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China and the WTO Agriculture Agenda

China's decision makers increasingly act based on careful analysis as opposed to "crossing the river by feeling the stones," the Chinese metaphor for the intuitive, step-by-step approach that characterized earlier reform efforts. Modern thinking about agricultural policy is on the rise, while the fixation of the past on food security has diminished and nationalistic restrictions on foreign investment in the seed and biotechnology sectors have been scaled back. While firms and other nations still object to a number of China's practices in the agricultural sector—including some that may not comply with its commitments to the World Trade Organization (WTO)—these problems are now the exception not the rule. The extent of such disputes and the residual distortions to trade are fairly small compared with the growing role of foreign trade and domestic marketization. Since China became a WTO member in 2001, the country appears to be in a position to achieve its agricultural policy aims while remaining a WTO member in good standing.

This chapter compares China's interests—based on its earlier policy reforms discussed in more detail in subsequent chapters—and its negotiating positions in WTO Agriculture Committee talks with the actual direction those talks are taking. The conclusion is not only that China is likely to be a force for agricultural trade liberalization in current Doha talks, but also that this position is more a continuation of the past than a departure from it. China has been perhaps the most ardent agricultural-sector reformer the world has seen in decades, albeit from a highly distorted starting point. Advocating a protrade Doha outcome on agriculture would be consistent with policies at home and would likely be well received internationally.

The present Doha agriculture talks are an extension of the Uruguay Round, which ended in 1994 with built-in instructions to hold further discussions on agriculture.[1] The WTO Doha ministerial in November 2001 provided a new mandate for negotiations, and that mandate then became the focus of efforts leading to the Cancún ministerial meeting in September 2003.[2] This meeting failed primarily because of disputes over agriculture, so it is the agriculture agenda that is key to restarting negotiations.[3]

The Doha mandate specifies market access, reduction of export subsidies, and reduction of domestic supports as the three principal goals of agriculture talks. The mandate takes into account special and differential treatment for developing members as integral to each of these pillars, as well as nontrade concerns such as food security and rural development. After all, the Doha mandate in more formal terms is the Doha Development Agenda, whose mission is to redress weaknesses in the trading system that undermine developmental benefits of trade to poorer members. Other WTO bodies besides the Agriculture Committee will address sanitary and phytosanitary rules and technical barriers whose misuse can distort agricultural trade.

The devil is in the details, however, and there are devilishly detailed agendas surrounding each of these pillars in WTO agriculture talks. The first step is simply to agree to the formula, or modalities, for negotiating reductions in trade distortion and what targets to shoot for. At Doha, ministers instructed that modalities be determined by March 31, 2003, so that comprehensive draft commitments could be completed for the Cancún ministerial. The aim was to conclude agriculture talks by January 1, 2005 as part of a single undertaking. However, members failed to agree on modalities for agriculture talks in time, and as a result draft commitments were not forthcoming in Cancún. Fearing that formulas for negotiation would influence the balance of concessions, major players could not reach consensus.

Agriculture Committee Chair Stuart Harbinson produced an effort at compromise in the "revised first draft of modalities" released in March 2003,[4] and Cancún Ministerial Chairman Ernesto Derbez then took a turn at consensus building in the form of Annex A to his draft ministerial text entitled a "Framework for Establishing Modalities in Agriculture."[5]

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1. For a more complete and updated analysis of WTO Doha Round agriculture talks, see "Agriculture negotiations backgrounder: The issues, and where we are now"; www.wto.org/english/tratop_e/agric_e/negoti_e.htm.

2. Irrespective of Doha, Article 20 of the Uruguay Round agreement mandated the restart of agriculture talks in 2000 as part of the "built-in agenda."

3. See Josling and Hathaway (2004) for a policy analysis of the various positions and texts on agriculture talks that came out of Cancún.

4. The draft is available at www.wto.org/english/tratop_e/agric_e/negoti_mod2stdraft_e.htm.

5. The revised "Derbez text" of September 13, 2003, is available at www.wto.org/english/thewto_e/minist_e/min03_e/draft_decl_rev2_e.htm.

While neither of these efforts forged a consensus on modalities, together they do provide a baseline against which to gauge whether China's interests incline toward a liberal or less liberal posture in the talks. The analysis that follows uses the Group of 22 (G-22) "markup" of Annex A, to which China agreed, to further examine China's position.

Pillars of the Doha Agriculture Talks

Market Access

Part of the Uruguay Round agreement creating the WTO called for increasing agricultural market access by significantly cutting tariffs, converting nontariff barriers to tariffs (known as "tariffication"), and binding maximum tariffs on almost all agricultural products. Developed countries agreed to a 36 percent average tariff reduction for all products over 1995 to 2000, with a minimum reduction of 15 percent per product. For developing countries, the average reduction was 24 percent, phased in through 2004, with a minimum reduction of 10 percent per product.

The agreement also included an agenda to continue negotiations, laying the groundwork for further talks under way as part of the Doha talks. The formula of "average cuts" used in the Uruguay Round, however, resulted in low tariffs being reduced more than high ones, disappointingly small reductions in overall average tariffs, and worsening tariff escalation (relatively higher tariffs on processed versus unprocessed goods).

Central market access issues in Doha talks are the formula for negotiating further reductions in tariffs and in the system of tariff rate quotas (TRQs) that were used in the past to help convert high nontariff barriers to tariffs (especially high out-of-quota tariff rates and TRQ administration). TRQs are minimum market opportunities for foreign exporters. As in other pillar areas, special treatment for developing countries and nontrade concerns are considered within each subarea. Members remain divided on many issues, not least the basic modalities for negotiation. Harbinson's draft compromise was a hybrid of approaches, with cuts of between 40 and 60 percent over five years for developed countries and between 10 and 40 percent over 10 years for developing countries. There were minimum cuts as well for all products, but they were not much lower than the average reductions. Regarding TRQs, the draft proposed small reductions for in-quota duties, expanded TRQ volume of at least 10 percent of domestic consumption value phased in over five years (6.6 percent over 10 years for developing countries), some flexibility in reaching these goals, and some special and differential treatment. These modalities, it was hoped, would result in more liberalization than did the average reduction approach from the Uruguay Round.

In several ways, the Derbez text was less liberalizing than the Harbinson draft in that it employed an "average tariff cut" approach to improving market access that would reduce the overall opening of developed-country markets by averaging in reductions of inordinately high tariffs and also zero tariff items across the entire spectrum of tariffs on agricultural goods (the Uruguay Round approach). It also introduced latitude for a limited number of products exempt from normal disciplines—a loophole that could have a major impact on the value of a deal.

China's Position

China has been making deep and unilateral reductions in its agricultural tariffs dating back to the start of its reform process in 1979. Prior to joining the WTO, China already had lowered average agricultural protection levels to below those of most developing countries and even below many industrial economies.[6] After WTO accession, China further cut its overall agricultural tariffs to a simple average statutory rate of 15.2 percent from a preaccession rate of 21 percent.[7] This marks a continuation of earlier trends: the simple average agricultural import tariff fell from 42.2 percent in 1992 to 23.6 percent in 1998. The real applied rates are much lower than the bound rates: 7.6 percent preaccession, headed toward 3.6 percent postaccession.[8] In joining the WTO, China also assumed state-of-the-art disciplines on its TRQ system, including detailed rules on administration—which the United States is now promoting for universal adoption in the Doha talks—as well as the allocation of a share of import quotas to private traders. (While an improvement to the traditional way TRQs have been managed, China's TRQs have not worked flawlessly yet, and some are complaining about failure to reallocate unfilled quota rights.)

The results of China's reforms include agricultural productivity growth that is faster than that of other developing countries. If Chinese policymakers believe in the virtues of unilateral liberalization and want to use the WTO to justify further internal reforms, their rationale for doing so can be whichever market access modalities end up being embraced at Doha. If Beijing takes a more mercantile view and seeks greater parity with other countries, then either formula is still superior to the status quo, in which China is ahead of the pack on market access. Other economies can challenge Chinese exports through procedural means such as the use of antidumping margin calculations for nonmarket economies.

6. Note that in the WTO, Hong Kong and Korea can claim to be "developing economies."

7. These figures may differ depending on how preaccession agricultural-sector tariffs are weighted. The Chinese Ministry of Agriculture provided the 15.2 percent figure in a communication with the authors dated August 29, 2003.

8. See Ianchovichina and Martin (forthcoming) for real applied rates.

China's positions during Doha agriculture market access discussions began with insistence that newly acceded members (i.e., China) be given credit for newly made concessions.[9] On the surface the request seems reasonable, although other developing countries have objected to it. China has since backed away from the request as a blanket proposition in nonagricultural areas, and will probably compromise in agriculture talks as well. The Harbinson draft proposed to assuage this feeling of entitlement with two extra phase-in years on commitments by the newly acceded nations (an offer specifically directed toward China).

Regarding the Harbinson draft, China supported the US position on negotiating modalities, i.e., the "Swiss Formula," which is better for lowering tariff peaks. China proposed that developing-country reductions be much smaller (they were not specific on rates) than those of developed countries, and with longer phase-in periods. China also proposed limited special product exemptions from the standard formula for developing countries, but suggested rules and disciplines to govern this. Such concern is rooted in food security for staple crops, although recently conservative food security proponents have been losing ground in China. China also suggested elimination of non–ad valorem tariffs (i.e., "specific" tariffs of an absolute value), so that they make up no more than 3 percent of all tariffs, again with some flexibility on this for developing economies.

On TRQs in the Harbinson draft, China proposed 5 percent market access (at least) for cereals and 8 to 10 percent for noncereals. Beneath these levels no market access expansion would be required for developing countries, especially those newly acceded to the WTO. China said these values should be based on the "commercialized consumption market," not the gross value of agricultural output (i.e., excluding production consumed by farmers themselves[10]). China may be willing to give up TRQ protection on a subset of commodities currently subject to TRQs, including rice (which will not likely be binding anyhow) and maize (which is a feed grain and, although politically sensitive, could represent a commodity regarding which China could make a major concession). On access levels, China was within compromise distance of the Harbinson draft proposal, and on administrative matters most deals would be more generous than China's existing commitments. For key crops, China is in the process of changing rules to permit foreign firms to invest more freely

9. Characterizations of China's positions on the Harbinson draft are based on an informal Chinese "nonpaper" circulated among agriculture committee members (in English). The contents of the paper were communicated to the authors by Chinese officials. A nonpaper is not a final or formal set of positions; it can be altered. In this case the positions are general and detailed offers are not made, as described herein. China's position on the Derbez text is taken from the G-22 "markup" of the text, to which the Chinese delegation ascribed and contributed.

10. This is important because in the case of Chinese grain, for example, as much as 70 to 80 percent of production is consumed locally and thus never enters the market.

in the seed sector and in staple agricultural technology. Over time, this should improve China's production and further reduce the impulse to limit market access through TRQs.

The issue of special agricultural safeguards is also treated under market access. China advocated not renewing the special agricultural safeguards currently in use, but rather creating a special mechanism for use by developing countries, the trigger for which would be more carefully defined. This was very close to the Harbinson attempt at consensus. China is seeing rising levels of nontariff obstruction to its agricultural exports and is vulnerable under the current system, which is less disciplined than regular WTO safeguards.

The G-22 markup of the Derbez text, which China endorsed, also signaled the country's willingness, along with other developing countries, to press forward on key agricultural trade issues. Though the G-22 was perceived as recalcitrant on some general Doha issues, the markup on agricultural trade in fact favored a more liberal approach than that promoted by the United States and the European Union. In particular, the markup endorsed a line-by-line reduction in tariff rates over the "overall average" cuts in the Derbez text. It struck out the notion that a very limited number of special products could be excluded from disciplines by developed economies for nontrade reasons. The G-22 position was not, however, pristine in its liberality. It retained average cuts for developing countries, which would preserve major barriers to Chinese exports in important markets such as Taiwan and Korea, and it stepped away from the Swiss Formula, which promoted further opening in trade. Nonetheless, the G-22 position signaled an awareness by these countries of where their economic interests lie in reform of the trade system for agriculture.

Export Subsidies

Under the Uruguay Round Agriculture Agreement, 25 WTO members, including major players such as the United States, the European Union, Australia, and Canada, retain the right to employ export subsidies. The EU spent almost $6 billion on such subsidies in 1998—the highest level in the world—and has almost all of the allowances for export subsidies. Developing countries are permitted to subsidize marketing, cost reductions, and transport for export. Member positions in Doha talks range from favoring elimination of these distortionary practices with large up-front cuts, to more modest reductions and new disciplines. Developing countries want to maintain their special dispensations while reducing the large export subsidy rights retained by the major developed economies.

The Harbinson draft proposed eliminating export subsidies on products of interest to developing countries, although the timing of their removal would be flexible. The Derbez text is for the most part in agreement, although it states that a date for eventual elimination of all subsidies can be "discussed."

China's Position

China wants rapid elimination of all export subsidies, since upon WTO accession it agreed to eliminate its own, without exceptions that might have enabled state trading entities to circumvent disciplines. By eliminating its export subsidies, China went beyond what other developing economies had done in the Uruguay Round, and beyond what could be expected from the Doha Round talks.

An examination of China's reform process shows that the phaseout of export subsidies in fact began long ago for purposes of domestic efficiency. While there is evidence today that China has continued to improperly subsidize some corn exports, the rate of subsidization has fallen, and most believe that the country is for the most part on track to eliminate export subsidies. In fact, in the first part of 2004, China announced a decision to cease all export subsidies, in compliance with its WTO commitments.

China's Doha position on agricultural export subsidies reflects its clear interests. In its Harbinson draft comments, China proposed a 50 percent quantitative reduction from the scheduled levels in the first year and each year until there is a complete phaseout in three years (six years for developing countries). China also proposed including the value of export credits in calculating the value of export subsidies. While elimination of these subsidies may be further than Doha will go, any reduction benefits China, and so China should be supportive of the most liberal deal possible. China is best served by less special treatment for developing countries on the export subsidy pillar, because it has already forgone recourse to such treatment. This separates China from developing-country alliances on this issue.

The main amendment of the G-22 to the Derbez text is a call for negotiation—not just discussion—of a firm phaseout deadline for all forms of export subsidies. This is squarely in line with China's interests, since it has committed to eliminating export subsidies altogether.

Domestic Supports

Domestic support is the most complicated area within the WTO agriculture agreement. The WTO created a system of "boxes" for subsidies: red, amber, and green for subsidies generally, and amber, blue, and green for agriculture, with what is called a special and differential (S&D) box for developing-country exemptions. There is thus no red box for agriculture. Amber-box supports exceeding committed reduction levels are prohibited. The controversial blue box is primarily used in various ways by wealthier European countries and Japan to distort production. Blue-box policy also pays farmers not to farm, and has no phaseout under the Uruguay Round agreement. A quantity known as the aggregate measure of support (AMS) is the sum of amber-box supports. Blue, green, and S&D box finance is excluded from this measure on the theory that it is minimally trade distorting or at least contributes to a less trade-distorting outcome. The AMS was reduced by 20 percent over 1995–2000 for developed countries and by 13 percent over 1995–2004 for developing countries.

The Doha mandate calls for "substantial reduction in trade-distorting domestic support." The negotiating issues thus include the categorization of subsidies (and hence calculation of the AMS), the amount and formula for reducing the AMS once it is calculated, and S&D treatment to be granted to developing countries. Needless to say, all of this makes for a rather sensitive topic, since the total amount of annual domestic agricultural support (trade distorting and otherwise) in key major economies is a gargantuan $330 billion worldwide—including more than $110 billion in the European Union, $95 billion in the United States, $64 billion in Japan, and $20 billion in Korea.[11] Rationalization would induce considerable structural adjustment, and hence global welfare, but also political tension during the transition. The income distribution effect of such adjustment is debatable, an uncertainty that makes achieving such a reform all the more difficult.

The Harbinson draft proposed significant reductions in overall domestic supports and the process by which they are measured. For example, the blue box would either be capped and then halved or else folded into the amber box and then subject to amber-box reductions. But agreement on this politically charged issue of trade-distorting finance is still far off, and was perhaps the main reason for failure to reach consensus at the Cancún ministerial.

Regarding the amber box, the Derbez text restored earlier discussion of a product-specific limit on AMS. On the blue-box subsidies, Derbez caught up with EU common agricultural policy (CAP) reforms from the summer of 2003 by endorsing a redefinition of the blue box in a (hopefully) more limited way, and capping such expenditures at 5 percent of agricultural GDP. As regards the green box, the Derbez text vaguely proposed tightening up the criteria to prevent trade-distorting activity.

China's Position

China does not have a well-developed, formal system of domestic agricultural subsidies, particularly in comparison with many other devel-

11. See the World Bank paper "The AMS and Domestic Support in the WTO Trade Negotiations on Agriculture." http://lnweb18.worldbank.org/ESSD/ardext.nsf/12ByDocName/AMSandDomesticSupportintheWTOTradeNegotiationsonAgricultureIssuesandSuggestionsforNewRulesThe/$FILE/AMSandDomesticSupportintheWTOTradeNegotiations.pdf .

oped and developing economies. Convincing the country not to develop such a system may be one of the most critical challenges in agricultural policy economics today. During China's reform period, the country moved away from government domination of financial flows in the agricultural sector and toward the rise of markets. In the run-up to WTO accession, it was difficult for China to even calculate the value of domestic agricultural supports; estimates ran from 2 percent to 3.5 percent of the gross value of agricultural output (GVAO), depending on the year. Some estimates were even lower. The terms of China's WTO accession limit domestic support to 8.5 percent of GVAO, whereas the Uruguay Round agreement permits developing members 10 percent (5 percent for developed countries). While China conceded a lower ceiling than other developing countries, it has more room to expand supports than it is even remotely likely to use.[12] For this reason, China's interest lies in greater discipline on domestic supports (especially in developed economies) that crowd out otherwise competitively priced Chinese products and distort world prices.

In responding to the Harbinson draft, Chinese negotiators suggested folding blue-box supports into the amber-box category, and subjecting the amber box to large reductions both product by product and overall. They proposed that developed countries make 50 percent amber-box reductions each year until there is total elimination in three years, while subjecting developing members to a reduction in total AMS. As noted above, since China has few blue- or amber-box investments, it has little to lose from being aggressive on this. China also sought stronger discipline, standards, and reductions for green-box subsidies, while noting that many are manipulated to keep them out of other categories. It also proposed capping the aggregate level of domestic supports of developed members of the WTO. In other words, China is a proponent of robust reform and reduction of domestic support. The country also suggested lowering the 5 percent de minimis level exemptions to the calculation of total subsidies permitted for developed members.

With China's participation, the G-22 critique of the Derbez text made modestly more liberalizing proposals. Where the Derbez text had lost the insistence on product-specific AMS reductions, the G-22 put this back in as a matter for negotiation, especially for products that make up

12. However, China is contemplating an increase in subsidies, or at least a shift in allocation from middleman grain boards to more direct farmer payments. For 2004, it appears that perhaps $1.2 billion of $8.5 billion in allocations to grain boards for purchases (hence indirect subsidies) will be shifted to direct payments to farmers. So while the level of fiscal outlays for this sector is not changing, the change from market supports to producer supports is significant. It also is more consistent with WTO practices (and countable against China's support limit of 8.5 percent of output) and more supportive of rural incomes (since, presumably, it reduces "administrative leakage").

a significant share of world exports. Regarding the blue box, Derbez does not propose a final phaseout, while the G-22 calls for a "view to its phasing out." The G-22 does not reject the US-EU redefinition of the blue box, but suggests that the cap on its use should be 2.5 percent of agricultural GDP instead of 5 percent. Regarding green-box supports, the G-22 called for not just review but strengthening of disciplines on use.

Other Agenda Items

Special and Differential Treatment

China is of many minds about special and differential treatment in international trade negotiations. On the one hand, its leaders have revealed themselves to be true believers in the domestic value of opening to international competition. They agreed to WTO accession terms on agriculture such as the elimination of export subsidies that, far from being special and differential, are more reformist than anyone else's terms. Leading Chinese trade negotiators have confided that the WTO played a *gaiatsu* (from the Japanese) role for them, which refers to using pressure from without to justify right-minded changes within. Hence, current leaders in China might not want to be "excused" from making further commitments.

On the other hand, China began its Doha participation by arguing that newly acceded members be given full credit for recent concessions and not be expected to make more of them. As with almost all members, China has different negotiators from different bureaucracies with different attitudes about the benefits of reform. China has since backed away from insisting on blanket special treatment as a new member. Still, it reasonably expects some credit for undertaking the most significant WTO accession commitments ever agreed to by a developing member. As a possible compromise, the revised Harbinson draft (paragraph 54) proposed an extra two years for phasing in new commitments for new members. The Derbez text also included such leeway, and the G-22 markup kept it despite the fact that some G-22 members are as anxious about China's economic heft as they are about that of nations from the Organization for Economic Cooperation and Development.

China's position is mixed on the general notion of S&D treatment for all developing members. Some of this treatment—such as further laxity on export subsidies—will not be available to China in any case. And many of the exceptions on disciplines for poorer countries could come back to bite China as its comparative advantage in higher value-added horticulture increases (especially in Asia).

In its reactions to Harbinson's draft, China generally paid at least lip service to developing-country demands for S&D treatment. But in the same breath, China stated the need for rules and disciplines on these practices. For instance, in proposing that existing special agricultural safeguards be replaced and available only for developing countries, China states that the new mechanism will not only provide developing country members with effective measures to address the negative impacts from drastic increases in imports, but also not undermine the development of normal trade, especially between developing members. So on the one hand China recommends creation of new special and differential opportunities for developing nations to support their agricultural sectors because they lack the financial wherewithal to use domestic supports defined as legal in the Uruguay Round results. On the other hand, China is not a comprehensive proponent of such measures.

This is all broadly consistent with the Harbinson draft and the Derbez text discussed at Cancún. The major G-22 amendment to the Derbez draft that China endorsed was the use of the average tariff cut methodology for developing countries, which the group had rejected for developed economies, and a proviso that the simple average tariff cuts required of developing countries not be greater than a certain percentage (to be determined) of the simple average for developed countries. China has, of course, unilaterally behaved in a manner that reflects awareness that deeper tariff cuts are progrowth, not antigrowth, when undertaken in tandem with other progrowth policies. So it is unlikely that China proposed to the G-22 inclusion of this last provision, though understandable that China would not oppose it. China can always either press ahead faster than commitments or exchange concessions in future trade talks.

Nontrade Concerns

China concurs that nontrade concerns should be taken into account in WTO agriculture talks, at least those pertaining to food security, rural development, and poverty alleviation in developing countries (these are referred to in the "nonpaper" described in footnote 9). But in the very same sentence that states its concurrence, China recommends guarding against nontrade concerns being used as a ruse for trade protection. China is not likely to be out of kilter with any reasonable Doha outcome that takes such issues into account within the context of each pillar goal. On the other hand, it is likely to stand against any effort to dilute the value of trade liberalization with undisciplined rules on nontrade concerns that do not protect against such abuse. The Harbinson draft did not address this issue separately, but rather as an aspect of each pillar. In their comments, China and the rest of the G-22 caucus struck from the Derbez text the insertion of a limited number of products to be exempted from tariff caps for nontrade reasons under the market access discussion.

Negotiations Outside the Agriculture Committee

Many in Beijing fear that the greatest obstacles to China's realizing gains in agricultural comparative advantage will come from practices not covered by the WTO Agriculture Committee—namely, sanitary and phytosanitary (SPS) rules and technical barriers to trade (TBTs). Overly easy-to-use rules of these sorts threaten markets with primitive quality control and processing more than they do markets with more advanced agriculture value chains (often meaning more capital expenditure power in the sector, which China does not have). China, then, has a lot to lose despite its increasing comparative advantage in many products, because its weak financial system and lower standard of living limit its ability to upgrade its products, making them frequently vulnerable to SPS and TBT challenges.

China's interest is in disciplines on the spurious use of these measures, just as it is interested in constraining trade protection in the guise of nontrade concerns. However, its position is not laid out alongside other agriculture positions because the WTO committee that deals with trade in goods handles these issues, rather than the Agriculture Committee. As a result, the Chinese officials responsible for these issues are based at the Ministry of Commerce (MOFCOM; the former Ministry of Foreign Trade and Economic Cooperation), not the Ministry of Agriculture, which is responsible for agriculture talks. Senior Chinese officials have admonished negotiators from the two ministries to coordinate their activities, since this has not always been done in the past.[13] The positions taken by Ministry of Commerce officials on SPS and TBT will subsequently have to be implemented at home by the Ministry of Agriculture. The Commerce Ministry is known to take more liberal stances on embracing international disciplines through WTO than does the Agriculture Ministry.

A final issue that falls to the TRIPs (Trade-Related Aspects of Intellectual Property Rights) Council and the TBT Subcommittee is geographical indicators. Members are negotiating over exclusive rights to indigenous place names with marketing value. China has barely considered the value of names such as Sichuan peppers, Beijing duck, or ketchup.[14] As with its underinvestment in quality control and processing, China lacks an appreciation for the intangible value of traditional names and brands. As Chinese firms mature and expand distribution and marketing abroad,

13. Du Ying, Director of the Department of Law at the Ministry of Agriculture, made reference to this problem in a presentation entitled "New Directions in Rural Policies" to the Task Force on Rural Policy in the 21st Century, which was part of the First China Council on International Cooperation on Environment and Development (CCICED) held in Beijing on March 18, 2004.

14. The name of the classic American sauce probably comes from Cantonese, transmitted through Malay.

however, it will certainly be in their interest to push their negotiators to the table to get better treatment of these intangibles.

China and the G-22 Caucus

China's positions placed it in the middle or leaning toward the liberal side of the compromise offered by the Agriculture Committee chair in his "revised first draft on modalities" paper. The G-22 critique of the Derbez text used at Cancún—with which China allied itself—was more oriented to welfare-enhancing reforms than to the position of the Quad countries. It is likely that China will continue to align itself with those on the liberalization side of the house, although with precisely which camp it is too soon to say. American, European, and Cairns Group officials are all courting China's support. In fact, China has no reason to favor exempting the "South" from concessions, as China would not enjoy many of those exemptions. Indeed, China's two decades of reform have provided the experience to say to other developing members that protection from market pressures will not serve their long-term interests.

China's alignment with the G-22 is not necessarily a long-term partnership, however. G-22 positions such as "average cuts" to tariffs for developing economies that work to keep imported agriculture out of Taiwan and Korea are clearly not in China's interest. In general, the Chinese delegation to Cancún was shocked by the rhetoric of G-22 partners on many nonagricultural issues. In the days after Cancún, the author of China's annual WTO compliance report strongly criticized the self-defeating behavior of other G-22 members during the talks. More recently, China has distanced itself further from the G-22. An editorial on March 25, 2004 in the official *China Daily* entitled "Agriculture Issues Back in WTO Spotlight" quoted agriculture officials as saying that China's position in talks is close to that of the Cairns Group, as opposed to the G-22, which China refers to now as the G-20—that is, the caucus number before China and others allied themselves with it.

Conclusions

After nearly 25 years of profound agricultural market reform, China's interests have evolved into those of an advocate of agricultural trade liberalization instead of protectionism. The status quo demands more openness from China than from comparable developing countries, so further liberalization will proportionally favor China. The nation's competitiveness in agricultural trade stands to improve faster than that of most other nations, considering China's extraordinary structural adjustment and its heavy investment in research and development. China will gain from this comparative advantage if the market foreclosure caused by domestic supports and trade protection is reduced. Although China has not yet fully implemented all of its WTO commitments—which makes it no different from many other nations—it has nonetheless made a solid start in implementing those extensive obligations and can credibly advocate liberalization by WTO members. In many instances, of course, China has the advantage of having already implemented the required reforms before it even joined the WTO.

The negotiating positions circulated by China prior to the Cancún ministerial were fairly general, although they do espouse specific tracks in many areas. China's agriculture officials admitted that their posture still lacks detail, and that they are waiting for more experienced WTO members with bigger concessions to set the pace before they decide on detailed offers. This, of course, is a position taken by most WTO members.

It is clear, however, that in the three pillar areas—market access, export subsidies, and domestic supports—China's interests lie in a liberal agreement coming out of the Doha talks. However, China's interests alone, even if they favor liberalization, will not sway negotiations. Leverage lies in the ability to concede matters valuable to others. With its foundation of improved agricultural performance, China is in a position to make noteworthy additional commitments if it gets enough in return. For example, with little advantage in sugar production and a domestic industry increasingly successful at producing higher-value goods with sugar as an input, China could create jobs and improve the welfare of its people by declaring an open market for this commodity. Also, Beijing could pledge to further reduce its AMS cap, as it is unlikely to get near it anyway. Other TRQs could be increased as well and in-quota tariffs eliminated, and the result would be more job creation in higher-value processing.

With farmgate costs per kilogram only one-tenth or one-quarter those of California for crops such as fresh tomatoes, peppers, and oranges, and with sown areas for such crops booming, China has set its sights on pushing for more open international trade in agriculture. In a recent free trade agreement with Thailand, China agreed first to free trade in fruits and vegetables—quite the shift from the conventional wisdom that Asian countries tend toward open trade that either excludes or backloads agriculture.[15] Chinese officials, newcomers to the WTO process, are likely to soon surprise other members with more of this hearty appetite for agricultural trade liberalization.

Rationally, it would seem that if rich countries wanted to realize their comparative advantages selling China Airbuses, Toshibas, and BMWs over the coming decade, then they would want to respect China's com-

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15. The *China Daily* reported the details of the agreement on August 12, 2003. www.chinadaily.com.cn/en/doc/2003-08/12/content_254076.htm.

parative advantage and interest in agricultural trade liberalization. But trade policy, like sausage, is not pleasant to see made and is a political as much as a rational interest matter. Still relatively new to the WTO, China is perhaps somewhat reticent about pushing its interests too ardently in trade negotiation rounds. In Cancún, China walked softly for a number of reasons, not the least of which being that the talks marked China's ministerial coming out party, and Chinese officials likely did not want to be too aggressive at a debut event. But assumptions that China needs to go slow on agriculture though it goes fast on manufacturing are mistaken. Political leadership, if not politics per se, lies in identifying long-term trends early on and accommodating policy and public consensus to respond while there is still time to prudently do so.