

The WTO and Agriculture:

How will 900 million peasants withstand China's WTO accession?

In recent months Wen Tie-jun, a prominent scholar and director of research in the Ministry of Agriculture's Research Center for Rural Economy, has drawn media attention to the impending crisis faced by China's peasantry under the WTO. In this review article written for IHLO, Sze Pang Cheung examines the warnings, criticisms and counter-proposals raised by Wen Tie-jun.

1. The Rural Problem is the Fundamental Problem

Agriculture is arguably the sector which will be hardest hit following China's accession to the WTO. In last year's ASEAN meeting in Brunei, Premier Zhu Rong-ji, who is usually optimistic about China's WTO membership, told the press: "What I worry about most is agriculture." The restructuring of agriculture is now on the agenda of some of the highest-level state meetings in China. Under the usual polemic of "challenges and opportunities," these worries are often subsumed in the hope that in the long term the WTO will hasten the pace of restructuring in agriculture by optimizing the use of resources as market principles take root in Chinese soil. However, anyone who is familiar with the situation of 900 million peasants in China could hardly swallow such optimism.

"The fundamental problem in China is the rural problem," Wen Tie-jun, a prominent scholar on rural economy said in a recent interview. Wen is the chief editor of *China Reform* and the director of research at the Research Center for Rural Economy under the Ministry of Agriculture. As public concern about the rural situation grows, his ideas have attracted more

and more public and media attention. In the last few months he has been interviewed by newspapers and television stations on issues related to "san nong" (which Wen translates as "three-dimensional ruralness") and his articles are widely circulated on the internet. He belongs to a group of scholars who believe that China faces not only problem in agricultural sector, but a three-dimensional, entangled web of problems which must take into account the peasants, rural villages and agriculture. In other words, the problem is not solely one of production, trade and competitiveness in the agricultural sector, but also involves local governance, political structures and peasants' relationship to land.

The optimism shared by the officials and neo-liberal scholars is viewed by Wen as "political correctness." Wen argues that:

"In the wider context of internationalization, peasants, rural villages and agriculture in developing countries are subjected to attack and challenge. This has resulted in the economic destitution of rural villages, the bankruptcy and displacement of small-scale farmers, and the rise of urban ghettos. The global experiences

in the last twenty years have proven that. The reason why [Chinese] people are not willing to admit it is because they have been constrained by such discourse: accession to the WTO is part of the economic reform program. If you agree that the positive effects override the negative ones, the opportunities are more significant than challenges, it means you support the reform program. But if you think that the negative effects override the positive ones, that challenges are more significant than opportunities, then you may be suspected of being politically incorrect."

2. The Current Rural Crisis: Beyond the Unsustainable?

In fact, even a cursory glance at the problems faced by Chinese peasants provides little reason for optimism. The market price of major crops has been falling since 1995, partly because of over-supply and rising imports of cheaper produce from overseas. The drop in market prices has forced the government to lower its protective procurement price. In many parts of China, even the lowered procurement price is not kept, and local purchasing stations have refused to buy crops from the farmers as

granaries are full of unsold stock. On the other hand, production costs have increased by an average of 10% in the 1990s. Millions of farmers are facing the cruel fact that they can hardly survive on their bit of land, let alone make a profit from farming. According to state statistics, one percent of the rural population had zero or negative income per capita in 1995, but in 2000, the figure reached 46%.

The suffering of the peasants does not end there. Since 1994, local governments are forced to finance themselves through taxing peasant-farmers. With the expansion of the number of local cadres over the years, the fiscal burden has fallen on the shoulders of peasants. Apart from paying legal taxes, farmers are subjected to many newly invented taxes and fees imposed by local governments. These pseudo-legal taxes and fees have to be paid even though farming has ceased to generate any income for many farmers. In desperation, more and more farmers have abandoned their land to work in the city.

These conditions suggest why the problems faced by the peasants involve production as well as local governance and political structures. Given such problems, Wen believes that even if China did not join the WTO, "Chinese agriculture has reached the point of unsustainability." But it also means that accession to the WTO may force Chinese agriculture to reach the point beyond unsustainability. Given that the production cost of the major crops in China is higher

than the price level in international market, it is expected that foreign imports will leap from current levels as foreign traders take advantage of higher import quotas for wheat, corn, rice, sugar, cotton and eating oil. The influx of cheap imports will lower domestic prices and force more farmers into bankruptcy.

3. Agricultural Restructuring: False Hopes?

Agricultural trade between China and the U.S. is "typical unfair competition," according to Wen. Given that the Chinese peasants have an average of 0.4 ha per household, they have no choice but to engage in small-scale farming. How could they compete with U.S. farmers and agri-businesses which produce on factory farms hundreds and thousands times bigger than their Chinese counterparts? China's WTO accession will inevitably intensify such unfair competition. The pressure of competition will be direct and immediate, especially for the regions (such as central, central-western and north-eastern China) which have specialized in cultivating primary crops.

In the long-term, as domestic crops are substituted by cheaper and higher-quality imports, China is bound to rely on imports to solve its food production problem which is deemed by the Chinese government as an issue of "strategic national security." The capacity to stabilize food production is also diminished because the Chinese government can no longer rely on state planning mechanisms,

such as protective procurement rates and direct subsidies, to implement its food production strategy.

While such problems are often recognized by high-level government officials and neo-liberal economists, they still see WTO accession as an opportunity to intensify the pace of agricultural restructuring. The pressure of international competition will eventually force farming to shift from small-scale to large-scale production.

Economists suggest that the government should grant private ownership on land and allow it to be exchanged on the market. The market will optimize the use of land resources as those peasants who find farming unprofitable will sell their land to those who have the ability to compete in the market. As land becomes concentrated, small-scale farming will eventually give way to large-scale production. Some economists even called for "elimination of peasants." An economist from the State Council's Development Research Center justifies this on the basis that: "... the actors participating in international competition [are] big grain businesses, big animal raising businesses and big vegetable and fruits businesses."

It is also the dominant view that agricultural restructuring must be accompanied by urbanization as more peasants will be forced to seek work in urban areas. This requires the Government to abandon its restrictions on rural-urban migration. The creation of jobs in the urban

economy, which the economists believe will result from China's WTO accession, is expected to absorb the peasants who have given up farming. Therefore, agricultural restructuring is part of the overall economic restructuring.

Such proposals are strongly criticized by Wen. As the proponents of further market reform gain more momentum in the agricultural sector, he has sharpened his critique of the belief that marketization will solve the "san nong" problem. In fact, Wen and his colleagues were some of the earliest advocates of building up a system of private ownership of land in the late 1980s. But after years of empirical studies in rural villages he has "proven wrong" his early proposals. He now urges those economists who uphold the market economy based purely on economic theory to do more studies at the grassroots level before they come to the conclusion that market reform is necessary.

4. The Limits to Agricultural Restructuring

According to Wen, the rural economy and society face two fundamental problems which will make marketization an impossible mission. First of all, fertile land resources in China are extremely tight. The average land size per capita is 1.2 acres and in one third of the provinces, the figure is below one acre. While population pressure is expected to grow (exceeding 1.6 billion by 2030) cultivable land is shrinking, mainly because of urban

expansion. In 1990-94, cultivable land decreased by an average of 9.4 million acres per year. Although the Government prohibited the invasion of cultivable land in 1997, China still lost 7 million acres of cultivable land that year.

According to official data, there are now 500 million working population in the rural sector. The actual figure, Wen argues, should be around 600 million because children and old people are also working on farms. It is commonly held that, given agricultural productivity levels in China, it only needs 100 to 150 million farmers to cultivate the available land. Economic laws suggest that when marginal return on labor is decreasing or negative, production ceases to be efficient and excess labor must be substituted. But how can 450-500 million "excess" peasants be substituted? Even if one takes into account the number of existing workers in urban areas and township and village enterprises, there is still an "excess" rural labor force of 350 million. According to rural surveys, the marginal return on labor in the rural sector has been negative for the past three years. However, Wen asks: "Where can the peasants be substituted? Is there anywhere in the world where the Chinese labor force can be accommodated?"

According to Wen, urbanization and urban employment will not solve the problem. Already some 15% of the rural population shifted to urban areas during industrialization and urbanization in the past half century. Even if China intensifies the pace of

urbanization in the next few decades, and "let's say if half of the rural population has become a non-agricultural population," China will still have a rural population of more than 800 million by the year 2030. "Average land per capita will still be a little more than one acre, and land per household is 4-6 acres. How can so-called large scale farming be built?" Therefore, in the next few decades China will not significantly improve its scarce land problem, and Wen predicts that small-scale farming will still dominate China's rural scene in the 21st Century.

5. Questioning the Development Model

Wen also questions the belief that increasing urban employment opportunities can absorb the "excess" rural population. He argues that:

"The precondition for land privatization and large-scale farming is that peasants can find employment opportunities and higher incomes in non-agricultural sectors. Only then can large numbers of peasants survive without land." The emergence of town enterprises in the 1980s absorbed 140 million rural workers at its peak, but its economic role has been shrinking since 1994 when the government ceased to provide preferential treatment in taxes and loans. Many enterprises became heavily indebted and were privatized by local officials. "Once they are privatized, township and village enterprises inevitably change from their past aim of

'community employment maximization' to seeking profit maximization. In order to enhance market competitiveness, township and village enterprises will also increase the level of mechanization which results in labor being substituted by capital."

What about the urban economic growth which economists believe will bring more employment opportunities after China's WTO accession? According to the State Council's Development Research Center, 176 million peasants will be forced to abandon farming in the first decade after China joins the WTO. But even the most optimistic forecasts suggest that WTO accession will only create 70 million new jobs in the next ten years. In addition to this, Wen emphasizes that job growth will mainly exist in financial and trade sectors which can hardly accommodate the rural population. Moreover, "as the urban economy continuously becomes more capital and technology intensive under the pressure of international competition," economic growth will produce less jobs than expected. Thus, the key to China's development is not economic growth, but how to "... transform the mechanism in dominant models of economic development which continuously stimulates capital-intensive growth to one that promotes employment through economic growth."

Wen emphasizes that the peasant's relationship to land cannot be understood in the framework of the market economy. Due to the tight

population pressure on land, the "social security function" of land is much more significant than its "production function." According to Wen:

"Cultivable land is a 'survival resource' for peasants, the basis of their survival, rather than the 'factor of production' which can be allocated by the market according to principle of 'efficiency,' as expressed in Western economic theories.... Under the trend of welfarization of land, the principle of equity is more important than the principle of efficiency. ...[As such] every policy stamped with the principle of efficiency must give way to the highest principle of 'peasants' survival' in China's rural villages."

6. Building Rural Cooperatives

The question of how 900 million peasants will survive China's WTO accession is a question asked not only by scholars like Wen, but also by state officials and the media. Almost everyone agrees that most peasants simply cannot compete in the international market. Even the State Trade and Economic Commission, the most stubborn advocate of free trade and economic liberalization among the Chinese state organs, believes that the agricultural sector needs protective measures after China's WTO accession. The question is: Under the context of China's WTO accession, what can be done to protect the peasants from international competition?

While there is much talk about using domestic support and "green box" subsidies to protect the rural sector, Wen believes a more comprehensive alternative must be found. Given the current financial situation of the state, it is questionable that subsidizing the agricultural sector, whether in the form of domestic support of green box policies, is a realistic solution. Besides, small-scale farmers are highly dispersed, which makes subsidizing a difficult task. "Faced with 204 million rural households, who should (the state) subsidize?" The problem, Wen suggests, is identifying the recipients of agricultural subsidies.

Building rural cooperatives seems to provide the solution. Wen proposes that the state should encourage and support the building of rural cooperatives. These rural cooperatives should receive public subsidies to operate in agriculture-related economic activities, such as procurement, wholesale, product processing, supermarkets, etc. The rural financial and insurance market should also be opened up to government-supported cooperatives. Part of the profits made by the cooperatives should be channeled back to rural communities to finance education, medical services and social security. As most of the functions of local government can be taken up by rural cooperatives, the number of local cadres could thus be reduced and peasants' tax burden be relieved. In other words, the rural cooperative is the building block not only of

agricultural reform, but also local political reform.

7. Alternatives to Globalization

A recurrent theme in Wen's analysis of China's rural problem is that the rural economy and society is in deep crisis, and accession to the WTO will only deepen the current crisis. While many argue that WTO will be a catalyst of change for China's long-awaited agricultural and economic restructuring, Wen believes that increasing international competition will only create more problems and make solutions to current crisis even more difficult to achieve. While it is too 'politically incorrect' to disagree with China's WTO accession, Wen does challenge the development path taken by China, i.e. globalization.

China's model of economic development is built upon excessive consumption of resources. "If we continue the way we used to in the past and further seek growth in economic figures, we will inevitably turn to global products, resources and financial markets due to the pressure of limited domestic resources. We will then have to join 'economic globalization' which is dominated by the West, and be constrained by international capital that is squeezing profit from developing countries to continue its survival."

China's increasing reliance on the global market to fuel its economic development is a threat to sustainable

development both for China and the world. Take oil as an example. The annual growth in oil consumption in the 1980s is 2.4%, but in 1990s, the growth rate has jumped to more than 10%. If the trend continues, China will have to import 800 million tons of oil by 2010, which means buying up 60% of aggregate global oil exports. In order to pay for increasing imports of oil and other resources and goods, China will have to earn more foreign currency by increasing its exports. This will force other countries to give up their share in the global export market. The limited resources in the world simply cannot sustain China's model of development. Besides, China's expansion in the world's import and export market will increase regional and global conflicts, which may have devastating results.

Many will agree that the 900 million peasants in China will be the biggest losers after China's WTO accession. However, the "winner vs. loser" mindset may blind us to longer-term crisis which will deepen as China is further integrated into the global economy.

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