

**Land Institutional Change and
Economic Performance in China**

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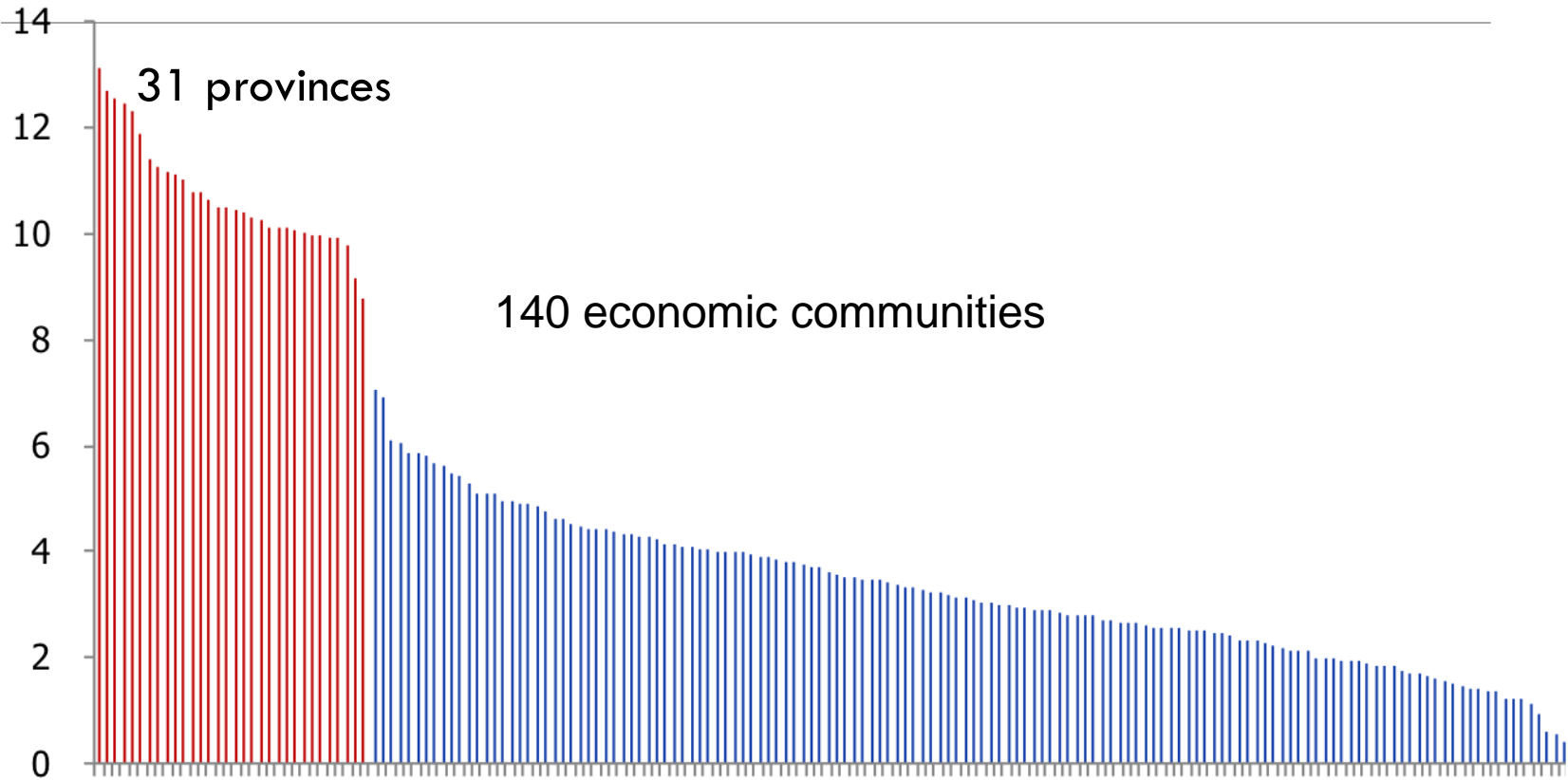
I. An Explanation on China's Economic Miracle

II. Transition and Decay of Land –dependent Development Model

III. The Path of Further Land Reform

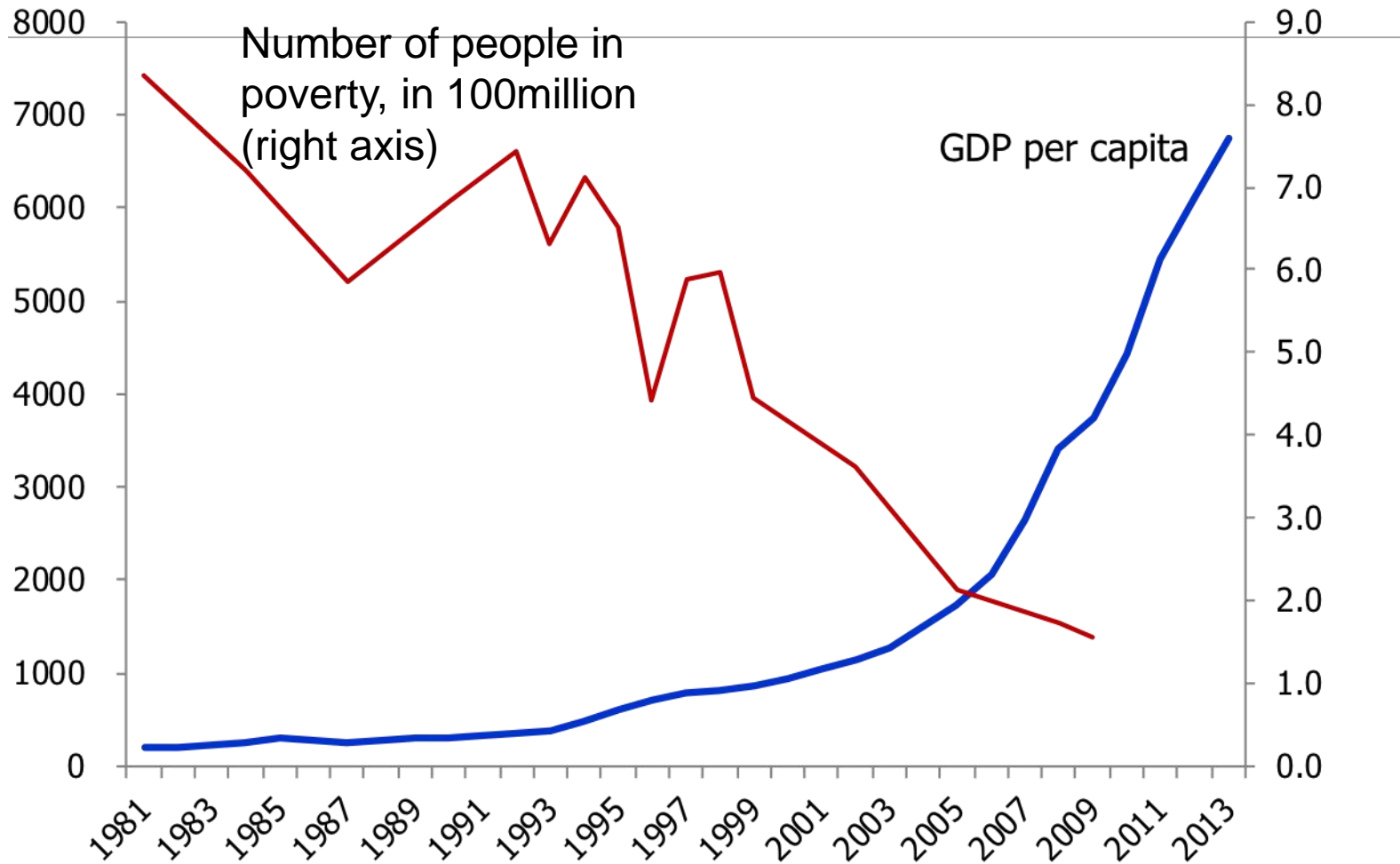
1. An Explanation on China's Economic Miracle

High growth rate averaging 10%



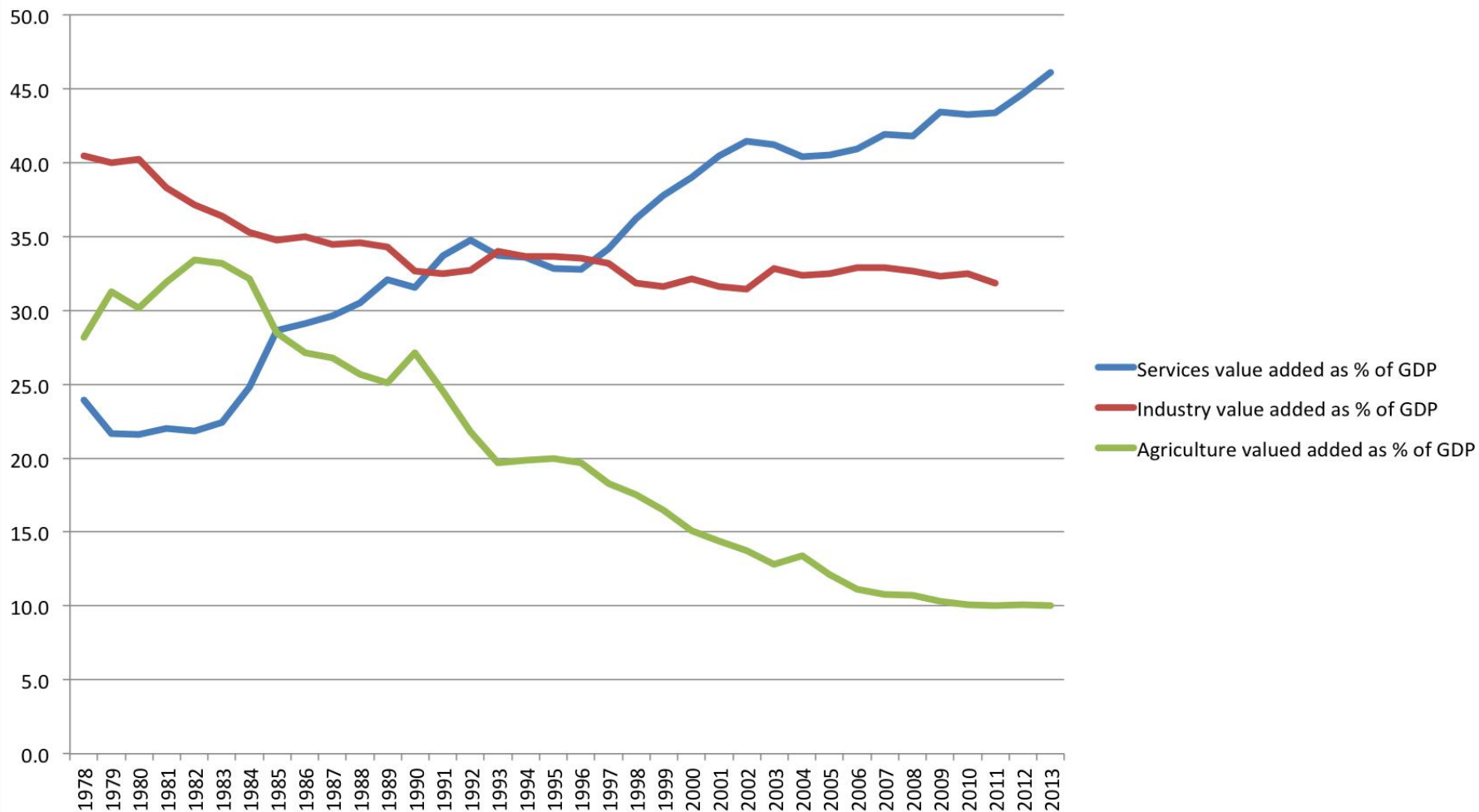
Increase Speed of GDP Growth rate from 1978 to 2013

Nearly 500 million people out of poverty



Fast Structural Change: The share of the workforce in manufacturing and services increased from 30% in 1978 to more than 60% in 2012.

Composition of Chinese Economy, 1978-2013



Mainstream explanation is questionable

Existing explanation based on the Lewis Hypothesis

Puzzle:

- Capital is scarce, Land is even more scarce, Only labor is abundant
- How could China overcome capital and land constraints and use only surplus labor to achieve dramatic growth?

Our Hypothesis

China's unique institutional arrangements and reforming strategy of land tenure is the secret of its miracle

Land ownership structure

— — Dual land ownership:

rural land belongs to rural collective;

urban land belongs to state.

— — Maintaining public ownership, Granting property rights

Land conversion arrangements

1. Urban land shall be owned by the state, and the rural land shall be owned by collectives,.
2. Land requisition system.
3. Local government monopolized land market

Urban Land Use Arrangements.

1. Local government captures land-added value.
2. Different period of land transfers for different constructions use.
- 3, Full property rights for land user.

Government has the exclusive power to land transfer, the land system arrangement becomes the mode of seeking development by land.

1, The revised *Land Administration Law*, promulgated in 1998 legally restricted the passages for agricultural land conversion into collective non-agricultural construction land.

2, Land requisition was the main tool for agricultural land conversion to non-agricultural use.

of land and the operators of urban land. This has become the main system arrangement for the mode of seeking development by land. Urban land use

1. The amendment of *the Constitution* in April 1988, deleted the provision that land shall not be rented, at the same time added the provision that “land use rights can be transferred in accordance with the provisions of the law.”
2. Administration Law of 1998 clearly stipulated that “the land use right can be transferred in accordance with the law”
3. In May 2002, the Ministry of Land and Resources issued the *Provisions on the Assignment of the State-owned Land Use Right by Means of Bid Tendering, Auction and Listing*, Decree No.11, stipulating that business, tourism, entertainment and commercial housing, and other types of operational land, must be transferred by bid tendering, auction or listing.

**Table 1. Transferred Land and the Land Transferred by Bidding,
Auction, and Listing (BAL) in the past few years**

Year	BAL				State-owned land transfer	
	Area	BAL percentage	Price	BAL percentage	Area	Price
Unit	10,000 ha	%	Billion RMB	%	10,000 ha	Billion RMB
2001	0.66	7.30%	49.2	—	9.04	—
2002	1.81	15%	96.924	—	12.05	—
2003	5.19	27.78%	—	—	18.68	293.776
2004	5.21	29.16%	325.368	55.20%	17.87	589.414
2005	5.72	35.05%	392.009	71.21%	16.32	550.515
2006	6.65	28.60%	549.209	71.54%	23.25	767.689
2007	11.53	50.91%	1007.486	82.47%	22.65	1221.672
2008	13.36	81.91%	952.874	92.87%	16.31	1025.98
2009	18.83	85.30%	1509.85	94.90%	22.08	1591.02
2010	25.73	88.27%	2600	95.94%	29.15	2710
2011	30.47	91.25%	3020	95.87%	33.39	3150
2012	29.3	90.77%	2550	94.80%	32.28	2690
2013	33.88	92.32%	4040	96.19%	36.7	4200
2014	25.15	92.53%	3180	95.21%	27.18	3340
2015	20.44	75.20%	2860	85.63%	22.14	2980

Source: Collected from the *Bulletin of China Land and Resources*

Land is the engine that drives the economy.



图1建设用地供应与GDP增长率

Figure 1 Supply of Construction Land vs. GDP Growth Rate

资料来源：历年《国土资源年鉴》和国家统计局数据

Source: Land and Resources China Statistical Yearbook and data from the National Bureau of Statistics

The allocation method of industrial estate and high-speed industrialization.

Phase I: The collective lands enter into market before 1998

Phase II: Local government supplies industrial land in low price since 1998.

1.The rural industrialization on collectively-owned land prior to the revision of the *Land Administration Law* of 1998.

Year	Non-agricultural Construction Land	Township Collectively- owned Construction Land	Land of Township Enterprises
1993	224824	30183	13943
1994	186630	22023	9826
1995	190376	19909	11621
1996	171467	14897	6235
1998	367854	16558	8180

Source: *China Land and Resources Yearbooks*

2. Park industrialization

Table 4. Industrial Land and Industrial Value Added

Index	Growth Rate of Industrial Value Added	Growth Rate of Land for Industrial and Mining Warehouse Space	Growth Rate of Industrial Land Price
Unit	%	%	%
2007	21.09%	-8.34%	15.67%
2008	17.94%	-34.44%	4.81%
2009	4.83%	52.31%	1.53%
2010	19.57%	7.00%	5.36%
2011	18.18%	26.35%	28.30%
2012	7.05%	8.31%	-16.98%
2013	6.43%	3.04%	4.48%
2014	5.18%	15.83%	6.00%
2015	1.13%	-49.53%	2.43%
2016	4.80%	-4.54%	2.89%

Source: *China Land and Resources Bulletins*, CEINET and *China Land and Resources Yearbooks*

Land capitalization and rapid urbanization.

Firstly, bidding, auction and listing policy should be implemented for profit-oriented land so that land capitalization value could be increased significantly.

Secondly, financing by land provided more capital source for urban development.

Table 5. Land Capitalization and Urban Expansion

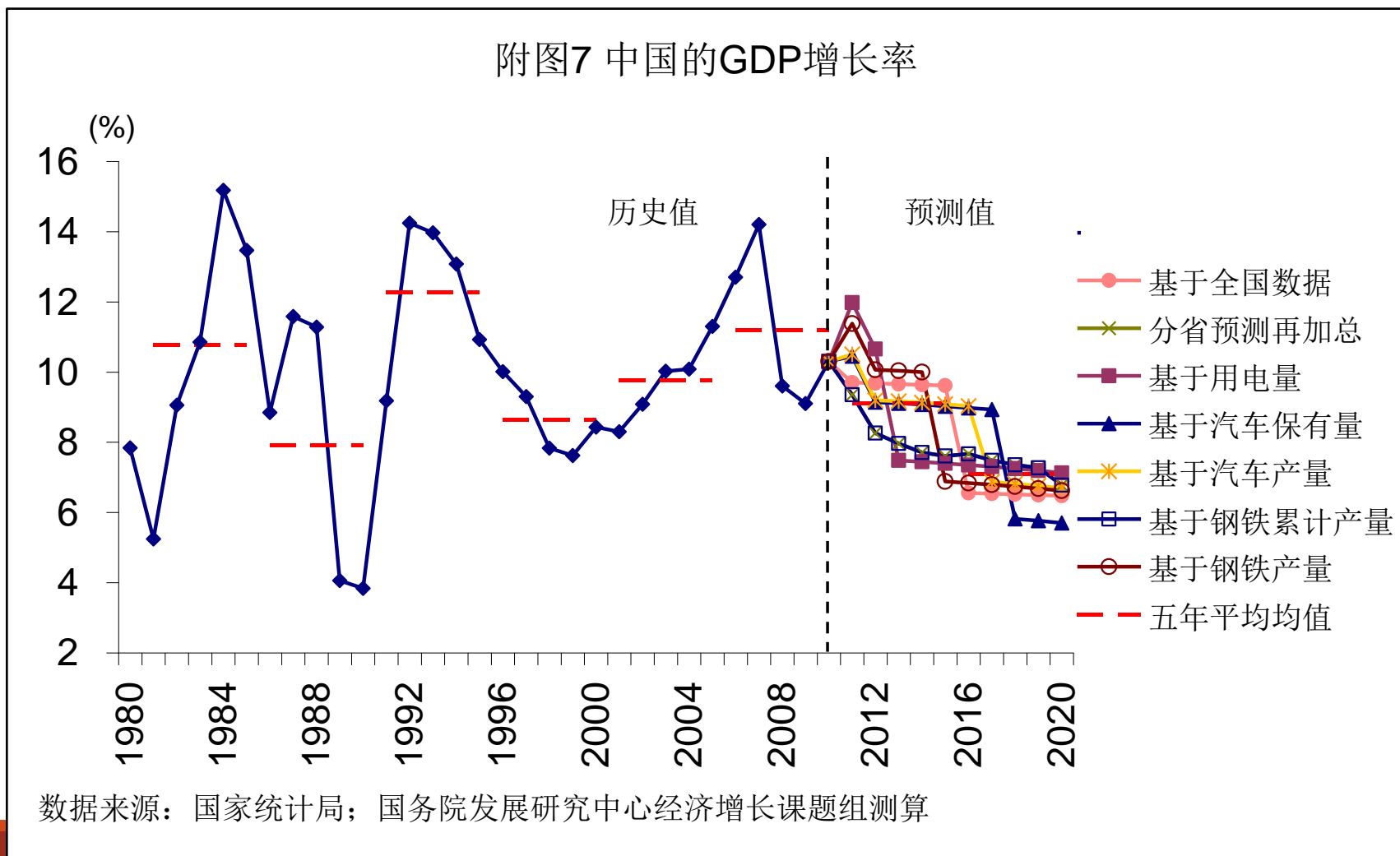
Index	Urbanization Rate	Urban Construction Area	Government Land Selling Revenue	BAL percentage Area	Land Mortgage Area	Land Mortgage Amount	Average Selling Price of Commodity Housing
Unit	%	Sq. km.	Billion RMB	%	10,000 ha	Billion RMB	RMB/Sq.m.
2003	40.53	28308.02	542.131	27.78%	—	—	2359
2004	41.76	30406.19	641.218	29.16%	—	—	2778
2005	42.99	32520.72	588.382	35.05%	—	—	3167.66
2006	43.9	33659.8	807.764	28.60%	—	—	3366.79
2007	44.94	35469.65	1221.672	50.91%	—	—	3863.9
2008	45.68	36295.3	1025.98	81.91%	16.6	1810.7	3800
2009	46.59	38107.26	1591.02	85.30%	21.7	2585.6	4681
2010	47.5	40058.01	3010.893	88.27%	25.82	3530	5032
2011	51.27	43603.23	3150	91.25%	30.08	4800	5357.1
2012	52.57	45565.76	2690	90.77%	34.87	5950	5790.99
2013	53.7	47855.28	4200	92.32%	40.39	7760	6237
2014	54.77	49772.63	4294.03	92.53%	45.1	9510	6324
2015	56.1	52102.31	3365.773	75.20%	49.08	11330	6793

Source: CEINET Statistics database, *China Land and Resources Yearbook*, etc.

II. Transition and Decay of Land –dependent Development Model

1. Understanding China's Economic Slowdown

In 2010, DRC predicted that China's potential growth rate will start to slow in about 2015.



Growth rate will first stabilize at 7-8 percent for a few years, before dropping to a moderate speed of 6-7 percent. This will be China's new norm in the future.

The emerging sectors under the new norm

Infrastructure investment: there are still many opportunities for growth here, including high-speed rail, metro subway, transportation in Western China. The key issue is to control risks and improve efficiency.

Urbanization. In the next 20-30 years, China's urbanization rate is expected to grow by another 20% to 70%. This will involve 200 million people. Even within current urban residents, nearly 20% are still without urban *hukou* (household registration) Studies show that removing their *hukou* barrier will increase their consumption by 30%. This effect is tantamount to 6% of rural residents migrating to cities.

Industry upgrade. In 2010, China's industry value-added was 23% of GDP. Japan was 31.4%. The US was 38.5%. If China is to reach the same level as Japan and US through upgrading, there will be 30-70% room for improvement.

Consumption upgrade. Plans to double income will help increase the share of consumption in GDP. Urban middle-class is the main driver of consumption and middle-class is expected to reach 45% of total population by 2020.

2. Decay of Land –dependent Model

Firstly, the development mode through land is untenable.

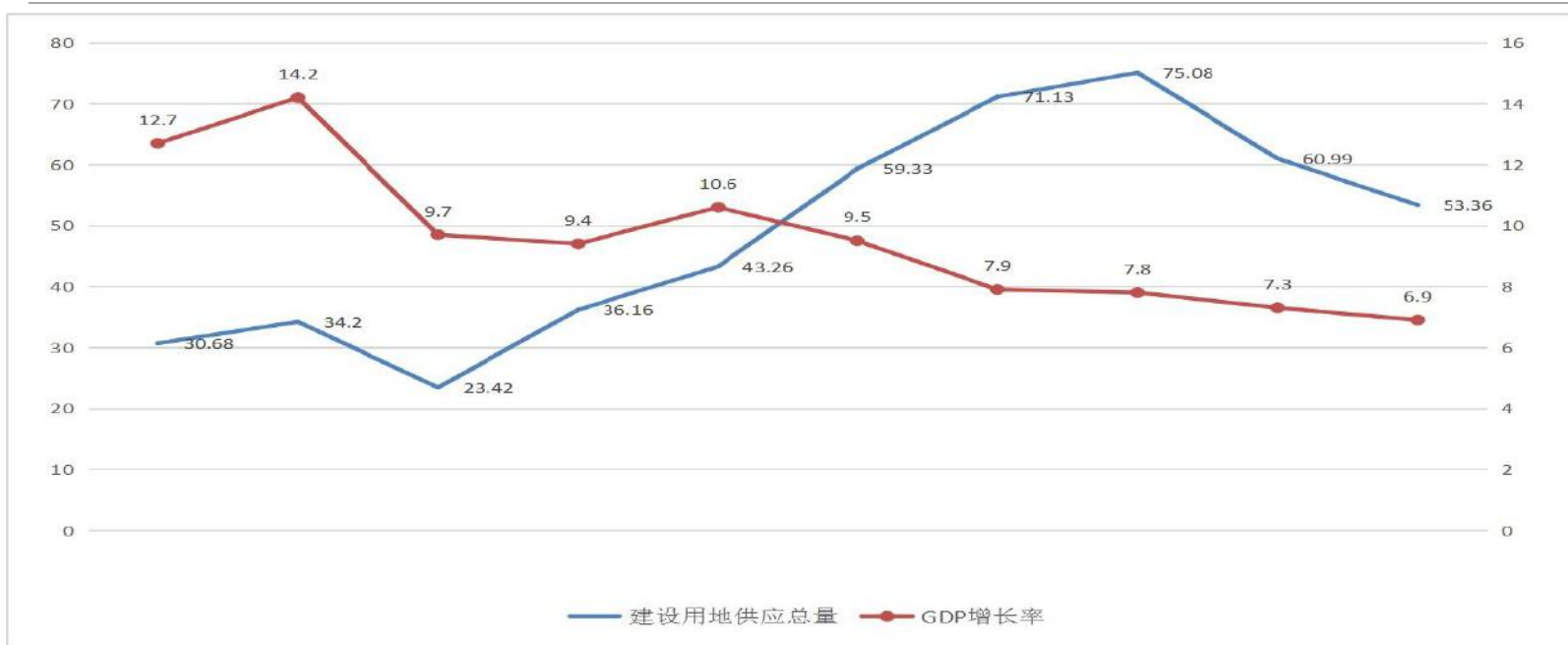


Fig. 2 Relationship between Land Supply and GDP

Source: *National Land and Resources Yearbooks* and data from the National Bureau of Statistics over the Years.

Total Supply of Construction Land

GDP Growth rate

Secondly, the efficiency of attracting investment through land is decreasing.

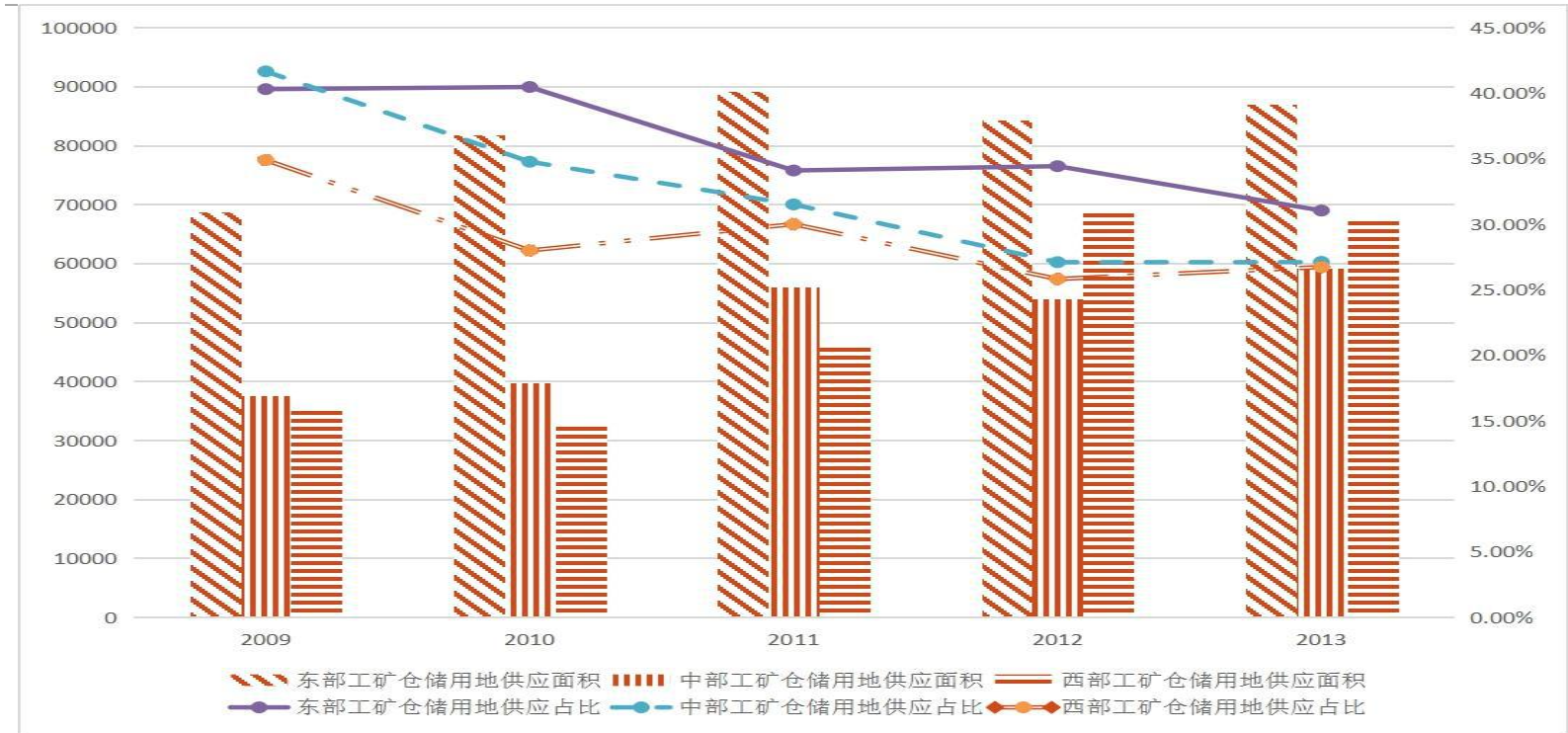


Fig. 2 Relationship between Land Supply and GDP

Source: *National Land and Resources Yearbooks* and data from the National Bureau of Statistics over the Years.

Thirdly, the supply structure of land is seriously distorted, which goes against structural reform.

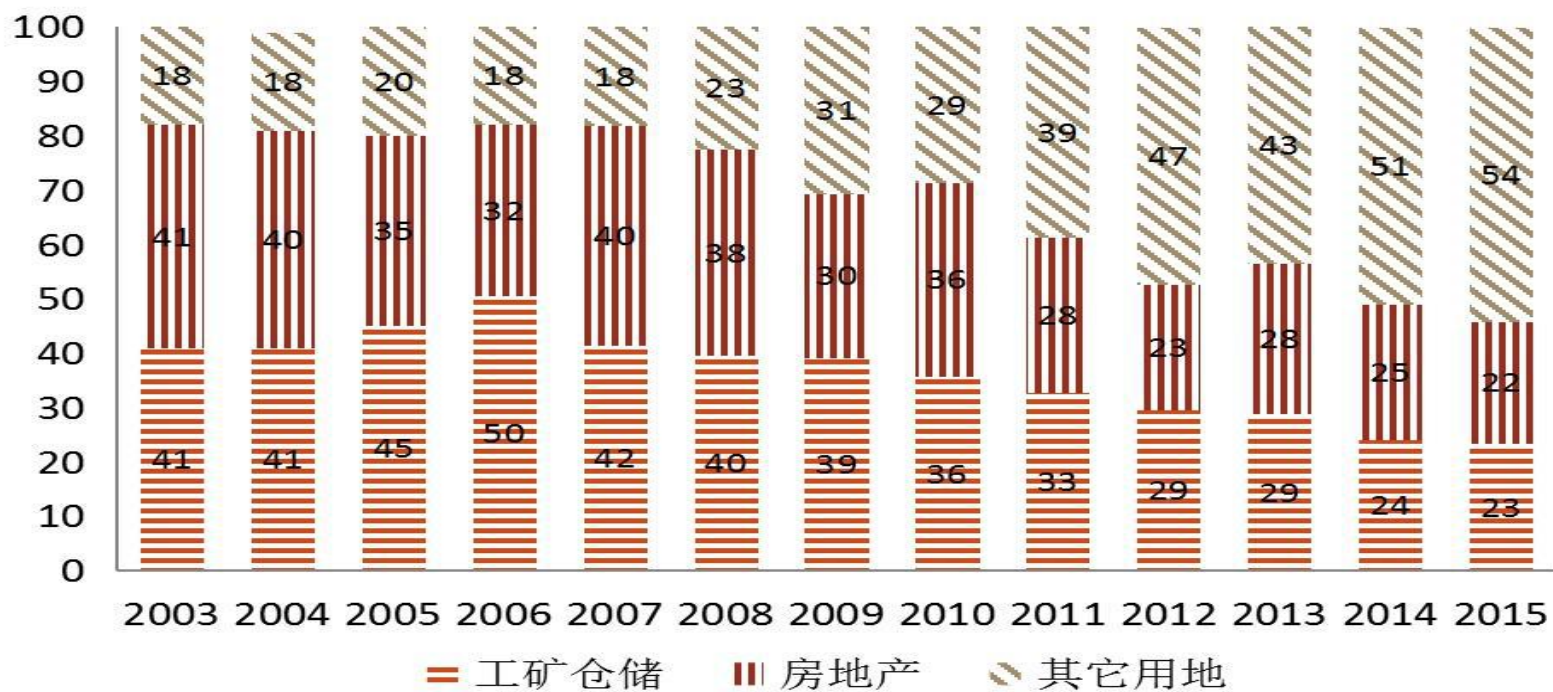


Fig. 4 Supply Structure of State-owned Construction Land (%)
 Source: *National Land and Resources Statistics Bulletin* over the years

Fourthly, the selling cost of land has increased, the net revenue of the land has decreased and the land mortgage has increased.

Table 6. Land Mortgage, Cost and Revenue

Year	Land Mortgage		Land Cost		Land Revenue	
	Area	Amount	Proportion of Expenditure Cost	Cost proportion in land expropriation	Actual input	Net Revenue
Unit	10,000 ha	Billion RMB	%	%	Billion RMB	Billion RMB
2008	16.6	1810.7	56.1	47	994.21	436.33
2009	21.7	2585.6	53.8	44.5	1423.97	658.329
2010	25.82	3530	58.4	49.6	2939.8	1221.6
2011	30.08	4800	71.8	57.45	3347.7	942.324
2012	34.87	5950	78.31	60.2	2888.63	626.14
2013	40.39	7760	81.69	60.89	4125	755.126
2014	45.1	9510	79.07	57.63	4294.03	898.793
2015	49.08	11330	79.76	60.34	3365.773	681.314

Sources: Ministry of Finance, National Bureau of Statistics, Ministry of Land and Resources

Fifthly, the government debt risk and banking finance risks increases.

_land mortgage value in many cities is evaluated when land price is high.

_From 2010 to 2015, the average proportion in which government promises to pay debts with land revenue has reached 40%.

_The land nominal leverage rate is from 0.5 to 0.6, while actual leverage is 1.5 or 2 times. The land leverage in Midwestern areas is higher. The actual land leverage of most provinces in Midwestern areas is over 2 times.

III. The Path of Further Land Reform

(1) Economic trend features in the second half of road and changes in land functions

Firstly, economic development transformation stage will no longer rely so much on land.

Secondly, industrial transformation and upgrade makes industrial development no longer mainly rely on the support of low land cost suppressed by the system.

Thirdly, the land allocation mode changes from single-oriented urbanization to the interaction between urban and rural areas.

Fourthly, agriculture revolution and rural transformation need to review the value of village space.

2. Land Reform in the Second Half of Road

Firstly, change the land's function as being development engine and farewell to the development mode by land.

Secondly, promote structure reform by land structure optimization.

One is to reduce infrastructure and public land supply and reduce the trend of promoting economic growth by attracting investment.

The second is to reduce industrial land proportion and change the development mode of capital attraction for government and parks.

The third is to increase real estate land proportion, change land supply way for housing land and restrict real estate market bubbles.

Thirdly, promote and adapt land reform of urban and rural interaction.

Fourthly, promote farming land reform centered on the separation of the three powers.

Fifthly, the homestead reform should adapt to the rural transformation.