

## A study on village economic cooperative in the city of China

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### Abstract

According to the 2012 social blue book released by the Chinese Academy of Social Sciences, China's urban population reached 50% in 2011. With the migration from marriage and new household registration, many urban collective assets have been formed in cities. Due to the unclear property rights and the emptiness of the main body, the distribution of collective assets mostly depends on the village cadres. The central government is preparing relevant laws and regulations to fill this legal gap, while the scheme of restructuring is decided by the villagers' vote, the local government coordinate the land acquisition and management. With the process of urbanization, a large number of second-generation of demolition studied abroad, which has attracted worldwide attention. In addition to the huge amount of compensation, due to the continuous rising of the land price, the value of the collective property and enterprises on the land also keep rising, the management agency of these assets is named village economic cooperative. This paper seeks to analyze the current status and future direction of these wealthy organizations, propose solutions to some existing problems.

**Keywords:** Village economic cooperative; Village in the city; Collective enterprises charter; Cooperative land development; Case study

### 1. Introduction

The Communist Party of China created the new China under the guiding principle of encircling the city in rural areas. After 1949, land reform was implemented and the outline of the Land Law was promulgated that allowed farmers owned their own land. During the period of the people's commune phase before 1978, the ownership of the commune was not clarified for the collective or government. But within two months after the promulgation of the 'China Resolution', 740,000 cooperatives in the nationwide became the people's commune. The proportion of farmers in the commune reached 99%, but this mechanism of average distribution greatly affected the enthusiasm of the people in economic activities and officially withdrew from the historical stage after 1978.

In the early years of reform and opening up, Chinese government adjusted the land policy and no longer adopted the method of free confiscation. Instead, it gave farmers certain compensation and resettlement fees to protect the basic living conditions. In the 1990s, rural economic cooperative was at the initial stage of development, and the 'planned economy' was gradually replaced by the market 'economic system'. Relevant departments of the China begin to establishing corresponding laws and regulations which clearly indicate that

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land acquisition is different from the concept of land requisition, and seeks to formulate reasonable compensation measures. By the 21st century, the economic cooperative is in the stage of quality and connotation development, agricultural products of farmers' cooperative economic organizations have begun to emerge in the world market. More and more shareholder in the village economic cooperative study or travel abroad, causing Chinese people could be found everywhere around the world now.

After 2010, the average price of buildings in most second-tier cities has exceeded 10,000 yuan per square. Urban development has generated huge compensation, which was hundreds of millions yuan or more, especially in recent years, bring about a large number of 'second generations of demolition'. The village economic cooperatives as a new type of economic organization have the functions of resource development and utilization, asset management, production development and income distribution.

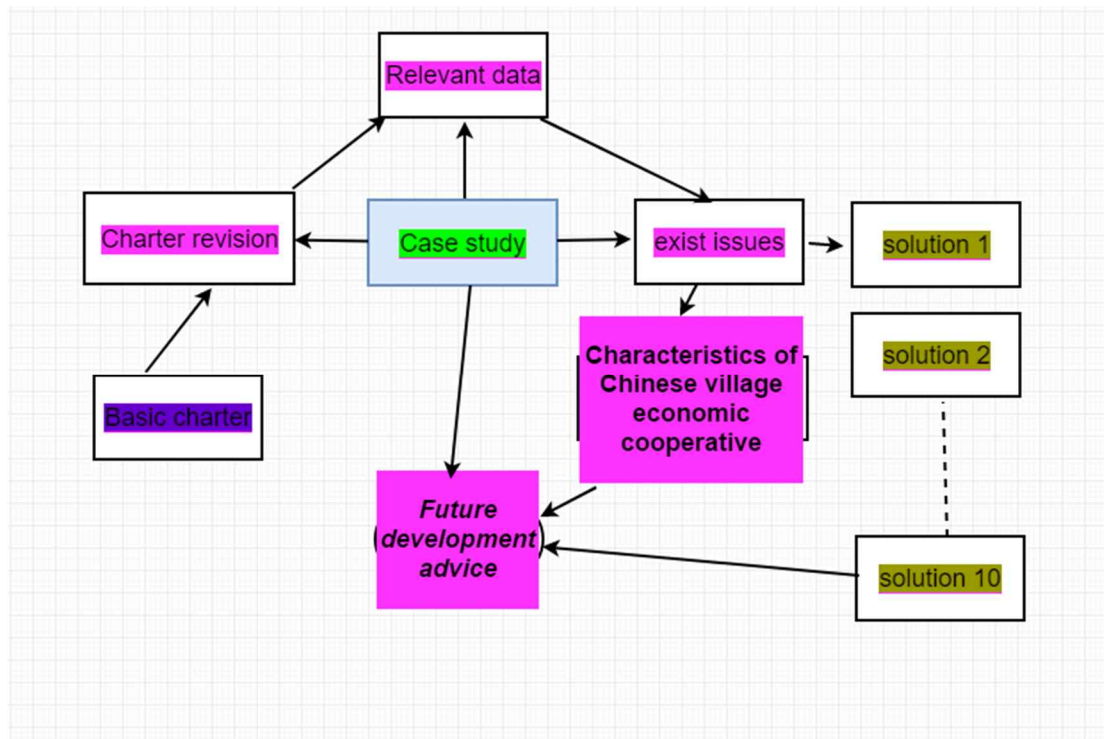
The distinctive feature of China's urbanization is the government's dominance, the two major institutional backgrounds are the household registration system and the land system. Under the influence of the interaction between these two systems, there have been many problems with distinctive Chinese characteristics such as migrant workers, urban villages, and urbanization of land [1]. Moreover, the low enthusiasm of collective enterprise employees leads to poor efficiency, which force the Chinese government began to push the collective assets switch from collective ownership to private ownership after 2000. Although all levels of government departments have issued relevant policy documents to guide the enterprise restructuring, these policy and regulation still lack of legal basis, and the details and specific process of the policy implementation is rarely open to the public. Thus, in the era of government information disclosure, this research has great significance.

The collective property rights are relatively vague. The Land Administration Law does not clarify the main body of collective land ownership is the production team, the village government or the township government, leading to a false ownership of the subject, named subject vagueness and subject dislocation in academic circles [2]. In 2019, the largest urban village in the central area of Guangzhou will be rebuilt and the redevelopment area with 240,000 square meters can be sold after paying the land transfer fee. It means that if the economic collective can organize the negotiation between government and villager to make a consent, the collective land be legally converted into private property for sales in China.

Due to the underdevelopment of China's education in the past, the cultural level of village economic cooperative leaders is quite low, and there are few high-level academic research works in the field of the village economic cooperative, this subject is novel with many innovation possibilities.

## **2. Research Methodology**

This paper attempts to build a three-dimensional analysis framework of historical changes, interest analysis and spatial expansion, analyze the existing problems of the current economic cooperation and seek the way of development for rural joint-stock economic cooperatives. It must be noted that, similar to the banking law and the company law in China, the main body of the charter of the economic cooperative is an important basis of the law, and it is the legal basis for all economic cooperative activities such as equity distribution, election system, and secured mortgage. The amendment and supplement of charter need to be approved by all shareholders' congresses. The rules and regulations of the organization should be adjusted and developed in accordance with the actual operation and management, which is not appropriate to copy the experience of others. Thus, according to the problems left over by history based on Chinese cultural characteristics, this paper will investigate the specific data from case study, though the implementation of the charter and the revision from the basic charter in this case, to analyze the reality and provide solutions from 9 aspects.



**Figure 1: Methodology and Approach of Analysis**

Through the follow-up investigation of this typical case, this paper dynamically shows the process of the villagers' reform behavior and institutional change, with deeply understanding of the rules after the villagers' reform under the influence of the macro institutional environment. Through the introduction of leaders in this organization, the author has also chatted with the members of the board of directors or the board of supervisors from the nearby economic cooperation agency, including C Village, H Village, Y village and Z village, participated in lots of villagers and government meetings.

### 3. Case Study of Hangzhou Datieguan New Economic Cooperative

#### 3.1 Hangzhou Datieguan New Economic Cooperative

Hangzhou is the top second-tier city in China, thus we take this city's downtown area- the village of Datieguan as an ideal research object, which is very representative of Chinese cultural characteristics. Since 1998, Hangzhou City has promoted the transformation of urban villages. By the end of the Twelfth Five-Year Plan, 246 of the 286 urban villages in the main urban area of Hangzhou have completed the construction of the village [3]. In the late 1980s, a primary school leader was appointed as this village's head and chairman, and several village-level enterprises were established at that time. This agency confirmed the qualification of 465 shareholders in 2005, and invested 133.035 million yuan in the form of collective net assets including population shares of 46.5 million yuan and agricultural age shares of 86.535 million yuan. At the peak period, there are more than 300 of these 465 shareholders take a job in village enterprises. Due to the benefits relationship between collective enterprises and leaders, the contradiction between shareholders and the board of directors existed for a long time. The nature of the collective enterprise that everyone lacks enthusiasm for work lead to poor economic efficiency. Thus, under the guidance of the government, the board of directors gradually completed the restructuring of these village collective enterprises to private enterprise. However,

due to historical issues in China's law, the village head has not changed for more than 30 years. For the lack of legal basis during the restructuring, the 465 shareholders' property are mortgaged and guaranteed by dozens of people without permission. The charter clearly stipulates that collective property cannot be mortgaged or guaranteed, but the board of directors privately added this article of the charter as a supplement: shareholder representative congress vote to pass as an exception. Although many shareholder representatives regret the signing or are unaware of the truth, the bank still decided to lend money to the converted private enterprise named Heping Co., Ltd, and with the guarantee of Datieguan economic cooperative. In 2015, the main body of the mortgage which is the private enterprise Heping Co., Ltd is insolvent, the contradictions broke out. One of the nine members in the board of directors quit the original board and reorganize a new Datieguan economic cooperative. However, due to the lack of interest for several years, the bank brings a lawsuit to the mortgage subject, and the Datieguan economic cooperative also implicated for the mortgage and guarantee. In addition to being sued, as of 2019, the new Datieguan economic cooperative have successfully divested 100 million yuan of cash from original economic cooperative, several properties, and 8 lands in the core areas of Hangzhou city to be developed, the total assets are estimated to reach 1 billion. Most of the villagers in this economic cooperative do business, work in this organization, or even only rely on houses rents and share dividend to support their families. The employment structure is totally different from the rural areas of agriculture.

There are two major problems in the process of the village reform, one is the contradiction and conflict between system and interest group (process of interest distribution quantification), another lies in the most of institutional designs are operated at the village level, lacking credibility.

### **3.2 Cooperative Current situation and future land development**

The economic cooperative still has 8 plots of core lands to be develop, with the original board of directors not be able to develop due to the resistance of the restructuring of the enterprise. There was no resistance during this period but still no progress in last 5years, the current situation is that the existing institutions on these lands are unwilling to move away because of the compensation, the land planning and land nature negotiations are far from indefinite or slow progress, the new economic cooperative crew are waiting for the government demolition, and do nothing every day for the nature of collective enterprises just like before. Urban land is becoming increasingly scarce, and village in the city has become the pursuit of interests for real estate developers. In order to reduce the cost and risk in demolition and reconstruction, developers are willing to invest candidates of village head [4]. In addition to the motivation of demolition, urban land prices have soared in recent years. Compared with the high price land auctioned by the government, the low-cost land in urban villages has become a hotly contested spot for major developers.

The organization currently deposits hundreds of millions RMB in cash, and 8 lands in the city center are waiting for the development, but only rely on annual rent and interest for the dividends. The board of directors actively promoted the establishment of various types of enterprises to make better use of deposits. But the villagers oppose to the development because they are worried the board of directors will establish the company for the purpose of paying off the accounts, as well as the flaw in system and staff. Moreover, the interests of the developers, the government and the village collective have different basis. Therefore, during the reconstruction of the village in the city, the project will be delayed and cannot be implemented directly because of the interest conflicts. The reconstruction of Futian Gangxia village in Shenzhen lasted for 12 years, which has not been completed yet. It also took 10 years for Dachong village to be officially sold from 2005 to 2014, it can be seen that endless negotiations involving land acquisition, demolition compensation and interest disputes will cost a lot of time and financial costs [5].

### **3.3 Cooperative Organization**

The normal board of directors is selected to make major decisions, the positions in one organization should set the recruitment requirements and the process. But the legal vacancy in restructuring has caused the largest historical legacy issues in this organization. Some common departments (such as property unit) is overcrowded because of the personnel transfer before the restructuring. Some necessary department such as purchasing department, personnel department, investment department, legal department is in the situation of vacancy. The management system is lagging behind, the organization is retrogressive, chaotic, and even worse than the previous economic cooperative. Without a reasonable organization, the organization of the economic cooperative is currently in vain.

### **3.4 Development resistance**

#### **3.4.1 The shares allocation**

Due to the demolition time of the village, Datieguan economic cooperative successfully confirmed the list of shareholders and completed the share allocation in the early stage. Due to the lack of legal basis for the distribution, the early distribution was made by age result in the shares differed several times between the shareholders, including 121 people only have the basic population shares. The highest ages stocks are more than seven times than these 121 people who only have the population shares. Referring to the normal proportion of the population shares in the total stock is around 60% in China, the number of shareholders who have suffered great damage to their legitimate rights and interests is far exceeds 121, these shareholders were underage 20 years ago, they had been kept in the dark and did not know how to assert their rights. The old shareholders who take a job in the economic cooperative can get more than 200,000 yuan every year including the salary, while these young people can only get 15,000 yuan annual dividends. Moreover, 20 of the 465 shareholders have died since the development of the economic cooperative, the inheritance issues are also urgent to be discuss in law.

#### **3.4.2 Personnel system**

Since there is no human resources department, the current positions selection of the company is not open to the public, except for some physical labor work. The lack of a standardized process to joined company has led some young shareholders find no way to participate in the construction of the new economic cooperative, which will also cause the phenomenon of 'opening the back door' . The lack of a standardized recruitment system will result in the gangs in a small group, and this system will not push any enterprise establishment for the opposition of most shareholders, and will be no development in the future.

#### **3.4.3 Age structure**

Young shareholders' right is severely suppressed: As of 2019, the supervisory board which has 9 persons with on one under 46 years old, the board of directors has 5 persons, but still no one under 46 years old. The percentage in shareholder representative under 46 years of age is accounted for 13.9%, but under 40 is still 0. The age of other staff members is generally too large, and the phenomenon of 'nursing homes' is obvious.

### **3.4.4 Electoral System**

The new economic cooperative election system was formulated according to the charter. The first election in the early stage of the establishment in 2016 was only based on the street director's guidance. The system was extremely imperfect. The scope of the election was too narrow which was completely unsuitable for the development needs of the economic cooperative, and eventually caused the small-scale gangs again in the last 3 years which has led to the organization and system can't carry forward. The competition among the candidates is no longer the competition between the competent persons who fight alone, but the competition among the interest groups. For the sake of different interests, the candidates are willing to compete among friends and families [6]. The village election seems to change from the capable person with 'half approval' society to the interest group politics, the attitude of villagers participating in the election exist rational and irrational choices simultaneously.

### **3.4.5 Education level**

At present, the two major disputes in the economic cooperative are not only the phenomenon of nursing homes, but also the low level of education. At present, there are hundreds of staff members in this organization, but the middle and high-level talents with master's degree or above are 0, only one village representative has intermediate professional titles, which is also cause the confusion of the current management system. The negative consequences of low education level include the establishment of a debt recovery team using some traditional method such as block the door, violently drag the leaders in Heping Co., Ltd for threat, and they are not able to recover old debts through legal channels like real-name report etc. During the last decade, the rent of the collective property has not changed for many years due to the interest relationship between shareholders and the leaders, which seriously violates the law of economic development. However, rents are unlikely to rise every year, and if there is no professional knowledge and government support, this organization will not grow except the debt recover and rent increase.

### **3.4.6 Talent training program**

The key to attracting talents into the village economic is whether there is a suitable talent training program. Otherwise, even if introduce middle and high-level talents, they will do nothing every day just receive a meager salary. At present, several young people working in the economic cooperative can hardly learn anything, which is extremely unfavorable for their future development!

### **3.4.7 Charter revision**

The charter is the legal basis for the activities of all economic cooperatives, such as equity distribution, election system, guarantee and mortgage. Each session of the charter should be formulated by all shareholders' congresses. If amended or supplemented, must be more than 2/3 of the shareholders vote to agree to carried out in the next session. The new revision of this organization was only made by board of directors just like their predecessors. And the new general shareholders' meeting is just go through the scene, leaving evidence, no proposals for amendments to the charter, no plans and even no personal introductions of the leaders.

## 4. Conclusion and solutions

The current situation of the Chinese economy is in the transition from rapid economic growth to the high-quality development, the control of the quality improvement in planning and construction has become an important concern of China. The transformation of urban villages under the influence of capitalism will lead to the convergence of urban landscapes, the lack of industrial support, the difficulty of villagers' employment, and the reduction of the sense of belonging of the original communities [7]. In conclusion, not only use capital or money to promote an organization, but also the implementation of the elimination mechanism and a reasonable establishment of the management system to promote the labor enthusiasm in collective enterprises, in order to enable each collective enterprise in China to develop their own distinctive industries, create more employment and economic value in the future. The main contribution of this paper is to disclose the quantitative data from the urban villages of China's quasi-first-tier cities to reflect the existing problems: providing countermeasures and grounds for the substantial further work on this subject.

**Solution 1:** Hire the negotiating experts to negotiate with the various parties about the demolition and other affairs, even the collective land can be legally converted into private property if the experts can organize the negotiation between government and villager to make a consent.

**Solution 2:** Actively introduce middle and senior talents and strive for government subsidies. With reference to the previous economic cooperatives, they have also received a lot of government subsidies. The project participating with the government will not be set obstacles by shareholders.

**Solution 3:** The board of directors should adjust the organization and signed the personnel contract to set up hard indicators. In the beginning period, set up the position by the shareholder who want to be employed, and determined the job responsibilities according to the interview content. In the medium term, the employment system can be implemented, and the evaluation system can be implemented in the later stage, all the employees of the economic cooperative will gradually interview to determine the KPI.

**Solution 4:** Amend the charter to redistribute more reasonable equity allocation schemes, such as 60% of the population stocks, reduce the difference between shareholders to allow all the shareholders have the sense of gained.

**Solution 5:** refer to the current business unit employment standards, set a reasonable age hard indicator for staff. For example, the new leaders are no more than 50 years old, and the new employees are under 35 years old.

**Solution 6:** Revise the charter, set the basic conditions for the election, the candidate should make public speeches to allow the shareholders know their working planned in the future.

**Solution 7:** The board of directors should adjust the organization and the election system. Leaders should have a certain degree of education or expertise, change the organization form small-scale gang building with interest relationship to orderly administrative system.

**Solution 8:** The minister of human resources will be hired that the talent training program can be formulated in the early stage, and the KPI system will be formulated in the later stage. Employing external experts other than shareholders to set up independent directors.

**Solution 9:** The era of the charter changed by the board of directors should be banned in the China urbanization process. Now the network is developed and open for the discussion, the Gongshu District Agricultural Office of Hangzhou City established the "Three-Funded" mobile APP platform of the economic and social development, which facilitates the shareholders to check the assets status, financial status and shareholder equity information. As of the end of September 2018, the shareholder representatives of the 40 economic

cooperative in this district have installed APP terminals, and the platform installation rate has reached 90% [8]. It doesn't have to be a general meeting of all shareholders, but the organization can use many kinds of APP such as the ICQ or Wechat meeting to discuss, vote and advise the charter

## **5. Implications and limitations**

Most organizations with too much money are never lacking in controversy. In the past, the wealthy economic cooperatives in various places of China have a lot public quarrels and even hands-on behaviors are not uncommon due to the quality of the villagers. Many young shareholders of the economic cooperative are not concerned about the economic cooperative because their annual dividends are only more than one month's salary. However, without the economic cooperative, there are no such shares and money, similar to the stocks of listed companies, it cannot be cash withdrawal, but the average distribution of each person is actually tens or even millions of dollars invested in this kind of institution, such as Datieguan, and there even exist real estate to be dividend in the future. The major limitation of this research lies in the cultural level of villagers was generally low and their legal awareness was relatively weak, leading to the few public announcements of relevant process documents, that made difficult for us to obtain the large-scale database. With the return wave from second-generation of demolition and the development of network information in the future, this limitation could be gradually eliminated.

With the growing of China's middle-class families, housing prices are also inseparable from the policy control. In order to stabilize the housing prices, China has taken successive policies to promote the living conditions, the purpose of these policies is to ensure that every family has one house. The economic cooperatives of Village-in-City are freely formed organizations that are jointly managed by the collective and more focused on socialist ideology. China has been groping and there is very little academic research on this topic, therefore the limitation of this research is also for the theoretical vacancy: there are almost no relevant theories on village economic cooperative in the city, China government is still in the stage of preparing relevant laws and regulations while practicing. Therefore, this type of research has vast space and economic volume in the future. Nowadays, Chinese government are providing projects and funding to support the exploration of legal boundaries by referring to the systems of developed countries with similar cultures, such as South Korea and Taiwan. Recently, China has issued the "Letter on the Opinions on the Implementation Plan for the Pilot Implementation of the Use of Collective Construction Land to Construct Rental Housing in 5 Cities ", agreeing with the principle to the implementation plan for the pilot area of the collective construction land in 5 cities, including Fuzhou, Nanchang, Qingdao, Haikou and Guiyang; This year, with the successive revisions of the Land Management Law and the Real Estate Management Law, the terms of "it must be expropriated as state-owned land to enter into the market" has been deleted. Without the land acquisition from government, the land costs could be dropped significantly, and the rents would be relatively cheap after completion, which is conducive to the stability of the local rental market. With the continuous expansion of pilot cities for the collective land entering the market and the optimization of related policies, the introduction of collective land and houses should make it easier for ordinary people to rent and buy. In general, the entry of collective land into the transaction market would have a significant impact on housing prices. In addition, since the economy volume is amazing, the future organizational structure and lease operation model of the Urban Village Economic Cooperative in China would also attract the attention from government, academia and real estate developers from worldwide.

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