

Agrarian Crisis, WTO Entry, and Institutional Change in Rural China*

QUNJIAN TIAN

The far-reaching commitments that China has made entering the World Trade Organization (WTO) pose major challenges to the country's fragile agricultural sector. These commitments are highly controversial and have sparked a heated debate over their potential impact on Chinese farmers. Tariff reductions, minimum access opportunities under the tariff-rate quota system, and the weakening of other mechanisms of state control and support are expected to bring surging imports of cheap agricultural products, which would in turn likely undermine the livelihood of large numbers of farmers and lead to high dislocation costs. A sharp fall in farmer income and extensive structural changes in the agricultural sector could exacerbate the ongoing agrarian crisis in China known as the "san-nong wenti"—difficulties facing agriculture, rural areas, and peasants. This development, if it occurs, will have serious implications for state-peasant relations and the institutions of governance in China's rural areas.

KEYWORDS: WTO; agrarian crisis; employment pressures; peasant income; institutional change.

QUNJIAN TIAN (田群健) received his Ph.D. in government from Cornell University and is now assistant professor of government at Connecticut College, New London, Connecticut. His research interest covers international political economy, East Asian political economy, economic development, and Chinese politics and economy. He has published articles in *Issues & Studies*, *Canadian Journal of Development Studies*, and *Journal of Contemporary China*. Tian can be reached at <jqtia@conncoll.edu>.

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China's entry into the World Trade Organization (WTO) in November 2001 was a historic event. The broad commitments that China made regarding market access have, moreover, been highly controversial. China had promised to open not only critical service sectors (such as telecommunications and banking) but also—most importantly—the agricultural sector. This wide range of commitments has sparked an ongoing debate about the likely resulting effects on the Chinese economy and how China can best cope with the new challenges and opportunities that stem from globalization. While China's entry into the WTO has generally been seen as a positive development for China, many are concerned about the adjustment costs in both the short and long term.

One of the most controversial issues centers on the consequences of the opening of China's fragile agricultural sector at a time of growing instability in rural areas. Reduced access barriers and the weakening of other mechanisms of state control and support are expected to bring surging imports of cheaper agricultural products, which would then likely undermine the livelihood of large numbers of farmers. A sharp fall in farmer income and sweeping structural changes in the agricultural sector would exacerbate the agrarian crisis in China known as the "*san-nong wenti*" (三農問題: *nongye* 農業, *nongcun* 農村, and *nongmin* 農民; difficulties facing agriculture, rural areas, and peasants).

This paper argues that China's WTO commitments and their potential impact on both farmer income growth and structural adjustments have heightened the urgency to restructure rural institutions of governance in China. The dynamics of economic restructuring and political change will have serious implications for state-peasant relations at a time when rural institutions of governance are already in disarray. This paper consists of three parts. The first briefly examines China's WTO commitments regarding agriculture. Section two looks at the challenges that these commitments pose to Chinese agriculture and peasants in the areas of food security, employment pressures, peasant income, and structural adjustment. A final section analyzes the political implications of these commit-

ments for state-peasant relations and the institutions of governance in rural China.

WTO and Chinese Agriculture

As part of its entry into the WTO, China made extensive commitments to provide market access to its agricultural sector.¹ These commitments encompass tariff reduction and minimum access opportunities under a tariff-rate quota (TRQ) system, the end of the state monopoly over trade of agricultural products, and limits on both domestic support and export subsidies for agricultural products.

China agreed to reduce the average statutory tariff on agricultural products from 22 percent to 17.5 percent by January 2004.² For U.S. priority agricultural products, the tariff rate will be reduced from 31 percent to 14 percent.³ China also committed itself to important changes in non-tariff barriers, agreeing, for instance, to replace its import quota and licensing system with a TRQ system. The introduction of a TRQ system will bring the quota tariff rate for major agricultural commodities—such as wheat, corn, rice, and cotton—down to an extremely low tariff rate of 1 percent for a substantial amount of imports and no more than 10 percent for partially processed grain products. Altogether, tariff quotas for wheat, corn, and rice were 18.3 million tons in 2002, 20.2 million tons in 2003, and 22.2 million tons in 2004.⁴ For cotton, the quota was 0.819, 0.856,

¹For general overviews of the commitments made by China, see OECD, *China's Agriculture in the International Trading System* (Paris: OECD, 2001); Xiaolu Wang, "The WTO Challenge to Agriculture," in *China 2002: WTO Entry and World Recession*, ed. Ross Garnaut and Ligang Song (The Australian National University, Asia Pacific Press, 2000), 81-95; and Nicholas R. Lardy, *Integrating China into the Global Economy* (Washington, D.C.: Brookings Institution Press, 2002), 75-79, 91-96.

²Wang, "The WTO Challenge to Agriculture," 87.

³Unless otherwise noted, information in this paragraph is drawn from "Zhong-Mei shuang-bian maoyi xieding zhong yu nongye youguan de neirong" (Sino-U.S. bilateral trade agreement on agriculture), *Zhongguo nongwang* (Chinese Agricultural Website), www.aweb.com.cn/2001/11/14/20011114101902.htm.

⁴Wang, "The WTO Challenge to Agriculture," 88.

and 0.894 million tons, respectively.⁵ These amounts are referred to as the minimum access opportunity or quota amount. Imports of major grain products above the quota levels will initially face a higher tariff of 76 percent annually, but will then be reduced to 65 percent by 2004. For cotton, the above-quota tariff will be 54.4 percent initially and will then be reduced to 40 percent by 2004. There will be no tariff quota for soybeans whose import duty is only 3 percent.

More importantly, China has agreed to eliminate the monopoly of state trading companies in priority agricultural commodities such as grains, cotton, and soybean oil. Under the agreement, part of the TRQ for each grain will be reserved for state-owned trading companies and the rest will be divided among private and foreign grain traders. The U.S. side demanded this concession in order to increase the probability that China would import the quota amount because, under the WTO system, no member country is required to import fully its minimum access opportunity amounts. Thus, the ending of the government's monopoly over imports of important agricultural commodities will undermine the effectiveness of China's agricultural policies, including pricing, marketing, and distribution. State grain trading companies are government policy instruments to control the prices farmers receive for their grain. With the entry of private and foreign grain traders, it will be difficult for the government to use its grain trading institutions to effectively maintain the current price policy, and the incomes of grain growers might further erode.

In addition, China has also agreed to several limits to domestic subsidies for agriculture. From 1996 to 2000, China's aggregate measurement of support (AMS) was 126.7 billion *yuan*, 182.6 billion *yuan*, 170.9 billion *yuan*, and 220 billion *yuan*, which were 4.9 percent, 5.3 percent, 7.4 percent, 7 percent, and 8.8 percent of the total value of the annual agricultural output, respectively; out of this, about 30-50 percent or roughly 3.5 percent of agricultural output (between 50 and 70 billion *yuan* since 1998) goes to

⁵"Zhongguo jiaru WTO hou di guanshui jinkou nongchanpin yilanbiao" (List of low-tariff imports of agricultural products following China's WTO accession), www.aweb.com.cn/2001/11/16/2001111601933.htm, 3.

price supports, which according to the Agricultural Agreement is included in the AMS and thus subject to limitations.⁶ China sought to reserve the right to increase domestic agricultural support subsidies to 10 percent of the value of agricultural output, the level permitted for developing countries; the United States and some other countries wanted, however, to hold China to the level of developed countries at 5 percent. The final agreement settled on 8.5 percent—a compromise between the levels of the developed and developing countries.⁷

Legitimate areas of farm support under the WTO Agricultural Agreement are called "green box" measures. They include direct payments to farmers, domestic food aid, income insurance, insect control, safety net support payments, research and technical support, and environmental protection. Current green box supports in China are mostly in the form of research and technological support, food security reserve funds, disaster relief funds, ecological preservation, and environmental protection. China does not yet have direct payments for farmers or an income insurance scheme. This last form of support must be based on individual households; given China's large farming population and lack of administrative capacity to assess and deliver the needed transfer payments, it would be very difficult, however, for China to provide these forms of support within the WTO framework in the way that some WTO members have done. In addition, given the underdeveloped rural administrative infrastructure in China, the scope for large consumer-funded support programs is also limited. Given these circumstances, price supports are the only viable policy instrument of farm support. Such support will become untenable under China's WTO commitments, however, and the opening of the government's marketing and distribution system should further weaken the government's current price policy.

⁶Ministry of Agriculture, "Guanyu wanshan woguo nongye guonei zhichi zhengce de jianyi" (Suggestions to improve our domestic agricultural support policy), www.agri.gov.cn/tztzl/gdztzl/t20021224_38565.htm20021224_38565.htm.

⁷Lardy, *Integrating China into the Global Economy*, 92.

In addition, China has also agreed to eliminate subsidies for agricultural export. This commitment far exceeds those made by other WTO members. Note that neither the United States nor the European Union has committed to eliminating their agricultural export subsidies.

Implications for Chinese Agriculture

China's agriculture commitments were the most contentious of all the promises China made in its agreement to join the WTO. Substantial tariff reductions, minimum access under the TRQ, and the end of the state food distribution monopolies would make China one of the world's most open countries for food imports. Initially, many in China were greatly concerned about China's food security. Given China's large population, historical experience with embargos, and current geopolitical situation, the Chinese government feels the need to ensure a stable supply of major agricultural products for its people. China has always been worried about its heavy dependence on foreign food supplies to feed its huge population. The concern was reinforced by the 1995 publication of Lester Brown's book, *Who Will Feed China?*⁸ This sensitivity over food security led to an explicit government policy goal of limiting key agricultural commodity imports to under 5 percent of the country's food needs. This policy is reflected in the tariff-rate quota established in the U.S.-China bilateral agreement.⁹

Concerns over food security, however, have eased somewhat. This change is due in part to the TRQ limits of imports to about 5 percent of China's food needs and in part to recent experience. Two years after its WTO accession, China has imported relatively small amounts of grain, much less than its quota for the first two years. As a matter of fact, China's agricultural trade even incurred a surplus of US\$3.88 billion and

⁸Lester R. Brown, *Who Will Feed China? Wake-Up Call for a Small Planet* (New York: W. W. Norton, 1995).

⁹Hunter Colby, Xinshen Diao, and Francis Tuan, "China's WTO Accession: Conflicts with Domestic Agricultural Policies and Institutions," in OECD, *China's Agriculture in the International Trading System*, 173-74.

US\$2.5 billion in 2002 and 2003; in 2003, China had a grain surplus of 19.917 million tons and a deficit in soybeans, cooking oil, cotton, and sugar.¹⁰ More importantly, since 1995 (ironically the year Lester Brown's book was published), China has enjoyed several years of continuously good harvests that have resulted in a historical transition: having chronically faced short supplies of major agricultural products, China has now achieved "balances in aggregate and surplus in years of good harvests."¹¹

Agricultural surpluses have, however, created problems of a new kind. Excess supply has led to a decline in prices, which in turn has depressed income growth for farmers. Recently, grain prices have risen again due to sharp falls in output. Gains for farmers are limited, however, because benefits from price increases have largely been offset by rising costs of such production inputs as seeds, fertilizer, and pesticide.¹² Thus, while food security is still a concern, especially given the drop in grain production for the four consecutive years since 2000, a more pressing issue is whether expected cheaper grain imports will further depress farmer income growth. Currently, employment pressure, stagnant farmer income growth, challenges of structural adjustment, and signs of growing instability in rural areas are at the core of China's agrarian crisis (*san-nong wenti*).

Employment Pressures

Given the number of people employed in agriculture, many have predicted that China will incur significant restructuring costs in meeting its WTO commitments.¹³ In the year 2001, around 329 million people—roughly half of total national employment and 67 percent of rural em-

¹⁰"2003 nian woguo nongchanpin jinchukou maoyi fenxi" (An analysis of China's agricultural trade in 2003), www.aweb.com.cn/2004/2/9/20042993904.htm.

¹¹Chen Xiwen, "China's Agricultural Development and Policy Readjustment After its Accession to WTO" (Paper presented at the World Bank Panel, "WTO Accession, Policy Reform, and Poverty Reduction," December 14, 2002), 3.

¹²"Nongye Bu: nongzi zhangjia 'tao' zou nongmin sanbai jiushi duo yi yuan yaobao" (Ministry of Agriculture: rising input prices "steal" more than 39 billion yuan from farmers), *Renmin wang* (People's Daily Website), April 2, 2004, www.peopledaily.com.cn.

¹³Joseph Fewsmith, "The Political Implications of the WTO Agreement on Agriculture," in OECD, *China's Agriculture in the International Trading System*, 125-36.

ployment—were employed in agriculture (see fig. 1). Estimates hold that about 152 million people—or 45 percent of this agricultural labor force—are not productively employed, even under current levels of technology.¹⁴ While these statistics may overestimate the number of farm workers, there is no doubt that substantial numbers of them are redundant. This surplus labor has already fueled a massive flow of migrant workers in recent years. China's entry into the WTO and the coming of a more competitive economic environment will certainly intensify this migration.

Estimates of the potential employment loss in agriculture following China's WTO entry vary between 11 to 25 million, and most of the job losses will be in the interior provinces.¹⁵ Finding alternative employment opportunities for displaced farmers will be challenging, a task made even more difficult by rising urban unemployment and recent waves of labor unrest in a number of Chinese cities.¹⁶

Throughout the reform era, township and village enterprises (TVEs) have played a key role in the structural transformation of the countryside; they have absorbed more than 100 million farmers in new employment opportunities in the non-agricultural sector.¹⁷ In recent years, however, the TVE expansion has slowed and even stagnated. Following several years of no growth, both the number of TVEs (of all ownership types) and TVE employment fell drastically: note that between 1996 and 2000, TVE employment fell a total of 450,000, a 9 percent annual decrease.¹⁸ Many such

¹⁴According to one estimate, at current levels of technology, Chinese agriculture only needs a labor force of 130 million and therefore over 200 million or 60 percent of the agricultural work force is now redundant. See Wang Jian, "'Sannong wenti' de xingcheng yuanyin" (The causes of the agrarian crisis), www.aweb.com.cn/2002/9/29/2002929104034.html.

¹⁵Lardy, *Integrating China into the Global Economy*, 109-10.

¹⁶See, for instance, "Leaner Factories, Fewer Workers Bring More Labor Unrest in China," *The New York Times*, March 19, 2001; "Tegao: Zhongguo qiye jianyuan—gongchao meng-zeng" (Special report: downsizing and labor unrest in China), www.chinesenewsnet.com, March 19, 2002; and Wang Mengkui, "Zhongguo qidai jie jue de liuda wenti" (Six priority challenges for China), www.macrochina.com.cn, August 28, 2001.

¹⁷Albert Park, "Trade Integration and the Prospects for Rural Enterprise Development in China," in OECD, *China's Agriculture in the International Trading System*, 186-96.

¹⁸Ministry of Agriculture: Statistics on Employment Growth in TVEs, tables 22 and 28, www.agri.gov.cn/ztl/gdztz1/t20021219_36906.36912.htm, 22, 25.

enterprises are losing money and certainly are not competitive in international markets.¹⁹ It is therefore far from certain that TVEs will be able to absorb the increasing number of ex-agricultural workers.

Moreover, even during the boom years, the pattern of TVE development was highly uneven. About half of all TVEs are located in the coastal provinces. More importantly, 86 percent of TVE exports and 80 percent of all the profits from TVE joint ventures in 1998 stemmed from the coastal provinces.²⁰ Therefore, even if TVEs gain from China's accession to the WTO in general, these benefits will not likely filter through to the remote interior provinces. These regions are most dependent on agriculture and most likely to be adversely affected by cheaper grain imports.²¹ The plight of the grain-growing regions in the interior can only be exacerbated if major cities along the coast switch to imports from the international market to meet their food needs. China's WTO accession is thus most likely to further increase the already wide disparities between coastal and interior regions.²²

Peasant Income

Greater pressure on rural employment and income levels following China's WTO accession comes at a time when the relative surplus of China's agricultural products has already slowed the growth of farmer income. The net income growth rate for farmers decreased continuously from 13.1 in 1996 to 5.6 percent in 1997, 4.3 percent in 1998, 3.1 percent in 1999, and only 2.1 percent in 2000. While having rebounded of late, this growth rate was still below 5 percent annually in 2001-03 (see table 1).

¹⁹"Nongmin zengshou haiyou shemo xin zhaoshu?" (What are the new measures to increase farmer income?), *Jingji ribao* (Economic Daily), March 13, 2002

²⁰Park, "Trade Integration and the Prospect for Rural Enterprise Development," 196.

²¹According to Carter, in 1998 agricultural employment in eastern China averaged about 45 percent and about 64 percent in interior provinces. See Colin Carter, "China's Trade Integration and Impacts on Factor Markets," in OECD, *China's Agriculture in the International Trading System*, 76.

²²Wang Shaoguang and Hu Angang, *The Political Economy of Uneven Development: The Case of China* (Armonk, N.Y.: M.E. Sharpe, 1999); and Dali Yang, *Beyond Beijing: Liberalization and the Regions in China* (London: Routledge, 1997).

Table 1
Farmer Income and Distributional Disparities (1980-2001)

Year	Per capita annual income (yuan)	Nominal growth rate (%)	Net income growth rate (%)	Overall Gini coefficient	Provincial Gini coefficient
1980	191.3	—	—	0.238	0.14
1981	223.4	16.8	14.5	0.239	0.13
1982	270.1	20.9	18.5	0.232	0.13
1983	309.8	14.7	13.3	0.246	0.14
1984	355.3	14.7	11.3	0.258	0.15
1985	397.6	11.9	4.0	0.264	0.15
1986	423.8	6.6	0.4	0.288	0.18
1987	462.6	9.2	2.7	0.292	0.18
1988	544.9	17.8	0.3	0.301	0.19
1989	601.5	10.4	-7.5	0.300	0.19
1990	686.3	14.1	9.2	0.310	0.20
1991	708.6	3.2	0.9	0.307	0.20
1992	784.0	10.6	5.7	0.314	0.21
1993	921.6	17.6	3.4	0.320	0.22
1994	1,221.0	32.5	7.4	0.330	0.22
1995	1,577.7	28.9	10.0	0.340	0.23
1996	1,926.1	22.1	13.1	0.394	0.28
1997	2,090.1	8.5	5.6	0.408	0.30
1998	2,162.0	3.4	4.3	0.414	0.30
1999	2,210.3	2.2	3.1	0.418	0.31
2000	2,253.4	1.9	2.1	0.421	0.31
2001	2,366.4	5.0	4.2	—	—
2002	2,475.6	4.6	4.8	—	—
2003	2,622.0	5.9	4.3	—	—

Sources: National Bureau of Statistics, *China Statistical Yearbook 2000-2003*, 312, 344; and Lu Yao and Wang Zhaoyang, "'Nongcun jumin shouru shuiping yu fenpei chaju de shizheng fenxi" (An empirical analysis of disparities in farmer income and distribution), *Zhongguo nongcun jingji* (Chinese Rural Economy), 2001, no. 6: 19. For 2001 data, see Niu Ruofeng, "Farmer Income and Dual Structure Policy," www.aweb.com.cn/2002/12/23/2002122394910.htm; for 2002 data, see www.aweb.com.cn/2003/3/10/200331083123.htm; and for 2003 data, see *Renmin wang*, February 9, 2004, www.peopledaily.com.cn/GB/jingji/1037/2327776.html.

Both the former and current Chinese premiers have openly admitted that the issue that causes them the most headaches is how to raise farmer income.²³

One of the main reasons for the slow growth of farmer income is the declining income from agricultural production. After a short period of sporadic but substantial grain imports in the mid-1990s, China began to produce considerable amounts of cereal in excess of domestic consumption. The surplus from four bumper grain harvests in a row was stimulated by input subsidies (especially fertilizer, pesticide, and water) as well as by administrative pressure on farmers to expand grain production, notably through the "governors' grain responsibility system," a policy program introduced in 1994.²⁴

Bumper harvests and subsequent high domestic cereal stocks occurred at a time of profound changes in the consumption pattern exhibited by both urban and rural residents. One such change has been the decrease of the Engel coefficient and the associated decline in the income elasticity of demand for food.²⁵ Since the beginning of reform, the Engel coefficients of China's urban and rural households have fallen from 57.5 and 67.7 percent in 1978 to 37.7 and 46.2, respectively, in 2002 (see table 2). According to one study, for urban residents, income elasticity of the demand for food has fallen from around 1.0 in the early 1980s to about 0.508 in 1996. Between 1997 and 1999, it dropped even more sharply to 0.379, 0.327, and 0.222, respectively. For rural residents, the rate dropped from above 1.0 in the 1980s to 0.58 in 1999.²⁶ The traditional way to raise farmer

²³"How to Increase Peasant Income, the Biggest Headache for Zhu Rongji," *Lianhe zaobao* (United Morning Post), March 16, 2002.

²⁴Josef Schmidhuber, "Changes in China's Agricultural Trade Policy Regime: Impacts on Agricultural Production, Consumption, Prices, and Trade," in OECD, *China's Agriculture in the International Trading System*, 21-22.

²⁵The Engel coefficient is an indicator reflecting the proportion of income that goes into the consumption of food. Income elasticity of demand is the ratio of proportional increase in quantity demanded to proportional increase in income, with all prices held constant.

²⁶Zhou Haicun, "Chengxiang shipin xuqiu dui nongmin shipin shengchan shouru de yingxiang yanjiu" (The impact of urban-rural food demand on farmer income from agricultural production), *Zhongguo nongcun jingji* (Chinese Rural Economy), 2001, no. 6:25-29.

Table 2
Engel Coefficients for Rural and Urban Households
(Selective Years 1978-2002)

Year	Rural residents	Urban residents	Year	Rural residents	Urban residents
1978	67.7	57.5	1995	58.6	50.1
1980	61.8	56.9	1996	56.3	48.8
1985	57.8	53.3	1997	55.1	46.6
1989	54.8	54.5	1998	53.4	44.7
1990	58.8	54.2	1999	52.6	42.1
1991	57.6	53.8	2000	49.1	39.4
1992	57.6	53.0	2001	47.7	38.2
1993	58.1	50.3	2002	46.2	37.7
1994	58.9	50.0			

Source: National Bureau of Statistics, *China Statistical Yearbook 2003*, 344.

income through increases of urban and rural food consumption has thus become increasingly less important. The resulting excess of supply over demand for most farm produce has led to difficulties in sales, falling prices, and slower growth of farmer income. From 1997 to 1999, prices of major agricultural produce relative to the 1996 price index of 100 were 95.5 percent, 92 percent, and 87.8 percent, respectively.²⁷ In response, the government allocated special funds to state-owned and other authorized grain enterprises allowing them to monopolize grain purchases at protection price and then to sell grain at a price above the purchase price in order to make a profit. This policy is designed to protect farmer interests by stopping the fall of grain prices. According to Dewen Wang, however, since the monopoly is not complete and the market price was lower than the protection and quota prices, the state grain enterprises are not selling grain at the market-clearing price for a loss. This has resulted in both over-

²⁷CCP Central Committee Policy Research Center and the Ministry of Agriculture, "Jiuwu qijian Zhongguo nongmin shouru zhuangkuang de shizheng fenxi" (An empirical analysis of Chinese farmer income during the ninth five-year plan), *Nongcun jingji wenti* (Issues of Agricultural Economy), 2001, no. 7:4.

stocking and the reported refusal of state grain stations to purchase farmer grain at protection price. With China's accession to the WTO, high quality cheap imports (often heavily subsidized by the exporting countries) will continue to drive down domestic grain prices and thus further erode the growth of farmer income. The impact of this could well lead to fundamental changes in China's grain production and trade.²⁸

The above highlights the deep-rooted contradictions in China's agricultural sector. The structural problem facing Chinese agriculture is that bumper grain harvests were achieved with low quality and productivity. In 2001, the share of China's GDP generated by agriculture fell to 15.8 percent while the share of agricultural labor in total employment was still 50 percent. (see fig. 1). With much of this labor force both redundant and not very productive, agricultural production has tended to grow without corresponding increases in farmer income. Slow income growth for farmers leads to widening income disparities between rural and urban residents. According to the deputy director of the National Bureau of Statistics, Qiu Xiaohua (國家統計局副局長邱曉華), the real ratio of urban-rural income disparities in 2001 was about 6:1.²⁹ This situation is most likely to worsen given China's accession to the WTO. One study predicts that by 2005, rural income will fall by 2.1 percent while urban income will increase by 4.6 percent.³⁰ As mentioned previously, while major grain prices are on the rise again due to a recent drop in output, gains to farmer income will be largely cancelled out by the increasing costs of production inputs. Thus, as former Premier Zhu Rongji (朱鎔基) has warned, China has already reached the point that it cannot develop its economy without making structural adjustments.³¹

²⁸Dewen Wang, "China's Grain Economy Toward Trade Integration: Policy Adjustment and Trade Implications," in OECD, *China's Agriculture in the International Trading System*, 215-16.

²⁹See "Chengxiang jumin shouru kuoda zhide jingti" (Widening urban-rural income gap demands attention), *Zhongguo qingnian bao* (China Youth Daily), www.aaweb.com.cn/2002/11/2/2002112110109.htm.

³⁰Liu Chao and Kang Shouyong, "WTO he Zhongguo: xin qipaoxian shang de shiye" (WTO and China: prospective on a new starting line), *Jingji ribao*, November 13, 2001.

³¹"Zhu Warns of WTO Pitfalls," *South China Morning Post*, March 6, 2001.

Structural Adjustment

The change in the structure of its labor force is a great challenge facing China following its WTO accession. A predominantly rural society with most of its labor employed in agriculture must be transformed into a much more urban society with a majority of its labor employed in manufacturing and services. While WTO membership may accelerate the process of change, a quiet transformation of agriculture has already begun. According to Lardy, since the early 1990s, around 4 million jobs each year have been shed in agriculture and many of the remainder have shifted out of grain production.³² As currently defined, "rural" also includes rural migrant workers in urban areas even though many of them are working there on a long-term basis. Therefore, according to another study, over one-third (34.2 percent) of the rural labor force is no longer employed in farming activities.³³

In 2002, of China's population of 1.285 billion people, 60.91 percent lived in rural areas, down from 82 percent in 1978 (see fig. 1). According to one study, China's urban (city and township) population grew at an annual rate of 2.66 percent between 1995 and 1999, slightly higher than the world annual average rate of 2.5 percent.³⁴ Clearly, China's WTO accession can only reinforce the urbanization process that poses increasing pressures on changing such existing institutional barriers as the *hukou* (户口, household registration) system, grain procurement policy, and farmland policy.³⁵

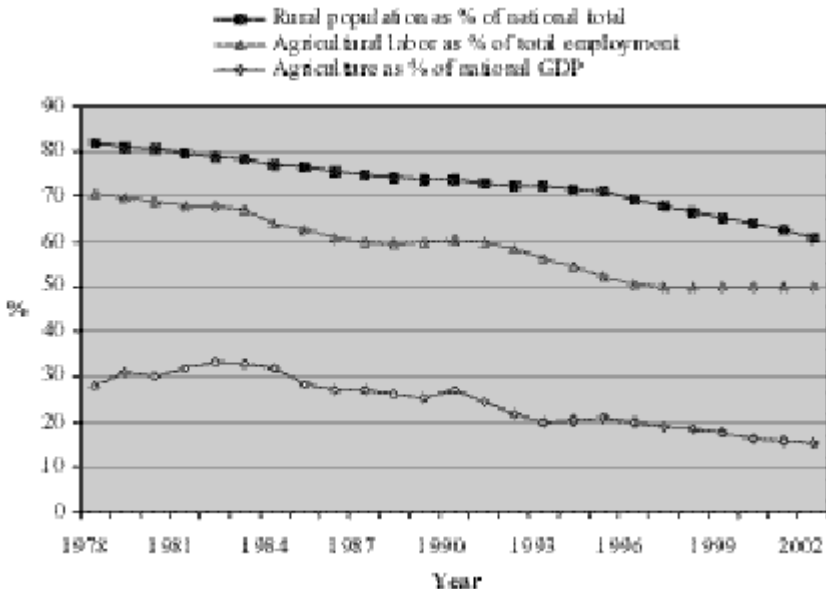
³²Lardy, *Integrating China into the Global Economy*, 114.

³³Athar Hussain, "Coping and Adapting to Job Losses and Declines in Farm Earnings" (Paper presented at the World Bank Panel, "WTO Accession, Policy Reform, and Poverty Reduction," December 14, 2002), 23. Another study puts the figure at 32.7 percent while pegging employment in farming (including forestry, animal husbandry, and fisheries) at 67.3 percent. See "Xiangzhen qiye fazhan gaibian woguo jingji buju" (The development of township and village enterprises changes the economic landscape of China), www.aweb.com.cn/2002/10/20/20021020115518.htm.

³⁴Pan Wenqing, "Woguo noncun shengyu laodongli de zhuanyi qianjing" (Prospect of transferring redundant rural labor in China), *Liaowang zhoukan* (Liaowang Newsweek), 2001, no. 13:40-41.

³⁵K.W. Chan and Zhang Li, "The *Hukou* System and Rural-Urban Migration in China: Processes and Changes," *The China Quarterly*, no. 160 (December 1999): 819-55.

Figure 1
Agriculture in the Chinese Economy



Source: *China Statistical Yearbook 2003*, 56, 97, 124.

Note: Agricultural labor includes those engaged in both grain and non-grain production.

Structural changes will also have to occur in agricultural production. Given that most Chinese farms are barely large enough to provide for the needs of the families working on them, there is no way these small peasant farmers can compete successfully with multinational agribusiness. According to official statistics, by mid-1998, China's farmland totaled less than 0.08 hectares per capita, less than 25 percent of the global average.³⁶ Given the acute shortage of arable land and the worsening water supply in major grain-growing areas, China has no comparative advantage in the production of such land- and water-intensive crops as grain. Some economists even claim that grain imports are the equivalent of land and water

³⁶Vaclav Smil, "China's Agricultural Land," *ibid.*, no. 158 (June 1999): 414-29.

imports.³⁷ Moreover, the four-year transition period specified in China's WTO commitments will allow China time to shift production and trade patterns in the agricultural sector to areas more in line with the country's comparative advantage, such as the production of fruits, organic vegetables, flowers, and other labor-intensive crops. Largely in response to relative price changes, farmers have already begun moving away from land-intensive crops (such as grains and oilseeds) and towards the growth of more labor-intensive vegetables and horticultural crops.³⁸ From the mid-1990s, farmers in Shandong (山東) and Hebei (河北) provinces began to move away from growing traditional grain crops to producing vegetables and other specialty agricultural products for export to South Korea and Japan. By 2000, China provided 40 percent of Japan's imports of fresh vegetables.³⁹ In response to pressures from farmers, however, the South Korean government imposed punitive tariffs on imports of Chinese garlic in 2000, and then in April 2001 the Japanese government imposed punitive tariffs on Chinese imports of shiitake mushrooms, green onions, and rushes used to make tatami mats; by September of that year, Japanese imports of Chinese mushrooms, onions, and rushes dropped by 51 percent, 74 percent, and 61 percent, respectively.⁴⁰ Both incidents touched off trade wars when China retaliated by imposing punitive tariffs on Korean and Japanese imports. More recently, the United States, Japan, and the European Union have increasingly resorted to sanitary regulations (green barriers) to restrict agricultural imports from China. If protectionist measures like these continue, the process of adjustment in Chinese agriculture will be much more difficult.⁴¹

³⁷See, for instance, Justin Yifu Lin, "WTO Accession and China's Agriculture," *China Economic Review* 11, no. 4 (Winter 2001): 405-8.

³⁸Jikun Huang, Scott Rozelle, and Linxiu Zhang, "WTO and Agriculture: Radical Reforms or the Continuation of Gradual Transition," *ibid.*, 397-401; and Liu Xiaochen, "Sige zhanlue tiaozheng, quebao zengjia nongmin shouru" (Four strategic adjustments to ensure growth of farmer income), *Jingji ribao*, October 26, 2001.

³⁹Lardy, *Integrating China into the Global Economy*, 169-70.

⁴⁰"Sino-Japan Trade Spat Hurts Chinese [Agricultural] Exports," www.chinaonline.com, November 1, 2001.

⁴¹Wu Xuean, "Luse bilei zhuzhi woguo nongye chukou" (Green barriers block China's agricultural exports), *Jingji ribao*, January 1, 2003.

It should be pointed out that the structural change in agricultural production is also likely to reinforce existing regional disparities. While farmers along the eastern coastal region can switch from growing grain to the production of fruits, organic vegetables, and other specialty agricultural products for the export market, farmers in major grain-growing regions in the interior will most likely be hurt by cheap grain imports. Even if the inland farmers can also switch to growing fruits and vegetables, they will likely find it extremely difficult to transport these products to foreign markets given their lack of such necessities as proper packaging, storage technologies, access to port facilities, and proper transportation infrastructure.

Agrarian Crisis and Institutional Change

A more important immediate impact of China's WTO entry is the heightened urgency for the government both to tackle the growing agrarian crisis and to restructure local institutions of governance. State-peasant relations have been increasingly strained, even prior to China's WTO accession. The old problems of excessive taxation, illicit fees, charges, and fines have caused widespread discontent and growing instability in rural areas.⁴² There were increasing reports of rural violence, petition, and protests in the 1990s. According to one study, in 1996-97 various forms of public protests—like parades, demonstrations, and petitions—occurred in thirty counties in nine provinces with the participation of approximately 380,000 peasants.⁴³ During the first half of 1998, according to another study, a total of 3,200 incidents of collective action occurred in rural China

⁴²For a general overview of such problems, see Thomas P. Bernstein and Xiaobo Lu, *Taxation Without Representation in Contemporary Rural China* (Cambridge, U.K.: Cambridge University Press, 2003); "Er bai yu wan ren ci de kangzheng fenghuo" (Over two million cases of protests), *Cheng Ming*, no. 307 (May 2003); "A Rural Dilemma," *Asiaweek*, February 23, 2001; and "Agriculture: How to Build a Rebellion," *Far Eastern Economic Review*, September 29, 2001.

⁴³Kevin J. O'Brien, "Collective Action in the Chinese Countryside" (Review Essay), *The China Journal*, no. 48 (July 2002): 141.

with more than 420 of these involving conflicts in which angry farmers surrounded local government buildings; a total of 7,400 casualties were officially reported, including the wounding of more than 1,200 local officials and police.⁴⁴ One internal document reports that in 1999 one township in Qixian, Henan Province (河南省杞縣), organized a task force to collect by force various fees from farmers, a move that has led to massive violence; as a result, many have been arrested and even wounded in clashes with local officials and police.⁴⁵ In 2002, there were more than 37,500 cases of public protests in rural areas involving more than 12 million people.⁴⁶ In 2003, there were 55 and 74 reported cases of collective action in Shandong and Henan provinces, respectively, in which peasants surrounded local government buildings.⁴⁷ In the last two months of 2003, more than 330 cases of disturbances involving 1.89 million people were reported.⁴⁸ This rural unrest may become a more serious problem following China's WTO entry, especially among peasant farmers in the grain-growing regions in the interior (central and western) provinces where rural industrialization remains too underdeveloped to provide alternative sources of employment and income for farmers. With WTO accession, there has been mounting pressure to reform the existing tax system. Consequently, there is a move to restructure local governance institutions that currently impose heavy financial burdens on farmers (and thereby undercut China's only limited support for agriculture).

Under these circumstances, the government held a series of national conferences throughout the 1990s and issued numerous decrees instructing

⁴⁴Jonathan Unger, *The Transformation of Rural China* (Armonk, N.Y.: M.E. Sharpe, 2002), 213.

⁴⁵Zhao Yang, "Nongcun shuifei gaige: baogan daohu yilai youyi zhongda zhidu chuangxin" (Tax-for-fee reform in the countryside: another important institutional innovation since the household responsibility system), *Zhongguo nongcun jingji*, 2001, no. 6:45.

⁴⁶"Hu jinggao fubai bimin geming" (Hu warns: corruption pushes people to revolution), *Cheng Ming*, no. 306 (April 2003): 9.

⁴⁷"Hu Jintao xiaxiang mudu canzhuang" (Hu Jintao sees dire situation in rural areas), *ibid.*, no. 315 (January 2004): 11.

⁴⁸"Jin erbai wan nongmin canyu kangzheng" (Nearly two million peasants participate in protests), *ibid.*, no. 314 (December 2003): 16-18.

local governments to reduce the burdens on farmers. For example, the State Council issued a decree in 1991 clearly stipulating that the total fees and tax burden for rural residents must be kept within 5 percent of the net income of the previous year and in 1993 it cancelled 37 fees imposed on peasants. Despite these efforts, however, fees and taxes continued to add up to between 10 to 30 percent of peasant net income.⁴⁹

The failure to reverse the deteriorating situation with regard to the financial burden on farmers raised serious doubts about the effectiveness of central government policies. The potentially explosive situation and the growing pressure for structural adjustment in agriculture following WTO entry led the central government to accelerate local initiatives to reform the institutions of local governance. Politically, the central government promoted village elections in order to both increase the transparency of village government and curb corruption by local officials. Economically, the government is currently expanding the experimental tax-for-fee reform (see below) intended to reduce the financial burden on farmers.

While it is too early to draw definitive conclusions about the merits and problems of village elections, tentative evidence suggests that these elections have been somewhat effective in increasing the financial transparency of villages and curbing the abuses of power and corruption by local officials. For example, Oi and Rozelle have found that some villages publicly post detailed accounting of village expenditures; in others, the *tiliu* (提留; an elastic "deduction" that households have to pay for using land and other facilities belonging to the collective) amounts are now openly posted. They also found that some village committees have acquired veto power in regard to the general use of village resources.⁵⁰ If such changes are widespread, they may potentially improve the tenuous nature

⁴⁹Chai Pengyi and Zhou Jiehong, "Yanhai fada diqu nongmin dui shuifei fudan de xintai" (Peasants' attitudes towards tax-and-fee burdens in the developed coastal regions), *Zhongguo nongcun jingji*, 2000, no. 4: 66-67; and Qunjian Tian, "China's New Urban-Rural Divide and Pitfalls for the Chinese Economy," *Canadian Journal of Development Studies* 22, no. 1 (2001): 173-74.

⁵⁰Jean C. Oi and Scott Rozelle, "Elections and Power: the Locus of Decision-Making in Chinese Villages," *The China Quarterly*, no. 162 (June 2000): 513-39.

of local state-peasant relations, transform local institutions of governance, and promote rural stability.

Another major experiment is the tax-for-fee reform (稅費改革, *shuifei gaige*), which was first implemented in Anhui Province (安徽省) and, after a temporary suspension in mid-2001, is now being tried in more than twenty provincial units.⁵¹ The tax-for-fee reform is designed to reduce the burden on farmers, an especially important move in light of the impact that China's WTO accession is having on already stagnant peasant income.⁵² Hailed as a third revolution (after land reform and the household responsibility system), tax-for-fee reform, in essence, aims to replace various taxes, fees, and charges with a simplified tax system. In Anhui, only two taxes now remain after the reform: a 7 percent agricultural tax (or an equivalent tax on specialty agricultural products) and an "agricultural tax plus" (農業稅附加, *nongye shui fujia*) which is set at no more than 20 percent of the agricultural tax. Combining the two, the overall tax is about 8.4 percent. Slaughter taxes, "expenses" (統籌稅, *tongchou shui*; imposed and used by local governments), and rural education fees (funding for rural education is taken over by higher levels of government) have been abolished. "Volunteer" labor is being phased out within three years. Construction of water control projects, bridges, roads, and other public projects is approved by villages' congress on a case-by-case basis. *Tiliu* will be used

⁵¹Unless otherwise noted, all information on the tax-for-fee reform is taken from "Shuifei gaige zai Anhui" (Tax-for-fee reform in Anhui), *Banyuetan* (China Comment), no. 484 (June 25, 2000); "Zai Anhui kan shuifei gaige" (Look at tax-for-fee reform in Anhui), *Jingji ribao*, November 27, 2001; and "Shuifei gaige zheng jiji wentuo fenbu shishi" (Tax-for-fee reform carried out smoothly), *ibid.*, June 28, 2002.

⁵²As mentioned earlier, China's current agricultural subsidies are at a low 2-3.5 percent of the country's total agricultural output, which is far below the 8.5 percent compromise reached after long and tough negotiations for China's WTO entry. If one takes into account the various taxes, fees, and charges that farmers have to bear, real farm subsidies in China are negative. Even this hard-fought compromise does not really mean much for Chinese farmers, at least in the short run, because the Chinese government would be hard-pressed to afford more than the current level of subsidies. Given the number of rural households in China and the difficulties for the government to administer not only direct transfer payments to rural households but also other "green box" measures, the only viable option of farm support left now is to reduce the financial burden on farmers. As mentioned above, however, the government has been trying to do this for many years with little success.

to support village government functioning and to assist those without other forms of support (五保戶, *wubaohu*). The new tax system is much simplified and has drastically reduced the financial burden which has been the main source of rural discontent. In Anhui, such financial pressures were reduced by 35.6 percent, and in Jiangsu (江蘇), 30 percent.

With reduced collection of various fees and funds comes pressure to streamline the local administrative structure. In some counties in Anhui, administrative units have been reduced between 50 to 85 percent following the reform. In Jiangsu, the number of townships and villages has been reduced by 30.4 percent and 38.2 percent, respectively. By the end of 2003, more than 38,290 townships have been eliminated nationally, a reduction of 47 percent since 1987 and 16 percent since 1999. Much leaner now, many local governments have retreated from races for completion of projects (達標, *dabiao*) that have been the source of various fees and levies, and have focused instead on the provision of basic infrastructure.⁵³

The twin reforms of village elections and tax-for-fee reform have the potential to stabilize rural areas by transforming local institutions of governance. They have, however, also created new problems or exacerbated existing ones, and may well change the way the government works at the local level. For example, while having drastically reduced the financial burden on farmers, the tax-for-fee reform has also precipitated severe budget crises at the local level; such financial problems threaten the continuous functioning of many local governments, especially in poor agricultural regions. According to several reports, by the end of 1999 total accumulated debt at the township level across the country was as high as 222 billion *yuan*, an average of about 4 million *yuan* for each township.⁵⁴

⁵³"Zhongguo xiangzhen chebing shiyi sheng tisu zhudi dingwei bu 'yi dao qie'" (Accelerated reduction of townships but no one method is required), *Caijing shibao* (Financial & Economic Times), March 19, 2004; and "Jiangsu shuifei gaige de xinwen diaocha" (An investigation report on tax-for-fee reform in Jiangsu), *Jingji ribao*, December 6, 2001.

⁵⁴Research Group under the State Council Development Research Center, "Xiangzhen caizheng chizi yu zhaiwu yanjiu baogao" (Research report on township budget deficits and debts), November 1, 2002, www.aweb.com.cn/2002/11/1/200211182716.htm; and Liu Zifang, "Xiangzhen caizheng chizi yuanyin yu duice" (The cause and policy response to township budget deficits), *Jingji ribao*, July 9, 2002.

A more recent report estimates that the combined total of local government debt at the township and village levels could be as high as 500 billion *yuan* and is still increasing by about 20 billion *yuan* every year.⁵⁵ As a result, many township and village governments do not even have funds to pay their employees and teachers. The central government is not sympathetic, however. Rather, as Unger points out, Beijing perceives the local budget crises as an opportunity to force the local governments to streamline local administration by trimming the number of their employees.⁵⁶

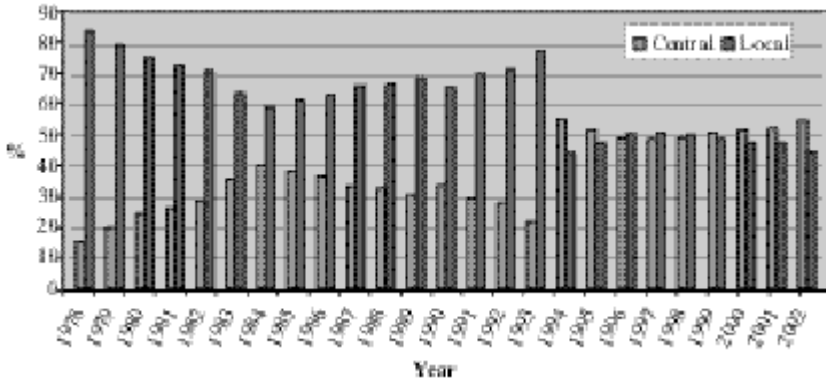
For many years, scholars and the central government have both blamed local governments for all the problems in the countryside and have argued for strengthening the state's capacity to extract more financial resources. Neglected is the spending end of the equation, especially the downward trend of dividing expenditure responsibilities among levels of government. Through the 1994 tax assignment reform and the 1996 reform of off-budget revenues, "the central government had augmented its tax base and modified the rules of the game in order to raise the central share of national budgetary revenues, and at the same time transferred expenditure responsibility downwards to lower-level governments" (收入與責任位移現象, "*shouru yu zeren weiyi*" *xianxiang*).⁵⁷ For the most part, the decline of the central government's share of revenue has been more than matched by the corresponding decline of its share in total government expenditure. After the 1994 tax assignment reform, the central government's share of total government revenue reached parity with that of local governments. Beijing's share of total government spending has continued to decrease, however. For example, in 1994, 1999, 2000, 2001, and 2002, the central government's share of total revenue was about 26 percent, 4.5 percent, 9 percent, 10 percent, and 22 percent, respectively, while local gov-

⁵⁵"Xiangzhen jiceng caizheng fuzhai wuqian yi, tizhi gaige husheng rijing poqie" (Local government debt at 500 billion *yuan*, institutional reform urged), www.aweb.com.cn/2004/4/4/200444103913.tm..

⁵⁶Unger, *The Transformation of Rural China*, 217.

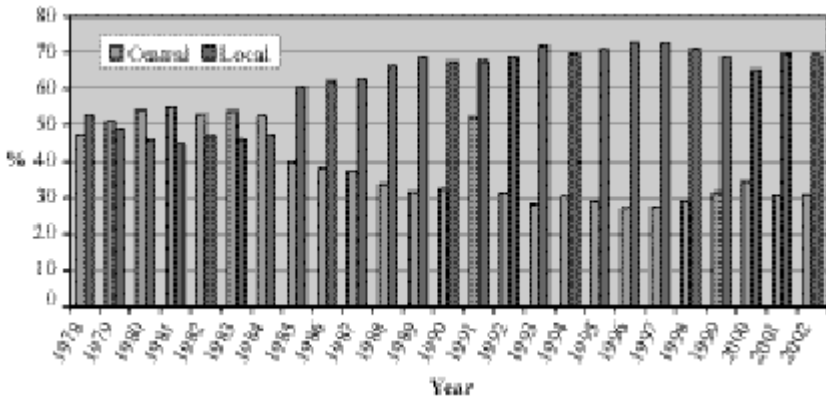
⁵⁷Pak K. Lee, "Into the Trap of Strengthening State Capacity: China's Tax-Assignment Reform," *The China Quarterly*, no. 164 (December 2000): 1021-22.

Figure 2
Central and Local Revenue Share



Source: *China Statistical Yearbook 2003*, 287.

Figure 3
Central and Local Expenditure Share



Source: *China Statistical Yearbook 2003*, 288.

ernments' share was less. Beijing's share of total government spending was, however, only 43.4 percent, 46 percent, 53.2 percent, 43.9 percent, and 44.3 percent of that of local governments, respectively (see figs. 2 and 3.) Even after adjusting to the standard international classification, the central government's share of total government expenditures after the tax

assignment reform is still only about one-third of the total.⁵⁸

As the central government transfers more and more of its obligations (including expenditures on education, health, family planning, pension and social welfare funds, price subsidies, and fixed capital investment) to local governments, local budgets—especially those in the poor agrarian regions—become increasingly squeezed between the centralization of revenues and the simultaneous decentralization of expenditure responsibilities. The central government oftentimes sponsors various programs without matching funds; these programs, in turn, translate into various fees and charges levied on the farmers. Therefore, it is unfair and irresponsible to blame local governments for all the problems in rural areas. The central issue facing China today is not just whether the central government can collect money and how much it can collect, but more about how the government spends that money. The government must maintain "a reasonable balance between the demands of extraction, the expectations of service deliveries, and participation" (財權與事權的統一, *caiquan yu shiquan de tongyi*).⁵⁹ The current agrarian crisis in China can therefore be traced to an imbalance between resource extraction and obligations of service deliveries. For example, although overstaffing of local bureaucracies may exist, the largest item in local budget outlays is education, which, on average, constitutes about half of local budgets. In many of the poor interior regions, outlays for education can be as high as 70 percent of local budgets.⁶⁰ In one study of three counties in Hubei (湖北), Henan, and Jiangxi (江西) by the State Council Development Research Center (國務院發展研究中心), between 70-80 percent of township budgets and 50-60 percent of county budgets have been spent on education.⁶¹ Most of this

⁵⁸National Bureau of Statistics, *China Statistical Yearbook 2003* (Beijing: China Statistical Press, 2003), 287-88.

⁵⁹Lee, "Into the Trap of Strengthening State Capacity," 1009, 1023.

⁶⁰"Guanyu 2002 nian nongcun shuifei gaige shidian de chengxiao, wenti yu jianyi" (Tax-for-fee reform in 2002: achievements, problems, and suggestions), www.aweb.com.cn/2003/2/21/20032211206.htm.

⁶¹"Nongmin zengshou xiancong jianshui rushou" (Tax reduction to boost peasant income), *Nanfang nongmin bao* (South Farmers' News), March 29, 2002.

money comes from fees collected from farmers. In another survey of ten townships in three counties in Anhui, teachers' salaries constituted an average of 75.2 percent of all salary expenses, with the highest being 93.1 percent; about 70 percent of all those on local government payrolls are teachers; and officials and other staff constitute less than 15 percent.⁶² Teachers' salaries constitute an average of 65 percent of township government payrolls nationally.⁶³ Part of the education expense comes from local obligations to implement central government programs promoting nine-year compulsory education. While the central government promulgated a law on compulsory education in 1987 and another law on education in 1995, Beijing's share of expenditures on compulsory education is only 2 percent—compared with 78 percent provided by township governments, 9 percent by county governments, and 11 percent by provincial governments.⁶⁴

The imbalance between financial resources and service obligations becomes obvious when we look at the revenue side. After the tax assignment reform in 1994, the central government's share reached about 50 percent of total government revenue. In 2002, the figure reached 55 percent, or even 60 percent if we include the provincial governments' share; at the same time, the share of total government revenues by county and township levels of government was only about 20 percent.⁶⁵ Given the cancellation of rural education fees and other ad hoc charges as part of the tax-for-fee reform and the worsening township budget crises, many rural schools have gotten into severe financial difficulties. Many teachers have left either because they are not paid or are underpaid. This exodus, in turn,

⁶²Zhao, "Nongcun shuifei gaige," 50.

⁶³Chen Xiwen, "Nongcun shuifei gaige yuan bu zhi nongmin jianfu wenti" (Rural tax-for-fee reform is not just about reducing farmer burden), www.aweb.com.cn/2002/8/11/2002811105001.htm.

⁶⁴"Nongcun yiwu jiaoyu caiquan yu shiquan bu duicheng" (Compulsory education in the rural areas: the imbalance between financial resources and service obligations), *Jingji cankao bao* (Economic Reference News), www.aweb.com.cn/2002/8/5/200285151937.htm.

⁶⁵Xie Yang, "Nongcun yiwu jiaoyu: zhongyang qianzhang taiduo" (Rural compulsory education: the central government owes too much), www.aweb.com.cn/2002/12/18/2002121884651.htm.

has caused deterioration in the quality of education in many rural areas.⁶⁶ In response, the State Council has decided to put the responsibility of rural compulsory education to county-level governments, especially for payment of teacher salaries. County government budgets are not necessarily better, however, especially in the poor agrarian regions in the interior. According to one researcher from the Ministry of Finance, 31.8 percent and 35.5 percent of county-level government budgets were in the red in 1998 and 1999.⁶⁷ Another report estimated that by 1999 total accumulated debt at the county level of governments was somewhere between 600 to 900 billion *yuan*.⁶⁸ While the central government and provincial-level governments have promised more financial transfers to help cover the costs, this support is more likely to be handled in an ad hoc manner rather than based on a clear division and institutionalization of responsibilities between the different levels of governments.

Thus, efforts to restructure power and authority in rural China have precipitated a budget crisis that threatens the fiscal viability of many local governments, especially those in poor regions. This crisis, in turn, has exposed a deep structural problem with the Chinese political economy: the discrepancy between extraction demands and service obligations. On the one hand, local officials are continuously subjected by the cadre evaluation system to certain performance criteria that requires them to be proactive. On the other hand, the ability of these officials to live up to such criteria is increasingly restrained by the political and fiscal constraints resulting from recentralization of financial resources and the twin reforms of village election and tax-for-fee reform. Consequently, as Prasenjit Duara described about an earlier period of state building in north China and its impact on the weakening of local authority: "The symbolic and material rewards of

⁶⁶"Dalu nongcun jiaoshi xindi liushi, duo xuexiao wufa kaike" (Many rural schools stop classes as rural teachers leave because of low pay), *www.chinesenewsnet.com*, April 11, 2003.

⁶⁷Xue Xiaohu, "Caizheng ying jiada dui nongcun jichu jiaoyu zhichi lidu: fang Su Ming" (Central budget should increase support for rural basic education: an interview with Su Ming), *Jingji ribao*, October 8, 2002.

⁶⁸Lian Junwei, "Dalu jiceng zhengfu caizheng xian kunjing" (Local government budget crisis in mainland China), *Gongshang shibao* (Commercial Times) (Taipei), August 12, 2002.

a career in public office were gradually being outweighed by the increasingly onerous nature of the tasks involved."⁶⁹ Similar to Duara's account, the plight of many local officials is so unenviable that there are already reports of local officials who are choosing to relinquish their leadership positions.⁷⁰ The political vacuum caused by the crisis of local governance creates ample room for the reemergence of lineage, religious, cult, and even criminal organizations. The rise of these organizations, the budget crisis, and the decay of local institutions of governance all have the potential to seriously undermine an important link between the state and society in China's rural areas.

Conclusion

There is no question that China's WTO accession will pose serious challenges to its fragile agricultural sector as the country's economy undergoes a major transformation from being a predominantly rural society to becoming a modern urban one. In the short run, China's WTO accession may lead to increasing unemployment, stagnant income growth for farmers, and widening urban-rural and regional disparities. As many economists point out, however, a focus only on the most vulnerable sectors can be misleading. Any analysis of the coming challenges to the Chinese economy should also consider the potential long-term gains in terms of new opportunities and increased economic efficiency. The textile industry, higher value-added agricultural exports, and light manufactured goods are all promising sectors that can benefit from both a more stable trading environment and greater access to foreign markets. Along with both the opening of more sectors to private and foreign investment and the emergence of other service sector jobs, these newly created opportunities may help absorb some of the labor displaced from agriculture.

⁶⁹Prasenjit Duara, *Culture, Power, and the State: Rural North China, 1900-1942* (Stanford, Calif.: Stanford University Press, 1988), 218.

⁷⁰Interview by author, summer 2003.

More importantly, the expected challenges posed by China's extensive commitments to market access have created a new and heightened urgency to reduce the financial burden on farmers and to revamp local institutions of governance. For many years, agriculture has largely been neglected and Chinese peasants have been treated as "second-class citizens" who pay heavy taxes but are excluded from state-sponsored welfare benefits in education, health care, and infrastructure. Concern over the potential impact of WTO accession on the fragile agricultural sector has successfully pushed the agrarian crisis to the top of government priorities. With the ongoing village election and tax-for-free reforms, peasants have already benefited not only from reduced financial burdens but also more transparent, responsive, and effective government.

Efforts to restructure local institutions of governance through village elections and tax-for-free reforms have, however, precipitated a budget crisis that threatens the fiscal viability of many local governments. If not reversed, the situation could seriously undermine the effectiveness of the reach of the state at the local level and cause further strains to the already tenuous relations between the state and peasants in rural areas.

The momentum to restructure China's agriculture and defuse the potentially explosive agrarian crisis continues with the new government of Hu Jintao (胡锦涛) and Wen Jiabao (温家宝). At the beginning of 2004, the central government released an all-important "Document No. 1" (一號文件, *yihao wenjian*) that focuses almost exclusively on issues related to agriculture and farmer income. As part of the new initiative to ease the financial burden on farmers, the government has decided to eliminate the specialty agricultural tax (except the tax on tobacco) and has promised to reduce the agricultural tax by 1.2 percentage points each year for the next five years so that by the end of the five-year period, the agricultural tax would be reduced to about 2.4 percent. To ensure the success of this new policy initiative, the central government plans to allocate 7 billion *yuan*.⁷¹

⁷¹"Guojia zhongce chujie 'sannong,' nongye shuifu ni wunian jianzhi 2.4%" (The state issues important policy to deal with "agrarian crisis," agricultural tax to be reduced to 2.4% in five years), *Caijing shibao*, February 15, 2004.

In addition, pressures are mounting to revamp the *hukou* system, speed up the urbanization process, and end discriminatory measures against migrant workers in terms of the current lack of equal access to both employment and education opportunities for their children. In this sense, China's WTO entry might turn out to be a blessing in disguise because it would not only force an adjustment of state economic strategy and improve institutions of governance, but would also help facilitate a profound transformation of China into a more just society.

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