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# Exploration of New Financing Mode of Farmers' Co-operatives

## —A Case of Guangxi Zhuang Autonomous Region, China

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**Abstract** Based on the overview of the role played by farmers' co-operatives in developing rural economy and existing problems, the thesis has introduced the factors which influence the development of farmers' co-operatives including five aspects, namely conditions of scale economy, popularization and application of agricultural production technology, comparative advantage, market expectancy and government support. By analyzing typical cases of three co-operatives in Guangxi ( Heng County Dadi Growing Co-operatives, talents-leading share-holding co-operatives; Long'an County Guixiniu Co-operatives, co-operatives led by leading-enterprise; Nanning City Tanluo Town Jinguang Fruits and Potatoes Co-operatives, co-operatives led by leading-enterprise ), the way to develop farmers' co-operatives by dint of the external capital has been discussed. The results demonstrate that conditions of scale economy, popularization and application of agricultural production technology, comparative advantage, excellent market expectancy and government support, are conducive to absorbing external capital. Under China's existing economic conditions, the government should normalize the use and allocation procedure of program fund.

**Key words** Farmers' co-operatives, Financing mode, Market expectancy, Technology training, China

The co-operative economy is a kind of system innovation which plays the role of integrating the scattered rural households on the basis of labor unification and capital unification; leading small producers with great vitality to confront with the fickle big market; strengthening the farmers' organized degree of market access and mitigating the market risk; effectively protecting the benefit of farmers<sup>[1]</sup>. In comparison with burgeoning quantity of farmers' co-operatives, the problems concerning quality of farmers' co-operatives have not received enough attention. As a matter of fact, the extensive quantity expansion has not improved the performance of co-operatives correspondingly. There exists ubiquitous problems in rural cooperative and economic organizations such as shortage of capital, unresolved problems of financing and loaning<sup>[2-3]</sup>.

As far as the problem of shortage of capital is concerned, the scholars have conducted many researches. The results show that no matter whether it is state credit funds or cooperative financing, we can not escape from refunding after loaning. Even the paid transference of land use right needs to settle the problem of compensation. In view of China's status quo of economy and financial credit, based on the introduction of the factors which influence the development of farmers' co-operatives, I hold that developing farmers' co-operatives should seek the support of policy and capital. In addition, we should also create conditions actively, absorb external capital, exert the function of talents, cater to the " hitchhiking " habit of China's farmers, and alleviate the burden and risk of credit.

## 1 The factors influencing the development of farmers' co-operatives

**1.1 Conditions of scale economy** Marks once noted that if

other conditions are invariable, that the merchandise is cheap based upon the labor productivity, while labor productivity is based upon production scale<sup>[4]</sup>. Consequently, enlarging operation scale, curtailing operation cost, and realizing scale benefit is the only alternative to enhance labor efficiency. Under the practical circumstance of finely broken rural land, the operation program of co-operatives is required to drive the farmers to follow so as to realize scale operation. Meanwhile, the government should lay down rational policies and measures to promote land circulation.

**1.2 Popularization and application of agricultural production technology** Technology is productive force. The advanced applicable agricultural production technology not only can increase output and mitigate cost, but also promote the added value of agricultural products. Especially the agricultural standardization, and the popularization and application of quality safety production technology of agricultural products, can promote the quality of products and expand enormous market space for enterprise<sup>[5]</sup>.

**1.3 Comparative advantage** It means that the operation program of operatives should have some prominent advantages. The first is the advantage of resources. It has the resources conditions significant to the operation program, such as land, labor force, light, water and gas, and stable and high-quality material sources. The second is the advantage of quality. Due to the irreplaceable attribute of local resources, such traditional famous products have advantage of quality in regions, stable sales market, and a batch of consumption groups. In addition, the capital inflow can obtain stable benefit<sup>[6]</sup>.

**1.4 Market expectancy** According to the theory of market expectancy, at the early time of program, the investment benefit may be unsatisfactory. But in the light of the information mastered by investors, after 5 years, as certain limitation factors change, the program will bring high returns, namely excel-

lent market expectancy, which is suitable for those difficult programs with long investment period, and low efficiency.

**1.5 Government support** The government support means that the allotted funds of program development offered by government and corresponding economic improvement policies such as the price policy, revenue policy, credit policy and especially subsidized credit policy, which can not only promote the inflow and outflow of capital, but also realize the optimization of industrial structure, and equalization of profit rate.

## 2 Analysis of typical cases

Farmers' co-operatives, in terms of formation modes, fall into 5 kinds, namely talents-leading co-operatives, agricultural industrialized leading-enterprises-driven co-operatives, professional-market-leading co-operatives, co-operatives operated by the agriculture-related departments of government, and co-operatives established by the country level collective economy organizations. In the light of the cooperative types, it can be divided into share-holding cooperatives and membership cooperatives. However, only the talents-leading co-operatives and leading-enterprises-driven co-operatives can attract external investment. The research mainly discusses the two kinds of cases.

**2.1 Heng County Dadi Growing Co-operative—talents led share-holding co-operative** The prototype of Heng County Dadi Growing Co-operative is Hengxianglian County Dadi Growing Service Department, which is located in Heng County Yunbiao Town, and initiated by self-employed businessman Liang Xuechang in Yunbiao Town. It raised 0.037 million yuan from some brokers of agricultural products and make co-operatives members around the nearby villages become shareholders in the form of land or cash, so as to set up the board. Finally, it registered in the department of industry and commerce on March 1, 2005. With the model of "company plus co-operatives plus base plus co-operatives members", it aims at providing whole process services of production, processing and sales of agricultural products for members, and building cultivation demonstration base of agricultural advantageous industry. The co-operative specializes in cultivating mulberry and silkworm, growing fruits and vegetables, fostering famous high-quality varieties of vegetables and so on.

At the inception of this co-operative, it obtained 10 hm<sup>2</sup> land by renting to conduct unified operation, and enterprise-style management. It developed 2 hm<sup>2</sup> pepper base, and 120 hm<sup>2</sup> banana base successively, but due to irrational operation and flood, the two programs were bankrupt one after another, and the co-operative incapable of reinvigorate itself. In 2007, led by government, the co-operative, restructured the 9 membership board, and raised 0.4147 million yuan, which was moved to Yunbiao Town Xinzhong Village-Hengxian New Village Construction Demonstration Point. Xinzhong Village has the industrial advantage of cultivating mulberry and silkworm.

After the cooperative was settled in Xinzhong Village, it obtained 26 hm<sup>2</sup> operation land in the form of renting and stock purchasing. Based on the industrial development of mulberry

and silkworm in the village, the co-operative invested 0.86 million yuan to implement the following 8 programs.

Firstly, it has invested 0.26 million yuan to establish the man-made channels integrating irrigation and sight-seeing, settle the problem of relying merely on the nature for a living since antiquity in Xinzhong Village, and meanwhile improve the appearance of village.

Secondly, it has invested 0.1 million yuan to introduce the standardized silkworm brood chamber established by experts, so as to make the co-operative members improve the fostering of high-quality silkworm varieties, and promote the livability of silkworm.

Thirdly, it organized co-operative members to implement the mulberry cultivation demonstration project and sub-tropical silkworm chamber renovation demonstration project, in order to let silkworm and mulberry to get through the corn flowering season smoothly.

Fourthly, it has invested 0.25 million yuan to establish standardized mulberry twig cultivation demonstration plastic tents and edible fungi demonstration plastic tents, and develop jelly fungus successfully.

Fifthly, it acquired 0.1 million yuan program fund from bureau of agriculture to set up 2 hm<sup>2</sup> standardized irrigated mulberry plantation base.

Sixthly, it has invested 0.06 million yuan to establish 2 hm<sup>2</sup> fruits and mulberry base in order to produce fruit mulberry wine for the market.

Seventhly, it invested 0.01 million yuan every year to set up Heng County Yunbiao Town Xinzhong Village Scientific Knowledge School for the farmers' technological training.

Eighthly, it invested 0.1 million yuan to establish 1.06 hm<sup>2</sup> vegetables production plastic tents.

By the aforesaid program construction, the operation conditions of mulberry and silkworm industry in Xinzhong Village have been notably improved; the systematic training has elevated the level of farmers' fostering silkworm technique; cooperative rearing of young silkworms has promoted the silk quality and output; the completion of man-made channel, irrigated mulberry plantation program and silkworm chamber renovation project, have effectively improved the production conditions; the successful development of fruit mulberry wine and jelly fungus has further extended the chain of mulberry and silkworm industry. Through 3 years construction, the co-operative began to take shape with 412 co-operative members and 1304 shares of stock. Due to the improvement of operation conditions, the co-operative established talents-invested developing advantageous industry platform, stepped into new stage, and won its reputation from financial departments. In the early 2010, the local credit association offered 3 million yuan line of credit for the Dadi co-operative members. In addition, the persevering and dedicating spirit of director for the enterprise of co-operative, enormous investment and government support, were responsible for the survival and development of co-operative. In fact, the economic support and the moral support of government were both important and the relevant leaders could help them

break away from the trap especially when the co-operative verged on failure. In terms of the construction of products brand, promulgating the products of cooperative by meeting and visiting is the key to success.

This case shows that the scale economy conditions of Xinzhong Village, unique production resources of mulberry and silkworm, the popularization and application of new technology of mulberry and silkworm, and government support, contribute to attracting the inflow of capital, integrating the external capital and farmers' land resources, improving the local operation conditions in the short run, and propelling the development of local economy.

According to the survey, we find that the too high non-production investment of co-operative and onerous burden are responsible for the co-operative's bankruptcy at the early stage. In 3 years, the cooperative has invested 0.1256 million yuan program construction fund. The capital at early stage is 0.4147 million yuan; director Liang Changxue raised 0.46 million yuan fund; the co-operative borrowed 0.13 million yuan and reaped 0.25 million yuan profit per year. From 2007 to 2008, apart from the aforesaid 8 programs, the co-operative invested 0.486 million yuan totally for the public accommodation, accounting for 38.7 percent of the total investment, plus the 0.16 million yuan investment of office construction, resulting in 0.646 million yuan non-production investment accounting for 51.4 percent of the total capital investment, which can be ascribed to the low return rate of investment at the early stage of co-operative. Based on the aforesaid reasons, the capital shortages of brand construction, market development and production input, lead to the slow industrial development, and weak ability of leading co-operative members; additionally, the program capital laggard to be allocated has burdened the investors. If it were supported by basic construction program investment of government at the early time so as to ensure the capital to be used in the industrial development, the development of co-operative will be stable and effective after eradicating vanity projects.

**2.2 Long'an County Guixiniu Co-operative—leading enterprise – driven co-operative** Long'an County Guixiniu Co-operative is the benefit union established by Long'an Huisheng Cattle Industry Corporation which united with the big rearing producers from Nanwei Town Luanzheng Village and Dujie Town Sanle Village, which specializes in the efficient rearing and sales of cattle, providing technology consultation for co-operative members and other services.

The main body of the co-operative is Long'an Huifeng Cattle Industry Corporation, located in Long'an County Nanwei Town, founded in 2003, which was established by the retired military man Li Zhongyuan. The company adopted the way of stable breeding to rear the cross breeding cattle with better strains. The main feeds are high-quality grass and crop stalk (including sugarcane leaves, soybean stalk, corn stalk, and straw) and a fraction of grain feed. The company has built the perfect management measures of production; implemented the system of production responsibility, system of veterinary anti-epizootic measure and sterilizing, and system of purchasing and

using feeds, veterinary drugs and the additives. In 2004, it has been accredited as non-pollution cattle rearing base and department of agriculture non-pollution cattle products. After having registered the brand "Guixiniu", it has begun to develop towards standardization, normalization, and scale, which laid the solid foundation for the sales of products.

In 2007, the company has taken form with 450 cattle, and reaped more than 0.6 million yuan profit. By using crop stalks as the efficient feeds to rear cattle, the company has been a role model. It then popularized the good strains and developed 100 rural raisers in Nanwei Town Luanzheng Village and Dujie Town Sanle Village, making it have the qualification to set up rural co-operative. For the benefit of all cattle raisers, Huifeng Cattle Industry Corporation set up Long'an County Guixiniu Co-operative with the help of relevant departments of government. It aims at unifying rearing standard, and unifying rearing techniques, so as to confront with the market risk.

After the establishment of co-operative, Huifeng Cattle Industry Corporation played the role of vanguard, built the sources base of cattle, and designed and restored the corral. Meanwhile, the company spent 0.2 million yuan every year to provide the following 4 services for co-operative members:

Firstly, provide the cattle with preference for co-operative members at the price lower from 100 yuan to 200 yuan than the market price.

Secondly, provide technological training and rearing technological services for free.

Thirdly, provide the breeding cattle for mating for free.

Fourthly, purchase the cattle at the lowest protective prices from co-operative members.

In 2009, the co-operative had 250 co-operative members, of which 120 members used the crop stalks to rear cattle, increasing by 1 000 cattle each year. But due to irrational operation, trapped leading enterprises, and leading enterprise's failing to provide unified crop stalks silage, only the large-scale raisers can survive the quagmire after emulating the production model of Huifeng Cattle Industry Corporation, and those relatively small raisers could not reap the satisfactory benefit though grazing. On February, 2010, the breeding cattle amount of Sanle Village which is one of the big producers in co-operative, have dwindled to 39 from 96. In Nanwei Town Luanzheng Village, the previous 100 breeding cattle have vanished.

The director held that using the massed farmers' force to increase cattle was the first priority of building co-operative. Since only by ensuring the balanced supply of cattle did the farmers obtain satisfactory money. In order to attain this goal, there must be more than 15 000 cattle out of corral, beyond the capability of company, which is one of the important reasons for him to subsidize farmers to rear cattle. Meanwhile, for the production period of cattle industry is long and it is difficult for the rivals to follow suit, he held the belief that the compensation will be bound to come though the later sales chain. Also he wanted the program support from government to lead farmers to develop cattle industry.

This case shows that scale operation, market expectancy, and government support are main power source for Huifeng Cattle Industry Corporation to set up co-operative. But the leading-enterprises, burdened with quite many responsibilities, just like the ponderous shackle, are devoid of steadfast belief and unable to attend to everything at one time.

**2.3 Jinguang Fruits and Tomato Co-operative in Tanluo County of Nanning City—leading enterprise – driven cooperative** Established in December 2009, Jinguang Fruits and Tomato Co-operative in Tanluo County of Nanning City was launched by Tuyuan Agricultural Material Company and invested by the economic able-person in Jinguang, Tanluo and other regions. With a registered capital of 300 000 yuan all funded by Tuyuan Agricultural Material Company, the co-operative deals mainly in the production and sales of tomatoes, melon and sweet pepper. Based on the principle of sharing risks and profits, the co-operative is operated with full autonomy and democracy, and surplus earnings are returned back in accordance with the ratio of the trading volume between the members and the co-operative.

The co-operative is led by Tuyuan Agricultural Material Company. Located in Keyuan Avenue in Nanning City, Tuyuan Agricultural Material Company was established in May, 2003 mainly trading in fruits, vegetable seeds and seedlings as well as fertilizers and pesticides and other agricultural means of production. Supported by its strong technology and good after-sales service system, the company has established a good reputation among the farmers as well as a long-term and friendly cooperative relations with many farmers in Tanluo, Jinguang, Longguang, Congzuo and other neighboring towns. In recent years, through the supply of agricultural materials, Tuyuan Agricultural Material Company has driven several households nearby to grow fruits, tomatoes, melons, sweet peppers and so on, laid a good foundation in the selection of varieties and expansion of market, and achieved good benefits. In order to further regulate the co-operative relation and activate more rural households to develop local advantageous industries, encouraged by Tanluo Township government and led by Tuyuan Agricultural Materials Company, Jinguang Fruits and Tomato Co-operative was established in Tanluo County in December, 2009. In accordance with the needs of the members, the co-operative conducts unified supply of seeds, fertilizers and pesticides, carries out technical training, provides whole-process service of production technology, purchases the agricultural products at an insured price, furnishes information and consultation service for the members. The operation mode of the co-operatives has received the farmers' appreciation Since May, 2010, it has attracted more than 20 member households and covered more than 22.22 hm<sup>2</sup> of tomatoes and sweet peppers. Currently the tomatoes and sweet peppers are growing well and ready to enter the harvest season; a bumper harvest is in sight; the whole co-operative presents a picture of prosperity.

As shown in this case, this is a mutually beneficial cooperation entity; through the unified supply of seeds, fertilizers and pesticides, the agricultural material company sells the products

directly to the terminal and obtains the benefits; supplied by the co-operative with preferential agricultural materials, technical training, whole-process technological guidance and purchase at insured price, the farmers reduces their management costs and risks; the co-operative may obtain necessary cost complement through the sales of agricultural materials and products. Scale operation, technology promotion and comparative advantages all lay the foundation for establishing the co-operative.

### 3 Conclusion and discussion

Firstly, to search the help of foreign capita to develop farmers' co-operative is both necessary and feasible. Taking into account the poor rural economic basis and difficult fund-raising, we cannot wait until local farmers have economic basis to establish the farmers' co-operative. Facts have proved that, relying on the geographical links, blood links and the support of the government, we could attract the agricultural products agent, leading enterprises, agricultural material companies and even some fellow townsmen to invest money on the farmers' co-operative.

Secondly, the site selection of the co-operative should take into consideration of local social and economic conditions. The co-operative should be established at the place with certain industrial basis and comparative advantages where the farmers are open-minded and willing to accept new stuff.

Thirdly, the co-operative could not survive and develop without the support and guidance from the government. The government department should not treat the co-operative as one of its affiliate and burdens it with too much social responsibility, instead, the government should try to reduce troubles for the co-operative, support them especially at capita construction project, varietal improvement, social services and products promotion, let them go forward without worry behind so as to truly play the exemplary role.

Finally, the funds for the project should be standardized<sup>[7]</sup>. To regulate the declaration of project and the process of using and allocating funds are of equal importance. According to the normal procedures, the funds of the project should follow the project and be gradually allocated in accordance with the implementation of the project. Let's take Dadi Co-operative for example, the project expenses have been paid in advance; the construction have been finished and passed the inspection; but the funds hasn't still been filled, which seriously affects the normal operation of the co-operative. Thus, it is necessary to regulate the process of using and allocating the project funds.

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funds of farmers' cooperatives. Through interference of commercial banks, fund sources of farmers' cooperatives will be enlarged.

(3) The government should conclude the experience of various regions and accelerate the development of various kinds of rural financial models.

(4) The cooperatives can usher the pawn industry in rural areas by introducing social capital. The pawn shops can solve the farmers' problems of circulation funds. It is worth noting that during the process of developing rural finance, the finance form, objects of loan, operational mechanism and supervision should be studied profoundly, so as to standardize its behaviors and fully display its function as the "second bank".

**3.4 Innovating the marketing mechanism** The Hebei government should further launch the policies to unify the standard, push and construct the marketing platform of products produced by farmers' cooperatives in Hebei Province.

**3.4.1** Establishing the expanded platform for connecting agriculture with supermarkets. By the support of the government, the cooperatives should try to establish the platform for connecting agricultural products produced by farmers' cooperatives with supermarkets and logistics chains institutions, and directly facilitate the entrance of high quality and safe agricultural products to supermarkets so as to carry out the spirit of "supporting farmers' cooperatives is supporting farmers" proposed by the Chinese government. Besides, the government should formulate and implement the policies of derating or eliminating the rent resulting from the entrance.

**3.4.2** Relying on the new industrial state of modern logistics. The cooperatives should widely apply the way of modern distribution system, electronic commerce and the like, launch show and negotiation on the net, enforce the information communication, organize the meeting of production and demand well, and continually improve the brand value and enlarge the brand popularity by effective operation on brands.

**3.4.3** Actively supporting the establishment of farmers' consumption cooperatives. Through mirroring the successful experiences in developed countries and in Beijing, the capital of the China, the government in Hebei should encourage and support the urban residents and laid-off workers to establish consumption cooperatives for selling agricultural products in the communities of the central city in Hebei Province. The consumption cooperatives will select the agricultural products produced by the rural cooperatives and they will solve the difficulties in selling the products, as well as provide convenience to the urban residents. Moreover, the consumption cooperatives will realize the connection between farmers' cooperatives and urban consumption cooperatives. In the strategy of operation, the con-

sumption mainly sells agricultural products and other daily necessities should be in supplementary stage, in order to avoid direct competition with supermarkets.

**3.4.4** Promoting the outlets of special agricultural products of farmers' cooperatives gradually. The government should formulate the *Standard of Outlets for Selling Special Agricultural Product of Farmers' Cooperatives in Hebei Province* to stipulate the uniform standards of selling special agricultural products, for example, site size, site location, decoration style, service standards, advertising and so on, to encourage the establishment of outlets for the agricultural products produced by Hebei farmers' cooperatives throughout the nation. In addition, the government should further expand the influences, marketing channels and marketing scale of cooperatives and taking the outlets of special agricultural products as the efficient complementary of the main marketing form of "connecting the agriculture with supermarket".

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