

# Analysis of Games in China's Land Reform

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**ABSTRACT:** The key of China's rural economic reform is the redistribution of land rights among the state, the collective and farmers. Land rights are related to rural social livelihood, life security and social stability, so that the game is involved in all the parties of land ownership interests. The core of land reform is to put the welfare of people in the first place and deal with the relation between equality and efficiency for the optimization of resources allocation and the development of the rural productivity. So, it is important to improve the land system in laws and stabilize the land rights.

**KEYWORD:** Circulation; Game; Interests body; Land rights; Reform

## 1 INTRODUCTION

The core of China's agricultural economic reform in the past 30 years is the redistribution of the economic property rights and the political power in the state, the collective and farmers, resulting in the progress of the agricultural production and economic and social life, i.e. the improvement of the economic performance. The reform is motivated by the farmers' spontaneous choice for profits and the effective institutional change dominated by the government. China's rural economic reform has been conducted around the land, which is the basis to solve the rural social livelihood and safeguard the rural social stability. Land reform can be regarded as an effective choice and the gradual change of the rural economic and political systems. Land is the life source to maintain a rural society, and its institutional problem is an essential problem in the society transition. In history, when the farmers' interests were in the first place, the success of the institutional change was achieved. The history of China's rural land system change proves that the violation or ignorance of the farmers' rights and interests will hinder the change rule and the development of the rural land system. The essence of the land reform should get rid of the bondage of all old ideas, deal with the relation between equality and efficiency, and put the people's welfare before the institutional arrangement.

The new Urbanization Construction is the engine to promote Chinese economy. The current rural economic reform of the urban-rural dual structure is restricted by the non-market allocation of the rural

land resources. How to break the binary segmentation of the urban and rural lands, and promote the free flow of production factors between urban and rural areas for the optimization of the resource allocation and the liberation and development of the rural productive forces become the difficult and key points to develop urban and rural areas as a whole.

At present, many powerful interest groups have been deeply involved in land interests, and any land reform program is difficult to reach agreement. The core factor of the land reform is the land rights, which include the land ownership, the land contract right and the land management right. In order to realize the rapid flow of agricultural production factors and complete the large-scale land integration and utilization, the relationships of these three land's rights should be clarified and the interests among farmers, the government and the land managers should be balanced properly. In addition, the land reform will determine the national food security in the future. In china, food supply is closely related to the availability of the high quality cultivated lands. If a large number of high quality cultivated lands in plain areas are used for construction, it will affect seriously the national food security in the future. Therefore, all stakeholders expanded a game on the reform of rural land property system. The gaming process shows that it is necessary for some politicians to take bold action in the rural land reform and the government should be the main innovation who can effectively choose the innovation path.

## 2 INTERESTS HOLDERS IN CIRCULATION SYSTEM OF RURAL LAND RIGHTS

### 2.1 *Land transfer away from farmers*

The present policy of the household contract responsibility system has contributed greatly to the establishment of Chinese socialist economic base. In this system, the land contract management rights are held averagely by each family. This production mode has a full characteristic of the small-scale peasant economy and does not have any continuous advancement. Eventually, it may become a major obstacle to the development of agricultural production. That the land scale is too small and scattered in pieces hinders the development and the application of agricultural mechanization, leading to the extensive management for lands and the difficulty of increasing farmers' income and the living standard.

The farmers in the household contract responsibility system have independent rights to manage the lands in a certain period of time. They can not only decide how to use their lands, but also become the independent managers. As there are differences between urban and rural areas, the farmers are no longer the unique source of their family's income and employment. They can weigh the land revenue with the land transfer income and the income of migrant workers. Especially, the younger generation of farmers hopes to engage in non-agricultural industries and looks forward to the city life. Therefore, the land transfer has become a feasible choice.

As farmers have less information resources, they don't know how to transfer their lands, obtain the rents and safeguard their rights. The lack of knowledge and information leads to the high risk in the acquisition of land increments, the high costs of negotiation and default. Farmers hope to get help and wait for the right prices to transfer their lands. Therefore, the game starts among the farmers, the transferee of land demand and the collective economic organizations.

### 2.2 *The transferee of land demand*

As the urbanization and agriculture industrialization have become the trends, during this process, enterprises and rural cooperatives hope to get benefits through investment in lands, and have a great demand for lands. Under the background of the decrease in cultivated lands, implementing of land intensive production is necessary in order to ensure the supply of agricultural products and promote agricultural production. Now, some large-scale managers and farming experts hope to get the benefits through scale operations, making the land acquisition a critical problem. Thus, it is important to deal with the contradiction between the

traditional decentralized production system and the mass replacement of lands.

People who seek land investment benefit will evaluate the prospective interests from the investment of rural land. When they think that the revenue is greater than the investment and there is a stable income, they will demand lands and invest them. In the pursuit of interests, the transferee have to control the costs, including such hidden costs as the risks of policy changes and the contract breakage by farmers in addition to the lease farmland and farmland management costs. Thus, in the negotiations on farmland transfer, they hope that the local government makes stable policies and measures to improve agricultural production conditions and reduce business risk. Furthermore, they also hope that the local government and the rural collective organization can coordinate farmers' land lease to reduce the risk of contract breaches and the relevant costs.

The farmers who transfer their lands out want to rent lands with a high price and short the rent time so that they have more freedom to control their lands. However, the transferee may make use of the social relations to seek for lands from the officials or put pressures on the officials, i.e., to directly lower rents or reduce the risks with the help of administrative power. At the same time, the rights and interests of farmers are violated by making use of the defects of the land market system and the advantage of asymmetric information. Therefore, a fierce game appears among the land transferor, the land transferee, the collective economic organizations and local governments.

### 2.3 *Rural collective economic organization*

Qian and Xu[1] think that the change of China's rural land system was driven by economic parties interests after the founding of new China. And the change follows the path that minimizes the total transaction cost. That is to say, the uncertainty of the institutional environment should be reduced and the cognition of the parties concerned (especially the farmers) must be respected. The developing logic has been revealed from the agricultural reform and the change of the rural economic and social in the past thirty years in China. China's agricultural reform and rural development have been progressed through the game, in which the multi-dimensional segmentation for the content of economic property and power was implemented and the distribution pattern among the state, the collective and farmers was adjusted dynamically. Based on the "Constitution" and "Land Management Law"[2], rural lands belong to the farmers' collective and the ownership represents are collective economic organizations. However, the rural collective organizations only act as a link between the state and farmers under the household contract responsibility

system[3]. Owing to the lack of specific organizations, rural lands owned by collectives have discrepancy and farmers lost their land ownership rights, which are the fundamental contradiction of land circulation. These contradictions are mainly reflected in the poor circulation of the responsible farmlands and the damage to the farmers' interests as well as the serious waste of lands. Rural collective economic organization (village committee) is established to serve villagers, which is a comprehensive organization of administrative, economic and social. Its main function is to safeguard the interests of villagers. However, in fact, the village committee in our country has become the agency to manage farmers for the local government and the specific agent to implement administrative power for village cadres. As the management organization of the rural collective economic interests, the aim is to improve the economic benefits of rural land, protect cultivated land and increase farmers' income. However, as a rational manager, village cadres have the motives and pursuit for their own interests. They have more information and rights in the land circulation than the villagers. Thus, more stealth games exist in the rural land circulation between the village committee and the villagers in the absence of supervision mechanism.

#### 2.4 Local governments at all levels

China's urban and rural land policies and the institutional change are all determined by the central government. In the report "China in 2030" made by the World Bank, it was mentioned that in the next 20 years, lands will become increasingly scarce and the revolution of China land policies is crucial to the success of economic reform.

The revolution of the land system is regarded as the basics for achieving a series of long-term and fundamental development goals like the grain security, the construction of efficient and creative cities, equality of opportunities and social stability. Therefore, it is necessary to protect the land contracting rights of farmers in a legal form, and promote the development of the rural land market to increase the land use efficiency.

The central government is the maker of the rural land property system. Under the current system, economic is still the main index to assess the governments at all levels by the central government. The acceleration of land circulation and the concentration of the land management benefit to produce scale effect. Driven by the profit indexes, the local governments take part in the land circulation to some extent in the form of making policies, promoting the land circulation by administrative measures to increase the economic benefits.

The increasing demands for lands due to the urban sprawl lead to the low efficiency of land

use. Corruption and abuse of government power in the process of land expropriation cannot be curbed. Due to the differences of the economic development levels in different regions, provinces and cities, the degree of inconsistency of the local interests in the governments at all levels is different. However, there is still interest game between the Governments at all levels.

### 3 GAME ANALYSIS OF THE INTERESTS BODIES IN THE RURAL LAND TRANSFER SYSTEM

Game can be divided into cooperative game and non-cooperative game. The difference is whether the participants in the course of the game are able to reach a binding agreement. If not, it is called non-cooperative game. The individual rationality and the optimal decision are emphasized in the non-cooperative game, which is un-effective sometimes; the collectivist and group rationality of efficiency, fair and just are emphasized in the cooperative game. Owing to the affect of the interests and the objective environment, it is difficult to cooperate fully in real life. Therefore, the research is usually focused on non-cooperative game, in which the optimal decisions, efficiency and profits are emphasized.

In our country, the ownership change and circulation of rural lands involve the interests of governments at all levels, local farmers and rural collective organizations. As the system and policy of lands is imperfect, in the negotiation on the interests of all parties, the land circulation, price compensation and labor resettlement, local governments with more information and resources are strong than the rural collective economic organizations and farmers. The transferee of land demand has the operational risks, resulting from the investment risks and the policy changes. Farmers have a confused sense of powerlessness in the land transfer due to their poor knowledge and ability, less information, and worry about the social security system and so on. Zhou Qi Ren[4] believes that the key of protecting the interests of farmers is to establish the rights of farmers. Owing to the lack of the circulation rights, the farmers with many land resources cannot fully release the potential of the land market values. He pointed out that the clear land use rights and the legitimate land flow rights own by urban residents can effectively help them to share the land revenue increase brought from urbanization population accumulation. The income gap between urban and rural residents results, at least partly, from the difference of the property rights own by urban and rural residents. However, in the farmers' traditional thoughts, small-scale peasant consciousness is very serious. In the case of serious asymmetric information, individual farmers are weak; they do not trust each other, accompanying with non-

cooperative games. The lack of knowledge, information and communication channels makes farmers at a disadvantage in the negotiations, so farmers will entrust the village collective organization as an agent to negotiate for them. As the land demand side does not want to negotiate individually with each farmer as well, the village collective organizations become the most appropriate agent. Land Village collective organization is the manager with minimal powers. "Legal system" is defined as a collective economic organization for grass-roots mass self-organization (village committee). In fact, it plays a much more important role than the definition. It plays different roles and bears more complex functions in accordance with the real need[5]. First, it is the government agent, undertaking all of the administrative works required by the government; second, it is the legal representative of collective property, fulfilling management responsibilities for collective property of all villages including land resources; third, it is the public affairs manager with the functions of coordinating and managing the public affairs.

During the negotiations, the land transferor, the land transferee and the village collective organizations are bound to seek a maximum benefit. As a representative, whether will the village collective organization conspire with the land transferee to harm the interests of farmers and maximize their own interests? In the regional economy, local governments have great rights in land acquisition and supply. It is a great financial source for local governments to control the land price and obtain the land revenue by using the executive power. The core of current land property rights in our country includes the land ownership, the land contract rights and the land management rights. The government, the rural collective economic organization and farmers own land management rights, land ownership and land operation rights, respectively. The village collective has the ownership of collective lands. In economy, the village collective still controls a large part of the village resources; in practice, it has the land ownership on behalf of the villagers. In fact, the separation of these two rights implies a serious conflict between the two rights. This leads to the disorder of rural governance structures and the imbalance of village collective's power and responsibility, so the relationship between the agricultural land system and economic performance is very complex. The further personal requirements of farmers to land rights are conflicted with the land control by the state. Theoretically, the rural collective economic organizations can provide farmers with the mechanism protected by the central government's policy and the law, which is the last line of defense to protect farmers' interests. But, in fact, in the absence of the mechanism to monitor

rights, the rural collective economic organizations and the township government with independent interest demands are likely to intercept the superior government policy or cut off the channels for farmers to express their wishes to the government so that they can make decisions in favor of their own and become the actual body to transfer lands. Consequently, because of the lack of a governing body for balancing and reflecting farmers' interests, the individual farmers are always very weak when facing the big government bureaucratic system[6].

Compared with the Western society, the society in our country has such a particularity that all social strata are traditionally dominated by the government forces either in the past or at present. In the regional economy, local governments and officials at all levels, for their political achievements and self-interests, have the motivation to abuse their powers although their execution policy is ineffective or the behavior of the power abuse will be combated and punished. Anyway, land has the financial and signaling functions for the local government, and the land collectively ownership can make local governments control practically the land configuration. Compared with other land uses, agricultural production has the characteristics of relatively small income and low financial contribution. Therefore, compared to the decentralized land use in traditional agriculture, intensive management of lands is more likely to bring the increase in the regional finance and economy[7]. In some times, in the absence of capital, technology and personnel, in order to develop the regional economy rapidly and increase the performance, grass-rooted governments may use collective lands for investment promotion and capital introduction to develop the second and the third industries, which will depart from the land ownership policy made by the government at a higher level. As a result, the land transfer process will be interfered and it is more likely to deviate from the principle of the farmers' pursuit for the best interests in the selection of projects. Although the failure of projects will also lead to the political defeat for the government officials, the biggest losers of the game failure will be the disadvantaged farmers.

### 3.1 Measures

In China, the rural land ownership transfer is the non-cooperative game, without perfectly competitive mechanisms in the rural land market. Particularly, the definition of property rights is unclear. As the land transfer party, farmers have no property rights because the governments at all levels and grass-rooted economic organizations may use the imperfect market mechanisms to deprive their property rights. Therefore, the current design of the land ownership system is a major factor affecting the

rural land transfer. The central government pays more attention on the social function or "fairness" property of lands; local government emphasizes on economic function or "efficiency" attribute of lands. However, farmers emphasize not only the social and economic functions of lands, but also the attributes of fairness and efficiency. Therefore, under the premise of the undeveloped economy and the imperfect economic security, it is unrealistic to implement land privatization. Land reform should strengthen the personal control over the lands, the stability of land ownership and economic performance.

### 3.2 *Sound legal*

At present, there are only two laws, "Land Contract" and "Land Management Law", on the rural land contract in our country. Although the land system and land use patterns around the country have a characteristic of dynamic evolution, a clear definition of property rights to land has not been made. Farmers have land management rights. The owner of collective lands belongs to village collective, which is managed by the village committee. Owing to the lack of "collective economic organizations" in the legal regime, the village committee plays the most important and crucial role in reality. As farmers cannot freely choose and quit collective, the land ownership and distribution rights are mastered by village cadres, so that village cadres can control farmers and farmers rely on them. The attitude of farmers toward the land is closely related to the dependence of production and living on the land, i.e. the economic development of the region, farmers' personal ability, social supply security and other factors. Thus, the law's improvement and support are required in the land system reform. As the economic development throughout China is uneven and the national laws cannot involve all situations, local governments should make specific laws according to the specific situations to safeguard the land rights of farmers.

### 3.3 *Stable land rights*

Compared to the land policy for urban, land policy in rural areas has many instabilities, which affects the enthusiasm of farmers for the land investment and leads to the decrease of agricultural performances and the inhibition of the productivity development. Land property cannot be traded, mortgaged or inherited, resulting in many abandoned farmlands and idle homesteads. Farmers have to beg with golden rice bowls. Therefore, the stable land ownership is in favor of farmers' activities in production, investment and trade, reflecting the land property, transaction prices, earnings and protection values. The prerequisite of the rural land reform is to ensure the land rights of farmers and share the land

rents and other benefits. Only ensuring farmers to be the long-term users of lands, "Cultivator has its field", the government can take measures to improve agricultural productivity in rural areas, promote the popularization of agricultural technologies in rural areas, and establish agricultural technology institutions at all levels to implement management system of multi-level technical guidance, help the alteration, improvements and maintenance for rural infrastructure in financial terms. It is necessary to guide farmers the intensive management on lands, invest green agricultural technology, protect agricultural prices and enhance the value of agricultural products. After these efforts, it is possible to increase farmers income, reduce the income difference between urban and rural residents and promote the new rural construction.

The proportion of the employment in second and third industries in China has been more than 50% of the total employment. In the sense of employment, China has transformed from a traditional agricultural country to an industrialized country, and the dependence of farmers' employment on rural lands continues to weaken. If farmers can get stable jobs with wage incomes and plenty of social security, they will strongly promote the transfer of the land contract management rights. This is why the speed and the scale of the land contracting right transfer are faster and larger in the developed regions than the developing regions. Thus, the stable land ownership enables farmers to share the increased values over the "urbanizing" rents and own the capitalized rights of the "urbanizing" lands. It is favorable for villagers to exit the village community and concentrate lands to the farming experts, promoting the conversion between farmers and urban residents without worries and the autonomy of village collective organizations.

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