



***The World's Largest Open Access Agricultural & Applied Economics Digital Library***

**This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.**

**Help ensure our sustainability.**

Give to AgEcon Search

AgEcon Search  
<http://ageconsearch.umn.edu>  
[aesearch@umn.edu](mailto:aesearch@umn.edu)

*Papers downloaded from AgEcon Search may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

*No endorsement of AgEcon Search or its fundraising activities by the author(s) of the following work or their employer(s) is intended or implied.*

## S P E C I A L   E S S A Y

# Building China's New Countryside: Multiple Modes of Collective and Cooperative Economy

Enfu Cheng\* and Xiaoqin Ding† / Translated by Chengyi Peng‡

**Abstract:** The construction of China's New Countryside requires actions that suit local circumstances. At present, multiple modes of collective and cooperative economy that meet the special conditions of the Chinese countryside play an important role in the construction of the new countryside. Facts from the Chinese countryside show that collective ownership and different types of cooperative economy have stimulated farmers' creativity and their enthusiasm for working; they have also increased farmers' incomes, provided them with social security, and helped achieve common prosperity. On the basis of the Household Contract Responsibility System, agriculture, industry and service sectors can work in an interdependent way, and achieve the "second leap" in the reform of agriculture in China. The socialist new countryside in China has exhibited great vital force.

**Keywords:** China's New Countryside, collective economy, cooperative economy.

### *INTRODUCTION*

As early as 1990, Deng Xiaoping gave a far-sighted description of the objective of China's rural reform and development. He said:

In the long term, the reform and development of Chinese socialist agriculture should make two leaps. The first is to abolish the People's Communes and establish the Household Contract Responsibility System. The second is to develop scale operation and collective economy to meet the needs of scientific agriculture and socialized production.<sup>1</sup>

\* Professor and President, Academy of Marxism at the Chinese Academy of Social Sciences, and Chair of the World Association for Political Economy.

† Deputy Director and Associate Professor of the Centre for Economics, Shanghai University of Finance & Economics, and Secretary-General, World Association for Political Economy, hppjx@vip.163.com.

‡ Assistant Research Fellow, Institute of World Economics and Politics at the Chinese Academy of Social Sciences.

<sup>1</sup> *Selected Works of Deng Xiaoping* (1993), People's Press, Beijing, p. 355.

Currently, China has entered into the phase of building a new socialist countryside, and we need to advocate multiple modes of collective economy and cooperative economy in the countryside.

Following Deng's "two-leaps" concept and the spirit of a scientific outlook on development, we contend that, in the process of building a new socialist countryside, we should, first, aim to develop collective management within the current two-track management framework based on the Household Contract Responsibility System; secondly, try to enlarge rural collective ownership economy; thirdly, strengthen the development of multiple modes of cooperative economy; and lastly, facilitate the link-up of collective and cooperative enterprises with the market economy, in order to tackle the various problems that rural development in China faces today.

#### *DEVELOP COLLECTIVE MANAGEMENT WITH CENTRALISATION AND DECENTRALISATION COMBINED*

For the past three decades, the two-track management system based on the Household Contract Responsibility System has been largely efficient, but has also been facing some problems, such as the tendency to emphasise household management while neglecting two-track management. There are misunderstandings regarding the collective management of the two-track framework, which have had many negative effects on the long-term development of agriculture. Therefore, to shed these misunderstandings and actually develop collective management should be an important way for the healthy development of the rural economy.

#### *The Original Meaning of the "Two-Track Management System with Centralisation and Decentralisation Combined"*

The 1991 Decision of the Central Committee of the Communist Party of China for Further Strengthening Agriculture and Rural Work states that

to ameliorate the two-track management system means to ameliorate household contract management and collective centralised management. The household contract management is not to divide the farmland and work individually, nor is collective centralised management a simple combination of individual works. These two tracks are interdependent, complementary, and mutually facilitating, and with either neglected the development of the rural economy would be hindered.<sup>2</sup>

The core of the "two-track management with centralisation and decentralisation combined" is the separation of the ownership and use rights with respect to land, with the collective based on ownership of the land, and aiming at all kinds of

<sup>2</sup> *The Decision of the CPC Central Committee for Further Strengthening Agriculture and Rural Work*, made by Eighth Plenary Session of the Thirteenth Central Committee in 1991.

collective production and management, especially the provision of public services, and facilitating the link-up of decentralised households with the big market. In other words, farmers work separately and the collective provides centralised services for them. In this way, centralisation and decentralisation are organically combined within the development of the rural socialist market economy.

More specifically, from the perspectives of organisation and function, the household or decentralised track takes the landless household as the basic unit. This unit, as an independent commodity producer, gains profit through undertaking contracts from the collective landowner. The household has rights of autonomous production, selling products as well as dispensing profits. The collective or the centralised track takes the collective landowner as the main actor, that is, the unit selling the right to use the land. Its function is to issue regulations, make decisions on important issues, coordinate, manage and serve units at lower levels, establish cooperative organisations, and communicate and coordinate with other social organisations and governments. Thus, the collective not only retains the ownership of the means of production, such as land, but also retains centralised management functions such as serving production, coordinating management, exploiting resources, developing enterprises, and accumulating assets. The household, on the other hand, is in a contract relationship with the collective, with its management as an integral part of the collective economy.

### *Problems of the Current Two-Track Management System and Their Causes*

After over two decades' practice, there have emerged many modes of the two-track management system. Nevertheless, most of them can be categorised into two main types: first, a combination of centralisation and decentralisation in which the latter predominates, and, secondly, decentralisation only, with no centralisation. What the two have in common is that there is little collective accumulation and weak collective power, and consequently the two-track system is contradicted in practice. On the one hand, the household contract management has become individual economy with the household as the basic unit. This does not, however, suit the trend of socialisation, specialisation, and commercialisation of rural production. The specific problems include the following: the scale of household management is too small, management methods are too loose, production and management information is not adequate, it is difficult to have reasonable centralisation of the land, it is hard to pursue reasonable management of the scale of agriculture, and the degree of agricultural intensification is too low. On the other hand, the development of the two tracks is not balanced, so there is a tendency to have decentralisation only and have the centralisation function weakened or even non-existent.

In most places, the collective management track exists only in name and clearly lags behind the development of the household management track. The problems here include the following: first, collective property ownership is not clear and

often lacks regulation; secondly, collective management is hard to carry out and usually functions only as slogans and facade, with the organisation of collective economy system unscientific and lacking regulations; thirdly, the collective economy is weak, and usually accompanied by a loss of collective assets and shortage of disposable capital and hence is unable to organise infrastructure construction and provide matching services for household production. Apart from the inherent flaws of the rural economic system, the causes of these problems have much to do with misunderstandings of the two-track management system and mismatch in the implementation of the system. In many places, especially when the household contract system was just established, many believed that there was no need to retain collective accumulations, so collective assets were distributed to the farmers, leading to a lack of a foundation for developing the rural collective economy. This is partly caused by the shortcomings of the People's Commune, which led to a lack of public confidence in collective economy.

### *The Timeliness of Developing Collective Economy and Some Specific Measures*

The Report of the 16th Congress of the Communist Party of China points out that we need to "persist in upholding and consistently seek to ameliorate the two-track management system based on the household contract management with centralisation and decentralisation combined."<sup>3</sup> Currently, most farmers in China have no assurance of social security, and the land is the only real guarantee of their production and living. Furthermore, the fact that China has a big population with limited arable land makes the current two-track system suitable for the current productivity level of China's countryside. As a result, in the current march towards the construction of a new socialist countryside, the timeliness and advantages of actually developing the collective track of management are fully evident.

First of all, developing the collective track could help ameliorate the situation of inadequate collective services (or their decline) in the development of agriculture. Agriculture combines natural production and economic reproduction, and so, on the one hand, it is heavily influenced by natural conditions and requires the actors to adapt to changing situations flexibly and to make rapid decisions. On the other hand, the reproduction aspect of agriculture demands that certain common programmes, for example, with respect to basic agricultural infrastructure, irrigation facilities, resistance to and prevention of natural disasters, technological support, and agricultural marketing, etc., need to be solved by collective economic organisations. Nevertheless, the current absence of the collective track in the countryside has, in some places, led to the reproduction aspect of agriculture remaining static and to collective services and support becoming a facade, which consequently has affected agricultural production as well as farmers' gains. Therefore, to develop

<sup>3</sup> Jiang Zemin (2002), *Build a Well-off Society in an All-Round Way and Create a New Situation in Building Socialism with Chinese Characteristics*, Report of the 16th Congress of the Communist Party of China.

collective-track management with centralisation and decentralisation combined could address problems of low long-term investment by farmers, as well as of the shrinking of agricultural production and waste of farmland, thus increasing farmers' incomes and consumption capabilities.

Secondly, developing the collective track could help improve the status and situations of farmers in market transactions. Due to differences in the scale of production and organisation between individual farmers and enterprises, farmers are usually in a passive and disadvantageous position in market transactions. Because of low specialisation with respect to agricultural production, it is hard for farmers to add value to their products, and, as a result, they are in a very disadvantaged position in a competitive market. At present, one important means of changing the situation is to strengthen the power of rural collective economy in market transactions, and to elevate the status of "collective farmers."

Thirdly, developing the collective track could help ameliorate the situation with regard to building rural spiritual civilisation. To some extent, the superiority of socialism should be manifested through the superiority of the collective economy. Because collective economy is very weak in some areas, some superstitious and gambling activities have re-emerged and even became rampant; public security has deteriorated and the dropout of children from schools has become severe. In contrast, the villages with strong collective economy present an opposite picture: both material civilisation and spiritual civilisation have developed rapidly and demonstrate the new face of the new socialist countryside.

Currently, the urgent task is to exert great efforts to develop the collective management track and change the imbalance between centralisation and decentralisation. There are four issues worth highlighting. The first is the need to allow different types of collective management. The strength of the collective economy is closely related to the welfare of the farmers as well as progress towards common prosperity, although we need to tailor efforts to specific contexts under the main guiding principle of "fully utilizing the advantages of centralisation," so as to facilitate appropriate scales of operation of agriculture, specialisation, etc. We can allow collective economy with sole collective proprietorship, with share collaboration, and with foreign capital and technology. The second issue is that the goal should be to increase the strength of the collective economy. As a result, we need not only to improve the management of current collective assets, conduct inventory accounting, and ensure the maintenance and addition of value, but also to increase the self-accumulation capability of the collective economy, while firmly resisting all kinds of arbitrary fees, streamlining cadres, and cutting costs.

The third issue is that collective management needs to reposition itself in respect of both organisational and production aspects. Centralised management should not be limited to the village administrative level, but should gradually be extended to all levels of economic cooperative organisation and service associations. Currently,

agriculture extends from crop production and livestock breeding to different types of animal husbandry and non-agricultural production.

The fourth issue is that governments and policies at all levels should provide active guidance. They should encourage the development of collective economy in respect of bank loans, taxation, technical support, production programming, personnel training, cadre performance measurement, etc. The government should publicise and give due praise to those performing well, so that a supportive discourse and institutional environment can be sustained.

*To ACTIVELY ENLARGE RURAL COLLECTIVE OWNERSHIP ECONOMY*

*To Fully Affirm and Enlarge  
“Collective Economy with Sole Collective Proprietorship”*

In economics, rural collective economy with sole collective proprietorship refers to a type of public ownership in which the farmers own the means of production collectively, with the distribution of results based on labour. Its strict economic rules are “collective ownership, autonomous decisions, united work, and distribution based on labour.” The rural collective economy has two aspects: the first is collective ownership in agriculture, and the second is collective enterprises run by the village. At present, all successful modes of rural collective economy, such as Nanjie Village, Liu Zhuang, Zhulin, Huaxi Village, etc. are all exemplars marching towards the goal of “collective economy and common prosperity.”

Of course, all the successful areas mentioned are characterised by specific sets of subjective and objective conditions. First of all, the local collective economies have a good foundation, and their advantages attract the participation of individual as well as private economic actors. Secondly, all these villages have a strong leader with a good team. It cannot be denied that these conditions demonstrate the unrivalled superiority of collective economy for guiding people towards common prosperity. No matter whether it is Nanjie Village or Liuzhuang, their per capita income, social protection system, the residents’ living environment, and spiritual and cultural life, all reached a moderately well-off level by the mid-1990s. Furthermore, they have established strong economic foundations and accumulated good developmental momentum, and are marching towards a higher level of common prosperity. For these reasons, we should encourage the “collective economy with sole collective proprietorship” in areas where conditions allow.

*To Appropriately Facilitate the “Collectivisation and Intensification”  
of Agriculture*

After the Reform and Opening Up, Deng Xiaoping repeatedly emphasised the “second leap” of the reform and development of the socialist agriculture. In the report of the 14th Congress of the Communist Party of China held in July 1992, he

again emphasised and elaborated the “two leaps” idea mentioned at the opening of this article. After the reform was initiated in the countryside, most of the “collective economy with sole collective proprietorship” was transformed into the “two-track management system based on the household contract system with centralisation and decentralisation combined.” This new system has, on the one hand, retained the basic public nature of collective ownership of the means of production, and, on the other hand, has successfully stimulated incentives for as well as the enthusiasm of the household, and has thus facilitated the development of agriculture. Under this system, the intensification and extension of the “collective economy with sole collective proprietorship” has undergone significant changes. For example, a combination of collective ownership based on long-term contracts and private ownership has emerged and has expanded, as has a mixture of “payment based on labour” and “payment based on factors of production.” There has also been an emergence of multiple modes of ownership, such as “quasi-collective ownership,” “half-collective ownership,” “collective cooperative ownership,” “share cooperative ownership,” and “private cooperative ownership,” etc.

Since entering the 21st century, confronted by intense competition from overseas agriculture as a result of economic globalisation, the gap between modern intensive agriculture and dispersed small-scale agriculture based on the household contract system has become clearer. According to Deng Xiaoping’s “two leaps idea,” the first leap is to establish the basic system of household management to ensure the farmers’ right to autonomous management, in order that farmers may play a more active role. This is a significant adjustment to the micro-level of the rural economy. The second leap is to build on the achievements of the first leap and develop the economies of scale that are feasible in the collective economy. Both leaps have the aim of fulfilling the requirement of productivity development as starting point and foothold. The process of building the new socialist countryside should follow the strategic thought as well as guiding principles of Deng Xiaoping, and explore how to facilitate, appropriately and in a timely way, the collectivisation and intensification of agriculture, in order that the second leap can fully be realised.

### *To Advocate and Develop Collective Economy Coalitions*

Due to the impact of natural conditions and levels of economic development, the administrative village in China tends to be small in scale and dispersed. The number of towns in China in 2005 was 35,509 and the number of villages was 640,139. An outstanding problem here is the increase in administrative costs at the village level and the consequent additions to farmers’ burdens, and the limiting of the development of collective economy. As a result, the collective economy based on the village as unit is usually weak in collective power.

In contrast to China, the basic unit of agricultural production in the West is the capitalist private farm. After World War II, with the wide adoption of mechanisation

in agriculture and the guidance of government as well as the support of various farmer organisations, many highly specialised, mechanised, and commercialised farms were developed.

Since China entered the WTO, agriculture has gradually had to face severe competition from foreign large farms. Consequently, how to increase the competitiveness of China's agriculture has become an increasingly urgent problem. Nevertheless, for several reasons, this does not mean that we need to mainly develop the western mode of big farms. First of all, the fundamental reality of China, that of a "huge population with little land," has determined that we must have a system with collective ownership. Under the western mode of big farms, few people own large extents of land. If we want to achieve farm management on a scale similar to that of the West, we must first solve the problem of surplus labour in the countryside. Secondly, while the extension of the scale of agriculture production can help increase the level of mechanisation and reduce the cost of production, it does not necessarily increase our competitive power. To compete with the big farms of the West, we cannot rely on the extension of the scale alone, but need to advocate and develop collective economy coalitions, try to increase overall competitiveness, and increase production efficiency as well as the technology content of agriculture. Thirdly, an important reason for weak collective economy in China's countryside is the "small and weak" division of the collective economy. The improvement of the comprehensive competitiveness of the collective economy would depend on the interaction of various factors and not only on a simple merger of land holdings.

#### *TO STRENGTHEN MULTIPLE MODES OF COOPERATIVE ECONOMY*

The second leap of rural reform and development certainly needs the wide development of cooperative economy. At present, the National People's Congress is drafting and revising relevant laws on cooperative economy, a very crucial task. The cooperative economy in this article mainly includes horizontal cooperation between farmers themselves and vertical cooperation between farmers' organisations and companies, as well as cooperative farms of mixed economic modes.

#### *Cooperative Management and Its Advantages*

Cooperative management refers to the management type that involves farmers' coalitions. It is the best means to cope with the contradiction between small farm production and big markets and is a natural product of market-based economic practice. Since the 1990s, with the development of market economy in rural China, the centralisation aspect of the two-track management system has undertaken some changes and become diversified: some specialised economic organisations based on voluntary and mutually beneficial principles have formed. Collective management usually has the village as the basic unit and functions as the service provider for

households in its administrative areas. It coordinates work under its jurisdiction but does not conduct its own specialised production.

Specialised cooperative organisations are organisations of the farmers themselves, and have become the most popular rural cooperative form in foreign countries. Seen from the experiences of foreign counties, there is a clear trend for the farms run by families to have coalitions in order to participate in the severe competition of modern market economy. For example, there are currently more than 1.13 million cooperative organisations covering over 90 per cent of farmers in France, and 4.13 million cooperative organisations in Italy, the third largest economic force in the country.

The advantages of cooperative management can be seen in respect of the following. First, cooperative management can help increase the relative gain of the farmers, and hence protect their interests. Secondly, cooperative management can reduce market transaction costs for farmers. Thirdly, cooperation can reduce the risk of farmers when they participate in the market. Fourthly, cooperation can increase the degree of farmers' participation in and supervision of their economic activity. These advantages indicate that we should further strengthen the development of cooperative economy and encourage wide cooperation among farmers. With respect to specific forms of cooperation, farmers could choose modes fitting their own local conditions. Examples are the Handan Mode, Laiyang Mode, Ningjin Mode, Anyue Mode, and Jiangshan Mode.<sup>4</sup>

#### *Intensify Cooperation among Farmers as well as the Cooperation between Farmers' Economic Organisations and External Companies*

For some time, the form of "company plus farmers" has been regarded as an important organisational form of agricultural development. Even though this form can help to some extent to solve the problem of the sale of agriculture products, there are still some problems with this form in practice. The fundamental reason is that the enterprise and the farmer are two independent interest entities, so the enterprise cannot consciously and voluntarily share profits with farmers. In terms of the appropriation of the value added to agricultural products, the company usually pays the farmers for their labour in the process of production, and monopolises the rest of profits. As a result, in "company plus farmer" mode, farmers are still in a weak

<sup>4</sup> These are specific innovative forms of cooperation in agriculture in China. Handan Mode is a technology service system that the technology division in Handan City provided to farmers in Handan. Laiyang Mode: Laiyang village successfully became a base for the export of luxury farm products to Japan after the earthquake, tsunami and nuclear leak occurred in Japan. The farm products are of good quality and are sold at a high price. Ningjin Mode: Ningjin County focusses on economies of scale in agriculture and livestock breeding, as well as on plant efficiency and circular agricultural systems. Anyue Mode: Anyue County is the lemon county of China, and also the organic base in Chuan-Yu area in China. Jiangshan Mode: the mode that is characterised by guilds, specialised cooperatives and specialist farmers.

position, with little power to protect their interests. Therefore, we should actively develop cooperative economic organisations such as co-operatives and associations in the countryside, and advocate and popularise the mode of “farmer plus cooperative economic organisation plus company.”

Farmers’ economic cooperative organisations should not only organise the previously dispersed farmers and link them to the leading enterprises, but also run their own firms to manufacture agricultural products. Such a method could, on the one hand, help improve the farmers’ capacity for participating in the market through the leading firms’ advantages with regard to brand value, information and sale channels, and, on the other hand, give farmers a greater share of profit, given that the profit-making interest of the cooperative organisation does not diverge from the farmers. Through the cooperative organisation, the farmer-member can not only realise the value accruing from agriculture, enjoy priority in entering the sphere of manufacture of agricultural products, and attain some revenues, but can also receive some dividends as well as certain rebates on sales.

### *To Develop Mixed Economic Modes of Cooperative Farms*

The cooperative farm is a new form of rural economic organisation that combines collective economy and cooperative economy. It plays a constructive role in the second leap of rural reform and development. It usually takes the form of land stock cooperation. This new form is based on the household contract responsibility system, and encourages farmers to convert their contracted land resources into stocks and become shareholders. It is also necessary here that the collective nature of resources be made clear, so that transfer, sale or mortgage of land resource shares are forbidden. Of course, in pushing towards this new cooperative mode with land resources held as shares, we should fully consider the conditions required for the conversion as well as the willingness of the farmers. Yet to respect farmers’ willingness does not mean that the government should take no action; rather, the relevant departments of the government should actively guide farmers to follow this path and facilitate cooperation and the collectivisation of agriculture.

The Songjiang area of Shanghai has adopted such a “cooperative farm” mode. It has bravely explored new mechanisms of land use rights. For example, under the guiding principles of “separation of ownership and use rights, full value manifestation, operation through market, and share of benefits,” farmers are allowed to sell their contracts through means such as subcontracting, transferring, exchanging, shareholding, etc. These means have consequently “activated” over 200,000 mu of farmland and marched in the direction of cooperative farming.<sup>5</sup>

<sup>5</sup> 15 mu=1 hectare.

The cooperative farm mode of Songjiang Shanghai is related to local changes in production structure, natural conditions, as well as features of its economic and social development. First of all, since the formation of big markets and the wide circulation of agricultural products in the 1990s, many agricultural products from neighbouring provinces have flowed into Shanghai, and Songjiang agriculture thus faced huge pressure for structural adjustment. In this situation, the local government encouraged farmers to bring their individual talents into full play, and guided them in developing high-efficiency agriculture with local characteristics. High-efficiency agriculture has features of precision farming, which is associated with intensive technology, advanced facilities, high-quality products, great market potential, and eco-environmental friendliness. Secondly, economies of scale can increase the production efficiency of agriculture. It is clear to the Songjiang farmers that household-based small-scale production does not have very good prospects. As a result, the local government has made a plan that demarcates the allocation of agricultural production, that is, for green agriculture in the Punan area, ornamental agriculture in the north-east area, sight-seeing agriculture in the north-west area, and green-coverage agriculture in the middle area. To develop cooperative farms on the basis of this distinctive allocation has become an efficient means of realising economies of scale. At present, the four distinct areas have achieved good scales of production, with over 20 big agricultural production bases, over 50 agricultural marketing firms and allocation centres, and over 30 super wholesale markets for agricultural products. The production and sale volume of these bases and units accounted for over 50 per cent and 70 per cent of the total agricultural production volume of the whole district respectively.

The cooperative farm is a special form of cooperative in China. In the Taiwan area, the cooperative farm usually has the task of comprehensive management. It does not change the ownership of the land or seek to improve production efficiency through the extension of the scale of production. In foreign countries, the nature of cooperative farms varies significantly. The cooperative farm of the Songjiang area and Baoshan area of Shanghai involved the re-sale of the land use right as a prerequisite for the collective ownership of the land. This mode is thus different from cooperative farms overseas and in Taiwan, as well from the standard collective economic mode, but this mixture of collective economy and cooperative economy has special advantages and strong vitality, so should be encouraged.

#### *ANALYSIS OF SOME TYPICAL CASES*

In the early 1980s, when China launched its rural reform of introducing household contract responsibility system, there were a few villages – such as Liuzhuang Village of Henan Province and Xing Shisi Village of Heilongjiang Province – that did not allocate production to the household and insisted on the approach of “collective ownership and centralised management.” There were also a few other villages – such as Nanjie Village in Henan Province – that adopted the household contract

responsibility system at that time, but later reverted to centralised management in the face of the demand of villagers. The core tenets of this mode include: all villages are members of the collective economic organisations; the means of production, including all the land and village-run enterprises, are wholly owned by the collective, with the village committee undertaking the ownership function on behalf of the villagers; common prosperity is the consistent goal, and distribution is based on labour even though high welfare is provided; and there is a high degree of spiritual civilisation and political civilisation among the villagers, who also highly support collectivism and socialism. Ownership modes and management modes are quite plural.

### *Case 1: Liuzhuang's Classical Mode of "Collective Ownership and Centralised Management"*

We call this "classical" because it is close to the collective ownership envisioned by the classical Marxist authors. It is characterised by a high degree of collectivisation, coordinated production by united labour, the transformation of farmers' thoughts and habits during the process of poverty alleviation, and so on.

For over 60 years, under the leadership of the former party secretary Shi Laihe and current party secretary Shi Shiling, the villagers of Liuzhuang in Henan province have marched along the socialist path and developed collective economy. As a result, starting from scratch, the collective economy of Liuzhuang has now become the number one collective economy in China. The previously poor and backward Liuzhuang has become a prosperous, democratic, civilised, and harmonious new socialist Liuzhuang. In 2008, the sale revenue of Liuzhuang reached 1.98 billion yuan, with taxation of 136 million yuan. The per capita disposable income of the villagers reached over 20,000 yuan and total fixed assets reached 2 billion yuan. The per capita disposable income in 2010 exceeded 30,000 yuan.<sup>6</sup>

### *A Production Structure that Involved the Comprehensive Development of Agriculture, Industry, and Commerce*

In the 1950s, Shi Laihe led the Liuzhuang people and established the cooperative, focusing exclusively on the development of agriculture; by the late 1960s, Liuzhuang had become one of the early villages to successfully solve the problem of subsistence; in the early 1970s, Liuzhuang started to push for the development of agriculture, forestry, livestock breeding, industry and commerce, which all developed side by side by the late 1970s; after the Third Plenary Session of the 11th Central Committee of CPC, Liuzhuang established the principle of "collective management and continued marching" and formed its own economic entity, the Liuzhuang Association of Agriculture, Industry and Commerce, which later became a company; in the 1980s,

<sup>6</sup> All values in this paragraph are in current prices.

Liuzhuang found its breakthrough in high-tech pharmacy and established Huaxing Pharmaceutical Factory; and in 2008, the factory cooperated with Guotai Corporation of Jiangshu, one of the top 500 enterprises in China, and established the Lvyuan Pharmaceutical Limited Company, which has a total investment of 1 billion yuan. Besides these, Liuzhuang also has its own economic organisations, such as fleets of cars, supermarkets, and hotels. After half a century's development, Liuzhuang has established a production structure that has agriculture as the basis, industry as the pillar, and commerce as complementary to both.

### *A Mechanism of Operation and Management with a High Degree of Collectivisation of the Means of Production and Centralised Management*

After the Third Plenary Session of the 11th Central Committee of CPC, most rural areas of China adopted the household contract responsibility system. At that time, the people of Liuzhuang, under the leadership of Shi Laihe, carefully studied the central documents, and established the “Household Contract Responsibility System with Collective Specialisations,” which is tailored to local conditions. It follows the principle of “collective management, specialised divided production, classified contract management, and rewards and penalties based on responsibility and production.”

The main economic entity of Liuzhuang, established in the 1980s, was the Association of Agriculture, Industry, and Commerce, which later became the Parent Company of Agriculture, Industry and Commerce. As the collective economic organisation of Liuzhuang, the company owns all the collective assets of the village. All the enterprises of agriculture, industry and commerce affiliated with the Parent Company are invested by the latter, but retain management autonomy and sole responsibility for profits and losses. The relationship between the Parent Company and the affiliated enterprises is the relationship of leading and being led. In terms of financial management, the affiliated enterprises are independent but do not undertake their own accounting, and their personnel, assets, wages, welfare, etc. are all centrally arranged and disposed of by the Parent Company.

With the Parent Company undertaking the tasks of central management, accounting, and distribution, the affiliated enterprises mainly take operational contracts from the Parent Company, and bear the responsibility of maintaining and increasing values. The Parent Company sets production tasks and operational goals for the affiliated enterprises and the latter bear limited responsibility with their assets as the guarantee. Regarding tasks and goals, these are usually determined through coordination between the Parent Company and the persons in charge of the enterprises. Both the Parent Company and the affiliated enterprises follow the cadre recruitment and appointment system.

The difference between Liuzhuang's specific contract responsibility system and the general contract responsibility system is that the degree of development of

Liuzhuang's collective economy is very high, so it leaps over the phase of dispersed operation and follows the mode of collective operation. This mode of operation and management emphasises the advantages of central operation and facilitates the development of productivity. This mode of operation also meets the demand for the development of productivity in Liuzhuang, and is an autonomous choice of the Liuzhuang people in respect of developing a collective economy.

### *A Distribution System with the Aim of Common Prosperity*

At present, Liuzhuang has established a complete and characteristic distribution system of its own, which follows the principles of "full exertion of individual talent, payment based on labour, reasonable discretion, and common prosperity." What is most outstanding is that the aim of common prosperity is truthfully practised and realised in Liuzhuang. To be more specific, the distribution system of Liuzhuang has three main components, namely wage, bonus, and year-end redistribution. Besides these, there are pensions for the elderly, and various welfare measures for the villagers. As the people of Liuzhuang put it, the distribution follows two approaches. The first is based on labour, so the more one works the more one earns, and hence a certain disparity is reasonable. The other is based on social welfare, so all villagers are the same; the approach expresses the equality of each villager as well as the goal of common prosperity.

Wage is the basic payment for the worker's labour. In Liuzhuang, the wage is not distributed monthly, and is instead paid together with redistribution at the end of each year. All people with working capabilities have jobs in Liuzhuang, including the disabled, whose jobs are arranged by the collective according to their specific situations. The most outstanding feature of Liuzhuang's distribution system is the division of 20 levels of the wage. The 20th level is the highest at which the wage is 180 yuan. Successive levels decrease by 9 yuan per level. The wage is adjusted annually.

Bonus is a means to reward the workers for completing tasks better. It is paid monthly in cash. The amount of bonus depends on the tasks accomplished and the revenues attained. Because the bonus is linked to production revenues, the bonuses of the workers and cadres at the production line outweigh the bonuses of those who are not.

Year-end distribution is a manifestation of changes in the living standards of the people of Liuzhuang, and the increase in the amount distributed at the year's end is a manifestation of improvements in people's lives. The total amount for redistribution is calculated by subtracting the total wage and bonus bill from the total amount to be distributed in that year. The amount received by an individual in the year-end distribution is determined by the total amount received by the individual as personal wage and a coefficient for that year. The coefficient for a year is the ratio between the total amount to be redistributed and aggregate basic wages. This ratio determines the amount to be redistributed to individuals and is adjusted annually.

Because the wage, bonus and year-end redistribution is directly linked to the collective labour in which the worker participates, those who do not participate in collective labour do not enjoy these three benefits. Nevertheless, the increasingly complete welfare system of Liuzhuang provides an assurance for all the Liuzhuang people. Welfare covers almost all aspects of life, such as food, clothing, housing, and transportation. For example, in 2004, Liuzhuang village provided over 3 million yuan – or about 1,800 yuan per capita – welfare payments for the villagers. These covered over 40 items, including fruit, vegetable, fish, meats, water and electricity subsidies, public medicare, pension, and tuition.

At present, each family of Liuzhuang has a house of 472 square meters, with three floors above ground and one underground, and capable of resisting an earthquake of magnitude 8.0 on the Richter scale. They are all equipped with central air-conditioning, cable television, central heating and gas supply, and a public garage. What is most outstanding is that all of these are free. That is why, when Vice-president Xi Jinping visited the village in April 2009, he said to the villagers without any exaggeration that their life was sweeter than honey.

### *Case 2: Wandi’s Modern Mode of “Collective Shareholding with Villagers as Shareholders”*

We call this a “modern” mode because it introduces a feature of modern enterprise systems, namely shareholding, into the collective economy. Under this mode, the villagers are both labourers and shareholders, so earn both wages and dividends.

In the early 1990s, during the reform of township enterprises, many firms were purchased by individuals, thus creating many legendary cases of becoming rich overnight. Nevertheless, there are some villages that undertook the shareholding reform with collective shareholding, leading to a situation of “strong villages with rich villagers.” The Wandi Village of Ningbo Zhejiang province is representative of such a case. In 2008, the gross income of Wandi was 520 million yuan, Collective disposable income amounted to 10,80 million yuan, and per capita income was 17,002 yuan. In 2010, the gross income reached 560 million, with tourism accounting for 20.64 million yuan. Per capita income rose to 21,211 yuan.<sup>7</sup>

### *A Production Structure that Includes Comprehensive Development of Agriculture, Industry, and Commerce*

In 1982, Wu Zumei was elected as the Party Secretary of Wandi. He realised that in order to develop the economy, the people could not rely on agriculture alone, so he led the people onto the path of industrialisation. They started a village-run

<sup>7</sup> All values here are at current prices.

firm focusing on making manual tools from scratch. From there, they established economic entities such as the Tiangong Company, and Tiangong Juxing Company.

In the 1990s, with industry firmly founded, Wandi village started to push industry towards supporting the development of agriculture, and established some low-investment but highly efficient mulberry planting zones. Thereafter, they extended the production chain and established the Tiangong Manor Juice and Fruits Wine Company of Ningbo, a leading rural firm for deep processing mulberry. In 2004, they established the Tiangong Manor Leisure and Tourism Company, and thereafter invested over 30 million yuan in the hope of establishing an exemplary place of agricultural tourism in the country.

At present, Wandi owns a collective firm controlled by the village cooperative, namely Jinzhou Tiangong Industrial Co. Ltd., which has seven subsidiary companies.

Through the subsidy of agriculture by industry, through strengthening agriculture and promoting tourism, and by facilitating agricultural development through tourism, Wandi has pushed forward the coordinated development of three production areas, and realised a virtuous cycle of economic development.

#### *Introducing Shareholding System into the Collective Economy with the Collective as the Controlling Entity*

In the 1990s, many township enterprises undertook reforms. Under pressure from some high-level leaders, and public calls for reform, as well as because of considerations of establishing a modern enterprise system, some villages were at a loss as to what to do with collective economic organisations. Haidi Village was not an exception, but at that critical juncture, Wu Zumei first proclaimed that “auction is not an option,” and tactfully declined those proposals that called for him to undertake the purchase.

Upon a proposal by Wu Zumei, village-run enterprises were transformed into a shareholding company controlled by the collective cooperative. Consequently, all villagers are both shareholders and labourers, and the capital of the company has also been enlarged by absorbing investments by the workers. Meanwhile, the Wandi Company also purchased four township firms and further enlarged collective economic power.

#### *A Distribution System Based on Labour and Dividends*

Currently, the income of Wandi people comes mainly from three sources, namely wages, collective dividends, and dividends from personal shareholdings in Tiangong Industrial Co. Ltd.

Because 85 per cent of the village people work at the village's company, they have a wage income; as the Tiangong Industrial Co. Ltd. is controlled by the Wandi cooperative, all village people earn some dividends; and as some villagers also hold personal shares, they also earn some dividends from their own shares.

In November 2005, all villagers were issued a pension assurance plan, with a subsidy of 5,000 yuan from the collective, which would then enable them to receive a monthly payment of 320-420 yuan in their old age. Besides this, Wandi also purchased medical insurance for big-disease hospitalisation, and property insurance. All these were measures by which the villagers shared the results of the collective economy.

### *Case 3: Maojiayu's Mode of Collective Centralised Operation and Household Decentralised Operation Combined*

In 2000, the Maojiayu Village of Tianjin still relied on a traditional small-scale peasant economy that was heavily dependent on natural conditions. Per capita income in the village was less than 2,000 yuan per month and there were zero village assets. By 2008, however, the collective economy and household economy had both taken off, with per capita income reaching 30,000 per month, and the creation of village assets worth 100 million yuan. Per capita income had reached 40,000 and 50,000 yuan in 2010 and 2011 respectively.<sup>8</sup>

#### *Start with Household Economy and Gradually Enrich Collective Economy*

In November 2000, Li Suo was elected the party secretary of Maojiayu village. On his inauguration day, he made the promise that he would resign if he could not help the people get rich within three years. He first led the villagers in developing goat breeding, but due to its heavy destructive impact on the environment, the endeavour was soon suspended. Influenced by other villages that have sought to develop tourism, the leading team of Maojiayu explored its unique tourist resources, such as its marvelous stone forest, which dates back a billion years, and eight elderly persons, all aged above 100 years (in a village with a population of less than 200 people). Based on these advantages, Maojiayu Village developed leisure tourism centred on "longevity," and encouraged village people to convert vacant houses into household hostels. Consequently, the "Maojiayu Vacation Village of Longevity" began to operate.

In 2002, the first 12 household hostels were established, and in that year the per capita income of the village doubled to 4,000 yuan. Later, all 46 households in the village established household hostels. On the basis of the "Vacation Village of Longevity," Maojiayu soon got on the track of quick development. With the further expansion of tourism, the village also started to provide a scaled and standard platform for the dispersed household hostels. This included setting uniform standards, pricing,

<sup>8</sup> All values here are at current prices.

coordination of tourists, and so on. Besides these, the collective also provided training for personnel working in the tourist industry in such areas as reception etiquette, guest room services, and diets with rural features. These measures have not only prevented vicious competition among the villagers, but have also promoted the reputation of Maojiayu tourism.

In 2004, the total annual income of Maojiayu reached 3.5 million yuan, with per capita reaching 10,000 yuan.<sup>9</sup> In 2005, the whole village received over 100,000 tourists and earned over 5 million yuan. Net per capita net income was 170,000 yuan. By that time, the accumulated assets of the village also reached 100 million yuan, with bank deposits of 6 million yuan. Now the tourist industry of Maojiayu pursues a mode of commercial operation and entrepreneur management, and 2,000 jobs have been created. During the “tourist golden week” of 2011, the village received over 6,000 tourists each day.

#### *Expand the Channels of Attracting Investment and Enlarge the Collective Economy*

In 2007, Maojiayu Village merged with the neighbouring Baoshuiyu Village. This merger not only helped the latter with respect to poverty alleviation, but also expanded the size of the tourist site. Now Maojiayu Village has built a hilly golf course with the highest vertical distance in China, a resource further extends its fame and enriches its tourist resources.

#### *A Strong Collective Economy Provides the Basis for Improving Welfare*

In Maojiayu Village today, the people not only have their own income from running household hostels and from collective dividends, but also enjoy welfare in the form of villager villas, free trips, free training, and so on. The village invested 180 million yuan in constructing the “villager villas,” which were allocated equally to the village people based on their clans and personalised demands, with a family of six persons having a house of 577 square meters. Currently, the elderly of the village receive pension payments ranging from 150 yuan to 2,000 yuan per person per month. The village also organises sightseeing and study tours to big cities, and also invites experts in the areas of tourism and culture to come to give lectures in the village. The strong collective economy certainly provides a firm foundation for these welfare measures.

#### *Case 4: Hancunhe’s Plural Development Mode Centred on Collective Ownership*

In 2005, the per capita net income of the Hancunhe Village of Beijing reached 18,000 yuan, or 30,000 yuan if we include various welfare payments. In 1978, riding the tide of the Reform and Opening Up, Tian Xiong led the people of the village and formed

<sup>9</sup> All values here are at current prices.

a rural work-contract team. They spent most of their earnings in purchasing modern construction equipment and improving technology, thus paving the way for poverty alleviation and the common prosperity of the village. Thereafter, the village people established some village-run factories, such as a component factory, furniture factory, and building materials factory – all centred on the development of the construction industry. In 1993, they developed a vision for building a socialist new countryside, and established the guiding principle of “plural development centred on construction, and marching towards common prosperity.” At the end of the late 1990s, the reform of township firms was a hard demand and many leaders, lobbyists, and “warm-hearted” enthusiasts sought to persuade the people of the village to follow suit and undertake to restructure the firms. Nevertheless, despite the huge pressure and the hard choices they faced, Tiao Xiong and the leading team gave up the opportunity of becoming personally rich overnight, and insisted on marching towards common prosperity. In late 1999, they followed the principles of the modern entrepreneur system and transformed the village firms into a share-holding enterprise. Their specific actions were as follows: they established the Beijing Hanjian Corporation Co. Ltd. from the Hanjian Corporation, whose 420 million assets were divided into two main parts, with the collective controlling 80 per cent of the shares and five subordinate factory directors controlling 20 per cent of the shares. Each villager of Hancunhe holds over 100,000 yuan worth of shares. These measures, which address the concerns of the people of the village, were supported by them. These measures also imply that the collective economic pillar still exists, and that the path leading towards common prosperity can become wider and wider.<sup>10</sup>

#### *Case 5: Huaxi Village’s Mode of Collective Ownership First and Shareholding Cooperative Later*

In 1979, when the whole country was establishing the household contract responsibility system, Wu Renbao, then Party secretary of Huaxi Village of Jiangxi, thought that, given the reality of Huaxi village, the division of lands to households was not feasible. Huaxi Village has a limited extent of land for many people, yet had a good industrial foundation. Consequently, he advocated a production adjustment plan, under which over 500 mu farmland was contracted to the 30 most capable farmers, and the rest of the village people were transferred to industry. This measure was endorsed by the people, and established a firm foundation for the collective economy of Huaxi Village. In the 1990s, when the whole country was amidst the wave of reforming township enterprises, Wu Renbao insisted that Huaxi Village would have “One Village, Two Systems,” namely the coexistence of both collective economy and household economy for the village people in general, though not for the cadres, who should work on collective economy only. This enabled Huaxi Village to enter a new path that embraced plural and mixed economic development modes, yet had the

<sup>10</sup> Fan, Xuezhong and Liu, Yuan (2008), “The World is Fair for those Persistent: An Interview with Tian Xiong,” *Peasant Daily*, Nov. 18.

collective economy as the mainstream. After the 15th Congress of the Communist Party of China, the township reform in the Southern Jiangsu area entered a new phase, which required governments to “keep the big and let go of the small.” Based on the realities of the village-run firms of Huaxi, the leading team decided to “keep the big and let go of the small” on the one hand, and “keep the big and support the small” on the other hand, and even “keep the small and let go of the big” when necessary. This vision stirred great support as well as enthusiasm from various sides. In 2008, the sale volume of Huaxi from the multiple modes of collective economy reached 50 billion yuan. The village paid 1.1 billion yuan in taxes, and gained disposable revenue of 3.5 billion yuan. Over 30 years since the Reform and Opening Up, Huaxi realised an accumulated production of 187.313 billion yuan, a net accumulated income of 12.962 billion yuan and paid taxes of 4.48 billion yuan.

#### *Case 6: Xingshisi Village’s Mode of Common Prosperity through Sole Collective Ownership*

The leading team of the Xingshisi Village of Heilongjiang Province has transformed a poor migrant village into a rich village that has over 30 enterprises with over 1 billion yuan worth of assets. In the early 1980s – when the whole country was launching the household contract responsibility system reform – Xingshisi Village faced the familiar problem of dividing or not dividing the land. Concerned about the reality of a vast barren territory with a sparse population, as well as the vulnerability of the households in the fact of natural disasters, the leading team decided to embrace a collective path that aimed at common prosperity. They organised the village people into seven specialised areas, including agriculture, industry, forestry, and livestock breeding, and sought to establish an optimal allocation of labour so as fully to utilise the advantages of mechanisation and irrigation. They continued on the path of plural development, consistently adjusting the production structure, extending the production chain, and helping the collective economy to continue to grow. The farmland of the village is still collectively managed, with 16,800 mu of farmland contracted to six big households, who consequently have been able to mechanise all steps of agriculture. Village-run industry focuses on the three big production chains, that is, of dairy food, and the intensive processing of corn and biological products, and also frees 98 per cent of the people of the village from agriculture. The ecological environment has changed fundamentally, with the coverage of forests reaching 32 per cent of land area. A man-made forest of 10,000 mu has not only provided a good protection for the vast farmlands, but has also handed down a “green bank” to future generations. In 2007, the total income of the village reached 740 million yuan, with per capita net annual income reaching 17,000 yuan. As a result of these achievements, the village has been appraised by the UN as the “best exemplar for facilitating economic development.”<sup>11</sup>

<sup>11</sup> In 2007, Xingshisi Village was one of the “Eco-Safety Demonstration Zones” selected by the International Ecological Safety Cooperative Organization (IESCO), <http://www.uniesco.org/english/of8.asp?id=1073>.

### *Case 7: Fugang Village's Mode of Highly Efficient Management of Mountains*

From a per capita of 80 yuan to a per capita income of 10,516 yuan, from the unsaleable apples that sold at 10 yuan per basket to a popular apple that sells at 100 yuan per piece, from 8,000 mu of barren mountains to luxuriant mountains full of fruit, the market mechanism and branding have brought immense transformations to Gangdi Village in Hebei province, located deep in the Taihang Mountains.

In the 1980s, Gangdi Village was no different from other mountain villages, with barren mountains, poor people and outdated ideas. The aggregate assets of its 160 households and 690 people were 8,000 mu of barren mountains and 200 mu of hilly farmland. In 1984, Yang Shuangniu became the Party secretary of Gangdi Village. He started to push for various new measures such as centralised planning, centralised construction, centralised quality standards, centralised inspection and acceptance of quality, decentralised management of specific undertakings, and dispersed specialised contracts, dispersed operation management, technical guidance, clarification of responsibilities, independent accounting, and centralised branding.

With these measures, the mountains became green and full of apples. The next task the village faced was how to sell the apples at a good price. Through investigation and research, the people of the village targeted their product to customers of middle and high income groups. Accordingly, they developed the so-called “515” selling strategy, with the first “5” referring to the price of an apple in a common basket (which sold at 5 yuan per piece), the “1” referring to the price of apples in supermarket stacks (which sold at 10 yuan per piece), and the last “5” referring to the price of an apple with a brand label (which sold at 50 yuan per piece). In 1997, Fugang apples started to take on a new face in the market and became a brand name well known in China. This change also taught the Fugang people about the unique value of brand names as well as the charm of the market. After 2004, in order further to extend the production chain and enlarge the scale of the enterprise, they have also explored the production of over 40 “green foods,” including leek flower, almond, minor cereals and so on. Today’s Gangdi Village has taken a complete new appearance from that of 30 years ago, with green mountains, limpid water, rich people and new ideas. Per capita income was 10,300 yuan and forests covered 82 per cent of land area in 2008.

### **CONCLUSION**

In this paper, we have argued, following Deng Xiaoping’s “two-leaps” concept and the spirit of a scientific outlook on development, that, in the process of building a new socialist countryside, we should, first, aim to develop collective management within the current two-track management framework based on the Household Contract Responsibility System; secondly, try to enlarge rural collective ownership economy; thirdly, strengthen the development of multiple modes of cooperative economy; and lastly, facilitate the link-up of collective and cooperative enterprises with the market economy, in order to tackle the various problems that rural development in

China faces today. We have seen how the construction of China's New Countryside requires actions that suit local circumstances. At present, multiple modes of collective and cooperative economy that meet the special conditions of the Chinese countryside play an important role in the construction of the new countryside. Facts from the Chinese countryside, highlighted by the seven cases we have presented, show that collective ownership and different types of cooperative economy have stimulated farmers' creativity and their enthusiasm for working; they have also increased farmers' incomes, provided them with social security, and helped achieve common prosperity. On the basis of the Household Contract Responsibility System, agriculture, industry and service sectors can work in an interdependent way, and achieve the "second leap" in the reform of agriculture in China. The socialist new countryside in China has exhibited great vital force.