

# Conditions for China's Agricultural Development

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## INTRODUCTION

In 2013, China's grain output recorded its 10<sup>th</sup> consecutive year of growth, and the farmers' income registered the 10<sup>th</sup> consecutive year of rapid increase. The agricultural sector and the rural economy made new progress while maintaining stability, and played an important role in keeping the national economy running smoothly. Feeding the people is always a top priority in national governance, and securing national food security is always the primary task in developing modern agriculture. Since the turn of the century, the central government's policies concerning agriculture, rural areas and farmers have been highly effective and widely welcomed, and provided a strong impetus for the development of agriculture and the countryside.

At the same time, it should be noted that agriculture remains lagging behind in the synchronization of the "four modernizations," as does the countryside in the building of a moderately prosperous society in all respects. In 2014 as well as in the near future, the work on agriculture, rural areas and farmers will remain a daunting task in facing various opportunities and numerous challenges.

### **Favorable conditions**

1) Unremittingly promote grain production and improve the system safeguarding national food security. The central authorities have unequivocally instructed that it is a basic principle in national governance to maintain self-sufficiency in food and that in no case should the guard be allowed to slip into domestic grain production.

First, efforts should be accelerated in formulating a national food security strategy under the new circumstances. Considering the domestic conditions in resources and the environment, the grain supply and demand pattern, and the changes in the international trade climate, China should adopt a national food security strategy that is centered on China, based on the national reality, effective in safeguarding production capacity, moderate in agro-product exportation, and emphatic about the supportive role of agricultural science and technology. The country should strictly preserve the minimum acreage of farmlands, demarcate permanent basic farmlands, and continuously boost the comprehensive production capacity of agriculture. It should make more active use of international agro-product markets and agricultural resources, pay more attention to quality and safety, and attach more importance to sustainable agricultural development.

Second, efforts should be made to improve the pricing mechanism for grains and other main agro-products. The state should stick to the principle of letting the market determine the prices and try to promote reform in unhooking the agro-product pricing mechanism from

government subsidies. An agro-product target price mechanism should be gradually established, which will subsidize low-income consumers when the market prices are too high and compensate the producers for the margins when the prices are too low, so as to effectively protect the interests of the farmers. In 2014, pilot programs on target-pricing and subsidization will be launched in Northeast China and Inner Mongolia for soybeans and in Xinjiang for cotton, pilot programs on target-pricing and insurance will be mulled for such agricultural produce as grains and live pigs, and pilot programs on providing marketing loans for grain producers above the designated scale will also be carried out. Meanwhile, the practices of setting minimum acquisition prices for wheat and rice and launching temporary purchase and storage of corn, rapeseed and sugar will be carried on.

Third, improve the regulation and control system for agro-product markets. The state will use such means as national storage as well as imports and exports to keep the prices of different agro-products at a reasonable range, so as to safeguard the general market stability of main agricultural products. A scientific approach will be adopted to determine the functions and scales of the national storage of main agro-products, with the responsibilities of local governments, especially those in main consumption areas, to be strengthened and the regional distribution and structure of products to be optimized. Improvement will be made to the management of the central grain reserves, and various qualified market subjects will be encouraged to participate in the policy-mandated purchases and storage of bulk agro-products.

Fourth, make reasonable use of the international agro-product markets. A strategy for the international trade of primary agro-products will be established, planning and guidance on agro-product imports will be strengthened, and the structure of the origins of imports will be optimized. Entry-Exit inspection and quarantine of animals and plants will be beefed up, and the state will crack down on cross-border smuggling of agro-products. The agricultural “go global” strategy will be carried on, encouraging financial institutions to actively diversity the products and services for agro-product international trade and the agricultural “go global” strategy, and exploring the possibility of establishing special funds for agro-product international trade and development funds for overseas agricultural operations.

Fifth, strengthen supervision and management of agro-product quality and food safety. The state will establish the most rigorous food safety control system that cover the whole process of food production, improve relevant laws, regulations and standard systems, and hold local governments accountable for production and management on their jurisdictions. The state will support the establishment of systems of standardized production, risk monitoring and warning for key products, and food retracing, and increase the subsidies for quality and safety tests and inspections in wholesale markets.

2) Strengthen the agricultural support and protection system and boost the comprehensive production capacity of the agricultural sector. The central government has made clear instructions on further increasing the spending on agriculture, rural areas and farmers, so as to push forward the construction of the agricultural support and protection system and of the agricultural hardware to continuously improve the agricultural comprehensive production capacity.

First, improve the agricultural subsidization system and compensation mechanism. In line with the requirements of stabilizing the existing programs, increasing the total amount, improving the methodology and making gradual adjustments, the government will vigorously

carry out pilot projects on improving agricultural subsidization. The state will continue to offer grain farmers direct subsidies, fine seeds subsidies and comprehensive subsidies for goods used in agricultural production, and the newly added subsidies will favor important agro-products like grains, new types of agricultural management subjects, and main producing areas. The subsidies for purchasing agricultural machinery will be expanded, subsidization mechanisms improved, and pilot subsidization programs for agricultural machinery scrapping and upgrading continued. Subsidies for key technologies in disaster prevention and mitigation and output stabilization and expansion will be strengthened, and fine breeds subsidies in animal husbandry will be continued. The state will also expand the fiscal transfer payment for main grain-producing areas, and continue to reward leading counties in grain and oil production and live-pig supply.

Second, improve the mechanism for ensuring steady increase of input in agriculture, rural areas and farmers. The public finances should continue to prioritize spending on agriculture, rural areas and farmers, and the central government's funding for infrastructure construction will also favor agriculture, rural areas and farmers. The state will adopt an integrative and holistic approach to using agriculture-related funds, gradually sorting out and integrating them in budget formulation process. Conditions will be created for delegating to lower-level governments the power to review and approve central and provincial agricultural funding projects, accelerating the implementation of the projects and the execution of the budget, and effectively lifting the level and supervision and management. In order to diversify the sources of investments in agriculture, rural areas and farmers, the state will bring into full play the leading role of fiscal funds, and encourage more financial and social funds to invest in agriculture and rural areas through such measures as interest subsidies, rewards, risk compensation and tax breaks.

Third, strengthen the construction of agricultural hardware. The state will deepen the institutional reforms on management of irrigation projects, and explore new mechanisms for the construction of farmland irrigation and infrastructure for water conservation. It will also deepen the comprehensive reform on agricultural water prices, and increase the spending on irrigation and water conservation at all levels of government. The state will plan and build a number of major water projects that are vital to the national economy and people's livelihood, boost construction of water source projects and utilization of rainwater and floodwater, and launch and implement a national drought relief plan, so as to boost the agricultural industry's ability to counter water and drought disasters. The state will formulate a national plan for the construction of high-standard farmlands, boost inputs, standardize requirement, and explore supervision and management mechanisms. Efforts will also be made to advance agro-tech innovation, deepen agro-tech institutional reforms, and clarify and produce the property rights of agro-tech achievements in government-funded research projects. The state will also endeavor to pursue innovation in the mechanisms of putting research achievements into application, and develop agro-tech achievement management centers and exchanges. Agriculture will be regarded as a priority in government investment in science and technology, and bank loans and venture funds will be channeled into agro-tech research and innovation.

Efforts will be made to speed up the development of a modern seed industry and the process of agricultural mechanization. An innovation system that headlines breeding enterprises will be established, so as to channel talent, resources and technologies into the breeding enterprises, build a number of leading enterprises that cover cultivation, breeding

and popularization, and bring forth a batch of new varieties that boast higher output, quality and resilience and are suitable for mechanized production. The state will also speed up the mechanization of the whole crop production process in large farmlands, actively foster socialized services in agricultural machinery operation, repair and rentals, and support the development of agricultural machinery cooperatives and other service organizations.

Fourth, promote the construction of the agro-product market system. The formulation of a national agro-product market development plan will be accelerated, and an inter-departmental coordination mechanism will be established. The state will promote the construction of a nationwide market network with large-scale wholesale markets being its backbone, and carry out pilot projects in developing nonprofit agro-product wholesale markets. Efforts will also be made to improve the structure of agricultural commodities futures, speed up the development of modern agro-product storage facilities in main producing areas, and improve the cold chain network for fresh and living agro-products. Support will also be offered to the construction of small-scale agro-product collection marketplaces and supply centers in producing areas, and the programs of purchasing and storing grains and safeguarding adequate supply will be carried out. A project will be launched to improve the dissemination of information on rural logistics facilities and agro-product wholesale markets. The construction of agro-product e-commerce platforms will likewise be strengthened.

3) Comprehensively deepen rural reform and accelerate the development of modern agriculture. The comprehensive deepening of rural reforms is aimed at invigorating the rural socioeconomic development and encouraging exploration and innovation based on local conditions on an incremental manner.

First, deepen reform on rural land management institutions. The rural land contractual relations will be stabilized and maintained for a long time. On the premise of sticking to and improving the strictest farmland protection system, farmers will be granted the rights to possess, use and sell contracted land and mortgaging and guaranteeing management rights. On the basis of adhering to the collective ownership of rural land, efforts will be made to stabilize farmers' contractual rights, loosen control of land management rights, and allow the management rights of contracted land to be mortgaged for financing. The grassland contract and management system will be stabilized and improved, and the reform on collective forest rights institutions will be advanced. The management system of state-owned farm offices will be carried out. On the premise of complying with the original planning and purposes, rural collective land for construction use will be allowed to be transferred, rented and invested in, and to be traded in the same way as state-owned land. Institutional building will be sped up for the property rights transfer and income distribution of rural collective land for construction use.

Meanwhile, the rural homestead regime will be reformed, and the rural homestead distribution system will also be improved. On the premise of protecting the usufruct of the homesteads of rural households, a selection of pilot programs will be launched to explore ways of allowing the property rights of farmers' houses to be mortgaged, guaranteed and transferred. The scope and procedure of land acquisition will be narrowed and standardized, and the compensation regime will be improved so as to provide affected farmers with reasonable, standard and diversified compensation.

Second, build a new type of agricultural management system. The state encourages the development of farmers' cooperatives of various forms, including specialized ones and

joint-stock ones, and will help them run in a standard manner, with special attention to be paid on their capacity-building. Fiscal funds will be allowed to be directly channeled to qualified cooperatives, and assets generated by fiscal subsidies will be allowed to be possessed and managed by cooperatives. Voluntary registration of household farms will be carried out. The state encourages the development of leading enterprises of mixed ownership in industrialized agriculture, and will guide them to grow in clusters and deepen their interest links with farmers and farmers' cooperatives. In the national quota of land for construction use, a certain portion will be earmarked for new-type agricultural management subjects to build supplementary facilities. Local governments and nongovernmental investors will be encouraged to establish financial guarantee companies to provide credit guarantee services for new-type agricultural management subjects. More training will be organized for new career farmers and founders of new agricultural management subjects. Favorable tax measures will be rolled out and improved so as to encourage farmers' cooperatives to engage in the processing and transportation of farm produce.

The agricultural socialized service system will be optimized, with the ranks of agricultural public service organizations to be stabilized and their funding, assessment and incentive mechanisms to be improved. The reform and development of supply and marketing cooperatives will be accelerated, so as to make better use of their advantages, such as their close links with the countryside and farmers and their extensive reach, and pilot programs of comprehensive reform of supply and marketing cooperatives will be launched in an active and proper way.

Third, speed up institutional innovation in rural financing. Efforts will be made to strengthen commercial banks' services for agriculture, rural areas and farmers as well as county-area small- and micro-sized enterprises. County-area branches of commercial banks will be granted more authorized business, the deposit-loan will be raised, and the volume of agriculture-related loans will be included in the assessment of the credit policy's guiding effect and the comprehensive evaluation regime. The pilot reform of the agro-related business department of Agricultural Bank of China will be expanded steadily, and the Postal Savings Bank of China will be encouraged to roll out rural financial services.

The government will also support the Agricultural Development Bank in handing out medium- to long-term loans for agricultural development and rural infrastructure construction and in building a differentiated supervisory system. The state will also boost the role of credit cooperatives in aiding agricultural development, and actively promote the development of village and township banks and foster new types of rural financial cooperation organizations. Nongovernmental investors will be encouraged to set up county-area medium- and small-sized banks and financial leasing companies dedicated to serving agriculture, rural areas and farmers. The local-level rural financial management system will be improved, and local governments will be encouraged to set up risk compensation funds, so as to effectively fend off financial risks.

Support will be increased for agricultural insurance. The insurance premium subsidies for primary agro-products from central and provincial finances will be lifted, county-level premium subsidies in main grain-producing counties will be gradually decreased and canceled, and the coverage and effectiveness of rice, wheat and corn insurances will be boosted. Insurance companies will be encouraged to design products for special and competitive agro-products, the scope and coverage of insurances for animal products and forests will be expanded, and measures will be rolled out to promote the development of various insurances

for cooperatives. The management of the agricultural insurers' reserve funds for major disasters will be standardized, and efforts will be made to speed up the development of an agricultural catastrophe risk dispersion mechanism with state support. The state is also mulling explorations on such businesses as loan guarantee insurances and credit insurances in agro-related financing.

4) Strengthen ecological protection and build a long-term mechanism for sustainable agricultural development. The strictest regimes will be carried out for farmland protection, economical and intensive land use, water resources management and environmental protection, and supervision, evaluation and incentives will be strengthened. The state supports local governments in handing out compensation for land protection, and high-efficiency water-saving irrigation will be popularized region per region. Great efforts will be made to promote mechanized deep-plowing and comprehensive utilization like returning straw to field, as well as subsidizing for soil organic matter improvement.

Support will be offered for green prevention and control of disease and insect pests and bio-safe treatment of dead birds and animals. Prevention and treatment of agricultural non-point source pollution will be strengthened, and support will be offered for pilot programs in popularizing high-efficiency fertilizers and low-residual pesticides, recycling the waste in large-scale animal farms, encouraging new agricultural management subjects to use organic fertilizers, and popularizing high-standard agricultural film and recovery of residual film. Pilot programs will be launched in fallowing agricultural resources and rehabilitating heavy metal-polluted farmlands. The state will continue with the practice of switching to forest and grassland hillside terraces, severely desertified farmlands and farmlands in important water source areas.

In North China, comprehensive treatment of the cone areas formed due to groundwater overuse will be carried out, and pilot programs will be launched on rewarding wetland restoration. The state will draw a red line for ecological protection at the earliest possible date, and push forward with such major forest projects as natural forest protection and the second phase of Beijing-Tianjin sandstorm source control. In key state-owned forests in Northeast China and Inner Mongolia, pilot programs will be carried out on stopping commercial logging in natural forests. The construction of forest fire prevention facilities and the restoration of vegetation in mining areas will be promoted. Subsidization measures for improved forest tree varieties, afforestation and forest rehabilitation will be improved, and the practice of sealing off desertified land for protection will be strengthened.

The project on returning grazing land to grassland in natural pastures will be advanced with more vigor, and the projects of grassland development and construction of grassland natural reserves in South China will be launched. Support will be offered for seed improvement, irrigation construction as well as prevention and treatment of rodents and pests in forage bases.

The state will also strictly restrict the fishing intensity, and continue with the subsidization policy for proliferation and release programs and ecological restoration of aquatic farms. Comprehensive treatment of rivers and lakes will be carried out, along with key projects in water and soil conservation and the development of ecologically clean small basins. The compensation regimes for ecological protection in forests, grasslands and wetlands as well as for conservation of water and soil will be amended, and new ones will be established for ecological efforts in river source areas, key water source areas, key aquatic

ecosystem restoration and treatment areas, and flood detention basins.

5) Coordinate urban and rural development and optimize the mechanism for integrated urban and rural development. The central authorities have highlighted the need to improve the integrated urban and rural development mechanism and form a new type of industry-agriculture and urban-rural relations characterized by industry promoting agriculture, cities leading the countryside, industry and agriculture benefiting each other, and urban and rural areas developing in an integrated way. That will allow the large farmer population to participate in the modernization process on an equal footing, and share with urbanites the fruits of modernization.

First, facilitate the equalization between urban areas and rural areas in terms of basic public services. The state will accelerate the efforts in improving the basic conditions of poorly equipped schools providing compulsory education in rural areas, and offer stronger support for pre-school education, vocational education and skill training in rural areas. Efforts will be made to support and standardize nongovernmental education institutions in rural areas, and to enlarge the share of students from the countryside in key colleges and universities. Various rural cultural public-benefit projects and resources will be effectively integrated, and standardized development of public cultural and sport facilities and services in counties and towns will be promoted.

The state will deepen the comprehensive reform of community-level medical institutions in rural areas, and carry out a general practitioner special post plan in the central and western regions. The funding standard and guarantee level of the new rural cooperative medical system will be further lifted, the critical illness insurance and aid regimes will be improved, and coordinated planning of urban and rural basic medical insurance will be promoted. The state will also integrate the rural and urban basic endowment insurance institutions, gradually set up a regular adjustment mechanism for the standard of basic pensions, and speed up the development of social elderly care services in rural areas.

Efforts will be made to strengthen standardized management of the minimum living allowance system in rural areas, and pilot programs will be carried out in standardizing public services in rural areas. The government will also vigorously optimize the mechanism for poverty relief and development, improve the assessment regime for the key counties under the national anti-poverty umbrella, and thus raise the accuracy of the poverty relief campaign.

Second, accelerate the citizenship of rural migrants. The state will actively advance reform of the household registration system, so as to establish a unified system for rural and urban residents, and allow an orderly process of citizenship of those rural migrants who have become permanent urban residents and are able to have a legal and stable job and life in the cities. For the floating population, a residence permit system will be carried out, and the state will gradually realize equal treatment of residence permit holders and local residents in terms of basic public services, and guarantee that migrant workers get equal pay for equal work. Local government will be encouraged to formulate relevant policies in line with the realities of their respective jurisdictions, and promote internal urbanization of rural migrants.

Third, renovate the living environment of rural villages. The formulation of village plans will be accelerated, and rewards will be handed out for exemplary treatment programs, with the focus on waste and sewage treatments. Projects will be carried out to build hard-surface roads in villages, and strengthen the management and maintenance of such public facilities as roads and water supply and discharge system. A plan will be formulated for protection and

development of traditional villages, and the government will accelerate the enrolment of traditional villages and residences with cultural and other values into the protection lists, and effectively offer more investments and better protection.

The construction standard of rural drinking water safety projects will be lifted, and the water quality monitoring and protection in water source areas will be strengthened. The state encourages local governments to extend urban water supply networks to rural areas if they can. Rural road construction will be sped up, with the focus on western China and concentrated and adjacent areas of abject poverty, and the maintenance and safety control of rural roads will be strengthened. Integration of rural and urban passenger transport will be promoted. The government encourages the households the large-scale use of methane. In regions vulnerable to earthquakes, a rural housing safety project will be carried out. The construction of rural Internet infrastructure will be accelerated, so as to connect more rural households with the information grid.

Fourth, optimize the rural governance system. The community-level Party-building resources in rural and urban areas will be better integrated, and a stable system will be established to guarantee the operating funds of village-level organizations. New forms of villager autonomy will be explored under different circumstances. In areas with pilot programs on rural community construction and where the collective land ownership belongs to villager groups, pilot programs will be carried out on villager autonomy with communities and villager groups functioning as the basic units.

The reform of rural collective property rights toward joint-stock cooperative partnerships will be promoted, with measures to guarantee farmers' rights as members of collective economic organizations. Farmers will be entitled to possess the shares distributed to them, collect their returns, and sell, mortgage, guarantee and inherit them, markets will be set up for rural property rights trade. The management of rural collective funds, assets and resources will be strengthened, the asset management of rural economic organizations will be improved, and the development of the rural collective economy will be promoted.

The state will help small cities and towns extend the effective coverage of rural basic public services, promote the effective integration of rural basic public service resources, and coordinate relevant infrastructure construction. Where the conditions are ripe, local governments are encouraged to promote community-like management of the countryside.

## **Unfavorable conditions**

Agricultural and rural development remain faced with numerous difficulties and challenges in 2014, and the task of maintaining stable development will grow even more arduous.

1) It is enormously difficult to continue the growing streak of grain output given such hard restrictions as the conflict between a large population and inadequate farmlands and water and the limit of the ecosystem, as well as such soft restrictions as the limited support from technological advances and the fluctuations in the global grains market.

2) The task of safeguarding national food security and food quality and safety is strenuous, as the undersupply of some agro-products will further expand and the structural conflict will further worsen, due to the growing population, rising living conditions, skyrocketing consumption demand and rapid upgrading of consumption structure.

3) With small and scattered management in compatible with the development of modern agriculture, it becomes ever more urgent to solve the problem of "who will farm." How to



improve the agricultural management system, how to foster new types of management subjects that suits the development of modern agriculture, and how to achieve common development of various types of agricultural management have posed new challenges to agricultural development.

4) With land and labor cost rising, agricultural production has fallen into a pattern of big input, high cost and relatively low returns. With the central authorities focusing on grains output, local governments on finances, and farmers on income, the interests of different sides are hard to coordinate. Difficulty is also mounting in protecting agricultural resources and boosting farmers' production enthusiasm.

5) With the large-scale migration of the rural labor force, full-time farmer households are decreasing, villagers are being hollowed out, and the rural population is rapidly ageing. Adding to these increasingly clear tendencies are the pluralistic development of new management subjects and the diversification and complication of rural social and economic structures. How to match rural social management and public services with the shift of economic and social structures has become a priority.

6) The split between the urban and rural areas remains a stubborn problem in socioeconomic development. The exchange of production factors remains unequal, the distribution of public services unbalanced, the gap between rural and urban development is widening, and the social conflict between rural and urban areas outstanding. The efforts to realize coordinated urban and rural integration and allow farmers to participate in the modernization process and share its fruits on an equal footing are still faced with many systemic and institutional hurdles.

Date submitted: April 15, 2016

Reviewed, edited and uploaded: April 19, 2016