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# Security Guarantee of Agriculture Industry Based on the Improvement of Legal System of Peasant Specialized Cooperative

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**Abstract** Current status of several management models of the agriculture industry is introduced, as well as its impacts on industrial security. The management models are mainly the enterprise-like operation model, "enterprise + peasant household" model, small-scale peasants' operation model, and peasant specialized cooperative model. Functions of peasant specialized cooperative in ensuring the security of agricultural industry are introduced, which are enhancing the industrial security by organization degree, promoting the industrial security by scale economy formed by cooperative organizations, fully utilizing the resources by the factor allocation capability, and ensuring the industrial security by industrial chain improvement. Development predicaments of the peasant specialized cooperative at present are analyzed, such as small scale, poor economic benefits, and non-standard operation. Analysis shows that institutional absence is the main reason causing these predicaments. And suggestions on improving the cooperatives system in the *Law of the People's Republic of China on Peasants Specialized Cooperatives* are put forward, in order to better ensure the security of agriculture industry

**Key words** Cooperative, Management model of the agriculture industry, Security of agriculture industry, Institutional absence, China

As one of the most important types of the production and management model in agriculture industry, the cooperative plays an irreplaceable role in promoting and maintaining the security of agriculture industry. However, the *Law of the People's Republic of China on Peasants Specialized Cooperatives* has institutional absence about the alliance cooperatives, which has restricted the function of the cooperatives. Starting from the analyses the industrial production and management model, this research illustrates the impacts of the development of the management on the security of agriculture industry, and gives suggestions in order to improve the legal system of cooperatives.

## 1 Effects of current agricultural management models on industrial security

At present, the management models in China are mainly the enterprise-like operation model, "enterprise + peasant household" model, small-scale peasants' operation model, peasant specialized cooperative model and so on. They have different realization modes for the agricultural industrial security and different effects on the protection of industrial security.

**1.1 The enterprise-like operation model** Based on the household contract responsibility system, the operation mode in China has the problems of operation blindness and dispersivity, high risk, low benefits and so on, which bring great difficulties in the adjustment of agricultural industrial structure. Practice has proved that agricultural enterprise-like operation can overcome the shortages of decentralized operation of peasant households<sup>[1]</sup>. But agricultural enterprise-like operation has a

late start and slow development speed. In general, enterprise-like operation has many benefits, but it can not help to solve the employment problems of small-scale producers. Therefore, to protect the employment of producers, enterprise-like operation is not the most direct and useful model. More importantly, the profit-driven feature of enterprises determines the profit preference in resources selection. In the relatively backward agricultural industry, the dependence on external resource is gradually strengthened and the external dependence degree on agricultural products is increased.

**1.2 The "enterprise + peasant household" model** With the acceleration of market process, contradiction between small-scale peasant household and large-scale market becomes an important factor restricting the development of agriculture. As the major organization model in agricultural industrialization operation, the "enterprise + peasant household" model plays an active role in alleviating the conflicts between the peasant and the market, reducing the market risks of peasant households, saving the transaction costs, guiding the adjustment of regional industrial structure, expanding the scale of specialized production, and increasing the income of peasants<sup>[2]</sup>. However, according to the operation of this model at present, there are also many disadvantages, such as the imperfect interests mechanism between companies and peasant households, and no actual risk and profit sharing institutional guarantee, which have restricted the development of organization and the industrialization of agriculture. The Lantian Event<sup>[3]</sup>, and the Jingxiudadi Event in Hainan Province have both proved the endogenous characteristics of the interests conflict between the companies and peasant households. And the two events finally caused serious economic loss of peasants.

In other words, although the original intention of the "enterprise + peasant household" model was to exert the leading role of leading enterprises and to integrate the small peasant production in the big market, but this combination model has its natural and unstable conflicts among the interest demands during the operation of this model, due to the differences between companies and peasant households in the seeking ways and purpose of interest. When there are interests conflicts between the company and the peasant, the powerful position of company in this model will inevitably leads to the lack of protection in peasants' income security. Therefore, to ensure the income of producers, the "enterprise + peasant household" model still needs further improvement in institution.

**1.3 The small-scale peasants' operation model** Small-scale peasant households operation is established based on the household contract responsibility system. Besides, it is the major agricultural operation type in China at present. For instance, the 23 million peasants have provided more than 70% of the agricultural products, but the scattered household management has disadvantages of insufficient acquiring ability of agricultural production operation, blocked market information, low position in market negotiation and so on, so that this model can hardly adapt to the large-scale demand of modern agricultural development. In this sense, although small-scale peasants' operation has certain conservation function in agricultural industrial security, it can hardly exert its function in reducing the industrial safety crisis.

**1.4 The peasant specialized cooperative model** Until the end of June 2010, there are in all 310 thousand specialized cooperatives in China. In terms of quantity, cooperative has already become a major operation model. Development of cooperatives has connected the small-scale scattered management with the large-scale market of agricultural products, and overcomes many disadvantages caused by scattered operation, including the information asymmetry, incomplete industry chain, uneven distribution of benefits, difficult guarantee of product quality, and difficult determination of production standard. When adhering to the basic policies of household contract, exerting the protection function of cooperatives in agricultural industrial security becomes a problem needed to be discussed.

Among the operation models mentioned above, cooperatives have their unique advantages. Firstly, the cooperative, as a union of peasants, is the most direct and powerful operation subject in solving the income and employment problems of peasants, as well as an effective approach to realize the industrial security targets. Secondly, the cooperative, as the market subject, can find out the demand of consumers, and realize another target of industrial security, that is, meeting the consumer demand and realizing the supply balance of agricultural products to the maximum degree. Thirdly, the cooperative can achieve the vertical integration of industrial organization form, reduce costs by cutting the unnecessary industrial chain, improve the industrial chain by integrating the different industrial chains before, during and after production, and promote the industrial security by connecting the links. Specifically, as the

production and operation organization, the cooperative promotes the agricultural industry security from the following four aspects.

**1.4.1** The function of organization degree increase in promoting the industrial security. Interests alliance of industrial subject is needed objectively to realize the agricultural industrial security, that is, the common interests of industry practitioners can be realized by improving the organization degree. The emergence of the peasant cooperative sets up a platform for the alliance of small-scale peasant households with the same interest orientation, changes the disordered competition of decentralized operation structure, makes the industry more closely linked, forms a certain discourse power in market by establishing cooperative charter or meeting decisions, and reduces the potential safety hazards caused by cutthroat competition and low bargaining position.

**1.4.2** The function of scale economy caused by cooperatives in promoting the industrial security. At present, the contradiction between small production and big market in rural China is mainly reflected in the poor information flow of peasant households operation, the difficulties in correctly understanding the market demand information, the blind and spontaneous production, the small production scale of peasant household operation, the low specialized degree, the hard formation of scale economy and scale benefits, and the scattered peasant households in circulation field. Thus, the circulation facilities and means, the operation capacity and mode can not meet the requirements of market competition<sup>[4]</sup>. The cooperative plays a more and more important role in organizing the peasants entering into the market, improving the agricultural comparison efficiency, and protecting the interests of peasants. Thus, the scale advantages and market advantages are gradually formed. Scale economy plays an irreplaceable role in promoting the competitiveness of market subject; while the improvement of competitiveness promotes the industrial security of agriculture.

**1.4.3** Realizing the full utilization of resources by the allocation ability of cooperative factors. The cooperative is conducive to the rational allocation of capital, land and agricultural resources. By offering various specialized services, specialized cooperative economic organizations have expanded the density of specialization division of agricultural production, have promoted the flow and recombination of land, capital, technology and other production factors, and have provided reliable sources for the rational utilization and optimization of agricultural resources. Based on optimizing the resource allocation of various resources, cooperatives enhance the utilization efficiency of resources, and avoid the waste of resources. Since resources security is the core of agricultural industrial security, fully utilizing the resources can maintain the agricultural industrial security.

**1.4.4** Ensuring the industrial security by improving the industrial chain of cooperatives. Agricultural industrial chain is in fact a network structure constructed by the supply and demand relationship of industrial cluster, which is closed related to the primary processing of agricultural products. Main body of agricultural industrial chain includes the research and development,

the agricultural means of production and other pre-production sectors which prepare for the agricultural production, the crop planting, poultry farming and other production sectors, the processing, storage, transportation, sales and other post-production sectors with agricultural products as the raw material. Agricultural industrial chain is firstly emerged in the 1950s in the United States. At present, Canada, Japan, Holland and other developed countries have reached a relatively advanced levels. In recent years, Brazil and other developing countries have also made great strides in the field of agricultural industrial chain by the theoretical research and application<sup>[5]</sup>. Therefore, it can be concluded that a complete industrial chain is very important for the agricultural development of a country. And ensuring the complete industrial chain is a necessary condition to realize the industrial security. At present, the industrialization level of agriculture in China is relatively low; and there are extremely serious disadvantages in the agricultural industrial chain in China. Especially, the low coordination efficiency and poor quality of main bodies in the industrial chain have become the significant problems for industrial development. The cooperatives improve the industrial chain according to the vertical linkage of before, at, and after production, connect all links agricultural production by the service of cooperatives, integrate the agricultural production factors in pre-production, the technical guidance in production, and the marketing and deep processing in post-production, make up for the incomplete agricultural industrial chain in China at present, and promotes the industrial safe production.

Both the current status of resources and the social and economic development level in rural areas in China have determined that the core of agricultural production at present is the peasant households. The production model of peasant households has shown relatively high production efficiency and has solved the food problem of 900 million farmers. However, the scattered small peasant market has poor capability and there is a significant loss of efficiency of agricultural markets. A lot of farmers can not find out their way to get rid of poverty<sup>[6]</sup>. Therefore, it can be concluded that the effective organization is the key to economic growth<sup>[7]</sup>. Agriculture in China is at the transform phase from self-sufficient and semi self-sufficient agriculture into market agriculture. And cultivating and improving the agricultural industry system during the process of market is a necessary requirement for economic development of farmers. Developing cooperatives can form scale economy, improve the economic efficiency, and reduce the concurrent and decentralized status brought by the operation model of small-scale production. At the same time, by introducing the peasant households into processing and circulation fields to extend the industrial chain, we can form a high efficient market organization system, coordinate and organize production, integrate the agricultural products market and agricultural production factors, expand the transaction scale, and reduce the market risks. Besides, development of the cooperatives can avoid the adverse effects of the increase of transaction costs and market barriers on small-scale producers, and provide corresponding technical support. Therefore, it can be concluded that development of

cooperative plays an irreplaceable role in safeguarding industrial security, and it is the basic path to improve the agricultural industry system.

## 2 Development predicaments for peasant specialized cooperatives in China at present and its reasons

**2.1 Development predicaments for peasant specialized cooperatives** Function of peasant specialized cooperative, as an industrial organization form, is restricted in ensuring the industrial security, which reduces the agricultural industrial security. To be specific, development predicaments for peasant specialized cooperatives are mainly reflected in the following aspects.

**2.1.1 Small organization scale.** Among the 9 provinces, regions and cities (except Guangxi, Yunnan and Tibet) in the western regions of China in the year 2003, there were only 3.9% peasant households who participated in the peasant specialized cooperatives. Except Shaanxi Province having a coverage rate of 13.9%, the coverage rates of the rest provinces, regions and cities were all lower than the national average level of 5.3%. Sichuan Province had obtained relatively rapid development speed of peasant specialized cooperatives in recent years, but its overage rate of peasant households participating in the cooperatives was still only 4%<sup>[8]</sup>.

**2.1.2 Poor economic benefit.** To survive and develop in the market competition, peasant specialized cooperatives must pursue for economic benefits. However, the current peasant specialized economic cooperatives have poor functions and efficiencies, low economic benefits and benefit loss, which can not create an idea value for the peasants. The peasant specialized cooperatives are engaged in planting and livestock breeding, mainly selling primary agricultural products and few carrying out processing and circulation. Moreover, even the cooperatives engaged in processing and circulation mainly rely on the processing and circulation enterprises to obtain raw materials. Since there are few processing and circulation enterprises established by peasant specialized cooperatives, the processing and transformation level, the science and technology contents and added value of agricultural products are all relatively low. Thus, we have few high-quality brands, poor market competitiveness, and very limited profitable market space; and the farmers can hardly obtain profits in the processing and circulation fields.

**2.1.3 Non-standard operation.** Non-standard operation is reflected in the imperfect organization, supervision mechanism, and democratic management system, as well as the great randomness in production, operation and organization. At the same time, due to the weak linkage mechanism of interests, cooperation of members is not based on the complementary economic interests. Thus, a mechanism or cohesion with mutual restraint and interdependence can hardly formed among members or between organizations and members, so that the peasant specialized cooperatives still remain a loose structure.

**2.2 Institutional absence: the major reason for the development predicaments** There are many reasons for the de-

velopment predicaments of peasant specialized cooperatives, such as the imperfect organization system, the shortage of funds, and the unstable market. Among all these reasons, we think that the most important reason is the institutional absence. The cooperatives should have played an important role in enhancing the industrial security. However, due to the institutional absence in China at present, the various industrial organizations can not be effectively constrained and ensured and the functions of organizations can not be fully exerted. According to the *Law of the People's Republic of China on Peasants Specialized Cooperatives*, the institutional absence is the major reason for the development predicaments of peasant specialized cooperatives.

The behavior of cooperatives should be regulated by laws, such as the relationship among members and the external trade relationship, in order to ensure the legal rights of the cooperative and its members, to meet the system demands of industrial security, and to ensure the industrial security. However, the laws about the cooperatives in China have not regulated the alliance of cooperatives. Thus, contract law is applied in the alliance relationship among cooperatives, that is the contract relationship among main subjects, but not the alliance relationship, which can not regulate the alliance behavior of cooperatives, is not conducive to the development of cooperatives, and finally restricts the cooperatives to ensure the industrial security as industrial organizations. Since the *Law of the People's Republic of China on Peasants Specialized Cooperatives* lacks the legal rules of external alliance mechanism, the cooperatives with small scale at present can not expand the production scale by alliance to further realize scale economy, which is only one of the effects caused by institutional absence.

### **3 Improving the suggestions on alliance cooperatives in the *Law of the People's Republic of China on Peasants Specialized Cooperatives***

With the acceleration of global economic integration, the operation activities have expanded into the whole world, and cooperatives are facing more acute competition during development. Alliance of cooperatives becomes one of the seven principles for the International Cooperative Alliance. In the year 1995, the Principle 6 of International Cooperative Alliance clearly pointed out the cooperation between cooperatives. In order to realize the goal of industrial security more rationally and scientifically, corresponding regulations about the alliance cooperatives should be improved. At the same time, the main body of the *Law of the People's Republic of China on Peasants Specialized Cooperatives* should be extended. In other words, the law should regulate not only the cooperatives, but also the alliance cooperatives.

Alliance cooperative refers to an alliance organization with the features of cooperative on a voluntary basis in order to realize common interests, by taking the peasant specialized cooperatives as members. Its existence has very important practical

significance and value embodiment. At present, the scale of cooperatives is generally small in China. According to the statistics of the State Administration for Industry and Commerce, there are in all 26 million farmers distributed in 310 thousand cooperatives until June 2010, that is, each cooperative has only about 84 farmers. The small scale has caused the small production scale, which makes producers at a disadvantage in the market competition. At the same time, cooperatives with farmers as their members usually have poor investment capacity, risk defense, and operation capacity. Therefore, the formation and development of alliance cooperative has its positive social significance in ensuring the interests of members in cooperatives, and in promoting the development of both rural areas and agriculture.

Alliance cooperative, composed by homogeneity cooperatives, is a profit organization from the legal sense. And the homogeneity cooperatives pay more attention to their own interests demand in order to adapt to the market competition. Therefore, developing alliance cooperative and promoting the alliance of the homogeneity cooperatives are the feasible ways to solve the problems of cooperatives in market competition. However, there are also some problems needed to be solved during the homogeneity development of alliance cooperative. For instance, as a social group, heterogeneous organization can directly be registered according to the *Regulations on the Registration of Social Organization as Legal Person*. But the alliance cooperative has a problem of institutional absence in registration. According to the legislative background at that time, alliance cooperative was not the applicable body of the *Law of the People's Republic of China on Peasants Specialized Cooperatives*. Although some local laws and have made regulations about its principle, the state should legislate the legal status, nature, and responsibility of alliance cooperative, and the relationship between alliance cooperative and grass-roots cooperative as soon as possible. Regulating and promoting the development of alliance cooperative according to the law can help to form a platform to express the interests of farmers, to realize the fully expression of farmers' interests demand, and to maintain the overall interests of agricultural employees.

Firstly, the *Law of the People's Republic of China on Peasants Specialized Cooperatives* should be revised as soon as possible. The status and function of cooperative in agricultural security should be clarified. The applicable object of this law should be extended to the alliance cooperative of peasant specialized cooperatives. And the legal status, organizational nature, business scope of the alliance cooperative should be regulated, as well as its relationship with grass-roots cooperatives. In particular, it should be emphasized that the alliance cooperative is different from the combination of different cooperatives, and the establishment of alliance cooperative has no influence on the legal personality of cooperatives.

Secondly, due to the particular function of peasant specialized cooperative and the alliance cooperative in ensuring the agricultural security, it is suggested that relevant state departments should promulgate preferential policies for their develop-

ment before the law revision. The policy should aim to guide the cooperatives and alliance cooperatives to expand market share, improve the quality of products, expand the industrial chain, gradually cultivate the research and development abilities of cooperatives, and enhance their brand values.

Secondly, before the revision of the *Law of the People's Republic of China on Peasants Specialized Cooperatives*, the Standing Committee of the National People's Congress should firstly give the legislative interpretation, in order to provide basis for the local legislation and to ensure the effectiveness, because some regulations on the alliance cooperatives by local legislative bodies have defects in legislative power.

Finally, the alliance cooperative, which is inconsistent with the principle of homogeneity, should be defined as alliance association, which is different from the alliance cooperative and belongs to a kind of social organization as legal person. And these alliance associations can be registered and monitored according to the *Regulations on the Registration of Social Organization as Legal Person*.

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(From page 103)

personnel as the main body has special advantages<sup>[2]</sup>. The essence of technological innovation in an enterprise is to better adapt to the market change and to adjust the enterprise. Therefore, market-perceived ability of technical personnel is very important for an enterprise. The basic goal for an enterprise to carry out technological innovation is to establish a core competitiveness that brings sustainable competitive advantages to an enterprise, that is, the integrating force of core resource and core competence of an enterprise. Technical personnel are undoubtedly the core of human resources, who bring the competitive advantage and core competence to a company. Thus, it can be seen that grasping the marketing ability is the premise of the transformation of professional technology. Talents with professional knowledge and skills should be cultivated into inter-disciplinary talents with integrated marketing capabilities, which is a new stage for the talent development of an enterprise.

Wuhan Zhongliang Machinery Co., Ltd. in Hubei Province aims to improve the income of farmers, enhance the quality of edible rice, and make contribution to the social development. It carries out training for researchers in various aspects, obtains breakthroughs in professional skills and marketing ability, and pays attention to the research, production and sale of products with good social and economic benefits. The "production technology and complete equipment of low-temperature rice whitening" has greatly enhanced the level of rice processing enterprises, promoted the overall economic efficiency, and satisfied the requirements of modernization of

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agricultural processing.

## 3 Conclusion

How agricultural products processing enterprises carry out technological innovation from the perspective of modern marketing is analyzed from several aspects, by taking the typical agricultural products processing enterprises in Hubei Province as examples. Practice has proved that with the development of market economy, enterprise can never enhance its own strength by pure technological innovation, but should combine the "doing things right" with "doing right things". Enterprises should conduct corresponding research and development work based on market with customer as the center, ensure the transformation profit of technological achievements, enhance the core competitiveness of enterprise fundamentally, integrate the technology and market, and realize the integration of professional skill and marketing ability, which is a fundamental guarantee of the long-term development of enterprises.

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