

## A Brief Summary of the Development of Farmer Cooperatives in China

著者	Jia LEI
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## A Brief Summary of the Development of Farmer Cooperatives in China

Jia LEI

Graduate School of Agricultural Science, Tohoku University

### Introduction

China's agricultural production has been conducted in a fragmented small-manner and the production of agricultural products has remained highly dispersed for a very long time. Farmer cooperatives are regarded as one way to resolve the contradiction of "small-scale production" and the "big market" under the current food marketing system whilst improving economic welfare benefits to farmers. After the implementation of "Law of the people's Republic of China on Specialized Farmer Cooperatives" in 2007, the number of cooperatives has increased dramatically. However, the development of cooperatives in China has been strongly influenced by political approaches. This paper begins by briefly laying out an overview of the development of cooperatives after the foundation of People's Republic of China in 1949; it then gives an introduction to the current situation of cooperative's development by conducting a case study of Zhejiang Province. The author tries to contribute to the understanding of the development and the driving forces of the great emergence of cooperatives in China in order to provide references for the development of cooperatives and future research.

### The Development of Farmer Cooperatives after 1949

The promulgation of "Land Reform Law" in June 1950 marked the beginning of nationwide agricultural reforms in China. The so-called "Land Reform Period" lasted from 1950 until 1952, abolishing landownership by the landlord class and introducing private landownership. As a result, Chinese farmers owned their own farmland for the first time in history (Figure 1).

#### 2.1 Agricultural Collectivization Period (1952-1958)

Under a state monopoly economy, by establishing the agricultural collectives, farmers were proposed to form "mutual aid teams" of 5-15 households, which was regarded as the first stage of the agricultural collectivization movement in 1953. From 1956 "elementary agricultural cooperatives" of 20-40 households and "high level cooperatives", consisting of 100-300 families, were initiated (Feng 2003). Through this movement, the land that had been handed out to the farmers was slowly returned to the state. By 1958 private ownership was entirely abolished and households all over China were forced into state-operated communes.

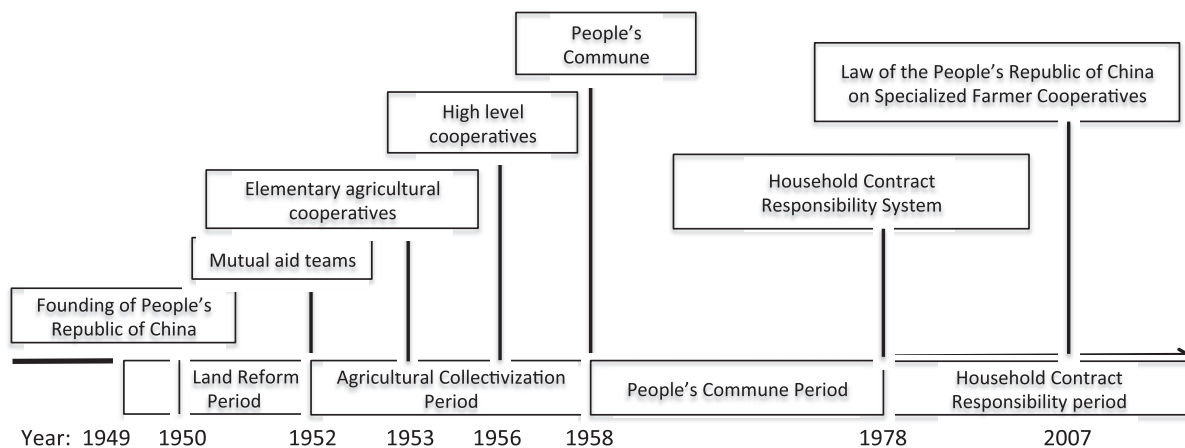


Figure 1. Evolution of Agricultural Cooperation Movement in China

## 2.2 People's Commune Period (1958-1978)

After 1958, rural life was collectivized completely after various forms of rural cooperatives were merged into very large people's communes. People's communes had become the new form of economic and political organization throughout rural China that marked the entire abolishment of private landownerships. Farmers in the communes received points instead of wages. In terms of grain production, the figures were fixed much higher than their true value due to the excessive zeal of local officials, who were whipped up in the general atmosphere of enthusiasm while at the same time afraid to be seen as moving too slowly. Approximately 25,000 communes had

been set up by the end of the year, with an average of 5,000 households each. The collectivization movement achieved some early success, with grain output increasing by 21.8% from 1952 to 1958 (Table 1). However, in the following three years China experienced its worst economic crisis, which caused the Great Famine due to the decline of food production from 1959 to 1961 (Great Leap Forward Period). The existing empirical findings mainly support the 'exit right' hypothesis to explain the dramatic productivity fluctuations in the Chinese agriculture, and support grain availability and the urban-biased food distribution system as important causes of this disaster (Lin 1998).

**Table 1.** Average Grain Output Per Mu 1951-1958

Year	1952	1953	1954	1955	1956	1957
1958						
Total Output (10 thousand ton) 20000	16392	16683	16952	19394	19275	19595
Average Yield Per Mu (kilo) 104.48	88.14	87.83	87.61	94.44	94.25	97.31

Source: China Agriculture Year Book 1980

## 2.3 Household Contract Responsibility System (1978-2007)

The period from 1978 to 2007 was characterized by the implementation of a "Household Contract Responsibility System" which had become the main policy tool for the reform in rural areas. Through signing long-term contracts with the collective, farmers were able to manage agricultural production on their own initiative while the ownership of farmland still remained in the hands of the rural collective. The start of this system is also viewed as a milestone for the economic opening-up of China.

The people's commune system was abolished under the reform and a system of township government was restored. Farmers' ambitions were stimulated, resulting in a substantial increase in agricultural production. Between 1978 and 1990, rural farmers' incomes increased by 6.7% (Lin 1992). However, farmer cooperatives were growing slowly during the early and middle reform years (1980s and 1990s); farmers in some places found it especially difficult to purchase inputs after the abolishment of the commune system (Stone, 1988). Part of the problem was that the Supply and Marketing Cooperatives failed to provide marketing services for millions of individual small

farmers. In order to facilitate better access to inputs, the central government issued a policy encouraging Supply and Marketing Cooperatives to work with farmers and jointly establish early versions of farmer cooperatives in 1987, which might have triggered an early surge in the emergence of farmer cooperatives (Deng, 2010).

By the late 1990s, the ground rules for the agricultural economy began to fundamentally change, as emerging national markets in agricultural produce shifted from a supply to a demand orientation (Zhang 1999), which increased opportunities to specialize in producing higher-value cash crops and specialty commodities. Farmer cooperatives had begun to emerge, especially in the fruit and vegetable sectors. The Ministry of Agriculture began to slowly promote farmer cooperatives and launch pilot programs in the late 1990s and early 2000s. The research conducted by Deng (2010), argued that the determinants of the development of agricultural cooperatives show that the role of the government is of primary importance. It was clear that the lack of legislation affected the development of farmer cooperatives before 2007.

**The Development of Farmer Cooperatives in Zhejiang Province**

With the implementation of the “Law of the people’s Republic of China on Specialized Farmer Cooperatives” in 2007, the number of farmer cooperatives increased dramatically. This gave formal legal status to farmer cooperatives, which also enabled them to sign contracts and act as business entities. There were 828,000 registered farmer cooperatives (32 times more than in 2007) with 65,400,000 members, accounting for 25.2% of the total number of farmers in China in August 2013 (Ministry of Agriculture).

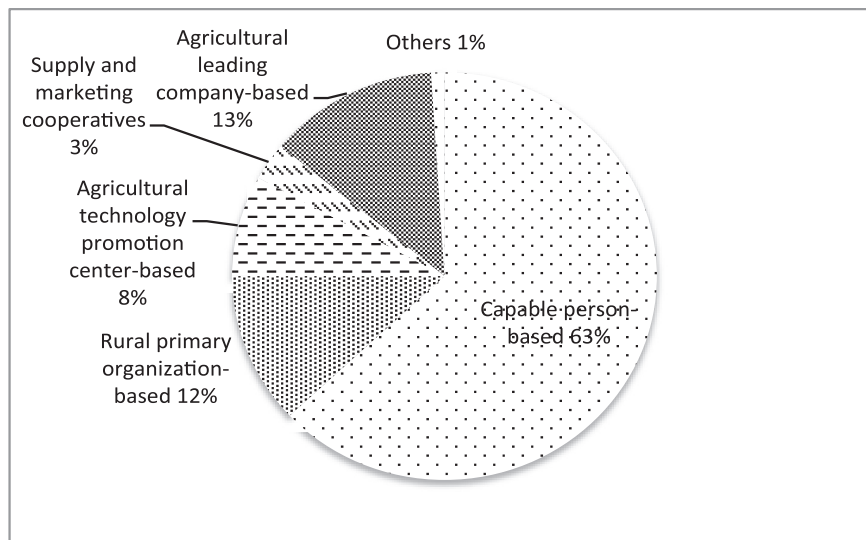
**3.1 Introduction to Zhejiang Province**

Zhejiang is located on the southeast coast of China and is traditionally known as the “Land of Fish and Rice, Home of Silk”. The province has a very high level of economic development and has made itself

one of the richest provinces in China. The total population of Zhejiang Province in 2012 was 54,728,000, of which 34,599,000, or 63.2% of the total population, were farmers. Of this number only 1,002,800 farmers had joined farmer cooperatives, accounting for 2.9% of the total. The number of farmer cooperatives in Zhejiang Province increased from 5,141 in 2007 to 37,428 in 2013 while the number of members increased from 385,000 to 1,149,000 - a growth rate of 628% and 198% respectively.

**3.2 Farmer Cooperatives’ Formation Pattern**

The formation pattern of farmer cooperatives reflects the identities of their founders, as these farmer cooperatives usually revolve around the industries or professions most familiar to the founders. There are mainly five types of foundation patterns in Zhejiang Province as figures 3 shows.



**Figure 2.** Formation Pattern of Farmer Cooperatives of Zhejiang Province  
Source: Zhejiang Province Department of Agriculture, 2013

**3.3 Farmer Cooperatives’ Categories**

Table 2 shows that in 2013 crop farming cooperatives accounted for 58.4% of the total, of which 20.5% were fruit cooperatives and 14.9% were vegetable cooperatives. The livestock husbandry cooperatives and fishery cooperatives accounted for

21.8% of the total. Product from crop farming and breeding industry has a very high commodity rate and also shows that farmers are more familiar with the traditional industry, such as farming and livestock husbandry that do not require high investment.

**Table 2.** Farmer Cooperatives’ Categories in Zhejiang Province

Category	Crop farming	Livestock husbandry	Fishery	Forestry
Others				
Proportion	58.4%	13.9%	7.9%	7.1%

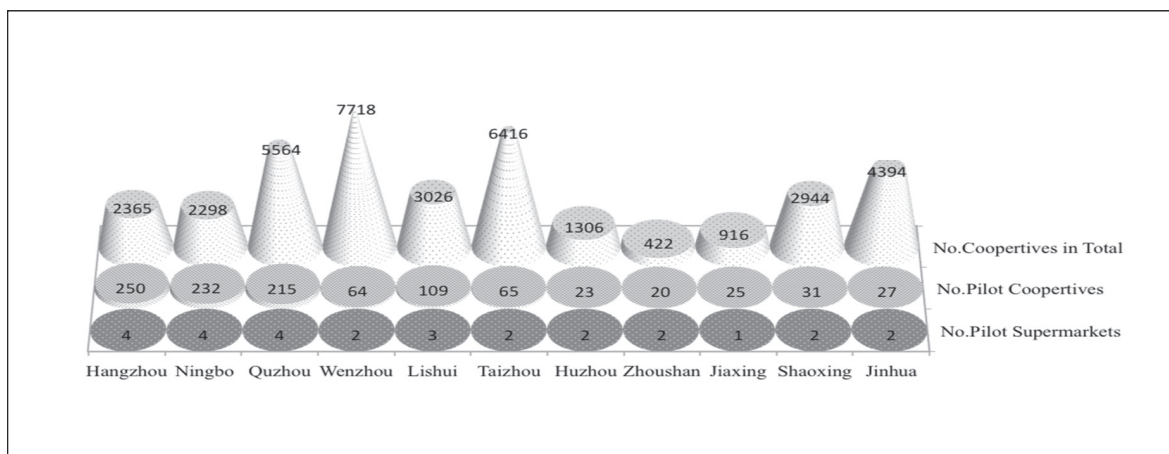
Source: Zhejiang Province Department of Agriculture, 2013

**Farmer Cooperatives and Nongchaoduijie**  
**4.1 Supermarkets and Farmer Cooperatives**  
**in the Nongchaoduijie Program**

The *Nongchaoduijie* project was launched in 2008 by the central government and refers to the signing of contracts with farmer cooperatives, with supermarket chains encouraged to procure fresh agricultural products directly from farmer cooperatives. This will help reduce intermediate links in the distribution channels of agricultural products and improve the quality and safety of agricultural products as well as farmers' incomes.

As for the Zhejiang provincial government, a series

of relevant policies in support of big supermarket chains in building distribution centers and infrastructural facilities to adapt to *Nongchaoduijie* were also implemented. By the end of 2012, there were 27 supermarket chains in 11 major cities in Zhejiang Province that were participating in the *Nongchaoduijie* pilot program. The cities of Hangzhou, Ningbo and Quzhou each have four supermarket chains, which have collaborated with 250, 215, and 232 farmer cooperatives respectively. Jiaxing city had only one supermarket and 25 farmer cooperatives that were participating in the *Nongchaoduijie* pilot program (Figure 3).



**Figure 3.** Nongchaoduijie participation in Zhejiang Province  
 Source: Zhejiang Province Department of Agriculture, 2013

**4.2 Problems for Farmer Cooperatives and Nongchaoduijie Program**

There has been very little research that has conducted any methodical evaluation of *Nongchaoduijie*. Although a few successful cases have been reported in the early stages of this program, there are still many complications. Among the most pressing are the difficulties farmer cooperatives have had in meeting the high requirements of supermarket chains in terms of volume. Also, supermarkets have not been able to make timely payment settlements for agricultural products delivered from cooperatives (Chen, 2011). Warehousing and logistics for small and medium-sized supermarkets without government subsidies have also been lagging behind. The transmission of market and technical information from retailers to producers is vital for *nongchaoduijie*.

*Nongchaoduijie* is not yet able to cover the majority of fresh produce aside from some fruits and veg-

etables. Supermarkets engaged in the fresh produce business often have a very small profit margin and merely employ it as means of attracting customers. Therefore, large supermarket chains are often reluctant to participate in *Nongchaoduijie* without government support. They prefer to establish their own production base or distribution center to ensure a stable supply, and yet this approach also requires supermarket chains' high economic strength as a guarantee.

**Discussions**

Research conducted by Deng (2010) argues that the role of recent government policies in promoting farmer cooperatives explains the great emergence of farmer cooperatives after 2007. Moreover, local officials' performance in promoting farmer cooperatives is usually counted as one of the items in the evaluation of their overall political performance. Although the number of farmer cooperatives has increased

extraordinarily after the newly enacted Farmer's Specialized Cooperative Law and its role in providing a legal environment for the establishment of cooperatives in China, it is still not apparent how to successfully develop and operationalize cooperatives. The development of cooperatives has been strongly influenced by political ideology; it is still the same today as it was in the past.

The *Nonchaoduijie* project is one of the measures intended to foster the vertical coordination of agricultural production under the current farming system. According to our research on the problems of *Nonchaoduijie* in Zhejiang Province, we found that the size of the farmer cooperatives has a huge impact on *Nongchaoduijie*, as large supermarket chains tend to work with farmer cooperatives with large-scale production and guaranteed stable supply. The Government sets very high entry barriers for supermarkets while supermarkets are also creating certain requirements such as size for their potential suppliers in the farmer cooperatives. Under these conditions, small and medium-sized supermarkets and cooperatives that cannot spread overhead costs over large volumes of product are excluded (Gale, 2012).

In this paper, we have looked at the evolution of farmer cooperatives, and then illustrated the current status of the development of farmer cooperatives in Zhejiang Province. Though this paper does not provide conclusive research findings, it does provide a foundation for future research based on the understanding of the key driving forces behind the great emergence of farmer cooperative in China.

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