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Conclusions

Years of agricultural reforms in China, both before and since the country joined the World Trade Organization in 2001, have laid the policy foundation for today's agricultural sector. The overall economic "shock" to China's farmers from the reform process has been modest, and all indications are that ongoing reforms can be addressed within the legal framework of China's WTO commitments. As this study has shown, China could quite easily provide subsidies to offset the downside income effect—estimated to average about 50 yuan per farming household—from a more competitive agricultural sector. Such a subsidy would be comfortably within the domestic subsidy limit of 8.5 percent of output value, which is part of China's WTO obligation.

Meanwhile, China's ongoing structural adjustments have brought and could well continue to bring any number of other benefits, including new rural industrial jobs, urban employment for rural migrants, lower agricultural input costs, and cheaper food prices. In sum, the challenge of absorbing the costs of existing agricultural commitments and reforms in no way impedes China from pursuing further reform.

Like many nations, China has plenty of broad and narrow disputes to manage with its trading partners. Consider, however, that for years the United States had the largest number of trade disputes with Canada—a sign not of trouble but rather of the fact that the United States and Canada traded a lot. China has so many commitments to implement in the agricultural sector, and needs so much institution building in order to do so, that a tangle of disputes is to be expected in the years to come. However, early implementation has been handled fairly well. Imports have increased significantly in many commodity areas, and markets are evolving in such a way that competition is on the rise. China's interests in reducing foreign trade barriers as an exporter and in investing in research and development as a domestic producer are aligned with proliberalization foreign interests in such a way as to permit healthy management of disputes over time.

On the whole, China is taking a flexible posture in WTO trade talks, both in terms of what it says and does not say about reforms needed to make a good deal, and such issues as the exemption sought for newly acceded WTO members. Chinese agricultural officials frankly note they take a cautious and general position on many issues because China needs to learn more about the process of participating in WTO talks. They prefer that leading members such as the G-4 or Quad countries put more on the table before they set out detailed positions of their own.

Importantly, however, one need not assume that China lacks the ability to take far bolder positions based on a careful calculation of Chinese interests in this sector. In talks for a China-Thailand free trade agreement, for example, China bucked the Asian trend and first negotiated mutual agricultural trade liberalization prior to trade in industrial goods. This demonstrated penchant for early agricultural trade reform, which indicates that China could eventually be a WTO leader rather than follower, is being driven by the new economic modeling expertise increasingly available in Beijing, the trend toward direct input to high-level State Council officials (including the premier's office) from protrade agricultural policy think tanks, and an awareness among the leaders themselves of the benefits of domestic and international agricultural trade liberalization.

The most significant constraints to China exercising its comparative advantage in foreign trade lie in trade barriers that negotiators from China's Ministry of Commerce deal with at the WTO Trade Committee. These are outside the purview of the Ministry of Agriculture, which prepared the list of China's WTO agricultural positions summarized in this study. China alone cannot connect the dots between technical barriers to trade (TBT) and sanitary and phytosanitary (SPS) rules in the Trade Committee and market access for its promising horticultural and other higher value-added agricultural products. Such a connection will require China to contribute more intensely to a coalition-building process within the WTO. But few countries are in such a position as China is to add new weight to the effort. It is not surprising then that all WTO camps with an interest in agriculture are lobbying for Chinese sympathies.

Increasingly, China knows where its interests lie. The value of those interests is large and growing. In many aspects of agricultural trade liberalization, China has already moved proactively ahead of the pack, so it has less and less to lose by joining the partisan process of building protrade blocks. This is indicative of China's broader trend toward integrating more deeply into world trade policymaking. Historically reluctant to take such a leading role, China is being pulled more strongly in this direction as its domestic adjustments churn ahead. Increasingly, the question is not whether but when and with what nuances China will advocate more open world trade in agriculture.

Learning from Mistakes

Analysis of China's agricultural policy and interests suggests that the country has learned not only from its own mistakes in the sector but from the mistakes of others. Market-friendly policies have helped dramatically improve the productivity of Chinese agriculture.

To take a step back, it is worth emphasizing that initial attempts at industrialization in the economic transition of other developing countries have involved taxing the agricultural sector to stimulate the urban industrial economy with cheaper and more plentiful food and incentives to move off the farm. Farmers are less organized to respond, and analytical capacity is not in place to make this transfer transparent. As nations become wealthier, the need for rural stability and equity, along with a perhaps wistful sympathy for the agrarian sector, often lead to a shift toward agricultural subsidies. By this point, urbanites generally have far higher incomes thanks to modernization and can absorb the costs of such policies. At the global level, however, such distortions impose a heavy cost and are ultimately borne most heavily by the poor whom they are intended to help.

At a time when many developed nations are struggling—through the WTO and otherwise—to disassemble the patchwork system of special agricultural interest subsidies created over half a century, it is imperative that China not create a new, huge, and inefficiently vested interest of its own. Agricultural production or market supports are now understood to be more efficient and economically viable alternatives to subsidies. For example, investments in better water management, environmental preservation or reclamation, research and development, credit for rural entrepreneurship, education, and other tools make far more sense than replicating the direct payment programs with which many advanced nations have saddled themselves (and poor farmers elsewhere). Since China as of this writing was still experimenting with a small pilot program of supports, it ultimately will have an opportunity to break this "tax-to-subsidization" pattern instead of moving toward a large-scale regime of formalized direct payments.

China and the United States

China's integration into the world trading system poses both opportunities and risks for the United States. The case of soybeans over the past several years shows the impact that China can have on the US farm sector. Purchases of US soybeans by Chinese soybean oil producers have made that US crop relatively lucrative at a time when much of the US agricultural sector is mired in recession. US producers of almonds, high-quality meats, chicken part processors, and high-quality oranges, apples, and grapes have all steadily increased exports as trade restrictions between China and the United States have fallen. US corn and wheat exporters expect to someday ship large volumes of grains to China.

However, China's agricultural emergence also holds risks for some US producers. China produces all but a few of the many commodities that are specialty goods of California and other horticultural states. According to Chinese data on production costs, China's farmers can produce most labor-intensive crops at a fraction of the cost of California growers. For example, Chinese farmers can produce honey, apple juice, orange juice, garlic, peaches, table grapes, lower-quality apples, and many other fruits and vegetables at direct costs that are more than 50 percent less than the costs of California growers. Indeed, were it not for dumping protection—which may or may not be justified—many US producers of these and other goods would already be faced with an assault on their healthy profits. (US consumers, of course, would be saving money.)

With such a cost advantage, there are risks that Chinese products could become competitive in the United States and in other markets to which US growers ship, especially once the logistical end of marketing horticulture, livestock, and aquaculture products improves. Currently, China has a trading surplus in agricultural products with the United States, despite the surge in imports of soybeans in recent years. In addition, throughout the late 1990s, Chinese exports of horticulture and livestock products to Japan and Korea began to take away market share in countries that at one time were more or less exclusive customers of the United States. In short, one can expect to see increasing competition in the coming years, at first in third markets in Asia and ultimately in the United States itself.

Of course, as China's markets open there will be more opportunity for the United States to sell the goods it produces best to Chinese consumers. For example, although China is the country of origin of walnuts and its area of walnut orchards far surpasses that of the United States, California growers have been able to market their product in China by selling high-quality, pastry-type walnuts that are in increasing demand by the nation's emerging bakery industry. Most of China's walnuts are still low quality and many are used for cooking oil. China's industry is adapting and changing to meet this competition, but if California walnut growers continue to aggressively market their product, there is no reason why they cannot continue to maintain and expand their share of the high-end, premium market.

In sum, the US agricultural sector will face the same choices that US industry has faced. It must adjust to changing global competitiveness and continue evolving to find its niche. With a tremendous headstart in capital, technology, services know-how, economies of scope and scale, and experience in the global market, agricultural interests in the United States and other developed countries have an easier road before them than their impoverished Chinese counterparts starting from meager beginnings. The key is that these developed-country producers not defer adjustment behind an illusion that Chinese competition will not come to pass, or expend all their effort soliciting trade protection. China's economic modernization ought to be seen as a win-win situation for the United States in general terms, a validation of American market-oriented ideas, and the prelude to a deeper partnership on the world stage. On the whole, this should be true for US farmers as well. With their superior ability to adjust to opportunities, they should be among the biggest winners of all from China's rise.