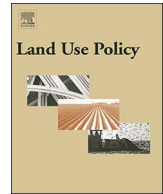




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Market-driven land nationalization in China: A new system for the capitalization of rural homesteads

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ABSTRACT

The rural collective land system plays an important role in urbanization; however, it hinders the capitalization of rural homesteads. Despite the significance of this system, the existing literature mainly focused on debates on privatization and nationalization of rural homesteads. However, only a few studies have proposed feasible plans for capitalizing fixed assets. To fill this research gap, this study discusses the conflict between market demand and legal limitation of the marketization of rural homesteads. The weaknesses and strengths of radical nationalization and privatization are also comprehensively evaluated. The concept of market-driven nationalization is proposed to overcome the weakness of radical nationalization and privatization while maintaining their strengths as much as possible. Finally, an assessment of the proposed market-driven nationalization is conducted based on an institutional analysis and development (IAD) framework. The key contribution of this study is its investigation into whether radically changing the rural collective land system is appropriate in contemporary China. In addition, this study proposes a potentially feasible path for advancing the capitalization of rural homesteads.

1. Introduction

China has experienced rapid urbanization since the introduction of the reform and opening-up policies in 1978. These policies and the resulting urbanization transformed China from a fundamentally rural society composed mainly of farmers into a substantially urban society that economically subsisted by manufacturing, finance, and other secondary or tertiary industries (Treiman, 2012). In fact, urbanization rate increased from 17.9% in 1978–56.10% in 2015 (NBSC, 2016). The excessively fast pace of urbanization has resulted in various economic and social problems (Peng et al., 2014b; Yu et al., 2015; Wu et al., 2017; Bao et al., 2017). One such problem is the widening rural–urban economic gap (Peng, 2015; Peng et al., 2015; Bao and Peng, 2016). Since the communist period of the People's Republic of China (PRC), the rural–urban economic gap became one of the most prominent problems faced in China's urbanization. Urban areas benefited from decades of market-oriented reforms that the rural society has never experienced. Such contrast has attracted significant research attention. Many studies have argued that the economic gap is rooted in various institutional biases, which created sharp disparities in educational opportunities, health care, housing, political status, and other public aspects. These

disparities are believed to be influenced by China's unfair property rights arrangement for rural lands.

A series of marketization reforms on urban land property rights began in 1978, during which the Chinese Communist Party (CCP) implemented its reform and opening-up policy. In 1979, some cities were selected to privatize the urban housing owned by the state since the formation of the PRC. In the 1980s, the land market gradually flourished with the introduction of land leasing and other relevant marketing activities. For example, real estate developers were legitimized to rent land or acquire land use rights from the state for commercial purposes. In the late 1980s, the majority of urban residents acquired ownership of their own houses because of the land reforms with the abrogation of previous land or housing regulations (Li and Li, 2006). The data verified by the Ministry of Land (2009) showed that the privatization rate of urban housing reached 83% in 2007, with land held by individuals or organizations amounting to 10.4 billion m² (Wang et al., 2012). The reform experienced by rural is yet different. The institutional change of rural homesteads can be roughly divided into three phases (Zhu et al., 2012). From the establishment of PRC to the early 1962, rural homesteads were permitted to be transacted, leased, and inherited by law. In fact, rural homesteads, at this time, were

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privately owned by farmers. From the early 1962 to the late 1990s, rural homesteads were owned by rural collectives and cannot be transacted or leased; however, the rights of farmers to use and occupy rural homesteads were permitted by law. The ownership transfer of rural homesteads was granted in return for the social security provided by rural collectives. Thus, the social security of farmers in this period was characterized by a collective-owned land system, which is considered beneficial in enlarging the range of social security. The last phase started from 2000 to the present. During this period, rural homesteads were still owned by rural collectives, used by members of collectives only, and cannot be transferred outside the original collective. Once transferred, the original users cannot apply for another rural homestead. In conclusion, such restrictions created an entire market of small rural homesteads with limited opportunities for purchase and sale, thereby preventing the marketization of rural homesteads. However, the illegal transaction of rural homesteads during this period infested many places, especially the outskirts of the developed regions in China. In fact, 10% to 40% of rural homesteads in Beijing were illegally transferred in different villages (Yao et al., 2007). Compared with urban land, the marketization of rural homesteads was delayed, though various tentative reforms were recently implemented in some cities (Jinghua Newspaper, 2015). Table 1 summarizes the important guidelines of rural homestead management extracted from No.1 document of CPC Central Committee in the 21st century.

Various problems occurred due to the delayed reform of rural homesteads. First, rural construction land is wasted. According to the United Nations, the rural population declined at approximately 13% from the 1990s to 2005. The decrease is expected to remain unabated, which reached a minimum of 40%. However, the rural homestead expanded by roughly 130,000 ha from 2000 to 2008, thereby showing an abnormal rise relative to the decrease in rural population (Wang et al., 2012). Approximately 2 million ha of rural homesteads were estimated to be left unused in 2012, which generates a phenomenon called hollowed village (Huang, 2012). Second, facilitating migrant workers to realize urbanization is difficult. A survey conducted in 2012 indicated that approximately 70% of new-generation migrants with an average age of 23 years were willing to settle in big cities (Bo et al., 2015). Despite this, rural migrants found it difficult to settle down in cities due to the high cost of living in urban areas. Unused rural homesteads have a large economic value that can be used by migrant workers for consumption, investment, or others to help them improve their lives in immigrant areas. However, this value remained unexploited because of the restrictions on the transactions of rural homesteads. Third, much illegal land use exists. Informal transactions of rural homesteads and the houses built on them began to spread in the countryside, especially in the suburbs of developed regions, because of the booming demand for reduced housing prices in urban areas and ample supply of housing in the countryside (Chen et al., 2015). However, given that rural

Table 1

Important guidelines of rural homestead management extracted from No.1 document of CPC Central Committee.

Source: Adopted from No.1 document of CPC Central Committee.

Document name	Year	Relevant contents
Opinions on policies to promote farmers' income growth	2004	...actively explore various means for rural non-agricultural construction land to enter the land market...
Opinions on policies to enhance rural governance and improve comprehensive agricultural productivity	2005	...enhance management for rural homestead and construction land, encourage land consolidation and village renovation, promote newly developed rural industry companies to be concentrated in town areas, and improve the utilization ratio of rural land...
Opinions on promoting new socialist countryside construction	2006	...enhance planning and management for rural homestead, save rural construction land, carefully implement renovation of houses and infrastructures, avoid large amount of demolition, which burdens farmers...
Opinions on actively promoting modern agriculture and making solid progress in new socialist countryside construction	2007	...improve rural human settlement environment, implement pilots of village planning, save rural construction land...
Opinions on strengthening agricultural infrastructures, advancing agriculture development and promoting farmers' income growth	2008	...the urban people are restricted to buy rural homestead and rural houses, consolidation of rural homestead should be legally regulated...
Opinions on promoting stable development of agriculture and farmers' income growth	2009	...actively make rural land use planning and rural construction planning, scientifically and reasonably arrange rural construction land and rural homestead, revise standards of rural homestead according to the regional resources, and orderly push forward rural land management reform after perfecting relevant regulations and supporting policies...
Opinions on promoting urban-rural coordinated development and enhancing rural development basis	2010	...promote property rights registration for ownership of rural collective land, and use right of rural homestead and rural construction land; the saved land generated from consolidation of rural homestead and village renovation still belongs to the rural collective...
Opinions on advancing rural technology innovation and continuously enhancing supply abilities of agricultural products	2012	...accelerate rural cadastral survey, carry forward registration and certification for use right of rural construction land including rural homestead; accelerate revision of land management law, and establish sound land management system...
Opinions on accelerating developing modern agriculture and enhancing vitality of rural development	2013	...accelerate cadastral survey of rural land including rural homestead, complete registration and certification for rural land as soon as possible; reform and improve rural homestead system, strengthen rural homestead management, and protect farmers' use right of rural homestead according to the laws...
Opinions on comprehensively deepening rural reform and accelerating modernization of agriculture	2014	...reform rural homestead management system, improve allocation policies of rural homestead; accelerate cadastral survey of rural land including rural homestead...
Opinions on deepening reform and innovation and accelerating modernization of rural development	2015	...conduct pilot reform of rural land expropriation, marketization of rural non-agricultural construction land, and rural homestead system; protect farmers' use right of rural homestead according to the laws, reform the allocation way of rural homestead, and explore new guarantee mechanism of houses for farmers...
Opinions on implementing new development concept, accelerating modernization of agriculture, and realizing the goal of comprehensive well-off	2016	...accelerate registration and certification for use right of rural homestead based on integration of land and house; carry forward pilot reform of rural land expropriation, marketization of rural non-agricultural construction land, and rural homestead system; improve right protection and acquirement of rural homestead...
Opinions on promoting structural reform of agricultural supply side and cultivating new energy for agriculture and rural development	2017	...explore means to utilize idle rural houses and rural homestead and improve farmers' income; allow the saved rural construction land generated from rural homestead consolidation to be used for rural tourism development through dividends and joint operation...

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