Land

The Story So Far

China faces unique land policy reform challenges. Unlike economies where landowners have full property rights, in China rural land is owned by collectives (the rural political unit), and urban land is owned by the state. Rural households can only transfer “contractual use rights” within their collectives, while converting rural land for development use can only happen via state requisition. This incentivizes local governments to expropriate rural land at modest, fixed prices and develop it at a profit, which is a major source of revenue to finance fiscal expenditures. More efficient land allocation is needed to balance urban-rural interests and encourage mobility. Recognizing this, the 2013 Third Plenum reform program pledged to promote agriculture at a commercially viable scale by permitting consolidation of small plots into larger farms, to make rural nonagricultural land marketable like urban land, and to end the hukou (or household registration) system that limits mobility. Replacing land transfers as one of the limited revenue sources available to local governments is another necessary element of land reform.

- In February 2015, Beijing approved a pilot program for 33 counties that allowed rural nonagricultural land to be transferred at market prices, with an intent to treat such land the same as urban land. Among the counties involved, 15 piloted direct sales of rural nonagricultural land in urban land markets, 15 counties were allowed to repurpose rural nonagricultural land designated for residential use for other purposes, and 3 counties experimented with state requisition of land at market prices. These pilot programs were supposed to expire by the end of 2017, but that deadline has been repeatedly extended.

- In June 2015, Beijing published the results of its first comprehensive audit of land sales nationwide. The audit found considerable evidence of missing revenue and fraud, while also confirming the dependence of local governments on land sales revenue. The audit revealed how easily land-related revenues can be misappropriated within the fiscal system.

- In October 2016, Beijing divided households’ contractual rights to rural agricultural land into “land use rights” and “land management rights.” Land use rights could then be transferred to other households or enterprises as long as the land was used for agricultural purposes, while rural households were allowed to maintain land management rights to receive rental payments from the use of their land. These measures were meant to encourage more efficient agriculture, incentivize rural households to resettle in cities, and improve rural income from property.

- Rural agricultural land reform is progressing faster than rural nonagricultural land reform: revisions to the Land Management Law, which governs rural residents’ rights to rural nonagricultural land and the scope of lawful land requisition by the government, were released for public comment in May 2017 but have not since come forward for legislative review. Revisions to the Rural Land Contracting Law that enshrines farmers’ rights to transfer agricultural land, in contrast, were reviewed three times in just more than a year by the Standing Committee of the National People’s Congress, passed in December 2018, and took effect on January 1, 2019.

Methodology

Given Beijing’s 2013 Third Plenum commitment to make rural nonagricultural land marketable like urban land, our primary indicator for land reform tracks the area of rural nonagricultural land offered in the market for the best purchase price – which we consider “reformed,” the slim red area in the chart. All other rural land remains constrained in terms of marketability. The Ministry of Agriculture and Rural Affairs (MoARA) releases agricultural land turnover data once or twice per year. For rural nonagricultural land, the Ministry of Natural Resources (MoNR) publishes an annual yearbook and holds occasional press conferences on pilot programs. These fragmented data sources are far from adequate. Supplemental indicators look at land requisition financials, newly urbanized land by use, urban land prices, and rural credit. Most of these indicators are updated only annually with a one-year lag. That said, they provide a basic statistical picture of the magnitude of unfinished land reform.
We downgraded our assessment of land reform this quarter, as pilot programs have hit a wall and new policies suggest little intention of further reform.

Rural nonagricultural land transferred at market prices still accounts for just 0.1% of China's total rural nonagricultural land and will likely remain unchanged. Agricultural land transferred increased by only 5% from 2017 to 2018, slower than in previous years.

The newly revised Land Management Law missed a key opportunity to expand reform. Instead, the revisions reinforce a strong government role in planning and allocating land. Policy toward agricultural land also turned more conservative.

This Quarter's Numbers

Land reform moved further negative this quarter. China's 2013 Third Plenum Decisions defined land reform as enabling the transfer of rural nonagricultural land at market prices—the same treatment as urban land. Since 2015, authorities have piloted this concept in 33 counties. If reform were advancing, market-based rural nonagricultural land transfer would expand beyond these pilots and would be legitimized on revision of the Land Management Law.

In reality, pilot programs have made little progress to date: our primary indicator shows that only 360,000 mu (60,000 acres) of rural nonagricultural land has been transferred at market prices, equivalent to just 0.1% of China's total rural nonagricultural land area (see Marketizing Land). As described in the Policy Analysis section below, August revisions to the Land Management Law closed the door on scaling up land reform.

Rural agricultural land reform has also slowed. On September 5, the Ministry of Agriculture and Rural Affairs (MoARA) announced that 539 million mu (90 million acres) of China's agricultural land—nearly 40% of the total—had been transferred via market mechanisms by the end of 2018. This represents a mere 5% increase since the end of 2017, compared with increases of 7% per year in 2016 and 2017, 11% in 2015, and more than 20% per year from 2010 to 2014.

Local governments' heavy reliance on land sales for revenue remains a long-term obstacle to land reform. In the last edition, we observed that property market restrictions dampened land sales early in 2019, making this local revenue source less stable and therefore less of an obstacle to reform. We maintain that assessment this quarter. Although land sales have improved slightly from -10% growth in Q2 2019 to -1% in Q4 2019 (see Land Requisition Financials), the recovery is likely temporary given new tightening policies that will constrain developers' ability to purchase land in the coming months.

Land reform should ultimately benefit rural residents. Allowing rural residents to transfer, lease, or mortgage their rural land in the same way urban land is marketized should help improve their property income, which accounts for only 2% of rural disposable income, compared with 10% for urban residents. However, rural property income grew by only 8.7% year-on-year this quarter, the slowest pace since Q2 2017. This is another indication that land reform has stalled.
Policy Analysis

Land reform policies disappointed this quarter. On August 26, the Standing Committee of the National People's Congress passed revisions to the Land Management Law, effective January 1, 2020. The revisions include some important changes but fail to address fundamental problems. On the positive side, the new law enables rural land owned by collectives to enter the urban market by removing a clause in the old law that “any organization or individual that needs to use land must use state-owned land.” In addition, the new law for the first time defines the scope of “public benefits” for which the state may requisition rural land and requires compensation to be “fair and reasonable” based on local conditions rather than agricultural output.

But the negatives outweigh the positives. The new law reinforces the strong role of the government rather than the market in planning and allocating land—in fact, the document does not mention the word “market” at all. Rural land is still owned by collectives and subject to strict conditions of transfer, making it impossible for rural and urban land to enter the market on equal terms. Local governments can still expropriate rural land for development with provincial government approval in the name of “public benefit.” And although the revised law requires “fairer” compensation to farmers who lost their land, the amount of compensation is still determined by the government, not the market, and the law aims to “ensure that farmers’ living standards are not reduced,” rather than materially improved.

The revised Land Management Law is particularly conservative on the reform of rural land for residential purposes. Each rural household is limited to owning only one piece of land for residential purposes; moreover, the
local government must approve the area and location of that land. These principles are reiterated in a September 20 MoARA document strengthening governance over rural residential land by explicitly prohibiting urban residents from purchasing rural residential land. Rather than using land reform as an opportunity to balance urban-rural development, the government is exploiting it to protect the urban property market, which would face significant downward adjustment should urban residents be allowed to purchase rural land.

Policy has become more conservative even on agricultural land reform, which used to move faster than nonagricultural land reform. On September 25, MoARA released a draft document concerning “Measures to Govern the Transfer of Rural Land Management Rights” for public comment. In the document, MoARA proposes tightening rules for purchasing rural land management rights with private capital in the name of financial risk prevention. If advanced, the policy would likely discourage private investment into rural land, further constraining rural property income growth.