

*Full Length Research Paper*

# The consolidation and modification of the proposed land shareholding cooperative system

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Accepted 11 January, 2013

**In the past three decades since the reform and opening up of the Chinese economy, the rural socio-economic development and farmers' living standards have been promoted by the Household Responsibility System. However, as the income gap between urban and rural residents gradually expands, the new Land Shareholding Cooperative System should be introduced, with its strength consolidated and weakness eliminated. In this study, we discovered that the most effective way of stimulating rural economic growth and narrowing the urban-rural gap is to establish the concept of a Land Shareholding Cooperative System based on the Household Responsibility System, in the mean time provide more policy-wise and technical support to agriculture, establish the rural economic cooperation system based on rural collective economic organizations, and improve the development of various services in terms of agricultural scale, industrialization, and specialization.**

**Key words:** Land shareholding cooperative system, consolidation and modification, government services.

## INTRODUCTION

The rapid economic growth and social development during the last 30 years since the economic reform in China has greatly improved people's standard of living. However, the income gap between urban and rural residents has been expanding gradually along with the accelerating urbanization and industrialization process. The income ratio of urban and rural residents reached 3.33:1 in 2009, and it would reach up to 5:1 or even 6:1 if the social welfare and other hidden income are taken into account. Therefore, the problem of how to facilitate the development of rural economy and improve farmers' income, as a key factor of promoting social cohesion and maintaining the country's stability, is important to resolve immediately. The establishment and implementation of a Land Shareholding Cooperative System, which is proposed by government and experts, as one of the most effective approaches to resolving rural problems, has successively generated a series of reference models such as the Nanhai model, the Shanghai model and the

Kunshan model (Jiang et al., 2003; Lian, 2005; Liu et al., 2006; Ji et al., 2010). These models further clarify the content and the value of Land Property Rights, help farmers form relatively stable property expectation, save the transaction costs, and fundamentally solve the unclear problems of land property rights under the family contract system (Dietrich, 2000; Zhou, 2005; Qian, 2002 and 2007). Meanwhile, the Land Shareholding Cooperative System makes the relationship between farmers and land more independent, merges the decentralized land, effectively prevents land fragmentation, improves the efficiency of land management, and increases farmers' profit from land (Huang, 1995; Huang, 2001; Chen, 2005; Hu et al., 2009). The Land Shareholding Cooperative System will unify the farmers and raise their power when negotiating with government, allowing them to obtain a share of the value added to the land use (Liu et al., 2006). However, most of the prototype Land Shareholding Cooperative Systems is rental income distributions instead of profit-sharing income distributions, thus masking the overall increase of farmers with property income. Rental income has not given farmers more profit; instead it has made them fall below the average income of urban residents,

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according to a long-term observation. Therefore, it is necessary to the current Land Shareholding Cooperative System, consolidating its advantages and eliminating its disadvantages.

## COMMON PRACTICE OF PROTOTYPE LAND SHAREHOLDING COOPERATIVE SYSTEMS

### The implementation of domestic land shareholding cooperative systems

There are different views about the concept of 'Land Shareholding Cooperative System' in academia. Cao (2009) and Liu et al. (2007) believe that the rural Land Shareholding Cooperative System, on the premise of land collective ownership, decomposed land property rights into the shareholding right, the operation right and the use right, and then assigned these three rights to farmers, collective organizations and land tenants respectively. This kind of distribution of rights is a combination of a land shareholding system and a land tenancy system. Chen (2005) and Xu et al. (2008) think that the main idea of Land Shareholding Cooperative System is to induce a shareholding system into land institution without changing the contract system. With the separation between the land contract right and the land usufruct, the land contract right can be used as stocks. Thus land resources can be planned and used as a whole. This system can also change the land contract right to the land usufruct through the allocation of stock right to the farmers, and confirm down a long-term land contract right of farmers in the form of value. Therefore, the land could be redistributed and the labor force could migrate to other sectors smoothly. These two illustrations on the concept of Land Shareholding Cooperative System have both similarities and differences. The main similarities are (1) farmers should own the shareholding right and its interests; (2) the shareholding right is separated from rural collective land ownership; (3) both of the two concepts have confused the subject of rural land right. The main differences are: (1) The former view (Cao, 2009; Liu et al., 2007) focuses on all rural land and collective construction land, while the latter (Chen, 2005; Xu et al., 2008) focuses on rural household contracted farmland. (2) The former treats the shareholding right as part of the land property right, like the land use right and land operation right. The latter treats the land contract right as the shareholding right, and emphasizes the stock value of the land contract right, and it contradicts with the spirit of the Third Plenary Session of the 17th CPC Central Committee on the circulation of land contract right, because theoretically the shareholding right should be the value of the land contract right. (3) The organizational bodies of collective construction land are often the rural collective economic organizations, while the management bodies of household contracted land

are the farmer households.

The common practice of Land Shareholding Cooperative Systems in China is to grant the land contract right and land management right to large families or agricultural enterprisers. So farmers can acquire land rent and enterprisers can improve the efficiency of land utilization through centralized operations. This comforts the farmers and benefits the enterprisers. This pattern is a good way to solve the current inefficiency of family management. But with the development of social economy, this practice *enlarges* the income gap between urban and rural residents instead of narrowing it. As for Land Shareholding Cooperative Systems, there are some inequalities: (1) farmers are not granted the right to speak as a shareholder; (2) they do not follow the principle that all shareholders share profits and bear risks together; (3) it is the farmers who pay for the risks of enterprisers' operation failure. The reason why the pattern has large social approval is as follows: (1) most farmers fear taking risks and have no consciousness of developing high value-added agriculture, due to lack of knowledge and social experience. So the relatively stable rents meet their wishes. (2) Farmers can obtain more income than farming land by working in the secondary or tertiary industries after they transfer the land to shareholding cooperatives. Thus the farmers are willing to give up the land contract right. (3) As for the enterprisers or the large contracting families, they think that the efficiency of land operation is the fruits of their work, which has nothing to do with other farmers. Enterprisers' pursuit of maximum profits has determined that farmers would get the lowest profits.

### Development of foreign rural economic cooperative organization

Corporate farms in private land ownership countries can be considered as an economic organization consisting of different interest groups (including land owners, capital holders, workers and managers) who negotiate the objectives of this organization. The separation of ownership and control might induce managers to set objectives that are not the other stakeholders' objectives, such as increasing the farm's size.

The rural economic development in Germany, the Netherlands, France and other European countries is to strengthen professional cooperatives as they centralize and guide the operation of land (Latruffe et al., 2007). These cooperatives are highly specialized and operated in a very large scale, involving every aspect of agriculture-related sectors such as production, supply and marketing, finance, insurance, and social services. Most of the members of cooperatives can enjoy the technological and financial services brought by cooperatives. In UK, policies are taken to protect land owners' authorities; for example, the land owners can

now cash Common Agricultural Policy direct payments themselves, providing they keep their land in good agricultural and environmental condition.

The pattern of cooperatives in Japan, South Korea, Israel, Thailand, and India reflects a comprehensive feature (Qin et al., 2005; Thu et al., 2011). The main approach is to establish a national cooperation organization. This organization can coordinate and control the supply of agricultural production materials, technical guidance, agricultural information, agricultural product processing, storage, sales, and credit, insurance, life service, medical and health care, etc. The government issues policies to promotion farmer cooperatives, and maintain close cooperation. The farmer cooperative organization is not only a tool for the governments to implement the agricultural policy but also an organization protecting farmers' interests. The United States, Canada and Brazil have built interregional cooperatives based on large farms and macro-agriculture (Pan, 2000; Xiao, 2004). The main characteristic of this kind of cooperative is interregional cooperation. They mainly focus on corporate sales rather than production cooperation. Generally, each professional cooperative operates only one kind of product. The cooperatives usually attach importance to the deep development of products, which includes not only sales, but also transportation and storage, especially in initial processing and deep processing. Finally the cooperatives can form their own brand, which fully embodies the industrialization and modernization characteristics of macro-agriculture. Government of the United States usually gives cooperatives only limited preferential policies and laws, but few other interventions.

Some foreign countries made similar reforms when confronting conditions similar to those of China. For example, Vietnam's economy in general, and the agricultural sector in particular, suffered heavily as a consequence of the US–Vietnam War and the central-planning policies and agricultural collectivization enacted after reunification in 1975 (Butterworth, 1995). Confronted with a worsening economic condition, the government announced the program of Policy Renovation (Doi Moi Policy) in 1986 and started a gradual movement towards a market-oriented economy directed by socialist ideology. The 1st reform, Resolution 10, aimed at recovering credibility of land tenure by further liberalizing the agricultural sector in Vietnam. In Thailand, the land title issue is a complex one with many implications and consequences, particularly for primary economic activities. In the absence of collateral security it is impossible to obtain a relatively large number of farm credits.

Foreign experiences can come to following conclusions: (1) Centralized land operation does not mean land transfer; centralized operation of land could be an alternative. (2) Professional, comprehensive agriculture and regional cooperatives can realize

agricultural scale and centralized operation indirectly. (3) Sound socialized services for agricultural production and circulation can help the centralized operation of agricultural land and guide land transfer. (4) Some effective measures in foreign countries may not be adaptable in China, considering different land ownership policies and economic conditions.

## THE “MODIFICATION” OF LAND SHAREHOLDING COOPERATIVE SYSTEMS

China started Land Shareholding Cooperatives with land concentration, which, in a certain degree, could change the inefficiency of the household contract responsibility system. However it also, to some extent, deprived or reduced farmers' share granted by the household contract responsibility system, which should be modified.

### Modifying the concept of land shareholding cooperative system

Rural land usually consists of agricultural land, rural housing land and rural collective construction land. The ownership of all types of rural land belongs to rural collective economic organizations, but the land use rights of the agricultural and housing land go to farmers while the collective construction land is owned by the rural collective economic organizations. Yang and Tang (2009) think the new land shareholding system is a system in which a certain number of land stock contractors, on a voluntary basis, use the land as quantified capital and possess equal value of non-transferable shares. Associated with the rural autonomy, farmers elect shareholder representatives through direct election. By land planning, development and use, they can share the bonus of urbanization and industrialization in the long term. A shareholding cooperative thus has the characteristics of a stock-sharing organization.

The potential object behind this definition is still rural collective construction land, or other construction land transformed from agricultural land or residential land, rather than contracted farmland in a household responsibility system. Through averaging land ownership, farmers can gain appropriate shares, and receive bonuses from collective operating income according to their shared proportions. This approach has made a lot of successful cases. As farmers' residences are stable properties of the farmers' families, they can only transfer their residential land to the collective organizations as a collective construction land or arable land after demolition and arrangement if they can get new living spaces. The former can be used as commercial land and share bonus with the villagers, while the latter used for agricultural production. But for farmers' contracting land, it is not allowed to change into non-agricultural land according to

the current policy. Therefore the shareholding system of rural land cannot be generalized and should take the land use types into account.

As for rural construction land, under the land shareholding system all collective members own average land ownership of both current and future developed construction land, and enjoy bonuses from collective operating income by their shared proportions. This type of land, without much discussion, has already taken direction towards collective operation and members receiving dividends. The study suggests that the shareholding system should strengthen the rural household contracting farmland. Misunderstanding of this concept comes from the following three aspects: (1) farmers believe that the land contract rights are the same as land contract and management rights. Surveys showed that some farmers considered that no rights remained after the transfer of land management right, which was one of the main reasons for that farmers do not want to transfer their land. The Third Plenary Session of the 17th CPC Central Committee regulated that land contractual rights are permanent, in that sense during land transfer only the land contractual management right, separated from land contractual rights, is changed. The relationship of land contractual rights and land contractual management right is similar to the relationship between ownership and use rights. (2) The land shareholding system is replaced by the land lease system. The common practice nowadays is that farmers transfer their land to larger farm managers, who will pay annual rents; meanwhile some farmers can also get some wage income by working for larger farm managers. This is regarded as land shareholding system. This mode should actually be called land lease, rather than a shareholding system, because a shareholding system must distribute land revenues according to the amount of land management rights the farmers owned. (3) Land contractual and management rights have not been regarded as the land management rights granted by the State to farmers. The implementation of the land contract responsibility system is to provide to farmers nationwide the rights for agricultural land to contract land based on fair and equitable principles, and provide the farmers the management right at the same time. Its essence is to give farmers land management rights endowed by the State, but because of differences in labor input, some differences in bonus exist among farmers.

### **Modifying the way of implementing a land shareholding cooperative system**

The current shareholding system is simply renting out farmers' land to the larger farm managers. Farmers only get annual rent from exchanging the land management right. Through leading enterprisers, large farm managers and companies operate land; social investments can be

concentrated to boost rural economy, to promote agricultural industrialization and specialization, and also to improve farmers' living standards to some extent. However, a large part of business profits is obtained by enterprises. In addition, after the acquisition of land, enterprisers may not manage the land according to the agricultural guiding ideology, but some more profitable industrial ideology, or even change the nature of agricultural land. This model can be regarded as the transition period of rural development process of the early rural concentration operations. It can promote the increase of farmers' income, more importantly; it is possible to develop farmers' ideas of industrialization management and to improve employees' quality through enterprises' operations. However, the current "company + farmers" model, together with the "company + rural economic organization + farmers" model and other models, emphasize the enterprises' business and corporate management philosophy, aiming to get more profits, which is in conflict with the principle of national common prosperity in a socialist state.

### **Modifying the idea of rural development**

Many scholars believe that the development of the rural economy can be impelled through urbanization. Making more farmers go to cities, fulfilling rural labor migration will introduce land scale management. This is indeed a useful way to solve rural problems. However, China's urbanization rate will reach 58% in 2020, forecasted by "The Outline of Overall Land Use Planning (2006-2020)", which means at least 700 million will live in rural areas then even though the urbanization rate is much lower than the townization rate, and improvement of their living standards still depends on the solutions to rural problems. In addition, the development of urbanization and industrialization will not only increase the land carrying capacity, it will also worsen the rural ecological environment. Emphasizing only urbanization will result in increasing pressure on living space and decreasing health indices. Therefore, to solve the rural problems one cannot just rely on urbanization, but through the development of rural areas and the improvement of rural business philosophy, otherwise, social stability and human existence will be seriously challenged.

### **METHODS TO ENHANCE THE LAND SHAREHOLDING COOPERATIVE SYSTEM**

#### **Establish a comprehensive concept of land shareholding cooperative system**

According to the international rural development experience, the concept of a land shareholding system is not only land concentration itself, but also all the external

conditions for large-scale management of land. Once the external conditions present, by strengthening social service awareness of rural business organizations and other policies of stimulating land scale operation, the concentration of land management would be formed with the enhanced production efficiency and be more competitive with the gradually improved industrial chain. In China, the implementation of land household contract responsibility system, in fact, nationally endowed the rights of shareholding land management to farmers.

Therefore, we personally think that the strategic position of state should be emphasized in the concept of the land shareholding system in the new historical period. Meanwhile the concept must be comprehensive, consisting of both land concentration and its conditions. Therefore it can be defined as follows: land shareholding system is established on the basis of the household contract responsibility system, under the framework of national and local government policies and economic controlling measures, along with the social services offered by regional rural economic organizations, and the constant support of updated technology. The functions of a land shareholding system are achieving higher land revenues and then distributing them according to shares.

Problems can be resolved in the following four ways: (1) Relying on the existing land contract. Its significance is that the land contract relationships, under the protection of the law, will no longer change once formed; but the sub right of the contracting management right can be separated from land contract. This right can be transferred and owns the effects of national stock rights. Regarding the land, it can be operated uniformly by collectives, and can also be the managed by collective and operated by farmers independently. (2) Improving the governments' fundamental investments. Governments should develop further policies to promote the rural development, to accelerate the infrastructure investment in rural areas, and to speed up the construction of rural informatization. (3) Strengthening the national supports on rural economic cooperative organization. Governments should gradually promote the improvement and reconstruction of the existing rural collective economic organization, and also the coordination of social services for agricultural production, marketing, processing, etc. (4) Stimulating the introduction of new technologies. Cultivating and supporting demonstration agriculture, high-efficiency agriculture and regional distinctive agriculture will strengthen the research and development of new products, technologies, and approaches, increasing agricultural land operating efficiency, and ultimately reaching a land revenue distribution system based on existing land contract.

### **Establishing the forms of the comprehensive land shareholding cooperative system**

The establishment of the forms of a comprehensive land

shareholding cooperative system can be traced to the rural land contract responsibility system at the beginning of reform and opening up, and should appreciate the existing rural household land contract system, which was based on fair and just principles. Actually in the situation of considerable low-level productivity and backward industrialization and urbanization at that time, the system also bore the function of distributing land revenues among state, collectives and farmers, showing socialist characteristics of sharing together and distributing according to work. In other words, the implementation of the system not only lays the foundation of land shareholding but also builds an equitable distribution of land revenues. However, with the advance of urbanization and industrialization, construction land has much higher economic profits in comparison to agricultural land, of which food safety value, ecological value and social value were not recognized. Farmers' benefits from the rural agricultural land thus are much lower than urban residents' benefits from the urban construction land, resulting in the increasing income gap between urban and rural residents.

As a result the forms of the comprehensive land shareholding cooperative system shall be: (1) The units of the land shareholding cooperative system should consider land distribution relations established in the rural land contract system, and the income distribution system of land contract and management rights should be gradually improved. (2) Land management should gradually progress to the "rural economic organization + company + farmers" or "rural economic organization + farmers" model and it is necessary to enlarge the development model of Wuxi peaches' production as a national business model of agricultural land. (3) The state should activate the responsibility of rural collective economic organizations as the ownership of the rural collective land, changing their "virtual status" to "real power status", which has the same rights as the state ownership. The rural collective economic organizations should be integrated into the rural cooperative economic organizations as basic management units to participate in the construction of professional, comprehensive and interregional cooperation organization, and provide good integrated social services in agricultural production, circulation, processing, and marketing.

### **Establish a national business model**

Stability is the basis for development. The State needs more stable environment for development. Land, as the important resource for macroeconomic regulation and control, is in the commitment of urbanization and industrialization. It should also undertake the function of ensuring food security and social stability. This requires the country not only formulating policies to promote economic development but also to introduce more

measures to protect agricultural land. Although China implemented the most stringent farmland protection system, the protection of arable land and construction land for development did not receive an equal status.

Therefore, a national business model is expected: (1) predict the required quantity or amount of agricultural land in accordance with the needs of economic and social development in the future population peak; accurately examine the amount of existing arable or agricultural land, and ensure that the quality of agricultural land meet the people's growing material needs. (2) Local governments should co-ordinate the protection of agricultural land, constantly improve agricultural infrastructure, enhance the quality of more agricultural land, and link the farmland protection performance with the local government evaluation. (3) Central government should continue to increase compensation of agriculture, especially the value of responsibilities for food security and social stability. It should also co-ordinate the compensation of agricultural land resources value, and implements the subsidies to agricultural resources according to estimated standards, meanwhile increase the industry support to agriculture to compensate for its damage to the ecological environment. (4) As a socialist country on the basis of public ownership, the fair and equitable distribution principles should be fully reflected. The State should make full use of tax and finance levers to balance income distribution, to reduce urban-rural gap and to achieve common prosperity.

## ACKNOWLEDGMENTS

We would like to acknowledge the financial support of the National Natural Science Foundation of China "(40971105, 411711151 and 41271189), Jiangsu province superiority university establish project fund".

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