

## 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.

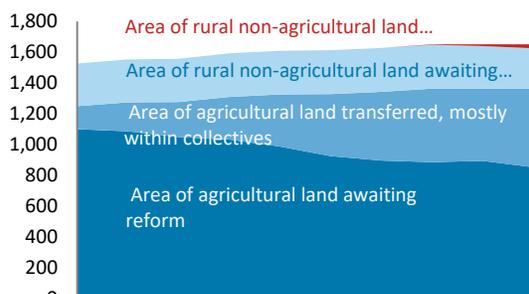
### METHODOLOGY

*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 primary indicator 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)



2009 2010 2011 2012 2013 2014 2015 2016 2017 2018

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

- Our assessment of land reform remains negative, as center-local political impediments are unsolved. While Beijing has made some progress in consolidating rural agricultural land for farming, the goal of offering rural nonagricultural land on open markets has barely moved. Reform is key to building rural incomes and local economies as slower national growth becomes normal, but marketization remains hostage to state dependence on land transfer revenues.
- We emphasize rural nonagricultural land because it is not subject to special state concerns about food self-sufficiency. Some small pilots are underway, but our data show that the government has “reformed” just 0.1% of rural nonagricultural land.
- At the March 2019 National People’s Congress (NPC), leaders again committed to land reform but put forward no compelling new policies.

## THIS QUARTER’S NUMBERS

We track whether rural nonagricultural land is being freed for market sale to gauge whether land reform has become a reality in China. Our indicator shows it has not. Most rural nonagricultural land remains dominated by the state, with no clear prospect of being liberalized any time soon.

Several small rural nonagricultural land reform pilot projects continue, with some gaining traction since our last review. But the total amount of land affected is minute according to all available (admittedly spotty) data, and progress in selling land has been painfully slow. In December 2018, the State Council announced the latest results for the three types of rural nonagricultural land reform pilots underway in 33 counties around the country. Under the pilot allowing rural families to directly sell land into urban markets, a total of 90,000 mu (14,826 acres) of land were transferred via normal market means under this program since its launch in 2015 through the end of 2018, for RMB 25.7 billion (\$3.8 billion), a sharp increase from the reported 20,000 mu (3,295 acres) transferred under the program as of 2Q2018. This increase is most likely the result of a comprehensive stocktaking of progress at year-end, rather than more rapid land transfers in the second half of the year. Selling 90,000 mu of land in four years is far below expectations set for this pilot program to be a more substantive reform push when the government announced the effort in 2015.

Adding data for the two other rural nonagricultural land reform pilots: 180,000 mu (29,653 acres) of rural land acquired by the government at market prices and 84,000 mu (13,838 acres) of rural property land repurposed for other uses, together 354,000 mu (58,317 acres) have been “reformed.” This is 0.1% of the 280 million mu (46 million acres) of rural nonagricultural land potentially eligible to be transferred by market means in China today.

The biggest obstacle to real land reform is that local governments remain reliant on land sales for revenue. Allowing rural residents to sell their land directly would take “rent” away from local governments, which today are able to acquire land at low prices and sell it at much higher prices in urban land markets. Local government proceeds from these sales (**Land Requisition Financials**) are falling, down to 25% year-on-year (yoy) growth in December 2018, from 32% in September, just as overall land sales for property development are falling sharply (see **Fiscal Affairs**). This is a worrying sign for China’s real estate market and for this important source of government revenue: 24% of local government revenue came from land sales in 2018, the same as in 2017 and up from 17% in 2016. As sources of revenue dry up, local governments grow less inclined to land reform, not more so.

One trend previously flagged as promising was rising rural resident property income. We argued this might be attributable to rural *agricultural* land reform, where the government has made more progress than in nonagricultural land (as shown in our primary indicator). Yet rural property income growth slowed to 9.1% in 4Q2018, down from 12.8% in the previous quarter and the lowest in two years. This probably results from the deleveraging effort, which slowed credit growth to rural agricultural activities particularly in poorer and more agrarian provinces (see **Rural Credit**). It is also consistent with the general slowdown in wages we see across the country as the economy slows, as described in our **Labor** assessment. If credit rebounds in coming quarters, rural property income may rebound as well, though this line item will remain a small share of rural incomes until the government more fully liberalizes local land markets.

### Supplemental 1: Land Requisition Financials

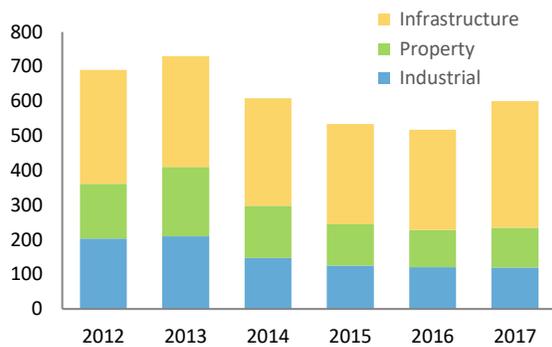
Year-over-year, percent



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

### Supplemental 2: Urban Land Supply by Use

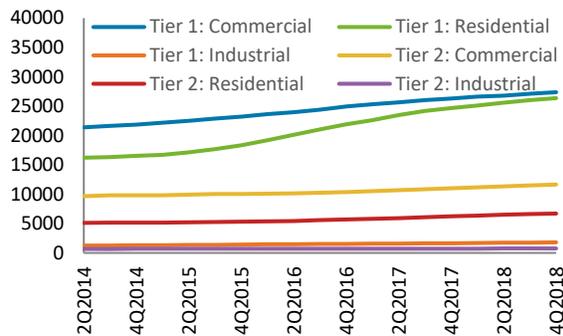
Thousand Ha



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

### Supplemental 3: Urban Land Prices

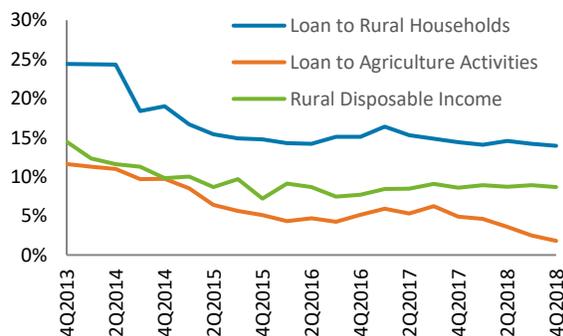
RMB per square meter



Source: Ministry of Land and Resources.

### Supplemental 4: Rural Credit

Year-over-year



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

However, Li put forward no specific new initiatives in these areas beyond expanding existing pilots for rural land requisitions—which the government already promised to do but had repeatedly delayed in 2018.

In late February 2019, the Communist Party and State Council jointly released Document No. 1, the annual first directive from the government that always addresses rural development issues. Again, this was hopeful but nothing new. Beijing promised to facilitate rural agricultural land transfers and large-scale farming and to develop a more vibrant market to allow farmers to mortgage their land in exchange for capital. It also promised further reform to rural nonagricultural land policy, but progress is contingent on first revising relevant laws – presumably including the Land Management Law, which has not moved forward since Beijing released it for public comment in May 2017. The document also urged local governments to spend more of the land transfer revenue they take in on rural development, which is a welcome aspiration, but the 2013 Third Plenum goal was to reduce local government reliance on this source of revenue, not to put it to better use.

Meeting notes from the annual Central Rural Work Conference held in late December underscore our skepticism on the 2019 land reform outlook. According to public reporting, the MoARA identified its key land reform tasks for the year as “finishing land registration work and stocktaking rural assets,” work that was meant to have finished in 2018, and “carefully promoting reform of rural property land”—a vague assertion. This indicates (perhaps unsurprisingly) caution within China’s top land policy agency on the prospect of deeper reform.

## POLICY ANALYSIS

Beijing has not introduced new thinking on liberalization of rural land markets to address the limits of progress over the past half-decade. Local government resistance remains a major obstacle. During the National People’s Congress in March, Premier Li Keqiang did promise to accelerate rural land reform, including by expanding pilot programs and “marketing rural collective land for development purposes.”