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## Missouri Soybean Exports and the Democratizing Market Force

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**MISSOURI SOYBEAN EXPORTS AND THE  
DEMOCRATIZING MARKET FORCE**

A Master's Thesis

Presented to

The Graduate College of

Missouri State University

In Partial Fulfillment

Of the Requirements for the Degree

Master of Arts, History

By

David D. Hammons

May 2022

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# MISSOURI SOYBEAN EXPORTS AND THE DEMOCRATIZING MARKET FORCE

History

Missouri State University, May 2022

Master of Arts

David D. Hammons

## Abstract

A commonly held assumption of America's post-Cold War place in the world is that prolonged contact with American capitalism and democracy will lead to the adoption of these systems in all nations that participate in international trade. This paper attempts to verify or disprove that assumption by examining a specific traded commodity between two specific nations, the institutions that support this trade, and the people actively participating in it. The growth of soybean exports from the state of Missouri provides this vehicle for examining the trade history between the United States of America and China, and provides evidence that disproves the assumption that democracy is an inevitable outcome of this trade. Through agricultural exports data provided by the US government, past analyses of US-China trade relations, as well as personal interviews conducted with policy and government advocates, businesspeople experienced in US-China trade, and personal experiences participating in US-China trade, I examine the recent history of US-China agricultural trade relations and why these did not satisfy American foreign policy expectations of creating a democratic China. In order to do this, I have divided the periods after which soybean trade between the United States and China began into three periods: the period of Domestic Self-Sufficiency, the Strategic Period, and the State-Owned Enterprise Period. Along with the relevant historical and economic background information underlying Modernization Theory, I introduce the concept of a force in a capitalistic market that propels a state toward democracy through private exchanges, which I term the Democratizing Market Force (DMF). I show that, contrary to expectations, American individuals participating in soybean exchanges with China since the early 1970s did not act primarily out of ideological interest. Based on this case study, it is also evident that a naturally occurring Democratizing Market Force never manifested itself in the soybean trade between Missouri and China, thus disproving the social scientific theories about the ideologically deterministic nature of such exchanges.

**KEYWORDS:** China, Modernization Theory, democracy, soybeans, Missouri, trade, self-interest, markets, US, trade war

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In the interest of academic freedom and the principle of free speech, approval of this thesis indicates the format is acceptable and meets the academic criteria for the discipline as determined by the faculty that constitute the thesis committee. The content and views expressed in this thesis are those of the student-scholar and are not endorsed by Missouri State University, its Graduate College, or its employees.

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## INTRODUCTION

Two Nixons attempted to grow trade between the United States of America and China. The first was President Richard Nixon, who in 1972 visited the People's Republic of China (PRC) to begin the process of opening up market exchanges between the two countries. There followed a spectacular growth of trade, with agricultural and manufactured products exported and imported in both directions. By 2011, the state of Missouri saw China as a key export partner for its many agricultural commodities, most importantly soybeans, spurring Governor Jeremiah 'Jay' Nixon to create a trade mission that would visit the state's sister province of Hebei. Optimism led to conflict, however, as ideologies and political matters interfered with economic goals. These issues only grew, and in 2018 a Trade War began between the United States and the People's Republic of China that has yet to be resolved.

All the while, however, those who grew, processed, and exported soybeans to China, as well as those in China who purchased them, continued pursuing their self-interests without concern over their respective governments' ideologies. Economic metrics, not ideologies, guided the actions of those in the soybean industry. This means that there was no force present that would lead to democracy in China.

Much scholarly work has been done regarding the trends and greater forces at work as nations industrialized in the late nineteenth and early twentieth centuries. The seeking out of trends, and the desire to universalize them, is common, but especially present with such ideologically motivated theories as Modernization Theory. Modernization Theory essentially advocates for the existence of a universal path all nations follow toward modernity. They evolve from a 'traditional,' non-industrialized state to a 'modern,' industrialized state with a democratic

government in place to protect private property rights with the rule of law. Along this universal path, nations would discover that “Westernization, industrialization, and economic growth would generate the preconditions for the evolution of greater social equality and consequently the rise of stable, democratic institutions.”<sup>1</sup> In addition, any deviations, such as the embrace of communism or an autocratic government, would be corrected, as they would lead to inferior outcomes.<sup>2</sup> While Modernization Theory was never explicitly stated as a foreign policy goal or doctrine of the United States, to Western scholars, officials, and everyday individuals in the West by the end of the twentieth century, “democracy was increasingly viewed as a universal principal to which all could aspire.”<sup>3</sup> Since such historical concepts as Modernization Theory advocate for an inevitable outcome resistant to the effects of human agency, they are described as ‘deterministic.’ This universalism of democracy led to the creation of significant contradictions within Modernization Theory, which is a common failure of most deterministic theories.

Marxist perspectives of historical analysis that focus on the intersection between material exchanges and human behavior touch on this as well, while diminishing the impact of non-material pursuits. In this way, this paper is a Marxist paper. It focuses on the material, and how material exchanges do not intersect with ideologies without intentional effort. Modernization Theory attempts to make a strictly material basis for the evolution of what could potentially be considered ideologically based aspects of civilizations, such as the supposed superiority of democracy versus autocracy, and communism versus capitalism. This paper continues the long-

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<sup>1</sup> Kevin E. Davis and Michael J. Trebilcock, “The Relationship between Law and Development: Optimists versus Skeptics,” *The American Journal of Comparative Law* 56, no. 4 (Fall, 2008): 900.

<sup>2</sup> Davis and Trebilcock, “The Relationship between Law and Development: Optimists versus Skeptics,” 900.

<sup>3</sup> Robert W. Strayer and Eric Nelson, *Ways of the World: A Brief Global History* (Boston: Bedford/St. Martin’s, 2016), 1000.

standing analysis of the ideological versus the material, as well as the agency versus trends and forces studies seen throughout history, by framing its arguments strictly in the realm of material, self-interest-motivated, rational exchanges, which reveal the ideological biases of Modernization Theory that are responsible for its flaws.

The author interviewed several experienced professionals and public servants for this paper. The author was also a participant in several of the main events featured in this paper. Statistics and trade data provided by government and NGO sources are used to corroborate the information provided in these interviews and experiences, while journal writing, books, official policies, and statements from political leaders are used to examine the broader trends and ideological perspectives of the time period. The goal of this paper is to take the broader historical trends discussion and analyze it on the individual level, to see if these trends are at all present in the actions of individuals. Specifically, those who trade in soybeans between Missouri and China are thought by social scientists to act a certain way and to create a certain outcome. That such an outcome has yet to occur means that, perhaps, these trade participants acted in a different way than expected, and that the theories are flawed. With this experiment, the author hopes to elevate the impact of individual agency, and the stubbornness of humanity to avoid sticking to predictable trends.

The first chapter is dedicated to providing an historical framework. A brief history of China's Communist Party rule after World War Two is provided, along with a history of soybean farming in the United States, as well as the history of trade between the US and China following the opening up of trade in 1972. In chapter two, the ideologies and concepts at work within this history are presented. The first are the economic rationales for globalized trade, including discussions of self-interest and the concept of value as defined by modern economists and

business decision-makers. The ideology of Modernization Theory, its origins and philosophies, is then presented, along with the introduction of the Democratizing Market Force thought to be present according to Modernization Theorists.

The actual history of soybean trade between the US and China is then presented in three parts, framed according to the Chinese Communist Party's (CCP) strategy. This is because the CCP actually had a strategy, and one that visibly changed in the sources, and the US did not. Chapter three presents the history of the Domestic Self-Sufficiency Period, when China reluctantly purchased soybeans to keep its population fed while attempting to eliminate the need for future agricultural imports. Chapter four shows how the CCP shifted to a Strategic Period, where they abandoned efforts to eliminate all agricultural imports and chose soybeans instead of corn as their grain import of choice in order to minimize strategic threats and maintain a food supply for its more affluent population, while the US sought to integrate its market with China more and more, educating Chinese buyers about hog-feed operations without thought to anything other than increased sales. In chapter five, China's shift to favoring State-Owned Enterprises, which are for-profit businesses owned by the Chinese government, is discussed in The SOE Period, with the challenges of CCP policies and conflicts with US ideology and trade leading to the 2018 Trade War and present-day challenges. In chapter six, a retrospective of this history is used to form the conclusion that China's actions deviated from the supposedly inevitable path proposed by Modernization Theory, and that a Democratizing Market Force was not present in the US-China soybean trade. The consequences of social scientists' failure to perceive this are presented, as well as justifications for why China did not become a democracy. Chapter seven concludes with a summary of the discussion, along with a warning against placing an ideological burden upon non-ideologically motivated actors.

The concept of the Democratizing Market Force did not occur in isolation, but was the product of several decades of economic theory and historical context. This historical context was always seen through a US and Western-based lens, disavowing alternative economic theories and cultural contexts. The dominance of the US, especially following the Cold War and the adoption of the Washington Consensus model of economics and globalization under the World Trade Organization (WTO), contributed to the belief in the underlying principles of the DMF and Modernization Theory.

Many scholars have written about the origins of the soybean and its growth as a worldwide crop. The plant was first cultivated in northern China, and only became a widespread US crop in the twentieth century, where, before World War One, they “were grown almost exclusively for hay and forage.”<sup>4</sup> It was primarily during World War Two that the US soybean industry grew to significant size. The US needed glycerin to produce nitroglycerin for its war munitions, and one of the primary ways to acquire this valuable commodity was through processing palm and coconut oil. These oils had been used to produce margarine and other food products before, but the US needed to preserve these oils for the production of glycerin. Soybean oil was identified as a suitable oil alternative, and government support and encouragement led to widespread cultivation of the crop. With this government-led change in the market, the government was successful in acquiring sufficient tropical oils for munitions, while “consumers were urged to save waste oils and fats for recycling and farmers were encouraged by price supports to plant more oilseeds such as soybeans.”<sup>5</sup>

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<sup>4</sup> Harry D. Fornari, “The Big Change: Cotton to Soybeans,” *Agricultural History* 53, no. 1 (Jan., 1979): 246.

<sup>5</sup> Ernst Langthaler, “The Soy Paradox: The Western Nutrition Transition Revisited, 1950-2010,” *Global Environment* 11, no. 1 (Nov., 2018): 10.

In addition to the subsidies and the strong market, farmers soon found that soybeans served as a solid rotational crop that would rejuvenate the soil and make it easier for future corn plantings. Paul Burke, Senior Director of U.S. Soy Marketing at the Soybean Export Council, is a key expert on understanding both how soybeans are exported to China as well as how farmers operate within their globalized supply chain. His goal is to maximize volume, yields, and returns for farmers, and he has a long period of success in doing so. But he is not necessarily a soybean fanatic—he is a farmer fanatic. He understands that farmers are interested in whatever crop will give them a greater economic return, be it soybeans or something else. In his experience, farmers “love to grow corn because the volume of corn you can get per acre is so much higher than all other commodities. But after you click the corn bucket, you’re looking at cotton, wheat, or soy”<sup>6</sup> in order to prepare the soil for another corn crop. And so, soybeans were not only a good crop themselves, with lots of government encouragement and support, they enabled the more profitable corn crop, all of which contributed to the widespread adoption of soybean farming in the US.

In China, cultivation of soybeans in Manchuria had been common for centuries, and it is considered to have originated in the Manchuria area. The crop’s trade and availability became a diplomatic point of contention between Japanese and Russian occupiers for several decades during the late nineteenth and early twentieth centuries, but whether it was warlords, invaders, “Chinese contribution to Manchurian development,”<sup>7</sup> or western imperialists, soybean cultivation in Manchuria has continued without interruption to the present day. With the rise of

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<sup>6</sup> Paul Burke (Senior Director, U.S. Soy Marketing at Soybean Export Council) in discussion with the author, September 2020.

<sup>7</sup> David Wolff, “Bean There: Toward a Soy-Based History of Northeast Asia,” *The South Atlantic Quarterly* 99, no. 1 (Winter, 2000): 247.

the Chinese Communist Party, soybean cultivation became a part of the state-directed economy, subject to the myriad changes, reforms, setbacks, and improvements of the early Mao era.

When the People's Republic of China expelled Chiang Kai-shek's forces and solidified control of China in 1949, the CCP set about creating its ideologically driven economic structure. Chairman Mao Zedong's concept of Marxism-Leninism, which focused on class restructuring of the means of production, became the "theoretical basis guiding"<sup>8</sup> CCP policy. Land reform, specifically the breaking up of large privately owned landholdings, became a top priority, as did the rapid industrialization of China. Mao was driven to both prove that his ideology was effective, and to establish China as a modern, industrialized, militarily powerful state. All of this led to Mao's and the CCP's Great Leap Forward from 1958-1962, with disastrous results. The state confiscated the property of feudal-style landlords, forbid any private ownership of land, and farmers were divided into People's Communes. No one could farm for personal use or have a private garden, and, notably, the private raising of pigs was forbidden. By the end of 1956, "only 3.7 percent of rural households remained independent"<sup>9</sup> of collectivized farms.

This collectivization was expected to yield higher agricultural results. However, since the collective efforts were also collectively rewarded, individual incentives to produce results disappeared, and poorly executed improvements to drainage and irrigation did not create improved yields. In fact, yields went down. The Great Leap Forward's industrial efforts, focused on heavy machinery and steel production, also took huge numbers of farmers out of the fields. Focusing on quotas rather than quality, outdoor furnaces attempted to melt cooking implements,

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<sup>8</sup> Mao Tse-Tung, *Quotations from Mao Tse Tung*, ed. Brian Baggins and David Quentin (Pattern Books, 2020), 1.

<sup>9</sup> Wei Li and Dennis Tao Yang. "The Great Leap Forward: Anatomy of a Central Planning Disaster." *Journal of Political Economy* 113, no. 4 (Aug., 2005): 845.

which were deemed unnecessary as farmers were fed in people's kitchens, into pig iron to be used for industrial purposes. These burned enormous amounts of lumber, required many labor hours, and since the fires could never get hot enough and the metal they produced cracked too easily, all this effort effectively transformed formerly useful metal objects "into something totally useless."<sup>10</sup> Administrators attempting to prove their loyalty by raising their quotas made the situation worse. Reporting accurate numbers of declining results was punished, and party members failed to report policy failures "out of fear of being labeled a right deviationist."<sup>11</sup> This, along with a drought, resulted in the starvation deaths of tens of millions of Chinese citizens, turning the Great Leap Forward into what became known as the Great Famine. It would be many years before the failures of the Great Leap Forward were corrected, and Mao's ideological purity would allow for any deviation from a failing execution of Marxism-Leninism.

Early on, due to its ideological unity, the People's Republic of China relied upon its fellow communist ally, the USSR. However, border disputes and disagreements over technology sharing and support soon disrupted this alliance. "Disillusioned by the experience of leaning too much on trade with other Communist nations, Peking shifted in the early 1960's to a policy of "self-reliance."<sup>12</sup> China was willing to look for any support it could find in this regard, even if it was from an ideological enemy. The split with the USSR convinced China "to put aside ideology, to contemplate at least temporary compromise on Taiwan, and to turn to new relations with the United States"<sup>13</sup> in order to not only protect China from Soviet interference, but to

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<sup>10</sup> R. Keith Schoppa, *Revolution and its Past: Identities and Change in Modern Chinese History* (New York: Routledge, 2020), 316.

<sup>11</sup> Yang Jisheng, *Tombstone* (New York: Farrar, Straus and Giroux, 2008), 32.

<sup>12</sup> S. H. Chou, "The Pattern of China's Trade," *Current History* 75, no. 439 (Sept, 1978): 65.

<sup>13</sup> Evelyn Goh, "Nixon, Kissinger, and the "Soviet Card" in the U.S. Opening to China, 1971-1974," *Diplomatic History* 29, no. 3 (Jun., 2005): 476.

acquire new technology and opportunities for industrial growth. The Cold War between the US and the USSR led then US President Richard Nixon to pursue this new relationship with China, mostly “to tip the balance in its dealings with the Soviet Union.”<sup>14</sup> This strategy ultimately succeeded, as did China’s. Soybeans joined the myriad other products the two nations exchanged from the very beginning.<sup>15</sup> Flashpoints of history are evident in the volume of soybean exports, and trends found within this data reveal insights into the changing nature of the relationship between the two countries. The United States, and the state of Missouri, thus became linked with China through the soybean market.

Trade with the US did not stop Mao from continuing his ideologically driven authoritarianism. Nixon’s 1972 trip to China coincided with Mao’s Cultural Revolution, an effort Mao launched in 1966 to prevent “his brand of Communism”<sup>16</sup> from degenerating, but which also ensured Mao’s continued authoritarian rule. Ideological purity in the form of loyalty to Mao and his vision for China purged a great deal of leaders from the government, and led to many deaths and economic disruptions. Mao was certainly willing to express pragmatism in geopolitics in order to support China’s self-sufficiency and growth. But it wasn’t until his death in 1976 that a more economic and ideological pragmatism formed in China itself.

Deng Xiaoping, who had been a party leader under Mao and who faced persecution during the Cultural Revolution, used his political connections and clear vision for China to overcome Mao’s successors and rise to supreme authority in the CCP in 1978.<sup>17</sup> He could plainly see the failures of Mao’s regime. His series of reforms, known as the Four Modernizations, did

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<sup>14</sup> John Bryan Starr, “Sino-American Relations,” *Current History* 87, no. 530 (Sept., 1988): 302.

<sup>15</sup> “Global Agricultural Trade System,” United States Department of Agriculture Foreign Agricultural Service, accessed August 24, 2020. <https://apps.fas.usda.gov/gats/default.aspx>.

<sup>16</sup> Roderick MacFarquhar, “Mao’s Last Revolution,” *Foreign Affairs* 45, no. 1 (Oct., 1966): 112.

<sup>17</sup> Schoppa, *Revolution and its Past: Identities and Change in Modern Chinese History*, 350.

not concern themselves with ideology. Instead, he urged CCP leaders to “emancipate our minds, use our heads, seek truth from facts and unite as one in looking to the future”<sup>18</sup> in order to carry out the four modernizations of agriculture, science and technology, national defense, and industry. China would find what worked, regardless of its source. Deng called this form of economic pragmatism “socialism with Chinese Characteristics.”<sup>19</sup> Whatever it was called, it led to economic liberalization. Farms were de-collectivized, with the private raising of crops, including the raising of pigs, once more allowed and even encouraged. Market and individual incentives soon drove improvements in China’s economy. Democracy, considered the “Fifth Modernization”<sup>20</sup> by many reformers in China, was thought to be an inevitable aspect of this economic growth. However, despite rejecting Mao’s ideological narrow-mindedness, Deng maintained Mao’s practice of authoritarian control, going so far as to kill hundreds, if not thousands, of protesters during the 1989 protests for democracy in Tiananmen Square.<sup>21</sup> Still, Deng maintained his economic liberalization as communism failed worldwide in the breakup of the Soviet Union. Many scholars tied these forces of capitalism with the forces of democracy, and came to believe strongly in their inevitable power to shape nation-states.

During this time period, the US faced its own domestic and geopolitical challenges as it underwent many societal changes in the latter half of the twentieth century, all while it struggled to win the Cold War with its version of a capitalistic democracy against the Soviet Union’s communist authoritarianism. The historical record during the Cold War shows that change occurred through human agency, whether it was through Mao’s Cultural Revolution, Deng’s

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<sup>18</sup> Janet Chen, Pei-Kai Cheng, Michael Lestz and Jonathan D. Spence, *The Search for Modern China* (New York: W. W. Norton & Company, Inc., 2014), 494.

<sup>19</sup> Rai Singh, “Chinese Brand of Socialism,” *India Quarterly* 58, no. 1 (Jan.-Mar., 2002): 181.

<sup>20</sup> Chen, Cheng, Lestz and Spence, *The Search for Modern China*, 497.

<sup>21</sup> Chen, Cheng, Lestz and Spence, *The Search for Modern China*, 560.

Four Modernizations, or even President Johnson's Great Society. It also showed how human agency could stop change. However, the path of change occurred within the context of larger historical, and economic, trends. Modernization Theory derived itself from the supposition that these larger forces are stronger than any individual act of agency. Upon closer inspection, whether it was Nixon choosing to open up trade relations, Mao choosing to ignore the failures of his policies, or Deng doing the opposite, individual agency had a tremendous impact. This complication of individual agency can be translated all the way down to the individual businessperson trading soybeans and disrupting any Democratizing Market Force.

## **THE DEMOCRATIZING MARKET FORCE**

Economic and social scientific theory progressed in parallel with much of the historical changes of the twentieth century. In many ways, they fed each other, with economic success driving the many changes seen in the historical record, and the historical record of success justifying the proposed economic theories. These economic theories not only guided policymakers, they were also the bedrock of understanding taught in US business schools. Rather than informing economic actors, however, these theories examined existing behavior and justified it, meaning that a businessperson was expected to act according to these theories even if they were unaware of them. When these economic theories merged with analyses of historical trends, however, social scientists continued this too-distant perspective to make leaps of judgement that led to the creation of Modernization Theory and the Democratizing Market Force. Western Economics is far more rigid in its analysis of human behavior than social scientists' modeling, due to its reliance on the concept of rationality versus irrationality. The silent, historically forgotten impact of millions of individual acts of self-interest could potentially counteract any force intending to stop it, but that self-interest lacks a universalism that is required to create a Democratizing Market Force.

### **The Invisible Hand**

Much scholarly work has been written regarding Adam Smith's original theory on the Invisible Hand of the market. The basic concept is that market force incentives of self-interest encourage ethical behavior. For instance, if a farmer were to sell tainted soybeans, their customers would buy from an alternative supplier that did not sell tainted soybeans, incentivizing

the farmer toward ensuring food safety or risk going out of business from a loss of sales. This businessman is thus “led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest, he frequently promotes that of the society more effectually than when he really intends to promote it.”<sup>22</sup> Self-interest, therefore, creates ethical outcomes. Regardless of the veracity of this theory when applied to real events, the concept of the Invisible Hand has become a commonly held notion in business circles and government actors. It has guided US policy in both domestic and international economic affairs so much that “any interference with free market forces is interpreted as an attack on the paramount value of freedom because it restricts the ability to trade.”<sup>23</sup> The purpose of this paper is not to prove or disprove the realism of this theory, but rather to examine the role of the belief in the Invisible Hand in government liberalization.

### **Self-Interest**

Self-interest is the guiding principle behind value-added exchanges, and the basis of capitalism. It also intersects with the basic understanding of the Invisible Hand. Firstly, value can be defined as the difference between what one must provide in exchange for something they desire. In other words, it’s the difference between what you ‘give’ and what you ‘get.’ A value-added exchange can be defined as an exchange that leaves the two parties in such an exchange with more value than they previously possessed.<sup>24</sup> For example, a soybean farmer uses their land,

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<sup>22</sup> Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations, Volume I*, (Hertfordshire, England: Wordsworth Editions, 2013), 237.

<sup>23</sup> Shannon Kathleen O’Byrne, “Economic Justice and Global Trade: An Analysis of the Libertarian Foundations of the Free Trade Paradigm,” *The American Journal of Economics and Sociology* 55, no. 1 (Jan., 1996): 12.

<sup>24</sup> Harvey S. James Jr. and Farhad Rassekh, “Smith, Friedman, and Self-Interest in Ethical Society,” *Business Ethics Quarterly* 10, no. 3 (Jul., 2000): 665.

labor, capital, and entrepreneurship to produce soybeans. The soybean farmer then sells the soybeans to a baker who comes to the farm. The baker has produced bread using their own land, labor, capital, and entrepreneurship, and has sold it to make money. They then use this money to purchase soybeans. The farmer values the money they receive for the soybeans more than the soybeans because the farmer is more efficiently capable of producing soybeans than they are at producing the other things they desire, such as bread. The baker similarly is more efficient at producing bread than they are at producing soybeans. In this specific exchange, the baker values the soybeans more than they value the money they must give up in exchange for the soybeans. And so, the baker ‘gives’ money and ‘gets’ soybeans while the farmer ‘gives’ soybeans and ‘gets’ money. Both parties depart the exchange with more valuable items than they had before, and when this process happens systematically across a tremendous number of transactions, the total value of the system as a whole increases. This is the basic concept of how wealth is created in a capitalistic economy.

Both the farmer and the baker are driven by self-interest, and this governs their interpretation of the value in the exchange. Both parties seek to maximize the value they receive in the exchange, meaning they want to ‘give’ less and ‘get’ more. However, both parties must agree to the terms of the exchange without coercion in order for the exchange to take place, otherwise it is not a free market exchange.<sup>25</sup> If, for instance, the farmer asks too high a price for the soybeans, the baker may refuse to buy them. This is because at a certain price, the baker does not value the soybeans more than they value their money, which can be used to make alternative purchases. The same is true in reverse for the farmer. If the baker asks for too low of a price, the farmer will refuse, and withhold selling their soybeans until they find a buyer who offers an

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<sup>25</sup> James and Rassekh, “Smith, Friedman, and Self-Interest in Ethical Society,” 668.

amount of money they value more than the soybeans. The same is true when examining Missouri's exports of soybeans. Farmers sell to wholesalers according to a market price. A farmer might, however, place their soybeans in storage to await a better price. Or, if they anticipate a low price, they might plant an alternative crop, such as corn or wheat, or even allow their field to be used for the growing of hay grass and the grazing of cattle.

The choice of what to plant, how much to sell, and at what price, are all decisions based on the self-interest of the farmer, who chooses the highest valuable alternative, i.e., the option that requires them to 'give' the least and 'get' the most. This is not a system which requires any directive from an outside entity, and in fact ceases to function efficiently and effectively in the presence of coercion.<sup>26</sup> All that the farmer requires is the knowledge of what option will bring them the greatest value. When the farmer chooses to do so, it is said that they are acting rationally. There is nothing, however, preventing the farmer from making a lower-value choice, such as accepting a lower price than they could potentially receive, or planting an alternative crop that would bring a lesser return. Therefore, participants in such exchanges are capable of exercising agency, in that they have the freedom to decide their course of action. However, according to modern economists, to choose the lower-value alternative is said to be irrational, and that "rational agents will drive the irrational agents from the market because the former make higher profits."<sup>27</sup> In this way, while participants in economic exchanges have agency, their actions are not unpredictable.

Since participants in value-added exchanges will seek out the highest value alternative, if this highest value alternative is known to social scientists, they would expect participants to

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<sup>26</sup> James and Rassekh, "Smith, Friedman, and Self-Interest in Ethical Society," 668.

<sup>27</sup> Ernst Fehr and Jean-Robert Tyran, "Individual Irrationality and Aggregate Outcomes," *The Journal of Economic Perspectives* 19, no. 4 (Autumn, 2005): 44.

make this decision. Otherwise, the participant is acting irrationally. An irrational participant is expected to quickly “learn from their mistakes”<sup>28</sup> and adjust. For instance, if a farmer accepted too low a price for their soybeans and saw other farmers get more money for their crop, they would adjust, out of self-interest, and make a more rational choice in the future. This is because it is to their personal benefit to act rationally. To act irrationally would be to their own detriment. In this way, social scientists and economists may be able to analyze what systems lead to superior and inferior outcomes, and expect a common trend to appear, since they expect all participants to act rationally in their own self-interest.

If the self-interest of the Invisible Hand can be considered a force that directs such actions, it can be considered a natural one, since it does not require active human decision-making to enforce. The concept of a natural force, in this context, refers to the idea of rationality. A rational actor in an economy would respond to incentives and be expected to behave a certain way. For instance, if it cost more to manufacture in one country over another, a rational economic actor would choose to operate in the country with the lower costs. No external actor is compelling this actor to make this decision. It is a reaction to something that exists without human effort, and therefore can be considered ‘natural.’ If an economic actor required external pressure from another actor, then that could be characterized as ‘unnatural.’ This is a way of comparing the concept of the free market to the concept of the state-directed economy. In a state-directed, or command economy, individuals acting according to their own individual agency direct economic actors. In a market economy, economic actors respond to the marketplace, which is guided by actors responding to rational incentives. In this way, a definition of a ‘natural’ force can be crafted. First, it is a force that does not require human agency to be shaped.

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<sup>28</sup> Fehr and Tyran, “Individual Irrationality and Aggregate Outcomes,” 43.

A market could be considered the results of thousands of individual, rational actors, but on an individual level it is considered a faceless force. Still, this force determines “the equilibrium in a market with many agents.”<sup>29</sup> In order to better complete the definition, then, a ‘natural’ economic force could be defined as something that triggers a common response for a rational economic actor. In other words, any rational participants in the market would respond the same way to the market’s circumstances. Such a faceless force that can only be responded to, but never shaped, is the concept of a natural force that underpins the rationality of Modernization Theory.

### **Justifications for Globalized Trade**

Adam Smith, in his *Wealth of Nations*, not only proposes the concept of the Invisible Hand as a self-interest-guided force of morality, he also includes a justification for why nations trade with one another. This is called the Theory of Absolute Advantage,<sup>30</sup> and can be illustrated by comparing the productive forces of two different nations. For example, suppose France is capable of using one unit of labor to produce thirty units of wine and one unit of labor to produce two units of machinery. Germany, meanwhile, is capable of using one unit of labor to produce twenty units of wine and three units of machinery. The total labor used is four units, the total wine produced is fifty units, and the total machinery produced is five units. Smith proposes that both nations should specialize in the production of the good for which they have an absolute advantage. Therefore, France should now use two units of labor to produce sixty units of wine, and expend no units of labor in the production of machinery. Germany should also specialize, and use zero units of labor in the production of wine, and two units of labor in the production of

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<sup>29</sup> Fehr and Tyran, “Individual Irrationality and Aggregate Outcomes,” 44.

<sup>30</sup> Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations, Volume II*, ed. James E. Thorold Rogers, (Oxford: Clarendon Press, 1869), 175.

six units of machinery. France will then trade thirty units of wine for three units of machinery, leaving both nations with thirty units of wine and three units of machinery.<sup>31</sup> The total labor used is still four units, however the total wine produced is now sixty units, and the total machinery produced is now six units. Self-interested nations, therefore, should specialize in what they have an absolute advantage in, and trade for the things they do not.

Subsequent economists have modified Smith's original theory, with Ricardo's Theory of Comparative Advantage, suggesting that even if a nation has an absolute advantage in everything they produce, they should still specialize in the production of items for which they have a comparative advantage in and trade for the rest.<sup>32</sup> This helps to justify why China purchases soybeans from the US even though they also produce soybeans domestically. The US could be argued to have a comparative advantage in soybean farming, while China has a comparable advantage in low-cost manufacturing, which is why China buys and produces soybeans and the US buys and produces manufacturing capacity, to the mutual economic benefit of both countries. The Theory of Factor Endowment further explains why nations trade by "equating factors embodied in net trade to excess factor endowments,"<sup>33</sup> such as one nation having more land, a more educated labor pool, more available capital, or better-rewarded entrepreneurs than another. Michael Porter's Cluster Theory further expanded this reasoning by stating that the specialization of trading nations "promotes clusters of competitive industries,"<sup>34</sup> because when industries

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<sup>31</sup> Pierre A. David, *International Logistics: The Management of International Trade Operations*, (Berea, OH: Cicero Books LLC, 2021), 23-24.

<sup>32</sup> David Ricardo, *On the Principles of Political Economy, and Taxation*, (London: Woodfall, 1819), 10.

<sup>33</sup> John Romalis, "Factor Proportions and the Structure of Commodity Trade," *The American Economic Review* 94, no. 1 (Mar., 2004): 69.

<sup>34</sup> Michael Porter, "The Competitive Advantage of Nations," *Harvard Business Review*, August 1, 2014. <https://hbr.org/1990/03/the-competitive-advantage-of-nations>.

cluster, they tend to attract more industries, due to the advantage of a concentrated supply base, labor pool, and knowledge base amongst the participants.

All of these justifications came to the same conclusion: that international trade is a rational exercise by economic actors seeking the greatest value in an exchange. In many ways, however, they were all later justifications for how individuals already behaved. Smith explained why he saw nations trading with one another. His concepts likely encouraged the growth of international trade, but he did not invent it. The same is true with Ricardo's theory, and the Factor Endowment Theory was also a way of answering the question of why nations traded, not encouraging them to do so or inventing the concept. And it was after international trade took off following the success of the United States during World War Two that economists like Porter not only justified this growth in trade, but contributed to an orthodoxy of how nations were supposed to behave.

### **Modernization Theory**

Modernization Theory is linked to Smith's Invisible Hand in that both assume behavioral changes based on rational economic incentives. The United States became the primary model for the creation of Modernization Theory, since "eras in which economic expansion has delivered ongoing material benefits to the majority of the country's population have mostly corresponded to eras when opportunities and freedoms have broadened, political institutions have become more democratic, and the treatment of society's unfortunates has become more generous."<sup>35</sup> Since communism has been shown to produce poorer long-term economic outcomes, such as less

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<sup>35</sup> Benjamin M. Friedman, "Capitalism, Economic Growth & Democracy," *Daedalus* 136, no. 3 (Summer, 2007): 50.

GDP growth, inferior consumer product quality and availability, comparatively fewer technological innovations, and overall inferior living standards,<sup>36</sup> it was theorized that the natural incentives of self-interest would inevitably lead all nations toward capitalism. This foundational belief of Modernization Theory has guided US foreign and domestic policy.<sup>37</sup> But what separates Modernization Theory from the Invisible Hand is its application of these incentives to the government itself, not just the economy.

Modernization Theory came about following World War Two, with a similar timeframe as the Bretton-Woods Conference and the General Agreement on Tariffs and Trade (GATT). The Bretton-Woods Conference was a meeting of world leaders in 1944, where the basic principles of post-war trade were ironed out. Central to this principle was the agreement to “set up a machinery for international co-operation, but limit its scope to co-operation in respect of international payments and the international value of the means of payments.”<sup>38</sup> This evolved into the GATT, which created rules “focused on safeguarding the tariff concessions, i.e., reductions or bindings, negotiated between its signatories,”<sup>39</sup> with tariff reductions becoming the basis of free market economic neoliberalism. Tariffs are a tax on an imported good. Since they are often used to protect domestic industries by making competitive imports artificially more expensive, they are considered anti-competitive and anti-free market to Bretton-Woods free market economists.

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<sup>36</sup> Friedman, “Capitalism, Economic Growth & Democracy,” 48.

<sup>37</sup> Michael E. Latham, *The Right Kind of Revolution* (Ithaca, NY: Cornell University Press, 2011), 44.

<sup>38</sup> Ernest H. Stern, “The Agreements of Bretton Woods,” *Economica* 11, no. 44 (Nov., 1944): 165.

<sup>39</sup> John W. Evans, “The General Agreement on Tariffs and Trade,” *International Organization* 22, no. 1 (Winter, 1968): 74.

While economists examined operational efficiency to elevate models and theories that maximized it, Modernization Theorists examined economics and industrialization from a social science perspective. Poorer nations rapidly began to industrialize following World War Two, including China. Modernization Theorists rose following previous schools of thought that saw societal advancement as sharing a common pattern. The theory has several deterministic elements, although the theory is not itself wholly deterministic.

According to Modernization Theory, a nation followed a general pattern that led, broadly, from a deindustrialized, or traditional, economy to an industrialized, or modern, one. It saw modern societies as the result of humans responding to natural incentives, which meant that “underdeveloped societies would have to undergo the same process of evolution from traditionalism to modernity previously experienced by more developed societies.”<sup>40</sup>

Modernization Theory does not allow for the possibility that the end result of modernization is a socialist state. Its core concept is that an industrialized society creates greater wealth than an unindustrialized, “traditional,” society, so a society will respond to the wealth incentives of this advancement and industrialize. Since “de-centralized market economies have had a proven record of delivering rising living standards over sustained periods of time,”<sup>41</sup> a society will also evolve in the direction of capitalism.

In tandem with this is the proposal that democracy also creates superior economic outcomes within a capitalistic society by protecting private property rights through a separate executive and judiciary that focuses on enforcing the rule of law. Therefore, a society will evolve in that direction as well. A “modern” society is, therefore, one that utilizes a capitalistic

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<sup>40</sup> Davis and Trebilcock, “The Relationship between Law and Development: Optimists versus Skeptics,” 900.

<sup>41</sup> Friedman, “Capitalism, Economic Growth & Democracy,” 48.

economic system of private wealth generation reinforced with the rule of law featured in a liberalized democracy. By universalizing this evolution from traditionalism to free market democratic capitalism, Modernization Theorists propose a link between democracy and capitalism, and “a mechanism by which the connection between the two might indeed be causal.”<sup>42</sup>

At the time of Modernization Theory’s development, alternative semi-deterministic theories were already in circulation. Karl Marx theorized that structures of power situated in different classes “consisted in the development of class antagonisms”<sup>43</sup> that would inevitably lead to revolution. Ownership of the means of production by the state, and therefore the dictatorship of the working class, called the proletariat, would be the inevitable result of the ruling class’s oppression of the working class. Marxism, and the Marxist-Leninist philosophies of central planning that came from it, served as a Cold War-era alternative to Modernization Theory, and in the early twentieth century “the open question was whether central planning or a de centralized private market could better deliver efficient production of goods and services.”<sup>44</sup> Both Marxism and Modernization Theory imply the presence of a natural force in historical advancement. For Marxism, it was class conflict. For Modernization Theory, it was rational responses to self-interest incentives.

Neither theory achieved a monopoly of supporters during the Cold War era. Being a comparatively younger historical theory, the widespread embrace of Modernization Theory principles really took off with the fall of the Berlin Wall and the breakup of the Soviet Union in

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<sup>42</sup> Friedman, “Capitalism, Economic Growth & Democracy,” 48.

<sup>43</sup> Karl Marx and Friedrich Engels, *The Communist Manifesto* (New York, NY: Simon and Schuster, 1964), 92.

<sup>44</sup> Friedman, “Capitalism, Economic Growth & Democracy,” 47.

1991. Its proponents seemed emboldened by the supposed proof of their theory, as “traditional Communist societies committed to both one-party political systems and centrally planned economies have suddenly become a rare species,”<sup>45</sup> and proposed that the end of the Cold War was an inevitability, and that Russia, once the home of Marxism in action, was following the pattern of all other industrialized, modern societies.

Modernization Theorist social scientists could possibly be compared to Whig Historians, in that they saw a common pattern of development. Whig historians, or “Whiggish” historians, as they came to be known, saw European nations evolving to a state of modernization as well, by “dividing the world into the friends and enemies of progress,”<sup>46</sup> with a focus on how Protestantism led to parliamentarianism and liberty and Catholicism did the opposite. It was a flawed, and completely self-congratulatory historiographical theory that served mostly to praise the history and government of Great Britain, and has become synonymous with such types of historical analysis. To call Modernization Theory ‘Whiggish’ would not be an unfair statement. Both Whig Historians and Modernization Theory-promoting social scientists proposed a common pattern of development that considered their own society to be at the pinnacle of this development.

Thus far, however, all these theories have focused on economics, not ideology. To claim that a democracy is superior to an autocracy would either require an ideological stance or an economic one. An ideological stance that advocates for concepts of personal liberty requires cultural contexts, and therefore is a subjective means of comparison. Economic outcomes, however, are simply numbers, and therefore objective. And so to measure one society against

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<sup>45</sup> Benjamin M. Friedman, “Capitalism, Economic Growth & Democracy,” 46.

<sup>46</sup> Herbert Butterfield, *The Whig Interpretation of History* (New York, NY: Norton, 1965), 5.

another as either modern or not, economic metrics provide a more scientific basis than ideological ones.

Modernization Theory does not make an ideological argument in favor of democracy. It states that a democracy allows for greater individual self-determination, and that strong courts and individual rights that protect private property encourage greater economic outcomes for the individual, which, as a whole, leads to greater economic outcomes for the state. Under an autocracy, individual choice and initiative are diminished, and since wealth is not protected, there is less of it, which means that “at least some elements of what is normally meant by democracy are not just consequences of rising living standards but also key preconditions to the form of economic organization that makes sustained increases in living standards possible.”<sup>47</sup> Therefore, rational nations will inevitably alter their governments to become more and more democratic, and will eventually become fully liberalized democracies. The greatest evidence for the veracity of this theory is in the fall of the Soviet Union. When the Soviet Union broke up, the “apparent triumph of the market economy and democratic polity”<sup>48</sup> was seen not only as a triumph of the democratic capitalistic system, but as an inevitable outcome.

This change is not theorized to be instantaneous, or even guided by decisions that cause visible change. Instead, Modernization Theory proposes that the market causes gradual changes over time. It might take time for a farmer to see the failure of their tainted soybeans in the marketplace, or they might be reluctant to invest time and money into making changes. They would have to purchase cleaning supplies, change their storage methods, and potentially retrain laborers. But these things must be done, otherwise the farmer will lose so much business that

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<sup>47</sup> Benjamin M. Friedman, “Capitalism, Economic Growth & Democracy,” 53.

<sup>48</sup> Tu Wei-ming, “Intellectual Effervescence in China,” *Daedalus* 121, no. 2 (Spring, 1992): 251.

they can no longer compete. The same is true, in theory, regarding a nation and democracy, since social scientists have found “empirical support for a positive linear relationship between levels of economic development and democracy in a system.”<sup>49</sup>

Governments and elites might be reluctant to give up their absolute autocratic power. But with democratic, capitalistic nations competing for global resources and wealth, autocratic nations will have no choice but to democratize or they will lose their ability to create wealth as the capitalist nations gain a greater and greater share of supplier and consumer markets. None of this requires explicit action on the part of government actors. In fact, many economists and policymakers believed that reactions to market incentives and “improvements in living standards would inevitably and naturally lead to liberal political systems.”<sup>50</sup> The market will naturally create the most profit, and the most profitable suppliers will be those who make decisions that most benefit the customer, and this itself is naturally self-sustaining. The same is considered to be true for an autocracy becoming a democracy. No revolution is required. Incalculable self-interested incentive-based decisions will dismantle an autocracy and inevitably lead to democracy by a force that is both natural and sustainable.

Much scholarly work has been written to dismantle the deterministic flaws of Modernization Theory. However, “the ideas linger in foreign policy circles.”<sup>51</sup> These ideas orient around the idea that the market is a natural force that drives human behavior. The concept that the market is a great natural force that guides decision-making, that government interference will lead to inferior economic outcomes, the promotion of “private property rights, economic

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<sup>49</sup> Zehra F. Arat, “Democracy and Economic Development: Modernization Theory Revisited,” *Comparative Politics* 21, no. 1 (Oct., 1988): 23.

<sup>50</sup> Michael E. Latham, *The Right Kind of Revolution*, 60.

<sup>51</sup> Scott Reynolds Nelson, “Who Put their Capitalism in My Slavery?” *Journal of the Civil War Era* 5, no. 2 (Jun., 2015): 292.

opening, financial reforms, macroeconomic stability, and political liberalization to promote economic growth,”<sup>52</sup> has become so widespread it has come to be known as the Washington Consensus. It is visible in institutions such as the World Trade Organization (WTO), which replaced the GATT, and the World Bank, which offers loans to governments under the condition that government interference, such as tariffs meant to protect domestic industries, be limited, as well as limiting “certain types of domestic legal arrangements on the theory that they constitute disguised barriers to trade.”<sup>53</sup> The effectiveness of markets and market incentives in altering behavior has also guided much policy and theory toward China. China had been gradually liberalizing its economy since the late 1970s. Modernization Theory states that, just as the Soviet Union gradually liberalized its economy and faced democratic liberalization shortly thereafter, China will also inevitably become democratic. The self-interest of the Invisible Hand, therefore, not only touches economic activity, it touches governments as well.

### **The Democratizing Market Force**

No metaphor exists to describe the incentivized move toward democracy proposed by Modernization Theory. The concept of the Invisible Hand is assumed to apply. However, its inventor, Adam Smith, drew a clear line between an economy of individuals and the government that rules them, and “was notoriously suspicious of the efforts of lawgivers to influence norms.”<sup>54</sup> We will, therefore, leave the Invisible Hand solely in the economic realm, as its

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<sup>52</sup> Yasheng Huang, “Debating China’s Economic Growth: The Beijing Consensus or The Washington Consensus,” *Academy of Management Perspectives* 24, no. 2 (May, 2010): 31.

<sup>53</sup> Davis and Trebilcock, “The Relationship between Law and Development: Optimists versus Skeptics,” 912.

<sup>54</sup> Emma Rothschild, “Adam Smith and the Invisible Hand,” *The American Economic Review* 84, no. 2 (May, 1994): 321.

creator intended, and instead address the self-interest incentives that will supposedly inevitably lead an autocratic government toward democracy. Modernization Theory proposes that this is a natural force, that it requires no explicit action, that it will occur through myriad incentivized decisions from countless individual actors seeking to satisfy their self-interest. To separate it from the Invisible Hand and concepts of self-interest, I will call this supposedly natural force the Democratizing Market Force, or DMF. The DMF assumes that continued economic contact between nations will inevitably lead to democratic liberalization. Its key feature is not that democracy is seen as desirable or superior, but that it is inevitable. Actions taken to prevent democratic liberalization are seen as merely delaying an unavoidable outcome. However, the DMF is not driving toward political liberalization arbitrarily. The idea revolves around the principle that democracy creates superior economic outcomes, and therefore a nation will shift towards democracy through rational economic actors acting in their own self-interest.

While self-interest could be said to be the energy behind the DMF, they, like the Invisible Hand, are not the same. Most economists would consider self-interest to be unrelated to ideology. In fact, avoiding ideological conflict is considered preferable to the rational economic actor.<sup>55</sup> Self-interest is simply the recognition of a rational economic actor choosing the most beneficial option when making economic decisions. In this way, if creating an autocracy creates superior economic outcomes, it would be rational for a nation to do so. Modernization Theorists claim that such a society produces inferior outcomes, though, so only an irrational nation would choose to do so. This irrational nation would then see their rational competitors, nations who have adopted democracy, out-compete them, or would be overwhelmed by their superior competitors, and choose to act rationally either to achieve greater outcomes or to avoid negative

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<sup>55</sup> James and Rassekh, "Smith, Friedman, and Self-Interest in Ethical Society," 661.

outcomes. Therefore, self-interest drives a nation toward becoming a democracy. But this requires a definition of self-interest contained within the mindset of the Washington Consensus. It is culturally linked to Enlightenment ideas, such as individualism and personal liberty. Self-interest, however, is not so simple.

Compare two individuals who are each given \$100. One person invests their money in the stock market, gaining a high rate of return. The other person uses it to buy an expensive dinner. The first person is left with more money than they started, while the second is left with nothing. However, each can be said to have acted according to their own self-interest. The first person valued the increased wealth they received in investing, while the second person valued the enjoyment derived from a nice dinner more than they valued any future wealth they might have gained from investing. Just because one party is left with no money does not mean that they acted irrationally.

In this extremely simplified example, we can see how different definitions of self-interest can drastically alter the decisions of rational economic actors. The concept of value is itself subjective. The value of a dinner versus investment returns is entirely subjective according to the personal preferences, risk tolerance, the demographics of the persons, etc., in the exchange. If self-interest is defined as making decisions to maximize value, then those decisions will themselves require significant context in order to be identified as rational or irrational. Economists have evolved their understanding of self-interest and rationality due to the fact that many market conditions are “heterogeneous with regard to rationality.”<sup>56</sup> The investor who already has significant wealth but never spends any money and starves can be said to be irrational because they are not acting according to their own self-interest. And the person who

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<sup>56</sup> Fehr and Tyran, “Individual Irrationality and Aggregate Outcomes,” 44.

needs to pay \$100 to a bank to prevent their farm from being foreclosed on would be irrational if they splurged on an expensive dinner and chose to lose their farm. But even these might require further context in order to make judgements of rationality versus irrationality. Humans are complicated creatures, within and across cultures, and understanding self-interest requires an understanding of these complexities.

The idea that self-interest will always lead to democracy is simply not true. A dictator is self-interested in maintaining their dictatorship if a democracy will vote them out of office or have them arrested. A criminal is self-interested in maintaining a corrupt system in order to avoid prosecution. Modernization Theorists propose that these individual cases of self-interest are insufficient to overcome the combined effects of the self-interested push toward democracy, as traditional economists propose that acts of irrationality are so rare that they “more or less cancel out at the aggregate level.”<sup>57</sup> However, just because there are fewer of these examples does not mean these actors are not acting according to self-interest. The idea that the power of the self-interest of those who benefit from democratization is superior to the power of the self-interest of those who would benefit from maintaining autocracy is a bedrock concept of Modernization Theory. But it makes self-interest too all-encompassing a term to apply to this force. And so, the DMF is not just self-interest, it is not just rationality, it is the collected force of self-interested rational actors, and one that is supposedly more powerful than all other forms of self-interested rational actors, powerful enough that its success is considered inevitable. This creates a disconnect, incorrectly putting self-interest on a single, inevitable trajectory regardless of economic context based only on past historical trends. This is why the DMF is its own force, and not the same as self-interest.

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<sup>57</sup> Fehr and Tyran, “Individual Irrationality and Aggregate Outcomes,” 43.

Whether it is seen as a balm against setbacks<sup>58</sup> or as a justification for continuing existing policy decisions,<sup>59</sup> the idea that trade with the US will inevitably lead to China becoming a democracy has influenced the trade policies of many US government actors and NGOs. Its proponents exist to this day, one of whom is the former governor of Missouri, Bob Holden. Holden was governor of the state of Missouri between 2001 and 2005, during the critical time in which China first became a WTO member. He was an early advocate for cultural communication between the US and China, and since leaving office has become the CEO of the United States Heartland China Association, which is a “bipartisan organization committed to building stronger ties between USHCA Region (20 states located in the USA between the Great Lakes to the Gulf) and the People’s Republic of China.”<sup>60</sup> A democrat from the southern portion of Missouri, Governor Holden has a lot of experience with, and concern for, Missouri farmers. He grew up in rural Missouri, and spent his youth collecting and selling wild black walnuts to pay for things like baseball gloves.<sup>61</sup> His story is as red-blooded American as they come, and his philosophy on China is shared amongst many Americans.

As governor of a US state, Holden was responsible for promoting trade policies and business opportunities within his state, but, perhaps more significantly, his status gave him significant authority to advocate for certain policy positions. His policy position was then, and is now, that both Missouri and China benefit from open, non-hostile interactions, and that democracy is “going to happen in degrees,”<sup>62</sup> meaning that all that is required for China to

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<sup>58</sup> Yang Jisheng, *Tombstone* (New York: Farrar, Straus and Giroux, 2008), 522.

<sup>59</sup> Hu Jintao and Luc Guo, *Selected works of Hu Jintao: 2001-2012*, Edited by Luc Guo (Scotts Valley, CA: Createspace Independent Pub, 2012) 156.

<sup>60</sup> Ben Ward, “About USHCA,” [usheartlandchina.org](https://usheartlandchina.org/about-ushca/), November 26, 2018, <https://usheartlandchina.org/about-ushca/>.

<sup>61</sup> Bob Holden (former Governor of Missouri) in discussion with the author, October 2020.

<sup>62</sup> Bob Holden (former Governor of Missouri) in discussion with the author, October 2020.

become a democracy is time. If this were true, it would be evidence of the Democratizing Market Force in action. The key to this force is not that it is good or bad, or that it even acknowledges its own moral basis. Holden is not an idealist, nor does he come across as naïve. His philosophy in dealing with China is just as seemingly pragmatic, and seemingly logical, as Modernization Theory itself. He sees mutual benefit to a long-term relationship, with cultural gives and takes, and that it is in China's "own self-interest to have that long-term, stable relationship."<sup>63</sup>

Self-interest, therefore, is the energy behind the DMF, but it is a specific, singular application of self-interest, one that disavows any alternative outcome. Modernization Theorists align with this perspective, and explicitly caution against exercising agency in shaping a developing nation, a policy with which the former governor agrees. Holden certainly seems to believe that China becoming a democracy, and more culturally linked with the US and the West, is a good thing, but he cautions that "you don't change China by demanding that China change, you change China by letting young Chinese see the value and importance of what we bring to the table."<sup>64</sup> Recent actions, and the history of the soybean trade between the US and China, however, reveals this belief to be as deterministically flawed as Modernization Theory itself.

To say that a businessperson is a victim of larger forces, lacking in agency, eliminates their ability to act in self-interest. And if they lack the ability to act in self-interest, how can they contribute to a DMF that requires democratization as a result of self-interested actions? Either businesspeople are victims of forces that lead them to propel the DMF, or they have the ability to act according to a self-interest that sometimes leads them away from democratization.

Modernization Theory ignores this contradiction and puts businesspeople in the dual role of

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<sup>63</sup> Bob Holden (former Governor of Missouri) in discussion with the author, October 2020.

<sup>64</sup> Bob Holden (former Governor of Missouri) in discussion with the author, October 2020.

agency-possessing seekers of self-interest and agent-less victims of historical trends. A businessperson must see democracy as being in their own self-interest in order to be motivated by economic rationality to embrace democracy, otherwise they are motivated by ideology, which is not present in Modernization Theory and the DMF, and not present in self-interested economic trade. The history of the soybean trade between Missouri and China reveals neither ideological actors, nor actors who see democracy as always in their self-interest.

## THE DOMESTIC SELF-SUFFICIENCY PERIOD (1972-1991)

Between 1972 and the end of the Cold War, since the US had other priorities, namely containing and combatting the Soviet Union, and since its foreign policy towards CCP-ruled China was focused primarily on increasing trade, changes in Chinese policy provide a more visible framework with which to discuss the history of the soybean trade between Missouri and China. Chinese priorities also changed dramatically during three separate periods, based on the success or failure of these policies. In the first period, China's priorities existed largely outside the influence of the United States, which was allowed to develop its own theories and concepts while doing its best to grow sales. Throughout this period, two priorities are clear: first, that China never wavered in its desire for development. Second, that US farmers and businesspeople never wavered in their desire to sell more goods to China. These priorities intersected, but they did not address democracy.

### China's Agriculture First Policy

Policy mistakes of the Great Leap Forward were “the direct cause of the Great Famine”<sup>65</sup> that allowed millions of Chinese to unnecessarily starve to death between 1959 and 1961. This means that there was great pressure on China's leadership to ensure their people were fed. The horrors of the Great Famine revealed the scale of the challenge China's government faced in feeding its people while converting their agrarian economy to a modern industrial one. But the risk of over-reliance on imports put China in what many considered to be a worse peril: reliance on outsiders. One ideology in China trumped even communism, that of “self-reliance with a

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<sup>65</sup> Yang Jisheng, *Tombstone*, 87.

minimum dependence on foreign supplies for “strategic” needs.”<sup>66</sup> This became especially true after the breakup of China’s alliance with the Soviet Union and the opening up of trade with the United States. But China’s initial goals during this period were not to import agricultural commodities from Western nations. Its primary goal was “the importation of Western capital and Western technology.”<sup>67</sup> It hoped that these materials, and the insights gained from their use, would grow China’s fledgling industrial economy, and lead its agricultural industry to eventually become self-sufficient. Thus, China’s goal was to only import commodities like soybeans when absolutely necessary, while promoting policies that would encourage larger crops that would eliminate the need for such imports.

Chinese leaders boasted that China had an Agriculture First policy during the entirety of the Domestic Self-Sufficiency Period. Critics both inside and outside of China have pointed out that in execution, “more lip service than real support has been paid to this policy.”<sup>68</sup> However, the idea of Agriculture First was pushed in many speeches and policy statements as an ideological goal, if not one that existed in practical reality. Crop yields remained unreliable, and the “disappearance of farmland”<sup>69</sup> became a worsening problem during this period. Some improvements were made, and yields and farm industrialization made moderate growth.<sup>70</sup> However, several policies diminished potential gains. Price controls were considered to be a major drawback to growth. The CCP’s “efforts to keep urban prices low”<sup>71</sup> to ensure that

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<sup>66</sup> S. H. Chou, “China’s Foreign Trade,” *Current History* 71, no. 419 (Sept., 1976): 68-72, 68.

<sup>67</sup> John Bryan Starr, “Sino-American Relations,” 243.

<sup>68</sup> Kuan-I Chen, “Agricultural Reform in China,” *Current History* 80, no. 467 (Sept., 1981): 264.

<sup>69</sup> Chu-yuan Cheng, “China’s Economy: New Strategies and Dilemmas,” *Current History* 87, no. 530 (Sept., 1988): 256.

<sup>70</sup> Vaclav Smil, “Food in China,” *Current History* 75, no. 439 (Sept., 1978): 70.

<sup>71</sup> Terry Sicular, “Grain Pricing: A Key Link in Chinese Economic Policy,” *Modern China* 14, no. 4 (Oct., 1988): 480.

industrial workers had reasonably priced food dis-incentivized farmers and increased production costs. In addition, while party leaders boasted about putting agricultural independence as a priority, the government continued to export huge amounts of its domestic grain production.

With its industries still underdeveloped, rice became one of the few products for which China could find an export market. The imports of high-tech materials and technologies required a significant amount of money, which meant Chinese domestic policy encouraged larger and larger rice crops to fund these purchases. Exports can certainly be used to spur economic development and create jobs over the long-term. However, during this period, the CCP's primary goal for exports was "to finance necessary imports rather than to augment employment or the growth of the domestic economy."<sup>72</sup> This meant that "production of crops that competed with"<sup>73</sup> export rice, such as soybeans, suffered. And when domestic supplies did not meet domestic demand, China reluctantly had to purchase soybeans for import from the US.

In this period, the pork industry in China remained largely unindustrialized. Hog farming was done as it had been in China for centuries, and its methods were not terribly different from those in the West. Pigs were raised one or two at a time as part of family farms, and were fed food scraps. The pig was seen as a symbiotic part of a multi-crop household farm, meant "to eat up the rice hulls, the soy bean refuse, and wastes from the household and at the same time provide manure to build up the soil and furnish meat for food."<sup>74</sup> Collectivization policies, however, had diminished many farmers' ability to raise pigs. The nature of hog farming in China, done on a small, individual farmer scale was "considered competitive with collective

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<sup>72</sup> S. H. Chou, "The Pattern of China's Trade," 66.

<sup>73</sup> Terry Sicular, "Grain Pricing: A Key Link in Chinese Economic Policy," 466.

<sup>74</sup> Earl B. Shaw, "Swine Industry of China," *Geography* 14, no. 4 (Oct., 1938): 383.

work.”<sup>75</sup> Like grain commodities, pork supply constantly struggled to meet demand, even after Deng’s reforms once more allowed pigs to be raised on private farms. The shocks of the Great Leap Forward not only had lingering effects on China’s agricultural capacity, but Deng’s reforms in the late 1970s still struggled to create the results demanded for agricultural independence. The practice of feeding soybeans to hogs on a large scale did not exist in China at this time.

### **Missouri’s Farm Industrialization**

As part of the overall trend of industrialization and urbanization in the twentieth century, the population of farmers in the United States and in the state of Missouri gradually declined. But while the number of farmers declined, the amount of land that was farmed remained largely unchanged. Instead, the twentieth century saw “a fairly rapid increase in the average size of farms”<sup>76</sup> worked by fewer people with industrialized equipment. Chemical fertilizers and pesticides allowed for greater yields, and soon the United States found itself with a significant surplus of farm commodities. Soybeans fit this trend.

### **Soybean Farming in Missouri**

Soybean farming in the US grew primarily as a replacement for other plant oil products during World War Two, and only later became an integral part of grain and meat supply chains. Soybeans are rarely eaten by themselves, due to their unpleasant flavor. Unripe soybeans, referred to as edamame, were not popular in the early twentieth century, and even today are a microscopic portion of the total soybean harvest, the remaining of which must be processed in

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<sup>75</sup> Terry Sicular, “Grain Pricing: A Key Link in Chinese Economic Policy,” 466.

<sup>76</sup> William L. Cavert, “The Technological Revolution in Agriculture, 1910-1955 (In Part with Special Reference to the North Central States),” *Agricultural History* 30, no. 1 (Jan., 1956): 26.

order to be palatable.<sup>77</sup> Once the soybeans are harvested, they are typically taken either to crushing facilities or to large collection grain elevators. Crushers, as they are typically referred to, crush the oil-rich soybeans in order to separate the oils from the solids.<sup>78</sup> Once the process is complete, the oils are collected and sold for everything from cosmetic products to margarine and cooking oil, or for a myriad of other food and non-food uses.

The solids, referred to as meal or cake, are a protein and mineral-rich compound. The cake has been used as a fertilizer, but chemical fertilizers are cheaper and more effective, and the high protein-per-gram characteristic of the soybean meal makes it an attractive animal feed, which has become its primary use.<sup>79</sup> Crushers will sell the meal to feed companies, who sell it to cattle ranchers and hog farmers. There are several crushing facilities in the state of Missouri, and the state has a long history of hog farming and cattle ranching. Soybeans collected in elevators are often bound for export. In the state of Missouri, this usually happens at silos along the Missouri or Mississippi Rivers. The soybeans are mixed in the silos with soybeans from surrounding states, with Illinois producing a larger crop than Missouri and Iowa producing a significant amount as well. Barges then transport the collected soybeans and deliver them down the Mississippi River to New Orleans, where they are loaded onto dry-bulk ships and transported across the ocean.

The state of Missouri has a significant agricultural economy, and therefore has multiple agencies and specialists to research, promote, and support agricultural commodity production. Much of this is overseen by the Missouri Department of Agriculture. John Hensley is a

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<sup>77</sup> Jia-Chen Fu, *The Other Milk: Reinventing Soy in Republican China* (Seattle, WA: University of Washington Press, 2018), 21-22.

<sup>78</sup> Paul Burke, in discussion with the author.

<sup>79</sup> Alvin A. Munn, "Production and Utilization of the Soybean in the United States," *Economic Geography* 26, no. 3 (Jul., 1950): 231.

Marketing Specialist at the Missouri Department of Agriculture, and serves to promote and find markets for Missouri's agricultural commodities. He is a combination of promoter, cheerleader, and salesperson, all of which requires a significant amount of knowledge regarding the operations of Missouri soybean farmers. In his observation, "the vast majority of US exports of soybeans to China are in bulk cargoes,"<sup>80</sup> primarily for livestock feed, especially for pigs. Soybeans bound for China pass through the Panama Canal and continue west, where they are unloaded at various port facilities, including in Northern China, where soybean processing has a long history. This process has gone largely unchanged in the time period of this thesis. The only key difference is the scale.

The soybean's natural advantages, as well as Missouri's unique geography, soon made it a popular crop. University researchers, using government-funded grants, discovered ideal cultivars and educated farmers on how soybeans could replenish the soil between crops of corn. Corn can damage soil, and leaving fields empty to replenish had become common practice. Instead of having an empty field, a farmer could plant soybeans in between corn plantings and achieve the same replenishing results but with a sellable commodity. Once enterprising farmers and university researchers spread the word about how this was done, and farmers saw how much money could be made while still making money planting and selling corn, soybeans were rapidly adopted as a common farm staple. The US government also guaranteed strong prices for farmers in order to encourage a stable food supply. In short, the soybean became "a major crop in the United States through Government Policy, a critical wartime need for vegetable oils, and the

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<sup>80</sup> John Hensley (Marketing Specialist, Missouri Department of Agriculture) in discussion with the author, September 2020.

initiative of a small group of pioneers.”<sup>81</sup> Exports were not an initial priority, but this eventually changed.

The conditions which led to widespread soybean plantings also created a surplus of the crop, allowing for large exports. Exports of many other US farm commodities, including corn and wheat, soon became common, and US agricultural personnel knew that in order to sell more US commodities, they had to create markets for those commodities, especially as US farm capacity far exceeded domestic demand. So while agricultural experts helped encourage the growth of the soybean crop, similar experts sought international markets for it to be sold.

One such expert is John Hagler, former Missouri Director of Agriculture and strong advocate for Missouri farm commodities. Your typical Missouri cattle rancher, John is a strikingly tall, lean man who is rarely seen without his cowboy hat. On a 2011 governor-sponsored Missouri trade mission to China that attempted to gain more markets for Missouri farmers, John and the governor’s delegation took a site-seeing trip to the Great Wall of China. John reluctantly found himself a more intriguing tourist attraction though, as domestic tourists who spotted the tall, cowboy-hatted Missouri farmer standing on the wall found him far more interesting than the wall itself, and constantly hounded him for pictures. John’s passion for sales and new markets, however, never deterred him from seeking out partners, regardless of any shared cultural affinity, and he saw opportunity in China. He didn’t care where they sold, because “farmers are looking for markets and we were starting to liberalize relations with China in terms of trade, so therefore it was an easy sell”<sup>82</sup> to seek out soybean buyers in China.

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<sup>81</sup> Alvin A. Munn, “Production and Utilization of the Soybean in the United States,” 234.

<sup>82</sup> Jon Hagler (former Missouri Director of Agriculture) in discussion with the author, June 2021.

## Hog Farming in Missouri

Hog farming in Missouri began rapidly changing in the 1970s. The concept of the family pig went away as economies of scale encouraged larger herds. The farm itself also changed. The farmer now had much, much more land to cultivate in order to turn a profit, which left little time for other activities such as raising a few pigs. Like in other industries, specialization replaced the diverse array of products that used to be common on farms. Pig rearing used to be an easy addition to a grain farm, like having a vegetable garden, but “by 1980, hog production was no longer considered a part-time job, but instead a committed business.”<sup>83</sup> University research also helped the development of Concentrated Animal Feeding Operations (CAFO). Disease and the challenge of waste disposal required much research, and successful techniques were shared and encouraged by private entrepreneurs as well as NGO and university researchers. CAFO hog farming could not be sustained by household food scraps, and animal feed has always been a concern for the cost-conscious farmer. The return on investment in terms of pounds of feed compared with the resulting pounds of animal protein, referred to as yield, was significantly higher with soybean meal than other animal feed products, such as corn. This meant that “no longer were hogs fed the garbage or leftovers of former years; in fact this became forbidden by CAFOs.”<sup>84</sup> While CAFO techniques were still relatively in their infancy in this time, standards were being identified and feed techniques were being discovered that would lead to rapid growth in the industry and create a symbiotic market for soybeans.

## A History through Export Data

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<sup>83</sup> Chris Mayda, “Pig Pens, Hog Houses, and Manure Pits: A Century of Change in Hog Production,” *Material Culture* 36, no. 1 (Spring, 2004): 29.

<sup>84</sup> Chris Mayda, “Pig Pens, Hog Houses, and Manure Pits,” 37.

The year after US President Richard Nixon and Chairman Mao opened up trade between the US and China in 1972, China purchased a sizable volume of soybeans. Some years it purchased more, sometimes less, and sometimes none at all. Missouri export data was not disaggregated from the national data until 2007, and even this data is unreliable. Much of the data comes from federal agencies, who collect data at the port of export or by the exporter, which for Missouri soybeans occurs in the Port of New Orleans, where combining crops from various states in the same ship makes it difficult to identify specific origins.<sup>85</sup> This data is collected in the Global Agricultural Trade System (GATS) databanks, and is available online (see Table 1).

The export volume for 1973-1974 demonstrates both China's goodwill in opening trade with the US, and the fact that soybeans were satisfying a significant need within China. Chinese farmers still did not produce enough volume to meet China's domestic needs. Therefore, if China "imported anything in the 70s and 80s it was because they actually had a need or they had a shortage."<sup>86</sup> Some years, however, they imported no amount of soybeans from the US. This reflects China's continued desire to pursue agricultural independence and eliminate agricultural imports, and their repeated failure to do so.

In the 1970s, poor harvests and drought caused a global food crisis. Industrialized farming techniques and chemical fertilizers allowed the US to create a surplus of grain, and the US began to see itself as a global grain supplier. China purchased grain from the US to overcome the deficiencies in their own supply, but their commitment to the Agriculture First Policy shows a reluctance by CCP leaders to commit to any long-term international trade or international organization, regardless of the crisis. Hence the many years of zero US soybean imports.

Discussions were held at the World Food Conference of 1974, where "all delegations,

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<sup>85</sup> John Hensley, in discussion with the author.

<sup>86</sup> Paul Burke, in discussion with the author.

Table 1. GATS Data of Value of US Soybean Exports in Thousands of US Dollars (1967-1991)<sup>87</sup>

Year	Value
1967	0
1968	0
1969	0
1970	0
1971	0
1972	0
1973	43,365
1974	126,519
1975	8
1976	0
1977	14,386
1978	15,300
1979	106,722
1980	155,191
1981	129,708
1982	63,225
1983	0
1984	0
1985	12,564
1986	25,407
1987	85,895
1988	0
1989	0
1990	0
1991	0

<sup>87</sup> “Global Agricultural Trade System,” United States Department of Agriculture Foreign Agricultural Service, accessed August 24, 2020. <https://apps.fas.usda.gov/gats/default.aspx>.

with the exception of China, had agreed that in order to bolster food security a grain reserve was of central importance.”<sup>88</sup> When the US launched a grain embargo against the Soviet Union in 1980 in response to the Soviet invasion of Afghanistan, China purchased a significantly larger quantity of soybeans. US farmers lost an important market in the embargo, though. The Soviet Union had suffered under the global food shortage, and supply chain deficiencies kept the Soviets from taking advantage of their union’s sizable quantities of arable land, so they had been purchasing large volumes of US soybeans. With the loss of such demand, even if it was created by state actions, the market for soybeans fell, creating a much more attractive price point that China clearly took advantage of in the comparatively high import numbers of 1979-1982. All US soybean imports to China ceased in 1983, though, when the embargo ended and prices stabilized.

Between 1983 and 1992, China constantly played catch up with its own reforms. Deng’s efforts to create “socialism with Chinese characteristics” remained in full-swing, and his efforts were bearing economic fruit. Farms started to rapidly decollectivize. Industry in general shifted to private ownership, and the pursuit of profit was no longer deemed unacceptable, and in many ways was encouraged.<sup>89</sup> However, conservatives within the CCP constantly pushed back against Deng’s rejection of Maoist economics. Deng pushed through various stages of “serious leadership dissension”<sup>90</sup> to gain and continue to preserve an uncontested grip on policy, and managed to placate critics with evidence of China’s economic advancement and his willingness to preserve CCP rule, especially following his crackdown of the Democracy Wall movement.

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<sup>88</sup> Ruth Jachertz, “The World Food Crisis of 1972-1975,” *Contemporanea* 18, no. 3 (Jul.-Sept., 2015): 435.

<sup>89</sup> Deng Xiaoping, *Selected Works of Deng Xiaoping (1975-1982)*, trans. Hsiao-Ping Teng (San Francisco, CA: China Books & Periodicals, 1985), 295.

<sup>90</sup> Lyman H. Miller, “The Politics of Reform in China,” *Current History* 80, no. 467 (Sept., 1981): 258.

In 1978-1979, protestors hung up posters in Tiananmen Square calling for the “Fifth Modernization”<sup>91</sup> of democracy, attempting to push for multiparty democracy in China. Deng had defended the movement “publicly in its early stages,”<sup>92</sup> but his unwillingness to share power included both the masses as well as party leadership, and so the leaders of the movement were arrested. Still, GDP grew, industrial output grew, as did agricultural yields, and Deng aligned himself with these as proof of the validity of his Four Reforms movement’s success, while seeing no need for a fifth reform.

Conservatives’ pushback within the CCP does not seem to have motivated Deng to do anything more than prove them wrong. Still, it is quite evident that Deng fell in line with the Maoists when it came to political policy, even if he went in a completely different direction economically. Any lingering fears CCP conservatives might have had regarding Deng’s embrace of the fifth modernization of democracy disappeared during the crackdown of protestors at Tiananmen Square in 1989. There, student protestors sought to resurrect the Democracy Wall movement, and even declared a hunger strike to try and convince CCP leadership to open a dialog for democratic reform. Even though the protestors saw themselves as “a patriotic and democratic student movement,”<sup>93</sup> Deng dismissed them as disturbers of the peace. After using the military to disperse the protestors, killing a significant number of students in the process, Deng justified his actions by declaring that the students had sought to “overthrow the Communist Party and topple the socialist system.”<sup>94</sup> Deng proved himself to be ruthlessly willing to hold

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<sup>91</sup> Chen, Cheng, Lestz and Spence, *The Search for Modern China*, 497.

<sup>92</sup> Miller, “The Politics of Reform in China,” 259.

<sup>93</sup> Chen, Cheng, Lestz and Spence, *The Search for Modern China*, 555.

<sup>94</sup> Chen, Cheng, Lestz and Spence, *The Search for Modern China*, 561.

onto power, and to keep others from touching it, while maintaining a strict pragmatism regarding economic policy.

Deng's economic reforms in the soybean market, however, didn't immediately shift from a state-sponsored command economy to a market-driven one, and there appears to have been some reluctance to make this radical of a shift. China's "continued reliance on nonprice solutions to address a price problem"<sup>95</sup> never seemed to create a stable supply or lead in any way to the goal of agricultural independence. Price controls on China's domestic soybean market were changed, curtailed, enforced, and changed again as the success or failure of such policies became evident.

As Deng's economic reforms continued to create significant growth in China's economy, and as private property and the pursuit of profit grew, China's demand for pork began to grow, which created the need for more hogs and more feed for hogs. When China's economy grew, key products went up in price as demand went up and people had more money to spend. However, "the supply of pork lagged far behind the demand."<sup>96</sup> Price controls and state policies prevented the domestic market from reacting quickly enough to these market signals, which required varying amounts of imports to make up the difference. Sometimes crops were excellent, and sometimes they were not. In many cases, agricultural reforms led to improvements, but Deng's goal remained "to prevent growing dependence on imports."<sup>97</sup> Gradual reform and gradual growth, with quick fixes of imports or expenditures to ease the transition, were China's guiding principle, and the soybean import data reflects this policy.

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<sup>95</sup> Terry Sicular, "Grain Pricing: A Key Link in Chinese Economic Policy," 482.

<sup>96</sup> Chu-yuan Cheng, "China's Economy: New Strategies and Dilemmas," 280.

<sup>97</sup> Deng Xiaoping, *Speeches and Writings* (Oxford: Pergamon Press, 1987), 110.

The GATS data reflects historical events and policies, rather than market conditions. It is forgivable for Washington Consensus advocates to connect market incentives with Deng's market liberalization policies in China. It is possible that market incentives are responsible for such changes. However, government actions in both China and the US played a highly significant role. This is reflected in this data, and the trends of the next period reflect an entirely different strategy in China.

With the Soviet Union still present as a strategic and ideological adversary, it is possible to examine this period through a strictly ideological lens. However, ideology did not motivate either party. China sought growth, and US businesspeople sought markets. Ideological compromises on the part of Mao in allowing his communist nation to trade with the West, and Deng's near abandonment of Marxist-Leninist economics could lead to the conclusion that China compromised while the US pushed its ideology. But this is an oversimplification. China's policy never wavered during this period, even if its ideology did. The same was true of the US. This reveals the remarkable resilience of CCP leaders to focus on the greater goal, and the lack of an ideological motivation on the part of individual US businesspeople.

## THE STRATEGIC PERIOD (1992-2004)

As China's economy grew, it grew in complexity. A new policy needed to be enacted to maintain China's ultimate goal of full industrialization and growth. US economic policy also grew in complexity, as the fall of the Soviet Union dissolved nearly every barrier to international trade and led to new opportunities for businesspeople. The US's ideology seemed to have succeeded and required no action beyond allowing what had already toppled communism to continue, while China actively sought ways to ensure its growth. As contacts grew, trade between the US and China did as well. Meanwhile, not only did US partners not advocate for democracy in China, it was considered a wiser course of action to explicitly choose not to do so.

Deng's reforms and economic liberalization had provided irrefutable dividends by the 1990s. The fall of the Soviet Union had also proven two things: first, the failure of Marxism-Leninism as an efficient system of economics. Second, that it was not just economic failures that had brought down Russia's communist party. Even Modernization Theorists admit that "old fashioned nationalism"<sup>98</sup> among satellite states and non-Russian regions, as well as *glasnost*, the Soviet Union's policy of being more open about its history and policies, played an important role. Seeing how their state compared to the west, and how "they were falling ever farther behind Western living standards,"<sup>99</sup> disillusioned the populace, and the Soviet Union's lack of will to use violence to put down protestors left it vulnerable to what became successful revolutions and uprisings. Deng no doubt witnessed, and learned from, these events. However, despite the

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<sup>98</sup> Benjamin M. Friedman, "Capitalism, Economic Growth & Democracy," 46.

<sup>99</sup> Benjamin M. Friedman, "Capitalism, Economic Growth & Democracy," 48.

violence of the 1989 Tiananmen crackdown, Deng was still considered a reformer, and economic liberalization continued in China.

While the Soviet Union fell apart and the Cold War ended, China continued to grow its GDP and allowed for greater and greater privatization and trade. Economic reforms continued, and Deng pushed hard to present China as a growing, fair trading partner that the world could do business with. In order to solidify this, he saw membership in the World Trade Organization (WTO) as the ultimate goal. China finally achieved membership in the WTO in 2001, after it had “pulled out all the stops to realise this great Dengian ideal.”<sup>100</sup>

The WTO is the successor to the GATT (General Agreement on Tariffs and Trade) and was first established in 1993. It is not just a general agreement, but an institution that “presides over a rule-based trading system based on norms that are almost universally accepted and respected”<sup>101</sup> by its signatories, which now include China. The WTO serves a dual role as an international organization for the making of trade agreements, as well as “an international adjudicator deciding trade disputes.”<sup>102</sup> The latter has become its most prominent, powerful role, and has significantly impacted policy decisions of a wide variety of nations. The guiding principle of the WTO is fair trade. That means few to no barriers, political and economic, between any countries. Most importantly, this means eliminating tariffs, which are taxes imposed on imports, quotas, which are limits in either dollar or quantity amounts of imports, and state involvement in private enterprise, including state ownership and subsidies.

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<sup>100</sup> Han Yuhai, “Assessing China's Reforms.” *Economic and Political Weekly* 41, no. 22 (Jun. 3-9, 2006): 2209.

<sup>101</sup> Richard Baldwin, “The World Trade Organization and the Future of Multilateralism,” *The Journal of Economic Perspectives* 30, no. 1 (Winter, 2016): 95.

<sup>102</sup> Joost Pauwelyn, Joel P. Trachtman and Debra P. Steger, “The Jurisdiction of the WTO is Limited to Trade,” *Proceedings of the Annual Meeting (American Society of International Law)* 98 (Mar. 31-Apr. 3, 2004): 135.

The US has long been a GATT member, as well as a WTO member, despite having policies regarding farm subsidies that the WTO finds “hardly free and fair,”<sup>103</sup> including subsidies for soybean farmers. These did not prevent the US from joining the WTO, however, and countries like the US were more than willing to overlook China’s own anti-free trade policies in order to admit them to the WTO. US President Bill Clinton personally advocated for this, and directly linked trade with China to political liberalization in China, going so far as to call liberty “the most contagious force in the world,”<sup>104</sup> and arguing that trade would inevitably create this contagion. All the while, China kept buying soybeans as domestic economic considerations, and China’s economic policies, continued to evolve.

The evolution of the Bretton-Woods Agreement, the GATT, and the WTO seemingly followed the same pattern of advancement as Modernization Theory. However, the economic actors in these agreements did not include democracy, or political affairs of any kind, in these agreements. The WTO’s own guidelines explicitly state that its legislative jurisdiction is “limited to trade relations.”<sup>105</sup> GATT members were not forbidden from joining based on the framework of their governments, but on the framework of their trading policies. If a country joined the GATT, and later the WTO, and added significant trade barriers such as quotas or tariffs, or added significant subsidies to domestic industries, another member country affected by this policy could raise a complaint. WTO-run courts, potentially in concert with UN-based organizations or other NGO and privately-run arbiters, could rule between complaining parties. Thus, an enforcement mechanism was created to ensure free trade.

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<sup>103</sup> Baldwin, “The World Trade Organization and the Future of Multilateralism,” 111.

<sup>104</sup> Lisa Van Dusen, “The Tragic Legacy of Bill Clinton’s China Doctrine,” Policy Magazine, August 10, 2020, <https://www.policymagazine.ca/the-tragic-legacy-of-bill-clintons-china-doctrine/>.

<sup>105</sup> Pauwelyn, Trachtman and Steger, “The Jurisdiction of the WTO is Limited to Trade,” 135.

No enforcement mechanism, however, was created by the WTO to encourage the democratic elements of an industrialized society. WTO guidelines state that its “international tribunals are courts of limited jurisdiction; they have no power to apply law beyond their mandate”<sup>106</sup> of preserving free and fair trade. And so, while Bretton-Woods neoliberal economists look like Modernization Theorists, they’re not. The WTO claims only that free-trade economics creates the greatest wealth, but makes no claim on democracy or morality. WTO-based analyses, and the institutions created by these, are strictly contained to how to efficiently and effectively create wealth. The primary concern is reducing global trade barriers, not encouraging democracy or the rule of law.

Modernization Theorists, however, merge the two theories. They see evidence of the success of WTO and GATT-supported free trade-oriented democracies compared to autocracies as proof of the symbiotic, and inevitable, causal link between the two.<sup>107</sup> But throughout this period, there remained a significant barrier between the economics of the WTO, and the liberalization proposed in Modernization Theory, which meant that China, a single-party autocracy, faced little difficulty obtaining WTO membership and in preventing the adoption of democracy, since there was little active institutional or individual pressure to propel it in that direction.

### **China’s Grain Policy**

When economic reforms raised the living standards of many people in China in the 1990s, one of the first products they sought to spend their new income on was pork. China’s

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<sup>106</sup> Pauwelyn, Trachtman and Steger, “The Jurisdiction of the WTO is Limited to Trade,” 140.

<sup>107</sup> Benjamin M. Friedman, “Capitalism, Economic Growth & Democracy,” 48.

“pork supply has vastly increased vis-à-vis the population, and pork has become a commodity potentially consumed daily,”<sup>108</sup> even though for many it was once considered a luxury item unattainable outside of annual festivals. Even a slight increase in overall individual annual consumption caused massive supply chain disruptions in China’s pork industry. More demand for pork meant more demand for hog feed. Scraps weren’t enough. An industrialized hog industry required a reliable supply of industrialized grain feed.

After a decade of easing price controls and after several decades of failure to obtain complete grain independence, China finally admitted defeat. Once CCP policymakers recognized “that China’s soybean output could not keep up with the massive growth planned for the livestock industry, the government began to liberalize the soy sector in the 1990s, allowing imports to overtake both exports and domestic production.”<sup>109</sup> This change in grain policy highlights a complete reversal of long-held CCP agricultural directives, and constitutes a clear strategy with multiple layers of benefits. It is also clearly seen in the GATS export data (see Table 2).

The primary challenge China faced was gaining a reliable source of animal feed grain without becoming too dependent on a single outside source. However, the goal of economic self-determinism still checked economic aspirations. Even though corn represented the lowest cost commodity option, the United States produced an overwhelming percentage of the global corn supply, and it “is sometimes referred to as the Saudi Arabia of corn because it grows 41% of the

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<sup>108</sup> Ann Veeck, Hongyan Yu, and Gregory Veeck, “The Transformation of Pig Feasts in Rural Northeast China,” *Gastronomica* 17, no. 3 (Fall, 2017): 60.

<sup>109</sup> Brian Lander, Mindi Schneider, and Katherine Brunson, “A History of Pigs in China: From Curious Omnivores to Industrial Pork,” *The Journal of Asian Studies* 79, no. 4 (Nov., 2020): 13.

Table 2. GATS Data of Value of US Soybean Exports in Thousands of US Dollars (1992-2004)<sup>110</sup>

Year	Value
1992	29,682
1993	22,999
1994	8,645
1995	50,657
1996	414,476
1997	410,554
1998	273,508
1999	358,735
2000	1,007,653
2001	1,012,486
2002	995,837
2003	2,888,772
2004	2,328,762

world’s corn and accounts for 48% of the world’s exports of corn.”<sup>111</sup> A grain product with multiple suppliers would give China greater independence, since if any one country attempted to interfere in China’s sovereignty, China could simply shift purchase volumes to a different

<sup>110</sup> “Global Agricultural Trade System,” United States Department of Agriculture Foreign Agricultural Service, accessed August 24, 2020. <https://apps.fas.usda.gov/gats/default.aspx>.

<sup>111</sup> Matthew Schaefer, “Promoting Commodity Exports Through Governor-Led Trade Missions: Governors’ Constitutionally Permissible (and WTO Permissible) Role of Exporter-in-Chief,” *Proceedings of the Annual Meeting (American Society of International Law)* 106 (2012): 275.

supplier. This is basic supply chain common sense, but the goal was not just supply and price risk mitigation, it was high statecraft strategy focused on diplomatic self-determinism.

While the US's industrial farm techniques had evolved to the point that it has been "the world's leading soybean producer since 1941,"<sup>112</sup> Brazil had recently started growing soybeans in significant quantities. Soybeans also have more protein by weight than corn, and "by the bushel or by the ton are a higher value commodity than corn."<sup>113</sup> Economics, therefore, as well as ensuring that if China had "any geopolitical problems with the United States,"<sup>114</sup> it could shift purchases to other reliable suppliers, determined China's policy on which grain to commit to. It is the fact that it committed to becoming a long-term customer that separates this period from previous years.

The data in this period highlights this strategy. No longer would China purchase soybeans as needed. It became regular a customer, and built up infrastructure and policies around this. China lowered "import barriers for soybeans and then developed literally the world's most sophisticated and largest crush industry."<sup>115</sup> Even domestic crops were shifted to other supply chains, as subsidies and favorability toward soy imports meant many soybean farmers in China "switched to planting corn."<sup>116</sup>

The secondary benefit of committing to purchase imported US soybeans was that it publicly demonstrated China's willingness to become a customer of the US at a time when the

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<sup>112</sup> Jia-Chen Fu, *The Other Milk: Reinventing Soy in Republican China* (Seattle, WA: University of Washington Press, 2018), 186.

<sup>113</sup> John Hensley, in discussion with the author.

<sup>114</sup> Paul Burke, in discussion with the author.

<sup>115</sup> Paul Burke, in discussion with the author.

<sup>116</sup> Shefali Sharma, "The Need for Feed: China's Demand for Industrialized Meat and its Impacts," *Institute for Agriculture and Trade Policy* (Feb., 2014), 10, <https://www.iatp.org/documents/need-feed-chinas-demand-industrialized-meat-and-its-impacts>.

balance of payments was rapidly shifting. China's economic reforms and industrialization had evolved to the point that they were able to manufacture consumer goods. Western companies, seeing the advantages of China's significantly lower labor costs and finding welcome encouragement from both Washington Consensus global market advocates in their own governments, as well as China seeking to increase its exports, shifted their supply chains to either purchase products made in China or to set up their own operations in China itself. This "general movement toward offshoring"<sup>117</sup> replaced a significant amount of US manufacturing. The adoption of the North American Free Trade Agreement, or NAFTA, in 1994 also highlights a changing US policy, not just in North America but globally, embracing the elimination of tariffs and allowing markets a free rein to guide supply chains.

US protective tariffs on everything from televisions to automobiles were lowered or eliminated, allowing more affordable imports made in China to soon supplant US-made alternatives. China was well aware that a country that imported huge volumes from one country but exported little to nothing in return would soon resent that situation, and even NAFTA faced such early criticisms in the US. So by committing to purchasing US soybeans, China was visibly demonstrating to "the US government and US society that trade's not a one-way street, that it's not all televisions going one way, that there are other things going the opposite"<sup>118</sup> direction. China wanted to make it clear that it was a reliable customer as well as a reliable supplier, and that the relationship between the two countries could be sustained for mutual benefit.

China demonstrated this commitment with publicly signed purchase contracts. State representatives would meet, sign documents in front of the press, and make public both the

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<sup>117</sup> Justin Pierce and Peter K. Schott, "The Surprisingly Swift Decline of US Manufacturing Employment," *The American Economic Review* 106, no. 7 (Jul., 2016): 1640.

<sup>118</sup> Paul Burke, in discussion with the author.

volumes they would purchase and their demonstration as a good customer. But only in “the first year they did it they actually signed contracts,”<sup>119</sup> because these contracts created market signals that raised soybean prices. So the language of the declarations shifted to less formal, non-contractual commitments called Letters of Intention to Purchase. This allowed China to gain the benefit of the public demonstration that they were not just selling goods to the United States but also purchasing goods and could be a friendly trade partner, but avoided making too firm a market signal that would create unwanted price increases. However, USDA data showed “within three days the Chinese making commitments to purchase just about the volume”<sup>120</sup> they’d committed to importing during the public commitments. This makes the Letters of Intention to Purchase not just empty gestures meant to score political points, but signs of actual economic intent.

### **US Farm and Hog Industry**

The industrialization of US soybean and hog farming continued the trend of fewer, larger farms. Soybean farming increased in Missouri, due to growing export demands as well as the continuing benefit of alternating corn and soybeans. Hog farming fully embraced CAFO techniques, and small hog farms gradually disappeared, replaced by larger and larger facilities of pigs who remained indoors full-time. “Bulk feeder tanks mounted outside the hog facility”<sup>121</sup> fed crushed soybeans to the pigs, and holes in barn floors allowed for the easy and automatic disposal of waste and urine. The soybean supply chain grew in scale as well. The barges grew

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<sup>119</sup> Paul Burke, in discussion with the author.

<sup>120</sup> *Ibid.*

<sup>121</sup> Chris Mayda, “Pig Pens, Hog Houses, and Manure Pits: A Century of Change in Hog Production,” 37.

larger, as did the silos, and the dry-bulk grain ships bound for China became enormous. “China became the world’s largest soybean importer in 2003,”<sup>122</sup> but not just through market conditions. China’s demand came partly from direct action on the part of US government and agricultural NGO actors.

## **US Export of Ideas**

As the US embraced CAFO techniques and chemical-based farming, Europe deliberately shifted away from these techniques. The cost advantages of CAFO farming were clear, but also were the quality and flavor differences in the meat, as well as the quality-of-life of the animal and the environmental damages CAFO farms caused. All the damage from “slatted floor leg injuries, lack of bedding, use of growth promoters and use of antibiotics has caused these techniques to be banned in the EU.”<sup>123</sup> China, however, embraced the US model, partly due to US advocates.

US farming advocates and NGOs recognized the growth of soybean demand based on the growth of CAFO hog farming techniques in the US, and realized that if China had such an industry, the US would have an enormous customer. Beginning in the 1980s, the United States sent experts to educate members of China’s growing hog industry on CAFO techniques, sharing not only expertise but technology. “US corn and soybean farmers really helped China develop that animal agriculture industry through a lot of technology transfer”<sup>124</sup> and knowledge sharing, with the explicit intent of creating a customer for US farmers. American farmers and traders

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<sup>122</sup> Brian Lander, Mindi Schneider, and Katherine Brunson, “A History of Pigs in China: From Curious Omnivores to Industrial Pork,” 13.

<sup>123</sup> Chris Mayda, “Pig Pens, Hog Houses, and Manure Pits: A Century of Change in Hog Production,” 38.

<sup>124</sup> Paul Burke, in discussion with the author.

profited from these investments, and China's economy profited from the utilization of a proven model as well as the increase in soybean and pork supplies.

Whether the European model of hog farming would have worked in China is an interesting question, but by embracing the US's CAFO model, China embraced and publicly showcased its role as an enormous buyer of US grain. The GATS data shows proof of China's steady commitment year after year to purchase large quantities of US soybeans in this period. More Chinese citizens gained more affluence and desired to eat more and more pork, and US farmers grew as much soybeans as China wanted, since they don't "care if it's corn or soy that the Chinese are buying as long as the Chinese are buying a crap load of it."<sup>125</sup>

The US soon offered China Permanent Normal Trade Relations, which "became effective upon China's accession to the WTO in December 2001."<sup>126</sup> Investment and trade exploded, while purchases of soybeans continued apace. Optimism derived from the benefits both sides of the Pacific Ocean received hinted at no limit to the growth of their economic interdependency. But a subtle shift in China's strategy laid the seeds for significant challenges.

Once again, China and the US's ultimate goals remained consistent during this period. China wanted growth and industrialization, and the US wanted to grow foreign markets. Once again, ideology did not interfere, and for the US, was explicitly avoided. By choosing not to use this unique opportunity, when China was joining the world order of international trade under the WTO, to actively promote the ideology of democracy, it was left to businesspeople to demonstrate the superior economic outcomes of a democracy. Not only did US businesspeople

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<sup>125</sup> Paul Burke, in discussion with the author.

<sup>126</sup> Justin Pierce and Peter K. Schott, "The Surprisingly Swift Decline of US Manufacturing Employment," 1636.

express no interest in doing so, the lack of democracy in China in no way interfered with their ability to grow their markets.

## **THE SOE PERIOD (2004-PRESENT)**

Once China succeeded in achieving near full industrialization and put itself on a path toward sustainable growth, its policies changed. In the Maoist period, overt governmental control seized private property and diminished the incentives for businesses to sustain themselves. However, a pragmatic realism had always guided the principal of “socialism with Chinese characteristics.” With a growth in expertise and greater negotiating power in international transactions, the CCP of the early twenty-first century sought to assert greater control over China’s economy. But their ultimate goal still never wavered, that of growth and industrialization. The US also never wavered in its ultimate goal of market growth. However, the US became aware of the challenges of a more assertive China. Those motivated by ideology saw this as a new, unexpected problem. Businesspeople who were motivated by self-interest, however, didn’t seem to care, and in fact saw ideological conflict as acting against their own self-interest.

### **State-Owned Enterprises**

In 2004, a small event had massive repercussions that signaled a shift in China’s strategy around soybeans and grain imports. A privately-owned soybean crusher in China “defaulted on U.S. soy contracts — caught out in a price crash between their purchase contract and prevailing prices.”<sup>127</sup> This can happen in international trade, where the fluctuating price of commodities can lead to massive losses if market prices fall after contract prices are locked in. However, locking

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<sup>127</sup> Shefali Sharma, “The Need for Feed: China’s Demand for Industrialized Meat and its Impacts,” 17.

in a price can protect against a potential price increase. Such are the risks of private exchanges, which occur with all international trade, not just between the US and China.

The WTO and the UN have established several organizations explicitly intended to help arbitrate and enforce decisions when such contract violations occur. In fact, acting as a court of arbitration is perhaps the most important, and most powerful aspect of the WTO, as it regularly “issues rulings that are universally followed even though it has no direct enforcement power.”<sup>128</sup> Since China was now a member of the WTO, the private US company could bring the private Chinese importer to court. For this specific case, a commodities exchange association in London was used as a neutral arbiter, and “when U.S. traders took the Chinese crushers to arbitration at the Grain and Feed Association in London, Chinese crushers were required to pay large sums in compensation, forcing many of them out of business.”<sup>129</sup>

China “subsequently put in place policies and incentives to support the domestic crushing industry with preferential financing and local government support and investments to”<sup>130</sup> large crushers, both state and privately owned. In addition, new, foreign-owned crushers were not allowed to be built. The newer, state-owned mills were much larger than the older, foreign-owned crushers, and could therefore negotiate for lower prices. This is essentially the philosophy of Chinese State-Owned Enterprises (SOE), which form “the core of China’s economic system.”<sup>131</sup> Setting up any industrialized business requires a significant amount of up-front

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<sup>128</sup> Baldwin, “The World Trade Organization and the Future of Multilateralism,” 112.

<sup>129</sup> Shefali Sharma, “The Need for Feed: China’s Demand for Industrialized Meat and its Impacts,” 17.

<sup>130</sup> Shefali Sharma, “The Need for Feed: China’s Demand for Industrialized Meat and its Impacts,” 17.

<sup>131</sup> L. Morris Bian, “The Sino-Japanese War and the Formation of the State Enterprise System in China: A Case Study of the Dadukou Iron and Steel Works, 1938-1945,” *Enterprise & Society* 3, no. 1 (Mar., 2002): 81.

capital. Credit limitations often mean privately-owned businesses can't get started, or have inefficiencies due to their small size, especially if a larger international competitor already exists. State funds can solve this problem, and also offer some cash flow buoyancy, allowing a fledgling business time to gain revenue while not worrying about paying off potentially high-interest loans or appeasing investors.

Chinese SOEs have had significant success. It would be inappropriate to compare them to state-owned communist enterprises in the Soviet Union, but they are also unlike western European utility and transportation businesses, since “many of them behave like free-market producers and respond to the productivity incentives of the market.”<sup>132</sup> The major difference is that they have the backing and financial support of the Chinese government. In the case of the soybean crushers, it is difficult to ignore the outcomes of SOE investment and not assume intent.

The scale of the SOE crushers, such as the massive soy importer COFCO, meant that smaller Chinese crushers could not compete. They had no choice but to buy soybeans at higher prices, since they could not contract for the volumes of the SOEs. But American soybean exporters did not discriminate between SOEs and private importers. Soybean suppliers sold to whichever firm bought the largest volumes, and showed no interest in whether or not the customer was state-owned. US soybean advocates claim that they're “pretty much as non-political as we can get, you know; we want markets,”<sup>133</sup> nothing more and nothing less.

All these circumstances eventually led to a large amount of privately-owned soybean crushers in China declaring bankruptcy or selling their businesses to SOEs, with the market share of foreign-owned crushers shrinking significantly and forcing them to “work in collaboration

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<sup>132</sup> Alice Shiu, “Efficiency of Chinese Enterprises,” *Journal of Productivity Analysis* 18, no. 3 (Nov., 2002): 255.

<sup>133</sup> John Hensley, in discussion with the author.

with Chinese firms, both state and privately owned.”<sup>134</sup> This shift in SOEs from inefficiently bloated bureaucracies to “sophisticated companies,”<sup>135</sup> along with the support strategies behind them, clearly separates this period from the others. No longer did China seek to simply grow its international trade, but to control it (see Table 3).

### **Missouri Soybean Exports**

2007 was the first year GATS data separated Missouri soybean exports from the overall national totals. The vast majority of these numbers were soybeans gathered in silos with other states’ crops along the Mississippi and Missouri Rivers, delivered on barges to the port of New Orleans, and exported to China in dry-bulk cargo ships. This limitation makes the above data somewhat unreliable, since it is quite likely that any trend visible is due to poor separation of the weight count for Missouri-grown soybeans and other states’ soybeans, since they were all gathered at the same silos and delivered on the same ships. The national trends, by and large, match those of the state, and are much more reliable when examining the impact of both state and private actions in trade negotiations (see Table 4).

The trend line for soybean growth continues and shows remarkable similarity to the trend line for China’s GDP Per-Capita growth over this same time period (see Figure 1). This reinforces the concept that as more Chinese households gained more income for luxuries like pork, the demand for soybeans increased. The major exception was the massive drop in US soybean exports to China that occurred in 2018, which had a direct, political cause (see Figure 2).

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<sup>134</sup> Shefali Sharma, “The Need for Feed: China’s Demand for Industrialized Meat and its Impacts,” 17.

<sup>135</sup> Paul Burke, in discussion with the author.

Table 3. GATS Data of Value of Missouri Soybean Exports in Thousands of US Dollars (2004-2020)<sup>136</sup>

Year	Value
2004	0
2005	0
2006	0
2007	107,434
2008	48,833
2009	981
2010	26,141
2011	23,788
2012	486
2013	0
2014	0
2015	780
2016	2,584
2017	2,952
2018	3,258
2019	0
Jan-Jun 2020	0

<sup>136</sup> “Global Agricultural Trade System,” accessed August 24, 2020.

Table 4. GATS Data of Value of US Soybean Exports in Thousands of US Dollars (2005-2020)<sup>137</sup>

Year	Value
2005	2,248,983
2006	2,531,853
2007	4,117,405
2008	7,259,676
2009	9,193,671
2010	10,863,827
2011	10,507,644
2012	14,877,641
2013	13,299,868
2014	14,476,293
2015	10,488,691
2016	14,202,579
2017	12,224,418
2018	3,119,229
2019	8,004,857
Jan-Jun 2019	2,945,328
Jan-Jun 2020	1,364,254

<sup>137</sup> “Global Agricultural Trade System,” accessed August 24, 2020.

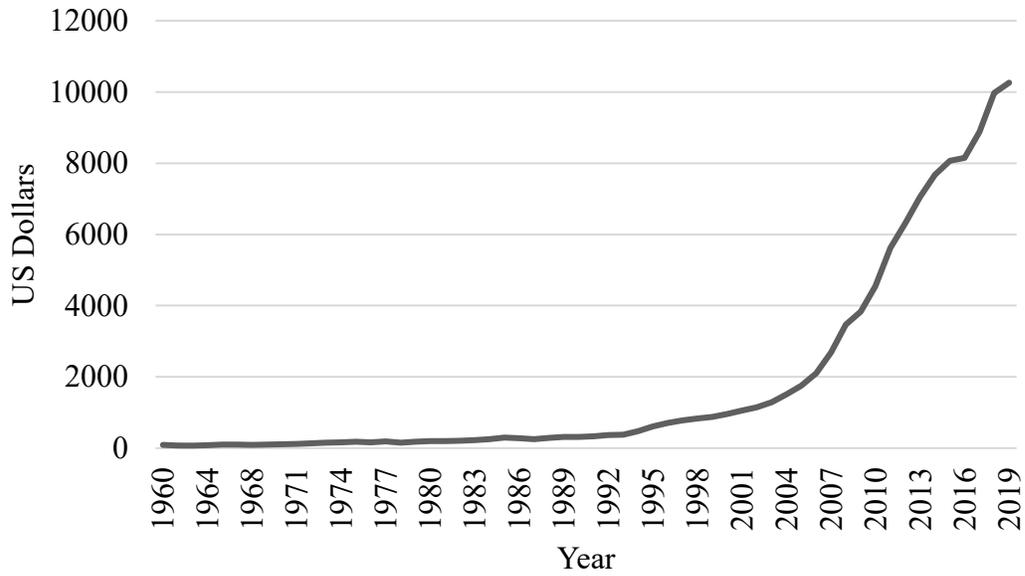


Figure 1. China GDP Per-Capita<sup>138</sup>

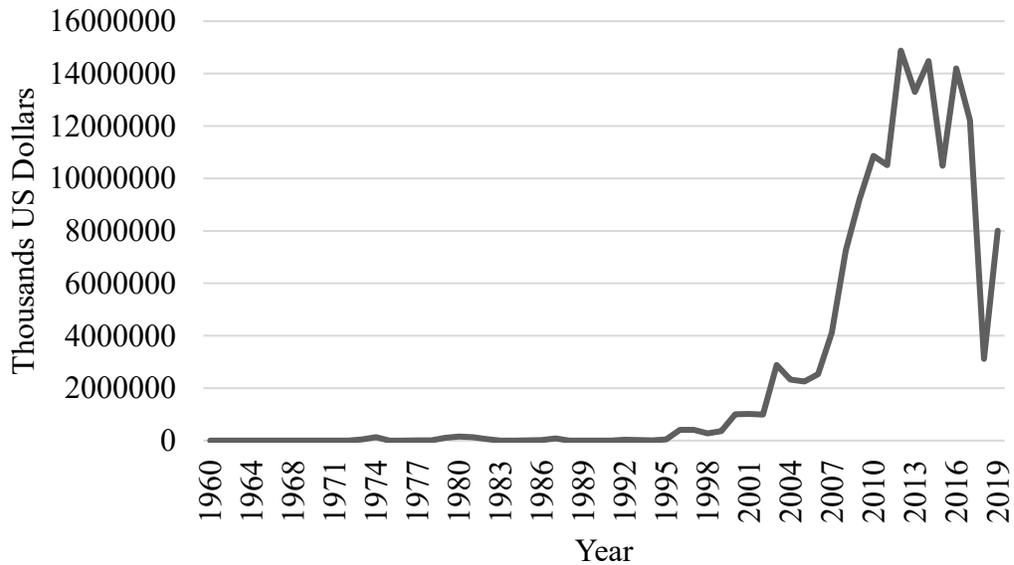


Figure 2. Value of US-China Soybean Exports<sup>139</sup>

<sup>138</sup> “GDP per capita,” World Bank, accessed July 12, 2021.

<https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=CN>.

<sup>139</sup> “Global Agricultural Trade System,” accessed August 24, 2020.

## **A New Nixon Goes to China**

In 2011, Missouri and a large part of the United States was still recovering from the 2008 financial crisis. Politicians saw job creation as a mandate to their election and sought export markets to accomplish this. With its enormous economic growth and marginal penetration by US companies, China was seen as a great opportunity for Missouri business exports, and a major part of Governor Jeremiah 'Jay' Nixon's plan for economic growth in the state. And so, the governor carried out a trade mission to China, where "it was his goal to bring jobs to Missouri and to increase trade from Missouri farmers."<sup>140</sup> Agricultural commodity representatives from the beef, soybean, tree grower, and black walnut industries, and even Bass Pro Shops retailers joined the expedition. While "the main purpose of governor-led trade missions is not to change the regulatory behavior of the foreign government, but rather to secure commercial contracts for businesses and growers within the governor's state,"<sup>141</sup> regulatory barriers were addressed.

The biggest challenge was the fact that US beef was barred from entry into China at this time. This was partly due to an outbreak of disease in US cattle in 2005, but also due to the US banning imports of Chinese cooked chicken. China wanted this ban overturned in exchange for US beef to be allowed, and cited similar health concerns, all of which were seen as a negotiating tactic. To Missouri farmers, Chinese regulators "use little gimmicks like health codes or this or that to say this beef can't come in or that beef, but really it has to do with whether or not they want to buy your beef and it's all strategic."<sup>142</sup> To overturn China's ban on US beef without requiring a reciprocal overturning of the US's cooked chicken ban would be a huge political and

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<sup>140</sup> Jon Hagler, in discussion with the author.

<sup>141</sup> Matthew Schaefer, "Promoting Commodity Exports Through Governor-Led Trade Missions," 276.

<sup>142</sup> Jon Hagler, in discussion with the author.

economic win for Jay Nixon, but at the very least both parties sought a publicly signed economic agreement on imports of US grain commodities. This would be similar to previously signed Letters of Intention to Purchase, with the added publicity of a US governor being present in China at the signing.

The state of Hebei was chosen as the destination, since Missouri and Hebei are sister states. The governor of Hebei, Zhang Qingwei, and Missouri Governor Jay Nixon met in Shijiazhuang following several meetings between private business representatives, where they signed a “\$200 million export and investment agreement.”<sup>143</sup> During a press conference, while commenting on the mutual friendship and joint economic opportunities that could be had from trade cooperation, Zhang commented that he was concerned about terrorist activities taking place in Missouri. A visibly flustered Jay Nixon stated that he was sure such activities would be dealt with. Following a lunch, Governor Nixon assembled his executive team to an unscheduled meeting that was held in a men’s restroom. There, a “fired up”<sup>144</sup> Nixon stated that Zhang could not tell him how to run his state.

The terrorist activity the Hebei governor referred to was in regard to the sizable amount of Falun Gong who had settled in St. Louis, Missouri. Falun Gong is a semi-religious organization, but past protests against the Chinese government have led them to be persecuted. The US State Department “sharply criticizes China for its suppression of Falun Gong.”<sup>145</sup> While

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<sup>143</sup> Kelsey Volkmann, “Nixon Signs \$200 Million Chinese Trade Deal,” *St. Louis Business Journal*, October 26, 2011, <https://www.bizjournals.com/stlouis/news/2011/10/26/nixon-signs-200m-chinese-trade-deal.html>.

<sup>144</sup> Jon Hagler, in discussion with the author.

<sup>145</sup> Richard Madsen, “Understanding Falun Gong,” *Current History* 99, no. 638 (Sept., 2000): 247.

the Hebei governor expressed a willingness to eliminate the ban on beef imports on Missouri's behalf during the press conference, this never came about.

John Hagler, the Missouri Director of Agriculture at the time, was present for both meetings, and could not recall whether the Missouri governor was furious due to the Falun Gong situation, or if he was upset about his upcoming trade mission to Taiwan, which had been cancelled. Hagler stated that Chinese government officials, "like to let you know that they know, that you're not getting away with anything that they know, and if you want to continue to do business with them there's a certain way to do it and there's a certain way not to do it."<sup>146</sup> This private and public disapproval did not come with terms that economic opportunities were being held hostage, or that cancelling the trip to Taiwan would ease Missouri's exports into China. It was feared that "the visit could 'anger' the Chinese government,"<sup>147</sup> but this was never publicly declared as the reason for the trip's cancellation. Nevertheless, the trip was cancelled.

Government entities, employees, and NGO members certainly would have reason to focus on the larger, political picture underlying trade. However, the actual people involved in these negotiations, the businesspeople, the salespeople, the logisticians, bankers, etc. showed a remarkable degree of disinterest regarding the politics of US-China trade. Data suggests that supply chain stability, efficiency and effectiveness, and other inflationary pressures<sup>148</sup> are their primary decision drivers. Statistical data regarding the attitudes of private businesspeople in exchanges implies the complete opposite, in fact, of what Modernization Theorists and their proponents argue, that self-interest will propel developing nations to become more democratic.

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<sup>146</sup> Jon Hagler, in discussion with the author.

<sup>147</sup> Michael Cole, "US Governor Nixes Visit Due to China," *Taipei Times*, Dec 12, 2010, <https://www.taipetimes.com/News/taiwan/archives/2010/12/12/2003490751>.

<sup>148</sup> David Hammons, Jenifer Skiba, and Carly Pierson, "Supply Chain Disruption: U.S. and China Trade," *Global Journal of Business Disciplines*, 5, no. 1 (Dec., 2021): 72-87.

An exceptional apathy is present in this data, and is corroborated by multiple individuals. Two such individuals are Joseph Eiger, Senior Vice President, and Josh Cherin, Vice President of Supply Chain, at GMPC, a contract manufacturer that makes clothing for store brands and other brands, referred to as a ‘private label’ manufacturer. Both have extensive experience in manufacturing, and in doing business with China. Mr. Eiger has worked with apparel manufacturers in China going back to the late nineties and has overseen operations in many other East Asian nations. Mr. Eiger has a very politically uninterested perspective on his history there, and has sought out Taiwanese, Cambodian, Vietnamese, Bangladeshi, and other suppliers, acting only out of interest in finding the most capable, lowest-cost supplier, which is often not China, due to rising labor costs. When Mr. Eiger states that “capitalism and democracy are not intertwined,”<sup>149</sup> he is doing so out of an abundance of experience with multiple regimes in multiple economic and political systems.

Mr. Cherin first served as a Reuters reporter in China, and transitioned into the apparel industry. He is passionate about the democracy issue. He was on the ground during the period of the nineties when “the taxi drivers in Shanghai used to make 1200 renminbi (\$150) or so a month,”<sup>150</sup> and has seen the monetary gains of Chinese citizens not lead to a desire for democracy. Mr. Cherin claims that the freedoms Americans enjoy, from a Chinese perspective, do not lead to a better life. In fact, high crime rates, examples of comparatively poor infrastructure, and a general sense of anxiety and confusion over American politics, has led Chinese citizens to not want to become like the supposed pinnacle of modernization that America is. Mr. Cherin witnessed the perceived evolution of prosperity in China compared to

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<sup>149</sup> Joseph Eiger (Senior VP, GMPC) in discussion with the author, December 2020.

<sup>150</sup> Josh Cherin (VP Supply Chain, GMPC) in discussion with the author, December 2020.

chaos in the US, and passionately laments the failure of the US to act. According to Mr. Cherin, the opportunity to act in China was twenty years ago, when the Chinese people “were very interested in freedom, however, the freedom to make money, and the freedom to have... a strong social safety net to them outweighs being able to carry a gun.”<sup>151</sup> Self-interest then, according to Cherin, has led the Chinese people away from democracy, not toward it.

Despite his clear passions for liberty and the ability to operate as he sees fit, Mr. Cherin, as well as Mr. Eiger, have not altered their operations based on their personal beliefs. They are clearly able to separate their business dealings from their political views, which seems to be a common feature of American businesspeople. These political issues did not interfere with negotiations between private enterprises, and even the raising of such issues made conversations “get very uncomfortable very quickly.”<sup>152</sup> But why should American businesspeople want to bring up these issues? They are serving their self-interest by seeking out markets and suppliers. According to Modernization Theory, this is the very force that would propel China toward democracy. But Mr. Cherin’s perspective is the opposite of Modernization Theory, that making China a democracy would require an active effort on the part of the US, and perhaps even the US government. An active effort, operating with agency, is not a natural force. Choosing to do nothing is in itself an act of individual agency, and by doing nothing regarding the political makeup of China, the US exercised agency, while hoping that a natural force, which did not require agency, would operate on its own.

Self-interest, of course, works both ways in an exchange. One would not expect a Chinese businessperson to sacrifice their own self-interest as a way of achieving a political gain

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<sup>151</sup> Josh Cherin (VP Supply Chain, GMPC) in discussion with the author, December 2020.

<sup>152</sup> Joseph Eiger (Senior VP, GMPC) in discussion with the author, December 2020.

unless they were motivated by ideology. However, if self-interest is the driver of the DMF, then it is actually Chinese businesspeople, even more than American businesspeople, whom Modernization Theorists would expect to see advocating for democracy.

Shirley Kwun, a self-professed “Hong Kong girl,” had much experience importing and exporting food commodities and ingredients during her time at the Shanghai-based company George Foods, as both a buyer and as eventual owner of the family-run business. She has hosted dinners with traders from Spain, Japan, and the US all at the same table, all attempting to sell George Foods their commodities. It is extremely rare to hear from a private business, whether Chinese or American, that politics came into these discussions, since, as Mrs. Kwun put it, “both sides are just trying to make money.”<sup>153</sup> This does not make individuals like Mrs. Kwun a-political actors. Far from it. Mrs. Kwun eventually married a Japanese man, and left Hong Kong after the Chinese government’s political crackdowns of 2020. Now living in Japan, she has made it clear that she does not want to disparage China in any way, and has no criticisms of the regime regarding interference in her private business dealings.

Businesspeople like Mrs. Kwun and Mr. Cherin typically see regulations as a part of the environment in which they operate, and while taxes, tariffs, even corruption and lengthy paperwork requirements can be criticized as a barrier, a Chinese and American businessperson’s overarching goal is always to try and make money, and such barriers exist even to the Chinese businessperson wanting to do business in America.<sup>154</sup> If, during a trade deal, a Chinese businessperson such as Mrs. Kwun learned of difficult and corrupt governmental policies that

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<sup>153</sup> Shirley Kwun (former owner, George Foods, Shanghai) in discussion with the author, November 2020.

<sup>154</sup> Shirley Kwun (former owner, George Foods, Shanghai) in discussion with the author, November 2020.

limited their ability to make money, and that they lacked the tools to advocate for change that are found in a democracy, Modernization Theorists propose that the DMF of self-interest would lead them to advocate for democracy. The sum total of millions of people acting on this self-interest would, presumably, be unstoppable in shifting China toward a democracy. And yet, this has not happened.

Only on the governmental side were issues of democracy raised. For the most part, private companies could continue their trade either ignorant of political discussions or only reacting to governmental policies that affected them, such as safety regulations and tariff levels or even intellectual property protection. Economic metrics like costs and revenues drove business negotiations, not issues such as the Falun Gong or Taiwan or democracy.

### **The Rise of Xi Jinping**

Xi Jinping became Party General Secretary and Chairman of the Central Military Commission in China in 2011. Unlike his predecessors, Xi has taken a more assertive stance when it comes to China's foreign relations, and has shown no interest in willfully turning over the position of President. Xi claims he's launched a new era, concluding what he sees as China's three modern stages: "the standing-up stage accomplished by Mao, the growing-rich stage achieved by Deng Xiaoping, and the becoming-strong stage that he now promised to deliver."<sup>155</sup> Xi repeatedly references China's grievances of Western dominance, starting with the Opium Wars in the mid nineteenth century, and seeks to reassert what he considers China's rightful place of wealth and power. In addition, Xi has shifted China's domestic policy "from

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<sup>155</sup> Feng Zhang, "The Xi Jinping Doctrine of China's International Relations," *Asia Policy* 14, no. 3 (Jul, 2019): 13.

authoritarianism to a totalitarian approach”<sup>156</sup> in a way that has not been seen in China since Deng or Mao.

To claim, however, that Xi is solely responsible for China not becoming a democracy is flawed. He certainly shows no interest in adopting democracy. However, the rise of SOEs and the trade with soybeans are not Xi’s sole responsibility, but the result of many other CCP-directed decisions. Unlike Hu Jintao, Xi’s predecessor, who openly discussed China becoming a democracy<sup>157</sup> while not actively pursuing it, Xi makes no such gestures of adopting a Western model of democracy. This seems more a revealing of long-held CCP principles, rather than a new policy directive. Even so, if Xi were solely responsible for halting China’s adoption of democracy, it would disprove Modernization Theory, since such individual actors are thought to be unable to have sufficient power to stop the inevitable rise of democracy.

## **The Trade War**

One key event is visible in the GATS data. In 2018, exports of US soybeans to China dropped 291%. This is significantly higher than any other change in export levels since China began its strategic period of purchases, and the shift lacks any environmental or market origin. US President Trump had promised to make adjustments to the significant trade deficit that existed between the United States and China, and imposed tariffs on Chinese imports. In retaliation, China added tariffs onto US exports. The “tariff rate of China on soybean imports is shown to have severely affected the soybean trade and production between the United States and

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<sup>156</sup>Angela Stanzel, Jérôme Doyon, Heike Holbig, Jean Christopher Mittelstaedt, and Yevgen Sautin, “China’s “New Era” With Xi Jinping Characteristics,” *European Council on Foreign Relations* (2017): 2.

<sup>157</sup> Hu Jintao and Luc Guo, *Selected works of Hu Jintao: 2001-2012*, 70-71.

China,”<sup>158</sup> and is evident in the export data. China also sought to replace any products it purchased in the US with suppliers in other nations. The tit-for-tat raising of tariffs and efforts to economically damage each other became commonly referred to as a Trade War.

This seems to be China’s long-term planning in the Strategic Period bearing fruit. They didn’t have to rely on the US for all of their soybeans. They had developed a supplier relationship with Brazil, and made efforts “at establishing large-scale agribusiness operations in the Brazilian soybean complex and agribusiness sector.”<sup>159</sup> However, Brazil could not completely replace the United States. Even with the addition of Argentinian soybeans, “early expert forecasts were that the Chinese appetite exceeded the world’s supply without the United States,”<sup>160</sup> and while US exports to China went down, they still existed in significant numbers.

US and Missouri soybean farmers found themselves in the unique position of being pawns in a political game. The trade imbalance might have led to the closure of US factories, with Chinese labor replacing American labor, but US farmers had benefited from closer economic ties with China, and agricultural advocates had spent decades cultivating and supporting this market. And yet, there was little push-back from farmers against the Trade War. This was partly due to subsidies the Trump administration gave US farmers to make up for the significant loss of their export markets. “Farmers would rather have markets than have

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<sup>158</sup> Xijian Hao, “The US-China Trade War: The Effects on the Soybean Industry” (MS thesis, Kansas State University, 2019), 21.

<sup>159</sup> Gustavo Oliveira, “Chinese Land Grabs in Brazil? Sinophobia and Foreign Investments in Brazilian Soybean Agribusiness,” *Globalizations* 15, no. 1 (2018): 126.

<sup>160</sup> Ken Roberts “It Looks Like Soybean Shenanigans As China Demand Plummetts, Overall Demand Increases,” *Forbes*, October 8, 2018, <https://www.forbes.com/sites/kenroberts/2018/10/08/it-looks-like-soybean-shenanigans-as-china-demand-plummetts-overall-demand-increases/?sh=670446941fbd>.

payments,”<sup>161</sup> but “they understand that China has been treating its trading partners unfairly,”<sup>162</sup> and that other American laborers required their temporary market disruption in order to make this happen. It is uncertain whether or not farmers would have continued to have this attitude if the soybean market had continued to face the same level of disruption, or if they hadn’t received payments, but they did not have to wait long.

In December 2019, President Trump and Chinese President Xi Jinping signed an agreement intended to end the escalating trade war, or at the very least call a “truce.”<sup>163</sup> Phases were outlined to allow for better political and market acceptance of the changes. Phase One included an agreement that the US would lower several of the tariffs it had imposed on Chinese imports, and that China would commit to purchasing a significant volume of US agricultural products. The Covid-19 Pandemic disrupted China’s commitments, but the export data suggests that they have for the most part returned to pre-Trade War soybean import volumes, and there is little to indicate that these numbers will not continue.

The Trade War did not accomplish its goals for the US, and it has yet to completely end. US manufacturing did not return in significant numbers during the Trade War, nor did US supply chains shift to non-Chinese locations.<sup>164</sup> Cost increases brought on by the tariffs were not enough to encourage significant change, at least in the short-term. US manufacturing still relies heavily on imports from China, and China still relies on the US for soybeans, while its people continue to demand more and more pork. The trade war “is still ongoing despite an interim “Phase 1”

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<sup>161</sup> John Hensley, in discussion with the author.

<sup>162</sup> Paul Burke, in discussion with the author.

<sup>163</sup> Lawrence J. Lau, “The Impacts of the Trade War and the Covid-19 Epidemic on China-U.S. Economic Relations,” *China Review* 20, no. 4 (Nov., 2020): 2.

<sup>164</sup> Hammons, Skiba, and Pierson, “Supply Chain Disruption: U.S. and China Trade,” 72-87.

truce,”<sup>165</sup> and supply chain disruptions brought on by the Covid-19 Pandemic have added further complications.

The results of the Trade War run contrary to expectations of self-interest. If sourcing from Chinese manufacturers suddenly became more expensive, a rational economic actor would seek out alternative suppliers. If the Trump administration wanted to shift suppliers away from China, they did not explicitly command them to do so. Not only would this be legally difficult in the US, and certainly raise complaints within the WTO, but it was likely considered unnecessary. Washington Consensus economists, in general, tend to focus on predicting behavior based on self-interested, rational actions. Similarly, US economic policy orients around rewarding the behavior the US wants, and providing a negative outcome for behavior it does not. In this instance, the US made it more expensive to export products manufactured in China as a way to direct self-interest to desirable outcomes. So why did this not happen?

US companies did not suddenly act out of something other than self-interest. The reason so few companies left China once tariffs made manufacturing there more expensive is that supply chains are much more complex than they appear, and raising a single cost is not necessarily enough to shift them.<sup>166</sup> Tariffs are certainly a cost, and self-interested companies have made many efforts to avoid them. However, risk is also considered a cost, according to modern supply chain management theorists. Shifting manufacturing away from China carries many risks: risk of delays, risk of costs being higher elsewhere, and simply the risk of changing what is already a highly complex supply chain. If, for instance, a company no longer manufactured in China and shifted that work to US factories, and there was a delay caused by the

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<sup>165</sup> Lau, “The Impacts of the Trade War and the Covid-19 Epidemic on China-U.S. Economic Relations,” 2.

<sup>166</sup> Hammons, Skiba, and Pierson, “Supply Chain Disruption: U.S. and China Trade,” 72-87.

training and hiring of employees, purchasing and installation of machinery, and the acquisition of necessary materials, that delay could lead to lost sales. Customers would not receive orders, and might purchase from a company's competitors. Similarly, there might be quality issues, as the new factory would potentially be unfamiliar with manufacturing the product according to company specifications. Many companies considered the costs of these risks to far outweigh the added costs of simply absorbing the tariffs, and either raised prices or accepting decreased, but not terribly decreased, profits.<sup>167</sup> This is considering that shifting manufacturing away from China was even feasible. In many instances it wasn't, at least in the short term, due to a lack of capacity and a lack of knowledge or resources in certain manufacturing capabilities.<sup>168</sup>

Self-interest guided behavior during the Trade War, though not in the way the Trump administration desired. Simply put, doing nothing cost less than doing something, and so self-interested companies did nothing. In fact, the disruptions of the Covid-19 Pandemic have done more to make companies reexamine their China manufacturing than the Trade War. When China shut down whole cities and ports to contain viral outbreaks, US companies were unable to receive finished goods and component parts made in China. These delays often meant that factories had to shut down, creating expensive idle time, or to suffer lost sales and upset customers. US companies saw these costs as worth the risk of finding alternative suppliers. This did not mean either using domestic or Chinese suppliers, but "focusing on the diversification of the supply base"<sup>169</sup> to include a variety of global suppliers. Disruption risk, therefore, is a major complication that modifies predictions of rational behavior, and one of many costs rational

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<sup>167</sup> Hammons, Skiba, and Pierson, "Supply Chain Disruption: U.S. and China Trade," 72-87.

<sup>168</sup> Joseph Eiger (Senior VP, GMPC) in discussion with the author, December 2020.

<sup>169</sup> Prashant Yadav, "Trade, Manufacturing, and Critical Supply Chains: Lessons from Covid-19," *Center for Global Development* (2020): 6.

business decision-makers consider. Still, the main problems the Trade War attempted to address remain largely unresolved. All the while, China has remained under autocratic rule.

The self-interest guiding business decisions only requires an ideology that benefits that self-interest. When a change in ideology does not improve self-interest, why should it be expected that such a change will occur? Who benefits? Neither Chinese nor American soybean traders benefitted from introducing ideological conflict into their exchanges, even as their governments engaged in ideological antagonism. The American trader in this period looks like a selfish fool to Modernization Theorists, ignoring the long-term consequences of their actions. The Chinese trader resembles a naïve, irrational fool, ignoring the potential gains to be made by asserting the need for democracy. However, if neither saw the gain in advocating for democracy, why should they be expected to do so? In this period, the US finally woke up to the fact that if it wanted China to become a democracy, it would require an active, ideologically focused effort.

## **THE MYTH OF THE DEMOCRATIZING MARKET FORCE**

Determinism's simplicity and predictability makes it comforting, especially when the conclusions benefit and congratulate those developing the deterministic theory. The quasi-deterministic nature of Modernization Theory, and its self-congratulatory praises of US economic and political policy, make it attractive to all sorts of Americans. However, Americans have also shown a remarkable history of attraction toward self-interested value gain, and this motivation would have to intersect with any force that would drive Modernization Theory. Since it doesn't necessarily do so, the Democratizing Market Force is a myth.

### **Why China Hasn't Become a Democracy**

In many ways, those who thought that raising tariff costs during a Trade War would convince self-interested economic actors to move manufacturing away from China shared a lack of underestimating of the complexity of the economies they were examining with Modernization Theorists. Both inaccurately claimed that self-interest would produce a certain outcome, but without considering the totality of the drivers of self-interest. Companies want to reduce costs, yes, but tariffs are just one of many costs they have to consider. And China wants to develop and grow its economy, yes, but that is far from China's only goal. If a company did not move its supply chain during a trade war, they were not acting irrationally. Cost drivers other than tariffs directed their self-interest. And so, when China did not shift its political apparatus to that of a democracy, it was either acting irrationally, or there was some self-interest Modernization Theorists missed motivating their continued autocracy.

The key element regarding democracy in China is simply that the CCP doesn't want China to become a democracy. To narrowly define China's self-interest as being aligned with the adoption of democracy is to not consider the myriad other priorities China has a self-interest in addressing. China's government has prioritized stability and growth over individual liberty. China's citizens seem to be comfortable with this exchange. The CCP "positioned the government as a trustworthy partner"<sup>170</sup> that could deliver the things that a rational member of a capitalistic society would want, such as a stable income, leisure time, the ability to accumulate wealth, and the ability to freely use it. What they asked in return was the loss of such liberties as freedom of speech, judicial independence, and multi-party elections. One might argue that this is merely the result of propaganda, characterizing the US as chaotic because of its democracy and China as stable because of its autocracy. But rationality is not based on an objective measurement of what is best, but on the subjective opinions of the members of the exchange.

For example, economist do not dismiss the adoption of VHS tapes in American households as the result of propaganda. Starting in the late 1970s, technology advanced to the point where it became economically feasible for Americans to purchase some form of home video playing platform, with the option of choosing either VHS or Betamax. Both were "closely comparable in cost,"<sup>171</sup> but from a picture quality standpoint, "VHS did not have a reputation as being superior to Beta, and the truth may indeed have been the opposite."<sup>172</sup> Objectively speaking, Betamax was the obvious, rational choice. However, through a combination of

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<sup>170</sup> Josh Cherin (VP Supply Chain, GMPC) in discussion with the author, December 2020.

<sup>171</sup>Michael A. Cusumano, Yiorgos Mylonadis and Richard S. Rosenbloom, "Strategic Maneuvering and Mass-Market Dynamics: The Triumph of VHS over Beta," *The Business History Review* 66, no. 1 (Spring, 1992): 67.

<sup>172</sup> Cusumano, Mylonadis and Rosenbloom, "Strategic Maneuvering and Mass-Market Dynamics: The Triumph of VHS over Beta," 77.

advertising and promotion efforts, along with an intense distribution strategy,<sup>173</sup> VHS manufacturers convinced Americans to purchase VHS platforms. An economist would still consider this to be rational behavior, however, because VHS advertising efforts caused Americans to value VHS more than Betamax. Do we call these advertisements propaganda? Do we dismiss them as evil? Economists don't. While the connection between the rise of VHS tapes and Modernization Theory might seem strange, it illustrates how rational it might be for someone to make an exchange that is seemingly irrational to an outside observer.

Whether it is propaganda or not, Chinese citizens seem to be comfortable with the exchange of democracy for stability. In essence, they value economic security and growth more than they value liberty. They 'give' liberty and 'get' economic security. Is this not a rational exchange? Describing it as anything but would require an ideological intrusion into a material exchange. If this value exchange exists, then we see two self-interests at work. The first is the ruling party. CCP members certainly see it as in their self-interest to avoid losing their governmental authority and positions of power to a democratic challenger. Individuals also see this as a necessary cost to give them a chance at achieving economic success. Both consumers and the government are aligned in their fears of the disruption risks of a transition to a democratic government. Autocracy is a cost, just like trade war-imposed tariffs. But as we have seen with the rational actors who simply absorbed tariff costs and kept their factories in China, disruption risk is also a cost. And so, self-interest does not universally align with democracy, and therefore someone else would need to advocate for it, someone with ideological, rather than material, interests.

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<sup>173</sup> Cusumano, Mylonadis and Rosenbloom, "Strategic Maneuvering and Mass-Market Dynamics: The Triumph of VHS over Beta,"86.

Proponents of Modernization Theory would argue that China will still eventually become a democracy, that prolonged capitalistic exchanges will inevitably lead to changes, that “it’s going to happen in degrees, it will take time,”<sup>174</sup> but that it will happen even without “demanding that China change.”<sup>175</sup> There is little evidence to suggest that future economic exchanges between American soybean exporters and Chinese importers will have any impact on China’s democratic status. Farmers expressed more interest in selling to markets than in taking a political position. Exporters showed no preference between state-owned or private firms. Politics seems to have never entered the negotiating table in exchanges between private actors in the soybean industry, even with Chinese SOEs. Individuals in these firms acted according to economic metrics, not political ideology. And yet these are the very actors Modernization Theory proposes will be the key drivers of delivering democracy to China.

How can politically neutral actors create a political outcome? Modernization Theory proposes that it is through market incentives that democracy will eventually come to China. But how can this be so if a profitable state-owned enterprise participates in that market? Modernization Theory assumes that SOEs will inevitably fail, largely due to their reliance on failed Soviet industries as a model. Such models do not apply to China. It is forgivable when examining “how unsophisticated Chinese companies were thirty years ago or twenty years ago,”<sup>176</sup> but now Chinese SOEs are highly capable, highly sophisticated businesses. Still, Modernization Theory doesn’t actually require the failure of an industry for democracy to gradually take hold. It merely requires that private actors respond to incentives.

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<sup>174</sup> Bob Holden, in discussion with the author, October 2020.

<sup>175</sup> Bob Holden, in discussion with the author, October 2020.

<sup>176</sup> Paul Burke, in discussion with the author.

What Modernization Theory does not allow for is the success of autocratic pushback against democratization. The force of autocracy resisting democracy is quite evident in China. The oppression of the Falun Gong and pushback against Missouri's governor allowing such followers to live freely in his state is alone evidence of China's government putting energy behind preventing democratic change. But Modernization Theory is almost dismissive of such anti-democratic forces when compared to the power of the market to incentivize democratic change. In China, it was theorized that "growth would redound to everyone's advantage and lead to democracy sooner or later."<sup>177</sup> The market is far more powerful than any autocratic effort, so Modernization Theory proposes. The implication is that there exists a Democratizing Market Force that can survive any autocratic resistance. But where does it come from?

### **The Myth of the Democratizing Market Force**

Market incentives are expressed in the actions of actors participating in private exchanges. These individuals act according to their own self-interest. The DMF proposes that this self-interest is incentivized toward democracy due to its superior efficiency in facilitating such exchanges.<sup>178</sup> This mechanism is the free market, which supposedly creates the DMF. But what if neither of the actors in such an exchange find any resistance in an autocratic society? What if they find just as much efficiency in an autocracy as in a democracy? Such is the case in China, with profitable SOEs, and US soybean exporters happily finding a market for their goods. Self-interest incentives are satisfied, so how can they create a force for political change?

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<sup>177</sup> Edmund S. K. Fung, "Socialism, Capitalism, and Democracy in Republican China: The Political Thought of Zhang Dongsun," 426.

<sup>178</sup> Benjamin M. Friedman, "Capitalism, Economic Growth & Democracy," 48.

Further complicating matters, self-interest is perhaps driving many of the decision-makers in these exchanges in a different direction from democracy. If a CEO of an SOE saw democratization as reducing their wealth, they would be self-interested in preserving the current autocratic regime. Modernization Theorists would propose that this is irrational, since the CEO would actually gain more wealth under a democracy, since the rule of law would protect their financial interests. However, the reaction of US manufacturers to the 2018 Trade War proves that risk, and the perception of risk, complicates self-interested behavior. If the CEO perceived the risk of creating a democracy, such as allowing a new competitor to emerge, any potential bribery or corruption they've likely participated in being prosecuted, or even the general unknown turmoil that comes with any major governmental change, as being a greater cost than the potential gains they would acquire under a democracy, then that CEO is acting rationally by not advocating for democracy.

Modernization Theory therefore misses two important complications. First, the cultural subjectivity related to self-interest. Second, the myriad complexities related to costs and subjective perceptions of risk amongst all rational economic actors. To claim that China's differences in culture are to blame for their differences in self-interested rationality would perhaps be dismissive and demeaning. Economics, however, do not account for such variations in their core principals of rationality. But cultural differences in self-interest can certainly affect behavior. To claim that a person who is willing to accept a lesser economic gain in return for greater security is acting irrationally is to claim that US companies that did not divest from Chinese factories due to tariffs were also acting irrationally. The point of rationality versus irrationality is not that it follows a specific behavioral pattern, but that it is behavior that maximizes value for the individual, and that value is entirely subjective.

This means that the cost of risk versus the value of gain changes depending on the subjective perspective of the decision-maker. And so, when Modernization Theorists point out that a system that lacks corruption creates greater wealth, this might be true, but there are rational actors who would lose value in such a system, as well as individuals who would see changing this system as a risk. To claim that these individuals are not acting rationally is essentially complaining that they are not acting according to a Modernization Theory-derived definition of rationality. Acceptance of corruption and bribery as a part of culture, perceptions of risk in relation to individual liberty versus security, all vary in different cultures. To say that the US's definition of individual liberty is the only definition of rationality is not only demeaning, it makes any theory derived from such a definition useless anywhere outside of the United States.

In essence, in order for the DMF to exist, it would require Chinese citizens to be culturally aligned with Americans. The universalism of Modernization Theory's proposed definition of rationality complicates its formula. If a nation is to become a democracy, it would either require active effort, or contextualized justifications in order to succeed. If self-interest is the driver, then that self-interest needs to be shifted toward democracy somehow. The DMF doesn't naturally appear within the context of self-interest. If, however, contextualized justifications are required, then the universalism understood to drive self-interested economic actors toward democracy is not universal, making Modernization Theory only useful in the analysis of nations that possess those characteristics, and useless for those that don't.

The other requirement for the DMF to exist would be a universal self-interest in the creation of a democracy. In fact, this is the bedrock of Modernization Theory. By examining China's economic exchanges, and the attitudes of its people, one can easily dismiss the idea that

all Chinese citizens currently view democracy as in their own material self-interest.<sup>179</sup> And if self-interest isn't universally guided toward democracy, then the foundations of Modernization Theory are flawed, and the DMF is based at least partially in ideology, which Modernization Theory dismisses as irrelevant.

With the lack of a self-interested material incentive, a gradual trend toward democratization would require an ideological shift in China. But where would such a shift originate if neither of the actors in a private exchange attempted to assert their ideology? In China, "there's not missionaries coming over there trying to spread the religion of democracy."<sup>180</sup> But Modernization Theory proposes no need for such missionaries. The idea that any ideological energy is necessary is itself a violation of Modernization Theory's core principle. Market exchanges and incentives alone are said to be sufficient to create an inevitable drive toward democracy. If a natural force requires active effort, it is not a natural force. And if it is not a natural force, then the principles of the DMF are false. The fact that any ideological effort is at all required is enough to prove that there is no Democratizing Market Force present in Sino-American trade relations.

### **Flawed US Strategy**

Modernization Theory exists not just with social scientists in economically oriented institutions. It would be reasonable to expect those who benefitted from free trade to be proponents of a principle that equated free trade with democratic liberalization. However, academics, NGOs, and high-level government officials have written about, made statements

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<sup>179</sup> Josh Cherin (VP Supply Chain, GMPC) in discussion with the author, December 2020.

<sup>180</sup> Joseph Eiger (Senior Vice President, GMPC) in discussion with the author, December 2020.

concerning, and crafted policy around the idea “that China’s economic liberalization and the new affluence it generated would bring political liberalization.”<sup>181</sup>

US President Clinton himself hinted at the ideology underlying Modernization Theory. In a March, 2000 speech regarding whether or not China would succeed in its efforts to censor democratic pressures on the internet, President Clinton said that doing so would be “like trying to nail Jello to the wall.”<sup>182</sup> This attitude is characteristic of US policy and Modernization Theorists’ belief regarding China. They are almost patronizing with their dismissal of any efforts to fight what is considered the inevitable tide of history. Now that the CCP has proven it is perfectly capable of nailing Jello to the wall and censoring the internet, along with other modes of free speech that might encourage grassroots democratic efforts, President Clinton’s quote comes across as hopelessly naïve. Whether or not there is a clear written statement of this being the US’s strategy, public sentiments like President Clinton’s are common enough to constitute a strategy.

Throughout the trade history between the US and China, “China’s course of action has been if anything consistent.”<sup>183</sup> This is why the chapters of this paper are oriented around China’s policy regarding soybeans, not US policy. There was no US soybean export strategy beyond selling more. The CCP knows what they want from their trade with the US, and this strategy is controlled from the highest echelons of their government. The US, however, only had

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<sup>181</sup> Peter Berkowitz, “The Pattern and Purpose of China’s Actions,” *RealClear Politics*, October 25, 2020, [https://www.realclearpolitics.com/articles/2020/10/25/the\\_pattern\\_and\\_purpose\\_of\\_chinas\\_actions\\_144522.html](https://www.realclearpolitics.com/articles/2020/10/25/the_pattern_and_purpose_of_chinas_actions_144522.html).

<sup>182</sup> Bethany Allen-Ebrahimian, “The Man Who Nailed Jello to the Wall,” *Foreign Policy* (June 29, 2016), <https://foreignpolicy.com/2016/06/29/the-man-who-nailed-jello-to-the-wall-lu-wei-china-internet-czar-learns-how-to-tame-the-web/>.

<sup>183</sup> Joseph Eiger, in discussion with the author, December 2020.

a single intentional strategy with China, and that was to break it away from the Soviet Union. “That very narrow goal having been accomplished early on, American purposes in developing ties with China have yet to be clearly defined.”<sup>184</sup> If the US could be said to have a strategy, that strategy is intentional inaction. Chinese leaders actually encouraged this, which undoubtedly contributed to the justification of this lack-of-a-strategy strategy.

Chinese President Hu Jintao stated that China would “need to improve the institutions for democracy, diversify its forms and expand its channels.”<sup>185</sup> In a 2011 luncheon in the US, President Hu Jintao essentially outlined a Modernization Theorist’s concept of how China would one day become a democracy. In his opinion, “The friendly exchanges between the Chinese and American people have contributed not only to their own cultural progress, but also to the exchanges and mutual learning between the Eastern and the Western civilizations. And they have given a strong boost to the overall progress of human civilization.”<sup>186</sup> This echoes the sentiment of Missouri Governor Bob Holden, who stated that “over a period of time, I think we can move China philosophically to our point of view and we’ll pick up and learn some things from them.”<sup>187</sup>

These encouragements succeeded in two ways. They placated democracy advocates who wished to see China become a democracy by assuring them that they only needed to be patient. They also labeled any direct action to drive China toward a democracy as interventionist and even hostile. It became thought that “you don’t change China by demanding that China change, you change China by letting young Chinese see the value and importance of what we bring to the

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<sup>184</sup> John Bryan Starr, “Sino-American Relations,” 302.

<sup>185</sup> Hu Jintao and Luc Guo, *Selected works of Hu Jintao: 2001-2012*, 70-71.

<sup>186</sup> Hu Jintao and Luc Guo, *Selected works of Hu Jintao: 2001-2012*, 156.

<sup>187</sup> Bob Holden, in discussion with the author, October 2020.

table.”<sup>188</sup> This philosophy only makes sense if you consider democracy to be Jello. Doing anything to it, shaking it, nailing it to the wall, has no effect, and so trying to stop it is just as pointless as trying to push it. Direct action could only disrupt this inevitable path to democracy, and so action was not only not required, it was actively discouraged.

### **The Myth of the Market as a Self-Isolated Force**

A prevailing myth tangentially related to Modernization Theory is that the market alone is sufficient to create significant political change. In the case of the soybean market, this is false. The soybean market in the United States only exists in its current form due to significant government, university, and NGO intervention. Researchers at universities developed agronomy plot techniques in the early 1900s.<sup>189</sup> Wartime government strategy drove enormous growth in the industry, with government officials using government money to push for greater and greater crop plantings.<sup>190</sup> Agricultural NGOs and government agricultural advocates cultivated an export market for soybean farmers, going so far as to educate hog farmers in China with the explicit intention of allowing private US farmers to benefit from the creation of such a market.<sup>191</sup> Entrepreneurial energy and responses to market signals most definitely existed to grow the market, but its development and scale, both in the US and in China’s hog industry, are owed to intentional non-market actions.

This idea of a market being created through intentional action is an important clarification when examining the validity of Modernization Theory. The foundational

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<sup>188</sup> Bob Holden, in discussion with the author, October 2020.

<sup>189</sup> William L. Cavert, “The Technological Revolution in Agriculture, 1910-1955 (In Part with Special Reference to the North Central States),” 20.

<sup>190</sup> Alvin A. Munn, “Production and Utilization of the Soybean in the United States,” 223.

<sup>191</sup> Paul Burke, in discussion with the author.

understanding of this deterministic model is that no intentional action is required, that natural responses to market incentives alone will drive change. But how can such changes be created within a market that itself was not created through natural responses to market signals?

To insist that private individuals in the soybean market can in any way create democracy in China is to put them into a position that they neither desire nor are capable of executing. Government, University, and NGO actions created the arena in which private businesses operate. Those private businesses benefit from the marketplace of the arena itself, but their actions are confined to within “the regulatory framework”<sup>192</sup> that the government provides. The soybean marketplace has had a symbiotic relationship with governments, and its history shows that it requires active maintenance and forward planning in order to create desired outcomes. How could substantial enough a change as turning an autocracy into a democracy come about without any intentional action?

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<sup>192</sup> John Hensley, in discussion with the author.

## CONCLUSION

Two separations occurred during the history of the soybean trade between Missouri and China: social scientists from economists, and businesspeople from governments. Economists examined events as they were happening and sought rationales to justify this behavior. Efficiency and effectiveness alone guided their efforts at crafting theories and disciplines that would maximize profits, which practitioners executed with relatively little deviation, while providing new data that economists used to continually modify their rationales. Social scientists, however, seemed to have had a lingering desire to fit the world into a universal trend.

While Modernization Theory was not universally embraced by historians and social scientists during this time period, it was not sufficiently criticized to be eliminated from the halls of US statecraft. Marxist historians driven by ideology could not promote a critique that could dismantle Modernization Theory, partly due to the loss of credibility of such ideologies after the fall of the Soviet Union. Economists fit the past into good and bad decisions to learn lessons that could maximize future returns, while social scientists attempted to predict the ideologies of the future. Economists did not promote an ideological framework, simply a way of maximizing economic return. This left an ideological vacuum, which Modernization Theory proponents happily filled. Social scientists seemed to have assumed that economics was the primary driver of change, and therefore associated all sorts of ideological changes with it. Economists themselves, meanwhile, as well as economic practitioners, are not driven by ideology. In fact, business decision-makers cite it as something that gets in the way.<sup>193</sup> This disconnect has led to errors, such as aligning self-interest with a Democratizing Market Force.

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<sup>193</sup> Joseph Eiger, in discussion with the author, December 2020.

The second separation is not entirely a separation, since lobbying efforts and government involvement in businesses, especially in the soybean industry, has long been practiced and continues to this day. However, an ideological separation exists between foreign policy decision-makers and business decision-makers. The foreign policy of the United States is not to promote an ideology of democracy, at least not explicitly. However, enough public comments and decisions have been made by prominent US leaders to characterize the US as oriented toward a pro-democracy foreign policy. If this is the goal, however, they have not communicated this with business decision-makers. Business decision-makers do not want to be democracy evangelists, or ideological foreign agents.<sup>194</sup> They want to participate in value-added market exchanges. If they were expected to promote an ideology, no one told them. The trouble is, the government seemed to expect this to happen.

Social scientists and economists, especially businesspeople, don't seem to communicate terribly well. While Modernization Theory is derived from the implication that it costs more to do business in an autocracy than in a democracy, and that therefore a democracy will inevitably be adopted due to self-interested behavior, its proponents do not seem to have analyzed the cost drivers that business decision-makers consider. An autocracy is supposed to create two key inefficiencies: an inefficient allocation of resources based on a command-control economy, and the inability to protect wealth and entrepreneurship derived from a biased, non-independent system of law. In China's case, the data regarding its economy allows the first to be dismissed. In any case, its embrace of a mostly capitalistic economy makes it nothing like the communist economy of the Soviet Union that inspired much thought regarding Modernization Theory. The

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<sup>194</sup> Joseph Eiger, in discussion with the author, December 2020.

second, however, is very much present in China, and is a key complaint of many US businesspeople.<sup>195</sup> However, it is simply a cost.

When making a rational exchange, business decision-makers consider the costs and benefits. By selling and buying goods in China's market, the benefits of hundreds of millions of customers and the labor pool of this population are substantial. The costs include a less developed infrastructure compared to the US, port bottlenecks, the risk of intellectual property theft, the risk of an inability to take a non-paying customer to court and collect payment, harsh regulations, and myriad other challenges. Modernization Theory allows for such businesses to continue to operate in this manner, but to advocate for the cost reductions found in democracy, since it is in their self-interest to do so.<sup>196</sup> However, businesspeople have created several ways to mitigate these costs.

In the case of non-payment, US businesses utilize banking guarantees like Letters of Credit. In the case of intellectual property theft, US businesses have continued to advocate for these to be respected by the autocratic regime, and have made substantial gains. The UN and WTO have independent arbitration organizations that allow US and Chinese businesses to settle disputes completely independent of either government. And regulatory compliance is a challenge in every country, regardless of its status as a democracy. The key element is that an independent judiciary is just one of many costs businesspeople consider when doing business in another country. In fact, due to the many bank, UN, and WTO-based institutions that offer risk mitigation services, businesses have effectively side-stepped the risks of doing business with an

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<sup>195</sup> Paul Burke, in discussion with the author.

<sup>196</sup> Benjamin M. Friedman, "Capitalism, Economic Growth & Democracy," 48.

autocracy, or at least diminished them to the point where they are simply one of many costs to consider.

To contemporary supply chain management professionals and logisticians, a country's system of law is considered a part of its infrastructure. Infrastructure, then, is not just roads and bridges, but all parts of a nation that allow for the easy movement of goods, capital, and information. Essentially, infrastructure is the structures that make doing business more efficient. In the chapter on infrastructure in a contemporary International Logistics textbook, an analysis of transportation-based infrastructure is thirty-five pages in length. An analysis of legal and regulatory infrastructures occupies less than three pages.<sup>197</sup> In other words, to the US businessperson trading with a Chinese businessperson, the costs of dealing with transportation are more substantial, challenging, and complex than dealing with China's legal framework.

One of the key indicators of the ease of doing business in a country is the Logistics Performance Index, developed by the World Bank. This ranking factors in transportation infrastructure, as well as the varying banking, legal, and regulatory environments, including a general assessment of efficiency in getting goods through customs and into the market. Germany is ranked number one, and the US is ranked number ten. China is ranked number twenty-seven, which is not as good, but Portugal is ranked number twenty-eight, and many other democratic nations are ranked lower than China.<sup>198</sup> Modernization Theorists would not propose that Portugal adopt China's system, and yet business professionals consider it harder to do business in Portugal than in autocratic China. Businesses have mitigation efforts they can utilize, and other

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<sup>197</sup> Pierre A. David, *International Logistics: The Management of International Trade Operations*, 70-112.

<sup>198</sup> "Aggregated LPI." The World Bank. Accessed February 4, 2022. <https://lpi.worldbank.org/international/aggregated-ranking>.

cost priorities than the costs of autocracy. And yet, these are the people that Modernization Theorists claim will use their self-interest to propel China toward a democracy.

Self-interest and the DMF are not the same thing. Democratization is not in the universal self-interest of all market participants, nor is there an inevitable trend that a significant enough number of market participants will see democratization as in their self-interest to overcome the self-interest of those who don't. Self-interest is not ideologically driven. However, it can be shaped by ideology. Propaganda can certainly change what an individual values, and therefore change their self-interest. If the ideology of democratization was to be promoted in China through market-based value-added exchanges, it would have required the active promotion of that ideology within those exchanges.

With China continuing to be an autocracy while benefiting the US soybean industry, what market signal would spur members of this industry to make any change? Some have pointed out that China is now more democratic than it was in the past, since regional representatives act in council much more than they used to, and this means that democratization “did occur it just reached a limit”<sup>199</sup> where autocratic pushback halted its progress. But this is not enough to justify the belief that China's path to democracy is inevitable. If an autocracy can successfully push back against democracy while still maintaining a largely capitalistic, market-based economy, this is a clear violation of Modernization Theory. Such deterministic theories are founded upon the belief that rational, natural human behavior is sufficient to create significant change. But if the change from autocracy to democracy requires strategic and intentional action, this change is not driven by a natural force, and therefore the Democratizing Market Force is a myth, and Modernization Theory itself is likely a myth. The natural human behavior exhibited in the

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<sup>199</sup> Jon Hagler, in discussion with the author.

history of the soybean trade between Missouri and China indicates that members of these exchanges will not on their own force China to become a democracy.

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