

## 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 until the end of 2019.
- 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.

- China revised the Rural Land Contracting Law in December 2018 to codify the division of “land use rights” and “land management rights” and to extend rural residents’ rights to agricultural land for another 30 years. China also revised the Land Management Law in August 2019 to allow rural nonagricultural land to enter the urban land market but only under strict conditions with heavy involvement of the government. This revision is below expectations and will limit the scope of future reform.

### 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.

### Quarterly Assessment and Outlook

- Our assessment remains negative this quarter, as we observed no progress in land reform in 2Q2020. Local governments introduced measures to increase compensation for rural land sales, but only in three provinces.
- Only 0.1% of total rural nonagricultural land has been transferred at market prices.
- Beijing asked local governments to use more of the proceeds from land sales to help rural residents, but the impact of this change will be minimal. Looking forward, serious reform is unlikely, as local

governments have become more reliant on land sales than they were five years ago.

### This Quarter's Numbers

For the fourth consecutive quarter, the central government produced no new data for agricultural or nonagricultural land reform in 2Q2020. The portion of rural nonagricultural land that has been transferred at market prices remained at just 0.1% of the total area. Authorities launched new pilots in December 2019, but meaningful results will take more than a year to be reflected in the data.

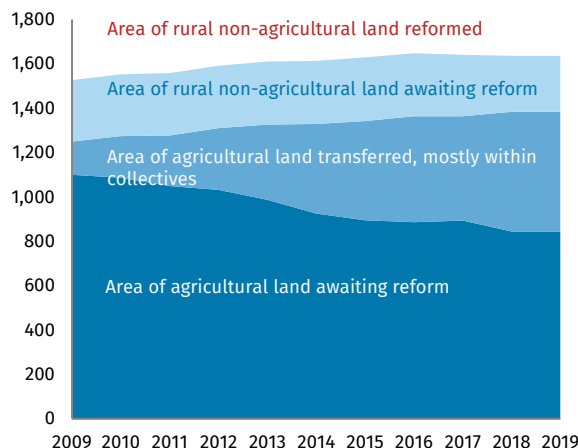
More local governments are increasing the amount paid to farmers who sell their land to the state. In addition to Jiangsu province, discussed in the **Summer 2020 Edition**, Zhejiang and Shandong provinces also revised up their compensation standards in 2Q2020. Zhejiang raised compensation by 15%–50% from 2014 levels (the last time it revised the standards) with bigger increases in less developed areas. Shandong raised compensation by around 20% from 2016 levels for most rural land. But these increases were small compared with those in urban areas, which rose by 20% in Tier-2 and Tier-3 cities, and by 40% in Tier-1 cities between 2015 and 2020 (see **Urban Land Prices**). The enormous gap between urban and rural land prices incentivizes local governments to expropriate cheap land from rural residents and sell it to developers at high prices. Closing this gap is fundamental to advancing land reform.

Reducing government control over rural land transfers remains a distant goal, as local governments continue to rely on land sales to patch fiscal shortfalls. Land sales rose by 5% year-on-year (yoy) in 2Q2020, rebounding from –8% yoy in 1Q2020 (see **Land Requisition Financials**). At the same time, Beijing has kept restrictions on property market activity to prevent the property bubble from growing, resulting in slower land price growth across all city tiers. In the long term, weaker prices should reduce local governments' reliance on land sales.

Although there has been little reform progress in relation to rural nonagricultural land, rural residents continue to benefit from past reforms of agricultural land, under which they can lease out their land for rental income. Agriculture-related loans rose by 6.2% yoy, and rural property income climbed 13.8%, the fastest growth for both since 2Q2018 (see **Rural Credit**). However, these improvements mainly reflect easier credit conditions in response to the pandemic and may fade without reform progress.

### Primary Indicator: Land Marketized

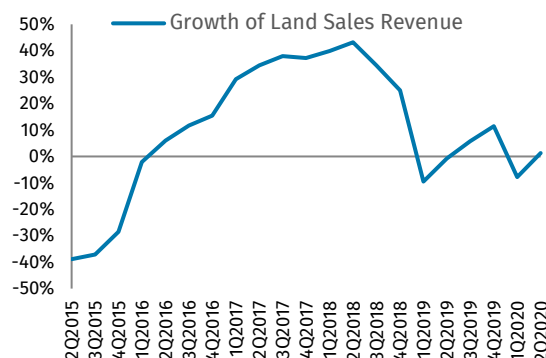
Million mu (1 mu ≈ 1/6 acre)



Source: Ministry of Agriculture and Rural Affairs, Ministry of Natural Resources, Rhodium Group.

### Supplemental 1: Land Requisition Financials

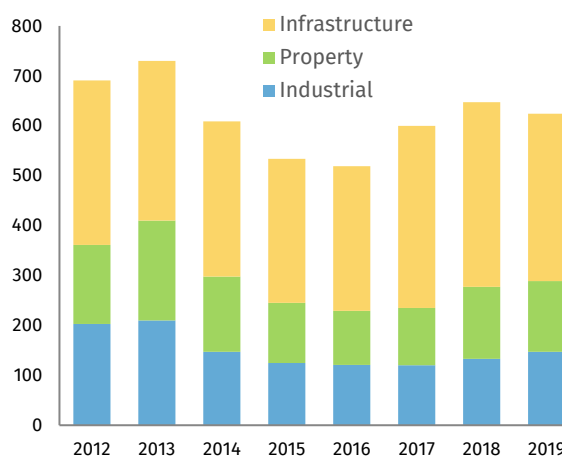
Year-over-year, percent



Source: Ministry of Finance, Rhodium Group.

### Supplemental 2: Urban Land Supply by Use

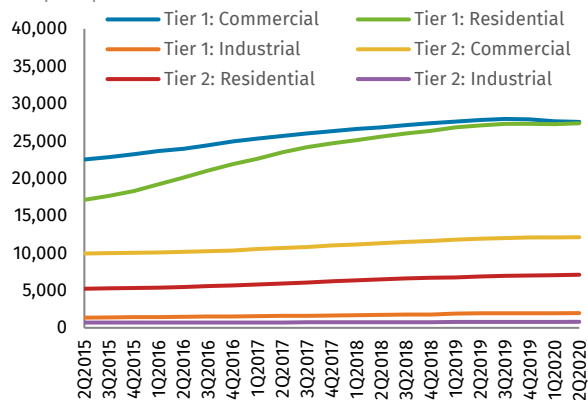
Thousand Ha



Source: Ministry of Natural Resources.

### Supplemental 3: Urban Land Prices

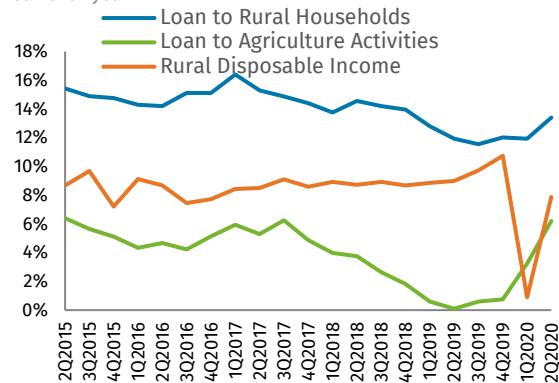
RMB per square meter



Source: Ministry of Natural Resources.

### Supplemental 4: Rural Credit

Year-over-year



Source: People's Bank of China, National Bureau of Statistics.

## Policy Analysis

In the summer 2020 review period, Beijing continued to emphasize the role of local governments in mediating land sales—contrary to the reform goal of marketizing rural land sales. At the same time, it asked localities to use more of the proceeds from land sales to help rural residents. On September 23, the Party and State Council jointly introduced a policy requiring local governments to gradually raise spending on “rural affairs” to 50% of land sales profits by 2025. However, the definition of “rural affairs” is ambiguous: it can range from infrastructure and agricultural activities to community services and social welfare. Local governments, therefore, do not necessarily need to spend the money on rural households.

Beijing knows that local governments may manipulate the booking of land sale profits to inflate rural affairs spending. Hence, the policy further specified that local governments need to spend at least 8% of their land sales *revenue*—the total sales value, usually five times greater than just the profit—on rural affairs. But according to the

[Ministry of Agricultural and Rural Affairs](#), local governments had already spent 6.6% of the RMB 28 trillion (\$4 trillion) of land sales revenue (or 33% of land sales profit) on rural affairs in 2013–2018. As China now sells RMB 6–7 trillion (\$1 trillion) worth of land a year, local governments will only need to spend RMB 20 billion (\$3 billion, or 0.3% of revenue) more a year on rural affairs, just 1% higher than the current level.

## Final Dashboard Assessment

Looking back, land reform has barely progressed over the past five years. While the 2013 Third Plenum promised to allow rural residents to transfer their land via the land market, authorities have only piloted this reform in 33 counties, accounting for just 0.1% of China’s total rural nonagricultural land. These pilots concluded with a modest revision of the Land Management Law in 2019, which removed the main legal obstacles for transferring rural land in the urban market but reinforced the strong governmental role in planning and allocating land (see [Fall 2019 Edition](#)). Beijing even delegated more power to provincial governments to speed up the urban land use approval process, which may give them more room to profit from land sales at the expense of rural residents (see [Spring 2020 Edition](#)).

Looking ahead, land reform is likely to proceed at a very slow pace, taking years to deliver meaningful changes. New pilots to enable rural landowners to sell land in the urban market were announced in December 2019 (see [Winter 2020 Edition](#)), and authorities are considering new policies to allow more flexible use of rural land designated for residential purposes (see [Summer 2020 Edition](#)). These initiatives suggest that Beijing is still exploring ways to use rural land more productively, a goal likely to be repeated and framed as “reform” in the 14<sup>th</sup> Five Year Plan next year. However, there are no signs that Beijing is prepared to fully empower rural households yet, and any attempt to do so would face strong resistance from local governments that have become more reliant on land sales than they were five years ago.