



From Land Rights to Economic Boom

A 17-province survey reveals that more secure land rights can boost the incomes and consumption power of China's 850 million rural residents

Zhu Keliang and Roy Prosterman

New survey data collected and analyzed by a team of US- and China-based researchers paint a stark picture of rural land reform in China. Over the past decade, the number of land takings by local governments has ballooned. Meanwhile, despite the 1998 revisions to the Land Management Law (LML) and the 2002 Rural Land Contract Law (RLCL), which mandate written documentation of land rights, few farmers have received official documentation that conforms to the law.

Although Chinese farmers have enjoyed steady income growth and rising living standards since the early 1980s, the rapid economic growth of the last 20 years has been concentrated in China's coastal cities, significantly deepening the rural-urban income gap. Now, as farmland continues to give way to development, both Chinese and foreign observers have noted the increasing frequency of rural unrest incidents, including violent conflicts between government officials and farmers. In January 2006, PRC Premier Wen Jiabao said that efforts to narrow the rural-urban wealth gap were falling short and that land seizures by officials were provoking mass rural unrest that could threaten China's national security and economic growth. According to Ministry of Public Security statistics, China witnessed 87,000 social unrest incidents in 2005, up 6 percent from 2004 and 50 percent from 2003.

Unleashing a giant consumer market

Secure property rights for Chinese farmers could not only reduce the number of rural unrest incidents, but also unleash unprecedented spending from the largest potential consumer market in the world. Without secure land rights, local officials can unpredictably and arbitrarily reallocate, or even deal to a developer, a farmer's piece of land without his or her consent. More than once, a farmer has arrived at his or her plot of land only to discover heavy equipment tearing into the field and found little recourse to prevent the loss. It is thus easy to understand why Chinese farmers rarely undertake long-term investments, such as installing irrigation and drainage infrastructure, planting trees, and constructing greenhouses, all of which are essential for rural prosperity.

One needs to look no farther than across the Taiwan Strait to see the beneficial results of secure land tenure. Annual rice yields jumped 60 percent on average in the decade following Taiwan's successful "land to the tiller" program of 1949–53. During the same period, the average farm household income, amplified by diversification into higher value-added crops, rose 150 percent. These higher incomes almost immediately translated into substantial increases in the consumption of basic consumer goods, such as clothing, furniture, and bicycles. Over the long term, Taiwan's secure and marketable land rights provided the capital that enabled farmers to transform themselves into entrepreneurs and consumers. Fieldwork conducted by the Rural Development Institute (RDI) in 2000 found that

Timeline: Land Rights in China

Pre-1949	Most farmers toil as tenants, paying high rents to landlords. Farmers' grievances help fuel revolution.
1950–54	New government adopts Land Reform Law, giving former tenant farmers full private ownership of land. Nearly half of China's arable land is distributed to households. Agricultural productivity spikes.
1954–61	Private ownership is abandoned with the push for large-scale collective farming. Productivity collapses, contributing to 15–30 million deaths from famine between 1959 and 1961.
1978–84	Household responsibility system established. Farm productivity jumps 50 percent in four years.
1987–88	Initial Rural Development Institute interviews with farmers show that when land is frequently readjusted, farmers rarely invest in their land.
1990–97	Insecure land rights constrain rural development.
1998	The Land Management Law gives farm households 30-year land rights backed by written contracts.
1999	Nationwide surveys find that only 40 percent of farm families have contracts for 30-year land rights.
2002	The Rural Land Contracting Law strengthens farmers' 30-year land rights and provides a foundation for a land transfer market. <i>Business Week</i> estimates the potential value of farmers' land-use rights to be \$500–\$600 billion.

the vast majority of Taiwan's farmers not only own cars, computers, and cell phones, but have also bought stocks and have traveled overseas. South Korea and Japan enjoyed similar successes in their countrysides after World War II.

More secure land rights thus can help broaden China's consumer base and boost consumer demand at many levels, from low- to high-end consumer products. This happened on a smaller scale in the early 1980s when China adopted the household responsibility system (HRS), breaking up the collective farms and giving Chinese farmers limited individual land rights. In 1982, less than a year into the reform, China embarked on its first rural

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consumption boom as televisions and bicycles made their way into tens of millions of rural homes.

Land represents the single asset of greatest significance to the rural population in China. If the vast majority of Chinese farmers enjoy secure, long-term, and marketable land rights, the consumption power of China's 190 million farm households will easily dwarf the nationwide boom of the early 1980s. If Chinese farmers are issued, as the law requires, compliant written contracts and certificates, their investments in land will increase substantially, the volume and value of their agricultural production will rise, and their increased wealth and consumption power will narrow China's rural-urban income gap.

The evolution of rural land rights in China

In the late 1970s, various localities in China began to experiment with dismantling the collective farms and giving individual farmers limited freedom to farm independently. Under the new HRS, which the Chinese Communist Party initially endorsed in 1979 and is still in

effect nationwide today, the collective villages allocate and "contract" land to individual households.

The HRS unleashed the energy and resources of millions of rural families and jumpstarted China's agricultural growth. Between 1979 and 1984, the average net income of rural residents rose by 11 percent annually, outpacing the 8.7 percent average annual growth of urban residents' income. This resulted in the narrowest rural-urban income gap of the past few decades. The HRS was so successful in lifting the living standards of hundreds of millions of rural families in China that it was the central driving force behind the single greatest global poverty-reduction achievement of the past three decades. The World Bank estimates that the number of Chinese individuals living below the international poverty line (\$1 per day) fell by 167 million during the 1980s.

Today, village collectives still own virtually all rural land in China, though they must contract the land to individual households for a term of 30 years. Under such an arrangement, Chinese farmers receive "30-year rights"

What Foreign Investors Should Do

Before inking a deal with their Chinese partners, foreign investors usually ask their lawyers, accountants, appraisers, and other professionals to conduct due diligence. Such an investigation typically covers the financial information of local enterprises, repatriation of investment and earnings, tax liabilities, and government relations.

If the business venture involves land that recently has been or will be converted from rural land or urban residential land, foreign investors should ensure that the due diligence investigation assesses how the land has been or will be obtained and converted. If the land was or still is rural land or urban residential land, land taking by the local government is necessary to convert it for commercial purposes. In such a case, the due diligence investigation should consist of two parts.

First, foreign investors should request information and materials from their Chinese partners that will answer the following questions:

- How many people did the land taking affect? Among them, how many were farmers?

- How was the compensation for the land, houses or structures, and standing crops determined? Were the affected people consulted? Were independent appraisals conducted? How much were the official compensation for each *mu* of land, each square meter of house or structure, and each kilogram of standing crop? How much was actually paid? Was the promised compensation fully delivered to all recipients?

- Have any affected people relocated? If so, how many people, and how was resettlement assistance arranged? Where did they resettle?

- When were the affected people first notified of the land taking, and when were they required to give up the land?

- Did the affected people sign any written agreements indicating their acceptance of the compensation? If so, request a copy of several agreements.

- Were there any disputes about the adequacy of compensation or resettlement assistance? How were the disputes resolved?

Second, foreign investors should verify the information obtained. The most effective way to verify the collected

information is to retain one or two Chinese lawyers, paralegals, or social workers to conduct sample interviews of the affected people. To ensure their neutrality and reliability, the interviews must be done randomly and without the presence of local officials or the Chinese partners. If these interview protocols are observed, a small number of interviews can reveal a great deal of information.

Chinese partners often initially resist or are surprised at such due diligence requests. Explaining the process and offering reciprocal investigation opportunities to the Chinese partners can help defuse their concern. A foreign investor can, for example, explain that it does not want its new factory to be surrounded by bitter farmers complaining about unfair land compensation, which would tarnish the factory's image and jeopardize the business venture. Potential foreign investors often have the leverage to influence local policies and practices on land takings and would do well to conduct thorough due diligence on the land they want to develop.

—Zhu Keliang

to their contracted land, supposedly free from administrative interference or disturbance.

Land rights under threat

RDI conducted nationwide surveys in 1999, 2001, and 2005 in cooperation with Renmin University and Michigan State University. The 2005 survey interviewed 1,962 rural households in 17 major agricultural provinces that account for 83 percent of China's rural population. All interviewed households were selected randomly, and the interviews were

Land titling is key

Formal documentation of land rights, such as obtaining a legal title to a piece of property, is crucial to breathing life into dead capital. For the most part, when documented and confirmed by the government, land rights become more secure and provide a foundation for mid- to long-term investments in land and land transactions. Investments in land, such as the use of organic fertilizers, the construction of irrigation facilities, and the leveling of land, may help improve soil condition and productivity.

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conducted without the presence of any local officials, a method different from most survey projects in China. The results hold true for the 17 provinces' rural populace with a margin of error of ± 2.2 percent.

Findings from the 2005 survey confirm that the land rights of Chinese farmers are still under threat. Thirty percent of the village collectives that claim to have given 30-year land rights to farmers have illegally readjusted or reallocated farmers' contracted land. Moreover, over the past decade, the frequency of governmental taking of farmers' land for nonagricultural use has grown by more than 15 times. In only 22 percent of all land takings were farmers actually consulted about their compensation. Almost two-thirds of respondents said their amount of compensation was inadequate, a top rural grievance in today's China. In addition, in about one-third of cases where cash compensation was promised, the compensation never came through.

Thus, the land rights of most farmers in China remain insecure, and land takings make it difficult for a meaningful market of multi-year leases or outright transfers to develop, even though the law now permits both. Deprived of reliable value, much of China's land remains "dead capital"—assets that cannot be held securely and used to their fullest. Without secure, long-term land rights, most farmers have little incentive to make mid- to long-term investments on their land because they have no guarantee that they will be able to recoup the value of their investments and make a profit. It is thus difficult for them to diversify crop production, create land wealth, reduce poverty, or compete on an equal footing with foreign agricultural producers who, in most countries, can confidently invest in improving their land.

Farmers may also employ advanced farming technology or diversify into value-added crops. All of these can lead to substantial increases in the volume, diversity, and value of agricultural production. As a result, land titling appears to be the most promising way to mobilize Chinese farmers to undertake investments that will ensure long-term rural income and consumption growth.

Since 1997, the PRC government has required that written documentation be issued to farmers to confirm their 30-year land rights. This written documentation must take one of two forms, which are equally valid. Contracts, the format of which varies from village to village, are signed by the village collective and individual farm household. Certificates, designed by the provincial government and universal in content and format, are sealed by the county government and do not require signatures from individual farmers. (Farmers may receive both forms of documentation.) A critical question thus is: How much progress has China made in providing formal documentation of land rights?

RDI's 2005 survey found that almost seven years after the 1998 passage of key revisions to the LML, only about 63 percent of households had received some form of documentation (a contract, a certificate, or both). The majority of both contracts and certificates were issued between 1998 and 2000, when China made great efforts to publicize and implement the LML, which mandates 30-year land rights backed by written contracts. The rate of issuance declined substantially after 2000, as the government no longer considered it a high priority.

Not all documentation meets official requirements. For example, contracts and certificates often lack the proper signatures and seals and fail to specify the start and end

dates of an allocation or the size and location of each land parcel. The survey shows that only one out of 10 farmers has at least one compliant form of documentation. More than half of respondents received noncompliant documentation; the rest had no documentation.

The crucial link

The survey asked farmers whether they had made one or more of six specific mid- to long-term investments on their land, such as planting orchards, branching out into animal husbandry, and setting up fish ponds, trellises, and

greenhouses. The survey shows that these investments were sporadic before 1998, but made a huge jump for a sustained period of four years from 1999 to 2002, before dropping to the pre-1998 level.

because they became increasingly aware of cases of poorly compensated land takings and the growing frequency of illegal readjustments.

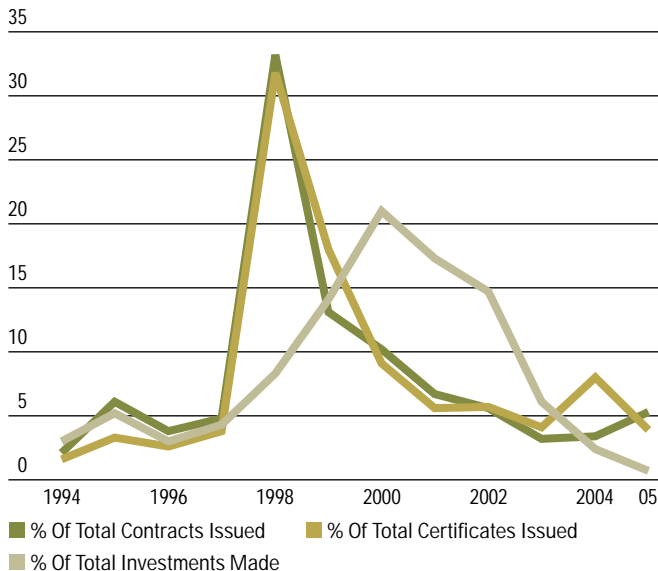
Further data analysis supports the notion that documented land rights have had a significant and positive effect in promoting farmers' investments in their land, though publicity and education campaigns surrounding the 1998 LML revisions also contributed to the increase in investments. The survey shows that among those who held only contracts, 16 percent made an investment in or after 1998, while the corresponding percentage among

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As shown strikingly in the figure, the peak years of investments closely follow—with roughly a two-year time lag—the peak years of contract and certificate issuance. Investment may have dropped after 2002 because farm households had satisfied pent-up investment desire or because of the growing time lag since the government's publicity efforts and the issuance of land rights documentation. Households may also have chosen to not invest

those who held no documentation is 12.5 percent. Similarly, among those who held only certificates, 12.6 percent made an investment in or after 1998. The investment rate in or after 1998 is highest among those with both forms of documentation: 24.1 percent (see Table).

Timing of Contract and Certificate Issuance and Investments



Source: Rural Development Institute Survey 2005

Furthermore, for households whose contract is in a highly compliant form and includes start and end dates, maps or sketch descriptions of their land, and signatures or seals, the investment rate was even higher: 28.8 percent. In contrast, only 20.2 percent of those who held noncompliant documentation and 12.0 percent of those who had no documentation made an investment.

Thus, as the data suggests, certificates are more effective than no documentation; contracts are more effective than certificates (possibly because contracts, unlike certificates, carry the signatures of the village collective and the farmers and are thus seen as more credible); both are more effective than either alone; and compliant certificates or contracts are more effective than noncompliant ones.

RDI's separate and extensive rapid rural appraisal (RRA) interviews of more than 1,000 Chinese farmers over 19 years confirm these findings. (In RRA interviews, farmers do not respond to a questionnaire. Instead, field researchers use a checklist of issues as a basis for questions, allowing the farmers to detail issues of greatest importance to them.) In these interviews, farmers noted that they chose to invest when they were confident that their land was unlikely to be readjusted or expropriated or when they expected full compensation for the investment if their land was subsequently readjusted or seized.

Fundamental reforms

As China's urban-rural divide continues to widen, the rural land question is more important than ever. Land expropriations have grown, and the competition from for-

eign agricultural producers has intensified as barriers to agricultural imports have dropped with China's entry into the World Trade Organization. Powerful evidence supports the view that any solution to these issues must include, as a central element, greater land tenure security for farmers. This requires significant legal and policy reforms, and their concrete implementation at the grassroots level.

The PRC leadership has taken some positive steps in this regard. The 11th Five-Year Plan (2006–10) includes general policy statements on strengthening farmers' land rights under the HRS and on reforming land takings law to provide reasonable compensation to affected farmers. In addition, the draft Property Rights Law includes a chapter on rural land rights. Though it is in many respects identical to the RLCL, the draft contains two new points. First, the law would treat farmers' right to their contracted land as usufruct right (that is, the right to use and enjoy the profits and advantages of the land as

Percentage of Households Investing in Land

	No investment	Investment(s) before 1998	Investment(s) in or after 1998	Investment(s) before 1998 and in or after 1998
Neither contract nor certificate issued	78.7%	7.6%	12.5%	1.2%
Only contract issued	68.8%	11.8%	16.0%	3.5%
Only certificate issued	82.1%	4.0%	12.6%	1.3%
Both contract and certificate issued	63.5%	7.0%	24.1%	5.4%

Source: Rural Development Institute Survey 2005

long as it is not damaged or altered), a legally stronger and clearer right than the current contractual right. Second, the draft law would allow the mortgage of rural land rights, which would increase the marketability and market value of rural land rights.

Above all, the issuance of compliant documentation for rural land rights must remain a central component of China's rural reforms—as RDI's survey results show. The issuance of compliant contracts and certificates to all farmers in China would encourage rural households to invest in their land, raise living standards, help narrow the rural-urban income gap, and spark China's next rural consumption boom. 完



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