

LAND IN CHINA'S URBANISATION

TAO Ran & LIM Wen Xin

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Executive Summary

1. China is facing critical land policy issues that will determine its future economic development and urbanisation. The land system in China is seen as a bottleneck for urbanisation and contributing to the surge in housing prices and social unrest.
2. Since the late 1990s, land-related issues in China have become more acute as the economy entered a new phase of rapid industrialisation and urbanisation. Local officials across China have become more aggressive in leasing out land as it is an important source of local extra-budget revenue.
3. Nevertheless, economic growth achieved through the leasing of land and real estate development is not sustainable. The loss of arable land and its inefficient use have sapped the country's fundamental capability for further economic and social development.
4. There are serious challenges concerning the three major aspects of China's land system, including the land requisition system, the rules on the management of rural collectives' construction land, and the agricultural land tenure system.
5. Land grab has especially soured urban-rural relations due to the inherent weaknesses in China's land system. Under the current land requisition system and public leasing rule, local governments are the monopolistic players in land taking, preparation and leasing.
6. Rapid urbanisation has led to many dispossessed farmers undercompensated. Inadequate compensation leads to rural petition against local governments. In some areas, disputes over land requisition even developed into mass incidents.
7. In addition, markets for urban and rural land have been artificially divided under the current system. This generated land use problems both in the countryside and the fringe of cities where urban expansion is rapid.

8. Under the current rural construction land management system, farmers are disallowed by law to develop their own land for non-agricultural purposes. Residential land use efficiency turns out to be low since many migrant farm workers leave their house idle, leading to the phenomenon of ‘hollow villages’.
9. In contrast to ‘hollow villages’, many ‘urban villages’ and ‘small-property-rights housing’ (without ownership certificate and non-tradeable) have emerged in China’s suburban and urban areas as migrant workers are unable to settle down in cities on a permanent basis under China’s household registration system (*hukou*).
10. The challenges in China's land system are complex and related to China’s local public finance system and *hukou* system. A well-designed and coordinated reform package is thus needed for China to overcome these challenges.