China's rural development challenges
Zhao, Yongjun

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Chapter 5  Land shareholding cooperatives for scaled development: an economic fix or marginalization of the poor?

Abstract:
This chapter presents an analytical account of the so-called institutional innovation in China’s land tenure reform characterized by the land shareholding cooperatives described in chapter 4. This institutional experimentation is aimed at addressing the fundamental constraints on scaled agricultural production and the marketability of rural land, which is seen as a last resort to resolve the issue of land fragmentation and facilitate integrated rural-urban development. Many cases demonstrate that the positive outcomes are minimal, as these organizations mainly serve the interests of the village leaders, businesses and local states rather than the peasantry. This chapter critically examines the key policy developments and cases of local practices and discusses land tenure structure and village governance issues to unravel their inextricable links. It also presents the major debates on land tenure reform. It ends by arguing for more inclusive approaches to address peasant shareholders’ incentives and participation in land governance processes as well as the urgency to improve village governance. Failure to do so will lead to further degradation of the livelihoods of the poor, no matter whether land in vast rural areas is privatized or remains collectivized.

1. Introduction

China’s land reform is at a crossroads where drastic institutional changes are needed to incorporate local communities into land use and management regimes. Existing institutions have provided ineffective mechanisms for peasant-centred decision-making processes, which is essential to the identification of appropriate forms of land tenure arrangements—critical for a win-win strategy for all stakeholders. The Household Responsibility System (HRS) is seen as a stumbling block to the realization of economies of scale due to its nature of farmland fragmentation. As
smallholders lack adequate access to inputs, technology, information and markets, their produce can hardly meet the demands of final consumers (Hu et al., 2007).

In parallel with the HRS, since 1980s, country-wide grass-roots experimentation in land use and management is exemplary of the increasing role of collectivization in community-land relations as seen in the burgeoning land shareholding cooperatives especially in the relatively developed eastern and southern regions. This is led by the entrenched market reform in the countryside, where land value has been on the rise. In this system, through contracts or agreements made between peasant households and the village administrative committee, the peasant households actually transfer their land use rights to the village administrative committee that is in charge of improving land use, and in particular, deriving more benefits from the land. As such, the peasant households become land shareholders in the village administrative committee's businesses which are managed on behalf of the shareholders and guided by the assumption that the appropriate scale of land operation utilized (Sun, 2008). Thus, from the very beginning, this institution bears the characteristics of the dominating presence of the local state and village collectives.

Land shareholding cooperatives have been promoted as an innovative fix to radically achieve optimal land use, scaled agricultural production, rural development and collective decision-making. Despite the fact that they have had some positive impacts on land use and peasant livelihoods, one cannot overestimate their roles in promoting rapid agricultural development without taking account of the complex linkages of land and village governance, which are essential to the sustainability of this institution. The reason for a lack of built-in mechanisms for community participation in the Chinese countryside in particular clearly resonates with the slow progress made in village democratic governance, as a precondition for properly functioning cooperatives. These cooperatives are interwoven with the complex relationships between the people and the state, the particularities of a centralized system of governance, and the burden of a history underpinned by collective action and mobilization (Plummer, 2004). However, Plummer does not suggest that collectivized governance is a hindrance to village democracy. Rather, state-dominated collectives actually obstruct peasant power and choice over village governance. Moreover, the embeddings of institutions, that is, informal rules of the game, customs, traditions, norms and even religion further complicate the formal institutions such as bureaucracy, policy and the judiciary (Williamson, 2000). The issue remains as to whose collective it is. As a result, China's land reform has perpetuated a form of state domination that puts the vulnerable poor in the margins of policy, law and the rural development reality. Although land shareholding cooperatives have received a major policy boost as the market reform sets in further,
they are far from effective and hardly resemble pro-poor institutions for sustainable rural development.

Land shareholding cooperatives are political in nature and ideologically earmarked as the last means of striking a balance between socialism and capitalism, or land nationalization and privatization. In other words, they embody the so-called unique feature of Chinese economy and society, that is, socialism with Chinese characteristics. On the one hand, they facilitate the establishment of land markets characterized by local state domination in land transfers. On the other hand, they pool the land resources of individual households together under cooperative operation and management, which exhibits the socialist feature of collective action. In this way, they are inherently ambiguous in terms of the roles and responsibilities of the state, the village collective, corporations and peasant shareholders. It is this ambiguity that facilitates the development of the quasi-land market, which serves the state’s interest to exert sufficient control over the cooperatives. Although relevant laws and policies seem to promote greater autonomy of these organizations, peasant shareholders’ rights are not automatically improved due to the unbalanced power of different stakeholders. This means that the actual effects of these organizations on sustainable rural development are far from certain.

Policy-makers see the land shareholding cooperatives as a compromised system that combines the mechanisms of both land nationalization and privatization. Yet, as already mentioned, this system can only complicate the existing ambiguous land tenure structure. In this sense, the institutional ambiguity of land collective ownership has served the purpose of this arrangement. This seems to contradict the theory of property rights that deems collective landownership as one that inhibits agricultural modernization (see Kung, 2003). By a similar token, many scholars perceive the abuse of power by the village administrative committee and higher-level government in controlling land operation and governance as a threat to the ongoing reform (Xu, 1998; Cai, 2003; Ho, 2001; Guo, 2001). Addressing this issue is never an easy task in view of the multi-functional nature of land tenure interwoven with complex social, political and economic relations. Although market reform is inextricably linked with clarified and strengthened individual property rights, this does not necessarily mean that collective action or collectively defined property rights is irrelevant. Therefore, land shareholding system is not inherently unworkable if it is based on the free will of the peasant shareholders. Essentially, it is all about how it serves the interests of the poor whose land ought to be utilized and managed optimally so as to achieve sustainable development.
This chapter demonstrates that China’s land issues are not solely contingent upon who owns what, but more about who decides on what. What matters is governance, which ought to give full play to peasant participation. Peasant participation in sustainable land use and management can only be meaningful if it is coupled with village democratization. Without empowering the poor in land shareholding arrangements, farmland loss and poverty can even be exacerbated by the cooperatives. The chapter aims to shed light on the implications for institutional change for sustainable land use and management and village democratization. By so doing, it intends to reveal the complex constraints to China’s land reform as well as sustainable rural development that hinges upon village democratization which is still struggling to become an effective institution that can leverage community support for land reform. This chapter also links village democratization with the broader issues of poverty, constraints to land use and management and the need for innovation in institutional design that collectively reflect the Chinese reality—increasing demand for land, decreasing available land and the need for appropriate institutional changes.

This chapter provides a critical lens for the study of land institutional change by focusing on the interactions of market forces, land tenure arrangement and their effects on sustainable land use and village democratization. It investigates the key challenges for peasants’ self-initiated reform patterns, which are crucial for both the market economy and peasants’ sustained livelihoods that largely depend on how land is governed. It further sheds light on the role of the state in coming to terms with these challenges.

2. Policy developments for land commercialization

2.1 Rationale and policy environment

China’s land law and policy developments have been oriented towards land commercialization as the market value of land drastically increased in the reform era. However, land remains the property of the state and rural collective and its sale is forbidden. Only under state requisition can the farmland be converted into non-agricultural purposes. According to the 2004 Land Management Act, any plans for such a conversion must undergo a government’s approval process. But this stipulation excludes the cases where rural collective land can be legally acquired for

35 According to the Constitution, in urban areas, land use rights can be traded on the market, but ownership rests with the state. Rural land use rights can be circulated among households only.
the development of village enterprises, housing and infrastructure. This provides the local government and village collective with ample space for direct manipulation of land use. Although there is no formal rural land market, in regions where there is a high demand for land, the village collectives developed various tactics to transfer or lease the collective land to outsiders for non-agricultural use in the informal market. In fact, land shareholding cooperatives facilitate this informal land market. To a certain extent, a land shareholding cooperative is the invention of the alliance between business enterprises, local governments and village collectives to sidestep the existing legal and policy barriers that inhibits the formation of a formal land market. In serving the economic needs of this alliance, it is an institutional experiment in the redefinition of rural property relations in terms of strengthening individual household shareholders’ rights in the cooperatives. It is seen as an individualized approach to the improvement of the system of rural land collective ownership. This form of ownership is often viewed as ambiguous and a cause of land conflicts and corruption in the course of land expropriation.

Through the shareholding cooperatives the village collectives and local state can relatively easily lease land to businesses. These businesses normally bypass the individual peasant households and directly engage the village collectives and local government, which are assumed to be able to strike a deal with the peasants. Land shareholding arrangements facilitate this process because they carry the village collective entity. In the name of granting the shareholders more equitable economic benefits accrued from such arrangements, village collectives often use shareholding as a better excuse to acquire land. In this way, an informal market is created, whereby land prices and economic compensation paid to the affected households are dictated by little peasant participation. In fact, many local governments have legalized it to facilitate urbanization and industrialization. For instance, in Dongguan, Guangdong Province, in 2004 the local government drew up a strategic plan to complete rural shareholding reform in three years and transform all peasants into urbanites within five years. In Kunshan, Jiangsu Province, by 2004, 142 cooperatives accounting for one-tenth of the province’s rural population were established with each household receiving at least 10 per cent of the value of their shares (Po, 2008: 1615).

Rapid development of the land shareholding cooperatives stems from the central government’s push for economic reform dating back to the early 1980s. Certain regions were targeted as demonstration pilots for market-oriented economic reform. Recently, the central government designated Chongqing Municipality as a demonstration pilot for integrated rural-urban development. Rural land is central to the integrated approach and it is assumed that rural land transfers would facilitate
optimal land use for the purpose of scaled modern agricultural production. As such, peasants are allowed to exchange their land contractual rights for shares in specialized peasant cooperatives (Hu, 2009).

The central government has conceded considerable flexibility to the local governments to experiment with innovative practices in rural and urban development. Given their geographical advantages and economically preferential treatment by the central government, these regions have moved far ahead of the inner regions in economic development. Deng Xiaoping’s visit to Guangdong Province in 1992 significantly boosted bolder economic reforms in the region, which set an example for the rest of the country. His visit complemented the government’s vision of modern specialized peasant collective organizations as the second step towards agricultural leapfrogging, with the HRS as the first step (Zhang & Donaldson, 2008). After Deng’s visit, local governments felt the urgency to drastically accelerate economic development on large scale in the pursuit of growth at all costs. As a result, large tracts of farmland were taken from the peasants for many purposes, among which included agricultural modernization (Zweig, 2000). Land shareholding cooperatives were created as a means to reorganize rural resources including land. To date, this system is seen by many policy-makers and scholars as a major institutional innovation that significantly improves agricultural commercialization and competitiveness through the promotion of economies of scale in production, modern management and creating more incentives for the peasants to invest in their land. Turning the peasants into land shareholders is seen as a major reform step to guarantee their long-term land rights to reap their benefits (Zhongguo Nongye Xinxiwang, 2005).

2.2 Policy gaps in defining land shareholders’ rights

Local practices in land shareholding cooperatives have gone far ahead of the promulgation of relevant laws and policies that promote and facilitate the development of the land market. Besides the developments in significant laws and policies since 2007, the Ministry of Land Resources (MLR)’s latest policy in November 2009 gives further attention to the issue of collective land rights. It calls for the continuation of market-oriented land tenure reform. As such, collectively-owned rural construction land is allowed to entre the land market. In particular,  

36 In fact, a free rural land market does not exist in China. It is politicized as local government is fully responsible for land transfers. According to the law, farmland has to be converted into
Zhejiang Province has been chosen as a pilot region to carry out the promotion of rural collective construction land transfer. This act is seen as a major step towards equalization of rural and urban land rights, which means that rural land should be allowed to be transferred in the same way as urban land, although this is not equivalent to land privatization. It is expected that this policy would provide favourable conditions for those who can invest in this sector to bring about improved land use efficiency (MLR, 2009). However, such an innovation does not mean anything new, since many regions especially those in eastern and southern China, have already piloted this practice. Moreover, land transfers in the form of land shareholding cooperatives have already taken shape throughout the country; and in many cases, this takes the form of business arrangements whereby peasants put their land to any type of land use such as real estate development in return for profit. In other cases, their land is reorganized by the local state for the purpose of collective farming aimed at enhancing large-scale agricultural production. So, this new policy is seen as a reaffirmation of the unstoppable trends towards land commercialization.

According to Guo Shutian, the former director-general of the Policy, Institutional and Legal Reform Department of the Chinese Ministry of Agriculture, the land contractual use and operational rights are no longer vague, but landownership remains an empty shell. Opposing divergent views on land ownership—privatization, nationalization or perpetual land use rights, Guo is of the opinion that it is time to propose common landownership among peasants through land shareholding arrangements to ensure that they can decide on land use just as real landowners. This means that they should be encouraged to become shareholders and turn their shares into profits in local enterprises. By doing so, it is envisaged that they will be able to more effectively exercise their economic and political rights concerning their land. Thus, the land shareholding system is seen as a potentially efficient in safeguarding their rights and preventing their land from expropriation (Li, 2008). In fact, Guo’s viewpoint exactly conforms to the policy developments of the central government.

To some, land titling is necessary for the clarification of land rights and provision of solutions to land-induced conflicts. To others, land institutional change can only be a protracted process in which societal choices and timing will ultimately determine what suits the peasantry the best (Ho, 2001 & 2005). This contention seems to imply the role that the market actually facilitates institutional change; and in the Chinese context, land use and management must cater for the needs of the market. In doing construction land first before its transfer can take place. And the government must approve such a land use plan first.
so, the Chinese peasants can become real owners of the land and have exclusive rights to their land and agricultural produce. Getting institutions right is taken as a prerequisite to sound land management (see De Soto, 2001). Yet, getting what institutions rights remains unaddressed or difficult to predict or prescribe. The institution of the land shareholding cooperative has become the last resort for the Chinese decision-makers. Ironically, the ambiguous nature of collective landownership pertaining to the land shareholding cooperatives in particular, if not handled properly, can lead to varying degrees of poor governance, conflicts and marginalization of the majority of the poor peasant shareholders.

In fact, the cooperative system is nothing new to China. In the 1960s, the prevalent commune system was even a higher-level cooperative organization in terms of scaled operation across villages and townships. The government managed to transform the majority of traditional marketing and supply organizations into the so-called modern cooperatives. However, these hastily-established institutions failed because of gross inadequacies in the facilities, resources, skills and experience of the government, among many other factors (Skinner, 1965). What differentiates the commune from the current cooperative system is the organization of agricultural production. In the first system, the state and the commune played a dominant role, whereas individual households joined the commune as members, not shareholders. But in this sense, landownership and use rights were clearer than the current case. Although the current land shareholding system is based on the HRS which allows individual households to own land shares, it may exacerbate the ambiguity of collective ownership of land. The roles of household shareholders in the governance of the cooperatives can be more difficult to define than in the case of the commune. Any neglect of this dimension in policy-making would lead to various issues of poor governance. A simple approach to land commercialization would not necessarily help the poor. The following section describes the land shareholding system in brief and gives more attention to its institutional dimensions that concern this argument.

3. Local practices and critics

3.1 Demonstration pilots

Experimentation in the land shareholding cooperatives was started in major coastal regions. Zhejiang Province was chosen by the Ministry of Agriculture to pilot peasant specialized cooperative organizations in the 1990s. By 2004, the number of these organizations reached 554,000 and the total number of peasant households involved reached 2,029,500 (Hu et al., 2007: 444). In response to the government’s call for
specialized zoning development for agriculture, this province has put ample emphasis on developing priority enterprises through fostering “specialized households, specialized villages, specialized townships and specialized markets”. Wenling City has pioneered these initiatives and become the so-called “hometown of oranges, sugar cane, water melons and grapes”. Grown in ecological demonstration sites, these cash crops are perceived to be crucial to scaled agricultural development, as more and more specialized large households can acquire land with the support of the government and then cultivate these crops. Simply put, land transfer is greatly encouraged by the local government. It comes in varying forms and degrees, such as sub-contracting, leasing, shareholding, swapping and so forth. Land transfer service centres were also established to facilitate land transfer processes. As a result, currently 41.4 percent of the contracted farmland has undergone transfers. And 25.5 percent of the farmland has been brought under scaled production (Wenling City Agro-forestry Bureau, 2009).

In the arrangements for land transfers, the households that lack skills, funds and access to the market are encouraged to transfer their land to those bigger-size households and enterprises which have various advantages over the former. To facilitate this process, some village administrative committees bundle the contracted farmland from the households and then unilaterally re-contract the land to the big households or enterprises. Those who lose their contracted land receive annual rent from the village administrative committee. This model is called “reversed sub-contracting” (fanzu zhuanbao). Normally, this model is aimed at the formation of land shareholding cooperatives, where the households tender their land use rights for shares. Yet, this has never been an easy process, since many peasants are concerned about losing their rights completely after joining the cooperatives. A lack of secure rights further deters their incentives in becoming shareholders given the fact that many households in China do not own certified farmland contracts. Moreover, great concerns about whether they would receive adequate compensation and social benefits for land transfers remain a major obstacle for the government (Zhu & Chen, 2008).

Promoting the adoption of the industrial mode of development in scaled agricultural production by the “dragon-head enterprises” (longtou qiye), the local government assumed that this institutional arrangement would efficiently pool together economic, technical and market resources and overcome the disadvantages of the HRS. On the assumption that these enterprises can effectively organize the fragmented peasant households, they are expected to play a leading role in establishing agricultural shareholding cooperatives. In 2006, the first provincial-level peasant specialized cooperative federation was established to help the local agricultural
economy become a player in the national arena. By 2007, there were 96 cooperatives of varying forms and sizes (Wenling City Agro-forestry Bureau, 2009).

In the early 1990s Guangdong Province introduced its land shareholding cooperatives even in remote poor areas. By 2008 almost 20% of the farmland had been transferred through means of sub-contracting, mortgaging and reversed sub-contracting. The last mentioned was treated as an innovative arrangement for the purpose of consolidating the fragmented land for scaled farming. These arrangements paved the way for the creation of the land shareholding system (Dongfang Zaobao, 2008). Similarly, in Jiangsu province, till 2008 there were nearly 12,000 peasant specialized cooperatives of all kinds involving more than 5,000 households or 35 percent of the rural population. In particular, the experimentation in land shareholding cooperatives in Yangzhou City has been widely acclaimed as a major achievement in stabilizing and improving the current land use rights structure, enhancing high efficiency in large-scale agricultural production, raising peasants’ incomes and promoting the government’s latest development agenda—building the new socialist countryside. The advocates of this model are hopeful that the functioning of these organizations will speed up village democracy, since village politics will eventually be shaped by the three relatively independent institutions—village party committee, village administrative committee and collective economic organizations. Such a model is regarded as an innovation that perpetuates social stability and boosts rural economic development (Li, 2008).

3.2 The Nanhai Model

A prominent case of land shareholding cooperatives is the Nanhai model, exemplary of many cases of land development supported by the central government. Nanhai district is under the jurisdiction of Fuoshan Municipality, Guangdong Province. Rural economic reform was started in 1987, when the State Council designated Nanhai as one of the major sites for reform demonstration pilots in large-scale agricultural production whereby land transfer was permitted. At that time, the HRS had gradually become a major constraint on organized farming due to its nature of land fragmentation. Land size for the average household remained minimal. Coupled with structural changes in agriculture where farming was no longer appealing to the peasants, rural-urban migration was phenomenal. More than two-thirds of the peasants sought employment in cities and left their land either idle or semi-unattended. Agricultural production had slowed down substantially and could not be boosted, because the peasants’ incentives were low and there was a shortage of labour. Initially, this reform turned out to be a failure, because many peasants had
left their land to seek economic opportunities in urban areas. It was difficult to induce them to participate in the process (Wang & Xu, 1996).

Rapid urbanization also produced a high demand for farmland. In turn, land expropriation to facilitate urbanization caused mounting peasants’ discontent over inadequate compensation and its negative impact on their livelihoods. Under all these economic pressures, in 1986, the Nanhai government began to reform its agricultural sector. In fact, Nanhai was listed as one of few major comprehensive reform demonstration pilots in the country. To the Nanhai government, the reform was nothing more than agricultural modernization through land concentration, or outright land amalgamation. Basically, peasants’ entitlement to their contracted land had to be readjusted. Those peasants, to a large extent, the migrants who did not rely on land for their livelihoods were not allowed to keep the land. Even those who possessed land use rights certificates were asked to surrender their land to tender arrangements through which land was concentrated in the hands of the “mighty few”. The latter could be large-size households with more capital and skills in agricultural production, or those small businesses that had vested interests in the land. In essence, all the peasant households were encouraged to transfer or give up their land to others which were backed by the local government’s promise to provide social security such as subsistence and employment conditions. And large-scale land transfers were encouraged to make land available for mass production. Village administrative committees acted as administrative units of the cooperative responsible for converting the collective land and assets into land shares for non-agricultural purposes such as building factories (Wang & Xu, 1996; Jiang & Liu, 2004).

Although this storm of land reform measures created favourable conditions for large-scale agricultural production, the local government felt that it had not met their expectations. They believed that the speed of the land amalgamation process was still slow, which had not fundamentally changed the situation when small-scale and fragmented farming existed. This was demonstrated by the large number of peasants who wanted to remain in the villages for farming. With rapid rural population growth, the average size of households declined substantially. At the same time, peasants’ awareness of the increasing potential values also increased. Although they did not rely on their land to meet their subsistence needs, they were still inclined to hold on to their land for future use—increased land value for potential economic returns (Wang & Xu, 1996).

When the local government started the second phase of the reform, it decided to create a peasant-centred institution to cope with their unwillingness to vacate the
land. No longer believing in land privatization and nationalization, they decided to establish the so-called socialist cooperative economic institution, that is, peasant shareholding cooperatives. Contrary to the old commune system in the 1960s, this institution was aimed at scaling up agricultural production through reasonable land and farm labour transfers. On this basis comprehensive rural economic development could be realized. In 1992, a demonstration pilot was started to enable the peasants to become land shareholders by granting them economic and operational rights in different shareholding arrangements. Then the local government managed to consolidate and accumulate the fragmented land and put it to different uses such as the establishment of agricultural protection zones, industrial development zones and public apartment building zones, all of which were under the overall planning, management and operation of the local government and businesses. By 1995, a total of 1,869 rural shareholding organizations had been established, 80% of which were at the village level (Zhao, 2007: 40). It is important to note that the local state played a crucial role in initiating and managing the cooperatives. In most cases, these cooperatives were transformed into agricultural development shareholding corporations under the control of the local state. The state, through its policy and funding support for the cooperatives, provided ample space for their development. As rural development required collective action, to a certain extent, the local state-peasants-business alliance was important in overcoming many difficulties in farming and marketing of agricultural produce (Wang & Xu, 1996). In addition, being the holders of 50 percent of the cooperative shares, village collectives play an essential role in guaranteeing public service delivery and social welfare provision for the village (Jiang & Liu, 2004).

Generally, to enable the peasants to join the cooperatives, each peasant in Nanhai received an equal number of land shares. In some cases, other types of shares based on labour contribution and land use period were also created to further stimulate peasant incentives. Three different models were developed to cater for local circumstances in three townships. For instance, the Lihai model stipulated that the peasants' shareholding rights were decided by the land and other assets contributed and could be transferred, mortgaged, inherited and given out as gifts within the organization. In contrast, the Guicheng and Pingzhou models did not allow for trading of shares except for inheritance purposes. But in all these models, the distribution of dividends was decided by the shareholders’ assembly, which was held regularly with the participation of the majority of the shareholders. All management information especially those related to financial management of the enterprises was supposed to be released to the shareholders who had the exclusive rights to judge whether there were issues related to lack of transparency, fairness and operational efficiency. Around 40 percent of the annual revenues were distributed to
shareholders as dividends, whilst the other 60 percent was kept in the cooperative for public use and enterprise redevelopment. It is claimed that these institutional arrangements provided the peasants with the incentives to invest in their land, which was useful to land use planning, acquisition and peasant land rights protection (Huang, 2005; Zhao, 2007).

Despite the proclamations of success by the local government, the developmental effects of the Nanhai model are not as far-reaching as expected. Due to the continuous shortage of natural resources such as water and farmland, how to maximize the utilization of these resources to suit the need of development has posed a challenge for the local government. Moreover, agricultural development has been slow due to the lack of the so-called dragon-head agricultural enterprises which could have played a key role in mobilizing resources to realize economies of scale in production. This is further constrained by the weakness of the peasants in organizing themselves to join more effective land shareholding cooperatives (Nanhai Agricultural Bureau, 2007). According to the 2003 statistics, the average per capita revenue of shareholders was only RMB 1,180. Revenue distribution also proved to be unequal, contrary to the charters of the cooperatives. In south-eastern areas of the municipality where industrial enterprises were predominant, the average revenue per capita was almost ten times higher—RMB 15,000 than other locations. For instance, in western areas where agricultural enterprises (approximately 33 percent of the total land shareholding cooperatives) were the majority, the peasant shareholders had not received any of the profits distributed. Poverty continues to constrain peasants’ livelihoods aggravated by resource shortage and depletion (Huang, 2005).

3.3 Critics of the land shareholding cooperative system

3.3.1 Land rights and governance

These bold reform initiatives have received much criticism right from start. They are thought to fundamentally contradict the merits of the HRS, since they actually capture the financial and democratic power of the peasants enshrined in their land away. The crux of the matter is that the reform measures have disempowered the poor shareholders rather than empowered them as originally designed and claimed (Kung, 2003). Yet, many government officials believe that the initiatives are not aimed at changing the nature of the HRS and replacing it. Rather, they are the modification of the system that suits the trajectory of economic reform. The HRS is seen as a bottleneck to rapid rural economic development because it puts too many
people on too little land, which can only obstruct China’s path to rural modernization and integrated rural-urban development. To the government, the cooperative system is an innovation that provides a paradigm shift to reforming the land rights structure. It enables the peasants to have more rights to their land by becoming shareholders with economic and *de facto* ownership rights. In practice, however, the role of this institution in agricultural development should not be overstated, as agricultural development relies upon comprehensive support of the government which has to deal with structural limitations of agriculture, not the so-called scaled production. One of its major risks concerns the loss of land of the poor whose migration to cities can terminate the guarantee of land as a basic means of social security especially when their rights and access to social security are not provided in the cities (Hu, 2009). In essence, it is far from clear whether this institutional change can practically ensure good governance that safeguards the best interests of the peasant shareholders, as many cases of corruption illustrate the huge costs exacted on the poor.

In the case of Nanhai, the views of many local officials and peasants revealed perplexing attitudes towards the model. The local officials were not able to differentiate it from the HRS, which does not pose a problem because it serves the interests of the local government and peasants. By contrast, many peasants complained about the frequency of government policy changes. When the HRS was implemented, the local government talked about its merits in safeguarding the long-term rights and interests of the poor. Then they confused them by saying how profitable the land shareholding system would be through scaled production. But the peasants showed their discontent over the fact that they had lost their land to the cooperatives, whilst under the HRS at least they had some land to meet their subsistence needs. Once the land had gone, they worried that they would lose the safety net that came with it, because their benefits from the cooperatives were uncertain. They simply doubted that the cooperatives would be managed well by the leaders, most of whom were village party cadres themselves. They were unsure about whether the land should be distributed to individual peasants or re-collectivized in the hands of the so-called peasant-business-local state alliance, but they had to listen to what they were told from the top (Wang & Xu, 1996).

The Nanhai government attributes the ineffectiveness of the agricultural reform to the incompleteness of the reform itself. Thus, its latest policy has focused on how to deepen the reform by continuing reorganization of rural economic institutions and creating more space for larger-scale agricultural development. As a consequence, more profitable sectors such as vegetable and flower growing businesses are targeted with a view to developing a modern urban agricultural sector. However, as these agribusinesses have huge demand for farmland, food security is put at risk.
Although the local government seems aware of this fact and even calls for maintaining the current level of food supply, it realizes the need to open some land for these sectors. In particular, it encourages the dragon-head businesses to play a leading role in these developments by offering various preferential policies related to land, taxation, loans and so forth (Nanhai Agricultural Bureau, 2007). As large-scale agricultural production dominated by large agribusinesses have pre-empted the overall development thinking of these decision-makers, the land shareholding institutions are seen as effective means to trigger agricultural modernization.

In addition, the inefficiency of the Nanhai model has been criticized for its inflexibility in allowing the peasants to trade their land rights freely in the market. As their land shares are administered at the village level, it is questionable whether the village administrative committee can be economically efficient in maximizing profits for their constituents. By contrast, other regions of China have tried to adapt the Nanhai model to deepen market-oriented mechanisms, among which is the experimentation on complete separation of peasants’ land use rights from the village collective landownership. This means that they try to avoid the involvement of the village administrative committee by putting more emphasis on empowering the shareholders in more direct land share management, as the village committee is often found to be corrupt in land governance. For instance, in Wanfeng Village, Baoshan District of Shenzhen Municipality, soon after the market reform was started, the local government realized that the HRS had its inherent shortcomings, one of which was the difficulty to organize their production and participation in local administrative affairs. Farming efficiency was low, which was a major incubator of chronic poverty. Constrained by a lack of revenue from agriculture, the local government could not deliver the social service as it was supposed to. All these factors prompted the local government to come up with a new slogan “building a socialist industrial village through common property ownership”. In essence, this institution was about shareholding arrangements based on the land and production materials of the peasants. But it provided more mechanisms for building equity in terms of complete coverage of peasants who were free to choose their preferred means of investments in the shareholding corporation. Even for those who were unable to contribute in cash, the corporation covered their shares and allowed them to enjoy the benefits as shareholders. As a result, the shareholders had equal rights and opportunities concerning the development of the corporation, since they were considered to be the more genuine property owners of the cooperative corporation (Huang, 2005).
In many cases, the organization of land shareholding cooperatives in China is based on informal institutions or peasant relations in the process of their development and operation. These rural social relations feature some kinship and market rules, which make governance of these organizations complicated. In many cases, membership is closed in the cooperatives despite the stipulation of the charter on the policy of “free entry and free exit”. Membership is carefully vetted by the leaders to ensure that the members meet physical and technical requirements. Sometimes, the members are not allowed to leave when the cooperative is experiencing losses. Share purchase is extended to each member who has links with the cooperative leaders who act as their patrons. The numbers of shares one can purchase also depends on various factors, which in turn determine the shareholders’ power in decision-making. In case of transfer of property rights, it can only be done within the cooperative, not outside it. And it is the board of directors that have the power to decide on such transfers. This means that the shareholders’ rights cannot be easily equated with sole ownership or exclusive personal rights. Thus, the ownership title is a hybrid form between individual and collective titles for Chinese-style cooperatives (Hu et al., 2007: 449).

It is important to note that the heterogeneity of the cooperative membership is complex, since those with more shares have more decision-making power than the others. This means that the majority poor shareholders cannot exert much influence over governance. They have to give up their decision rights to the cooperative leaders—board of directors most of whom are village leaders and business enterprises representatives. These unequal relationships between contract peasants and companies or middlemen and so forth, disadvantage the peasants. For instance, the general director can be a large shareholder, whose share counts for even 20 percent of all shares in some cases. As a result, the normal shareholders cannot decide on the major issues of cooperative governance even if they attend the assembly (Hu et al., 2007; Zhang & Donaldson, 2008).

It can be seen that land shareholding institutions play an important role in reorganizing the Chinese peasantry in agricultural production and village industrial development. And it is noted that these institutions take full advantage of the market and business opportunities for peasant investments in their properties such as land. When this occurs, pure land farming gives way to agribusinesses and non-farming sectoral development, which involves high stakes for the shareholders to manage benefits and losses. The effects on poverty alleviation and rural sustainable development are far from clear due to a lack of in-depth studies. But it is obvious that
these institutions, albeit successful to a certain extent, have not yielded benefits to
the peasants as originally promised.

To a large extent, the economic returns to the peasants are low. Moreover, as
shareholders it also means loss of their land and properties to businesses and
subsequently, loss of other economic opportunities. The real extent of loss is beyond
the scope of this chapter. But these institutions reflect the fact that the Chinese
peasantry especially in relatively developed regions has become more flexible in
choosing the type of agricultural and rural development that suits their needs. To a
large extent, it also explains the weakness of the current institutions, for instance, the
HRS in organizing collective action to address the constraints to development. The
local state actually continues to play an essential role in organizing the peasants to
explore adapted models of development. This further explains the fact that land
reform aimed at enhancing individual's rights does not conform with local reality
where the village committee and local state can determine peasants' rights and
course of development.

4. Debates on land rights and implications for village
governance

Land shareholding cooperatives require the transfer of land rights among
households and between households and other shareholders such as enterprises
and local states. Quite often, these transfers involve cases of infringement of
peasants' rights, lack of legal stipulation on the protection of their rights, waste of
resources and weak oversight of cooperative governance (Lingdao Juece Xinxí,
2005). The local state and village leaders play a major role in accountable and
transparent management practices. As with other transition economies, China is no
exception in the sense that state representatives may be unable to abstain from the
use of power for private gains (Hoff & Stiglitz, 2004). According to Zhang (2009), the
institution of the land shareholding cooperatives has little to do with the so-called
private and collective landownership. Rather, it is all about transferring peasants' land to large land shareholders. For the peasants, landlessness becomes the reality.
In the case of rural-urban migration, they become pure migrant labourers, who do
not enjoy the same social rights as urban citizens. In this context, it conceals the
state use of political force to create a space for land expropriation for the large
shareholders or local elites. It would be unrealistic to think that the peasant
shareholders can fully enjoy their rights as shareholders, for their limited land shares
mean minimal real rights in the cooperatives. Or simply put, the cooperative is an
effective institution that exploits peasants' land and their rights. Given the evidence
of land loss and conflicts arising from the operation of these organizations, the
government is trapped in its effort to transform the rural economy. This is inextricably
linked with the process in which village democratization takes place in China. It is in
this process that the rights of the peasants are being renegotiated and the struggles
for power between the peasants and their leaders occur in silent and non-silent
forms.

The development of land shareholding cooperatives reveals a dilemma for China’s
land reform and rural development underpinned by the transition to more market-
oriented institutions for the Chinese peasantry. On the one hand, the land laws and
policies attempt to strengthen individual peasants’ rights such as the right to transfer
land within the limits of collective landownership. On the other hand, local practice
reveals that individual peasant rights are not necessarily strengthened. Although
many of them have become land shareholders, this does not mean that they have
the ultimate power to decide on how their land ought to be utilized, and how the
benefits from the land can be distributed to them accordingly. Similar to the issue of
the village collective, questions remain as to who exactly represents the
cooperatives, how individual shareholders can exercise their rights, how they reap
the benefits, and to what extent they can have their say in management. In the
absence of shareholder participation, it is hard to tell how the cooperatives have
served the best interests of the peasant shareholders. Lucrative deals can be made
between village cadres and corporations in land management behind closed doors
(Cai, 2003; Po, 2008). Thus, one naturally questions the usefulness of the land
shareholding cooperatives and its implications for China’s goal of sustainable rural
development. Again, the basic question is whether or not the peasants should be
given their exclusive land titles which grant them the freedom to decide on their land
use as is the case with genuine shareholders in the West. Another issue is about the
most suitable role of the collectives in land rights restructuring.

4.1 Individual choice over land rights

Qin (2006) strongly argues that landownership should be assigned to the peasants,
which is crucial to democratic village governance. Disagreeing with many scholars
who are concerned about the possible effects of land concentration in the hands of a
mighty few as is evident in many developing countries, he contends that the most
important factor is the unconstrained autocratic power of the state and business
alliance that severely undermines the rights of the peasants. In this respect, land
privatization characterized by free land trading does not necessarily cause
landlessness of the poor and concomitant peasant unrests. Paradoxically, in China,
although the peasants do not have serious problems of access to land, their land can
still be grabbed by others in the context of the absence of land trading, which has triggered mounting cases of social conflicts over land use.

The absence of an effective control system over state behaviour and the powerlessness of the peasants in collective negotiation in matters concerning their rights and participation in legal and policy-making processes exercise a major constraint on their capacity to hold the cooperative leaders accountable. They must have the freedom to form organized groups, which are strong enough to represent their collective rights in their participation in land governance. When this freedom is restricted, the current village collective supposed to represent their democratic rights can only be taken advantage of by others. Consequently, the collective can only exploit peasant rights rather than protect their interests. This is exacerbated by the existence of small landholders whose small size of land is vulnerable to misuse by the village collective. Such a contracting system is unfavourable to collective farming, decision making and social cohesion. The formation of land shareholding cooperatives may not necessarily lead to organized peasant action in land use and management.

The study of land rights must move the focus away from economic issues in contrast to the current preoccupation of land shareholding cooperatives. Instead, one needs to explore the political, social and legal conditions under which peasants’ land shareholders rights can be created. It does not mean that China’s land reform should opt for absolute privatization, because the latter does not exist even in Western countries. In fact, citizens’ land rights are surrounded by more restrictions than as compared to other rights because of the state’s need for land utilization. That is why land always embodies the state interests in realizing its potential to cater for the public interests. The state has the final exclusive right to land acquisition. The ultimate question is who can represent the peasants’ vested interests in land use and negotiate with the state and businesses in this process.

To Qin (2006), this question is contingent upon the degree to which peasants’ land rights can be redefined and strengthened. Just like the cases of those “unique” villages where the local communities did not choose the HRS when China’s economic reform started and insisted on the commune system, the peasants ought to be given the flexibility to choose the best land rights structure. This actually complies with the operation of the market economy, which should provide avenues for people to make economic choices. They ought to be given the space to organize themselves around land management on a voluntary basis. Nor should they be

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37 The unique case of commune villages is addressed in Chapter 6.
forced to leave their chosen groups formed at their free will. It is not a matter of who likes it or not, rather a matter of choice for the peasants themselves. Qin’s rural survey conducted in Hunan Province in 1997 indicated that almost 50 percent of the informants expressed their preference for more strengthened private land rights based on equitable principles. Solving this issue is of crucial importance to address the issue of who owns China’s land and who has the exclusive power to do so, which is deemed as a fundamental question pertaining to China’s land reform (see Ho, 2001 & 2005). Peasants’ landownership should be recognized by law—be it individual or collective ownership—as long as it is based on their choice. In the case of individual landownership, peasants can still form land groups. And in the case of group or common ownership, individual members should be allowed to withdraw their membership. Given the weakness of small-scale household farming in China in terms of mitigating their vulnerability to the market, it is important for the collective to play an essential role in organizing the peasants. But this collective must be formed according to peasants’ own choices. To reach this end, the law should provide ample space for peasant organizations (Qin, 2006).

4.2 Collective choice over land rights

Qin’s viewpoints are deemed to be overtly simplistic by others. From a historical perspective, peasants’ ability to make institutional choices cannot be overestimated. Some argue that the collectivization period of the 1950-60s was marked by strengthened organization of the peasantry. By comparison, agricultural decollectivization under the HRS since the late 1970s has led to the disintegration of peasant communities (Friedman et al., 1991; Zhou, 1996). The HRS has brought about increased rural societal differentiation in terms of inequality in incomes and access to social services. To others, however, this does not indicate the weakening power of the peasantry. Rather, it has unleashed the market mechanisms for its autonomy and self-control, in contrast to the feudal relations in respect of strict control on labour mobility and the considerable power of local cadres in the collectivization era. And the cause of the increasing inequality has much to do with the underdeveloped market which has not fully reached many remote poor areas. In any case, rural differentiation is a serious problem for the government, as it is dividing the rural society into different groups such as the peasantry, proletarians, capitalists and government officials (Knight & Song, 1993; Rozelle, 1994; Bramall & Jones, 2000).
Complex rural social differentiation has strong bearings on the role of the government. With the introduction of the HRS, the central government has reduced its influence in rural China, which is seen in the process of decentralization. As a result, local governments have played a larger role in economic development, and they face mounting challenges of revenue generation to support their programmes (Bramall & Jones, 2000). They have gained immense political power over the masses, which triggers incessant cases of corruption and conflicts. As such, land has always been under the dominance of the state and privileged class, who can use their exclusive political and economic rights and control to grab the land. The power of this class is inextricably determined by the social structural power that consists of the village organization, state law and institutions and the local elite. Confronting the control of land rights, which power is the strongest is ultimately contingent upon the extent to which it can influence the other power holders. Given the unique features of physical and social fragmentation in the Chinese countryside because of the HRS, it is hardly possible for the small landholders to exert control over their land. Unlike the models of Japan and South Korea where groups are united in their effective organization, the Chinese peasants are becoming more and more powerless (Xiong, 2009). Given this situation, stabilizing their land rights proves to be a daunting challenge, which has complicated the formation of land shareholding cooperatives to accommodate heterogeneous interests of the shareholders.

Furthermore, where biophysical conditions set limits to large-scale farming, any attempts to consolidate the HRS in farmland management can only exacerbate the existing land fragmentation. More land-induced conflicts will occur because of multiple claims over the same land plot. Tackling this problem would make way for the exploration of new institutions. Thus, if the reform is inclined to land privatization, the ruling class can again easily infringe the peasants’ land rights (Cheng, 2006; Cao, 2005; Wen, 2004; Xiong, 2009). The next question returns to the current issue of collective landownership, which has been criticized by many scholars as ambiguous—the key to land grabbing (Ho, 2005).

The existence of the institution of collective land ownership has its social roots which cannot be simplistically understood from economic and legal angles. It has its inherent social contractual and cultural meanings. Because of the rules implicit in land relations, collective land rights reflect the nature of bundles of rights and thus complicated social relations. As these relations are themselves ambiguous, any attempt to clarify the current land rights structure will not lead to the stabilization and securing of the peasants’ rights. Even though the law gives the peasants all the rights that they may deserve, it does not necessarily mean that these rights are safeguarded and enforced effectively (Zhe & Chen, 2005; Zhou, 2005). Land rights
in any country have never been exclusive to the landowner, land cooperative, the state or other entities. Facing the challenges to food security, the state has become more important in intervening in land use to ensure the production of quality food and agricultural produce. In this sense, the market can never play the role that some deem as the best instrument in regulating land use. Given the weakness of the small landholders in agricultural production, it is important to organize the peasants in order to realize the full potentials of the market, peasants and the state in satisfying the national need for the preservation of farmland, thus ensuring national food security (Xiong, 2009).

The development of property rights especially in the aftermath of the promulgation of the 2007 Property Law signaled the state’s interest in strengthening individual land rights. No one knows whether it is a sign of transition to a fully-fledged private property ownership regime. It is far too early to draw conclusions due to other social, economic and political conditions that set their limits. These limits affect the degree of land rights stability, which can only be maintained if the rural society is strong and effective enough to carry out the laws and rules imposed by the state, law and market. State institutions need to understand the local conditions and the law must be able to play an essential role in ensuring its effective enforcement to safeguard the rights of the affected (Qiang, 1997). Moreover, to make the law work for the poor, democratic village governance in respect of village elections, for instance, must be improved to ensure effective legal changes. This also means that legal reform to strengthen property rights should be enhanced by mechanisms to hold leaders accountable (Deininger & Jin, 2009). Against this backdrop, it is no wonder that the current land shareholding cooperative systems present a last resort for the Chinese government to safeguard the peasants’ rights and maximize the land use efficiency, despite many cases of failure due to a lack of mechanisms for assuring the effective execution of peasant shareholders’ rights in cooperative organizations and village governance as a whole. It is far too early to ascertain their impact on village governance, a topic which requires further studies (Po, 2008).

5. Conclusions

The land shareholding cooperative system represents a hybrid form of capitalist shareholding and socialist cooperative institutions. There exists a considerable divergence between original policy intentions and the eventual outcomes of the cooperatives. In fact, these cooperatives only have clarified land rights to a limited degree, partly due to the power penetration of the local authorities (Zeng, 2005). It is
doubtful that their ongoing practices are directly linked with improvements in the shareholders' land rights, rural development and governance. Sound management of the land shareholding cooperatives to strengthen the existing rights of the peasant shareholders is absolutely needed.

One has to understand the nature of the current land management system and its underlying social, economic and political relations. Undoubtedly, when individual peasants are entrusted with clearer and enforceable land rights, their power of choice over land use in terms of transfer and self-investment would be significantly improved. Nevertheless, the enforcement of these rights can be severely undermined by many complex political, economic and social factors. Moreover, local authorities may see the strengthened land rights of the peasants as threats to their power. They would have fewer incentives to implement the relevant laws and policies properly. And they may seek last resort measures to intervene in the ways in which the peasants’ land rights are delimited, determined, used and managed in the name of land consolidation for the purpose of scaled-up agricultural production. This can be complicated by the issue of lack of transparency and accountability in the management of these cooperatives. Thus, in any case, it can be seen that the development of the land shareholding cooperative system serves the economic interests of the local state and corporations far more than the livelihoods and political rights of the peasant shareholders.

The current land shareholding cooperative system is not a panacea to solve the underlying issues concerning efficient and optimized land use in China. Peasants’ reluctance to vacate their land to facilitate the development of the land lease markets in shareholding arrangements indicates a certain level of market and institutional failure. Furthering the market-oriented land tenure reform without addressing the key governance issues will not improve the current situation. The arguments developed here run counter to those who simply believe that the market-oriented system can break down the institutional barriers (see Yao, 2000). However, it does present an alternative to land privatization that is unfeasible within the current political, economic and social parameters. It is an institutional innovation to demonstrate how the complex relations among different stakeholders can be re-formulated for the sake of intensive and efficient land use that can benefit all especially poor small landholders. In essence, the land shareholding cooperative system is a reflection of the government’s intent to create viable land institutions based on fulfilling the roles of the government and the market in promoting economies of scale in land use to improve agricultural production significantly. It is a further indication of the aim of the government economic reform to integrate rural and urban development characterized by equal rights and opportunities for both rural and urban residents.
Nevertheless, these grand plans and practices have much to do with the assumption that land should be in the hands of the capable peasants who can cultivate it more efficiently and profitably than the average peasants. For those who will have lost their land and who have been incorporated into urban development, the social welfare system has to be significantly improved to sustain their livelihoods. However, this has not been a smooth process due to the fact that the public finance system is poorly developed and unable to tailor sufficient resources to meet the needs of the poor losers (DRC & World Bank, 2006).

The Chinese government has taken a cautious approach to land reform. On the one hand, it tries to stimulate market-induced mechanisms for land reform; on the other hand, it has to strengthen its power to control corruption and misuse of power by the local government. As an official from the Chinese Ministry of Land Resources remarked on latest policy developments:

> The public media has spread the wrong message about the latest policy developments. In fact, no matter how peasants are allowed to transfer their land rights, this must be done within the limit of local and regional land use planning under the direct control of the village collective. This means that the peasants’ rights to do so will still be determined by the village administrative committee and local government.\(^{38}\)

The crux of the matter is how to ensure that land transfer is under proper control. And the long-term nature of the process must be recognized whereby the social, political and economic dimensions of the land reform play a crucial role. Moreover, the land cooperative system, like other forms of land transfers, must be a process to allow the peasants and other stakeholders to participate on a voluntary and self-initiated basis (Tang, 2009). Only on this basis will the full potential of peasants’ collective knowledge and power be realized. Certainly, relevant land laws, policies and institutions ought to fill this gap by creating the mechanisms for peasant-centred collective action in land shareholding cooperatives to realize sustainable land use and rural development. In addition, laws are needed to clarify the legal rights of land shareholders in order to safeguard their rights and benefits (Sun, 2008). Land shareholding cooperatives reflect the fact that any attempt to advocate a uniform system of land tenure in rural China is doomed to fail due to its immense diversity (Kung, 2000).

\(^{38}\) Interview with the deputy chief of the Division of Cadastral Management of the China Land Survey and Planning Institute on 13 June 2009.
One needs to understand the ongoing village democratization processes in which peasants’ rights need to be significantly improved so that they can wield more power to participate in decision-making processes concerning land-related institutional development. Policy-makers and theorists ought to avoid using the institution of land shareholding cooperative as a prototype of land reform without allowing for community-centred approaches to institutional innovation that better suit their needs in the local context (see Banks, 2003). Further studies of the impact of the land shareholding cooperatives on the members’ rights, livelihoods and agricultural development as well as member organizations and their responses to the institutional changes are required. Policy-makers would need to ensure that the promotion of this institution is not at the cost of marginalizing the poor shareholders whose active participation should be tied to their own benefits through wider village governance reform measures. Otherwise, the land shareholding cooperatives will continue to negatively affect the livelihoods of the poor as well as China’s agrarian future.

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