

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

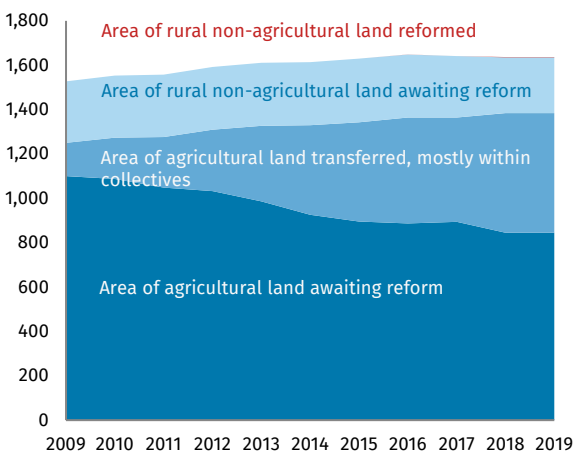
- We upgrade our assessment of land reform this quarter. Some localities are starting to allow rural land to be sold in the urban market and increasing compensation to rural residents as promised in the 2013 Third Plenum.
- Rural nonagricultural land transferred at market prices remains just 0.1% of China’s total rural nonagricultural land by area, as new pilots have not yet made any progress.
- Authorities are considering a more flexible approach toward transferring rural property-use land. This is positive, but it is not at the implementation stage. Improved land supply measures should help rebalance China’s urban and rural development in the long term.

This Quarter's Numbers

Nonagricultural land reform remained stalled in 1Q2020, with the area of reformed land at just 0.1% of China's total rural nonagricultural land area. Authorities did not update land reform data, as new pilots launched in December 2019 may take a year or more to result in market land transfers.

Primary Indicator: Land Marketized

Million mu (1 mu ≈ 1/6 acre)



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

Some progress is emerging at the local level though. In accordance with the revised Land Management Law (see **Fall 2019 edition**), Jiangsu province increased compensation guidance for state purchases of rural land in May. Government entities in Jiangsu, a coastal province north of Shanghai, now need to pay at least RMB 20,000 (USD 2,857) per mu and RMB 20,000 per person for each plot of land acquired, up from RMB 1,200 (USD 171) per mu and RMB 11,000 (USD 1,571) per person as specified in the 2015 guideline. We expect more provinces will follow Jiangsu and revise their compensation standards. These changes amount to a partial reform: while rural residents in Jiangsu must still sell their land to the government, they will be compensated at prices that are closer to market rates.

In addition, Shanghai is now allowing rural land to be transferred at market prices like urban land. Guidelines revised in April stipulate that rural land can now be sold in the same way as urban land, removing an administrative barrier for reform pilot programs. In June, Songjiang, a district of Shanghai and one of the first land reform pilots, announced a plan to include 275 mu of rural land in its 2020 urban land supply, accounting for 10%–20% of the total amount. This reflects accelerated reform as Songjiang sold only 317 mu of rural land in the past five years.

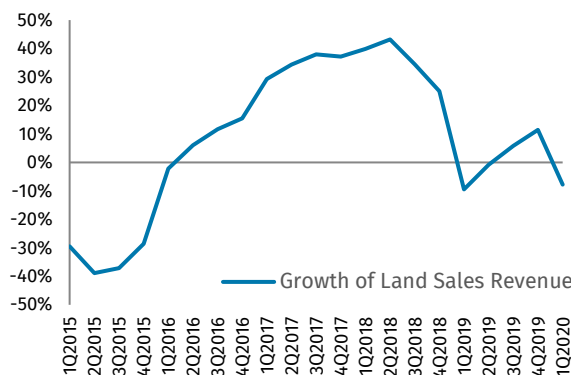
While local governments are starting to pay more for rural land, they will likely earn less from selling it to developers. Urban land price growth has stabilized as property market restrictions remain in place and the property sector endures a structural slowdown. In 1Q2020, commercial land prices in Tier 1 cities grew by only 0.1% year-on-year (yoy), the slowest rate since the dataset started in 2014 (see **Urban Land Prices**). Land prices for other use (residential or industrial) and in other cities (Tier 2 and Tier 3) also rose by a smaller margin and slowed in 2Q2020, even after China's economy started to recover from COVID-19.

Rising buying costs and weaker selling prices should limit local governments' ability to profit from and reduce their reliance on land sales, which has been a key obstacle to land reform. But changing incentives will take time to change local government behavior. As of 2Q2020, local governments are even more reliant on land sales: fiscal revenues shrank under COVID-19 while land sales revenue increased as the property sector led China's recovery (see **Land Requisition Financials**).

While reform of rural nonagricultural land policies has been slow, rural residents still benefited from agricultural land reform, which now allows the transfer of rural land-use rights for large-scale farming or other agricultural purposes in 15 provinces. For rural residents, property income rose 1.5% yoy in 1Q2020 and 13.8% in 2Q2020 while all other income was hit by the pandemic.

Supplemental 1: Land Requisition Financials

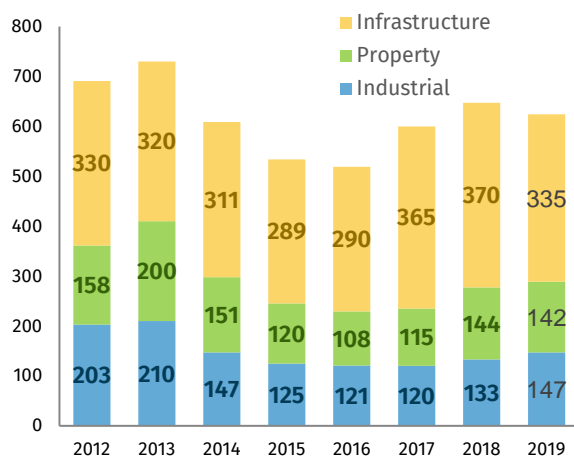
Year-over-year, percent



Source: Ministry of Finance, Rhodium Group.

Supplemental 2: Urban Land Supply by Use

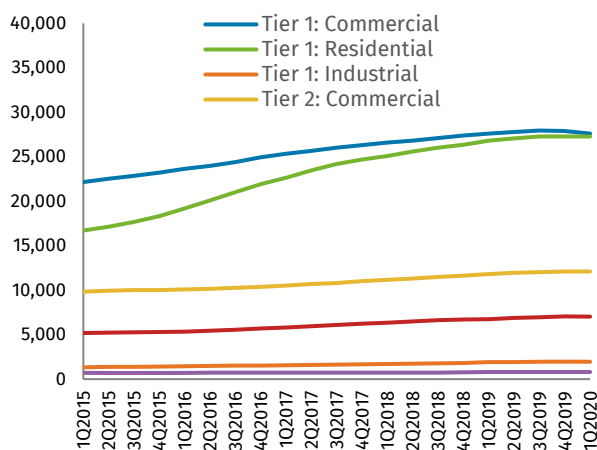
Thousand Ha



Source: Ministry of Natural Resources.

Supplemental 3: Urban Land Prices

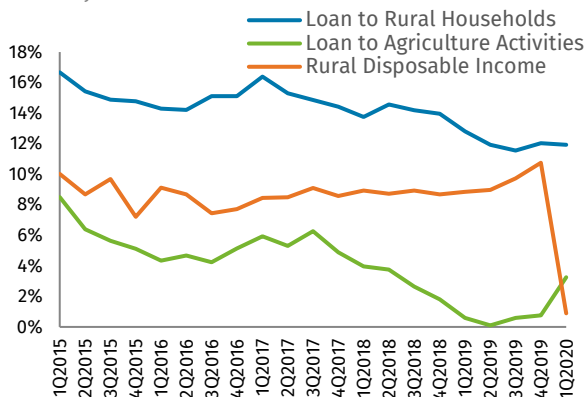
RMB per square meter



Source: Ministry of Natural Resources.

Supplemental 4: Rural Credit

Year-over-year



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

Policy Analysis

Following the June 30 Central Commission for Comprehensively Deepening Reform meeting, authorities are considering allowing more flexible treatment of rural property-use land while maintaining rural residents' titles to it, similar to the approach taken with agricultural land reform. In other words, rural residents may be able to lease out their land so that others can build on it or they can receive rental income for residential use. Like agricultural land reform, this reform is incomplete, as it does not involve transfer of ownership; however, it can still benefit rural residents by improving the productivity of their land and increasing the income they derive from it.

The Ministry of Natural Resources also made an important announcement in 2Q2020 to improve China's land allocation. On June 2, the ministry issued guidance for 2020 requiring land supply to "follow real projects," reversing the principle of "using land supply to attract investment" in previous guidelines. The ministry will reduce land supply quotas for local governments that failed to utilize their quotas in previous years.

This move reflects the spirit of the April joint Communist Party-State Council opinion urging more effective market allocation of resources including market-based pricing of land and better compensation for rural land (see **Spring 2020 edition**). Implementation of the land supply notice is easier now because the State Council delegated the power of approval for rural-urban land conversion to provincial governments in March.