Abstract. Up to present, China is still represented by a typical dual society separated by both urban and rural concepts, and the income gap between the two is tending to enlarge. The low agricultural productivity and peasants’ insufficient labor skills result in slender incomes in their business, wage and transfer activities, with improvement though, which does not help to narrow the gap. Therefore, it is essential for peasants to acquire property income by means of rural land capitalization. In recent years, China has increased efforts to protect the property rights of rural land. However, there still exist multiple institutional barriers that prevent land from enforcing its capitalization feature, and shall be broken through at the shortest delay, so as to awaken the “Sleeping Capital”.

Keywords. land capitalization; peasants' income growth; land system; property income

1 Introduction

Chinese peasants’ income has continued to grow since the reform and opening up, but the gap between urban and rural residents has become bigger and bigger. According to data of China Statistical Yearbook in relevant years, the proportion between the urban per capita disposable income and rural has gone from the lowest 1.82 in 1983 to 3.10 in 2012, and is demonstrating a tendency to expand. Taking into account of other benefits for urban residents, such as in-kind subsidies, free medical care, unemployment insurance, minimum living allowance, pension security, and education subsidies, China's urban residents' income can reach 5-7 times that of rural income, much higher than the world average – 1.5 times[1]. Such income gap has not only jeopardized the equality principle for the social development, violating the goal of building a harmonious society in China, but also seriously threatened the efficiency goals for economic development. At the critical point of time when Chinese economy is transforming from investment-driven to consumption-driven pattern, improving rural residents’ income level and narrowing the income gap between urban and rural areas have become a top priority for the central government.

Property income is an important indicator to measure nationals’ affluence degree. The CPC 18th Report advocated to “increase property income via multiple channels”, which is another policy highlight after “to create opportunities for more people to possess property income” first determined in the CPC 17th Report, and it demonstrates very important and practical significance on effectively protecting and improving people's livelihood, and continuing to enlarge the middle-income groups. China's urbanization rate has exceeded 50%, but it also means there are still about 50% of the residents living in rural areas, increasing property income should also be favorable for them. However, due to the fact that China is a typical urban and rural dual society, plus our strategic emphasis on industrial and urban
development over decades, urban residents have enjoyed more benefits from the development than rural residents, and thus accumulated more wealth, including financial assets and real estate, which gives urban residents more opportunities to acquire property income by way of capitalization; on the contrary, rural residents have been provided with low income since a long period of time, which makes it difficult for them to accumulate financial assets. Rural residents’ major assets are represented by land use rights and property ownership, and since their property rights are incomplete, the value is far lower than the urban real estate, so rural residents can only rely on land capitalization to increase their property income.

2 Property income is the key to increase peasants' income

The CPC 18th Report clearly put forward a goal for 2020 of doubling GDP and per capita income of urban and rural residents in 2010. In 2010, urban per capita disposable income was 19,109.44 yuan, against 5,919.01 yuan for rural per capita net income, so the urban-rural income ratio was 3.23. If the plan is to further narrow the income gap between urban and rural areas on the basis of doubling the per capita income of urban and rural residents, it will be a must to raise the per capita net income of rural residents by a more remarkable margin compared with the disposable income of urban residents.

In “China Statistical Yearbook”, the income of urban and rural residents is subdivided into wage income, operational income, property income and transfer income. According to the sample survey carried out by the National Bureau of Statistics over 74,000 rural households and 66,000 urban households across 31 provinces (including autonomous regions and municipalities directly under the central government) in China, the urban and rural income in 2011 is shown as in Table 1, where rural residents’ income mostly consisted of wage income and operational income, against wage income and transfer income for urban households’ income. However, property income accounted for a fairly small percentage in both of the two categories (see Table 1).

Comparing urban and rural household income structures, we can see that the wage income of urban households is 5.2 times the rural households, and the transfer income of urban households is 10.1 times the rural households. According to the 2011 growth projections, by 2020 or so, rural households will have shared a basically equal wage income and transfer income with urban households. However, that is not the case, because wage growth depends on the improvement of labor productivity. Compared with urban residents, the education received by migrant workers is generally more limited, so they mostly occupy low-end positions in extensive production and service sectors. Despite an increase to some extent in their wage income thanks to the improvement of the city's minimum wage level, China is still in the stage of transforming from the low-end manufacturing to high value-added manufacturing industries, her needs to rely on cheap labor to open up the market has not been fundamentally reversed; therefore, compared with urban households, there will still be a considerable gap for rural households to fill in their wage income.

Transfer income refers to the goods, services, capital and ownership of assets acquired by rural households and their family members without having to pay any counterpart, and this does not include funds provided free of charge for fixed capital formation. Under normal circumstances, transfer income refers to all the income that a rural household gains during the second distribution. In 2011, per capita household transfer income for rural residents was 563yuan, with an increase of 110yuan, or 24.4%, which was an outcome of the comprehensive promotion of old-age insurance policy in rural areas. This promotion accelerated the growth of transfer income, and the growth rate was 10.6% higher than the previous year, where per capita income for retirees and pensions was 190yuan, with an increase of 77yuan, or 68.6%. On one hand, the pension, health care and other social insurance are, after all, associated with the amount paid. As the overall income of rural households is still relatively low, the social insurance payment amount will not be optimistically high, and, more importantly, the second distribution mainly addresses to the issue of fairness, so it cannot serve as the main channel to increase peasants’ income. Otherwise, it will go against the socialist distribution principle: efficiency first, fairness as well.
Operational income refers to the income earned by rural households as production units for production planning and management. Rural households’ operational activities can be divided by industry into agriculture, forestry, animal husbandry, fisheries, industry, construction, transport, post and telecommunications, wholesale and retail trade, catering services, social services, culture, education, health, and other household operations, amongst all of which agricultural-based operational income predominates. In 2011, the per capita net income of a rural first family-run industry gained 2,520 yuan, with an increase of 289 yuan, or 12.9%, thereinto, per capita agricultural income accounted for 1,897 yuan, with an increase of 173 yuan, or 10.0%.

Table 1. Urban and rural income in 2011

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th># Wage income</th>
<th># Operational income</th>
<th># Property income</th>
<th># Transfer income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Per capita net income</td>
<td>6977</td>
<td>2963</td>
<td>3222</td>
<td>229</td>
<td>563</td>
</tr>
<tr>
<td>Percentage</td>
<td>100%</td>
<td>42.47%</td>
<td>46.18%</td>
<td>3.28%</td>
<td>8.07%</td>
</tr>
<tr>
<td>Growth rate</td>
<td>17.90%</td>
<td>21.90%</td>
<td>13.73%</td>
<td>13.00%</td>
<td>24.40%</td>
</tr>
<tr>
<td>Urban</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Per capita net income</td>
<td>23979</td>
<td>15412</td>
<td>2210</td>
<td>649</td>
<td>5709</td>
</tr>
<tr>
<td>Percentage</td>
<td>100%</td>
<td>64.27%</td>
<td>9.22%</td>
<td>2.71%</td>
<td>23.81%</td>
</tr>
<tr>
<td>Growth rate</td>
<td>14.10%</td>
<td>12.40%</td>
<td>29.00%</td>
<td>24.70%</td>
<td>12.10%</td>
</tr>
</tbody>
</table>

A good harvest and high prices are two major factors for maintaining a high growing speed. Statistics shows that price rises took credit for 60% of rural residents’ incremental income on sales of agricultural products in 2011, and 40% came from the increase in sales quantity. The risk about agricultural operating income lies precisely in this, as shown in Figure 1. Subject to natural disasters and other impacts, agricultural production cannot guarantee a predictable result, so that we have abundant years and lean years. The former with larger harvest yield seems to increase the sales income for peasants, but agricultural products in general face a stable demand, so a good harvest may lead to excess supply, causing price drop, and then reduce peasants’ income, that is “increasing output without income” [2]. More importantly, the British economist William Arthur Lewis argued in his dual economic theory that the marginal productivity of peasants in developing countries is very low, close to zero or even negative, as a result, the income earned by peasants from the agricultural sector is much lower than that by citizens from the non-agricultural sector. This theory proved a deep-seated reason why we should not narrow the income gap between urban and rural residents simply being overly dependent on the improvement of their agricultural operating income (see Figure 1).

Property income generally refers to the income gained from family-owned movable property (such as bank deposits, securities, etc.) and real estate (such as houses, vehicles, land, collectibles, etc.), which include interest, rent and royalty income achieved from transfer of property use rights, and dividend income and property value-added benefits from property operations. According to the experience of developed countries, when per capita GDP exceeds 2,000 U.S. dollars and residents accumulate some wealth, property income will gradually become an important new source of revenue. Take the United States for instance. The statistics of the Bureau of Economic Analysis of U.S. Commerce Department shows, see Table 2, that the Americans’ personal income mainly consists of property rents and interest and dividends from real estate investment and financial assets, and property income accounts for about 16% of all. In contrast, China's urban and rural residents' property income accounts for only about 3%. So it is obvious that such growth should be promising (see Table 2).

In summary, it is difficult to raise substantially the wage income, operational income and transfer income that compose rural households’ revenue by reason of such congenital causes as the low effi-
ciency of agricultural production. However, the property income has little relevance with their labor productivity, and has more room for growth, so efforts should be made to increase peasants’ property income and to eventually raise their overall revenue.

3 Rural land capitalization and peasants' income growth mechanism

Irving Fisher defined the nature of capital and income a very long time ago, that is, “capital as any asset that produces a flow of income over time”. He generalized the concept of capital: all that can bring about income should be regarded as asset, and capital as the present value discounted by asset as well as the market value of asset. Land is asset, so is labor, knowledge, doctor's license, and so on. These can all bring income, which in turn becomes capital once discounted at the interest rate. Once use rights can be given up for pay and assigned, the asset owner will have a future source of income, then, the “asset” is transformed into “capital”, otherwise put, the asset that can provide right rent irrelevant to the owner’s labor is capital[3].

![Figure 1. Nominal growth rate of the agricultural operating income](image)

**Table 2.** American individual income structure in 2010-2012

<table>
<thead>
<tr>
<th>Year</th>
<th>Total (billion USD)</th>
<th>Wage income</th>
<th>Operational income</th>
<th>Property income</th>
<th>Transfer payments</th>
<th>Social insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Rental income</td>
<td>Asset income</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>49287.5</td>
<td>31880</td>
<td>4413.5</td>
<td>1396.8</td>
<td>6393.1</td>
<td>9137.2</td>
</tr>
<tr>
<td></td>
<td>100%</td>
<td>64.7%</td>
<td>9.0%</td>
<td>2.8%</td>
<td>13.0%</td>
<td>18.5%</td>
</tr>
<tr>
<td>2011</td>
<td>51789.1</td>
<td>33180.9</td>
<td>4629.4</td>
<td>1638.8</td>
<td>6740.4</td>
<td>9277</td>
</tr>
<tr>
<td></td>
<td>100%</td>
<td>64.1%</td>
<td>8.9%</td>
<td>3.2%</td>
<td>13.0%</td>
<td>17.9%</td>
</tr>
<tr>
<td>2012</td>
<td>53623.5</td>
<td>34262.8</td>
<td>4809.7</td>
<td>1852.6</td>
<td>6989.1</td>
<td>9502.5</td>
</tr>
<tr>
<td></td>
<td>100%</td>
<td>63.9%</td>
<td>9.0%</td>
<td>3.5%</td>
<td>13.0%</td>
<td>17.7%</td>
</tr>
</tbody>
</table>

Source: Bureau of Economic Analysis, National Income and Product Account Tables

Combined with China’s “Agriculture-Peasant-Rural Area” reality and the topic of this paper, we see that Chinese agricultural productivity is still relatively low, rural households benefit from a long-term low income, so it is difficult to accumulate financial assets and thus to obtain dividends or interest income, further speaking, the assets in the possession of rural households are contracted operating...
land and homestead. The rural primary industry land accounts for the absolutely largest proportion; therefore, we can estimate the total land assets owned by rural households through measuring the total assets of the primary industrial land. The specific calculation method is to deduct peasants’ income and depreciation of fixed assets from the primary industry added value of each year, and then we get the annual economic rent of the land. As the efficiency of Chinese agricultural production is relatively low, so we take 3% for the interest rate reduction. According to the estimates, the total rural land assets were approximately 15,850.21 billion yuan in 2001[4], while the China State-Owned Land Asset Management Research Report by the Ministry of Land and Resources indicates that over the same period, China’s total land assets were approximately 25 trillion yuan. Although the two estimate calibers may vary from each other, it is still evident that China has a huge stock of rural land assets. China has entered into a stage of rapid urbanization. Since the start of 1996, urbanization has taken place at an average annual increase rate of 1.44%, much higher than the world average level, which means every year about 10 million rural people migrate into cities. As of end 2011, per capita rural household contract arable land was about 2.3 mu, that is, in theory at least 23 million mu of cultivated land was transferred on a yearly basis, so 230 million mu of transfer land or so for 10 years. According to the statistics of the Ministry of Agriculture, by the end of December 2012, the actual transfer land area across the country matched the number 270 million mu. The above only talked about the transferred arable land, without considering the transferred rural household homestead and rural collective construction land or the value-added income from cultivated land transferred into non-agricultural purposes. Therefore, we can see that rural land has a tremendous potential for capitalization, and can be of substantial help in increasing rural households’ property income if with proper guidance.

Analyzed from the macro level, the neo-classical economic growth model emphasizes on the role of capital accumulation, per capita output is a function of the per capita capital stock. Under the circumstances where the per capita capital stock in China is still low, increasing the capital stock can serve as an important driving force for economic growth. Capital goods include buildings (such as factories, houses), equipment (such as computers, machine tools) and inventory (finished and semi-finished products). Land, capital and labor are all factors of production, whose relation can be both interdependent and interchangeable. On the one hand, the land demand is a derived demand, needed for keeping investment growing; on the other hand, when the capital reaches a high marginal cost, land whose marginal cost is relatively lower can be an alternative. Therefore, large amount of investment on capital goods requires more land transferred from the agricultural sector to the non-agricultural sector, combined with investment to form capital accumulation, and realize economic growth. Since the "Eleventh Five-Year", China has been requiring 12 million mu for construction land every year, against her planned new construction land index covers only about 6 million, with a gap of over 50%. The nature of the land capitalization is for objective of gains by transferring land use rights. Its core concept is transfer, so as to allocate land resources in a more rational manner, and thus lead to land capitalized income.

Analyzed from the micro level, the rural land mostly circulates within the agricultural sector, or limited within rural collectives. The “Rural Land Contract Law of the People's Republic of China” enacted in 2003 provides that the land contract and management rights obtained through family contract can be transferred through subcontract, lease, exchange or assignment in accordance with law. The 3rd Plenary Session of the 17th CPC advocated in 2008 in its “CPC Central Committee’s Decision on Several Major Issues about Promoting Rural Reform and Development” to strengthen the management and services over land contract rights transfer, establish and improve the land contract and management rights market, comply with relevant laws and the voluntary and compensatory principles, allow peasants to transfer the land contract and management rights by means of subcontract, lease, exchange, assignment, joint-stock cooperative and other forms. Land circulation within the rural, regardless of the destination to other peasants or other agricultural enterprises, regardless of the way of transfer to be subcontract, lease or joint-stock, cannot result in high prices, otherwise put, the land capitalization income cannot bring about exorbitant profits, because such transfer can only touch limited added value after the agricultural production efficiency improved. The survey findings on the rural land in 17 provinces carried out by Renmin University of China and the US Rural Development Institute in 2008 show that as the median cash compensation for transferred-out land was 296yuan /
mu / year, the transferred-in land 200yuan / mu / year, and the mean value was only 248yuan / mu / year[5].

In the framework of the existing land system, rural land can only circulate within the agricultural sector, so the land capital gains obtained is very low. “Land Management Law” provides that the benefit of rural land (including rural collective construction land) belongs to rural collective organizations, and at the same time, it strictly prohibits lease and transfer of rural collective construction land for non-agricultural construction, so the circulation of rural collective construction land for non-agricultural construction can only be achieved by way of land acquisition. However, once land levied, peasants can only access to compensation for agricultural purposes, without the added value of the land for differential rent income; plus, losing their land, peasants will be deprived of a steady property income resource through the capitalization of land. Fortunately, as urbanization and industrialization take place at a high speed, the rural collective construction land is gradually manifesting its value. Invisible collective construction land market exists widespread. There are pilots of the Ministry of Land and Resources from regions to regions, and local governments are resolving policy restrictions through a variety of way, so that the collective construction land shares the same price and the right as the state-owned construction land, and has become the core collective construction land issues. Take Nanhai of Foshan City in Guangdong Province for instance. They started the industrialization with collective land. On the premise of retaining rural collective land ownership, they leased the land to industrial enterprises for building factories engaged in production activities for an annual rent, and thus reserved the differential benefits of non-agricultural land inside the collective. In Nanhai, the average rent for a piece of land leased by a collective to an enterprise is 6000yuan per year, and the enterprise needs to pay at least 3-5 years of rent once. Then the collective and peasants can acquire a one-time rent revenue of 18,000 to 30,000yuan per mu. As the nature of collective land ownership has not changed, they can continue to share the differential benefits of the land[6].

In Karl Marx’ theory of land capitalization process, once the peasants' land is levied, the compensation for the land in question should cash the benefits for the next years, which happens to be just the reverse of Fisher’s land capitalization process. The principal contradiction in the land acquisition process focuses on the allocation of the value-added benefits. Even if Land Administration Law has deleted in its revision the terms that “the maximum compensation shall not exceed 30 times the average annual output value of previous three years”, the original land use compensation provisions have deprived peasants from accessing to the rights of differential rent value-added income after the land use change. In this case, it is necessary to establish appropriate mechanisms that peasants can share the land value-added benefits, such as reserving partial land for resettlement in case of levying land in economically developed areas or urban fringe; some scholars have suggested that at least 15% of the land levied should be retained. By way of retaining, the original rural collective construction land can be transformed into state-owned construction land, still in the possession of the rural collective economic organizations, so such retained land can provide peasants with through stable, long-lasting property income land capitalization[7]. Besides, the local government has obtained high profit from land grant due to its monopoly over the land acquisition and transfer market, so they should contribute more investment to “Agriculture-Peasants-Rural Area” projects, and have peasants indirectly touch the split profits and gain more income through transfer payments. According to the statistics of the Ministry of Finance 2009-2011 on national land transfer revenue management and use, the “Agriculture-Peasants-Rural Area” accounted respectively for 31%, 8.3% and 8.7% of the total land revenue expenditure. The main reason for the decline of the expenditure is because of the cost increase in land acquisition and resettlement.

4 Breakthrough the institutional constraints of the rural land capitalization

The rural land capitalization presents both a rational process of land resources allocation and that when peasants share the value-added benefits of industrialization and urbanization. Building up a harmonious interest sharing pattern with consultations on an equal footing between the transfer parties
can contribute to a successful land capitalization and the prosperity and stability of a society. Rural land capitalization should be based on the protection and respect of peasants’ land property. Along with the industrialization and urbanization, the value of rural land, especially rural collective construction land, begins to grow and becomes more visible. Demsetz theory indicated that, when the economic value of a public resource increases, the mass tends to define more clearly the property rights boundary of such resources, so as to minimize the transaction costs. Therefore, the state should complete defining rural land contract and management rights in five years, speed up the registration of the ownership of rural collective construction land and use right of construction land, including the rural homestead, and re-emphasize in the CPC 18th Report the importance of safeguarding peasants’ land contract and management rights, land use right, and the right to distributed collective income. However, the simple protection and respect of rural land property rights is not enough, the existing policy framework still sets up many institutional constraints for the process and the fashion of rural land capitalization, and distorts price signals and interest distribution patterns, which is not conducive to a rational land resources allocation, and hinders the land capitalization from generating greater economic and social benefits.

4.1 Reform of land expropriation system, to keep the land with peasants

The existing land requisition system used to accumulate capitals for the development of China's industrialization and urbanization, and has provided plenty of cheap land and labor, which constituted one important reason for the constant rapid economic growth. In the prevailing socio-economic environment, land requisition system guaranteed indeed a low cost, high efficient land resource allocation. Along with the social and economic development, the demand for land elements keeps growing. As a scarce resource with small supply elasticity in short term, land prices will inevitably rise. People’s rights in an asset are not permanent, such rights can be understood as a function between people’s own direct efforts to protect, others’ attempt to seize and the protection degree from the government. Based on Yoram Barzel’s property rights economics theory, after land prices go up, peasants, as land users and the actual controllers, will value their land even more; in the case government’s protection is not in place, the competition will be more intense amongst all stakeholders. Mass incidents have been frequently triggered due to land acquisition, which causes social instability and dramatic rise in the cost of land acquisition. According to the statistics of the Ministry of Finance 2009-2011 on national land transfer revenue management and use, the “resettlement compensation” accounted respectively for 40.4%, 62.1% and 72.5% of the total land revenue expenditure.

The core of the existing land requisition system is the government monopoly over land-use change and land circulation between urban and rural, and its monopoly on land lease market. From the dual monopoly on land supply and demand, the local government takes in most of the land value-added income. Such land requisition system has distorted price signals of the land factor, leading to the mismatch of land resources, and cut off the opportunities for peasants to share industrialization and urbanization fruits through land, so it is difficult to sustain. Therefore, reforming the land acquisition system represents peasants’ aspiration, government’s protection and the milestone for the socio-economic development.

The core of the reform is to break the government monopoly over the land market, keep land reserves with peasants and rural collectives, and realize in a real sense the same price and same right on the market for rural collective construction land as state-owned construction land. First of all, “Land Management Law” stipulates that the state, out of its need in the public interest, may levy land and render compensation in accordance with the law, but the absence of a clear definition for public interest leads to an overly extensive scope in the actual implementation of land requisition. Since there exists some difficulty in defining the public interest, clearly dividing land requisition range has stepped in as an alternative in the purpose of preventing right abuse, for which the enumeration method commonly used in many countries and regions can be referred to for limiting the land requisition scope[8]. Secondly, re-build a fair, just and open land value-added revenue sharing pattern. No matter whether land requisition has been applied, regardless of the ownership of the land owned by the gov-
government or by peasants, the vast majority of value-added benefits acquired after land-use change or the urban and rural circulation should fall into the category of natural land appreciation, and should belong to the state. Under the premise where the rural collective reserves land ownership, the state may impose land value-added tax on the natural value-added part. The implications of this approach are that the land may remain with rural collective, and peasants may continue access to land capital gains in the coming days.

### 4.2 Redefine rural land property rights, establish market segments

Yozam Barzel argued in his economic analysis over property rights that no right is fully fined due to the existence of information costs, and it is an evolutionary process to define property rights. With the change in relative prices, all potential usefulness of assets has gradually been discovered and manifested. Before these property-rights attributes are defined, their values are kept within a “public domain” assimilated by people with different skills, and ultimately to a game equilibrium state[9].

Chinese rural land property has been widely criticized because of its incompleteness, but the integrity of property rights is actually a relative term. Land ownership is a bundle of rights, including ownership, use right, mortgage right, lease right, inheritance right, easement, and so on. As the economy develops and the society advances, more new right attributes will emerge. In the United States, the United Kingdom and other developed countries, and there does not exist a single land market. Transactions are carried in different markets based on the subdivision of land property rights, including freehold, strata title, fractional title, timeshare, leasehold and other related rights, such as quotas, carbon rights and transferable development rights, etc.

When redefining and subdividing rural land property rights, China should, and she is also in the best place to, establish and standardize a land development rights market. Land development rights are a property right separated from the land ownership, should be represented by a process to transfer the land use from a low benefit use or low degree use to a high level. As for the Chinese rural land, it should be a transfer process from agricultural to non-agricultural use. Since a long time, China's rural land transfer has been monopolized by the state, and rural land development rights have long been neglected, and failed to be expressed in an institutionalized manner. In reality, peasants have transferred land use rights in various spontaneous ways, and obtained the corresponding gains, which reflects, in fact, peasants' struggle against their suppressed collective land development rights[10]. Local governments have also practiced with sense of land development rights, for example, benefit linkage between urban and rural construction lands, “land indicator trading” system in Chongqing and Chengdu can both be regarded as a transfer of development rights. Therefore, we should clearly set up land development rights, allocate the rights to rural collective land owners, and establish a higher level cross-district transfer and trading market, so that peasants can transfer land development rights in exchange for capital income.

### 4.3 Expressly permit mortgage of rural land, activate land capital

In course of rural land capitalization, rural finance co-ordination is essential for vitalizing the rural land assets. However, in reality, only an extremely low proportion of peasants can obtain loans from banks and financial institutions. The survey findings on the rural land in 17 provinces carried out by Renmin University of China and the US Rural Development Institute in 2008 show that 12.9% of the loans come from credit cooperatives or agricultural banks, and only 0.9% from other banks. The impossibility for peasants to mortgage their land assets for loans have made a direct impact on their long-term investment in agricultural operations. According to surveys, in spite of an increase year by year in the number of peasants’ investment, only about 1/4 of the peasants have made long-term contributions on their land. In addition, peasants only have single sources for their investment, which is their own labor or deposits. Obviously, the lack of rural land mortgage is the main obstacle for peasants to rely on credit means, expand investment, increase agricultural output and agricultural operating income.
Although China has clearly defined the land contract and management rights as “usufructuary right” in her “Property Law” and laid the foundation for rural land mortgage, the “Law” also stated that the use right of cultivated land, homestead, private plots, private mountain, and collective-owned land cannot be mortgaged, thus limiting the financial development of rural land. As a matter of fact, the objective conditions to allow rural land mortgage have initially been put in place. First of all, on the basis of extending rural land contract management right to 30 years, the 3rd Plenary Session of the 17th CPC proposed in its “CPC Central Committee’s Decision on Several Major Issues about Promoting Rural Reform and Development” that existing land contract relationships remain stable and unchanged for a long time. About 60% of the country-wide peasants have got their land ownership certificate, and the rural land contract and management rights will be clarified within the next 5 years; secondly, the rural land transfer market has been initially formed, the 3rd Plenary Session of the 17th CPC also perfected the formation mechanism of the land contract and management rights transfer market in its “Decision”. Thereafter, standardized compensating transactions have greatly augmented, and the market price of rural land have gradually manifested; thirdly, local practice regarding rural land mortgage has begun to emerge. In 2010, “Chongqing Municipal People's Government Views on Accelerating the Reform and Innovation of Rural Financial Services” made it clear to comprehensive-ly promote the innovative rural financial system focused on taking the rural land contract and management rights, rural residents’ housing, forest rights and other property rights as mortgage instrument. It also issued “Chongqing Management Approaches on Mortgage Financing with Rural Land Contract and Management Rights, Rural Residential Houses and Forest Right”. According to data provided by the Chongqing Banking Bureau, as of the end of December 2011, the four major agriculture-related bank in Chongqing had issued mortgage loans 5.707 billion yuan over “three rights” [11].

References

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