

Table 2 – Timeline of Chinese agricultural support programs

| Year      | Policy measure   | Commodities                           |
|-----------|--|---------------------------------------|
| 2000      | Pilot reforms of rural taxes and fees  |                                       |
| 2002-2003 | Soybean seed subsidy and pilot grain subsidy programs in several regions   | Soybeans, rice, wheat, corn           |
| 2004-2006 | Direct payment to grain producers<br>General input subsidy<br>Improved seed subsidy<br>Machinery subsidy<br>Transfer payments to grain counties<br>Reform of grain marketing system<br>Eliminated agricultural tax, specialty crop and animal slaughter taxes<br>Rice and wheat price supports | Rice, wheat, corn, soybeans           |
| 2007      | Package of pork industry subsidies introduced and expanded<br>Seed subsidy for cotton and rapeseed<br>Transfer payments to oilseed and pork counties   | Pork, cotton, rapeseed                |
| 2008      | General input subsidy linked to input prices<br>Support prices for corn, soybeans, rapeseed<br>Strategy of raising price supports annually adopted   | Soybeans, rice, wheat, corn, rapeseed |
| 2009      | Hog price intervention program   | Pork                                  |
| 2011      | Cotton price support<br>Grassland protection program   | Cotton, cattle, sheep                 |

Source: Gale 2013

The center piece of China's agricultural support policies was its system of price supports. These were introduced in 2004-2006 with price floors for wheat and rice. They were extended to corn, soybeans, and rapeseed in 2008 and cotton in 2011.

The Chinese government's price floors were originally conceived as a way of stabilizing prices. Under these programs, when the market price falls below a designated support level, the government steps in to make purchases at that level (a price floor). The producers of the various commodities know that even in tough market conditions they will receive this minimum price which enables them to make production decisions on a more certain basis. On the other hand, when prices rose above a certain level, the authorities could step in and sell their buffer stock to bring prices down (a price ceiling). Over time, price floors came to be used not just to stabilize prices but to incentivize increased production and support prices were inexorably raised.<sup>9</sup> Chinese officials claimed that their early announcement of increases in minimum grain prices sent a "strong signal to encourage production" and was a factor behind increased grain output in 2012.<sup>10</sup>

### The operation of China's regime

In this sub-section we examine how China's system of agricultural price supports operates.

The price floors, known as 'minimum purchase prices', are set by the National Development and Reform Commission (NDRC) in consultation with the Chinese Ministry of Agriculture.<sup>11</sup> The authorities do not reveal how these support prices are determined. Evidence suggests that they are based on production costs, prices of related commodities, and general market conditions. While the Commission is responsible for setting the support prices for grain and other products, they are frequently announced by the state-controlled press.

<sup>9</sup> Guoqiang Cheng (2011) - Gale

<sup>10</sup> Gale 2013, p16

<sup>11</sup> The National Development and Reform Commission is a planning agency under the State Council. It has broad administrative and planning control over the economy