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Patron-client Relationship and the Development of Rural Cooperatives in China

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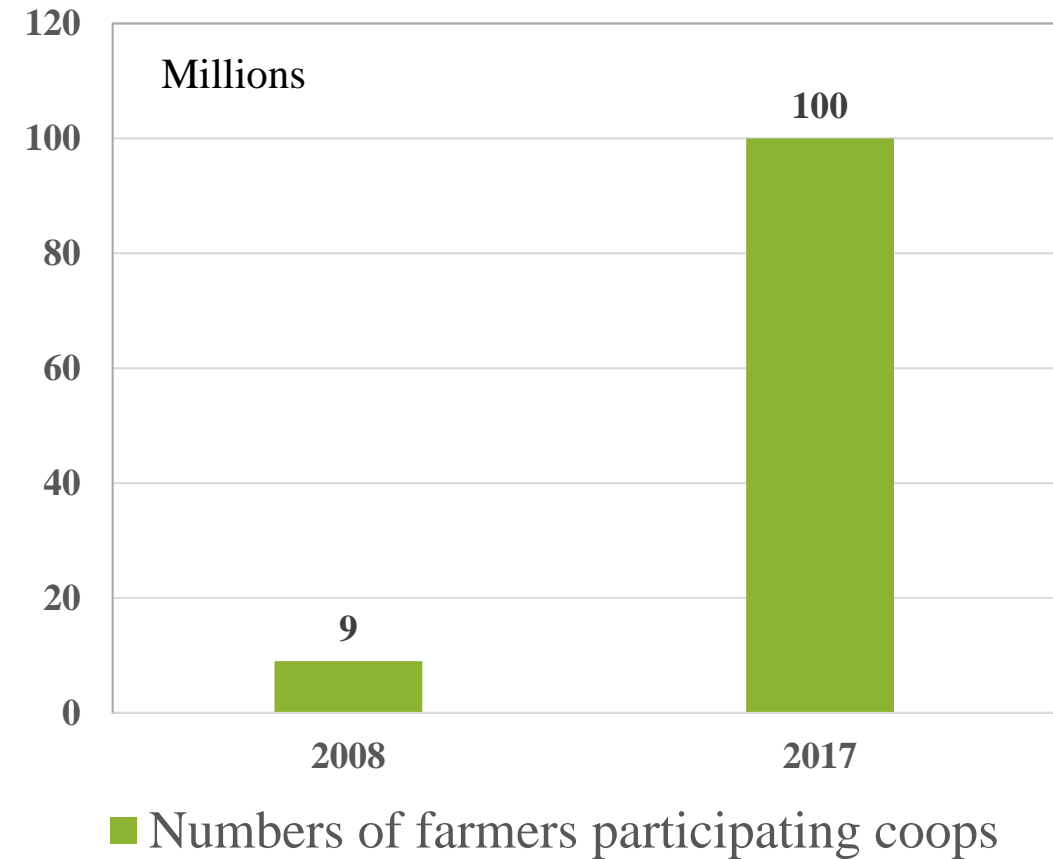
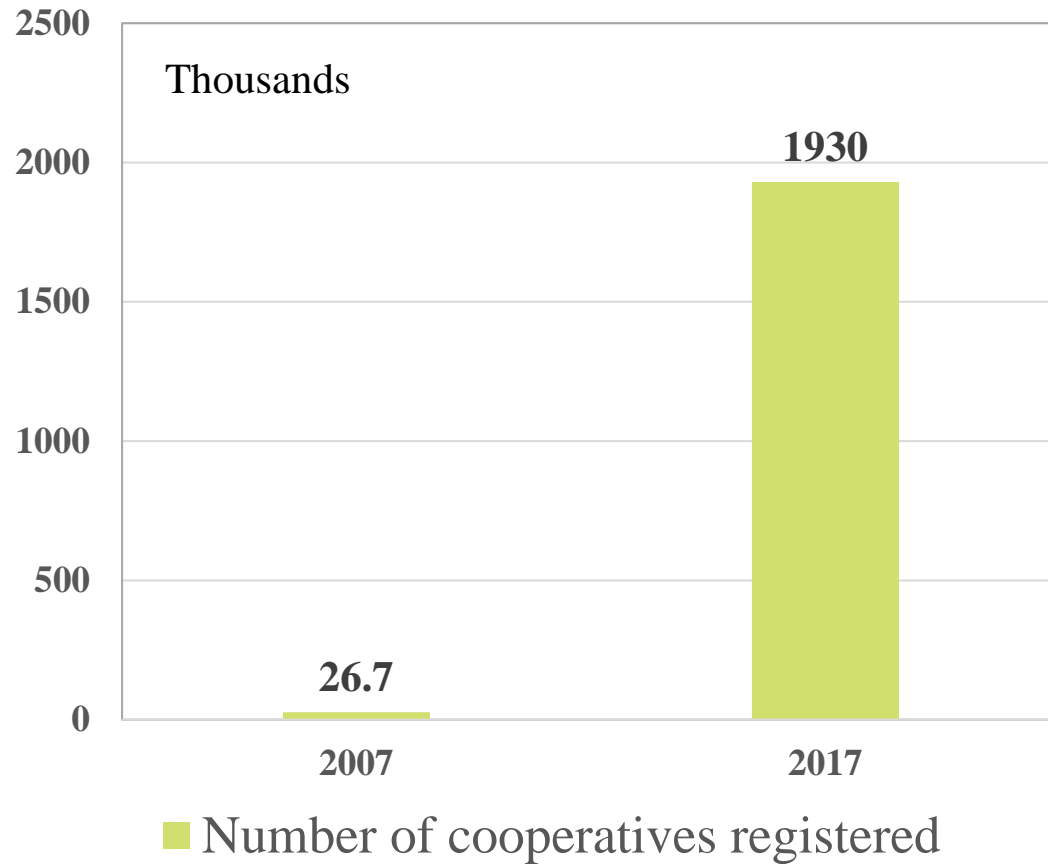
Murray Fulton

Eric Micheels

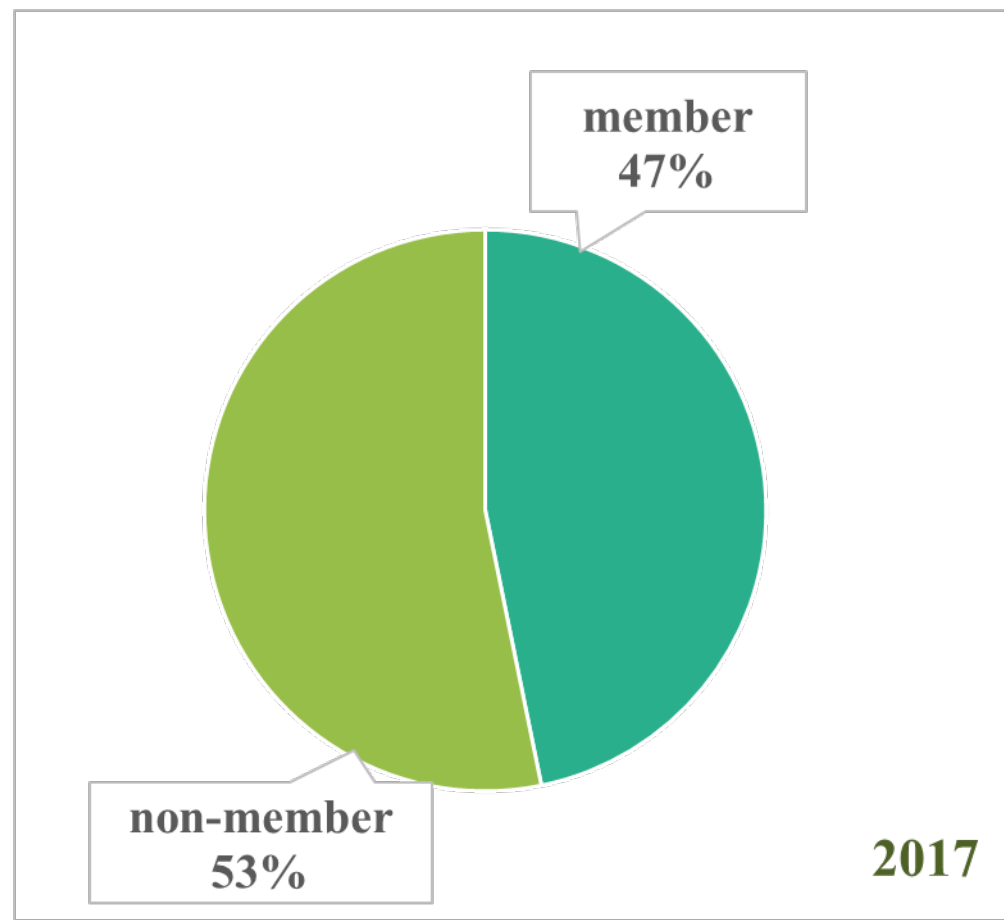
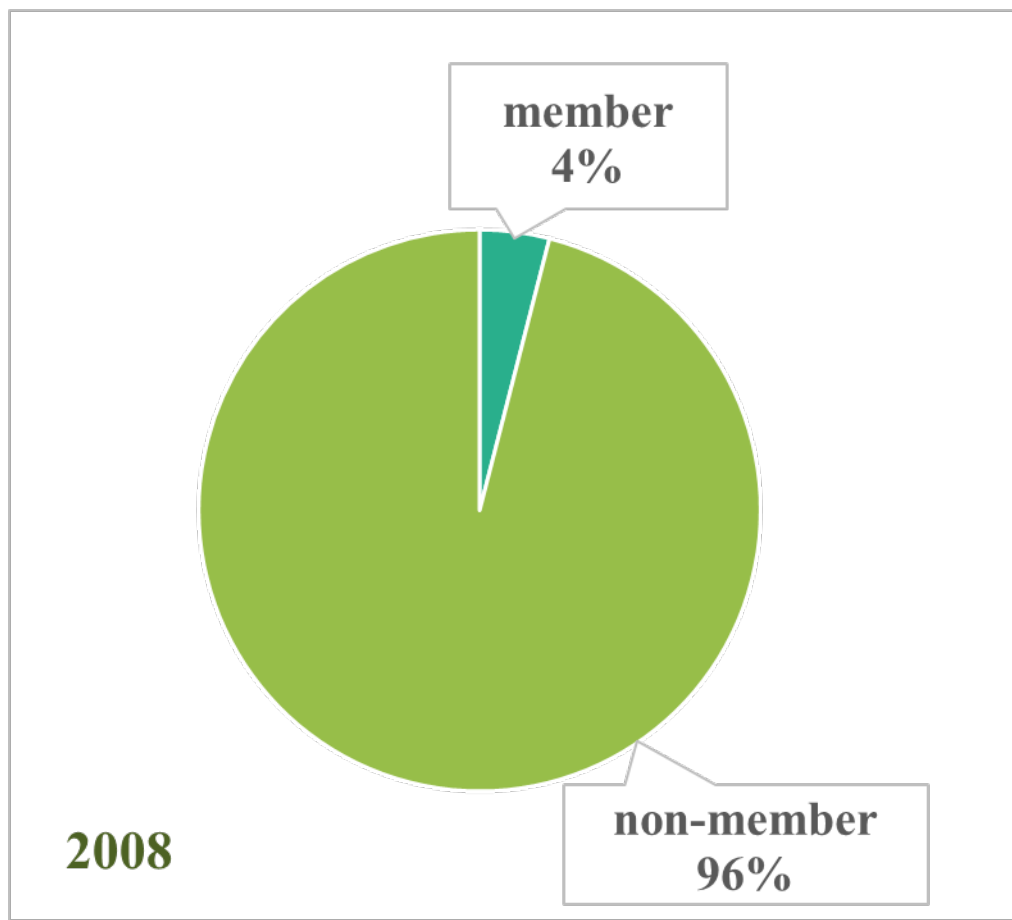
University of Saskatchewan



Development of coops in China



Portion of farmers participating coops



Questions Behind the Growth

01

What are Chinese cooperatives like?

02

Are Chinese cooperatives unique compared to those in the rest of the world?

03

And if unique, how could this uniqueness be explained?



Comparison of coop models

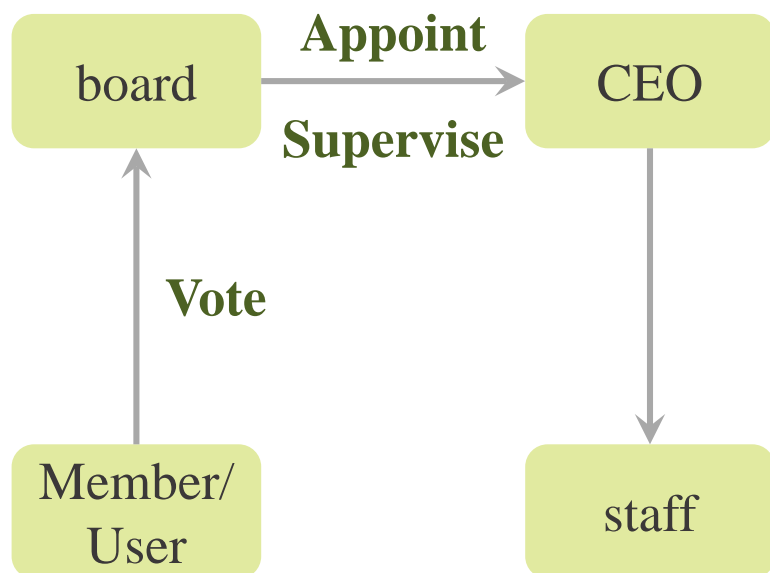
Coops in western world	Coops under Chinese Cooperative Law	Actual Coops in Rural China	Investor-owned firms
Democratic Control (usually One Member One Vote)	Large investors could hold up to 20% additional votes (plus their own votes).	Large investors and rural elites control the coops.	Investors control the firm
Profits are distributed on the basis of transaction.	No less than 60% of profit should be distributed on the basis of transaction. And no more than 40% on the basis of investment.	Most of the profit are distributed on the basis of investment.	All profit are distributed on the basis of investment.

(Fulton 2007)



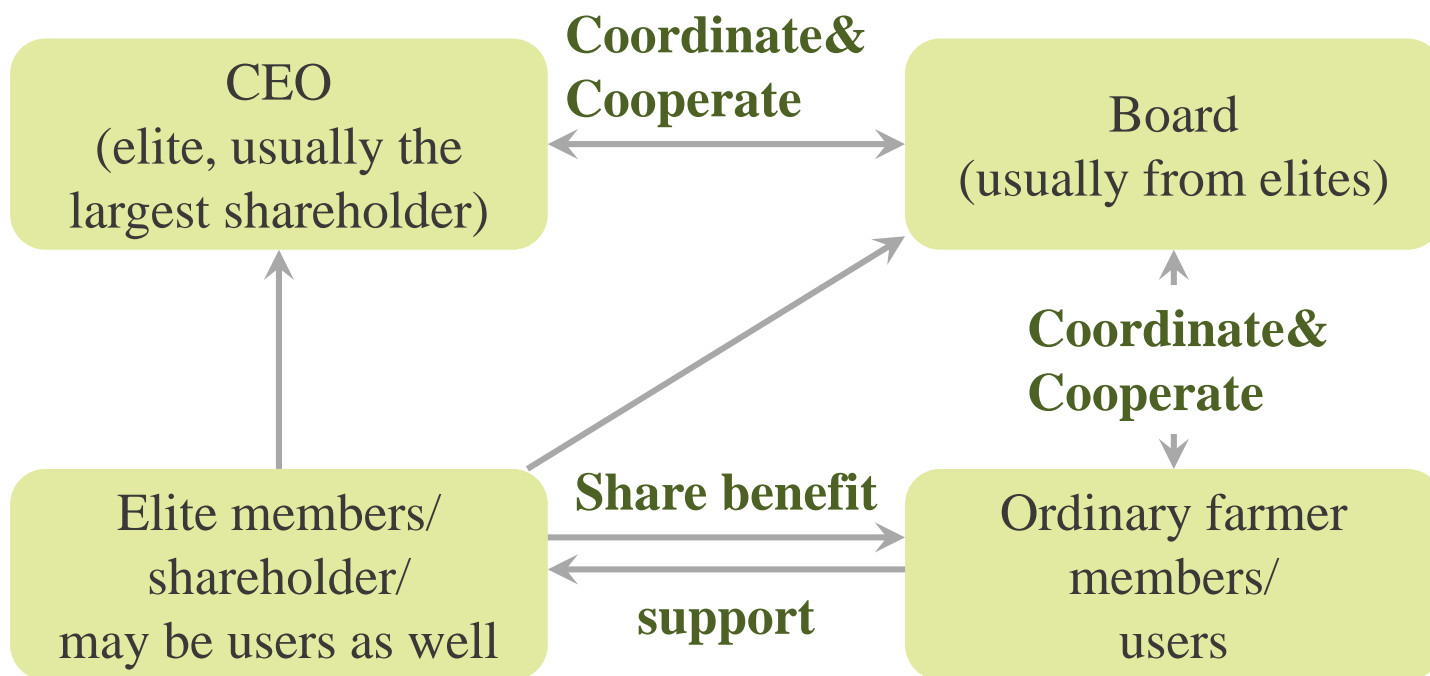
Governance: A problem of “who decide what”

A Traditional Cooperative



A Common Chinese Rural cooperative

An Elite-dominate Model



Conflicts with classic economic theory

MEMBERS

Cooperative model

Members hold power, selecting board to monitor & member have residual claim right

ELITES

IOF model

Shareholders hold power and maximize their profit.

Elite-dominate Cooperative model

Majority of members give up power to elites, but they could still have part of the residual right

Elites controls the coop, but they do not maximize their profit



What do we miss?

- Assumption for principal agent theory: self-interest, economic benefit
- Does not consider the effect of

Social norms, social relationship and cultural factors



Research goal

- ADD in Social and cultural factors, and
- Consider the effect of rural China **Patron-client relationship**
in the development of Chinese Rural Cooperatives



What is Patron-client Relationship

a distinct mode of regulating crucial aspects of institutional order: the structuring of the flow of resources, exchange and power relations and their legitimation in society (Eisenstadt et al. 1980)

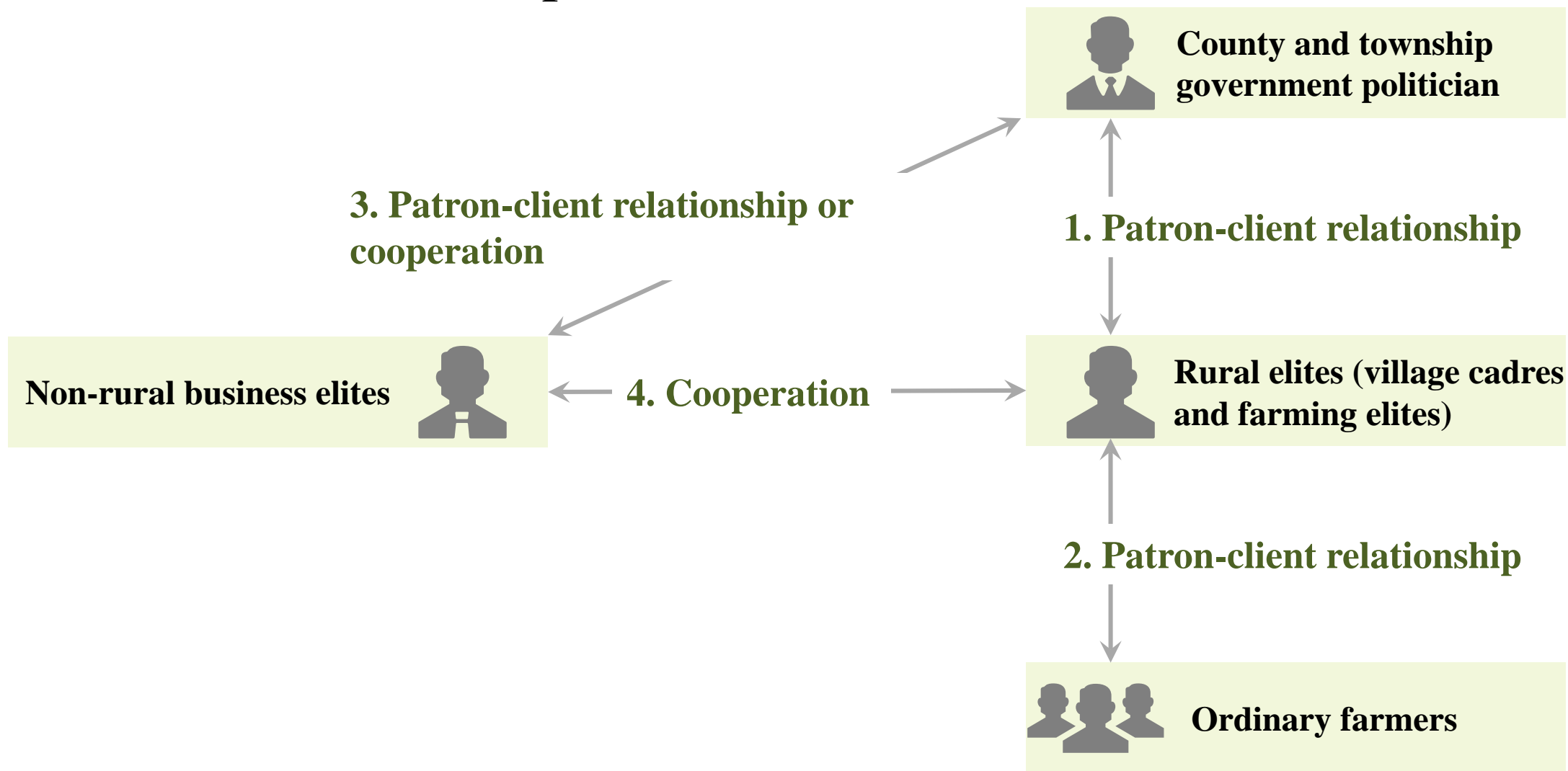


Features of patron-client relationships (PCRs)

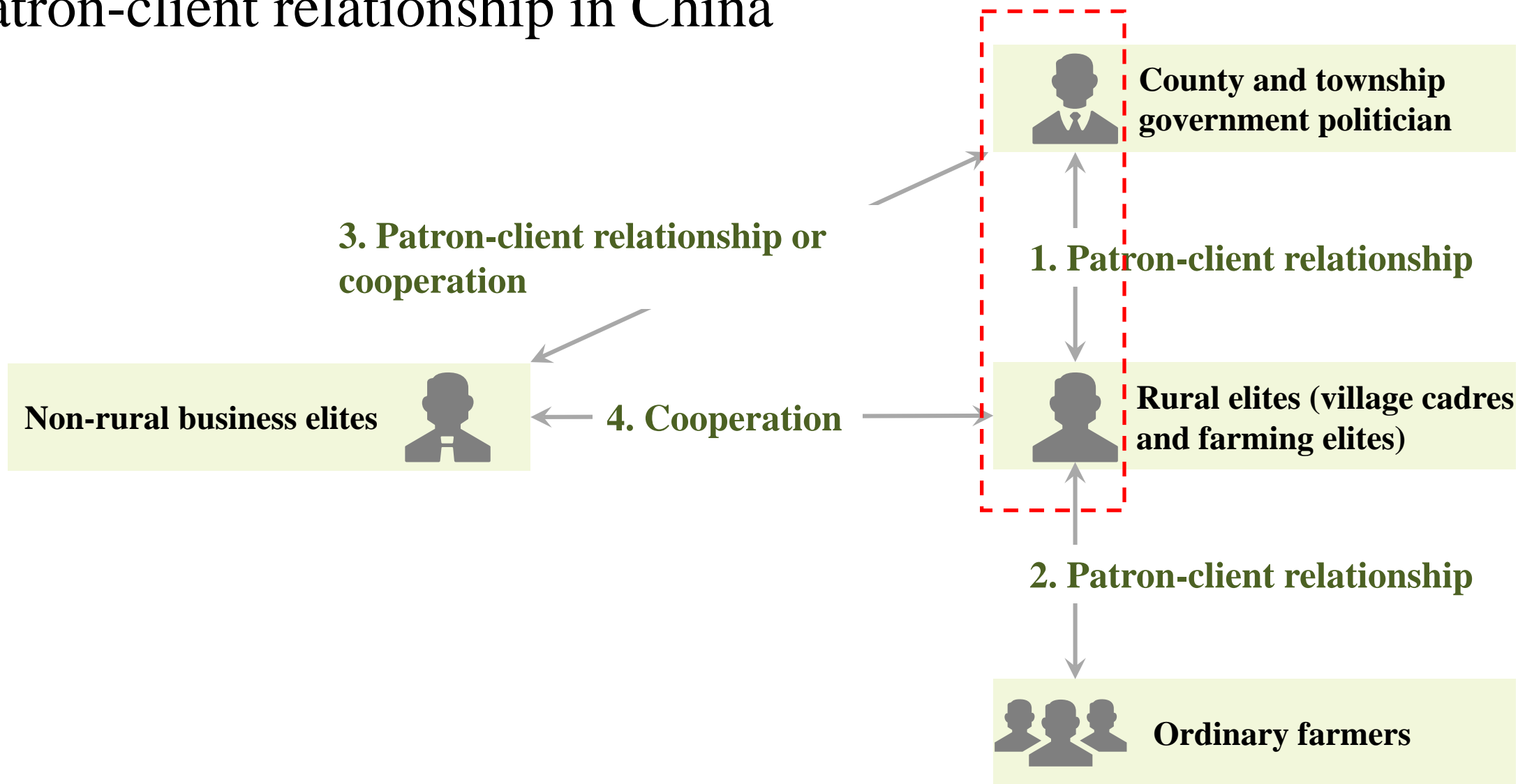
- PCRs are dyadic so that interactions and transactions happen face to face directly.
- PCRs are reciprocal.
- PCRs are on-going (which would maintain quite stable during a long period).
- PCRs are asymmetric and unequal (patrons are at higher hierarchy).



Patron-client relationship in rural China



Patron-client relationship in China



Effect on Rural Cooperative Development

Patron: Local government officers

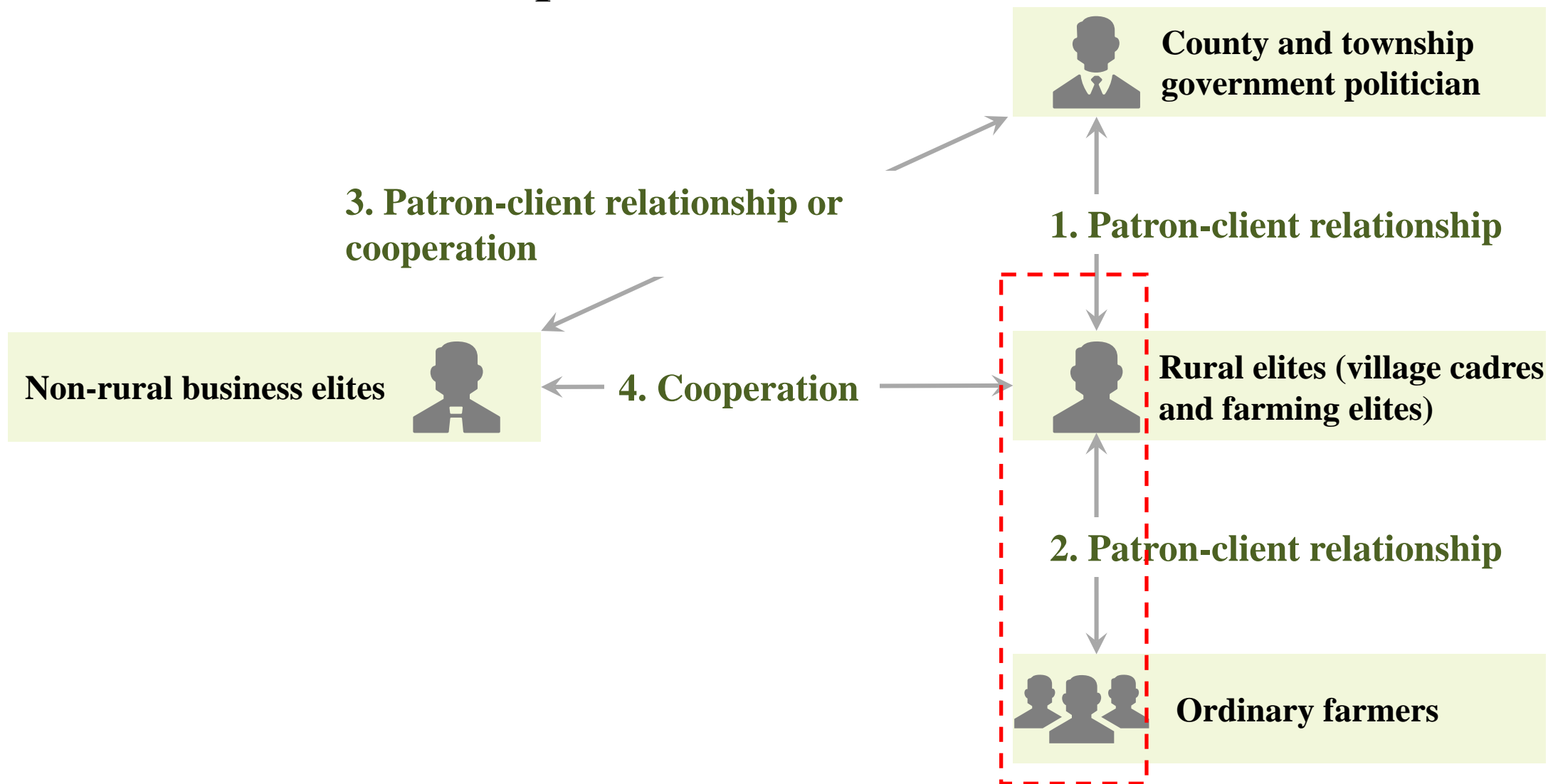
- Provide policy support to client's village or cooperative,
- Financial support,
- & Training opportunity
- Introduce Social network, business partners & market accesses

Client: Village Cadres

- Get support from patron on developing coop
- Control on the coop are protected
- Carry on patron's task of building coop, and share patron's burden of developing GDP and reducing poverty.
- Become important "broker" for potential non-villager cooperative initiate



Patron-client relationship in China



Effect on Rural Cooperative Development

Patron: Village cadres & farming elites

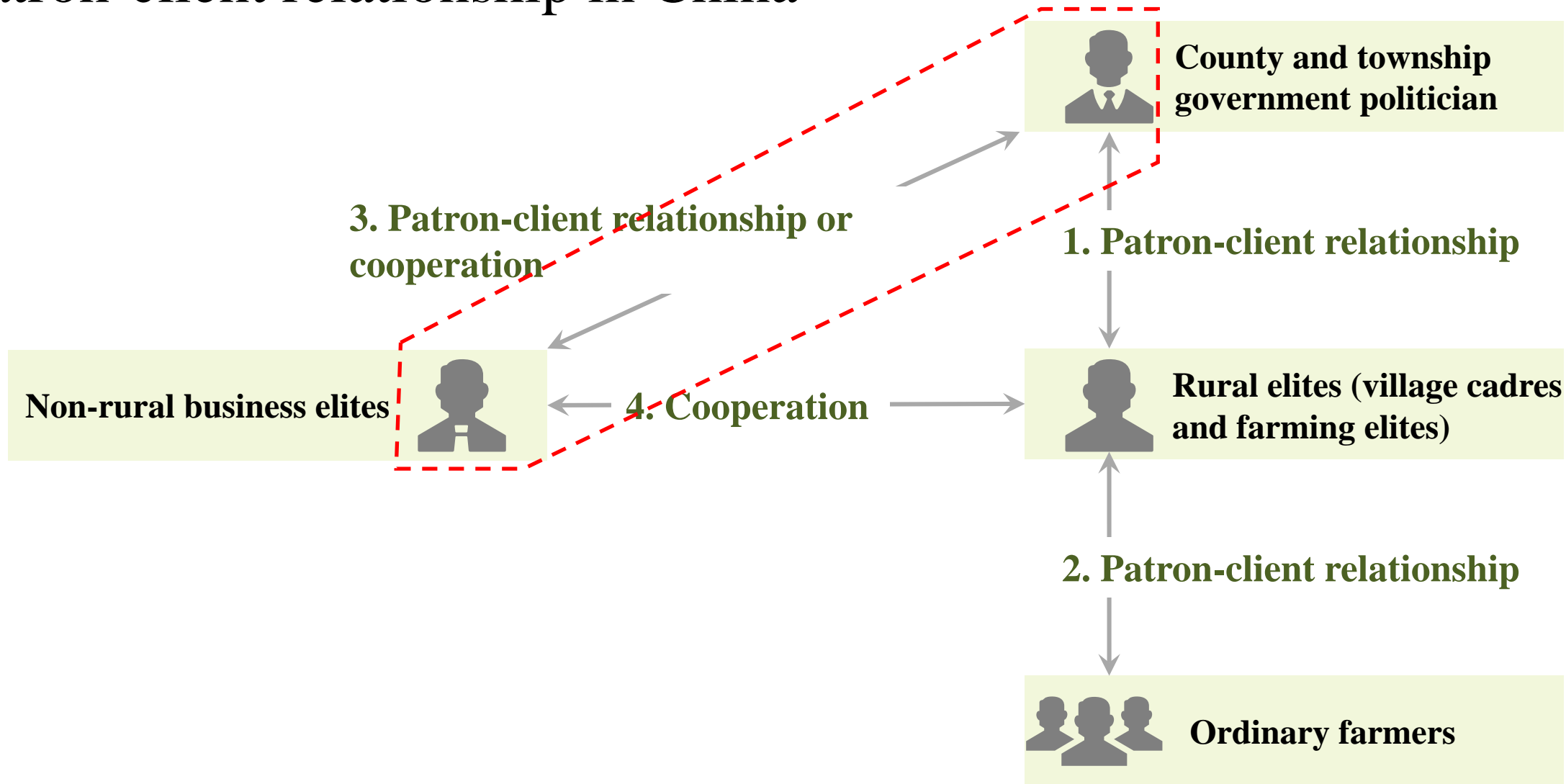
- Are more likely to persuade clients to accept when public resources (e.g. land) are needed for the coop
- Influence clients' decision to participate the coop.
- Control the coop with clients' support
- Share some benefit to clients

Client: Ordinary farmers

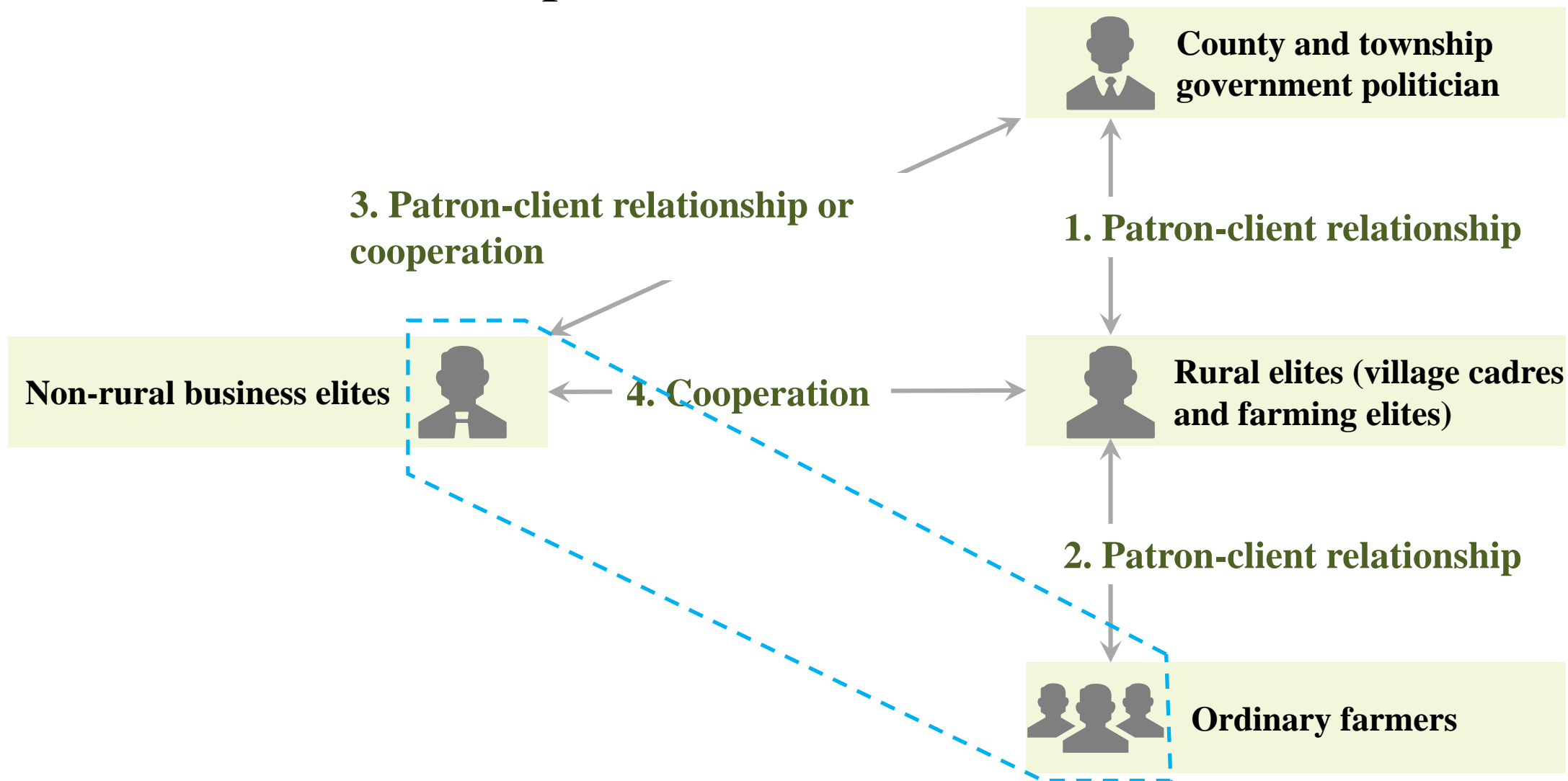
- Are more likely to support the coop initiated by their patrons.
- Support the patron's control on the coop.
- Could share benefit the coop created



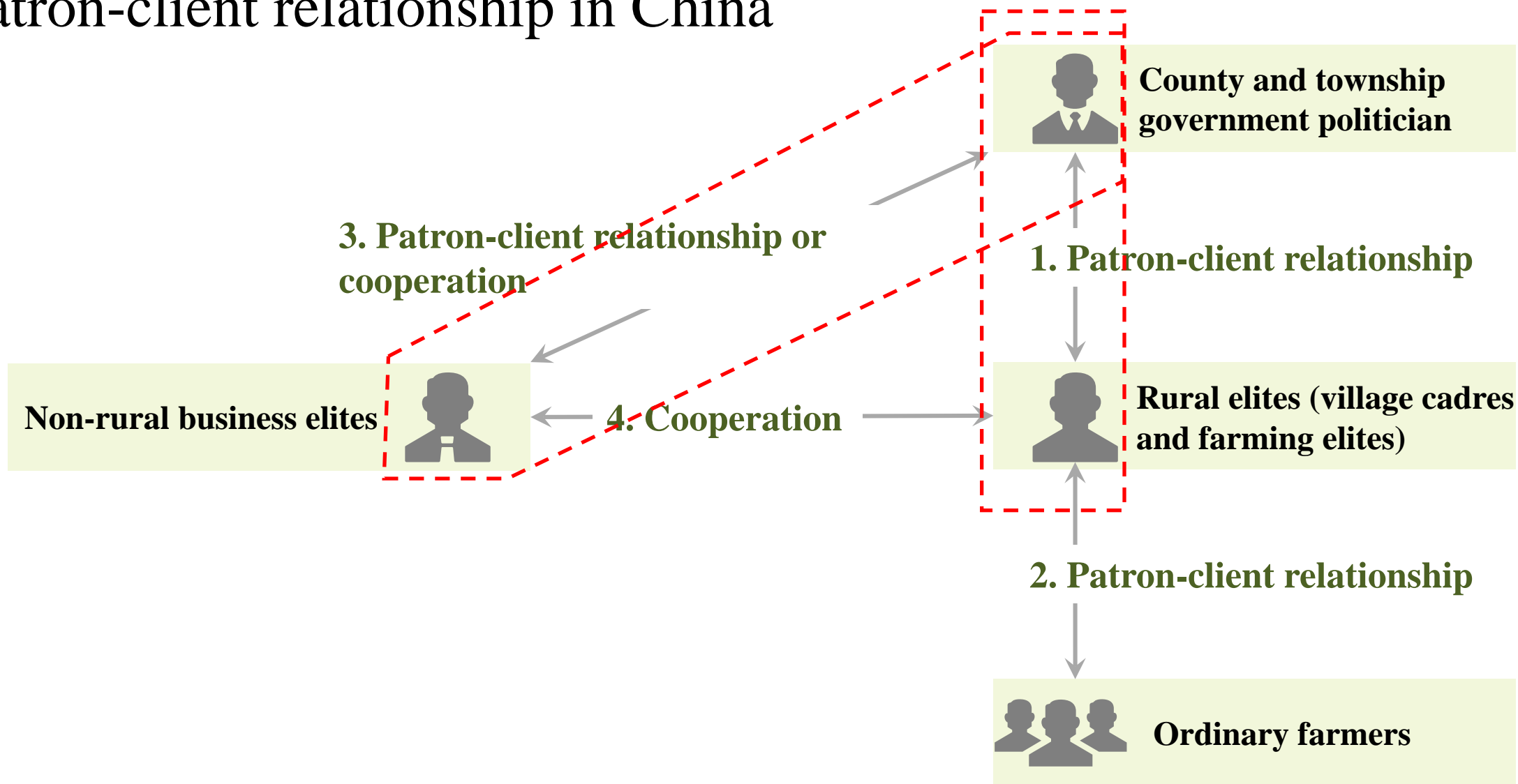
Patron-client relationship in China



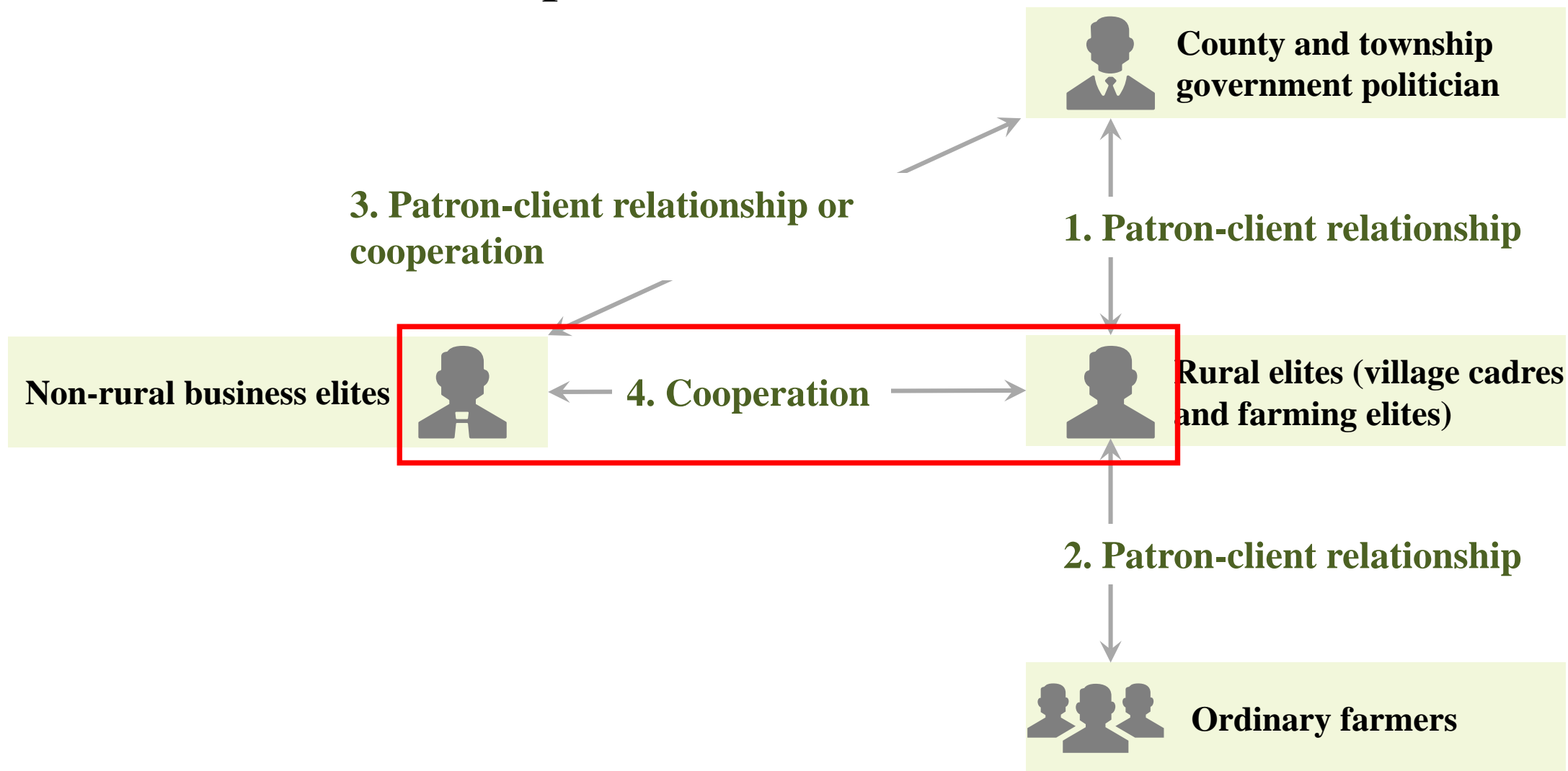
Patron-client relationship in China



Patron-client relationship in China



Patron-client relationship in China



Theoretical Model

- Players: elite (the patron) and a farmer (the client)
- Two-stages game in their cooperative
- Mutual supportive **norm**(due to patron-client relationship):
 1. The elite distributes the proportion Φ of profit to the farmer;
 2. the farmer gives the elite supports on business and some other possible areas
- **Party who does not follow the norm would face social pressure and psychological utility loss**



Theoretical Model

STAGE 1

The elite makes an decision D to either follow the norm or not.

$$(D \sim \{0, 1\})$$

- $D = 1$, the elite agrees to allocate Φ of the profit to farmer
- $D = 0$, otherwise, the elite will not pay farmer such profit

STAGE 2

Farmer will choose an option S whether to support elite in return

$$(S \sim \{0, 1\})$$

- $S = 1$, the farmer will contribute their products to the coop as well as give support in other forms, for example politically
- $S = 0$, the farmer refuses to give support



Theoretical Model

STAGE 1 THE ELITE SOLVES

$$\max_D \quad \frac{S * \pi * (1 - \Phi D)}{\quad} + \frac{\lambda * S}{\quad} - \frac{\delta S(1 - D)}{\quad}$$

distributed
profit from
the Coop

Other benefit
from client's
support

Psychological utility loss
from social pressure due to
breaking the cooperation

STAGE 2 THE ORDINARY FARMER SOLVES

$$\max_S \quad \frac{S * \pi * \Phi * D}{\quad} - \frac{\mu * S}{\quad} - \frac{\gamma D(1 - S)}{\quad}$$

distributed
profit from
the Coop

Cost of
client's
support

Psychological utility loss
from social pressure due to
breaking the cooperation



Minimum requirement for cooperation (D=1, S=1)

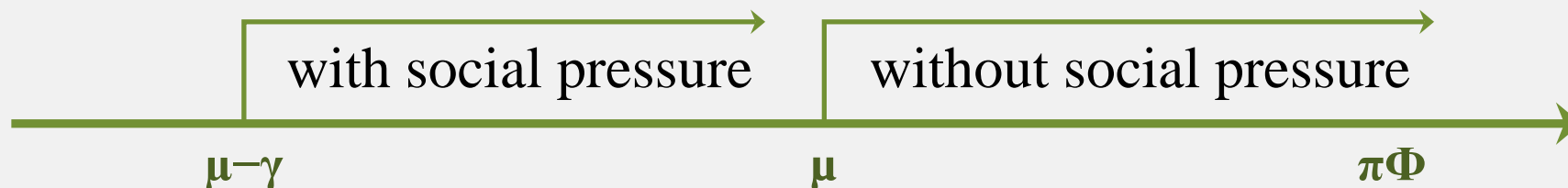
a. **With** patron-client relationship

$\pi \Phi > \mu - \gamma$ for ordinary farmer
 $\pi (1-\Phi) > -\lambda$ for elite

b. **Without** patron-client relationship

$\pi \Phi > \mu$ for ordinary farmer
 $\pi (1-\Phi) > 0$ for elite

Ordinary Farmer's acceptance region in terms of profit distribution



Model implication

- Compared to investors, elites embedded in patron-client relationship are more likely to reduce their demand for profit if they could benefit from the farmers' support in other aspects

$$\pi(1 - \Phi) > -\lambda \text{ v.s. } \pi(1 - \Phi) > 0$$



Model implication

- Compared to others, farmers embedded in patron-client relationship are more likely to bear a lower profit distribution.

$$\pi\Phi > \mu - \gamma \text{ v.s. } \pi\Phi > \mu$$



Model implication

- Compared to others, farmers embedded in patron-client relationship are more likely to bear a lower profit distribution.
- The patrons (elites) have less pressure to distribute profit to farmers, and have higher chances to achieve cooperation with farmers.



Model implication

- Compared to others, farmers embedded in patron-client relationship are more likely to bear a lower profit distribution.
- The patrons (elites) have less pressure to distribute profit to farmers, and have higher chances to achieve cooperation with farmers.
- Coops with members embedded in social network (patron-client relationship) seem to have higher member loyalty and organizational stability because it could bear more profit fluctuation



Model implication

- Back to elite's utility model

$$\max_D S * \pi * (1 - \Phi D) + \lambda * S - \delta S(1 - D)$$

Local government cadres, as the patron, tend to give village elites more resource and support which will help to increase π , giving rural elites more incentive to build coops.



Conclusion

Coops are elite-dominate because PCR gives the elites—

- competitive advantage in getting members' support using their social influence
- Financial and policy support from their patrons—local government.
- May get extra benefit (reputation, chance to be re-elected, etc) from the community by building the coop.



Conclusion

Cooperatives could be regarded as economic and organizational extension of social norms and institutions (especially informal institutions) in rural China



Future Research

Data collection

Empirical examination



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Thank you

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