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# How Can Chinese Farmers' Property Income be Improved? A Population–Land Coupling Urbanization Mechanism

*Yuzhe Wu, Wendan Jiang, Jiaojiao Luo, Xiaoling Zhang, Martin Skitmore\**

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## Abstract

*Balancing urban and rural development is an important political goal in China. The failure of rural land privatization has led to a low level of rural economic development and a vast property income gap between citizens and farmers. This paper illustrates the reasons for property income inequality from the perspective of the land tenure system and the dualistic household registration system. After evaluating the segmentation of the rural land market and the rigid nature of rural land assets, a population–land coupling urbanization mechanism is proposed. The paper argues that China's land property system has externalized a high degree of geospatial and social urban and rural intertwinement. Major reform of the rural land property rights system is required to correct the situation (further development of the social security system and stable urbanization) and to increase property income potential for farmers.*

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Key words: household registration system, land ownership, land privatization, property income

JEL codes: H70, R52, Z18

## I. Introduction

Property income refers to the income received by virtue of certain activities involving someone's capital, technology or management. Two major forms of property income are personal property, such as interest received by deposit and securities; and immovable property, such as rent received from the ownership of a house, vehicle or land. For farmers, personal property income is consistent with that of urban citizens, but their immovable property income is different. Land compensation and rental earnings are key and particular components of farmers' immovable property income.

The gap between urban and rural incomes in China is vast and contributes

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substantially to overall inequality (Sicular, et al., 2007; Liu and Zhou, 2011). Many studies have illustrated domestic urban–rural income inequality. For instance, Kanbur and Zhang (1999) developed a unified empirical framework to describe the relative contribution of rural–urban and inland–coastal inequality, and found that rural–urban inequality is the primary contributor to regional inequality; while Yang (1999) used household survey data to investigate the sources and causes of rising urban–rural inequality and found that rural–urban income differences constitute a large part of total inequality. Further studies of the causes of the urban–rural income gap show the key reasons include industrial preference, citizen expansion, regional economic disparity and labor migration (Sinha, 1978; De Gorter and Swinnen, 2002; Wang and Piesse, 2010; Cheng and Liu, 2013; Li and Ma, 2013). The income gap between rural and urban China is increasing, although the underlying reasons are still under active discussion.

The nationwide inequality of income distribution, an important issue in China, is unlikely to improve unless the urban–rural property income gap is reduced (Chang, 2002). Although farmers have special immovable property income, there are still deep concerns over the inequality of property incomes during the current period of fast urbanization. A recent series of sociological studies examined potential approaches to increase farmers’ property income. Some concentrated on theoretical analysis, making such policy suggestions as improving the land circulation system and farmers’ land property rights, along with homestead (*zhaijidi*) consolidation (Xiao and Liu, 2008). Others focused more on empirical studies. For example, Xu and Liu’s (2012) analysis of statistical data from Wuhan City during 1998–2009 concluded that the rural land system, together with a suitable compensation mechanism, could help to improve farmer’s property income. Although there are several ongoing land reform pilot projects, such as the “homestead exchange for apartment approach”<sup>1</sup> in Tianjin (Fang et al., 2016), “*dipiao* markets”<sup>2</sup> in Chongqing (Wen et al., 2017), and the “two divisions and two exchanges policy”<sup>3</sup> (Shan et al., 2017) in Jiaying, some believe that these projects still shortchange farmers’ interests, and it has become a controversial issue whether it is appropriate to continue these projects.

Analysis that focuses on farmers’ homesteads, therefore, is very important, especially on the theoretical basis of the marketization of farmers’ homesteads and methods to improve farmers’ property income. In Section II of this paper, we assess the situation concerning the property income gap and discuss its underlying cause. In Section III, after analyzing the impediments that lead to a property income gap, a population–land coupling urbanization mechanism is proposed. Section IV provides some concluding remarks.

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<sup>1</sup>Villagers can give away their homesteads in exchange for houses in the town for free.

<sup>2</sup>Some abandoned enterprises in suburbs can receive *dipiao* through land reclamation and redeem *dipiao* in the city.

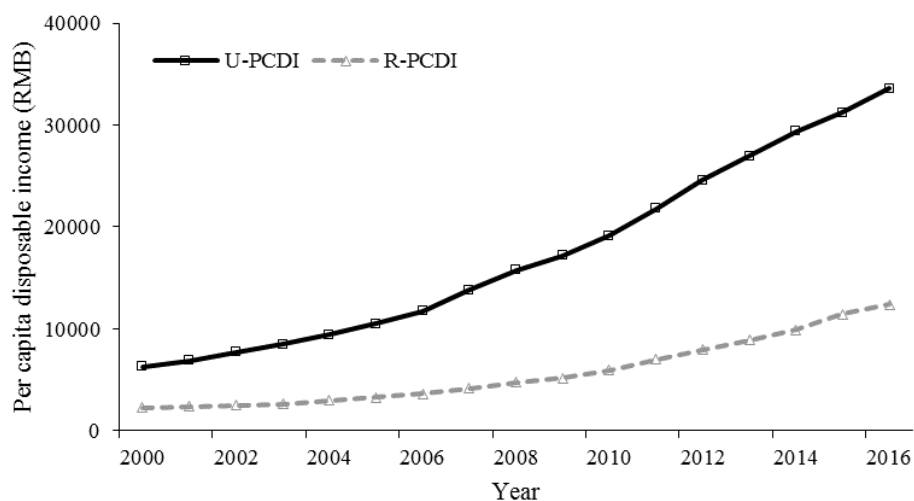
<sup>3</sup>The “two divisions and two exchanges policy” refers to the process of exchanging rural homesteads for urban real estate and exchanging rural land contracting management rights for social security.

## II. Property Income Gap: Status Quo, Reasons, Impediments

### 1. A Brief Overview of the Property Income Gap

Since the introduction of the 1978 reform and opening-up policy, China has witnessed rapid development of the social economy and rising national income levels. Nominal gross national income rose from RMB365bn in 1978 to RMB74tn by 2016 – an average annual growth rate of 21 percent. The income level in urban and rural areas has continuously improved since the new millennium. However, compared to urban residents, rural residents' income growth is much lower. As Figure 1 shows, the per capita disposable income (PCDI) of urban dwellers (U-PCDI) and rural residents (R-PCDI) has risen exponentially from 2000 to 2016. However, the difference between these two indicators has become wider. The income level in rural areas is still much lower than in the cities. Specifically, U-PCDI in 2000 was approximately RMB4000 more than R-PCDI; in 2016, U-PCDI increased to RMB33,616 while R-PCDI was only RMB12,363. The difference has obviously increased, raising concerns over the widening gap between U-PCDI and R-PCDI, and the likelihood of further expansion in the future.

Figure 1. Per Capita Disposable Income of Urban Dwellers and Rural Residents, 2000–2016



Source: China Statistical Yearbooks, 2001–2017.

Note: U-PCDI and R-PCDI represent per capita disposable income for urban dwellers and rural residents, respectively.

Given China's commitment to an equitable distribution of wealth, the increasing income gap between urban and rural residents is a serious problem in need of a solution. One approach is to determine a method to increase the income of rural

residents. The main source of farmers' income is wages, but wage income is affected by market competition, which is influenced by many factors. As a result, farmers' wage income has limited room for growth. Similarly, operating income is greatly affected by natural factors, such as the weather, and transfer income is related to local fiscal conditions; it is difficult to significantly increase these income streams through government policy control. In the US, property income accounts for as much as 40 percent of total income. In contrast, the proportion of property income of farmers in China is too low, indicating room for improvement.

Under these circumstances, given that property income is a significant component of PCDI, a review of the current property income gap between urban and rural regions, or even among rural areas is essential. Is there a gap and if so, how can it be bridged?

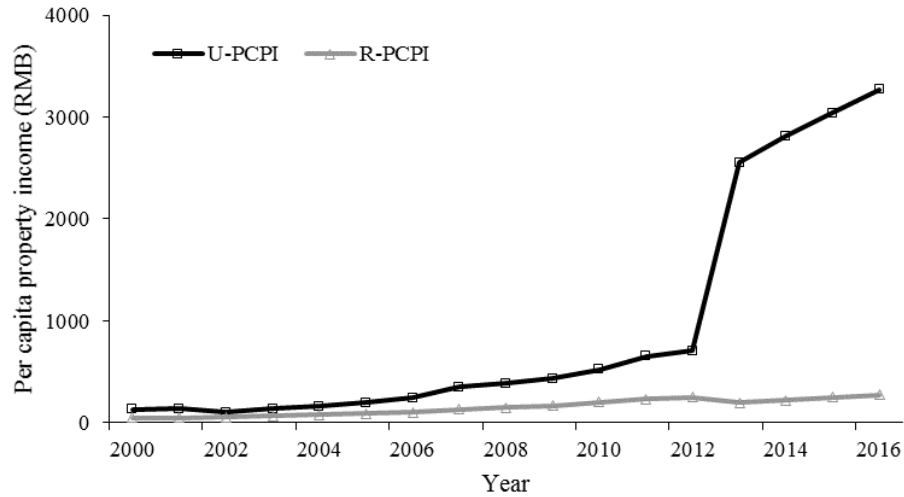
#### *(1) Property Income Gap between Urban and Rural Areas*

The same situation has occurred in relation to per capita property income (PCPI). The PCDI consists of wage, operating, property and transfer income. A review of the statistics of these four types of income reveals that the proportion of property income is the lowest.<sup>4</sup> By comparing the per capita property income of urban dwellers (U-PCPI) and rural residents (R-PCPI), we find that R-PCPI is significantly lower than U-PCPI. In 2016, the U-PCPI was RMB3271 while the R-PCPI was only RMB272, which was only one-twelfth of the U-PCPI (Figure 2). The U-PCPI increased by RMB719 over the past four years, while the growth of R-PCPI was RMB78, almost one-tenth of U-PCPI. This indicates further exacerbation of property income inequality between urban and rural residents.

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<sup>4</sup>Data source: China Statistical Yearbooks, 2001–2017.

Figure 2. Per Capita Property Income of Urban Dwellers and Rural Residents, 2000–2016



Source: China Statistical Yearbooks, 2001–2017.

Notes: U-PCPI and R-PCPI represent per capita property income for urban dwellers and rural residents, respectively. In 2013, the National Bureau of Statistics of China changed the statistical definition and method of estimation of indicators regarding urban and rural household data collection.

### (2) Property Income Gap among Rural Areas

In addition to the inequality in PCPI between urban and rural areas, there are also differences among the rural areas (Table 1). Farmers in economically developed areas, such as the eastern region, have a larger proportion of PCPI than those in the central and western regions. In general, the property income of farmers in economically developed areas is primarily from housing rent, followed by interest from savings and other property income. Nevertheless, in relatively poorer and less developed regions, farmers' property income is mainly comprised of interest on savings.

Table 1. Regional Rural Income, 2016

	Eastern region	Central region	Western region
PCPI (RMB)	513	252	206
PCDI (RMB)	15498	11794	9918
PCPI of total income (%)	3.3	2.1	2.1

Source: China Statistical Yearbook, 2017.

Notes: PCDI, per capita disposable income; PCPI, per capita property income.

In sum, the differences in property income are significant, with farmers' property income only 8.3 percent of urban citizens' property income. In addition, there are regional differences in rural property incomes as a result of different levels of

development, with rural property income in the poorer western region only 40 percent of the property income of the wealthier eastern region.

## 2. Reasons for Property Income Inequality

There are two main reasons that can explain the existing property income gap: the land tenure system and the dualistic household registration system.

### *(1) Land tenure system*

Agricultural land can be conditionally transferred within the scope of agricultural use. Current law no longer recognizes the conversion of agricultural land into non-agricultural construction land. While the short supply of urban land in China has resulted in urban values far in excess of those of rural land, farmers are not permitted the lucrative conversion of their land to urban use directly (Ding, 2003; Wu et al., 2018). The only option is to accept compensation from the expropriation of their land from the local government. As a result, collective land becomes state-owned land and can be released for urban construction purposes through three methods: bid, auction and list. In contrast with the often-meager amount of compensation paid to the farmers, the government can fully realize the asset value of land, creating a substantial surplus (Cao et al., 2008). In addition, by using this extra revenue to increasing urban infrastructure construction, local governments are able to generate more job opportunities and accelerate the development of the urban economy, thereby promoting the PCDI of urban residents. However, the limited rural land property rights coupled with the land expropriation system have dire consequences on the livelihood and welfare of farming families and reduces the amount of agricultural land available for food supply (Scott et al., 2000). Because the land has not yet played a constructive role, an exploration of how to enhance farmers' property income could be an effective way to reduce the urban–rural income gap.

### *(2) Dualistic household registration system*

The household registration system was introduced during urbanization as an obstacle to labor mobility to control the urban scale. According to Hsieh's (2014) analysis of the United Nations Population Division's World Urbanization Prospects data, China's urbanization process entered the second half of its S-curve in 2000. Urbanization has been accelerating since the 21st century. Rapid urbanization has created more jobs and the associated improvement in urban infrastructure has provided greater convenience for residents. Although rural infrastructure has also improved in recent years, it has not diminished the flow of migrant workers into the cities. Based on the *Report on the Development of China's Migrant Population*, the migrant population was nearly 230 million in 2011, accounting for 17 percent of the total population. Together with the development of city economies, this has resulted in constantly rising housing prices. The potential wealth of those who already own a house has been growing (Ding, 2007; Sun et al., 2011). Migrant workers have homesteads in

rural areas, but the value of those homesteads is increasing very slowly in comparison and there are restrictions on trading these homesteads. Therefore, it is more difficult for migrants to obtain property income than urban residents.

### 3. Impediments to Increasing Farmers' Property Income

On the basis of these reasons, we find that the key to bridging the property income gap and improving farmers' property income lies in "rural land." The segmentation of the rural land market and rigid nature of rural land assets are two impediments.

#### *(1) Segmentation of the Rural Land Market*

Land is a form of property and thus involves the aggregation of all kinds of rights, including land ownership and land use rights, as well as land treating rights and rights to derive benefit from land. If land ownership exists in a society, then there will be different types of land owners, each with particular land rights. China's current land rights system is a dualistic urban-rural structure and the land ownership arrangements in urban and rural areas are quite different. The land in urban areas is owned by the State, while land (homesteads and hills) in rural and suburban areas, except those belonging to the state prescribed by law, belongs to and is owned by the rural collective. The so-called "rural collective" is a commune (now township or village) that was established under the Mao regime. This organization represents the Rural or Village Committee, membership of which is self-determined. However, no organization or institution can be a representative of the "rural collective." That is, land owned by the rural collective is actually owned by no one. As for the right to use rural land, rural collective construction land can be delegated to farmers through land contracting. Farmers can obtain free use of homesteads as long as they meet the principle of "one family, one homestead." Therefore, the shortcomings of China's land property rights system are obvious: (i) the subject of ownership is absent, and (ii) the division of land ownership and use rights is unclear.

Farmers have the right to use the land for agricultural purposes and homesteading. The welfare nature of China's rural homesteads is remarkable, but the benefits that farmers can gain from homesteads are limited. Villagers can acquire the homesteads for free. One rural family can possess only one homestead, and rural collective-owned land use rights cannot be sold, transferred or leased for non-agricultural purposes. Homestead applications by villagers who have already sold or donated housing will not be approved. The *Notice of Strict Implementation of the Relevant Rural Collective Construction Land Laws and Policies*<sup>5</sup> in 2007 further stipulates that the transfer of other rural collective construction (mainly homesteads) land use rights must be consistent with local planning and the law, and the land and rural collective construction land cannot be used for commercial housing development. Moreover, a rural homestead can only be assigned to villagers and not urban dwellers,

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<sup>5</sup>See: [http://www.gov.cn/zwggk/2008-01/08/content\\_852399.htm](http://www.gov.cn/zwggk/2008-01/08/content_852399.htm) (online; cited December 2017).



and the latter cannot purchase rural housing. In 2004, the State Council promulgated the *Decision on Deepening Reform and Strict Management of Land*,<sup>6</sup> stressing that urban residents are forbidden to purchase homesteads in rural areas. The right to use collectively-owned construction land can be transferred according to law in compliance with the general plans for the land use. In 2011, the *Actively and Steadily Promote the Reform of the Household Registration System* was issued,<sup>7</sup> which again emphasizes the “strict implementation of the policy prohibiting the purchase of rural homesteads by urban residents.” At the beginning of 2015, a number of pilot counties were selected to participate in homestead system reform and to establish collective construction land in a free market environment. The pilots are strictly limited to the counties authorized by law, and non-pilot projects are forbidden.

As evident from the related policies and regulations, homestead land use rights are limited to the construction of individual houses by villagers and must not be used for other non-construction purposes. Prohibiting traders from entering the market will definitely segment the market and have a negative impact on production efficiency and the economy. According to market access standards, the World Bank (2009) proposed that reshaping the three economic geographical features density, distance, and segmentation are necessary in response to development. The report also compared several regions, and found that the economic and production conditions in North America, Northeast Asia and Western Europe with implicit market segmentation are much better. The report concluded that market segmentation is extremely unfavorable for normal transactions. From this perspective, the restriction of membership rights of transfer of rural homesteads is also negative to land use benefits. In China, market segmentation has caused greater consequences. Because of the limited land use rights, rural land cannot enter the market for trading. The government buys rural land at a low price and sells it at a high price, obtaining the benefits of the price difference. During the period 2003–2009, the total land transfer revenue of the whole country was RMB4.90tn, 3.5 times the national local fiscal revenue (Jin and Lin, 2014). Farmers often resist land acquisition, and riots can occur. One of the reasons for this opposition is the low land acquisition cost. Some local governments try to persuade rural cadres to contribute the land to national construction (Kong and Wang, 2004). To an extent, farmers cannot participate in sharing the fruits of urbanization.

## (2) Rigid Nature of Rural Land Assets

Studies of the Chinese land market from the same perspective suggest that the vast income disparity between urban and rural areas is the result of inadequate use of the land as capital. In cities, land assets play an important role in urban construction and economic development. On the one hand, the urban land market enables land to be traded by land transfer to fully realize the economic value. Local governments charge

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<sup>6</sup>See: [http://www.gov.cn/ztl/2006-06/30/content\\_323794.htm](http://www.gov.cn/ztl/2006-06/30/content_323794.htm) (online; cited December 2017).

<sup>7</sup>See: [http://www.gov.cn/zwgk/2012-02/23/content\\_2075082.htm](http://www.gov.cn/zwgk/2012-02/23/content_2075082.htm) (online; cited December 2017).

a land transfer fee to support such general urban community facilities as infrastructure construction, which helps to increase employment and the development of related industries. From 2010 to 2016, the land transfer income of local governments nationwide accounted for approximately 50–60 percent of local public revenue. On the other hand, local governments built a platform to obtain finance through mortgaging or pledging land and construct urban infrastructure and affordable housing to develop the city's economy. Related data show that land revenue and land mortgage financing accounts for approximately 30 and 60 percent, respectively, in eastern cities, with around 20 and 70 percent land revenue and land usufruct pledges, respectively, in the central west (Jiang et al., 2010). Thus, the economic development of local governments mainly depends on land finance and land banking. Urban land has become an important driving force in regional economic development and an important source of government revenue. The institutional constraints of land policies prevent capital gain from happening in rural areas.

International research on capital rigidity indicates that a reason for slow development may be that a country does not make full use of land to create capital. For example, De Soto (2000) launched a 10-year survey of Egypt, Haiti, Peru and the Philippines, examining the reasons why capitalism did not succeed in developing countries. He found that these four countries had approximately 85 percent urban land and 40–53 percent rural land that was not used rationally to create capital. In developing and former communist countries, the overall value of residential real estate occupied by the poor but not legally owned is conservatively estimated at least US\$9.3tn, which is approximately twice the total amount of US currency. These illegally occupied properties have become rigid assets because they do not serve any economic purpose and cannot create more value via trading, which can hinder the further development of the economy and society.

In China's closely controlled rural areas, although still an important asset to farmers, land cannot be used for capital appreciation. On the one hand, from the farmers' perspective, large-scale management is inevitable in future agricultural development. Although national policies encourage the transfer of rural collective construction land, rent has to be paid to transfer land use rights, and obtaining loans by mortgaging rural land is currently impossible. Farmers specializing in agricultural production cannot afford the cost of consolidating fragmented land, which limits farmers' land rights and restricts the development of larger scale agriculture. Rigidities in land capital also inhibit farmers' enthusiasm, making land idleness an even more serious prospect. Moreover, compared to urban citizens, most migrant farmers can only obtain lower paying employment in cities. Such a wealth gap is not conducive to harmonious social development. Rigid rural land assets also prevent additional income from property, seriously affecting the possibility of any future increase in farmers' income. On the other hand, because rural collectives cannot charge land transfer fees, they lack a stable source of finance and are unable to invest in the construction of infrastructure, resulting in slow rural development, further

exacerbating the “hollow village” phenomenon (Yan and Li, 2014). The economic boom has meant that the housing needs of farmers have become increasingly diverse. A large number of rural populations have migrated to towns and cities, creating development of new houses and businesses along the edges of villages, major roads and highways while village centers have been abandoned. Rural residential space spreads from the hollow interior.

As a result of accelerating urbanization, the number of migrant farmers in China has grown each year. In 2006, the Development Research Center of the State Council (2007) launched a survey of new rural construction in 17 provinces and autonomous regions, comprising 2749 villages. The results showed that the size and level of homesteads in rural areas are slightly higher than the overall rural planning and land use index compiled by Ministry of Housing and Urban–Rural Development. Although there are many homesteads, they are not fully occupied. The problem of idle rural homesteads is serious, with the appearance of increasing numbers of “hollow villages.” Forty-five percent of villages contain abandoned houses and homesteads, and the average homestead area of every village is 44.15 mu,<sup>8</sup> accounting for 10.4 percent of the total area of the villages. “Hollow villages” lead to idle rural homesteads and undermine the property income of migrant workers. There is therefore great potential for homestead consolidation. Moreover, the current land ownership system that limits farmers’ property income also indicates a need to revitalize rural land assets and introduce rural homestead reform in China.

### III. Rural Land Property System Reform: A Population–Land Coupling Urbanization Mechanism

Property rights are theoretical socially enforced constructs in economics for determining how a resource is used and owned. Any changes in property rights affect transaction activity and individual income (Coase, 1974). The underlying premise of market exchange is clear property rights. However, because of the existing land tenure system, rural land property rights are unclear and rural land cannot be traded freely. Under these circumstances, the segmentation of the rural land market and rigidity of rural land assets are two major impediments to improving farmers’ property income. Scholars insist that it is imperative to reform the rural land property rights system (Yao, 2000; Wang et al., 2012; Jian, 2013; Zhang and Donaldson, 2013). The mainstream view claims this reform is essentially the privatization of rural land which is a controversial issue.

#### 1. Views on Rural Land Property System Reform: Support and Opposition

There are three main reasons to oppose rural land privatization. First, the land will be

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<sup>8</sup>One “mu” (the Chinese unit for land measurement) equals roughly 666.6 square metres, or 0.1647 acre. So 44.15 mu equal 7.273 acres.

concentrated in the hands of a few people and many farmers will lose their source of income (Meng, 2005). Second, the transfer of homestead ownership might lead to the interests of farmers being damaged. After the replacement of their rural homesteads, the farmers' welfare may decrease because of insufficient compensation, defective replacement performance etc. (Hou, 2013). Third, there are problems with the current system of land replacement, such as the violation of farmers' wishes, improper compensation, adverse guidance from governments, inadequate protection from the law (Sun, 2010) and the lack of basic guarantees.

However, although smooth implementation of rural land privatization seems challenging, it is expected to be beneficial in the long term. This is mainly because land privatization can stimulate better land utilization – larger scale management and the incentive of greater wealth prospects, for example, should improve production efficiencies while, at the same time, liberating small farmers from collective land under the contract system (Huang, 2010). Moreover, the direct transfer of homesteads can increase farmers' property income and provide them with better social security. Furthermore, capitalization of the land should help to develop the economy. De Soto's (2000) finding that more than 50 percent of the land in the four countries studied does not create value prompts the conclusion that the crux issue for the poor in these countries is the lack of land capitalization, and that privatization of land is crucial to promote the regional economy.

Many believe that rural land privatization is necessary in the long run to coordinate the economic development of urban and rural areas (Brandt et al., 2002; Wu et al., 2016; Luo et al., 2018). Studies have suggested that homestead transfer has damaged the rights and interests of farmers primarily because the operation in some pilot studies is unregulated, pricing is sometimes unreasonable, and the farmers have insufficient information. The deficiencies of pilot reform will be solved over time. Reform certainly presents some risks and resistance, however, and, in order to balance the development of urban and rural areas, gradual introduction of reform is necessary. Under the current land system and legal framework, a system of rural housing land reserves can be built that can not only increase farmers' property income, but also improve the efficiency of land use and reduce land idleness and waste (Zhang and Skitmore, 2012).

Although seemingly a radical approach, it is interesting to note that *The Decisions of the Central Committee of the Communist Party of China on Certain Major Issues for Comprehensively Deepening Reform in 2013*<sup>9</sup> includes that:

[w]e will ensure rural households' usufruct of their homestead, and improve the rural homestead system through reform. We will select several pilot areas to steadily and prudently push forward the mortgage, guarantee and transfer of farmers' residential property rights, and expand the channels for farmers to increase their property income.

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<sup>9</sup>See: [http://www.gov.cn/jrzq/2013-11/15/content\\_2528179.htm](http://www.gov.cn/jrzq/2013-11/15/content_2528179.htm) (online; cited December 2017).

Homestead reform has already been carried out in experimental units in Chongqing, Guangzhou and Jiaying, and may predict that the privatization of rural land reform is the future direction of rural land development.

## 2. A Population–Land Coupling Urbanization Mechanism

Land privatization is necessary for social development, but this does not mean that China must immediately launch land reform across the country. Rural property reform alone cannot achieve satisfactory results. Increasing farmers' property income still requires a unified urban–rural household registration system. Here we propose a population–land coupling urbanization mechanism to explain how reform of rural land property and household registration together can improve farmers' potential property income.

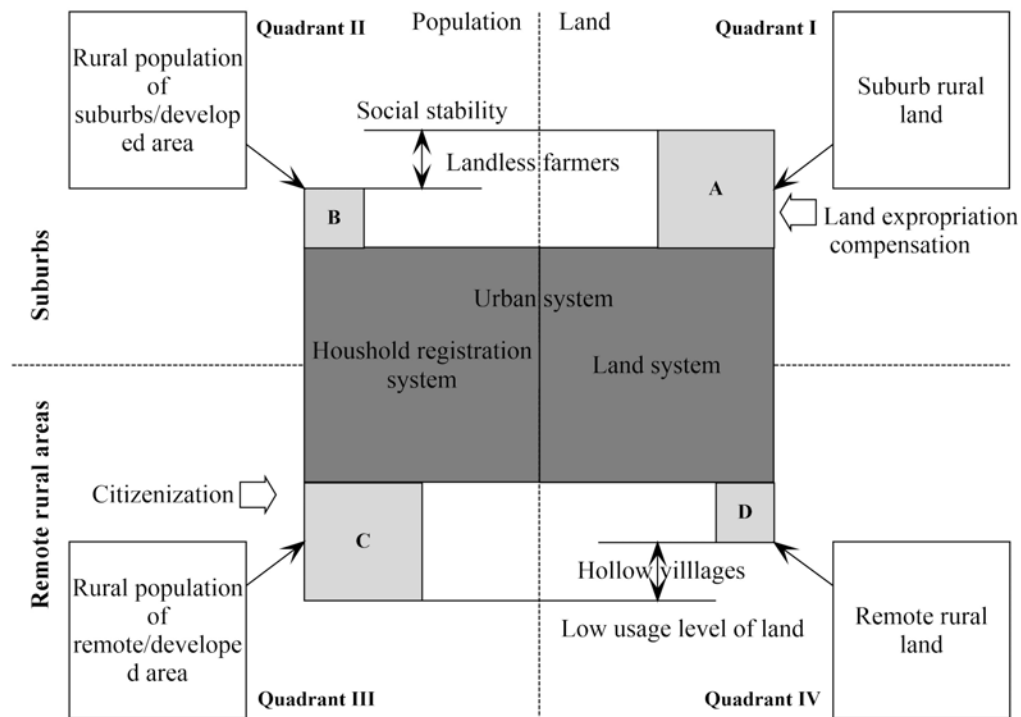
Figure 3 provides a simplified model of the urban system, which consists of such essential factors as land and population. The area to the left of the vertical dividing line in Figure 3 denotes the population, while the area to the right denotes land; suburban rural land is represented above the horizontal dividing line, and remote rural land below; the light part of the peripheral figure indicates the countryside, and the middle relatively darker part represents the city.

In the process of urbanization, urban land use and the population start to increase, which is marked by four small boxes labeled A, B, C, and D. In the suburbs (Quadrants I and II), the government converts rural land, originally owned by rural collective organizations, into state-owned urban construction land (box A). On the one hand, the population in box A, particularly young and middle-aged residents, will move to the urban area for employment (box B). However, the dual urban and rural household registration system categorizes these people as “second-class citizens,” because they still belong to the rural collective and cannot enjoy the same medical and educational facilities as urban citizens. On the other hand, many of these dispossessed farmers find it difficult to obtain basic necessities because of the loss of their economic source of survival and inadequate expropriation compensation. They reside in their original towns and become “landless farmers” (gap between A and B). Although they are entitled to compensation from the governments' land acquisition, the basic necessities may be difficult to guarantee because such compensation is low. This potential social problem will adversely influence stable social development if not dealt with properly.

In the remote rural areas of both Quadrants III and IV the reverse is the case. The continuous expansion and development of the city provides copious employment opportunities. As a result, many farmers move into cities and the land at the edge of the rural areas cannot be used efficiently because of its remote location and the strict curbs on transforming agricultural land into construction land. Apart from a small amount of construction land being expropriated, much of the land becomes unused (box D) as a result of the migration of many villagers (box C), lowering the utilization rate of rural infrastructure and increasing the prevalence of “hollow villages” (the gap

between C and D) in many rural areas.

Figure 3. Current Urban System



Along with increasing rapid urbanization, two contradictions are growing increasingly apparent. Only when a people–land coupling policy is implemented can the problem of the farmers’ survival and effective utilization of “hollow villages” be solved.

The integration of urban and rural household registration is needed to eliminate the differential treatment between migrant farmers and urban residents. At present, a large number of migrant workers live in cities with rural “*hukou*” (registered permanent residence) and are therefore excluded from the social security system and cannot access the housing accumulation fund or pension and medical insurance that urban residents are entitled to. The integration of urban and rural household registration is conducive to eliminating the treatment differences between farmers and urban residents. But this is only a first step. The disparity in farmers’ property income is unlikely to be significantly ameliorated without the privatization of rural land. A mechanism for the two-way flow of urban and rural factors and legal confirmation of land rights need be established. Farmers with empowered land property rights can maximize their own interests by freely participating in market transactions. In summary, by eliminating the difference between urban and rural household registration system and providing basic social security in cities for the farmers who give away their rural land, the land property rights system reform can be well received in rural areas and improve the potential property income of farmers.

### 3. Environment for Population–Land Coupling Urbanization Mechanism Implementation

Many obvious factors could affect the success of a population–land coupling urbanization mechanism, such as farmers' willingness to trade their homesteads. Currently, the rural homestead functions as residential security for farmers, while agricultural land provides employment security. Therefore, whether farmers are willing to sell their homesteads essentially depends on the maturity of alternative security arrangements. The social security system is not yet fully developed and urban development is still relatively immature. To guard against this, attention must be paid to two aspects of community preparation.

First, further development of the social security system is required. Temporary residents who stay in cities or towns for more than six months have been included in the urban population statistics since 2000. According to China's Sixth Census data, for example, 170 million people flowed into urban areas while 55 million flowed into towns and villages. China's urbanization rate was therefore said to exceed 50 percent because the 230 million “floating population” was included. The urbanization rate is therefore not a good indication of the actual status of urbanization. As they lack local *hukou*, the living standards of “floating” migrant workers are lower than urban standards, which prevents migrants from access to the same rights as urban citizens in health care, sanitation and education for children. This means the current development of China's cities is still quite immature and lacking in infrastructure and other facilities, making it difficult at present to accept a large number of immigrant workers. Moreover, even if an extensive housing for the new residents was built in these cities in a short time, the quality and facilities would certainly be adversely affected. Quality and speed have always been a paradox. The pursuit of quick construction often leads to inadequate facilities to cater for all of the migrants. Only when migrant workers are officially recognized as citizens and have the same social welfare safeguards, social insurance, social assistance and other guarantees as citizens, will it be possible to realize the coordinated development of urban and rural areas.

Second, urbanization needs to reach a suitable level. Once their homestead is transferred farmers lose their land security and those who move to cities face the risk of unemployment. At the same time, many farmers have poor money handling skills and simply deposit their compensation in the bank, risking depreciation by inflation, or invest poorly, risking complete loss of capital. When the real urbanization rate (excluding the “floating population”) reaches a certain level, for instance, surpassing 50 or 70 percent, and the urban population is far greater than the rural population, cities will then have the ability to help bear any farmers' investment failure. However, if “complete social security urbanization” development does not reach a certain level, residents with a rural social identity will still occupy a high proportion. In this case, if rural land can be freely traded, farmers will have funds to use for investment. When the investment fails, the lack of social security coverage would cause social unrest and

engender a series of social problems. As the *World Development Report 2009* (World Bank, 2009) proposes – using the concentration index to measure urbanization – only when the size of a town reaches a certain threshold can it produce a sufficient agglomeration effect for investment in public facilities to be economically viable. As a result, cities and towns can provide residents with greater job opportunities and life guarantees (Wu, 2013). However, even when urbanization reaches a high level and cities can afford to cover farmers' investment risks, a risk assessment system is required to reasonably control non-systematic risks.

The successful implementation of any mechanism depends on “good timing, geographical convenience, and harmonious human relations,”<sup>10</sup> and different regions have different economic situations, thus the timing of reforms should also be different. Therefore, a population–land coupling urbanization policy needs to be carried out according to the characteristics of different regions by analyzing the specific issues in accordance with their development and building a mature security system to ensure successful implementation.

#### IV. Conclusions

Balancing urban and rural development is currently one of China's most important development strategies. Since 2000, with the rapid advance of the social economy, the income of both urban and rural residents has increased annually, accompanied by widening income disparity between urban and rural residents in absolute terms. An analysis of the income sources of farmers has shown that although property incomes are increasing, the proportion of total income is much lower for farmers than their urban counterparts. The same is also true for farmers with less total income and those in the poorer western region although, in general, the percentage rate of annual growth is roughly similar for all groups.

Consideration of the detailed practical situation in China leads to the conclusion that the land tenure system and dualistic household registration system are the major reasons for urban and rural property income inequality. Because of the dualistic household registration system, migrant farmers in cities do not receive the same treatment as urban citizens. Economic development has increased housing prices and the associated rising rents have increased survival costs of migrant workers, thus exacerbating the urban–rural income gap.

The land tenure system, which allows state-owned land to enter the land market, promoting economic development in cities and improving the level of urban residents' income, is of fundamental importance. In contrast, rural cannot be freely traded in the land market – a restriction that has led to serious market segmentation. As an important asset of farmers, land cannot be capitalized to any extent, resulting in the economic development of rural areas lagging far behind the cities. Together, these

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<sup>10</sup>A famous quotation from an ancient Chinese classic, *Sun Zi Bing Fa* (*Master Sun's Art of War*).



dual structures of land and household registration systems have resulted in the increasingly pronounced income discrepancy between urban and rural residents.

Given that this situation has been steadily deteriorating over the last 15 years, reform of the rural land property rights system is inevitable. It is argued here that land privatization will provide the solution needed. However, it is clear that implementation will not involve a single plan that can be simply carried out nationwide. The pilot work carried out to date suggests that land privatization in China requires a specific social foundation and system support. Land property rights need to be coordinated with an integrated and unified urban and rural household registration system to ensure the rights of farmers. This makes a population–land coupling urbanization policy essential.

The proposed reforms would rectify what has effectively become a “caste system” in urban China today, allowing the hitherto virtually destitute immigrant city workers access to the same privileges as urban citizens. Such reform will take some time, however, as the quantity and quality of social infrastructure required is developed to allow cities the appropriate capacity. Given careful planning and timing to satisfy local social and system conditions, a privatized land policy could be introduced to create the balanced urban–rural development sought in China and other similarly placed countries.

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