

**Co-operative Organization in Rural Canada  
and the Agricultural Co-operative Movement  
in China:  
A Comparison**



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## PREFACE AND ACKNOWLEDGEMENTS

**C**O-OPERATIVES HAVE BEEN among the most popular agricultural organizations offering individual opportunity to rural Canadians. In China, agricultural organizations have also played an important role in rural development (Fulton and Rosher 1993). Could the Canadian experience with agricultural co-operatives be useful for the continuing economic reform of rural China?

China and Canada differ historically, culturally, institutionally, ecologically, and economically, so it should not be surprising that co-operatives in these two countries have different visions, objectives, policies, and practices. Agricultural organizations in Canada, for example, serve the interests of farmers in production, procurement, and marketing. In China, they are part of the structure of economic governance of the national economy.

Despite these differences, however, the basic needs of rural people, though perhaps more elaborate and diverse in Canada, are similar in terms of stability, self-respect, and the desire for greater wealth. Sharing insights that illuminate the problems and opportunities connected with each rural society could benefit both countries.

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## INTRODUCTION

**T**HIS PAPER is about using co-operatives to continue China's rural economic reforms of the 1980s and 1990s into the first fifteen years of the twenty-first century. We argue that lessons drawn from the Chinese reforms and the Canadian co-operative experience can help to carry on the economic reform and modernization of rural China.

The organizational structure of farms and other rural businesses is crucial to capturing the potential for productivity by rural people in a rural employment and incomes strategy. In seeking to achieve sustainable agricultural and rural development, co-operatives may play a major role in maintaining the interest of rural Chinese workers and investors in their national economy.

The farmer co-operative movement is an international phenomenon. The modern co-operative was first developed in Europe during the late nineteenth century, and spread among industrializing countries as a self-help method to attack conditions of poverty and to offset powerful economic interests. Co-operatives rapidly became an integral part of the Canadian and many other national economies after World War Two. The International Labour Office in 1991 estimated that co-operatives could be found in 140 of the world's 171 countries (table 1).

Compare this strong integrated growth of co-operative activity with the co-operative experience in China, where the movement started fifty years later, stopped in the mid-1950s, and to date remains peripheral to the economy. The short stage of co-operative organization, during which farmers gained control over land, gave way in 1959 to the collectivization of agriculture and land ownership.

The Chinese nomenclature for collective farms was "voluntary co-operatives." Gradually and with few exceptions, farmers became employees of the state, with little control over their new collectives. Management was shifted to political cadres with accountability

**Table 1:** Membership in the International Co-operative Alliance by Continent (1991)  
(Develtere 1992)

	No. of orga- nizations	Percent	No. of individual members	Percent
<b>Developing Countries</b>				
Africa	26	13.76	11,553,659	1.72
Asia/Pacific	47	24.87	352,765,602	52.63
Latin America	18	9.52	13,378,063	2.00
<b>Developed Countries</b>				
Asia/Pacific (*)	10	5.29	46,396,870	6.92
North America	3	1.59	72,000,000	10.74
Europe	73	38.62	74,092,366	11.05
Former East Block	12	6.35	100,043,491	14.93
<b>Total</b>	<b>191</b>	<b>100.00</b>	<b>670,230,051</b>	<b>100.00</b>

Source: International Co-operative Association *Annual Report*, 1990–91.  
\*Australia, Japan.

to a hierarchy of leaders responsible to a central political committee. Growth in the number of rural economic co-operatives resumed in the 1980s, first with production and artisan co-operatives, and more recently with marketing co-operatives.

Today, rural Chinese households face a formidable task in a competitive and concentrated business economy. Farming activities have been hampered by a natural environment damaged by quarrying, mining, and industrial pollution. In 1978, individual responsibility reforms made households accountable for economic development in rural China.

Millions of small family farms constitute the dominant form of agricultural household in China. Income stability and prosperity for the majority of these people seems to be threatened by aspects of the market reforms. Market power is concentrated for inputs, machinery, and commodities, while remaining widely dispersed for household enterprises. The interests of the small family farm and other players in the unregulated rural and industrial markets are contradictory in many respects. Conflict between small producers and their suppliers, and in output markets, is becoming more frequent and more sharply defined.

Modernization, especially in the form of labour-saving technology, is combining with rural population growth to create unemployment. And population growth is also higher than the rate of job creation and production in agriculture. Rural industries and services are expanding rapidly, but at the expense of jobs and job safety, and with unchecked pollution, as productivity increases.

The unemployment problem is not new. But the unemployed, who used to be supported by paid underemployment shared widely across the collective system, are now without either the respect or support of any paid job. And seniority in job security makes unemployment especially serious for rural youth.

The co-operative model is an obvious choice for addressing these issues, being a proven option as a cohesive organizational structure for agricultural development in many industrialized countries. And economic reforms are rapidly transforming China into an industrialized country.

The main feature of these reforms is the fundamental reworking of the structure of farm and business property rights, which determines the distribution of economic benefits to households, and of financial gains to rural from urban areas. Successes and failures in this experience since 1950 tell us that without integrated governmental and rural institutional changes, the reform of agricultural policies and related economic development plans cannot be effectively implemented to benefit rural people.

This paper compares co-operatives in Canada and China by examining co-operative concepts, principles, and practices in both countries. It also briefly reviews the historical development of co-operatives in Canada and the socialist transformation of agriculture in China. Finally, it seeks to identify co-operatives suitable for promoting productivity, employment, production, and market development in China. The essence of the questions pursued in this paper can be expressed as follows:

- What do the principles of co-operation mean in the rural Chinese context?
- How do co-operatives work in Canada and China?
- What could farmers' co-operatives in the two countries learn from each other for the future?
- What could co-operation in rural China look like beyond the turn of the century?

## PART ONE

# BACKGROUND

**A**S THE GLOBAL ECONOMY RESTRUCTURES, the role of agriculture remains the same in developing countries. The current trend throughout the world is to decentralize, deregulate, and denationalize economies, including those of socialist nations (Hanlin 1989). "In developing countries, the possibility of increased agricultural production is to a very considerable extent the key to feeding a growing population, to achieving social and economic development, to the acquisition of foreign currency and to the creation of production for export" (Develtere 1992).

Significant implications arise for rural communities. Economic liberalization generates pressure for political reforms, leading to the emergence of co-operative institutions throughout the world (table 2). The restructuring of rural economic institutions results in the relaxation of organizational restrictions, to the advantage of farm incomes. Reduced government control over farmers can nurture and reward their initiative.

**Table 2:** Co-operative Membership in Developing Countries by Regions (1,000s), (Develtere 1992)

<b>Region</b>	<b>Co-ops</b>
Africa	44,451
Asia/Pacific	275,073
Latin America/ Caribbean	15,427
North Africa/ Near East	24,824
<b>Total</b>	<b>359,775</b>

Source: COPAC, 1987.

China is both a developing and a socialist country. It is also still predominantly an agricultural country. Both communal, or collective, agriculture and state farms are organized around household units. On small and medium-sized farms, patterns of production are traditional, with market-oriented farming activities and subsistence family consumption intermixed. Co-operation among farm families is a tradition.

Co-operatives were encouraged and stimulated by the Government of China from the beginning of the 1950s, although

**Table 3:** Percentage of Family Farm Households Relative to All Farms in China, 1952–95

Year	% Family Farms
1952	67
1957	0
1962	0
1965	0
1970	0
1971	0
1972	0
1973	0
1974	0
1975	0
1976	0
1977	0
1978	0
1979	1
1980	14
1981	45
1982	80
1983	98
1984	99
1985	99
1986	99
1987	99
1988–95	99

Source: *Chinese Agricultural Statistics Yearbook*, 1995.

the roles assigned to the organizations were narrow and their opportunities limited. Agricultural production co-operatives in China were organized and used by the Chinese government as a way of pushing forward specific policy objectives. The main one was to build a socialist and communist state, which required control over individualism and production. The government worked initially with co-operatives as an element in the planning of national economic development, and for a short time, they became part of the state ideology, before giving way to People's Communes.

Today, economic reforms and the open-door policy are at the centre of China's development strategy. The country began in 1978 to reinstate individual household incentives to promote agricultural production. Authority was decentralized, thus increasing the responsibility of family units. The large-scale introduction of the family household responsibility system (table 3) not only contributed to immediate rapid growth in agricultural production, but also resulted in the rethinking of the organization of agricultural economies in rural China.

As can be seen in the table, the effect of the responsibility reforms is dramatic. Only 1 percent of all farms remain as collective and state farm institutions. Ninety-nine percent are small, autonomous, household farms, which poses a difficult challenge for modernization and the adoption of new technology. There is a broad consensus in China that serious obstacles confront these millions upon millions of family farms.

Canada is an industrialized trading country, dependent on international trade to maintain its economic well-being and standard of living. Canadian agriculture, which is based primarily upon independently-owned, family-operated farms, has always developed under the primary governance of market signals. Individual responsibility has been a prominent feature in motivating progress from the beginning.

Co-operation is also a tradition in Canadian rural communities. When adversity and misuse of market power brought poverty to farms at the beginning of the 1900s, this tradi-

tion led to the formation of co-operative institutions. Organized co-operation not only allowed the relatively small and powerless producers to improve and stabilize their incomes, but also contributed to rural modernization. The rural electrification co-operatives are a good example. Co-operatives also made a significant contribution to flexibility in the process of marketing agricultural commodities.

Co-operative organizations have flourished in Canada (table 4), and for more than twenty years, they have been helping co-operatives in developing countries to improve their management and operations. There is now a historic opportunity for Canada to make a major contribution to the agricultural economic reform taking place in rural China. China is an important economic partner for Canada. Co-operatives could play a useful role in supporting the development of this long-term relationship between the two countries.

**Table 4:** Examples of Early Co-operatives in Western Canada

<b>Year</b>	<b>Co-operatives</b>
1905–06	Grain Grower's Grain Company
1911	Saskatchewan Co-op Elevator Company
1913	Alberta Co-op Elevator Company
1920	Saskatchewan Co-op Export Company
1923	Manitoba Pool; Alberta Wheat Pool
1924	Saskatchewan Co-op Wheat Producers (Sask. Wheat Pool)
1927	Manitoba Co-op Wholesale
1928	Alberta Co-op Wholesale Association Ltd.
1929	Saskatchewan Co-op Wholesale Society Ltd.
1931	Oil Co-ops
1934	Consumers Co-operative Refineries Ltd.
1939	The First Co-op Tractor
1941	Saskatchewan Co-op Credit Society
1946	Co-op Vegetable Oil Plant

Source: *Building a Dream*, 1989.



## PART TWO

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# THE IDEA OF CO-OPERATION IN CANADA AND CHINA

**T**HE TERM “CO-OPERATIVE” is used the world over, with many meanings for the ideas, principles, and methods of organization associated with it. A review of the fundamental principles of co-operation clarifies the role co-operatives could play in restructuring farm and market institutions in China.

## STATEMENT OF CO-OPERATIVE PRINCIPLES

The statement on co-operative identity adopted at the ICA’s 1995 General Assembly is used in this paper as the standard for comparison. Established following a lengthy process of consultation with thousands of co-operatives around the world, it covers the definition, values, practices, and principles of co-operation.

The ICA definition of a co-operative is “an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs, with democratically controlled enterprise.”

Seven principles guide co-operatives as they put their values into practice:

1. Voluntary and open membership;
2. Democratic member control;
3. Member economic participation;
4. Autonomy and independence;
5. Education, training, and information;
6. Co-operation among co-operatives;
7. Concern for community.

These seven principles can be summarized in the following way: (1) The primary aim of co-operatives is to provide services for their members; that is, they are self-help organizations; (2) Co-operatives are run on principles of democratic management; and (3) Co-operatives are open and autonomous organizations based on voluntary participation and freedom of withdrawal (Vanek 1971).

## HISTORICAL BACKGROUND AND THE BEGINNINGS OF CO-OPERATION

The contemporary history of Canada, as of all the Americas, begins in the sixteenth century with European discoveries—incidents in the expansion of trade, and a result of the related ambitions of commerce, Christian missions, imperial designs, and pure adventure (Glazebrook 1950). Up to that point, nomadic hunting and gathering had dominated a tribal economy and continued to do so well into the 1600s. Fur trading in the West, and agricultural colonization and lumbering in the East displaced the tribal economy over the next two hundred years, and the country was unified in 1867, with borders secured by the end of the century.

Export markets were a natural consequence of colonial status and European immigration, and markets and market conduct became the impetus for the agricultural co-operative movement. Farmers lacked information, were expanding production rapidly, and faced uncompetitive markets for both supplies and outputs.

By the late nineteenth and early twentieth century, conditions in rural Canada were very basic: poor farmers, large isolated spaces, no infrastructure, and new immigration. Canadian farmers faced rising costs, difficulties in marketing, and shortages of labour (MacPherson 1979). Many farm input and product markets were inadequate or unfair, with the result that farmers were unable to get necessary supplies or sell their products. Agricultural producers consequently began to feel strongly about the need for market power and tried to improve their position by collective action, largely by establishing both buying and selling co-operatives and lobbying for legislation to improve competitive practices.

The farmers' thirst for reform was met by the co-operative movement. During the 1920s, wheat pools were formed in the Prairie Provinces to handle and sell grain. Other co-operatives, for such groups as fruit growers in British Columbia, and various dairy co-operatives, were also formed to improve bargaining power (Menzie 1980).

The result was the emergence of a series of co-operative movements based on local, regional, and international needs. Farmers joined co-operatives through self-help, for self-care and self-reliance, primarily to provide economic security and improve their competitive posi-

tions in the market and in bargaining with the state. At the same time, they managed to preserve important elements of autonomy in family farms (Bergmann and Takekazu 1985).

This early co-operative activity has resulted in some major co-operative players in Canada's agricultural economy in the 1990s. Canada's largest co-operative in 1996, the Saskatchewan Wheat Pool, became operational on June 26, 1924. It takes a strong organization to survive and prosper for seventy-two years. Many other co-operatives play significant roles in the Canadian economy in the processing and marketing of grain, dairy goods, poultry, honey, maple products, fruit and vegetables, and livestock. Supply and marketing co-operatives have continued to increase their share of agricultural markets. Co-operatives have more than a 50 percent market share in grains and oilseeds and the dairy business, over 30 percent in poultry, and more than 20 percent in livestock, honey, and maple (table 5).

**Table 5: Estimate of the Percent of Market Share Held by Co-operatives for Various Commodities, Canada, 1977-93**

Commodities	Year							
	1977	1982	1983	1987	1988	1991	1992	1993
Grains and Oilseeds (West)	81	76	76	72	73	74	71	75
Grains and Oilseeds (Ontario)	19	21	21	15	17	12	19	14
Fruit	10	17	17	19	16	15	15	18
Vegetables	10	9	9	10	12	12	11	11
Dairy	51	51	51	58	57	59	60	63
Poultry	32	35	35	35	32	39	48	47
Eggs	9	3	3	4	4	5	4	4
Livestock: Cattle	18	17	17	18	20	23	21	21
Livestock: Hogs	11	13	13	14	15	18	25	22
Fish	10	12	12	10	9	9	8	7
Honey & Maple	23	25	25	23	26	23	23	29

Source: *Co-operatives in Canada*, 1994, p25; 1995, p22.

In China, the history of co-operative development is totally different. China became a centralized feudal monarchy when the first emperor of the Qin dynasty unified most of today's modern China in 221 BC. Local regional markets had been established for more than six thousand years before that. Colonization has been confined to recent population move-

ments to remote regions such as Heilongjiang and Xinjiang. Immigration has not played a role in economic development, but surplus labour, especially rural, has been a problem.

During the two thousand years from the Qin dynasty to the Communist revolution, the family farm was the traditional form of agricultural institution in rural China, but not as we know it in Canada. Most family farms, for example, did not have private and exclusive property rights, but were dependent on feudal arrangements with relatively few landowners, who owned most of the arable land. This “isolated society system” coexisted with centralized state power.

Chinese agriculture developed to this day under conditions of limited land, surplus labour, and continuous population pressure. Historically, poverty and malnutrition were the only destinies for most rural people, as illustrated by these old sayings: “The people look upon food as heaven”; and “Grain is the treasure of treasures.” Out of this hardship grew a deep tradition of co-operation and mutual aid.

Geopolitical events in this century resulted in an opportunity for the Chinese revolution to remove the feudal system and redistribute land. Once nutrition improved and basic needs were met, however, Chinese farmers faced the new problem of expanding output capacity. In the three decades from 1949 to 1979, natural calamities, poor irrigation and transportation infrastructure, lack of financing for agriculture, and shortages of land and farm implements became the focus of attention.

From the farmers’ side, their need for land without the possibility of ownership led them to work together to level and terrace land and build irrigation works. The Party called upon Chinese farmers “to organize and go the way of common prosperity.” In response, farmers initially organized themselves into small groups at the village level for production. At the same time, the government geared up its socialist revolution in rural China with major construction and co-operative campaigns communicated by slogans. “Take grain as the key and ensure an all-round development” emphasized growth in grain production and the need to improve yields. “Go all out, aim high, and achieve greater, faster, better, and more economical results in building socialism” promoted the ideas of hard work and acceptance of institutional reform. In China, traditional rural co-operation was reinforced by the fact that all decisions relating to production and consumption were focussed on the collectivization of property rights and labour initiative.

## WHAT DOES “CO-OPERATIVE” MEAN IN CANADA AND CHINA?

This brief historical comparison shows that the beginnings of co-operatives in the two countries are quite different. In China, the starting point in the 1940s was the extreme poverty of landless family farms locked in feudal arrangements with landowners. As social pressure mounted, co-operatives were seen as a strategic way to redistribute property rights and relieve poverty. Co-operatives were not so much a social movement as a government response to a political problem.

In western Canada, the starting point fifty years earlier was a need for market outlets for production, and a conviction that individual initiative could be motivated best by the prospect of earnings from private and exclusive property rights. When these earnings were diluted by exploitive business practices, mainly by the private grain trade, co-operatives emerged as a social movement to gain control over markets and transaction services. Co-operatives rarely became directly involved in agricultural production, with the exception of a few experiments by returning war veterans in Saskatchewan during the early fifties.

Having emerged from such different situations, it is not surprising that Canadian and Chinese co-operatives also have different ideas about the scope of their roles.

Table 6, next page, compares the two situations, and it should be noted that this paper confines its treatment to western Canadian co-operatives. Ontario, Québec, and Atlantic Canada also have a vibrant history of co-operatives in rural development, but the diversity of forms and experience in all of Canada is too great to enable generalization beyond basic principles and organization.

Western Canadian co-operatives see themselves as conforming closely with the ICA principles. In fact, Professor Ian MacPherson, a former president of the Canadian Co-operative Association, headed the ICA committee that wrote the definition and the principles. In Canada, co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity (MacPherson 1996). In rural western Canada, a co-operative is a user-owned and user-controlled business that distributes benefits on the basis of use. Co-operatives are controlled, owned, and patronized on a voluntary basis. They do not limit individual freedom or private property rights, politically or economically. Participation by members, employees, owners, or patrons is strictly voluntary (MacPherson 1979).

The Alberta Wheat Pool, organized in 1923, is a good example. It is a farmer-owned co-

operative that handles and markets grain and oilseeds both domestically and internationally. Fully integrated grain handling, marketing, and agri-business services are offered to farmers through a network of grain elevators and agro-centres located throughout the agricultural regions of Alberta and northeastern British Columbia. Alberta Pool today has 56,900 members and employs fourteen hundred people. It is globally competitive in developing grain handling technology, and has introduced new improved crop varieties both for the benefit of its farmer members and in response to customer demands for seed and crop exports. This modern business was started by farmers banding together to overcome problems that could not be solved by one person (MacPherson 1979).

**Table 6:** Comparison of the Application of the Seven Principles of Co-operation in Canada and China

<b>Co-operative Decision Factors</b>	<b>Canada</b>	<b>China</b>
1. Control	Members	The State
2. Ownership	Jointly owned by members	Government owned
3. Distribution of profit	Limited by law; on the basis of use (patronage)	Work points
4. Organization	A group of members; one member, one vote; from bottom to top	By government
5. Purpose	Usually a specific purpose with social goals	Multipurpose combined with political objectives
6. Values	Self-help, self-responsibility, democracy, equality, equity, and solidarity	Collectivization; resource centralization; compulsory accumulation in the service of industrialization
7. Leadership	Directly elected by and from members	Indirectly elected by members, or assigned by higher level leaders who are not members

The idea of co-operation has a specific meaning in modern Canada. In China, however, the idea is associated with traditional means of doing things together in a household, a family, or in a territorial grouping like a village. It has been a cultural value in rural China for thousands of years.

These values of mutual support were not practised within a formal organizational structure or governed by explicit principles. They were directed more towards the immediate satisfaction of needs, or problem solving, than towards production for the market. Co-operation was frequently of limited duration, continuing just until the job was done, and it was restricted to members of the group (Van Dooren 1982).

Immediately following civil peace in China in 1949, primary farm household production was organized into co-operatives as part of land reform. These production co-operatives were strongly dependent on government supervision. Land sales were prohibited, as was the hiring of labour and the lending of money with interest. The principles of co-operation were defined as "a law of conduct" or "rule of behaviour" to govern the practice or method of operation (Van Dooren 1982). Agricultural co-operatives in China were not based on, and therefore never established, strong traditions of voluntary participation, autonomy, or democracy (table 6).

## CO-OPERATIVES AND GOVERNMENTS

The relationship between co-operatives and governments in most countries evolves with their economic and social structures. It generally starts with government actively promoting and favouring co-operatives in response to a combined social and economic problem. Later, governments reduce their support, with varying degrees of disengagement from political commitment and privileged policy treatment.

Canada has three levels of government: a central federal government, ten provincial governments and three territorial governments, and hundreds of regional, municipal, county, and aboriginal governments. In the evolution of the co-operative movement, relationships with the federal and provincial governments have changed from an active promotional role to a passive regulatory role. Municipal government involvement is limited mainly to taxing property owned by co-operatives. Many aboriginal governments actively support the formation of new co-operatives and help others to continue operations.

The Government of China has always played a dominant organizational role in agricultural co-operation. Beginning during the years of civil war, co-operatives were organized by governments on both sides of the conflict to meet socioeconomic and political objectives. The government continued to completely control co-operatives up to 1979. Since then, its political involvement has remained strong, but the focus has shifted slightly from political activity to economics and management.

Co-operatives in Canada today are viewed by government as independent businesses, similar to any other company, apart from their function as social movements. Co-operatives

used to have perceived advantages granted to them in the early 1900s, but the contemporary business sector has successfully lobbied governments to remove special privileges in the fields of taxation and finance. Some would assert that co-operatives are currently at a tax disadvantage relative to corporate competition.

The history of co-operatives as social movements influences provincial government attitudes towards them. The Alberta government, for example, is populist conservative, with little empathy for social movements. Saskatchewan, on the other hand, is populist socialist, with a tradition of supporting social movements. The Government of Alberta, consequently, has actively discouraged the development of the Alberta Wheat Pool, other co-operatives, and general farm organizations, whereas Saskatchewan encourages and guides co-operatives towards development and modernization. As a result, the Alberta Wheat Pool members and directors have responded to change like a marginalized group, using more traditional financing methods, and taking longer to restructure than their counterpart in Saskatchewan.

## THE CO-OPERATIVE EVOLUTIONARY PROCESS

### *Farmers' Co-operatives in Canada*

The development and growth of Canadian farmers' co-operative organizations has been mainly consistent, with major gains in business volume during the boom decades of the 1950s, early 1960s, and 1980s (table 7). The number of co-operatives grew steadily from 795 in 1932 to 5,150 in 1993. Membership has also continued to grow without interruption to exceed 4 million in 1993.

**Table 7:** Total Farmer Marketing, Purchasing, and Related Service Co-operatives, 1932–93

Year	Number of Co-ops	Membership (millions)	Volume of Business (millions)	Assets (millions)
1932	795	.380	145	70
1942	1,789	.566	260	129
1952	2,616	1,373	1,143	454
1962	2,836	1,666	1,421	692
1972	2,208	1,774	2,792	1,334
1982	3,053	2,899.5	13,928.3	5,453.5
1992	5,096	3,821	16,369.9	10,069.0
1993	5,150	4,093	20,658.8	12,310.1
1994	5,242	4,259	22,397.8	12,886.2
1995	5,412	4,504	24,845.7	14,055.2

Source: *Co-operatives in Canada* (1992 data) Fall 1994, (1993 data) October 1995, (1994 data) June 1996, and (1995 data) July 1997.



This steady growth demonstrates that Canadian co-operatives have great vitality and resilience. The main characteristics required for co-operatives to survive the evolutionary process in Canada are: voluntary participation independent from the state; clear focus on a purpose; activity beyond local boundaries; organization to suit their focus; and adaptability.

We stress the principles of voluntary participation, autonomy, and democratic management. Co-operatives in Canada generally stick to these principles, to varying degrees, to create effective institutions relatively independent of the state. The state does play an important role, however, in ensuring that co-operatives respond to their members, are not coercive, and retain their independence. Voluntary participation and democracy, with the freedom to enter and exit the membership, are viewed as the foundation for the continued vitality of Canadian co-operative organizations.

Successful co-operatives have a clear and concrete purpose for co-operation, practising either as specialized or comprehensive organizations. Specialized types include credit co-operatives; supply and marketing co-operatives for specific branches of production, such as dairy, grain, vegetables, and flowers; housing co-operatives; and consumer co-operatives. Comprehensive co-operatives, diversified into a conglomerate of activities within and beyond agriculture, focus on economies of size, risk reduction, and profit to finance patronage dividends and expansion of their capacity to do business.

The evolutionary process for agricultural co-operatives in Canada leads the organizations to cross territorial or administrative boundaries in search of markets and procurement advantages leading to expanded market share at home. Services grow to match the growing sophistication of their members' needs.

Canadian co-operatives are evolving in two directions—first, towards a broader financial structure involving new equity holders outside the membership; and second, towards a production organization capable of delivering on large volume, standard quality contracts.

The Saskatchewan Wheat Pool (SWP) is an example of a co-operative involving new nonmember equity holders. It has become a publicly-traded company on the Toronto Stock Exchange. It is now an integrated and diversified conglomerate engaged in agri-business in several countries, and has a close economic alliance with Cargill, one of the world's largest conglomerate agricultural trading companies. The SWP is Canada's largest publicly-traded agri-business company, and it continues to be organized and governed by co-operative principles. The new company has introduced new policy and member services functions, which are complementary to global commercial agri-business activities. The company believes that rebuilding, upgrading, and modernizing its grain-handling facilities, together with further investments in value-added grain processing, are key strategies for the company's continued success and growth in the coming years.

New Generation Co-operative (NGC) is the term that has been applied to co-operatives specializing in supplying or carrying out value-added processing. NGCs are selected-membership co-operatives. A common reason for their formation is the desire to gain access to a greater share of the consumers' food dollar. NGCs represent a younger generation of farmers preparing to engage in deregulated markets, specialized market niches, and increased vertical co-ordination and integration in business. A key feature that distinguishes them from other more traditional co-operatives is the linking of producer capital contributions and product delivery rights (Harris et al 1995). Discovering new relationships between co-operatives and other companies is becoming a trend across Canada. NGCs are at the forefront of these new relationships, improving on what traditional co-operatives have already achieved.

The change from reliance on an export agricultural economy to participation in the global economy requires co-operatives to change their structure and face new challenges to their principles. The global economy trades extensively in intermediate goods and services. Rapid social change, accompanying involvement in the global economy, is replacing the traditional co-operative ethic with competitive values. Later in this paper, we discuss New Generation Co-operatives and the implications of these changes for future economic reforms in rural China.

### *Farmers' Co-operatives in China*

The years of agricultural economic reform in China, listed briefly below, are summarized in detail from the co-operative perspective, in table 8. Five periods stand out; that of People's Communes is the longest, lasting twenty years through five upheavals.

1950–52: Mutual aid and co-operation

1953–54: Elementary agricultural producers' co-operatives

1955–57: Advanced agricultural producers' co-operatives

1958–79: Rural People's Communes

1958–59: Great-Leap-Forward

1959–61: Three-Bad-Years

1962–65: Adjustment Period

1966–76: Cultural Revolution

1977–79: Two-Line Education

1979–present: Household Responsibility Reforms; new economic co-operatives

From the early 1940s, the small number of co-operatives founded in rural China was based on principles roughly comparable to those in Canada. They were formed in both the Communist resistance base areas, as well as in some regions under Guomindang control. Most were service organizations, including consumer, supply and marketing, and credit

co-operatives. Temporary seasonal production co-operatives were organized in some places, mainly in the form of the traditional mutual aid groups involving small farmers. The Communist Party, particularly after 1943, promoted diverse forms of mutual aid and small-scale co-operation in their base areas (Selden 1993).

From their inception, a tension developed between the autonomous and democratic tendencies of these co-operatives on the one hand, and the State's inclination to control the rural economy and society on the other. Food scarcity, civil war, and political upheaval in this predominantly agrarian country made any institutional change a sensitive issue.

In the late 1940s and early 1950s, land reform based on the principle of "land to the tiller" would have favoured the development of co-operatives if private property rights had been assured for the tiller. But the central role of land and labour in Marxist reforms to eliminate tenancy and hired labour led to communal rights instead. These early reforms resulted in roughly equal per capita landholding within each village, producing one of the world's most equitable land distribution patterns, and one that continues to the present (Selden 1993).

Co-operatives played a strategic and central role in the process of land reform during the eight years up to 1958 (table 8). First, the seasonal Mutual Aid Teams expanded rapidly from the resistance base areas to all rural areas in China. These were the prelude to full-fledged co-operatives. Private land ownership with redistribution continued through 1953 and 1954, as elementary agricultural producer co-operatives were institutionalized in villages. During the next three years, property rights were collectivized and the producer co-ops merged as one co-operative per village. By 1958, the collective property rights were converted to public property, and the co-operatives transformed into People's Communes. This system of organizing rural people and resources lasted through to 1978.

Certain features of the People's Communes were similar to co-operative principles, but in practice they had entirely the opposite effect. Collective centralized management, for example, left members with little scope for initiative; membership was not voluntary; and a class system emerged, separating party officials from farmers and peasants, thereby reducing democratic participation.

Communes were not autonomous. The integration of government administration and economic management of the People's Communes strengthened state control. The original mutual-aid concept was transformed into the production brigade, without most of the rights to task management and farming initiatives originally shared in the co-operative structure.

State control over production decisions cut off the connection between production and market signals. Most scope for adaptation and flexibility was removed, and the focus remained on local issues right through to the introduction of the Household Responsibility Reforms in 1978-79.

**Table 8:** The Process of Rural Economic Reform in China, 1949–95

<b>Year</b>	<b>Co-operative Organization</b>	<b>Member's Rights</b>	<b>Goal</b>	<b>Distribution of Surplus</b>	<b>Government Economic Behaviour</b>
1950	Mutual Aid Teams; Temporary and All-Year-Round	Private ownership of all assets	Promotion of agricultural production	According to land, livestock, and farm tools	Go the way of the collectivization of agriculture; the Mutual Aid Teams were the prelude to co-operative development
1953	Elementary Agricultural Producers' Co-operatives—the small village co-operatives	Privately owned assets; especially land	Development of a strong socialist-plan economy; collectivization	According to the amount of work each member did and amount of land contributed	The transition from private ownership to collective ownership
1955	Advanced Agricultural Producers' Co-operative—one village, one co-op	Collective and private property rights	Transition from collective ownership of land to public ownership of land	Based on the principle of "from each according to his ability" to "each according to his work"	The transition from market to the State's plan
1958	Rural People's Communes spread rapidly—large-scale collective	Farmers partly lose control of their own destiny	Resource centralization; compulsory accumulation in the service of industrialization	According to work points; farmers earned little from the sale of their harvests; the State claimed too much for inputs and paid too little for its obligatory procurements from farmers; household economic objectives imposed by planners	Focus on the collective management system; control over trade, finance, and personnel; unified leadership; unified planning; unified distribution
1979	People's Communes continue	Self-organized and self-help	Farmers' incomes increase	Restoration of agri-economics; contract work of farmers	Development of a commodity-based economy
1982	New system of Household Responsibility enterprises (99%); new economic co-operatives; Household Responsibility system extended to the State Farms	Rights to labour power and to market products reintroduced	Rural economic reform; to restore rights to farmers to develop national economy	Surplus is shared between individuals and the State—first farmers then the State	Development of a socialist economic system
1995					

In 1978, individual responsibility reforms laid the base for a rebirth of co-operatives by reintroducing a form of private and exclusive rights to farmland—long-term land leases. Although rights have not been extended to the buying and selling of land, many different arrangements have evolved to transfer rights between neighbours and generations.

A variety of new economic co-operatives have emerged in China since the Household Responsibility Reforms were introduced in 1978. Table 9 provides data for several specialized types of co-operatives during the years 1985–87. The numbers are significant compared to just ten years earlier, but the slow to no growth during this period suggests either a change in policy to one that no longer favoured co-operatives, or market limitations such as the monopoly entitlements granted to State trading companies. Some data from the same source suggests that these co-operatives are smaller and more specialized than those in Canada.

Since the early 1980s, when farm households regained some economic independence, the State has promoted or permitted various forms of co-operative organizations (table 9). By 1988, an estimated one hundred thousand Specialized Production Technology Associations (SPTAs) had been formed, with 2.5 million members (Chinese Association of Science and Technology, 1988). These economic co-operatives have several new features to match the economic reforms at the household level. The following discussion examines these features from the perspective of the ICA principles of co-operation listed earlier.

Category	Number of Co-ops (thousands)		
	1985	1986	1987
Plant	2.7	11.0	9.7
Forestry	5.9	4.5	4.3
Livestock husbandry	6.7	4.4	4.5
Fishery	50.9	58.8	65.3
Rural industry	233.3	230.4	236.3
Construction	30.0	34.2	34.7
Transportation	79.3	70.1	63.6
Commerce, food, drink, service trades	44.7	47.9	48.6
Other trades	21.2	16.3	17.1
<b>Total</b>	<b>484.7</b>	<b>478.1</b>	<b>484.1</b>

Source: *Chinese Agricultural Statistics Yearbook*, 1991.

First, they are self-organized on a voluntary basis. Farmers may opt in or opt out in accordance with their needs and interests. This feature conforms to the first principle of co-operation outlined by the ICA—that of voluntary participation and mutual benefit.

Second, most leaders are elected by and from the farmer members, though not usually by secret ballot. Other leaders are politically appointed. This new element of partial democracy encourages vitality and initiative. Members delegate control over the co-operative's activities to the leaders. This feature goes some way towards the second principle—democratic control by the members.

The third principle is economic participation by the members in the business of their co-operative. This principle is interpreted as socialization, in that members participate mainly through work. The distribution of profits is according to work contributed, as with the old communes, but also in some cases according to the member's financial investment in shares in the co-operative. It is notable that this distribution among members takes place after "a fair and reasonable distribution of revenue among the members, the collective, and the State." This distribution of revenue, after "market transactions," is an institutional decision involving more than the elected leaders of the co-operative, and hence limits the economic participation of the members.

The fourth principle is autonomy and independence. The new co-operatives feature a limited amount of both. Political leaders are appointed to work with the elected leaders of the co-operatives. The co-operatives need a permit to operate and must report to political leaders in their region.

The fifth principle of co-operation is not a feature of the new economic co-operatives. As is the case in Canada, though less so, the education, training, and information function of co-operatives is weak and not accorded priority.

The sixth principle is co-operation among co-operatives. The SPTAs co-ordinate their activities extensively on procurement of inputs, marketing, and processing, although the literature does not indicate how much of this is reserved for co-ops and how much is devoted to relations with state corporations, industrial collectives, and government departments.

The seventh and last principle is concern for the community. The new Chinese co-operatives are part of the larger policy to build a socialist and communist state.

### *Summary of the Co-operative Evolutionary Process in Canada and China*

The evolution of the co-operative movement in Canada and China has characteristics that are both parallel and distinct. In the early days in both countries, co-operatives were based on family farms that had exclusive rights to land. In Canada, co-operatives arose as part of

a social movement to organize market power and develop economies of size for transaction services. In China, the social movement was directed at land reform, labour pooling, and the reduction of poverty.

Initially, the governments of both countries encouraged and prodded farmers to organize. In China, farmers were organized to exchange labour and to co-ordinate the use of farm tools and draft animals. Essentially, these Mutual Aid Teams were small local co-operatives guided by principles similar to those of today's International Co-operative Alliance, which also influenced the development of the first co-operatives in Canada. There, the government assisted by enacting new co-operatives legislation, market standards, and inspection services.

Co-operatives have continued to develop strongly in Canada to the present day, whereas in China, their development was interrupted by collectivization. In 1958, both co-operatives and family farms, together with their autonomy and land rights, were replaced with State-imposed communal institutions. And from then until 1978, the traditions of voluntary participation and autonomy in rural co-operation gave way to compulsory collective action to solve the pressing problems of the food supply and to meet the challenges of the cold war.

After 1978, co-operatives re-emerged in China, with many of the characteristics of the old Mutual Aid Teams, but without much of the original congruency with the ICA principles. The new economic co-operatives offered gradual improvement of opportunities for voluntary participation, autonomy, and some democracy as compared to the People's Communes and the rural collectives. Farmers now claim a greater share of the income from their hard work and risk taking.

Today's specialized production co-operatives in China and the New Generation Co-operatives in Canada could evolve into strong niche marketing and service organizations. In China, they could strengthen the results of national economic reforms by taking over some of the functions of processing collectives to supply State marketing corporations, or federate to gain market power as part of the market reforms. Canadian NGCs could evolve to complement the development of North American conglomerate co-operatives in global trade.

Co-operatives in both countries, however, have a number of lessons to learn if they are to evolve successfully to play a significant role in the development of agriculture in the twenty-first century.

## PART THREE

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# THE PROBLEMS FACING CANADIAN AND CHINESE RURAL CO-OPERATIVES IN THE TWENTY-FIRST CENTURY

**T**HE STRUCTURE, TYPE, AND PERFORMANCE of rural co-operatives reflect the circumstances of the time and place of their origin and development, and also the social and economic position of their founders (Van Dooren 1982). Canadian and Chinese co-operatives preparing to meet the needs of members over the next fifteen years face several problems requiring special attention.

## PROBLEMS FACING CANADIAN RURAL CO-OPERATIVES

Apparently successful co-operatives in Canada are troubled most by a lack of understanding of co-operative principles (Stringham 1996). Although these principles were undoubtedly in the minds of the men and women who originally organized Canada's rural co-operatives, the pressures of initial activities made it difficult to sustain them in the minds of rapidly growing memberships. And, like many new businesses, some co-operatives were economically unsuccessful from the start (MacPherson 1979).

Six main problems are identified in this study. The first is the shifting ground resulting from the rapid globalization of the rural economy. Second, both members and leaders are having difficulty understanding the function of co-operatives in this new rural economy. Third, conflicts are arising between members' individual and collective interests, especially as society evolves to accord greater merit and legitimacy to individual enterprise than to collective pursuits. The fourth problem is that growing competition between corporate and co-operative companies demands greater and greater strategic and management skill from



co-operatives. Consequent action is often in conflict with co-operative principles. Fifth, a general disequilibrium in the rural Canadian economy is dividing the interests of prosperous and poor co-operative members. Sixth and finally, the gaps are widening among members' equity, needs for liquidity, and public liability. The following discussion examines each point in detail.

Global shifts are forcing many co-operatives to struggle with unfamiliar options. Traditional organizational linkages between members and leaders have been weakened. Co-operative principles are being challenged as the members' vision changes and competitive practices are forced on managers. A new generation of participants is reshaping the fundamental role of co-operatives in the dynamic restructuring of the rural Canadian economy.

The New Generation Co-operatives are a good example. They represent a younger generation of farmers preparing to tackle co-operatively the challenges of concentration in deregulated markets, the emergence of specialized market niches, and increased vertical coordination and integration in business (Harris et al 1995).

The function of the agricultural co-operative in the face of these challenges is not well understood by elected directors, managers, or the membership. The values of founding members are being replaced by a bias against co-operation, and even co-operative educators are not immune from these influences. Perhaps the best example is the debate over grain marketing in western Canada.

Individual farmers are challenging sixty years of pooled grain marketing by the Canadian Wheat Board, a marketing board backed by the co-operative grain assembly system. They claim the right to sell their grain to the highest bidder any time they wish, without pooling the returns with fellow farmers. And they appear to be encouraged by private North American conglomerate grain companies and ideological sympathizers in provincial governments.

Second, and a central problem, is that the principles of co-operation have not been passed down through the affluent postwar years to the members of co-operatives, their leaders, and employees. Fundamental skills of organization and an appreciation of why farmers need co-operatives are becoming lost. Co-operative education is underfinanced for the same reasons that it is needed; the payoff is not understood. Like other aspects of education and rural social services taken on by governments during the past sixty years, co-operative education is being downloaded to institutions now unable to assume responsibility.

The third problem is the conflict between the business interests of the members and the collective interests of the group. From the beginning of market co-operatives, for example, farmers formed co-operatives to get a fair price for commodities and inputs such as fertilizer.

Today, the need to solve financial problems leads co-operatives to sell fertilizer to members at prices reflecting monopoly structures in the global fertilizer market, which weakens the credibility of the co-operative advantage. Members then shop widely, responding to aggressive service and discriminatory discounting by private dealers. The volume of co-operative business and member loyalty are both reduced in the process.

Directors and managers understand that co-operatives must become larger to serve and earn members' business, but this places the corporate interests of the organization in direct conflict with co-operative principles, just as the individual interests of members come in conflict with the collective interests of the co-operative. Co-operatives do need to develop and change, and they do need more capital, just as their members need more direct tangible economic benefits. The problem is complex. If left unaddressed, the conflict between members and leadership will continue.

The fourth problem is that competition between agricultural co-operatives and other companies is increasing sharply. Co-operatives, publicly-held companies, and small businesses all need to return money in the form of dividends to their owners. They also need to reinvest to position themselves for competition.

The difference is that co-operative members both own and determine the business volume of their company. Consequently, the same individuals who are members/shareholders, challenging other companies for market share, must not only be satisfied by dividends, but also be convinced by fair practices, service, and pricing, to do business with their co-operative.

The intensity of competition extends to efforts by publicly-held companies to buy out or merge with successful market or service co-operatives such as the Rural Electrification Associations in Alberta. The lure of a lump-sum payment to co-operative members for their equity is hard to resist. Members, as opposed to their directors, who have a longer-term view, often prefer to sell their co-operatives.

Today's competition, particularly by large conglomerates, leads members and managers alike to compare the performance of co-operatives with that of other companies (West and Williamson 1978). The strongest competition comes from the ability of publicly-held companies to finance expansion and modernization. Canada's agricultural co-operatives have an aging membership, which upon retirement from farming, takes its equity with it. The promised payouts are a charge against financial reserves and the ability to pay patronage dividends, facing co-operatives with a choice of borrowing money or finding more equity to finance the capital projects necessary to compete.

Some co-operatives, such as the United Grain Growers and the Saskatchewan Wheat Pool, chose to expand their equity by selling shares to the general public, including competi-

tors. Others, like the Alberta Wheat Pool, went to financial markets to borrow. The equity route is more controversial because it challenges the best-known principle of co-operatives—member control.

Competition is also reflected in the business structures of co-operatives. Their competition comes largely from conglomerates, companies with diverse holdings in Canada and offshore, which have the ability to use transfer pricing and cross-subsidies to convince even the most loyal co-op members to abandon their co-operative. Global holdings are well beyond the conventional idea of export markets for members of agricultural co-operatives, whose organizations were founded to sell products at good prices, or to provide a local service when rural commerce was exploitive or absent.

Domestic food and commodity markets in Canada do not hold the growth potential needed to sustain several players. If co-operatives are to triumph as the dominant player, or even survive to provide competition to another dominant player, they need to subsidize their members' interests with strategic metropolitan or offshore enterprises. Equity investments in these companies, especially those related to their Canadian specialization, such as fertilizers, open up a vast array of strategic options in the areas of transfer pricing and capture of economic rents to help finance their Canadian vision.

The fifth problem faced by modern co-operatives involves the conflicting signals rooted in the disequilibrium in the rural Canadian economy. While some regions and communities flourish, rural Canada also has dying villages and towns, substandard social services, and a chronic shortage of money for private and public investment. Unemployment rates are particularly high among rural youth, seasonal workers, and in the eastern rural areas. The workforce in coastal fishing, western logging, and central Canadian rural manufacturing has lost jobs in the past decade, and similar losses may be anticipated for western farm families in the coming decade (Apedaile and Reimer 1996).

These regional problems also occur among co-op members and within rural communities. The main core of the rural economy is making money and building wealth, with or without co-operatives. Many co-operatives are focussed generally on the successful majority for obvious reasons of membership and financial viability. However, the older generation, those on smaller farms, and rural people marginalized by global change, are among the strongest, most loyal supporters of co-operatives, which grew originally out of the need to address adversity and poverty. These members keep reminding co-operatives of the seventh ICA principle—that co-operatives should support their communities.

This social tension within the membership hampers decision-making in co-operatives. They cannot afford to be stigmatized as socialist institutions for losers, but rather, need to be recognized as progressive business institutions to sustain their role of disciplining otherwise

uncompetitive markets. The problem is that it is easy to abandon incompatible co-operative principles when the vision changes as well as the practices.

The sixth and final problem facing co-operatives in rural Canada is the gradually widening gap among members' equity, needs for liquidity, and public liability. This subtle technical problem is a feature of activity in markets much larger than a co-operative membership and also in foreign jurisdictions. Members' equity in their own enterprises as well as in the co-operative itself may be placed at risk by new practices and business structures. This risk is not understood by most members, and not easily insured. The need for financial liquidity includes both the requirements of strategies to manage this risk, and the liability to members who may wish to withdraw their patronage-based equity.

## PROBLEMS FACING CHINESE RURAL CO-OPERATIVES

Small family farms are the basic units of production in China today, and they face problems with the economic reforms that could be reduced by membership in a modern co-operative. Farmers want to co-operate, but they still have a number of difficulties to overcome.

Six problems are selected here. They stem either from the close association of co-operation with political movements since 1949, or the issues that could be addressed by establishing co-operatives. The first problem—a lack of understanding about the idea of co-operatives—is based on the frightful memory of the way co-operatives were misused in the early 1950s to serve the hidden agenda of communal organization. The second is the heavy role of government in co-operatives since 1980. The third is the association of new collective institutions with sweeping political movements. Fourth, market structures are uncompetitive, relatively unregulated, yet subject to government intervention. Fifth, the lucrative opportunities from uncompetitive market practice tied to political entitlements could result in unfair competition to new co-operatives. Finally, the changing structure of the farm household in the face of the growing power of traders poses a formidable organizational challenge. These difficulties are discussed in detail below.

The first problem facing Chinese agricultural co-operatives is misunderstanding the idea of co-operatives. After major changes in the collective system, and the horrors of the Cultural Revolution, farmers rejected the Rural People's Communes, which had been such a dreadful experience for them.

Over the two decades up to 1978, the type of organization, the principles, and the purpose of co-operation promoted by political slogans led Chinese farmers to poor results (see table 10). Per capita income grew from Y43 to only Y74 over the twenty-two-year period from 1956, as People's Agricultural Communes were used to subsidize China's industrialization.

**Table 10:** Average Annual Per Capita Incomes for Rural People's Communes in China in yuan, 1956-78

Year	Per Capita Income
1956	43.00
1957	40.00
1958	41.40
1959	37.60
1960	41.30
1961	48.10
1962	46.10
1963	46.20
1964	47.50
1965	52.30
1970	59.50
1971	62.90
1972	61.80
1973	65.40
1974	65.80
1975	63.22
1976	62.80
1977	64.98
1978	74.00

Source: *Chinese Agricultural Statistics Yearbook*, 1980.

Until 1978, for example, members of People's Communes in Sichuan and Anhui provinces were among the poorest people in China. People remember co-operatives not as solutions but as the source of poverty.

The second problem is that farmers lack an ability to self-organize into co-operatives. Since Emperor Qin unified China into a centralized feudal monarchy, the tradition of centralized authority and paternalism has been firmly established and persists to this day.

The People's Commune was an organization that integrated government administration and economic management, extending the central government's control right down to the farm level. The economic command structure was unified from top to bottom. At the top, unified leadership, unified planning, and unified distribution of income provided the basis for control. At the bottom, government exhorted farmers to seek unity of thinking, unity of organizing, and unity of action. This hierarchical control has created in farmers a profound dependence on someone else's leadership. Used to relying on government, they are not adept at thinking about what, why, and how to act economically.

The third problem is that institutional reform has been closely linked to overriding political movements since 1949, which has created scepticism about new institutional solutions to farmers' problems. Every movement made sweeping changes, and although an upsurge in agricultural production usually followed each one, farmers' incomes were not so fortunate.

The political agenda is at the heart of all economic activity in rural China. Mobilizing slogans such as: "Political work is the lifeblood of all economic work"; "Grasp revolution, promote production"; and "Grasp the key link of class struggle and bring about great order across the land," indicate the extent of its pervasive influence (table 11). The communal approach, in effect, considered farmers to be an army.

**Table 11: The Relationship between Agricultural Movements and Political Movements in China, 1951–present**

Year	Political Movement	Agricultural Co-operative Movement	Features of the Movements in Rural China	Result
1951	The movement against the three evils—corruption, waste, and bureaucracy within the Party, government, army, and mass organizations	Temporary Mutual Aid Teams and All-Year-Round Mutual Aid Teams—elementary organizations in China's agricultural co-operative movement	Jointly owned; the two movements promote each other	Successful
1953	The movement of co-operative transformation of agriculture changes into collectivization of agriculture; the Anti-Rightists Struggle	Elementary Agricultural Producers' Co-operatives are established, followed by Advanced Agricultural Producers' Co-operatives	Through the co-op movement the State carries out the socialist transformation of agriculture; to eliminate private ownership of the means of production; semi-socialist and socialist	Good
1958	The Three Red Banners—the General Line for Socialist Construction, the Great Leap Forward, and the People's Communes; the movement against Right deviation	The Rural People's Communes are established	Communist model; the transition from socialist to communist; owned and organized by government; revolutionization of ideology and militarization of action	Bad, or failure (inexpedient or unwise)
1960	The "Four Clean-Ups" movement in some rural areas	The movement of People's Communes continues unchanged	Means of production owned by government	"Three Bad Years"
1963	The Socialist Education Movement—a nationwide movement to clean things up in the fields of politics, economics, organization, and ideology	The People's Communes continue unchanged	Adjustment of economics; reduction of the basic accounting unit; two movements sometimes promote each other; farmers have private plots and privately owned livestock	Not too bad
1966	The movement of the Great Proletarian Cultural Revolution	Movement of Rural People's Communes continues	Combats restoration of capitalism in an all-round way	Very bad; bad old practices die hard
1977	The movement of education in Two-Line Struggle in rural areas	Movement of People's Communes continues; Household Responsibility Reforms sprout in rural areas	Sticking out political	Economy on the verge of collapse
After 1979	Chinese government declares that a new political movement will never, ever occur in China; education of material and mental civilization	The movement of various types of co-operatives—New System of Household Co-operative economy; co-ops among specialized crops and livestock; farmers' associations, etc	Jointly owned; farmers regain partial democratic and voluntary participation in farming, production, and marketing; socialist marketing economic system	Better
1982	Political reform and the reform of organizations; education of material and mental civilization	A variety of co-operatives emerge and continue to emerge	Farmers regain some land rights; government power over agricultural production is reduced	Agriculture developing at a faster pace than in the past
1996	Emerging programs			

Co-operative and social movements are different, but related. In rural China, for example, social movements are largely political. Co-operative activity began before 1949 as a political strategy within a social movement.

Table 11 tells us that the agricultural co-operative movement served the revolutionary need to concentrate property for collective, public ownership. Even today, the political tendency to assume that the collective system is superior to the co-operative approach is a serious constraint on co-operation in China. The political view is that the family farm and independent co-operatives are not really compatible with the goal of a socialist state, and should be curbed. This perspective strongly influences rural leaders in some places, who seek to strengthen the collective economy, despite the economic and market reforms, rather than to strengthen the link between family farms and autonomous co-operatives, which some rural leaders avoid even discussing.

Market structure is the fourth problem. With minor coastal exceptions, China was closed to international commerce for thousands of years. This policy kept rural China focussed on self-sufficiency and a natural resource economy. Commodity sales, especially after 1949, were confined to small markets separated by very high transaction costs, mainly for transport.

Since the 1978 reforms, China has been making the transition from a centrally planned economic system to what is termed a “socialist market economic system.” Planning still exists at the macroeconomic level, but great improvements to interregional transport are opening up local markets. Faced with these new market forces instead of regulated prices, many farmers are perplexed. They had been accustomed to a much simpler system—security of basic needs in which every farmer had secure work, known as an unbreakable “iron rice bowl.”

Farmers lack marketing experience, especially in dealing with the strategies of price discrimination, market segmentation, collusion, and generally uncompetitive practices. These structural problems are reinforced by other difficulties associated with political entitlements without accountability, lack of recourse through the justice system, and arbitrary taxation. Farmers are not always able to get needed supplies or to sell their products at what they consider reasonable prices. They now have direct experience of the “price scissors.” New entrepreneurs often cheat them by using inaccurate weights and measures. Unforeseen taxes in the exchange of industrial products for agricultural goods extract further income from farmers. Although the government wishes to narrow the price scissors, state monopolies continue to offer low prices for grain, cotton, oilseeds, etc. These problems in commodity markets combine with difficulties in market structure for inputs and consumer goods to maintain adverse agricultural terms of trade.

The fifth problem is that co-operative activity intended to balance market power would face opposition, not only from the political side, as explained above, but also from market traders, who are becoming more and more politically powerful.

The markets are growing rapidly in sophistication, based in part on entitlements from political relationships. Commodity markets for meats, fish, fruits, vegetables, and artisan products are increasingly remote from farms. Hence there are fewer local social and cultural checks on the honesty of transactions. Traders, integrated with transport services, separate farmers from consumers in these new lucrative urban markets. Given this milieu, efforts by farmers to form co-operatives could be expected to be met by strategic opposition.

The sixth problem is the changing structure of the farm household. In the new market economy, the option for small farms to grow larger, adopt new technology, and benefit from economies of size is limited. Despite informal consolidation of land into larger farms, the government is opposed to concentrated ownership and farm credit is rationed. Co-operatives of various types seem to offer an alternative to farm consolidation and market concentration, but the restructuring of household activities places severe limitations on farmers' ability to take the initiative to organize co-operatively. A majority of farm households are pluriactive, with the male labour committed off the farm. Women, the aged, and children are left on the farms to manage day-to-day operations, work, and face the new markets. These people are the weakest elements in the new Chinese rural economy, especially in doing business. They are not the decision makers; the men are, and they are increasingly preoccupied with the nonfarm economy.



## PART FOUR

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# DISCUSSION AND INTERPRETATION

**I**NSPIRED BY FUNDAMENTAL ECONOMIC HARDSHIP, agricultural co-operatives in both Canada and China were established to achieve specific purposes. In both cases they were social movements, though more politically directed in China, and more economically driven in Canada.

The focus in this paper is on economic purpose and the principles of co-operation. For small farms in China, the economic purposes were productivity, economies of size, and land redistribution to break feudal poverty. The problem in Canada during the early years of this century was uncompetitive behaviour in agricultural markets. In both cases, co-operatives were set up as part of a government policy to challenge vested interests in the rural economies.

## THE CO-OPERATIVE CHALLENGE

The problems facing today's co-operatives in both countries can be traced back to the original co-operative challenge to economic, political, and social institutions. The seven principles adopted by the ICA at the 1995 Manchester congress are all related to sustaining that spirit and willingness to co-operate, but as these principles are diluted and masked, so co-operatives are challenged more and more effectively by other business institutions.

Pressure is put on co-operatives to change their practices. Global institutional restructuring creates needs for financing and reorganization that go well beyond members' capabilities to provide. The dynamics of social change and political movements challenge conventional practices of "business as usual." Even more fundamental is the pressure to change their vision. Co-operative principles, necessary to translate vision into practice and sustain member commitment, become squeezed by the changes.

The underlying economic objective for co-operatives has always been to improve returns to farmers' resources, labour, and intellectual property. Production co-operatives, such as the SPTAs in China, focus on technology and economies of size, supplemented by economies in procurement of inputs and marketing of commodities, to fulfil this objective. Marketing co-operatives are more prevalent in Canada. They focus on improving agricultural terms of trade and the purchasing power of farmers, using countervailing market strength to offset monopolistic forces.

What lessons can be learned from these challenges facing co-operatives in China and Canada?

### LESSON ONE: LEADERSHIP

Some co-operative principles endure. From the very first co-operatives—fire insurance organizations established in Great Britain in 1696—down through three hundred years of co-operative experience, democratic leadership has proven to be the central attribute of successful co-operation. Technocratic bureaucracy is a poor substitute for the traditional co-operative leadership model, as leadership is lost when only 20–25 percent of members vote; when education programs cease; and when leaders, however selected, make arbitrary decisions and take peremptory action affecting the welfare of members.

### LESSON TWO: MEMBERS' WELFARE

Members and managers need to be reminded that their priority is to improve the welfare of the members. Focussing co-operative policy on this goal sustains the interest of the membership and attracts new commitment in new members.

Rural Chinese people in the agricultural collectives lost interest in problem solving and creative work, which led to the need for the Household Responsibility Reforms of 1978. And although agricultural collectives assured subsistence and high rates of investment, rural incomes stagnated for more than twenty years (table 10). Collectives provided an effective vehicle for compulsory accumulation of communal savings, but they were equally effective at fulfilling the government's purpose of transferring the economic surplus generated by farmers to the cities, to industry, and to the military. Little was left, in most years, to improve the livelihood of rural producers (Selden 1993).

Failure to benefit the members, whether by mismanagement, oversized administration, inefficiency, incompetence, or by excessive taxation, normally puts a co-operative in jeopardy.

### LESSON THREE: EDUCATION

Education plays several major roles in sustaining the performance of agricultural co-operatives. The first is to maintain the commitment of the members and leadership to the principles of co-operation. The second is to nurture a learning culture among the members on matters of technology, management, and markets. A third role is the development of new leaders, and a fourth, tolerance of the diversity needed to sustain vitality of commitment.

Many of the problems facing co-operatives in Canada and in China stem from problems with the learning culture of members, directors, and paid staff. Education feeds this culture, whether co-operatives serve the most modern, commercially sophisticated interests of rural Canada and China, or are organized to deliver services to poor, marginalized rural households.

Co-operatives need to learn about the new relationships between members and managers, the co-operative and financial markets, and how to match co-operative practices and principles in global enterprise. Members need educating about the dynamics of relationships with government, how to work in rapidly changing niche markets, and the principles of democratic participation in policy and management. They also need instruction about social relationships within the community, volunteer skills, financial management, and self-reliance.

Co-operative organizations require education in co-operation, co-operative principles, organization, technology specific to their purpose, and market economics. They need knowledge and information, for example, about market forecasting, statistical monitoring, extension, product testing and licensing, product inspections, and standards.

Members and management lose strategic advantage when they misunderstand the idea of co-operation and use their organizational structure inflexibly or ineffectively. Short-run opportunistic behaviour reveals a lack of budgeting and long-range strategic planning, not to mention a lack of effective political action that protects the co-operative from harmful administrative stagnation or legislative action (Develtere 1992). Education can promote member commitment to policies favourable to co-operative business success. "Farmers themselves should make the decision, but they should make that decision with their eyes wide open" (Roehle 1996).

Education is also one of the best preventive measures against organizational and economic failure when co-operatives go through difficult times, as most do from time to time.

In these cases, education should get back to the basics of principles, values, purpose, function, practice, how to organize, and how to operate. Without the sustaining co-operative ideal, members tend to be destructively competitive among themselves and in their relationships with other co-operatives. Examining the historical process of co-operative development in Canada and China, it is apparent that success and failure is closely linked to member commitment to fundamental principles.

In recent years, economists have turned their attention to the role of human resources in economic development. Davey and Hassan (1974) provide evidence that higher individual incomes are linked to better education, and by extension, the same result should apply to collectivities of individuals, such as co-operatives. Science and technology are productive forces. Understanding bargaining power in markets improves prices. Productivity, output, and quality create economic power. Co-operative relationships with universities, scientists, and technicians can engender new ideas and the confidence to take bold decisions to put things into practice and blaze new trails.

A co-operative can buy or import many things, but the quality of its farmer members—its human resources—lies solely within the organization. In China as in Canada, it is important to promote and improve the basic education of farmers. Most importantly, members need to learn through co-operation how to transfer risk and uncertainty from technology, the market, and the ecosphere, to the political arena (Apedaile and Harrington 1995).

#### LESSON FOUR: DYNAMICS

Agriculture is changing in both China and Canada from extensive cultivation to intensive farming; from supply driven to market driven; from generic goods to differentiated value-added products; from traditional methods to modern methods. And most of the new generation of younger farmers in both countries have off-farm job commitments.

These dynamics do not mean that the problems that led to the original co-operative social movements in the two countries have changed. The development of NGCs in Canada is evidence of the same type of technology and scale problems that have inspired recent co-operatives in China. Similarly, the terms-of-trade problems experienced by Chinese farmers are the same ones that inspired much of the Canadian co-operative movement.

What is different is property rights. In general, co-operatives do not seem to work as well, and are not as flexible in their approach to business, when they are working with common property. The dynamics in agriculture mean that co-operatives need constantly to revise their relationships with their members and with the rest of the economy. The Saskatchewan Wheat Pool in Canada, for example, which originally specialized in grain

handling and assembly, has become a conglomerate co-operative with new global alliances and dramatically new relationships with private shareholders through equity capital markets.

## LESSON FIVE: CULTURE AND IDEOLOGY

Different countries have different ideological positions, different visions and practices, and different organizational models (Develtere 1992). These differences do not alter the principles of sustaining commitment for co-operation, but they do change the ways in which the principles are implemented. Each co-operative, not to mention each country, will follow its own path, with similar principles but different approaches.

Compare, for example, specialized and multipurpose conglomerate co-operatives in Canada. The NGCs are new specialized co-operatives, each starting up as a new opportunity arises, while the SWP is an established multipurpose co-operative. Although both raise capital from shareholders, an NGC is capitalized by its members only (supplemented by borrowing), whereas the SWP obtains equity from both members and other shareholders. The NGC focuses on a single market and contractual relationships, whereas the SWP uses mainly day-to-day market transactions in many markets.

The SPTAs in rural China, quite distinct from Canadian NGCs, were all established at nearly the same time with a near identical form of organization. But like the Canadian organizations, they also need to be different from one another, according to their members' vision and specific technology problems, if they are to achieve a similar vitality.

## LESSON SIX: REGIONAL DIVERSITY

Both Canada and China are large, diverse, regionalized countries with distinct regional cultures and a variety of climates, topography, and resource endowments. As a result, there is considerable diversity in levels of economic development, farming techniques, cropping patterns, productivity, and levels of market development.

Under the principles of free association and autonomy, agricultural co-operatives can be as different from Shandong to Xinjiang as they are between Alberta and Québec, and between China and Canada.

National agricultural policy in China, including the organization of agricultural co-operatives, is identical across all its regional diversity, from north to south, east to west, from pastoral areas to agricultural areas, from central and coastal regions to more remote and mountainous regions. In marked contrast, agricultural co-operatives in Canada, like the country's agricultural policies, have a regional flavour.

The difference in standardization between the two countries lies in the levels of independence and autonomy of farmers, fishers, forest operators, and others. Regional diversity exists in Canada because groups have the freedom to invent their own co-operative organizations in response to regional needs and resources. That is why the Alberta Wheat Pool is so different from the Saskatchewan Wheat Pool, even though they are in neighbouring provinces, started for the same reasons, were part of the same social movement, and were specialized in identical ways.

## LESSON SEVEN: COMMUNITY DIVERSITY

In each region, diverse cultures coexist side by side in the same communities. Imagine three rural Chinas or Canadas (Apedaile and Reimer 1996). The first is part of the competitive global economy in cultural, political, and economic terms. This rurality is nearly the same in both countries, for all commodities, and across all regions. As Davila Villers says about "Mexico One," it uses international credit cards, is wealthy, uses airplanes, and is on time (Davila Villers 1997).

The second is mainly in the business of producing niche products, and market and non-market services for domestic use. It has a comfortable level of living, uses cars, trains, and domestic flights, and is almost on time. It is also politically active, involved in government, and lobbies successfully for privileges to protect and subsidize special local interests.

The third focuses primarily on survival. These people do not have credit cards, are poor, walk, ride in old trucks, tractor trailers, or take the bus, and are never on time. This group is marginalized from political life and classified stigmatically as peasants, welfare groups, lazy, minorities, or aboriginals.

Both Canada and China have these three groups of rural interests. In recognition of this, both countries need to encourage even more diversity of co-operative organization within each community and region. Successful implementation of the seven ICA principles requires and enables each co-operative to be different from the next.

## LESSON EIGHT: SIZE

Co-operatives do not have an optimum size, the best size being the one that is manageable by the membership for the purpose at hand. Several considerations help to determine the best size: the way size is measured; the type of co-operative; the financial capacity of the members; the size of the market; the nature of the technology; and the balance of priorities between the purposes of social movement and business.

Size is most often determined by the number of members and the assets. A market co-operative, for example, is measured by volume of transactions; a production co-operative by the volume of output or sales. Housing co-operatives are measured by the number of apartments, or people housed. Each purpose defines different assessments of size.

The most useful initial size is the number of people holding a common interest, which can be discovered during the process of organizing the social movement to start the co-operative. In China, leaders may go from household to household and organize meetings. If the interest translates into a broad common vision, the co-operative may be larger than when a specialized interest is involved. Housing and fishing co-operatives, for example, tend to be smaller than credit co-operatives.

In Canada, co-operatives generally start within a local community or administrative jurisdiction. As their capacity to do business grows, they either form a federation with other local co-operatives, or extend their business across local boundaries into national and international markets. The regional wholesaling co-operatives, for example, are formed by the federation of consumer retail co-operatives in hundreds of small rural towns on the prairies and in eastern Canada. And isolated artisan co-operatives, typical of aboriginal organizations, come together to form larger marketing co-operatives to sell their products. The Saskatchewan and Alberta wheat pools are good examples of co-operatives that have grown large enough to expand their activities across boundaries.

Co-operatives serving “rural Canada and China One,” as briefly described in Lesson Seven, above, tend to be large in terms of sales and assets, and sometimes small in terms of members. In “rural China and Canada Two,” co-operatives are smaller in terms of assets, sales, and membership. In “rural Canada and China Three,” co-operatives are usually local, with small memberships, few assets, and often no sales, but they may be much larger in terms of intangible services to their members.

## LESSON NINE: GOVERNMENT RELATIONS

Thomas Jefferson’s famous words, “The best government is the government that governs least,” challenges co-operatives in both Canada and China to guard against decisions that may jeopardize the control of the owner members. It also challenges co-operative directors and managers to avoid organizational controls that may compromise individual member entrepreneurship. Finally, it challenges governments to refrain from direct intervention in the internal economic affairs of co-operatives.

At the same time, co-operatives in some sense are the creation of governments. Legislation and regulations provide the framework for them to carry out their challenge to global

opportunities, anti-competitive market forces, and social injustice. Governments protect co-operative members, other businesses, and the general public from financial mismanagement, unfair competition, and irresponsible business practices.

Van Dooren's work still provides the best summary of the lessons concerning government relations. The role of government in relation to co-operatives should be: to actively promote conditions under which co-operatives will develop and thrive; to create a favourable climate for the growth of co-operatives by removing obstacles and resisting unfair competition; to provide adequate and clear legislation on co-operation, regulating the rights and duties of co-operatives and their members, their liabilities, legal personality, and the like; to assist with education and training in co-operative values for those on the management committee; to help establish educational schemes for the membership; and to promote the spread of co-operative information (Van Dooren 1982).

If government intervention fails to maintain the balance among ideology, political direction, and specific objectives and methods, co-operative operations risk becoming too complex for members. The idea of co-operation may become indistinct; principles can be misrepresented; organization may become dependent on bureaucrats who have no loyalty to the members. In the worst case scenario—the People's Communes—co-operatives are transformed into state organizations.

Co-operatives need governments, however, just as much as they need markets. Canada, like modern China, has a flourishing market economy. Nevertheless, the state still provides a wide range of public services to agriculture, including research. For some agricultural commodities, provincial and federal governments have accorded monopoly power to farmers' co-operatives in cases where competition could not work. Industrial and service-sector development, promoted by the state in both countries, has absorbed surplus agricultural labour, and more recently, generated pluriactivity for farm households.

China has much to learn from the experience of Canadian co-operatives, which have been shown to provide effective market outlets for farmers, and also to represent their interests in negotiations with the state for favourable tax and financial treatment. Governments at all levels can make important contributions to co-operatives, and therefore to rural development.

## CONCLUSION

Agricultural co-operatives can offer a balance among individual productive initiative, imperfectly competitive markets, imperfect government, and concentration of land and wealth. They make a stand against monopoly pricing, and ideally aim for competition



among equals. Co-operatives not only promote co-operation among their members, but also seek to co-operate with other similar organizations. They are competitive for resources and in the market-place, but co-operative practice is likely to be most successful as economies change and restructure.

China is undergoing dramatic and far-reaching economic reform in its rural economy. And although there is no turning back from the socialist marketing system it now has, the change from command planning to the new economic order has not yet matured. The management of the rural economy is in transition and not always reliable. Macroeconomic governance is restricted by unfinished economic arrangements and an authoritarian managerial style. Reformation and development are still the main topics in the domain of rural economics and politics.

National policy for both China and Canada assumes that the agricultural sector will be based on the family farm. Co-operatives appear to play an important role in sustaining this structure, especially in terms of rural household incomes. Paradoxically, however, the co-operative sector, often regarded as socialist in Canada, is viewed by many political leaders in China as incompatible with a socialist state.

China's dynamic agricultural sector needs an active program to build and support new co-operatives, not just a policy that maintains the traditional rural institutions. Co-operatives are an integral part of the social and economic fabric of many successful rural economies, combining the best of individual initiative for productivity, and shared risk and uncertainty.

What will co-operatives look like in both countries in the first twenty years of the next century? They will be decentralized and driven by member interests. They need new organizational innovations with strong continuing education to suit specific diverse situations in rural China and Canada. Twenty-first century co-operatives will retain a clear focus on member services and farm household income. They will work together in economic alliances, with the potential of acquiring all the advantages of the privileged relationships now limited to conglomerate corporations.

New co-operatives can promote and play an important role in rural economic reform, offering a wide variety of opportunities to farmers, thus strengthening the farm sector and benefiting governments in both countries. Ultimately, effective new co-operative activity can help both Canada and China face the looming global era with confidence, and also contribute to building for agriculture a new "golden bridge" to the twenty-first century.



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