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## Research of property rights institution in Chengdu's urban-rural integration development : a case study

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### Abstract

With the case study of Liujie Town of Chengdu, which carries out the property rights institution reform, this paper reviews the change of Chengdu's property rights institution, and analyze its reform measures in rural-urban integration development and the relationship between these reform measures and economic growth, and explores the possibility of a wider application of Chengdu Experience to other cities in China.

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### 1. Introduction

During the last 30 years of reform and opening-up, China has witnessed a great development, but there is still a big economic development gap between urban and rural areas. In 2003, China's central government put forward the new guidelines of scientific development and rural-urban integration. To reverse the trend of continuous expanding gap between urban and rural areas, the central government gives the top priority to the Three Nong Issues concerning agriculture, rural areas and farmers. But the trend of continuous expanding gap between urban and rural areas still cannot be turned. The interface and the inequalities between rural and urban are often quite obvious in many Chinese cities. According to public report (South China Agriculture, 2010, p.7), there are many big issues of urban-rural overall development, one of them is about the lack of any clearly institution of rural property rights that is a legacy of the old communist system. With the historic and actual factors, the economic, social, political and cultural backgrounds taken into consideration, the establishment and improvement of property rights

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institution in rural areas is a complex and systematic project. Therefore, it's very urgent and necessary to study the experiences or lessons from local government's reform on property rights institution in rural areas. In June 2007, the Chengdu and Chongqing governments were designated by the central government as experimental areas to explore the possibilities of urban/rural reform and reconciling many of the issues and conflicts that exist and removing some of these interface problems. Through the establishment of a rural property rights institution and many other measures, Chengdu has made great achievement and is bringing about a degree of balance between urban and rural development.

## 2. Method

This study used a four-stage approach to investigate the property rights institution in Chengdu. A critical review of literature provided a framework for tracing the research of property right. A brief history of property rights institution in rural areas of China give the research a compare background. Case study explored the process and experience of the property rights institution reform in Chengdu. Finally, by reviewing the change of Chengdu's property rights institution, and analyzing its reform measures in rural-urban integration and the relationship between these reform measures and economic growth, and summarize the experiences and limitations which is necessary for exploring the possibility of a wider application of Chengdu Experience to other cities in China.

### 2.1. literature review

Property rights mean the owner has relevant rights to his property. In the theory framework of traditional classical economics, economists didn't pay much attention to the property rights. According to the fundamental tenet of neo-classical economics, economic development rests with the input of land, capital and labor. After the World War Two, many scholars studied on the experiences and lessons from the 3rd world countries and regions' development. People began to pay attention to the property rights analysis. In this process, Ronald H. Coase's trail-blazing study soon attracted other economists' interests. In his speech at the prize-giving ceremony of The Nobel Economics Prize, Ronald H. Coase pointed out: "The Problem of Social Cost indicates: what transacted in market is not the tangible substance, but the right to take certain action. These rights are owned by people and stipulated by laws." (Yi Xianrong, 1998) Afterwards, more and more economists focus their study on the origin and change of property rights institution. The Coase Theorem establishes the relationship between transaction cost and property rights. Following Ronald H. Coase, Armen A. Alchain, Harold Demsetz, Steven N. S. Cheung and other economists greatly advance the study of property rights. According to them, the property rights are the owner's exclusive possession and utilization to resources, and whether the property rights are delimited and how to delimit the property rights directly affect people's cost and profit.

Upon its introduction into China in 1990s, the theory of property rights institution attracted great interests from Chinese economists. By applying the theory of property rights institution, many scholars made some profound study on the sustainable development in the rural-urban integration. In *Institution, Technology and Rural Development in China* (Justin Yifu Lin, 1992), Justin Yifu Lin makes a special study on institutional environment for China to develop its agricultural economy. In *Rural China's Centenary Reflection* (Wen Tiejun, 2005) Wen Tiejun analyzes the rural land institution that contributes to the bankruptcy of China's rural economy in modern history, and the excessive deprivation of farmers by industry, commerce and financial capital in the process of commercialization of rural economy. Combining the theory of property rights institution and China's specific condition, Wen Tiejun advocates that the institutional innovation of rural collective economic organizations shall be carried out in rural areas, thus to stabilize China's social structure both in rural and urban areas (Wen Tiejun, 2005). In *Property Rights and Institutional Change* (Zhou Qiren, 2004) by Zhou Qiren, Land, Institution and

Agriculture Development (Yao Yang,2004) by Yao Yang, and other works, scholars, basing on empirical study of China's 30-year reform, systematically summarize the relationship between the property rights institution in rural and urban areas and economic performance, greatly enriching the theory of property rights institution.

## 2.2. *The history of Property rights institution in rural areas*

In the economic practice of 60 years since the founding of the People's Republic of China, the land property rights institution in rural areas has gone through several reforms.

early period of the founding of the People's Republic of China(1949-1953):

Agrarian reform abolished feudal landlords' private land ownership and established farmers' private land ownership. The feudal landlords' private land ownership is very irrational. The landlords, accounting for less than 1% of the total rural population, occupy 80% of the land in rural areas, while the poor farmers, accounting for more than 90% of the total rural population, occupy only 20% of the land in rural areas(People's Publishing House,p4). Upon the founding of the People's Republic of China, the central government carried out a downright reform on the irrational land property rights institution in rural areas, establishing the 1st land property rights institution in rural areas in the history of new China—land belongs to farmers and households manage the land separately.

Property rights institution in rural areas during People's Commune Period (1953-1978)

Agricultural Cooperative Movement and People's Commune Movement—transition from farmers' private land ownership to collective land ownership with uniform management Essentially, the Agricultural Cooperative Movement is another reform on the land property rights institution in rural areas. This reform has realized a gradual transition from the farmers' private land ownership with individual management to the collective land ownership with collective management. The basic framework is as follows: Most land ownership, macro-management and a bigger proportion of profit-seeking rights belong to the state through strict planting plan and state monopoly over purchase of agricultural products. The incomplete land ownership, actual operation and limited disposal and part profit-seeking rights belong to the collective. As the owner of the cultivated land and the actual undertaker, farmer households just enjoy passive laborer's right and certain profit-seeking right.

Property rights institution in rural areas during the early period of the reform and opening-up(1978-1990):

Since the 3rd session of the Chinese Communist Party's 11th Plenary Meeting in 1978, China's property rights institution has once more experienced a big reform.Under the household's contracted responsibility system with production, the land property rights institution transformed from the collective land ownership with uniform operation to the collective land ownership with the household's contracted management with production. The conspicuous feature is to separate the ownership from the land-use right, the ownership attributed to the collective organizations and the land-use right attributed to farmers' households. Under the guidance of the theory of the separation of two rights, the household's contracted management of collective land created an outstanding achievement, which attracts the attention from the world.

Property rights institution in rural areas since 1990s

In its actual land operation, China has taken some reform measures and witnessed some changes in the land property rights institution at varying degrees, comparing with the collective land ownership with farmer households' right to contracted management of rural land. Now, China's land property rights institution is experiencing a great innovation,

## 2.3. *Case study*

Since the year of 2003, Chengdu City has been exploring and implementing the general strategy of

maintaining a coordinated and sustainable development between rural and urban areas. Differentiating from the traditional urbanization mode which puts most emphasis on city's interest, and separates the rural area from urban area, Chengdu is striving to explore a new urbanization mode in which the development between rural and urban areas will be maintained side by side and reach a win-win situation for both the urban and rural areas. The core of Chengdu's rural-urban integration is "Three Concentrations": the concentration of industries in development zones, the concentration of rural population in township, and the concentration of land for scale operation. And the property rights institution reform is the fundamental measure in addition to providing more financial support to villages and farmers.

To explore the property rights institution reform, Liujie Town is selected as a study case which carries out the experiment work with Initiates the confirmation of rural property rights. Liujie Town of Dujiangyan City, with a population of 43 thousand and coverage of 70 thousand Chinese Mu including 41 thousand Chinese Mu of cultivated land and 12 thousand Chinese Mu of rural construction land(From the Website of Local Government, <http://ljjz.djy.gov.cn/>). In recent years, Liujie Town's development has been restricted by many factors. Many households are busy themselves with ploughing as well as working as migrant workers in other places; the change of population leads to the change of the boundary of the contracted land, and the lands are more fragmented with a low specialization, therefore, the potential of scale operation cannot be brought to full play; local farmers live separately, covering many construction lands, and these construction lands cannot be invested to develop local industry, commerce and tourism. All these issues have connection with the circulation of the land-use right to the rural land.

#### • **Step 1: Right conformation**

In March, 2008, Liujie Town began the confirmation of the ownership of collective-owned land, land-use right to contracted management of rural land, right to rural housing land and the ownership of houses in rural areas. The most important contribution of Liujie Town's experiment is to explore a practical right-confirmation procedure, and what calls most attention is village council. Formerly, the boundary of the property rights have changed repeatedly during a long time period, in which formulation, amendment and abolition of the laws, regulations and policies further complicate the situation. Although there lacks reliable written documents for outsiders to understand the actual condition, the parties concerned have some faint memory about it. The question is, those who were once in charge of these affairs and have memory about this are elders, and most of them are now out of position. So, every 5-15 households choose one elder, and the chosen elders form the village council. The basic function of the village council is to review the result from investigation and survey, and especially collate the deputed cases. As preplan for right-confirmation, the review result is publicized for demur. After repeated communication among stakeholders and accepted by them, then the right-confirmation plan is reported to the government.

#### • **Step 2: Certificate-granting**

After official publicized procedure and without further dispute, the relevant government then officially confirms the rights and grants relevant certificate, including the Ownership Certificate of Collective Land to the collective economic organizations, and the Land-use Right Certificate of Collective Land and Ownership Certificate of House, Contracted Management Certificate of Rural Land and Land-use Right Certificate of Collective Forest to farmers. The right confirmation and certificate-grant not only make clear the collective economic organization's ownership to rural land, but also fully collate the integrality of land-use right to rural land including the redefinition of collective economic organization and its members, guarantee of the long-term stability of the right to contracted management of rural land and the right confirmation of rural housing land. On top of the aforesaid 4 certificates, the government also grants

farmers two cards, namely, cultivated land protection card and endowment insurance card.

### • Step 3: Land Operation

The third step of Land operation is under way. The operation mode include :land-use right to woodland and construction land (Loan);Land-use right to constructed management of land(Loan)and operator of scale agriculture.

Now, the right-confirmation has developed from a comparatively abstract policy objective into one practical procedure including mobilization, survey, investigation, measurement, review by village council and disclosure, official publicity and certificate-granting. According to Duojiangyan government's statistics, till April, 2009, Duojiangyan has finished 80,000 households' right-confirmation and certificate-granting among the total 110,000 households(Research Team with National School of Development,2010,p.209).



Fig.1. After the ceremony of issuing the certification of property right in Heming villiage, Liujie Town Dujiangyan. A famer with his new certification.

### 2.4. Assessment

Following the experiment of right confirmation of Liujie Town, Chengdu also carried out the experiment of right confirmation in other experiment villages in its different districts and counties, clearly defining farmers' and rural collective economic organizations' rights and duties to the contracted management of rural land, rural housing land, collective construction land, rural houses and forest. By the end of 2008, Chengdu had carried out the right confirmation work in 1,676 villages of 222 towns and townships in the whole city, involving 1,195,891 households, completing the investigation of 1,039,268 households, the mapping of 827,261 household's land, the publicity of 570,977 households' right confirmation and the certificate-granting of 314,949 households. The confirmation of land property rights provides an institutional arrangement for farmers to own legal wealth concerning land property right, and

lays a solid foundation for farmers to increase their income by a great margin(Chengdu Rural-Urban Integration Commission, 2009).

With the reform like Liujie Town, Chengdu's development provides us a different picture from other area of China. In 2008, 5 years since the initiation of rural-urban integration strategy, the ratio of income between urban and rural areas is 2.61:1, which not only turns the gradually ascending tendency over past 20 years, but also narrows this gap by 1.1%, comparing with that of 2003. It shall be noted that this is not the result that Chengdu people's income increases slowly in the urban area. In fact, from 2003 to 2008, Chengdu people's disposable income increases by 1.76 times, almost equal to that of Beijing people (1.78 times), Shanghai people (1.79 times), Tianjing people (1.88 times) and Chongqing people (1.78 times). The key reason is that Chengdu people's income increases faster in the rural area by 1.77 times in the past 5 years, higher than that in other four cities ( Research Team with National School of Development, Peking University, 2010, pp.2-3.).

### 3. Discussion

#### 3.1. *Effects of Property Rights Institution on Mode of Economic Growth*

- The reform on property rights institution in rural areas strengthens farmers' right notion and property awareness.

The confirmation of property rights in rural areas is a guarantee to farmers' subject status. In this process, out of their own initiative, Chengdu farmers set up village council that plays an important role in resolving the historic problems and realistic conflicts arising from the confirmation and certificate-granting of property rights. As an innovation in the reform of property rights institution, the village council aims at respecting farmers' will and protecting their rights,

- The reform on property rights institution promotes the circulation of land resources and transforms the mode of production in rural area.

The innovation of the property rights institution in rural area accelerates the scale circulation of rural land.

- The reform on property rights institution promotes the flow of labor forces and changes farmers' living style

After the land-use right has been circulated, farmers not only can get more rent, but also gain salary income. this also accelerates the urbanization of Chengdu City. In 2008, Chengdu increased its urbanization ratio to 63.58% from 62.58% in 2007(Chengdu Municipal Academy of Social Sciences).

- The reform on property rights institution turns the capital flow between rural and urban areas

Based on the right confirmation of the house and land-use right, the market barrier between urban and rural areas has been gradually broken, facilitating the circulation of production factors between rural and urban areas.

In 2008, the land-use right to 34,546 tracts of land has been circulated, involving RMB 1,535,000,000 Yuan. Among them, the right to contracted management of 27,951 tracts has been circulated, totaling 176,200 Chinese Mu, the forest right of 1,499 tracts has been circulated, totaling 313,900 Chinese Mu, the right to use 5,003 tracts construction land has been circulated, totaling 8,566.9 Chinese Mu and the use right of 93 rural houses has been circulated, totaling 21,400 square meters(Chengdu Municipal Academy of Social Sciences).

#### 3.2. *experiences*

The following experiences from Chengdu Practice may find its application in other cities in China:

- a) Carrying out right-confirmation work on rural resources. Through just procedure, make clear the

land property rights, translating resources into assets;

- b) After right-confirmation, register the land ownership, land-use right and home ownership, and grant relevant certificates.

In a word, the right-confirmation is the basis, circulation is the objective and the return and empowerment of property rights is the ultimate. Without breaking the current laws and regulations, the experiences on the institutional change from Chengdu Practice may find a wider application in other places in China in their respective rural-urban integration.

### 3.3. limitations

Taking the perfection of the property rights institution and establishment of the uniform property rights circulation system between rural and urban areas as one important way to narrow the gap between rural and urban areas, Chengdu have scored initial achievement, and this exploration is continuing. Chengdu Practice has its own limitations, such as the restriction on economic calculation between owners of the property rights exerted by state's tax-fee system, the discrimination against collective construction land and the hindered circulation of rural home ownership. The breakthrough on these limitations need the amendment of relevant laws and regulations.

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