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The Ongoing Reform of Land Tenure Policies in China

The combined force of economic transition, rapid economic growth, and increased integration into the world economy are propelling substantial changes in rural China. The changes not only expose China's farmers to competition from producers in other countries, but also provide them greater autonomy and incentives to produce crops more efficiently, drawing farm households from subsistence production into more commercialized agriculture and shifting rural resources out of agriculture into other sectors of the economy.

How farmers respond to changing economic opportunities and challenges depends critically on the choices they are able to make about the use of land and other resources. These choices depend in turn on land tenure patterns. With 9 percent of the world's arable land and 40 percent of the world's farmers, China is scarce in land relative to labor. Control over land in China (as elsewhere) reflects a complex and changing distribution of authority among national governments, local governments, and households, with potentially important implications for efficiency, equity, and environmental quality.

Land Tenure in China Today

China once had an active land market, but land tenure practices have undergone several major transformations since the early 1950s. The lack of incentives and the difficult management burdens inherent in the collective system (1958-78) ultimately gave way to reforms that restored the farm household as the main unit of production. Nevertheless, land rights continue to be shared by collectives and households.

Collective rights. Collectives maintain formal ownership of farmland in China, and the collective body allocates land use rights to member households. Initial allocations took place in villages during 1978-84 as what later became the Household Responsibility System (HRS) was evolving. To maintain the egalitarian access to land that was a hallmark of the collective system, households were generally allocated rights to land on a per capita basis (some villages also took the number of workers into consideration). Despite efforts to maintain fairness by allocating each household multiple plots of varying quality, these allocations had the potential to be very contentious.

Collectives also maintain the right to reallocate land between households periodically. Some reallocations are instigated by the *xiaozu*—groups of 30-40 households that are often the de facto owners of farmland—and only affect selected households. Under village-wide reallocations (*cunzhuang tiaozheng*), the village leadership makes the allocation decisions and most, if not all, of the land in the village is reallocated. The collective's right to reallocate land introduces tenure insecurity since farm households cannot count on being allocated rights to the same land in the future.

Household rights. Farm households' rights consist primarily of rights to produce and dispose of crops, although rights vary by type of plot. Farmers make most of the production decisions on their land, but the land must stay in agricultural production. Villages sometimes impose compulsory planting requirements on some of the land allocated to farm households. For example, most households receive *responsibility land* from which they are required to produce and deliver a fixed amount of grain to the state, although the grain delivery obligation has not been enforced in many provinces in the last few years. More recently, some villages have sought to promote cultivation of specific cash crops, and have imposed compulsory planting requirements on some plots. Some villages allow land to go fallow, but others enforce fallow taxes. Household land rights are subject to local taxes and fees (often paid in kind), which are usually based on households' land allocations.

The 1984 directive sanctioning the HRS explicitly extended to farm households the right to rent their land to other households, and most villages now allow households to exercise this right. A growing land rental market has developed, particularly in certain regions, but land rental arrangements in China tend to be very informal and short-term. Further growth in land rental transactions may be constrained by ambiguity over these rights. A 1996 survey of 780 rural households in northeast China found that 76 percent of farm households did not know if they had the right to rent their land to others.

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Reallocation Practices

Since the original land allocations to households at the beginning of HRS, roughly 80 percent of villages have reallocated their land at least once. But reallocation practices vary widely. In Guizhou Province, less than 5 percent of the villages have carried out a reallocation since HRS, while in other provinces this figure is above 90 percent.

In the 1996 survey of rural households in northeast China, 4 of the 31 villages reported no village-wide land reallocations as of 1995, but 3 villages had reallocated land nearly every year since adoption of HRS. Why some provinces and local regions engage in reallocations while others do not is not fully understood and is widely debated among China scholars. There are a variety of possible economic and political explanations for these differences.

Underlying changes in household demographics are usually cited as the main motivation to reallocate village land. Marriages, births, and deaths can change the number of people in village households so the original land distributions no longer represent the egalitarian ideal. Many argue, however, that egalitarian reasons are usually not the main motivation for land reallocations.

Other reasons for land reallocations may include number of workers and availability of nonfarm employment. Many villages explicitly consider the number of workers, and sometimes the number of workers depending on agriculture, in their reallocation decisions. Villages where nonfarm employment is abundant may have established policies to pool land and allocate it to a small subset of village households to farm with labor-saving equipment. Many of these villages then allocate shares of the profits from agricultural production to village households. Households in which workers are engaged in nonfarm employment have less demand for their land, making them vulnerable to dispossession in land reallocations. In very wealthy villages where all residents earn income from nonfarm sources, farmland may be rented out to migrant workers.

Land Rights Are Distributed at Many Levels

National government	The central government establishes national land laws and directives that provide guidelines for local policymakers.
Provinces	Provincial as well as national policies affect local policies. For example, Guizhou Province promotes secure 30-year use rights for farmers, and has far less reallocation activity than other provinces.
Townships	In some areas, townships may influence village land policies, including village-wide land reallocations. A township district contains roughly 10-20 villages.
Villages	Villages in China comprise roughly 300-500 households. Village leaders usually have ultimate authority on land allocation, but often delegate some or all of this authority to the <i>xiaozu</i> .
<i>Xiaozu</i>	<i>Xiaozu</i> are groups of 30-40 households (remnants of production teams organized during the collective period). <i>Xiaozu</i> are often the de facto owners of the land, but generally work with village leaders on land allocation. <i>Xiaozu</i> leaders may periodically reallocate land among member households, usually to provide land for new households at marriage.
Households	Households are allocated rights to use land, usually several small plots. Specific rights on each plot may vary, but are mainly the right to farm the land for a finite period and to keep or sell the produce.
Farmers	Individual farmers do not have rights to the land, but farm the land allocated to their households.

Land management practices vary at the local level in China in part because of ambiguities in national laws and policies. National land laws state that rural land is collectively owned and that village leaders have ultimate authority over agricultural land. In some villages, however, the *xiaozu* are recognized as the de facto owners, while in other areas townships wield considerable influence over land use policy. In a recent World Bank survey, 26 percent of households reported that farmers (through their *xiaozu*) have the primary decisionmaking power concerning land reallocations, while 43 percent replied that villages had this authority, and 24 percent indicated the township was the primary decisionmaker. Instances of villages or townships reallocating land from village households also abound, with land often passed to outside investors for nonagricultural uses. Compensation to farm households in such cases is arbitrary.

Equity, Efficiency, & Environment

China's land tenure policies have both positive and negative effects. After adoption of HRS, productivity growth in agriculture and rural incomes rose dramatically, lifting hundreds of millions of rural

residents out of severe poverty. Key factors in these developments include the enhanced incentives afforded to China's farmers once they had greater access to land and rights to their production.

Unlike many countries at similar stages of development, China does not have a large population of rural landless workers vulnerable to famine or other extreme economic shocks. This is in part due to land tenure policies that guarantee households access to land.

China does have large numbers of rural-urban migrants, but they are spread among several large urban centers and hundreds of smaller urban centers, and the number of rural-urban migrants is likely much smaller than it would be if land were not allocated on a per capita basis. Relatively egalitarian access to land has also ensured that nearly all rural households are at least food self-sufficient, and has been linked to levels of nutrition higher than other countries with similar income levels.

On the other hand, China's reallocation policies may have negative effects on land use efficiency. Many observers argue that tenure insecurity generated by realloca-

tion policies undermines households' incentives to invest in their land. The fragmented nature of household land holdings and the small plot sizes may also discourage investment. The negative effect on investment may be most pronounced in the case of expensive, long-term investments such as orchards, wells, and ditches. This may slow the process of specialization into labor-intensive crops for which China has a comparative advantage, since many of these crops require large investments. It may also slow the shift to higher-valued crops that are increasingly in demand by China's wealthy urban consumers.

China's land tenure practices may also adversely affect the process of specialization by making it difficult to take advantage of economies of size and scale and by discouraging movement off-farm. Farm households that develop successful cash crop operations may face obstacles to expanding these operations due to the difficulty of acquiring land. Other farm households may not rent their land to these specialized households due to village policies that discourage renting, or out of fear that renting out land heightens the risk of dispossession in the next reallocation.

Research suggests that land rental activity is constrained, but precise causes remain unclear. It may be that the risk of dispossession reduces the supply of land for rent. Alternatively, it could be that periodic land reallocations decrease overall demand for rental land. Households may also be discouraged from allocating labor off-farm for fear that land may be taken away if it appears they do not need it. When rights to land are ambiguous, households have an incentive to stay in the village and protect their rights by continuous occupation and cultivation.

Concern is also growing about the effects of China's land tenure policies on the environment. Farm households with insecure tenure have less incentive to apply conservation practices since the land is not theirs in perpetuity. This may encourage farm households to expand farm operations on environmentally sensitive land, causing soil erosion, overgrazing, and other environmental problems.

The Evolution of China's Land Tenure System

Private land markets, pre-1949. Under China's feudal system, land was held by small landowners who farmed their own land, and by landlords who rented land to tenant farmers. Land markets were supported by (often local) institutions to define boundaries, register ownership, and provide titles.

Land reform, 1950-53. China's new government implemented a national land reform movement soon after coming to power in 1949. Landholdings were redistributed to landless and land-short farm households. Deeds held by landlords were destroyed, and new deeds were issued to the new owners along with full rights to rent and sell their land.

Initial collectivization, 1953-57. Shortly after land reform, Party cadres began encouraging farmers to set up agricultural producer cooperatives—small groups of farm households that pooled some or all of their land and farmed the larger plots collectively. Income was distributed according to the land each household contributed to collective production. After forming cooperatives, the cooperatives were pooled into larger collectives where income was distributed according to the amount of land and labor contributed. By 1957, over 90 percent of farm households had organized into roughly 700,000 large agricultural collectives.

Full collectivization, 1958-78. Under the Great Leap Forward, agricultural collectives were ultimately merged into 24,000 communes encompassing entire townships. Households turned over nearly all of their productive assets, and teams of workers carried out nearly all production (households often maintained small private plots during all or part of the collective period). Income was distributed according to labor contribution and need through a complex system of "work-points." This system existed through the end of the Cultural Revolution (1966-76), except for a period of partial liberalization in the early 1960s.

Decollectivization, 1978-84. Under new leadership, China's government encouraged efforts to alleviate poverty and induce economic growth. Many rural areas abandoned collective production entirely and contracted with households to deliver fixed amounts of grain in exchange for access to land. Households were allowed to keep the remaining production for their own consumption or to sell on the market.

Household Responsibility System, 1984-present. In 1984, the expanding system of contracting with households directly was officially approved by China's national government. The law stipulated that land was still owned by the collective, but did not clarify whether the collective was the village or the *xiaozu*. The law also stipulated that households should receive 15-year contracts to their land, and have the right to rent land and hire labor. Collectives maintained the right to reallocate land among households. Subsequent clarifications and directives have encouraged extending the contract length from 15 to 30 years, providing households with written contracts, and limiting the collective's right to reallocate land.

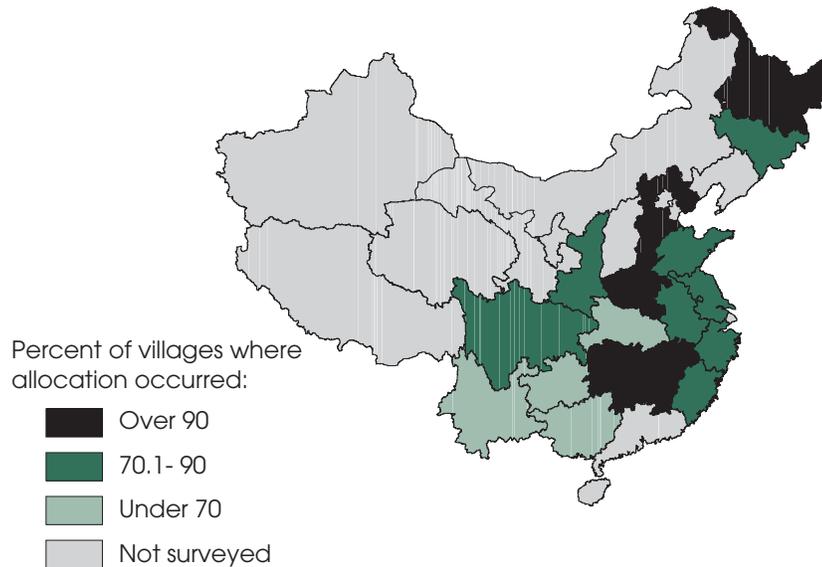
Toward a Land Market in China

Scholars and observers both inside and outside China advocate policies to increase tenure security. Some call for establishment of a land market based on private ownership of land. Others argue that this may exacerbate existing problems or generate new ones, noting that without a system of title registration,

enforcement, and credit, a land market based on private property rights may be unworkable. It might also result in a concentration of land ownership and the rise of landless households, an outcome that is politically unacceptable to China's leaders. Market-based outcomes, however, can be achieved through a system of clear, enforceable, and tradable rights, without establishing full private ownership.

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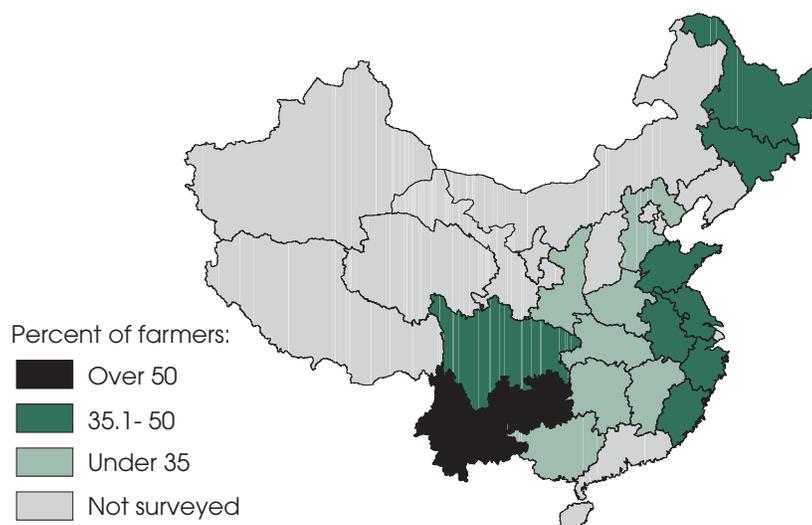
The Incidence of Land Reallocation Varies Among Provinces



Percent of surveyed villages having at least one land reallocation since inception of Household Responsibility System by province, 2001.
Source: World Bank, 2002.

Economic Research Service, USDA

Implementation of 30-Year Land-Use Contracts Varies by Province



Percent of surveyed farmers reporting 30-year signed contract by province, 2001.
Source: World Bank, 2002.

Economic Research Service, USDA

The current policy trend in China is to establish 30-year use rights to land and written contracts guaranteeing these rights. China's most recent national directive concerning land use (1998) encourages the extension of 30-year land use rights to farm households backed by a

written contract. A World Bank survey found that 55 percent of farmers have signed a 30-year contract, but this varied by locality. Furthermore, many of these contracts do not explicitly rule out land reallocations during the 30-year period, and many contain language that specifi-

cally allows reallocation. Indeed, of the farmers who were aware of the national policy encouraging 30-year use rights and written contracts, only 12 percent felt that these policies will definitely prevent reallocations during the 30-year term, and 46 percent felt that reallocations will definitely continue despite the new policy.

These findings point to the critical issue of enforcement. No matter which policies are established to increase tenure security, they will fall short of their goal so long as fair and accessible institutions are not also established to resolve conflicts and settle disputes. Funding such a system through higher levels of government would help ensure that local governments do not use their control over finances to sway decisions. But such a system can be expensive, and China's government faces severe fiscal constraints already.

There are alternative ways to build a land market in China other than by establishing full private ownership rights in land. Clarifying and enforcing existing land rights, and making these rights tradable, has the potential to improve farm households' incentives for investment and specialization while maintaining broader public interests in equity and the environment. Fundamentally, a land market is simply a set of clear and enforceable property rights—including partial rights such as existing household rights to use land and dispose of crops—and a mechanism to trade these rights. China currently has a set of partial land rights that appears complex and ambiguous when viewed from the national level, since local areas engage in such a wide variety of land tenure practices. But the rights in particular localities may be very well established. If existing rights can be codified and institutions set up to enforce and trade them, right-holders will be able to trade them according to market principles—even in the absence of full private ownership at the household level. **AO**

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