



The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search
<http://ageconsearch.umn.edu>
aesearch@umn.edu

Papers downloaded from AgEcon Search may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.

No endorsement of AgEcon Search or its fundraising activities by the author(s) of the following work or their employer(s) is intended or implied.

Evolution, Problems and Countermeasures of China's Subsidy Policy for Agriculture

SHANG Wen-bin *

School of Economics and Management, Xianning University, Xianning 437100, China

Abstract China's agricultural subsidy policy experiences three development stages. Detailed summing up is carried out for achievements of each stage. On the basis of this, this paper discusses problems existing in current agricultural subsidy policy, including high operational cost, out of balance of subsidy structure, little subsidy effort, lack of effective supervision and vacancy of benefit safeguarding mechanism. Finally, it presents suggestions for optimizing China's agricultural subsidy policy, such as regulating direction of agricultural policy, strengthening subsidy effort, taking full advantage of WTO rules, perfecting agriculture-related systems, and establishing and perfecting legal system to support agriculture.

Key words Agricultural subsidy policy, Agricultural development, Countermeasures, China

In essence, agricultural subsidy is a major and common policy tool used by a state government in its agricultural support and protection policy system. The key to issues concerning agriculture, countryside and farmers is the issue of farmers, while the key to issue of farmers is farmers' benefit. Thus, it is required to safeguard and promote farmers' interests and rights to subsistence and development through establishing and perfecting relevant benefit mechanism. Since agriculture is subject to dual influence of natural risk and market risk, its production effect and economic benefit are relatively unstable and hard to predict. Therefore, government should be responsible for filling this gap, and the inherent weakness and fundamental position of agriculture also need government service^[1]. As a type of public finance tilted towards rural areas, agricultural subsidy plays a significant role in safeguarding farmers' rights to subsistence and development.

In this paper, three development stages of China's agricultural subsidy policy are analyzed. Besides, it discusses existing problems in China's current agricultural subsidy policy. On the basis of analysis, suggestions are put forward to provide reference for raising farmers' benefits and improving their living conditions.

1 History of China's agricultural subsidy policy

Since the "fixed amount subsidy to cover tractor-ploughing losses" provided by the state-owned tractor station in the 1950s, China's agricultural subsidy policy has generally gone through three stages.

1.1 The first stage This stage refers to the period before the Third Plenary Session of the Eleventh Central Committee of

the Chinese Communist Party. China's agricultural subsidy policy is formed basically on the basis of system. The state is not only the owner of enterprises, but also operators of enterprises. Subsidy to enterprises is in fact subsidy to the state itself. From the "fixed amount subsidy to cover tractor-ploughing losses" provided by the state-owned tractor station, it was gradually extended to price subsidy for agricultural means of production, electricity subsidy for agricultural production, subsidy for discount loan, etc.

1.2 The second stage This stage is from the Third Plenary Session of the Eleventh Central Committee of the Chinese Communist Party to China's entry to WTO. The Third Plenary Session of the Eleventh Central Committee of the Chinese Communist Party marks beginning of China's overall reform of economic system. From then on, the state started to admit and gradually expand functions of market in economic adjustment. Subsidy becomes an important means for the state to strengthen industrial competitiveness, attract foreign investment, and guarantee smooth implementation of economic system reform. In this stage, China's subsidy policy is mainly influenced by strategic trading theory. From 1978, along with implementation of rural economic system reform, many problems were encountered in the course of agricultural development. To ensure healthy and stable development of agriculture, the state implemented subsidy policy on the basis of increasing basic input to agriculture. For instance, during 1979 to 1992, the state provided subsidy for means of agricultural production and grain of urban residents. During 1993 to 2002, the state made policy of purchasing grain at protective price to promote market-oriented agricultural products, and established the grain protective price system^[2]. Unfortunately, such policy leads to a dilemma. On one hand, grain yield is increased, but the grain type structure is not reasonable. There is serious stock problem and the market price keeps at a low level. On the other hand, financial expenditure fails to bear the heavy load and state-owned grain enterprises get into a difficult position.

1.3 The third stage Since China's entry to WTO to the

present, apart from influence of strategic trading theory, the subsidy policy is also restricted by WTO rules. Subsidy policy should be implemented on the precondition of conforming to WTO rules. In line with this dilemma and under pressure of WTO agricultural trading negotiation, China started the direct grain subsidy pilot project in 2002. This project was comprehensively carried out in whole China from 2004. Its central part includes opening the grain purchase price at an overall level; opening the grain purchase and sales market to support and encourage various operators to take part in grain purchase and operation; adjusting grain subsidy ways, changing the indirect subsidy to direct subsidy for production links.

In 2004, the central government issued "Number one" document, which marks beginning of "new agricultural policy". In this new policy, most parts are agricultural subsidy policy, mainly including relief from agricultural tax, direct grain subsidy, subsidy for improved seed, subsidy for agricultural machinery, and rice' minimum purchase price system, etc. Since promulgation of "Number one document", China has basically established a framework of agricultural subsidy policy that combines agricultural production subsidy, farmers' income subsidy and special subsidy. These are well received by farmers. In 2006, the total investment of central government was 339.7 billion yuan in agriculture, countryside and farmers, in which the subsidy for improved seed was up to 2.07 billion yuan, the direct grain subsidy amounted to 14.5 billion yuan, and subsidy for agricultural machinery reached 0.6 billion yuan^[3]. In 2007, the total investment in agriculture, countryside and farmers was above 420 billion yuan. The direct subsidy amount of all regions for grain farmers exceeded 50% of the grain risk fund. In 2008, the total subsidy was up to 102.86 billion yuan for improved seed, purchase of agricultural machinery and tools, farmers' grain production and direct subsidy for means of agricultural production. This amount is the double of 2007 and 3.32 times of 2006. Also in 2008, the expenditure of central finance in agriculture, countryside and farmers was totally 595.55 billion yuan, 37.9% higher than that in 2007^[4]. In 2009, the central government continued to increase investment in agriculture, countryside and farmers, and the investment amount reached 716.1 billion yuan, an increase of 120.6 billion yuan compared with 2008. During the Eleventh Five-Year Plan period, the central government invested nearly 3 000 billion yuan in agriculture, countryside and farmers, with an annual increase over 23%. Apart from these, China established subsidy system for grain farmers and benefit compensation mechanism for main grain production regions. In 2010, the subsidy for farmers' production had an increase of 122.6 billion yuan compared with 2009^[5]. In 2011, the investment of central finance in agriculture, countryside and farmers is planed to be 988.45 billion yuan, which has an increase of 120.48 billion yuan compared with 2010. In addition, it plans to increase subsidy for farmers' production, and provide new subsidy for major grain production regions, major grain types, large specialized households, and farmers' professional cooperative organizations.

Constant enhancement of financial support promotes re-

markable development of agriculture, countryside and farmers. Issue of series of favorable policies plays a significant role in constant increase of grain yield and farmers' income. In 2010, the grain yield reached 546.41 million tons with an increase of grain yield for seven consecutive years; per capita net income of farmers was up to 5 919 yuan with a constant and rapid increase^[5]. The agricultural subsidy amount has rapid increase, but compared with demand of construction of modern agriculture, the total subsidy amount is still insufficient; the subsidy scope is not wide; and subsidy method is to be improved. In these situations, the *Decisions of Third Plenum of the Seventeenth CPC Central Committee* clearly states that "it is required to improve agricultural support and protection system. Especially, it is required to perfect agricultural subsidy system, expand subsidy scope, raise subsidy standard, and improve subsidy method. Also, we should improve dynamic adjustment mechanism for comprehensive subsidy for price rise of means of agricultural production"^[6].

2 Existing problems in China's current agricultural subsidy policy

On the basis of current situations of China's agricultural subsidy, analysis of international and domestic environment, and comparison with agricultural subsidy policies of developed countries, it is shown that there are following problems in China's agricultural subsidy policy.

2.1 High operational cost The state constantly adjusts agricultural subsidy policy, but it mainly focuses on intermediate links, rather than direct for agricultural producers. Such subsidy method leads to wrong subsidy object, retention or loss of funds, as well as corruption. In line with defects of such "indirect subsidy", China gradually started to implement direct grain subsidy policy from 2003 and expanded subsidy scope later. The efficiency of agricultural subsidy has certain increase, but the effect is not significant. Low efficiency and high operational cost of China's agricultural subsidy policy are resulted from unsmooth operation of management system and too many capital investment channels (including departments of finance, agriculture, foreign trade and economic cooperation, grain, civil administration, and banks). Since policy is issued by many departments, there will be problems of difficult coordination, high transactional cost, and long time lagging. In addition to selfish departmentalism, local protectionism and rent seeking activities, leak in agricultural subsidy is inevitable; consequently its efficiency is reduced. Therefore, how to integrate means of agricultural production and strengthen overall supervision of funds is the essential problem to be solved in agricultural subsidy.

2.2 Out of balance and not scientific structure Most subsidies are used to close up the price difference between purchase and sales, reduce price of means of agricultural production, and discount loan. Few subsidies are used directly for farmers, agricultural education, popularization of agricultural technologies, construction of agricultural infrastructure, and adjustment of agricultural production structure and organization, while these parts are not only key to transforming traditional ag-

riculture, strengthening capability of agricultural development, but also are demands for increasing benefits for agricultural production and farmers. For a long time, the subsidy provided annually by central finance and local finance in such circulation links as grain and oil nearly takes up 50% of the total financial subsidy. However, most of these subsidies are used for consumption of urban residents, and farmers only can obtain few benefits indirectly. Such indirect subsidy easily results in loss of subsidy, and accordingly most agricultural producers may not accept the subsidy policy. Finally, effect of subsidy policy will be impaired.

2.3 Little effort in agricultural subsidy In 2008, China invested 595.55 billion yuan in agriculture, countryside and farmers. This amount takes up 17.5% of the added value of primary industry (3 400 billion yuan). The central finance only allocates 103 billion yuan for subsidy. In the United States, European Union, Japan and other developed countries and regions, the subsidy for agriculture exceeds 40% of their agricultural output value. China's agricultural subsidy system lacks mechanism for guiding social teams, organizations and enterprises to take part. The subsidy is provided nearly by the state finance. So the fund source is simple and subsidy effort is little. According to statistics of the Department of Industry Policy and Law of Ministry of Agriculture, the subsidy for "Green Box" policy takes up a small proportion in total agricultural output value. The subsidy for "Amber Box" policy is also very small and only takes up 1.23% of the total agricultural output value. There is still a big gap between this proportion and the value 8.50% required by WTO.

2.4 Lack of effective supervision At the macroscopic level, this is manifested in the state lacking supervision of subsidy fund availability. According to statistics, about 30% of agricultural subsidy fund and investment cannot be put in place in time or just fails to put in place. There is serious loss of subsidy fund. At the microscopic level, this is manifested in lack of budget, review and benefit tracing management for agricultural subsidy. Inadequate supervision and low utilization efficiency of subsidy fund greatly influence overall function of subsidy policy.

2.5 Vacancy of benefit safeguarding mechanism Agriculture is a low-benefit and high-risk weak industry. After China's entry to WTO, the external environment is constantly worsening. Agriculture is faced with more natural and non-natural risks, and the economic base on which farmers depend for existence is being confronted with unprecedented challenges. What's worse, there is still no subsidy system for agricultural insurance in China's current agricultural subsidy system, so agricultural risks fail to be effectively evaded.

3 Optimizing agricultural subsidy policy to safeguard China's agricultural and economic security

Ensuring supply and promoting increase of output are core goals of China's current agricultural subsidy policy. The former is to guarantee China's grain security and ensure effective supply of major agricultural products. It is the major task of agricultural

tural development at the present stage and quite a long time in future. The latter is to promote constant increase of farmers' income and will be always basic task of the works concerning agriculture, countryside and farmers in China. Both parts are interdependent, and are starting point and standpoint for establishing and perfecting China's agricultural subsidy policy at current stage. In line with current situations and institutional defects reflected in China's agricultural subsidy system, we should improve the agricultural subsidy policy from following aspects.

3.1 Regulate direction of agricultural subsidy policy

With reference to foreign advanced experience and combining special national conditions of China, agricultural subsidy policy should have four changes. Firstly, it should be turned to selective ones from overall subsidy in subsidy object. In China's actual conditions, it is not practical to greatly increase agricultural subsidy and implement overall subsidy. The reasonable and rational selection is to give top priority to what is the most important and gradually promote the subsidy policy. Specifically, it is to put limited subsidy funds in key regions and major parts, and enhance their comparative advantages and international competitiveness, to raise agricultural production efficiency and increase farmers' income. Secondly, it should be turned to production field from circulation field in subsidy link. Traditional agricultural subsidy in China always values circulation but ignore production, leading to most agricultural subsidies hard to bring into play their stimulation and guiding function, and farmers also get very little benefit. According to requirements of WTO agricultural rules, price support provided by government should be mainly in agricultural product producers, rather than circulation organizations. Therefore, China's agricultural subsidy object should have a great reform and should be turned to agricultural producers. Thirdly, it should be turned to income support from price support in subsidy manner. Originally, the agricultural subsidy policy focuses on price support, while main subjects implementing price support are agricultural circulation departments controlled by government. Such hidden subsidy is not economic. Since 2004, China has started implementing the income subsidy directly for agricultural producers. Although such direct income subsidy is not sufficient to change the entire pattern of traditional agricultural subsidy, it has manifested the bright development prospect. Fourthly, it should be turned to "Green Box" from "Amber Box" in the selection of subsidy tool. "Amber Box" policy is support policy limited by WTO agricultural rules, while "Green Box" policy is allowed and encouraged by WTO agricultural rules. Thus, China should gradually reduce "Amber Box" policy and take full advantage of "Green Box" policy to support and protect agricultural development and increase of farmers' income.

3.2 Intensify effort in agricultural subsidy At present, the proportion is lower than 10% for investment in agriculture to total agricultural output value. It has a great gap between this value and that of developed countries and regions, which is over 40%. Thus, it is required to intensify effort in agricultural subsidy. In the first place, we should increase input in agricultural science and technology. In China, the input in agricultural sci-

ence and technology is extremely low, which is quite inconsistent with China's large agricultural country position. Besides, it is required to attach importance to effort to popularize agricultural science and technology. The contribution of scientific and technological progress to agriculture is about 40% in China, while that reaches 70% to 80% in developed countries. This reflects that the adaptability of scientific research and technological popularization to demands of agricultural production, and research of agricultural science and technologies, to some extent, deviates from direction of market demand, consequently forming lot of ineffective supply. Therefore, it is required to gradually improve this situation, and pay close attention to popularization and application of agricultural scientific and technological achievements at the same time of increasing input in agricultural science and technologies. In the second place, it is required to enhance concentration and pertinence of subsidy, and use limited funds to greatly improve subsidy efficiency. This mainly refers to enhancement in support for agricultural infrastructure and major agricultural products like grain, cotton and oil that involve the interests of the state and the people. Furthermore, income from land transfer should be invested in agricultural land development and construction of water conservancy works and rural infrastructure, to ensure full-amount withdrawal and oriented use. Certainly, only in reliance on financial subsidy, it is difficult to support development of whole agriculture. Establishing multiple subsidy system may be an approach worth exploring. Foreign experience indicates that subsidy for price difference is worth learning. For example, the *American Farm Security and Rural Investment Act* issued in May, 2002.

3.3 Take full advantage of WTO rules Firstly, we should intensify support of domestic agricultural development policy for agriculture, especially agricultural support measures within the scope of WTO "Green Box" policy. Among many "Green Box" policies, enhancement of general government service plays a significant role in agricultural development. Backward infrastructure is a major factor restricting agricultural development. The infrastructure construction needs huge investment, has long period and public goods feature, so it should be planned and invested by the state. Secondly, we should improve price support system for agricultural products. Despite the fact that there is little leeway in price support of agricultural products, WTO allows to provide subsidy for grain reserve ("Green Box" policy) and closely combine design of safeguarding price system (mainly agricultural product price and minimum safeguard price) with grain security stock policy. Thirdly, we should take full advantage of "Amber Box" policy. During negotiation on China's entry to WTO, with many years of efforts, China obtained the level of 8.5%. In fact, "Amber Box" subsidy level is extremely low in China. In recent years, the level has certain rise, but there is still a big rising space. Vice president, Cheng Guoqiang, of Institute of Market Economy, Development Research Center of the State Council, says that "China's agricultural subsidy is far lower than the level allowed by WTO rules, and it is not higher than 20% of available space" [7].

3.4 Perfect agricultural insurance system Agricultural production has a long cycle, greatly depends on natural conditions, low market response ability, and its production and operation activities are faced with high natural and market risks. To strengthen risk bearing ability of agriculture, protect stable development of agricultural production and safeguard benefits of producers, we must establish agricultural insurance system. In developed countries, agricultural insurance has been valued widely and become one of major means of government to support agricultural development. Take an example of the United States, the government provides 30% premium subsidy for insured crops. Should crops of insured farmers have a drop in production over 35%, they can obtain the maximum compensation amount provided by Federal Insurance Corporation. Such insurance can guarantee stable income for agricultural producers, not violate WTO rules and can protect agriculture, so it is worth of learning. Currently, to improve China's agricultural insurance system, we should take following measures. Firstly, we should establish expansion funds for agricultural industry. Secondly, we should actively expand types of subsidy for agricultural insurance premium and range of regional coverage, and enhance subsidy of central finance in middle and western regions. Thirdly, we should encourage subsidy for insurance premium of characteristic agriculture and rural houses. Fourthly, we should develop rural small amount insurance, perfect agricultural reinsurance system, and establish financial support mechanism for diversification of catastrophic risk. Finally, we should support qualified agriculture-related enterprises to get listed^[8].

3.5 Improve quality and level of rural financial service

Agricultural production has high risk and low profit, especially capital construction has large investment and long cycle, so private financial institutions are generally unwilling to provide loan for farmers. In this situation, government has an unshirkable duty to provide credit support for agriculture. In developed countries, credit support for agriculture is a major part of government agricultural support policies. Take an example of the United States, about 40% of agricultural capital input depends on credit. Thus, its government establishes huge agricultural credit system, including 12 Federal Land Banks and local Federal Land Banks (providing credit based on real property for farms), 12 Federal Intermediate Credit Banks (providing medium and short term loan for farms), 12 production credit companies and local production associations established by them (providing production loan for farms), and 13 cooperative banks (providing loan for cooperative organizations). In China, the demand for credit funds is also very strong in the course of agricultural industrialization and scale operation. Unfortunately, however, farmers are faced with many difficulties in applying for loans. Therefore, it is very urgent to improve quality and level of rural financial service. Firstly, it is required to reinforce effective connection between fiscal and taxation policies and rural financial policies, guide more credit funds to be put in agriculture, countryside and farmers, to solve the problem of difficult financing in rural areas. Secondly, we should implement and

improve various preferential policies towards agriculture, countryside and farmers. Thirdly, we should encourage banking institutions within the county to put their newly absorbed deposits mainly in granting loans. Fourthly, it is proposed to enhance support of policy-related finance in major areas and weak links of rural reform, expand agricultural support fields of agricultural development banks, and energetically develop credit service for long-term policies in agricultural development and rural infrastructure construction. Fifthly, we should actively popularize rural small-amount credit loan, speed up cultivating township banks, finance companies, and rural mutual cooperatives, develop small amount credit organizations in an orderly manner, and guide social funds to set up various new financial institutions suitable for demands of agriculture, countryside and farmers. Sixthly, in line with features of agriculture and rural areas, we should realize innovation in financial products and service methods, do well in construction of rural credit environment, and strengthen and improve rural financial supervision^[8].

References

- [1] HOU SA. Research on finance to agriculture subsidy policy [J]. Public Finance Research, 2000(3): 13–16. (in Chinese).
- [2] LU LX. Phases and evolvement of China agricultural subsidy policies since 1978 and its response [J]. Reformation & Strategy, 2007(11): 64–67. (in Chinese).
- [3] CHEN JC. Chinese agricultural policies in thirty years and analysis on the effects [J]. China Population Resources and Environment, 2008(5): 1–6. (in Chinese).
- [4] WANG ML. Statistical data in Premier's government work report: full of confidence and hope [EB/OL]. (2009–03–06). <http://www.zgxxb.com.cn/news>. (in Chinese).
- [5] Government Work Report in 2011 [EB/OL]. (2011–03–16). <http://www.China.com.cn/policy>. (in Chinese).
- [6] The Central Committee of the CCP about advances the rural reform

(From page 13)

fiscal policy to arrest the momentum of economic decline. In the Eleventh Five-Year Plan, it also clearly pointed out: "we will further expand domestic demand, adjust the relationship between investment and consumption, and strengthen the role of consumption in promoting economic growth". Under the influence of these related policies, residents' consumer spending in Hubei Province is increased rapidly, but it is worth noting that, in multifarious factors determining consumer spending, income is undoubtedly an important variable, so how to strive to increase residents' income on the basis of constantly promoting gross domestic product of Hubei Province becomes particularly important. In addition, we should pay attention to particular conditions of China, and take into account different consumer policies between urban and rural areas in the process of specific implementation^[5]. The focus of stimulating consumption of urban residents is to improve their marginal propensity to consume through system reform and restructuring, while the expansion of rural residents' consumption should emphasize some aspects, such as improving

to develop certain major issue decision [N]. People's Daily, 2008–10–20. (in Chinese).

- [7] ZHANG LX, CHEN J. Economic observation: the dynamic increase of agriculture subsidy under WTO frame [EB/OL]. (2009–02–03). http://news.xinhuanet.com/newscenter/2009-02/02/content_10752205_1.htm. (in Chinese).
- [8] Document NO.1 of the Central Government [EB/OL]. (2010–12–31). http://news.xinhuanet.com/politics/2010-01/31/content_12907829.htm. (in Chinese).
- [9] DU X, ZHANG HM, TIAN Q, et al. The impacts of agricultural machinery purchase subsidies on mechanized crop residue recycling [J]. Asian Agricultural Research, 2011, 3(5): 38–40, 51.
- [10] WANG XZ. Facing problems of agriculture subsidy policy in Anhui Province and the related countermeasures [J]. Journal of Anhui Agricultural Sciences, 2010, 38(33): 11199–11201, 11283. (in Chinese).
- [11] XIA YL, ZENG FS. Food subsidies: incentive benefit and competitive design [J]. Asian Agricultural Research, 2009, 1(4): 32–35.
- [12] LI YH, LIU Q. Economic study and consideration on the agricultural subsidy policy in Hanzhong City [J]. Journal of Anhui Agricultural Sciences, 2010, 38(33): 12934–12937. (in Chinese).
- [13] HE Y, WANG FM. Analysis of coordination between the public service in rural areas and socio-economic development [J]. Asian Agricultural Research, 2011, 3(8): 49–53.
- [14] ZHOU XC. Research of the agricultural development under counter-vailing background [J]. Journal of Anhui Agricultural Sciences, 2010, 38(33): 8120–8121, 8124. (in Chinese).
- [15] YU HM, GE CJ. Overview of theory and model of tropical agricultural circular economy in Hainan Province [J]. Asian Agricultural Research, 2011, 3(5): 119–122.
- [16] YE H. Study on the status and government measures of agricultural risk management in Wuhan City [J]. Journal of Anhui Agricultural Sciences, 2010, 38(33): 8120–8121, 8124. (in Chinese).
- [17] JIANG L, QI YB. The evaluation on ecological agricultural development in Sichuan Province on the basis of grey relational analysis [J]. Asian Agricultural Research, 2011, 3(5): 123–127.

the level of farmers' income, optimizing farmers' consumption structure, and promoting the steady growth of rural consumption.

References

- [1] HE CC. An empirical analysis of investment in fixed assets and economic growth [J]. Statistics and Management, 2011(1): 54–55. (in Chinese).
- [2] TANG PZ, LI B. Influence of the development of township enterprises on the dual economic structure in urban and rural areas based on cointegration theory [J]. Journal of Anhui Agricultural Sciences, 2011, 39(10): 6168–6171. (in Chinese).
- [3] SHANG Y, NIE YF. Study on relationship between science & technology input and agricultural economic growth of Hebei Province [J]. Journal of Anhui Agricultural Sciences, 2011, 39(10): 6204–6205, 6208. (in Chinese).
- [4] ZHANG L. Analysis of industrial and employment structure co-integration of Xinjiang Province [J]. Economic Tribune, 2011(8): 16–18. (in Chinese).
- [5] PAN WX. The consumption behavior differences between urban and rural residents and policy implications [J]. Statistical Research, 2010(8): 66–73. (in Chinese).