In a companion paper I briefly examined the Chinese economic and political forces influencing China’s market opening as a member of the World Trade Organization (WTO). While many who are involved in trade with China are somewhat cynical about China’s commitment to market opening, this assumption tends to be made without an understanding of the diverse and often conflicting currents that are actually at work in the PRC. In my other paper I tried to make sense of at least some of those forces, demonstrating that China’s membership in the WTO involves not just obvious potential benefits for the PRC, but very high political and social risks for Chinese leaders at all levels. These risks made the decision to pursue WTO status highly politicized and controversial, pitting region against region, Beijing against some local governments, and one economic sector against another. They currently continue to have an important influence on China’s adherence to WTO-mandate market opening.

Having laid out the basic parameters of the forces that will affect market opening, I want to turn my focus in this paper to agriculture, one of the acknowledged “losers” in the internal struggle over China’s decision to join the WTO. Specifically, I will show how China’s rural areas are being affected by the competing interests held by Beijing and many localities, and then hazard a guess as to the short- and medium-term impact on U.S. agribusiness exports to the PRC.

The Ideal: Open Markets for U.S. Firms. On the face of it, the 1999 U.S.-China Agricultural Cooperation Agreement (ACA) that helped pave the way for China’s entry into the WTO offered broad new opportunities for American agribusiness firms. By the terms of the treaty, as at least some readers are well aware, China pledged not only to cut tariffs on virtually all agricultural products from the United States by more than half in the first three years of implementation (from an average of 31% to 14%) but promised to end a number of non-tariff practices – including import bans, illegitimate licensing demands, and the manipulation of phyto-sanitary standards-- that have for decades effectively sealed off Chinese agriculture from foreign competition. The agreement also include a PRC pledge to eliminate export subsidies for Chinese agricultural products and a provision granting US producers the right, for the first time, to export and directly distribute their products within China, rather than working through Chinese state-owned trading enterprises that often had little incentive to maximize business for American firms.

If enforced, these changes could obviously provide very significant opportunities for U.S. agribusiness firms. According to USDA estimates made in the halcyon days following the signing of the ACA agreement, U.S. soybean exports to China were expected to
double as a result of the new market access we gained through China’s ascension to WTO, and U.S. grain exports to increase by about 25% by the time the agreement is fully implemented in 2005. In the best of all worlds, similar gains could come across a broad product lines -- and all at little cost to the U.S.

In the ensuring years, of course, we have faced a more complex reality. Problems began almost immediately when China’s use of vague new requirements for imports of transgenic products virtually halted all exports of U.S. soybeans. Although China ultimately granted an interim certification that has subsequently been renewed, indications that the PRC wants to conduct additional field trials still cloud the issue.

As many can attest, China’s implementation of WTO requirements in other areas affecting American agriculture has also been spotty at best. The USTR’s National Trade Estimate Reports on Foreign Trade Barriers for the last three years have in fact singled out China’s poor enforcement of WTO rules in agriculture. The just-released 2004 report, for example, singled out agriculture as one of three areas (with IPR and services being the others) where there were “significant problems” and said of the three, the issues in agriculture had proved to be “especially contentious.” It then went on to detail problems of non-compliance in a wide range of areas, charging, for example, that China continues to manipulate tariff classifications on U.S. processed food exports to China; has failed to offer fair tariff-rate quotas (TRQs) affecting a range of U.S. agricultural products1; and continues to use sanitary and phytosanitary (PSP) measures to bar whole categories of U.S. agricultural imports. While noting some progress in compliance overall, the USTR earlier reported that there was still very little knowledge of WTO provisions outside of Beijing and Shanghai and, more ominously, that “provincial and local governments have strongly resisted reforms that would eliminate protection of local enterprises or reduce government receipts.”

In the face of these problems, the sense of possibility that marked the campaign to pass Permanent Normal Trade Status (PNTR) for China has given way to a more sober assessment of China’s commitment to market opening. Only time will tell if we will approach the goals envisioned when we first granted China PNTR, the de facto U.S. vote sanctioning China’s membership to the WTO. But those trying to assess the prospects in agriculture may be helped by an explanation of the often complex political and economic forces that initially made WTO controversial in China and now continue to influence market opening decisions on the Chinese side. After briefly reviewing some vital “big picture” forces, I will turn my attention more specifically to agriculture.

**Negotiating WTO: The Politics of Exclusion.** As noted in my companion paper, China’s top leaders ultimately moved aggressively to join the WTO became they became convinced that the boost membership would provide China’s more competitive market sectors would outweigh the terrible burdens it caused others. But the leadership was also keenly aware that the powerful vested interests threatened by Chinese membership had

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1 TRQ’s are quotas that are allowed a low tariff rate. The U.S. has charged that China has not made these quotas public and moreover kept them illegally low, then charging very high tariffs for all above-quota imports in key categories.
the potential to disrupt or stonewall entry into the organization. In response, Beijing consciously excluded representatives from the economic sectors that stood to be harmed by market opening both from key discussions on membership and the subsequent domestic discussions on the terms of entry.

Once the decision had been made to cast China’s fate with WTO, Beijing thus gave the task of drafting a package of concessions to those favoring entry, namely the trade experts in the Ministry of Foreign Trade and Economic Cooperation (MOFTEC) with input from the Ministry of Foreign Affairs, while sharply limiting input from sectors threatened by WTO membership. These included the Ministry of Agriculture, a host of other ‘old line’ ministries, public security organs, and the central bank (the People’s Bank of China). Large enterprises in sectors like auto manufacturing and telecommunications, for which WTO meant a rude introduction to competition, were also left on the sideline. From all evidence, even high-ranking leaders in threatened sectors were unaware of the terms then-Premier Zhu Rongji ultimately brought to the U.S. in 1999.ii Despite the far-reaching impact anticipated from WTO membership, the Chinese public, of course, was also kept in the dark.

Ironically, China’s entry into the WTO finally emerged as a topic of public controversy in the PRC when the terms of the U.S.-China bilateral accord were leaked by the U.S. Trade Representatives office. The embarrassing revelation surfaced as a result of political disagreements within the U.S. Problems arose when President Clinton, who was apparently prepared to embrace the Chinese package of concessions during Zhu Rongji’s visit, was blindsided by unanticipated opposition among Democrats. Then-Senate Majority Leader Trent Lott first muddied the waters when he flatly declared his opposition to China’s admission to WTO just prior to Zhu’s arrival in Washington. Clinton’s problems escalated when members of his own administration (e.g., Secretary of the Treasury Robert Rubin and Chief of Staff John Podesta) subsequently broke ranks to voice their own concerns.

In the face of this resistance, President Clinton reversed course. No sooner had the White House rejected the Chinese proposal, however, than it realized it had passed up a major opportunity. Again reversing direction, President Clinton reportedly called Zhu in New York and made a commitment to conclude a deal for China’s accession to the WTO by the end of the year. The USTR, apparently hoping to whip up support in the business community, then unwittingly posted the list of previously secret Chinese concessions on its web site.iii

*Bad idea.* With the USTR’s unilateral posting of the agreement, Chinese ministers who had been cut out of the domestic negotiations on WTO suddenly became painfully aware of the details, and they subsequently joined in criticism with a host of different industries who likewise determined they were to be sacrificed for the greater good. Still other criticism came from Chinese who, against the backdrop of U.S. military action in Kosovo, perceived the agreement as capitulating to America demands. Ultimately, the broader Chinese public, who were now also given access to previously secret terms on the internet, began to weigh in. Their response was likewise largely negative, with a
majority voicing outrage on various Chinese websites at what they, too, perceived as excessive concessions to the U.S. Under this kind of pressure, Zhu Rongji and his team began to backpedal. For example, MOFTEC Minister Shi Guangsheng declared that the concessions USTR had listed were "inaccurate" and consisted of items that were merely "under discussion."

If Zhu’s position was already difficult when he returned to Beijing from the U.S., it became totally untenable only two weeks later, when U.S. fighters bombed the Chinese embassy in Kosovo. The Chinese public generally reacted to the bombing with outrage, in part because, in the face of very selective Chinese media reports on the war in Kosovo, most still clung to the image, created during the Gulf war, of U.S. missiles that operated with unerring accuracy. While Americans heard nearly daily reports of human and technical errors in the U.S. bombing campaign, the Chinese did not, and could not believe that the bombing of their embassy could be accidental. Conversely, the bombing was widely seen as a deliberate and provocative signal to China not to try to fulfill its destiny of becoming a regional economic and political power. This perception was reinforced by the U.S. handling of the apology for the incident, which was delayed, vague, and reflected little sympathy for the Chinese killed in the attack. Even Chinese friends who were usually cynical about their own government’s reports voiced their anger. The U.S. had spent months dissecting every moment of the Monica Lewinsky affair, some noted. Was the bombing so unimportant to the U.S. that it couldn’t give a decent apology or launch a creditable investigation?

At a time of an understandable reemergence of Chinese pride, the bombing of the Chinese embassy in Kosovo seemed to reinforce the image of the U.S. as a selfish power seeking to undercut China that was expressed in books like the very popular The China That Can Say No. Most of China’s top leadership seemed to accept the bombing as accidental, and they remained well aware that good relations with the U.S. were vital to the success of China’s economic modernization effort. But the domestic outrage in the PRC made the bilateral negotiations on WTO too hot to handle.

Early the following year (2000) US-China relations had returned to a more normal state, and domestic opposition quieted to a point that China could resume active negotiations with the U.S. Facing less resistance at home, Beijing resubmitted their original concessions virtually intact, and with the Clinton Administration now unambiguous in its support and the business community well organized and active, Congress moved fairly expeditiously to clear the hurdles to China’s entry into the WTO.

While less is known about Chinese representation in the second rounds of serious negotiations on WTO, Beijing’s handling of domestic media coverage clearly reflected their concern about potential opposition not only from Chinese economic and political interests threatened by broad market opening but from an urban public increasingly resentful of what it perceived as American condescension toward China. For example, while researchers at the Ministry of Agriculture, the Chinese Academy of Social Sciences and other think tanks confronted the problems that Chinese peasants would have competing with more efficient foreign agribusinesses in global markets, virtually none of
this information was made public. Instead, PRC media remained mum on the details of its agreement with the U.S. and continued to focus on the obvious areas in which WTO would benefit China. Any detailed discussion on the impact of market opening was ignored in favor of vague references to new “challenges” that were in store for “certain sectors” of the economy.

**WTO and Agriculture.** It is tempting to view Beijing’s handling of its WTO commitments in agriculture cynically, as part of a unified national effort to give up as little as possible for the benefits received from WTO. From the evidence noted above, however, China’s response seems better understood as a central policy of support for compliance that is obstructed by internal divisions and local opposition. I have become convinced that Beijing likewise negotiated the U.S.-China agriculture agreement in good faith, and that key constituencies in China’s central government are committed to enforcing it. This conviction stems in large part from conversations with officials in the Chinese Ministry of Agriculture, China Agricultural University, and influential Chinese think tanks close to the situation, many of whom have long been furiously at work drawing up detailed provisions in anticipation of the opening of China’s rural markets.

More specifically, there is substantial evidence that key policy units under Beijing’s direction have long been working on multi-pronged strategy to restructure Chinese agriculture to facilitate a move away from a dogmatic emphasis on grain (where China cannot compete with more advanced countries like the U.S.) in favor of labor-intensive, value-added crops (fruits, vegetables, aquaculture, etc.) where China has a competitive advantage. China’s top leadership, in other words, seems to have committed itself to a blueprint for agricultural reform that is compatible with the market opening commitments it has made in the bilateral agriculture agreement with the U.S. and moreover seems to reflect the expectation of a huge increase of U.S. grain and related agricultural imports. For example:

- China began reducing subsidies for poor quality domestic grain beginning in 1999, and has subsequently removed a number of strains of corn, wheat, and rice from coverage by the government protection price policy;
- They have drawn up incentive programs to convert land use away from grain (where, again, China simply cannot compete in international markets), to cash crops such as fruits and vegetables;
- There have also given increased emphasis to aquaculture, where China’s comparative advantage has already made it the world’s leading producer, but where there is still excellent potential for growth;
- They have created stimulus plans to commercialize farm related businesses, and to create new rural cities – both as a way to draw people from the farm and into non-farm employment;
- Finally, they have a pilot program in place to provide subsidies to farmers who take land out of grain crops and restore it to pasture land, orchards, or forest. Converting grain areas to pasture and orchards has appeal because this would allow greater production in areas (animal production and fruit) that make sense for China now. However, it responds to deep-seated Chinese concerns about food
security because it would allow the land to be easily converted back to grain production in a period of dire need. vi

China has pushed ahead on these plans not just because they feel they have an obligation to comply with WTO rules, but for a better reason: At a macro-level, at least, it makes sense to abandon a policy whereby the Chinese government has provided massive subsidies to produce grain of far poorer quality than it can import – while creating huge surpluses that are themselves hugely expensive to store.vii

It also makes sense to abandon a grain-based agricultural system that has:

- helped to destroy China’s environment by dumping millions of tons of fertilizer and toxic pesticides, dangerously polluting China’s lakes and rivers,
- leached the fertility out of much of China’s land, and
- put so much stress on ground surface water in key areas like China’s Northeast that it is creating vast new deserts in China.viii

**Now the Bad News.** There are, then, compelling reasons to restructure Chinese agricultural production in ways that are compatible with sharply increased U.S. exports of grain and other food products to China. But we already see foot dragging on the matter of implementation. This is not just because old protectionist habits die hard, but because social and political forces are complicating the situation. At a time when agricultural restructuring would seem to mandate a move toward economies of scale, for example, China has renewed tens of thousands of land leases given families in the early years of the Dengist reform. This will provide China’s rural people with a sense of security, but it contradicts the center’s apparent blueprint for agricultural restructuring by perpetuating a land system dominated by inefficient, small farms.

The market for U.S. agricultural products, as noted, is also affected by conflicting forces that affect Beijing’s ability to enforce opening. Although I’ve indicated my belief that China’s top leadership is committed to reform, there is clearly evidence of resistance even at the Center, as several national-level officials have stated opening in Chinese media that China should manipulate a range of trade standards and regulations to limit imports.ix

Moreover, although some U.S. experts do not see local resistance as a big threat to the enforcement of WTO, x there are signs of deep resistance to enforcing WTO provisions affecting agriculture in many of China’s rural areas. This likely reflects the influence of Chinese localism which, as noted, has become more pervasive since the onset of China’s reform.xi Resistance to the U.S.-China bilateral agricultural trade agreement, though, clearly reflects more than simply local obstreperousness: It is a clear result of the grim consequences the pact portends for thousands of Chinese rural localities. Because agriculture areas along China’s central and southern coast have converted at least part of their production to fruit and vegetable production for China’s urban market – an approach that largely shields them from competition from more advanced foreign producers – they have not joined the fight against WTO. But farmers in China’s Northeast and vast interior
will not be sheltered, and produce grain and other crops that cannot compete with developed countries in terms of quality or cost. In virtually any scenario one can construct, Chinese farms in the latter areas will be hard hit if local officials enforce the market opening provisions dictated by WTO and the bilateral U.S.-China accord. Local resistance has no doubt been hardened because the new threat of competition comes at a particularly bad time: Despite government-subsidized prices for some key crops that average 20-30 percent higher than world market prices, rural areas in the interior are already in a deep depression. Both Chinese and foreign sources put the number of redundant rural workers at about 150 million. If current trends continue, as many as a third of all Chinese peasants will abandon farming in the next decade. During this period, as many as 150 million of those could move to cities looking for work, according to Chen Huai, a senior research fellow at the Beijing-based Development Research Center (DRC), a government think tank. That's a mass of unemployed migrants larger than the total U.S. workforce.

WTO’s impact on China’s agricultural areas has provoked national concern in the PRC because of the fear that displaced rural workers will join with urban unemployed, creating a huge potential threat to the leadership. China has acknowledged a rapid increase in rural unrest at a time urban labor disturbances are also reaching alarming proportions. After years in which China refused to acknowledge its labor problem, Vice Minister Wang Dongjin from the Ministry of Labor and Social Security describes China's jobs crunch as "grim" and suggested it could affect social stability. Thus, while we view the opening of agricultural markets as a vital trade matter, to some top Chinese leaders the issue involves the continued security of the regime.

As noted, China’s blueprint for the restructuring of agriculture includes a plan to soak up displaced rural workers in factories build in new rural cities, but that is a long-term solution. In the near term, most experts anticipate WTO membership to help produce about 15 million new jobs each year in China’s urban areas, but the Ministry of Labor and Social Security acknowledges it must create 17 million jobs a year just to maintain its current unemployment rate – and most economists expect a commensurate loss of perhaps 10-12 million more farm jobs annually. Even if these predictions are wildly in error, migration to new jobs is not a solution for displaced rural workers, most of whom will simply will not have the skills to perform the new jobs created by WTO. Under these circumstances, open competition with American agribusiness is simply not something local Chinese officials in the grain growing areas of the interior want to contemplate.

The depth of the problem of local enforcement is suggested by my experience with 20 mayors and deputy mayors from rural Hebei province whom I addressed on the topic of WTO’s likely impact on Chinese agriculture in the spring of 2001. Though I spoke to the group well after China had reached agreement on its bilateral agricultural trade pact with the U.S., I found they knew virtually nothing about an agreement that could have such a profound effect on their constituents. The officials were understandably embarrassed and angry at having to receive such vital information from a foreigner, but their primary
response was a deep concern over what the agreement would do to their rural constituents.

To be fair, the group members gave no direct indication that they would refuse to implement the market opening provisions of the bilateral accord. But in that conversation, as in many others that were to follow with other rural Chinese leaders as details of the bilateral began to leak out, I got the strong sense that their commitment to protect local interests would supercede any promises made on their behalf by then-Chinese Premier Zhu Rongji. Likewise, when I gave an abbreviated version of this paper in St. Louis in the spring of 2002, the Chinese consul general stationed in Chicago came up to me afterwards and said that he and many other Chinese officials he knew had precisely the same concerns about Beijing’s ability to enforce WTO rules on China’s rural areas.

But I might note that this view is not universal. At an international conference I organized on the impact that WTO will have on Chinese agriculture in January 2002, virtually all the American presenters with whom I spoke – all of whom spend a lot of time in China – were pessimistic about market access in the interior, but many of the Chinese presenters tended to be more upbeat. I ascribed this to their reluctance to be candid in public and to the fact most came from Chinese institutions that supported WTO as part of agricultural restructuring, but that may be a rationalization.

**The Prognosis.** A charitable interpretation of the early problems we have encountered in China’s compliance with WTO market opening provisions in agriculture is that snags are an inevitable part of a shake down process; It is clear that the PRC is still overwhelmed with the task of just bringing Chinese law and regulations into compliance with WTO rules. Moreover, as noted, Beijing’s control of information about its WTO commitments has contributed to the widespread ignorance of China’s obligations in the countryside. But the current problems also reflect the presence of broad pockets of opposition to market opening that are: 1) based on a hard-headed assessment of the political and economic impact foreign imports will have on diverse and sometimes powerful constituencies; 2) supported by a growing (if still inchoate) sense of anti-Americanism, and 3) cannot be easily controlled by Beijing. In the case of soybeans, for example, China’s efforts to control U.S. imports are almost certainly a response to pressure from politicians in China’s “rust belt” in the Northeast, who want to avoid another body blow to a local economy that is already in deep depression.

If I were to offer a prognosis for U.S. agricultural exports, I would tie it to ones time horizon. In the long term, I think that improved diets in China – particularly an increase in the consumption of meat – and at least a partial restructuring of Chinese agriculture (toward increased economies of scale, a de-emphasis on grain growing in favor of cash crops, and the creation of new patterns of production and distribution that reflect global markets) will result in China increasing its imports of U.S. food, food byproducts, and related agricultural materials.
In the short term, though, a combination of forces is likely to limit the growth of U.S. agricultural exports, and possibly lead to tensions and a re-politicization of the trade issue. On our side, some lingering, unrealistic expectations about the benefits of WTO, and the obvious pressure felt by U.S. agribusinesses to meet their bottom line will likely contribute to tensions. In part because of the new bilateral commitment to fight terrorism, the Bush Administration may be prepared to go slow on the trade issue. But it won’t take much to re-ignite trade tensions in the Congress, where distrust of PRC intentions lingers and there will be little patience with a further escalation of the bilateral trade deficit. The congressional response may be exacerbated by publicity given to Government monitoring mechanisms set up as one of the conditions for passing PNTR status for China, which will highlight and likely politicize any additional problems of enforcement.xvi

On the Chinese side, as I’ve indicated, we face the very real problem of Chinese local protectionism in a new political environment in which Beijing can no longer impose its will on the localities. Market opening may be further complicated by China’s fears of social unrest and sensitivity to foreign pressure, which will likely be heightened, respectively, by a new Chinese leadership’s insecurity and felt need to show it can stand up to the U.S. In this environment, what we perceive as perfectly justified U.S. complaints about China’s failure to live up to WTO obligations could lead to a pattern of bickering that is counterproductive to trade. The posture taken by Hu Jintao, China’s new Party General Secretary and President, will be instructive. Hu almost certainly supports China’s WTO membership and China’s move toward markets and privatization on the one hand, as they would have been key litmus tests for his ascent to power. But Hu may weigh his commitment to enforce market opening not only against the overarching need for social stability but the empathy Hu likely developed for rural Chinese during many years as an official in China’s interior – an area, we noted, that will be among the regions hardest hit by the new WTO rules in agriculture. When all is said and done, we are likely to witness a much more gradual upward curve in agricultural sales than we would like, and operate in a bilateral context that is punctuated by temporary setbacks, and periods of frustration and at least occasionally tension.

Endnotes


iii Fewsmith..

iv Fewsmith, NBR on-line Journal.

v Beijing no doubt felt particularly vulnerable because the embassy bombing came on the heels of a defiant protest against the leadership, a shocking silent protest outside Zhongnanhai, the top leadership’s compound, by 10,000 members of the Falun Gong spiritual group.

By Chinese estimates, China spent $10 billion to store grain in 1998, enough to have purchased foreign grain about equivalent to China’s total annual domestic output. See Fu Zetian & Tian Zhihong.

The water table to the west of Beijing stood at about 25 feet below the surface in 1970, but has now fallen to about 160 feet below the surface. This has already contributed to a sharp increase in dust pollution in Beijing. If current water use continues, the water table is expected to fall to more than 300 feet beneath the surface by 2030. Li Daoliang and Fu Zetian, “Current Conditions, Problems and Strategies Related to Food Security in China,” paper prepared for a conference on “Food and Security in the Pacific,” St. Louis, MO., January 21, 2002.


Though it seems counterintuitive to those who still view China as a rigid dictatorship, China’s central government for years simply has not had the ability to enforce its will in many localities. As early as 1991, for example, an effort by Tiananmen era-hardliners to reverse some economic reform policies was thwarted by fierce resistance by China’s coastal provinces. More recently, the Central government has struggled to close down Guangdong-based factories whose pirating of U.S. music discs and videos threatened a bilateral trade war, and the Beijing government continues to struggle against local authorities who feel threatened by economic initiatives ranging from bank reform to a central income tax.


Labor unrest included tens of thousands of workers simultaneous demonstrations against state sector lay-offs in the hard-hit northeast.

See Forney.

For example, the Congressional Trade Policy Staff Committee will report on the status of bilateral trade through USTR to the Deputies Committee in the White House. In addition, the Departments of Commerce and Agriculture have increased their staff in Beijing, and Ambassador Randt committed to ensuring trade compliance as Job #1.