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## Introduction

To many, China's agricultural sector is a 19th century relic that remains averse to liberalizing trade where the manufacturing sector storms ahead. Some see China's rural economy as a time bomb of discontent ready to explode; others think feeding China is still the most pressing concern. What these observers miss is the newfound strength of China's agricultural sector, complementing its known achievements in manufacturing. The direction of change in Chinese agriculture is manifestly toward reform, structural adjustment, and economic rationalization. In fact, China is further along toward the end point of these processes than is generally recognized and is deeply and probably irreversibly committed to them.

China's agricultural sector does face daunting challenges that range from inefficient and vested state entities, to primitive public and private financial infrastructure, to pockets of extreme rural poverty and environmental degradation. Domestic adjustments and the entry of foreign products into local markets have dislocated many producers.

Despite these challenges, China is reforming its agricultural economy, thus laying the foundations for much greater competitiveness internationally. Demonstrated successes in raising incomes, overall welfare, and productivity are more than sufficient for China to consider it worthwhile to endure the pain of further adjustment.<sup>1</sup> In addition, the country increasingly has the policy skills to at least manage, if not minimize, the adjustment costs that come with progress.

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1. According to the National Bureau of Statistics (NBS) of China, overall welfare has improved in all income deciles. See *Rural Household Income and Expenditure Survey*, various issues, 1980–2002.

How the complex elements that make up China's agricultural sector play out on the world stage—particularly in terms of international trade negotiations—is the logical starting point for a policy analysis of China's evolving interests in the liberalization of global agricultural trade and is of great importance to policymakers and trade negotiators in developed and developing countries alike. Therefore this volume begins with an overview of China's policy behavior in recent World Trade Organization (WTO) negotiations. The chapter that follows compares China's interests and negotiating positions during recent WTO agriculture talks (part of the Doha Round of negotiations) with the overall direction that those talks have taken as well as with efforts made at that forum to broker compromises.

Is China's recent penchant for proliberalization talk on agriculture going to last? To answer this question, we must look back at the reforms that got China to this point, including their effect on overall public welfare and the country's comparative advantage in agriculture. After providing such a review, this study turns to look at the likely future impact of China's structural adjustments in agriculture.

A more detailed examination follows of China's WTO commitments, the status of their implementation, and their possible effects on the nation and the world. Where will China's interests ultimately take it? Is its forward-looking agenda compatible with a workable global agenda for agricultural trade liberalization? The aim in examining these issues is to shed some light on the uncertainty that often surrounds interpretations of China's underlying interests in agricultural trade liberalization and suggest whether it will stay the current course, go faster, slower, or even backward. A number of points made in the course of this analysis are surprising—even to China specialists not focused on agriculture—and warrant the readers' attention at the outset:

- China's interests lie in robust liberalization of the three "pillars" of WTO agricultural negotiations: market access, reduced export subsidies, and lower domestic supports.
- China is already bound by WTO commitments that put it ahead of the pack in terms of openness. Neither a collapse of talks nor a modest outcome will put China on a more even footing—only an ambitious reform outcome will accomplish that.
- China's analytical skills in agricultural policymaking have improved significantly in recent years. Although still far behind many nations, including some developing ones, China for the first time has the indigenous expertise to make quantitatively derived choices about the best directions for its welfare. With this foundation of support, Chinese leaders are in a better position than ever before to pursue the nation's agricultural interests with new confidence.

- Chinese agriculture is rapidly evolving in the direction of national comparative advantage in terms of sown area, investment in research and development, and exports. China is shifting toward labor-intensive and high value-added production, instead of the land-intensive crops previously emphasized despite a lack of comparative Chinese advantage in growing them.
- The negative impact on Chinese agriculture expected by some after China joined the WTO in 2001 has not occurred; in fact, the nation's agricultural sector is actually doing well post-WTO.
- As its competitive exporters face more tariff and nontariff barriers in the region and worldwide, China is increasingly concerned about market access problems abroad.
- In its regional free trade agreements, China is showing more readiness for early and aggressive agricultural trade liberalization than almost all other developing countries, especially in the Asia-Pacific region.
- Like all economies, China must address the acute economic pain from structural adjustment at home if it is to push further reform. However, China has sufficient WTO-consistent means to respond effectively to its national constituents while remaining a good actor internationally.
- Food security, an overarching noneconomic concern that trumps rational arguments about agricultural reform in many countries, is less critical as long as China remains a net food exporter with high productivity growth.
- Rural development is benefiting from strong growth in the secondary (industrial) and tertiary (services) sectors, which will gradually reduce the need to sustain peasants through agricultural services.
- While a handful of practices not compliant with WTO obligations continue to fuel disputes with trading partners, the list of such problems is shrinking relative to the volume of agricultural trade that is trouble-free. It must also be kept in mind that such issues are more transparent and reported today than they used to be in China. Such disputes could well increase in number in the future, but they will be fewer relative to the overall volume and value of trade. China should be able to manage residual problems well enough to be a positive player in international reform efforts.

China's approach to exploiting its agricultural advantages is a departure from that which led to its successes in manufacturing. China did not need to "make rules" in the international system to enjoy its comparative

advantage as a factory to the world. Instead, it merely “took rules” and adapted its domestic economy in such a way to profit from the system for trade in goods that leading WTO members had crafted over half a century.

In agriculture, the situation is different. China’s commitments under its agreement to join the WTO are more far-reaching than those of other developing countries in terms of agricultural trade liberalization. As a result, China has taken a more liberal position than other—especially developing—countries on major agricultural policy issues. A collapse of WTO efforts to accelerate liberalization for developed and developing countries—that is, continuation of the status quo—would essentially leave China alone out front and fail to address its interests. A diluted WTO outcome with modest reductions in protection by developed economies (the biggest distorters) and with weak new commitments by developing countries would do little more for China than no agreement at all.

Only a robust agreement to liberalize agricultural trade would enable China to actualize its comparative advantage in agriculture in the same way that it has in manufacturing. Such an outcome, however, is not the default case for current WTO talks on agriculture. Privileges secured by developed economies and exceptions to WTO disciplines for many developing economies (exceptions that China has already largely forgone) are likely to be sustained.

To avoid the scenarios mentioned above, China must become actively involved in WTO talks, not as a passive follower of the rules but as a proponent of reform. While new to the WTO, China has the leverage to be proactive. China can concede still further liberalization, for example, by reducing subsidy ceilings or opening trade in commodities for which it has no advantage (e.g., sugar, dairy, or wool). It can further increase the size of its tariff rate quotas on some major commodities (e.g., maize, wheat, and rice). China also can remind WTO members eager to sell Airbuses, BMWs, GE power plants, and Toshiba laptop computers that it has a comparative advantage in higher value-added and labor-intensive agriculture that it must be allowed to benefit from in order to be a full participant in reciprocal world trade.

It remains to be seen whether other WTO members will see the writing on the wall in terms of trade in agriculture, and try to respond to it while there is time to do so—or if they instead will wait until talk of agricultural trade wars becomes as common in Beijing as it is in Washington and Brussels. Regardless, China’s stance on international agricultural trade can be expected to be different in the future from what has been seen in the past. This volume aims to help policymakers appreciate the context of this evolution of China’s interests.