China’s Joining the WTO: Opportunities for the
Australian Agribusiness Sector

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China’s Joining the WTO: Opportunities for the Australian Agribusiness Sector

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1. Introduction

China started to apply for joining the GATT (now the WTO) in July 1986. After almost 16 years painstaking negotiations, China is very close to the gate of the WTO. When China gets accepted to the WTO, a market with 1.3 billion consumers will be more widely open to the rest of the world. This represents enormous market opportunities for exporters and investors of many other countries. Undoubtedly, it will also bring opportunities to the agribusiness sector for both China and other countries.

Then, what is in it for the Australian agribusiness sector? What opportunities may Australia expect? What are the likely challenges Australia may encounter? In this paper, after briefly describing China’s preparation for joining the WTO, we highlight the changes that are likely to take place in the market environment after China joins the WTO. We then attempt to identify areas where opportunities may exist for the Australian agribusiness to gain increased access to the Chinese market and where cooperation may be possible between the Australian and Chinese agribusiness sectors. We will also point out possible challenges and competition facing the Australian agribusiness sector in the Chinese market. We conclude this paper by addressing some issues that need to be taken into account for Australian agribusiness sector to be successful in the Chinese market.

2. China’s Preparation for Joining the WTO

As early as in 1986 when the Uruguay Round (UR) started, China submitted a request to restore its GATT membership. Since then, China was fully involved in the UR negotiations.

Unfortunately, China was unable to reach agreements with its major trading partners before Uruguay Agreements were signed. China believed some developed countries attempted to impose China obligations inconsistent with its status as a developing country and set obstacles to the conclusion of the negotiations.

The failure to restore GATT membership and thus to become a founding member of WTO did affect China’s attitudes towards GATT/WTO affairs. Thereafter, the Chinese leaders stated that China had no intention to compromise further on opening its market in exchange for GATT/WTO membership. Joining the GATT/WTO was no longer a hot topic in the media. The negotiation was resumed in 1994 after China’s major trading partners expressed their support for an early accession of China to the WTO. However, the progress was slow (People’s Daily 2000).

When Premier Zhu Rongji visited U.S. in April 1999, the Chinese government was ready to give a push to the negotiation by making certain market opening concessions. To some extent, it intended to sacrifice agriculture in exchange for greater and longer protection of other sensitive sectors such as banking and communication services. China’s commitments on opening agricultural market were wide and substantial, especially in commodities of U.S. priority interest (USTR 1999). However, the U.S. government missed this opportunity under the political pressures of domestic opponents. The Chinese government halted WTO negotiation after U.S. missiles destroyed the Chinese Embassy in Belgrade in May 1999, which triggered off an emotion against the U.S. With efforts from both sides, the talk was resumed in September 1999, which resulted in reaching China-U.S. WTO Accession Agreement in November 1999.

The China-U.S. WTO Accession Agreement was a milestone in China’s long journey to WTO. The bilateral negotiations with other concerned parties have been accelerated since then. To date, Mexico is the only WTO member with whom China needs to reach a bilateral agreement. While progresses are being made continuously in Geneva to finalise China’s accession protocols, uncertainties remain with regard to when China can complete all the procedures and enter the WTO (Yangzi Evening Daily 2001).

One of the key issues under disputes between China and its major trade partners is on what status that China enters the WTO. China insists to join the WTO as a developing country, which allow the Chinese government greater flexibility in managing the process of transition as well as reduced urgency to remove policy distortions. In contrast, the U.S. and some other parties intend to impose stringent disciplines on China’s trade behaviour with a concern whether the accession of China would disturb the order of world trade given the already big and rapidly growing size of the Chinese economy and its particular socio-economic system. Disagreements exist in the level, speed and sector focus of tariff reduction, elimination of various non-tariff barriers of border protection, opening market of services and binding arrangements for implementation of the commitments. The last one becomes a major issue in the Working Party on the Accession of China in Geneva, who will draft the Protocol of Accession. The Chinese leaders and officers in charge have reiterated in various occasions that China will fulfil all the commitments it made, but China will not accept any additional obligations (Zhu, R.J. 24 October, 2000; Long, Y.T. 27 October, 2000).

It should be noted that no matter how the GATT/WTO negotiation was going on, the Chinese government pushed forward the market-oriented reforms of its economic system in a
gradual way to prepare China for entering the WTO. In fact, China has taken a number of self-initiated steps to reduce trade barriers. For instance, China’s average tariff was reduced from over 40 percent in the early 1990s to 15.3 percent by January 2001 (see Table 1). The extent of reduction was much greater than what was required by UR agreements for both developing and developed countries. Similar to tariff cuts, China has autonomously implemented a wide range of reform measures in removing non-tariff barriers (NTBs). For example, China has reduced coverage of license controls substantially since 1992. Trading rights have been granted to foreign and joint venture firms first and then to domestic non-state firms. These measures have made China’s trade regime much more liberal than what prevailed in the 1980s. In the mean time, the Chinese government has also taken steps to improve its domestic regulatory framework covering legal system, firm system, and government institutions.

Table 1. China’s Tariff Reduction over Time

<table>
<thead>
<tr>
<th>Time</th>
<th>Simple average tariff after reduction %</th>
<th>Tariff lines subject to cut</th>
<th>Share as total tariff lines %</th>
</tr>
</thead>
<tbody>
<tr>
<td>January, 1992</td>
<td>43.2</td>
<td>225</td>
<td>3.6</td>
</tr>
<tr>
<td>December, 1992</td>
<td>39.9</td>
<td>3371</td>
<td>53.8</td>
</tr>
<tr>
<td>December, 1993</td>
<td>36.4</td>
<td>2898</td>
<td>45.6</td>
</tr>
<tr>
<td>July, 1995</td>
<td>35.6</td>
<td>23</td>
<td>0.36</td>
</tr>
<tr>
<td>April, 1996</td>
<td>23.0</td>
<td>4971</td>
<td>75.9</td>
</tr>
<tr>
<td>October, 1997</td>
<td>17.0</td>
<td>4874</td>
<td>69.8</td>
</tr>
<tr>
<td>January, 1999</td>
<td>16.5</td>
<td>1014</td>
<td>14.6</td>
</tr>
<tr>
<td>January, 2000</td>
<td>16.4</td>
<td>819</td>
<td>11.8</td>
</tr>
<tr>
<td>January, 2001</td>
<td>15.3</td>
<td>3462</td>
<td>49</td>
</tr>
</tbody>
</table>

Note: While nominal rate of protection is high in China as shown by the simple average of tariff, the level of real tariff protection is substantially lower due to legal tariff exemptions and illegal smuggling. Based on official data, the rate of actually collected tariff was as low as 3 percent in the late 1990s.

Sources: Compiled from various government documents and publications.

China’s experience in its journey to the WTO shows that China intends to participate in the multilateral trade system and reform its policies accordingly provided it can exercise sufficient control over the process and the speed of transition. On the other hand, China’s major trading partners wish to gain the benefits from China’s market opening up but, in the meantime, are concerned about China’s entering their own markets with privileges as a WTO member. Thus, while both sides have common interests regarding China’s joining the WTO, there are conflicts as well in the past, present and certainly also in the future. This explains why the process of China’s acceptance to the WTO has been so slow.

While the Chinese leaders perceive that accession to the WTO will bring about economic benefits (e.g., improved access to foreign markets, foreign investments and technologies into China which may help China to accelerate economic growth), as well as political benefits (e.g., improving China’s reputation and obtaining influence on world affairs, pressure on Taiwan to establish a closer linkage with mainland), they do recognise the costs, such as expected hardship in structural adjustment, binding to their policy options, and influence on the Chinese
society by western culture. Nonetheless, it seems that the Chinese government intends to adhere to some baselines/principles.

China’s academia in general is supportive of entering the WTO, although there exist different views on benefits and costs for China and on policy suggestions to the government. In fact, many thought that joining the WTO will bring in external pressure to push forward China’s ongoing reforms. The public in China is not well informed about the WTO issues and has almost no involvement in policy discussions. So, although China is close to the gate of WTO, the Chinese society has not been well prepared to deal with the complex situation after accession. Some chaos are likely to occur which may disturb the economy and cause irregular policy responses.

3. Changes in Market Environment Resulting from China’s Joining the WTO

No matter what may happen, one thing seems to be pretty sure is that after China’s accession to WTO, China’s market environment will change fundamentally. Major changes include external and internal market conditions, and framework of regulatory policies. Here we emphasise on several specific areas such as improved market access, enhancement of competition, improved environment for foreign direct investment (FDI), and related intellectual property protection.

3.1 Market Opening Up

Although the Protocol of China’s accession has not been worked out yet and the Chinese government has not released any details of bilateral agreements, substantial reduction of border protection is widely expected. Agriculture was once regarded as the basis of national economy and for the achievement of food security. However, China has made substantial compromise in its negotiation with the U.S. and some other parties in trade of agricultural products. As reported by USDA (2000), upon accession to the WTO, China will

- establish a "tariff-only" import regime and eliminate all non-tariff barriers;
- reduce tariff on agricultural products from 22% to 17.5% with the average duty on agricultural products of U.S. priority interest falling from 31% to 14%;
- use a tariff-rate quota (TRQ) system for certain sensitive commodities under additional requirements to allocate certain proportion of quotas to non-state trading entities and to redistribute unused quotas by state-trading enterprises to other end users who have an interest in importing;
- permit any entity, including foreign enterprises, to import most agricultural products into any part of China and to engage in the full range of distribution services within a three-year period;
- stop subsidising export of agricultural products;
- cap and reduce trade-distorting domestic subsidies; and
- abide by the terms of the WTO Agreement on Sanitary and Phytosanitary Measures.

As these commitments will be included into China’s accession protocol, they will be applied equally to all other WTO members. Thus, China’s agricultural market will be more
widely opened up, presenting opportunities for exporters of agribusiness products world-wide. In the meantime, the Chinese suppliers will have to face great challenges after reduction of trade barriers.

3.2 Enhanced Market Competition

The accession to the WTO means that the Chinese government accepts all rules and disciplines as mandated in UR Agreements. As a result, China’s trade regulatory system must comply with the principles of national treatment and most-favoured-nation treatment. Thus, the Chinese government is likely to allow business decisions to be made without much government interference. This is important for agribusiness firms since trade of agribusiness products has been subject for a long time to planned management via state-trading regimes, under which trade decisions are often made based on non-economic considerations and may favour or discriminate certain trade partners or between domestic and foreign firms.

Without politically chosen winners and losers, both the Chinese and foreign firms must compete for market shares by taking their own competitive advantages. For this purpose, it is important for the Chinese firms to obtain knowledge of foreign markets and for the foreign firms to understand the Chinese market. However, the smooth operation of such a free market system requires an effective legal system. This cannot be established easily and quickly. Thus, conflicts may be expected during the transition process. Problems may also arise when the national government fails to enforce regional governments to follow national laws and regulations. However, in the long term, China’s accession to WTO will definitely help to foster a competitive market environment in China.

3.3 Improved Environment for FDI

Attracting more foreign direct investment (FDI) is one of the considerations for China to join the WTO. To attract more FDI with advanced technologies into China, China must provide effective protection of intellectual properties as mandated by Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). China has committed to fully implement WTO’s Agreements on Trade-Related Investment Measures (TRIMS) and TRIPS after its accession to the WTO. As a result, China may revise its regulations over FDI and grant sufficient protection to intellectual properties.

Improved environment for FDI will offer opportunities for both Chinese and foreign firms through the marriage of foreign capital, advanced technologies and managerial skills with China’s low labour and raw material costs and large market potential. However, the exploitation of such opportunities will be increasingly based on direct business negotiations between the Chinese firms and foreign firms rather than through government departments as before.

3.4 Challenges Facing China’s Agribusiness Sector and its Likely Responses

Various studies (e.g., Arndt et. al. 1997; Wang 1997; CEM 1999; Letour, 2000; DRC 1998; Zhai, 2000) have shown that China’s entering WTO is likely to induce notable increase in
demand for agribusiness products, especially those of income-elastic products. China lacks comparative advantages in land-intensive crops (mainly cereals, oilseeds and cotton) and production of such commodities is likely to shrink after opening the market (e.g. CEM 1999; Zhang 2000). Consequently, China is expected to increase import of major bulk commodities.

Small farmers involved in the production of bulk commodities may suffer from slow income growth due to competition of imported goods. Agro-processing industries are likely to improve their competitiveness in both domestic and international markets as a result of cheap supply of raw materials and improved access to external markets. The impacts may vary across different regions within China. The major agricultural regions, such as the Northeast, Northwest, Central China and Southwest, may face greater difficulties while the coastal provinces, who are already economically better-off, may gain from easier access to overseas markets for import and export.

Clearly, the implementation of the commitments by China will lead to substantial structural adjustments and redistribution of benefit among sectors and regions in China. To facilitate the agribusiness sector to face the challenges and in the mean time to capitalise on any opportunities, the government and the agribusiness firms are likely to be proactive to deal with the new situations and respond to the new situations by taking the following measures:

- to foster domestic agribusiness firms who can compete with foreign competitors both in the Chinese market and overseas market and in the meantime who can involve small farmers in their business operations as suppliers;
- to improve market infrastructure and legal and social services to both agribusiness firms and small farmers;
- to install WTO-consistent instruments to prevent external disturbances in case of need; and
- to assist rural adjustment in line with long-term trend of changing comparative advantages so as to ensure rural people can also benefit from China’s joining the WTO.

4. Areas of Opportunity and Cooperation for the Australian Agribusiness Sector

The elaboration above shows that China’s joining the WTO will bring about increased market access and cooperation opportunities for agribusiness sector of other countries in the Chinese market. There are three broad areas where increased efforts need to be made by the Australian agribusiness sector in order to secure such emerging opportunities following China’s joining the WTO. These areas are:

- Capitalising on the improved market access to increase export to the Chinese market
- Making use of Australia’s technology and expertise to produce in China for the China market
- Making use of Australia’s technology and expertise to produce in China for other markets

*Increase export to the Chinese market*
Wool  Australian fine wool faces few competitors in the international market. Although the Chinese government has taken measures to encourage domestic fine-wool production, Australian wool has better quality and enjoys a good reputation. After China’s joining the WTO, restrictions on the import of Australian wool to China will be significantly (but gradually) eased. While China’s demand for wool is significantly affected by China’s domestic demand for and export of textile, it is certain that China will remain as a major wool user. Continued reinforcement of the reputation of the Australian wool in China and internationally and offering technical support to the Chinese enterprises in wool processing are likely to Australia’s advantage in the long run.

Wheat  In total quantity term, China’s wheat supply is sufficient to meet demand in recent years. However, due to China’s present marketing arrangements, high quality wheat cannot be collected and marketed separately to meet the demand of food processing industries and imports are sought (Tian, Zhou and Cao 2000). After joining the WTO, NTBs to wheat import will be removed. TRQs will be used with a very low tariff for imports within quotas (3%). The above-quota tariff rate will be reduced from the present 114% to 65% by 2004. The quota for the first year after China’s acceptance to the WTO is reported to be 7.3 million tonnes and this will be increased to 9.3 million tonnes by 2004. It is thus expected that China’s wheat import will be increased (Tang and Zheng 2000, p. 206). The USA, Canada and Argentina are major competitors for Australia. The USA has been staring at the Chinese wheat market for a long time. With its improved competitiveness following its successful negotiation in its bilateral agreement on China’s WTO accession, the USA is likely to increase its wheat export to China (Amponsah, Qin and Wang 1999). How much Australia can gain from China’s increased wheat import critically depends on the export subsidy and competitiveness of other major wheat exporters. Australia produces high quality of wheat but is yet to do more to project the image of the Australian wheat in the China market.

Barley  China’s demand for barley has increased rapidly in the past years, primarily due to the rapid expansion of the beer industry (Tian and Chudleigh 1999). Major brewers in China resort to almost 100% imported barley for their beer production. Major sources of supply include Australia, Canada and France. After China’s joining the WTO, barley import will be free of any restrictions and there will be only a single 9% tariff rate. The tariff rate for malt will also be significantly reduced. Thus, barley and malt import is expected to increase. However, further market share increase of Australia’s barley in the Chinese market requires Australian producers to maintain their competitiveness in prices and quality.

Dairy  Present per capita consumption of milk in China is about 6 kg per year, much lower than that in many other countries. The Chinese government has started to encourage its residents to increase the consumption of dairy products. The consumption of dairy products by wealthier people, especially in the urban areas, has been on the increase in recent years (Li 1999, Wei and Viney 1999). Chinese consumption of dairy products at present is largely confined to milk, milk powder, ice cream and yoghurt due to taste preference. However, in view of the Japanese and Korean experience, with further increased disposable income by the Chinese and with overseas influence, it is expected that change in taste and thus the consumption of butter and cheese will take place, especially among the younger generations, although this is likely a slow process. Nonetheless, early preparation for entry into the market is necessary. Some EU countries have started to work on this market in China some ten years
ago. Australian dairy industry needs to take action soon. EU and the USA and New Zealand as well are likely the major competitors for Australia in this market.

**Beef** Beef consumption started to become popular among the Han majority people from the early 1980s. Since then per capita consumption of beef has increased by about 100% but the absolute quantity is still very small (less then 3 kg in urban areas and less than 1 kg in rural areas in 1999). Beef is only about 1/5 of pork consumption in urban area and about 1/12 in rural areas. In the near future, large volume of beef export to China is unlikely. However, in the longer term, with further changes in tastes and increased demand for higher quality beef, there will be a niche market for imported beef. Major beef producers include Brazil, China, EU and the USA. Due to the mad cow disease problem, EU is unlikely to be competitive in the Chinese market. However, the USA will be the major competitor for Australia. Australia needs to project the high quality image of the Australian beef in the China market. When selling Australian beef to the Chinese market, it is necessary to take Chinese cooking methods into consideration.

**Animal skins** China is a major user of animal skins for producing leather products for exports. China’s import of raw hides and leather in 1999 was over 2.3 billion US dollars (SSB 2000, p. 591). Australia, as a major supplier of raw hides, is likely to export more to the Chinese market. China’s demand for raw hides in future will be affected by its export of leather products and its consciousness about environment protection – raw hide processing is highly environment polluting.

**Cooking oils** In China, priority cannot be given to the production of oilseeds due to the pressure to produce grains. As a result of increased demand by rural residents and food processing industries, a large quantity of oilseeds and vegetable oils has been imported in recent years and China has now become the largest vegetable oil importer. Vegetable oil import is expected to grow and demand for high quality vegetable oils will be on the increase. This provides potential for Australia’s canola oil export to China. There is a need to promote canola oil’s cholesterol-free feature, targeting at the wealthier group of consumers.

Some other products may not be able to be exported to the Chinese market in a large volume. However, it may be possible to find a niche market for them. These include, for example, some fruits (e.g., cheery, plum, mango), some aquatic products (e.g., lobster), sugar and cotton.

**Produce in China for the China market**

China itself is a huge market. A middle class is taking shape and there are consumers who are extremely rich. Given the 1.3 billion population base, the number of consumers with strong purchasing power in China is impressive. Even if one percent of the population has a strong purchasing power, this translates to a total of 13 million. With the increase in consumers’ income, their health awareness is also increasing. Those wealthier consumers look for better quality and healthy agricultural products. However, China’s current production methods and marketing arrangements are not capable of producing and marketing such products of high health standard. Given the presence of such a demand and the low labour cost, opportunity exists for Australian agribusiness firms to cooperate with China’s local entrepreneurs by making use of Australia’s technology and expertise to produce in China for the Chinese market.
Using product branding and their own marketing channels, the potential gains from such a venture can be enormous when the brands get accepted in the Chinese market.

**Produce in China for other markets**

A similar venture that Australian agribusiness firms may find worth exploring is to produce in China for overseas markets by making use of Australia’s technology and expertise. Given the low labour lost, some of the agribusiness products produced in China are very competitive in the international market. However, due to the low health standard and quality, the exportability of such products is very limited. In addition, China’s firms also suffer from limited intelligence of overseas markets and less effective marketing strategies. It is possible for Australia’s expertise and China’s low labour cost advantage to get combined to produce high quality of those exportable products. After a good reputation is established for their products in the international market, they will be able to reap the benefits for years to come from such a venture.

**5. Concluding Comments**

China, as a big market, is of relevance only if the Australian agribusiness sector can secure business opportunities in that market and make a profit out of it. China’s joining the WTO will make the access to that market much easier and thus offers the Australian agribusiness sector an exciting historical opportunity that it must not miss.

It must be noted, however, China’s market opening up will be gradual and not an over-night event. On the other hand, preparation for doing business in the market is a continued process. For the Australian agribusiness sector to be successful in the Chinese market, it needs to pay attention to the following areas.

**Get prepared** First, prepare the right products for the Chinese market. Research on the Chinese market for a concerned product is essential. A personal business trip to the market will be most beneficial. In addition, there is a need to monitor changes in tastes and preference by the Chinese for some products that Australia has an interest so that timely market operations can be undertaken. Second, get familiar with business practice in China. The value of familiarising with business practice in China cannot be overemphasised. In the future, business dealings will be mainly with individual private companies rather than with government trading companies. Understanding Chinese culture in general is also very important. Quite often, business failure is due to cultural misunderstanding.

** Longer-term planning** In most cases establishing a market in China is a painful process. The pain is attributable to a number of factors, but mainly political influence and differences in social and business culture.

Getting one’s market established there takes time. Thus, long-term vision is essential. If one expects to go there today and bring profits back tomorrow, then one should stay home. Generally, one can expect to have profit return in 2-3 years time.

**Sufficient funds for initial market establishment** It is essential to have sufficient funds at the outset to tap the Chinese market. If one does not have a good sum of money to start with, one will most probably run out of money before making any profit. In this sense, it is often
better to embark on a joint effort or an industry effort in order to establish a product in the Chinese market. The more the capital one has at their disposal for tapping the Chinese market, the greater will be their chances of success.

To promote products such as meats, dairy products, and canola oil to the Chinese market, an industry effort is necessary. For other products, such as cherry and plum, a group effort may be sufficient.

**Be innovative** Another requisite for success in the Chinese market is to be creative and innovative. When China’s market becomes open to the world, the competition will be tough. If the Australian agribusiness firms want to secure a foothold there, they will face strong competition from many other countries and as well from China. To succeed in the Chinese market, they have to be creative and innovative in their business operations and in promoting their products. In China, returns from well-designed advertisements are very high. Efforts by the Australian agribusiness sector to promote the image of their products in the Chinese market will be long rewarding.
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