THE REFORM OF AGRICULTURAL MARKETING AND
SUPPLY COOPERATIVES IN CHINA

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Abstract

This paper analyzes the current reforms of the agricultural supply and marketing cooperatives in China. The emphasis of the paper is on describing the institutional changes in China's agricultural economy and stressing the theoretical reasons why the cooperatives can be an efficient marketing alternative.

This paper argues that performance of an agricultural marketing and supply cooperative is affected by its internal organization and its external relationships. These two issues are discussed in some detail with the reference to the situation in China.
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CHAPTER ONE

INTRODUCTION

Institutional Changes in the Chinese Agricultural Economy

Just as the downfall of the Gang of Four in 1976 is recognized as a major victory in the consolidation of Chinese political power, so is the 1978 Third Plenary of the 11th Central Committee of the Communist Party considered a milestone in the past three decades of economic growth and development. Since 1978, along with the issuing of the new governmental policies, economic reform has attempted to decentralize the previous economic structure and to introduce more feasible market incentives into the Chinese planned economy to facilitate the expanded commodity production in the socialist context.

The agricultural sector has led the reform process. Major policy changes have focused on the two aspects:

(1) implementing the production responsibility system, mainly taking the form of household contracting in which each household assumes managerial responsibilities for meeting an agreed production quota, and encouraging the development of specialized and key households;¹

(2) restructuring the current agricultural marketing system, essentially proceeding by reducing the service offered by the state-owned procurement stations, decentralizing the previous agricultural supply and marketing

¹The specialized household is a household which emphasizes one or two particular items of agricultural production. The key household has advanced production skills, it usually takes the lead in a specific rural area, and is held up as an example for other farmers. cf. Xi-Ji Hu, 1984, p. 10.
cooperatives, allowing farmers to organize numerous kinds of voluntary
economic associations and enterprises, and expanding the service of free
markets.

This paper will analyze the main issues of the reform of the
agricultural marketing and supply cooperatives. The two policy aspects will
be described in order to provide a clear understanding of the background
upon which the reform is taking place.

Ideological Changes and Policymaking

Two questions might be raised. Why is Chinese agriculture experiencing the
current economic reform regarding its organizational arrangement? How are the policies
made?

According to early Marxist theory, the public ownership (of production resources)
was an ideal to be achieved in a socialist economy. In this way, it was rigorously
believed that society would be closer to socialism, and even communism, if its production
units were made larger. For more than thirty years after the founding of the People's
Republic of China, changes took place on the basis of this ideology, in terms of
institutions and policies in the agricultural sector. These changes included land reform
(1948-1950), collectivization (agricultural cooperating movement 1952-1956), and the

An analysis of past experience with these changes provides opportunities for
assessment of their performance. No serious or objective consideration of this
experience occurred until after 1978. The basic reason was that people's minds were
moulded according to one pattern; freedom of speech was suppressed; and any ideas that

2For a reference about the historical description, see D. Perkins and S. Yusuf's *Rural
Development in China*, 1984, World Bank, Chapter 5, "Organizational and Institutional
Changes." This will also be reviewed later in Chapter 2 with the evaluation of the
cooperative performance.
differed from official doctrine were considered pessimistic or even reactionary. This attitude changed at the Third Plenary Session of the 11th Central Committee of the Party in December of 1978. People from the top down have freely investigated in detail the major institutional changes in the agricultural economy. They also seriously analyzed and often criticized performances within and across the different institutional arrangements.

The studies, both theoretical and empirical, of the past experience are characterized by two important features. First, such studies are unprecedented. Their view is not that the past policies have become less relevant in the changed circumstances in rural China as a result of historical evolution since liberation as would be expected. On the contrary, they suggest that the policies and institutions were wrong, inappropriate and costly in terms of lost opportunity for growth in the historical context of the period when they were applied. Second, many studies have made significant contributions to a more pragmatic understanding of Marxist economic theory. Based upon the previous interpretation of the theory, a socialist economy is defined with public ownership of the means of production and the distributional principle of "to each according to his works." In such an economy production is arranged collectively (in groups) and management decisions are a result of central planning. In fact, the experiment of socialism in China has not gone to the ideal stage as Marx and Engels predicted more than a hundred years ago and social evolution has not exactly followed the process as they foresaw it.

In view of these studies, several points are listed below as major findings of past experience.\(^3\) First of all, frequent changes of agricultural institutions and policy created an unstable environment which discouraged production. Farmers had not adjusted themselves to the institutional arrangements, such as agricultural production

\[^3\text{For a documentary expression, see "Resolutions On Several Problems Since the Founding of PRC," the 11th Central Committee of the Party, 1980.}\]
cooperatives, before they were asked to switch to an entirely new arrangement, the People's Commune.

Second the structural arrangement of the People's Commune was instituted in such a way that it was not only an economic organization of planning and directing the agricultural production in rural areas, but was also an administrative agency for dealing with politics, security, culture and things other than production. As a result, those administrative services took much more of the time of the People's Commune. Among other things, one major problem with the People's Commune is that it ignored the incentive structure facing individual farmers. It paid little attention to the interests of individual farmers in determining the production and distribution plans. A commune could arbitrarily take away from individual farmers any amount of labor, capital or other resources without any payment in return. This resulted in various kinds of corruption. A now commonly held view is that the People's Commune was mistakenly instituted in China's rural areas.

Third, most of the studies recognize that the collective economy of production within a People's Commune was organized like a military operation. Groups of farmers were assigned an amount of work and thus worked together. The production plan was centrally decided as to what kind of crop to produce, where and how. No responsibility was given to individual farmers to assure that the plan was accomplished successfully. What a farmer did care about was his annual "work points," according to which he was paid his annual return in both money and grain after harvesting. However, the work points did not actually measure a farmer's contributions to the collective economy since they were not based on the actual quantity of labor provided nor did they take account of labor quality. The lack of organic linkage of rights, responsibilities, and benefits of an individual farmer in the arrangement of the People's Communes, therefore, was another severe constraint to develop production.
The last point raised in most of the articles is that due to the complexity of agricultural production, it is manifestly impossible for the central planning administration to accurately and promptly direct it with a clear-cut production plan because of the diversity of production conditions. Decentralized decision-making is indispensible. Hence, in the revised policies, individual farmers will have the right to make production decisions, central planning is replaced with a contracting system, and work points are replaced with tangible production results.

Production Responsibility System (PRS)\(^4\)

**Nature of PRS**

Within a certain organizational framework, the system of payments, management decision-making and related matters have impacts upon the incentives of individuals in their production activities. The previous framework of a People's Commune—based on the distribution of work points earned and central planning—has given rise to the problem of greater egalitarianism; work points were given to each farmer \textit{ex ante} without taking into account his actual performance in production. On the other hand, due to the special nature of agricultural work, it is rarely possible to directly relate a piece of farm work to variation in final output, which not only comes after a long time lag but is also subject to many other random influences.

"Thus, if the concern for the quantity of output is so desperate as to lead one to look for a more direct linkage between payment and production, the only way out seems to be to ask an individual, a household or a small group to take responsibility for final output and bear the consequences of shortfall from a fulfillment of a norm that appears to be a reasonable target." (Kahn, and Lee, 1983, p. 20).

\(^4\)Among the recent observations of foreign scholars on the implementation of the production responsibility system in China's countryside, A. R. Khan and E. Lee's publication (1983), Agrarian Policies and Institutions in China After Mao, is a very comprehensive study.
It is evident that the motivation behind the numerous experiments with the different forms of the system lies in the quest for a method or methods of farming that relate payment to production as directly as possible.

The responsibility system does not involve private ownership of various means of production by the individual farmers. The major means of production are owned by the State, which is represented by local government (township). The essence of the responsibility system is the contract that the state—the "owner" of land, major capital equipment and large livestock—enters into with groups, individuals and households. The contract basically specifies a target output. Arrangements vary with respect to the distribution of output (both target and above target), degree of access to land by the contractor and various other features of the contract.

Various Forms of the System

Many alternative forms of contract have been in practice since 1979. Khan (Khan and Lee, 1983, pp. 22-24) tried to classify the main types of contract while neglecting those less important aspects. He describes eight types of contract arrangements in rural Sichuan Province.

In the early period of adoption of the system, it was believed that the introduction of the responsibility system only to the poor and backward regions would bring about successful rewards in terms of production growth. It was believed that in the more advanced regions there was no need to adopt the system, especially that of fixing output quotas on the basis of households. Premier Zi-yong Zhao, upon his inspection tour of the rural areas early in 1981, recommended that different forms of the responsibility system be adopted to suit different levels of development.

The Party Central Committee has been playing an important role in the intensive investigation of the actual progress of the system, in order to insure implementation of the policy. "Problems on the Current Policies of the Rural Economy" (Jan. 1, 1983) and "Pronouncement of the Rural Works in 1984" (Jan 1, 1984) are the two major documents
outlining new developments in policy making on the responsibility system. "Problems" points out that the major type of contracting system is that of output quota contracting with households to encourage the more skilled farmers to specialize in their favored operations. "Pronouncement" is a follow-up of "Problems" in that it takes into account new issues in addition to those raised before. With regard to the tendency toward diseconomies of small-scale units of operation, the new policy states that the duration of a land contract can be more than fifteen years. Gradual concentration of land to those households which specialize in crop production is encouraged. The new policy also allows the regulated hiring of rural labor.

Results of the Responsibility System

Only five years have elapsed since the system was instituted in the rural areas, too short a period to allow a thorough factual analysis of the effects of the reform. Several points, however, will be highlighted with quantitative data to discuss the interim performance. By the end of 1983, over 98% of the farmer households in rural China were engaged in the production responsibility system, and about 90% were taking the form of production contracting arrangements.\(^5\) Y. Y. Zhen (Red Flag, No. 20, 1984), in her report "Great Economic Achievements of the Implementing of the Production Responsibility System," evaluates the interim performance in terms of the following aspects.

(1) The rapid growth of agricultural production. The average annual increase in the national gross value\(^6\) of agricultural production was 3.2 percent for the period of

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\(^6\) The national gross value of agricultural production is calculated by the year's production times a constant price, which is usually officially determined. There are about three sets of constant prices which were selected in 1952, 1970 and 1975, respectively.
1953-1978, as compared to 7.9 percent for the period of 1979-1983. The annual increase of the national output of grain production was 5.24 million tons for the period of 1958-1978, but was 16.5 million tons for the period of 1979-1983.

(2) The transition of agricultural production toward more specialization. By 1984, there were about 24 million farmer households that became specialized and key households, accounting for 13 percent of all farmer households.

The marketable agricultural commodity ratio\(^7\) has increased. The index ratio for aggregate agricultural commodity output was 40.5 percent in 1983 as compared to 35.6 percent in 1978, and the ratio for the grain products was only slightly lower: 30 percent in 1983 as compared to 20 percent in 1978. Many cash crops, local products and livestock have been grown in increasing amounts.

(3) Farmers' annual income has increased. According to a survey conducted by the State Statistical Bureau in 1983, per capita annual net income in rural areas was 309.80 yuan\(^8\) in 1983. That is almost one and a half times the amount in 1978. The income distribution is concentrated around the mean (309.80 yuan). Those with annual net income below 150 yuan account for 7.6 percent of all the farmer households, while those with annual net income above 500 yuan account for 11.9 percent of all the farmer households.

Decentralization of the Marketing System

Setting

An efficient marketing system plays a major role in economic development.

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\(^7\)The ratio is the amount of products marketed over the amount of products actually produced. This is an index showing the degree of commercialization of the agriculture.

\(^8\)Yuan is the unit of Chinese currency, Renminbi (People's currency). The official conversion rate of U.S. dollar to yuan is that one U.S. dollar is equal to 2.82 yuan. ("Money Market", China Daily, Feb. 1, 1985)
Marketing is intimately bound up with the expansion of agricultural production. The classical Marxists considered the relationship of marketing and production from the standard viewpoint of the cycle of economic growth. The cyclical process is in the order of production, exchange, distribution, and consumption. Exchange and distribution can be considered the marketing system. Following Marxist theory, the four stages are closely linked to each other, changes in one will affect the rest, resulting in a corresponding adjustment of the rest. Production is the creation of value of production. Exchange and distribution are two stages, through which the entity of value, the utility of the production, is socially recognized. Consumption makes the final realization of the value of production.

In the remainder of this section, the previous marketing system is first described and major shortcomings are highlighted. It is followed by introducing the marketing alternatives that have emerged in the current reform process. Among these alternatives, the reform of agricultural supply and marketing cooperatives is further discussed.

Classification of Agricultural Commodities

According to their importance to the national economy and consumers' living standard, all the agricultural commodities are classified in three categories. Commodities of great importance to consumers and products in control of the State Council and included in the "planned purchase and planned supply system" are called Category 1 goods. They usually consist of grain, vegetable oil and cotton. Popular consumption items, products grown in certain concentrated areas, and commodities important for exports are in Category 2 among which cash crops are examples. Other products produced and consumed locally and also in small quantities belong to the third category.

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9For a detailed description, see Tuan, Francis and F.Crook, Planning and Statistical System in China’s Agriculture, FAER No. 181, ERS/USDA.
Previous Marketing Arrangement

The marketing outlets prior to 1978 consisted mainly of three types: state-owned procurement stations, agricultural supply and marketing cooperatives, and free markets. The state-owned procurement stations were established to control the production of those category 1 commodities following the state planning and to meet the needs of subsistence living for the population. Farmers were obligated to fulfill strict quota. The procurement station also purchased the above-quota portion of the production from farmers. Prices for the above-quota production were higher than the quota price.

The agricultural supply and marketing cooperatives were promoted to manage the marketing of commodities which were excluded from the first category commodities listed above and to supply the materials used in agricultural production. The cooperatives\textsuperscript{10} were actually state-run collective economic entities.

Free markets create opportunities for direct marketing since there are a large number of locally produced commodities (Category 3) which need not pass through either procurement stations or cooperatives. It is also difficult for these products to be arranged according to the state plan or under contracts because they are produced as a supplement to the production of category 1 and 2 commodities in attempts to make full use of the land, labor, capital and other means of production.

Major participants within free markets are farmers with marketable commodities. The others are professional market traders with certificates issued by the market administrative office, which regulates the behavior of the free markets against unfair practices such as speculation and profiteering. Prices are mainly determined by the interaction of supply and demand. The fluctuation is regulated within a price range which is determined by the State.

\textsuperscript{10}Their previous experience of cooperatives will be discussed in Chapter II.
In fact, the free markets were banned several times in the past thirty years. It was believed that the socialist economy did not necessarily operate with the aid of market mechanisms such as market price setting. Planning took all the responsibilities of the economy. Any market mechanisms would be deteriorating the planned economy.

Therefore, the previous marketing structure characterized by duopolistic operations of state-run procurement stations supplemented with government-sponsored marketing and supply cooperatives is no longer suitable for the current production system. Major shortcomings include: the narrowness of the marketing channels makes it unlikely to fully accommodate all the marketing transactions; the plans ignore the functions played by market mechanisms in guiding production; what is produced is not well coordinated with what is demanded by consumers. The interest conflicts of producers and marketing organizers due to the different ownerships were reflected through the marketing operations, specifically in terms of what to market and supply, how much and when.

**Current Reform Practices**

The fundamental characteristics of decentralization are that several levels of marketing organizations are replacing the previous duopoly that existed in agricultural inputs and outputs markets. Competition among them is leading to better performance, namely, efficient operations increases in farmers' income or minimization of transaction costs incurred in the marketing process, and the growth of production of locally traded products.\(^{11}\)

1. State-owned Procurement Stations

This organization remains state-owned. The operational procedures are basically

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\(^{11}\)The state-owned procurement stations do not purchase these products. However, they are required by the consumers. By providing the special marketing outlets, such as free market exchange and marketing household traders, farmers can use their spare time and capital to grow these products and sell them to the consumers through these outlets.
the same as before the reforms. The major change has been the reduction of its services offered to farmers. A very recent report carried in *China Daily* (Jan. 1, 1985) states that a further relaxation of the monopolistic quota system in procuring Category 1 products is being made by the government in order to enhance the role of market. This report argues that the quota system, as operated through the procurement station, used to play a positive role in helping guarantee food supplies but is now revealing "its inadequacy for the present rural economy," namely, failure of some products to meet the demand of consumers, low quality and slow circulation of commodities. The new move is to turn the present practice of "producing according to the State need" into "producing according to market need."

2. Agricultural Marketing and Supply Cooperatives

The present policy in China on the reform of the agricultural supply and marketing cooperatives concentrates upon the restoration of farmers-owned and farmers-run organizations. Premier Zi-yong Zhao in his report on the government's work (*People's Daily*, June 2, 1984) states the following:

"... the system of supply and marketing cooperatives must be reformed. The essential thing is to change them from being run by the government to being run by the people (farmers); that is to change them into cooperative commercial enterprises that are collectively owned by the farmers... to restore the characteristics of mass participation, democratic management and flexible operation and boldly encourage peasants to buy shares by abolishing restrictions on their buying so that cooperative undertakings are closely linked with the economic interests of the peasants...

Since 1981, the reform has been actually taking place. Up to now there have been two goals of the reform. One stresses the reform of previous government sponsored cooperative organizations. The other emphasizes the structuring of new economic associations or combinations, some of which are based upon the current cooperative arrangements.\(^{12}\)

\(^{12}\)This will be discussed below under "Farmers' Voluntary Marketing Associations."
Major activities of the reform are to re-identify membership existing in cooperatives, have new members join the cooperatives, establish the farmer members' ownership of cooperative capital and distribute dividends to the shareholders (farmers), reestablish the boards of directors to supervise the management and operation of the cooperatives and give the cooperatives the right to hire employees instead of having them assigned by the government. All of these changes are taking place in the local cooperatives.

As many studies have observed, in many places the local cooperatives have combined into a regional cooperative, usually on the scale of a county. A county is the basic unit of local government. In terms of natural resources and the environmental conditions there is relatively few differences within a county, and the major production and marketing operation are also similar for different producers within a county. Therefore, it is reasonable for the local cooperatives to combine together on the scale of a county in order to expand certain marketing activities. A concern with a regional cooperative arrangement is that, because of the direct contact of the regional cooperative with the county government, it is likely that the regional cooperative may be involved in the government administrative operation.


There are also two additional articles worth reviewing here. K. Ho (1983) examines four models in the reform process in Sichuan Province. They are basically concentrated: a) on the vertical coordination with the supply and marketing cooperatives as the initiator, incorporating production and processing units; b) on the horizontal
combination of different commercial organizations; c) on the broader combinations of producing, supplying and marketing units to operate them according to the cooperative principles; and d) on changes in the state-owned nature of the previous cooperatives.

In the discussion of what the nature of a cooperative should be, there are some people who argue that in the past thirty years the cooperatives were sponsored by the government and a considerable amount of the cooperative capital had been invested by the government. These authors thus emphasize the state ownership of the cooperative. There are some other people who state that a cooperative has a dual nature, involving both state and farmer ownership because the capital investment comes from the members and the government. J. H. Huang at the Shanxi Finance and Economic College disagrees with the above opinions. He argues that if we admitted that a cooperative was a dual economic organization, we would fall into the dilemma where it was not reasonable to justify the cooperative as state-run either by its capital or in terms of its membership. A cooperative is an economic organization based on common interests through the efforts of individual farmers. This, however, does not deny the influence of the state on the behavior of the cooperative. The government will exercise some external powers, for example, through legislation and policymaking power and others to affect actions of the cooperative.

3. Farmers' Voluntary Marketing Associations

This marketing organization is joined by the individual farmers in attempt to market their products. It differs from the current agricultural marketing and supply cooperatives in the sense that the latter were organized with the sponsorship of the government. The farmers' voluntary marketing associations are very active in the remote regions where the current cooperatives have not been established. They have features of a cooperative enterprise.

A finding of the recent studies is that since the farmers' marketing associations have features of cooperative enterprise, they are involved in the reform practices of the
existing agricultural marketing and supply cooperatives. On the one hand, the organized farmers' marketing associations perform their organized marketing services. On the other hand, the reform of the current cooperatives is aimed at decentralizing them from being run by the government to being run by the farmers. It is possible, therefore, for the policymakers to guide the two organizations into one arrangement.

4. Marketing Households

These are usually farmers that not only produce agricultural commodities, but are also engaged in marketing operations. They sell their own products and the products of their neighborhood farmers. By increasing their business some of them become specialized market traders.

5. Free Markets

Since 1978, the free markets have expanded in relative importance. In addition to the direct exchange of a large number of local products in the third category, the government allows the exchange of above-quota production of grains, cotton, and vegetable oil in the free markets, as well as some of the products in Category 2 such as perishable goods (vegetables, fresh fruits and so on).

Scope of the Study and Problem Statement

In the current rural economy, decentralized decisionmaking places major reliance on contracts as the basic means for coordinating individuals' production with the national economic plan. Individual farmers have more responsibility and incentives to produce products than under the evious system. Many studies propose that a reformed agricultural marketing and supply cooperative could provide better services to the farmer-members because, by collectively joining their labor and capital, individual farmers would benefit from economies of scale. Also, by participating in a marketing organization they could make better use of marketing facilities. Another advantage of employing the agricultural marketing and supply cooperatives is to coordinate the production and marketing activities among the different farmer-members within a
cooperative and to link them to the national planned economy as well. In this way, cooperatives could be considered as a possible alternative in the marketing system.

This study only considers the reform of agricultural supply and marketing cooperatives. Other types of cooperative organizations, such as production cooperatives or associations as well as urban commercial cooperatives, are beyond the scope of the study. Other kinds of marketing institutions, such as state-owned procurement stations, free markets, and marketing households, are only discussed in relation to the reform of agricultural supply and marketing cooperative.

The above stated advantages of cooperatives are more normative than pragmatic. It is claimed in the current paper that performance of agricultural marketing and supply cooperatives is not only related to their position in the marketing system, which puts external constraints on the functions they perform, but is also dependent upon their structural characteristics and internal operational relationships. More important, the latter will have great impact on the position that the cooperatives hold in the marketing system.

The basic reasoning here is if the cooperative organization could not deal well with its internal relationships, that is to say, if the cooperative management ignores the role of membership while rigidly conforming to government planning, or if the cooperative fails to convey necessary information to their farmer-members, or if the cooperative fails to provide its members with certain marketing facilities, it will sooner or later lose its position in the marketing system.

Many existing studies by Chinese scholars seem to have concentrated on the discussion of necessity and possibility of existence of the cooperative organization. They fail to analyze pragmatically how the cooperative decision making is evolved and what the influences of possible participants account for the decision making. A major problem with these studies is that they treat the cooperative organization as a "black box." There is not much discussion of the internal relationships within a cooperative.
A marketing organization has to be efficient and competent in order to retain its reputation with its customers; a cooperative, in particular, has to be so in serving its members in order to develop within the marketing system. To better serve the members in general there are some fundamental issue that must be dealt with, such as assuming efficient decision making processes and information flows among the members. Contracts between the cooperative and its members provide a mechanism of reinforcing all the participants with a contingency for their behaviors. Membership loyalty is necessary in maintaining a cooperative and providing incentives for its operation. The relationships of cooperatives with "outsiders," e.g., government, state-owned sectors, and other institutions, are also important influences on their performance.

Another fundamental issue in the analysis of reform of agricultural marketing and supply cooperatives is the theoretical identification of the nature and goal of the cooperative as defined in the socialist context. The classical Marxists had no way to foresee exactly what would happen to the socialist movement in the world today. The models they proposed more than one hundred years ago can not be applied directly to the current reality in many socialist countries. In fact, the Marxist pioneers did not leave us a blueprint for the organization of agricultural cooperatives.

**An Analytical Framework**

The basic analytical approach is that proposed by Shaffer in his paper "Food System Organization and Performance: Toward a Conceptual Framework" *(AJAE, May 1980, pp. 310-318)*, and further developed in his later paper "Influencing the Design of Marketing Systems to Promote Development in Third World Countries" *(Oct. 24, 1983)*.

The general approach of this paradigm is the stress on a continuous flow of the basic sequence of environment, behavioral responses, and performance. Participants in the real world hold a position, which defines both freedoms and constraints for them, constituting an opportunity set for each of them. Environment is conceptually the overlapping opportunity sets of all the participants. It is represented by both the
physical environment and the political-economic system. The physical environment expands in the process of development of science and technology as the ability of human beings to further inquire the universal is increased. The political and economic system structures relationships among participants. By establishing the rules of the game, it shapes the opportunity sets for the participants. Therefore, it is necessary to know those external factors that have influence upon the establishment of the rules. The influence of ideology is also an aspect of the external environment. Judgment of good or bad for certain behaviors comes from socialization. For a participant, his environment also includes the internal relationships of an organization in which he acts.

Behavior is the response to a participant's perception of the last behavioral consequences in his own opportunity set. The changes in his opportunity set could come from his own actions upon others' as well as others' upon his, which could further be distinguished as benefits and costs to him. A rational participant naturally desires maximization of benefits over costs. The aggregate consequences of these participants' actions result in a change in the environment. In this aspect, "the attention to details of the institutions structuring incentives is critical to performance." (Shaffer, 1983).

The evolving system can be diagramed as follows: E - B - P ... E - B - P ...

This study is aimed at investigating the environments surrounding different participants in Chinese cooperatives, their corresponding behavioral responses, and the resulting outcomes. It is evident that the different positions of participants in an organization generate quite different opportunity sets for themselves, leading to differentiated behaviors. These opportunity sets are shaped during participants' interaction with each other. A major problem occurs when there is a conflict between the consequences of the individual participant's behavior and the goal of the organization. Therefore, the coordination mechanisms are needed not only among the individual participants at the peer level, but also between the individual participants and the organization. It is hypothesized that trust will be established in the relationships of the participants and
will take the form of contract fulfillment, playing an important role in the coordination within an organization. It is also hypothesized that participants are particularly interested in short-run personal benefits while paying less attention to long-run prosperity. Thus, another problem is raised as to how to develop a mechanism by which to incorporate both short- and long-range benefits, convincing participants to pay more attention to the long-run benefits at the expense of short-run gains.

In the case of a cooperative organization, potential conflicts often occur between different participants such as managers and farmer-members, among the board of directors and managers, the board of directors and farmer-members, and among farmer-members themselves. Different participants have different opportunity sets. They perceive differently the consequences of the changes in the environment which will generate different responses in their behaviors. It is necessary to search for mechanisms to resolve these conflicts. In addition to the effects of the internal structural arrangement, the opportunity sets of participants in a cooperative are also influenced by the cooperative interactions with "outsiders" such as the government, other economic organizations, and consumers.

**Objectives and Organization of the Study**

This study is an analytical approach to the investigation of some factors affecting performance of the reformed agricultural supply and marketing cooperative. Since it is not possible at the present time to collect first-hand observations or considerable quantitative data, the procedure is mainly descriptive in the application of the EBP paradigm to secondary materials, to identify participants with their perceived reactions. This study joins the current discussions in recognizing the basic interrelationships between participants and their importance to the development of a cooperative, which have not been adequately considered in previous studies.

To be specific, the objectives this study tries to achieve are:
(1) to describe the current institutional changes in Chinese agricultural economy and the related reforms of the agricultural marketing and supply cooperatives;

(2) to develop a theoretical perspective as a means of clarifying the nature, organization, and operation of cooperatives in the socialist context. This is done by a comparative study of Marxist and Western scholars' ideologies on cooperatives;

(3) to make a classification of possible actors relating to the organization and operation of cooperatives and investigate potential conflicts among the participants and the means to reduce the conflicts.

This chapter has described the institutional changes in Chinese agricultural economy. Chapter Two will discuss the historical evolution of cooperatives in China and the roles they have played in political and economic reform, drawing on recent studies by Chinese scholars. Chapter Three compares and contrasts the theoretical aspects of a cooperative organization from the point of view of Marxist and Western scholars.

Chapter Four combines the study of the external environment facing Chinese cooperatives and their internal relationships. By specifying most of the possible participants in the organization, their objection and the operation of a cooperative, potential conflicting relationships are further analyzed. Some basic means to resolve the conflicts are proposed, such as contracting, ideology, membership loyalty, and other economic and political mechanisms.

Chapter Five concludes with a summary of major findings and some suggestions for future study.

Information Sources

Materials used in the present study come from a variety of different sources. Some of them were authored by non-Chinese scholars. Below is a list of the sources with a brief description of each:
Mass Media

Beijing Review (weekly): the first weekly magazine published worldwide. Economic development is one of the sections, in which articles about policy changes, progress of the reform and empirical reports are carried.


The above two sources are particularly useful in determining the correct English expression of various new terms that have arisen since the reform.

People's Daily: the largest Chinese paper, sponsored by the Central Committee of the Party. It carries many articles, reports, and new government policy documents about the reform. This is very informative in terms of the current situation of the reform.

"Red-Flag": a weekly report on China's current affairs, including politics, economics, culture and other topics, sponsored by the Central Committee.

Academic Journals

There are many journals containing papers and articles discussing and investigating the reforms. The major ones include: Economic Research (monthly); Problems of Agricultural Economics (monthly); Forum of Agricultural Economics (no consistent publishing date); Social Science in China (quarterly); Report on Rural Work (weekly). There are many other journals published at different universities and institutes. All of these are available in the Asian Library at the University of Michigan.

Other Publications

Several monographs, at my request, have been mailed directly to me by professors at Nanjing Agricultural University. They deal specifically with the reform issues. They are Collected Papers on the Reform of Rural Economic Structure (two volumes); and Problems of Rural Cooperative Economies.

Some studies by the World Bank and other non-Chinese institutes or individuals were collected with the help of professors of Michigan State University.
CHAPTER TWO

A HISTORICAL PERSPECTIVE OF THE
COOPERATIVE MOVEMENT

Brief Description of the Evolution of the
Cooperative Movement Prior to 1949

China's cooperative movement has a long history, which dates back to the early
decades of this century. In the 1920's, consumers organized consumers' cooperatives,
"consumer communes," and farmers organized credit cooperatives to provide for
financing in order to foster their production. During the 1930's and 1940's, in liberated
areas such as Jiangxi Province, Yan'an, great strides were made with the cooperative
movement. Starting with consumers' cooperatives, which primarily performed as a
rationing mechanism, the movement expanded to the extent that supply and marketing,
transportation, production, and financing were encouraged to be cooperatively organized
with the common goal of mutual self-help.

The early movement of the cooperatives was influenced by the spread of the
Utopian Socialist ideology, with its belief that individuals have equal rights. By joining in
group action, they could protect themselves from the exploitation of the large
corporations and other middlemen. The development of the cooperative organizations in
the liberated areas in the 1940's was involved with much more complicated factors. The
liberated areas were occupied by the Communist Party troops. These areas were
surrounded by the KMT\textsuperscript{14} government troops. No manufactured goods or living supplies
were allowed to move from the KMT held areas to the liberated areas. The various
forms of the cooperatives were organized. Some were engaged in farming, some made
clothes and some were responsible for finance and credit.

\textsuperscript{13}For a reference, see T. F. Hsu's \textit{Lectures on Rural Cooperative Economy}, unpublished
textbook, Nanjing Agricultural University, 1984.

\textsuperscript{14}For Kuomintang, the National Party which controlled China before 1949.
Development of the Cooperative Movement

In the early period after the founding of the PRC (in 1949), the cooperative movement focused mainly on agricultural production. The land reform program in the late 1940's and the early 1950's was implemented in areas under Communist control. The purpose of this reform in implementing the "land to the tiller" program, was to consolidate support for the Party and the newly founded People's Republic.

Experiments with "mutual aid teams" and the various forms of cooperatives began as soon as the land reform program was completed in 1950. The belief that collectivization would increase output was rooted in the notion that mobilizing rural surplus labor would increase rural capital formation and, hence, production. Another reason for the collectivization of Chinese agriculture was that the Party chose this method to mobilize the rural agricultural surplus for industrialization, a model directly adopted from the Soviet Union. Compulsory farm delivery quotas were introduced soon after the land reform. The transfer of agricultural surplus made an important contribution to industrial development in the 1950's and 1960's. (Perkins and Yusuf, 1984, Chapter 5). Chinese leaders saw collectivization as a way to utilize rural surplus labor because the collective could ensure that those who did the work received the benefits, and the state would not have to subsidize wages.

Another reason for the collectivization was more politically oriented. The land reform program permitted private ownership of land and other capital equipments individual farmers. Among them there were many variations in terms of their capital, labor availability and access to other means of production. Some farmers were short of labor resources. Others were short of money to buy fertilizer or other means of production. There was a tendency towards polarization of the farmers: the poor were getting poorer, while rich families became even richer. According to the Socialist equality principle, the Party called for the collectivization to achieve equal distribution of public wealth and to avoid possible polarization. With the increased scale of operation, the collective made easier to mobilize labor for rural public works.
The production cooperatives were established nationwide in the winter of 1955-56, and individual family farms were abolished by pooling the land of all the families in a given village. Payment to labor was based solely on the amount of work family members contributed to the cooperative and took the form of "work points." By the end of 1956, over 96 percent of all the farm households had joined agricultural producers' cooperatives.

The People's Commune Movement followed the collectivization. It was believed that if village sized cooperatives made it feasible to mobilize labor voluntarily within the village, pooling twenty or thirty cooperatives into one large collective unit would make it possible to mobilize labor on a much larger scale. For this reason and out of the desire to promote the socialization of the peasantry, efforts were begun in 1958 to establish People's Communes.

A commune was both a political-administrative unit and an economic unit of production. In such a unit peasants, workers, students, and members of the army engaged in agriculture, fishing, forestry, industrial sideline, and construction activities. Labor was mobilized to perform the important economic tasks of supplying food and materials for industrialization and building roads, bridges, irrigation systems, and other construction projects. Under the commune system, central directions could be disseminated through the communes. Each commune was headed by an administrative committee. The internal management went through the sublevels of brigade and team. Construction projects are carried out by brigades. Farming was done by smaller teams. How much land to be devoted to each crop and the method of farming were subject to central directions. Each team was given production targets and was required to deliver specified quantities of the products at given purchase prices. Given the quantities of outputs, the incomes of the communes were affected by the procurement quantities and procurement prices set by the government. Thus, the production and distribution of agricultural products and the distribution of income to the farmers were controlled by the government at all levels.
The effort to create an organization that could effectively mobilize surplus labor also created fundamental problems with internal commune management and with individual incentives to work. Perkins and Yusuf (pp. 78-83) discussed problems. They were also analyzed in the previous chapter of this study.

The communal system was in effect for about 20 years (1958-1978). In 1978, the Chinese government decided that the system as an economic organization for agriculture should be abolished. The so-called "production responsibility system" emerged in the place of the commune system.

This brief review of the history of the cooperative movement in Chinese agricultural production should facilitate understanding of the evolution of the agricultural marketing and supply cooperatives in China. Indeed, the agricultural marketing and supply cooperatives were very much involved in the overall cooperative movement.

Role of the Agricultural Marketing and Supply Cooperatives

Organization

During the early period of implementing the land reform program, there were areas where individual farmers voluntarily organized their marketing associations to supplement the state procurement system. These marketing associations were early forms of the agricultural marketing and supply cooperatives.

In 1950, the Chinese government held the first meeting of the national cooperative associations in Beijing. A draft of a cooperative constitution was adopted. It stated that a cooperative is a commercial organization by the people on a voluntary basis in a given village. It was to be patronized by its farmer members to provide various means of production and other materials for daily living at cheap prices. It was also to provide for

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15 The nature and various forms of the responsibility system are discussed in the previous chapter. For additional reference, see A. R. Khan and E. Lee's book, cited above.
the cooperative marketing of extra agricultural products to protect farmers against the middlemen's exploitation. Membership was restricted to farmers with official citizenship.

Operation

The main business of agricultural marketing and supply cooperatives includes marketing agricultural products to the industrial sectors as raw materials and to urban consumers as part of consumption goods. On the other hand, the cooperatives provide farmers with the manufactured products for their production as well as their daily use. They link agriculture with industry and rural farmers with urban residents. A survey report (Z. Y. Bei, 1980) shows the contribution that the marketing and supply cooperatives made in the 1950s toward the development of the rural economy. The total value of the marketed agricultural commodities was 14.08 billion yuan in 1952, of which 3.88 billion yuan, or 28 percent, went through the marketing and supply cooperatives. That means that about one third of the farmer's cash income was achieved through marketing and supply cooperatives. Among the products marketed by the cooperatives were a large number of products in the second category, (i.e. cash crops), in addition to a certain amount of products in the first category, such as over-quota grain, cotton and other crops. The provision of the means of production and consumption goods for the rural farmer, on the other hand, shows ever greater importance of the marketing and supply cooperatives. In the national budget of 1952, the total sale value of the industrial products in rural areas was 15.12 billion yuan, of which 13.71 billion yuan was spent for consumer goods, the remaining 1.41 billion yuan\(^{16}\) for production inputs. The marketing and supply cooperatives' services accounted for 33.1 percent of the total sale value of the industrial products. These figures were at the national level.

\(^{16}\) The percentage of the supply of production inputs seems smaller in the total rural sale value of industrial products than that of the living materials in 1952. One reason for that is that most of production for agricultural production comes from the agricultural sector itself. As the economy develops, the percentage of purchased inputs increases.
The establishment of the agricultural marketing and supply cooperatives in rural areas created an efficient marketing channel for the farmers. It is more easily understood if we look at it from the food system point of view. If individual farmers were engaged in the marketing business themselves in addition to agricultural production, there would be a considerable amount of individual money and time spent on the marketing transaction process. By group action through marketing cooperatives farmers could save money and time due to economies of scale. With the money and time saved, farmers could produce more products and, hence, the agricultural economy develops. Another advantage of the cooperatives is for farmers to find it easier to link their production to the national economic planning.

In the early 1950's the agricultural marketing and supply cooperatives proved themselves as an efficient support for agricultural development. However, the cooperatives experienced two dramatic transitions along with the overall cooperative movement since the later 1950's.

**Two Major Transitions**

In 1958 the agricultural producers' cooperatives were combined into the People's Communes throughout the country. The individual farmers became commune members under the communal arrangement. It was believed that the previous agricultural marketing and supply cooperatives were less socialized than the state-owned commercial sector because they retained individual ownership. On an ideological basis, the agricultural marketing and supply cooperatives were changed into a department administrated by the People's Communes. The businesses which the cooperatives previously operated were placed under the control of the state-owned commercial sectors. The democratic arrangements within a cooperative, such as the members' decisions were made through the members' meeting and the board of directors.

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17 The cooperatives were owned and organized by farmers, not by the State. The decisions were made through the members' meeting and the board of directors.
meeting and board of directors, were abolished. The cooperatives remained in name, but were actually operated by the Ministry of Commerce as public firms.

Due to the premature implementation of the People's Commune system, agricultural production was reduced to a disastrous level in the early 1960's. G. Chow (1984) describes the history of this period with some quantitative data. Taking 1952 as the base year, Table 1 presents indices of aggregate gross output in Chinese agriculture for the period of 1957-1963.

Table 1

<table>
<thead>
<tr>
<th>Year (1952 = 100)</th>
<th>The Index (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1957</td>
<td>124.8</td>
</tr>
<tr>
<td>1958</td>
<td>127.8</td>
</tr>
<tr>
<td>1959</td>
<td>110.4</td>
</tr>
<tr>
<td>1960</td>
<td>96.4</td>
</tr>
<tr>
<td>1961*</td>
<td>94.0 (Lowest Year)</td>
</tr>
<tr>
<td>1962</td>
<td>100.0</td>
</tr>
<tr>
<td>1963</td>
<td>111.6</td>
</tr>
</tbody>
</table>


In 1962, the Communist Party held its Tenth Plenary Session of the Eighth Central Committee, recognizing the mistakes made in the Peoples Commune movement. Concerning the marketing and supply cooperatives, the Communist Party pointed out that abolishing the cooperative economy neglected the characteristics of agricultural production and that the previous program was drawn up in a manner which ignored individual farmers' interests. The cooperatives were regarded as an important supplement to the state-owned commerce sector in facilitating the development of the agricultural economy. Hence, in 1962-66 the cooperatives were reestablished, and the internal democratic arrangements were restored.
During the cultural revolution (1966-1976), the cooperative system was once again abolished under the influence of "leftist" ideology. The state-owned organization was thought to be the only acceptable economic arrangement in the Socialist context. The cooperatives lost their right of decision making. Their business was once again combined under the control of the Ministry of Commerce. Their employees and managers were assigned by the government. The membership patronage and stock shares were changed into capital investment that did not pay dividends. The state plans directed the operation of the cooperatives. The cooperatives became economic agents of the state-owned commercial sector in the rural areas. At the national level, the state-directed cooperatives employed about 4.0 million wage employees. According to the state plans cooperatives marketed the agricultural products and provided the means of production and other daily used industrial goods. In the final analysis, the marketing and supply cooperatives, though existing in name, were no longer farmers-owned and managed economic organizations.

**Current Studies of the Previous Agricultural Marketing and Supply Cooperatives**

Recent studies, most of which have been done by Chinese scholars, deal mainly with the following aspects of agricultural marketing and supply cooperatives: (1) government involvement, (2) internal relationships, (3) operation, and (4) future prospects.

**Government Involvement**

The two historic transitions of the agricultural marketing and supply cooperatives occurred mainly in terms of their economic ownership. The original cooperatives in the early 1950's were owned and organized by the farmers themselves. The government only influenced the operation of the cooperatives through different economic policymaking and legislation procedures. With the two transitions, the cooperatives were changed into state-run commercial agents in rural areas. Cooperatives were brought into even tighter connections with the government, as they became administrated by the People's
Communes and their business was controlled by the Ministry of Commerce. State plans directed the actual operation of the cooperatives.

The government involvement in the cooperatives can also be seen in the cooperative personnel arrangements, capital formation and in other dimensions. Take the capital formation, for example. Table 2 shows the percentage changes of the member patronage and share stocks in total capital formation.

### Table 2

**Member Patronage and Stock Ownership in Cooperative Capital**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Capital (B.Y.)</th>
<th>The Amount of Members' Patronage and Share Stocks (B.Y.)</th>
<th>(2) as % of (1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1952</td>
<td>0.496</td>
<td>0.244</td>
<td>49.2</td>
</tr>
<tr>
<td>1957</td>
<td>1.588</td>
<td>0.332</td>
<td>20.9</td>
</tr>
<tr>
<td>1982</td>
<td>1.923</td>
<td>0.354</td>
<td>18.4</td>
</tr>
<tr>
<td>1978</td>
<td>10.863</td>
<td>0.365</td>
<td>3.4</td>
</tr>
</tbody>
</table>

Sources: Z. Y. Bei, "Role of Marketing and Supply Cooperatives," 1980.
@ B. Y. = Billion Yuan.

The table shows that for the twenty years ending in 1978 the capital for cooperatives mainly came from the state fund for investment. Membership patronage and stock shares did not increase.

**Internal Relationships**

With ownership transition, the cooperatives became state-run commercial enterprises in the rural areas. The cooperative boards of directors, membership meetings and other democratic arrangements were abolished. The original internal relationships between the farmers and their cooperative organization were externalized. S. T. Guo (1982) points out that two severe issues confronting the co-ops were:
--- first, they lost their responsibility and rights as an economic organization established on the basis of the voluntary and mutual self-help principles. The cooperatives' leadership did not care much about improving the co-ops' services to farmers.

--- second, the cooperatives lacked membership control and supervision. There was no place in the cooperatives for the farmers to make complaints about the operations of the organizations.

**Operation**

With the externalized relationships between the cooperatives and farmers, different perceptions of economic interests were imposed on the participants. Farmers wanted their cooperatives to market their products efficiently and to provide what they needed for their later production and daily living. However, the cooperatives operated according to state plans. And, they were interested in business which would make a profit. As U. Weiss (1978) observed, "a major problem throughout the years seems to have been to provide the peasants what they really wanted. Apparently, many articles were, and are, available that are neither wanted nor needed and, in fact, disliked by the people." (p. 654). "Supply and marketing cooperatives are often rather slow to buy up the third category products produced by the peasant domestic industry, with the argument that there is not enough profit in it" or it is not required in the state plan. (p. 655). Another study by X. Wu (1983) also observed that the marketing and supply cooperatives had limited their own business in buying the agricultural products.

One of the reasons for the poor performance of the marketing and supply cooperatives is that due to the different ownerships and, consequently, different interests, it was difficult to transmit information between cooperative management and farmers.
Future Prospects for the Reform

All the studies mentioned above share the common point that the previous duopsonic marketing institutions did not meet the needs of rural economic development. Cooperatives, as one of the alternatives in the marketing system, are to be restored as true cooperatives, resuming collective ownership by the farmers and establishing the various forms of democratic control.

X. Wu, in his study cited above (1983), argues that caution should be taken in the reform process. He claims that reform of the marketing and supply cooperatives does not mean the elimination of other marketing organizations. Coexistence of the various forms of the marketing arrangements makes it possible for them to compete with each other in striving for better performance.

Summary

This brief historical perspective of the Chinese cooperative movement provides some insights into the current reforms. The agricultural marketing and supply cooperatives in China have evolved along with the overall cooperative movement which, in turn, was heavily influenced by ideological and political changes of the Communist Party. The two big transitions changed ownership of the agricultural marketing and supply cooperatives. Consequently, several major issues need to be dealt with in the reform process, which are discussed in later chapters.
CHAPTER THREE

THEORETICAL ASPECTS OF A COOPERATIVE:
A COMPARATIVE APPROACH TO THE LITERATURE

This chapter deals with some theoretical aspects of the cooperative as an economic organization in a general sense and in China's situation in particular. The main considerations will be: the nature and incentives for, the structural arrangement of, and the operational procedures within, a cooperative. A comparative approach to the literature is proposed in this chapter. Different interpretations of cooperative organization by Social Reformers, Marxists, and Western neoclassical and institutional economists are introduced and critically reviewed with the reference to the "real" situation in China.

The reasons for this comparative approach are that, first, for the several decades after 1949 the original ideology of classical Marxism dominated the thinking in China, in terms of the policymaking process and academic research. At that time the cooperative organization was only considered as a part of social transition toward socialism. This role of the cooperative organization in the context of social movement is more a political and historical concept than an economic one. It was believed that in a socialist economy, like China, all economic organizations should be based on public ownership, (or actually state ownership). Past experience with many socialist economies has shown that it is impossible to pursue only state ownership over the whole economy. Other forms of ownership, such as cooperative and private ones, also play important roles in facilitating economic development. From this point of view, incorporating the different perspectives of cooperative organization is helpful in establishing a theoretical clarification of the cooperative organization in terms of its nature, role and other issues in a socialist context.

Second, it is argued here that one can draw some useful implications and possible applications from a comparative study of the different perspectives of cooperative organization, in order to establish an appropriate theoretical background.
Nature of the Cooperative Movement

Different interpretations of the concept of the cooperative have been proposed by different theorists in the past. The social-ethical features of the cooperative were first advocated by social reformers such as Robert Owen and William King. They argued that a person's nature is not just inherent, but is also strongly affected by the external environment, that is, the social system. Private interest, which creates conflict among individuals, is the result of both individual partial ignorance and the inequitable social structure. These theorists said that poverty was deeply connected to unequal distribution of social wealth, due mainly to the introduction of currency and middlemen in society. They argued that the main task of social reform was to get rid of currency and middlemen in order to achieve social equality. The fundamental way to do so was to establish a community through the cooperative, within which members recognized themselves as equal. It is easy to see here that the cooperative organization, in the social reformer's mind, was a means to strive for an egalitarian society.

The Marxist attitude toward the cooperative mainly emphasizes its impact on the social transition to socialism. Marxists argue that, in general, economic development is characterized by specialization and cooperation. The higher the level of specialization, the more cooperation is required. Cooperation and specialization represent two sides of the same economic phenomenon. Cooperative economy involves cooperation of labors, but it does not exclude the possible cooperation of capital and other production factors such as land. Cooperation is not limited to production, but includes the supply of inputs and marketing of output. Marxists further point out that cooperation, in essence, results from a conscious action of the proletariat in directing small peasants toward large scale production after the establishment of a socialist authority. It is worthwhile reviewing two articles by Engels and Lenin to illustrate this basic idea.

In his article, "The Peasant Questions in France and Germany" (1894), Engels distinguished a small farmer from a proletarian by saying, "By small peasant we mean
here the owner or tenant—particularly the former—of a patch of land no bigger, as a rule, than he and his family can till and no smaller than can sustain the family." This small peasant "differs from the modern proletarian in that he still possesses his instruments of labor; hence a survival of a past mode of production." (p. 635). As Engels analyzed it, this small peasant, after the French Revolution, was also different from his ancestor in that (1) he was freed from the feudal system, (2) the number of peasants unable to keep draft animals of their own was increasing, and (3) he was a possible candidate to become a future proletarian (p. 635). Engels then raised the following question, "How was the peasant to be helped, not the peasant as a future proletarian but as a present propertied peasant, without violating the basic principle of the general socialist programme?" (p. 637). Examining closely the preamble in a programme adopted by the Nantes Congress of France in September of 1894, he concluded, "when we are in possession of state power we shall not even think of forcibly expropriating the small peasants (regardless of whether with or without compensation) as we shall have to do in the case of the big landowners. Our task relative to the small peasant consists in the first place, in effecting a transition of his private enterprise and private possession to cooperative ones, not forcibly but by dint of example, and proffer of social assistance of this purpose." (pp. 644-645).

Lenin analyzed in much detail the nature and role of the cooperative organization in a socialist economy like the Soviet Union. His major contributions can be seen in "On Cooperation" (1923), one of his last studies. Lenin's statements drew heavily upon the experience of the Soviet Union in implementing the New Economic Policies.18

By adopting the New Economic Policies, the Soviet state made a concession to the peasant as a trader, a concession to the principle of private trade. As Lenin stated, "We

18 For a historical evaluation, see Alec Nove, An Economic History of the USSR, 1969, pp. 136-159.
have now ascertained the degree to which private interest, the interest of the private trader, state inspection and control of the latter, can be combined and subordinated to the common interest." This is the problem which was formerly the stumbling block for many socialists. (p. 403). In the situation as described here, it was necessary to introduce cooperative organization as a means of the transition to the new order in a way that will be "simplest, easiest, and most intelligible for the peasantry." (p. 403).

Lenin discussed the nature of the cooperative in a socialist system as compared to capitalist society. He stated that under the socialist system, cooperative enterprises differ from private capitalist enterprises in that they are collective enterprises, but they do not differ from socialist enterprises if the land on which they are situated and the means of production belong to the state. (p. 407). This is the fundamental difference between socialist cooperatives and capitalist cooperatives in the socialist context. The major means of production, such as land, is state owned.

Lenin also pointed out that the cooperatives should enjoy not only moral or psychological benefit from cooperation and progress toward the goal of socialism, but also some purely material privileges, such as a low interest rate. (p. 404). The cooperatives are to be guided by the members' own interests and all members should really take part.

Lenin argued that after the victory of socialism a radical change has to take place. This radical change lies in the shifting of the weight of emphasis from the political struggle, revolution and winning power to the peaceful, organizational and economic work. The cooperative organization would pay an important role in this work to consolidate socialism (p. 408).

In the current process of reform China's economy, several studies have appeared aimed at further understanding the original Marxist thoughts on the cooperative movement, with reference to the historical experience. Zi-Li Lin's article, "New Developments of Marxist Cooperative Theory in China's Context," is considered the most
influential one to the reform process. Starting with the explanation of the basic ideas of Marxists on the cooperative system, he wrote that it is known in Marxist theory that after the victory of the proletariat the transition from private ownership to socialism in agriculture should not be achieved without adhering to the principles of "voluntary," "equitable," and mutual self-help. If the government attempts to force farmers into large sized collective organization, the individual interests of small farmers may be hurt or even ignored.

Lin then goes on to investigate the model, proposed by Marx years ago, of "Labour Combination," by which the society as a whole was seen as an economic entity. Every activity and actor, including labor, means of production and even product, were directly controlled by the State. With the absence of money, there was no need for the market to carry the exchange of the commodities. Lin argues that the experiences of socialist economies in almost all the socialist countries have shown that it is rarely possible to eliminate the market mechanisms in a socialist context, with which the exchange of commodities takes place. In addition to the large scale labor combination in the size of a whole society there is necessarily a small-scale labor combination in terms of different production units such as an organization, a household, or a person. These economic agents are relatively independent of each other. The different economic positions they hold generate different interests, rights and responsibilities. Compared to the state-owned arrangement, a cooperative organization for labor combination can foster collective benefits while protecting the interests of individual farmers.

Lin's paper is generally considered a reinterpretation of Marxist theory on cooperation. He did not specifically deal with concrete issues of cooperative organization and management. Other studies basically follow an approach similar to Lin's. Ze-qı Ding discusses in much more detail why in a socialist economy the cooperative organization is a feasible way to organize small farmers. C. X. Yang and D. Z. Yu's paper (1984) compares collective ownership with the cooperatives in the early
period of Soviet economic development, revealing that the latter not only ensured the farmers of concern for their own interest, but also enables a better conciliation of individual interests with that of the collective as well as that of the state.

What has been perceived from these studies is that more and more scholars in China are becoming concerned with individual interests, upon which a cooperative organization is justified. The other point shared by the studies is they are now avoiding the original idea of the cooperative organization as a means of social transition.

Cooperatives that developed in capitalist economies are basically concerned with achieving economies of scale in the marketing process, making producers better aware of market requirements, retaining for producers a larger share of marketing margins, and exercising countervailing power. (Gasson, 1977, p. 30). Recent studies have revealed that the cooperative also works as a means of political articulation of participants' preferences (cf. Staatz, 1984, p. 203). A cooperative is defined as a business that is owned and operated by its patrons. Through their collective efforts, the participants realize benefits which they could not obtain if they were unorganized. The cooperatives in this sense are involved with economic, sociological and even political activities.

The principles of a cooperative association are usually patterned after the Rochdale tradition. However, changes have occurred which have modified the principles. There are hardly two cooperatives that follow exactly the same principles. Basically, three major considerations are commonly recognized. The first one is that owner-members of a cooperative are also its customers making use of its services; secondly, the returns to the members are distributed in proportion to their patronage; and third, there is a democratic control of the cooperative. This categorization of the cooperative principles differentiates the organization from others. The goal of a cooperative is to serve the members through collective actions. It is not a profit-maximizing enterprise like an investor-owned firm (IOF). The gain in operating a cooperative will be distributed to its members in accordance with the amount of
patronage each of them provides the cooperative. The most commonly used voting procedure is one person, one vote.

From the viewpoint of Marxist theory, the distinction of a cooperative from other economic organizations is often in terms of ownership. A state-owned enterprise belongs to the state. Therefore, it will have its annual profits and/or losses submitted to the government. The latter will return part of them as investment to the enterprise. The production is planned centrally. The wage rate is uniformly determined by the government. In contrast, a cooperative is collectively owned by those who join it, within which the individual property rights are still recognized. A cooperative has its gains retained in the organization. Part of the retained revenues are distributed as the share stock dividends to the members and the remainder as investment and "common welfare funds." No mandatory plans are supposed to direct the operation of a cooperative.

The incentive for cooperative organization is another aspect of the nature of the cooperative movement. Marxist theorists often argue that cooperation results from the self-conscious action by the proletariat in dealing with small peasants upon the establishment of the socialist context. Market failure theory states that issues such as bounded rationality, opportunistic behavior, uncertainty, public goods, and externalities raise the requirement for internalization. One way to do so is through cooperative organization.

Olson's "Logic of Collective Action" (1970) throws unique light on explaining the rationale for any organization or group. Individuals are assumed to behave voluntarily and rationally. Any organizations, through which collective actions are taken, exist not because they provide collective goods, but because it attributes to the so-called selective incentive. Olson defines selective incentives as incentives that applies selectively to the individuals, depending upon whether they do or do not contribute to the provisions of the collective goods. It is agreed here that the incentive structure is closely related to the economic, ideological, political, and sociological matters. It is necessary to investigate
the conflicts of different interests of different participants in a cooperative organization, as well as the cooperatives relationships with external actors such as the state-owned sectors, consumers, and others.

Organization and Operation

Cooperation is an activity involving the collective actions. A cooperative is an organizational form for arranging the activity. It could be organized in terms of production, marketing, and input supply or any mixture of the three.

In Marxist thought, the cooperative organization is a supplement to the state enterprise which is characterized by public ownership. Recent developments in cooperative theory in China argue that in the past the public ownership of cooperatives had been totally replaced with state ownership. Individuals lost their economic incentives to produce. In fact, the classical Marxist theorists have not provided any blueprint for the operation of a cooperative.

As initially argued by Sosnick (1960) and later investigated by Staatz (1984), Western scholars have developed three theoretical perspectives on cooperative organization. They are vertical integration, firm theory, and game theory.

Vertical integration, taking the view of a cooperative in the food sector context, gives rise to the consideration of internalization of externalities, minimization of transaction costs, and avoidance of unforeseen yet ubiquitous uncertainties. The cooperative here is regarded as a coordinator, and a multiple function organization. Consequently, many more variables than are considered in a nonintegrated firm must be considered in the decisionmaking process. In fact, the process gets more complicated with increased heterogeneity of the membership.

This approach argues that the cooperative as a vertical coordinator is not a separate decision-maker itself. Its actions are purely the sum of the independent actions of its members (cf. Staatz, p. 10). Individual members retain their decisionmaking rights.

Firm theoretic approach pays attention to the cooperative as an economic decision-
maker separate from its members. In the traditional economic analysis, what the cooperative achieves is lower cost services, greater patronage refunds, or greater net returns to its members. Viewing the cooperative as a firm suggests that the theory of a profit maximizing firm can be applied to tracing organizational behavior.

Game theoretic analysis starts with the investigation of conflicting relationships of different participants in a cooperative. Eschenburg (cf. Staatz) argues that a cooperative is possible only if all the parties involved will benefit. Construction of an adequate incentive structure among the members is essential to good performance.

In practice, different participants with different status possess different amounts of information which could affect their own and their opponents' strategies and, consequently, the results. Therefore, conveying information is an important issue in cooperative organization. Opportunities for communication would include annual members' meeting, and frequent contacts between members, directors, and management. Additionally, a question arises regarding what the form of payoff is to each participant, since each participant perceives within his opportunity set and values the payoff in his own judgment. Conveying information is not easy because of the bounded rationality and opportunistic behavior. Uncertainty also influences the consistency of a piece of information. In China, difficulty in transmitting information is also due to slowness of bureaucratic organizations and poor communication facilities.

Summary: What We Have Learned From the Above

1. The Marxist thought on cooperatives in the social transition context is more a political and historical concept than an economic one. Marxists have not proposed a model for the cooperative organization and operation.

2. Cooperation in a general sense always accompanies specialization. The cooperative is one way to organize economic activities. What characterizes a cooperative is that it recognizes the individual rights and responsibilities while pursuing the common interests.
3. By cooperation specialization will further develop and economies of scale can be obtained in both a vertical and horizontal sense.

4. The vertical integration approach broadens the context of a cooperative. It is important in the sense that the value-added process is incorporated. In a Marxian sense, it not only considers the creation of value of production, but also the realization of the value.

5. The internal organization of a cooperative in the nature of interest conflicts will complicate the game theory analysis.
CHAPTER FOUR

THE RELATIONSHIPS AMONG PARTICIPANTS IN CHINESE AGRICULTURAL MARKETING AND SUPPLY COOPERATIVES

As discussed in the previous chapters, cooperatives play an important role in the socialist economy. They are not only a means of social transition for organizing small peasant farming into large-scale agricultural production, but due to the nature of collective ownership they can appropriately link farmers' benefits to their rights of decision-making and managerial responsibilities. They help farmers sell their products and buy production inputs. They provide farmers with technical assistance in their production.

In the implementation of the production responsibility system, Chinese farmers are reclaiming more rights and responsibilities in deciding what to produce, when and how. What they are worrying about is not the workpoints they earned under the communal system, but how successful they actually performed in producing agricultural products. They are also directly concerned with whether their cooperatives provide them with efficient marketing and supply of what they really want.

Basic Approach

In the analysis of any economic organization, it is rarely applicable to take the organization as given and treat it as an isolated "black box." In fact, the process of its decision-making and operation involves with different participants, both externally and internally. The relationships of these participants have strong influence on the performance of the organization.

The purpose of this chapter is to identify actors in Chinese agricultural marketing and supply cooperatives, their motivations, and their measurements of performances as well. It is convenient for the study to divide these actors into two groups—external environment and internal relationships. External environment is composed mainly of
those major actors such as state (or government), state-owned enterprises, other cooperatives including regional ones, consumers, and others. This study excludes the factors of the physical environment by assuming that they are less important than institutional factors. These external actors extend their influences on the decisionmaking and operation of a cooperative, either through their direct contact with the cooperative as a group or through their relationships and impacts on the different internal participants within the cooperative. The influences can also result indirectly from the changing relationships among the external actors themselves. These are to be discussed in the second section.

Investigation of the internal relationships of a cooperative leads to the identification of three major types of participants—farmer members, the board of directors, and management. The current policy changes, especially the production responsibility system, have reshaped the opportunity sets for the participants, which makes a lot of difference to their perceptions and, consequently, their behaviors. The existence of the different participants belies the assumption previously made in China about cooperatives having only one objective. Various forms of conflicts exist between the various participants. The previous experience of the cooperatives suggests that they overemphasized the subordination of individual interests to the collective and state interests. As a result, individuals' incentives were discouraged. The current study makes it clear that we recognize conflicts of interests. We can not eliminate them, but we can decrease and reconcile them in a harmonious way. Some possible means to reduce the conflicts are suggested.

**External Environment**

By considering cooperatives in a broader political and economic system, it is easy to observe that there are several important relationships between the cooperatives and other economic actors in the economy. Interdependence and interactions characterize their relationships.
These other actors are generally the government (i.e. the Party, Congress and the bureaucracy), other economic enterprises—mainly the state-owned, other cooperatives including regional and federated, etc. Each of these actors usually behaves within its jurisdictional boundary. Due to the interdependence of all the economic participants, including the cooperatives, they will generate influences upon each other, even though in various degrees.

Government

The original Rochdalian ideas of a cooperative, being politically neutral and without the government intervention is no longer realistic. The cooperative movement in many countries, especially in the developing countries, has shown that the government plays an important role in helping the development of cooperative organization.

The government is an aggregate organization further consisting of different actors. It is, therefore, a vague concept. In China, the government is represented by the Party, the National Standing Committee (or Congress), and various bureaucratic agencies.

The Communist Party is the largest political body in China. Its central committee assumes the highest authority of directing and guiding the nation in terms of the economic, political, cultural, and other major affairs. It issues policies which are important to socialist economic construction. For example, during the intensive investigation of the previous agricultural marketing and supply cooperatives, the Central Committee issues in 1978 the policy of reforming cooperative organizations. In addition to issuing policies, the influence of the Party on the cooperatives is also carried out by Party members who happen to be cooperative participants as well. They are trained to adhere to the Party line and transmit the Party ideas to the other participants.

The National Standing Committee is the highest legislative authority in China. All the nationwide laws and other legislative reports are adopted through the Committee. The Committee delegates its authority to the State Council, which executes more detailed affairs.
The related policymaking and the legislative procedures are two major mechanisms that the Party and the National Standing Committee often employ to extend their influence upon the cooperatives. This can be clearly seen in the discussion of the two major transitions in cooperative ownership prior to 1978 (Chapter Two).

Policies relative to cooperative operations are mostly concentrated on the following issues: taxation, financing, and banking privileges that the cooperatives assume. In the implementing of these policies, several bureaucratic organizations are set up in charge of these issues. The organizations are, for example, cooperative banks, tax bureaus, etc.

Cooperative banking system is aimed at providing the cooperatives with money for their development and encouraging them to deposit, in order to make appropriate financial adjustment among different cooperatives. T. F. Hsu (1984) argues that the cooperative banking policies should pay attention to the security of the credits. The cooperative banking system is not a charity institution; it is established to assist cooperatives in developing their businesses. The banking policies can also use different interest rates and the regulations of the debt borrowing to oversee the development of the cooperatives.

The financial budget policies take the form of government investment in establishing a new cooperative. The prerequisite for obtaining their investment is to investigate whether the new cooperative is legitimate in terms of its operational objectives and organizational structures. The cooperative should encourage its farmer-members to patronize or buy its stock shares. The major concern here is that the investment is not used for the cooperative's daily operation; instead it is used for cooperative construction or improvement.

The taxation policy is often employed by the government to foster cooperative development. The taxation mechanism functions to adjust economic benefits received by different participants. It is necessary for the policy to specify the tax-exemption range.
In addition to those agencies conducting the implementation of policies, there are some other special institutions. Examples are policy-research bureaus at different levels of the Party Committee. They are not economic organizations. They are performing such tasks as collecting the annual records of the cooperative businesses, and investigating how new governmental policies affect performance of the co-ops. There are still other bureaucratic agencies who are engaged in a basic training program for the cooperative personnel.

It is clear that the government, namely the Communist Party and the National Standing Committee, uses its policy-making power and legislative authority to set the rules within which the cooperatives operate. However, a government "will be too small to handle all of the administrative details of formulating the nature of alternatives and of implementing decisions once reached." (Bartlett, 1973, p. 21). The bureaucratic organizations are introduced into the political and economic system to act as an extension of government. They have closer contact with the cooperatives than the political facets of the government does.

The relationship of the cooperatives and the government can, therefore, be divided in two: the relation of the cooperatives and the policy-makers and that of the cooperatives and the bureaucracy.

Influence in the relationship of the cooperatives and the policymakers is of a political nature, either formal or informal. Due to the uncertainty and the distance of the government from the cooperatives, it is hard for the policymakers to be directly aware of what they are doing and what consequences result from the policies. Cooperatives can, in return, impose their influence on the government, either through taking formal voting procedure or through relying on the bureaucracy to articulate their preferences regarding the policies.

The bureaucracy has close contact with the cooperatives, but it has no direct policymaking influence over the cooperatives. The possible influences it has can be
traced as follows: as an extension of the government, it can in some sense oversee the behaviors and outcomes of the cooperatives and adjust them within the limited functions it performs. For example, it can allocate the amount of the money loaned to the cooperatives. The other way of influence is by investigating the actual performance of the cooperatives the bureaucracy can report to the government and induce the government to make appropriate changes in cooperative policies.

In fact, how much influence the bureaucracy can extend over the cooperative, either directly or indirectly, depends in most part upon how well the bureaucracy performs itself. As Bartlett (1978) argues, the bureaucracy typically strives to maximize its security. By the work it has done, it tries to convince the government that it is important participant in the economy. However, this is not in opposition to the argument of the role of ideology with which the bureaucracy believes that what it is doing meaningfully contributes to the economy. (Bartlett, 1973, p. 22).

State-Owned Economic Enterprises

The major difference between a state-owned economic enterprise and a cooperative is the nature of ownership. The former is owned by the public (or actually by the state). The latter, on the other hand, is owned collectively by individual farmer-members.

It was believed in China that state-owned organization was a more advanced form of socialist economy than the cooperative. As discussed in Chapter Two, on the basis of this ideology, the transition of the ownership from cooperative to state-owned organization had occurred in the past.

The consideration here is mainly with those state-owned enterprises that often have close contact with the cooperatives. They include the state-owned procurement stations, state-owned commerce, state-owned farms, and state-owned manufacturing industries, especially those making most use of agricultural products as raw materials and those producing the agricultural inputs and other consumption goods.
The relationship between the two are often market-oriented. The transactions are usually in the forms of the exchange of their labor, capital, and commodities, and of the direct coordination of their production.

Competition between the state-owned economic enterprises and cooperatives is a major means of influencing the internal and external behavior of a cooperative. But under the previous economic system, the state-owned enterprises had more privileges than did a cooperative enterprise. For example, success or failure of the state-owned enterprises was taken care of by the state. If the enterprises failed to earn a predetermined annual revenue or even had a deficit on their account, the state would make a full subsidy to them. This arrangement discouraged the efficient production by state-owned enterprises and placed the enterprises in a position superior to the cooperatives in the economy.

The relationship between the state-owned enterprises and the cooperatives has more influence on the cooperative management than on the farmer-members. One example is the wage systems employed by the two organizations. A worker in the state-owned enterprise is usually paid by a stable wage which is determined by the state budget. An employee of a cooperative enterprise receives a return that is affected by the total annual revenue of the cooperative, which often varies between years. There has been a strong tendency for the cooperative employees to leave the cooperatives in order to earn stable wages in the state-owned enterprises. A phenomenon which happened in China was that even a young girl would not want to be married to a cooperative worker because of his unstable returns. This difference in incentive structures affected the operation of the cooperative enterprise.

Coordination of production of these two types is also a major influence on cooperative behavior. The state-owned manufacturing industries operate according to central planning. They accordingly purchase the agricultural products assembled by the cooperatives. Therefore, there was no incentive for the cooperatives to assemble as
many products as the farmer-members want to market through the cooperatives. A contracting arrangement was established years ago between the industries and the cooperatives. But it was mainly plan-oriented regardless of the actual production of the rural farmers.

The influence of the state-owned enterprise over the cooperative operation depends not only upon its direct contact with the cooperative, but also upon its changing relationship with the government. For example, recently (China Daily, Jan. 1, 1985) the government made a new policy of reducing the services that the state-owned procurement stations provide. Agricultural quotas have been limited to only a few products, such as grain (i.e. rice, wheat and soybeans). It is predicted that the agricultural marketing and supply cooperatives will correspondingly expand their business to accommodate the marketing transactions of those off-quota products.

Other Cooperatives (including Regional Ones)

The influence of other cooperatives over a given cooperative is easy to see. Suppose there are two cooperatives engaged in similar marketing and supply services. One of them performs poorly that farmer-members become dissatisfied with it. On the other hand, the other one provides better services to its farmer-members. It is possible for those farmer-members in the former case to withdraw their membership and to join the latter.\(^\text{19}\) Hirschman (1981, p. 252) describes this in a general sense. Exit results not only from the push of internal dispute, but also from the pull of "superior management of other bands." However, the farmer-members' influence in this respect also takes into account the costs of exit. That is to say, it is worthwhile for the farmer-members in the former case to balance the benefits and costs by their action of exit.

The costs of exit can be divided as follows: (1) Physical cost: it is a function of the distance between the two cooperatives; if the better cooperative is far away and the

\(^{19}\text{This will be further discussed in the "internal relationships."}
transportation cost is more expensive, the exit action would be delayed. Another aspect of the physical cost follows the asset fixity theory. Due to the difference between the acquisition costs and the salvage prices of the fixed investments the farmer-members made, it could be uneconomical for the farmer-members to withdraw their membership and patronage in the form of a fixed investment. (2) Legislative cost: the cost in this respect is often defined as constraints and regulations specified in the cooperative constitutions and other related bylaws; it is not always in money terms. It could be represented by the lost opportunities of the withdrawal of the membership. Once again, governmental policy-making and legislative authority play an important role here.

In the above discussion we did not clearly distinguish between local and regional cooperatives. Basically, what we discussed was in terms of local cooperatives. By combining, the local cooperatives can join together to form a regional cooperative, of which local cooperatives are the group (or aggregate) members.

The relationships between local and regional cooperatives are not to be regarded as that of the top-down relations in terms of administrative affairs. The regional cooperatives are also economic actors. Their only difference from the local ones is that the membership size has expanded, consequently, the economies of scale have increased. The increased membership size makes obvious the heterogeneity of the membership. The decision-making process will be more complex. Therefore, the articulation of the farmers' preferences through the board of directors is even more important.

This section has briefly investigated some of the major relationships between the external actors and the cooperatives. Possible influences have also been discussed. The influence structure, as discussed, is organized in such a way that it depends not only on

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20 It is a concept of production economics. Staatz incorporated this into his dissertation (1984).
the direct contact of these external actors with the cooperatives, but also on the changing relationships among these actors themselves.

**Internal Relationships**

**Participants and Their Objectives**

Major participants in the internal interactions in the agricultural marketing and supply cooperatives consist of the following three groups:

1. Farmer-members;
2. Board of directors;
3. Management personnel.

It has already been pointed out that different opportunity sets of the participants generate different perceptions and, consequently, different behaviors. This is not only true between members, management and the board of directors in the hierarchy, but is also true among the members at the peer level. Members can be subcategorized by the products they produce, or the services they want. Management personnel can be subdivided into managers, managerial staffs and hired workers, some of whom are appointed by the government, others of whom may be selected from the farmer-members to become professional managerial staff. The board of directors and supervisors are supposed to be the representatives of the members who participate in the cooperative decisionmaking and oversee the daily management.

**Behavioral Assumptions**

Rationality and self-interest are two basic assumptions for an individual economic behavior. (However, they were often neglected by Chinese scholars in the past.) "By rational we mean only that the course of certain action taken by an agent will be an attempt to move closer to, rather than farther from, the attainment of whatever goal that agent has chosen." (Bartlett, p. 23). A rational farmer-member joins the cooperative because he expects that by this action he could be better off in terms of the
economies of scale in the marketing of his products and the supply of his desired production inputs. Therefore, a rational action in this sense is a voluntary and self-conscious choice over a set of opportunities offered externally. But due to partial ignorance and ubiquitous uncertainty, a rational action that an individual takes may result in an incorrect choice in terms of reaching his anticipated ends. Rationality applies to the means, not to the ends.

Self-interest, as many neoclassical economists hypothesize, involves an individual trying to maximize his utility by the different actions he takes. It does not exclude the fact of social interdependence. For example, a farmer-member runs for the board of directors partly because by representing the farmer-members in the cooperative decisionmaking he could increase his utility. That is not necessarily in money terms. Ideology is a major constraint in seeking their self-interests. Ideology is not a synonym for government propaganda. Instead, it is formed by the common thoughts and values in a society. It is shared by the members in the society. Cooperative ideology includes the shared norms and beliefs of the cooperative members. Changed through socialization, the ideology will impose different degrees of constraints upon the cooperative members as an ethical discipline in their behavior.

The benefits that cooperative members seek are either pecuniary or nonpecuniary, or a mixture of both. For the farmer-members, they are usually aimed at lower transaction costs (including efficient and timely marketing and supply services) by participating in the cooperative actions. Members of the board of directors also seek the social status that accompanies being the decisionmakers in the cooperatives. Conflicts exist if the nonpecuniary benefits accrued to the board of directors increase at the expense of the decreasing marginal pecuniary benefits to the farmer-members. For example, the board of directors may, taking advantage of their social status, spend most of the cooperative resources in favor of their own pecuniary benefits. Farmer-members will pressure the board to increase the resources spent on pecuniary benefits by either
threatening to recall the board, or trying to run for the board in an attempt to capture some of these benefits for themselves. (Staatz, p. 138). This point will be further discussed later.

Farmer-Members

The farmer-members are basically agricultural producers. They are producing various kinds of agricultural products. Under the production responsibility system, farmers have more rights and responsibility for their production than ever before, which are in turn directly linked to their economic benefits. Compared with the previous communal arrangement, farmers are becoming more independent in an economic sense. After fulfilling certain government imposed quotas for their production, they can do whatever they want with a percentage of the over-quota portion, selling it the free markets or going through the cooperatives.

Another common phenomenon brought about by the production responsibility system is the rapid increase in the number of specialized farmer households or key households. These households specialize mainly in the production of one or two agricultural commodities. Their skilled production makes more efficient use of land, capital, and other production materials. In general, they are more productive than other farmers. However, some recent reports in the People's Daily revealed that due to the lack of adequate marketing facilities, part of their production failed to reach markets in time, and because of the slowness or malfunctioning of the information flow system, the products from some of the specialized households did not meet the demands of consumers. For these production households it is necessary to have an efficient marketing outlet that can help them overcome the problems they face in the marketing system.

The fact that the farmers produce different kinds of products and seek different services through the cooperatives makes it obvious that the membership is not
homogenous in terms of the objectives members hope to achieve through collective efforts. This heterogeneity of the membership appears at the peer level and between levels such as between farmers and management.

Xian Wu, one of the leading agricultural economists in China, in his paper, "Understanding and Educating Farmers" (People's Daily, July 14, 1983), analyzes the characteristics of farmers in present-day rural China. From a historical perspective, he discussed the new features attributed to the individual farmers. The responsibility system leaves much room for farmers to make their own decisions regarding production. They all wish to live in a stable political environment to develop their production. Farmers are primarily only concerned with material interests (or pecuniary benefits). Educating farmers has to incorporate the consideration of farmers' own interests.

For a farmer-member himself, he always desires to have his service done first and also he is particularly interested in the short-run benefits. In contrast, for a cooperative organization, it usually needs to coordinate the activities and services requested by its members.

The major characteristics of the farmer-members in rural China are summarized as follows:

1. Under the new arrangement of the production responsibility system, farmers are relatively independent in terms of their production decision-making. Farmers appear as independent economic participants instead of being passively represented by the communal organizations under which the farmers' interests were subordinated to the commune goals.

2. Due to the different products farmers produce or different kinds of services they want, the resulted different interests constitute the heterogeneity of the farmer-members in terms of their objectives in joining the cooperatives.

3. It should also be kept in mind that there are several marketing channels existing at the present time; farmer-members currently in a cooperative will
possibly have some alternatives to choose from for the outlet of their products.

Board of Directors

The directors are elected from the farmer-members. They are themselves farmer-members of the cooperative. Therefore, they possess the same characteristics as the ordinary farmer-members, namely, they are engaged in the production of different products. As producers, they also hope to have an efficient marketing organization to facilitate the realization of product value. At the same time, they are the representatives of the regular members in participating in the cooperative decisionmaking and supervising the daily management in order to direct the cooperative services to its members.

The crucial question is who is qualified to be a representative on the board of directors. A preliminary question occurs as to what rules the cooperatives have regarding who can become a director and who establishes those rules.\(^\text{21}\)

In view of the present practices for recruiting the board of directors in the cooperatives in China, T. F. Hsu ("Lectures on Rural Cooperative Economy," 1984) revealed that some of the elected directors lack the knowledge needed to perform their duties. They do not know how to assess the members' needs for future services from the cooperatives. They still consider the cooperative as an economic enterprise independent of themselves regarding the decisionmaking. They have not made full use of the marketing cooperatives as their own organization. Hsu made an insightful explanation of the phenomenon; for decades, the image of the previously government sponsored cooperatives still exists in the members' minds. In such a short time after the reform began, the members have not had enough time to adjust their minds toward the new form

\(^{21}\)It is difficult for the present study to address this question due to lack of information. It is raised here as a possibility for future studies.
of cooperative organization. Therefore, a training program is necessary for the education of the members, especially elected directors who should be active participants in the decision-making process.

The representatives (or the board of directors) have higher social status than the regular members in the marketing and supply cooperatives. They are, therefore, more powerful than other members. Since conflicting interests exist among the members and the representatives can have direct access to the cooperative management, they could take advantage of their position to receive their own products or services first through the cooperatives. Therefore, not only a training program is essential, but also an incentive structure needs to be established both on the horizontal level as well as in the hierarchy structure of the cooperative in order to guide the management toward determining the members' preferences.

Management

The managerial personnel in the agricultural marketing and supply cooperatives usually comes from two sources, either appointed from the top down by the government or hired directly by the cooperative board of directors on behalf of the members. The government-appointed managerial personnel are usually paid a salary. They operate the daily business of the cooperatives. Based on past experience, the management took the position of controlling the cooperative organization and operated it as a state-run commercial enterprise.

Xi-Ji Hu (1984) observed in his study, "It has been the practice for the organization to buy more or less not depending on how much the farmer(-members) have produced and consumers want. Instead, purchases depend upon the attitudes of those running the organization" (p. 17). By this practice under the government-arranged cooperative organization, it is difficult for the individual members and the board of directors, in particular, to generate the incentives needed to acquire the experience and know-how to
assume the full responsibility for the control of the organizations (H. Larzelere, in Sorenson, 1964, p. 213).

Furthermore, the cooperative organization was among the few existing marketing channels in the rural areas in the past. The monopolistic arrangement made it difficult for the members to exit from the cooperatives since other marketing alternatives, such as free markets, were banned. Nor was it useful for them to complain about the poor service provided by the cooperatives because the cooperative business was strictly connected to state planning.

The current marketing system, however, consists of several different marketing channels. It creates external pressures on the management to operate the cooperative better in terms of listening to the members' "voices" (Hirschman, 1983, p. 252). But the government sponsorship question still remains. There are some scholars who argue that the cooperatives are to be state-run. The reasoning behind the argument is because part of the capital accumulation of the cooperatives comes from state investment (Z. Y. Bei, 1980).

The above discussion has a close relationship with the issue of ownership. A very recent article carried in China Daily (Feb. 12, 1985) reveals that in some cooperatives in the northern part of China, the managers have been "reluctant to seek the membership shares." As the article observes, "If they get investment from individual farmers, they think, their cooperatives will have to ensure high dividends for the farmer-members. Also much work will have to be done in publicity and organization. Therefore they would rather borrow money from the bank."

**Different Participants in One Context (Cooperative)**

These three groups of participants discussed above interact with each other within the cooperative organization. It is true that they have different interests in mind in pursuing the collective operation. Members join the cooperative because they hope to obtain anticipated benefits. At the same time they know that in order to join the collective action they have to agree to allow group decisions. Therefore, for each of the
participants, a sense of community is another aspect required for the success of the cooperatives (Shaffer, 1983, p. 17).

It has been the practice in China to avoid the discussion of conflicts of interests between different economic participants, while overemphasizing the subordination of individual interests to the State's objectives. Guang-yan Yu, head of Social Science Institute of China and one of China's famous economists, wrote a paper titled "On the Economic Benefits of Different Economic Participants vs. of the Society in the Socialist Context" (People's Daily, Aug. 14, 1984). It is worthwhile to lay out some of his main points, which will be beneficial to the study of the internal organization of the marketing and supply cooperatives.

Yu states that two alternatives are commonly employed for the analysis of economic benefits; one is, in terms of production economics, to examine the production factors in the production process as well as the input/output ratios; the other is, from the viewpoint of political economics, to study the impacts of relationships of the production participants. The second approach is what Yu proceeded with. He argues that in a society, even a socialist one, there exist individual and institutions with different social status. They have their own direct economic benefits, which are what the participants strive for. He lists three participants, producers, enterprises, and the state, among others, and briefly introduces the direct benefits the three different participants are interested in. Using the dialectic framework, he concluded that there exist different economic benefits to different participants, which result from the different status the participants hold in a society. This fact does not deny that these different benefits are consistent to each other to some extent. For example, the economic benefits of an enterprise are considered to be a combination of the benefits of its participants. It is the consistent part of the economic benefits that makes collective action possible. Yu defines consistency as an organic combination in a sense that it is not simply the sum of all the benefits from the participants.
Potential Conflicts and Means to Achieve Cooperation

Farmer-Members and Management

The conflicting relationships between these two groups of cooperative participants involve a basic question as to whether the cooperatives operate in the light of the farmer-members' preferences. The management should be aware of members' preferences to be able to fulfill them. The opportunities members have for making their preferences known to management include the member meetings or the member representative meetings. These meetings are considered as the highest decisionmaking group. In addition to their formal contact with management, the members may influence management through their daily dealings with the co-ops.

But it is often difficult for the daily operation of the management to be consistent with the members' interests at the practical level. Because of high transaction costs, the decisionmaking has to be delegated to a smaller group of representatives. This indirect contact of the ordinary farmer-members with the management is risky in that the management could sometimes act against members' interests. The partial information that the different participants have also aggravates the difficulty. The management usually has access to a broader range of information about the external demands and the profits of the different businesses than do the members. It also possesses more technical expertise than the farmer-members. It is possible, therefore, that the members are manipulated into making decisions prepared by the management, which are actually against their own interests. Here, cheating is one of the strategies used by the management.

Another factor of the difficulty is the attitude of participation of farmer-members in the cooperative. A common explanation for participation is the achievement of the members' benefits through group behavior. However, one of the important aspects of participation in China's context is that some farmers participating in the cooperatives are affected by political factors, i.e. whether they are to be loyal to the State which
used to sponsor the cooperatives. This is not a minor agrument in the view of China's history of political movement, in which the Party plays an important role in affecting the farmers' behaviors. Members, especially those having a small volume of business to do with the cooperative, are actually less concerned with the cooperative's operational decisions.

The management will prevail more often than members in cases where the farmer-members' own interests are in conflict (this is discussed later).

The availability of other alternative marketing outlets also affects the internal conflicts between farmer-members and management. It is reported in People's Daily (Aug. 1983) that some farmers are not only involved in cooperative marketing, but are also marketing households, a new marketing alternative, handling the major products they produce. The only service they require from the cooperatives is to get consumer goods. Consequently, their attention is more focused on the products they are marketing themselves than on the cooperatives.

The possible mechanisms employed to overcome the conflicts of this sort include the contract system and farmers' voice directly or through the board of directors.

The contract links the farmer-members to the cooperatives, reassuring their legal status as economic actors. It makes farmer-members aware of what they produce and what is demanded. It also sets obligations both on farmer-members and the cooperative management during the period of the contract. All the signatories to the contracts will have the responsibility for the completion of the contracts. Rewards and penalties are specified in the contracts, which are used to generate the incentives of all the participants to make efforts in achieving the contracts. A practical question is whether or not the cooperative management would possibly take advantage of its higher position in manipulating the farmer-members in the contract specification.

Several studies have reviewed the current practices of the contracting system in China. They state that the fulfillment of the contracts will possibly be facilitated with
necessary assistances. For example, the cooperatives will help farmers with new production techniques, provide sufficient credit to the farmers, and so on. It would be impossible for the participants to accomplish the contract requirements without the assistance.

Hirschman points out that exit and voice both work as mechanisms in improving the performance of an organization. Every participant can employ either of them simply or the combination of the two. The participant perceives the workability of the two mechanisms within his opportunity set. As Staatz states, there are several ways of exercising the two mechanisms (pp. 140-44), and also different participants will have different ways to do so, resulting in quite different impacts on the organization. Exit conveys little information about the dissatisfactions the members have with the organization. On the other hand, the exercise of voice gives rise to the question of "determining the representativeness of the voices" (Staatz, 1984, p. 142).

On the basis of Hirschman's general development (1970, 1981) of the theoretical argument of the disciplinary roles of the two mechanisms and Staatz's special application of them to the decisionmaking process of the cooperative, it is worthwhile to relate the two mechanisms to the internal organization of the agricultural marketing and supply cooperatives in China. In the previous cooperative arrangement, the management took the dominant position in the decisionmaking process. Meanwhile, there were few marketing alternatives available to farmer-members. Exit was, if not impossible, extremely costly, both in an economic and a political sense. Voice was also ineffective in the sense that management strictly followed the rules set by the state plan.

The impact of exit and voice also depends in part on the incentive structures of a cooperative. Some of the farmer-members who have small transactions with the cooperative, when dissatisfied with the cooperative, may keep silent while retaining their membership, as long as the dissatisfaction does not matter very much to them. This observation could also be explained by the "free rider" argument. They think those
members with larger transactions will take the lead to react to the declining performance of the cooperatives.

The voice of the farmer-members through the board of directors will be even more complicated by the existing conflicts between the farmer-members and the board.

Farmer-Members and the Board of Directors

Both the farmer-members and the members of the board of directors are producers. The board is elected from the farmer-members to represent them in the cooperative decisionmaking and to supervise the management. The board is supposed to strengthen the preference articulated by the farmer-members.

Conflicts between farmer-members and the board occur for the following reasons: first, in gathering the opinions of the farmer-members, it is difficult for the board to figure out the representativeness of the opinions. The rules for articulation and aggregation of member concerns determine the type of issues that reach the board and management, and it is often in the self-interest of coalition members to pay considerable attention to the design of these aggregation rules (Staatz, 1984, p. 142).

Second, the board and the members have different economic interests. As discussed earlier in this section, farmer-members are usually interested in pecuniary benefits such as good marketing prices, cheap input costs, and lower transaction costs as well as timely performance of services. On the other hand, the board of directors is interested not only in those pecuniary benefits that other members desire, but also in the increased nonpecuniary benefits accruing to the board. Farmer-members are aware that by delegating their decisionmaking responsibilities to the board of directors they need to spend part of the cooperative resources on the board. In so doing, they believe that the economic benefits (pecuniary) would be greater as compared to the cost they incurred for the board. The board as the decisionmaker has an incentive to increase the proportion of the co-op's resources spent on nonpecuniary benefits relative to the resources spent to
generate pecuniary benefits, or on pecuniary benefits that accrue disproportionately to the board.

Third, the board of members may also take the lead in articulating their own preferences first to the cooperative organization and induce it to have their services done first.

Controlling of this type of conflict will probably rely on two means: political actions and ideology. For the farmer-members who are not on the board of directors, they can monitor the board's behaviors and pressure it to spend most of the cooperative resources to generate pecuniary benefits. They can threaten not voting for the current board next time. The farmer-members may also be induced to run for the board of directors in order to capture part of the nonpecuniary benefits for themselves. Therefore, political struggles arise in the cooperative (Staatz, p. 132).

Ideology also plays an important role in constraining the behavior of the board of directors. The cooperative ideology—a set of shared norms and beliefs— influences participants' marginal rates of substitution between the pecuniary and nonpecuniary returns they receive from the cooperative, hence inducing "ethical" behavior of the members of the board of directors toward the farmer-members' ends. Ideology also induces a degree of altruism among participants regarding the welfare of the other participants in the cooperative. Social interdependence of individual welfare exists in the real world. The problem is whether one participant actually accounts for it in his utility function or how heavily he weights others' utility in his own function. Ideology helps lower the participants' discount rates and take a collective or group view of the economic benefits with the cooperatives.

Conflicts Among Farmer-Members

The two types of conflicts discussed above occur at the vertical level. Horizontal conflict to be discussed now happens among farmer-members themselves.
Different members are not equally important to the successful operation of the cooperative and, thus, they have different bargaining powers. Large members have a large amount of patronage or stock shares invested in the cooperative. They are directly concerned with the actual outcomes of the cooperative operation.

Different attitudes toward participation in the cooperatives (discussed earlier in the section on conflicts between management and farmer-members) and disagreement cooperative decisions aggravate the conflicts. The failure in timely fulfilling the transactions with the cooperative also worsen the conflicting relationships of the farmer-members. For example, if some members failed to deliver a certain amount of products to the cooperative so that it was late in fulfilling a contract with other economic enterprises, the economic loss would extend to those who successfully delivered their products to the cooperative. The "free rider" problem, as discussed before, is also one of the reasons for conflicts between the farmer-members.

Ideology works to modify the farmer-members' behavior by reducing the divergence between farmer-members. Members' loyalty is also necessary to control the conflicts. Loyalty, in Hirschman's definition (1970), is special attachment to the organization (p. 77). Specific in the cooperative case, Anderson and Sanderson (1943, p. 1) view loyalty as involves two components: (1) willingness to remain in the cooperative, and (2) willingness to support the cooperative in the pursuit of its goals. Basically the argument here is that members have a sense of the community in the light of the satisfaction of individual economic goals through the collective actions.

J. H. Copp (1964) points out that in terms of economic benefits, the rewards and penalties constraining members to remain in the group should be analyzed individually according to their meaning to the actor. For the "rewards are much more difficult to specify because rewards are bound up with individual needs and tensions" (p. 172). The rewards are also often judged relative to alternatives.
Besides the ideological mechanism, contracting is also able to link individual benefits together with the cooperatives. The contract specifies the responsibilities of all the contract participants.

Board of Directors and Management

The major point of conflict between the board and management concerns "who controls the decisionmaking" in the cooperative organization. The board of directors have the legal rights in the decisionmaking process. They determine the rules of the cooperative operation. However, in practice the cooperative management often takes the actual power in the decision-making process. Reasons for this include: first, the management has access to a larger range of information. They know what is demanded by the "outsiders" and how profitable various products are. Taking this advantage, the managers can manipulate the relative costs of information in such a way that the decisions based on the information favor the managers' interests. Second, the managers are technical experts. They are good at operating an enterprise, making a profit even though some of the services that the management provides may not be consistent with what is desired by the farmer-members. Third, in China's context, the cooperative management used to take the position of making the decision since in the past when no board of directors was established. Even if these democratic arrangements existed, they had been abolished during the two ownership transitions (see Chapter Two). In the recent reform process, the cooperative management may continue to be dominant in decisionmaking. An example, as cited earlier in this section, is that some cooperative managements would not want the investment by the farmer-members because in so doing the management has to ensure high returns and much work will have to be done in organization.

The question of "who controls the decisionmaking" can be further extended to as who has relatively stronger influence over the cooperative decisions, among different participants (Staatz, 1984, p. 148). To overcome the conflicts in the decision-making
process, besides the role of ideology, the cooperative organization could establish different rules for the personnel management and the compensation schedule of the management. It is necessary for the management to accurately transmit the information to the farmer-members. Voice is also important here for the farmer-members to articulate their preferences. The management may also use voice to the cooperative for the changes in decision.

Now that the possible conflicts among the participants in a cooperative are interwoven with each other. Conflicts among one pair of groups of the participants can aggrevate the conflicts among other related participants. For example, when the farmer-members disagree with each other on a cooperative decision, the cooperative management could manipulate the information to alter the decision toward its own interests.

**Summary**

This Chapter investigated the external and internal relationships of possible participants in a cooperative organization. External environments and their influence are discussed. Internal relationships are analyzed in terms of the characteristics and objectives of the participants. Potential conflicts and possible means to solve the conflicts are also discussed.

Due to lack of first hand information, this part of the study is a preliminary approach. The content needs testing against the reality in China.
CHAPTER FIVE

CONCLUSIONS

Summary and Implications

This study has attempted to analyze the current reform of Chinese agricultural marketing and supply cooperatives. A broad picture of recent economic reform in China was introduced in Chapter One in order to provide an understanding of the background upon which the cooperative reform is taking place. The historical perspective of the cooperative movement summarized in Chapter Two helps us understand the role that the agricultural marketing and supply cooperatives play in the agricultural economy and in the overall development of the national economy.

Most of the existing studies on this topic by Chinese scholars have concentrated on the necessity and possibility of the cooperatives for existence, while few have really dealt with the actual issues of how a cooperative could better accomodate the farmers' marketing and supply transactions. The original Marxist theorists left us very little literature on the establishment of cooperative organizations in a socialist context. They often viewed the cooperative movement as a part of the transition to a socialist economy after the victory of the proletariat. This study has tried to draw some useful implications and possible applications from the western economic ideologies, mainly from the neoclassical and institutional pragmatic approaches.

This paper has mainly fulfilled its objectives as stated in Chapter One. By claiming that the performance of a cooperative is strongly influenced through possible participants and their interrelationships, this study took the lead in investigating the possible actors, both external and internal, of a cooperative organization. The external actors important to a cooperative organization include the Party, the National Committee, various forms of bureaucracy, state-owned enterprises, and other cooperatives. The influence of these actors in the cooperative is not only through their direct contact with the cooperative, but also depends on the changing relationships among these actors themselves. For example, the influence of the Party and the
National Standing Committee is not only through their policymaking and legislative procedures specific to cooperatives; they can also affect the cooperative indirectly by using the bureaucracy and modifying the policies of other economic enterprises in the economy, such as a state-owned enterprise.

These internal relationships of the cooperative organization were analyzed late in Chapter Four. The participants within a cooperative are farmer-members, the board of directors and management. They perceive the environment within their own opportunity sets, resulting in different responses to their behaviors. The objectives that these participants strive for are not the same. Nor are the courses of actions that they undertake in achieving their objectives. Therefore, various types of conflicts exist among different participants. This paper investigated some important conflicts. Means to resolve the conflicts are also discussed. Some implications are drawn upon this part of the study, which provide some insights into the achievement of better cooperation in a cooperative organization. The implications are as follows:

1. Better information flows. As compared to the investor-owned firms, a cooperative is often said to have information flows among their participants. Some of the reasons listed are as follows: farmer-members are both the stockholders as well as the customers in the cooperative; they are not only interested in the higher dividend they received from the cooperative operation, but also the timely and quality services that the cooperative provides for them. Therefore, the farmer-members would tell the cooperative what services they want. A cooperative also has more channels of communication than an investor-owned firm, and exercising voice may be cheaper in a cooperative than in an IOF. To have a better information flow, trust plays an important role in encouraging the participants to transmit truthful information so as to reach a sound decision in favor of the farmer-members. Factors influencing the trust will affect the truthful information flow among the farmer-members and between the farmer-members and the cooperative.
Among others, the factors include ideology, a democratic controlling arrangement, previous performances of the participants and the like.

2. Increased cooperative loyalty. The loyalty here is not only membership loyalty, but also loyalty of the board of directors and the management. With the provision of better marketing and supply services, the members increase their pecuniary benefits. If the cooperative can encourage the farmers to exercise voice, and if the cost of voice is lower than the benefits of exit, the members will stay in the cooperative. Exit is also affected by how much investment a member has in the cooperative and the availability of marketing alternatives.

The loyalty of the board of directors and the management depends in part on the achievement of their pecuniary and nonpecuniary benefits, and on their rights of decisionmaking and actual operations in the cooperative.

In order to increase cooperative loyalty, a set of rules and regulations are necessary to define the freedoms and constraints for different participants. It is also necessary to consider the tradeoffs of the rules and regulations. For example, if the cooperative decides to impose more penalties for exit, this could lead to a dilemma, where exit loses its role as a means of disciplining the management. Such rules might aggravate the poor performance when voice is also ineffective as discussed before.

3. Contracting system. The contract, as discussed in Chapter One, has been applied to the production responsibility system. The main form is household contracting, in which each household assumes its managerial responsibilities for fulfilling an agreed production quota. The contracting system can also be employed in the operation of agricultural marketing and supply cooperatives. A contracting system is used not only because of the nature of uncertainty involved in agricultural production, but it also helps define the obligations for each of the cooperative participants. Each one takes his contract
responsibility in order to achieve the collective goal. It is also a necessary constraint to opportunistic behavior.

Contracts are established as linkages between the cooperative and other economic enterprises, and among different participants within a cooperative. In the Chinese context, the contracting system is also important in linking individual farmers' marketing and supply activities with national economic planning. For example, if some of the agricultural products failed to be transported promptly to a processing plant, or if the quality of the product is unsatisfactory, it will definitely affect the fulfillment of the contract at all the stages. This can be perceived from the viewpoint of vertical integration.

It is necessary to clearly specify the terms of a contract. Contracting is a process of bargaining between the signatories. Therefore, it is also essential for the contract signatories to be aware of the information related to the contract and the rewards and penalties provided in the contract.

In addition to the formal contracting procedure, there exist some informal procedures in the contracting system. For example, farmer-members could gather together and negotiate contracts for commodities produced and marketed through the cooperative. Therefore, it is necessary to investigate these informal contracting arrangements.

Suggestions for Future Study

A major limitation of this study is that no first-hand information was available and it was also difficult to get actual materials about the reform. The entire study, therefore, was undertaken with secondary materials, some of which were obtained through correspondence with people in China. What has been investigated and analyzed in the previous chapters, especially in Chapter Four, needs empirical testing, and further strengthening by conducting field studies.
In the discussion of the external participants, this study omitted consideration of consumers and some other marketing institutions, such as free markets. The reason is that the study was much more concerned with investigation of the relationships between the state and the cooperatives. Another reason was the need for the study to reduce its complexity by limiting discussion of some of the possible participants.

Another possibility for future study is the dynamics of the reform practices of cooperatives, for the reform of cooperatives is still going on in China, different practices and different policy changes are being incorporated into the process. It is expected that new issues will emerge in time which need further analyzing. One aspect of the dynamic study is to analyze the changes in policy and possible consequences to cooperative decisionmaking.
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