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## **WTO and Agriculture Trade Liberalization – A Focus on China**

Rena, Ravinder

Department of Business and Economics, Eritrea Institute of  
Technology, Mai Nefhi, Asmara, The State of Eritrea

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## WTO AND AGRICULTURE TRADE LIBERALIZATION – A FOCUS ON CHINA

Ravinder Rena\*

### Abstract

*Agriculture sector plays a vital role in the world economy and provides food for every one of us. The World Trade Organization (WTO) is important body in the international trade and agriculture. Surprisingly, the Agreement on Agriculture (AoA) of WTO does not refer to food and agriculture at all. Agricultural subsidies and trade become controversial issues in the Doha round of talks in the recent past. The entry of China into the WTO has a dramatic impact on the country's farmers. This article discusses the impact of China's entry in the WTO. It also discusses about the WTO and agricultural trade liberalization in developing countries. Further, it analyses critically Doha round of talks on agriculture.*

**Keywords:** WTO, Agriculture trade, China, Doha round of Talks, Global market. India  
JEL Codes: F33, Q17, Q23, P45

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### 1. INTRODUCTION:

Agriculture, the foundation of food and national security, was redefined as an issue of trade and commerce alone during the Uruguay Round of General Agreement on Tariffs and Trade (GATT) with agribusiness Multi-national Companies (MNCs) as the determining force in the shift. The World Trade Organization (WTO) Agreement on Agriculture (AoA) indeed does not refer to food and agriculture at all. There is no reference in it to soil or crops, to food or farmers, to sustainability or livelihoods, to food security or fair prices. Core issues of agriculture and food security at the national level have been reduced to non-issues in the global agreement. Food security, rural development, environmental sustainability, survival and sustenance of small farmers have been lumped together as "non-trade" issues are redefined as barriers to trade (Dubey, 1996). In the AoA, trade and commerce come first — in other words, corporate profits take priority over the health of the planet or people. That is why the relentless implementation of the WTO's trade liberalization rules is pushing Global farmers to the poverty, hunger and the planet towards an ecological catastrophe in the form of climate disasters, extinction of species and destruction of water systems.

Trade, market, and agricultural subsidies have been amongst the most controversial issue debated in World trade Organization (WTO), World Summit on Sustainable Development (WSSD), G8 Summit and so no. Developing countries were strongly

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\*Assistant Professor of Economics, Department of Business and Economics, Eritrea Institute of Technology – Mai Nefhi, Post Box No7956, Asmara, the State of Eritrea, North East Africa, Email: [dravinderrena@gmail.com](mailto:dravinderrena@gmail.com) , [ravinder\\_rena@yahoo.com](mailto:ravinder_rena@yahoo.com) .

arguing on this issue. Their argument emanates from the fact that they believe the term of trade between the developing and developed countries are unfair. Moreover, they believe that an end to farm subsidies in rich states would also enable them to export more products and earn foreign exchange to help development. Unfair subsidies, particularly in agriculture are seen as major trade barriers for the South. For instance according to Business report, August 28,2002 developed countries give billions of dollars a year in subsidies to their farmers – more than the aid handed out to poor states. Thus, subsidies in general and trade issues in particular appeared to be much divided between North-South.

However, it is said that the recent World Trade Organization's summit in Hong Kong (13-18 December 2005) with economic leaders from 149 nations has made progress on a far-reaching global trade pact. The interim deal end farm export subsidies by 2013 and open up markets in wealthier countries to the world's poorest nations.

***Impact of Trade Liberalization:***

Assessing the impact of trade liberalization is the obligation in Article 20 of the AoA. The mandatory review required taking into account: i] the experience from implementing WTO rules; ii] the effects on world trade in agriculture; iii] non-trade concerns (i.e. food security, food safety, livelihood security and rural development) and special and differential treatment to developing country members; and iv] other commitments to reform agriculture. The review started one year before the implementation period of the Uruguay Round, i.e. in 2000.

***Doha Ministerial Declaration:***

The "*Doha Ministerial Declaration*", adopted on November 14, 2001, Para 13 stated that member-countries commit themselves to "substantial improvements in market access, reductions of, with a view to phasing out, all forms of export subsidies, and substantial reductions in trade-distorting domestic support. We can agree that a special and differential treatment for developing countries shall be an integral part of all elements of the negotiations and shall be embodied in the schedules of concessions and commitments and as appropriate in the rules and disciplines to be negotiated, so as to be operationally effective and to enable developing countries like China and India and their development needs, including food security and rural development.

We take note of the non-trade concerns reflected in the negotiating proposals submitted by members and confirm that non-trade concerns will be taken into account in the negotiations as provided for in the AoA." The modalities are established by March 31, 2003. However, no progress has been made on the implementation issues or review of the AoA in spite of three years having gone by since the review started and one and half years having passed since the Doha Ministerial Conference. A mini-ministerial conference in Tokyo concluded largely to iron out differences on agriculture issues on the basis of the WTO chairman, Stuart Harbinson's draft, failed to achieve an agreement between countries wanting to export at any cost and countries concerned with domestic food security and rural development issue.

Crisis in the WTO on the agriculture negotiations is two-fold. The first arises from the fact that countries are pursuing different objectives and serving different interests. Large exporting countries — the U.S. and European Union want market access for their exports at all costs (Gulati, and Ketly, 1999). The least developed countries, the developing countries; Europe and Japan put social, economic and environmental sustainability as higher objectives than trade. For the South, socio-economic sustainability has high priority, whereas for Europe, environmental sustainability is important. But, in spite of major differences, a large group of countries put "food and agriculture first" however this must be the objective of WTO reform.

It can be viewed that developing countries should have freedom in fixing tariffs in agriculture, especially in the face of high Northern subsidies. Trade liberalization cannot set the determining framework for how food is produced and how agriculture is organized. Countries cannot ignore the issues of economic, social, and environmental sustainability. One can find a fault with WTO is that it has externalized these basic issues in the AoA.

The second source of the crisis arises from the process itself. The WTO as a system excludes and marginalizes the concerns of developing countries (Mathur, 2002). After the failure of the Seattle Ministerial Conference, the most frequently used phrase was that the WTO is a "member-driven organization". However, the process since 'Doha Conference' shows the opposite (WTO, 2000).

The excluding nature of the WTO process is made worse by the manner in which Mr. Harbinson prepared the draft for negotiation. The issues raised of developing countries have been conveniently dropped. The critical issue of Quantitative Restrictions (QRs) has conveniently been excluded even though it is at the heart of agricultural conflicts. The conflict between the U.S. and the E.U. is centred on the Europeans' ban on GMOs. The North-South conflict is centred on the high subsidies of \$400 billion in OECD countries, and the dumping resulting from forced removal of QRs. A recently released report from the International Agriculture and Trade Policy Institute has shown that in four major U.S. commodities, the level of dumping has increased since 1995 when the WTO came into force, even though the WTO's proclaimed aim is to "reduce distortions in trade".

Introducing restrictions on imports or raising tariffs is the only safeguard for poor peasants and poor countries in the face of the trade-distorting subsidies and dumping practiced by rich countries. This is what countries such as India, Argentina, Philippines have proposed. Mr. Harbinson's draft completely ignores these proposals to regulate imports as a self-defence strategy against dumping. Instead, it proposes removing even temporary rights to safeguards "participation should decide whether the special safeguard provisions of Article 5 of the AoA should be eliminated".

What needs elimination is not Article 5 but Article 4.2 on market access which states, "members shall not maintain, resort to, or revert to any measures of the kind which have been required to be converted into ordinary customs duties (these measures include quantitative import restrictions, variable import levies, minimum import prices, discretionary import licensing, non-tariff measures maintained through state-trading enterprises, voluntary export restraints and similar border measures) except as provided in Article 5."

## **2. A CASE STUDY ON CHINA**

The entry of China into the WTO has a dramatic impact on the country's estimated 800 million farmers. About two-thirds of China's population lives in rural areas but agricultural output only makes up 16 per cent of the gross domestic product (GDP) and 4.9 per cent of exports (Satapathy,2002). It is to be noted that during the last three years after WTO entry, the country's farming sector hit the hardest. The Chinese Government formally disclosed the detailed rules on new tariff quotas for agricultural imports, which follows the commitment made by Beijing to the WTO. The Chinese Government has reduced the average import duty to 17.5 per cent by 2004 and to 15.6 per cent by 2005 from the average of 21.3 per cent before 2003. China has pledged to use a tariff-rate quota (TRQ) system, instead of the original quota administration system, for certain sensitive products such as wheat, corn, rice, edible oil and sugar, as well as to cancel export subsidies, keep its subsidy rate for farming at 8.5 per cent and abide by the WTO agreement on Sanitary and Phytosanitary Measures (SPS).

The demands of the Chinese market and the tariff quotas promised by Beijing during the negotiations with the WTO and the key products are corn, cotton, palm oil, rapeseed oil, rice, woollen yarn, soyabean oil, sugar, wheat and wool (Satapathy, 2002). These agricultural imports covered by the tariff quota limit will enjoy a favourable tariff of less than 10 per cent. If an excess amount, more than the quota were to be imported, it would attract a tariff of around 70 per cent. These rules expire by 2005 when WTO member-countries are to further discuss the rules on agriculture trade.

While integrating into the liberalization process of the global farm produce trade, Chinese agriculture is being exposed to immense risks and challenges by removing trade barriers and opening up the domestic market. This is likely to bring about a rise in unemployment, especially in the rural areas, as also an increase in income disparities between the regions that have fared well in the reform period as opposed to the interior regions, especially the western provinces that have lagged behind. Currently, the administration of the production, distribution, and trading of farm products is divided among agricultural, domestic trade and foreign trade departments. Such an administrative system, obviously, cannot adapt to the new situation following WTO entry (Satapathy, 2002).

It is reported that the domestic prices of wheat, soyabean, corn, cotton, edible oil and oil crops, and sugar are 10 to 70 per cent higher than in the international market. Once

foreign farm products flood into China, it would result in an even slower growth of income and rising unemployment rate for farmers, whose income heavily relies on agricultural products such as grain, cotton, oil and sugar. Although the prices of meat, vegetables, fruit and seafood products are estimated to be 40 to 80 per cent lower than those in the international market, however, they have difficulties meeting the requirements of variety, appearance, taste, freshness and processing for such products in the international market.

There are various factors that inhibit China's agriculture sector. To start with, the low productivity levels could cost Chinese farmers competitiveness in the Global market. It is to be noted that once China opens the door to cost-effective American farm products, a vast number of domestic farmers will suffer and may lose their jobs and livelihood. Apart from these, the domestic market is already on a downward path given that the price index of farm products declined from 1996 to 2004. It is reported that the index dropped 22.6 per cent during the last five years, eating into more than 300 billion yuan (\$ 36.2 billion) of farmers' profits. The Ministry of Agriculture conceded that the decrease in arable land and the slide in the grain price are the main reasons why the farmers are making losses. Despite the continuous price falls, it is observed that, prices of Chinese farming exports are still 20 to 40 per cent higher than the average standard in the international market.

In 2004, farming took up 70 to 80 per cent of the per capita income of farmers in the western provinces, compared to a 50 per cent average for the rest of the country. The relatively backward economy of these regions offers limited opportunities for farmers to find jobs outside agriculture — unlike those in the prosperous coastal areas who have benefited most from the economic reforms initiated since 1978. The poor infrastructure and transport conditions also add to the costs of farmers in the western regions.

### **3. CONCLUSION**

In the face of rising subsidies and increasing dumping, import restrictions and countervailing duties are a right, a survival necessity. The WTO has robbed countries of this right through Article 4 and now, would like to rob them even of temporary safeguards by proposing to eliminate Article 5. As the deadline approached, and as the Cancun Ministerial approached, countries should focus on stopping dumping by eliminating Article 4 of the AoA, the basis of the destruction of food security and rural livelihoods in the Third World through dumping. Once this crippling clause is removed, countries can start building a global system on citizens' initiatives and national priorities that ensures sustainability, support small farmers, ensures just prices, prevents dumping, protects the countryside and the environment and ensures good, safe, adequate food for all.

Since the Government has accepted the WTO norms to make China's agriculture more dynamic and competitive, it is imperative that research and the use of new technology to improve yields have to be introduced. Despite boasting a vast output of farm products, China's technology lag in agriculture has restricted quality and hampered exports. It is

reported that the Chinese Government's current investment in agriculture technology is about 10-15 per cent of its overall spending on agriculture, and is less than 0.1 per cent of the GDP. There is therefore an immediate need to elevate this ratio. While the policy makers highlight the impressive growth in the services sector as also the benefits accruing from being a member of the WTO, China, however, faces a serious challenges in the agriculture sector in the coming years.

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