

PolicyPennings by Daryll E. Ray & Harwood D. Schaffer

Agricultural Policy in China

For as long as we can remember, farmers have been concerned about a level playing field when it comes to international trade. This became especially true, once agriculture was brought under the purview of the Agreement on Agriculture and the formation of the World Trade Organization (WTO) at the first of the year in 1995.

Undoubtedly concerned that the playing field with US cotton producers was not level, Brazilian cotton farmers filed a WTO dispute settlement case against US cotton policies in 2002 and won. Recently, US farmers have become increasingly concerned about the agricultural support policies of Brazil and China.

In August 2013, the United States Department of Agriculture Economic Research Service issued a report written by Fred Gale titled “Growth and Evolution in China’s Agricultural Support Policies” (www.tinyurl.com/myes6fz). As Gale notes, “US agricultural producers and industry representatives have raised concerns about China’s increase in domestic farm support.” In 2012, the report said, “budgeted Chinese Government spending on agricultural programs rose to \$73 billion.” This expenditure is in sharp contrast to the near zero or even negative net spending on agriculture in years of a decade earlier.

Beginning at very low levels when it joined the WTO in 2001, China has used a mix of policies that Gale sees as driven by three major factors: 1) the desire to modernize its agriculture, 2) “concerns about rural-urban income equality and the potential for rural unrest,” and 3) the goal of “maintaining ‘food security’ and self-reliance.”

Just as US policy makers have sought to identify policies that will support US farmers without exceeding WTO limits, so have Chinese leaders. In the beginning, it is relatively easy to identify policies that both support farmers and don’t raise WTO concerns.

“In 2004, the [Chinese] government announced a national program to phase out the agricultural tax. The tax was eliminated nationwide in 2006,” saving farmers \$21 billion a year. They also took a page out of the US playbook instituting direct payments to grain producers, first in limited areas and finally “nationwide in 2007.” The distribution of these payments varied from one area to another.

Like their US counterparts, Chinese farmers have been hit with increasing input costs over the last decade. To help them cover these costs, the Chinese government instituted a general-input subsidy that is increased yearly as costs for petroleum and fertilizes have increased. If these costs decline, the payment remains constant. These policies have helped provide income support for farmers.

Another set of policies were directed toward modernizing Chinese agriculture. In 2002, the government began an improved-seed subsidy “with soybean farmers in northeastern provinces.... By 2010, seed subsidies were offered for nine major crops.” At first these subsidies were paid to seed suppliers, but in the face of accusations of graft, they were “converted to a cash payment to farmers in most places.”

In addition to the improved-seed subsidy, the government implemented a machinery and equipment subsidy, an agricultural insurance subsidy, a beef improvement subsidy, a sow subsidy, as well as awards to large grain-producing counties, awards to major pork-supply counties and a large grain-farm subsidy among a longer list of targeted subsidies—they even have a land retirement program to return highly erodible land back to grasslands and forests.

But in aggregate, these subsidies did not keep up with the production costs of Chinese farmers so government “officials began to increase price supports more aggressively as a means of supporting farmers’ income and influencing production incentives.” When needed, they bought excess stocks in the market place to maintain target prices. Over time, price supports, including commodity purchases, lifted Chinese oilseed and cotton prices well above world levels, leading processors to turn to lower cost imports to meet their needs.

As Gale writes, “while it is often presumed that subsidies and price supports give Chinese farmers an advantage, these policies may actually improve prospects for U.S. agricultural exports by raising costs and prices of Chinese commodities above international levels.” As a result the Chinese government is holding historically large reserves of cotton and soybeans.

In the future, China’s reserves of cotton could negatively affect US exports of cotton to China. At the end of the 2012 crop year, China’s cotton stocks were estimated by the USDA to be 140 percent of cotton use.

For soybeans, while the stocks are nearly equal to one year’s production in China, they represent just 18 percent of China’s soybean crush. Thus while their release would put downward pressure on US soybean exports to China they could not bring them to zero. In 2012 China’s reserves of corn, wheat, and rice were well below levels thought to have been held by China in the 1990s. Because corn, wheat, and rice are dietary staples and China imports minimal levels of these

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crops—about 3,000 tonnes of each—it is unlikely that China will flood the market with a stocks release and drive prices downward.

There are many parallels between the policies of China and the US. What is different is how policy is made and implemented. In the US—as we have seen—it is difficult to make policy changes, but once made, the policies are implemented rather evenly from place to place. Chinese officials can make policy changes more quickly, but these policies are implemented un-

evenly from place to place. This is especially true in how the direct payments and improved-seed subsidies are distributed.

Daryll E. Ray holds the Blasingame Chair of Excellence in Agricultural Policy, Institute of Agriculture, University of Tennessee, and is the Director of UT's Agricultural Policy Analysis Center (APAC). Harwood D. Schaffer is a Research Assistant Professor at APAC. (865) 974-7407; Fax: (865) 974-7298; dray@utk.edu and hdschaffer@utk.edu; <http://www.agpolicy.org>.