

Farmland Tenure System and Policy Changes in China

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Abstract: China's farmland system has undergone great changes during the past decades. The current regime is set since the early 1980s. This regime limits the specialization in agriculture production. Recent changes in farmland policy cater to addressing this problem. However, it is still not to what extent the changes will help improve agriculture specialization and transformation. And the new policy may not as perfect as expected in practice.

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Introduction

Farmland is the indispensable input for the agriculture development. Policy changes influence the agriculture development heavily to some extent. The new environment that the Chinese agriculture sector is facing with requires changes to farmland policy. The development of Chinese agriculture is not in isolation from the world. Together with economic transition, fast economic growth, the deepening openness of Chinese agriculture is propelling substantial changes in rural China. The changes not only expose China's farmers to competition from producers in other countries, but also offer them with greater autonomy and incentives to produce crops more efficiently in accordance with the principle of comparative advantages. However, the transformation is not without friction. To adjust to produce products with comparative advantage, farmers are faced with such problems as little capital availability, fragmented market, small-scale land for production, lack of agriculture support, etc.

How farmers respond to changing economic opportunities and challenges depends critically on the choices they are able to make about the use of the production resources, especially the land. And in turn, the choices depend largely on land tenure policies. Farmland policy in China has changed dramatically during the past decades. These policies are controlling 9 percent of the world's arable land on which 40 percent of the world's farmers depend. In this paper, I first discuss the present land tenure regime in China and its effects, and then discuss the recent changes in land tenure policy and I will provide my reflects on the new policy.

1. Farmland Tenure System in China

China's land tenure practices have undergone several major transformations since the early 1950s. The lack of incentives and the difficulties in

management inherent in the collective system (1958-1978) was reformed to restore the farm household as the main unit of production. Farmlands were contracted to household for production. Nevertheless, China's land-tenure system continues to combine private use rights with public ownership to provide economic incentives for farm households.

Under this system, collectives maintain formal ownership of farmland in China, and the collective body (usually the village authorities) allocates land use rights to farm households. Villages can divide land parcels into four tenure categories,¹ each with different rights and responsibilities attached (Lohmar and Somwaru, 2002). Initial allocations took place in villages during 1978-1984 when the Household Responsibility System (HRS) was evolving. Collectives also maintain the rights to reallocate land between households periodically or because of changes of household members due to marriage, death or admission to universities.²

Farmers do not own the land and cannot sell it. Farm households' rights consist primarily of rights to produce and dispose of crops. Farmers make most of the production decisions on their land, but the land must stay in agricultural production. Most households

¹ The four land categories are responsibility land, allocated to households in return for delivery of grain to state grain bureaus; ration land, allocated on a per capita basis to provide the household with food grain security; private land (plots), allocated in small parcels for vegetables and other non-grain crops; contract land, contracted from a village pool of land, often through open bidding, by households interested in expanding their land holdings, and other land, reclaimed wasteland allocated to households that participate in the reclamation effort.

² Household are allocated land on per capita basis, and the *Hukou* System (registering system) practice in China requires relocating one's *Hukou* if he/she marries or gets admission to universities.

receive responsibility land from which they are required to produce and deliver a fixed amount of grain to the state. Villages sometimes impose compulsory planting requirements on some of the land allocated to farm households.

After adoption of HRS, productivity growth in agriculture and rural incomes rose dramatically. China does not have a large population of rural landless workers vulnerable to famine or other extreme economic shocks.

However, tenure insecurity generated by reallocation policies makes households unwilling to invest in their land. The fragmented small plot household lands also discourage investment. This slows the process of specialization into labor-intensive crops for which China has a comparative advantage, and many of these crops require heavy investments.

Such land tenure practices also adversely affect the process of specialization and free flow of labor (Lohmar and Somwaru, 2002). It is difficult for farmers to take advantage of economies of size and scale. Successful specialized farm households face obstacles to expanding their operations due to the difficulty in acquiring more land, because other farm households may not rent their land to them, or fear that renting out land will make them no allocated land in the next reallocation. And since land rights are tied to village residence, farm households are discouraged from moving to towns and cities to find work because they fear they will lose their land rights.

The land tenure system has not changed in recent years, with farmland being owned by village collectives, which extend land-use contracts to individual households, currently for 30 years.

2. Recent Changes in China's Land Tenure Policies

Arable land continues to shrink in China, from 130 million hectares in 1996 to 121.8 million hectares in 2006. As grain security remains the top priority for the government, the "strictest farmland protection" policy has been implemented. A "red line" on arable land at no less than 120 million hectares has been set and the conversion of farmland for non-agricultural use is strictly controlled (OECD, 2009). There was a heated debate on whether it is necessary to keep the "red line" at the turnover of 2008 and 2009. It is triggered by *the Report of Food Security and Farmland Protection*,³ based on the research conducted by the Unirule Institute of Economics, an independent economic research center

³The report was first released in December 2008 and the final report was released on 23rd March 2009, see <http://www.unirule.org.cn/english2/Third.asp?id=404>.

in China.

The fear of the state's withdrawal of the land use rights has been removed by policies and laws established during the past years. When the first round of 15-year land contracts was due in 1998, the government extended the land use rights to 30 years to farm households backed by a written contract. This was written in the latest land law passed in 1999. *China's Property Law of 2007* further formalized farmers' land use rights.

The biggest and fundamental change was announced in October 2008 in a landmark policy document issued by the Communist Party of China (CPC) Central Committee.⁴ The document allows farmers to "lease their contracted farmland or transfer their land use right" to boost the scale of operation for farm production and provide funds for them to start new businesses (Xinhua News Agency, 2008). The document also promises that the land contract system will not be abolished forever, thus ensuring those who want to move to the cities for a job of the land rights. This new policy ease the stress for the successful specialized farm household in getting more lands and the fear of other farm households who want to rent their contracted land to the specialized farm households.

Consequently, the scope of Chinese farmers' formal rights on the contracted farmland is essentially the same as those possessed by farmers in countries with a private land ownership regime. The major difference is that mortgage of farmland rights in China is still strictly prohibited by laws. This limits farmers' access to credit. In addition, an implementation of these pro-farmer laws continues to be problematic because of collective cadres' interests in keeping farmland under their control.

Among other factors that promoting agriculture specialization and improving agriculture productivity, land policy is on the move to the right direction. The farmland transfer market will be set up to trade the land use rights and land contract rights. This will enable China's agriculture to adjust to produce what it has comparative advantage.

3. Pilot Practice of Land Use Rights Transfer

It is not a new practice in some villages, though it is a new policy by the CPC. Some villages in coastal areas have pooled their land to establish cooperatives or transfer the land use rights to the

⁴ The document is "The Decision on Major Issues Concerning the Advancement of Rural Reform and Development" approved by the CPC Central Committee on 12th October, 2008 at its 3rd plenary session of the 17th Central committee.

specialized farm households to benefit more from the land (Ma, 2008). Several provinces, including Anhui, Heilongjiang, Henan, Guangdong and Shandong, have conducted trials within the framework of the present land-tenure system. Farmer who transfer their land use rights and rent their land use rights to others can choose to do farm jobs or off-farm jobs to make more money.

With more land to work on, farmers can make use of the economies of scale and large-size land, and therefore have the incentives to invest in the land. Large-scale production and using mechanicals in agriculture sector become possible in most areas. The agriculture productivity will improved with the conjunction of land use rights transfer and capital availability promised in the same document. Successful cash-crop operations will expand and shift to produce higher-value crops that are increasingly demanded by urban consumers.

The practices vary from village to village, and it is not easy to sort out all the practices. However, in general, there are four types of farmland use rights transfer in practice: lease, subcontract, transfer, land for share and swap. The first type is to exchanges farmland with other households (farmland swap). This kind of transfer occurred in the early stage when some farmers voluntarily exchange the contracted farmland for production convenience. In implementing the HRS, farmlands are equally allocated to households. The farmlands contracted to individual household are small plot of lands scattered here and there. To make crop production and irrigation convenient, some households exchange their contracted farmlands for a relative larger plot. This practice works without formal guidelines.

The second type is to lease the contracted farmland to leading agricultural enterprises. These leading enterprises contact the village authorities to make offers. The authorities organize households to transfer their contracted farmland use rights to the enterprises on voluntary basis. The transfer terms varies from 10-20 year, but no more than the remaining contracted years. The transfer price varies from place to place. In Shandong Province, it ranges from 300-700 *yuan* per *mu*, and in Guangdong Province, the price can be as high as 1600 *yuan* per *mu*⁵. The enterprises will establish agricultural products production base. They will exercise standardized production, manage planting, provide technological support, and be responsible for sales.

The third type is to transfer the contracted farmland to professional cooperatives or specialized

farm households. This makes scale production possible which cannot do by individual farm household. These cooperatives set up production base according to the requirements by agricultural enterprises. They perform the standardized production set by the enterprises. This is the so-called "leading enterprise + professional cooperatives + production bases" operation model. Third type is to transfer the farmland to specialized farm households. These households operate in a similar way to the cooperatives, but with smaller scale. Farm households can sub-contract, lease their farmland to or swap their farmland with the specialized farm household.

The fourth type is establishing land cooperatives (a.k.a. land for share).⁶ In fact, it is an economic organization under the village. It is owned by farmers, the village and the village operations. In these villages, farmers' income comes mainly from off-farm activities. The development of manufacture and service industries in the nearby regions provide favorable conditions for this kind of transfer. A village in East China's Zhejiang Province takes this type. There are 478 labors in the village, but only 17 labors are actually working on farm. The income from off-farm activities accounts for as high as 76% of farmers' total income. Farmers use their contracted farmland use rights as share to join the cooperative.

These are farmers' use rights shares. There are another two types of shares: the collective ownership shares and the cooperation cash share. The farmland is collectively owned by the village and the farmers only have use rights. The corporation doesn't have any rights to the farm land. They can only use cash to buy the shares. The type of transfer of farmland use rights promotes the corporations to invest in agriculture. Meanwhile, they will apply their technologies and management to the farm land.

Secondly, the land cooperatives fasten the agricultural structure adjustment. After establishing the land cooperative, the village mentioned above makes plan for its 221.68 *mu* farm lands, which account for 60% of its total farm land. It uses 30 *mu* for flowers, 70 *mu* for vegetables, 70 *mu* for anti-cyclical vegetables, and the rest for green rice. Thirdly, the land cooperatives increase formers' income. The vegetable and flower production is more profitable than crop production. This will increase profit by 20-30 times as compare with crop production. Farmers' income from farm activities increases by 200 *yuan* on average. In addition, farmers have dividend from the land cooperative

⁵ A *mu* is the Chinese measure for land area. An acre of land is equivalent to 6.07 *mu*. And *yuan* is the Chinese currency unit. It is about 6.86 *yuan* per US\$ currently.

⁶ <http://www.ncer.tsinghua.edu.cn/research/trend/papers/81.htm>

profits. And the village compensates farmers with extra money.

Xiaogang Cun Village, the famous village in East China's Anhui Province, serves a good example. Thirty years ago, 18 households secretly allocated the collective farmlands to individual household. This was the origin of the HRS. They pooled the farmland of 17 households to set up the grape production park in 2001. The households get 500 *yuan* for giving up the farmland use rights each year. Later the village pooled more lands to establish mushroom production park, ecological agriculture park, hog farm and shrimp farm. The per capita income has increased from 2300 *yuan* in 2003 to 6000 *yuan* in 2007. More than one-third of the total 18000 *mu* farmlands are transferred the use rights. The village authority is now actively attracting investment from other provinces to absorb the surplus laborers, promoting cooperatives, guiding farmland use rights transfer in accordingly to agricultural structure adjustment. Agriculture production, agricultural structure and farmers' income are greatly increased.

4. Some Reflects on the New Policy

However, it is difficult to predict to what extent this new policy will help with agriculture transformation and adjustment. A-cut-for-all will not fit. The pilot trials demonstrated several models for the land use rights transfer practice. The lands will be confined within farm use and forbidden to move to non-farm use. And also, how the market for land use rights transfer will work is not clear yet. In most cases, policies are well-defines at the high-level authorities, but distorted in the implementation at the low-level authorities. 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. Make these existing land rights clear and tradable also help to improve farm households' incentives for investment and specialization.

In addition, farmers are still not allowed to eventually buy or sell the land or even to mortgage the contracted farmland. It remains to see how the new land policy will be translated into law and how the law will be implemented. Some issues are worthy noting in the implementation of this new policy as they will do harm to the farmers' interests. The outstanding one is undervalue the farmland transfer payoff. The rent in some villages is as low as 30 *yuan* per *mu*.⁷

The principle of "such transfers of land-use

rights must be based on voluntary participation by farmers, with adequate payment and in accordance with the law"⁸ may not be strictly observed in practice. This is not new in China. The local government or authorities usually carry out the policies regarding farmland to their own interests. Some farmers may not be willing to transfer their farmland, while the local authorities will persuade them to do so. They will focus on the land rent and jobs. However, little is done to help the "landless" farmers find jobs. The new "land owners" often hire farmer from other places (provinces) not the local farmers. Consequently, the local farmers will be "landless and jobless". The rent is not enough to support the family.

A third concern is the scale operation. To encourage scale operation may mistakenly leads to over-scale operation. One major problem with the current farmland policy is small scale operation. One of the purposes of new policy is to encourage "proper" scale operation. The word "proper" is likely to be omitted in practice and publicity. The local government may over-emphasize on scale operation. Scale operation will work on certain conditions. The scale should be in accordance with the production ability. And the production ability depends on technology, capital, etc. If the household is able to work on just 10 *mu*, the scale of 10 *mu* is proper. In addition, the natural environment will affect the operation scale. The facts such as the nature of the land, the location of the land, the irrigation condition, and so on, are critical to the scale decision.

Fourthly, the local governments or authorities should place themselves in the proper place. During the land use rights transfer, they are coordinators, go-betweens and helper. It is the governments or authorities' role to guide the farmers to the farmers' interests during the transfer. In addition, the governments are responsible to help farmers with access to technology, capital, and market or to off-farm jobs.

5. Conclusion

Farmland tenure system is critical to China's agricultural development. Recent changes in farmland policy address the limitations of the current land system, aiming to transform the agriculture sector in reaction to the competition from overseas. The new policy is good in nature. However, it may not be properly implemented. Farmers, the "leading actors", are often playing the minor role. Some local authorities persuade even force the farmers to transfer their farmland for so-called scale operation. In fact,

⁷ http://news.xinhuanet.com/theory/2009-03/13/content_11003265.htm

⁸ CPC, 2008, *News of the Communist Party of China*, see <http://english.cpc.people.com.cn/66102/6517721.html>.

local governments and authorities should play the guiding role, not the leading role.

To make the new policy work favorably, relative policies and regulations are to be designated with the aim to help farmers fairly transfer their land use rights, to help access to what farmers need after the land use right transfer. In a word, it is the main principle that governments set up the stage for farmers to perform.

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