

New Style Co-ops in Rural China: Reform issues

Professor Zhu Shufang

VP (Academic)

Chongqing Technology and Business University

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Issues for Co-op Reform

- Many small farms face the global trend to specialization, standards, economies of size.
- Traditional government versus policy changes needed to enter the WTO.
- Declining prices conflict with farm income goals.
- Market inexperience in changeable markets.
- Promise to the WTO to stabilize domestic market.
- Production versus secure environment.
- Adjust supply structure to the demand structure.

Origins of the Issues

- Collectivization early '50s
- Individual responsibility late '70s
- Non-organization of farmers in markets '90s
- Small farms and fragmented land holdings.
- Globalization

Characteristics of new-type co-ops

- Non-government: member management
- Specialized functions
- Uneven development (just starting since mid-'80s)
- Variety of models

Lai-yang Model

- Specialized, often in value-added processing
- Follow many of int'l co-op principles
- Use certificates
 - Member
 - Share
 - Product
 - Material supply
- 90,000 members, 40% of all farms in Lai-yang
- 10% increase in income in 2001 to Y3396.

Han-dan Model

- Initiated and supported by government.
- Special purpose associations mainly for agricultural production (44%)
- Flexible arrangements according to resources, environment and economy.
- Governance by members in 57% of village level co-ops (2001)
- Contracts to access markets
- Multiple share ownership used to finance co-ops and distribute profits.
- Institution-building is main strategy for development.

Beijing Model

- Specialized service co-ops.
- Beijing government provided financial incentives, strong rules, and clear policy.
- Rapid expansion to 1855 co-ops and 223,000 members by May 2002.
- Large and diversified investment; Y28.6B in two years.
- 42% of investment is by private farm households.
- Science and tech units and leading enterprises play a big role.
- Direct access to capital, local and foreign markets.

Chongqing Model

- Comprehensive service co-ops
- Origin is former rural State trading companies after being opened to market forces.
- Five versions:
 - Relatively rich farmers pool resources
 - Centered around a production process
 - Technological support services
 - Buy/sell from farm households
 - Agency to bring farmers and buyers together

Shandong profit distribution model

- After-tax profit
- 20% to accumulated reserves
- 15% to the social welfare fund
- 20% to the development (risk) fund
- 45% to patronage dividends

Beijing profit distribution model

- After-tax profit
- First cover any previous deficits
- Pay interest to shareholders
- 10% of balance to reserve fund
- 5% of same balance to social welfare fund
- Balance to patronage dividends; usually most of the after-tax profit

Chongqing profit distribution model

- 30% to reserve fund and social welfare fund, with the split decided annually
- 10% to patronage dividends
- 60% paid out as share bonuses

Reasons for such variety in profit distribution models

- Relative scarcity of key service or function in the relevant market
- Competitive position of the co-operative relative to other enterprises in the relevant market.
- As market reforms progress, profit distribution models expected to change.

Questions for the Co-op Reform Process

- Common understanding about the new-type co-ops on the part of political leaders and farmers.
- Strategy to develop co-ops and expand membership
- Legal status
- Registration and legitimization as economic enterprises.
- Supportive policies for co-ops
- Organization and management of agriculture to enter the WTO

Conclusion

- Managing the industrialization of agriculture by means of organizing peasant farmers into co-operatives is a viable strategy
- The task is urgent to avoid serious difficulty for most farmers from China's membership in the WTO
- Placing farmers and their benefits first is essential to co-op development
- Member governance and autonomy are essential.
- Creativity and choice lead to a variety of cooperative models This is useful.