

*How domestic agricultural and trade policies
influence agricultural trade in emerging
markets? the case of China*

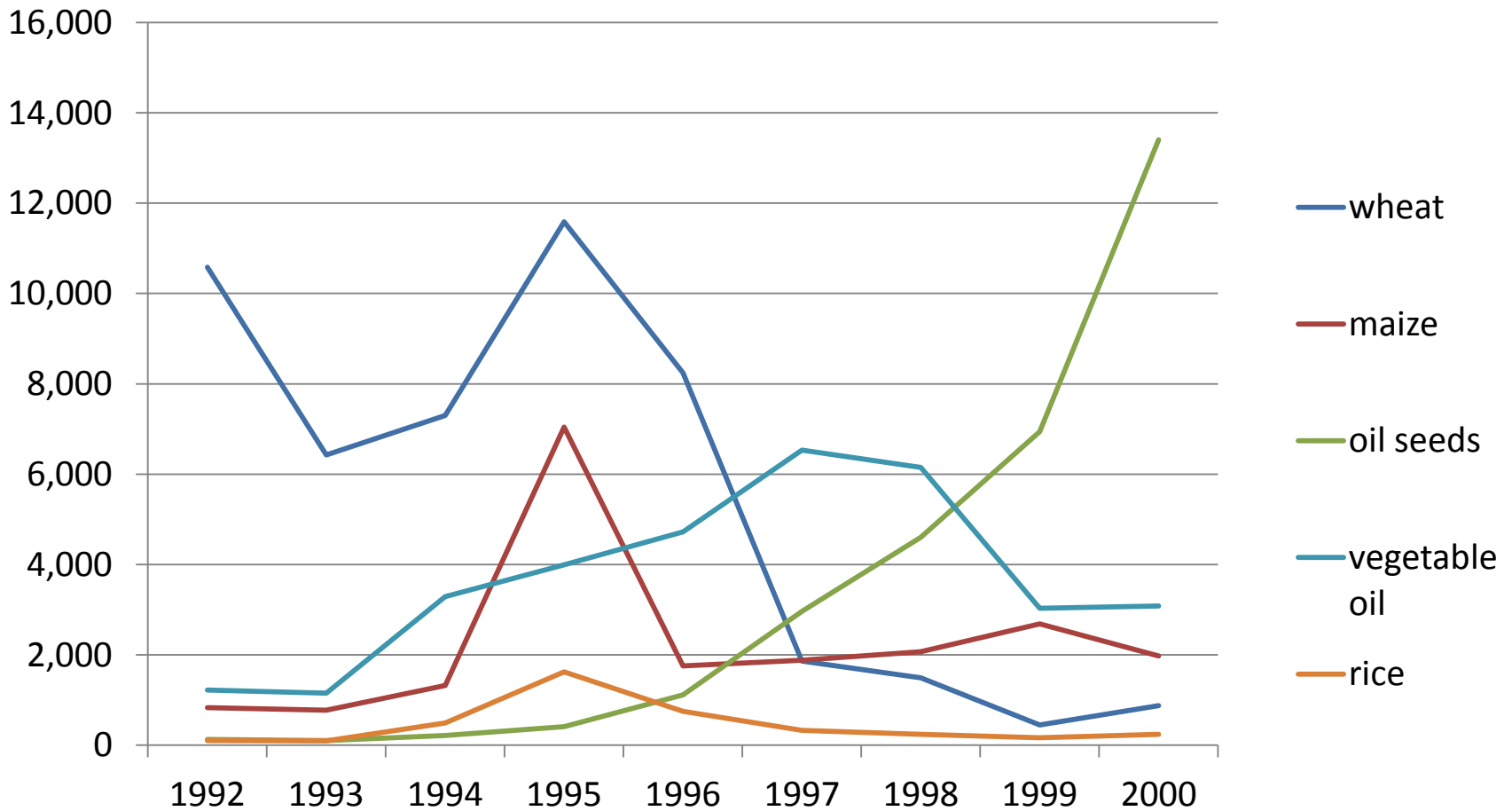
Wusheng Yu
Institute of Food and Resource Economics
University of Copenhagen
Denmark

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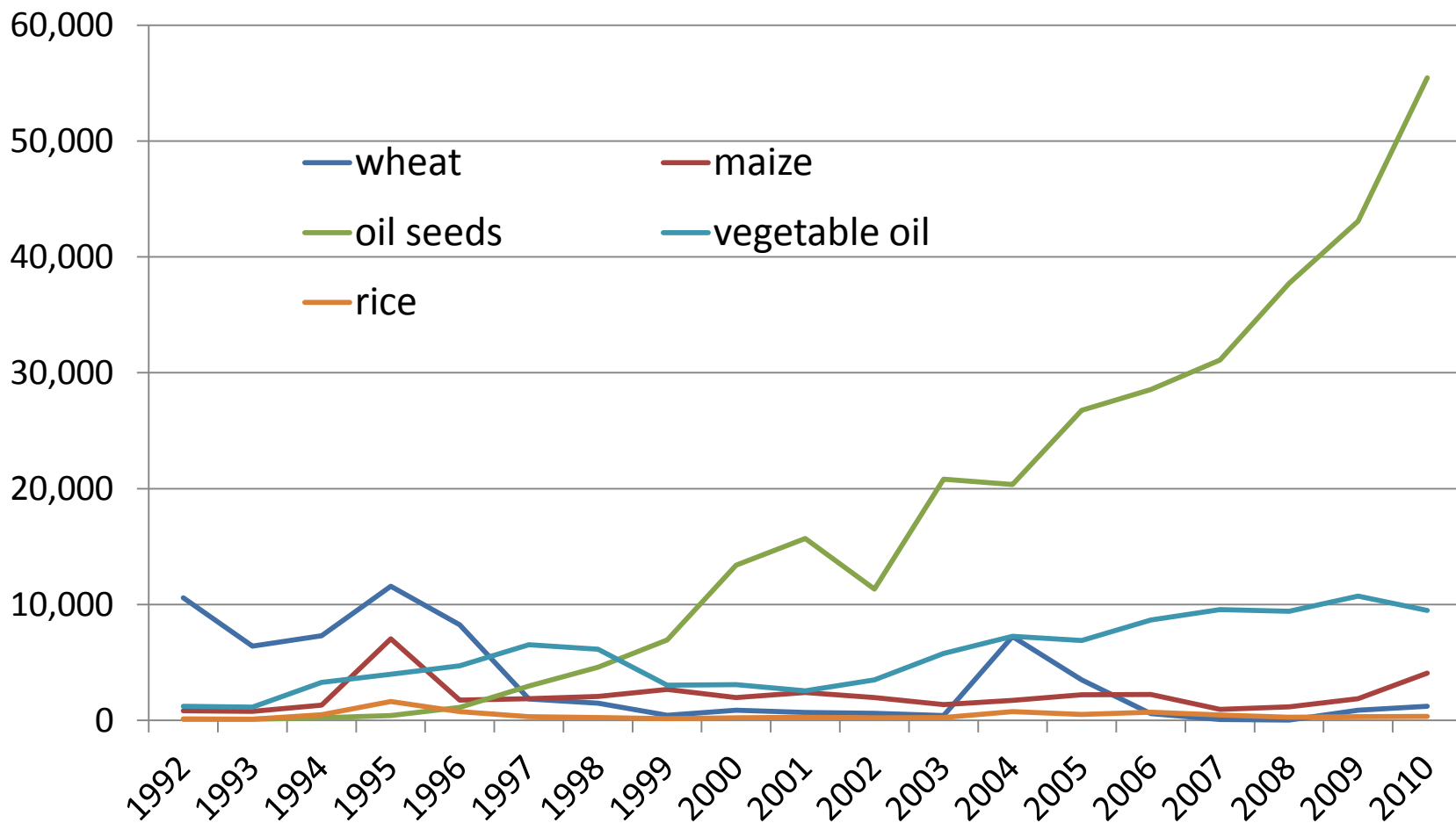
Understanding policy determinants of China's agricultural trade

- China's agricultural policy goals
 - Maintaining self sufficiency of food grains a longstanding policy goal
 - More recently, increasing attention to farm income
- 1. China's agricultural trade in recent years
- 2. China's agricultural trade policy
- 3. China's domestic agricultural policy
- 4. Coordination of domestic policy and trade policy during the 2007/8 world food price crisis
- Implications for world agricultural commodity trade?

1. China's agricultural commodity imports before WTO accession (1,000 ton)



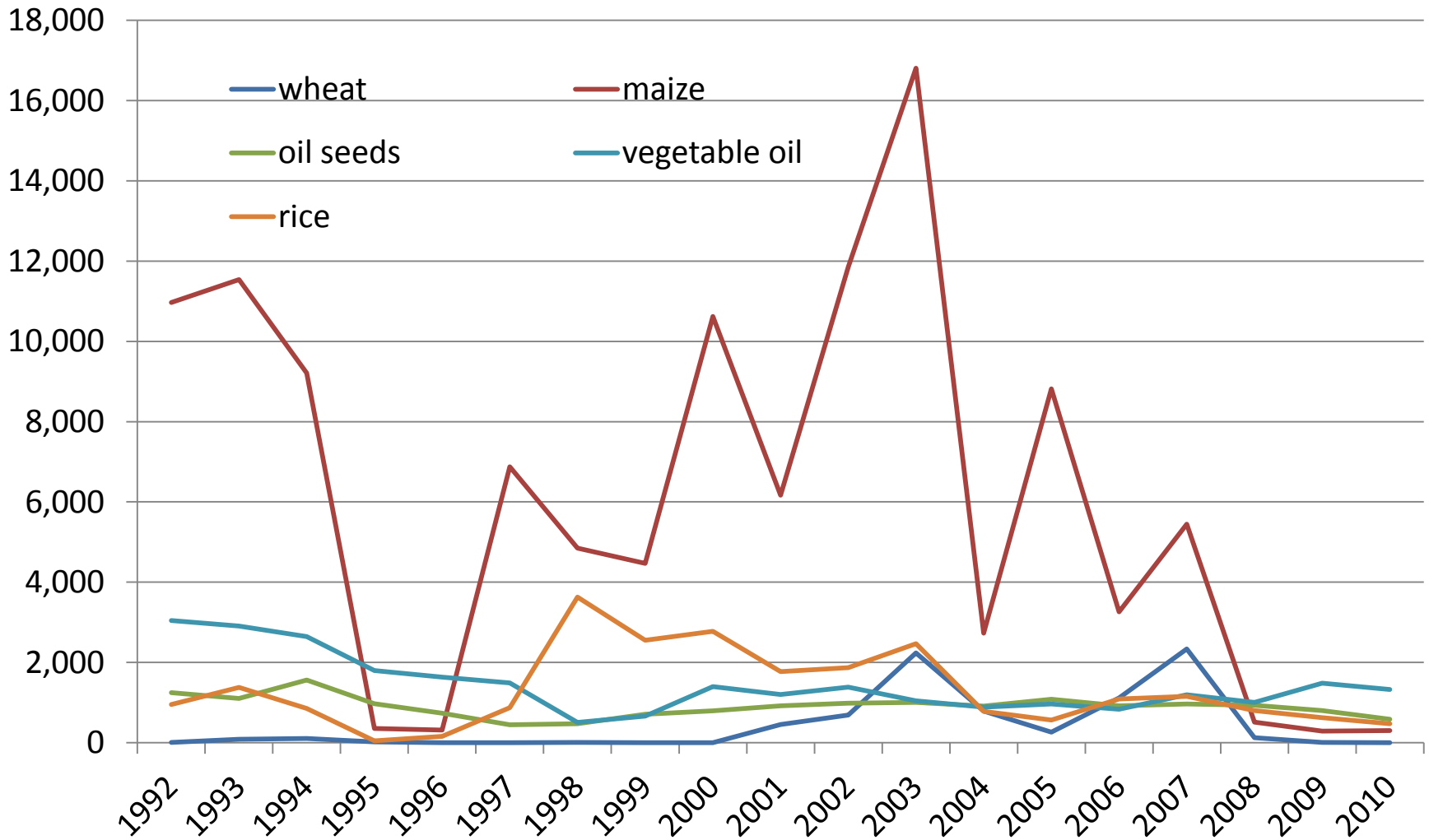
China's agricultural commodity imports: before and after WTO accession (1,000 ton)



Import/domestic production ratios in recent years (%)

	2004	2005	2006	2007	2008	2009
rice	0.4	0.3	0.4	0.3	0.2	0.2
wheat	7.9	3.6	0.5	0.1	0.0	0.8
maize	1.3	1.6	1.5	0.6	0.7	1.2
soybeans	91.2	124.0	142.5	180.8	184.6	223.1

China's agricultural exports: before and after WTO accession (1,000 ton)



2. China's agricultural trade policy

- Average MFN tariffs remained at 15.2%
 - Cereal grains between 40% to 65% for out-of-quota imports and much lower (typically 1%) for in-quota imports
- TRQs for 55 8-digit lines in 2005, down to 45 lines in 2009
 - many TRQ products subject to state trading
 - Soybeans not subject to TRQ
- Value added tax on imported commodities
 - also VAT rebate for exported commodities
- Contingent trade policy
 - Export quota and export taxes on agricultural commodities and chemical fertilizers during 2007/8
 - Variable “sliding scale” tariffs used for cotton imports in certain post-WTO accession years

China's trade policy responses to the 2007/8 food price crisis

Instrument	Policy Action	commodities	Fiscal implications (RMB & USD mil)	
Import tariff	3% to 1%	Soybeans	2,274	327.3
Export VAT rebat	13% to 0%	Grains	-607.6	-87.5
Export VAT rebat	13% to 0%	Soybeans	-317.1	-45.6
Export VAT rebate	13%-17% to 0%	Vegetable oils	-467	-67.2
Export tax	5%	Soybeans	-116.2	-16.7
Export tax	5%	maize, rice, sorghum, millet	-212.5	-30.6
Export tax	20%	Wheat	-35.4	-5.1
Export tax	20-185%	Fertilizers	-11,502	-1,665
minimum	9%-10%	Rice	3,150	453.4
Procurement price	4%-7%	Wheat	2,520	362.7

3. China's domestic agricultural policy: agricultural tax abolished (unit: mn RMB)

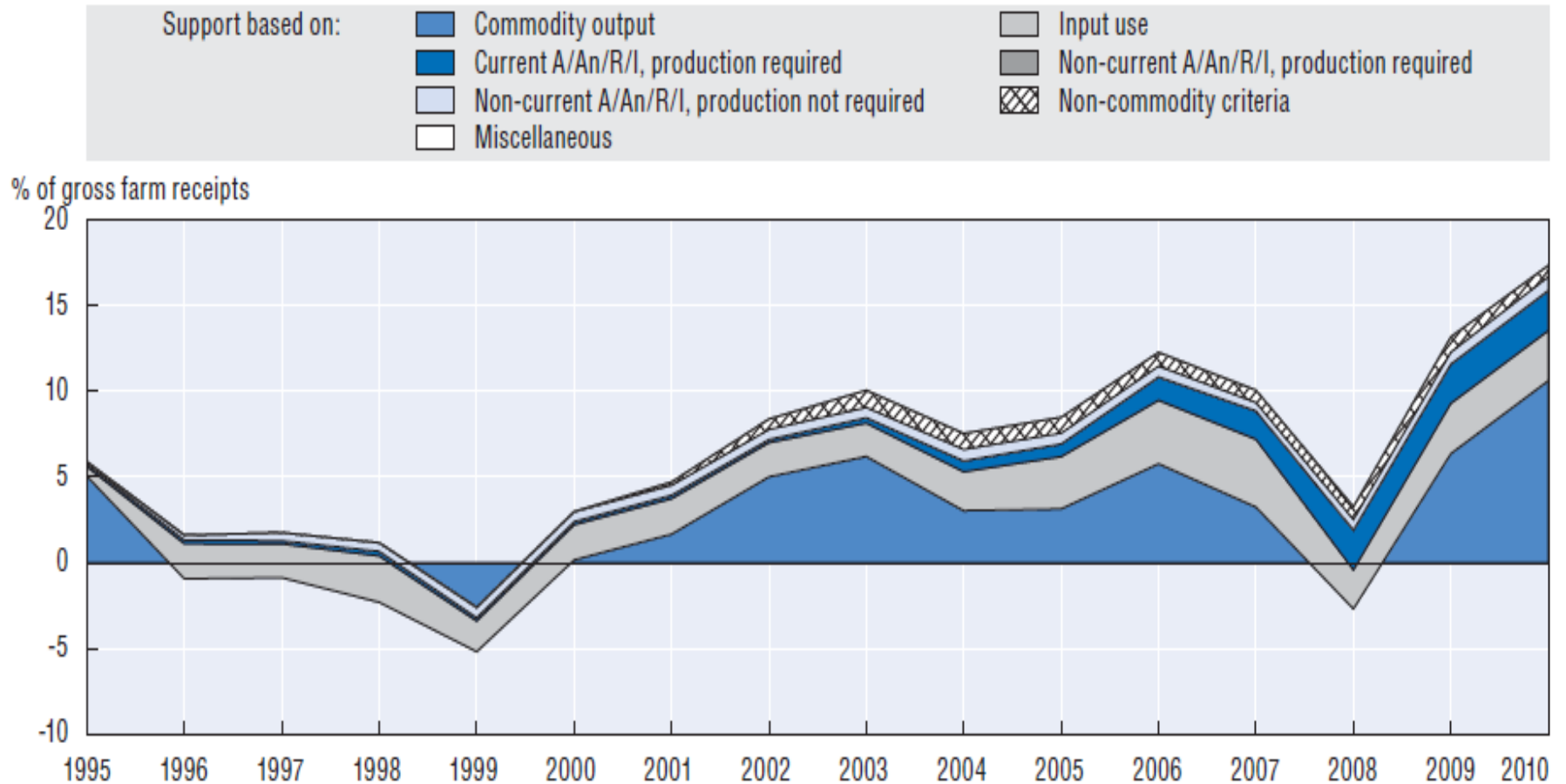
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Agricultural tax	1,272	20,403	39,220
Agr. specialty tax	0	0	2,828
Agr. tax surcharge	351	4,894	9,660
total agr. tax	1,622	25,297	51,709
total prod value	2,624,274	2,437,532	2,169,709
tax as % total value	0.06%	1.04%	2.38%

Source: Ministry of Agriculture, China
Unit: CNY 1,000,000

China's domestic agricultural policy: direct subsidies introduced (unit: mn RMB)

	2004	2005	2006	2007	2008	2009	2010
Direct payments to grain farmers	11,600	13,200	14,200	15,100	15,100	15,100	15,100
Agr input comprehensive subsidies	0	0	12,000	27,600	71,800	79,500	83,500
New variety extension payment 2006-10	0	0	3,970	6,380	9,855	17,440	17,940
Payments based on current A/An/R/I, prod. required	20,187	25,753	48,474	72,624	120,531	123,435	134,723

Figure 18.1. China: PSE level and composition by support categories, 1995-2010



Source: OECD, PSE/CSE database, 2011.

4. (?!) Coordination of domestic and trade policies in the 2007/8 food price crisis

- What can be said about China's response?
 - **Active** and quite “**sophisticated**” interventions on domestic market and at the border
 - On both **commodities** and on key **inputs**, esp. fertilizers
 - Interests of poor consumers, farmers, and input producers all had to be considered
- Did these policy actions work with or against each other?
 - Numerical simulations show that while both trade and domestic policy measures moderated domestic price rises, they generated **opposite** domestic production effects.
- World market effects of these responses estimated to be limited
 - Less than 1% increase in world market prices for grains
 - Less than 1% reduction in total world grain trade