Rural Land Policy of China: Investigation and Speculation

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The reform of the land system has been at the core of the Chinese rural economic reforms. The problems with the rural land system have been eliciting concern for years. Some believe that the most effective way to invigorate the stagnant agricultural development is to reform the decentralized operation system, in which the lands are “endlessly divided into broken pieces.” They suggest the transfer of land property rights, and then developing a collective economy and carrying out the appropriate scale management. However, others maintain that we must first analyze what the appropriate scale management and the development of collective economy would entail. As the active participants in the system, what do the farmers think of the rural land problems? With this question in mind, we established a special research team to make a practical investigation in Hubei province in mid-July, 2002.

Survey of Rural Land Policy and Farmers’ Attitudes

From July 16th to 18th the investigation team selected 104 families from 174, for the survey in village X in the suburb of Wuhan. Some families did not attend because of their busy farming schedule. According to the detailed survey, the sample was rather representative, with most first-hand data reflecting the village as a whole.

I. Farmers’ Opinions of the Household Responsibility Contract System

As concerns the household responsibility contract system (with remuneration linked to output), the 75 families in the survey can be divided into four types. 39 families approve it completely, accounting for 52.0%; 17 families do not disapprove, accounting for 22.7%; 8 families have negative attitudes towards the program, accounting for 10.7%; 11 families hold no definite feelings about it, accounting for 14.6%. On average, there are four people in each family. Those who support the system have achieved a degree of relative affluence, and claim to have fewer burdens. In their minds, the living conditions of farmers have been greatly improved, and the country is growing more and more prosperous. All of this is due to the reforms and open policy, which encourages farmers to get rich through honest labor. They, therefore, hope that the household responsibility contract system and the governmental policies responsible for their growing affluence will be carried-out long-term. As for the second group, although their living conditions have improved, they shoulder heavy burdens from the lack of labor. Some of them even associate with the system such unpleasant phenomena as greed and selfishness, as well as ineffective public security measures. They point out that most of the public irrigation equipment (i.e. water towers and aqueduct canals) are in disrepair and have been languishing that way for years. What is more, some farmers even have a certain nostalgia for Mao’s age, and are deeply concerned that the country

Abstract: The transformation of land policy, or land system reform, has been the key issue in rural economic reform in China. Based on a practical investigation, this essay proposes to analyze the system orientation and performance diversities of the types of land-use systems under the new rural policies in China: the household responsibility contract system (with remuneration linked to output), the two-field system, the operation of scale management, the auction of the Four Sorts of Wasted Land tenure, and the cooperative shareholding system. The essay brings forward specifically the two points of policy design in the current land policy in China: (a) building up farmers’ expected briefs in land use and (b) appropriate colleration of land resources, which are significant in advancing the reform of the land property rights system and cultivating the land property rights market.
is headed towards crisis. The third group is against it because, they say, it hard enough already to regulate the activities of the farmers these days. For instance, there have been fierce conflicts over land requisition, and the strength of collective economy has been weakened so much that, in some places, it is now collective only in name.

2. Problems with the Terms of Land Contracts

According to the survey, only 31.7% of the villagers know that the 30-year land tenure policy is often unbending, and family members may increase without the addition of lands or may decrease without a reduction in lands. Among those who know, the supporters account for 45.3%, the dissenters for 10.7% and 18.7% are those of indefinite opinions. The reason to approve of the policy is that it is helpful in increasing land investment and in putting family-planning policy into effect. There are also reasons to disapprove of it. For thirty years, the population has been increasing rapidly. Some families with more new members can hardly make ends meet, while some with no work force have superfluous lands, wasted on their waning numbers or ageing family members.

The investigation shows that the farmers have rather complicated feelings towards the land. On the one hand, there is a desire to leave the rural area, while on the other hand they are afraid of losing their land. This is particularly true with the young generation: they generally have strong hopes of getting away from the rural life and moving to the city. They want to go explore the world, and yet they are constrained by their registered permanent rural residence status. Although they can make more money working in the city, they'd be running a high risk if they were to lose their job. Without basic living guarantees, they could only take short-term jobs in nearby cities, during slack farming seasons, in order to make up necessary family expenses. Therefore, the current systems, like the registered residence system and the urban employment system, are still firmly tying peasants to the farmland. When asked whether they are willing to transfer their contract land to others, they either decline or hesitate; seldom does anyone agree explicitly. When asked “Can you make a living without contracting any land?” 28.0% of the farmers respond that they cannot; 42.7% of them believe they can, but with difficulty; 25.3% don’t care, and a mere 4.0% think they will lead a better life if they do.

3. Farmers’ Viewpoints of The Land Property Rights Problem

In response to the question “who possesses the land in rural area nowadays?”, 60.4% of the farmers answer “the state,” 3.7% answer “the village,” 22.1% “the collective,” and 10.4% “the state and the collectivity together.” The investigation reveals that some farmers have very confused ideas about land property rights. For example, a number of them figure that since the piece of land they are cultivating is inherited from their elders and now they are involved in a contract system, the land property rights should be theirs. The two main problems in the farmers’ understanding of land property rights revealed in the investigation are: (1) Most of the farmers know that farmland is nationalized, but they are not clear on specific land ownership; (2) Although it is stated in the constitution and elsewhere that country land is owned by village collectives, the farmers do not conceive of themselves as the masters of the land. A great number of farmers have no idea that the landowners are actually the collectives, made up of themselves.

When they are asked “Do you wish to own the contracted land?”, 21.7% of the peasants answer they would like to have the land as their own and would like to see a farmland privatization system. 66.1% support the state ownership or collective ownership system, and 12.2% answer that they do not really mind whether the land is owned by the state or by private farmers. During the investigation, many farmers explained that they worry most about two aspects of the land system. One is that they are afraid of the land being privatized, because this will result in new exploitation and severe social polarization. The other is that they are afraid the collective will take back the land operating rights again. Past hardships of “eating from the same big pot” in the collective are fresh in their memories. Thus, if the collective repossesses the operating rights, it will mean not only a decline in agricultural production, but also the move will be opposed by a majority of the farmers.

4. The Farmers’ Inclination To Make Long-Term Investments In The Land

When the farmers are asked whether they would like to make long-term investments in their contracted land, 43.6% of them give a positive response. However, among these, 58.2% complain of various difficulties, such as a lack of necessary economic resources, insufficient family labor force, or insufficient technical support. Thus, they have no means to make any long-term investments, like building anti-seeping trenches or flattening sloping fields. 37.4% of the farmers express a willingness only to make small-scale and short-term investments with quick effects. Because the land contract term has been extended to 30 years, nobody can predict what kind of changes will take place tomorrow, and there remain
great uncertainties about the future. Although the term of 30 years is not short, according to past experiences, reforms and adjustments of the land system have never stopped, and there have certainly been times when the state or the collective have made requisitions of the land at low prices, or even completely unpaid. Therefore, the farmers lack long and stable feelings for the land, nor do they have sufficient anticipation for the future of their contracted plots, preventing them from making any long-term investments in their farmland.

5. About the Operation Scale of the Farmland

In this village, most of the farmers do not agree with scale management through land gathering. The main worry comes from the lack of necessary fund and labor force. There is also a concern that scale management requires certain techniques and mechanical equipment, which are impossible for common farmers acquire. As for market circumstances, because of the rather heavy burden in farming and the low price of primary products, many farmers do not want to contract more land, and some even think the more they contract, the more they will lose. So most farmers have no interest in scale operation.

In addition, the tense relationship between the farmers and their land is another obstacle for scale management. The implementation of scale management would create more pressure to transfer and settle the superfluous labor force. According to the investigation, in this village, about 200 farmers go out for short-term jobs every year. For most of the families, their main source of income comes from working elsewhere; their yields are mainly used as grain ration. But now, the slow increase of the urban economy has lead to a decrease in employment opportunities. It has become more and more difficult for those country youth with less education to find jobs in the city; so many farmers still have to depend on farming to make a living.

System Performances and Disadvantages of the Household Contract Responsibility System

So far, it has been over twenty years since the beginning of rural reform in China. Rural land reform can be divided into two phases. The main content of the first phase was the establishment of the household responsibility contract system (with remuneration linked to output), as the basic form of agricultural management. But during the second phase, the focus of rural reform has shifted towards overcoming the institutional disadvantages of egalitarianism in the household contract responsibility system, and trying to cast off the equal-land system through other kinds of reform, experiment and innovation. Over the past twenty years, the policy concerning the land property rights system in China has focused on the land use system, although the bounding and adscription of property rights is undoubtedly the most crucial aspect of the land property rights system. (Land property rights include a bundle of rights, such as property rights, use rights, income rights, disposition and so on. Without special explanation, property rights refer to use rights in this thesis.) The cost to reform the property rights system is so great, and its influence on agriculture, and indeed on society as a whole, so crucial, that it must not be treated lightly. Even so, it is very difficult for the farmers to embody the system's great purpose, the maxim of political support and social output, and to manifest positive institutional performances. It is really a Pareto optimum to discuss property rights in the land use system without considering land ownership in China, where there has existed small-scale peasant economies and collaborative campaign practices for thousands of years. So it is of practical significance to advance the current reform of the land property rights system and cultivate a land property rights market, through profoundly analyzing the policy innovations in the land use system and clarifying the main points of the reform policy.

As a typical innovation of the land use system, the household responsibility contract system is an innovation only insofar as it is an operating method, and does not actually affect the institutional groundwork of collective ownership. However, the unique characteristic of the system is in the separation of land property rights use rights. The collectivity keeps the property rights only in name and provides the most elementary functional management, such as land contracts; whether and how to operate the land is decided by farmers themselves. The major innovation of the household responsibility contract system is that it reverted to the basic functional importance of the household as an agricultural force. With regard to more direct agricultural production, the household operation effectively overcomes the externality of a collective agricultural system, so that there are no supervision costs. So the result is that, “the labor motivation of a worker supervised by the household responsibility contract system is the greatest, not only because he gets all the shares of the marginal remuneration ratio he has struggled for, but he saves the supervision expenses” (Yifu, 1992). Therefore, from the beginning, the household responsibility contract system has both the support of the farmers and of the government.
The institutional innovation of the household responsibility contract is undoubtedly a successful example of land system reform in modern China. It also confirms the developmental history of modern economy: an effective property rights system does not entail bundling all rights under a single heading. On the contrary, the decentralization and dispersal of rights is the key to a successful system. This is just why the system has proven so vibrant. In the nearly twenty years since its inception, the percentage of the farmers following the system and the land area they operate has stayed as high as about 98%. But as a new land system, the household responsibility contract system was formed under special historical conditions, at the time when a great change took place in China. As such, its emergence entailed a lack of systematic preparation and design, and was not carried out with sound organization and arrangement from top to bottom. Instead, the system, emerging out of the great currents of reform, depended primarily on the farmers for its implementation, and was thus predestined for imperfection.

As the basic form of the household responsibility contract system, the equal-land contract system has become the most popular form of the farmland operation in China today. It adopts fairer methods and divides farmland into familial plots, according to the number of family members or labor force. Farmers are responsible for the whole process from seeding to harvesting, while the community provides different kinds of services based on the different economic situations. Because the operation system was chosen by the farmers themselves, the equal-land contract system must meet the farmers’ needs. This means the assurance of fairness and the assurance that everyone in the community has farmland to operate, especially in those areas where second and third industries are underdeveloped, and the farmers’ main source of income is agriculture. So after nearly twenty years of operation, contracted farmland accounts for over 60% of all farmland; this corresponds with the numbers in Village X. But as such, a system must give attention to the requests of most farmers, distributing the farmland by mixing far and near together or the good and bad together, and with the changes in population, there still exists pressure for further redistribution. The lack of anticipation and the lack of input and output efficiency have lead to the institutional dissimulation of the household responsibility contract system.

In fact, although the household responsibility contract system, with the equal-land contract system as its principal formation, provides remarkable institutional advantages, it still has two institutional disadvantages. Firstly, because of their unwillingness to invest long-term in their contracted land and because of their worries about expected net revenue, the farmers cannot help to form an effective input and accumulation mechanism, which affects the output efficiency of farmland. Secondly, because of the insufficiency of their ownership, there can be no transfer of farmland on a larger scale, which affects the efficiency of resource allocation. In order to solve these problems, in the 80’s and 90’s Chinese government established a policy that the tenure for farmland contracting would not change for 15 years, and another policy that farmers could prolong their tenure for another 30 years after their five-year contract. What is more, the central government accepted tolerantly the revision of the equal-land system based on the household responsibility contract system, carried out, in late 80s, differently by different local governments because of varied intentions. The policy of the government has always been focused on how to maintain the collective ownership of farmland, putting limits on the tenure of contracts, pushing for the circulation of farmland resources, and improving farmland allocation efficiency.

From the above, it is not difficult to conclude that in order to solve the problem of land use rights, it is crucial to build-up the farmers’ expected briefs in land use and allocate the land reasonably.

Analysis of Four Types of Institutional Innovation

It is impossible for any kind of institutional arrangement to stand still for a long time. Moreover, during different phases of economic development, the expected purposes of said institutional arrangement will vary. When the expected revenue of an innovated system is more than the expected cost, or the cost of the arrangement is lower than before, then a new institutional arrangement will be concocted. As for the farmland, because of the different expectations, the decision for innovation is quite different when made by the government or the community. If the decision is made and launched by the government, then the main variables to be considered will be whether the new system can steadily promote agriculture, if it can ensure the supply of primary productions, the efficient allocation of farmland and the conditional use requirements, as well as the social responses, political achievement evaluation, and the cost of the institutional innovations. But if the decision is made by the community, then the main variables to be considered will be the arrangement of the relationship between the community and the outside, the harmony between the economic increase and public welfare in the community, public relationship and political achievement evaluation, and especially how to
strengthen the ability of executive mobilization in the community. In a word, the decision for institutional innovation must be made based on the system's restrictions, that is the external variables, such as constitutional and moral evaluation standards and the reflective abilities of inner factors. Compared with the single property rights of collective farmland ownership, the causes for adjustment and innovation of the land use system are varied. Each type of system reflects a different decision-making orientation because of objectively existing regional economic diversities, as well as the discrepancies in resources, labor, capital and technology. With regard to the actual areas and influences, the amendments to the equal-land contract system can be divided into four main types.

1. Two-Field System

The community implements this system, in which farmland is divided into two parts to be contracted: fields for growing rationed grain and fields open for other contracts. The two-field system physically separates land intended for economic development and land intended for social security. Specifically, fields for growing rationed grain are distributed based on averages according to the population, accounting for 1/3 of the total farmland in the community. The remainder of the land is contracted out generally under one of three management methods: contract by individuals, contract by labor or contract by public bidding. Such a system was first adopted in Shandong province in the 1980s, and later throughout the country. The rationale behind this arrangement is that it takes into account the natural rights of the community members to obtain their land tenure, while, at the same time, using the community's resources and land more effectively. Through this system, fields for growing rationed grain fulfills the principle of "fairness," that is, everyone in the community has his or her share; the other attend to the priority of efficiency. Within the community, tenure rights can be transferred and obtained through competition. Because the fields opened to general contracts make up for the loss of efficiency of the equal-land contract system and show consideration for the interests of both farmers and community, farmland efficiency increases. The performances of the two-field system are quite impressive in the early stages.

However, the later stages of implementing the two-field system across larger areas, have seen behavior aimed solely at acquiring more contracting fees and or the greater deployment of resources by the leaders of the community. Some examples of such behavior include bidding invitations or renting general contract fields at inflated prices. This has not only distracted the system from its original purpose, but also led it towards way of dissimulation, a fact that should not go unnoticed.

2. Appropriate Scale Management.

This is a system enacted by the local government. It is mainly adopted in suburban areas, in well-developed big and medium-sized cities of eastern provinces and areas, such as Shunyi county in Beijing, Xuan area in Jiangsu province, Nanhui city in Guangdong province, and some areas in Shandong and Zhejiang provinces. Over more than twenty years of reform, the general economic situation in developed areas has expanded rapidly. But, while non-agricultural industry has been developing, agriculture has been declining day by day, especially the rapidly shrinking grain industry. This is due to a severe lack of resources, of cultivated land and an increasingly common phenomenon of leaving land uncultivated. Therefore, the problem of how to stabilize agriculture and grain production and to avoid the desolation of cultivated land has become the primary cause for instituting the scale management system in well-developed areas.

There are various ways of arrangement scale management. By transferring land among each other, the "big farming household" emerges, and through the "inverse contract," "inverse lease" or the "contract in different areas," the scale management system is enacted. The "pooling of tenure rights as shares" and concentrating land for re-contracting are other forms of scale management, as are shareholding farms and farms undertaken by villages. Although the scale management system is not widely implemented, it has much more severe limitations than the general land use system. Accordingly, problems have continuously arisen during the practical implementation of this system. Firstly, contrasted with household operation, the cost of scale operation is too high; secondly, when collective scale management is carried out, problems of unfair supervision fees and distribution of income persist. Thirdly, some areas compel farmers to adopt scale operation, which consequently shakes the foundation of household operation.

3. Tenure Auction for Uncultivated Land

(The four types of uncultivated land here refer specifically to barren hills, unused slopes, beaches and dykes. Since there are different types of resources used for cultivated land, waste sands and wastewater can also be added to the aforementioned four types. This system also refers to other farmland resources besides uncultivated land.)

The system is initiated by the farmers, and, like the
household responsibility contract system, the tenure auction demonstrates system variation in demand, attraction and invitation (Zhang Hongyu, 1995).

Corresponding with scale management, this tenure auction system mainly takes place in undeveloped areas, such as in the hills and mountains of Shanxi, Shaanxi and Heilongjiang provinces, etc. The basic feature of this system is that with the precondition of collective ownership of these four classes of uncultivated land, the use rights to these lands are sold-off both short and long-term to farmers, who then enjoy free operation and management. The system's performance has been notable for two reasons. Firstly, the long-term use rights greatly increase a sense of prospect, thus reducing much of the negative short-term behavior of farmers. Secondly, the comparatively complete boundary of property rights tends to make farmers more financially adventurous.


The cooperative land share-holding system, like the two-field system, is also implemented by community. Such an arrangement is a typical variation of the induced system. It originated in the Zhujiang Delta in Guangdong province in the mid-1980s, and then extended into developed areas along the coastal areas of Shandong, Jiangsu and Zhejiang, etc. But up until now, the cooperative share-holding system has been quite limited in terms of its coverage area and advancing speed. In the cooperative share-holding system, land is pooled and distributed as shares to farmers, and the community is then responsible for unified layout, exploration and utilization of the land. This system has shown notable performances in certain areas. Firstly, the pooling of tenure as shares tends to strengthen and affirm farmers' land contract-management rights. The connotations of the cooperative share system do not alter the nature of household contract management, yet weaken the limitations of the equal-land contract system. Secondly, farmers' shares of land are a kind of monetary stock, but not a form of occupying land. Therefore, it cannot influence the right of the community to dominate and dispose of land. This is helpful for the community to converge land and to form scale management. However, like any other system innovation, the cooperative share-holding system has its own limitations. The biggest disadvantage is that the shares, to a large extent, function as a sort of welfare distribution. Accordingly, most areas have prescribed in their system that those shares owned by the community members cannot be transferred, mortgaged or inherited, which in turn prevents land-based market economy from developing.

The aforementioned four types of land use systems all have different systemic arrangements and aims and noticeably different performances. In fact, it is self-evident that the different types of system arrangement are due to reasonable choices by government, community or farmers. Nevertheless, the boundaries of system arrangement and policy design should not damage the foundation of the household contract responsibility system, and it should realize the purposes and anticipated net revenue of decision-makers. According to this requirement, any type of system arrangement inevitably entails both the satisfaction from its performance and frustrations from its limitations (Dang Guoyin, 1998). All land use systems have, so far, failed to completely solve the problem of meeting farmers' expectations for land use and the problem of reasonably collocating land resources. This is supported by our investigation in XinHong village. Among the many proofs, the most convincing points are: firstly, the extension of the land contract terms to 30 years is not actually going smoothly; secondly, the transfer of land tenure is happening quite slowly. This, however, still leaves enough space for amending policy design and system innovation.

Policy Reform and the Rural Land Use System

According to the analysis provided by institutional economics with regard to the launching and promotion of any system, though there are many important variables linked to innovation in systems, such as the effect of the population on rare resources, changing value through economic development, changes in prices due to technical advancements, constitutional order and much more, the net revenue of the system should be recognized as the most important variable (Institutional Analyses and Self-reflexivity of development, 1993). From this perspective, no matter who—government, community or farmers—provides the decision to enact a new farmland use system, it should be arranged by the revenue maximizing rule. But there are certainly different criteria for judging maximum revenue, and these criteria change at different stages of economic development. While making an assessment of a given system, we cannot ignore its developmental stage.

The question is how the government can behave more rationally in designing farmland policies, paying attention to that which benefits the majority of the state, thus conforming the goal of policy supply to the goal of actual demand. This question should be the guiding principle of system innovation. It is proven without much difficulty by economic theory that “the only norm to estimate the efficiency is the consensus of agreement,” and “the overall efficiency of a
transaction granted by both sides is higher than one which is opposed by at least one side” (Sheng Hong, 1992). With such criteria in mind, we made a search into the innovation practices in the farmland use system, and it appears that only the equal-land contract system, which is the most sustainable and the most widely covered in the household responsibility contract system, can meet the requirement of consensus in this efficiency evaluation. Of course, we do not mean to ignore the shortcomings of this system. The real point is that after running for two decades it is still popular among the majority of farmers, and though it the principle that “the planter should possess the farmland” has really been implemented. Through this principle we can learn not only the farmers’ fundamental requirements for the arrangement of the farmland property rights system, but also many economic theories that are still beyond our understanding. The system’s limitations can be amended through farmers’ identifying with ownership and by looking at both domestic and foreign experiences in bounding farmland use property rights.

As far as how to amend the equal-land contract system in order to improve the foundation of the household contract responsibility system, the crucial task is to endow the farmer with more extensive land contract rights and a sufficient time allotment for land use. Currently, the trend in farmland system innovation is to persist in the collective ownership system and the two-tier operation system, taking household contract management as the foundation, and combining unified management with independent management. The target of the innovation of the farmland system is to impel the farmer to regard the land as their own property, and thus to spark their enthusiasm and accelerate the restructuring of this industry. Meanwhile, it is necessary to improve the collective organization to perfect the two-tier operation system, to manage the farmland as asset, to develop and expand the collective economy and to reduce the burden on the farmer. The emphasis of the farmland system reform should consist be to intensity and stabilize the farmers’ contract relations, so as to further identify the bound of farmland use property rights, and to pioneer a farmland use rights transfer market, in order to establish an effective farmland transfer mechanism.

1. To Strengthen and Stabilize the Farmers’ Contract Rights

To strengthen means to change the independent farmland management right into a group of rights consisting of possession, use, profit and disposal. The disposal right especially must be included among the farmer’s contract rights, entailing the sharing and mortgage of the contract rights. In a market economy, farmland contract rights, which are based on the partition of the two rights, are virtually converted into a management qualification or capital that can bring profit independently. The disposal rights in the contract rights, as well as that in the property rights, mean the permanent or temporary disposal of farmland as independent property. Permanent transfer is the sale of the contract rights as property, while temporary transfer means the lease, share or mortgage of said property. Actually, the more stable the contract rights are, the more nominal the so-called state-owned farmland becomes. The household contract responsibility system is particularly significant for Chinese farmers, because it means we can get around the rigid farmland property distinctions or dissipate the collective by dividing it, so as to better achieve efficiency (Dang, Guoyin, 1998). This system has not only fulfilled the farmer’s desire to possess the farmland, but also established a land transfer market mechanism, and has further provided the efficient collocation of the land resources with an efficient social form.

As for stabilizing the farmers’ contract rights, one necessary measure is to prolong contract terms, while examining successful methods for the arrangement of farmland use systems, both in China and abroad. The auction of the four types of uncultivated land, for example, in which the community sells the use rights to these four classes of land for periods of up to 100 years, has encouraged farmers to devote themselves quite adamantly to these properties. In countries with a strong market economy, the government also ensures the farmers a sense of stability by prolonging the lease term. For example, the French government prolonged the lease term from 3 years before the Second World War to 9 years in 1946, and more recently to 30 years. In Italy it has been extended from 3 years to 15 years, and Israel leases land for no shorter than 90 years. Although there is no international consensus on land use lease terms, there is a common goal to offer farmers a sense of stability in the management of farmland (Liu, Zhenbang, 1998). The second measure is that in areas where farmers have land discrepancies, the adjustment of the land contract should be carried out in the name of “overall stability.” Moreover, the adjustment should be regulated by strict conditions; that is to say, the scope of adjustment should be confined only to those specific farmers who suffer most from this discrepancy, and the interval should be made as long as possible. We must make every effort to ensure our farmers a sense of stability in their land contracts.

2. To Establish a Farmland Use Rights Transfer Mechanism
Farmland is an essential productive element in the development of agriculture. It is not only a natural resource, but, more importantly, it has the quality of asset and merchandise. The circulation of resources is the internal property and basic requirement of a market economy, because only through circulation can the resources be best collocated. The stabilization of farmland contracts does not mean their solidification, since stabilization does not exclude the market circulation farmland rights. The stability is relative and the flow is absolute. Stability is the premise of flow while flow is the existing manner of stability. The two are opposed and unified in the process of optimizing the collocation of land resources. The necessary requirement for the deep development of rural market reform is the shift from the equal-land system, which is guided by administrative means, toward introducing market mechanism into the collocation of land resources and the free flow of land rights among the farmers. That is also a fundamental measure in fostering the principle rural market, perfecting the element market system, as well as in building the framework for a market economy system.

Since 1978, the various resource elements of economic development have begun to flow, and a certain foundation has been formed for a land use circulation market. Particularly since 1992, accompanying the developing market economy, the basic premise for the acceleration of land circulation has been established. There has emerged a buyers' market for farm product supply in recent years, relieving the previously strained condition of farm products supply. The profit drive of non-agricultural industry and the secondary and tertiary industries, both in urban and rural areas, stand as proof for the existence of a foundation for a contract rights circulation market. Secondly, the Chinese government always shows approval for the circulation of land use rights. What is more, in nearly all the files relating to the arrangement of the farmland use system, it is stated that, conditional on their remaining collective property, the transfer of land use rights for payment is lawful and acceptable. And, assuming it is acceptable to the farmers, it is allowable to adopt mixed farming to encourage the circulation of land use rights. It should be noted that the sporadic circulation of land use and land use auctions in various regions have enhanced the circulation of resources among different operating bodies, raised the efficiency of the collocation of the land resources and also elevated the practical foundation for the circulation of land use rights.

It is clear that, to stabilize and strengthen farmers, farmland contract is bound to give rise to land use rights. This land use rights contract has a clear boundary. That is, the farmer can accrue profit from possession as well as equivalent compensation from transference, and it is possible for the farmers to circulate the farmland property rights as an independent exchangeable value. Therefore, as long as the farmland contract rights with connected property rights exist, a land-use circulation mechanism is established.

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