



Rural China's Nascent Land Market

China has strengthened farmers' land-use rights, increasing land values—but a true market has yet to form.

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Though rural land rights have been strengthened, the formation of a true land market will require better implementation of existing laws.

China's 750 million rural residents face a common problem: The value of their agricultural land is greatly depressed because of the insecurity of land rights and legal restraints. The Peruvian economist Hernando de Soto has aptly called such land "dead capital" and has pointed out the key role that measures to bring such capital "alive" can play in the overall process of economic development. For Chinese farmers, the questions are when and how the PRC government will implement stronger measures to create greater land security and allow a full land-transfer market to form.

A recent survey shows that the confidence of rural Chinese in their land rights is growing incrementally and that a land-transfer market is developing. Secure, long-term land rights and their accompanying benefits may help raise China's rural poor out of poverty.

Brief history of land rights in China

Looking back on the last century, two world records associated with rural China—and related to land rights—stand out. One devastated the lives of hundreds of millions of people; the other lifted millions of families out of destitution. The first record occurred in the late 1950s and early 1960s, when anywhere from 15 to 30 million people died of starvation or malnutrition in the most horrific famine of the twentieth century. The famine was a

direct result of the state's disastrous experiment to collectivize individual farms, which ended private landownership across the country. The second watershed event was China's dismantling of collective farms and giving of limited land rights to individual farmers in the late 1970s and early 1980s, spurring the single greatest global poverty-reduction achievement of the century.

Today, collectives (each collective is made up of all the members of a village) remain the legal owners of land. But during the late 1970s and early 1980s, the government divided up the land and allocated it to families for households to farm. Nearly all rural families received some land. Initially, farmers' right to farm their allocated land was limited to three years. In 1984, with little grassroots publicity and implementation, the government extended the rights to 15 years. In 1993, the central government proclaimed that the right would last for 30 years, but the 30-year right was not written into law until 1998, when China began a campaign to issue documentation to all farm families to confirm such rights.

Early in the reform process, most officials and farmers treated farmers' rights like lease rights—farmers paid a certain amount of grain or money to the state in exchange for the right to farm. But farmers also faced great uncertainties from unpredictable re-allocations and takings of land, which affected land investments and transfers.

The 2002 Rural Land Contracting Law and the 2007 Property Law expanded and strengthened the scope of farmers' rights by defining rights to allocated farmland as *property* rights rather than contractual rights, like leases. The land-use rights consist of the right to possess, use, profit from, and transfer the land during the 30-year term. Leases, assignments, or in-kind exchanges are legal, but sale or mortgage is still prohibited. These relatively new laws are not fully implemented at the grassroots level, which has inhibited the development of rural land markets.

Emerging land markets

According to recent press reports and interviews, rural-to-urban migration, industrial development, or other socioeconomic circumstances are driving farmers to engage in market transactions of their land rights. There are, however, few studies on the exact nature and extent of these transactions. The Seattle-based Rural Development Institute (RDI), with assistance from China Renmin University and Michigan State University, has conducted four rounds of nationwide, independent surveys of farmers' land rights in China since 1999. The last survey, conducted in summer 2008, included interviews with nearly 1,800 rural families in 17 major agricultural provinces about land transactions (see p.52). The data suggests that a land-transfer market is gradually emerging in China's countryside. The farm holdings involved are small—the median farm size in the survey was just two-thirds of an acre—but intensively cultivated.

Overall, 15 percent of interviewed farmers have transferred out all or part of their land for various reasons (see Table). The five reasons may overlap—for instance, "insufficient available labor" may be due to some household members "moving to a city," and "not interested in farming" may be the result of "unprofitable farming." Economic considerations appear to be the driving force behind these transfers; when deciding whether to transfer land, farmers must weigh the opportunity cost. If farming costs (fertilizer or seed) are high, grain prices are low, or earnings are higher in the city than on the farm, a family may seek to transfer out land so that the adults can focus on nonfarming opportunities. The incentives to move away from farming will be even higher when an outside party offers attractive compensation to lease the land.

The reasons given for transferring land reflect macro changes in China's countryside. This spring, the PRC National Bureau of Statistics reported that the country had about 225 million rural migrant workers in 2008. Roughly 62 percent (140 million) of the migrants worked outside their own counties, with the remainder working within their hometowns. China's rural per capita net income in 2008 was about \$700, the bulk of which was wages earned from nonfarming sources.

RDI's survey asked families what percentage of total household cash income comes from farming. Nearly 48 percent of respondents (the single largest segment) reported that farming income accounts for less than 20 percent of their total household cash income (see Figure 1). Moreover, 83 percent of farmers stated that less than three-fifths of their total cash income comes from farming. This finding holds true nationwide, as more farmers have discovered that they can boost their income by working off the farm.

That many farmers can earn more outside farming seems to be the single largest driver of the land-transfer market. Growing

numbers of farmers—though still a small minority—are transferring out their land so that they can work in the cities. This in turn creates an opportunity for enterprising farmers who have stayed in the countryside to increase their holdings. (Occasionally, businesses may also acquire farmland, but opportunities for large-scale corporate farming remain limited. Relatively large commercial agricultural operations are rare in China.)

Quick Glance

- Growing confidence among Chinese farmers in their land rights is driving development of local land-transfer markets.
- Full enforcement of 30-year land rights will make those rights more valuable and increase rural incomes.

Types of transfers

Many reported transfers cannot be considered market transactions using a strict textbook definition. For instance, many of the farmers who choose to transfer out land because some or all of the adult members of the families are migrant workers may allow their relatives or acquaintances in the same village to farm the land for free. Such cases typically do not involve rent or written agreement. This type of informal arrangement is quite common.

Of all the transactions where farmers transfer out land rights, only 39 percent involve rent or "consideration," the hallmark of market transactions. Moreover, 84 percent of the transfers are done through verbal arrangements, and 54 percent of these transfers are at will, meaning that there is no specific term for how long they will last. Nearly four-fifths of transfers are among farmers of the same village.

Length of transfers

Though many indicators suggest that the land-transfer market in China is still in its infancy, some evidence of a maturing market exists. The length of land transfers offers one such sign (see Figure 2). In general, the more confident both

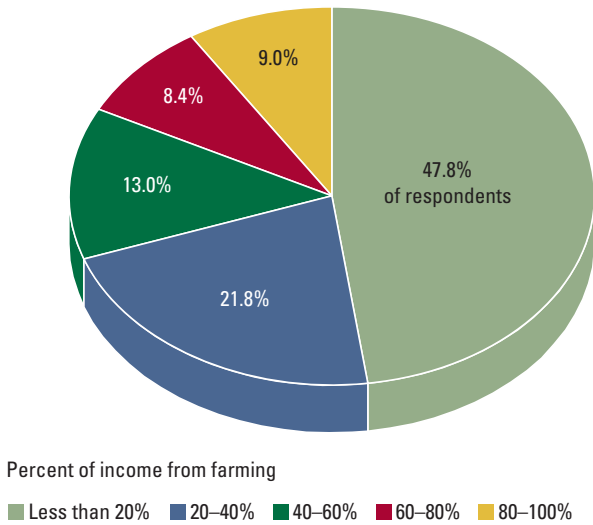
Reasons Farmers Transferred Out Land in 2008 Survey*

| Reason | Percent |
|--|---------|
| Insufficient available labor | 55.3 |
| Farming cost too high or unprofitable | 32.0 |
| Not interested in farming | 20.2 |
| Received an attractive offer from transferee | 12.2 |
| Moving to a city | 11.1 |

*Multiple choices were allowed

Source: Rural Development Institute (RDI) 2008 land survey

Figure 1: Proportion of Total Household Cash Income from Farming



Source: RDI 2008 land survey

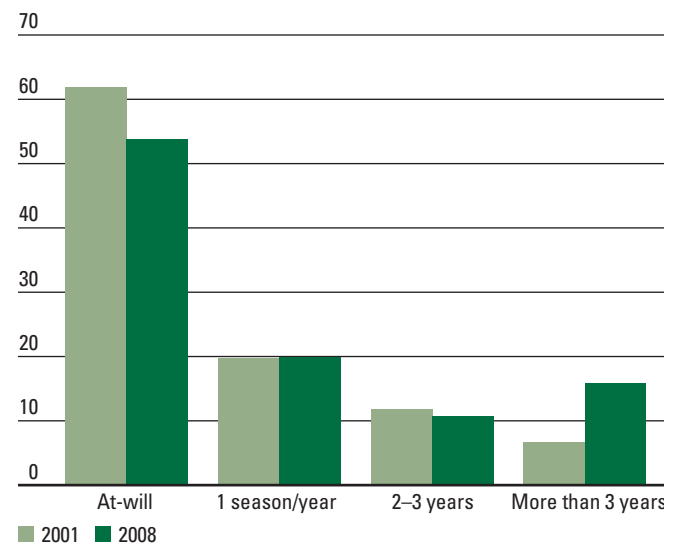
parties feel about the security of land rights, the longer the term of transfer. Perhaps the most notable indication of change over the course of the decade has been that the most “confident” transfers, those for longer than three years, have enjoyed a noticeable uptick and now comprise nearly one out of every six transfers. This uptick suggests some improvement in tenure security and maturation of the land-transfer market.

Rent levels climb

The 2008 survey includes data on the amounts paid for the 39 percent of transfers-out that involved some payment or consideration. The most common method is an annual cash payment based on the land area involved. (Farmland is typically measured in *mu*, which is 0.165 acre.)

Survey findings show that annual rent values rose considerably between 2005 and 2008 (see Figure 3). The median amount in the 2005 survey was roughly ¥140 per *mu*

Figure 2: Length of Land Transfers (% of all transfers out)



Source: RDI 2001 and 2008 land surveys

(\$125 per acre, using the July 2009 exchange rate \$1:¥6.8). In the 2008 survey, the median amount more than doubled, to ¥300 per *mu* (\$267 per acre). This is a striking development. In addition to China’s economic growth in general, two factors seem to be driving land value up.

First, as time goes by, a growing proportion of farmers are becoming more confident in the security of land rights. These farmers either have received written documentation to confirm their rights or have not experienced any security-undermining events such as illegally conducted land re-allocations or land takings. As their rights become secure and the prospect of a 30-year term becomes more real and credible, farmers tend to value their land more, which could translate into higher rent levels.

Second, as the prices for agricultural commodities rose between 2005 and 2008 and China’s demand for high-value

2008 Land Survey Methodology

Based on their prior rural-land-rights surveys, the Rural Development Institute (RDI), China Renmin University, and Michigan State University designed the 2008 survey questionnaire to include 140 questions on several major land topics—including land transfers. The institutions tested the questionnaire in the field to correct any potential discrepancies or flaws before it was finalized.

The interviewers were mostly Renmin University senior or graduate students majoring in land management or law. They

received two rounds of intensive training on the questionnaire and interviewing protocol. All villages and farmers were selected randomly based on strict criteria, such as distances to major towns and roads. To ensure objective and honest responses, the interviews with farmers were conducted without the presence of local officials.

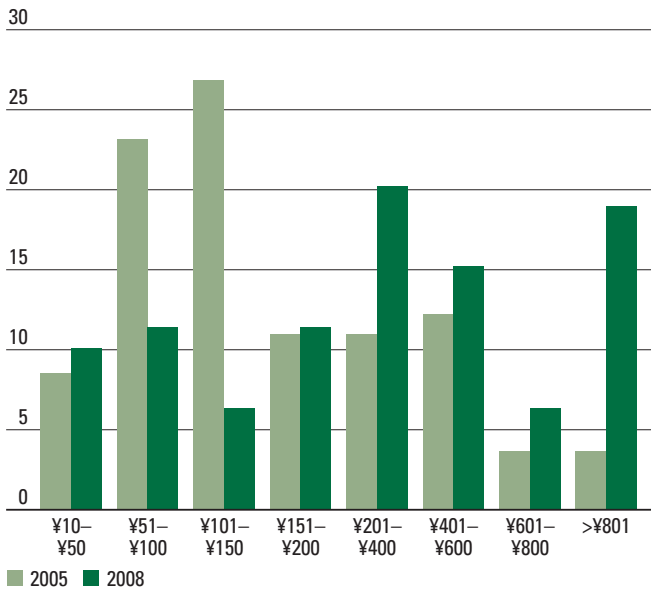
Enumerators and supervisors were sent to the 17 chosen provinces (roughly 100 interviews were conducted for each province). A total of 1,879 farmer interviews

were completed in the summer of 2008. After review, 97 interviews were deemed invalid due to an inappropriate interview environment or other breaches of interviewing protocol.

The 17 survey provinces together contain an estimated 83 percent of China’s rural households. A sample of this size should provide results that are descriptive of the situation in the 17 provinces as a whole to an accuracy of + 2.3 percent at the 95 percent confidence level.

—Zhu Keliang

Figure 3:
Rent Comparison between 2005 and 2008 Surveys (¥/mu)



Source: RDI 2005 and 2008 land surveys

crops (such as vegetables, fruit, and crops for animal feed) continued to increase because of diet changes among urban consumers, farmland became more valuable. Analysis indicates a strong correlation between farmers’ transferring in land and their long-term investments on land. According to the 2008 survey, 23 percent of farmers who did not transfer in land made investments on their farms; in contrast, 36 percent of farmers who transferred in land made investments. Though more research is needed to identify possible connections between such investments and land transfers, ample empirical evidence shows that these long-term investments are made to develop diversified, value-added agricultural operations that go beyond traditional grain production and include fixed greenhouses, fishery ponds, orchards, and domesticated animal farms. Such operations typically generate greater value and thus the underlying land commands higher rent.

Vast potential waiting to be tapped

Though there are encouraging signs that a land-transfer market is developing, the market is still in its infancy. If confidence in the security of 30-year land rights were to become universal, a fully “normal” market for agricultural land rights could develop. If the median rent level now found in the small number of cases where a market-type transfer has occurred were applied to all farmland in China, the value of Chinese farmland could exceed \$1 trillion. That is, the average of the two median rents for both transfer-out and transfer-in “market” transactions in the 2008 survey, equivalent to around \$538 per hectare, capitalized at a plausible return of 5 percent per year (the net present value of 30-year rights at a 5 percent discount rate), would suggest a land value of more than \$10,000 per hectare.

Because China currently has about 120 million hectares of farmland, the hypothetical market value projected for all farmland would be about \$1.2 trillion. If China’s farmers could reliably access or even leverage the market value of that land, rural wealth would increase significantly.

Moreover, the \$1.2 trillion counts only the value of land transacted for agricultural purposes. If future changes in the law allow farmers to capture most or all of the value that their agricultural land would have if used for non-agricultural purposes, the amount of “new” land wealth would change the economic landscape of rural China dramatically.

Of course, China is far from reaching that point. Most of the land value in the countryside remains “dead capital,” because most of the 200 million farm households’ land rights are still far from secure. Forty-one percent of farmers have yet to receive any written documentation that confirms their 30-year land rights, even though the law requires the issuance of such documents. In addition, 3 percent of villages have experienced land re-allocations and an overlapping 29 percent have experienced land takings—events that cut short the 30-year rights and spread insecurity (see the *CBR*, July–August 2006, p.44). In such cases, few of the affected farmers have the resources to seek relief through the legal system, rendering their 30-year rights virtually unenforceable.

Despite China’s spectacular economic successes in the last three decades, most of the newly created prosperity has not spread to the countryside. Indeed, China has one of the worst income disparities in the world, and the countryside lags badly behind. On average, each of the 750 million rural people makes less than \$2 a day. Since the early 1980s, the gap between urban and rural per capita incomes has widened. Today, urban families on average earn more than three times as much as rural families.

Bringing the \$1.2 trillion of land-rights capital to life for China’s rural population will be key to a more equitable income distribution and social stability. Post-war land-tenure reforms in Japan, Taiwan, and South Korea have shown that when farmers have secure and transferable land rights, they invest, expand and diversify production, increase their farm income, and consume a wide range of goods and services. It is thus essential that mainland China continue to improve its legal regime for rural land rights and, perhaps most important, press forward to implement the existing law on the ground. Not only will the hundreds of millions of Chinese farmers benefit, but so will the world economy as a whole. 完

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