Summary of the Fifth Beijing Agricultural Trade Policy Dialogue*

Prepared by Shunli Yao, 15 September 2009

In the wake of World Trade Organisation (WTO) setbacks, financial turmoil and the adoption of the rural reform resolution by the Chinese Communist Party, the Fifth Beijing Agricultural Trade Policy Dialogue was held from 3 to 5 November 2008 at the University of International Business and Economics (UIBE). The dialogue consisted of three components: the Forum on Climate Change, Agriculture and Trade; the Trade Policy Modeling Workshop; and a closed-door Consultation on WTO and Chinese Agricultural Trade Policy.

Key Australian participants included: Dr Geoff Raby (Australian Ambassador to China), Mr Graeme Meehan (Deputy Head of Mission of the Australian Embassy), Mr Tim Yeend (First Assistant Secretary, OTN/DFAT), Mr Craig Burns (Executive Manager, Trade and Market Access Division, DAFF), Dr Don Gunasekera (Chief Economist, ABARE) and Dr Ernesto Valenzuela (University of Adelaide). Dr Jammie Penm (Chief Commodity Analyst, ABARE) led preparations for the dialogue, but was unable to attend.

Other overseas experts participating in the public events of the dialogue included Professor Hsu Shih-hsun of the National Taiwan University, Dr Backhoon Song of the Korean Institute for International Economic Policy and three scholars from the Institute of Policy and Strategy for Agriculture and Rural Development in Viet Nam.

Key Chinese participants included: Mr Wang Donghui (Director, WTO Division, ATPC, Ministry of Agriculture, or MoA), Mr Zhou Lichun (Agric Division, WTO Dept, Ministry of Commerce), Mr Zong Huilai (Director, Regional Trade Division, ATPC, MoA), Prof Zhong Funing (Nanjing Agricultural University), Prof Yang Cuihong (Chinese Academy of Sciences), Mr Chen Jie (National Bureau of Statistics), Prof Liu Xiaohe (Chinese Academy of Agricultural Sciences), Mr Yao Weiqun (Assistant President, Shanghai WTO Center), Prof Lin Guijun (Vice President, UIBE), Prof Zhao Zhongxiu (Dean, UIBE), Prof Xue Rongjiu (UIBE) and Dr Shunli Yao (Dialogue manager, UIBE).

On the morning of the first day, the Forum on Climate Change, Agriculture and Trade, featuring Dr Geoff Raby as the keynote speaker, set the background for the dialogue. Recent setbacks in the WTO negotiations, the global financial crisis, the emerging issue of climate change in world affairs and the re-orientation of China's development strategy for a harmonious society were all discussed. In the afternoon, participants took a tour to Shunyi 'Three-High' agri-science and technology pilot zone in a

* This is called the fifth, rather than the fourth dialogue as originally advertised, because the half-day WTO Agricultural Trade Policy Roundtable held 7 July 2007 on the sidelines of the IATRC Beijing symposium is considered part of the Dialogue series.

Beijing suburb, where discussions were held with the zone official on the development of this rural economy from traditional grain production to vibrant modern urban agriculture. Delegates also visited modern horticultural production facilities.

On the second day, modelling experts gathered at the Trade Policy Modeling Workshop. The focus of the workshop was to introduce a research project funded by the National Science Foundation of China to compile the country's non-competitive input-output tables and to solicit ideas for research that would make best use of the innovative database in addressing trade policy issues. Consultation on WTO and Chinese agricultural trade policy was discussed on the morning of the third day, where negotiators and trade policy experts held intensive discussions on the Doha Round and China's role in the WTO agriculture talks.

Key points of the dialogue meetings are summarised below.

1. The Doha Round stalled

This was the seventh year of the Doha Round. Although much progress had been made towards a breakthrough in agriculture modality talks, the negotiations broke down at the July 2008 ministerial meeting over the issue of a special safeguard mechanism (SSM). The deadlock of the Doha Round came amid global financial turmoil and a food crisis, which had also generated growing protectionist sentiments around the world.

In his keynote address to the Forum on Climate Change, Agriculture and Trade, Dr Raby called for increased efforts to bring about a successful conclusion of the Doha Round, which would give much needed economic impetus as well as provide a confidence boost during a time of uncertainty. He emphasized that the Doha Round is Australia's top negotiations priority and it would not be successful in the absence of an acceptable outcome in agriculture. He argued that by reducing the costs of market access barriers in agriculture, and cutting export and production subsidies, the world has an opportunity to improve resource allocations which could provide benefits to developing countries and help address food security concerns.

At the consultative meeting, Mr Wang Donghui (MoA) and Mr Tim Yeend (DFAT) noted that the July ministerial had made progress in resolving many of the issues on the Doha agenda. However, sticking points remained in SSM and NAMA (non-agriculture market access), which were sensitive issues. Convergence of positions among WTO members requires political will of the key players.

In response to a question on how the global financial crisis would differ to the Great Depression as far as the beggar-thy-neighbour policy is concerned, Dr Raby said the existence of the WTO and its disciplines on international trade made it less likely that

countries will raise tariffs as they did in the 1930s to protect their industries at the expense of other countries. However, protectionism can show up in other ways. For example, slow progress of the WTO negotiations has become the main reason behind the recent proliferation of bilateral and regional trade agreements in the Asia Pacific region. Dr Raby warned that low quality free trade agreements (FTAs) with substantial carve-outs and weak disciplines limited real gains in trade and sheltered vested interests from competition. They carry a risk of undermining the multilateral trading system. In his briefing on the status of the China-Australia FTA negotiations, Dr Raby reiterated Australia's commitment to a comprehensive and genuinely liberalising FTA.

The Republic of Korea, which is a key trading partner of China, had been active in the pursuit of FTAs with the United States and the European Union. Dr Song (KIEP) said the Republic of Korea's FTA effort was in part a response to the weakened multilateral trading system evidenced by the lack of breakthrough in the Doha Round. Nevertheless, the Republic of Korea adopts a strategy to have its FTAs consistent with the WTO rules and comprehensive in coverage.

WTO reform includes more than just the Doha Round. Mr Tim Yeend reminded participants that while much attention has been focused on the Doha Round itself, there are several important issues on the agenda of WTO reform which are beyond the Doha Round, such as reforming its dispute settlement system, which is the cornerstone of the current multilateral trading system.

Mr Wang Donghui (MoA) believed that China and Australia share many common interests in WTO agriculture negotiations, especially in the areas of domestic support and export competition. He shared Dr Raby's view that China and Australia should work together to push for a successful conclusion of the Doha Round.

2. Harmonious society, climate change and Chinese agriculture

The Doha Round is intertwined with several domestic and international events which could have a profound effect on China's position at the WTO negotiations. Since Hu Jingtao became the chairman of the Chinese Communist Party (CCP), the concept of a 'harmonious society' has been promoted to highlight the new governance philosophy of the ruling party. Shortly before the dialogue was held, the third plenary session of the 17th CCP Congress passed a resolution on rural reform. This laid out the action plan to improve the rural economy and increase farmers' income. The resolution also included a policy breakthrough to allow the transfer of farm land among farmers.

The Dialogue coincided with the 30th anniversary of Chinese reform. In his review of the Chinese agricultural trade policy development since 1978, Prof Zhong Funing characterised it as a market-oriented reform with grain self-sufficiency as the bottom line. While this pattern will be maintained in the near future, raising farmers' incomes

has become an increasingly important policy objective.

As an emerging global issue, climate change was another focus of this dialogue conference. A quantitative assessment of the effect of global warming on world agriculture was made by Dr Don Gunasekera (ABARE) in his presentation. Compared with a baseline scenario, global warming would reduce Chinese agricultural productivity and wheat yields by 4 per cent and 5.4 per cent, respectively. Revitalising the Doha Round and removing distortions related to world agricultural trade will be an important step to counter the negative effect of climate change on agriculture, according to Dr Gunasekera.

The projected worldwide negative effect of climate change on agriculture, together with the increased agricultural demand in China (as mentioned in Mr Craig Burns' presentation at the consultative meeting), would not be helpful in resolving the global food crisis. In China, grain self-sufficiency is perceived as a food security issue. Prof Zhong (Nanjing Agricultural University) indicated that, just like the financial crisis in the late 1990s which made China more hesitant to open up its financial market, the food crisis would serve to underscore the 'food security' issue and make it more difficult for China to further liberalise its agricultural trade. Therefore, the revitalisation of the Doha Round has an added urgency to break the cycle of agricultural trade protectionism amid a food crisis and climate-induced agricultural distress.

China has made significant progress in trade liberalisation in the past 30 years, but there is still room for further trade reform. Dr Ernesto Valenzuela (University of Adelaide) presented World Bank research showing that moving to free trade would bring China an additional welfare gain of $US3.3 billion and increase its share of agriculture in total exports from 4.8 per cent to 7.1 per cent.

3. WTO and domestic reform

Dr Valenzuela's presentation compared the changes in nominal rates of assistance (NRA) for agriculture in Japan, the Republic of Korea and China since their respective accession to GATT/WTO, in an effort to highlight the WTO's role in domestic reform. NRAs for Japan and the Republic of Korea have skyrocketed from 16.6 per cent in 1955 and 7.4 per cent in 1967 (the years these two countries joined the GATT, respectively) to around 100 to 150 per cent in recent years. In China, the levels of distortions in all tradables have declined considerably during the past 25 years, and this has improved the competitiveness of the agricultural sector. Another salient feature is the shifting away from taxing agricultural exportables. The total agricultural NRA has evolved from negative assistance to minimum levels of assistance for the current period (at 2 per cent for 2000 to 2005). A distinctive point was made about the WTO accession negotiated outcome of bound protection and its advantages in limiting a surge in agricultural protectionism in China.

The WTO is often criticised as the cause of many tough domestic reform initiatives, but Mr Yeend took a different perspective. He argued that more often than not, domestic reform occurred before a WTO agreement, which helped lock-in the ongoing reform process at home. Mr Craig Burns (DAFF) gave an example of Australian orange growers who had moved into more profitable wine production well before the Uruguay Round was concluded which required Australia to open up its orange market to competition.

Mr Zong Huilai (MoA) posed the situation of managing agricultural reform to achieve the medium-term goals of rural development set by the Chinese Government when agriculture is a key issue in both WTO and FTA talks. Mr Burns advised the WTO rules require FTAs be formed following the guidelines of comprehensiveness in coverage. He saw the recent decision by the Chinese Government to allow the transfer of farm land as an important step towards improving efficiency in agricultural production. Based on Australian experiences, he suggested government has a role in providing public services to farmers in areas such as supply chain linkage improvement, pest disease management and research in international marketing.

4. China's rising role in the WTO

In Mr Burns' review of the agriculture negotiation process at GATT/WTO, he noted developing countries have a bigger voice at the Doha Round than in the Uruguay Round.

At the second dialogue in 2004, it was hoped China could join the then 'five interested parties' in agriculture negotiations. Four years later, China was included in the G7. Chinese Minister of Commerce, Mr Chen Deming's personal involvement in the modality talks at the 2008 July ministerial is widely seen as the most significant move of China in its rise at the WTO since the Cancun Ministerial.

Mr Zhou Lichun (MofCom) explained that the participation of the Chinese Minister of Commerce in the negotiations depends on many factors. In addition to an invitation from the WTO, it is also conditional on the minister's availability and the chances for breakthrough at the talks. Mr Wang Donghui highlighted that China had been active after the July ministerial and was ready to play a bigger role.

Although China has significantly increased the resources for its negotiation team, Mr Zong Huilai believed the capacity constraint was still an issue for China, as the country was in various trade talks at the WTO or in the region. As a result, the negotiators have to work harder and increasingly rely on assistance from outside the Ministry of Agriculture.

The Special Safeguard Mechanism (SSM) was the issue which triggered the

breakdown of the negotiations at the July ministerial. Among the major players, China sided with India on this issue, which was in conflict with Brazil's interest in market access. China, India and Brazil are also key members of the G20. In response to the question raised by Dr Yao Shunli on how they could differ in their positions on such an important issue while still maintaining G20 solidarity, Mr Zhou Lichun explained that G20's negotiations strategy is to seek the common ground, while reserving the differences, or求同存异in Chinese. The SSM is not an issue negotiated within G20. Brazil normally discusses this matter within the Cairns Group, which is a coalition of agricultural exporting countries.

5. Improving trade policy research

A topic discussed at the third dialogue was to what extent Chinese agricultural trade has changed because of its comparative advantage. An article published in an academic journal[1] argued that the change has been very modest. However, another widely circulated study[2] holds a different view, which was cited by Dr Valenzuela in his presentation of the agricultural trade balance and its evolution based on factor intensity. Commenting on the effect of China's WTO accession, Mr Wang Donghui said many studies had predicted that Chinese agricultural imports would surge in the wake of China's WTO accession. However, this did not eventuate. Participants agreed that trade policy research needs to be academically sound, as well as carefully calibrated with realistic scenarios.

Dr Gunasekera believed the looming global recession and the regional preferential trade agreements have generated protectionist sentiments. Research needs to be directed to highlight the benefits of trade liberalisation and the costs associated with its delay.

China's engagement in several FTA talks demands a research tool to better capture the effects of trade reform at both multilateral and bilateral levels. At the trade policy modeling workshop, Prof Yang Cuihong (Chinese Academy of Sciences) introduced a research project funded by the National Science Foundation of China (NSFC) to build a dynamic multi-country CGE model which differentiates domestic and imported inputs. A foundation for this modelling project is a set of non-competitive input-output table for China. Successful NSFC funding for this project is a milestone for Chinese trade policy modelling, as the new input-output tables can be used for various policy studies on trade and the environment.

[1] Carter, CA and Li, X 2002, 'Implications of WTO Accession for China's Agricultural Trade Patterns,' *Australian Journal of Agricultural and Resource Economics*, vol 46, no 2, June

[2] Rosen, Huang and Rozelle 2004, *Roots of Competitiveness: China's Evolving Agriculture Interests*, Washington, DC: Institute for International Economics.