

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. Fiscal reform to replace 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.

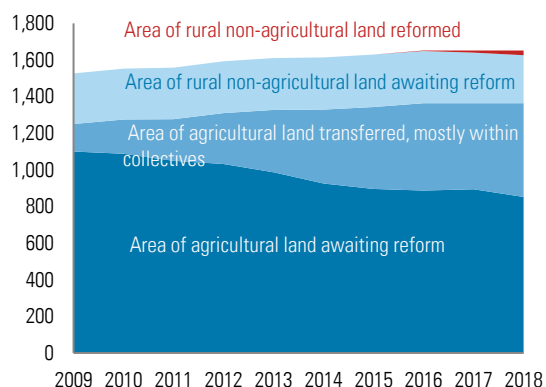
METHODOLOGY

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.

QUARTERLY ASSESSMENT AND OUTLOOK

Primary Indicator: Land Marketized

Million mu (1 mu ≈ 1/6 acre)



Source: Ministry of Agriculture, Ministry of Land and Resources, Rhodium Group.

- Our assessment of land reform remains negative, just as in our previous review, as insufficient progress is being made toward 2013 Third Plenum goals of

liberalizing China's land markets to improve rural livelihood and promote urbanization.

- Levels of rural nonagricultural land transferred by market means remain minuscule as a percentage of total land potentially available for reform, according to our primary indicator, meaning that China's land markets are still highly inefficient.
- Several promising land-related policy changes have been proposed but are held up in China's byzantine legislative process. Land reform is still not a top priority for Chinese leaders, which means that our indicators are unlikely to improve much in the coming quarters.

THIS QUARTER'S NUMBERS

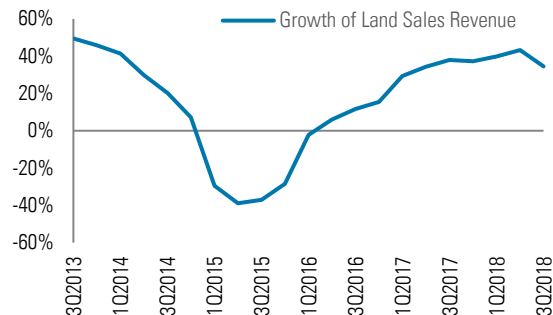
Our primary indicator of land reform shows that the amount of rural nonagricultural land being transferred by market means is still just a small proportion of overall land supply in China. Three pilot programs for rural nonagricultural land reform are underway, two of which are making modest progress. Land requisition pilots – which encourage government land requisitions to be conducted at market prices – saw the fastest progress, with 166,000 mu (27,346 acres) requisitioned by 2Q2018 according to official reports released in August, compared to just 39,000 mu (6,425 acres) by 2Q2017 (for this series, data are only available through 2Q2018). The amount of rural land transferred under a second pilot program, which allows rural households to transfer rural nonagricultural land into urban land markets, also increased modestly to 20,000 mu (3,295 acres) in 2Q2018, up from 16,000 mu (2,636 acres) in 1Q2018. Yet together the total area of rural nonagricultural land involved in these two types of pilots remains extremely limited: less than 1% of land potentially eligible to be “reformed,” or transferred by market means. Moreover, no official data are available on whether government requisitions were conducted at market prices.

Our supplementary indicators reinforce this negative assessment of the current state of land reform. Revenue growth for local governments from land transfers remained quite high at 32% year-on-year (yoy) in September (if down modestly from 35% in June), revealing that those governments have a strong and growing incentive to rely on land transfers for fiscal revenue (see **Land Requisition Financials**). Our indicator of lending to the agricultural sector fell further to 2.5% yoy growth in 3Q2018, from 3.6% in 2Q2018, indicating that rural businesses remain under pressure from tighter credit conditions related to deleveraging efforts. One bright spot in our data this quarter was the fact that rural disposable income growth

strengthened modestly to 8.9%, from 8.7% last quarter, partially owing to higher growth in property-related income. However, the lack of financial support for agricultural commercial activities is a barrier to sustaining this improvement. Moreover, the downtrend we see in rural wage growth discussed in our [Labor and Welfare](#) assessment implies that headwinds to rural disposable income growth are likely to remain.

Supplemental 1: Land Requisition Financials

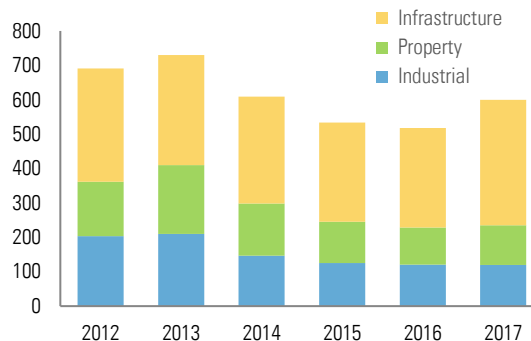
Year-over-year, percent



Source: Ministry of Finance, World Bank, Rhodium Group.

Supplemental 2: Urban Land Supply by Use

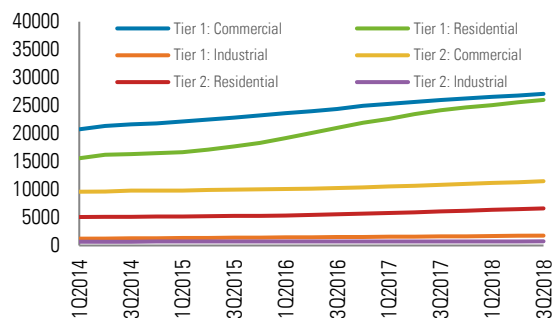
Thousand Ha



Source: Land Statistical Yearbook by Ministry of Land and Resources.

Supplemental 3: Urban Land Prices

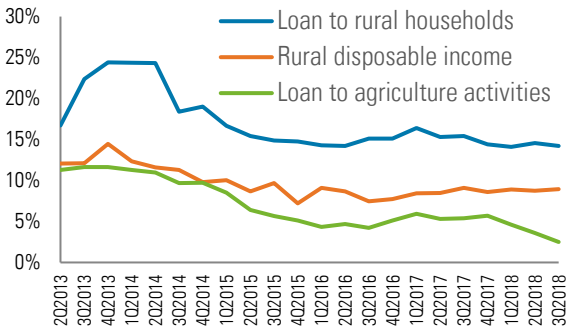
RMB per square meter



Source: Ministry of Land and Resources.

Supplemental 4: Rural Credit

Year-over-year



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

POLICY ANALYSIS

Our negative quarterly score reflects a lack of new breakthroughs in land policy reform during the review period. China's State Council did issue a new [Rural Revitalization Plan](#) for 2018–2022 in late September 2018. The plan reiterated current goals to expand land pilots and accelerate the revision of the Land Management Law, which governs rural residents' rights to rural nonagricultural land, as well as the scope of lawful land requisition by the government. Both objectives, if implemented, would advance land reform in ways aligned with 2013 Third Plenum goals. Yet the 2018–2022 Rural Revitalization Plan also preserves the government's central role in managing land and, hence, runs counter to the 2013 Third Plenum's objective to give more weight to market forces in land allocation. It notably states that local governments will retain their central role in "planning and coordinating land usage" and "allocating land transfer revenue." On the positive side, the plan states that revenue should be used for revitalizing rural areas, but it relies too heavily upon the government, instead of the market, to decide where the associated resources should be allocated.

Policy progress in agricultural land reform continued to outpace progress on rural nonagricultural land reform. The Standing Committee of the National People's Congress (NPC) approved a final draft of an amended Rural Land Contracting Law in December 2018 after reviewing the law's second draft just in October – a rapid process reflecting consensus on needed reform to rural agricultural land. The revised law, which took effect on January 1, 2019, extends farmers' contractual land rights for another 30 years and adds new provisions aiming to protect land use rights, a form of property rights contained within the Rural Revitalization Plan from October 2017 (see our [Spring 2018 Dashboard](#) edition). By facilitating the transfer of rural agricultural land into larger plots, these provisions will help rationalize

agricultural activities and drive greater wealth transfers to rural households. Both are key objectives of the 2013 Third Plenum reform program intended to increase rural income from property-related sources.

In contrast, the review of the revised Land Management Law by the NPC Standing Committee, which was [supposed](#) to take place in August, was further delayed. The law is key to clarifying the rights of rural households and collectives and the scope of government requisitions of rural nonagricultural land. Key obstacles to the law's revision are reportedly linked to inconsistencies within the Constitution around the delineation of state-owned urban land and rural collectively owned land, as well as local government resistance because of localities' continued dependence on land sales for revenue. Ongoing delays in such important land-related legislation, over the same set of legacy issues that has stifled land reform progress for years, if not decades, reinforces our assessment that land reform is not a major priority for the current administration and that our indicators are unlikely to improve meaningfully in the coming quarters.