

The Causes of China's Agricultural Product Financialization and Policy Suggestion

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Abstract

Due to the inherent characteristics of agricultural products, the accelerating process of globalization, the proliferation of liquidity, and the industrial use of agricultural products, the trend of financialization of agricultural products has become more apparent. The financialization of agricultural products will limit the development of Chinese agricultural enterprises. China should create a more sound financial service mechanism for agricultural products, form a more scientific commercial information disclosure system for agricultural products, increase investment in research and development of agricultural products, improve the current agricultural product market supervision and management system, and actively respond to the trend of agricultural product financialization.

Keywords

Financialization; agricultural products; Chinese; respond.

1. INTRODUCTION

Since the 21st century, the dramatic fluctuations in commodity prices around the world have attracted many scholars' attention. In the traditional sense, the price of goods is determined by the fundamentals of supply and demand of goods. However, as the process of commodity financialization deepens, commodity finance It has become an important driver of price volatility in commodity markets (Tang and Xiong, 2012; Silvennoinen and Thorp 2012; Büyüksahin and Robe, 2012).

Since 2003, despite the continuous increase in grain production in China, the supply and demand of bulk agricultural products have been basically balanced. However, the prices of various agricultural products in the country have risen fiercely. Many product prices have broken through historical extremes, which has put considerable pressure on the healthy and safe operation of the national economy. Many researchers believe that the recent sharp fluctuations in China's agricultural prices, in addition to the traditional supply and demand factors, are more of a financial factor at work. This requires real understanding of the actual reasons for the financialization of agricultural products, so as to control their negative impact on China's agricultural products industry to the maximum extent influences.

2. LITERATURE REVIEW

Krippner et.al (2005) confirms financialization is a new trend in the development of capitalism. In the process of financialization, profits are increasingly passed through financial channels rather than through trade and commodity production. Gutierrez (2012) and Bruno (2016) think agricultural products become investment products, realizing the conversion from commodity attributes to financial attributes. This process is actually

the process of financialization. Cheng et al. (2014) agricultural products are more vulnerable to capital investment because they can be stored and stored. Gilbert et.al (2010) Etienne et.al (2014) believes that the financialization of major commodities in the world has made their price fluctuations more intense, and speculative factors have pushed up agricultural prices to a large extent. In short, agricultural trade has been financialized.

3. CAUSE OF AGRICULTURAL FINANCIALIZATION

Inherent characteristics of agricultural products, the accelerating process of globalization, the proliferation of liquidity, and the industrial use of agricultural products are the main reasons for the financialization of agricultural products.

3.1. The Nature of Agricultural Products Is the Basis for the Financialization of Agricultural Products

First of all, agricultural products are essential for daily life of human beings. Their annual output is large, and they can be stored for a long time and easily graded, making them the target of financial instruments for capital market design. Secondly, compared with industrial products, agricultural products have a long production cycle and are subject to external natural conditions such as climate and environment. Therefore, price uncertainty is strong and price fluctuations are large. Speculative funds use speculations on weather and natural disasters to speculate on agricultural futures. Contracts, using the "herd effect" to create panic, deviate from the impact of changes in actual supply and demand.

3.2. Globalization Expands the Space for Financialization of Agricultural Products

Since China joined the WTO in November 2001, the agricultural market has been increasingly open to the outside world, the import and export trade of agricultural products has grown rapidly, and the dependence of agricultural products on foreign markets has continued to deepen. In 2002, China's total import and export of agricultural products was only \$30.43 billion. In 2016, this figure increased to \$183.23 billion. With the rapid development of agricultural trade, China's agricultural trade surplus has turned into a deficit, indicating that China's agricultural product consumption is increasingly dependent on foreign production, especially for large agricultural products and food crops such as wheat, soybeans, corn, rice and rice. Both showed a clear net import situation, of which the net import of soybeans was as high as 83.91 million tons. Due to the increasing dependence of Chinese agriculture on the international market, the international market can influence the domestic agricultural product market through trade, exchange rate and futures markets. The domestic and international agricultural product price indices show a high degree of consistency.

3.3. Loose Monetary Policy Provides A Financial Basis for the Financialization of Agricultural Products

The financialization of agricultural products is, in the final analysis, excessive money chasing a small amount of agricultural products. Loose monetary policy and excessive money supply provided financial support for speculating agricultural products. From the perspective of China's agricultural products market, the surge in agricultural product prices has been closely related to excess liquidity. In 2003, China's money supply (M2) was 3,621.58 billion yuan, with a growth rate of 19.6%, exceeding the growth rate of GDP by 9.6 percentage points. In the second half of 2003, China's agricultural product prices showed the first comprehensive increase since 1996. By the end of 2003, the prices of major agricultural products such as grain and oil had increased by more than 50% in some regions. Since then, the phenomenon of excessive supply of money has been in existence for a long time, and the growth rate of money supply has consistently exceeded the growth rate of GDP. In 2008, China's money supply (M2)

was 172.44 billion yuan, a growth rate that exceeded the growth rate of GDP by 8.17 percentage points. In 2009, in response to the international financial crisis, China launched a two-year investment plan of 4 trillion yuan. The money supply (M2) was 1,310.84 billion yuan, a growth rate of 18.49 percentage points over the growth rate of GDP. The long-term accumulation of excess currency plays a catalytic role in the process of large fluctuations in agricultural product prices.

3.4. The Development of Industrial Use of Agricultural Products Has Boosted the Financialization of Agricultural Products

The use of agricultural products has always been used primarily as food consumption, and factors affecting their demand include population size, urbanization level, and income level. However, with the support of various new processing technologies, the industrial use of agricultural products has been continuously developed in recent years. Especially in the current high energy prices and the urgent need for sustainable development, countries accelerate the development of the bioenergy industry, making the demand for agricultural products increase rapidly. For example, in 2011, for the production of bioenergy, 144 million tons of corn was consumed globally, which directly led to a sharp increase in the demand for corn. As a result, the price of international corn in 2011 has risen all the way. The development of industrial use of agricultural products has made the energy market closely related to the agricultural product market, and the relatively stable demand for agricultural products has changed. This makes speculative investment funds more attractive to the agricultural product market and strengthens the financial attributes of agricultural products.

4. COUNTERMEASURES

As a large agricultural country, agriculture, rural areas and peasants are strong reliances for achieving social stability and national prosperity. The annual State Council Document No. 1 is aimed at the issue of "agriculture, rural areas and farmers". Properly handling the "three rural issues" is a key issue in the process of building a well-off society in an all-round way and a fundamental issue in the overall development of socialism with Chinese characteristics in the new era. The financialization of agricultural products is the trend of agricultural development. To effectively implement the rural revitalization strategy, the Chinese government should actively respond to the impact of the trend of agricultural product financialization. Therefore, it is necessary to work in the following aspects.

4.1. Create A More Robust Financial Service Mechanism for Agricultural Products

The financialization of agricultural products is a situation that China's agricultural products industry must face today. To this end, it is necessary to create a more comprehensive agricultural financial service mechanism. The first is to improve the financial service mechanism of China's agricultural products. Compared with the sound agricultural financial service mechanism in Western countries, China is still in the initial stage of development. In order to further expand the coverage of various types of outlets in commercial markets in rural areas, it is necessary to further innovate various types of financial products related to agricultural products. Products, thus providing effective services such as financing for the production and operation of related agricultural products. The second is to use financial derivatives to avoid risks in the price of agricultural products. With the increasing use of agricultural derivatives, options and other related financial derivative instruments in recent years, these tools have great value in agricultural product price expectations and in guiding agricultural production, not only to maintain the stability of agricultural prices, but also The cost of external trading of agricultural products can be further controlled. Finally, it is to promote the development of the internationalization of the RMB. Because China lacks sufficient

voice in the international market for agricultural products, it must vigorously promote the development of China's RMB internationalization, thus increasing China's pricing power in the global agricultural products market.

4.2. Forming A More Scientific Agricultural Product Information Disclosure System

The reason why the prices of agricultural products in China fluctuate is mainly because the information in the market is not transparent enough, and the producers of agricultural products do not understand the sales situation, so that there is often an imbalance between production and consumption, so that short-term fluctuations in prices occur. . Therefore, we must continuously strengthen the networked operation and construction of China's agricultural product market, so as to ensure that the production and operation of agricultural products and foreign trade can be steadily advanced. First, we must vigorously promote the creation of agricultural product information systems. Through the strong guidance of government agencies, the agricultural product associations can form a unified information operation platform, and through the different links of production, circulation and sales, the government and various market operators can grasp the relevant agricultural products information in the first time. . The second is to continuously improve the efforts to crack down on all kinds of false information in the agricultural product market. In view of the emergence of carriers such as agricultural futures, the ability of some unscrupulous people to use the means of disseminating rumors to control the prices of agricultural products is constantly improving. To this end, it is necessary to continuously improve the current agricultural product laws and regulations, strengthen the crackdown on all kinds of rumors in the agricultural product market, and stabilize The order of China's agricultural product market.

4.3. Increase R&D Investment in Agricultural Product Technology

Compared with the already mature agricultural production mechanism in Western countries, China's agricultural production has the characteristics of relatively scattered production and overall technical lag. It relies too much on agricultural resources rather than on the sustainable development of agricultural products, and agricultural production has A considerable degree of uncertainty cannot easily lead to price changes in the agricultural product market. To this end, we should pay more attention to the development of agricultural product technology, coordinate the agricultural product technology development system, pay more attention to the basic research and development of agricultural products, maximize the funding for scientific research in agricultural products, and use institutional guarantee research funds to be used for technical research. . It is necessary to deepen the innovation mechanism that is conducive to the development and promotion of modern agricultural product technology, so as to promote a more precise connection between agricultural product development and the actual market, and use the benign interaction between production links and market sales to maintain the price of agricultural products from fluctuating.

4.4. Improve Current Agricultural Product Market Supervision System

In recent years, there have been frequent fluctuations in prices in China's agricultural products market. These are the results of agricultural product speculation, reflecting the existence of many problems in the supervision and management of agricultural product prices in China. At present, the management of agricultural products markets in the western developed countries is quite strict. The speculation and speculation of agricultural products have also been severely and severely cracked, which is of great significance for comprehensively stabilizing the prices of domestic agricultural products. To this end, China should actively learn from and improve the current agricultural product supervision system to form a more stringent market management system. First, it is necessary to strengthen the real-time management of trading activities in the whole process of agricultural products. Regardless of whether it is in

the production, processing or circulation of agricultural products, all information must be open and transparent. If necessary, it should be disclosed to the public in a timely manner, and actively guide all enterprises in the production chain to prepare carefully. For the abnormal price changes of agricultural products in the market, it is necessary to quickly find out the reasons. The second is to increase the supervision of foreign investment in the agricultural products market in China. Nowadays, more and more foreign capitals have begun to invest heavily in China's agricultural products market, which has increased the risk level of China's agricultural products market. Therefore, it is necessary to effectively limit the non-compliant foreign capital into the agricultural product market in China, and effectively prevent the price of agricultural products from being manipulated.

5. CONCLUSION

In general, market changes in the context of financialization of agricultural products will certainly lead to fluctuations in their prices, thus demonstrating the enormous impact of capital on the agricultural products sector, which in turn increases the attributes of agricultural capital. The financialization of agricultural products will greatly affect the development of China's agricultural product industry, but it also poses a new challenge to the future development prospects of China's agricultural products. Only by adapting to the development trend of agricultural products financialization, by adapting to the development of the situation, let the financial market Strong capital can be used by China's agricultural products industry to effectively promote the healthy and stable sustainable development of China's agricultural products industry.

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