U.S.-China Bilateral WTO Agreement and Beyond

Francis Tuan and Hsin-Hui Hsu

Highlights: The bilateral agreement between the United States and China completed in November 1999 established the basic terms of China's accession to the WTO. The phaseout of the current system of unannounced import quotas, licensing, and state-owned trading monopolies will pose a significant challenge to China's agricultural policy, which has historically featured tight government control over agricultural trade.

The comprehensive bilateral trade agreement reached between the United States and China in November 1999 specified the basic terms of China's entry to the World Trade Organization (WTO). By September 2001, multilateral negotiations on China's final terms of accession were concluded and China's entrance to the WTO is expected in late 2001 or early 2002 (see box), but the specific details of the multilateral agreement were not yet publicly available when this report was written. However, the terms relevant for commodities important to the United States are believed to be similar to terms negotiated in the 1999 U.S.-China bilateral agreement. The multilateral agreement may differ slightly from the bilateral agreement in some provisions. The multilateral agreement also includes provisions negotiated by other countries for some commodities, such as canola oil and wool, not included in the bilateral agreement. This article summarizes China's commitments on agricultural trade contained in the 1999 bilateral agreement that are expected to be similar to those in the multilateral agreement for China's WTO accession.

Under terms of the bilateral agreement, China committed to implement a series of tariff cuts, to allow private enterprises to participate in trade activities, and to eliminate nontariff barriers by 2004. In addition, China committed to establish tariff-rate quotas (TRQ) for wheat, corn, rice, soybean oil, and cotton with gradually increasing quota levels. Agricultural subsidies were a focal point in the multilateral negotiations, but the final terms limited China's potentially trade-distorting subsidies to 8.5 percent of its value of agricultural output.

U.S.-China Agreement Highlights

In the 1999 bilateral agreement, China agreed to reduce trade-distorting barriers and practices that fall into three main categories: nontariff trade barriers, domestic agricultural support, and export subsidies. Under the U.S.-China bilateral agreement, China committed to elimination of all nontariff trade barriers, leaving tariffs as the only measure affecting imports (table B-1). Nontariff measures, such as sanitary inspection, testing, and domestic taxes, will comply with WTO rules. Tariffs on all agricultural products will drop from an average of 22 percent to 17 percent by January 2004, and tariffs on U.S. agricultural products with high-export priorities (such as animal products, fruits, and dairy products) will drop to 14.5 percent.

The bilateral agreement established TRQs for a number of bulk commodities, including wheat, corn, rice, cotton, and soybean oil. For goods subject to TRQs, a specified quantity of imports (i.e., quota) may enter at a low tariff rate, and additional imports (i.e., over the quota) will enter at a higher tariff. The quantities allowed at the low tariff (within TRQs) were set to increase annually from 2000 through 2004, and the soybean oil quota was set to remain through 2005. (This statement is based on the agreement signed in

China's WTO Chronology

Year	Month	Event
1986		People's Republic of China applies to join GATT.
1989		Tiananmen Square incident derails trade negotiations.
1994		China begins a new push to join GATT.
1997		China cuts import duties on many goods, but maintains high tariffs on others.
1999	April	China offers major concessions. The United States turns down the offer, but the two countries issue a statement committing to finish negotiations by 1999.
1999	November	U.S.-China negotiators agree on a bilateral agreement that will allow China to join the WTO.
2000	September	U.S. Senate passes legislation establishing permanent normal trade relations with China.
2001	June	The United States and China reach agreement on China's farm subsidies at 8.5 percent of the total agricultural output value.
2001	September	Multilateral negotiations on China's WTO accession concluded.

For details on U.S.-China agreements, fact sheets on China WTO impacts, and contact information for avoiding and resolving trade disputes, see U.S. International Trade Administration, "China Gateway." <*http://www.mac.doc.gov/china/*>.

1999. The multilateral agreement may contain slightly different dates or years.) There is no minimum purchase requirement and the negotiated TRQs do not represent minimum purchases. China does not have to import the full TRQ amount, but it did agree to establish regular grain purchases from the United States in 1999. By cutting tariffs on specified quantities of imports, China's quotas open the market to imports when domestic demand exceeds supply.

China has agreed to eliminate export subsidies for farm products and to cap trade-distorting domestic farm subsidies. Chinese farmers, however, are entitled to sell unlimited amounts of surplus grain to the state at protection prices. In multilateral negotiations, China was unwilling to enter the WTO as a "developed economy," which would limit trade-distorting farm subsidies to 5 percent of the value of agricultural output (at *de minimus* levels). The limit is 10 percent for developing economies. China considers its support of farm prices to be a crucial domestic policy instrument that protects farm household income and prevents social and political instabilities. A compromise reached in June 2001 set China's subsidy limit at 8.5 percent of agricultural output value in the multilateral agreement.

The extension of trading rights to private sector entities will add transparency and competition to China's agricultural trade by phasing out the monopolistic power of state trading enterprises (STE), which still control all trade in some key commodities. Private sector participation and competition in trade will be encouraged by setting shares of imports to be allocated to nonstate trading entities. For many agricultural commodities, including oilseeds and oilseed products, cotton, and medium- and short-grain rice, half or more of imports were set to be allocated to nonstate entities. Trade in major grains, including wheat and long-grain rice, will continue to be channeled primarily through state trading enterprises. The non-STE share of corn imports was set to rise from 25 percent in 2000 to 40 percent in 2004. Private sector trading rights are one of the key terms negotiated in the bilateral agreement and will have a profound impact on Chinese markets.

In 1999, China also agreed to eliminate sanitary and phytosanitary barriers to agricultural imports that are not based on scientific evidence. For example, China

Table B-1—China’s tariff rate quota system after WTO accession

Commodity	Unit	2000	2001	2002	2003	2004	2005
Wheat:							
Total TRQ level	1,000 tons	7,300	7,884	8,468	9,052	9,636	
In-quota tariff	Percent	1	1	1	1	1	
Over-quota tariff	Percent	77	74	71	68	65	
Allocated to nonstate trade	Percent	10	10	10	10	10	
Rice:							
Total TRQ level	1,000 tons	2,660	3,325	3,990	4,655	5,320	
Short and medium-grain quota	1,000 tons	1,330	1,663	1,995	2,328	2,660	
In-quota tariff	Percent	1	1	1	1	1	
Over-quota tariff	Percent	80	70	60	50	40	
Allocated to nonstate trade	Percent	50	50	50	50	50	
Long-grain quota	1,000 tons	1,330	1,663	1,995	2,328	2,660	
In-quota tariff	Percent	1	1	1	1	1	
Over-quota tariff	Percent	80	70	60	50	40	
Allocated to nonstate trade	Percent	10	10	10	10	10	
Corn:							
Total TRQ level	1,000 tons	4,500	5,175	5,850	6,525	7,200	
In-quota tariff	Percent	1	1	1	1	1	
Over-quota tariff	Percent	80	70	60	50	40	
Allocated to nonstate trade	Percent	25	29	33	36	40	
Cotton:							
Total TRQ level	1,000 tons	743	781	819	856	894	
In-quota tariff	Percent	1	1	1	1	1	
Over-quota tariff	Percent	69	62	54	47	40	
Allocated to nonstate trade	Percent	67	67	67	67	67	
Soybean oil:							
Total TRQ level	1,000 tons	1,718	2,027	2,335	2,644	2,952	3,261
In-quota tariff	Percent	9	9	9	9	9	9
Over-quota tariff	Percent	74	61	48	35	22	9
Allocated to nonstate trade	Percent	50	58	66	74	82	90
Soybeans:							
Bound tariff	Percent	3	3	3	3	3	
Soymeal:							
Bound tariff	Percent	5	5	5	5	5	

Note: All fully implemented by 2004, except for soybean oil, which is through 2005, and after which it converts to a bound, tariff-only regime.

Source: Office of the U.S. Trade Representative.

lifted its ban on imports of U.S. wheat and other grains from the Pacific Northwest and now allows the import of U.S. wheat that meets specific tolerances for TCK fungus (U.S. Trade Representative).

Beyond the Bilateral Agreement, Internal Policy and Institutional Conflicts Are Expected

China's terms of agreement may be incompatible with its domestic agricultural policy structure geared toward protecting farm production to maintain self-sufficiency. For example, China's commitment to replace its current import quota and licensing system with a TRQ system and phase out STE monopolies might imply that foreign companies would be given full trading rights and distribution rights in retail, wholesale, and transportation for grains and soybean products. This policy is clearly incompatible with China's agricultural marketing and distribution system—a system based on monopoly by the government over procurement and allocation of priority commodities. The agricultural marketing and distribution system in China is a complex system with interlocking policies and government institutions used to accomplish a mix of economic and policy functions.

WTO accession will require China to follow international standards of transparency in trade that will depart sharply from past practices. China has historically maintained tight state control over agricultural trade to control the flow of imports. Previously, no information was available to either foreign or even domestic businesses about how import quotas were set or about how quota assignments to local grain and oil importers were allocated. Prior to WTO accession, China never published complete import regulations or even a description of its import quota system. The only way to discern a quota amount was through *ex post facto* examination of trade flows.

In the past, quota amounts were determined by internal negotiations between central, provincial, and local governments. Usually, China's State Planning and Development Commission received requests from provincial governments and recommended a quota amount, which was then reviewed and approved by the State Council and allocated to individual provinces through a negotiation process between central and provincial governments. The total national quota amounts and the allocation among provinces were often revised several times during the year, further complicating the process. A similar negotiation occurred between provincial and local governments to decide the final allocation to firms holding import licenses or government-owned business entities. In coming years, the public announcement of TRQs, allocation of import shares to non-STE businesses, and other laws and regulations related to import and export of agricultural commodities will increase openness and competition in China's trade.

After WTO accession, the allocation of imports is expected to be much more open and governed more by supply and demand rather than central planning. However, many barriers remain hidden in the transition and implementation period. For example, quota holders have no right to import directly from abroad, to choose their trading partners, or to choose a specific type of commodity (e.g., high-protein soybeans). Thus, beyond the bilateral agreement between the United States and China, there are various issues in the Chinese trading system that must be resolved.

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