

Multi Fiber Agreement: Impact on China's Cotton and Agricultural Policies

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Presented at The End of the Multifiber Arrangement: Impact on Developed and developing Countries in Washington, DC, January 31, 2008. The views expressed herein are those of the author, which do not necessarily reflect official USDA policy.



Overview

- World's largest cotton producer and consumer
- China's cotton imports before the end of MFA
- Textile product exports and cotton imports before and after MFA expiration
- China's WTO cotton import quotas
- Cotton and agricultural policies after MFA expiration
- Conclusions and implications



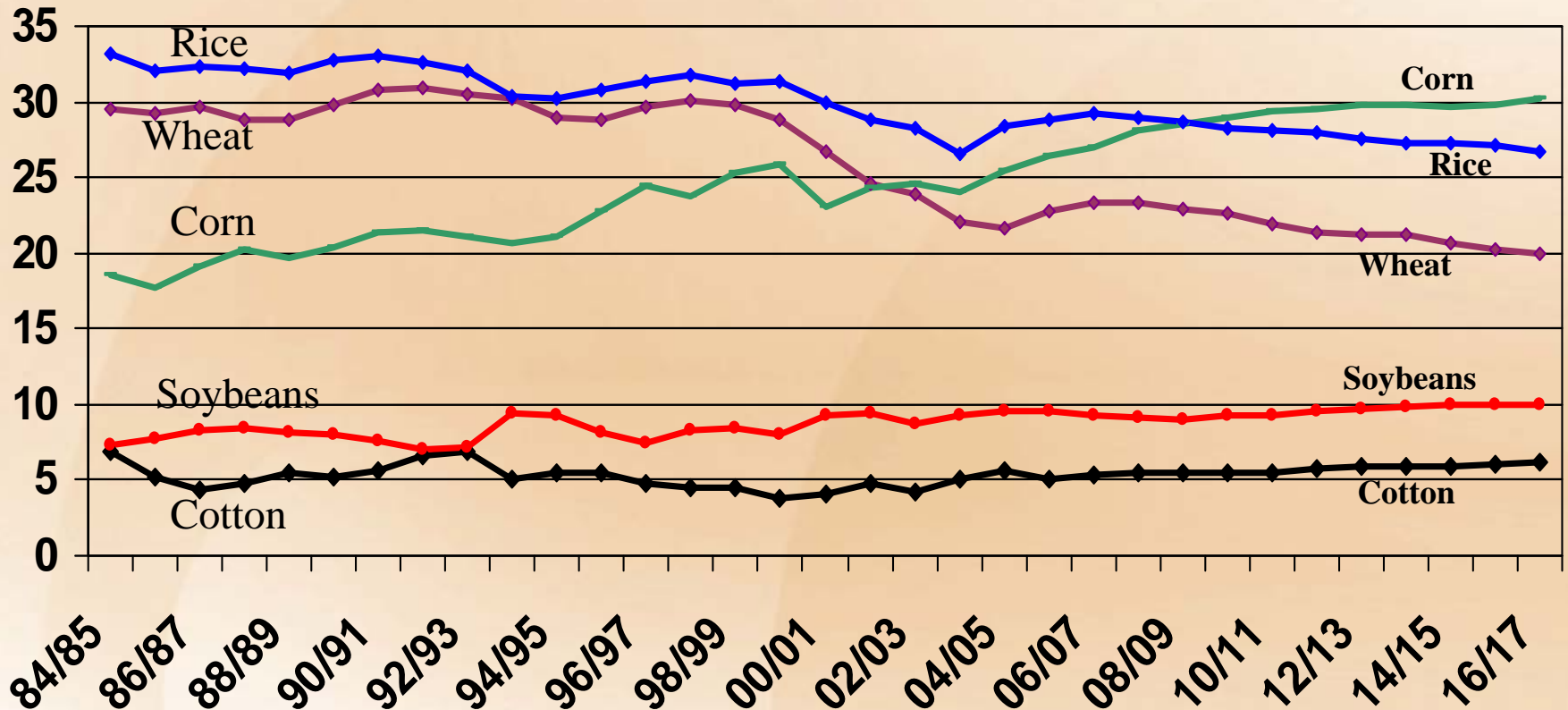
World's largest cotton producer and consumer

- Largest population—20 % of the world total
- Long-term national food security policy
- Net importer of wheat and corn in the 1990's
- A net exporter of corn and rice in recent years
- World's largest importer of soybeans
- World's largest cotton producer and importer
- Limited arable land—10 % of the world total



China's crop areas (million ha)

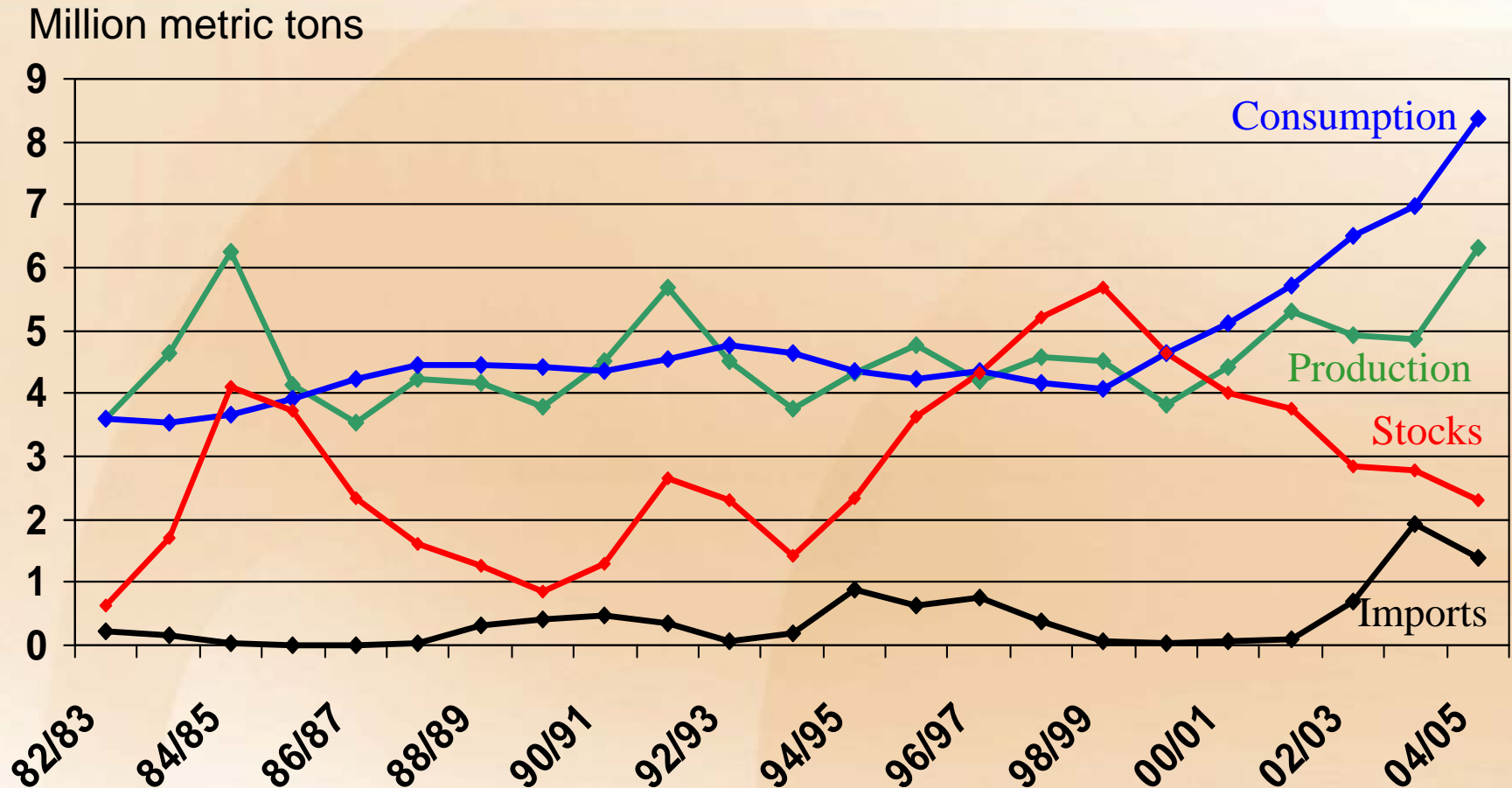
Million hectares



Data: USDA, PS&D, and 2007
Baseline Projections



Cotton S & D before MFA expiration



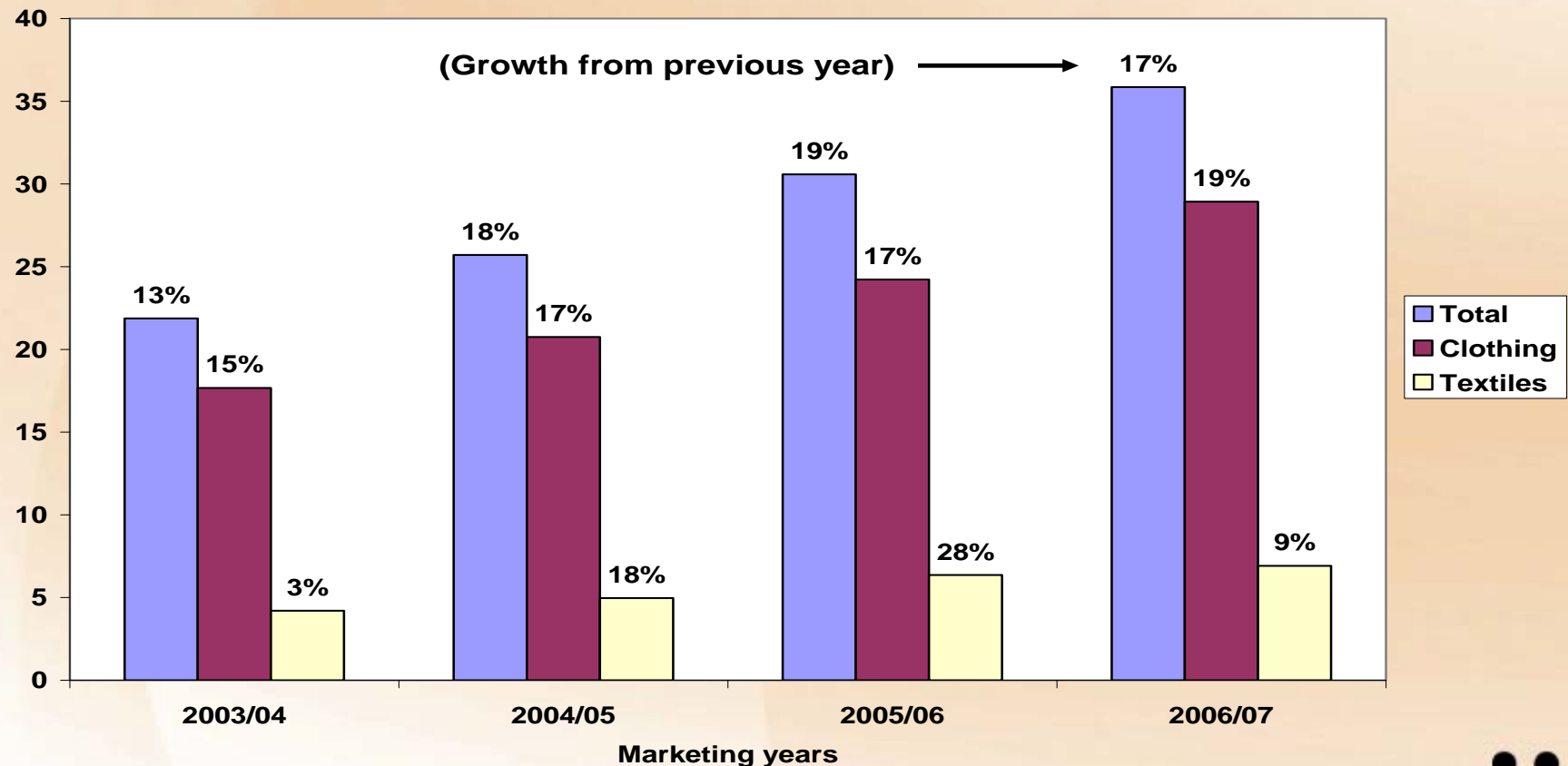
*Data: USDA, PS&D, and 2006
Baseline Projections*



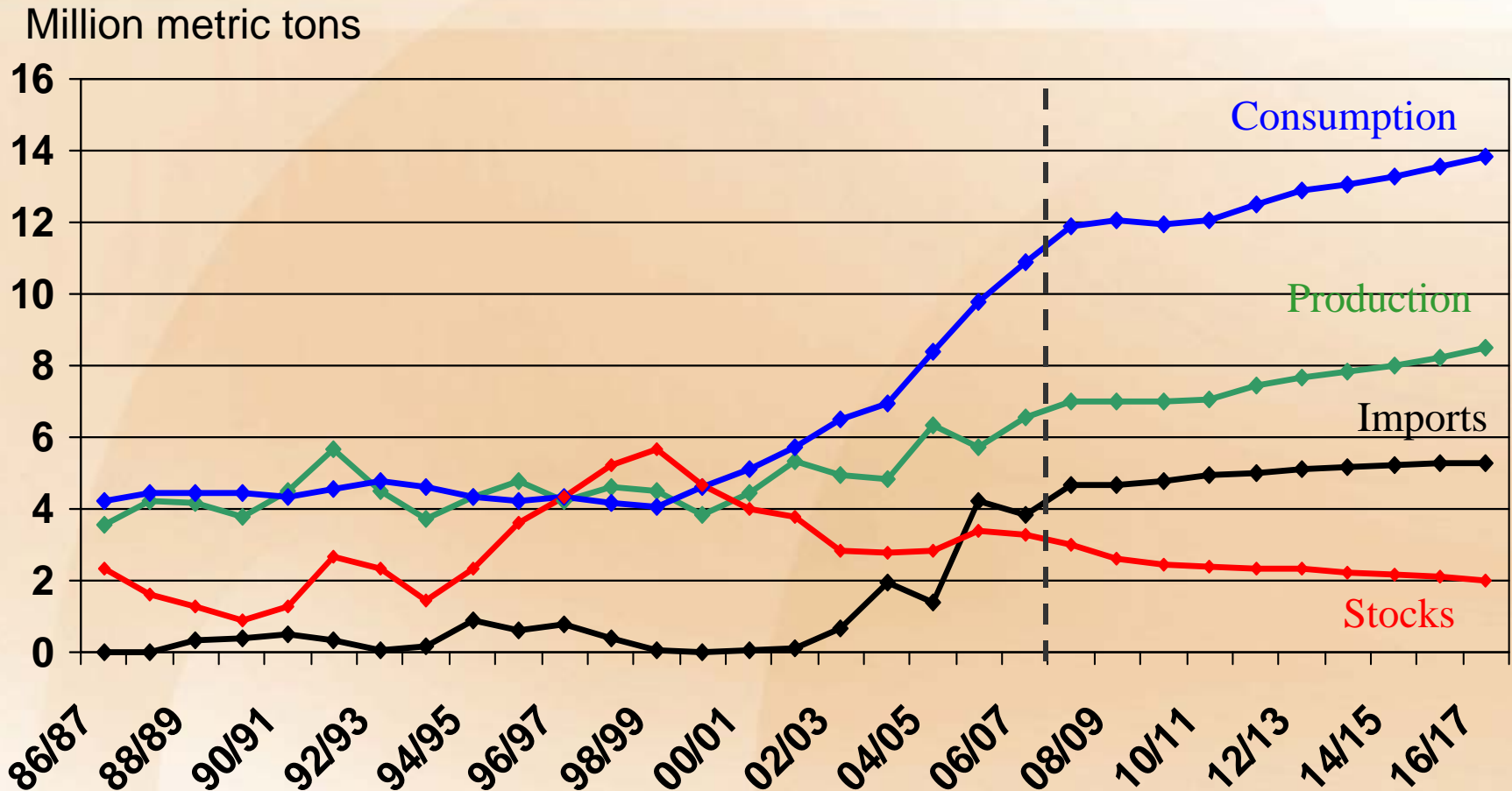
China's textile product net exports before and after MFA expiration

China's annual cotton textile net exports: 2003-2006

Million bales



Cotton S & D after MFA expiration



*Data: USDA, PS&D, and 2007
Baseline Projections*



China's cotton imports and import quotas

- WTO import quotas (2002-2004)
- Since the end of MFA, quantities of imported cotton much higher than the WTO import quota (890,000 tons/yr)
- Have there been concerns or issues associated with the excess import demand?



Issues related to China's excess cotton demand

- Difficulties in balancing USDA's China cotton supply and demand
- China's cotton stock data, particularly the share of strategic stocks, is unknown
- Cotton production statistics published by NBS are improving but accuracy is still suspect
- The estimation process for China's annual cotton consumption is highly complicated
- Imports of foreign cotton sharply increased but not as large as estimated supply gap



Issues related to China's excess cotton demand-continued

- China's government annually announces quantity for over-quota imports (import license) to oversee total amount of cotton imported
- Prices of imported cotton frequently lower
- Consequently, in 2005, China's government imposed "sliding tax" policy to guarantee domestic cotton to be equally competitive in domestic markets



Sliding tax policy on over-quota imported cotton

- Sliding taxes levied on over-quota imported cotton appears working as a variable levy
- Sliding tax policy was imposed in May 2005
- In 2005 and 2006, a tax ranging from 5 to 40 % levied on imported cotton if converted prices lower than RMB 10,029 Yuan
- In 2007, the range of sliding tax was 6 to 40 %
- In 2008, the base price is up at RMB 11,029 Yuan (?)



Major agricultural policies and recent changes

- Maintains large stocks of major food grains, except soybeans because of strict food security policy
- Domestic retail prices of major food grains lower than world prices
- China's government began direct payment programs to subsidize grain producers, seeds (including soybeans), and machinery to assure more grain production
- Eliminated agricultural tax in 2006
- In December 2007, the government also eliminated VAT refund and imposed an export tax for exported grains and grain products



Conclusions and implications

- Maintain strict food security policy, implying domestic cotton output will not drastically increase
- Excess imported demand for cotton will be closely monitored and controlled
- A need to pay attention to changes in patterns of China's cotton consumption and their relation with the imported cotton
- To improve China's cotton balance sheet for better understanding of China's future imports of cotton



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The screenshot shows a Microsoft Internet Explorer browser window displaying the ERS China briefing room page. The browser's address bar shows the URL <http://www.ers.usda.gov/briefing/china/>. The page header includes the ERS logo and the text "ECONOMIC RESEARCH SERVICE United States Department of Agriculture The Economics of Food, Farming, Natural Resources, and Rural America". A navigation menu is visible with options like "home", "research emphases", "key topics", "briefing rooms", "publications", "data", "newsroom", and "about ERS". The "briefing rooms" menu item is highlighted, and a sub-menu shows "china" selected. The main content area features a "briefing room china" heading with a small image of a hand holding a pen. Below this is a row of five small images depicting agricultural scenes. The "overview" section discusses China's agricultural policies and market forces. The "contents" section lists links for "Basic information", "Trade", "Policy", and "WTO accession". The "features" section highlights "New Directions in China's Agricultural Lending" and "Commercialization of Food Consumption in Rural China". On the right side, a "Also at ERS..." sidebar lists "latest publications", "latest data products", "research emphases", "related topics", and "resources". The browser's taskbar at the bottom shows several open applications, including Microsoft Office and Internet Explorer, with the system clock displaying 2:59 PM.

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briefing room
china

overview
China's policies on agriculture and agricultural trade have changed dramatically over the last 20 years, reducing the role of government intervention and centralized planning and simultaneously increasing the role of market forces. China's membership in the World Trade Organization (WTO) will further increase reliance on market forces, and will enhance opportunities for U.S. agricultural exports. As the incomes of China's 1.3 billion people continue to rise, demand for more and higher quality food products will grow. Domestic production will be unable to meet all of this demand, and in the future China will be a key market for agricultural exports.

contents

- [Basic information](#)
- [Trade](#)
- [Policy](#)
- [WTO accession](#)

features
[New Directions in China's Agricultural Lending](#). China doubled the balance of loans to farmers between 2001 and 2005. Rural credit cooperatives and banks are being commercialized, but rural lending is still influenced by policy.
[Commercialization of Food Consumption in Rural China](#). The large rural population in China has traditionally consumed large amounts of self-produced grains and vegetables. As incomes rise and markets develop, rural households are purchasing more of their food from markets.

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- [The World Bids Farewell to the Multifiber Arrangement](#)
- [New Directions in China's Agricultural Lending](#)

latest data products

- [China Agricultural and Economic Data](#)
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