinese gave up everything, the United States had to give up nothing... "

CNN reports on new US Farm bill (May 13, 2002 Posted: 1346 GMT):

"President Bush on Monday signed a 10-year, \$190 billion farm bill that promises to expand subsidies to growers... "

Robert B. Zoellick, United States Trade Representative, on agricultural support (May 7, 2002):

"EU's ceiling of over \$60 billion of trade-distorting subsidies is three-times the U.S. ceiling of \$19.1 billion; Japan enjoys a ceiling of over \$30 billion, more than one-and-a-half times... "

WTO/World Bank/IMF chiefs warn against rich-country protectionism (May 16, 2002):

"Prospects for reform of agricultural support policies...toward interventions that are less damaging to the economic opportunities of the poor, are particularly important...How can leaders in developing countries or in any capital argue for more open economies if leadership in this area is not forthcoming from wealthy nations... "

Objectives and methods

- ◆ Issues to be addressed
 - What is the impact on China and the world?
 - Does the impact depend on OECD ag policies?
- ◆ Simulation exercises using GTAP model
 - Base case with no policy changes
 - Policy scenarios against the Base
 - Implementing China's ag commitments
 - Implementing China's ag commitments when OECD reforms

Is this study any different?

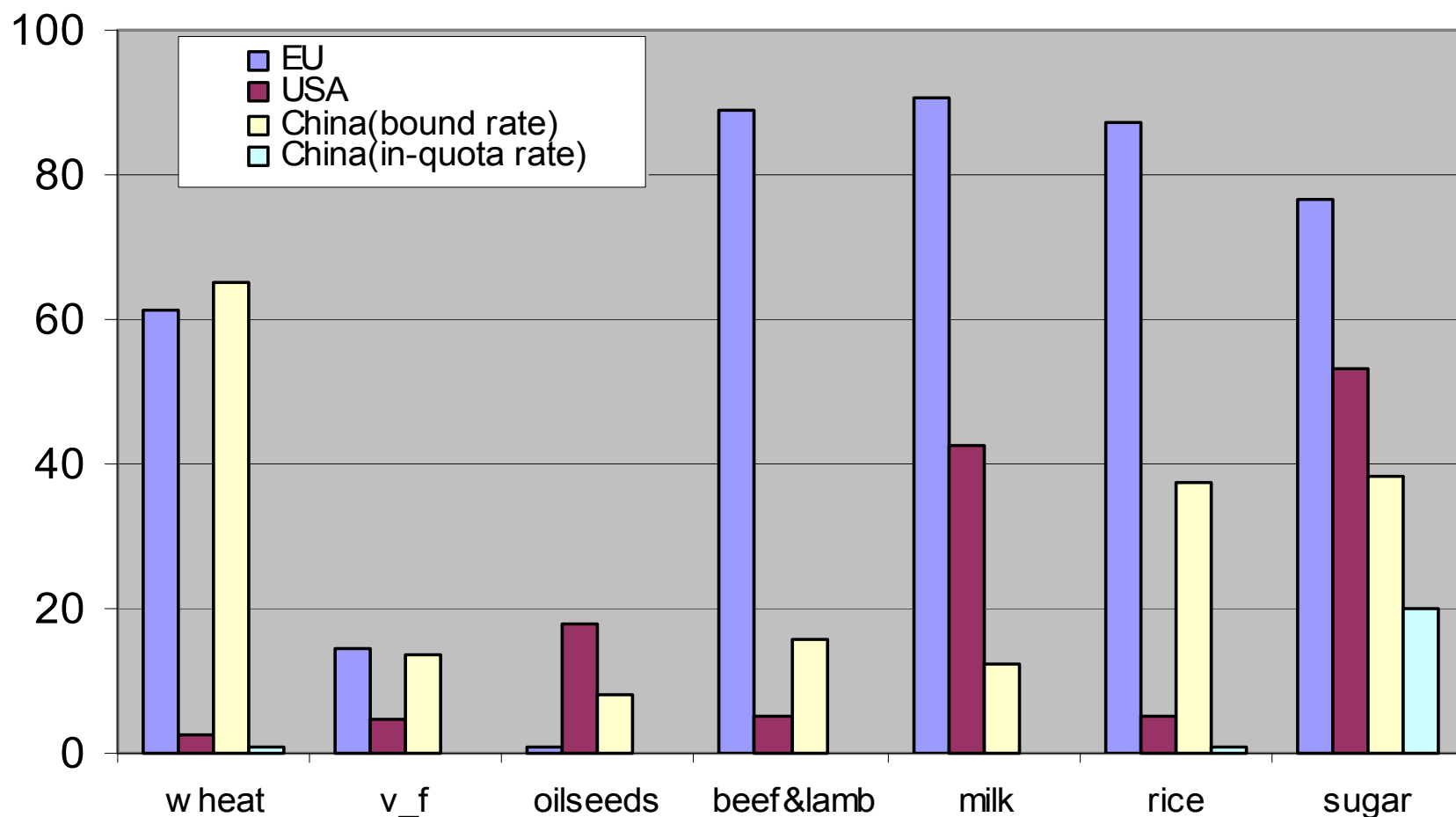
- ◆ Previous studies
 - Data: lack of actual commitments (tariffs and TRQs)
 - Methods: unilateral actions by China
- ◆ Our study
 - the actual commitments
 - focused on agriculture
 - policy interactions between OECD countries and China
 - perspective of further agr negotiations

Bound tariff and TRQs in the actual commitment

	wheat	grain	vege & fruit	plant based- fiber	beef& lamb	pork& poultry	veg. oil	milk	rice	sugar
T ₂₀₀₀	74	74	17.6	11.3	21.7	19.9	20.5	28.6	42	51.3
T ₂₀₀₅	65	65	13.8	8.9	15.8	17.2	10.8	12.2	37.5	38.4
T _{inquota}	1	1		1			9		1	20
Q ₂₀₀₀	7.88	5.18		0.78			4.96		3.32	1.68
Q ₂₀₀₅	9.64	7.2		0.89			8		5.32	1.95
Q _{actual20}	2.03	4.94							0.24	

Note: T refers to tariff rates; Q refers to trade quantities in million tons.

Who is distorting the world market? a comparison of tariff rates

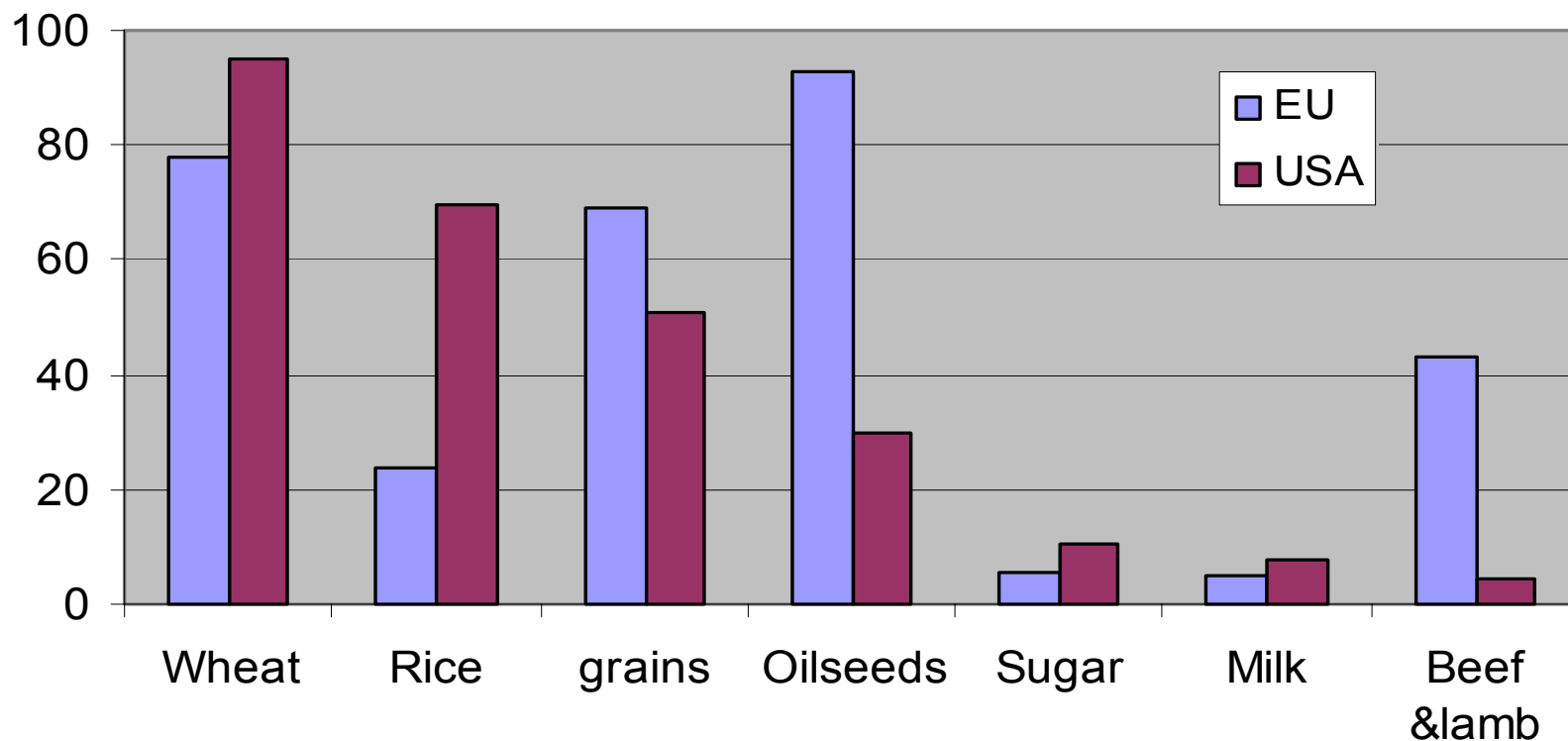


Note: TRQ goods for China are wheat, grain, vegetable oil, rice and sugar.

Source: GTAP databa and China WTO offer

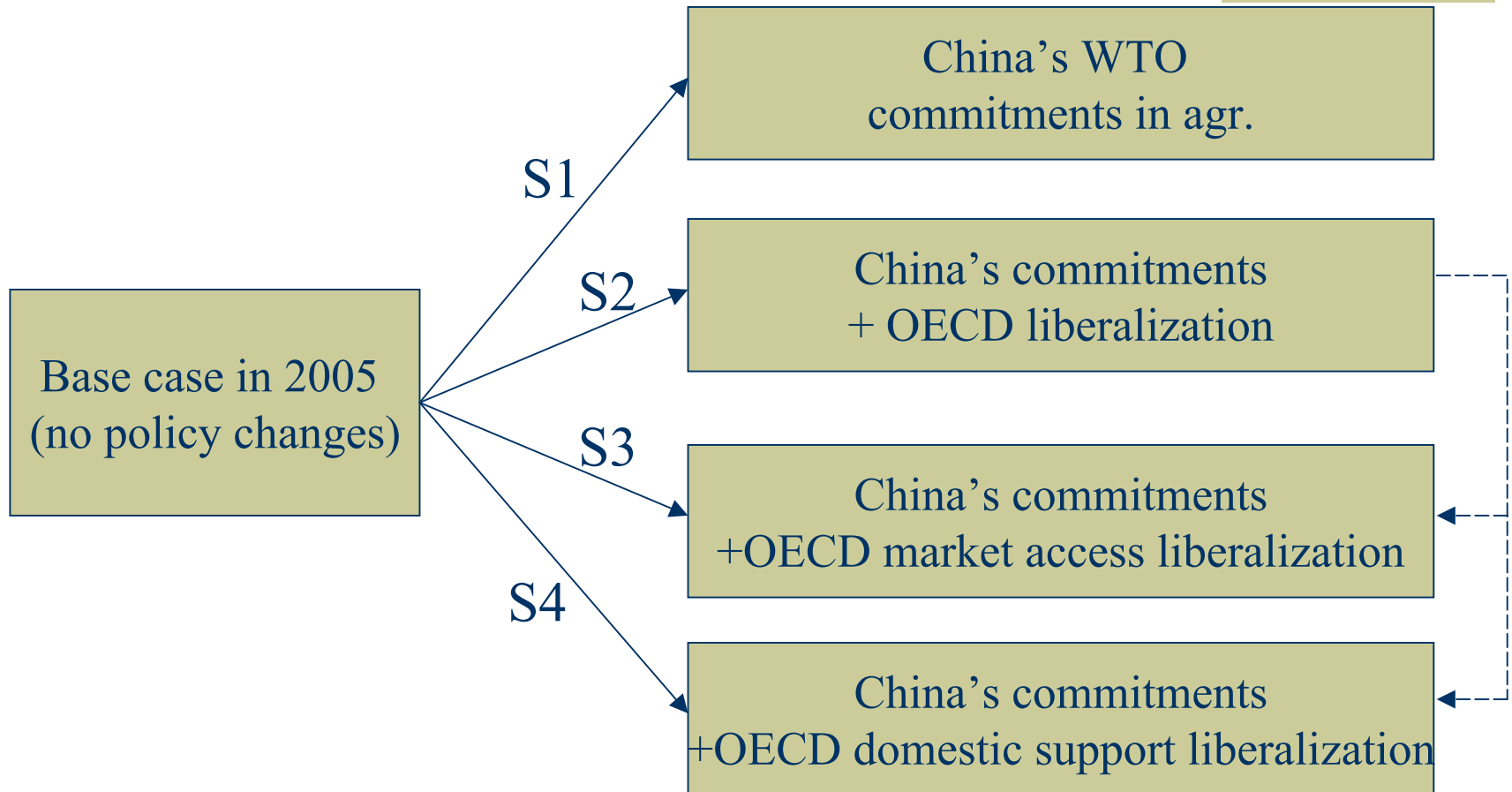
Domestic support in EU and USA

total support as % of production value



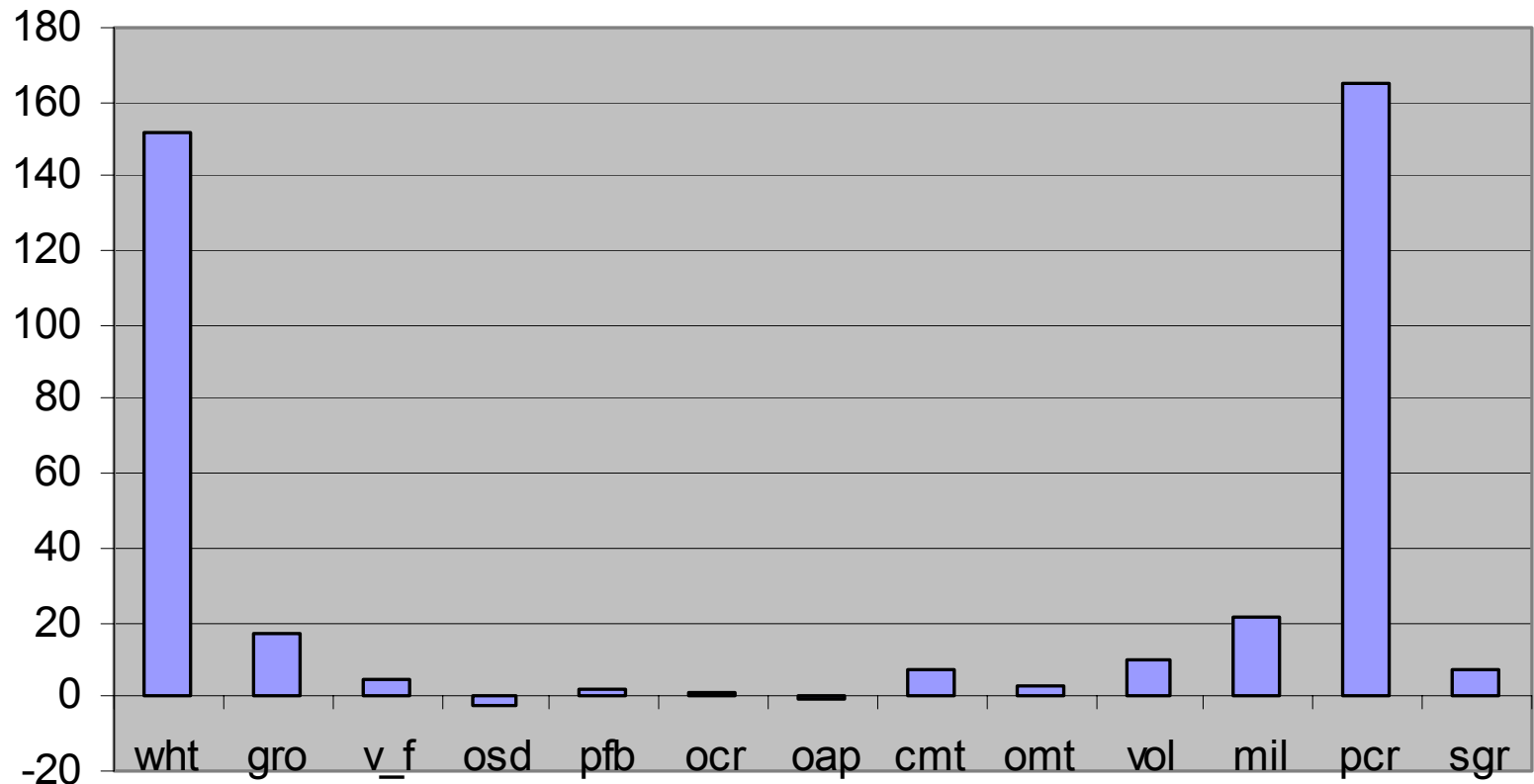
Source: OECD PSE Tables

Policy Scenarios



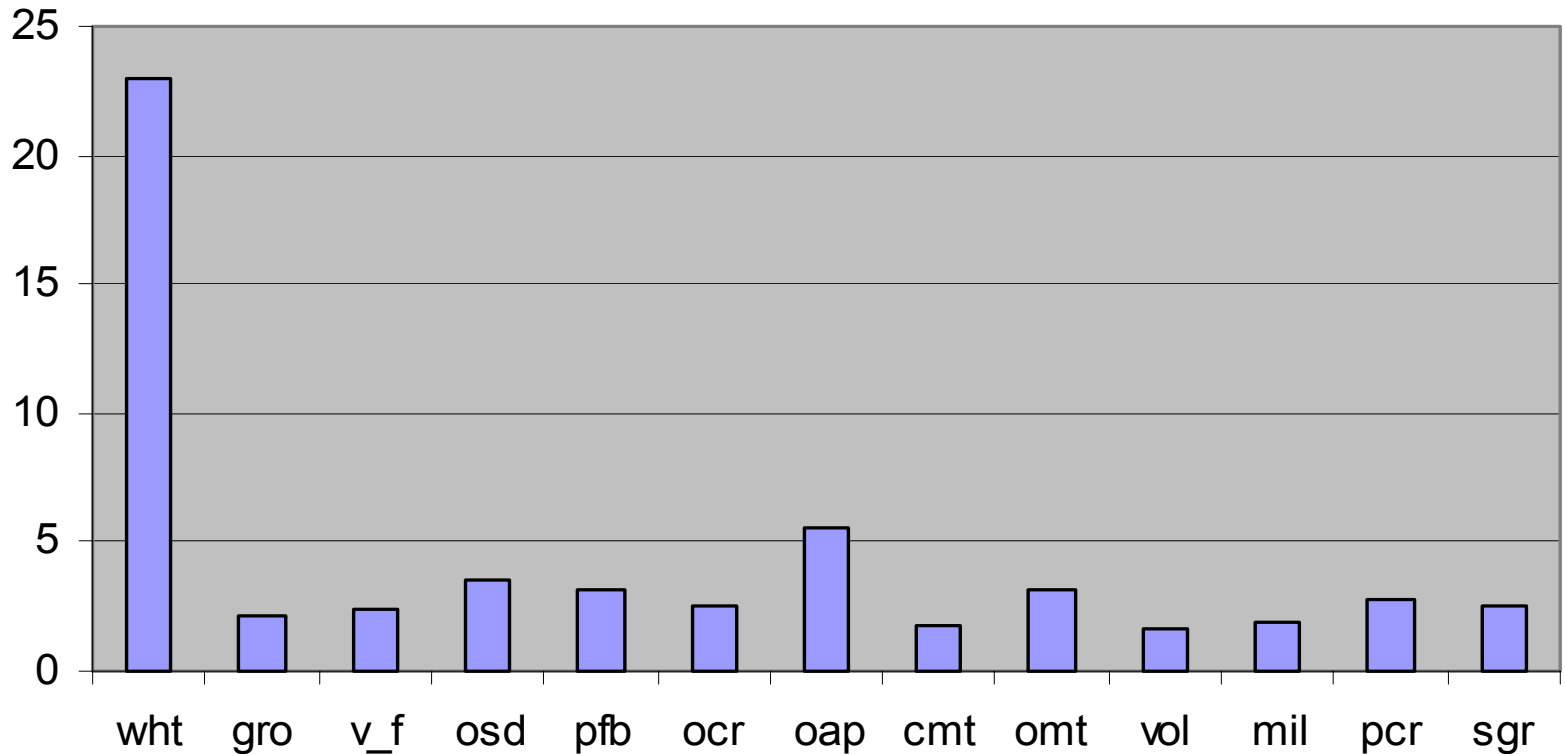
S1. China's agricultural imports

% changes in imports from the base case



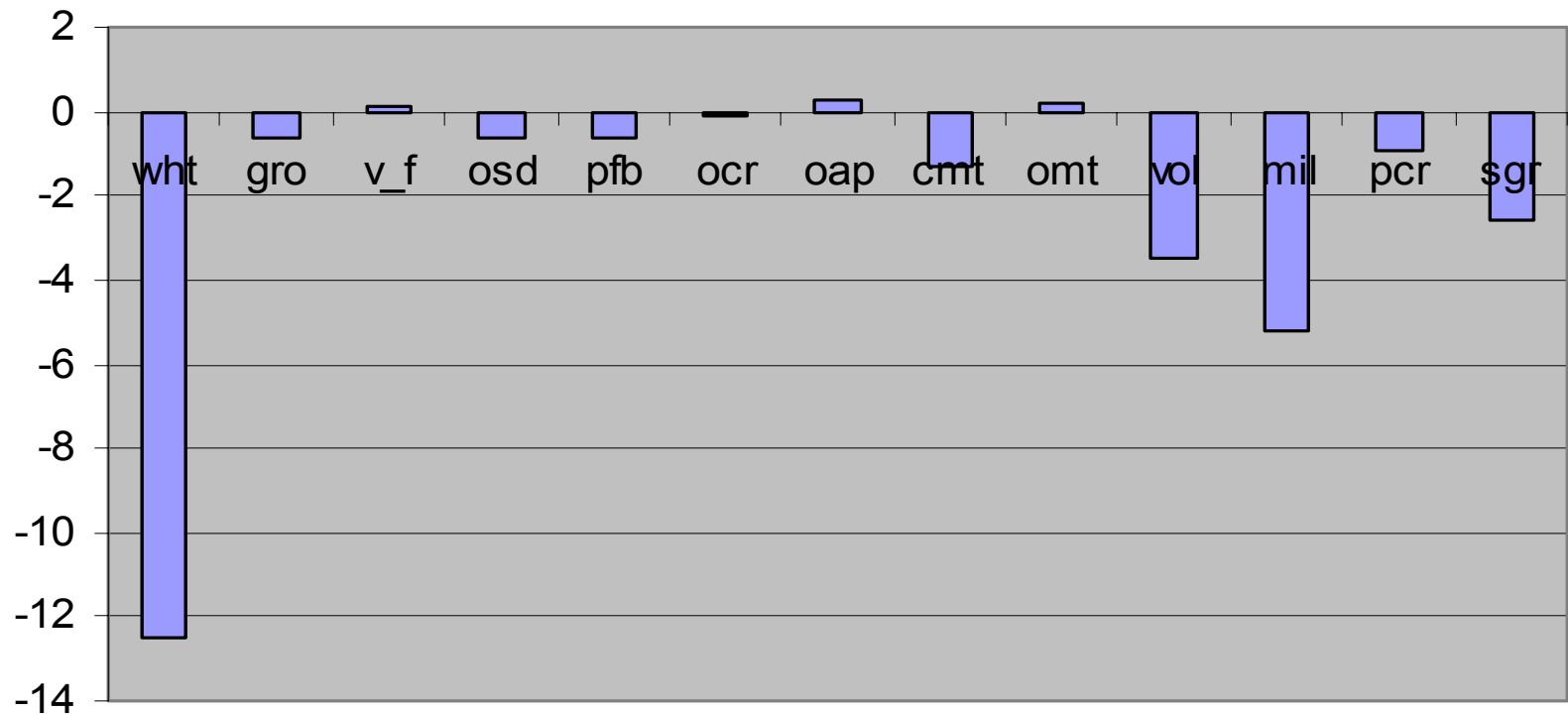
S1. China's agricultural exports

% changes in exports from the base case

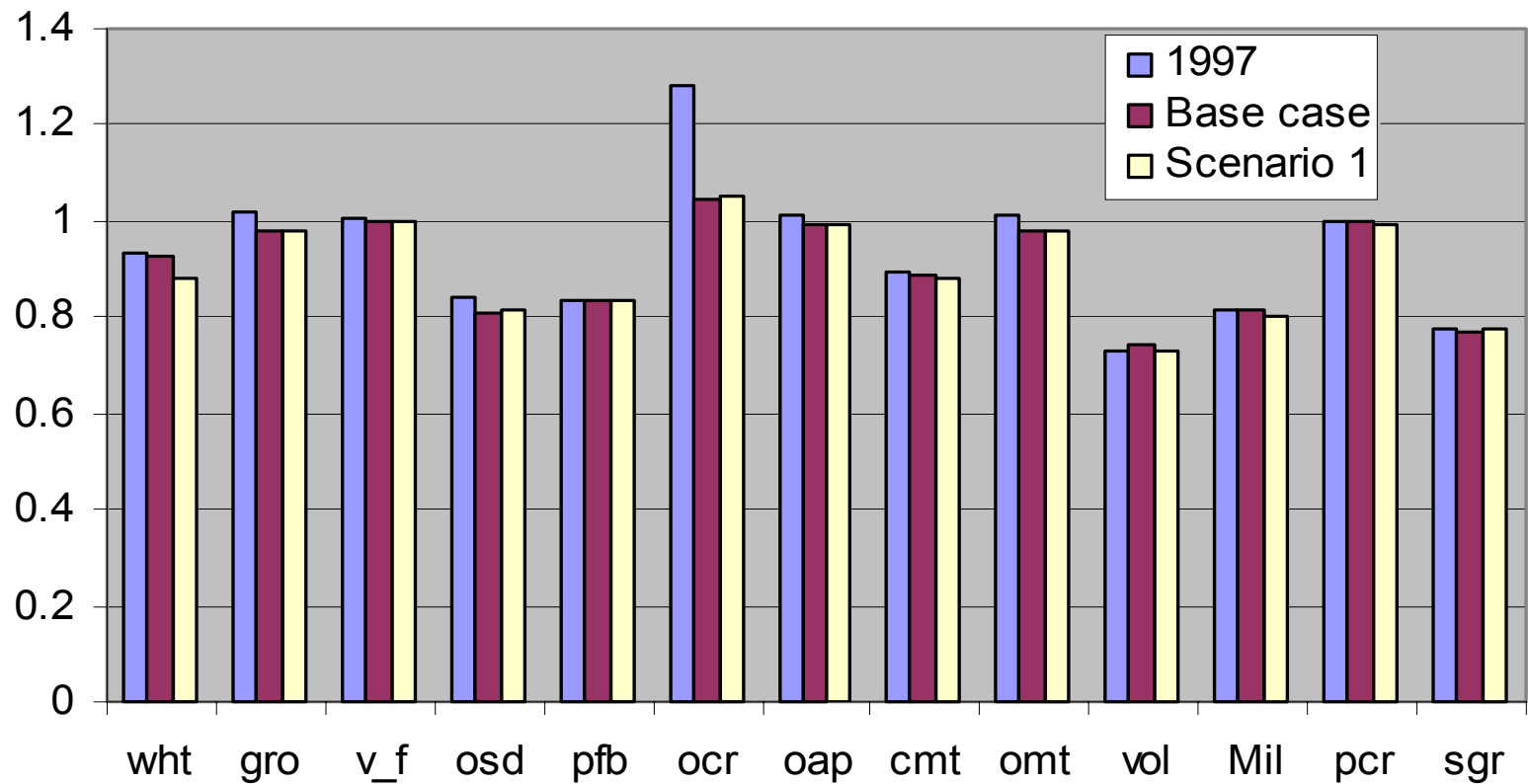


S1. China's agricultural output

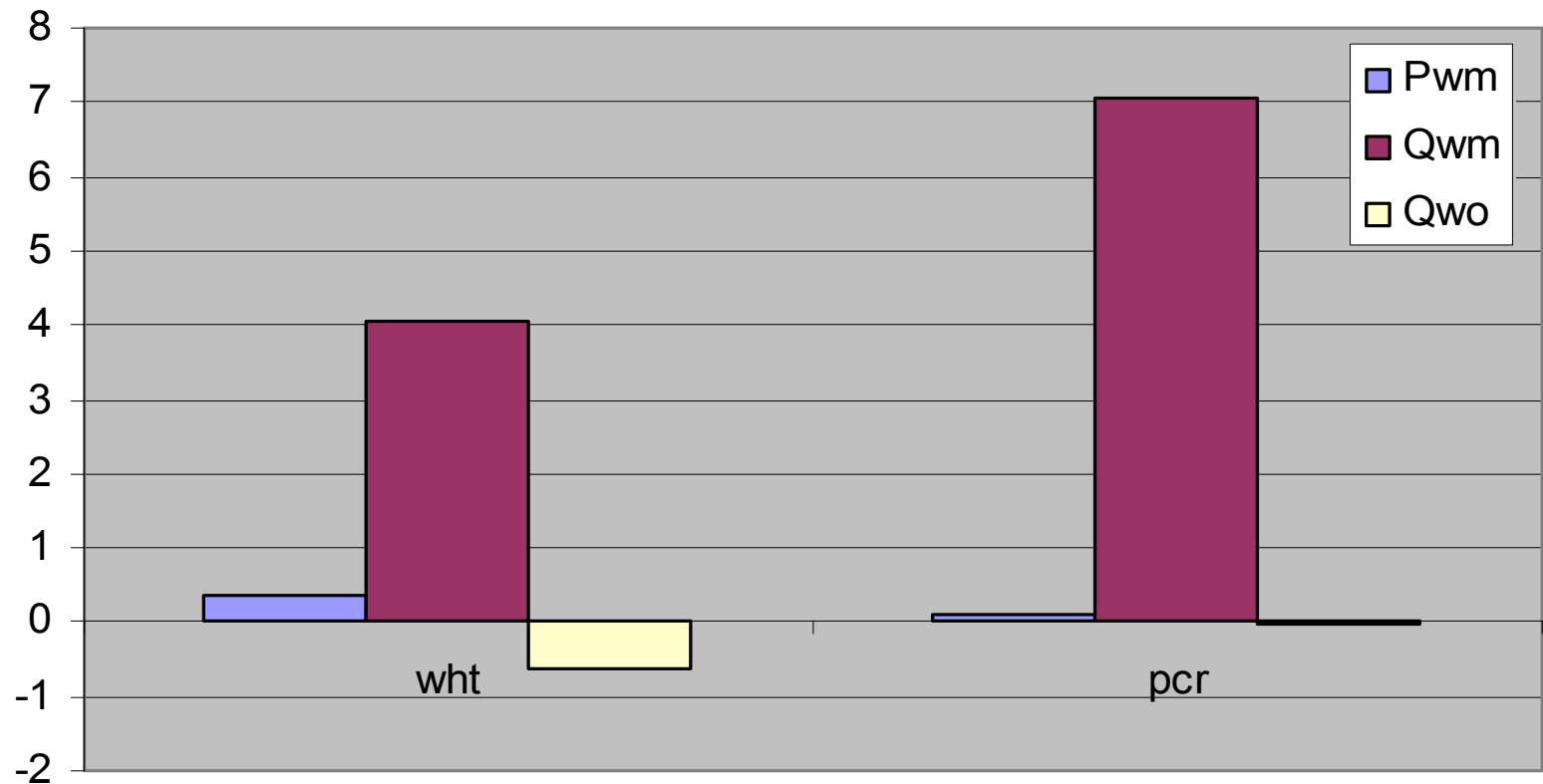
% changes in output from the base case



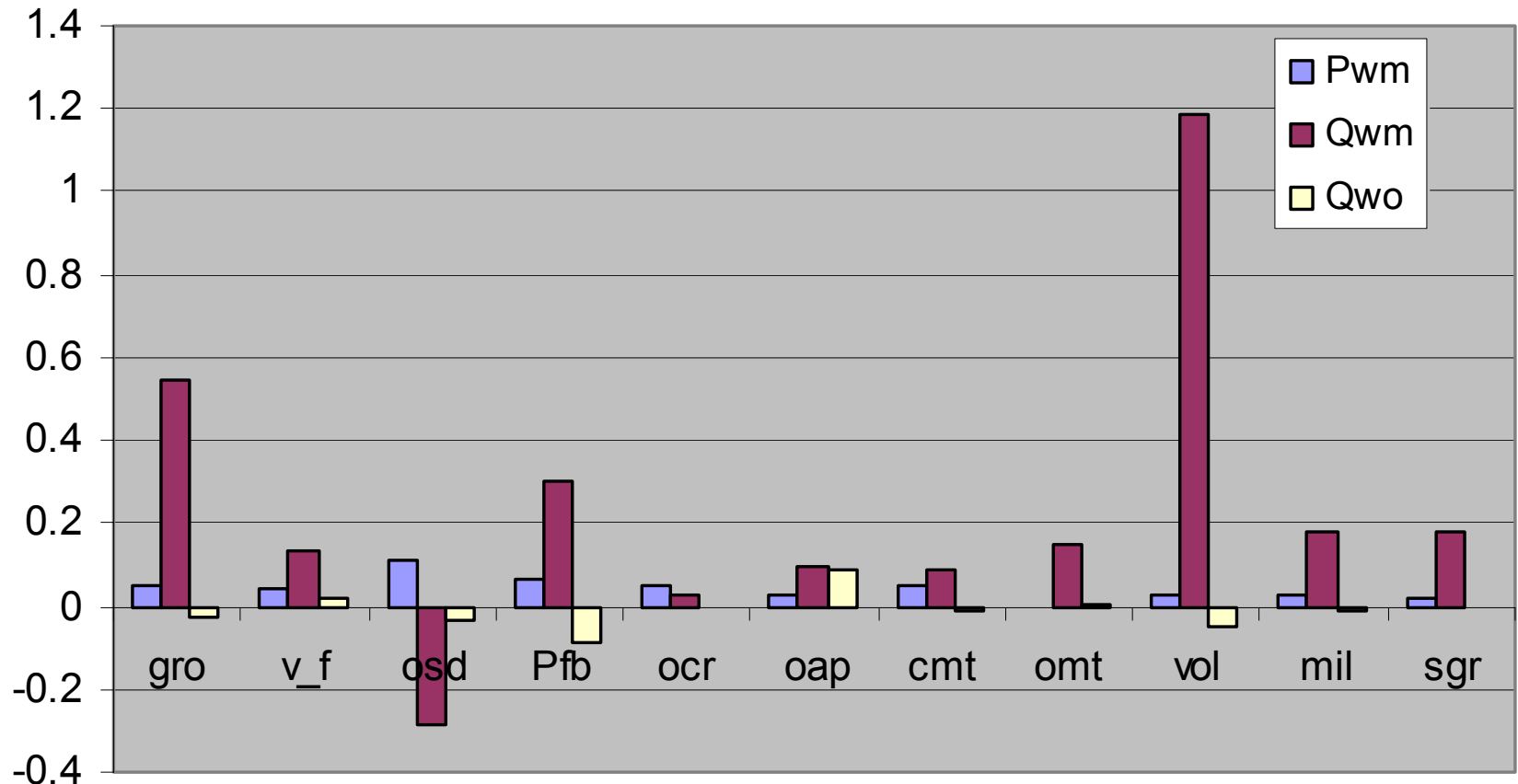
S1. Self-sufficiency in China



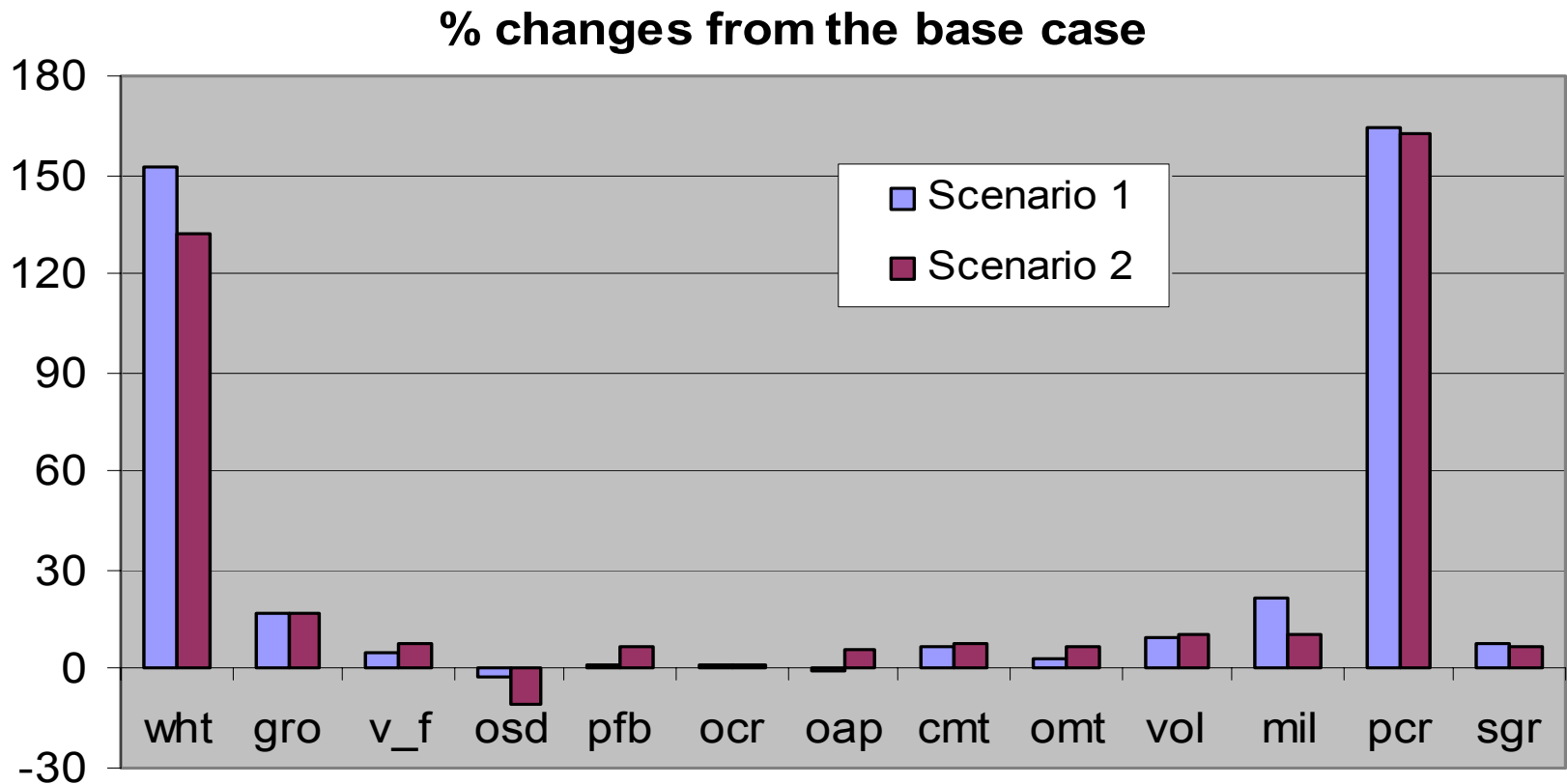
S1. Impact on the world market (wheat and rice)



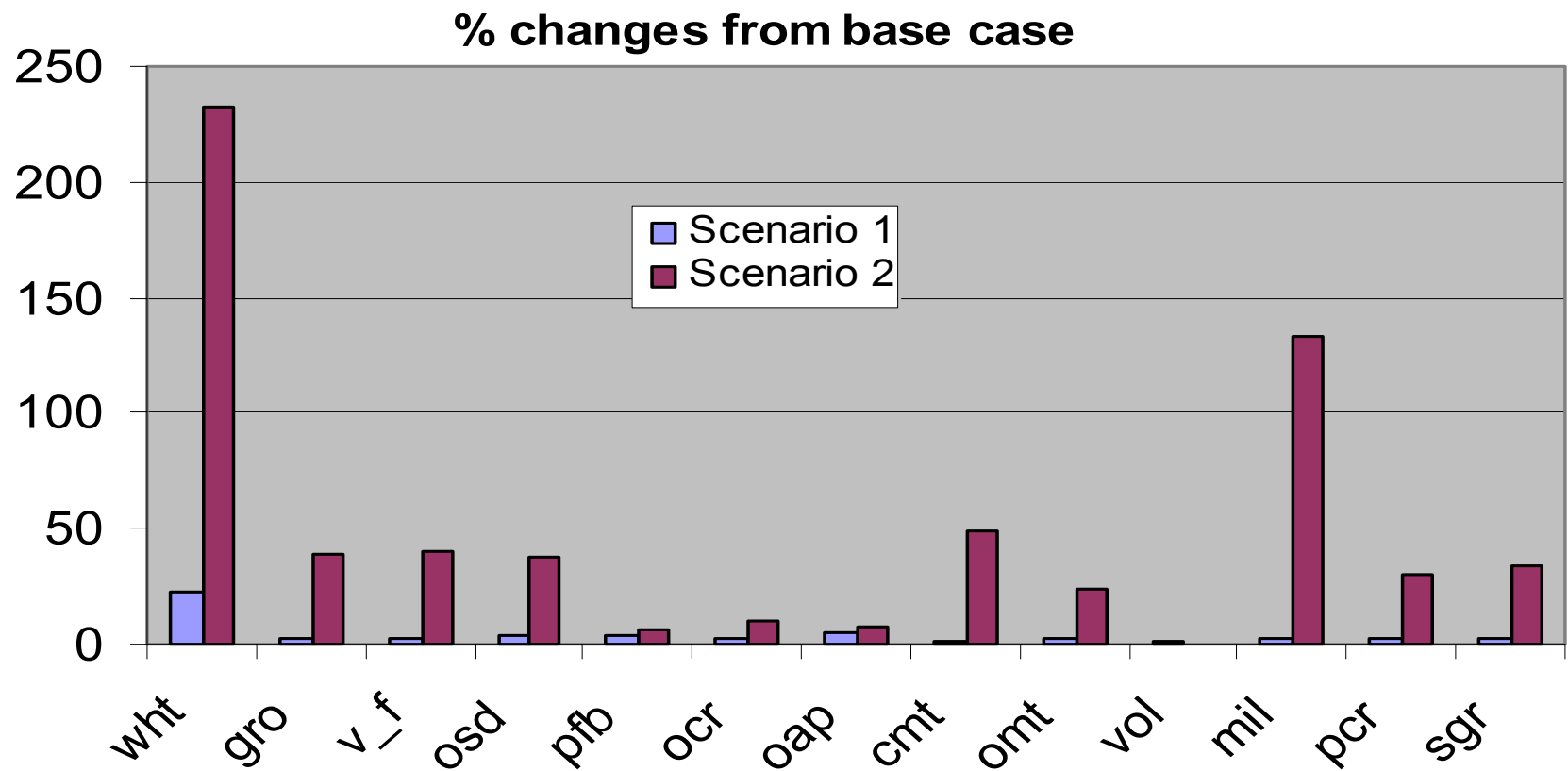
S1. Impact on the world market (other products)



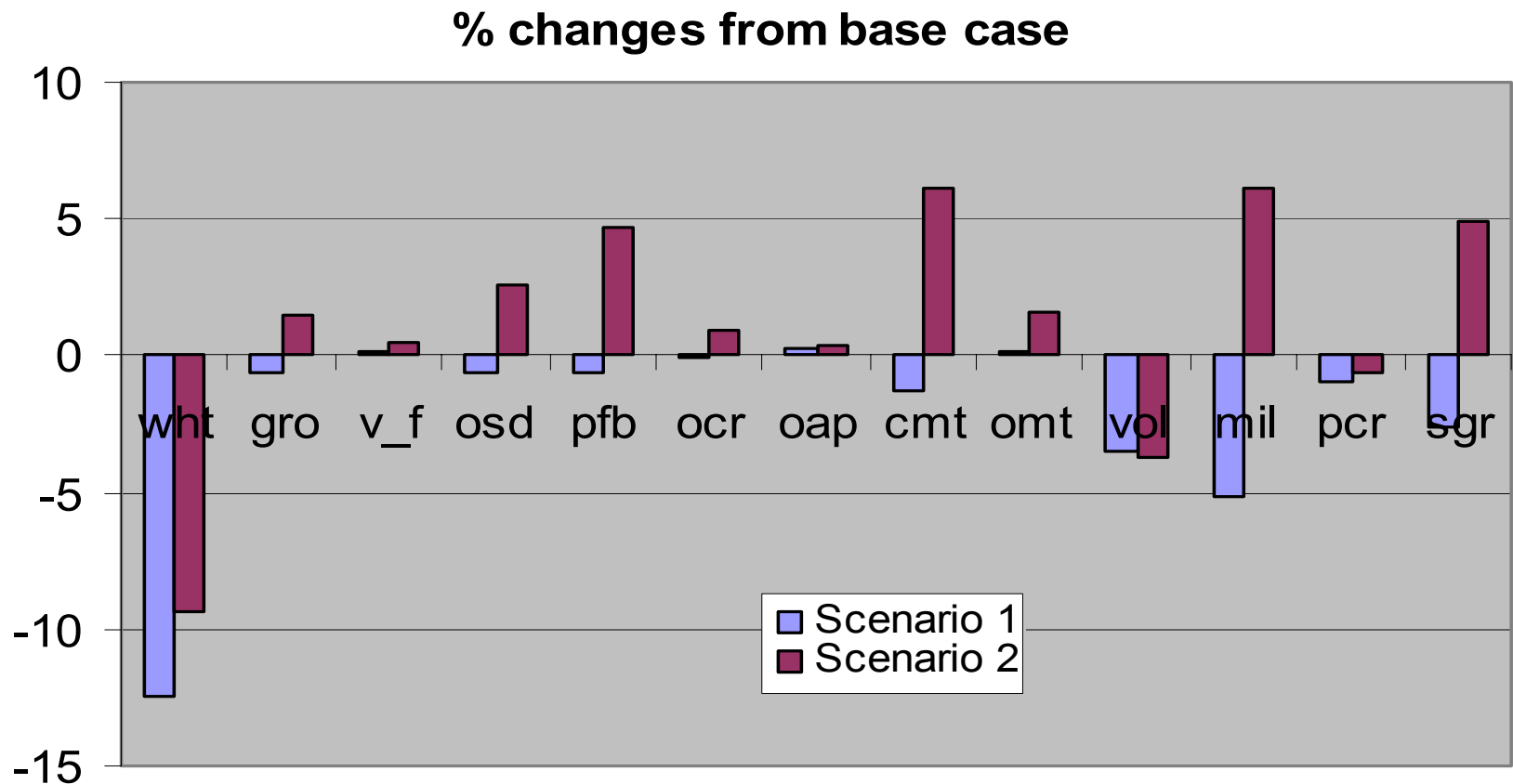
S2. China's agricultural imports



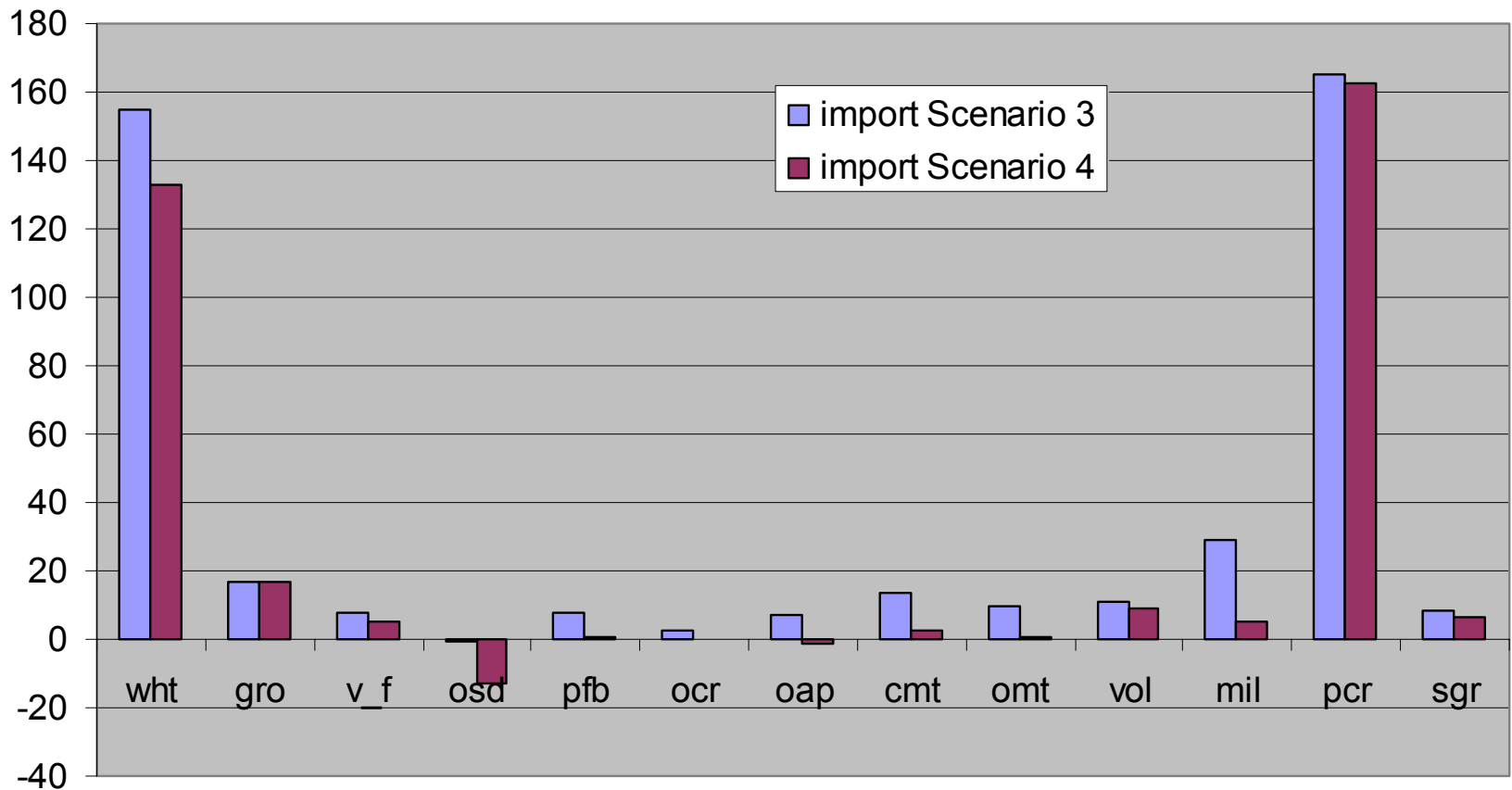
S2. China's agricultural exports



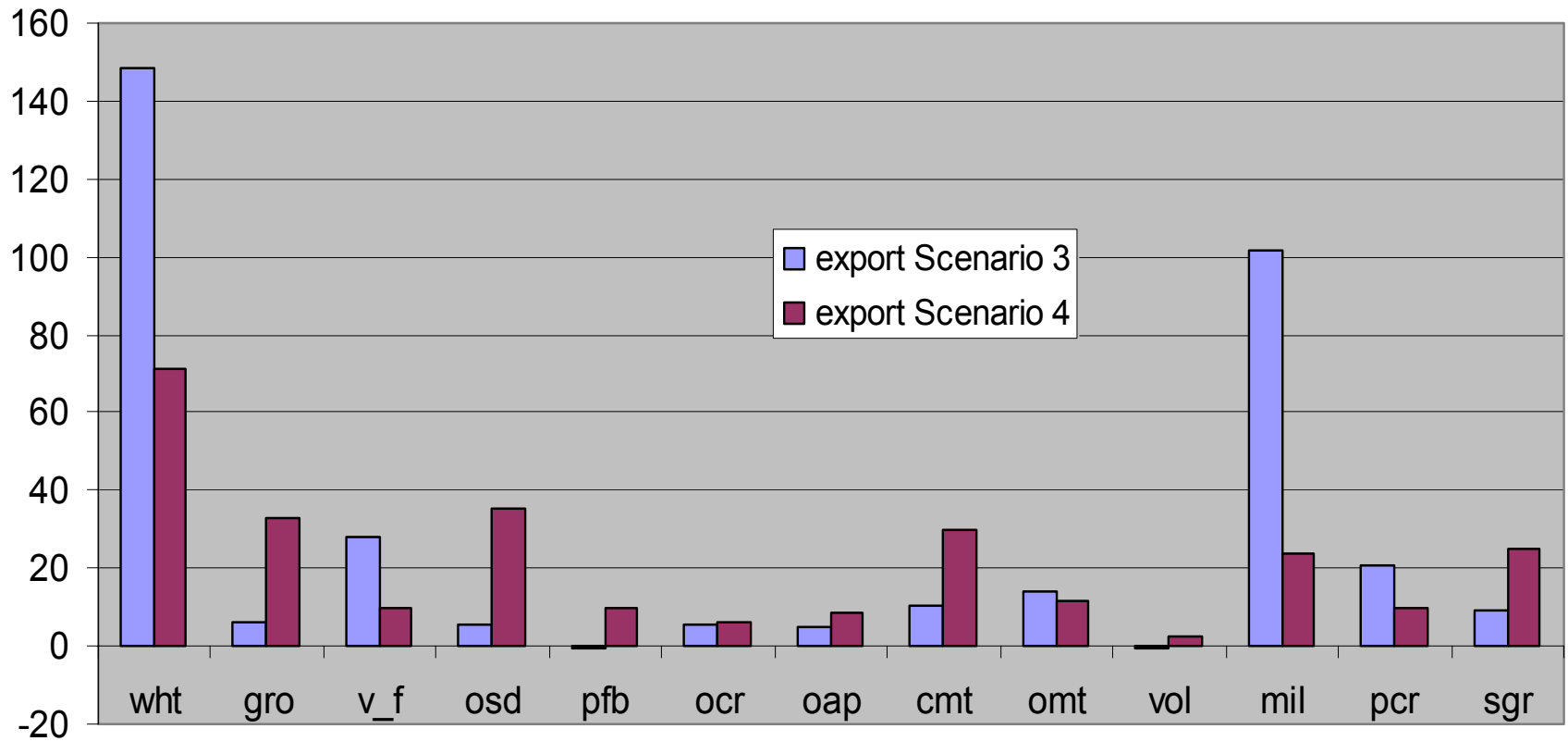
S2. China's agricultural output



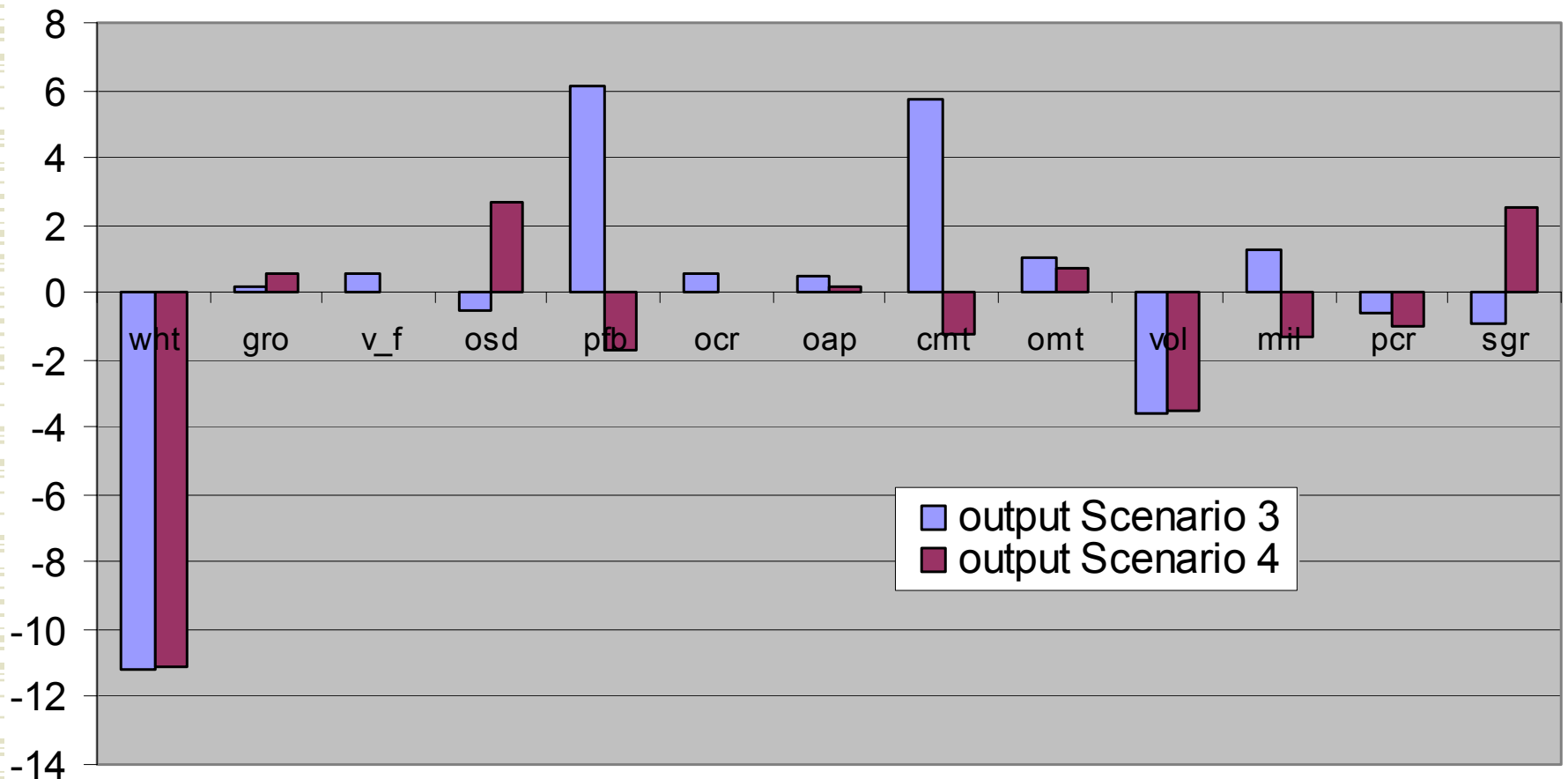
Decomposition scenarios (S3 and S4): imports



Decomposition scenarios (S3 and S4): export



Decomposition scenarios (S3 and S4): output



Conclusions

- ◆ Moderate loss to ag sectors in China
 - increased imports and decreased output
 - sector results differ (depending on the offer)
 - TRQ offers differential market access (depending on initial import/quota ratio)
- ◆ Marginal overall welfare implication to China
 - however, impact not negligible for Chinese farmers
- ◆ Moderate impact on the world market but China's trade partners gain

Conclusions

- ◆ OECD reforms help Chinese agr and farmers:
negative impact mitigated
 - improved market access opportunity → more export and output
 - improved world market price → less imports
- ◆ both market access barrier and domestic supports in OECD countries matter to China

Further efforts

- ◆ Data improvement
 - Initial protection structure (applied rates are preferred!)
 - Initial trade volume for TRQ goods (variations in historical trade volumes)
- ◆ Supply side responses in China
 - will they help the situation or worsen it?
- ◆ Expand the analysis beyond agriculture
 - Impact of liberalizations in other sectors (plenty studies on this)



Outline

- ◆ Data
- ◆ Methodology
- ◆ Policy scenarios
- ◆ Results
- ◆ Discussion

Methodology

- ◆ Simulation exercises using GTAP model
 - Base case in 2005 with no policy changes
 - Policy scenarios against the Base, capturing the effects of
 - Implementinng China's ag commitments
 - Implementing China's ag commitments when OECD reforms

Literature

- ◆ Aggregated studies
 - e.g. Lejour, Zhai and Li, Fan and Zheng
 - Hypothetical liberalization scenarios
 - agriculture as an aggregated sector
- ◆ Studies focused on Agriculture
 - e.g. Diao et al. (GE), Fuller et al. (PE), Huang et al.(PE)
 - Hypothetical liberalization scenarios except Fuller

Literature (cont'd)

- ◆ Data problem
 - TRQs, tariff levels and reductions
- ◆ Typical approach of previous studies
 - Unilateral actions by China, no policy changes in r.o.w.
 - Not enough to address further questions such as
 - the relative impact on the world?
 - feedback effects of possible multilateral liberalizations on China?
 - perspectives of further negotiations in agriculture?
 - What can rich countries do to help the poorer ones?

Sce. 1: China's ag trade and production

	imports	market price of imports	exports	export price index	output
wht	152.2	-41.5	23	-4.3	-12.5
gro	16.7	-13.1	2.2	-0.7	-0.6
v_f	4.9	-3.1	2.4	-0.5	0.1
osd	-2.7	-0.3	3.5	-0.7	-0.6
pfb	1.6	-2.1	3.2	-0.6	-0.6
ocr	1.5	-2.1	2.5	-0.6	-0.1
oap	-0.4	-0.7	5.6	-0.9	0.3
cmt	7	-4.8	1.8	-0.4	-1.3
omt	3.2	-2.2	3.1	-0.7	0.2
vol	9.6	-8	1.6	-0.4	-3.5
mil	21.2	-12.7	1.9	-0.4	-5.2
pcr	164.7	-41.8	2.8	-0.6	-0.9
sgr	7.4	-8.4	2.5	-0.6	-2.6