

Developing the Commons: Models of Rural Land Trust in China

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In recent years, experiments on land trusts (*xin tuo*) have been made in the rural areas of China. To better understand such practice, this research identifies four case studies based on their operational structures and divides them into government-led models and market-led models. The government-led models include the Yiyang Model in Hunan Province, and the Longgang Model in Hubei Province. The market-led models include the Suzhou Model in Anhui Province, and the Golden Field Series Model in Jiangsu Province. This paper compares their profit-sharing mechanisms with specific attention given to the incentives for the villagers. Findings suggest that the villagers' profits are limited in both models. The government-led models concern less about profits but more on reusing the desolated agricultural land. The market-led models are profit-driven therefore tend to exclude the villagers from the profit-sharing process.

Keywords: land trust, rural development, collective ownership, agricultural land, land use rights

Introduction

The uneven distribution of resources led by national policies in China has created significant economic disparities between the rural and urban. Over the past three decades, the dichotomy between rural and urban in China has been stiffened by the rapidly growing economy. This disparity is further exacerbated by land finance through converting agricultural land to urban land in exchange for fiscal revenue. Attempts have been made to alleviate this dichotomy, and rural land transfer is one of them. This strategy has existed for more than two decades, and the initial cause was to stimulate agricultural production. Given the tax burden and the low profitability of farming, villagers abandoned their land and sought work outside the agricultural sector. Some villagers transferred their land to agricultural experts so that the land can be used for effective production. However, due to the low market return of agricultural products, the production experts' incentives diminished quickly. Meanwhile, land transfers are usually initiated spontaneously and informally among the villagers through kinship or acquaintance without listed price or written contracts, therefore usually only happen at small scales rather than being promoted widely. By 2005, over 17 provinces in China, only one third of villager households and one tenth of the land were involved in land transfer (Yue & Wang, 2008). However, with the escalating speed and scale of urbanization in China, large number of rural labors flow into urban area, leaving rural land under-utilized.

In recent years, based on the practice of rural land transfer, experiments with land trusts (*xin tuo*) in rural China have emerged. Rights over agricultural land in China can be separated into the ownership right, the contract right, and the use right. Rural land trust only concerns the contracting and use rights. It liberates land

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use from unitary ownership structure, allowing land to interact with the market yet without violating the current institutional setting in China. Land itself, under the current legal framework in China, cannot be mortgaged. But the separated contracting and use rights can be used by the trustee for bonds and mortgages. Rural land trust maintains the agricultural land use type and the collective ownership of the land, allows the land use right to be transferred to the trustee who operates the land and generates revenue to be shared by all beneficiaries.

This mechanism also facilitates land consolidation for scale production. Rather than simply relying on agricultural experts to generate income, this mechanism invites trust companies for the processes of financialization (Yue & Wang, 2008). The expertise of the trust company or the company's subcontractor can also more effectively use the consolidated land. The national government further helped this intervention with policy instruments. The Third Plenary Session of the 18th PCP Central Committee in 2013 listed "empowering villagers with more rights to benefits" as one of the major reform goals, therefore further development on rural land trust became a crucial task for reforms in rural areas (Tong & Chen, 2008). Responding to the policies, trust companies such as the China International Trust Investment Corporation (CITIC) and the Beijing International Trust and Investment Corporation (BITIC) initiated large number of rural land trust projects, involving more than 17,000 acres of land (Zhang, 2015).

Although rural land trust models vary according to geographic locations, they can be simplified into two categories: the government-led models and the market-led models. The government-led models were common in the nascent stage of rural land trust, and geographically concentrated in Hunan, Zhejiang, and Jiangsu provinces (Xi, 2017). They were funded by the governments to establish a trust company. Common characteristics of the government-led models include government's direct involvement and intervention in the process of establishment, regulation, and profit distribution. The trustee entities were usually established by the county, town, or village. The trustee entities were seen more like agents or brokers, so some scholars argue that they are not actual trust models (Ye, 2011). The market-led models, contrary to the government-led quasi trust models, were initiated later than 2013. The first case was the Suzhou Model in Anhui Province with the CITIC Trust, documented as the "CITIC Rural Land Contracting Operation Consolidation Trust No. 1301". It was followed by more projects by BITIC Trust including the "BITIC Land Trust Taoyuan Village" in Wuxi (Jiangsu Province), and "BITIC Golden Field Land Trust No. 1-5" in Jurong (Jiangsu Province) (Xi, 2017). Compared to the government-led models, the market-led models typically involve trust companies from the market, while the local governments act as the trust principle and the villagers act as the beneficiaries. The trustee consolidates the land and subcontracts the land to agricultural companies for production. The financing process is usually supported by the trustee's credit in the financial market.

To expand research on rural land trusts, this research identifies two government-led models and two market-led models. Cases one and two, respectively the Yiyang Model in Hunan Province and the Longgang Model in Hubei Province, are government-led as the local governments operate and monitor the trust models. Cases three and four are the Suzhou Model in Anhui Province and the Golden Field Series Model in Jurong City of Jiangsu Province, which are market-led models where professional trust companies took the initiative of establishing the trust models. This paper conducts comparative studies upon their profit-sharing mechanisms with specific attentions given to the incentive structures and inclusion of villagers in hope to discuss the rationales behind the design of each case model. Findings suggest that the villagers' profits are limited. The local governments experiment with caution in the state-led models and focus on reusing the otherwise decadent

agricultural land rather than profits. The market-led models are profit-driven, therefore exclude the villagers from the financial processes.

Case Studies

There are many models of rural land trusts across China, and their mechanisms vary across time and geography. To better understand the characteristics of rural land trust, this paper identifies four models based on location and operation. The four cases are located in Hunan, Hubei, Anhui, and Jiangsu provinces (see Figure 1). Scholars also believe that these regions have abundant farmland and active agricultural activities, but also have declining rural population because of urbanization in large cities in these provinces (Liu & Qi, 2007). The four cases range from 2010 to 2013 to minimize the impacts from the changing national and local policies. The Yiyang (Hunan) and Longgang (Hubei) models are established respectively in 2010 and 2011. The two models were earlier experiments and are less connected with the market. The government is more involved in the intervention and regulation. The local government is fully involved in the entire trust process of the Yiyang Model, while the village committee is the major entity in Longgang Model. On the other hand, the Suzhou (Anhui) and Golden Field Series (Jiangsu) models occurred in 2013 and are more connected with the market, particularly in the financing process. Both models invite trustee companies (CITIC Trust and BITIC Trust) in charge of financing and operation. The designs of trust structures are similar, but the profit distribution processes are different. The following session of this paper gives detailed explanation and illustration for each model.



Figure 1. Geographical locations of the case studies.

Yiyang Model

This model was introduced in 2010 in Yiyang City of Hunan Province. The site is in Caowei Town, which is in Ruanjiang county-level city under Yiyang prefectural-level government. The Ruanjiang government took the initiative in establishing the Rural Land Transfer Center, together with a land trust fund of 2,000,000 RMB (\$284,260). Then multiple subordinate local governments under the town-level government funded and established state-owned Rural Village Land Contract and Use Right Trust Company as the trustee. The trustee then acquired land from the villagers (trust principles) as they voluntarily transferred the contract and use rights of the land under their names to the trustee by signing contracts, and the trustee paid the trust principles a fee of 500-700 RMB per Mu (\$400-600 per acre) from the land trust fund. The contracts were 10 years in term to prevent villagers from exiting midway. At the same time the agricultural experts pay the trustee a service fee of 10 RMB per Mu (\$8.5 per acre).

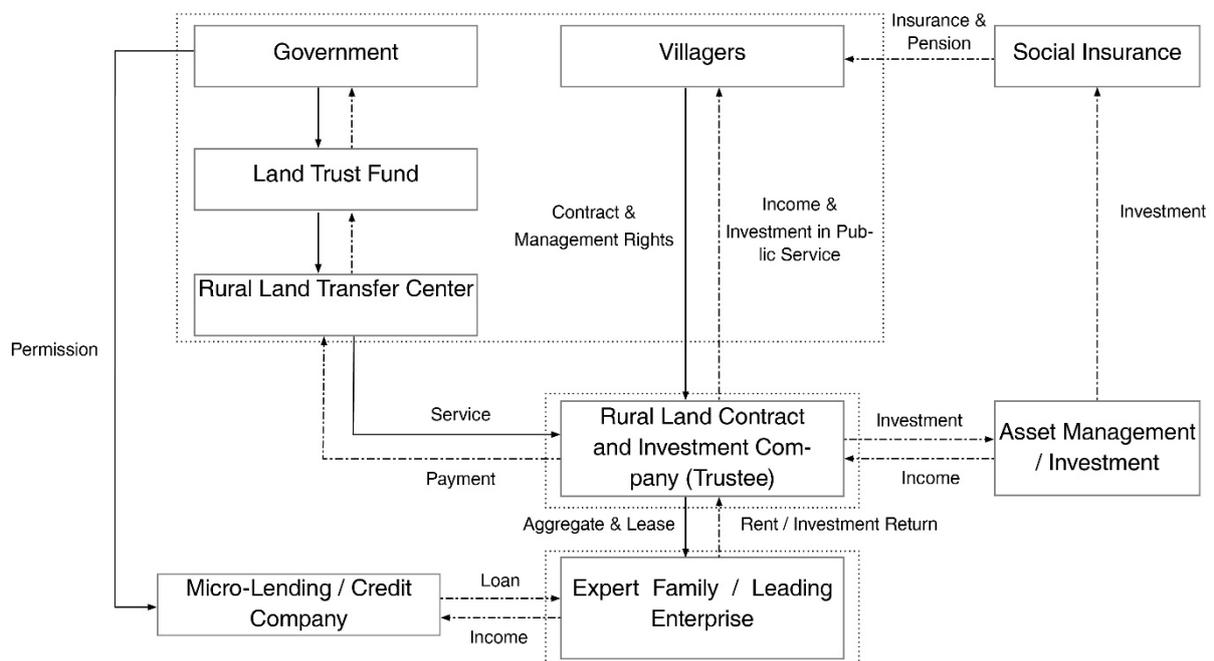


Figure 2. The structure of Yiyang Model.

Caowei Town had a tradition of land transfer because the young population leaves the villages for jobs with better pay. Under land transfer, villagers benefit from the agricultural experts at about 400 RMB per Mu (\$340 per acre), less than the benefit under a rural land trust model of 500-700 RMB per Mu (\$400-600 per acre) (Liu & Guan, 2017, p. 40). This trust model increased the income of villagers and gave them an incentive to participate in the land consolidation process. Moreover, the governments also hoped to issue rural land bonds, trust investment fund or other asset-backed securities in the capital market for further financial activities. But due to multiple institutional limits, they were never realized. Operation wise the trust model consolidates fragmented land from villagers into a larger piece, then invites agricultural subcontractors through bidding. Part of the profit from the trust is returned to the land trust fund for future use, the rest is used to either enhance the management of the trustee company with investment in some fixed assets in hope for more return, or to enhance public services in the village including developing infrastructure and paying for social benefits, for

example health insurance and pension funds. In that sense, the trustee, as the extension of the local government agency, serves similar duties with the government in providing public services. In Yiyang Model, the government is the bridge between the villagers and the land contractors, closely steering and regulating the trust process. This model was widely used by the end of 2010 in eight county-level cities, counties, and 12 towns. According to the China Trust Association, by 2017, in the 12 experiment sites across Yiyang City, land used for rural land trust is 100,300 Mu (16,523.11 acres) accounting for 14% of the total land being transferred (Liu, 2017). Within that agricultural land under rural land trust is 92,800 Mu (15,287.59 acres) accounting for 22.2% of the total transferred agricultural land (see Figure 2).

Longgang Model

In 2011, four villages including 699 households and Chunhui Rice Industry Company together established a village cooperative (*hezuoshe*) in Longgang village located in Xiaogan City of Hubei Province. The village collective owns 51% shares of the cooperative and Chunhui owns 49%, and the cooperative consolidated more than 6,000 Mu (1,000 acres) of land for the operation and management of Chunhui under an 18-year contract. This trust is known as the Longgang Model, and its unique feature is the co-owned village cooperative. Revenue stream is based on the production of the leading enterprise, also known as the Dragon Head, which gives incentives to villagers who voluntarily choose to participate or exit. The model protects the villagers’ benefits by introducing a “basic rent + share + salary” structure, also known as the “360 + X” (Liu & Guan, 2017, p. 40). “360” means the cooperative paying the villagers a basic rent fee based on the market price of 180 kg, which is 360 *jin* in Chinese measurement of medium-sized indica rice per Mu, regardless of whether profiting or not. The villagers can choose to receive either cash or assets with equivalent value. “X” stands for the shares of profits, if any, according to equity holdings based on the amount of land given, after provident fund, community fund, risk fund, and depreciation cost of agricultural machineries are deducted.

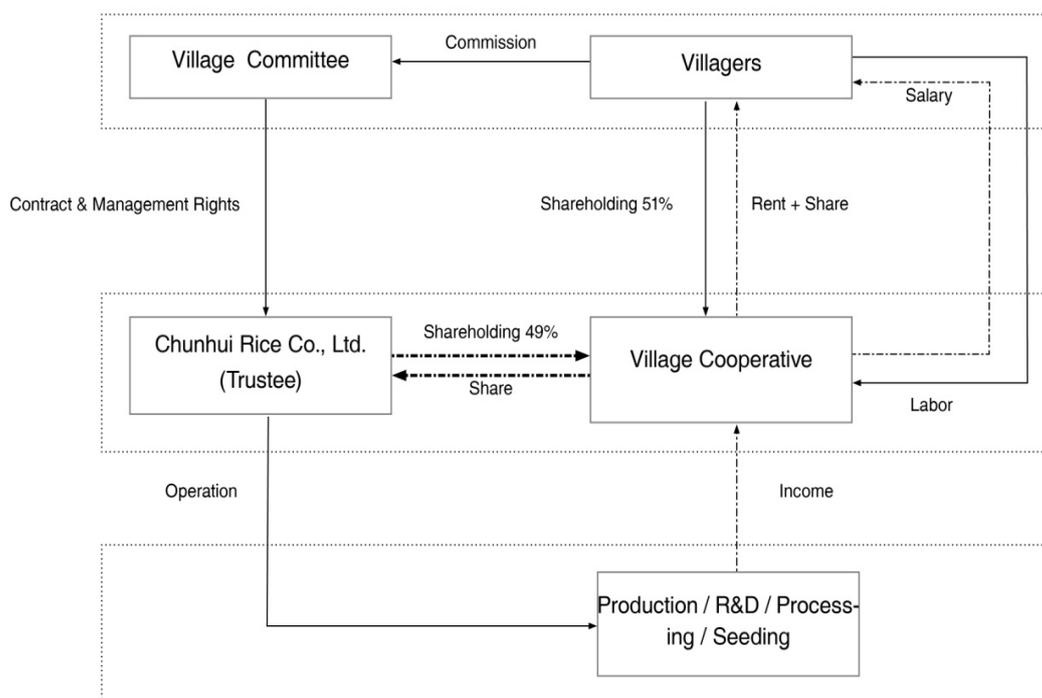


Figure 3 The structure of Longgang Model.

This design grants the villagers with four income sources: subsidy from the national pro-agriculture policies, basic rent from land, profit share based on land as equity, and salary if working for the Dragon Head. According to Liu Ruiwen, the profit share is the core income of Longgang Model for villagers since fine processing of agricultural products brings the most value-add income at about 1.37%-5.78% return (Liu & Guan, 2017, p. 40). The village cooperative used 40% of profits for share, which binds the Dragon Heads, cooperative, and villagers with benefits, reducing the risk of villagers exiting midway. The profit share is the innovative design in Longgang Model as it, on one hand, grants villagers' benefits associated with the profits of the trust entity. On the other hand, it offers villagers incentives to participate. Though the trustee entity is semi-autonomous as the village has the majority holding, the process is more liberated compared to the Yiyang Model and the villagers are more willing to participate (see Figure 3).

Suzhou Model

Prior to the establishment of Suzhou Model, the village committee in Yongqiao district of Suzhou City in Anhui Province transferred about 5,400 Mu (890 acres) of land to Anhui Diyuan Agricultural Investment Company in 2011. However, the company had financial issues, so CITIC Trust intervened and established a rural land trust. In October 2013, CITIC Trust collaborated with the Yongqiao district government to establish the first market-based rural land trust, "CITIC Rural Land Contract Use Rights Collection Trust Plan No.1301", known as the Suzhou Model (Chen & Zhang, 2015, p. 94). CITIC Trust took the role of the trustee, acquired the contract and use rights of the consolidated land, and made Diyuan Company the contractor and service provider. Villagers, similar to the prior models, voluntarily participate in the model using their land as the trust property and benefit from the production and service provided by Diyuan Company. Suzhou Model represents a market-based trust model contrary to the government-based model in the way that instead of operating with a government-established trustee entity (Yiyang Model), the trustee is an invited third-party entity from the market and the government only acts as a supervisor.

CITIC Trust can finance from the capital market, as a result some of the profits need to be taken as return for the investors. Diyuan Company in this model pays 10% interest to use the fund provided by CITIC Trust (Yin, 2015, p. 73). The villagers benefit from two sources: a fixed rent fee based on the market price of 500 kg wheat per Mu, plus a bonus of 70% of land-rent appreciation caused by the increased agricultural production. The 12-year contract started in 2013, collected the contract and use rights of 5,400 Mu land from Zhumiao village in Zhuxian Town of Yongqiao district and Taqiao district as the trust property. The structure is relatively more complex than the prior models. There are three types of trust principles: Type A, B, and T. Type A principle is the Yongqiao district government. Types B and T are the entities that purchase the trust products. Fund raised by Type B principles is used on land consolidation and related investment, while Type T principles raise fund to cover the gaps in cash-flow and to prevent potential illiquidity (Li, 2017, p. 34).

In the organizational design, the villagers are not the direct trust principles as Suzhou Model used both a primary commission trust and a secondary trust agent. The primary commission trust agent is the Yongqiao district government which collects and consolidates the land from villagers. Through multiple levels of "Rural Land Contract Use Rights Transfer Contracts", Yongqiao district government eventually acquired the rights of land, then transfers these rights to the trustee, which is the secondary trust agent. CITIC Trust as the trustee invites subcontractors from the market. The government established the primary commission agent to buffer between the villagers and the market, with the hope to protect the villagers from the market due to their lack of

professional knowledge. Consequentially the profit distribution can be complex as profits need to be distributed through the district government, to the town government, to the village committee, then eventually to the villagers. Grey areas may emerge (see Figure 4).

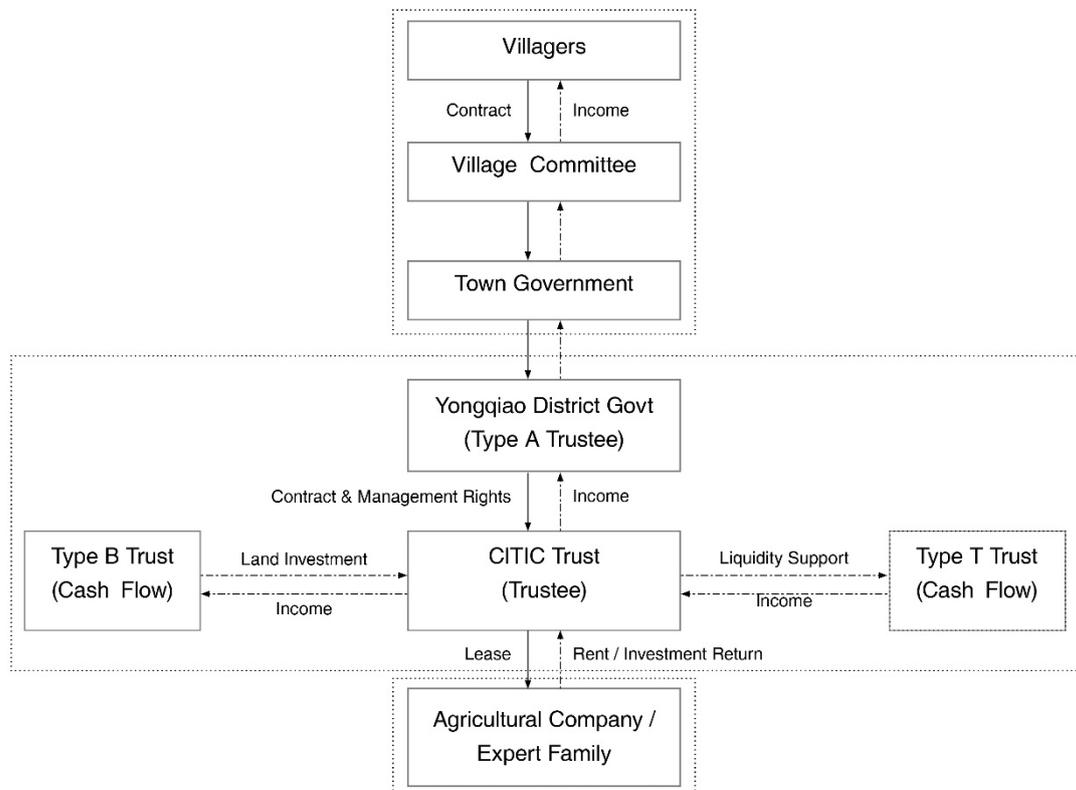


Figure 4. The structure of Suzhou Model.

Golden Field Series Model

BITIC Trust established the Golden Field Series Model in Jurong, a county-level city in Jiangsu Province with 9,928.5 Mu (1,654.8 acres) of land. It is also a market-based trust model but is different from the Suzhou Model. Instead of subcontracting agricultural production to only one entity (Diyuan), this model subcontracts production to multiple entities including agricultural experts, family farms, village cooperatives, and agricultural enterprises (China Trust Web, 2014). This may be because of the large scale of land. No single entity can take charge of the production of 1,654 acres of land, so the best solution is to distribute the land to multiple agents.

Similar to Suzhou Model, there is a land cooperative acting as the Type A trustee, or the primary commission agent, to collect and consolidate land while the villagers use land rights as equity to participate through the cooperative. The cooperative then uses the land rights as the trust property to BITIC Trust who is the secondary trust agent. The trustee then contracts the land rights to Jurong New Rural Development Industrial Company, who is in charge of infrastructural work for agricultural production, including land preparation work, land leveling and fertilization, building water conservancy systems, construction of logistic base for agricultural products, sales networking, and service for agricultural machinery and technology (Liu & Guan, 2017, p. 40). The company then subcontracts the prepared land to multiple agricultural agents for

production and charging them fees based on land rent and operation income. There is also a type B trustee in charge of the cash flow related to investment of land. Golden Field Series Model represents a somewhat more matured commercial trust model which involves multiple agents and stakeholders and specifies duties of each agent through contracts. On one hand, it maintains the land cooperative as the buffer between villagers and the market while reducing unnecessary stakeholders so that profits can be more efficiently distributed from the trustee to villagers. The villagers benefit from a fixed rent, also a share of profit based on given land as the equity. On the other hand, instead of directly contracting the commissioned land to one entity, this model invites a company with professional agricultural knowledge as the subcontractor, who then packages and subcontracts agricultural activities to different agents. This diversifies the risk of single-purpose agricultural production but may only be suitable for large-scale rural land trusts (see Figure 5).

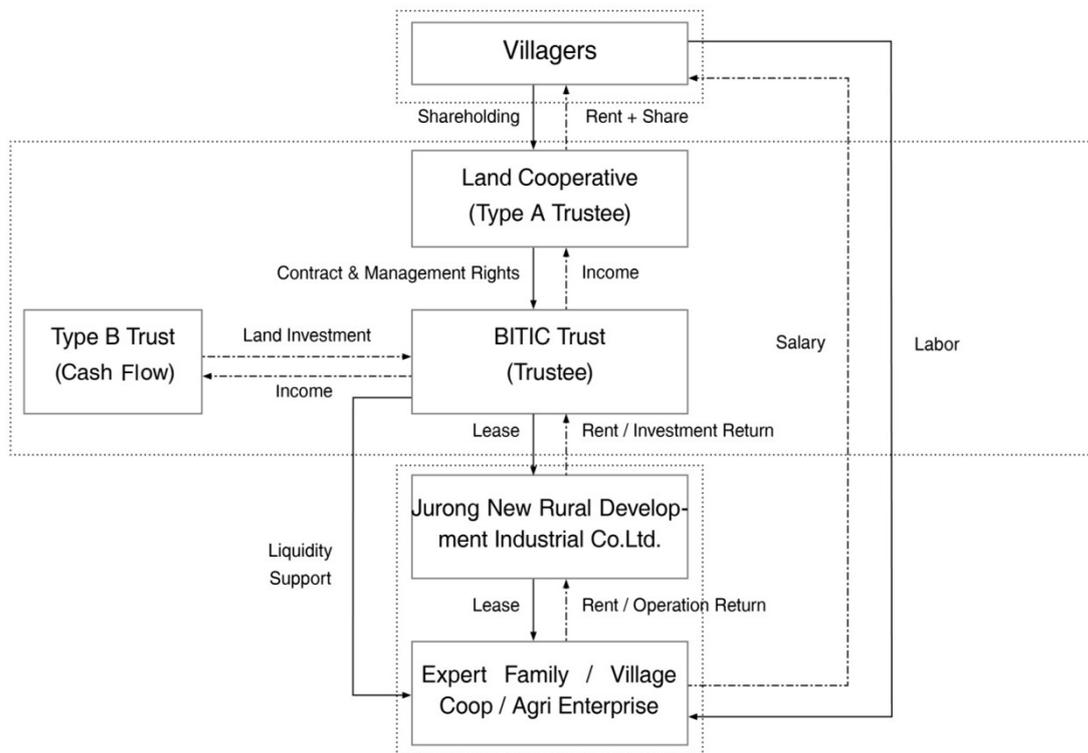


Figure 5. The structure of Golden Field Series Model.

Comparative Study

Floating income can offer more incentive. Unfortunately, only the Longgang Model grants the villagers with floating incomes. This is because of the special organizational design of the trust structure. Instead of inviting or establishing a single trustee that has the power to exclude other stakeholders in the profit-sharing process, Longgang allows the village cooperative to hold 51% majority of the established trustee, granting the villagers more power in both the profit-sharing and decision-making processes. Although not knowing whether this is because Chunhui Company did not have enough leverage to bargain, the result is that the villagers have access to floating incomes associated with agricultural production. However, the income is still based on agricultural production, which has the least value. At the same time, it is reasonable that other three models did

not include the villagers in the profit-sharing process. The Yiyang Model is a typical government-led model, and the intention is to reuse the agricultural land, so profit was not the primary concern. For the two market-led models, both CITIC and BITIC Trusts are professional companies. With their profit-driven nature, it is hard for them to share profits with the villagers.

In both the Longgang Model and the Golden Field Series Model, the villagers can choose to work for the trustee companies to earn extra incomes. In the Longgang Model, they work for the trustee and get paid with salary, while also holding shares of the company. This is similar to some tech companies like Facebook, who use shares to incentivize employees. This provides financial incentives for the villagers to increase productivity because the more they produce, the more profits they share. However, the Yiyang and Suzhou Models did not have this mechanism. The Yiyang Model excludes villagers from floating income because this model is hardly profiting, and the government created this model to solve issues related to abandoned agricultural land. The Suzhou and Golden Field Series Models are run by commercial trust companies that prioritize profits and returns for investors. The Golden Field Series Model subcontracts land to multiple subcontractors to diversify risks. It also re-parcels out the large piece of land to smaller pieces for various subcontractors to use. This creates more jobs for villagers. Interestingly, only the Yiyang Model provides villagers with social benefits. This may be because that the trustee is an extension of the government, whose responsibility is providing public services. In a nutshell, fixed rent is fundamental to any trust model, because it invites villagers to participate. Floating income is optional but could incentivize villagers. Employment salary depends on the organizational design or the scale of subcontractors. Social benefit is uncommon since it was only included in an early government-led experiment (see Table 1).

Table 1
Comparisons of Financial Models

Villager's income	Government-led model		Market-led model	
	Yiyang Model	Longgang Model	Suzhou Model	Golden Field Series Model
Fixed rent	Basic land rent (trustee)	Basic land rent (village cooperative)	Basic land rent + 70% rent appreciation (land cooperative)	Basic land rent (land cooperative)
Floating income	/	51% share of the revenues from the village cooperative	/	/
Employment salary	/	Village cooperative	/	Farming subcontractors
Social benefits	Health insurance & pension funds	/	/	/

Conclusions

Rural land trust was developed to reuse the otherwise decadent agricultural land in rural China. It went through the earlier government-led models and the later market-based models. But both models have limitations. Variation in these models may be caused by the design of the trust, the size and scale of the land to be consolidated, the relationship between the trustee and the village, and the capacity of subcontractors. Although the models can vary significantly, the villagers' incentives are limited. The villagers' income streams usually only include fixed rent, and sometimes salary from working for the subcontractors. Only the Longgang Model shares floating income with the villagers, and all other models tend to exclude the villagers from the financing process. Something unique about the Longgang Model is that it allows the villagers to work for the

trustee while owning shares of the trustee. This gives the villagers incentives to produce more as they earn more. Perhaps this co-ownership design can inspire future commercial trust models, and studies on the current conditions of the Longgang Model can provide more insights for the feasibility of the co-ownership design.

Further efforts should be made to increase trustees' access to loans or subsidies. The operation of a commercial trust follows three steps: (1) preparation and signing the contract; (2) acquiring trust fund, debt, and investment to finance the operation; and (3) settling the contract and returning the rights to villagers (He & Liu, 2016, p. 77). Each step could face challenges since land in China is not asset therefore cannot be used for mortgage. Due to this limit, the financing capacity of rural land trust is restricted. This could force villagers and subcontractors to finance through shadow banking or informal lenders, and previous research shows that villagers' access to loans is heavily restricted in rural areas, so they turn to informal sectors for debts (Huang & Fan, 2017, p. 95). In a land trust that lasts for more than 10 years, if illiquidity or bankruptcy happens, these informal lending will put villagers in greater financial risks. Government-led micro-lending could help finance rural land trust, and government subsidies can be reserved for solving potential illiquidity issues.

It is crucial to prevent non-agricultural uses. The trustees are not necessarily experts in agricultural production, so they subcontract land to entities providing agricultural services (Chen & Zhang, 2017, p. 49). Commercial trust companies enter rural land trust in hope for profits, but the return of agricultural practice is disproportionately low. In order to increase return, the companies tend to use non-agricultural business (Xu & Zhang, 2016, p. 59). For example, in Suzhou Model, 5,400 Mu (890 acres) of land were planned for a Modern Agriculture Economy Industry Park, which is divided into more than 20 sub-projects which may include illegal real estate development. Agricultural production is only a part of it (Tong & Chen, 2008, p. 1). However, it is also ironic that the appreciation of land rent, which is shared by the villagers, is actually caused by these non-agricultural uses. Although this kind of practice is scrutinized by the local government, once real-estate land value capturing brings fiscal profits for the local government, the villagers may never get their land back.

Disclosure Statement

The author discloses no competing interests.

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