

The New Style Co-operatives in Rural China: Reform Issues

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1. The challenges

China is in transition from a traditional planned economy to a socialist market economy. Market imperfections and restructuring during this transition are raising some serious issues for rural enterprises, especially the very large number of small farms. These came into being during the household responsibility reforms and will be challenged by China's entry to the WTO.

Consider the challenges. The management model of the small peasant household is in direct contradiction to the international trend to specialization, standardization, and economies of size. Second, the traditional government model is in contradiction with the need for policy change to prepare for entry to the WTO. Third, declining prices for agricultural products are already undermining the goal of increasing peasant's income. Fourth, without market skill, the huge number of peasants is not coping well with changeable markets. Fifth, is the promise to stabilize the domestic market, made by the Chinese government to the WTO. A sixth issue is the need to expand farm production and to conserve the rural ecological environment. Finally, the seventh issue is how to adjust the agricultural supply structure with the demand structure.

All these issues seem to point to a need to improve the degree and manner in which small holder (peasant) agriculture is organized.

2. Origin and development

Twenty years ago, the agricultural system reform created family farms, bringing to an end communal group farming and collective property rights. Rebuilding a rural economy around the peasant household, re-established the connection between the peasant and the land. However, at the same time agriculture became non-organized. With the advance of economic reform into markets, the question of how to join thousands of independent peasant households with big markets has become a problem that has to be solved. A multitude of institutions, including the co-operative organization of economic and technological services emerged at this historic moment. Meanwhile, rural supply-marketing co-operatives and credit offices carry on the reform. Some supply-marketing co-operatives, processing enterprises and scientific research institutions participate actively in the establishment and development of new-type co-operative organizations. These organizations are making a great contribution to improved markets.

The characteristics of the new-type economic co-operatives' development are as follows:

- Non-governmental. Usually the peasants themselves established these co-operatives. Sometimes the government provided guidance and support for them.
- Specialized. Most of the varied associations and corporations started by peasants are professional economic co-operatives doing specialized functions.
- Uneven. Co-operatives are being formed unevenly across the country. Half the 1,500,000 co-operatives are in the east of the country, a quarter in the middle, with few in the west. Only three percent of rural families have joined the co-operatives across China.
- Variety. Varied models came into being, owing to widely differing environmental conditions and function preference. For example, the Lai-yang Model, Han-dan Model, Beijing Model and the Chongqing Model.

3. Several kinds of major models

The major models are named after their birth place.

3.1. Lai-yang Model

The outstanding characteristic of the Lai-yang Model is the specialized co-operative. These co-ops usually follow many of the international co-operative principles. In the 1990s, Lai-yang's increased vegetable production called for new services. With the support of government, specialized co-operatives were formed for growing, processing, and marketing vegetables, for medicinal herbs, domestic animals, agricultural machinery etc. Examples of efficient co-operatives are the Laiyang Hong-Da Fruits and Vegetables Processing Co-operative, and the Zhao Wang Zhuang Zhen Yu Min Vegetable Corporation. These co-operatives were built around an effective operating system with "a set of articles and four certificates". These were the professional co-operative articles, Member Certificate, Share Certificate, Product Sale Certificate, and the Material Supply Certificate. Currently 218 professional specialized co-operatives are registered in Lai-yang. About 90,000 peasant households are involved in these co-operatives, accounting for 40% of the total number of peasant households in that municipality, ten times the national participation rate.

The development of peasant's specialized co-operative societies, has promoted the growth of peasant's income of Lai-yang effectively. In Lai-yang the per capita net income of the peasant was 2998 yuan in 2000, and 3308 yuan in 2001. The average per capita net income of members of co-operative societies rose to 3396 yuan from 3068 yuan in the same period.

3.2. Han-dan Model

Handan in Hebei province is a big agricultural city, in which rural secondary and tertiary industry is underdeveloped. In 1998, farmers and government jointly founded some 'new' associations to serve agriculture. These were "agricultural (production)

associations”, “comprehensive service associations”, “specialized service associations” and “special purpose associations”. Most of the associations, however, are agricultural associations.

The main characteristics of the Handan Model are: (1) Party Committees and government leaders supported/initiated the associations by administrative and political means. (2) Associations are organized flexibly in response to the local environment, resource base and structure of the local economy. (3) The associations use three basic concepts: member governance, contracts and multiple shareholding or share co-operation. Contracts form a decision system to empower farmers in the market and protect the interests of the peasant household. The contract system gives peasant households access to markets. Shareholding, or share cooperation, is a property rights/ownership system, which plays the double function of financing the association and distributing profits to members.

The city, county and township level associations in the Handan model are financially supported by Handan City. Associations at the village level are required to be self-supporting financially. Up to now, Handan has set up 5615 agricultural (production) associations at the city, town and county levels.

Handan has set up 624 special purpose associations, 6 at the city level, 109 at the county level, 220 at the township level and 289 at the village level. 44 percent of the special purpose associations are for crop cultivation, 22 percent for aquaculture, 5 percent for transport and 29 percent for other special purposes. The range of special purpose associations is widening constantly, to include inputs supply, postproduction processing, science and technology, information and extension services, and community services.

The Handan Model has the atmosphere of government, with both advantages and disadvantages. The main issue with government sponsorship is to achieve local member governance. Local leaders have paid close attention to this problem from the outset in 1998. The Agriculture Bureau of Handan is taking the approach of strengthening associations to the point that member leaders can take over from government officials. Improving the shareholding system and member governance are important parts of this strategy. In 2001, their members ran 57 percent of the special purpose associations.

3.3. Beijing Model

The Beijing Model centers around specialized service co-operatives. Their focus is the capital market, organic agriculture, green industry, perishable foods and export trade. The model has several characteristics.

The first and most important, like the Handan Model, is strong initiative by the government. In February of 2000, the Agricultural Committee of Beijing and the Beijing Bureau of Finance jointly took an initiative “about supporting and encouraging the suggestion which develops peasants’ co-operative organization of economic relations”. Besides providing a clear policy, the government of Beijing also provided major financial incentives. Beijing also designed a governance system by the peasant members with sound rules and regulations. The financial incentives encourage membership, surpassing household income targets, participation in contracting and adoption of new plant varieties and technology. Over the past two years, more than 1.4 billion yuan have been paid out as incentives.

The second characteristic of the Beijing Model is that specialized co-operatives developed comparatively fast. May 2002 statistics show 1855 specialized co-operative societies with 223,000 peasant households, accounting for 18.2% of all peasant households in Beijing City.

The third characteristic is the diversified investment in and by the specialized co-operatives. In the past two years, 26.9 billion yuan was invested. Of this amount, peasant households privately invested 12.1 billion yuan, or 42.3% of the gross investment. The co-operatives invested 3.1 billion yuan, or 10.8%; Secondary and tertiary industrial and service enterprises invested 10.3 billion yuan, for 36.1%; The government support of the incentive fund totalled 1.4 billion yuan, accounting for 4.9%.

The fourth characteristic of the Beijing Model is that scientific and technological units and leading enterprises participate actively and play a leading role in development of the co-operatives. In 2001, peasants' specialized co-operative societies planned to train more than 300,000 members. A large investment in technological materials notably improved members' abilities.

The fifth characteristic is the direct access to the capital market and export trade. Thanks to their advantageous position around the Chinese capital, the co-operatives have developed large-scale production processes. Their products enter the big Beijing market and benefit from the competition. The Beijing area co-operatives now account for 80% of the milk market, 46% of vegetables, 40% of melon and fruit, and 30-35% of aquaculture products. The co-operatives account for 95% of agricultural product exports from Beijing.

3.4. Chongqing Model

The Chongqing model is comprehensive service co-operatives and special purpose co-operatives, originating in Kai County and Liangping County. The main feature of this model is its origin in state rural consumer goods supply organizations/trading companies. These also purchased specialized farm commodities. When these organizations were opened to market forces, they formed service co-operatives among farmers.

One version involves relatively rich farmers who unite to pool labour and capital. A second version forms around a particular production process and is often built with help from a government department, such as the Agricultural Bureau. A third version provides technological services with support from the Chongqing government. A fourth version is marketing co-operatives buying from and selling to farmers and rural households, much like the original state rural consumer supply organizations. The fifth version is an agency co-operative to bring companies and farmers together in a way that protects farmers' benefits, much like a marketing board.

4. The comparison among the benefit distribution mechanisms of the new-type co-operatives

The distribution of benefits is a key problem of the new-type co-operatives. According to the co-operative principle, the profit distribution of the co-operative must promote

the income of its members, rely mainly on the member's patronage, and limit the share bonus as stipulated by the co-operative's constitution.

The profit distribution method used in Shandong Province (trial and error method) was promulgated by the Agricultural Committee of Shandong Province on January 20, 1998. This practice set the standard of rural co-operative profit distribution for all co-ops in this province.

- 20% of the after-tax profit must be added to the accumulated reserves.
- 15% of the after-tax profit must be placed in the co-operative's social welfare fund.
- 20% of the after-tax profit goes to the development (risk) fund for purchasing equipment and developing new products and financing deficit years.
- After allocating the above-mentioned funds according to regulation, the balance, 45% of the after-tax profit, is to return to the members in the form of patronage dividends.

Another distribution formula is used in the Beijing co-operative model. An example is the Xintexin Grape Supply & Marketing Co-operative of the Da Sun Ge village, Shunyi district of Beijing. The co-operative's income after deducting the operating and fixed costs in a year and the profit tax, should be assigned according to the following rules:

- Make up the previous deficit;
- Pay interest to the members on their share value at or higher than the interest rate in that year.
- Add 10% of the remaining net income to the accumulated reserve fund.
- Contribute 5% of the same net income to the co-operative social welfare fund.
- Return the rest of the net income to the members according to their patronage. This part is generally the majority of the after-tax profit.

The after-tax profit of the co-operatives of Liangping and Kai Counties in Chongqing is distributed as follows:

- reserve the proportion of 30% to add to the accumulated reserve fund and the members' social welfare fund;
- Return 10% to members according to their patronage;
- Distribute 60% in the form of a share bonus.

The differences in the practices for profit distribution of co-operatives in different regions are obvious. The distribution of profit is usually decided by the member's patronage or by the volume of shares held. Why do regional allocation practices vary so widely? We think it can be explained by the relative scarcity of the key service or function provided by the co-operative in the relevant market and the competitive relationship of the co-operative with other enterprises in the given region. With the development of the economy and changes in the competitive situation, the allocation proportions should change accordingly.

5. Several questions needing discussion and resolution

In China, the new-type co-operative economic organization has been developing for more than ten years. But generally the speed of development is not so quick and quite imbalanced, far from the requirements of a market economy. Therefore, we should discuss some questions clearly and take some steps to speed up the development of co-operative economic organizations.

5.1. Question on understanding the new-type peasant co-operative economic organization

The lack of a sufficient and common understanding of the new-type co-operative economic organization is a great obstacle to its development. Some leaders doubt it is possible to succeed with organization of peasants. Actually, peasants jointly help themselves by taking the road to cooperation. They can gain a certain strength by contributing to the checks and balances in the economy, and thereby improve the competitiveness of the national economy, while safeguarding their own rights and interests. Co-operative action resists passive exploitation, compared with non-organization. The model of peasant organization is better and will produce a system-wide effect.

Some peasants have doubts too. These doubts are mainly a consequence of the earlier collectivization of agriculture campaign. They are afraid to set up co-operative societies, which may revert to the old model, namely in which private goods become collective property. Consequently many peasants are hesitating.

The Central Government has taken the decision to encourage a variety of co-operative models to propagate peasant's co-operative associations. This approach should go a long way to resolve the problem of understanding.

5.2. Question about how to develop peasant co-operative economic organization.

At present, there are various kinds of rural co-operative organizations of economic relations in China. They may be summed up in the following kinds.

- Professional co-operative society; one that is built strictly according to the principle of the international alliance of co-operative society,
- The co-operative society of the community; These were kept in the village after the disintegration of the people's commune,
- The co-operative society of the share; Members become a shareholder eligible to receive a share bonus, mainly according to the number of shares held. Many academics and leaders regard the model of “company + peasant household” in agricultural industrialization as co-operative organizations.

According to the concept of the co-operative organization of economic relations, the second kind is not a co-operative organization of economic relations but really a collective organization of economic relations. The “company + peasant household” also is not a co-operative organization of economic relations. For this reason, based on the agricultural co-operative societies developmental experience in foreign countries, and agricultural development and peasant income levels in China, China should

develop energetically agricultural co-operative societies following the principles of the international alliance of co-operative societies.

5.3. Question on legal status

New-type co-operatives are different from the general company and collective-owned enterprise. They need special legislation to establish a legal status. We hope that the new revised edition of the “agricultural law” (national agricultural policy) defines distinctly the new-type co-operative organization of economic relations and provides to co-operatives the status of a legal person. On the basis of this, “rural co-operative law” and “rural co-operative organization of economic relations demonstration rules” should be issued to standardize their operating procedures. Provincial legislative bodies should go first and take the lead.

5.4. Question on registration

Currently, there are no co-operative enterprises named in the industry and commercial administrative department’s enterprise register. The result is that they can’t be registered as economic enterprises. Nor can they be registered in the collective system, or the share co-operative system or in the associative system. Thus, co-ops can’t get favourable or flexible tax treatment. In the long run, these limitations will affect the healthy development of the co-operative economy. Therefore, the industry and commerce registering system should be changed. The name of the co-operative enterprise legal person should be listed singly.

5.5. Question on supporting policy

The new-type co-operative is a ‘peasant helping-each-other’ organization. It is different from the general industry and commercial enterprise because co-operatives have the dual responsibility to the economy and the society. They have some public welfare functions. Accordingly, in a way, support for the peasant co-operative economic organization is to support agriculture and to support the peasantry. But our country has no explicit policy about how to support the peasant co-operative economic organization by finance, tax revenue, credit, public goods supplying and so on at present. The Beijing Model goes the farthest in this regard. Looking from the fact, it is very necessary to promote peasant co-operative development planning in order to protect the legal rights of peasants, and promote and increase peasant incomes.

5.6. Question on the agricultural management system

For a long time, government in our country has practiced the multi-department divided management system. The functions of many department are linked but suffer coordination problems with the scattering of interrelated businesses and functions. The government agricultural departments mainly focus on production, and not the assembly, distribution, and marketing of this production. This unbalanced approach does not fit the market economic development, governance and ecological requirements needed after the entry to WTO.

We should reform this situation as fast as possible, to strengthen the comprehensive energy of the provincial agricultural departments. We need to build the agricultural foods economy ministry, to bring the producing, processing, saving, selling, including agricultural products import and export, under unified management. At the same time, the government should reform the foreign trade system; abolish the department monopolization and effect changes to the many-faceted management system.

6. Conclusion

I want to emphasize three points: Firstly, China has put the socialist marketing economy into practice. Now, peasant farm organization and a co-operative system must be gone after, and must be looked upon as a practical strategic task to manage agricultural industrialization. Understand it fast, resolve it fast, or we will have increasing difficulty with a passive adaptive situation going into the WTO. Secondly, it is crucial for the existence and development of co-operatives to put the laborer and farmer, and their benefits, in the first place. Thirdly, whether or not to acknowledge the variety of cooperation models naturally appearing because of the masses' creativity and choice, has already developed into the "vicissitudes question of the co-operative campaign".(Han Yuan-qin, 1991).