



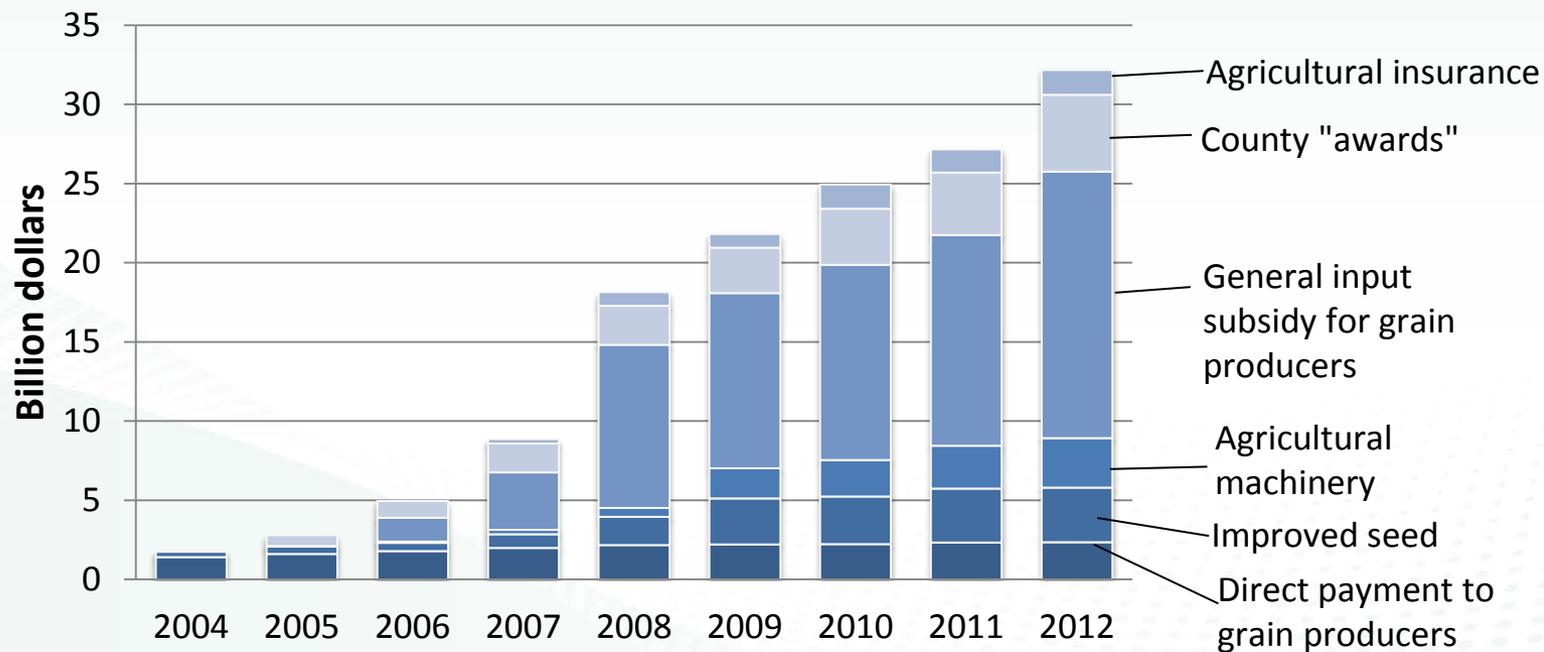
United States Department of Agriculture, Economic Research Service

Proliferation of subsidies in China: Helpful or Harmful?

Fred Gale

China's spending on agricultural support has been rising rapidly

China expenditures on major agricultural subsidy programs, 2004-12

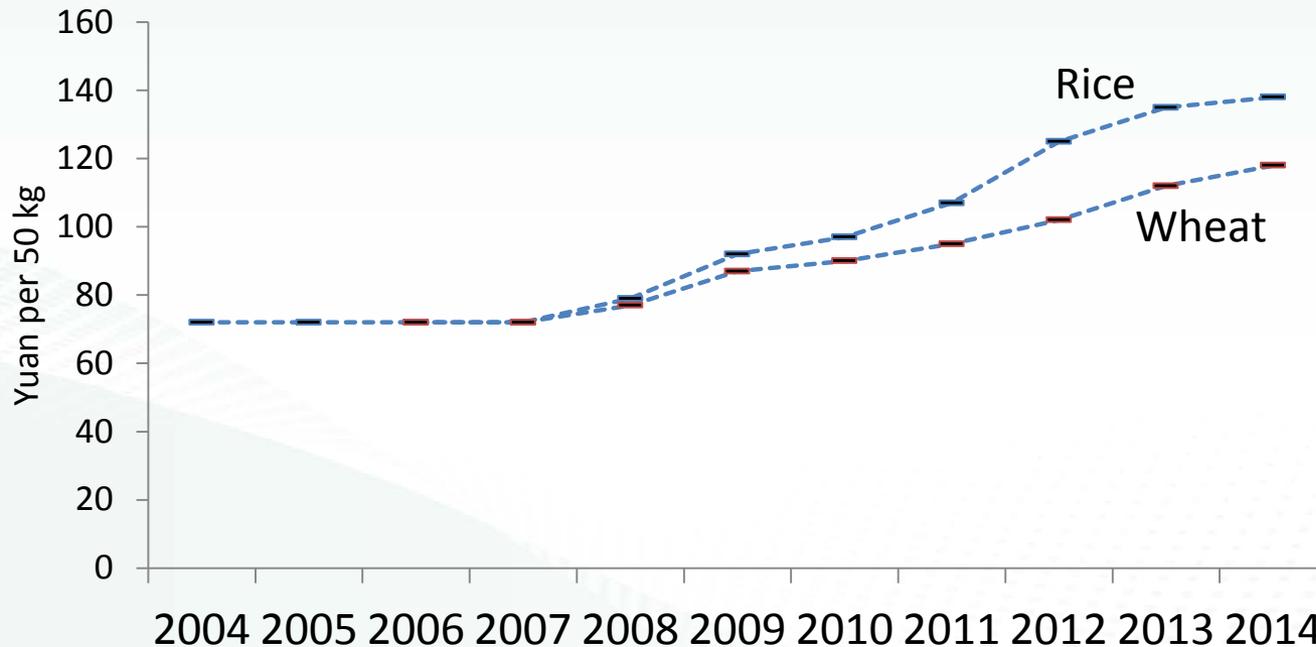


Source: ERS analysis of data from China Ministry of Finance.



Since 2009, officials have also been raising support prices

China support prices for wheat and rice,
2004-2014



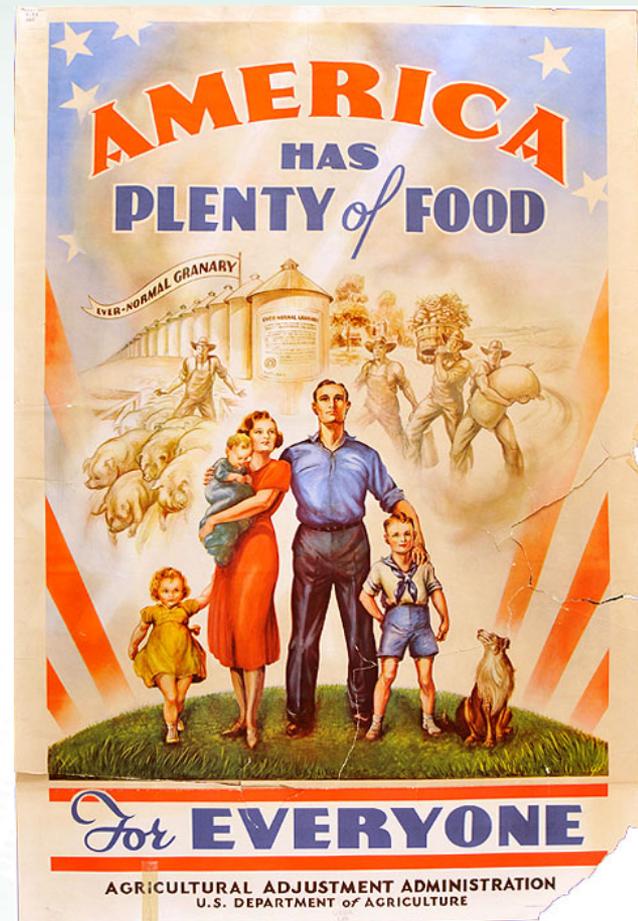
Source: ERS analysis of data from China National Development and Reform Commission



China and U.S. Agriculture: More in common than we might think



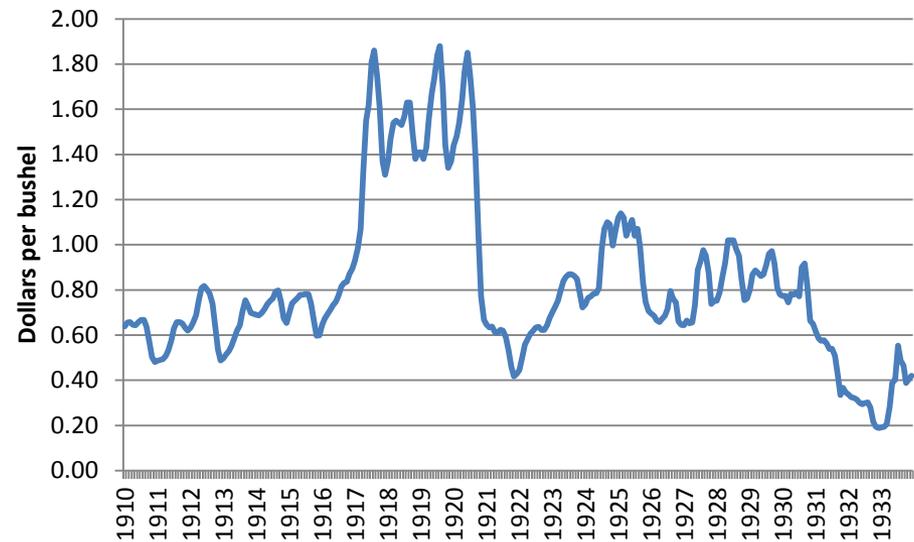
1976 Chinese poster: "Reap an abundant Harvest; store grain everywhere."



Stabilizing prices was a big concern for U.S. policymakers in the early 20th century.

In the 1930s, USDA Secretary Henry Wallace advocated creation of an “ever normal granary”—a buffer stock to stabilize prices.
...This idea was borrowed from the Chinese

U.S. corn prices, 1910-33

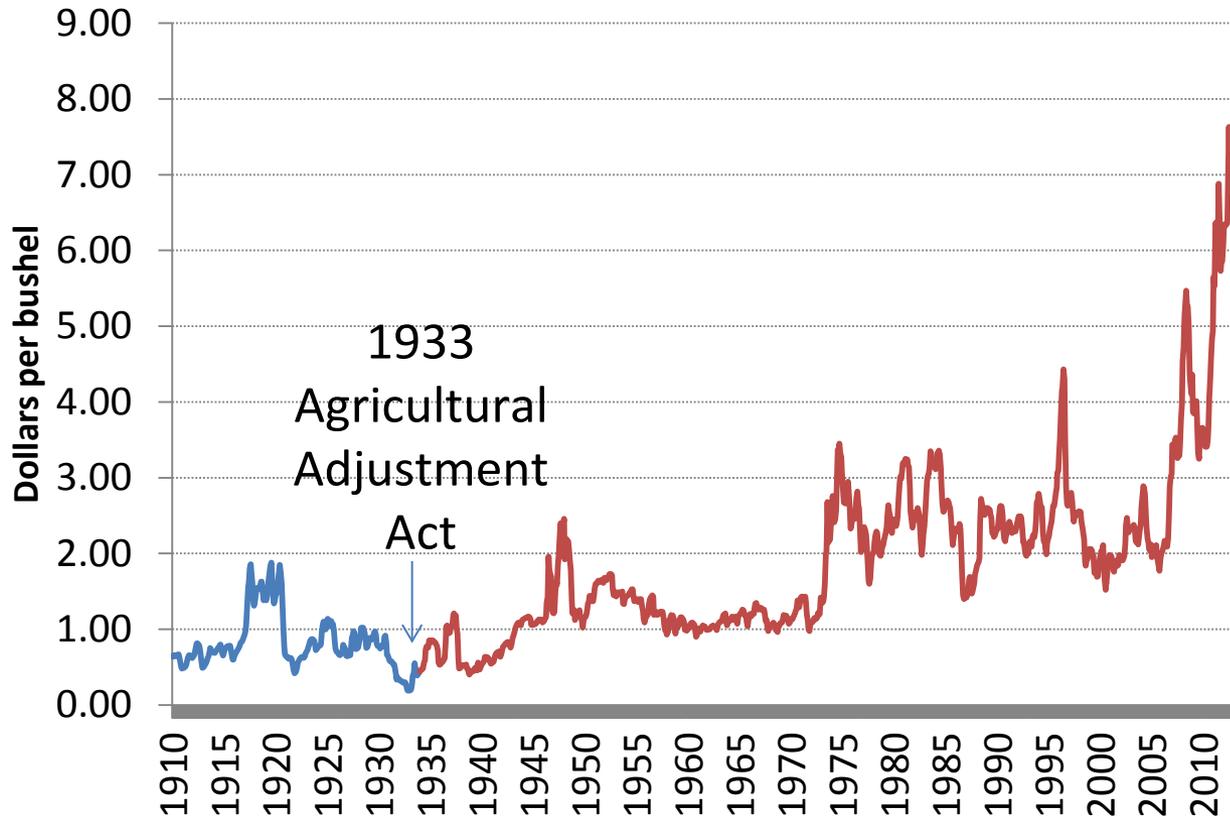


Source: USDA, ERS analysis of data from National Agricultural Statistics Service.



However, the United States never found a satisfactory means of achieving long-term stability in prices without unintended side effects.

U.S. corn prices, 1910-2013

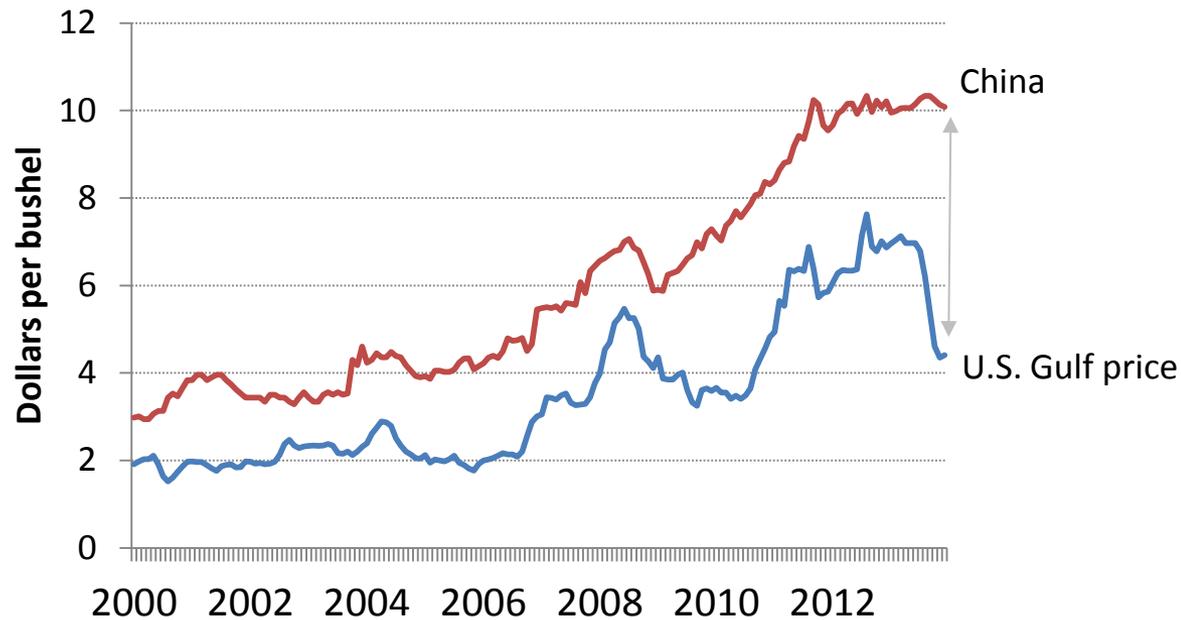


Source: USDA, ERS analysis of data from National Agricultural Statistics Service.



Decline in global prices has disrupted a Chinese strategy of engineering ever-rising prices

China-U.S. corn prices--a yawning gap



Source: USDA, China National Grain and Oils Information Center, China Ministry of Agriculture



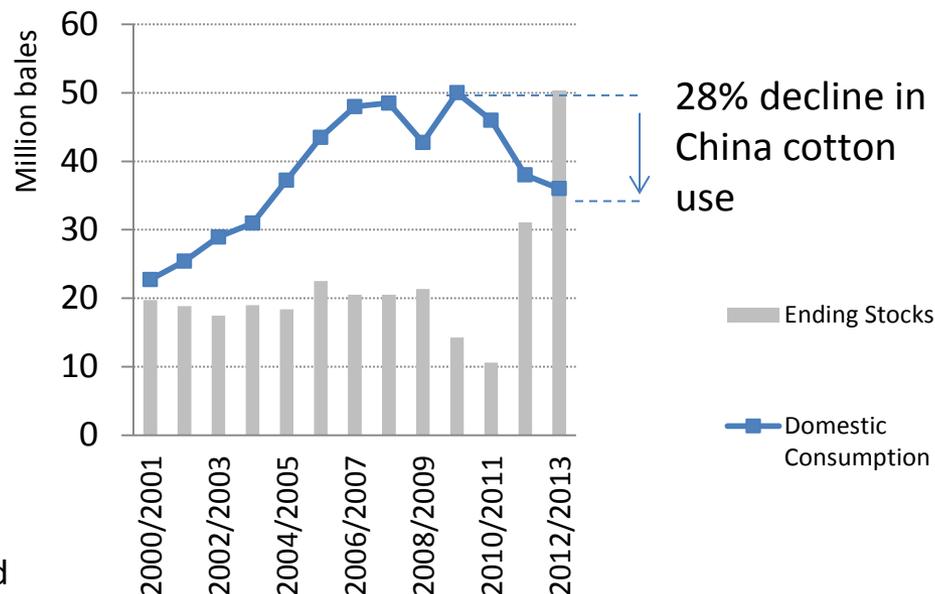
Chinese authorities announced plans to move away from price supports for soybeans and cotton

High Chinese soybean prices
Made imported soybeans more attractive



Chinese cartoon depicts a foreigner Filling the “Chinese market” with “imported Soybeans.” Farmer holds a small bag of “domestic soybeans.”

China cotton consumption declined as stockpiling elevated price



Source: USDA production, supply and distribution estimates

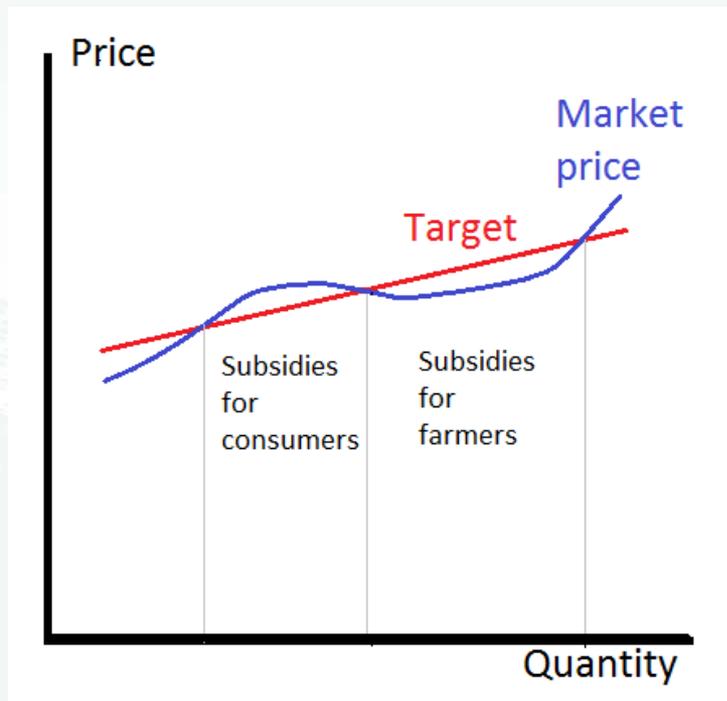


China's "target price" experiment

Chinese policymakers envision a system that alternates between subsidies to farmers and consumers, depending on market prices.

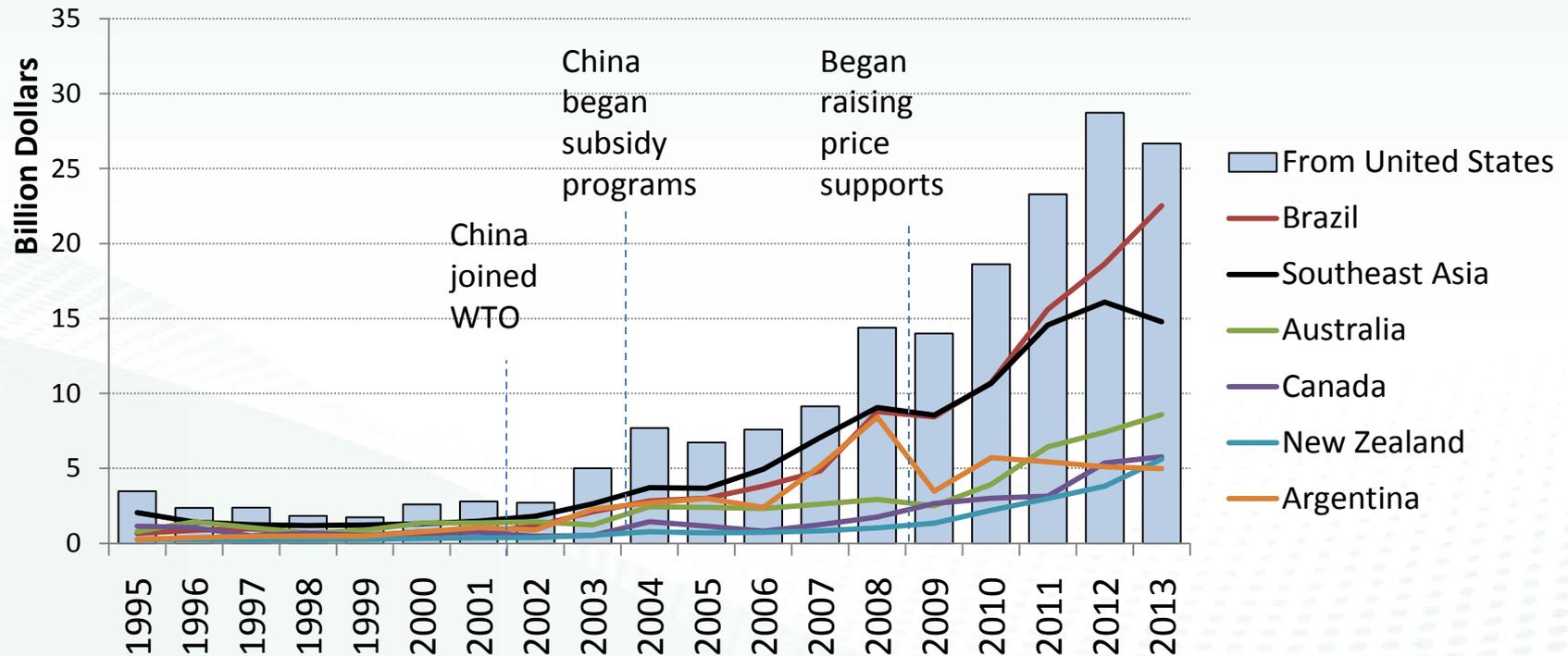
Chinese policymakers envision this:

...but will market prices evolve like this?



Subsidies are a sign of weakness, not strength

China's agricultural imports from major supplying countries;
Imports rise despite increasing domestic support



Raising productivity is the key to improved returns for farmers and food security



“High standard field” project



Using drones to spray wheat fields



However, China's institutional problems undermine sustained productivity improvements

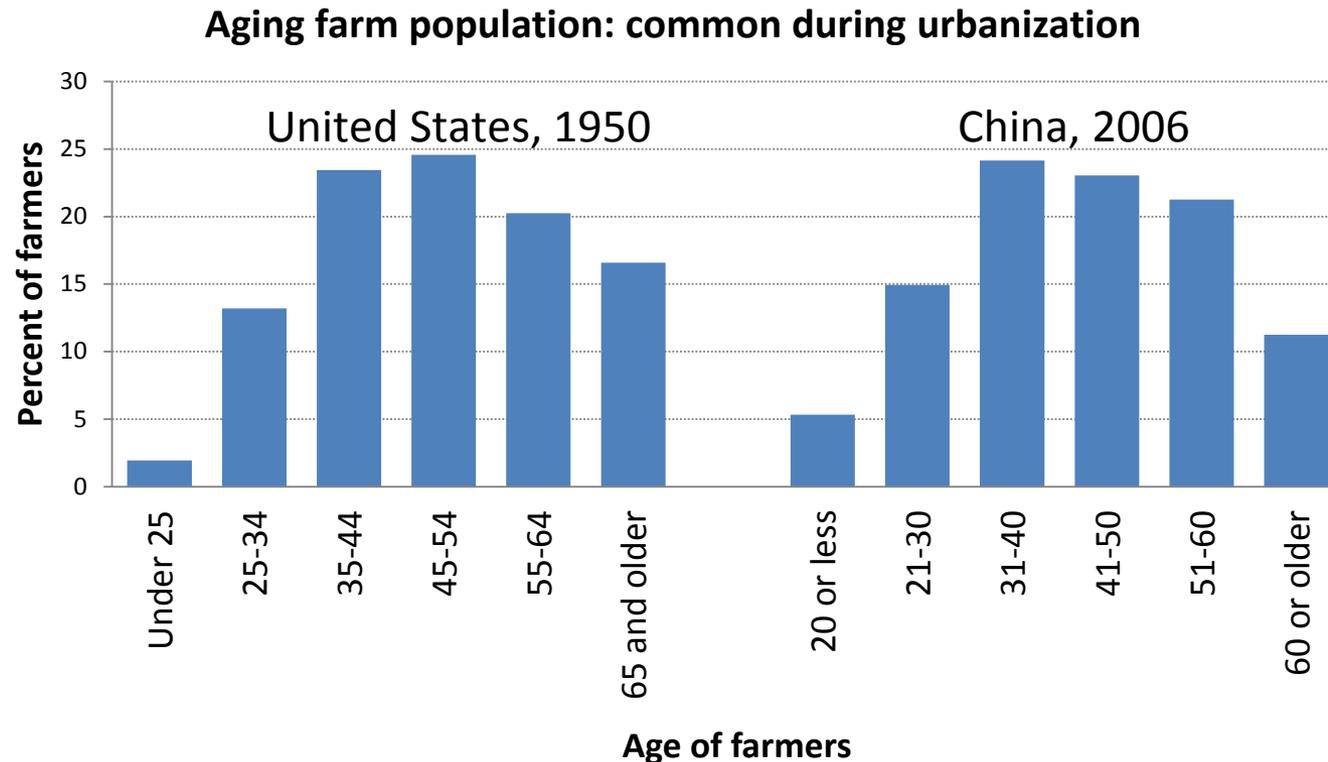


With vague property rights and weak rural banking systems, fixed asset investment in Chinese agriculture relies heavily on Government campaigns. Investments often are unprofitable and fall into disrepair after the initial campaign is completed.

Abandoned greenhouse structures from past investment campaigns are common in the Chinese countryside.



China is concerned about its aging population of farmers ...very similar to concerns in the United States during the last century



Source: Agricultural censuses, U.S. 1950 and China 2006



Challenges to building a sustained relationship with China in agriculture

- Opacity of Chinese policy-making and implementation
- Conflicts over how agricultural prices are determined
- Technology cannot replace efficient mechanisms for allocating land, capital and human resources



For more information on China's agricultural support...

Growth and Evolution in China's Agricultural Support Policies by Fred Gale

Economic Research Report No. 153, August 2013

<http://www.ers.usda.gov/publications/err-economic-research-report/err153.aspx>

"U.S. Exports Surge as China Supports Agricultural Prices" by Fred Gale

Amber Waves (ERS online magazine), October 2013

