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# Overview of Studies on Financial Support for China's Agricultural Industrialization

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**Abstract** Agricultural industrialization is an innovative operation mode and effective drive for transformation of traditional agriculture to modern agriculture. Benign development of agricultural industrialization depends on financial support. With increase of the function of financial support for agricultural industrialization development, academic circles have made deeper and deeper researches on agricultural industrialization. These researches mainly touch upon four aspects: (i) definition of concept of financial support for agricultural industrialization; (ii) functions of financial support for agricultural industrialization; (iii) existing problems in financial support for agricultural industrialization and problem causes; (iv) specific recommendations of promotion of financial support for agricultural industrialization development. Although existing researches are already extensive and some common understandings have been reached, there are still some research gaps and weak points, and it needs further researches.

**Key words** Agricultural industrialization, Rural finance, Overview of studies

## 1 Introduction

In recent years, China's agricultural industrialization develops rapidly. Agricultural economy welcomes a new development stage and agricultural industrialization gradually becomes the most vigorous economic mode in agricultural development. However, according to *Chinese Modernization Report 2012: Agricultural Modernization Research* issued in May 2012 by Chinese Academy of Sciences, China's agricultural modernization development significantly lags behind European and American developed countries, and the development still remains at the relatively backward stage. As an essential force of fund supply for agricultural industrialization, financial support plays an effective role in sustainable development of agricultural industrialization and has significant strategic function for raising China's agricultural modernization development level.

Since the concept of agricultural industrialization was introduced by Shandong Province in summarizing agricultural and rural development experience of Weifang City in 1993, it has been popularized as a new agricultural development strategy. From then on, domestic and foreign academic circles have made extensive in-depth analyses and researches on financial support for agricultural industrialization from many aspects. These researches mainly touch upon four aspects: (i) definition of concept of financial support for agricultural industrialization; (ii) functions of financial support for agricultural industrialization; (iii) existing problems in financial support for agricultural industrialization and problem causes; (iv) specific recommendations of promotion of financial support for agricultural industrialization development.

## 2 Definition of concept of financial support for agricultural industrialization

In the situation of gradual significance of social labor division and increasing separation of agricultural product production and processing from sales, agricultural industrialization gradually becomes a new relationship mode for realizing combination of production, processing and sales (Lin Baoqing and Li Jianbin, 2001). With constant development of the market economy, limited element resources will follow the market regulation mechanism to realize reasonable allocation of resources. Due to self weakness of agriculture, the realization of agricultural industrialization needs financial support. Huang Wei (2007) stated that financial support for agricultural industrialization is direct allocation of resources through market mechanism based on macro regulation and strict supervision of government departments and it combines characteristics of agricultural industrialization (An Zenglong and Yao Zengfu, 2007). On the precondition of ensuring maximum self-benefits of financial institutions, it satisfies demands of agricultural industrialization for financial products and services to the maximum extent, so as to realize rapid development of financial industry and agricultural industrialization.

## 3 Functions of financial support for agricultural industrialization

According to principles of finance and economic relationship, the necessity and importance of financial support for agricultural industrialization are natural. Originally, William Arthur Lewis (1954) took agriculture as a completely passive sector and believed that the purpose of national economy is to service national industrialization, while it fails to increase agricultural labor productivity and income in this process. However, the above theory has defects. G. Ranis (2005) and J. Fei (2005) improved this theory. They emphasized the important function of agriculture for

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industrial growth, and development of agriculture greatly promotes development of other industries. To bring into play such function, simply relying on traditional agricultural operation mode is not enough. Zhang Yao (1996) stated that agricultural modernization is an inevitable choice for promoting transformation of traditional agriculture to modern agriculture on the precondition of constant deepening of social labor division and gradual separation of agricultural product production, processing from sales. The finance is economic lifeline, so the development of agricultural industrialization relies on support of financial credit (Mire Devaney & Bill Weber, 1995).

Lin Yifu and Li Yongjun (2001) held that financial support is the largest obstacle of labor intensive small and medium sized enterprises. From the perspective of leading enterprises of agricultural industrialization, Liu Xisong (2002) stated that leading enterprises play a positive role in agricultural industrialization. But in capital operation and financing, they are weak and lack multi-level and multi-channel fund input. Some scholars analyzed demands of agricultural industrialization for financial support from perspective of supply and demand, emphasized that the demand of agricultural industrialization participants for financial sector is increasing in the environment of constant deepening of material exchange between agricultural and non-agricultural sectors (Zhu Bing, 2003). It is feasible to provide certain financial support for agricultural industrialization development in many ways (Huang Wei *et al.*, 2007) combined with specific characteristics of agricultural industrialization. On the basis of ensuring maximum benefits of financial institutions, it is required to satisfy demands of agricultural industrialization for financial products and services, so as to speed up benign development of agricultural industrialization. Some scholars elaborated necessity of financial support for agricultural industrialization and their analyses focused on logic and action mechanism (Luo Fumin *et al.*, 2007). They stated that function of financial development for economic growth provides solid theoretic foundation for agricultural industrialization seeking financial support and stated the action mechanism.

The above analyses indicate that it has reached a common understanding that agricultural industrialization development has wide demand for financial products and financial services, agricultural industrialization development relies on financial support, and financial support plays a great role in benign development of agricultural industrialization.

## 4 Existing problems in financial support for agricultural industrialization and problem causes

### 4.1 Existing problems in financial support for agricultural industrialization

**4.1.1** There is gap in financial support. Dai Weiqin (2004) stated that agriculture is faced with natural and operating risks, so debt paying ability of industrialization participants is limited. For consideration of evading risks, regular financial institutions are unwilling to provide fund support. In consequence, agricultural

industrialization development is beset with difficulties. Similarly, Liu Yanmei (2013) studied lack of credit of agricultural operating entities, and found that it is difficult for financial institutions to make correct judgment in the condition of lack of credit mechanism and information asymmetry. Rural financial institutions are unwilling and not dare to lend money. As a result, the situation of fund shortage is worse and worse, and source of financial support becomes less and less, consequently leading to vicious circle. Some scholars analyzed factors restricting development of agricultural leading enterprises. They stated that current total input of rural financial capital is insufficient, investment structure is not reasonable, and it is difficult to satisfy development demand of agricultural industrialization (Zhang Lezhu, 2001), leading to agricultural leading enterprises having difficulty in extending industrial chain and increasing economic benefits.

**4.1.2** Financial support is weak. For the weak financial support of agricultural industrialization development, Song Xiaoqin (2007) stated that there are many market access limitations beyond the institutions, which is the major reason for weak financial support. Ma Wei (2011) said that there are many problems in financial support for agricultural industrialization, such as weak support and difficult implementation of guaranteed mortgage of financing of agricultural enterprises.

Apart from the above problems, scholars also pointed out some other problems, including lack of subject and role reversal (Xu Ximin *et al.*, 2002) and insufficient total amount of financing channels for agricultural industrialization (Chen Huayuan *et al.*, 2005). In addition, there are few grass-roots branches of rural financial institutions, credit teams needs further strengthening, and quality of credit personnel in branch institutions is low (Li Qiong, 2004).

### 4.2 Causes of problems in financial support for agricultural industrialization

Chinese scholars analyzed causes for the above problems from many perspectives. Jiang Changyun (2002) summarized two causes: (i) rural financial reform lags far behind and it is difficult to solve restriction problem of rural finance; (ii) financial and administrative reforms lag behind and generate interactive action, leading to much absorption of rural and agricultural resources. Set foot on characteristics of agricultural and financial development, Guo Zhongwu *et al.* (2012) stated that agricultural operation period is long, but the effect is slow, and risk resistance is weak, and there is conflict with financial capital; the agricultural industrialization development has strong demand for fund, but high risk and low return of agricultural operation make financial institutions hang back. Through researching and observing various agricultural financial service institutions, Zhu Yongde (2003) stated that major reason for weak financial support is that major force of agricultural financial support (agricultural banks and agricultural development banks) has transferred their main support points; the function of rural credit cooperatives is not brought into full play; non-governmental finance fails to become major force supporting agricultural industrialization. Lin Baoqing *et al.*

(2001) summarized material cause for weak financial support of agricultural industrialization, including distorted financial system, significant external benefit of agriculture, and extreme asymmetry between contribution of agriculture to national economy and support of government and other industries.

## 5 Specific recommendations of promotion of financial support for agricultural industrialization development

### 5.1 Improving systems and laws and regulations of financial support

Perfection of financial system and improvement of system structure will be helpful for healthy development of agricultural industrialization, thus government, financial institutions and agricultural industrialization participant entities should strengthen their exchange and cooperation (Deng Junfeng *et al.*, 2001). Financing system of agricultural industrialization leading enterprises can make rearrangement at system level and take the road of combining commercial financing and policy financing (Liu Xisong *et al.*, 2002). From the perspective of innovation of financial system, based on data analysis, Gao Yunfeng (2003) came up with reasonable recommendations for promoting the innovation of rural financial system and deepening the reform of rural financial organization system. Song Xiaoqin (2007) advocated regular development of non-institutional financial organizations and stressed the reform of market access conditions. It is recommended to make organic combination of commercial finance and policy finance (Liang Jingxi *et al.*, 2009), soften rural finance access conditions, improve rural financial system, and take fiscal and taxation lever and monetary policy tools, introduce more credit and social funds to rural areas, and ultimately promote agricultural industrialization operation.

### 5.2 Reforming financial support system for agricultural industrialization

The establishment of financial support system for agricultural industrialization includes three aspects: direct financing, indirect financing and insurance policy coverage (Deng Junfeng *et al.*, 2001), and it is required to constantly enrich connotation of financial support system for agricultural industrialization. Besides, it is recommended to standardize vitality of financial support system, to realize effective alleviation of segmentation situation of financial supply market (Chen Haomeng, 2002). In addition, Dai Weiqin (2004) believed that it is required to establish perfect rural financial system, evade risks and ensure fund input, to get rid of difficulty in harmonious development of agricultural industrialization and ensure smooth progress of agricultural reform. Lin Yifu (2007) proposed optimizing financial structure, increasing establishment of small and medium-sized banks, and increase scope of credit for small and medium-sized enterprises and farmers. Financial support should make clear of primary and secondary points and focus on supporting agricultural industrialization leading enterprises (Duan Yingbi, 2007). It is recommended to strengthen financial support and unblock supply channels of credit funds through establishing specialized financial service institutions.

**5.3 Innovating upon approaches of financial support for agricultural industrialization** Agricultural industrialization organizations and financial institutions should establish excellent mutual aid and mutual trust relationship and then promote realization of win-win of economic benefits (Jin Feng, 2005). Especially, agricultural banks should actively respond to policies and actively provide support for agricultural industrialization organizations, to promote their benign development. Fang Yang'e (2006) held that rural regular finance should bring into full play main force of credit, provide help for agricultural enterprises and farmers' production activities, promote agricultural scientific and technological progress with practical actions, and correctly guide rural irregular finance, so as to satisfy reasonable consumption demands of farmers and some production credit demands. Besides, Shan Yi (2012) proposed that it should simplify credit process of financial institutions, increase credit amount, support rapid development of related enterprises in active ways, especially, it is required to pay close attention to credit loan, four farmer mutual insurance, and inventory pledge. Approaches of farmers and agriculture-related enterprises obtaining financial services mainly include "bank + farmer", "bank + cooperative + farmer", "bank + farmer", and "leading enterprise and farmer cooperation" (Zhai Min, 2013). It is recommended to stress agricultural industrialization driven by financial services and increase efficiency of financial support for agricultural industrialization.

## 6 Comments and outlooks

For definition of concept of financial support for agricultural industrialization, functions of financial support for agricultural industrialization, existing problems in financial support for agricultural industrialization and problem causes, and specific recommendations of promotion of financial support for agricultural industrialization development, there are already extensive researches and some common understandings have been reached. These common understandings are reached based on past research and practice of rural financial support. They have made considerable breakthrough, especially in specific recommendations for financial support for agricultural industrialization development. They have summarized systems and regulations for improving financial support, reforming financial support system, and innovating upon financial support approaches.

Nevertheless, existing researches lack theoretical depth, systematicness and operability. In research methods, the above researches focus on qualitative analysis of financial support for agricultural industrialization but pay little attention to quantitative analysis. In research content, most researches touch upon existing problems and causes of financial support for agricultural industrialization, but few touch upon financial support content, and there are few researches of comparing foreign and domestic development stages. In addition, there are few researches about strengthening self structure and comprehensive ability of agricultural operating entities. There is a still a large space in how to improve structure

of agricultural industrialization entities, how to strengthen risk-resistance ability of agricultural production entities, and increase credit line of agricultural production entities. Besides, many scholars discuss functions of financial support for agricultural industrialization, but few scholars analyze internal relationship between financial support and agricultural industrialization. It is worth discussing whether agricultural industrialization and financial support have equal interaction relationship. The research of financial support for agricultural industrialization has important theoretical and practical significance. However, at present, there are still some weak points and blank space to be deeply studied.

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