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China's WTO accession: impacts on regional agricultural income— a multi-region, general equilibrium analysis

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This study constructs a regional Computable General Equilibrium (CGE) model of China to analyze the impact of China's WTO accession on rural income. The results show that total welfare will improve but regional income gaps will widen. The agricultural sector will suffer if only agricultural trade is liberalized. Lifting both agricultural and non-agricultural trade barriers will benefit farmers at the national level. However, rural income will increase less than urban income, implying that the rural–urban income gap will widen further. Among the regions, farmers in China's least-developed rural areas will benefit little or even suffer because agriculture, especially traditional agriculture, is still an important source of their livelihood. *Journal of Comparative Economics* **31** (2) (2003) 332–351. International Food Policy Research Institute, 2033 K Street, NW, Washington, DC 20006, USA.

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1. Introduction

China was finally admitted to the World Trade Organization (WTO) in December 2001 after 15 years of preparation. During this period, China made considerable progress in economic liberalization and reforms, even without being a member of the WTO. The ongoing process of reform is in harmony with the general trend of globalization, in which flows of trade, financial capital, technology, and information across national boundaries have led to, and will continue to lead, to a restructuring of the world economy.

China has achieved remarkable economic growth as a result of its economic reform and opening since 1979. The nation's GDP has grown at nine to ten percent per annum, outperforming most countries throughout the world. Reform initiated in the agricultural sector has led to rapid transformation in rural China. Grain output increased from 305 million tons in 1978 to 508 million tons in 1999, with an annual growth rate of 2.5 percent. Such growth is much faster than the population growth rate of one percent per annum. The value added in agriculture rose at an even higher annual rate of 4.8 percent due to increased diversification of agricultural production. Rapid growth in agriculture has led to an even more impressive reduction in rural poverty. At the beginning of the reforms, about 260 million people, or one-third of the rural population, lived under the poverty line without access to adequate food supplies or income to maintain a healthy and productive life. By 1999, the number of rural poor had declined to less than 34 million, accounting for less than four percent of rural population (Ministry of Agriculture, 2000). Many development indicators, including agricultural products possessed per capita and both average calorie and nutrition intake, have reached or even surpass the world average. Various studies show a strong positive relationship between openness and economic growth based on data from the past several decades; this relationship is particularly strong for low-income countries. Thus, WTO accession will accelerate China's economic growth by spurring closer integration into the world economy and by enabling it to take advantage of globalization's benefits.

However, the gains from past reforms are not distributed equally among regions. Less-developed areas, such as the Northwest and Southwest, have gained very little. Moreover, regional inequality has increased over the past two decades (Kanbur and Zhang, 1999). With China's entry into the WTO, the less-developed regions may suffer even more because their economies are still predominantly agricultural. Agricultural prices are expected to drop, leading to a decline in farmers' income. With poor infrastructure and a shortage of human capital in the less-developed regions, it will be hard for farmers to switch from grain production to other high value-added crops or to non-farm activities. Without the implementation of proper government policies, these factors may contribute to an increase in the concentration of rural poor in these regions.

The objective of this study is to quantify the effect of WTO accession on China's economy at the regional level, particularly on the rural economy of the less-developed regions. The analytical framework is a multi-sector, multi-region Computable General Equilibrium (CGE) model. Previous CGE studies on China's WTO accession focus on the possible impacts at the national level (Development Research Center, 1998; USITC, 1999; Wang, 1999; Martin et al., 1999; Hertel and Walmsley, 2001; Lejour, 2000;

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