



AGRICULTURE AND TRADE POLICY

BACKGROUND NOTE

PEOPLE'S REPUBLIC OF CHINA



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1. Agricultural Sector Performance

China's economy is well known for its strong growth in manufacturing and services sectors, however agriculture is still an important part of the economy. In 2011, agriculture contributed 10% of total GDP and represented about 40% of total employment¹ in 2008. Both the rural population and the share of people employed in agriculture have decreased in recent years, which indicate rising productivity. Agriculture in China is largely composed of family farms, as the average farm size is 0.6 hectares.

Table 1: Macroeconomic and Characteristics of Agricultural Sector

Indicator	2007	2011
Total Population (billions)	1.32	1.34
Rural Population (Share of Total Population)	54.8	49.
Nominal GDP (US\$ billions)	3,495.7	7,298.6
GDP per capita	2,652.5	5,417.0
Share of Agriculture Sector in GDP (%)	10.8	10.0
Agricultural Land (share of total land area)	56.0	56.2*

Source: WDI, 2012. * Latest year for available data was 2009.

The total value of agricultural production has grown consistently over the last few years (Table 2). In 2010, total agricultural production was valued at US\$836,125 billion and maintained an annual average increase of roughly 13%. The increase in production of major commodities and rising food prices has resulted in a boost in the value of total output. China is the largest producer in the world of several major agricultural commodities, such as rice, wheat, cotton, and potatoes. By far most of it is produced for the domestic market, given the sizable demand for these crops.²

China's imports and exports of agricultural products have grown substantially over the last five years (Table 3 & Table 4). In 2010, the value of imports of agricultural products reached US\$81.4 billion and the total value of exports were valued at US\$36.1 billion. The drop in value of imports in 2009 is a result of falling commodity prices, as import volumes generally continued to rise across the major commodities.

¹ WDI, 2012.

² FAOSTAT online database. Viewed December 2012.

Table 2: Volume of Agricultural Production for Main Products (million tons)

Commodity	2006	2010
Total output value ³ (\$ billions)	513,592	836,125
Pork	47.6	51.7
Poultry meats	14.3	17.0
Rice	183.3	197.2
Apples	26.1	33.3
Maize	151.7	177.5
Wheat	108.5	115.2
Potato	54.1	74.8
Rapeseed	11.0	13.1
Cotton	6.7	6.0
Soybeans	15.5	15.1
Sugar cane	93.3	111.5
Milk	36.5	41.2

Source: FAOSTAT, 2012

Table 3: Imports of Main Agricultural Products by Value (US\$ million and 000' tons)

Commodity	Unit	2006	2010
Soybeans	US\$ million	8,124	26,161
	000' tons	30,655	57,006
Cotton	US\$ million	5,188	6,066
	000' tons	3,903	3,052
Palm Oil	US\$ million	2,345	4,840
	000' tons	5,220	5,833
Wool	US\$ million	1,211	1,852
	000' tons	256	272
Hides	US\$ million	1,436	1,743
	000' tons	807	949
Milk Dry	US\$ million	406	1,567
	000' tons	185	463
Soybean Oil	US\$ million	802	1,203
	000' tons	1,544	1,341
Poultry Meat	US\$ million	549	1,200
	000' tons	696	727
Total Value of Agriculture Product Imports		37,913	81,415

Source: FAOSTAT, 2012.

The major agricultural imports in China are soybean, cotton, palm oil, and wool. China's export of agricultural products has changed in recent time, as the export of vegetables, fruits, and prepared foods have increased. The main destinations for exports of agricultural products include Japan, the United States, and Hong Kong, China⁴.

³ WTO, 2012.

⁴ WTO, 2012.

Table 4: Exports of Main Agricultural Products by Value (US\$ million and 000' tons)

Commodity	Unit	2006	2010
Garlic	US\$ million	801	2,319
	000' tons	1,224	1,365
Prepared food	US\$ million	1,454	2,229
	000' tons	922	1,222
Fruit prepared	US\$ million	806	1,337
	000' tons	919	1,167
Prepared chicken	US\$ million	1734	884
	000' tons	237	229
Dried mushrooms	US\$ million	267	1,001
	000' tons	31	66
Apple, pears, quinces	US\$ million	520	1,075
	000' tons	1,180	1,561
Vegetables preserved	US\$ million	780	947
	000' tons	877	906
Vegetables dehydrated	US\$ million	583	888
	000' tons	244	304
Total Value of Agriculture Product Exports		22,441	36,164

Source: FAOSTAT, 2012.

2. Evolution of China's Agricultural and Trade Policy

Since China's accession to the WTO on December 11, 2001, China has been tasked with reforming national agricultural and trade policy to meet its commitments under WTO rules, while also achieving its own national objectives to build a prosperous agricultural sector. From the onset of accession, China implemented a range of reforms on imports and exports that included: import tariff reductions, partially removing licensing requirements on imports and exports, abolish and convert quotas to tariff rate quotas (TRQs), removing some price controls, and moving toward liberalizing the marketing system. Applied tariffs on agricultural products decreased from 23.1% in 2001 to 18.2% in the first year and further decreased to 15.3% by 2005⁵. Other agricultural policy instruments were also eliminated, such as the agricultural tax mechanism that included major fiscal transfers from farmers and local levies to support industry⁶. The Government's shift in policy replaced taxing agriculture with supporting agriculture through direct subsidies to grain farmers.

More recently, China's major domestic agricultural strategy, the 12th Five Year Plan (2011-2015), reaffirms its commitments to strengthen support to agriculture, provide more benefits to farmers, protect the environment, promote agricultural modernization and improve farmers' living standards. The strategy's specific objectives include increasing grain production capacity by 50 million tons through increasing investment in and compensation to grain producing areas to build high yield commercial grain production bases. The strategy further aims to strengthen

⁵ WTO, 2006.

⁶ WTO, 2006.

agricultural competitiveness, increase rural income, improve food safety, diversify the rural economy and improve rural institutions and infrastructure⁷.

This agricultural vision has been translated into a range of policy instruments that provide support to agricultural producers. Currently, agricultural support is channeled to farmers through a few main market price support measures and budgetary expenditures. The key market price support measures implemented by China include, tariffs, TRQs and state trading, minimum guaranteed prices for rice and wheat, and ad hoc interventions on a number of agricultural commodity markets.

The main budgetary transfers provided by the government are in the form of direct payments at a flat rate per unit of land and input subsidies. China also uses agricultural insurance schemes to provide support as well as the program “Grain for Green” that aims to address environmental concerns by providing payments for returning farmland to forests.

3. Main Features of Trade Policy and Domestic Programs

3.1 Border Measures

China’s border measures include a range of import protection schemes such as tariffs, VAT and tariff quotas. China’s applied tariffs vary significantly across crop categories, but are all in line with WTO bound levels and are all at *ad valorem*. China has 1097 tariff lines for agricultural products (WTO definition) with an average tariff of 15.6% compared to 8.7% for all other products⁸. China likely applies tariffs to agricultural products that are of national importance to safeguard production. For example, the highest tariffs are applied to cereals (0-65%), sugar (8%-50%), and tobacco⁹. Other products that China is considered to have a comparative advantage in production, such as fruits, vegetables, and animal products, have applied tariffs below average.

Agricultural imports are also subject to VAT. This form of protection is administered at a rate of 13% for agricultural products, while other products are subject to the general VAT rate of 17%¹⁰. To support small-scale farmers, agricultural products in which they produce are exempt from VAT.

Tariff quotas are still used for imports of wheat, maize, rice, sugar, wool, and cotton through seven tariff quotas on 39 tariff lines. The number tariff lines covered by tariff quotas have decreased from 55 tariff lines in 2005¹¹. Since 2006, in accordance with China’s accession commitments, tariff quotas are no longer operational for soybean oil, palm oil, or rapeseed oil.

⁷ Ministry of Agriculture of the People’s Republic of China, 2012.

⁸ WTO Statistic Database, 2012.

⁹ WTO, 2012.

¹⁰ WTO, 2010.

¹¹ WTO, 2010.

The state trading system influences imports (and exports) to ensure stable supply and price on key commodities. Corn, rice, wheat, sugar, tobacco, cotton, and chemical fertilizers are all subject to import by state trading enterprises. The allocation of tariff quotas is largely controlled by state trading enterprises, while the remaining tariff quotas are allocated by private enterprise¹². State trading enterprises were allocated 90% of wheat quota, 60% of the maize quota, 50% of the rice quota, 70% of the sugar quota, and 33% of the cotton quota¹³.

Agricultural imports are subject to automatic licensing to monitor imports and non-automatic licensing to comply with international obligations and to administer tariff quotas. All goods imported under tariff quotas are subject to licensing. Automatic licensing originally covers poultry, vegetable oil, and tobacco, but China now applies automatic import licensing to fresh milk, milk powder and whey.

In line with its WTO accession commitments, China has notified the WTO that export subsidies are not provided for agricultural products¹⁴.

In order to reduce food price inflation and maintain stable domestic production, export taxes were introduced during 2008, with the last taxes being removed during mid-2009. This example of taxing exports that aimed to reduce domestic prices also reduced farmers' incomes. In order to compensate for the fall in income, direct payments, input subsidies, and support for production were introduced¹⁵. Other policy instruments that are less trade distorting such as direct income support programs may be more effective.

The state trading system is also influential in exports. Only state trading enterprises are allowed to export cotton, rice, maize, and tobacco. China continues to impose export quotas on these commodities, in addition to other grains (wheat)¹⁶.

3.2 Domestic Agricultural Programs

Domestic agricultural programs include a number of policy instruments that provide both direct and indirect support to farmers. The main policy measures include, direct payments, insurance programs, input subsidies, internal price support, and conservation subsidies.

China's transition from taxing agriculture to granting subsidies marks an important change. Direct payments were introduced nationally in 2004 to support grain producers. The program aims to provide subsidies based on the area sown to maize, rice, and wheat. Payments are administered at the provincial level and each province is permitted to establish their own method of granting subsidies. The standard practice pays farmers generally around ¥10 per mu (approximately US\$ 7.33 per acre) for areas planted with grain, although the subsidy also varies

¹² WTO, 2010.

¹³ WTO, 2012.

¹⁴ WTO, 2012.

¹⁵ WTO, 2010.

¹⁶ OECD, 2011.

by region and commodity¹⁷. The intended impact of this program is to boost production and rural incomes. During the period of 2007 to 2010, the total amount of direct payments under the program was ¥15.1 billion annually¹⁸.

China also uses several types of input subsidy schemes to target support. The main subsidy program, the Comprehensive Subsidy on Agricultural Inputs, was established in 2006 to compensate grain producers for increases in input prices such as fertilizers, pesticides, plastic films, and diesel. The subsidy payments do not depend on consumption of inputs, but are made on the basis of taxable arable land. Therefore, the program is considered to function as a direct payment rather than an input subsidy. The budgetary transfers of this program have increased steadily from ¥12 billion in 2006 to ¥71.6 billion in 2010¹⁹. The program has become the largest single budgetary transfer supporting agriculture in China.

An additional subsidy program called the New Variety Extension Payment Scheme was introduced to improve the quality of seeds and livestock. The program covers a range of important crops and livestock that include wheat, maize, rice, soybean, rapeseed, cotton, potatoes, peanuts (trial basis), barley, pigs, dairy cows, beef cattle, and sheep. The rate of subsidy varies depending on the crop, ranging from ¥10 per mu for early rice to ¥15 per mu for cotton, and middle and late rice. Even though, subsidies may provide lower priced inputs in some areas, reports suggest that there is a tendency to also pay subsidies to farmers without monitoring²⁰. If this is the case, the program would be functioning as a direct subsidy linked to area planted. The program has increased from ¥6.7 billion in 2007 to ¥20.4 billion in 2010²¹.

In addition, both fertilizers and agricultural machinery are also controlled and subsidized through several measures. Fertilizers for export are subject to taxes, which stood at 75% in October 2011²². Import measures are implemented to reduce the cost of fertilizers, such as reduction in tariffs on fertilizers and fertilizer material, and VAT reductions and exemptions. Fertilizer producers are provided support through price control programs that give preferential prices for electricity, natural gas, and transport, and exemptions from VAT. A nationwide program to subsidize agricultural machinery is used and the amount has increased steadily from ¥2 billion in 2007 to ¥15.5 billion in 2010²³.

In addition to the some protective import measures used to shield some external competition China also uses a number of policy instruments that support domestic prices. The National Development and Reform Commission sets minimum prices for rice and wheat each year to safeguard farmers grain sales in major producing areas²⁴. The minimum prices have been rising in recent years, but generally are set just below world market prices. Typically farmers sell grains at market value, however when prices in principle wheat growing areas fall below the minimum purchase prices farmers may then sell grains at the minimum purchase prices to state

¹⁷ WTO, 2006.

¹⁸ WTO, 2012.

¹⁹ WTO, 2012.

²⁰ OECD, 2011, p.228.

²¹ OECD, 2011.

²² WTO, 2012.

²³ WTO, 2012.

²⁴ National Development and Reform Commission, 2012.

designated enterprises²⁵. Three main corporations are used to make invention purchases of grain, which include SINOGRAIN (China Grain Reserves Corporation), COFCO (China National Cereals, oils, and Foodstuffs Corporation), and CGLC (China Grain and Logistics Corporation). Such price support schemes when utilized directly support farmers' revenues.

Other ad-hoc interventions are used by the government to stabilize prices and adjust supply and demand. Such measures include purchasing and stockpiling on an ad-hoc basis, and stock releasing for sugarcane and sugar beet, soybeans, maize, rape seed, and cotton. The main distributors are state-trading enterprises that purchase from producers and sell to processors during weekly auctions²⁶.

Agricultural insurance schemes are relatively new measures to provide support to farmers. In 2007, a pilot insurance scheme was launched in response to the high risk of drought and flooding in China and the low insurance coverage for farmers. Insurance premiums are subsidized by central and local governments with households paying about 20%-30% of the balance. Coverage has been extended to 28 provinces²⁷.

Under China's Green for Grain program, cultivated land in over-cultivate environmentally sensitive areas is converted to pasture or forests. The program is a measure taken to reverse ecological degradation. As of 2004, compensation for retired land is paid in cash per unit of land. Subsidies vary from one region to another, but the general rate of payment is both a cash subsidy of ¥20 per mu²⁸ and cash at the rate of ¥1.4 per kg of grain (which replaces previous payment in grain) per year. The number of years a subsidy is provided depends on the level of deforestation. Total support under the program fell to ¥24.3 billion in 2011 from ¥42.8 billion in 2009²⁹.

4. Measuring Domestic Support and Protection

At the time of accession to WTO China has bound its Aggregate Measure of Support (AMS) level at zero. Because China's current level of domestic support is below the limit established by the *de minimis* criteria, it is not required to lower its subsidies. However, China is committed to maintaining its product specific and non-specific product support below 8.5% of the total production.

In 2008, measurements show that the Amber Box support reached ¥89 billion. Amber box support has risen substantially over the last few years as budgetary expenditures increased for improved crop strains and seeds, transport subsidies, and subsidies for maintaining national reserves. Non-product specific support is responsible for the majority of increases in Amber Box during the period of 2006-2008. Since 2005, the value of input subsidies has increased significantly and risen to roughly 79 billion by 2008. In addition, minimum purchase prices for wheat and rice between 2005 and 2008 were below the external reference price, resulting in

²⁵ WTO, 2012.

²⁶ WTO, 2012.

²⁷ World Bank, 2007.

²⁸ Unit of measurement (1 mu=0.06667 hectares).

²⁹ All figures in the corresponding paragraph are cited from WTO, 2012.

product specific support to be negative. Despite the fact that the level of support in China has increased, it remain below the *de minimis* levels as product specific support is below 8.5% of the value of production for each product and non-product specific support is less than 8.5% of the total value of agricultural production³⁰.

The Green Box support has also increased significantly over the last ten year to ¥593 billion in 2008. Nearly half of the Green Box expenditures are represented by infrastructure and other general services.

Table 5: Producer Support Estimates (PSE) and Single Commodity Transfers (SCT)

	2002	2006	2010
Producer Support Estimates			
¥ million	203,004	436,230	994,780
Market Price Support	121,357	205,310	609,209
% of PSE in gross farm receipts	8	12	17
Single Commodity Transfers			
(¥ million)			
Wheat			
% of SCT in gross farm receipts	-17,844	53,569	66,149
	-19	34	28
Rice			
% of SCT in gross farm receipts	12,980	-11,167	-14,026
	7	-4	-3
Maize			
% of SCT in gross farm receipts	25,349	43,598	68,079
	25	26	23
Soybean			
% of SCT in gross farm receipts	5,885	5,927	12,767
	17	16	24
Cotton			
% of SCT in gross farm receipts	15,836	33,434	54,002
	34	37	51
Rapeseed			
% of SCT in gross farm receipts	-162	2,326	8,122
	-1	9	16
Pig meat			
% of SCT in gross farm receipts	-10,803	-14,656	87,712
	-3	-2	12
Sugar			
% of SCT in gross farm receipts	6,245	1,617	10,715
	41	7	29

Source: OECD Producer and Consumer Database, 2012.

When applying the OECD measurement of the value of all transfers from consumers and taxpayers to producers, the Producer Price Estimate (PSE) shows support to producers has increased from 8% of gross farm receipts in 2002 to 17% in 2010. The total value of transfers increased from ¥65 billion in 2000 to ¥994.8 billion in 2010, as the value of production also increased during the same time. As shown in Table 5, the majority of all support is provided through market price support measures. The level of market price support increased substantially from 121.4 billion in 2002 to 609.2 billion in 2010. These measures include mainly tariffs, tariff rate quotas, state trading and minimum guaranteed prices.

The Government's objectives to increase grain production are reflected through support policy measures and the quantity of support to specific commodities. The value of specific commodity transfers shows that most agricultural products receive support to provide incentives for production. In particular, cotton, pig meat, maize and wheat have the highest value of single commodity transfers, while cotton, sugar, and wheat account for the majority of the value of

³⁰ All Amber and Green Box figures in the corresponding paragraphs are cited from WTO, 2012.

farm receipts. Among these crops, the high level of support likely reflects the importance of these commodities for national consumption, with the exception to sugar as it is an important export commodity. In contrast, rice has the lowest level of single commodity transfers with a negative support value. State intervention in setting prices below the import value for rice, actually generates a tax on producers³¹.

5. Recent Policy Developments

5.1 Recent Policy Developments in the Amber and Green Box Support

Under China's WTO reduction commitments, the Amber Box includes both non-crop specific support and crop specific support measures, where the value of support must be 8.5% of the value of total production. The crop specific support measures generally include the minimum procurement price scheme and subsidies for improved crops strains, breeding and seeds. In recent years, crop specific support has increased slightly, as there has been no major change to the correlating programs. The non-specific support programs account for the major expansion in support programs under the Amber Box, as total non-product specific support rose from ¥2.2 billion in 2005 to ¥78.9 billion in 2008. The program areas under non-product specific support have generally remained the same, but included major expansions in primarily price subsidies for means of production, and interest subsidies in agricultural comprehensive development.

The Green Box measures are exempt from reduction commitments and include the majority of China's domestic support programs. Such programs that fit under the Green Box include general service programs, stockholding of major food security commodities, decoupled income support, and environmental programs. The general service programs include a range of programs related agricultural infrastructure services (including agricultural comprehensive development programs), extension of new technologies and breeds and advisory services, research, pest and disease control, and operating expenditures to administer such programs³². Domestic agricultural policy has shown progress toward decoupled income support, which has risen substantially and almost doubled from ¥13.2 billion in 2005 to ¥23.6 billion in 2008. However, China's agricultural policy also continues to focus on direct payments to farmers, which are linked to production as discussed above.

5.2 Enhance Trade and Export Potential

In recent years, China has further strengthened its trade by agreeing to a number of unilateral, bilateral and regional trade agreements. In 2010, the China-ASEAN Free Trade Agreement (CAFTA) came into effect, representing a major free trade body in the region. As a result of the agreement, the main changes to border measures are reducing tariffs on about 90% of products to zero on trade between China and Brunei, Indonesia, Malaysia, the Philippines, Singapore, and

³¹ WTO, 2012.

³² WTO, 2011.

Thailand. CAFTA will be extending to additional countries such as Cambodia, Laos, Myanmar, and Vietnam in 2015³³.

China is also a member of the preferential trade agreement between developing countries in the Asia-Pacific called the Asia-Pacific Trade Agreement (APTA). Under the agreement, in 2009 1,662 tariff lines had rates below the MFN rates. The average applied tariff rate to APTA members was 8.9% compared to a MFN rate of 9.5%³⁴.

Over the last few years, China has signed bilateral free trade agreements (FTA) with a number of countries, such as, New Zealand (2008), Singapore (2008), Peru (2009), and Costa Rica (2010). China is in the process of also negotiating FTAs with Australia, Gulf Cooperation Council, Iceland, and Norway. China has also offered 41 least developed nations unilateral preferential tariffs on specific products, and aims to increase this scheme to 95% of imports³⁵.

The potential of enhancing agricultural exports in China is large, however the future of agricultural development in China is closely linked to the management of natural resources as these constitute the principal constraint to further expansion of the agricultural sector.

6. Concluding Remarks

The current agricultural policy framework uses a large set of instruments to increase economic development, support producers' prosperity, and ensure national food security. These objectives are well reflected through domestic support measures that provide financial support to farmers through direct payments and subsidies.

The largest levels of support are derived from market price support measures that use minimum price schemes and protective border measures through tariffs and tariff quotas, to safeguard central commodities from external competition. With particular focus of grains, these instruments are utilized to protect commodity markets that are of importance to national food security. However, such protective measures have also been classified as being distortive.

Furthermore, China's rapid economic development raises questions about their level of domestic agricultural support. As China reaches out to existing and new external markets to build new trade alliances for their growing production of agricultural products, there will be increasing pressure to use less protective policies in their agricultural sector.

³³ OECD, 2011.

³⁴ OECD, 2011.

³⁵ WTO, 2010.

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