

Reform of the Rural Land System: Next Growth Engine of China's Economy

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I. Influence and significance of the rural land reform

i. Historical significance

Land system is of great importance in economic development, structural transformation and income distribution. Both China's economic reform and take-off begin with the reform of rural land system: abolishing village community and establishing the contract system with remuneration linked to output. The establishment of this system gives farmers the right to using land and claiming residual income, which greatly arouses farmers' enthusiasm, promotes the development of rural economy and provide sufficient raw material, market and labor force for industrialization. Thus the significance of this reform of land system would never be overemphasized.

ii. Remaining issues

The contract system with remuneration linked to output is based on the family unit. Although it has promoted the development of rural economy, it has also left some problems at the meantime. The current system of rural land property rights is incomplete, especially for the reason of lacking assignment rights and the rights to mortgage. Even the right to the use of land is frequently adjusted at regular or irregular intervals by village collectives instead of being arranged or planned in a long term by farmers themselves.

Firstly, the current land system in rural areas has an impact on production efficiency. Different aspects of this influence are listed as follows: (1) Irregular adjustment to the right to of land use has an influence on farmers' initiative in terms of long-period investment to the land and the income growth and the improvement of the land quality. Scott Douglas Rozelle, an American development economist, found in the research on China's rural land that the uncertainty of land right exerted noticeable impacts on farmers' long-term investment on land: the more uncertain the land right is, the less positive the farmers are for the long-term investment. (2) The non-transferable and non-collateralized land rights lower the value of assets attached to the land such as houses and thus farmers' property income, depriving them of the rights to share the interests brought by urbanization. (3) The blurred boundary of property rights discourages the

The land in China's broad rural areas is a kind of "dead capital" which remains unused yet. The key to succeed in the land reform lies in strengthening land power and clarifying land ownership. And more effective social policies on medical insurance and social security should be enacted in order to replace the security function of land and gradually remove the social insurance function attached to land.

urban investment on the rural land and its derivative assets, leading to insufficient utilization of the rural land and the destitution of rural areas. (4) The non-collateralized land aggravates the restrictions on the credit and obstructs farmers in starting their own business.

II. Properly arrange land system to avoid the middle-income trap

i. China's rural land system has widened the gap between urban and rural areas

China's current rural land system has not only restricted the development potentials of rural areas but also widened the gap between urban and rural areas: although urban residents do not have the land ownership but the ownership of houses built on the land, which means the value of land can be "capitalized" into the prices of houses through the real estate market and thus these residents have in essence the ownership of land. By comparison, rural residents do not have such a ownership of land and the fact widened the long-standing income gap between urban and rural areas. As a result of the asymmetry of land market and property right in urban and rural areas, the house prices of urban cities remained too high while the rural areas too low, further blocking the urbanization process. The backwardness of rural development has always been an obstacle for China's city development and modernization transformation, and to help the country rise from the middle-income trap, it should blur and even eliminate the urban-rural dual structure.

ii. How to turn land into real "capital"?

Hernandode Soto, a Peruvian economist, pointed in his book *The Mystery of Capital* that the reason why so many developing countries have long suffered from the development trap lies not in the fact that they have no assets but that these assets can not become real "capital" in the economic system but only "dead capital" which can not be used as collateral because of the blurred boundary of the legal property right. In this sense, land and other immovable property in China's broad rural areas are virtually dormant or dead capital remaining to really enter the modern economic system. To China, a developing country, credit constraint is a tight restriction for economic development, which will be hugely pushed forward if land can be turned into capital in the real sense.

iii. The experience of America, East and South Asia

Referring to the history of world development after World War II, only South Korea and Taiwan in more than 50 years after the war successfully got away from the middle-income trap and transformed from agricultural economy to industry economy. They conducted egalitarian reform on factor market, particularly the land market, granting farmers intact land

property right. From their experience, we can conclude that equality at the starting point created by the reform of factor market is quite essential for shared or inclusive growth and stable democratization. From a higher sight, we can find that the division of the economic development route between North and South America was exactly caused by different distribution of factors. Similar to some Southeast Asian countries like the Philippines, South American countries falls into the middle-income trap due to be closely associated with the high-level inequality of land endowment.

III. The key lies in the intensification of land power and functions and clarification of land property right

i. Abide by the decisions of the Third Plenary Session of the 18th Central Committee of the CPC and intensify the power and functions of land property

According to the decisions passed in the Third Plenary Session of the 18th Central Committee of the CPC, we will stabilize rural land-contracting relationships which will remain unchanged for a long time to come. On the premise of upholding and improving the system for providing the strictest possible protection for farmland, we will endow farmers with the rights to land tenure, land use, land revenue, land transfer and mortgage and guarantee of contracted land use, and allow farmers to develop industrialized operation of agriculture by becoming shareholders using their contracted land-use right. We will select several pilot areas to steadily and prudently push forward the mortgage, guarantee and transfer of farmers' residential property rights, and expand the channels for farmers to increase their property income. We will set up a rural property rights transfer market, and promote the open, fair and procedure-based operation of rural property rights transfer.

If we can correctly design and perform the second reform of land system, we can not only change the inadequate growth of China's current economy but also help our country successfully get away from the middle-income trap. Actually, after the implementation of the system of contracted responsibility linking remuneration to output, we just established farmers' land usage right and usufruct, but the right to transfer the land has not been affirmed and protected by law. The reason land reform is making slow progress lies not only in some ideological factors but also in a fact that politicians and academic experts show concerns about the free transfer right, which means many farmers will sell out their land and flock to urban cities, causing such social problems as city slums. A lot of government officials and experts believe that current rural land system is a mandatory social insurance: once farmers lose their jobs

in urban cities, they can return to rural areas, and the collective land can become their insurance. This is a popular view held by Chinese people.

ii. Clarify the land property right and stimulate new growth points

At the early stage of China's economic transformation, the technological level remains low and the city capacity is very limited. As a measure of expediency, the current land system has its own rationality, but in the long term, the blurred boundary of land property right obstructs the capital to give full play to its functions and restricts the economic development and structural transformation. Thus, we need to improve the property system. The latest economic research has proved that with the improvement of land property system, effective hypothecary value will be increased and this will be conducive to the growth of agricultural production.

At the same time, we should displace the security function with more effective social policies such as medical and social insurance, gradually getting rid of the functions of social insurance attached to land. When the conditions are mature, we can release the free transfer rights and hypothecation, giving full play to land property right. The new land system will relieve the financial restrictions and provoke people to start business, largely promoting the development of China's economy and integration of urban and rural areas and ensuring sustainable sound development in the upcoming 20 years and more. In this way, China can also follow the example of the shared growth of South Korea and Taiwan.

Translator/Zhuang Fei