



## FFTC Agricultural Policy Platform (FFTC-AP)

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### **Increasing Subsidies for China's Agriculture**

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#### **Introduction**

In accordance with the CPC Central Committee's Document No.1 for 2011, the central authorities continued to increase investment in agriculture, rural areas and farmers' livelihood and to consolidate and improve policies to strengthen agriculture and benefit farmers.

Required were "three shoulds and three ensures"-----budgetary expenditure should tilt toward agriculture and rural areas to ensure that total funds and additional funds for agriculture and rural areas would increase; budgetary investment in fixed assets should prioritize agricultural and rural infrastructure to ensure that total investments in agricultural and rural infrastructure and its share in grand total would increase; benefits obtained from land transfers should be directed to agricultural land development, farmland water conservation projects and rural infrastructure to ensure that benefits were fully paid and used for its designated purpose.

With regard to agricultural subsidies, the central authorities required that subsidies for production activities by farmers would be increased, that additional subsidies should tilt toward major crop-growing areas, key crop varieties, large-scale producers and farmers' professional cooperatives. It was also required that general transfer payments from the central finances should be increased for major grain-and oilseeds-producing counties and those counties that provided the largest numbers of live pigs to the state and that subsidies and rewards in this regard would be increased and expanded to more counties.

#### **Main content of agricultural subsidy policy since 2011**

##### ***Subsidies for agriculture were increased by a big margin***

At the beginning of 2011, the central finances allocated 140.6 billion yuan (RMB) as subsidies for fine crop seeds, for grain crop farming, for the purchase of farm machinery and tools, and for goods used in agricultural production, an increase of 18 billion yuan compared to the 122.6 billion yuan in 2010.

Of the four varieties of subsidies, direct subsidies for grain production were 15.1 billion yuan, the same level with the previous year; subsidies for goods used in agricultural production were 86 billion yuan; subsidies for fine crop seeds were 22 billion yuan, up 1.6 billion yuan; subsidies for the purchase of farm machinery and

tools were 17.5 billion yuan, up 2 billion yuan.

Apart from the four varieties of mainstay subsidies, the central finances, in accordance with policies of subsidies for fuel price reform, set aside 17.17 billion yuan as subsidies for diesel used in fisheries, up to 6.71 billion yuan from the previous year. Subsidized were fishermen and fishery enterprises that used motor-driven vessels in operations of marine catches in Chinese waters, overseas marine catches, inland water catches and aquaculture.

Reward and subsidies for grassland ecological protection were launched and 13.66 billion yuan was set aside for this purpose. The money would be used as subsidies for the prohibition of grazing and rewards for not exceeding stock-carrying capacity of grassland as well as other grassland protection measures in eight major pastoral provinces (autonomous regions).

The central finances set aside 23.6 billion yuan as rewards for major grain-and oilseeds-producing counties to consolidate and increase rewards for these counties. Special rewards were given to counties that made special contributions to grain production.

Some 3.32 billion yuan was set aside as rewards for counties that provided the largest numbers of live pigs to the state. Rewards were increased and coverage of rewards was expanded.

The central finances allocated 9.1 billion yuan as subsidies for agricultural insurance premiums. More regions were covered by subsidies for insurance of crop farming and natural rubber farming. Insurance premium subsidies standard for dairy cattle was raised from 30% to 50%.

The central finances also increased subsidies for key technologies for agricultural disaster prevention and relief and for stabilization or increase in agricultural production as well as subsidies for farmers' training.

### ***Investment in agricultural disaster relief was increased***

The years since 2011 saw the repeated occurrence of agricultural disasters such as droughts, floods and typhoons. Sustained droughts from fall through spring in winter wheat-growing areas, abrupt shift from droughts to floods in the middle and lower reaches of the Yangtze River and severe droughts during the hottest season in the Southwest posed serious threats and produced negative effects on agriculture and grain production.

In accordance with a series of policies and measures to support agricultural production set up at State Council Executive Meeting, the central finances allocated in two disbursements 12.9 billion yuan as subsidies for the fight against droughts.

The following funds were managed by the Ministry of Agriculture (MoA): 1.5 billion yuan as subsidies for watering twice in winter wheat-growing areas and 800 million yuan as additional fertilizer application. The funds, 2.3 billion yuan in total, played an important role in ensuring success in the fight against droughts and in field management in spring, in ensuring bumper harvests of summer crops and in boosting the enthusiasm of farmers for agricultural production.

In view of severe droughts in the middle and lower reaches of the Yangtze River, the central finances allocated 800 million yuan as subsidies for five provinces in the region for the fight against droughts, for disaster relief and recovery of production. The money was used to help drought-stricken farmers, fishermen and households engaged in aquaculture to recover production.

The timely delivery of the above-mentioned funds ensured the effective application of various disaster prevention and relief measures, helped meet the objectives of "less loss in severe disasters, no loss in minor disasters and bumper harvests in absence of disasters", laying a foundation for the increase in grains output and the stable development of agriculture.

### ***Subsidies and rewards for grassland ecological protection were launched***

In 2011, the central finances set aside 13.6 billion yuan (including 200 million yuan as subsidies for fine livestock breeds in pastoral areas) to launch the mechanism of subsidies and rewards for grassland ecological protection in the eight provinces (autonomous regions) of Inner Mongolia, Xinjiang, Gansu, Qinghai, Tibet, Sichuan, Ningxia, and Yunnan as well as in the Xinjiang Production and Construction Corps.

Protection measures such as the prohibition of grazing and balance between forage and livestock were imposed on 247.333 million hectares of usable natural grasslands. Herdsmen were provided with subsidies for the prohibition of grazing, rewards for not exceeding livestock-carrying capacity of grasslands or subsidies for production.

### ***Subsidies for the keeping of fertile sows were provided***

In accordance with the spirit of State Council Executive Meetings, the central finances allocated 2.222 billion yuan as subsidies for the keeping of fertile sows. Some 36 million fertile sows in the central and western regions were covered by the subsidies---100 yuan each with 60 yuan from the central finances. The subsidies effectively boosted enthusiasm for live pig farming and contained the rapid growth of pork prices.

## **Implementation of policy and evaluation**

### ***The size of the subsidies went up by a big margin and the coverage was expanded remarkably***

- A. The central finances set aside 22 billion yuan as subsidies for fine crop seeds, an increase of 1.6 billion yuan compared to the previous year. Fine seeds subsidies were further expanded to more regions and subsidy standards for certain crop categories were raised.

Subsidies for rice, wheat, corn and cotton fine seeds became available nationwide. Subsidies for fine seeds of soybeans covered all major growing areas in the Northeast and Inner Mongolia, and subsidies for fine seeds of rape covered all major growing areas in the 10 provinces along the Yangtze River plus Xinyang of Henan province and Hanzhong and Ankang regions of Shaanxi province.

Subsidies for wheat, corn, soybean and rape fine seeds were 150 yuan per hectare. In Xinjiang, the standard was raised to 225 yuan per hectare. Subsidy standard for early-season rice was raised to the same level with mid-and late-season rice and cotton at 225 yuan per hectare.

Subsidies for rice, corn and rape fine seeds were delivered in cash. Subsidies for fine seeds of wheat, soybeans and cotton were either delivered in cash or through lower seeds prices that were to be decided in public bids. The provincial authorities were allowed to choose between the two according to their own conditions.

Subsidies for the development of potato stock tubers were continued. Subsidies for highland barely were launched in Tibetan-dominated areas and subsidies for peanut fine seeds were continued in certain peanut-growing areas.

- B. Subsidies for the purchase of agricultural machineries and tools amounted to 17.5 billion yuan, an increase of 2 billion yuan over the previous year. These subsidies continued to cover all agricultural and pastoral countries (farms). The subsidies covered 180 items within 46 sub-categories, which in turn

fell into 12 categories. Local authorities were allowed to add 30 items to the subsidies list.

Subsidies for the purchase of agricultural machineries and tools were fixed. Subsidies standard for the same product in the same category remained the same within the same province. The subsidy for a single piece was 30% of its price, with a ceiling of 50,000 yuan each.

In the hardest-hit counties and key epidemic prevention regions of the Wenchuan earthquake, the percentage could be raised to 50%.

Subsidies ceiling could be raised to 120,000 yuan per piece for large tractors of 100 horsepower or more, high-performance silage harvesters, large no-tillage planters, milking machines, large combine harvesters, large rice germination boosters and dryers.

Subsidy ceiling could be raised to 200,000 yuan per piece for large cotton pickers, sugarcane harvesters and tractors of 200 horsepower or more.

In 2011, a total of 5.64 million units of agricultural machinery and tools were subsidized, benefiting nearly 4.39 million rural households.

- C. The central finances allocated 15.1 billion yuan as direct subsidies for grain crop farming and 83.5 billion yuan as subsidies for goods used in agricultural production. The two varieties of subsidies totaled 98.6 billion yuan.

In principle, subsidies for grain crop farming were to be delivered directly to grain crop farmers. Details were worked out by provincial government in accordance with actual circumstances. The dynamic readjustment mechanism for subsidies for goods used in agricultural production was established and improved. In accordance with price changes of fertilizers, diesel and other goods used in agricultural production, funds were disbursed in a timely manner following the principle of “overall planning, dynamic readjustment, increase only”. The subsidies were used to offset higher costs of goods in agricultural production. Newly added funds were mainly directed to major grain-producing households.

- D. Subsidies of 1.19 billion yuan for fine animal and poultry breeds were provided. The money included 200 million yuan as subsidies for fine breeds delivered in the form of subsidies and rewards for grasslands ecological protection. Subsidies for fine breeds covered the five animals of live pigs, dairy cattle, beef cattle, sheep and yaks.

Of the money, 650 million yuan was used to subsidize fine breeds of live pigs. Up to 16.25 million heads of fertile sows in 420 counties were covered. Subsidies for fine breeds of dairy cows took up 260 million yuan, covering 8.96 million heads of fertile dairy cows across the country. Subsidies for fine breeds of beef cattle totaled 60 million yuan, covering 6 million heads of fertile beef cows in 18 beef cattle-farming provinces (autonomous regions, municipalities).

Subsidies for sheep fine breeds were 192 million yuan, covering 237,500 heads of breeding rams. In 2011, subsidies continued for 75,000 breeding rams in targeted provinces (autonomous regions) as in 2010. The additional 162,500 breeding rams were from the eight pastoral areas of Inner Mongolia, Sichuan, Yunnan, Tibet, Gansu, Qinghai, Ningxia and Xinjiang where subsidies and rewards for grasslands ecological protection were carried out.

Subsidies for yaks amounted to 30 million yuan, covering 15,000 breeding male yaks in the five pastoral areas of Sichuan, Tibet, Gansu, Qinghai and Xinjiang. In Xinjiang, subsidies for yaks also covered Xinjiang Brown cattle.

### ***The subsidy mechanism was continuously improved***

First, the subsidies were provided in a more prompt manner. The central finances in January 2011 disbursed 98.6 billion yuan as direct subsidies for grains crop farming and subsidies for the purchase of goods used in agricultural production. The money was transferred to bank accounts of farmers before spring plowing.

Subsidies for fine crop seeds and for the purchase of farm machineries and tools were made known beforehand. In September 2010, more than 18 billion yuan was disbursed ahead of schedule as subsidies for fine crop seeds, 11 billion yuan as subsidies for the purchase of farm machineries and tools. The disbursement of subsidies was even faster.

Second, the methods of management were further improved. For subsidies for the purchase of farm machineries and tools, efforts were made to ensure farmers' independent decision-making. Subsidy agreements were replaced by confirmation of subsidies or simply by application forms.

Efforts were also made to determine subsidy beneficiaries in an open and fair way. It was emphasized that when applications for subsidies exceeded subsidy quota, subsidy beneficiaries should be determined in an open, fair and impartial way and by means that would be accepted by farmers such as open lucky draw. Prospective beneficiaries must be publicized for scrutiny.

On the condition that funds would remain safe, that farmers would get benefits and that a better environment of competition would be created for enterprises, local authorities were allowed to delegate funds settlement power to lower authorities.

To ensure the smooth implementation of policies of subsidies for the purchase of farm machineries and tools, provincial financial authorities were required to set aside budgetary funds for the management of such subsidies. They were not allowed to use subsidy funds from the central finance for management of subsidies.

In accordance with the principle of "stability, improvement and enhancement", local authorities were encouraged to carry out experiments on the delegation of power to lower authorities for funds settlement, for full-price purchase of machinery and for online lucky draws to provide experiences for the improvement of policies.

Third, supervision over project funds was enhanced. The MoA worked with other departments to carry out special operation in which malpractices and violation of discipline were handled and rectified. The operation helped boost the standardization of management of funds and projects and ensured the delivery of policies designed to strengthen agriculture and benefit farmers.

Fourth, efforts were made to push for the integration of funds for agriculture. In accordance with their specific conditions and requirements for management of project funds, various localities, following the principle of "both proactive and appropriate, both for integration and for management", innovated their ways in providing financial support for agriculture, pushed for the integration of funds, improved plans for implementation of projects and strengthened management of projects.

### **Subsidies helped promote agricultural production and increase farmers' earnings**

In 2013, China's total grains output registered growth for the 11<sup>th</sup> consecutive year, the first time in more than half a century. Average per capita net income of farmers also saw rapid growth for the eighth consecutive year, the first time since China's opening in the late 1970s.

In 2011, direct subsidies for grains production and for the purchase of goods to be used in

agricultural production totaled nearly 900 yuan per hectare, effectively alleviating the negative effects on grains production of higher price for goods to be used in agricultural production, and playing an important role in stabilizing the income of grains crop farmers and mobilizing their enthusiasm for farming.

Thanks to policies of subsidies for fine seeds, technologies that combined fine seeds and good farming methods were promoted at an even faster pace, boosting the application of science and technology in grains production and promoting standardized farming of grains, cotton and oil-bearing crops and the regional distribution of high-quality crops.

Thanks to policies of subsidies for the purchase of farm machineries and tools, agricultural mechanization improved at a faster pace. In 2011, total power of farm machineries grew more than 5% over the previous year and the aggregate level of mechanization in plowing, sowing and harvesting increased by 2.5 percentage points. Subsidies for the purchase of farm machineries and tools attracted investment of 40.97 billion yuan from farmers and agricultural production units, boosting both supply and marketing of farm machineries.

## **Remark**

From the effects of subsidy policy in recent years, we can believe that, the total subsidy will continue to grow, the type of subsidies will continue to increase, the mechanism of subsidy will be further improved, and farmers' benefits from the subsidy policies will continue to be raised.