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Strategies for Agricultural Cooperation in Contemporary China¹

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Abstract

A movement is emerging in rural China for a new type of cooperation that is more oriented toward democratic participation. Analytically distinguishing these cooperatives is important for the evaluation of their success as economic enterprises and their role in building a more democratic China. We identify them as community-based cooperatives, as opposed to other types of cooperatives that tend to be grounded in private (“dragon head”) enterprises or Party/State programs. The absence of reliable, consistent data at the national level makes comparative analysis difficult across this diverse nation. Hence, most of the work on Chinese cooperatives tends to be provincial-level case studies. We propose a set of criteria to guide these case studies toward comparative analysis in several dimensions: specialization, organizational structure, substance, geographic scope, the role of elites, and farmer/member differentiation. We briefly examine data in a case study of Shaanxi Province in terms of these variables.

Keywords: agricultural cooperation, community-based cooperatives, Chinese agriculture

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Introduction

In declaring 2012 the International Year of Cooperatives, the United Nations has recognized the “contribution of cooperatives to socio-economic development, particularly their impact on poverty reduction, employment generation, and social integration” (UN-IYC, 2012). Under the theme “Cooperative Enterprises Build a Better World”, the UN seeks to encourage cooperative institutions in both developed and less developed nations. Perhaps nowhere is both the need and the potential for cooperative development greater than in the post-socialist world, where autocratic forms of political and economic domination often presented themselves as “cooperatives.” This aberration has left what Guo et al. (2008:171) identify as an “ideological obstacle” in which actors “misinterpret cooperative principles” in ways that limit their democratic control.

As China finds its own unique place as a post-socialist society, a new rural cooperative movement is appearing in the Chinese countryside (Zhao, 2011). The institutionalization of cooperatives in China is, of course, no small matter for the international cooperative movement as endorsed by the United Nations. The forms taken by the Chinese cooperative movement are also of considerable significance for the emergent relationship between the economy, the Party-State, and civil society. Zhao (2011: 680) points directly to the current uneasy juxtaposition of China’s “fast economic reform along with a slow political reform” as a point of entry for the new cooperative movement and its promise as a mechanism of democratization. However, China’s historical, geographical, and agricultural diversity as well as the current dynamism of its economic development renders the analysis of cooperative development quite problematic. Given the absence of consistent, reliable data at the national level, most analyses of cooperative development in China have been provincial level case studies, each with a distinct emphasis on different variables. Sultan and Larsen’s recent study (2011: 16), for instance, compared cooperative development in two Chinese provinces characterized by different levels of overall economic development. Interestingly, among their findings, was that while economic interests were primary for members in both regions, “democratic cooperative governance has a greater impact on farmers’ decision to join coops” in the less developed province characterized by a “less business-oriented culture”.

We model and identify six critical factors (specialization, organization, substantive practices, geographic scope, the role of elites, and farmer differentiation) associated with the analysis of Chinese cooperative development that vary among several possible development paths. We then

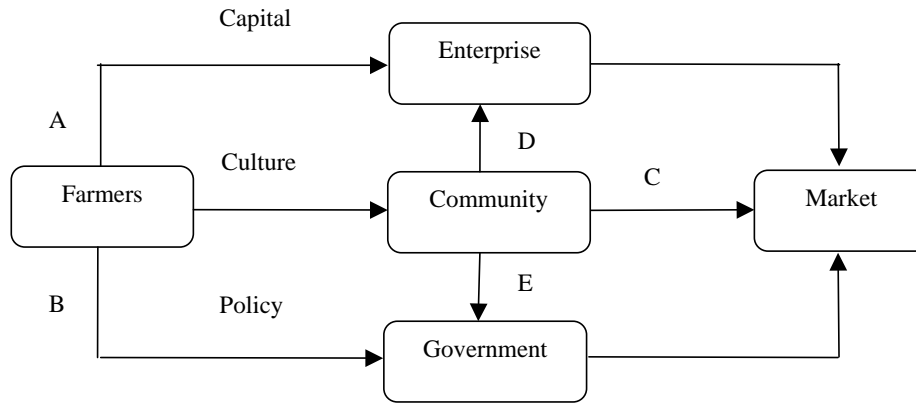
contribute a brief look at another case study: Shaanxi Province. Shaanxi's overall level of economic development and rural household income is even lower than the less developed province in Sultan and Larsen's (2011) study. However, this case demonstrates not only the difference *between* cooperative development in Shaanxi and other provinces but also points to considerable variation *within* Shaanxi Province. The model suggests the possibility of developing a broader, yet more consistent basis for comparative analysis.

Though Zhao (2011: 681) contends that the *new* rural cooperative movement "is based on the values of collective self-help, self-responsibility, democracy, equality, equity, and solidarity", it is also the case that cooperatives take multiple forms in China today. These forms, known by many different names, reflect complex interactions of the role of the government, private capital, and community. We contend that a community-based form of cooperative development is most likely to facilitate those democratic values that Zhao recognizes in the new rural cooperative movement. In turn, that form has greater promise for dealing with the distinct vulnerabilities of China's rural population and its comparative exclusion from the economic development being enjoyed by the larger society (O'Brien and Li, 2006).

Figure 1 models several different approaches to creating cooperatives current in China. Approaches A, B, and C signify three direct linkages (farmer-enterprise-market, farmer-government-market, and farmer-community-market, respectively), while approaches D and E signify two indirect ways (farmer-community-enterprise-market and farmer-community-government-market). In approaches A and B farmers are still separate individuals facing powerful organizations, while through approaches C, D, and E, mediated by the community, small farmers have more power to negotiate with exogenous institutional interests. Our analysis explores these different pathways.

Farmer cooperatives in Shaanxi Province: Local government policy environment

Shaanxi Province is located in north-central China (Figure 2). Northern Shaanxi is characterized by desert, in the central part is the Loess Plateau where the Yellow River crosses west to east, and in the south are the Qinling Mountains. Agriculture is a key sector of Shaanxi's economy. Alongside major agricultural products, such as wheat, corn, rice, cereals, tea, oil, and tobacco, fruit and livestock production are leading agricultural industries in the province.

Figure 1: Cooperative development pathways

In the early 1990s, some farmers in Shaanxi Province formed Farmer Specialized Technical Associations (FSTAs). The basic characteristics of FSTAs are voluntary membership and withdrawal, self-help, democratic governance, cooperative organization, equal ownership shares, and sole responsibility for profits and losses. In 1995, Shaanxi Province was selected as the first experimental province to develop FSTAs. Later in 1998, the Shaanxi government issued preferential policies for FSTAs, but this support was not very strong. After 2004, the provincial government began to strengthen support for Professional Farmer Cooperatives (PFCs) (Shaanxi Agriculture Department, 2007). The Shaanxi Agriculture Department claimed that there were 3,544 PFCs in Shaanxi by 2008 with 44,680 farmers accounting for 94.8% of the total 47,123 members (Chinese Farmer Cooperatives web site, 2009). The rapid growth in PFCs is indicated by the fact that there were 5,472 PFCs by late June 2009 (Zhang and Tian, 2010).

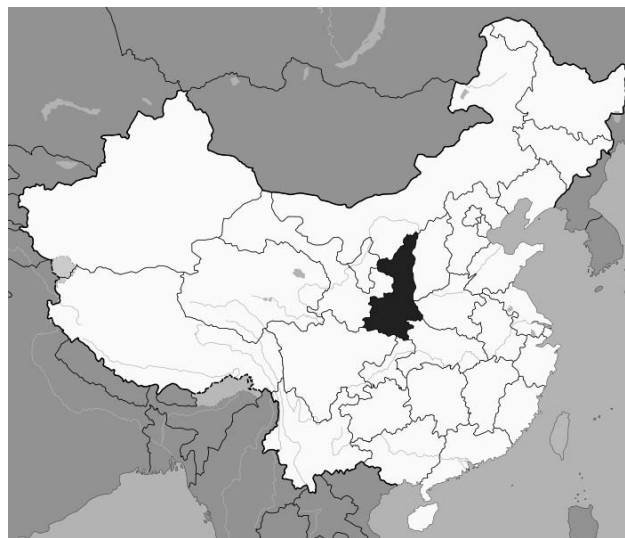
Enterprise, government, and community

This study reveals different types of PFCs in Shaanxi Province. As noted above, each is grounded primarily in a different base: private enterprise, government, or community.

Although the community is not the dominant factor in establishing cooperatives in rural China since the reform, a community base is influential to

some extent in all these forms (Zhang, 1999) because many resources (e.g., land rights, water, and electricity) are controlled by the village community. Path C in Figure 1 is the hypothesized strategy with the strongest community base, while paths D and E mediate the role of community through either the private sector or the state and paths A and B circumvent the community altogether. These models should be understood as ideal types that can, of course, also blend in complex hybrid forms.

Figure 2: Location of Shaanxi Province in China



Private enterprise-based cooperatives

The Chinese government strengthened financial support for private enterprise-based cooperatives after 2000 and invested 11.9 billion Yuan in provincial level “dragon-head enterprises” between 2000 and 2005 (Huang, 2011).⁵ At the local level, the Shaanxi government developed policies to promote agro-food processing via dragon-head enterprises (Shaanxi Government web site, 2008).

5 Dragon-head enterprise in China is a special term derived from a metaphor for its function of leading the development of agricultural industrialization. It is commonly referred to as agribusiness in foreign literatures. Dragon-head enterprises usually involve agricultural production, processing, and marketing, driving farmers toward a certain size and operating index that should meet national standards.

In other regions, the Shandong government provided 50 million Yuan for dragon-head enterprises annually since 2002; the Jiangsu government supported dragon-head enterprises with 80 million Yuan annually since 2006. To date, these enterprises have become the most important means of achieving agricultural modernization. As Table 1 shows, among all the vertically integrated organizations (135,725 in 2005), dragon-head enterprises accounted for 45%, while the share of cooperatives reached 36% and terminal markets constituted 9%. China has entered a new phase of agrarian capitalism (Zhang, 2008), because capital and land are increasingly controlled by agribusiness and involved in initiating cooperatives. Enterprise-based cooperatives have advantages, such as cumulative reputation of brand, entrepreneurial orientation, market sensitivity, market network and marketing system, management expertise, and market power in negotiating contracts. Farmers in enterprise-based cooperatives can obtain more benefits than individual producers as a kind of Pareto improvement in which benefits to actors do not create costs to other actors.

Table 1: Vertically integrated organizations, 2000-2005

Type of organization	2000		2002		2005	
	quantity	percent	quantity	percent	quantity	percent
Total organizations	66,688	100%	94,432	100%	135,725	100%
Dragon-head enterprises	27,276	41%	41,905	44%	61,268	45%
Cooperatives	9,552	14%	20,245	21%	48,473	36%
Terminal market	7,674	12%	9,163	10%	11,543	9%
Other types	22,186	33%	23,119	25%	14,441	11%

Data resource: Agricultural Industrialization Office (2008).

However, enterprise-based cooperatives also have many disadvantages. First, internal governance may be distorted and ineffective in biasing administrative power toward the enterprise rather than toward the producers, leading, in turn, to a singular logic and a standardized management that does not represent the diversity of producer interests. Mooney (2004) has argued, following Grabher and Stark (1998), that the “institutional friction” generated

by a multiplicity of competing values is not only an outcome to be reasonably expected by democratic organizations, but possibly also a functional source of innovation and creativity in the increasingly homogeneous environment of an economy rationalized according to a uniform objective. Second, unfair distribution of profits encroaches on the interests of the direct producers. Third, “dragon-head enterprises” are likely to siphon government funds intended for agriculture toward other uses, such as gaining funds for their construction companies or other enterprises. Government funds intended for cooperative development have not always been used to serve small-scale farmers, sometimes even financing the cooperatives’ transformation to an investor-oriented firm (IOF).

Government-based cooperatives

Before the 1978 Reform, the Chinese government regarded cooperatives as political tools to implement policies, but not as autonomous economic or legal entities. The Commune Movement, under the tight control of the State, alienated many farmers from globally recognized cooperative principles. After 1978, the two-tier management system became the goal of rural economic reform in China. This goal emphasizes, on the one hand, separate management by small-scale households that can effectively activate farmers’ productivity, enhance independent management, and overcome free-rider behavior; and on the other hand, attempts to reduce small-scale households’ production and management costs via unified management at the village level. The latter can accomplish productive activities which are very difficult for small-scale households to assume, such as providing integrated services for mechanization, infrastructure construction, etc.

In the 1980s, the Chinese government pushed policies to develop the village economy in hopes of providing unified services to small-scale households, but lack of mechanisms for internal capital accumulation at the village level hampered this development. In 1988, the government advocated a socialized services system for agriculture: “village collectivities or cooperatives are the basis, state economic and technical departments are the supports, enterprises and individual services are the complements” (Yu, 2007). The government gradually recognized that developing farmer cooperatives fulfilled the unified function of providing services and security to small-scale farmers, who are individually unable to deal with competitive and fluctuating markets. The government supported them through financial subsidies, tax breaks, and easing cooperative registration processes.

The role government should play in cooperative development became a key issue. A dilemma existed: on the one hand, while it is necessary for government to guide and assist in cooperation in the beginning, the government usually continues to play a dominant administrative and investment role in later development. This government-based model renders many farmer cooperatives dependent on external capital or policy privileges, impedes sustainable development of autonomous management and is often eventually subsumed by governmental offices.

Community-based cooperatives

Although some PFCs are combined with government, private enterprises, and rural elites in hybrid forms, other PFCs follow the bottom-up path. In the embryonic period, neither the government nor the private enterprise knows farmers' needs and interests. There is much potential to form cooperatives based on the specific characteristics of the community level itself. This grounding in "place" is continuously reinforced by the cooperative principle of user-ownership, functioning to sustain the cooperative's community ties, when external capital might flee due to recession or more attractive investment opportunities elsewhere (Mooney et al., 1996). The basis in local community renders the concept of "social economy"⁶ a more useful analytical category than the economic reductionism that is often applied to the assessment of cooperatives. The analysis of the social economy can reflect strategies of farmer cooperatives in China that combine economic, social elements and community goals together in a more realistic and holistic manner as these coalesce in unique ways in each community.

Traditional Chinese rural communities had high levels of identity and trust in providing services and security to their residents, concerning water conservancy, cultivation, public security, defense, sacrifice, religion, entertainment and so on. Between 1950 and 1970, based on collectivist organization, rural communities also secured obedience and identification from their members by offering services focused on production, living conditions, education, medical care, security and so on. However, with economic and social reform, especially accelerated social mobility, the relationship between residents within the community fragmented and the community management and service functions have weakened. Nevertheless, this trend has reinforced individual farmers' needs for services and they look to government and the

6 According to Max Weber's view of "social economy", a purely economic standpoint is unrealistic and economic phenomena need to be analyzed from several points of view/interests.

local community for support. Ironically, just as developed societies, especially in the EU, are beginning to recognize the significance of the local in development, Chinese policy-makers and scholars have too often ignored community level social and cultural characteristics with their enormous local development potential. Thus, as multifunctional locales, certain possible paths for China' small-scale progress towards cooperative development can be analyzed comprehensively in terms of level, scope, means, and mechanism (Table 2). The paths of enterprise-based and government-based development depend on exogenous resources, which eclipse autonomy and may lead cooperatives to pursue a singular rationality around economic profit, lead toward transformation to investor-oriented firms (IOFs), and neglect local interests, culture, adaptation, and control. However, the path of community-based development may help cooperatives achieve endogenous development.

Table 2: Social-economic analysis of the three paths

	Enterprise	Government	Community
Level	Market	State and local	Local and village
Scope	Economic	Economic, institutional	Social and cultural
Means	Capital, management and technology	Policy intervention and institutional reform	Value, meaning, and social relationship
Mechanism	Exogenous	Exogenous	Endogenous

Social economy recognizes that all economic action is embedded in social structure (Granovetter, 1985). Farmer cooperatives operate within the two-tier management framework, so both the community and small-scale households need to be considered. Although some cooperatives extend beyond the boundaries of village and kinship, still the village residents need the village's resources, such as land, water, labor. Hence, the dimension of community should be taken into account as the basis for developing farmer cooperatives. Making good use of community networks will facilitate a beneficial, virtuous cycle in which community affinities may increase membership participation

and reinforce cooperatives' solidarity, and cooperatives will regenerate and retain wealth within the community.

Features of PFCs in Shaanxi Province

Gaining better understanding of cooperative development in China is contingent on constructing comparable variables with which to analyze regional similarities and differences. In order to test the development paths of Chinese cooperatives, a survey of 28 cooperatives from 16 villages in the Shaanxi Province was conducted from July to October 2010.⁷ Survey teams visited each village and held meetings with rural cadres and small farmers to gather information concerning farmer cooperatives' development and their economic and policy environment. As a result of this survey, we have identified six dimensions of PFCs, which are presented below with a brief examination of the case of Shaanxi.

Specialization

The survey findings indicate that specialization is a dominant trend for PFCs in Shaanxi Province. The PFCs specialize in orchard fruits, vegetables, livestock, and poultry (Figure 3), and are typically based on their characteristic regional agricultural products. The PFCs located in the northern part of Shaanxi Province mainly specialize in apples, yams, sheep, and pigs. PFCs in the central region mainly specialize in fruits, vegetables, seedlings, and pig breeding, while PFCs in the south specialize in edible mushrooms, tea, silkworms, and plants associated with Chinese herbal medicine.

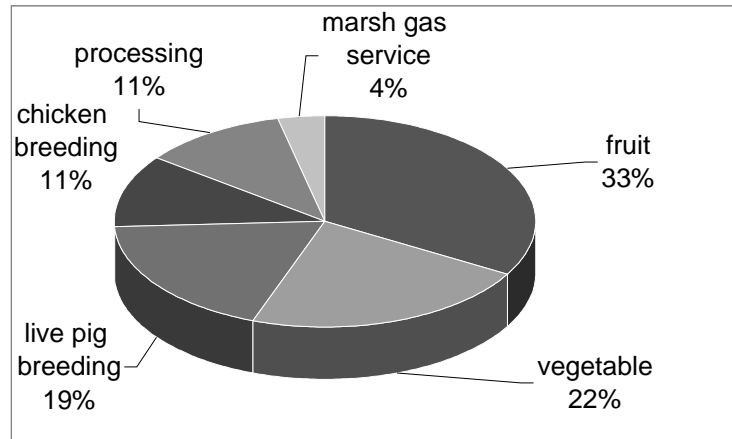
Organizational structure

As noted above, there are three primary PFC operational models: private enterprise-based cooperatives, government-driven cooperatives, and community-based cooperatives. However, in the survey, we did not find cooperatives that fully corresponded to the notion of community-based cooperative, i.e., cooperatives that have good relations with the local village committees (sometimes to the extent that the cooperative manager is one of the village leaders) and, in addition to promoting agricultural production and sales, also advance the local cultural needs, education, and access to credit. Instead,

7 The survey was sponsored by the Shaanxi Agriculture Department as part of the Demonstration Project of Village Economy Promotion and mainly carried out by the One Village, One Food Office.

we identified the subtype of “exclusively farmer cooperatives” as professional cooperatives formed by simple farmers for the purpose of exploiting economies of scale in crop and livestock production and in joint purchasing, processing, and sales, but usually without special relationships with the local village committees or attention to community needs.

Figure 3: Specialization of PFCs in the survey



Source: Survey of 28 cooperatives from 16 villages in Shaanxi Province carried out in July-October 2010

Exclusively farmer cooperatives are the most frequently observed form (50% of all cooperatives surveyed), but there are regional differences (Table 3). North Shaanxi is an old revolutionary area of the People’s Republic of China. This political history attracts attention and policy support from both the central and local government. Most of the PFCs in north Shaanxi were thus established and developed under the efforts of government. Exclusively farmer cooperatives developed to a greater extent in central Shaanxi, perhaps due to its richer natural resources and a more developed economic base. In southern Shaanxi we observe a mix of enterprise-based cooperatives and exclusively farmer cooperatives in equal proportions. This is probably due to the specific commodities grown in this mountainous area, which require processing and marketing to the outside market.

Substance

The substance of cooperation includes activities that deal with purchasing of farming inputs, production, marketing of farm products, access to credit, and

provision of technology, training, and information. Cooperation is usually stronger upstream in the agro-food chain and less dominant mid-stream and downstream. For example, the Xingshui Apple Professional Cooperative founded in August 2008 adopted “farmer-run, farmer-operated, and farmer-benefit” as guiding principles and provides production, supply, and marketing services to farmers. The members of Yanshi Green Tea Industry Professional Cooperative in Nanzheng County own 18 tea processing companies. This cooperative not only provides tea seeds, inputs, and marketing services for its members, but also brings experts to instruct and train members. In addition, it has standardized its tea processing to ensure quality control. In 2010, this tea cooperative purchased 261 tons of tea from its members, processed and sold 65.3 tons, grossing 5.3 million Yuan, providing 6,880 Yuan per capita annual net income, much higher than the average farmers’ income of 4,105 Yuan at the provincial level.

Table 3: Regional differences of the cooperative operation model observed in the survey

	Government-based model	Enterprise-based model	Exclusively farmer model	Total
North	4 (100%)	0 (0%)	0 (0%)	4 (100%)
Center	0 (0%)	6 (35.3%)	11 (64.7%)	17 (100%)
South	1 (14.3%)	3 (42.9%)	3 (42.9%)	7 (100%)
Total	5 (17.86%)	9 (32.14%)	14 (50%)	28 (100%)

Source: From the survey of 28 cooperatives from 16 villages in Shaanxi Province from July to October, 2010.

Geographic scope

Cooperation *within* communities is common but *between* communities it is rare. Some PFCs employ the village name as the cooperative’s name. This limited scope of operation is related to several factors. First, the goal of

retaining returns in the community restricts the geographical spread of the village cooperative. Second, PFC development is often tied to a village leader's career progress, and the leader often does not want to cooperate with other cooperatives for fear of losing power or status within the community. Third, developing PFCs can receive some policy support and investment from the local government. Thus, village members get some benefit, but extension of the cooperative beyond the village may jeopardize such benefits. This is an obstacle that government-based and enterprise-based firms may more easily circumvent, though at the cost, perhaps, of failing to retain value produced by the village within the village.

Role of elites

The survey found that rural elites played an important role in establishing and developing PFCs, with 89% of the PFCs heavily relying on local elites. These elites are usually composed of village leaders, larger farmers, agricultural brokers/middlemen, as well as farmers who first achieve success by using new advanced technologies for planting and breeding. Sometimes these roles are combined within households that have the resources, money, and social networks, and they achieve success by integrating these resources. These cases often have a "demonstration effect" in rural areas, and the Chinese government currently regards this "adoption by example" as a key method of extending cooperation.

Chaoxian Li exemplifies the rural elite. He assumes multiple roles that provide access to many resources. He serves as board chairman of five companies, head of the county foreign affairs office, town party vice-secretary, village party secretary, and honorary president of the village primary school. Chaoxian Li started his own business in 1989 and soon became a successful private entrepreneur with four restaurant companies and an architectural design and decoration company. He founded an agricultural science and technology training center with his own money and invited fruit experts to instruct and guide apple production. In 2002, with money from his companies, he established an agricultural production base to demonstrate agricultural scientific technologies and promote farmer development. Under his efforts, two fruit and livestock cooperatives were established, which greatly promoted village development and increased farm income. A concern here has to be that some elites may facilitate cooperative development in forms that primarily serve the interests of their own private enterprises.

Farmer differentiation

Farmer differentiation impacts participation in PFCs, with specialized famers, commercial farmers, and larger entrepreneurial farmers being more inclined to participate in PFCs. Size of land ownership, labor use, specialization, off-farm work, and social capital contribute to farmer differentiation and structure famers' participation in PFCs. Zhang (2010) classified farmers into six types: commercial farmers, entrepreneurial farmers, contract farmers, semi-proletarian farm workers with Chinese characteristics, semi-proletarian farm workers, and proletarian farm workers. The former three categories are more likely to participate in PFCs. PFC entrepreneurial farmers face two possibilities: operating investor-oriented firms (IOFs) by themselves or participating in PFCs. In the Chinese social context, they will usually combine their own firm with a cooperative to trade with small farmers and get government support. Regarding PFCs as a buffer/middle organization, contract farmers find that PFCs reduce the transaction risks and enhance bargaining power in the market. Farmers with little land and limited access to labor, or farmers with much off-farm work are usually less interested in joining PFCs.

Conclusion: strategy for further development

Reviewing the current situation of PFCs in Shaanxi Province, we conclude with three points. First, policy support and enterprise capital input have played an important role in developing farmer cooperatives since 1978. However, the institutional costs were high: inefficiency, vulnerability to corruption, and neglect of small farmers' interests. Second, the rural elites have been very important in developing PFCs, especially through their demonstration effects. Behind this successful pattern there are hidden problems, particularly the obvious impediment to democratization and the neglect of small farmers' interests. Third, a strategy of developing PFCs that lies in achieving a balance among government policy, enterprise capital, and rural elites has great potential to mobilize resources and generate greater wealth at the community level.

Given continued market development and increasingly global agricultural trade (e.g., WTO membership), farmer cooperatives in rural China will meet many new challenges. Among the different types of PFCs identified in this article, exclusively farmer cooperatives that represent the fundamental interests of small farmers and are based in the community will enhance sustainable development. However, not all exclusively farmer cooperatives in China are community based. Some of them are simply established by small farmers for

immediate self-interest and lack the quality communication and democratic decision necessary for long-term community development. Here the “community base” recognizes the significance of cultural resources and social network integration, emotional interaction, trusting relationships, moral/ethical constraints, and technical and institutional innovations (Hayami and Ruttan, 1985). Moreover, taking community as the intermediate level between individual smallholders and the external market system, community-based cooperatives move agricultural reform toward a new rural reality. Thus, sustainable development must consider not only economic factors but also the needs and interests of local communities. Communities are rich in cultural and social resources, such as village self-regulation, social capital, certain traditional institutions and customs, etc. Community-based cooperative development, structurally tied to particular place, is the best means to achieve several goals: first, mobilize local social and cultural capital; second, to assure the integration and recognition of the needs and interests of the whole community; and third, to facilitate the democratization of rural China from a grassroots (bottom up) base.

The support of enterprise-based and government-sponsored cooperatives has been regarded as an important task for local government to attract business and investment, and to strengthen the contribution of local development to GDP. The number of different cooperatives is increasing rapidly, but the quality of this new cooperation needs further investigation. How is China to measure and supervise the practical operation of cooperatives? Which objectives are most important – to farmers, to policy makers, to consumers, to the national interest? To date, we can find little specific research on this point. This area needs more extensive exploration. It requires empirical support with consistent and reliable data for all regions of this vast and diverse nation.

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