China’s experiences in domestic agricultural support

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Background

- Until the mid 1990s, China’s agricultural policies were characterized by taxing farmers;
  - Obtaining resources from agriculture to support industrialization
- Such a situation began to change before China’s accession into the WTO;
  - Preparing for competition under a liberal trade scheme
- The system of agricultural support policies was established in the mid 2000s.
  - Conceptualized as “industry nurses agriculture and the urban sector support countryside”
Background

Changes in China’s level of agricultural support (PSE%)
The policy system

- Being the most populous country with unique socioeconomic system, China has special concerns on national food security.
  - Rural people still earn their half of income from farming;
  - Consumers spend large shares of their incomes on foods;
  - Food price is the key component of consumer price index and thus politically sensitive;
  - Basic self-sufficiency in food is still widely recognized important in the public opinion;
  - Large importing of food by China may impact the world market.
The policy system

- The core to understand China’s food security policy is controllability perceived by policymakers.
  - Avoiding over-dependence on external market
    - Domestic production and stockholding
    - Regulations on domestic utilization of major food products
  - Avoiding large shocks to domestic food market
    - Domestic food price interventions
    - Border interventions
    - Stock measures
  - Avoiding social instability caused by unacceptable income disparity
    - Measures to prevent sharp decline of agricultural prices
    - Safety net scheme targeting low income urban and rural groups
The policy system

Central Committee of CCP and the State Council → Overall policy directions and action plans

Committees and Ministries of the central government → Ministerial action plans

Local governments and their related branches → Local action plans
The policy system

- China’s system for policy determination and implementation has some important characteristics:
  - The key decisions are made centrally and implemented in a up-down manner.
    - Quick response to perceived risks
  - The related branches of central government have certain power for resource allocation.
    - Conflicting responsibility and interests
    - Incentives for rent-seeking
The policy system

- Local governments have some freedom in deciding how the national policies are implemented in their localities.
  - Tradeoffs among different local objectives within the binding of central disciplines
- State-owned enterprises play important roles in policy implementation.
  - Rent-seeking behaviors
The policy system

- Starting from 2004, the Central Committee of CCP issued No. 1 documents annually.
  - 2004: Raising rural incomes via reducing taxes and fees
  - 2005: Improving comprehensive production capacity
  - 2006: Adopting the idea of industry supports agriculture
  - 2007: Developing modernized agriculture
  - 2008: Improving rural infrastructure
  - 2009: Encouraging transfer of land use rights
  - 2010: Building socialist new countryside
  - 2011: Increasing agricultural water conservancy investment
  - 2012: Promoting agricultural R&D
  - 2013: New organizational forms of rural business
The policy system

- Various policy programs were designed accordingly.
  - Reduction and then phasing out agricultural taxes during 2004-06
  - Introduction of the four types of subsidies
  - Implementing a wide range of agricultural projects
    - Incremental grain production capacity
    - Comprehensive agricultural development
    - Development of rural retail market system
    - Rural water supply and conservation
    - Soil nutrition test
    - ...

The policy system

Subsidies to agriculture during 2003-2011 (Billion RMB)

<table>
<thead>
<tr>
<th>Type of subsidies</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payment to grain producers</td>
<td>-</td>
<td>11.60</td>
<td>13.20</td>
<td>14.20</td>
<td>15.10</td>
<td>15.10</td>
<td>15.10</td>
<td>15.10</td>
<td>15.10</td>
</tr>
<tr>
<td>Improved seeds</td>
<td>0.30</td>
<td>2.85</td>
<td>3.87</td>
<td>4.15</td>
<td>6.61</td>
<td>12.07</td>
<td>15.48</td>
<td>20.40</td>
<td>22.00</td>
</tr>
<tr>
<td>Purchase of agricultural machinery</td>
<td>0.04</td>
<td>0.07</td>
<td>0.30</td>
<td>0.60</td>
<td>2.00</td>
<td>4.00</td>
<td>13.00</td>
<td>14.49</td>
<td>17.50</td>
</tr>
<tr>
<td>Farm inputs</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>12.00</td>
<td>27.60</td>
<td>71.60</td>
<td>79.50</td>
<td>83.50</td>
</tr>
<tr>
<td>Total</td>
<td>0.34</td>
<td>14.52</td>
<td>17.37</td>
<td>30.87</td>
<td>51.36</td>
<td>103.04</td>
<td>127.45</td>
<td>143.90</td>
<td>162.80</td>
</tr>
</tbody>
</table>
Major measures and their implementation

- Direct payment to grain producers
  - Introduced on a trial basis in 2003 aiming at raising grain outputs via enhanced incentives to farmers
  - Extended nationally in 2004 with a focus on major grain production provinces.
    - Local governments of other provinces are encouraged to initiate their own programs
  - Funded mainly from provincial grain risk funds
    - Central government provides supplementary funds to meet the gaps
  - Paid to entitled producers directly (cash payment in the initial stage and then changed to bank transfer)
  - Linked with grain planting areas or outputs by design.
Major measures and their implementation

- In practice, the expected outcome is not ensured due to:
  - It is too costly to monitor what farmers actually plant;
  - Local governments lack incentives to devote efforts on such work;
    - Additional workload
    - Negative impacts on local fiscal revenue
  - It provides insufficient incentives for capable rural laborers to produce grains (less than RMB 100 per year per household vs. RMB 50-100 per labor day in off-farm jobs);
  - Payment is often made only to those who have the titles of land use rights rather than those actually plant the land.
- As a result, the program has been largely delinked.
Major measures and their implementation

- Subsidy to improved seeds and animal breeds
  - Initiated in 2002 as a component of the soybean rehabilitation program
  - Extended to wheat, rice, corn, cotton, rapeseeds, pig, dairy cattle etc. lately with varied regional coverage
  - Implemented in different ways at provincial level
    - Local governments decide what varieties are subsidized;
    - Producers choose to buy or not based on their judgment;
    - Payment is made either in cash at fixed rate based on planted areas reported by farmers or in form of discounted prices.
  - Unwanted outcomes related to different ways of payment
    - The former way is often delinked;
    - The latter way results in distorted incentives of seed suppliers.
Major measures and their implementation

- **Subsidy to purchase of farm machines**
  - Initiated in 2004 to promote farm mechanization and thus raising agricultural productivity
    - Induced partially by large out-migration of rural labor
  - Centrally determined criteria and rate for subsidization
    - Guideline by MoA for types of machines subsidized
    - Not more 30% of the cost from central government budget and not more than RBM 30000 for each machine
  - Provincial governments decide in line with the criteria what farm machines are subsidized within regions.
  - Qualified suppliers participate the program through bidding.
  - Farmers (or cooperatives) purchase machines at subsidized prices.
Major measures and their implementation

- By design, farmers other than machine buyers can be benefited through reduced service costs.
  - There are indications that farm mechanization has been speeded up.
- The program also shows some unwanted outcomes.
  - The direct beneficiaries are those who have sufficient money to make purchase and ability to use the machine for profit;
  - There are no robust evidences for benefit transfer to ordinary farmers who buy machinery services;
  - Regions unsuitable for machinery operations are naturally excluded;
  - Rent-seeking behaviors are common at local level.
Major measures and their implementation

- Comprehensive farm inputs subsidy
  - Initiated in 2006 as a compensatory measure to rising prices of farm inputs;
    - Farm inputs subsidies existed long ago, but payments were made to manufactures only.
    - The new program pays subsidies to producers directly.
  - The funds come from central government budget;
    - Annual adjustment upward only based on changes in input costs and fiscal ability.
  - Payment is usually made in the same way as direct payment to grain producers.
Empirical assessment of the policy impacts

- During the period of 2001-2012, China was able to increase agricultural output sustainably and comprehensively.
- Growth of China’s agricultural trade was accelerated.
- However, China’s agricultural trade turned into net importing in 2004 and the trade deficit grew rapidly.
  - All major agricultural products became net importing in recent years.
- These changes are clear indications that China’s demand grew faster.
  - Human consumption plus industrial processing
Empirical assessment of the policy impacts

Several surveys found:

- Farmers in all regions had knowledge of policy subsidies;
- They recognized commonly the positive roles of these policies on farming.
- However, they had no clear information about payments by types of subsidies.
- Their grain production plans were not linked closely with the subsidies as well.
Empirical assessment of the policy impacts

Percentage of the sample farmers who thought the policy had important roles to their farming business
## Empirical assessment of the policy impacts

<table>
<thead>
<tr>
<th>Variable</th>
<th>Associated effects on</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total planting area</td>
</tr>
<tr>
<td>Openness of agri. import</td>
<td>Insignificant</td>
</tr>
<tr>
<td>Openness of agri. export</td>
<td>Insignificant</td>
</tr>
<tr>
<td>Openness of regional economy</td>
<td>Negative</td>
</tr>
<tr>
<td>Prices received by farmers</td>
<td>Positive</td>
</tr>
<tr>
<td>Prices paid by farmers</td>
<td>Insignificant</td>
</tr>
<tr>
<td>Direct payment to grain producers</td>
<td>Positive</td>
</tr>
<tr>
<td>Retirement of cultivated land for conservation</td>
<td>Insignificant</td>
</tr>
<tr>
<td>Phase-out agricultural taxation</td>
<td>Insignificant</td>
</tr>
<tr>
<td>Fiscal support to agriculture and rural development</td>
<td>Insignificant</td>
</tr>
</tbody>
</table>
Direction of reforms in future

- China’s future policies for national food security would be determined within the broad strategy of national development.
- It is expected that China will adhere to the direction of further integration into the global economy on the basis of comparative advantages, so as to sustain its economic growth at low environmental costs.
- However, the strategy and concrete measures will depend on perceived internal and external conditions.
- Achieving national food security with perceived controllability is the core for policymaking.
Direction of reforms in future

- **Availability**
  - The government will strive for appropriate high rate of grain self-sufficiency.
    - Regulation on agricultural resource utilization
    - Technological improvement
    - Organizational restructure
  - Trade of food products, including grains, will be actively used as supplementary way for supply to domestic market.
    - Openness will depend on perceived stability and security of the world food market.
  - The government will continue to maintain sufficient stocks of major food items for both security and market stability.
    - Measures need to be taken to reforms SMEs.
  - Overseas agricultural investments will be encouraged.
Direction of reforms in future

- **Accessibility**
  - The government will devote effort to improving infrastructure related to food logistics.
    - It is expected that urbanization process with alter distribution of demand and thus flows of food with significance.
  - The government should take measures to reform food marketing institutions.
    - Reform of SMEs is also the key task.
  - The government also needs to improve the market information system.
    - World market information
    - Domestic market information
Direction of reforms in future

- Affordability
  - The government may follow the recent policy to adjust national income distribution towards consumption.
  - As usual, employment creation will be highly emphasized;
    - This becomes crucial under the process of rapid urbanization.
    - In longer-term, improvement of human capital should be given high priority.
  - The current domestic support measures are likely to be enhanced continuously.
    - Turning into (targeted) income support measures?
  - Agricultural insurance program will be extended nationally.
  - Safety net programs in both urban and rural areas will be further extended as well.
Direction of reforms in future

Utilization

- The government is likely to exercise control over processing uses of food materials continuously.
  - Expansion of grain based bio-energy is already strictly prohibited.
  - Processing of corn into various derived products is also restricted.
- However, such administrative measures may be better replaced by improving food market efficiency.
  - E.g. Making food price right may help to check food waste.
- The government should give attention to nutritional education and related programs.
  - While the situation that people have no money to buy essential food is quite rare, nutritional deficiency is common in poor regions.
  - Meanwhile, over-intake of nutrition exists for many people.
Direction of reforms in future

- **Stability**
  - The government is likely to retain power for intervening prices of key food products on the considerations of either controlling general price level or avoiding negative social impacts of food price changes.
  - State stock adjustment remains to be a major instrument for stabilizing food market.
    - Such policy interventions should base on correct information.
    - Increased transparency of operation is needed.
    - Lagged or by-effects should be appropriately assessed.
  - Considering that the recent price volatility in the world market had negative impacts on China, promotion of multilateral reforms is a better option than taking domestic defensive measures.
Concluding remarks

- Being the country with the largest population and unique socioeconomic system, China has many legitimate concerns on national food security.
- Under such a context, China implemented a series of programs to intervene the domestic market for stability at notable costs.
- Most of the policy objectives are still perceived as important and are likely to be adhered in future.
- On the other hand, the government may revise the measures according to both domestic needs and external conditions.
- In this regard, international collaboration is important for China to adhere market-oriented reforms on food security policies.
Thank you for attention