

# Does China's Land-Tenure System Discourage Structural Adjustment?

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China's land-tenure system combines private use rights with public ownership to provide economic incentives for farm households, while stopping short of allowing full land ownership and alienable rights. Nominally, agricultural land is collectively owned by the *xiaozu*, which are groups of 30-40 households (hereafter called groups); in some cases, the village is the collective owner (there are around 10 groups in each village). Regardless of who owns the land, the village leadership may still influence, or sometimes dictate, land-use and land-allocation decisions.<sup>1</sup>

## *Farmers Are Allocated Use Rights*

Under collective ownership, farmers in China do not own the land and cannot sell it. Instead, village authorities allocate farm households use rights, or rights to cultivate specific parcels of land.<sup>2</sup> Villages can divide land parcels into four tenure categories, each with different rights and responsibilities attached, but not all villages differentiate among all four categories (table K-1). The most common allocation is "responsibility land," which is allocated to households in return for the household's commitment to deliver a quota of grain. The bundle of rights extended to farmers varies among villages, sometimes among groups in the same village, and also according to the tenure category of each parcel. Households are allocated land-use rights so long as they use the land for agricultural production. Aside from use rights, the most important right allocated to farm households is the right to residual income, which allows farmers to freely sell their output (except for a grain delivery obligation for responsibility land) and retain their earnings. Some, but not all, villages give house-

holds the right to rent land, which also varies among the four major tenure types.

Collective owners (in practice, village authorities) can periodically reallocate land-use rights among households. Originally, village authorities allocated land to farm households according to the number of people in a household to maintain egalitarian access to land.<sup>3</sup> Some villages reallocate land to equalize the distribution of land among households when the demographic composition of households changes through deaths, births, and marriages. The frequency, nature, and magnitude of reallocations vary among villages and groups (not always for egalitarian reasons), and sometimes without ample notification to households.

## *Why Does Land Tenure Matter?*

Because farm households do not own and cannot sell their land, they do not necessarily benefit from the increase in land value that comes as China's economy grows and develops. In fact, without clear rights of ownership, it is unclear exactly who will benefit from the inevitable increase in the value of land as the country's economy grows. Classical economics argues that the rents to rising land values go to the owners, so does that mean that the groups and villages that nominally own the land will be the beneficiaries of aggregate economic development? How will those benefits be distributed to individual farm households that belong to the collective?

The land-tenure system may prove to be a costly bottleneck that impedes needed adjustments in China's rural economy as it copes with rapid economic change and globalization. Lack of land markets and frictions inherent in the land-tenure system slow the transfer of land from low-value to high-value uses and may impede needed adjustments in China's agricultural sector. The unavailability of land rentals may prevent

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<sup>1</sup> Sometimes, however, the groups can make allocation decisions on land that is nominally owned by the village. Village leaders, in turn, are selected by means varying from open, contested elections to appointment by township authorities.

<sup>2</sup> In economics literature, property rights institutions are often analyzed as extending a bundle of specific rights. For example, in the United States, private ownership, in itself, does not extend the right to drill for oil, open a public business, put up a big sign, or even build a house without proper permits.

<sup>3</sup> In some cases, villages also took into consideration the number of able-bodied workers when making the original land allocations.

**Table K-1—Village land-tenure categories in China, 1996**

Tenure category	Description of tenure category	Land under tenure category	Villages reporting the right to rent land in given category <sup>1</sup>
		<i>Percent of land</i>	<i>Percent of villages</i>
Responsibility land	Allocated to households in return for delivery of grain to state grain bureaus	76	79
Ration land	Allocated on a per capita basis to provide the household with food grain security	10	56
Private land (plots)	Allocated in small parcels for vegetables and other nongrain crops	4	92
Contract land	Contracted from a village pool of land, often through open bidding, by households interested in expanding their land holdings	9	48
Other land	Reclaimed wasteland allocated to households that participate in the reclamation effort	1	-

<sup>1</sup>Includes villages that reported extending the tenure category in question to farm households. For example, only 32 percent of the villages reported having ration land.

Source: 1996 village survey, reported in Lohmar, 2000, "The Effects of Land Tenure and Grain Quota Policies on Farm Household Labor Allocation in China," unpublished Ph.D. dissertation, University of California-Davis.

households with successful cash-crop operations from expanding, especially in villages where leaders seek to promote the production of staple grains.<sup>4</sup> Villages with successful rural enterprises that need land to expand a nonagricultural enterprise will work through village leaders to attain their land, making it less likely that those households most willing to give up their land will be chosen for land expropriation. The payments made to households that do give up their land may or may not be acceptable reimbursement for the loss to those households (Guo).

China's land-tenure system also discourages specialization and free flow of labor. Since land rights are tied to village residence and delivery of grain quotas, farm households are discouraged from moving to towns and cities to find work because they may lose their land rights. These residency requirements, along with the urban household registration system, help explain why most migration in China is temporary and by individuals rather than entire families. Institutions established to overcome the conflicts involved in moving land from agricultural to nonagricultural uses also often maintain residency requirements. Some wealthy villages in coastal areas have pooled their land to establish industrial facilities, allocating shares to the profits to farm households. These shares, however, are

also tied to village residency and discourage movement out of the village.

Finally, without land ownership, farmers have less incentive to invest in land improvements and few assets to secure loans. The risk of reallocation or tenure insecurity may discourage long-term investments in orchards, forestry, or other projects with long-term payoffs.<sup>5</sup> Limited tenure may also discourage soil conservation and encourage unsustainable practices with short-term payoffs, such as high usage of chemicals. Ambiguous property rights may also encourage the cultivation of marginal or fragile land that is susceptible to erosion.

How these effects will influence agricultural production and trade in China is difficult to assess. China will likely maintain higher levels of grain production under this tenure system than it would if land could be more easily transferred. The effects on labor mobility also may hinder urbanization and with it, maintain relatively high per capita consumption of staple grains because urban residents consume less grain than rural residents.

### ***Can Land Be Privatized?***

Several factors make it unlikely that China will privatize farmland. The current ownership of land is not

<sup>4</sup> Staple-grain production is often an important part of a village leader's performance evaluation.

<sup>5</sup> Some argue, however, that by making substantial investments households receive more secure tenure rights.

### ***What We Need to Know***

How are land-rental markets and other tenure institutions developing and what effects will they have on land use and agricultural productivity?

What effects does the unique tenure system have on labor and credit markets?

What implications do land-tenure institutions have for environmental degradation and agricultural sustainability?

How will land tenure affect urbanization and the location of industrial facilities?

What new tenure institutions are emerging to accommodate some of the conflicts outlined above? How do they work and what are the implications of these new tenure forms?

How does the lack of land ownership affect the food security of the elderly who can no longer rely on land assets to fund their retirement?

well defined, and there are already disputes among villages and village groups over this issue. Lack of a land registration system, poor credit markets, and a weak legal system make privatization of land ownership unrealistic, if not dangerous, at the present time (Brandt). Also, many farmers appear to prefer the current system, especially in poorer villages, because it guarantees households access to land (Ho).

The framework of China's existing collective ownership system will likely undergo changes. The latest land law, passed in 1999, uses much stronger language to ensure that households are extended 30-year leases

to promote household tenure security. The law also aims to reduce the frequency and capriciousness of land reallocations. Villages and townships in more developed coastal provinces are independently experimenting with new methods of consolidating collective land, such as cooperatives, land trusts, and joint-stock companies where households pool their land to form a large-scale farm or other operation. Villages are employing a wide variety of tenure practices, and those systems that allow for growth while distributing gains in a politically acceptable way will become models for future land-tenure reforms.

### ***Further Reading***

Brandt, L., G. Li, J. Huang, and S. Rozelle. "Land Rights in China: A Comprehensive Review of the Facts, Fictions, and Issues," University of California-Davis, REAP Working Paper, February 2001.

Guo, X. "Land Expropriation and Rural Conflicts in China," *China Quarterly*, Vol. 166, June 2001, pp. 422-439.

Ho, P. "Who Owns China's Land? Property Rights and Deliberate Institutional Ambiguity," *China Quarterly*, Vol. 166, June 2001, pp. 394-421.

Liu, S., M. Carter, and Y. Yao. "Dimensions and Diversity of Property Rights in Rural China: Dilemmas on the Road to Further Reform," *World Development*, Vol. 26, October 1998, pp. 1789-1806.

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