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Growth and Evolution in China's Agricultural Support Policies

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What Is the Issue?

China is perhaps the most prominent example of a developing country that has shifted from taxing to subsidizing its agricultural sector. China's domestic support policies for agriculture expanded rapidly in size and scope after an initial set of direct payments and price supports were introduced in the early 2000s. China's agricultural programs are not well understood, and the United States and other trading partners have raised concerns about them. Industry leaders and policymakers in the United States and elsewhere want to know how China's policies affect production and agricultural trade. World Trade Organization (WTO) members are concerned about whether China's expansion of domestic agricultural support conforms to WTO rules. This report investigates China's strategies for increasing agricultural subsidies and price supports, evaluates the impact of these policies on production and agricultural trade, and discusses China's compliance with WTO limits on domestic agricultural support.

What Did the Study Find?

China's support for agriculture has grown by the addition of new programs and extension of coverage to more regions and commodities. Support is focused mainly on rice, wheat, and corn, but it has spread to other crops and livestock. The budgeted Chinese Government spending on agricultural programs rose to \$73 billion in 2012, equal to 9 percent of the value of agricultural output.

China installed program mechanisms that link grain subsidy payments and price supports to increases in farmers' production costs, thus ensuring steady increases in agricultural support. Direct payments rose to 7 to 15 percent of gross income for grain producers in 2012, but the payments appear to have little influence on farmers' production decisions. Production costs have risen faster than subsidy payments. In particular, rising off-farm wages have increased the opportunity cost of farm labor, weakening incentives to engage in agricultural production.

The weak incentives provided by subsidy payments prompted officials to raise price supports to stimulate production. From 2008 to 2013, price supports (in U.S. dollar values) were increased 30 percent for rapeseed, 63 percent for wheat, 66 to 69 percent for corn, and 92 to 105 percent for different types of rice.

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The increase in support prices—combined with appreciation of China’s currency—has eroded the price competitiveness of Chinese commodities. In 2011, Chinese farm prices of grains, soybeans, rapeseed, cotton, and hogs exceeded U.S. prices by margins that ranged from 20 percent for wheat to 84 percent for live hogs.

China focused expenditure on programs that are exempt from WTO limits on domestic support, provided subsidies not tied to specific commodities, and took advantage of high external reference prices in calculating the value of price supports reported to WTO. At least through 2008, these strategies minimized the amount of domestic support that counted towards China’s WTO commitments. However, China may exceed WTO limits if officials make large purchases at support prices or introduce product-specific subsidy payments.

Chinese officials have stated intentions to expand direct payments, raise price supports, and add new policies. Authorities are also exploring ways of encouraging commercial-scale farms and shielding producers of particular commodities from import competition.

While the increase in domestic support raises concerns among trading partners, dramatic growth in U.S. agricultural exports to China coincided with the expansion of Chinese agricultural support. The value of U.S. agricultural export sales to China tripled during 2007-12, reaching nearly \$26 billion during 2012. China is now the leading destination for U.S. agricultural exports.

How Was the Study Conducted?

The study is based on an extensive review and synthesis of Chinese documents, books, research studies, and other literature. The study compiled and analyzed data on financial expenditures, survey reports, commodity prices, support prices, and cost of production survey data published by the Chinese Government. The study reviewed China’s WTO notifications of domestic support from 1996 to 2008 to discern strategies for reporting subsidies and market price support.