

Rural China in Transition: Changes and Transformations in China's Agriculture and Rural Sector⁺

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Abstract

Agribusiness companies operating in China are transacting in various forms with small agricultural producers, and in doing so, transforming the household-based agriculture in rural China. We argue that the presence of these distinct forms and the diverging relations between agribusiness and producers show the central importance of China's collective land rights. China's unique system of land rights – featuring collective ownership but individualized usage rights – has acted as a powerful force in shaping interactions between agribusiness and direct producers. It provides farmers a source of economic income as well as political bargaining power – albeit to various degrees – and restricts corporate actors from dispossessing farmers of their land. Because agribusinesses are able to work with small-scale producers in order to produce the high-scale production they need, we argue that Chinese leaders do not need to scale up land holdings in order to modernize agriculture. If China continues to provide land-use rights, China's small-scale producers can benefit from this modernization in unanticipated ways.

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1. Introduction

What changes are currently occurring in the mode of production in China's agriculture? In what forms are agribusiness companies entering agriculture and interacting with farmers? How are land, labour and capital now controlled by corporate and individual actors, and then organized into agricultural production? How does such control and organization shape relationship among the actors? In this paper, we document various forms in which agribusiness companies are transacting with individual agricultural producers, and in doing so, transforming the household-based agriculture in rural China. We argue that the presence of these distinct forms and the diverging relations between agribusiness and producers show the central importance of China's collective land rights. China's unique system of land rights – featuring collective ownership but individualized usage rights – has acted as a powerful force in shaping interactions between agribusiness and direct producers. It provides farmers a source of economic income as well as political bargaining power—albeit to various degrees – and restricts corporate actors from dispossessing farmers of their land.

2. China's Agriculture: The Social and Political Impacts of Agribusiness

The Household Responsibility System (HRS) started by Deng Xiaoping in 1978 brought land use rights to rural households, providing more leeway for farmers to select crops and market surplus production (Kelliher, 1992; White, 1998; Zweig, 1997). This new institution is credited for bringing, nearly single-handedly, hundreds of millions of poor farmers out of poverty – the fastest rate of rural poverty reduction in world history. At the same time, this move also returned Chinese agriculture to household-based production of miniscule scale and low level of mechanization.¹ Although in the years immediately following the reform, production already began to exceed the strict boundaries of the household in some cases – with some families hiring outside labour and renting the land of others, for instance (Unger, 2002a) – the presence of large-scale production and the role of agribusiness in the process of

growing crops has been quite muted. To be sure, firms were involved in the processing and distribution of agricultural products, but by-and-large, in the vast majority of China, production was contained largely within small and scattered plots of land and carried out by members of rural households with severely constrained capital.

Subsequent stagnation in agricultural production led to widespread calls for new measures to further increase agricultural output. Proposed solutions include further developing and disseminating agricultural technology, securing farmers' land rights or even privatizing farm land to enhance farmers' incentives, and, more importantly and of the most interest to this study, scaling up production to achieve economy of scale and introducing large enterprises and modern technologies into agriculture. Other East Asian governments such as Japan, South Korea, and Taiwan, in order to reduce productivity loss caused by land reform, all resorted to some efforts to consolidate the overly parcelized land resulting from their policies of land reforms (Bramall, 2004).² Decades after the HRS reform, the Chinese government also found itself battling the negative legacies of that reform.

Clearly, some changes were in order for agriculture and rural China to transcend the limitations of the HRS reform. Interestingly, in the road map for China's rural development, the central leadership under Deng Xiaoping already identified the next step. In 1990, Deng articulated his vision as the following:

The reform and development of China's socialist agriculture, from the long-term perspective, requires two great leaps (*liangge feiyue* 两个飞跃). The first leap is dismantling peoples' communes and implementing the Household Responsibility reform. This is a great advance and should be kept in the long term. The second leap is meeting the needs of scientific agriculture and socialized production, properly developing scaled-up operation, and developing the collective economy.

(Deng, 1993: 355)

These "Two Leaps" have since become the guiding vision for the central government's agricultural policies. Deng further elaborated that,

“the rural economy eventually needs to become collectivized (*jitihua* 集体化) and coordinated (*jiyuehua* 集约化) ... agricultural modernization is impossible if each household works on its own.” (Deng, 2004: 1349-1350) Since Deng had completed the first leap, for Deng’s successors, the assignment was clear: the time has come to make the second leap.

The irony, however, is that the two leaps implied apparently contradictory directions: the first decollectivizes and sets agriculture back to household-based, small-holding operations, while the second tries to re-collectivize and scale up operation beyond the household boundaries. Thus, China’s central government had to walk a fine line in order to start the second leap without undoing the first. At the core of the first leap, the HRS, is the household-based land use rights system that restored farmers’ incentives and protected their interests. This would therefore remain a central institution in China’s agricultural modernization programme.

The policy shift from HRS to the second leap started in the mid-1990s. While Deng only vaguely mentioned “agricultural modernization” as a part of the long-term goals of Four Modernizations, the central leadership under Jiang Zemin started to articulate “agricultural modernization” in more concrete terms and propose policy measures through a series of policy statements, starting from the Ninth Five-Year Plan passed in 1996, to Jiang’s report to the 15th Party Congress in 1997, and culminating in the 1998 document of “Decisions by the Central Committee of the Chinese Communist Party on Several Key Issues in Rural and Agricultural Works.” The central leadership clearly stated the goal of agricultural modernization (*nongye xiandaihua* 农业现代化) as to make the transition from traditional agriculture to modern agriculture and from uncoordinated and low-scale operation (*cufangshi jingying* 粗放式经营) to coordinated and large-scale operation (*jiyueshi jingying* 集约式经营). The central government characterized a modernized agriculture as commercialized (*shangpinhua* 商品化), specialized (*zhuan yehua* 专业化), scaled up (*guimohua* 规模化), and furthermore, standardized (*biaozhunhua* 标准化) and internationalized (*guojihua* 国际化).

The central leadership also identified agricultural vertical integration (*chanyehua* 产业化) as the main venue to achieve agricultural modernization.³ Vertical integration here means two parallel processes: First, it means the scaling-up of production of a crop in a region, because without a large enough volume of harvest of a crop, further processing and marketing of it will not be economically viable.⁴ Second, it means integrating cultivation of a crop with the processing and marketing of it and its derivatives. The central government believes vertical integration helps to bring farmers into markets and bring modern technologies into farming. At the centre of the government's vertical integration campaign is to promote "dragon head" agribusiness companies (*longtou qiye* 龙头企业) as the main vehicle for vertical integration (Waldron, 2006; Waldron, Brown and Longworth, 2003). Central and local governments bestow "dragon head" status to agribusiness companies. The designated dragon head enterprises can receive some forms of government support, such as easier access to loans from state banks. But as the criteria of designating dragon head enterprises become more lenient down the administrative hierarchy, local dragon head enterprises often receive nothing more than just the title. As a result, agribusiness companies have proliferated in recent years.

The second leap has indeed started and China's agricultural development has entered a new phase – one could say the fourth revolution since 1949, if we trace back to the land reform, the collectivization, and the HRS. Yet, this major change in rural China has barely been discussed in English-language literature. As Waldron (2006) points out, the fast growth of agribusiness is "one of the most important but unreported developments in Chinese agriculture in recent years." (Waldron, 2006: 292) This paper intends to start the discussion on this new phase of rural development by first investigating a central force in this process of agricultural modernization through vertical integration: agribusiness. We should also point out that before the central government made it a policy priority, a spontaneous process of transforming the household-based agriculture already emerged through the rise of entrepreneurial farmers, who hired labour and rented land to

expand their specialized commercial farming beyond the household boundary. Here, however, we will focus on the growth of agribusiness, including the role of agribusiness in the rise of agrarian capitalism in China, the multiple pathways it takes, and the changes it brings to rural society. It is based primarily on fieldwork conducted in 2007 and 2009, as well as insights from previous fieldwork in other provinces and secondary sources.

With this typology (see Table 1), we find variations along two dimensions. First, the control over – and use of – labour and land changes. Across these forms, agribusiness firms have varying degrees of control over labour and land vis-à-vis direct producers. Second, with changes in the control over land and/or labour, social relationship between actors also change. Most notably, the power relationship between rural resident (whether acting as a contractor or a farm worker) and agricultural firm is strikingly different in these five forms. Because this shifting power relationship is based on the agribusiness's varying degrees of control over land and labour – but primarily land, the institution of land rights plays a crucial role in shaping such relationship. We argue that the collective land rights system in rural China allows rural residents to resist agribusiness from acquiring more control over farm land and greater domination over them. With this in mind, we sharply disagree with growing calls to eliminate this institution and privatize farm land in China.

Form 1: Commercial Farmers

One of the first types of expanded production, that of “commercial farmer”, emerged within a few years of reform (Unger, 2002b). While, as we noted earlier, commercial farming is not new in China (Huang, 1990), commercial farming by rural households was eliminated under collectivization. Its reemergence depended on the marketization of agricultural products, without which the commercial households could then neither sell their crops nor buy grain. Although many rural households participated in product market by selling their surplus grain or the economic crop they grow in addition to subsistence grain, their subsistence is not commercialized – they relied on their own land and

Table 1 Relationships between Agribusiness and Farmers in China:
A Typology

Form	Role for agribusiness	Role for direct producers	Harvest	Class relations
Commercial farmer	Purchase product, training	Work independently on allocated family land	All for commercial exchange	Direct producers can be dominated by purchasers through unfair terms of trade.
Contract farmer	Form purchasing contracts, provide technical support	Work on allocated family land to fulfill company contracts	Sold to contracting companies	Direct producers are dominated by the company, but retain some flexibility.
Semi-proletarian with Chinese characteristics	Form bases through leasing village farmland, hire villagers	Work on collective land rented to companies as company employees	Belongs to the company	Direct producers are dominated by the company but enjoy a degree of entitlement.
Semi-proletarian farm workers	Form bases through leasing wasteland, hire migrant labourers	Work on company land as company employees, but have allocated land at home	Belongs to the company	Direct producers are dominated by the company, but have family land as fall-back option.
Proletarian farm workers	Form bases through leasing wasteland, hire landless labourers	Landless, work on company land as employees	Belongs to the company	Complete domination by the company over direct producers.

grain for subsistence needs and used commercial farming to earn cash income which supplemented their livelihoods.

By commercial farmer here, we refer to rural households who grow crops (mostly non-staple, economic crops) predominantly for commercial exchange, and satisfy their basic needs through buying grain on markets instead of growing it. The commercialization of the satisfaction of subsistence brings important changes to the peasant households. While still relying on family labour and contracted family land, these households derive their subsistence from markets, which often link them directly with remote actors and social processes that lie beyond the local community. They may still be dominated by outside actors through unfair terms of trade, but they are usually not directly subjected to the domination of local actors, such as an extractive local state.

Mr Chen, a commercial farmer living in the rural areas of Simao Municipality, Yunnan province, is one of many examples. Mr Chen has shifted from growing corn on his farmland to exclusively growing coffee beans. He and his family's shift from growing corn to growing coffee beans occurred over a series of steps. At first, while Chen and his family tended the corn on their own plot, Chen himself worked in an ad hoc manner at Beigui, a local coffee producing TVE, where he earned essential cash to supplement subsistence farming, and also learned the skill of growing coffee. Soon afterwards, just as Nestle became active in the area as a buyer of coffee beans, Chen switched from working for Beigui to growing coffee beans on his family's land. Soon, the family, like most of its neighbours, switched completely out of growing corn, and now exclusively grows coffee beans on its 20 *mu* of land⁵. Then, as now, the family sells exclusively to Nestle, which has proven to be a dependable buyer, purchasing coffee beans at the international price (some computer savvy farmers even check the international price on the Internet).

By completely given up subsistence farming, Chen and his family have accepted numerous risks, many of which are out of the family's control, such as the price of coffee which is based on global markets. However, while the fluctuation of the price of coffee beans reportedly

has hurt the economic interests of other coffee farmers, Chen reports that such fluctuation does not hurt him much, since he makes at least some money each year – enough to purchase grain and other needs. Chen's family has now invested in preliminary processing equipment, with which they shell, clean, dry and split coffee beans before delivering them to Nestle. Cash from coffee sales allows the family to send their two children to boarding school in the municipal seat.

In order for them to shift out of grain production into an commercial crop, most rural families, like the Chens, require some type of outside impetus to help them learn how to grow new economic crops, provide needed capital and most of all secure a market that mitigates risk. In some cases, when roads (even humble dirt roads) link local areas to marketing towns and beyond, middlemen can come in to purchase such crops, inducing households to increase their production. Oftentimes, however, entrepreneurs and companies provide the needed access to skill, capital and market. Private enterprises, whether domestic companies or foreign ventures, represent channels through which subsistence peasants can shift into commercial farming. However, sometimes, especially for very poor farmers, the state is the only actor with the capability and resources to serve as an outside impetus shifting peasants to commercial farmers. With commercial farming, agricultural production, although still relying on the household as the unit of production, changes from self-reliance and subsistence-based production to market-oriented and commercialized agriculture. These commercial farmers also enter into new sets of relationships with individual, corporate, and state actors, who often mediate their interactions with markets. In such relations, agribusiness firms exert no control on land or labour that belongs to the direct producers. The commercial farmers are usually not under any direct domination or exploitation, other than the unfavourable terms of trade they may endure on the open market.

Form 2: Contract Farmers

In dealing with independent commercial farmers, agribusiness has to face the uncertainty of fluctuating supply caused by farmers' shifting in and out of a commercial crop – sometimes dramatically – when prices

for that crop change. One solution to that problem adopted by many companies is to formally establish contractual relationship with farmers, usually in a contiguous area. In this relationship, the company typically provides farmers with technology, training, service, and in many cases start-up capital. Although the farming households *retain control over their household land* and their own labour, in return for company support, they sign a contract, generally locking them into a selling price, with the promise to sell their entire harvest to the company. We call these the “contract farmers”.

One of the many examples that we discovered of this type of production is Xinchang Foods, the Shandong poultry meat processing company, whose story we relayed at the beginning. In addition to the poultry processing facilities, this company also has two plants for processing microwavable food, such as TV dinners. Established in 1988, the company now reportedly employs more than 8,000 people, and has revenue in excess of RMB 800 million yuan. As mentioned earlier, the company estimates that about 40 per cent of its production comes from such a base formed through contracts directly with the farmers.⁶ In doing so, the company contracts out with approximately 10,000 households in the surrounding areas. The company guarantees a minimum, or “protective” price (*baohu jia* 保护价), pays the farmers immediately upon delivery and has overall established a solid relationship with the farmers over the course of the previous decade.

Farmers who produce under contract with this company confirm much of the company’s point of view, agreeing that the company provides inputs such as animal feed and technical and safety training (in part to combat bird flu). For instance, Mr Zhao’s farmland contains three duck coops and more than 8,600 ducks which he husbands, selling the full-grown ducks (after 46 days, he notes) back to the company. Through his association with the company, Mr Zhao reported that he can earn RMB 1500 yuan on average each month. However, he argues that the company, because of its size and market position, holds the preponderance of the power, which it uses to hold down the purchasing price to RMB 1 yuan for each grown duck Mr Zhao and his family raise. Mr Zhao lives in an urbanizing area and his family land has shrunk from

1.7 *mu* per capita to about 0.3 *mu*, due to land expropriation by the state for urban expansion (which he has only been inadequately compensated for, he adds). Now, instead of growing grain as they had previously, Mr Zhao and his family dedicate most of their land to raising ducklings, retaining a small plot for growing melons and other self-consumed vegetables. In fact, given their limited land, animal husbandry might be one of a few viable options in the agriculture sector that the Zhao family has left. In his relationship with Xinchang Foods, although farmers like Mr Zhao still retain their entitlement to land use rights provided by the village collective and are not subjected to personal domination in the labouring process, they nevertheless have relegated much of the control over the production and its final products to the company, as the company now sets the parameters of production and has the monopsony over their products. The company also facilitated the specialization and scaling-up of agricultural production by organizing tens of thousands of formerly scattered and isolated farmer households into specialized, coordinated, and standardized production.

Like the commercial farmers who have departed from subsistence agriculture and now rely on production of commercial crops, these contract farmers usually grow economic crops exclusively for commercial exchange, transact with outside actors, and depend for their subsistence on the market. The two differ, however, on one key aspect: due to their lack of access to capital, market or skill, contract farmers have to enter into formal contractual relationship with a more powerful and resourceful corporate actor. By providing them with the needed capital, skill, and/or market access, the corporate actor is thus able to reduce contract farmers' negotiating power and profit margin. The farmer commits legally to selling his product only to the contracting company. In such a relationship, farmers only provide labour and land. In contrast, commercial farmers enjoy a market-set price for their products, instead of one dictated by the contracting company, and have the flexibility of selling to the highest bidder at harvest time. Theoretically, contract farmers do enjoy one advantage: they can shield themselves from market risks by obtaining from the company the protective price for their products.⁷ In our fieldwork, we routinely found

farmers, sometimes even the local governments, try to obtain protective prices from the contracting company, often to no avail.

Due to their domination by corporate actors, although contract farmers like Mr Zhao's are probably better off economically than they were under subsistence farming, they are typically not as well off as independent commercial farmers. Partly in response to their unfavourable position vis-à-vis the companies, contract farmers have often neglected the contract and sold their harvest to other purchasers who, without bearing production costs the contracting company incurred, offered higher prices. This has created a phenomenon known as the "middleman problem" – referring to itinerant middlemen who drive around and secretly purchase products from companies' production bases. In other cases, according to one report, contract farmers tried to deflate cost by cutting corners in the production process, resulting in product defects (Li, 2008). Due to these difficulties, we believe that contract farming as a form of agrarian capitalism is unstable and likely to be transient, changing to either commercial farming or to the form we discuss next.⁸

Form 3: Semi-proletarian Farm Workers with Chinese Characteristics

From a contracting company's perspective, a long-term solution to the middleman problem can only come from gaining greater control over the growing and harvesting process and changing farmers' incentive structure. In practice, agribusiness firms establish production bases by renting the land (use rights) from the collective owner, the village, and hiring village residents, who, as members of the collective, are entitled to land use rights, as company employees to work on the land. In some cases, rural households still work on the piece of household land allocated to them by the collective – although now rented to the company base – growing whatever the company asks them to grow. In other cases, land is consolidated and household boundaries erased, farmers simply work for the company on company land. Even when farmers continue to work on the allocated household land, a profound change has happened: they are now only providing labour in the production process, while the land use rights – and the right to dispose of

harvest from the land – are controlled by the company.

To this form, we add the appendage “with Chinese characteristics” because we argue that without the unique institution of collective land ownership and individualized land use rights in rural China, this form might not come to pass. The companies that are forming the base typically establish the contractual relationship with the village collective authorities, not with the individual farmer as is the case with the contract farmer. Because the collective land ownership restricts village authorities from disenfranchising rural residents from their land, it also restricts companies from denying rural residents jobs on company production bases. Without such a restriction, an enclosure movement led by these companies could easily have thrown many farmers off their land and into the army of reserve labour. In this way, farmers become semi-proletarian, in that they still have an entitlement to collective land (and in fact often receive rent for renting out this means of production to the company), yet at the same time, they have to sell their labour to the company for wages. In a sense, these farmers trade their land use rights for jobs. Their entitlement to collective land gives them entitlement to company jobs, and thus, in one sense, they “own” or have rights to their jobs in a way unlike proletarianized workers.

One of the examples of this form, Taiwan's Qianhui Flower Company, based in Chenggong County, Yunnan, rents 70 per cent of its land from collectives through contracts of at least seven years. It then pays members of the household a monthly wage to grow and harvest the flowers on their own land. This company currently has 10 such bases throughout Yunnan, giving it different environments in which to grow a wide variety of flowers. This company emphasized that once the household is contracted, the farmer cannot individually withdraw their land from the arrangement, because the land is contracted through the village committee to the base. Qianhui does not have a big problem with middlemen. Considering selling the product to outsiders to be a criminal issue, Qianhui works with local law enforcement to enforce their contracts with farmers.

Although these semi-proletarian farm workers with Chinese characteristics do benefit economically from this type of arrangement,

they clearly lose autonomy and the greater economic benefit that commercial or contract farmers have. Compared to contract farmers, semi-proletarian farm workers not only have relinquished use rights over their collective land (although they often receive rent for that), they are also subjected to tighter company control in the production process. As a result of both, unlike contract farmers, they totally lose control over the harvest. While the company pays wages to farm workers, it also takes profits from the surplus that would otherwise belong to the farmers. Farmers are also largely deprived of the opportunities to undercut company's domination by selling to middlemen for higher margins. Despite these shortcomings, when rural residents lack capital and know-how, and will often benefit financially by making this sort of arrangement with agribusiness. From the company's point of view, this form is a relatively painless way to obtain control over farm land and overcome the middleman problem. However, companies have also found other ways to obtain even greater control over their employees, the production process and the harvest.

Form 4: Semi-proletarian Farm Workers

Under this form the company owns or otherwise controls the land of its production bases, and hires rural workers. The farm worker, who migrated to the company's production base, still possesses use rights over his or her own land, but their land is elsewhere – and has usually been rented out to relatives, neighbours or entrepreneurs. Hence, the labourer is classified as “Semi-proletarian Farm Workers”: they sell labour for wages, yet still retain access to some means of production, although not directly used.

The Dahongpo Coffee Plantation in western Yunnan province controls a base of some 7,000 *mu*, of which 4,500 *mu* is currently cultivated with coffee plants. The company leases land that was previously classified as wasteland – mostly on mountain slopes – for its base with long-term leases that expire in 2030. The company got capital support from the Bank of Agriculture and an ear-marked World Bank loan to invest in infrastructure building. The local government was also involved in the early years in attracting poor peasants to come and grow

coffee on the base. The entire process of growing and harvesting is tightly controlled by the company. Like most others of its kind, this company provides land, training, fertilizer, pesticides, seeds and other inputs. The company has a hierarchical organizational structure in place to supervise farm workers. The company passes down orders through this hierarchy to farm workers on every production procedure, ranging from when to apply fertilizer and pesticide to when to start harvesting. Materials such as seeds, fertilizers, and pesticides are also distributed from the company, through the teams and down to each worker family. The company does not charge rent from the workers, but establishes a production quota for each *mu* of land. The company and farm worker split the within-quota harvest on a 6:4 ratio, and 100 per cent of the sales from above-quota harvest belongs to the farm worker. Company representatives acknowledge that the harvest belongs to the company, but argue that the company chooses to give workers a share in the harvest – in lieu of wage – in order to attract workers. The company's control of land and close monitoring of the entire production process means that farm workers here have much less flexibility in comparison to the contract farmer, who work on their own land. Farm workers not only have great difficulties in “stealing” the harvest and sell it to middlemen for higher prices, as the company can relatively easily determine the output from each household's plot, they also face dire consequences if caught doing so – the company considers such selling to outsiders theft of company assets and will kick the workers off the farm as punishment.

This company leaves the impression of a benevolent employer. Not only it gives farm workers a generous cut in the proceeds from the harvest, it has also provided land for migrant farm workers to build their own housing (this is also out of necessity, so that workers can live in the field and tend the crops more closely). The easy availability of “undeveloped land” in the area and the relative tight labour supply (the area has a large minority population, who are less receptive of the idea of becoming hired employees) means that the company has to offer better terms to attract migrant labourers, whose access to entitled collective land at home also serves to strengthen their bargaining power.

Many companies that operate production bases in this form are constrained in a similar way: the large area of land they can gain control of is rarely prime farm land, but reclaimed wasteland of various sorts, located in remote areas, another legacy of China's collective land system. During interviews, company representatives repeatedly stressed that had they had access to better farm land that is not burdened with a population of entitled villagers, they would not have bothered with the wasteland they currently used. When facing the choice of renting collectively owned land and then hiring villagers versus opening up wasteland and hiring migrant labourers, many companies eschewed the former for the complex relations it creates between companies, village authorities, and villagers. From the farm worker's point of view, however, while the company provides job opportunities that would not otherwise exist, their power base is quite constrained, resting in the form of escape clause – the land back home that the worker retains.

Form 5: Proletarian Farm Workers

The final form discussed here that has emerged in China is similar to the previous type, except that the farm workers are landless labourers without major viable alternative livelihoods. The Beigui Coffee Company started off in the 1980s as a TVE under the prefecture Supply and Sales Cooperative (SSC, *gongxiao she* 供销社) in Yunnan's Simao Prefecture (now Pu'er Municipality), and reformed to a stock-holding company in 1998, with the SSC holding the majority stake, and workers each holding shares. Of the 10,000 *mu* base that the company controls, half is rented from farmers and half was previously classified wasteland that the company leased long-term (50 years) from the village collective. The operation involves 2,000 farmers, most of whom are stable farm workers who move their entire families from poor areas, primarily Zhaotong Municipality in northeastern Yunnan, one of China's poorest regions.⁹ However, unlike the previous forms, the company encourages peasants to give up their land rights in their home villages and to obtain a local permanent resident permit, which, however, does not grant them any entitlement to collective land. These relocated migrant workers thus become second-class citizens in their adopted villages – they are

members of the villages, their children can go to local schools, they have most of the political rights of any other villager, but do not have access to collectively-owned land.

This arrangement makes the farm workers closely dependent on the company. Workers can earn income from three sources: first, for each *mu* of coffee shrubs under their cultivation, they earn a labour wage of RMB 15 yuan; second, as a bonus to give workers more incentive, the company also pays a weight-based purchasing fee for the coffee beans workers yield; and third, workers can also earn a picking fee during peak harvesting season if they are hired to do picking for the company. Like Dahongpo, at Beigui, the company also takes total control over the production process. Given the larger size of Beigui (2000 workers in 600 households, compared to 600 workers in 168 households at Dahongpo), the company organizes their production in a three-tiered hierarchy: company – farms – teams. While team leaders are selected from farm workers, managerial staff at the farm level is full-time employees of the company. Overall, the company is supervised with more than 30 salaried staff, managing the production process in a top-down manner.

The company argues that the farmers as a result are far better off than they were. Given that these farmers are from one of China's poorest areas, and that they do migrate to Baoshan voluntarily, that is likely to be true. The company estimates farm workers earn between RMB 20,000-30,000 yuan per household, which is far higher than the net rural income of any county in Zhaotong prefecture. While these poor farm workers likely benefit financially to some degree and even emerge from poverty, in terms of political and social power, they are the weakest among the forms that we have highlighted here. Since land acts as a type of insurance policy on which poor farmers can often fall back as they migrate or take other risks in order to improve their livelihoods, the fact that Beigui asks farmers to switch their household registrations, in effect giving up their rights to land, makes them unusually dependent on the company and base. On the other hand, the company's need to attract farmers to work on the base limits the extent to which they can exploit this dependence.

More interestingly, these migrant farm workers are relocated in villages where farmers have their own land usage rights. Therefore, in that same village, we find two classes of farmers live right next to each other, yet in contrasting conditions. Most of the relocated landless farm workers live at the centre of the village in houses built by Beigui, with some living sparsely in the field – also in company built housing. Other residents, on the other hand, who have become wealthy growing vegetables and other commercial crops, live in self-built houses on their own land, surround by coffee groves. Although these two groups of villagers do socialize with each other, a sense of distinction between the two is palpable through our conversations with both.

3. Agribusiness, Scaling-up and the Modernization of China's Agriculture

In some rural areas in today's China, the central government's vision of a "second leap" into a modern agriculture has become a reality. The household-based, small-holding agricultural production reinstated by the HRS has been transformed into specialized, commercialized, vertically integrated, and larger-scale agriculture that is competitive on export market. Shouguang County in Shandong province, for example, boasts the largest vegetable production base and vegetable trading market in the country, with hundreds of long-haul trucks departing daily to ship vegetables to all corners of the country. The entire county's farmland is fully covered by greenhouses for growing vegetables. Chenggong County in Yunnan, where agriculture has shifted entirely to commercial flower and vegetable production, now houses the largest flower trading and auction market in Asia, ships fresh cut flowers to markets in neighbouring Asian countries as well as the United States, and is projected to become in 10 to 15 years the biggest flower producer and exporter in Asia, if not in the world (Bradsher, 2006).

The diverse ways agribusiness enter agriculture and interact with direct producers, as we documented above, show how distinctive characteristics of China's rural institutions create unique patterns in China's path toward agrarian capitalism. The relationship between

agribusiness – representing capital from local, urban, or even international origins – and direct producers will become the most important relationship in the new scaled-up, vertically integrated, modern agricultural sector and the relationship that shapes China's rural society in coming years. Our research underscores how this relationship is shaped by the system of collective land ownership and individualized land use rights of rural China. This system has proven to be not only adaptable, but in fact, conducive to development of rural markets and agricultural modernization. The separation of individualized land use rights from collective ownership has allowed land rental markets to develop rapidly. Land rental markets then facilitate the circulation of land and consolidation of parcelized land into larger operations, paving the road for scaled-up production needed by agribusiness.

On the other hand, the collective ownership protects agricultural producers – to various degrees – against the domination, exploitation and dispossession by outside capital. Nearly all of the companies that we interviewed expressed a desire to expand their production bases. While China's paradoxical lack of skilled and educated labour constrains to a certain extent the ability of companies to achieve this, the primary barrier to expanding bases is the lack of land – or, put in another way, the difficulty in wresting control over collective land from rural households. In fact, many companies and entrepreneurs that have formed bases have to do so on previously unproductive land that they themselves have opened up. For many companies however, the lack of undeveloped space means that they must expand through using land that is currently farmed by small rural households. In many other countries, in such battles pitting powerful corporations against unorganized small farmers, the rise of agrarian capitalism proceeded in a *Grapes of Wrath* fashion, with capital owners consolidating land through dispossessing smallholding farmers. In China, farmers' protected land rights under the collective ownership provide them nearly the only piece of political power over the companies. As a result, agricultural modernization in rural China so far has progressed in the more equitable ways as we described above and has not created an expanding army of landless vagabonds.

To be sure, there were cases of companies throwing around their political weight. For instance, village collectives can commit farmers to renting out their land to company bases, one pathway (Form 3) to the creation of semi-proletarian farm workers. One entrepreneur used his pull with local authorities to have forested land reclassified as wasteland, allowing him to purchase it from the village and create a privately owned and operated commercial orchard. He then used help from his brother-in-law, who was the village head, to form the base on favourable terms. Despite the use of company power, however, in no case did we encounter land grabs in order to form production bases, even though this would solve the shortage of farmland, a major constraint for companies and entrepreneurs, who would doubtlessly benefit from it. Some companies in Yunnan, unhappy with the restrictions they faced under China's collective land system, have in fact ventured into Laos, Vietnam and Myanmar to acquire land and expand their production.

Over thirty years ago, the Household Responsibility reform established the institution of household-based land use rights under collective ownership, giving Chinese farmers an economically inalienable entitlement to land – a crucial resource that is denied farmers of most other countries. Indeed, this institution was so important and effective in restoring farmers' incentives that within a few short years after the reform started, poverty rates plummeted. Today, even as many farmers turn to – and even prosper from – off-farm jobs, most manoeuvre to maintain their land rights back home, for these rights provide a type of insurance policy that diversifies income and protects against misfortune. However, critics worried that Deng Xiaoping's reforms would permanently condemn China and her farmers to inefficient, low-tech, small-scale, traditional agricultural production. Indeed, these shortcomings of the household responsibility system, together with policy changes unfavourable to the agricultural sector, have resulted in rural stagnation in the 1990s. As a result, the government seeks ways of expanding production through vertical integration and other forms of modernization. At their base, these plans and approaches require an increase in scale of production. In this process, China's central government faced a crucial dilemma: the

productive potential of these small plots of land have apparently been reached, but how to modernize agriculture without taking away farmers' household-based land use rights? This paper has revealed one of China's solutions to this dilemma, one that allows agricultural production to expand and modernize without eliminating the crucial institution that benefited hundreds of millions of farmers. The collective land ownership has proven to be a flexible system that allows agribusiness and scale production to grow through a variety of forms, while maintaining a modicum of rights and material benefits for China's farmers.

Notes

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1. There are numerous areas in China, especially in wheat growing areas, where mechanized farming still prevails.
2. It is, however, a debatable issue as to whether land consolidation really leads to productivity gains. If farm size increases, but not to the extent of allowing mechanization and not associated with increased labour input, land productivity may actually decline due to reduced per unit labour input and a lower intensity of land-use. Land consolidation has to be carried out in certain specific ways – e.g., moving land to more efficient users – to increase productivity. See Q. Forrest Zhang, “Retreat from equality or advance toward efficiency? Land markets and inequality in rural Zhejiang”, *China Quarterly*, Vol. 195, 2008, pp. 535-557, for a discussion.
3. Throughout this chapter, we use “agricultural modernization”, or “modern agriculture”, to refer to the mode of agricultural production as described by the set of policy goals stated in the above, including specialization, vertical integration, corporatization, commercialization, and large scale. We, however, refrain from making claims about whether this modernized agriculture is necessarily more efficient, which is an empirical question that needs to be answered with data.
4. The scaling up here, however, does not necessarily mean production needs to be done at a supra-household level. It could simply mean more households in a region shift to growing a certain crop, so the scale of production for that crop increases in a region.
5. 1 *mu* 畝 = 0.0667 hectares.
6. A further 40-50 per cent of their production comes from a more formal contract with village governments, Form 3 in our typology. Thus, this case, as with many others, produces through multiple forms.
7. In their survey, Guo, Jolly, and Zhu (2007) found that only 27.3 per cent of contracts in their survey featured a price floor, with 23 per cent based on a fixed price. The remaining 44 per cent of these contracts were based on the market price, offering farmers little protection.

8. This is consistent with a survey conducted by China's Ministry of Agriculture that reveals among the different types of relationships between farmer and firm, the proportion of contract farming relationships dropped from 70.8 per cent to 49.0 per cent. See Niu (2002), also reported in Guo, Jolly, and Zhu (2007).
9. Mr Chen, described above, is an exception, having worked for years for Beigui as a temporary worker.

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