

Between organic development and state control

Five years after the first national farmer cooperative law of the People's Republic of China was enacted, numbers show an overwhelming success. Over half a million cooperatives have been registered already. But is there enough institutional stability in a tightly controlled rural economy amid a rapidly changing society?

Joining productive assets and working together in cooperatives is a way to increase the power of farmers and of otherwise disadvantaged economic actors by co-ordinated action. In Chinese history, the development of collective organisations among the farming population was always intertwined with the interest of the central power to exercise control over a vast amount of densely populated rural areas. Under the various imperial dynasties, individual farming families were registered under the *baojia* system to facilitate the collection of tax revenues. A certain number of farm families were arbitrarily assigned to a *jia*. The imperial administration named one of the male household heads as leader of the *jia*, while one of the *jia* leaders became leader of the *bao*. Imperial administrators were thus able to collect taxes in an effective way as all members of the *baojia* would be held responsible for tax evasion of individuals.

In the beginning of the 20th century, some Chinese intellectuals started

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to study and introduce the theoretical concept of modern cooperatives, based on contacts established with Western countries and Japan. In 1934, the first national law on cooperatives was issued. By 1945, the number of cooperatives had grown to about 180,000. However, their impact on improving the increasingly impoverished rural population was marginal. Credit provided by these cooperatives went mostly to the local elites. After the founding of the People's Republic of China in 1949, the new government established a comprehensive land reform, expropriated the landlords and redistributed the available land among the farming population. After establishing mutual self-help groups, the people's communes were founded in 1958 as a means to collectivise all land and farm assets. This policy, combined with the forced industrialisation under the so-called "Great Leap Forward" campaign, led to disastrous outcomes: in only four years, at least 30 million inhabitants of rural areas died because of hunger and malnutrition. After 1962, the most damaging policies were reversed, but the smaller units of the people's communes, the so-called production brigades, remained the pillar of the rural economy for another two decades.

■ From dissolution to boom

With the launch of the economic reform and "opening-up" policy under Deng Xiaoping in the late 1970s, the people's communes and related types of organisation were dissolved. Under the so-called household contract system, farming was again primarily characterised by family farm units. Under the individual responsibility of the farming population, production of food and other agricultural commodities rose significantly. Growth in agricultural productivity was spectacular and contributed significantly to poverty reduction in rural areas. However, collective forms of agricultural production did not disappear completely. By the end of 2005, the total number of farmers' professional associations or other collective groups in China had reached about 150,000. The number of farmer members had reached 2.363 million, accounting for 9.8 percent of the total number of rural households.

The first cooperative law at national level came into force in 2007, giving the various forms of collective organisations a legal basis. It was preceded by a similar law in Zhejiang province on the east coast, where the local economy had developed well. The national law explicitly states the independence of cooperatives, emphasising that members must



The director of the Lianfa Sanyou Fuji Apple Cooperative in Baoding municipality.

Photo: G. Fleischer

Farmer cooperatives in China from 2007 to 2011

	Number of farmer cooperatives (unit: 1,000)	Registered capital (unit: 100,000,000 RMB)	Number of registered members (unit: 1,000)	Actual number of members (unit: 1,000)
2007	26.4	311.7	350.0	2,100
2008	110.9	880.2	1417.1	12,000
2009	246.4	2461.4	3917.4	21,000
2010	379.1	4545.8	7155.7	29,000
2011	521.7	7245.4	11964.3	41,000

Source: According to data from Ministry of Industry and Commerce, and the General Station of Administration on Rural Cooperative Economy, Ministry of Agriculture

be voluntarily organised. Cooperatives have to register with the local Bureau of Industry and Commerce, while the local government instructs the agricultural administration along with other sectoral departments to provide guidance, support and services to farmer cooperatives.

The first five years following the promulgation of the law have seen a high increase in the number of cooperatives (see Table above). The total of registered cooperatives has grown to over 520,000, while official membership has risen to nearly twelve million. According to government statistics, there are an additional 30 million non-registered members of these cooperatives.

■ Limitations

The law deals only with primary cooperatives. However, given the small average farm size in most of China's agricultural areas, the economic power of individual cooperatives in food markets is comparatively limited. The law does not allow the individual cooperatives to federate ("cooperative of cooperatives"). This omission has proven a significant constraint for the cooperatives to growing and gaining strength vis-à-vis the various agri-food market players. In China, the rapid pace of urbanisation has led to a market environment which is increasingly dominated by large conglomerates of processors, trading houses, wholesalers and retailers. Entering this buyer-dominated market environment requires high capi-

tal investment. Small farm units as well as cooperatives with a limited number of small farmers as members can no longer benefit from their higher land and labour use efficiency, compared to large-scale commercial farm units.

The law allows for enterprises, government-affiliated agencies and social organisations to become members of farmer cooperatives. This clause provides opportunities to create integrated supply chains that are capable of competing with commercial enterprises. Whereas there are stipulations that limit the share of these organisations in the membership, the heterogeneity of members poses risks for the sustainable institutional development of the cooperatives themselves. Agro-processors may have interests that differ from farmers when it comes to prices, profit distribution and investment strategies. Similarly, government-affiliated agencies may pursue their own interests pertaining to bureaucratic rent-seeking.

■ Government's support versus non-interference

Each year, the ruling party and the government release a series of policy papers as guidance for the annual work plans of ministries and other agencies. Promotion of farmer cooperative development appeared consistently in the No 1 Document from 2006 to 2012, except for the year 2011. The government regards cooperative development as one of the major instruments to foster agricultural modernisation and

increase rural incomes and livelihoods. In recent years, China has increased its overall government support to agriculture and rural development because of the growing concerns about income disparities between the urban and the rural population.

Cooperatives benefit from the increased scope and size of these government support programmes, notably in the areas of access to rural credit and subsidies for farm and processing equipment and storage facilities. Some Chinese policy analysts regard the promotion of farmer cooperatives as an effective tool to advance the agricultural sector's interests in international trade negotiations and protect farmers' interests in a more convincing manner than the government would be able to achieve. However, there is the challenge of following the principle of "support but don't interfere" when developing a favourable, supportive environment for the development of cooperatives. Quantitative targets for supporting cooperatives in certain areas are often linked to individual performance indicators for local government and party administrators. Cooperatives may be founded for the very reason of gaining access to government programmes, but without a stable internal organisational structure.

■ Experiences of a Sino-German collaboration project

The Ministry of Agriculture of the People's Republic of China and Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ), jointly tested innovative approaches for external support to the institutional development of cooperatives. The project provided block grants to 30 individual cooperatives in the province of Hebei, which lies in the northern fertile plains. Each cooperative had access to grants for a range of pre-defined activities which were in line with the overall

Characteristics of 30 supported cooperatives in Hebei province

Sub-group of cooperatives	% of total	Average number of members	Average number of share-holders	Average registered capital (RMB million)	Average turnover in 2011 (RMB million)	Average growth in turnover in % (2011 over 2010)
Initiated by government officials, with a business enterprise as central element of the structure	13	1,342	137	3.6	14.5	+ 53
Initiated by government officials, with a focus on production and service delivery	37	731	232	2.9	18.8	+ 35
Founded by farmers and farmer-led	26	743	79	5.2	6.8	+ 17
Organised by a business enterprise	23	1,194	101	18	47.7	+ 18

Source: GIZ project data, based on evaluation report

project objective to foster the adoption of environmentally benign agricultural strategies. The cooperatives elaborated their own development plans, while external contributions from the project had to be matched with own contributions of an equal amount. Activities included the certification of the production base according to “green food” or organic standards, training sessions on standardised production technologies, and other support to gain improved market access. Also, the grants enabled the cooperatives to gain improved access to external technical support from universities and other professional institutions.

Most of the cooperatives supported evolved from earlier organisations that had existed before the farmer cooperatives law came into force. About one third emerged from farmer associations, while 30 percent of the cooperatives were based on structures linked to contract farming. Only 37 percent of the cooperatives were established after 2007. Results of the support pro-

gramme showed that the cooperatives were able to achieve significant economic gains within a short period (see Table above). However, one common constraint to further expansion is access to capital for large-scale investment.

Half of the cooperatives were initiated by acting or retired local government officials. In almost all cases, these cooperatives have developed very well. One significant success factor is access to funding from government programmes such as rural poverty alleviation and agricultural development projects and to bank loans which has been facilitated by the government officials thanks to their *guanxi* (Chinese expression for informal network).

Another group of cooperatives has been initiated, and is being led, by farmers. Support from members in this group of cooperatives is not necessarily higher than in the above-mentioned types of cooperative. Mostly, their focus is on supporting services to members in the areas of input supply and facilitation of market links. However, these cooperatives enjoy less support from government programmes.

Some of the cooperatives (23 %) are formally chaired by farmers but still strongly influenced by a business enterprise operating a processing, storage or trading unit. Investment is coming mostly from these enterprises. Thus, ordinary farmer members play a passive role in this type of cooperative.

Conclusions

In a rapidly developing economy accompanied by a fast pace of urbanisation, joining cooperatives offers significant benefits for the large number of small-scale landholders in China. The new cooperative law has provided an enabling institutional environment for cooperatives to achieve strong growth of turnover and member’s income within a short period of time. However, project results from Hebei province suggest that access to government-controlled resources is one of the major drivers for economic success in most of the cooperatives, especially at their initial stage of development. However, in a tightly-regulated market for rural credit, preferential access to financial resources which is needed for the expansion of the cooperatives’ business ventures into processing and marketing plays a major role for long-term institutional development. Cooperatives without preferential access to these resources may be able to achieve economies of scale in delivering services such as the supply of inputs to their members, but will most likely not be able to develop themselves in an economically sustainable way.



Photo: G. Fleischer
Female members of the Fengyu Seed Cooperative in Baoding municipality.