Globalization and China’s Agriculture Development

(ABSTRACT)

Haoming Huang
Executive Director of China Association for NGO Cooperation (CANGO)

In November 2001, China became a formal member of the World Trade Organization (WTO), which symbolizes China’s involvement in economic globalization. However, what will economic globalization bring to China’s agriculture development?

The impacts of China’s entry into the WTO to the agricultural industry include the following:
A. the shrinking of market-entry protection;
B. supporting domestic policy is reduced;
C. and the protection of export competition is vulnerable.
The agriculture products that may suffer from above mentioned impacts include rice, wheat, corn, seeds, cotton and some fruits or sea products.

Analysis on WTO and its impacts to China’s agriculture:
Compared with other industries, the benefits to the agricultural industry after China’s entry into WTO are much less. The reason can be broken down into four aspects. Firstly, the dependence on foreign trade of China’s agriculture is only about 10%, much less than that in any other industries. Secondly, China’s agriculture used to be self-efficient. Thirdly, China’s agricultural sector was in free competition, so it does have competitive power in facing of the world competition. Finally, China’s large production and consumption of agriculture products will have a large-country effect upon the world market.

Generally speaking, the impact of China’s entry into WTO will not have any short-term influence on China’s agricultural system. However, it’s certainly a positive encouragement to its long-term development. The domestic policy will play a more important role in this process.

The opportunities and threats to agriculture after China’s entry into WTO
The membership will grant China the equal opportunity without any discrimination on export. This will lead to a better export environment that will push China to have more open policies on agricultural development. It will also encourage the industry structure to change to better accommodate the agricultural sector.
There are also some threats such as the negative impact on the high-cost of agricultural products, less income generation for poor farmers, the increase of extra labor force etc. With China’s entry into the WTO the government will have more difficulty to solve those economic conflicts.
Measures and Action:
To deepen the reform of the rural economy system.
To make advantage of WTO rules and strengthening the domestic support to agriculture.
To adjust the import and export trade management measures towards agriculture products with a comparative advantage.

To try to expand the export of agricultural products, especially those with advantages.

Key word: Globalization     China’s Agricultural development     WTO
I. The influence of economic globalization on China’s agricultural sector

(I). The framework of WTO in relation to China’s agriculture

In relation to China’s agriculture, the framework of WTO is such a forceful reform that the influences are reflected in the following ways:

1. Shrink the protection of market access

(1) After its entry into the WTO, China lost all of its non-tariff measures to agriculture products. The only way to protect national market is tariff. For a long time, it is the non-tariff measures, such as import quota and import license, that used to be the major application in the administration of China’s agricultural products import. Obviously, the prohibition of non-tariff measures under the framework of WTO will leave some negative impacts on the macro control for market permission.

(2) China lacks the way to transfer the non-tariff measures into legal tariff measures, which is also disadvantageous to trade protection. Under the framework of WTO the tariff becomes the only way for trade protection, the member countries are allowed to transfer the non-tariff measures into the tariff system. That is to say, the average price of an agricultural product in domestic market can be equal or near the average price in world market. However, during the base period of the reduction, 1986 to 1988, the price of most agricultural products in China was lower than the price in world market. So, even with the transformation of non-tariff to tariff, the tariff equivalence is still negative.

(3) The regulation of maximum tariff is another disadvantage to China’s agriculture. The maximum tariff depends on the negotiation of two countries. During the long negotiation between China and the US, the US government is always setting a high tariff level to China’s agricultural products. Therefore, it is difficult for China to be self-dependent under the maximum tariff. (The maximum tariff to major agricultural products is 80%, the minimum is 65%)

(4) The continuing reduction of tariff to agricultural products. According to the rules of WTO, China has to lower its tariff level continuously. China has promised to cut its tariff by approximately 22.1% within the next 10 years. This may be higher than the developed countries, but is lower than most of the developing counties.

2. Lack of the domestic supporting policies

(1) Owing to the base period from 1986 to 1988 under the rules of WTO, the domestic support to China’s agriculture in the future can’t surpass 10% of the total agriculture output from 1986 to 1988, i.e. approximately 48.5 billion RMB, 5.7 billion US$ according to the present exchange rate. This is the lowest among developing countries, not mention the developed countries like the US (19.1 billion US$) and Japan (28.3 billion US$). From this comparison, we can see that the supporting base index left less space for China.
Regarding the “Green box”, China also stands in a disadvantageous position. From 1986 to 1988, 27.6 billion RMB Yuan (7.6 billion US$ at the exchange rate of that time) was applied to the food reservation, basic facilities construction, poverty alleviation, disaster relief, allowance for production materials, which is only 1/2 of that of Japan and 1/3 of that of the US.

3. Reduction of the protection for export competition

Export allowance is one of the major measures to improve the competition power of the agriculture products in export. Although they are required to reduce the export allowance under WTO regulations, most member countries still afford to pay that after reduction because of the large base.

From 1986 to 1990, export allowance was also applied in China’s foreign trade but was abolished with the reform of foreign trade system. During the negotiation, China set up the schedule of reduce export to 6.2 billion RMB (equal to 1.3 billion US$ at the exchange rate of that time) which is much more than the direct export allowance of the US (approximately 0.6 billion US$). However, because the competition power of China’s agricultural products was strong owing to the lower price level than the world market from 1986 to 1990, the US government wouldn’t recognize the export allowance as what means under WTO regulations and emphasize that China has abolished this measure which makes the contracting parties ask for a zero export allowance during negotiation.

(II), Impact on major agricultural products after China’s entry into WTO

Within a long time in the future, owing to the price increase of production materials, labor force, and reform of food purchasing and selling system, the price of food will continuously go up. It is doomed that the food price in domestic market will be higher than that of the world market. China’s food is now facing not only the lost of competitive advantage in world market but also the great pressure from domestic market. To different products, the influence varies.

1. Rice
Under WTO frame, the price of world rice market is going up and the rice export and import is going to be expanded which is an active stimulus to the rice production and export in China. In domestic market, the government will adjust the policies to encourage the production and increase the government’s investment in agriculture, especially to strengthen the measures towards “Green Box Policies” so as to improve the agricultural production. What we should pay attention to is that, during the Uruguay Round, Japan and South Korean have promised to open its rice market at certain level from which China would benefit.

2. Wheat

China is and will be one of the major purchasers in the world wheat market due to its population increase and economy development. Under the Agreement on Agriculture, the rising of the price
level in world wheat market will have two major effects on the wheat export and import of China. First, it will encourage the domestic production, and then improve the supply of domestic wheat market.

Secondly, it will impose more on the paying of foreign currencies on wheat import, and then influence the wheat import. That is to say, the change of the world food market won’t expand the China’s food import and it may cause China to take some measures to improve the self-food supply and reduce food import.

3. Corn

The influence of Agreement on Agriculture in Uruguay Round on corn trade is also obviously.

4. Oil seeds and plant oil

The production of plant oil in China can’t afford the domestic consumption, such as the bean oil can only meet 80% of the total demand and seeds oil 90%. With only a small amount of export of peanut oil, China import 30—50 ton bean oil and 20—30 ton seeds oil (sometimes even up to 60 tons) each year. However, the gap between supply and demand still can’t be met in domestic market, so it is expected that China will be one of the biggest importer of plant oil. FAO estimated that, owing to the Agreement of Agriculture, the price of animal oil in world market would rise about 4% and the total trade will increased by 3.4%.

5. Cotton

Cotton is also one of the major agricultural products of China. From 1950s on, great success has been achieved in the cotton production of China: the average production of each mu is now 50kg, about five times of that in 1950s. The total production increases every year. In 1984, the cotton production reached its highest record—6.25 million ton. China became the world largest cotton country and finished its long dependence on cotton import. The harvest of cotton also encouraged the development of the cotton weaving industry and made China the biggest cotton exporter. Each year, the total export of the cotton weaving products can reach 30 billion US$. But in the past several years, the cotton production slowed down and cannot meet the market demand. It is estimated that until 2000, the total demand for cotton is about 5.25 million ton, which is much higher than the present production of 4.25 million ton. Therefore, to balance the demand and supply of cotton, China may turn to the world market in the next five years.

5. Fruits, seafood and meat

First, from 1980s on, the regulations on fruit business was abolished and the price was more flexible which encouraged the farmers to plant more fruit trees.

Secondly, China has advantage in the world seafood market because of the abundance of sea animal raising and labor force.

Third, China is one of the biggest meat producers in the world. The advantages reflected in the
following aspects: The price level of China’s meat production, except birds meat, is lower than that of the world market; many neighbor countries, Japan, Russian and etc. are the purchasers of China’s meat production.

II. WTO and the challenges of China’s agriculture development

(I), Analysis of WTO and China’s agriculture development

Many scholars believe that it is agriculture that will confront the biggest threat. The following are some analysis from the scholars.

1. The threat of WTO to agriculture is smaller than to other industries. The reason lies in:
   a. The dependence on foreign trade of China agriculture is less than that of the other industries. Now, the dependence rate of the total national economy on foreign trade is about 35%--40% while that of the agriculture is only about 10%.
   b. The self-sufficiency of China’s agriculture left only a little space for market. Only 35% of the agriculture products open to the market. Therefore, the change of world market won’t make influence to the domestic market, especially in the inland area, the high expenses on transportation will lead to no advantage.
   c. The competition in agriculture production is totally free which makes it stronger in face of the world competition while monopoly still exists in some other industries.
   d. China is a big agricultural country with a large production and consumption. So, its small quantity of import will lead to a big variation to the world market. For example, in 1995, the food import of China increased a lot, then, in the first half year of 1996, the food price of the world market rose sharply, even surpass the price of Chinese market. After 1995, with shrinkage the of China’s import, the world food price decreased sharply that the wheat price went from 230 US$ down to 100 US$.

In general, the impact of the post China WTO entry on agricultural will be reflected in the following 3 aspects: agriculture production, farmer income and agriculture employment.

(1) Agriculture production
China WTO entry would not have a distinct impact on agriculture production. For bulk agricultural product, the main factor is regarded to tariff and quota. Taking an example of grain, the quota will increase to 2, 180 tons after the entry from 1440 in the past by years. If the full quota would be used, it only accounts 4-5 percent of the total grain production of China. According to the case of 1995/1996, once China beginning volume import, the international grain market price would be raised. Considering current market situation, the import after WTO entry of grains will far below the full quota. To other free quota agricultural production, the tariff will be a key role. Some products like beef, pork, fruit, vegetable, aquaculture, wine, and the tariff will be lowered cut greatly, from 20%-12%.

(2) Farmer income
Import grains will bring negative impact to those grain production farmers, but it will not be a big
impact. On the assumption that the full quota grains will be imported, it is the same amount grains which would be kept in stock for marketing. The total value of this stock is around 15 billion RMB. If we calculate the total grain households, each farmer only lost 20 Yuan on average, this accounts 1% of the net income per year per farmer. However, this lost is not the real farmer’s losing, since the grain were in stock and can be transferred into other value possibly, at least, part of the value. On the other aspect, it will encourage households to adjust product structure, for example, to plant other economic corps.

(3) Agriculture employment
There are some linkage between agriculture employment and the farmer’s income. Statistics from some researchers shows that the unemployment farmers will reach millions. (A report from the Development Center of State Council shows that there are 9.6 million people used to engaged in agriculture are now facing unemployment, in which those in rice are 2.46 million, wheat 5.4 million, cotton 4.98 million while the employment in non-food industry increased 2.08 million and livestock husbandry 1.04 million.) However, we do not totally believe these statistics owing to the research method and the reliability of the method. Because after China’s entry into WTO, the products from land-centered production becomes less than those from the labor-centered production. In addition, if some land is returned back for grassland or forest due to the change in industrial structure, it coincidently meets the requirement of “return land to grassland and forest”.

2. The impact of WTO to the circulation department is larger than to the production department. Importing food with low price is good to the consumers in cities and the development of livestock husbandry but will lead to negative influence to farmers, especially poor farmers, and great pressure to state-owned food enterprises.

3. The Active influence of WTO to the long-term development of China’s agriculture
After China’s entry into WTO, the domestic agriculture also faces some short-term or long-term active influences, which can be concluded as follows:
   a. As a member country of WTO, China has all the rights that a member can get.
   b. China’s entry into WTO will promote the structure adjustment. Entry into WTO provide China with a broader stage on which what it will meet is not a country or a region but the whole world.
   c. Entry into WTO will deepen China’s reform in agriculture production and circulation.

(II), WTO and opportunities and challenges of Chinese agriculture

1. Problems and challenges in opening agricultural products

In WTO multilateral trade framework, agricultural products are the new issues. The agriculture is paid special attention by the countries all over the world. Agriculture issues came up during the GATT Uruguay round. The Agricultural Products Agreement was reached after great efforts from all sides.
WTO Agricultural Products Agreement primarily solves two problems: First, to better agricultural products’ conditions of getting access to market; the second, to upgrade the competitive circumstance. What should be based on for China to take part in WTO agriculture issues negotiation? In other words, if China wants to be a member of WTO, how should they open the market of agricultural products? The basis of the negotiation should be WTO Agricultural Products Agreement, which requires not only bettering the agricultural products’ conditions of getting access to market, but also upgrading the competitive circumstance.

Therefore the problems and challenges in opening agricultural products focus on decreasing the customs duties and releasing the non-tariff protections. After getting access to WTO, the pressures, which the agriculture sector will face, is how to open the market? To which extent should they open the market? For products now under the tariff system, such as, poultry, gardening products, packed food etc., the tariff would be decreased; for key products under the non-tariff system, such as, food, cotton, oil, sugar, wool etc., the non-tariff system would be released and the quota system would be introduced. That is to say, to set a certain amount of quota for import, products within the quota will be imposed on low tariff; the products out of quota will be imposed on high tariff.

2. Advantages and disadvantages of Chinese agricultural products

For the point of view of trade competition, Chinese agricultural products can be classified into two categories: first, labor-intensive products, namely agricultural products based on labor resources, which include animal products, aquatic products, gardening products, packed food etc. The second, land-intensive products, namely agricultural products based on land, which include food, cotton, oil, sugar etc. Because of the abundant resources in China, labor-intensive products have more comparative advantage than land-intensive products. In other words, as the costs increase, its comparative advantage is going down or diminishing.

Apart from labor-intensive agricultural products in China, meat products, vegetables, fruits, packed food, aquatic products all have the comparative advantage with relative low costs. Consequently, those have export potentiality owning to the advantageous price. However, the quality of those products as well as the hygienic standard blow international requirements seriously hinders the abilities to compete in the international market. Since the 90’s the costs of producing land-intensive products have increased, on the average, 10% percent every year resulting in the domestic price being 20%-50% higher than the price abroad. With steadily reduction of the comparative advantage, it is difficult to compete with the international agricultural products.

3. Opportunities and challenges of Chinese agriculture after China’s access to WTO

China’s access to WTO and merging into economic globalization, in the whole, will make contributions to the economic development and the reform and opening policy, also in line with the strategic targets of the reform and opening policy. It will impact actively and far-reaching on the agricultural sector. However, at the same time, it is inevitable to bring about some
unfavorable impacts on the agriculture and rural development because of cutting down tariff and releasing non-tariff measures to meet the requirements of WTO. It can be summarized into 4 opportunities and 2 challenges.

4 opportunities:
1) As the member of WTO, China will be given non-discriminative trade treatment to improve the export circumstance of Chinese agricultural products. Such as to be given the most favored nation treatment, to diminish discriminative treatment, to solve trade disputes by using relevant mechanism, therefore, to reduce the cost of trade negotiation and exchange of agricultural products as well as obtain the standard “channel” for settling import & export problems of agricultural products.
2) To push forward the agriculture sector further opening outward. Due to the gradual improvement of the domestic policy and regulation as well as the progressive investment environment, more capital, technology and management experience abroad will be attracted into the agriculture sector. Meanwhile, the upgrade of the international trade environment will promote Chinese agriculture’s comparative advantage and foster its own economic growth objectives to broadly participate in international competition and to actively face with the challenge of the agricultural internationalization.
3) To push forward agriculture structure adjustment. It indicates on two aspects: First, utilization of the international and domestic resources. For example, in the economic advanced coastal regions of Eastern China, utilization of land resources abroad to solve the problems of balance between food supply and demand should be taken into consideration to save the domestic insufficient and expensive lands to develop high-value products. The second, exploring the new market. Agriculture development markets would not any more be limited in China, but to be opened up and use international market.
4) Getting access to WTO entitles China to participate in setting up WTO agriculture regulations, therefore China participation in WTO activities convert from “passive follow-up” to “active setting up regulation”- to express its standpoint in the new international agriculture rules to protect the Chinese beneficiaries.

2 challenges:
1) After getting access to WTO, it will do adverse impacts to the common agricultural products with the high costs. The high pressures to import those products will impact harmfully to the areas where those products are produced and the peasants., especially corn and soybean in northeast regions.
2) To increase the difficulties of government’s settling economic contradictions in rural areas. Quite a few of problems have accumulated because of agricultural products hard to sale, therefore income-raising is slow as well as restraint of the labor transferring. All problems will be aggravated with China’s access to WTO and further opening up market.

III, The strategy of Chinese agricultural development after access to WTO

In order to respond to the impacts of WTO, we should capture the current difficulties and
problems, which Chinese agricultural developments are facing. In fact, quite a few of Chinese agriculture aspects are not suitable for the increasingly new situation of the agriculture mechanization and internationalization.

- Agriculture management mechanism is not suitable. The agriculture’s international competition is not only the competition of products quality, science and technology, talent person, but also management competition. But the existing agricultural management mechanism is not suitable for both building up market -economy mechanism and the agricultural internationalization.

- Peasants’ inability to compete. Compared to the agriculture mechanization and international, thousands of small households are revealed the problems such as small scale, low efficiency and inability to compete. Especially, low level of organization capacity, immature of organization severing between households and market, peasants’ inability to compete and the backward service system in rural areas limit essentially the ability to compete with the agriculture of those countries in which the production have been highly industrialized, mechanized and scales-production.

- Producing agricultural products faces the competitive pressure of internationalization.

In order to reduce the unfavorable impacts on the agriculture sector after getting access to WTO, to bring down the risks to the lowest point, and to greatly develop agriculture sector, the following 4 measures should be attached importance to:

1) Access to WTO is an opportunity to deepen the reform of the economic mechanism in rural areas. Deepening the reform of the economic mechanism and setting up the economic management system in rural areas to meet the demands of socialism market economy is not only the requirement for further development while Chinese agriculture stepping into a new phase, but also a significant & necessary measure to adapt to globalization. 1.To setting up the sound agricultural rules system to help to take agriculture sector into legal system “orbit”. 2. To deepen the reform of the agriculture management system to promote the new reform in rural areas. 3. To pursue system innovation and foster the operator subject to effectively participate in market competition. 4. To deepen the reform of agricultural products’ circulation system.

2) To make better use of WTO agricultural rules and to strengthen the domestic support policy. Only under the condition of making better use of WTO agricultural rules, strengthening the domestic support policy, improving agricultural products’ quality to increase the productivity and competitive capacities, China can make sufficient preparation for getting access to WTO and the challenge of internationalization. 1. To take advantage of the favorable items in Agriculture Agreement to intensify the support for agriculture. 2. To build up the sound agricultural products’ price system to ensure the steady agricultural growth. 3.To learn the international experience to build up agriculture income support system.
3) To take advantage of the comparative advantage and to adjust the trade management measure of agricultural products’ import and export. Besides the appropriate management of the tariff and tariff quota, the import management focusing on the technical measure should be set up soon. 1. To set up soon the law and rules of the agricultural quality matched the international rules to effectively protect domestic market. 2. To strengthen quarantine of the animal and plant. 3. To normalize further the management of import and export and to punish smuggles to ensure the stable domestic market.

4) To take advantage of opportunities and every possible way to enlarge export on dominant agricultural products.
   - To improve the quality of agricultural products and make it more competitive in the international market.
   - To build export basement of agricultural products and take organic food (green food) as emphasis to develop, to promote the product processing quality of traditional exported agricultural products.
   - To reform export system of agricultural products and break down the monopoly pattern by few foreign trade company in the field, limit properly in main agricultural product (such as food and cotton) market.
   - To establish of marketing information network for exported agricultural products, and transfer information on international market to domestic foreign trades, including marketing status, imported standard and laws and regulation on agricultural products.
   - To strengthen the cooperation and negotiation on bilateral and multilateral level, and to promote the business environment and eliminate the commercial obstacle.