

# Design Mechanism of Inter Provincial Horizontal Benefit Compensation Mechanism for Grain Production and Sales Areas

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## Abstract

Currently, China is undergoing a major change not seen in a century, with the international situation being turbulent and international grain prices continuing to rise. National food security is particularly important. The main grain producing areas are important carriers of grain production, supply, and savings in China, playing an important role in ensuring the national food security system. At the same time, the main grain producing areas have long suffered from the problem of imbalanced interests. This article elaborates on the necessity of designing a cross provincial interest compensation mechanism for grain production and sales areas from three aspects: ensuring national food security, stimulating farmers' enthusiasm for grain planting, and promoting comprehensive regional economic development. At the same time, the mechanism is designed from five aspects: strong policy support, establishing and improving the agricultural insurance system, improving the role of standardized market mechanisms in the grain industry, accelerating agricultural technology innovation, and deepening and expanding diversified compensation methods. The aim is to provide policy references for building a new pattern of regional development and ensuring national food security.

## Keywords

Compensation for benefits, Market mechanisms, National food security, New pattern of regional development.

## 1. Introduction

With the accelerated development of industrialization, urbanization, and modern service industries, the cost of growing grain for farmers is gradually increasing, and more and more provinces are selling grain, which poses great risks to national food security. Compared with characteristic agricultural products, the profit margin of grain production is relatively small, resulting in long-term low income for farmers. The enthusiasm of cadres in major grain producing areas to focus on grain and farmers to grow grain is not high, forming a long-term pattern of "grain producing counties and financially poor counties". The existing compensation mechanism for grain benefits is insufficient to address the impact of grain production on the main production areas. For the sacrifice of major grain producing areas, the existing vertical benefit subsidy mechanism of the country supports and assists these areas, but the effect is not significant. The subjective initiative of major grain producing areas has not been stimulated, and the economic development advantages of major grain selling areas have not been utilized. In 2024, the No. 1 central document of the Central Government clearly proposed to "explore the establishment of inter provincial horizontal benefit compensation mechanism for grain production and marketing areas, and deepen multi-channel production and marketing cooperation".

## **2. The Necessity of Establishing an Inter Provincial Horizontal Interest Compensation Mechanism for Grain Production and Sales Areas**

### **2.1. Ensure national food security**

National food security is a major issue related to the national economy and people's livelihood. Only by ensuring food security can the country steadily advance in the tide of economic and social development. As important bases for national grain supply, the development status of major grain producing areas directly affects the stability of national grain supply. Therefore, by establishing a compensation mechanism for benefits, it can effectively incentivize major grain producing areas to continue playing their important role and maintain the stability and sustainability of grain production.

### **2.2. Inspire farmers' enthusiasm for growing crops**

Farmers are the main body of grain production, and their enthusiasm for planting grain directly affects the quantity and quality of grain output. In a market economy system, farmers often face significant business risks and market fluctuations. By implementing a compensation mechanism, farmers can avoid some of these risks, increase their enthusiasm for growing crops, and ultimately promote an increase in grain production. At the same time, this is also conducive to enhancing the overall competitiveness of agriculture and enabling China's agriculture to occupy a place in the international market.

### **2.3. Promote comprehensive development of regional economy**

The imbalance of regional economic development is a prominent problem in China's economic and social development. Due to their unique geographical location and resource conditions, major grain producing areas often find themselves at a disadvantage in the process of economic development. Through the mechanism of interest compensation, this imbalance can be effectively regulated, promoting the comprehensive development of the economy in major grain producing areas. This not only helps to improve the living standards of local people and narrow the regional development gap, but also contributes to the harmonious development of the national economy.

## **3. Design of Interest Compensation Mechanism**

### **3.1. Strong support at the policy level**

In order to ensure the stability and sustainable development of grain production, the government should increase compensation for major grain producing areas from multiple dimensions. Firstly, in terms of fiscal subsidies, the government should formulate more detailed and attractive policies to directly benefit grain farmers. These subsidies should not only cover the basic production costs of farmers, but also have a certain incentive effect, encouraging farmers to adopt advanced planting techniques and management methods, thereby improving grain yield and quality. Secondly, tax incentives are also an indispensable part. The current laws stipulate that asset agricultural products sold by agricultural producers are exempt from taxes, but taxes still need to be paid for agricultural products sold after processing or by non-agricultural producers. The government can implement tax reduction and exemption policies for enterprises and individuals related to grain production to reduce their economic burden and enhance their market competitiveness. This can not only stimulate the enthusiasm of grain production enterprises, but also promote the extension, upgrading, and improvement of the grain industry chain. In addition, the government should also attach importance to investment in agricultural infrastructure construction. Water conservancy facilities are the main artery of agricultural production, and the government should increase efforts to improve and repair water conservancy facilities to ensure sufficient and stable irrigation of farmland. At the same

time, in response to issues such as soil degradation and salinization in farmland, the government should organize experts to conduct on-site research, develop scientific and reasonable farmland improvement plans, and invest necessary funds and technical support. The implementation of these measures will effectively increase grain production capacity and enhance the stability of grain production. At the same time, the government should also strengthen scientific research investment and technology promotion in grain production. By introducing and cultivating excellent grain varieties, promoting advanced planting techniques and management models, we aim to enhance the technological content and added value of grain production. At the same time, strengthening technical training and education for farmers, improving their comprehensive quality and planting level, and providing strong talent guarantee for the sustainable development of grain production.

### **3.2. Establish and improve the agricultural insurance system**

To safeguard the interests of farmers and reduce agricultural production risks, establishing a sound agricultural insurance system is an indispensable key link. Reducing insurance premiums is a particularly crucial step. The current high rates of some agricultural insurance products have resulted in some farmers being unable to purchase them due to economic pressure. Therefore, the government and insurance companies should jointly explore ways to reduce insurance premiums, such as through government subsidies, optimizing product design, and improving operational efficiency, so that more farmers can afford this agricultural security. Secondly, improving the coverage of insurance is also a crucial aspect. Agricultural insurance should cover all aspects of grain production to ensure that farmers receive corresponding protection at every stage. At the same time, different types of natural disasters should be included in the insurance coverage to ensure that farmers can receive timely economic compensation and reduce their economic burden in the event of natural disasters. In addition, the establishment of the agricultural insurance system also needs to pay attention to the convenience and efficiency of services. The government and insurance companies should strengthen the promotion and publicity of agricultural insurance, and enhance farmers' awareness of insurance. At the same time, simplify the claims process, improve claims efficiency, and ensure that farmers can receive timely compensation after suffering losses. In addition, modern information technology can be utilized to accurately predict and assess risks in agricultural production, providing farmers with more personalized insurance products and services.

### **3.3. Improve and standardize the role of market mechanisms in the grain industry**

The fluctuation of grain prices is an inevitable phenomenon in a market economy, but it has a direct impact on farmers' income. In order to stabilize grain prices and prevent price fluctuations from harming the interests of farmers, the government should conduct in-depth research on market mechanisms and take effective measures to regulate them. Establishing a mechanism for regulating the grain market is an important means of stabilizing grain prices. The government can regulate the market supply and demand relationship, maintain relative stability of grain prices, and safeguard the interests of farmers by establishing a grain price stabilization fund, providing information guidance, and managing expectations. At the same time, the government should also encourage and support the extension of the food industry chain. The grain industry is not limited to the planting process, but also includes multiple stages such as deep processing, storage and transportation, and sales. Through deep processing, grain can be transformed into higher value-added products such as food, feed, chemical raw materials, etc., thereby improving the overall efficiency of grain. Meanwhile, optimizing the storage and transportation process to reduce the loss of grain during transportation and storage is also an important way to enhance the added value of grain. The government can encourage enterprises

to increase their investment in deep processing and storage of grain through policy support, financial support, and other means, promoting the extension and optimization of the grain industry chain.

### **3.4. Accelerate agricultural technology innovation**

Technological innovation, as the core driving force of modern agricultural development, has immeasurable value in promoting agricultural modernization, improving agricultural production efficiency, reducing production costs, and increasing farmers' income. In order to fully leverage the leading role of technological innovation in agricultural development, the government should increase its support for agricultural scientific research and innovation, and actively promote the popularization and application of advanced agricultural technologies and equipment. Firstly, the government should significantly increase funding for agricultural research and innovation. Provide stable funding support for agricultural research institutions, support them in conducting cutting-edge scientific and technological research, and provide necessary financial assistance for the transformation of agricultural scientific and technological achievements. By increasing funding, we can stimulate the innovation vitality of agricultural researchers and promote the emergence of more agricultural scientific and technological achievements. Secondly, the government should actively promote advanced agricultural technologies and equipment. Organize expert teams to go deep into the fields and provide farmers with advanced knowledge and agricultural technology; At the same time, through policy guidance and financial subsidies, farmers are encouraged to purchase and use modern agricultural machinery and facilities to improve agricultural production efficiency and quality. In addition, the government should also focus on building a sound agricultural technology promotion system. Establish agricultural technology service centers, agricultural technology demonstration parks, and other platforms to provide farmers with comprehensive technical consultation, demonstration promotion, and information services; At the same time, we will strengthen cooperation with universities, research institutes and other units, promote the deep integration of industry, academia and research, and accelerate the transformation of scientific and technological achievements into practical productivity.

### **3.5. Deepen and expand diversified compensation methods**

Diversified compensation methods are an important part of improving the interest compensation mechanism. They can not only provide farmers with more comprehensive and flexible income guarantees, but also effectively promote the diversified development of rural economy, laying a solid foundation for the long-term stable growth of farmers' income. On the basis of traditional fiscal subsidies and agricultural insurance, we should further broaden our thinking, explore and practice more innovative and targeted new compensation methods. Firstly, free technical training, as an important new form of compensation, can directly enhance farmers' labor skills and professional ethics. By organizing expert teams to go deep into rural areas and providing face-to-face technical guidance and training, farmers can learn advanced planting and breeding techniques, agricultural product processing and marketing strategies, etc., thereby enhancing their market competitiveness and profitability. This compensation method can not only help farmers improve production efficiency, but also guide them towards a more specialized and refined agricultural production path, providing strong support for the transformation and upgrading of rural economy. Secondly, rural tourism development is also an indispensable part of the diversified compensation mechanism. With the improvement of people's living standards and the change of consumption concepts, rural tourism has become an increasingly popular choice for leisure and vacation. The government can actively guide and support farmers to utilize local natural scenery, folk culture, and characteristic agricultural products to develop rural tourism projects such as farmhouse tourism, homestays, and ecological agriculture sightseeing. This can not only create more employment opportunities

and income sources for farmers, but also promote cultural exchanges between urban and rural areas, enhance the overall image and reputation of rural areas. In addition, we can also explore various forms of compensation, such as the construction of agricultural product e-commerce platforms and the resource utilization of agricultural waste. By building an agricultural product e-commerce platform, farmers can more conveniently sell their agricultural products to various parts of the country, expand sales channels, and improve sales efficiency. The resource utilization of agricultural waste can convert it into organic fertilizers or biomass energy, reducing environmental pollution and increasing farmers' income sources.

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