China: Lessons from a successful land rights reform

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Briefing Paper

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Takeway: China's land rights reform over the past three decades has achieved significant success. The initial reform step in the late 1970s and early 1980s that redistributed land from the communes to virtually every rural family provided the foundation for the greatest poverty-alleviation achievement in world history. Through a process of incremental reforms during the past three decades, Chinese farmers' rights to land have become increasingly secure, long-term, and transferable. Despite remaining challenges, China's experience in "getting land rights right" is instructive in both substantive and procedural aspects.

I. Overview

Twentieth century China was a laboratory of both successful and disastrous land tenure reforms. In the early part of the century, the Chinese Communist Party won the popular support of the mass of the rural population, largely thanks to a land tenure reform where numerous poor peasants were given land with full private ownership during 1949-1956. This resulted in a 70% increase in grain production and an even higher increase in farm income (Lin 1988, Chen 2008). In 1956, China unfortunately decided to follow in the footsteps of the former Soviet Union and promoted collective farms. Private ownership and family farms were prohibited, and collectives (village communities or their agglomerations) became land owners and farm operators. Agricultural production plummeted, and 15 to 30 million consequent deaths occurred during the years 1958-1962 (Peng 1987).

In the late 1970s, facing still-lagging farm production, China chose to abandon collective farming and conducted a so-called "Household Responsibility System" reform (HRS) by giving individual farm families limited "use rights" to farm land (Li & Prosterman 2009). The introduction of the HRS unleashed the energy and resources of scores of millions of farm families and jump-started China's agricultural and rural growth. Grain output increased steadily and the percentage of population living below $1.25 a day in China decreased from 84% in 1981 to 16% in 2005. This land tenure reform was enormously successful in lifting the living standards of hundreds of millions of rural people, and was the driving force behind the single greatest poverty-reduction achievement worldwide (Ravallion 2004, Bruce 1989). Economist Jeffrey Sachs writes of the decollectivization:

> "China was able, therefore, to begin its reforms with a major burst of agricultural production and a radical market reform of the food sector. Between 1977 and 1979, the commune system was spontaneously dismantled . . . . There was nothing gradual about this change. This was shock therapy par excellence. Around seven hundred million individuals in farm households were suddenly farming on plots assigned to the

household rather than to the commune. This new household responsibility system gave massive incentives to individual farmers to work harder, apply inputs with more care, and to obtain higher yields. Food yields boomed" (Sachs 2005).

China's decollectivization was rapid, but the process of providing secure, long-term, and transferable land rights to farm families has been more gradual and continues in an incremental and largely positive manner. Farmers' use rights to land, which were short-term and legally undefined immediately after the decollectivization, have gradually become more long-term, secure, and transferable over the past three decades. A series of policy measures and then laws have created 30-year use rights that are transferable and have at least minimal protection against expropriation.

China's land tenure reform achieved success, but the agenda is unfinished. The legal framework needs further incremental improvements, including defining what happens when the 30-year terms expire, providing better expropriation regulations, documenting women's rights, and adding mortgage rights. More importantly, the existing legal framework must be thoroughly implemented. According to a recent nationwide survey, 42% of farm families have not yet received any piece of land documentation as required by law. In addition, a large number of farmers have lost at least some of their land due to compulsory land expropriations with inadequate compensation paid for the loss. And about one-third of villages continue to undermine farmers' tenure security with (now-illegal) land "readjustments," in which land parcels are reallocated based on population changes (Prosterman & Zhu 2009). Further improvements in the legal framework for rural land property rights and thorough implementation of even the existing framework may be the best policy tool China has for re-igniting rural growth and closing the massive gap between rural and urban incomes.

That said, the Chinese rural experience of the past three decades – with rural poverty down dramatically and grain yields per acre rising to more than twice those of India – is largely a success story that holds important lessons for the developing world. For instance, in areas where the 30-year use rights have been effectively implemented, farmers are making productivity-enhancing investments and a land market is starting. Nearly one-quarter of Chinese farmers have now made long-term investments in their land, and about one in ten have engaged in market transfers of land rights in which the capitalized value of rent payments indicates an emerging land value of around $4,000 per acre. With roughly 300 million acres of arable land, this projects to a potential for $1.2 trillion in land wealth in Chinese farmers' hands if the current legal framework is fully implemented.

II. Two Main Characteristics of China's Rural Land Rights Reform

First of all, the reforms have provided **broad-based access to land** for all farm families. In each village collective, the reform physically divided up and allocated farmland to virtually all individual households on an equal per capita basis in the late 1970s and early 1980s (Burgess 2001, Prosterman & Zhu 2009). As a result of this highly egalitarian process of land allocation, the percentage of landless farm families was nearly zero. From that point onward, most of China's farmland has been farmed and used by individual rural households. This equitable land distribution and the broad-based

access to land is the key to the reform's success, as 200 million farm households were empowered and motivated to be productive and efficient.

In addition, **farmers' rights to land have become increasingly secure**. When farm households initially received land parcels from the communes, farmers' use rights to land were quite limited in substance and short in duration (village collectives remain as legal owners of land). As time has passed, the legal regime and the rights in practice have continuously improved in regard to the security, transferability, and time length of the rights. Under current law, Chinese farmers enjoy the right to possess and farm the land freely, sell farm produce without restriction, and the freedom to transfer land rights (including leases and assignments but excluding ownership transfer and mortgage). The present term for the rights is 30 years, typically starting in the late 1990s. Fifty-eight percent of the households have received some sort of official documentation that confirms such 30-year rights (Prosterman & Zhu 2009).

III. How Did China Get it Done?

There are a number of success factors to pinpoint in the case of China's rural land-tenure reforms. The following are key ones that could be instructive in other country settings.

- Building an ongoing **political consensus** – China's land rights reform was not done without controversy. Many old-school party officials resisted transferring power, land, and rights from the collective leaders. A few senior leaders, however, saw the value of the initial de-collectivization and allowed gradual expansion of the experiment. As the benefits and impact started to show, more party members, officials and farmers embraced the reforms. Even though there is no universal agreement across the board, the party has managed to build a consensus and an overall vision that are critical to the reform (Chen 2008).

- Policy consensus was (and is) informed by **research**. One of Deng Xiaoping's most famous sayings is "black cat or white cat; it's a good cat if it catches the mouse." The party members and officials involved in the reform process were – and remain – extremely pragmatic people who were interested in seeing results on the ground. Extensive fieldwork and research was done to understand the rural reality and identify which "cat" is effective in rejuvenating China's rural economy. The bottom-up research (as well as piloting) was instrumental in designing the land tenure system for farmers in China (Chen 2008).

- The use of **piloting**. The decollectivization was first tried by a handful of villages in southern China in the 1970s. When the experiment took hold and showed promising impact, counties and provinces started adopting it. The central government formally endorsed it only after a substantial number of regions had achieved success (Li & Prosterman 2009). The central government continued to sponsor county-level pilots that tested different types of land rights arrangements. The trial-and-error process has been an effective way of testing different assumptions and adjusting the design along the way.

- The emphasis on **implementation**. Creating a new law or policy is the relatively easy part, and implementation on the ground eventually decides the

effectiveness of the law or policy. Laws do not get automatically recognized and respected in the countryside, where rule of law is mostly lacking. It takes conscious effort and sometimes massive centrally mandated campaigns that educate officials and farmers, set up realistic goals and timeframes, designate specific responsibilities in one or two agencies, provide corresponding financial support, and conduct independent performance evaluation and impact assessment (Chen 2008). Even though China still has a long way to go in implementing all its land laws, it has achieved substantial successes in those areas where the government has consistently made efforts on grassroots implementation (Prosterman & Zhu 2009, Rozelle & Huang 2009).

IV. WHAT CHINA DID *NOT* DO BUT STILL SUCCEEDED

1. China has never had a **national cadastre or land registration system** that records individual families' land rights. In the late 1970s and early 1980s, China's only focus during the original land tenure reform was to ensure that all families received an equitable land share with relatively little attention paid to land registration or a cadastre. Because the rights were well recognized within local communities, there seemed to be little need for or value to setting up a costly cadastral system at higher levels.

2. China does not have **private ownership** of land. All rural land is still legally owned by village collectives while individual farm households enjoy 30-year use rights to the land. It does not appear that China will embrace private land ownership any time soon, but it is making farmers' property rights more secure within the context of collective ownership. As such, China's experience – like that of Israel, Australia, and some other settings – show that individual private ownership is not absolutely necessary for creating secure property rights and a sufficient incentive framework.

3. China does not have **American-style big farms**, but its two million small farms are nearly as productive. The average family farm size is less than two acres, which is partly due to China's limited farmland resources and partly due to intentional policy choices. China's farmland is intensively cultivated. With the aid of improved technology and farming practices, average grain production per acre is nearly 5,500 pounds (more than twice that of India) (Prosterman 2009). The small-farm model is positively confirmed by the land reform experiences in Japan, South Korea and Taiwan as well.

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