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Comment

Kym Anderson

In this chapter, the authors seek to resolve an apparent paradox: agricultural protection has been reduced in China, and yet the rural sector seems to have prospered, and rural poverty has fallen in all regions. According to Ravallion, Chen, and Sangruala (2007), the share of China's rural population living on less than $1 a day fell from 39 percent in 1993 to 22 percent by 2002.

Huang et al.'s explanation is also capable of resolving a related paradox: China's relatively low endowment of land per worker (below 30 percent of the global average) and rapid industrialization would lead one to expect its agricultural comparative advantage and net exports of farm products to have diminished over time, yet China has remained close to 100 percent self-sufficient in agricultural goods since the reforms began in the late 1970s.[1]

The resolution to both of these paradoxes lies mainly in reforms to price, trade, and fiscal policies affecting farmer incentives and net transfers to farm households in China. The authors report empirical results from their country case study contribution to a multicountry World Bank research project on agricultural price distortions (Huang et al. 2007), as well as qualitative information on some other recent policy changes, to support their claim. Their empirical evidence shows that the price of agricultural relative to nonagricultural goods had been severely depressed by price and trade policies as of the early 1980s, but the subsequent gradual removal of that antiagricultural policy bias stimulated farm production. True, there was some reduction in protection from import competition for certain crops, but that was more than offset by reductions in implicit taxation of agricultural exports. This phase-down in the antitrade bias of agricultural policies was part of a more general reduction in the dispersion of nominal rates of assistance (NRA) among the eleven farm products in the authors' case study: in the 1980s, their mean NRA was –46 percent, and their standard deviation 63 percent, whereas by 2000 to 2004, the mean was 1 percent, and the standard deviation 16 percent. That reduction in NRA dispersion allowed farmers previously producing goods protected from import competition to move from growing them to now-more-profitable crops.

The authors stress that many complementary domestic reforms coincided with reforms at the border to boost farm household incomes to generate

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1. China's net exports of food and agricultural products as a share of the sum of farm exports and imports was 8 percent in the 1980s and 10 percent in the 1990s (Sandri, Valenzuela, and Anderson 2007). It fell to –16 percent in the period 2000 to 2004 but, as the authors indicate, that deficit was mainly because of the growth of cotton imports for the booming textile and clothing export industries.

rapid farm productivity growth and allow domestic production to keep up with the growth in domestic demand for many farm products. Indeed, exports of some farm products boomed, earning enough foreign currency to cover the increasing cost of imports of cotton and ingredients for livestock feed.

Notwithstanding the impressive rise in rural incomes and fall in rural poverty, there has been a steady increase in the ratio of urban to rural household income in China. That ratio fell from 2.5 to 1.8 between 1978 and 1983, but since 1985, it has risen steadily and has been above 3 in recent years, according to the *China Statistical Yearbook*. The authors list several recent attempts by the government to reduce that urban-rural income inequality, such as greater encouragement to investments in agricultural research and rural infrastructure, a decoupled subsidy to grain producers, and the elimination of school fees and agricultural taxes. Yet that inequality persists.

This raises the important question—not addressed in the chapter—as to what the government might do in the years ahead about the recent decline in self-sufficiency in farm products and the increase in urban-rural inequality. The first wave of Asian industrializers (Japan, and then Korea and Taiwan) chose to slow the growth of food import dependence and urban-rural inequality by raising their NRA for agriculture, such that their relative rate of assistance (RRA) became increasingly above the neutral zero level. Will China follow suit?

In the past, there has been a close association of RRAs with rising per capita income and falling agricultural comparative advantage (Anderson 2009, chapter 1). When the RRAs for Japan, Korea, and Taiwan are mapped against real per capita income, it is possible to superimpose on that same graph the RRAs for lower-income economies to see how they are tracking relative to the first industrializers. Figure 10C.1 does that for China and India and shows that their RRA trends of the past three decades are on the same upward trajectory as the richer Northeast Asians. That alone provides reason to expect the governments of China and other later industrializing economies to follow suit if other things were equal.

Might one expect different government behavior now, given that the earlier industrializers were not bound under the General Agreement on Tariffs and Trade (GATT) to keep down their agricultural protection? Had there been strict discipline on farm trade measures at the time Japan and Korea joined the GATT in 1955 and 1967, respectively, their NRAs may have been halted at less than 20 percent (figure 10C.2). At the time of China's accession to the World Trade Organization (WTO) in December 2001, its NRA was less than 5 percent according to the authors' study, or 7.3 percent for just import-competing agriculture. Its average bound import tariff commitment was about twice that (16 percent in 2005), but what matters most is China's out-of-quota bindings on the items whose imports are restricted by tariff rate quotas. The latter tariff bindings as of 2005 were 65 percent for

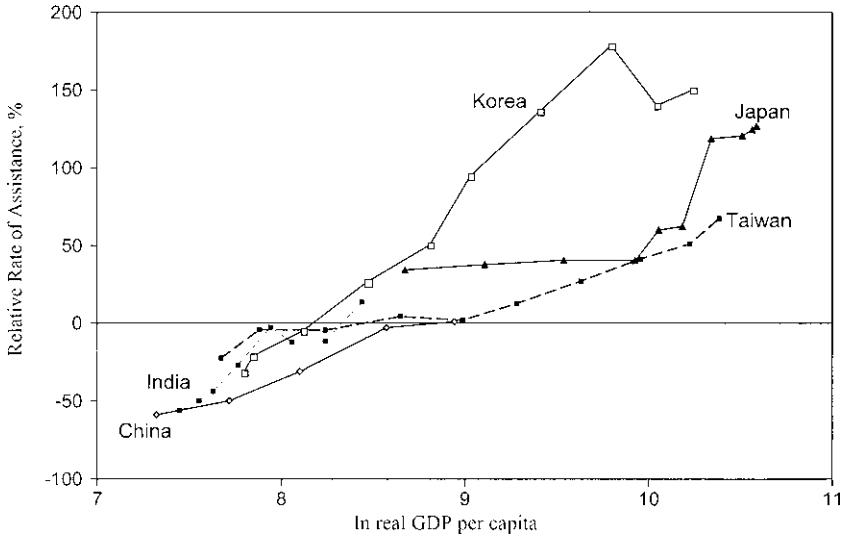

Fig. 10C.1 Relative rate of assistance and log of real per capita GDP, India and Northeast Asian focus economies, 1955 to 2005

Source: Anderson and Martin (2009, 75)

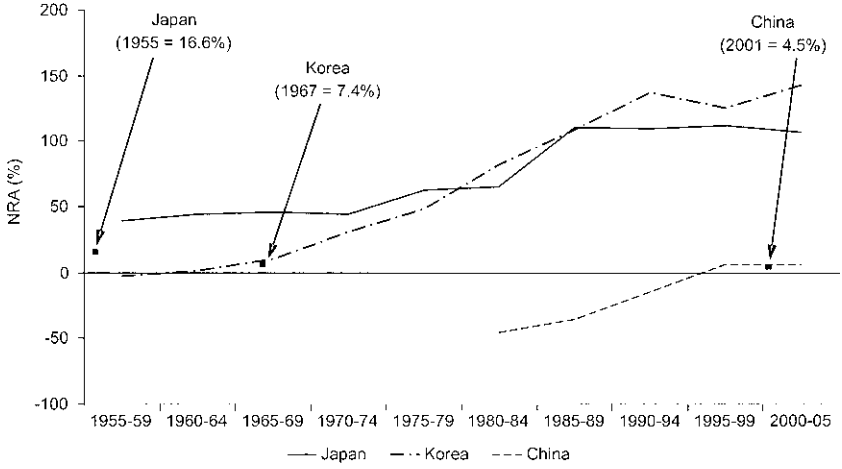

Fig. 10C.2 Nominal rate of assistance for Japan, Korea, and China and date of accession to GATT or WTO, 1955 to 2005 (percentage)

Source: Anderson and Martin (2009, 76).

grains, 50 percent for sugar, and 40 percent for cotton (see the authors' table 10.1). China also has bindings on farm product-specific domestic supports of 8.5 percent and can provide another 8.5 percent as non-product specific assistance if it so wishes—a total 17 percent NRA from domestic support measures alone, in addition to what is available through out-of-quota tariff protection. Clearly, the legal commitments China made on acceding to WTO are a long way from current levels of domestic and border support for its farmers and so are unlikely to constrain the government from raising agricultural support very much in the next decade or so. It thus remains to be seen whether the Chinese government is able to practice enough self-restraint to avoid following the agricultural protection growth path of earlier industrializing economies and to restrict any fiscal payments to investments with high social payoffs such as in rural infrastructure, rural education and health, and agricultural research.

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