

The impact of the Doha trade proposals on farmers' incomes in China

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Received 1 February 2010; received in revised form 1 July 2010; accepted 1 August 2010

Available online 24 August 2010

Abstract

This paper analyzes the potential impacts of the Doha trade proposals (those of the USA, EU and G20) on agricultural production and incomes of China's farmers by region and income group. By linking a global trade model to a national policy model which itself is connected to a set of disaggregated household data, we are able to assess the effects of the proposed Doha trade liberalizations on households both at the national and regional levels. According to the results of the model, the impacts of a Doha Round agreement on households differ significantly from those of China's WTO accession. China's economy would benefit from the trade liberalization associated with the Doha Round. The overall impacts, however, are relatively minor. Although farmers will benefit at the national level, the gains among farmers vary largely by income group and province. Also, the impacts on households that produce different types of crops differ.

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Keywords: Doha trade liberalization; Poverty alleviation; General equilibrium model; Regional impacts

JEL classification: F13; C68; I32; R12

1. Introduction

It is well known that over the past several decades that China has experienced remarkable economic growth and impressive poverty reduction. The annual growth rate of gross domestic product

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(GDP) reached 9.8% between 1979 and 2006 (NBSC, 2007a,b). The incidence of rural poverty (based on China's official poverty line) fell from 31% in 1978 to 2.3% in 2006 (NBSC, 2007). Despite this remarkable record, China continues to confront great challenges in its development, including addressing concerns about those that remain in poverty.

While there are a number of potential drivers of these adverse economic trends, many have pointed to trade liberalization as one of the main reasons (Huang, Xu, Li, & Rozelle, 2005; Huang, Zhang, & Rozelle, 2007; Mao & Liu, 2005; Wang, 2002). Agriculture was at the center of debate over China's entry into the WTO. There was great concern inside China that its rural economy was highly vulnerable to trade reforms. Despite the sensitivities inside China, because of the importance of agriculture in the political economies of a number of the developed nations with whom China negotiated its accession to the WTO, there were high demands made of China's trade policy makers. Even now nine years after China's accession to the WTO, despite the conclusions of several studies that have shown that the effect of WTO accessions on China's agriculture (in general) has been modest (Anderson, Huang, & Ianchovichina, 2004; Huang, Li, & Rozelle, 2003; Huang, Rozelle, & Chang, 2004), there is still concern about the impacts that additional trade liberalization—such as, the new round of the Doha negotiations—might have on China's agricultural production and rural poverty.

A careful analysis of the trade impacts on poverty is particularly needed in the light of the ongoing Doha negotiations. Based on our knowledge, there is no study in China that analyzes the impacts of the recent proposals by the USA, the EU and the G20 on China's agriculture and rural poverty. More generally, there is also little if any work that has attempted to assess the effect of trade policy changes on specific agricultural commodities on a disaggregated regional level (i.e., the province level). Without this type of analysis, it is difficult to generate convincing results that can be used to measure the effect of proposed trade liberalization moves on households and to develop policies to try to offset the adverse effects.

The overall goal of this paper is to improve our understanding of how further trade liberalization will affect China's agricultural development. More specifically, in this paper we seek to examine the impacts of Doha Round negotiations on the production, prices and incomes of farmers, and particularly the income of the poor, in different regions of China. These results can then be used as a basis for designing policies to help offset the negative effects—especially those on the poor.

2. China's agricultural trade and Doha round negotiations

The structure of China's trade, in general, and agricultural trade, in particular, has changed dramatically over the past two decades. While the seven-fold increase in exports of food products during the period would be regarded as extraordinary in almost any other economy, it pales into insignificance relative to the 34-fold increase in non-agricultural exports. During this same time period, agricultural imports grew by a factor of 11—although the rate of rise varied among commodities. Imports of oilseeds grew by a factor of 96; fruits and vegetables by a factor of 84; and fish by a factor of 70, all from low initial levels. By contrast, imports of grains grew by a factor of two, far below the growth rate of exports. Imports of agricultural fibers, mainly cotton, grew by a factor of 6, also below the growth rate of overall agricultural exports, although these imports grew substantially after China's WTO accession. Interestingly, despite the relatively higher in total exports compared to total imports during the past 30 years, net agricultural trade has gradually changed from surplus to deficit over the past decade. However, the trade deficit in agriculture is still small: by 2005 the volume of agricultural net trade deficit was only 0.4% of China's total exports.

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