

**After Accession to the WTO:
Corn Trade Within China and Between China and the Rest of the World**

Executive Summary

On the eve of accession to the World Trade Organization (WTO), with the aid of trade policy, China was the second largest corn exporter in the world. During the time prior to accession, China's corn prices were estimated to be more than 30 percent above world market prices. China's government explicitly admitted to providing subsidies for corn exports of up to \$US35 per metric, which accounted for almost all of the protection.

During the negotiation leading up to China's admittance into the WTO, China made a number of promises that were expected to affect its corn economy. In its most basic terms, the commitments in agricultural sector can be classified into 3 major categories: market access, domestic support and export subsidies. The commitments on accession, if implemented, will lower tariffs of all agricultural products, increase access to China's markets by foreign producers of some commodities through tariff rate quotas (TRQs) and remove quantitative restrictions on others. In return, China is supposed to gain better access to foreign markets for its agricultural products and receive other indirect benefits. The provision of national treatment for domestic and foreign commodities and the elimination of export subsidies are the two other issues that China promised to implement. Together with a number of other market-access commitments make China's WTO accession unique among all other developing countries that have been admitted to the WTO's new environment. Despite the scope of the commitments, some of the direct import market access commitments that China has made to WTO members actually do not appear to be overly large or threatening to domestic producers.

Because China agreed to these commitments many observers thought that China was at the beginning stage of being a large corn importer. Instead, as of mid-2003 it is apparent that the predictions would not be realized. Imports of corn into China have been virtually zero since the nation's accession to WTO. Moreover, far from becoming an importer, China continued to export corn. In fact, since 2002 exports have accelerated, reaching more than 10 mmts in 2002. The increasing exports from China have raised the fraction of the market dominated by China in some of the markets, especially Korea, that traditionally imported large volumes of corn from the US.

Against this background, US corn producers and exporters understandably are interested in trying to understand what happened and what is going to happen in the coming years in China's corn markets. In this report, we have 3 objectives:

First, we seek to establish how well China's domestic grain markets function. To do so, we establish the ways prices are determined in China's domestic corn markets and how integrated markets are. In addition to being of interest as a topic in its own right knowing the price relationships within China are key to helping us evaluate the rate of protection that China's farmers are enjoying and whether or not China has followed through on its WTO commitments.

Once we establish that China's corn markets are integrated, we address the report's two key objectives. First, we seek to understand why China did *not* import corn during the first 18 months after accession to the WTO. Using the import experience of other crops, we also can conjecture about how low US prices would have to fall (US corn, CIF-Guangdong) before importers would be able to bring corn into China. Second, we will seek to understand why China has been able to continue to export record amounts of corn after accession.

To meet these objectives, the report is organized as follows. First, we describe the main data sources. Next, we analyze the nature of China's domestic markets. The next two sections look at imports and exports, and the final section concludes.

In briefest summary terms our report has shown several key findings:

One [domestic market integration]: Domestic markets in China are functioning better than ever. Prices across the country mostly move together over time; spatially price relations appear similar to those in the US; the gap among regions is remains narrower than ever; and pairs of key markets are all cointegrated according to statistical test. Because of this, in the analysis of imports and exports, we can use the domestic prices in Dalian and Guangdong as reference prices for all of China.

Two [importing behavior]: With the exception of the first several months of 2002, because of price rises in world markets, there is no real reason to think China should have imported during 2002 and 2003. Behavior in other markets (such as those for soybeans) suggests that China most likely plans on assessing a 13% VAT at the border, at least more than half of which does not appear to be valid. When this is added to other charges that are assessed to imports (e.g., the 1% tariff and the special port fees, handling charges and quarantine assessments, in the current environment we believe that the price of US corn must be around 20% lower than China's domestic price to be competitive. While we have no way of knowing, it is possible that even if the VAT were not assessed, China could use the way it implements TRQs or SPS-oriented rules (including biotechnology-related rules) to discourage imports.

Three [exporting behavior]: Despite promises under its WTO agreement, during the first 8 months of its accession to the WTO, China appears to have continued its practice of subsidizing exports of corn. The exact mechanism of the subsidy is not apparent. The 21% gap (during the summer of 2002) and the 16% gap (during last fall) between the export corn price (FOB, Dalian) and the domestic corn price (in Dalian—in Fall 2002), however, is evidence that exports are proceeding on a non-commercial basis. At the most, according to our analysis, 6% can be justified as a VAT rebate. The rest is being channeled to the exporter through some other mechanism (either directly or indirectly). The bottom line is, however, that exporters during the first 11 months of WTO were still signing contracts at prices that were substantially below the domestic prices (and forgoing at least 10% (or more) profits by not selling into the domestic market). During the spring of 2002, however, the gap between the domestic price and

export price narrowed further (to only about 10%). While China's domestic price in June 2003 was about \$US128/mt, it was making bids for export of around \$US116/mt. If the price gap was only 10%, then the gap can be wholly accounted for by the VAT rebate.