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Understanding the failure of China's specialized cooperatives in China

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BY ZHANPING HU, QIAN FORREST ZHANG AND JOHN A DONALDSON

Understanding the Failure of Farmers' Specialized Cooperatives in China

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At first blush, contemporary China seems ripe for the rapid development of agricultural cooperatives. After all, cooperatives have not only enjoyed a long history in China, but the country's recent experience with agricultural communes should make it more amenable to the reestablishment of joint production and spontaneous bottom-up cooperation. Agricultural cooperatives in China date to the 1930s, as Rural Reconstruction Movement advocates promoted cooperatives as a "third road" between capitalism and socialism. Although Mao's regime disbanded most bottom-up cooperatives, rural cooperatives began to reemerge in rural China by the end of the 20th century, particularly after 1998, when farmer cooperatives at the grassroots level began increasing markedly in number (Jia, Huang & Xu, 2012). Since the 1990s, agricultural cooperatives — particularly Farmers' Specialized Cooperatives (FSCs) — have been reinvigorated and experienced rapid expansion in rural China.

What is more, since the mid-2000s China's government has nurtured agricultural cooperatives with a number of incentives and supportive policies, particularly the Farmers' Specialized Cooperative Law. Indeed, after the promulgation of the Law, the number of registered FSCs across China soared exponentially. By October 2015, China's Ministry of Agriculture reported 1.48 million registered FSCs and about 99.97 million farmer households have joined cooperatives, covering 47 percent of the nation's total (MAC, 2015). This growth was cheered by many Chinese and overseas scholars, who argued that cooperatives could target specific difficulties that smallholder farmers face in production and marketing as well as help them scale. By banding together, smallholders could bargain for cheaper inputs and hold out for higher prices of their produce. Cooperatives could help provide technical services and marketing channels that individual farmers rarely have on their own (e.g., Huang, 2011; Yang, Leeuwis, Lie & Song, 2014; Jia, Huang & Xu, 2012).

Yet, despite these theoretical advantages, our evidence is consistent with naysayers who argue that — despite all appearances — authentic agricultural cooperatives mainly fail. Many studies have shown that the vast majority of Chinese FSCs are not authentic, and their performance has been disappointing. Researchers have identified a number of reasons regarding the poor performance of FSCs. Some FSCs are dominated by agribusinesses or wealthy farmers, others have low participation of small farmers, the lack of dedicated leaders lead some FSCs to morph to commercialized entities or fail outright, while others are simply established to grab government subsidies (e.g., Deng & Wang, 2014; Tong & Wen, 2009; Fan, 2011; Pan, 2011).

Unfortunately, most of the research on cooperatives to date — that of advocates and skeptics alike — is flawed by focusing exclusively on one or two features of FSCs, by basing their conclusions on a small handful of case studies, or by relying on questionnaires, resulting in dubious or self-serving responses. By contrast, our research spans a six-year period (2009–2015) and covers all of China’s macro-regions, 11 provinces in total — with a total of 45 cases. In selecting cases, we sought out FSCs that were established as demonstration projects, or which had received recognition from the government or media for their success. We adopted in-depth interviews as our data collection method, which provided far deeper and more comprehensive information than standardized questionnaires. Moreover, we chose to apply the definition of cooperatives as set by Chinese law, and not some international standard of cooperative (although in practice, the Chinese definition is similar to that used internationally). This allows us to evaluate China’s cooperatives on their own terms, using the standards established by China.

Given that we sought out cases that were listed by the central or provincial governments as especially successful model cooperatives, we were surprised to find just one relatively successful cooperative in Shanxi Province. This successful cooperative was initiated and managed by a dedicated, well-educated leader from the local community, and originated as a cultural association before developing into a comprehensive cooperative providing multiple services such as cultural association, handcraft production, and credit cooperative.

Shell FSCs are organizations that should never have been considered to be cooperatives. They are frequently registered for the purpose of grabbing state subsidies or other preferential policies.

We divided the remaining 44 cases into four types of failed cooperatives, including shell FSCs (13 cases), commercial FSCs (25 cases), commercialized cooperatives (3 cases), and failed cooperatives (3 cases). Shell FSCs are organizations that should never have been considered to be cooperatives. Instead, they are literally empty “shells,” without farmer members, or services provided. These so called “FSCs” are frequently registered for the purpose of grabbing state subsidies or other preferential policies. What we frequently saw was only a name plaque hung on the office front door. The low registration threshold and lack of inspections can explain the rampancy of shell FSCs. Some interviewees told us that one could just borrow five identification cards from friends or relatives to register a cooperative. As our research suggests, shell FSCs represent a substantial fraction of the FSCs in China.

Similarly, commercial FSCs are actually disguised private enterprises. Most of these “FSCs” seem to have met the requirements of an authentic cooperative because they have offices and facilities, institutional designs, management framework, membership books, and other

trappings of an actual cooperative. However, in reality, they are nothing more than a commercial enterprise; all their transactions with farmer members are conducted in a completely commercialized manner. Although participating in the activities of the FSCs, members rarely receive extra benefits from the transactions compared to those with other market operators. These FSCs are dominated by and serve a small group of elites or a single core leader. The commercial FSCs can be further divided into three subgroups by their leadership: entrepreneurial producers, current or former village leaders, and merchant-aggregators.

By contract, commercialized cooperatives started out as authentic cooperatives, but subsequently transform into commercial enterprises. Authentic cooperatives frequently generate lower profits than commercial enterprises because they have multiple missions to fulfill — serving members, distributing dividends, addressing public concerns — which combine to weaken their profitability. In turn, lower profitability augments already severe challenges to the sustainability of cooperatives. Therefore, in practice, the leaders of these cooperative are often tempted by external capital and transform the organization into a commercial enterprise controlled by capital instead of the members. In this case, ordinary farmer members are marginalized in the decision-making process.

Finally, failed cooperatives often started out as authentic cooperatives but failed along their life course. The reasons for failure include poor policy support, lack of management skills, and unfavorable market conditions. The failure story of Xiajia Cooperative in Jilin Province pertinently illustrates this situation. Xiajia started as an authentic and successful cooperative, and was selected as a national demonstration cooperative from 2004 to 2014. However, when we visited in August 2015, it was completely shut down and the leader had disappeared without a trace for six months, her door disquietingly littered with court summons. According to interviews with the members and neighboring farmers, the reasons for the failure included poor management skills of the leaders, inefficient governmental support, and low market prices.

Thus, our research revealed that the vast majority of FSCs in rural China have failed to deliver the expected benefits to agriculture and farmers. By either international or Chinese standards, the vast majority of FSCs in China are not authentic cooperatives, but shell companies, private businesses, or commercial enterprises. The considerable policy supports from the government since the 2000s have been ineffective in fostering a healthy cooperative system. Given the failure of even those cooperatives held up as models of authentic bottom-up organizations that provide significant benefits to ordinary farmers, we remain pessimistic that FSCs can be a viable model for agricultural and rural development in contemporary China.

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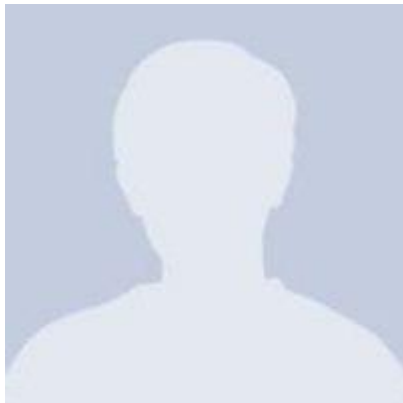
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