Farmer Cooperatives in China: Development and Diversification

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Abstract: Farmer cooperatives in China have got quick development and diversification since 2006. Farmer cooperatives in China not only connect small agricultural producers to big markets, but they also help farmers by providing services to develop agriculture under small scale production. Challenges also appear such as lack of capable management, difficult to gain reasonable prices for members, short of guidance from professional agencies. For a further development of farmer cooperatives in China, several key issues have been raised, especially different type of cooperatives should be properly treated from perspective of the institutional innovation within agricultural industrial organizations.

Since 2006, farmer cooperatives in China have been developing rather quickly. There were about 504,300 farmer cooperatives in China by September 2011, but only about 100,000 in the year 2006. The number of farmers who have joined the cooperative is 38.7 million, accounting for 15.5 per cent of all farmers in China. The farmer cooperatives are involved in various industries including crop farming, livestock-raising, farming machines, forestry, plant protection, information technology, handicraft, biogas services, agro-tourism, etc. Among them, 43.3 per cent of cooperatives engaged in crop farming, and 29.7 per cent in livestock-raising (Zhao, 2011).

In practice, farmer cooperatives are an important way to organize scattered farmers, improve agricultural production, and help farmers get access to the markets. According to the data from “Report on the Development of China Farmer Cooperatives (2006-2010)”, the average income of farmer cooperative members was 20 per cent higher than non-members (Sun, 2011).

I. Function of farmer cooperatives in China

China has a huge population but fragmented land. It’s not possible in a short period of time for China to achieve the large-scale land operations in European and American countries, despite the shift of the agricultural labor force. Therefore, China has to adopt the methods of small-scale farming and large-scale production, which is also how developed countries without abundant land resources develop their agriculture. Farmers’ cooperatives can realize this goal. The specialized division and social services of cooperatives result in small scale production from individual farms.

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and large scale services from the cooperative as a whole. That is to say, the large scale operation of agriculture is not necessarily achieved through the large scale operation of land. The large scale operation can be realized in services, brands, and marketing—a more sustainable direction that should be advocated.

With increasing market competition, it has become harder for small farmers in China to adapt to competitive markets. The development of farmer cooperatives has played an important role in easing the difficulty. Farmer cooperatives not only connect small agricultural producers to big markets, but they also help farmers develop agriculture under small scale production.

Farmer cooperatives are agricultural operation systems that maintain the advantages of the household operation of agriculture while mitigating its disadvantages. As an economic organization for mutual help among farmers, farmer cooperatives effectively organize scattered capital, labor force, land and markets through united production and large scale operation, without changing the independent operational agency of farmers. On the one hand, it enables small farmers to gain access to and adapt to big markets, increasing the added values of produces. On the other hand, it resolves the conflicts between independent household operation and agricultural scale operation, between individual farmers and the organizational enterprises, therefore promoting the vertical operation of agriculture. By organizing scattered farmers, farmer cooperatives organize production according to market information, which promotes large scale and standardized operation of agriculture. Through equal provision of production materials and the internal supervision and management of members, farmer cooperatives can provide an important guarantee on the quality and safety of their produce. This reputation, once established, improves sales for each member of the cooperative.

Meanwhile, farmer cooperatives also improve the negotiation power of individual farmers in the markets and extend the industrial chains. In production, cooperatives can organize production according to market orders to avoid blind investments and unnecessary loss. In logistics, cooperatives can allow farmers direct access to supermarkets, wholesalers, and communities, lowering logistical costs and increasing their incomes.

II. Challenges for farmer cooperatives

At present, farmer cooperatives in China are a large market entity in the countryside, but due to misunderstandings and distortions of the cooperative system in the planned economy in the 1950s, farmer cooperatives have once been cooperatives only in name, while in fact resembling collectives, with indefinite property rights and low efficiency. During China’s reform since 1978, the household responsibility system replaced the low-efficiency collective system, improving agricultural productivity greatly. But the organization of farmer cooperatives didn’t develop at the same time. Only in the early 21st century after the passing of legislation on the farmer cooperatives in July 2007 did farmer cooperatives undergo a significant development. Therefore, farmer cooperatives in China are still in their preliminary stage and facing
many challenges on their way toward becoming powerful agricultural organization that can connect farmers to domestic and international markets.

First, lack of capable management and capital bottlenecks the development of farmer cooperatives in China. Since China’s market-oriented reform, many migrant rural laborers—about 230 million—have engaged non-agricultural sectors (NBSC, 2010). The majority of them are younger, either with a certain degree of education or with non-agricultural work experience. Those who stay in agriculture usually lack an awareness of the market economy, and their average education level is quite lower. To solve the lack of capable management, the Ministry of Agriculture has decided to train 15,000 talents in the next ten years—1,500 people annually. They will also encourage rural youth and college graduates to become involved with cooperatives. As for financial support, the Ministry of Agriculture along with other related government departments initiated supportive policies, such as treating cooperatives under the same generous policies as with individual farmers, exemption from certain taxes on the supply materials provided by cooperatives, and favorable loan policies.

Second, it is still a tough task for farmer cooperatives to help members sell produces at reasonable prices. Besides facilitating the channels between farmers and consumers, cooperatives should also actively participate in various marketing activities such as produce trade fairs, group purchase fairs, etc. If single small cooperatives are unable to access the market effectively, they should unite with other cooperatives in various ways, such as by establishing unions. Meanwhile, cooperatives should try to set up direct sales stores, chain stores, and outlet stores in urban communities and produce markets to create a seamless link from the farm to the dining table.

Furthermore, the farmer cooperative needs guidance from professional agencies. With reference to successful practices in other countries, China should set up national and local agencies to guide and serve farmer cooperatives, integrate resources, and consequently promote the healthy development of cooperatives. To strengthen the cohesiveness of cooperatives, it is necessary for farmer cooperatives in China to run with similar organizational structures. For example, this structure would include a member assembly, a board of directors, a board of supervisors, as well as a system for distributing earnings.

III. Further development of farmer cooperatives in China: Key issues

First, it is crucial to understand the current status of diversified farmer cooperatives in China. Due to its short history and rapid development, cooperatives in China are varied in quality, some of which are even regarded as fake. These “fake” cooperatives are labeled as such because they are different from typical cooperatives. Some experts and officials think it is urgent to identify and regulate them, but another possibility is that these cooperatives have simply been mislabeled and misunderstood. These cooperatives fall under three classifications.

The first type of fake cooperative is usually formed by a few farmers who
register a cooperative together without changing their activities. The motivation is to take advantage of government subsidies and other lenient government policies. The second type of fake cooperative is organized by a strong enterprise or company. In such cooperatives, farmers don’t have a strong position and the company or enterprise leads. It is nearly identical to Contract farming dominated by company or enterprise. The third type is a cooperative where the land contracted by farmers is leased out, and farmers then become employees or producers instead of independent operators. Rather than grouping these three types of non-standard cooperatives together as “fake”, we should treat each individually. The first two types should be protected and improved. It’s especially crucial to promote the transformation of the second type as it may bring out major innovation for the coordination between the cooperative operation and the vertical integration in agriculture. The third type should never be supported, because they are truly “fake” cooperatives, similar to the low-efficiency agricultural collectives that were once experienced by China. The most important aspect of the farmer cooperative is that members of cooperatives must keep their status as independent operator unchanged, namely, they should still be the independent household operators of the agriculture. The household operation and the cooperative operation in the agriculture should go hand in hand.

Second, the relation between the cooperative’s operation and the corporation’s operation in the vertical integration of agriculture should be handled properly. It’s important to exert the roles of cooperative operation in the agricultural vertical integration. Generally speaking, there are two major models in the world. One is the European-American model which is characterized by cooperatives extending downstream and internalizing the entire industrial chains, such as the flower cooperatives in the Netherlands which cover from flower planting to flower circulation and auction. The other is called the Asian model which is characterized by cooperatives that mainly play a role in horizontal extension, and establishing stable relations up and downstream with the processing or marketing enterprises. Both models have their advantages and disadvantages. The former has a strong ability to control the downstream market, but its internal governance is costlier, and also requires more capital. The latter has a comparatively weaker ability to control the downstream market, and higher vertical transaction costs, but it might be less costly for its internal governance, and require less capital overall. The European-American model is not suitable for the majority of current farmer cooperatives in China, and the Asian model seems more appropriate right now. However, it is worth pointing out that some agricultural companies and enterprises in China may play a role in the vertical integration of agricultural industrial chains by establishing cooperatives that extend upstream.

Agricultural corporations mainly operate downstream, especially in the processing stage. Agricultural processing and marketing enterprises are usually based in the corporation’s operations. Even though the corporate operation of those enterprises has a role in the industrialization and vertical integration of agricultural, it is not enough. Several key issues need to be handled properly. Corporate operation is
essential for the agricultural industrialization especially downstream. The application of the corporate operation system on agricultural industrialization has become an international trend, which not only can be seen downstream in places such as processing enterprises, but also in farmer cooperatives in Western countries, which have become share-holding “new-generation cooperatives”.

There have been instances of “new-generation cooperatives” in China as well, but they have followed a different path. They have grown in the reverse direction, compared with the case in European and American countries. In China, “new-generation cooperatives” are usually driven by downstream enterprises or companies, instead of the farmer cooperatives themselves. Farmer cooperatives establish share-holding in order to extend upstream in the agriculture. For such cooperatives in developed countries, the corporate operation must figure out its role within a cooperative-dominated system. However, in China, the reverse is the case, and it is crucial for the cooperative operation to figure out its roles within the corporation in order to prevent cooperative members from losing their benefits. Meanwhile, they can form competitive “new-generation cooperatives” with Chinese features.

Such institutional innovations within agricultural industrial organizations can improve the logistical efficiency of China’s agriculture industry, increase the amount of vertical integration and international competitiveness, and justify farm cooperatives from a theoretical perspective. Therefore, the government should encourage and attach great importance to the development and perfection of farmer cooperatives dominated by corporations instead of urgently negating them. Research is needed to observe whether farmers are willing to work under such a corporate cooperative system. If most farmers are not against it, its existence becomes feasible to a certain degree. As long as a majority of the farmers are willing to join this type of cooperative while remaining independent producers and operators within the cooperatives, such an organization should be accepted. The key issue, at the initial stage of farmer cooperatives in China, is to persuade companies and enterprises in the downstream to help the farmer cooperatives upstream by providing support and services in terms of technology, talents, and capital. In recent years, there have been success cases of these farmer cooperatives, and they promise to be quite valuable and deserving of proper development.

Reference

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