

The Problem of the Relationship between Land for Construction and Farmland in China's Socio-Economic Development

Anthony Glendinning

King's College, University of Aberdeen, Scotland, AB24 3DX, UK
Government & Public Governance, Rangsit University, Patumthani 12000, Thailand
Email: tony@abdn.ac.uk

Submitted 25 February 2014; accepted in final form 13 April 2014

Abstract

The study is about China's problematic relationship between land for construction and farmland. Land use policy has reacted to economic reforms already underway to control losses of farmland caused by changing models of development. Policy and legislation were in reaction, for example, to what was seen as out-of-control entrepreneurial development in the countryside of the 1980s, and also later to the consequences of industrialization and pro-urbanization programs brought about by the devolved fiscal system of the 1990s. Socio-economic development came to be funded through local governments' expropriation and capitalization of collectively-owned farmland through its release to urban land use markets. At the same time a national land use policy of 'requisition-compensation balance of cultivated land' was said to be necessary to ensure China's food security by fixing a minimum 'red-line' amount of farmland reserved for agriculture. The present critical policy analysis provides a case study of the central government's reactions to changing local conditions that badly affected farmers and their livelihoods. Socio-economic divides between the countryside and the city only increased and cash-strapped local governments have since become burdened with debt because of a 'land finance' model of development that was no longer sustainable after the economic slowdown of 2008. The new leadership plans a different approach to socio-economic development and increasing urbanization, but farmland itself remains under 'strict control' of the state in China's particular approach to reform.

Keywords: *urbanization, socio-economic development, farmland, farmers, rural land use policy, China*

1. Introduction

China's leadership is concerned that increasing urbanization must be 'co-ordinated' so that socio-economic development improves the whole population's living standards, including that half of the population who still live in the countryside¹. Under the previous leadership team, the State Council, the highest executive organ of government, and the Party's Central Committee (CPC), had been particularly concerned to mitigate the 'uneven' effects of development on the nation's farmers and its farmland; the new leadership has said it will improve farmers' property rights (Zhu, 2013). According to Premier Li Keqiang, industrialization has been the driving force for China's development, but agricultural modernization that ensures the nation's food security must form the basis of national policy for increasing urbanization. He explains:

As a country with a large population, China must at all times be able to solve its own food problems... Valuing and rationally utilizing every inch of land and steadfastly protecting farmland are basic national policies. We must resolutely uphold these basic policies if we are to push forward with industrialization and urbanization. We must also deal effectively with the relationship between land for construction and farmland. This problem, in particular, must be treated seriously.

(Li, 2012)

¹ Government and Party concerns relate to economic growth, social stability and state control as much as farmers' situations. Analysis of land use policy has to be understood in its political context (McGregor, 2012).

The purpose of the present study is to analyse what Premier Li meant by the problem of the relationship between land for construction and farmland. Such an analysis is worthwhile because it is revealing of how industrialization and urbanization have been achieved in China in recent decades; the contradictions involved in that process and why the development model was no longer sustainable; and also, why central government had been so concerned about the consequences for farmers as well as farmland. It is notable that Premier Li used the word ‘problem’ when addressing senior cadres (McGregor, 2012). Government agencies do not to employ negative language and they do not highlight policy differences². Critical analysis is not the norm (Yin, 2014).

2. Concerns about the nation’s stock of farmland, or about its farmers

Figure 1 shows China’s changing amounts of ‘cultivated land’ under the charge of the People’s Republic (PRC)³. Today the total amount of farmland stands at levels similar to when that land was first taken into collective ownership in 1958, whereas the size of China’s population has more than doubled in that time along with a six-fold increase in the number of city dwellers. Agriculture represented the majority share of economic output and most citizens belonged to the peasant class at the beginning of China’s socialist transition in 1952, whereas it overtook Japan to become one of the world’s largest industrial economies, and the majority of its population no longer lived in the countryside by 2011⁴. It seems obvious, as Premier Li argued, that the nation’s stock of farmland would come under pressure from increasing industrialization and urbanization.

Researchers were more sceptical than Premier Li about the potential threat to the nation’s food security caused by the incursions of industry, urban sprawl and the use of farmland for construction; at least, that was during initial reform of China’s land administration laws from the mid-1980s through the 1990s (SCNPC, 1998 [1986]). Based on detailed analyses of satellite images of changes in land use, Deng, Huang, Rozelle and colleagues (2006) concluded that losses of cultivated land had been and would continue to be balanced by increased productivity under agricultural modernization. However, the concerns of China’s leaders thereafter were just as much about controlling ‘uneven’ socio-economic development and the growing inequities between its rural and urban populations (Ravallion and Chen, 2004) as they were about controlling use of farmland for construction under the guise of ensuring the nation’s food security. Social and income divides between China’s farmers and its urban citizens had only increased after an initial period of major improvements seen with ‘opening-up’ and economic reform between 1978 and 1986 (Zhou, 1996). That might better explain Premier Li’s seemingly bland exhortation of a ‘co-ordinated’ approach to plans for further urbanization⁵.

² Then Vice-Premier Li was one of the few leading politicians authorized to speak on Beijing’s economic policies under the previous leadership team (Miller, 2009).

³ PRC land administration laws and policies relate to designated land uses and use rights. The category of ‘cultivated land’ represents a broad indicator of productive farmland only. Estimates of arable land as opposed to sown land area, for example, mean different things for grain production due to practices such as double-cropping. Agencies do not even agree over some categories; for example, what counts as ‘forest land’ differs between the Department of Agriculture and Ministry of Land and Resources (MLR). In other words, official records provide broad indicators and estimates. The present study draws on data from the first national land survey conducted by the China State Land Administration Bureau (CSLAB, 1996; Liu, 2000) and, thereafter, MLR surveys. Sources and categories are explained in detail by Wang and colleagues (2012). Other data come from official reports by the China State Statistics Bureau (CSSB, 2000; 2009).

⁴ China’s official urbanization rate was 50.6% in 2011, with an annual rate of change of 2.85% projected between 2010-15; the corresponding figures for Japan were 91.3% & 0.57% and for Thailand 34.1% & 1.6%.

⁵ Premier Li voiced further concerns about social and income divides emerging in China’s developing urban centres and new mega-cities due to poor living standards and conditions of migrants from the countryside who were not registered officially as urban dwellers, and also of the many farmers who retained different registration status when they had been displaced from the countryside to live on the urban periphery due to the expropriation of farmland for regional industrial development and urbanization projects.

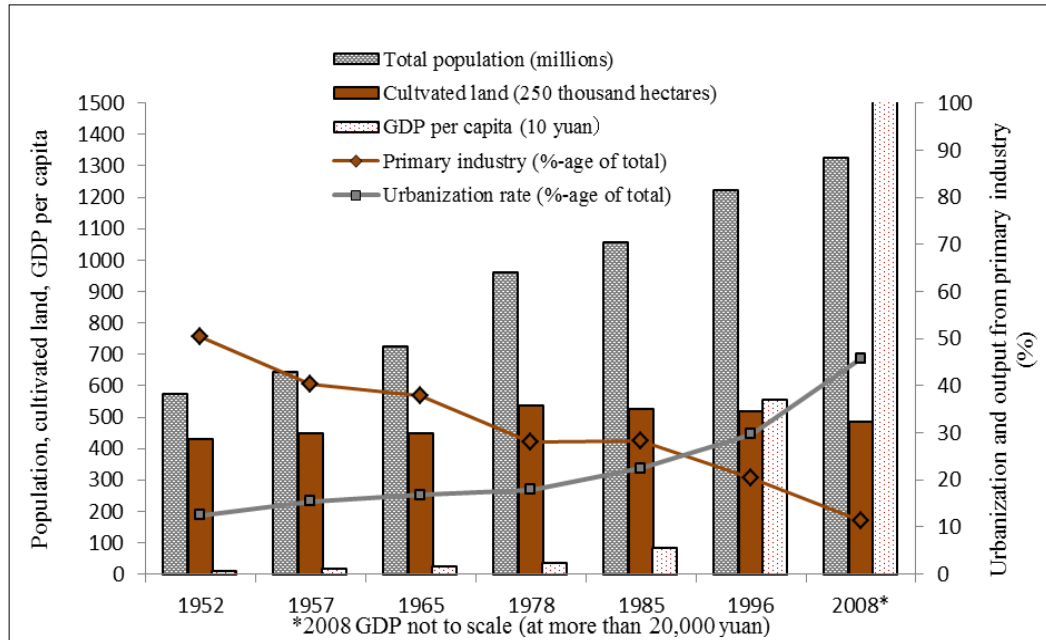


Figure 1 Area of cultivated land, population, urbanization and economic growth, China 1952-2008

The more recent effects on farmers have been considerable. China's land use policy may well have been effective in promoting socio-economic development under modernization, at least to the pragmatist, but those same policies have been much less functional in their outcomes for many of the nation's farmers. The extent of dysfunction was highlighted by the findings of a 17-province interview survey of farm households concerning the disruption to farmers' livelihoods, planning and investments that were caused by 'land-takings' by local governments for the construction of administration, services, real estate, industry, transport and infrastructure developments (Zhu, Prosterman, Ye *et al.*, 2006). The degree of dysfunction was shown by the findings of an in-depth study of the experiences and reactions of 'land-lost' farmers in a large, Central-south provincial city over an eight-year period (Hongping, 2011). The land of the farmers' agricultural collective had been requisitioned by the local government and the farmers were re-settled to the city's margins to make way for the construction of a regional administrative headquarters, judiciary and security buildings, a science-and-technology park and real-estate development.

3. The political, economic and social context to rural land use

3.1 Centrally-planned economy

A short period of 'economic recovery' after the establishment of the PRC in 1949 up to 1952 saw the redistribution of farmland to the peasantry 'fairly, rationally and uniformly' under Article 10 of the Land Reform Law of 1950 (Meisner, 1999). Reform intended to remove control of private property from the landed-gentry with peasants' grassroots' decision-making so as to end feudalistic practices. The CPC saw this as an initial phase only and individual peasant 'ownership' was not to last for long (Zhou, 1996). In the 'socialist transition' period, farmers were required to form producers' co-operatives of some 150 households.

The countryside saw collectivization of agriculture in 1958 with the formation of large state farms of some 5,000 households each. The aim was to ensure food production for a growing population (Zhou, 1996). Planning and heavy industry came to be emphasised as the basis of a socialist society over the alternative policy of an incremental, locally-based approach to development (Bachman, 2006). The 'Great Leap Forward' at the end of the 1950s planned to move China to a modern industrial society in one generation, but the amount of cultivated land went into decline and peasants and agriculture suffered greatly

(Xu, 1996). Policy shifted to large-scale construction projects. Their purpose was to enable strategic migration of key industries to the central provinces under the ‘San Xian’ program⁶.

Along with the collectivization of agriculture and development of central planning, the *hukou* household registration system was first introduced in 1958. That system divided and fixed the status of rural and urban residents and the movement of rural residents and their access to welfare and services (Wang, 2005). The ‘Great Proletarian Cultural Revolution’ was underway by the mid-1960s as national policy turned to mass ‘rustication’ (Perkins, 1991). Millions were sent to work in the countryside (Bian, 1991). The area of cultivated land increased annually by one million hectares. The area of cultivated land peaked at 134 million hectares in 1978, and the urbanization rate never reached 20 per cent at any point during the operation of the centrally-planned economy.

3.2 Market-oriented economic reform

3.2.1 The household responsibility system and town & village enterprises

China’s reform was gradual and without loss of public ownership, quite unlike post-socialism elsewhere (Walder, 1996). It was marked by two key changes in the countryside (Zhou, 1996). First, a ‘two-tier’ household responsibility system (HRS) became widespread whereby collectives continued to own farmland but land use contracts were extended to individual farm households. The system required farmers to meet basic quotas for the collective while they were also able to produce directly for the market. Marketization of trade in agricultural products was in place by the mid-1980s. The second key change was that the establishment of town and village enterprises (TVEs) that drew on farm labour to work in small and medium-sized industries in the locality instead of mass migration of rural workers from the countryside to the cities. TVEs meant continuity with pre-reform anti-urbanization policy insofar as they promoted locally-based development⁷. Their success was not anticipated (Zhou, 1996).

As a result of the HRS system, cultivated land was in high demand for farm production, but it was also increasingly used for TVE development, often in haphazard fashion. New TVEs occupied almost one million hectares. China’s stock of cultivated land went into decline. A policy of strict cultivated land conservation was mooted and administrative curbs on uncompensated and unlimited duration of land use were introduced by the mid-1980s (SCNPC, 1986). Fixed-asset investment and occupation of cultivated land for urban development slowed annually during the country’s first economic ‘soft-landing’ between 1986 and 1991, which had been put in place to control rapid growth and price inflation. Burgeoning rural entrepreneurship was also reined in (Huang, 2008). It is important to realise that the income divide between China’s rural and urban populations was at its lowest point due to the effects of the HRS and TVEs during the initial period of opening up and reform in the countryside in the first half of the 1980s. Thereafter, rural and urban incomes increasingly diverged (Ravallion and Chen, 2004). In addition, city dwellers had better access to services and welfare provisions than rural households (Wang, 2005).

3.2.2 Regional industrial development and urbanization

Central government policy shifted to regionally-based economic development under a new, devolved fiscal system in 1994. Local governments began to prioritise the change of use and requisition of farmland for industrial, residential and infrastructure development over maintenance of cultivated land resources. Indeed, a policy target of 128 million hectares had been agreed upon as the ‘preservation’ amount in National Land Use Planning to run from 1997 to 2010, but China’s stock of cultivated land was already below that minimum amount by 2001. Conflicts between competing interests over use of farmland

⁶ Large-scale construction of strategic defence, industry and infrastructure projects was carried out in 13 central provinces (autonomous regions) in mid-West China from 1964 in readiness for and removed from the possible incursions of external aggressors. There was mass migration to Sichuan, Guizhou, Yunnan, Shaanxi, Gansu, Ningxia, Qinhai and other regions. Policy caused major shifts in land use; for example, deforestation and land reclamation schemes led to soil erosion over large areas.

⁷ Special economic zones (SEZs) were kept quite separate and their particular role within a socialist market economy was clarified only later, in 1992, by the leader of opening up and reform, Comrade Deng Xiaoping.

for construction became a major issue. Monitoring established through the Ministry of Land and Resources (MLR) showed the extent of losses and illegal use of farmland, so much so that a moratorium was placed on all conversions of land use for a six-month period from May 2004 ('Urgent Notice on Further Regulating Land Market and Strictly Controlling Land Administration,' promulgated by the State Council of the PRC, 30 April 2004). The State Council released 'Decisions of the State Council on Deepening Reform and Tightening Land Management' in October 2004 further to counter acts of unlawful appropriation and misuse. The minimum 'red-line' amount was re-set to 120 million hectares (or 1.8 billion Yi Mu) as the long-term target in the 'Eleventh Five-Year Plan' approved at the National People's Congress, 14 March 2006.⁸ Policy directives issued in the form of notes and decisions of the State Council, its Ministries and the CPC's Central Committee were used to manage national land use as much as China's legal regime approved by the Standing Committee of the National People's Congress (Chen, 2011).

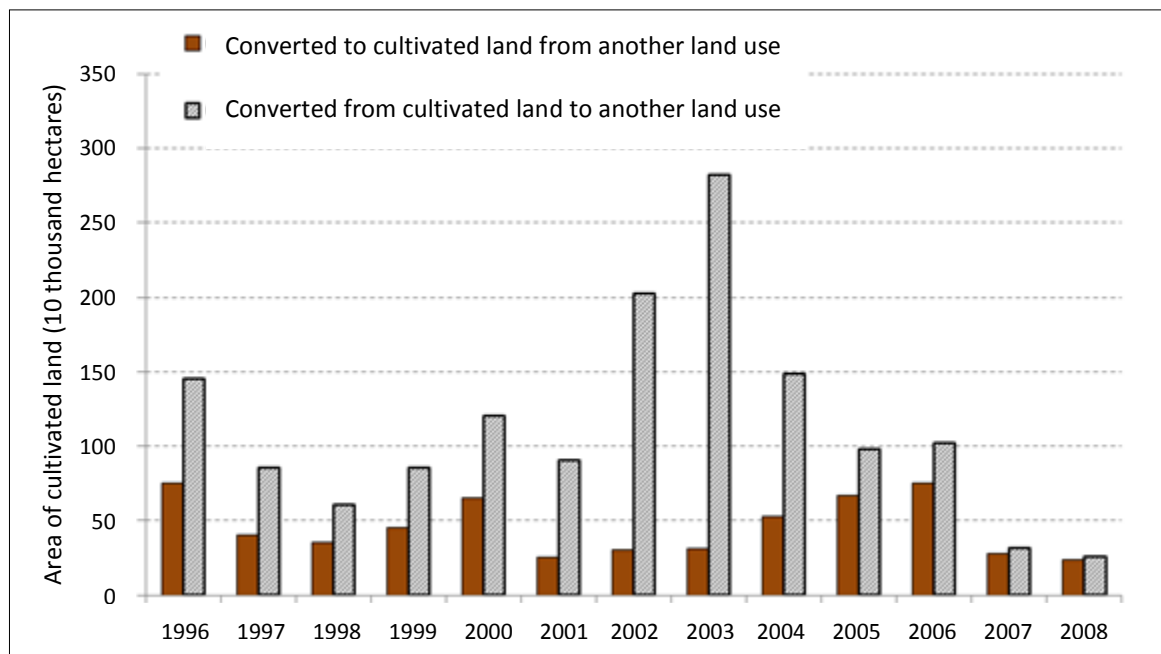


Figure 2 Conversion of cultivated land to other uses, China 1996-2008

Source: Wang *et al.* (2012)

Surveys carried out by the MLR had found that the conversion of cultivated land to other uses without adequate replacement was running at an all-time high around 2003. Figure 2 shows the cultivated land conversion balance from the beginning of land use monitoring in the 1990s. Conversion of cultivated land peaked in 2003 and its replacement by land converted from other land use types was well below 50 per cent in terms of total area in each of the years 2001, 2002, 2003 and 2004. Nine times more farmland was converted to other uses than was replaced in 2003. The rate of increase in the area of urban developed land had been over 200 thousand hectares per annum since 2000. It was twice that of the 1990s. Clearly local governments had not 'steadfastly' protected farmland. Nor did they 'rationally' utilize land resources. China's economic development model was reliant on acquiring new land even when existing stocks of urban development land remained under-used⁹. The MLR estimated that there were 55 thousand hectares of 'vacant' urban land (not tenured), 70 thousand hectares of 'idle' urban land (tenured but not in use) and 135

⁸ An authoritative explanation as to why exactly the figure of 1.8 Yi Mu is lacking.

⁹ Developed land was under-utilized in the countryside, too. The character of development and scale of out-migration had produced the phenomenon of the 'hollowed-out' village (Long, Li, Liu *et al.*, 2012). Ten to fifteen per cent of village land and farm households lay empty at the time of the MLR surveys in 2004.

thousand hectares of ‘new’ urban land (approved but not yet in use) in 2004. That amounted to more than one-quarter of a million hectares and represented some one-twelfth of the nation’s urban developed land. It was estimated that the amount not actually in use represented as much as one-fourth of the built-up areas in some of the cities surveyed.

4. Food insecurity

Food security had been seen as the necessary base for China’s development and political independence in the period of the centrally-planned economy before 1978, and that dictum applied just as much under market-oriented reforms (Christiansen, 2009). China’s changing amounts of cultivated land are set against its national grain production over six decades in Figure 3, including the severe disruptions to grain supplies in the late 1950s under the ‘Great Leap Forward’ (Yang, 2008)¹⁰. Certainly, the nation’s stock of farmland declined after opening up in 1978, but were there any risks to national food security caused by the manner in which market-oriented reforms to land use had been realised?

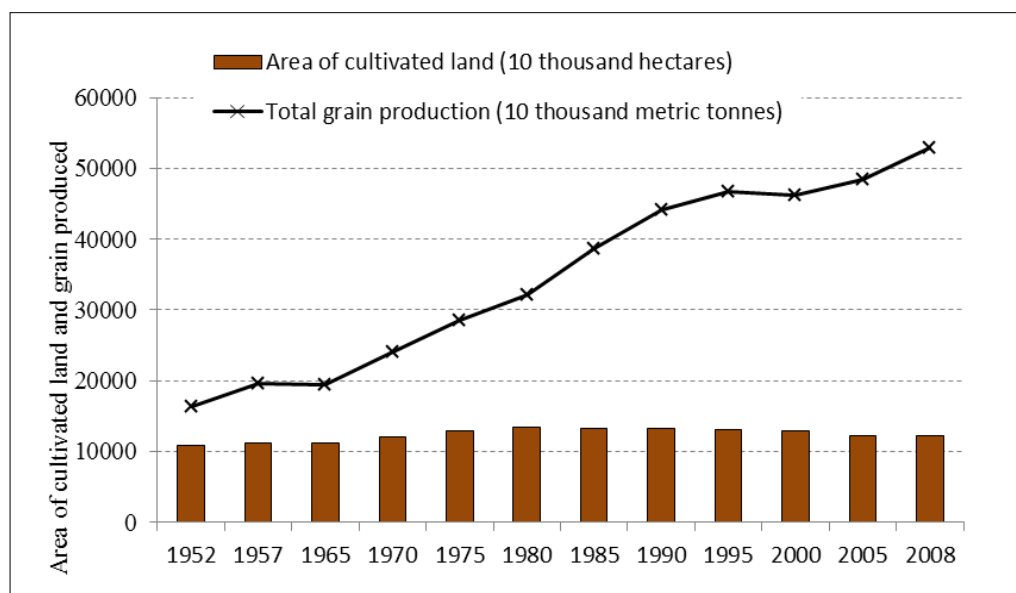


Figure 3 Area of cultivated land and total grain production, China 1952-2008

In the immediate period after opening up from 1978 to 1985, econometric modelling has shown that increased agricultural productivity due to ‘de-collectivization’ of farming through the HRS on its own accounted for some 50 per cent of national grain output growth (Lin, 1992). Changes to market and state procurement prices for grains also led to increased farm inputs, especially in the form of chemical fertilizers, and that explained a further 40 per cent of national grain output growth from 1978 to 1985. In addition, the market was able to compensate for reduced state procurement prices for grain as well as the government-led ‘economic soft-landing’ in the second half of the 1980s. Certainly the outflow of farm labour to work in TVEs began to affect the rate of grain output growth within the farm sector from 1985; but notably, detailed econometric analysis also showed that widespread loss of farmland to the nation’s locally-based TVE-driven industrial development policy of that time did not, in fact, greatly affect national grain output growth.

¹⁰ Nonetheless it is worth noting that China’s only years of recession during the period of the centrally-planned economy had been 1958 to 1961 (Perkins, 1991).

New concerns were expressed about grain production between 1997 and 2002 (Li, 2005) when socio-economic development policy shifted to regionally-based industrial zones and pro-urbanization programs. However, Aubert's (2008) critical re-examination of food production and consumption patterns over a 20-year period between 1985 and 2005 concluded that the nation's 'grain problem' was, in the final analysis, simply 'a statistical artefact'. In addition, according to Zhou (2010) national grain reserves had been in excess of 30 per cent for much of the development of China's market-oriented economy¹¹. That was regarded by Zhou as quite different from the situation during the centrally planned economy, when there had been times the nation's reserve stock of grain had been below what was considered a 'secure' amount. Thus, notwithstanding the degradation and losses of farmland due to increasing industrialization and urbanization, it seemed that the nation's grain supply was not under threat.

5. Rural land use policy

The real point is that the nation's food security has always provided a legitimate reason for why the use of farmland should be placed under the 'strict control of the State' (SCNPC, 1998 [1986]: Article 4). It was taken-for-granted and a given of national policy to protect and control the use of farmland; at the same time, it masked the dependency of China's regionally-based economic growth under a devolved fiscal system of taking farmland for construction to sustain industrialization and increasing urbanization, development also justified as being in the national interest. There were inherent problems with the state's policies for managing 'the relationship between land for construction and farmland'.

5.1 Policy studies of land use under economic reform

Policy studies of land use under Chinese economic reform had begun with questions about the development and operation of land use markets and leasing systems but with the research focus on urban land use (Cai, 1990; Han and Wong, 1994; Liu and Yang, 1990; Tang, 1989; Yeh and Wu, 1996; Zhang, 1997). Such assessments and prospects for land use policies raised the question of how to monitor national land resources and land use changes, including monitoring use of farmland (Ding, 2003; Feng, Lin and Yang, 2005; Han and He, 1999; Ho and Lin, 2004; Lin and Ho, 2003). Monitoring was developed more fully with the establishment of the MLR (Wang, Chen, Shao *et al.*, 2012), but questions remained about the operation of land administration legislation that had to square the demand for urban land with the protection of farmland (Li, Feng and Hao, 2009; Yang and Li, 2000). A national system of planning, monitoring and control of land resources had been put in place that intended to maintain a 'requisition-compensation balance' where land taken for construction had to be replaced (Wang, Liu and Wanag, 2010). Concerns persisted about the degradation of the nation's stock of farmland, due to the manner in which developers, or local governments as their agents, met statutory requirements for replacing cultivated land used for construction, as well as direct losses through illicit uses and serious environmental pollution caused by industrialization and urbanization (Chen, 2007; Ren, Zhong, Meligrana *et al.*, 2003; Tan, Li, Xie *et al.*, 2005). The manner of industrial development and pro-urbanization programs, and their uneven distribution regionally, also meant that it was higher-quality farmland that was being lost (Wang *et al.*, 2012).

5.2 Ownership of farmland

Land resources had remained in public ownership under China's gradual approach to market-oriented reforms (Walder, 1996). Urban land for construction was owned by government agencies, whereas farmland continued to be owned by socialist collectives. Only land use contracts were extended to individual farm households under the rollout of the two-tier HRS and its subsequent development in legislation (SCNPC, 2002), but the State reserved the right of 'eminent domain' to re-designate land use types and, as such, to requisition the ownership of the collective's land for urban development in the 'public-national interest' (SCNPC, 2004)¹². The State held public ownership of all non-collective land,

¹¹ Zhou also noted that industrialization and urbanization were as much a cause of changing food demands and patterns of consumption as they were any threat to basic food production. Industrialization and urbanization meant increasing numbers of city dwellers with better incomes and different lifestyles.

¹² Land might also be approved for conversion from and to agricultural uses where requisition was not involved.

including the land that been requisitioned from collectives. The use rights for the development of requisitioned farmland had to be acquired by developers through long-term lease from local government agencies. It is important to understand that, in the case of both farmers' land use contracts issued by collectives and also developers' urban land use rights leased from local government agencies, the individual has well-established ownership rights to property but not to land (SCNPC, 2007). Legislation had been provided for management and regulation of land use markets through the MLR, once it was established, but importantly, that was for urban land use rights markets only (SCNPC, 1998).

5.3 Protection of farmland through strict control and equilibrium policy for requisition-compensation

New TVEs had promoted the development of locally-based manufacturing and industry alongside increased farm productivity through the two-tier HRS system without any large-scale urbanization. Nonetheless, central government saw TVE development and local entrepreneurship in the countryside as unplanned and uncoordinated (Huang, 2008). In response, by the mid-1980s national land use policy was framed around strict control, including the requirement to protect farmland as stated in the PRC's Land Administration Law (LAL):

Article 1 The law is formulated ... with a view to strengthening the administration of land, safeguarding the socialist public ownership of land, protecting and developing land resources, ensuring a rational use of and giving a real protection to cultivated land to promote sustainable development of the socialist economy...

(SCNPC, 1998 [1986])

A review of land administration legislation and policy documents is provided by Wang and colleagues (2010) starting with the promulgation of the original LAL in 1986. A separate study by an official MLR-led team discusses policy starting from 1996 (Wang *et al.*, 2012). National land use policy did not resolve conflicts of interest that emerged with the shift to regionally-based development of industrial zones and pro-urbanization programs in the mid-1990s. A policy of 'Strict Cultivated Land Protection and Developed Land Control' was proposed in the 'Notice about the Enhancement of Requisition-Compensation of Cultivated Land' in 1997 and a policy of 'Equilibrium of Requisition-Compensation of Cultivated Land' operated from 1999 after the LAL was revised in 1998¹³. Equilibrium policy required that any loss of cultivated land to other uses must be compensated by the generation of a similar area of cultivated land from other use types. Units taking land were responsible for replacement or for paying local government agencies to generate replacement land (Figure 2). Conflicts between policies for preserving cultivated land while promoting industrial and urban development locally intensified.

National Land Use Planning to run from 1997 had set a target for the total area of 'basic' (higher-quality) cultivated land to be left untouched at 80 per cent in every Province and County, meaning that a maximum of 20 per cent (of lesser-quality) cultivated land could be converted to other land uses, but only if it was replaced. The replacement cultivated land had to be generated through land development, land consolidation and land reclamation schemes to maintain a 'dynamic' balance, where policy allowed no net increase of developed land on cultivated land. There was lack of co-ordination of policy and funding across government agencies with conflicting, competing interests nationally and locally (Zhang, 2000). Local government replacement schemes did not focus on quality. Nor were there incentives to reduce the waste of land already developed through recycling of damaged, abandoned, idle or unused urban land. In practice, an 'equilibrium' between total areas of cultivated and developed land only meant that 'fixes' had to be found by government locally. Agreed planning targets and planning configurations failed. There was a proliferation of illegal land use.

¹³ Those policies were re-emphasised in guidance for 'Evaluating Method on the Equilibrium Requisition-Compensation of Cultivated Land' in 2006 and 2007. In response to the global economic slowdown, policy changed to endorse a 'double-maintenance' strategy of 'Maintain Both Economic Development and Land Resources Conservation' or 'Maintain Both Development Rate and Red Line' in 2008.

5.4 Capitalization of farmland

It may have been at odds with protecting farmland, but an integrated mode of land and finance pushed forward industrialization and urbanization in China. Expropriation of collectively-owned farmland by local governments became the main method for increasing the stock of urban developed land, which led to the phenomenon of ‘land finance’. To illustrate, according to the MLR the amount of expropriated land in the period from 2003 to 2005 totalled 850 thousand hectares. The average land compensation fee paid to farm collectives was 0.52 million yuan per hectare¹⁴. That was the nominal cost to local governments for ownership through change of designated land use. However, the amount of urban developed land transferred by local governments on the ‘urban-land-market’ during the same period was 540 thousand hectares at an average lease income of 3.25 million yuan per hectare. That was the price charged by local governments to developers for urban land use rights of 40 to 50 years¹⁵. Land requisition financed the fiscal deficits of local governments and supported urbanization. As well as the immediate returns, it was also clear that not all requisitioned land was being released onto the ‘market’. Local government was able to monopolise the supply of urban land and use rights: it controlled planning, entered pre-agreements, arranged auctions and timed its release to developers.

Capital accumulation based on rural land resources has played a major role in the Chinese context, showing an increasing rather than decreasing trend up to 2008. The fiscal system delegated power to local governments after 1994 while reinforcing the central government’s control of the macro-economy. Conflicts of interest were evident within and between government agencies due to administrative setups and financial systems. Capitalization of rural land resources became a key driver of local government socio-economic development. The returns boosted local officials’ performance; for example, the proportion of ‘land finance’ revenue within total fiscal revenue of local governments had increased to well over 40 per cent by 2009 compared with less than 10 per cent a decade earlier in 1999. Post-2008, increasingly cash-strapped local governments secured loans on land assets in efforts to maintain performance.

5.5 Effects of ‘land finance’ on farmers

Development through ‘land finance’ hurt farmers badly because of the practices used by local government agencies to requisition collective land and the means of compensating individual farmers that were managed through officials and cadres representing affected collectives (MLR, 2003; Lu and Ye, 2005). Beyond requisition and compensation practices, there were basic conflicts between the operation of the land allocation system and agricultural land tenure policy (Wang, Tong, Su *et al.*, 2011). The State Council and CPC were just as concerned about the effects on farmers as they were about effects on farming (Dean and Damm-Luhr, 2010). A nationwide survey found that ‘land-takings’ had significant effects on farmers’ production planning and their farm investments because of uncertainty over contracts and land use rights (Zhu, Prosterman, Ye, *et al.*, 2006); but much more than that, the operation of the land requisition system and the methods used to compensate farmers affected by it were a major cause of social discontent.

A case study of the experiences of farmers who were resettled to live on the margins of one provincial city explains reasons for and reactions to social discontent (Hongping, 2011). The land of the farmers’ agricultural collective had been expropriated and re-designated for industrial and urban development. Farmers appealed about the illegitimate behaviour of local officials and cadres; they did not object about national policy of the State Council and Party. It was local officials’ decisions on compensation that seemed to be against statutory guidelines, made arbitrarily and managed second-hand through the Farm Collective or through the Street Agency that had replaced it. The farmers’ complaints were ignored and their petitions about injustices and abuses had to be funnelled through the appeals’ system of the State Bureau for Letters and Visits (Wang, 2003; Zhou, 1998). They were not able to use the courts or the media, and any co-ordinated action outside of the institutions of the State was proscribed (Zhou, 1993). Appeals were supposed to be considered by the local offices of the State Bureau for Letters and Visits on an individual, case-by-case basis only. Nonetheless, persistent, collective appeals to higher

¹⁴ That was paid to agricultural collectives and not directly to farm households.

¹⁵ Developers rather than local government would be asked also to meet other costs such as of replacement land.

authorities over a four-year period caused an investigation and review of procedures locally, and compensation policies and payments to farmers were revised on a number of occasions.

Farmers in the case study were able to pressure local officials by appealing to higher authorities, who in turn used the appeals' system to monitor their subordinates' behaviour, while also expecting those same officials to contain the situation locally without hurting economic growth. Imperatives for local officials were to save face and avoid sanctions through internal disciplinary procedures for poor performance and wrongdoing that would harm their careers. In the end, the farmers' recourse to the appeals system of the State Bureau for Letters and Visits led to increasing confrontation between farmers and officials, and ultimately, outright conflict. Farmers were quieted once local officials became belligerent. In the end, the state's mechanisms for managing social discontent among farmers caused by the 'land finance' model of local socio-economic development proved ineffective and dysfunctional.

6. Discussion

The terms 'effective' or 'dysfunctional' might suggest one smooth process with one clear purpose. The present study shows that China's land use policy has changed to respond to reforms already underway, for example, central policy to manage what was seen as increasingly out-of-control entrepreneurial development in the countryside of the 1980s. The establishment of the MLR, national planning and monitoring and the revised LAL can be seen as responding to the effects of the new, regionally-based socio-economic development model of the 1990s. That set land taken for construction at odds with the dictum to protect the nation's farmland. Local governments were able to control land use markets to the detriment of farmland and farmers.

What is now seen as dysfunctional is a gross (and inequitable) expropriation of farmers' land for the sake of financing regionally-based growth, industrialization and urbanization, a form of accumulation that was effective for its purpose at that time. From the viewpoint of local officials, that they 'abused' land requisitioning and also the many farmers affected by it, is not really the case; they had simply used a devolved finance model that enabled them to do what was required of them. They financed local development using the revenue increment of development itself as collateral to secure development loans based on the conversion of farmland for urban construction. From their viewpoint, they had no other budgetary options available despite being required to meet development targets.

Central government reacted with control mechanisms intended to mitigate the effects on farmland and farmers of the regionally-based development model through 'land finance' that they had set in train. Losses of farmland were managed through an 'equilibrium requisition-compensation' policy, but with conflicts of interest within and among local government agencies. The policy was further compromised by the needs of local governments to respond to the economic slowdown after 2008. China's National Audit Office most recently reported debts of 17.7 trillion yuan (2.9 trillion USD), 70 per cent higher from 2009 (BBC, 2013). That gave an estimate of total government debt at about 58 per cent of national economic output in 2013, still less than half the debt burden in Japan, for example, but the pace of China's rising debt burden was alarming. It appeared a 'land finance' model was no longer sustainable.

Post-2008, under the previous leadership team, the State Council and CPC had responded by issuing policy documents said to be a 'breakthrough' in rural reform to increase farmers' incomes and ensure the grain supply. However, in addition to macro-control policies and legislative reform by central government, to be effective national rural land use policy must consider the political economy of agriculture (farm income, farming skills, off-farm work, rural finances and public welfare schemes) as equally important in safeguarding farmland and farm livelihoods.

7. Conclusion

The third Plenary Session of the 18th CPC Central Committee was held 9-12 November 2013. The expectation was that the policy direction of the new leadership team would be made public. The Secretary General, President Xi Jinping, announced its 'Decision on Major Issues Concerning Comprehensive and Far-reaching Reforms'. Proposed reforms were said to include a shift away from local governments' monopoly of development to incorporate more market-based control through the use of financial levers and the redistribution of secondary income from local finances to narrow the gap between urban and rural

households. Adjustments to the ‘hukou’ system were also mooted to resettle farm households as urban residents, although restricted to small and medium-sized cities only, giving households new access to social benefits within a different but still controlled approach to urbanization. It was said rural land reform would be part of the package, too, including improving farmers’ property rights and introducing rural developed land use rights markets for farmers to mortgage and lease. Yet the very first step remains unfinished: to confirm and register farmers’ current use rights and contracts. Nationwide surveys suggested fewer than one-half of farmers possess those.

The Politburo of the Party’s Central Committee met in December to discuss current and future economic development and the new reform agenda that had been outlined in November. The meeting also heard the research report of the second national land survey from 2008 to 2010¹⁶. In its concluding statement, it stated that, ‘the strictest farmland protection system must be carried out in the country to ensure grain security’ (Xinhua, 2013). We can see a new socio-economic development model emerging in China, as the previous development model and devolved fiscal system are no longer sustainable, but with continuing central political control.

8. References

- Aubert, C. (2008). Food security and consumption patterns in China: The grain problem. *China Perspectives*, 2, 5-23.
- Bachman, D. (2006). *Bureaucracy, economy, and leadership in China: The Institutional Origins of the Great Leap Forward*. Cambridge University Press, Cambridge.
- BBC. (2013). China local government debt surges by 70%. Retrieved January 1, 2014, from <http://www.bbc.co.uk/news/business-25553058>
- Bian, Y. (1991). *The Time is not yet ripe: Contemporary China’s best writers and their stories*. Beijing: Foreign Language Press.
- Cai, Y. L. (1990). Land use and management in PR China: Problems and strategies. *Land Use Policy*, 7(4), 337-350.
- Chen, H. Y. (2011). *An introduction to the legal system of the PRC* (4th ed.). Hong Kong: LexisNexis.
- Chen, J. (2007). Rapid urbanization in China: A real challenge to soil protection and food security. *Catena*, 69, 1–15.
- Christiansen, F. (2009). Food security, urbanization and social stability in China. *Journal of Agrarian Change*, 9(4), 548-575.
- China State Land Administration Bureau (CSLAB). (1996). *China Land Yearbook (1994-1995)*. Beijing: People’s Publishing House.
- China State Statistical Bureau (CSSB). (2000). *New China’s 50 Years (1949-1999)*. Beijing: China State Statistical Press.
- (2009). *China Statistics Yearbooks (2000-2008)*. Beijing: China State Statistical Press.
- Dean, R., & Damm-Luhr, T. (2010). A current review of Chinese land use law and policy: A ‘breakthrough’ in rural reform? *Journal of Pacific Rim Law and Policy*, 19, 121-159.
- Deng, X., Huang, J., Rozelle, S., & Uchida, E. (2006). Cultivated land conversion and potential agricultural productivity in China. *Land Use Policy*, 23(4), 372-384.
- Ding, C., 2003. Land policy reform in China: assessment and prospects. *Land Use Policy*, 20(2), 109-120.
- Feng, Z. M., Liu, B. Q., & Yang, Y. Z. (2005). A study of changing trend of Chinese cultivated land amount and data re-constructing: 1949-2003. *Journal of Natural Resources*, 20(1), 35-43.
- Han, S. S. & He, C. X. (1999). Diminishing farmland and urban development in China (1993–1996). *Geo Journal*, 49(3), 257-267.
- Han, S. S. & Wong, S. T. (1994). The influence of Chinese reform and pre-reform policies on urban growth in the 1980s. *Urban Geography*, 15, 537-564.

¹⁶ The results of the survey had not been issued. China’s first national survey was in the 1990s (Liu, 2000).

- Ho, S. P. S., & Lin, G. C. S. (2004). Converting land to non-agricultural use in China's coastal provinces—evidence from Jiangsu. *Modern China*, 30(1), 81-112.
- Hongping, L. (2011). *The relationship between land-lost farmers and regional government in China: Integration, conflict, and their interplay* (Unpublished doctoral dissertation). University of Aberdeen. Retrieved January 1, 2014, from www.ethos.bl.uk
- Huang, Y. (2008). *Capitalism with Chinese characteristics: Entrepreneurship and the state*. NY: Cambridge University Press.
- Li, K. (2012). Seminar of Cadres at provincial and ministerial level on promoting urbanization September 7. *Promoting Co-ordinated Urbanization-an Important Strategic Choice for Achieving Modernization, Speech*. Central Organization Department. Chinese Academy of Governance and the National Development and Reform Commission.
- Li, P. (2005). China's current grain security in context of food security. *Chinese Rural Economy*, June, 4-10.
- Li, W., Feng, T. T., & Hao, J. M. (2009). The evolving concepts of land administration in China: Cultivated land protection perspective. *Land Use Policy*, 26(2), 262-272.
- Lin, G. C. S., & Ho, S. P. S. (2003). China's land resources and land use change: Insights from the 1996 land survey. *Land Use Policy*, 20(2), 87-107.
- Lin, J. Y. (1992). Rural reform and agricultural growth in China. *American Economic Review*, 82(1), 34-51.
- Liu, W. X., & Yang, D. S. (1990). China's land use policy under change. *Land Use Policy*, 7(3), 198-201.
- Liu, Y. (2000). *China's survey of land resources: Results*. Beijing: Office of the National Survey of Land Resources.
- Long, H., Li, Y., Lui, Y., Woods, M., & Zou, J. (2012). Accelerated restructuring in rural China fuelled by 'increasing vs. decreasing balance' land-use policy for dealing with hollowed villages. *Land Use Policy*, 29(1), 11-22.
- Lu, Q., & Ye, X. (2005). Reflection on the arrangements and compensation for land-lost farmers. *Journal of South China Agricultural University*, 2, 9-14.
- McGregor, R. (2012). *The Party* (Revised Edition). London: Penguin Books.
- Meisner, M. (1999). *Mao's China and after: A History of the People's Republic*. New York: Simon & Schuster.
- Miller, A. (2009). The preparation of Li Keqiang. *China Leadership Monitor*, 31, 1-7.
- Ministry of Land and Resources of the PRC (MLR). (2003). Report of the MLR's Land Requisition System Reform Research Group. *National Land and Resources Information*, 11, 48-55.
- (2008). Laws – Management and Legal System for Land Resources. Retrieved July 27, 2013, from <http://www.mlr.gov.cn/mlrenglish/>
- Perkins, D. H. (1991). China's economic policy and performance. The Cambridge History of China, Volume 15: The People's Republic. In R. MacFarquhar & J. K. Fairbank (Eds.), *Revolutions within the Chinese Revolution, 1966-1982* (475-539). Cambridge: Cambridge University Press.
- Ravallion, M., & Chen, S. (2004). China's (Uneven) Progress Against Poverty. *World Bank Policy Research Working Paper 3408*. Retrieved June 11, 2013, from <http://elibrary.worldbank.org/content/workingpaper/10.1596/1813-9450-3408>
- Ren, W., Zhong, Y., Meligrana, J., Anderson, B., Watt, W. E., Chen, J., & Leung, H. (2003). Urbanization, land use and water quality in Shanghai: 1947-1996. *Environment International*, 29(5), 649-659.
- Standing Committee of National People's Congress. (1998). Land Administration Law of the PRC. Retrieved June 11, 2013, from http://www.fdi.gov.cn/1800000121_39_2777_0_7.html
- (2002). Law on Land Contract in Rural Areas of the PRC, promulgated 29 August 2002. Retrieved July 27, 2013, from http://www.china.org.cn/china/LegislationsForm2001-2010/2011-02/12/content_21907969.htm
- (2004). Constitution of the PRC, promulgated 4 December 1982 (amended 1988, 1993, 1999 and 2004). Retrieved June 11, 2013, from http://www.fdi.gov.cn/1800000121_39_1561_0_7.html

- Standing Committee of National People's Congress. (2007). Property Rights Law of the PRC, promulgated 17 March 2007. Retrieved July 27, 2013, from http://www.fdi.gov.cn/1800000121_39_3313_0_7.html
- Tan, M., Li, X., Xie, H., & Lu, C. (2005). Urban land expansion and arable land loss in China: Case study of the Beijing–Tianjin–Hebei region. *Land Use Policy*, 22(3), 187–196.
- Tang, Y. B. (1989). Urban land use in China: Policy issues and options. *Land Use Policy*, 6(1), 53-63.
- Walder, A. G. (1996). *China's transitional economy*. Oxford: Oxford University Press.
- Wang, F. (2005). Organizing through divisions and exclusion: China's hukou system. Palo Alto, CA: Stanford University Press.
- Wang, Y. (2003). An analysis of the eight central issues of people's complaints. *Biweekly Forum*, 21, 23-26.
- Wang, H., Tong, J., Su, F. B., Wei, G.X., & Tao, R. (2011). To reallocate or not: Reconsidering the dilemma in China's agricultural land tenure policy. *Land Use Policy*, 28(4), 805-814.
- Wang, J., Chen, Y. Q., Shao, X. M., Zhang, Y. Y., & Cao, Y. G. (2012). Land use changes and policy dimension driving forces in China: Present, trend and future. *Land Use Policy*, 29(4), 737-749.
- Wang, M. N., Liu, X., & Wanag, B. (2010). Changing and developing trend of the farmland requisition-compensation policy in China. *Asian Agricultural Research*, 2(10), 18-23, 28.
- Xinhua, (2013). China looks for further reform in 2014. Retrieved January, 2014, from http://news.xinhuanet.com/english/china/2013-12/03/c_132938606.htm
- Xu, Z. L. (Ed.). (1996). *Food economy history of contemporary China*. Beijing: Chinese Commerce Press.
- Yang, D. T. (2008). China's agricultural crisis and famine of 1959–1961: A survey and comparison to Soviet Famines. *Comparative Economic Studies*, 50, 1–29.
- Yang, H., & Li, X. (2000). Cultivated land and food supply in China. *Land Use Policy*, 17(2): 73-88.
- Yeh, A. G., & Wu, F. (1996). The new land development process and urban development in Chinese cities. *International Journal of Urban and Regional Research*, 20(2), 330-353.
- Yin, P., 2014. Feeding the future. *Beijing Review* 57(1), 1-2. Retrieved January, 2014, from http://www.bjreview.com.cn/print/txt/2013-12/30/content_587744.htm
- Zhang, T. (2000). Land market forces and government's role in sprawl: The case of China. *Cities*, 17(2), 123–135.
- Zhang, X. Q. (1997). Urban land reform in China. *Land Use Policy*, 14(3), 187–199.
- Zhou, K. X. (1996). *How the farmers changed China: Power of the people*. Boulder: Westview Press.
- Zhou, X. (1993). Unorganized interests and collective action in Communist China. *American Sociological Review*, 58, 54-75.
- Zhou, Z. (1998). *A record of people's appeals in China*. Beijing: Chinese Workers Press.
- Zhou, Z. Y. (2010). Achieving food security in China: The past three decades and beyond. *China Agricultural Economic Review*, 2(3), 251-275.
- Zhu, K., Prosterman, R., Ye, J., Li, P., Riedinger, J., & Ouyang, Y. (2006). The rural land question in China: Analysis and recommendations based on a seventeen province survey. *Journal International Law and Politics*, 38, 761-839.
- Zhu, N. (2013). Xinhua Insight: Rural reform step by step. Retrieved November, 2013, from http://news.xinhuanet.com/english/china/2013-11/16/c_132893357.htm