

The rise of new rural producer organizations in China

Jos Bijman, Rik Delnoye and Giel Ton

In: G. Ton, J. Bijman and J. Oorthuizen (2007), *Producer Organisations And Market Chains: facilitating trajectories of change in developing countries*. Wageningen Academic Publishers. ISBN 978-90-8686-048-7. pp. 251-270

1. Introduction

The economy of China is booming with annual growth of 8 - 12 percent in the last decade. However, development and growth is mostly concentrated in the Eastern part of China, and mainly in urban areas. The rural areas, and particularly those in the Western parts of China, are lagging in economic development. Income inequality between rural and urban is about 1 to 3.2, and is still increasing (Feng, 2006). This is not to say that rural China has not made any changes yet. Already major achievements have been obtained: productivity has grown rapidly, exports are rising, and rural income has dramatically risen. Still, one of the major challenges for the Chinese society in general is to make the rural economy an integral part of the modernization.

The booming economy and the political liberalization provide opportunities for farmers to shift to new lines of production, to enter new markets, and to set up new supply chain relationships. In order to strengthen their bargaining position, to exchange experiences, and to facilitate innovation, farmers are establishing producer organizations (POs). In recent years, the number of POs is rapidly increasing, although the absolute number of POs is still relatively low (Shen et al., 2005).

One of the interesting issues in studying POs in China is the role of the government in supporting these organizations. While many POs in China, just like in other parts of the world, are voluntary member-based organizations, the influence of the state is still very strong. The new legislation on cooperatives, which will be effective from July 1, 2007, emphasizes that POs are farmer self-help organizations, established for the benefit of members and run by the members. However, the law also encourages state agencies at regional and local level to actively support the establishment of new POs. Finding a balance between obtaining state support on the one hand while remaining purely independent organizations on the other hand, is one of the major challenges for new POs in China.

This chapter presents background information on the rise of new rural POs in China and it discusses several of the challenges these POs face. It starts with a brief introduction to the recent political and economic changes, which have tremendous impact on rural development. The new law on cooperatives is an important change in the institutional environment of POs. The next section discusses the role of POs in the changing agricultural markets, where liberalization of market and the rise of supermarkets make it more difficult for small farmers to compete. Subsequently some figures are given on new producer organizations in China. A number of case studies present more practical information on the challenges of POs in rural

China. We conclude with a number of observations on the challenges for organizing effective farmer-led associations and cooperatives.

2. Economic and political changes in China

Since the early 1980s, China is reforming its economy from a planned economy towards a market-oriented economy. This transformation process has already led to fundamental changes in the economic landscape of China. For instance, in the 1990s, per-capita grain output reached a level similar to that in developed countries (Sonntag et al., 2005). Rising food exports demonstrate that China's farmers can now compete in international markets. Rural incomes have risen significantly and hundreds of millions of people have escaped poverty during this time.

Many rural areas do not (fully) participate in the economic modernization. The 200 million small-scale farming households still follow traditional production and marketing patterns. However, market developments dictate a need for increasing the scale of production, enhancing the quality of products, and improving the efficiency of supply chains. The challenge for Chinese policymakers is to promote agricultural modernization in such a way that rural areas, particularly those more distant from the large urban developments of the East, will also benefit from the overall economic growth. In addition, the country as a whole is experiencing a shift from a rural economy towards an urban economy, from agriculture towards industry and services. Thus, the challenge for China is to establish effective linkages between rural and urban areas and to encourage a large labor shift out of agriculture.

Chinese political leaders have acknowledged that policy reforms are needed to guide the economic transformations. Since the mid-1990s, Chinese agricultural officials have promoted a "companies leading household" strategy to bring farmers into the commercial food sector and raise incomes. This strategy emphasizes links between farmers and processing and marketing companies to strengthen farmers' connections with the market. So-called "Dragon head" companies are selected or established by local government authorities to contract with farmers to procure produce with specific attributes. The dragon head company provides seed, operating loans, fertilizer and other inputs, and technical expertise. Local government continues to play a major role in coordinating these linkages between farmers, processing industry and markets.¹

In 2004, the central government issued the "Document No. 1", which exclusively deals with agricultural and rural development. This document specifically pointed out that farmers' professional associations should be encouraged. The government regards the establishment of POs essential in strengthening the competitiveness of the agricultural sector and in realizing the economic potential of the agricultural sector. Enhancing competitiveness is necessary as China as agreed to open up its markets as part of its obligations under the WTO membership. In addition, to continue the combination of economic growth and low inflation requires both low cost food and abundant labor no longer necessary in agricultural production.

¹ There are some doubts about the viability of this approach (World Bank, 2006; Gale, 2003). Local government officials may not have a sufficient knowledge base and financial capacity to guarantee success. In addition, the ownership structure of the dragon head companies is not clear. Many seem to be spin-offs of local grain bureaus and other government marketing entities. Management decisions seem to reflect government plans to develop particular sectors, sometimes resulting in overproduction. Finally, small-scale farmers may not benefit much from this approach, as they lack bargaining power when signing contracts with the dragon head companies.

A new law on cooperatives

On October 31, 2006, the 10th National People's Congress of the P.R. of China adopted legislation supporting professional farmer cooperatives. The law was later ratified as Order 57 by President Hu Jintao. Presidential Order 57 will become effective on July 1, 2007. Article 1 stipulates the reasons for developing this special law: "Its purpose is to facilitate and direct the development of farmer Co-operatives, standardize organization and behaviors of them, protect legal interests of Co-operatives and members, and foster growth of agricultural and rural economy." Thus, this national law on professional farmer cooperatives provides the legal framework for the establishment and the functioning of farmer cooperatives.

A law on cooperatives is of great importance for farmers and their economic organizations. So far, much of the group action by farmers has been informally, or it has fallen under various, often local, and potentially conflicting, regulations. A national law, applied by provincial and regional authorities, provides a uniform legal framework for the whole country.

The importance of legislation for farmer cooperatives has been emphasized by many cooperative scholars. For instance, Munker (2005) states that "legislation can make it easier to form and run cooperatives, if it offers a clear and easily applicable model, helping the organizers to set up the rules necessary for operating joint/group activities in such a way that typical conflicts (which may arise among members or among members and the organization) are as much as possible avoided." Without legal status the organization lacks access to credit, cannot enter into legally binding contracts, and there is no legal standing to the mutual obligations and responsibilities of cooperatives and their members.

While enacting this new law on cooperatives is a very important step in helping farmers to improve access to markets, capital and knowledge, there has been some concern about the emphasis on cooperatives as a tool of governmental policies for rural development. Munker (2006: 11) states that it is an old mistake to "use co-operatives as instruments for implementation of government policy, rather than perceiving co-operatives as voluntary and independent self-help organizations of their members. Where co-operatives work as development tools in the hand of government, it is difficult to see how co-operatives can avoid becoming dependent on government." Munker argues that state sponsorship usually turns into state control, which is not only against cooperative principles, but is even counterproductive as state-supported cooperatives usually fail to raise member commitment (which in turn is needed for collecting capital, effective decision-making and efficient use of cooperative facilities).

Fock and Zhao (2006) also call for caution in direct government intervention in the formation and operation of farmer groups. In addition, they are concerned about membership heterogeneity as the law allows for firms and government-affiliated agencies to become member of farmer cooperatives. Heterogeneity of members often leads to conflicts of interests within the group and thereby to inefficient and ineffective decisions (Bijman, 2005). The rationale for allowing non-farmers to become members lies in the common interest in building integrated supply chains or modernizing agriculture. However, this poses serious risks for member commitment (and thereby for the sustainability and efficiency of the cooperative) as local state agencies and leading enterprises can be very dominant. Fock and Zhao argue that it would be better to develop separate programs aiming to improve the efficiency of supply chains and to promote the restructuring of agriculture.

3. Changes in agricultural markets

Markets for agricultural inputs and outputs are rapidly changing in China. During the period of planned economy, agricultural inputs and outputs were subject to a system of unified supply and marketing. Since the start of the reforms in the early 1980s, markets for agricultural inputs have gradually opened up, although in some parts of the country government agencies are still the main source of seeds, fertilizers and agrochemicals under a system of government licensing and state trading. Most agricultural markets, however, are now open to competition.

At least three major developments in agrifood markets are pushing for structural change in the agricultural sector, particularly affecting small producers (World Bank, 2006: 13). First, China's entry into WTO has altered the dynamics of domestic markets. WTO membership has created opportunities in areas where China has comparative advantage, including livestock, aquatic and horticultural products. However, exports are only possible if high and stringent quality standards can be met. Many small-scale farmers using traditional production methods have difficulty in meeting the international standards and in providing the necessary certification to guarantee that the standards are met.

Second, increased consumer sophistication means that they are no longer content with limited choice of products or seasonal availability and have a growing awareness of food safety issues. However, small producers may have a hard time complying with these quality and safety requirements. Demand for uniform products of large quantities as well as supply chain measures such as cold-chain transportation all mitigate in favor of large-scale production and against small holder farming. Food safety concerns have led to the creation of a variety of certification standards, but the cost and effort involved in complying with these standards is often beyond the means of individual small scale farmers.

Third, the rise of supermarkets as major food outlets is resulting in a restructuring of supply chains, which may make it more difficult for small farmers to compete. Let us take a more detailed look at the rapid expansion of supermarkets in China and its effects on supply chain organization.

Traditionally, the wet market is the main place for rural and urban consumers to purchase fresh agricultural products. Nowadays, supermarkets are taking over this role, at least in urban areas. Government policy has not been favorable to wet markets, pushing them to convert into modern supermarkets in a move to control hygiene and to reduce congestion in traditional markets.

While modern supermarkets, convenience stores, and hypermarkets were nearly non-existent in the early 1990s, they have now captured an estimated 30 percent of the urban food market and are growing at rates of 30 to 40 percent annually (Hu et al., 2004). Supermarkets first developed in the south and east coast of China, and then in major northern cities like Beijing, Tianjin and Dalian. Recently, supermarkets are penetrating to western inland China. Consumers targeted by supermarkets were first rich and middle income group in big cities, then expanded to lower income group and smaller cities.

Supermarkets at its early stage in China were small-scale shops that focused on food, especially processed food. With the entering of foreign companies, such as Tesco and

Carrefour, fresh produce became an important category for supermarkets. This foreign direct investment pushed the development of domestic supermarket chains, and the dominating types of stores in the supermarket sector are now big scale hypermarkets. Moreover, former state owned food stores went privatized, bankrupted or were taken over by modern chain stores. Domestic supermarket chains advanced aggressively to inland and secondary cities, aiming at taking over the market before foreign companies enter the region. It is estimated that in big cities about 30% of all fresh produce is retailed through supermarkets.

The growth of supermarkets in China can be related to increased demand for the specific services they can provide, resulting from rapid urbanization, per capita income growth, increasing employment of women, “westernization” of life styles, particularly among younger people, reduction of effective food prices for consumers because of supermarkets’ greater ability to control costs through economies of scale, improved logistics, and growing access to refrigerators, allowing larger quantities of food to be stored, and to cars, allowing shopping to be done away from the immediate vicinity of the home.

The rise of supermarkets in retailing (fresh) agricultural products has major implications for the supply chain. Supermarkets in general favor centralized procurement system, specialized and dedicated wholesalers, preferred supplier systems, and private standards for fresh produce (Shepherd, 2005). The purchasing practices of supermarket chains, with their demand for standardization and high quality products, large volume purchases, and their practice of delayed payments, mitigate in favor of large-scale production by well-resourced suppliers. Small producers find themselves barred from access to the high-value market and trapped behind an insurmountable wall separating them from consumers.

These developments in the agricultural markets and food retail are making it harder for small farmers to get market access and to compete. It is exactly for this reason that producer organizations are so important, as they can be (part of) the solution. By establishing POs, small farmers have an instrument to face the challenges coming from the restructuring agrifood markets.

4. New Producer Organizations in China

Voluntary POs are not a completely new phenomenon in China. In the first half of the 20th century, before the founding of the communist state, some parts of China experienced the working of voluntary producer-led cooperatives (Du, 2002; mentioned in Hu et al., 2007). However, from the 1950s onwards, cooperatives were used by the government to centrally control and manage agricultural production, trade and consumption. Under the system of collective farming, the supply of inputs, the agricultural production itself, and the distribution of the products were all directed by the central plan. All collection and distribution of farm products was managed by state agencies under the “Unified Procurement and Sales System (UPSS)”. In the case of vegetables and pork, so-called category II products, supply and sales cooperatives procured the farm products, while state-owned trading companies retailed them to urban consumers. This situation continued until the market liberalizations of the mid 1980s.

In the 1980s, collective farming was gradually transformed into family-based farming, while the unified collection and distribution system was substituted by a more market-oriented system. Since the abolishment of the UPSS in 1985, markets were fully liberalized for fruits and vegetables, pork, sea-food, eggs, and other agricultural products (with the exclusion of

cotton and grains). Different marketing channels developed for these products, with farmers themselves, government agencies, traditional cooperatives, state farms, and private traders all become marketing enterprises. Wet markets, which were under restriction during the planned economy, came back to life soon after the reform. In addition, wholesale markets and professional traders rapidly expanded their business, as interregional trade was fully liberalized. Within these liberalized domestic markets, POs can play an important role in linking producers with customers.

Producer Organizations are known under different names in China: farmer associations, farmer professional associations, farmer professional cooperatives, farmers' cooperative associations, farmer cooperative economic organization, etc. One distinction often made is between associations and cooperatives. Although the term association (*xie hui*) is not very precise, it is used in World Bank publications on POs in China as well as by Sonntag et al. (2005) in their extensive review of China's agricultural and rural developments. This term started to appear in the 1980s, mostly referring to farmer organizations established to provide members with technical support and information. Associations can be informal as well as formal. While association more or less cover every farmer organization, the term cooperative (*hezuo she*) is more restricted, but equally ambiguous. For farmers it generally has negative connotations as the rural areas of China only started to prosper with the dismantling of the communes and introduction of the family responsibility system and with the end of the monopoly position of government owned commercial organizations which operated under the name of cooperatives. Nevertheless, the term 'cooperative' is beginning to dominate parts of the discussion on farmer associations that carry out economic functions. The term is used in the 2005 Zhejiang Province law on farmer professional cooperative (*nongmin zhuan ye hezuoshe*) as well as in the new national law on farmer professional cooperatives. Finally, translation of the Chinese terms into English adds to the confusion. For instance, the term *zhuan ye* can be interpreted either as 'professional' or as 'specialized'. While in World Bank publications the term professional is used (as in farmer professional association), Hu et al. (2007) use the term specialized (as in farmer specialized association and farmer specialized cooperative).²

According to Hu et al. (2007) associations and cooperatives differ in the ownership of fixed assets, as well as in their main function. The farmer professional cooperatives are similar to the cooperatives in Western Europe and North America: they are engaged in the marketing and processing of agricultural products, and they own fixed assets. Farmer professional associations (FPAs) are mostly set up to provide technical assistance and to share information among the members. They do not charge a membership fee and do generally not own fixed assets. The term FPA is rather broad, and includes both organizations with thousands of members and community organizations with only a dozen farmers. The professional cooperatives can be found mostly in the Eastern (and more developed) parts of China, while the FPA dominates in Western and Central China (Hu et al., 2007).

Detailed figures on the number of POs in China are hard to come by. On the basis of a nationwide survey in 2003, Shen et al. (2005) conclude that about 7 percent of all villages in China had functioning FPAs and about 2 percent of farm households in China were members of such FPAs. Hu et al. (2007: 442) report data from the Rural Development Institute of the Chinese Academy of Social Sciences, stating that in 2004 China had more than 150,000 POs, of which 65% were FPAs and 35% were farmer professional cooperatives. Data on the

² In this paper we follow the World Bank custom of translating *zhuan ye* into professional.

number of POs in China must be interpreted with care, due to the above mentioned difficulties of names as well as because many POs are not formally registered (while a part of the formally registered POs are not functioning).

5. Case studies

We now would like to present three brief case studies of POs in three different Chinese provinces. All three cases provide information on the challenges that newly established POs are facing, in their internal organization, in their relationship with state agencies, and in their quest for capital. The case about cooperatives in Zhejiang Province, on the east coast just south of Shanghai, is particularly interesting because Zhejiang has a provincial law on cooperatives since 2005. One of the challenges for POs in Zhejiang province is how to balance member interests with shareholder interests. Another case is about POs in Yunnan, a province in the south of China, bordering Burma and Laos. This mountainous province is one of the poorest regions in China. The challenge presented in this case is how to combine the interests of government agencies supporting (the establishment of) POs and of the members to maintain full control over the PO. The third case is about POs in Hunan Province, in the central/south part of the country. Hunan is major fruit producing region, with good climate conditions for many fresh produce crops. However, it is not close to major urban areas, so supply chain management is of crucial importance for farmers in this region. Federated cooperative structures can perform these joint supply chain functions. One of the main challenges for POs in Hunan is to find a balance between the marketing activities at the local and regional level.

5.1 *Zhejiang Province*³

Zhejiang Province is located on the east coast of China, south of Shanghai. The province has about 46 million inhabitants. For the development of POs in China, Zhejiang Province is of great interest, as it was chosen by the national Ministry of Agriculture as a pilot for promoting the establishment of farmer professional cooperatives. In 2004, Zhejiang Province had 1789 farmer professional cooperatives and 1019 farmer professional associations. In 2005, the provincial government passed a provincial law on farmer professional cooperatives.

The main reasons for farmers in Zhejiang Province to become member of a cooperative are to get access to markets and to obtain technological support to improve on-farm productivity and quality. This demand of farmers on their cooperative also influences their selection of board members. They are more likely to select as members of the board of directors those farmers that have large farms themselves, as these have proven to be successful in market access.

One of the interesting characteristics of farmer professional cooperatives is the relationship between shareholders and members. In Zhejiang Province cooperatives not all members are necessarily also shareholders. This means that the equity capital of the cooperative is provided by a subset of the membership. In addition, not all shareholders are members. This means that the cooperative may obtain equity capital from persons, firms or other organizations that do not patronize the cooperative. In Zhejiang Province, one can find cooperatives where all members are also shareholders as well as cooperatives where only 1 percent of the members are shareholders. On the basis of shareholder/member ratio, the cooperatives in Zhejiang

³ This description of the development of cooperatives in Zhejiang Province is based on an empirical study carried out by Hu et al. (2007).

Province can be divided into two groups. In one group only a minority of members is shareholder. The membership of the cooperatives in this group consists of a small number of core members (being large shareholders) and a large number of common members (being just users). In the other group of cooperatives a majority of the members is also shareholder. But even in this group, shareholding is quite concentrated, and the big shareholders play a dominant role in providing equity capital.

In general, large farmers play a major role in Chinese cooperatives, as shareholders, as members of the board of directors, as large users of the cooperative. With the success of their individual farm, their relationships, their knowledge of markets, and their access to technology, these farmers/directors are considered the right persons to lead the cooperative. In addition, the relationships that core members have with common members, for instance through kinship, signals the commitment of the core member to the cooperative. The director's ability to access both technology and downstream markets is a reason for common members to grant substantial decision rights to the director(s). Hu et al. (2007) emphasize that farmer cooperatives in China are rooted in the Chinese traditional culture of personal relations. Thus, efficient and effective governance is not only obtained by formal structures, but also by social mechanisms such as social control, commitment and trust.⁴

5.2 *Yunnan Province*⁵

In Yunnan Province, especially in the hilly border regions, farmers are resource poor, having access to on average not more than half a hectare of land. Infrastructure is, however, improving rapidly enabling access to markets and opening up new economic possibilities. In order to capitalize on new these opportunities collective actions in organizing supply and marketing is crucial. Associations and cooperatives are formed around major commercial commodities such as dairy, fruits, vegetables, and coffee or new promising cash crops such as macadamia nuts, peppers, and oranges. A typical PO has 100 to 200 members. Establishment of POs is often initiated by local governments within broader support programs promoting production and marketing of selected crops. Next to regional economic targets (such as reaching quantitative production levels) such programs have pro-poor objectives such as supporting farmer income.

Let us look at the example of a PO from Yinjiang County in DeHong Prefecture. The county administration is actively promoting the establishment of farmers associations. One the first associations that has been established in the country, in 2002, is a potato association. Potato is a new crop to the region. Production and marketing potentials of potato are promising. So far, the association has been very successful in marketing. Customers such as traders and processors are responding positively to the possibility to contract large volumes at once and not having to deal with a large number of individual farmers.

The potato association was established in the village by the administrative authorities. From the very start, the potato association received major support from the local government, such as a founding grant, office building and technical support. In 2006, the association had has 244 members and 13 person personnel. The personnel is remunerated by the local government but the objective is that the association will be able to pay for own personnel in the near

⁴ Personal relationships can support the efficiency and effectiveness of the cooperative, as Hu et al. (2007) argue, but may also lead to oligarchy and nepotism.

⁵ The information on POs in Yunnan Province has been collected, mainly through interviews with PO leaders and government officials, by Rik Delnoye, in 2006.

future. In 2005 the association signed a contract for delivering 4800 tons to a processing company. In 2006, contracts for delivering 15,000 tons were signed, for which 3200 households were contracted, totaling an area of 13,000 mu (= 870 hectares).

The potato association applies a cooperative model with members and (separate) shareholders (similar to cooperatives in Zhejiang Province). For the members the cooperative functions as a service provider while for the shareholders receiving part of the profit of the cooperative is the main benefit. Shareholders do not hold voting rights. Out of the profits, 30% is paid out to the shareholders.

Farmers and their newly established PO find themselves in an ambiguous situation. They still lack the capacities to manage the organization themselves and lack the financial means to recruit professional assistance, while local government is eager to provide support. But instead of strengthening the human capacity among the members of the cooperative, in order to create a pool of potential leaders, government agencies often place own staff at key functions (such as general of financial manager) and thereby undermine the independence of the PO. This threatens to reduce the commitment of the members to actively participate, to comply with cooperative regulations, and to provide equity capital. It may even reduce the willingness of farmers to join the cooperative (depending on the alternatives available).

At present the leaders of the association face several challenges, both on operational and organizational issues. As hundreds of farmers have indicated that they are interested in becoming member, the cooperative has to scale up its operations and thus needs investment capital. In addition, the leadership is looking for equitable ways to remunerate the efforts of the members of the first hours of the cooperative. How to keep shareholders satisfied (and even getting new shareholders) without making profit growth into the main objective of the cooperative? In addition, leaders are looking for the optimal decision-making structure. Most of the current members are living in the village where the association was established but the organization plans to expand to neighboring townships. Presently the board of the association exists of elected leaders (mainly the initiators of the association). The future governance structure, particularly the representation of the new townships, is still under discussion. The present leadership fears an increase in heterogeneity of the membership but sees good potential for the production capacity new members would bring in.

From this brief description of new POs in Yunnan Province we can draw the following conclusions. Market developments are fostering the establishment of POs. By joining resources, farmers can strengthen their bargaining position, can develop supply chain linkages, and can obtain access to technical and marketing expertise. However, the major challenge is to set up and maintain an independent farmer-led organization, while obtaining some support from governmental agencies, but not let the government have control over the PO. Farmers and farmer representatives are well aware of this challenge, and time and again emphasize the need for establishing truly self-help, farmer-led organizations and not organizations that are development tools in the hands of government.

5.3 *Hunan Province*⁶

The provincial Agricultural Bureau (= Ministry of Agriculture) estimated the number of farmer professional cooperatives in Hunan Province at nearly 13,000. Hunan is a major fruit

⁶ The information on POs in Hunan Province has been collected, mainly through field interviews with PO leaders and government officials, by Giel Ton, in 2005.

producing province. For this case we visited several cooperatives of orange producers in the Fenghuang County and in the city of Zhangjiajie, the main city in the County. These cooperatives had been formed recently and were in the process of establishing a federative structure to carry out joint marketing activities.

The South Great Wall Green Fruit Industry Association groups the associations of several villages around the town of Liaojiqiao. It is a cooperative consisting of 500 members coming from 20 villages. The membership is rather heterogeneous, with fruit growing families, fruit processing families and fruit selling families. Current activities are concentrated on quality improvement and brand name development assisted by the local office of the Agricultural Bureau. The cooperative has entered into several interesting contracts with middlemen, however is not able to sell all the products of its members. The marketing activities of the town cooperative are additional to those of the village cooperatives and of the members individually. The town cooperative is commissioned to market the products of the village local cooperatives, but sometimes find it difficult to deliver the right quantity and quality as the village cooperatives and individual members can make deals on their own at the same time.

The financial sustainability of the association is still weak. No commission fee is charged, and current costs of the cooperative are assumed by the (richer) board members as being part of their individual marketing costs. Training and technical support is provided for free by the Township Government. As no significant internal income is generated and costs are assumed rather informally by the board members, priority in this cooperative seems to be the strengthening of the internal organization and the clarification of the benefit that the township cooperative has compared to the village cooperatives and the county cooperative. As many members are also involved in pig raising and horticulture, internal policy discussions take place about maintaining the focus on fruits or diversifying into other members' products.

Fruit cooperatives from different towns and villages have formed a regional cooperative on the county level. The membership of the regional cooperatives consists of three township level cooperatives and thirteen village level cooperatives. The regional cooperative started operations in September 2004. Membership fee varies by size of the member: 50 yuan for big cooperatives and 30 yuan for small cooperatives. The regional cooperative represents 5000 fruit growers. The main activity is sorting and marketing of oranges. In 2004 the cooperative has been exporting to Canada, has organized a wholesale market, and has participated in business fairs. The county cooperative manages to sell approximately 30 percent of the total member produce. Additional services to its members include providing market information and indicating quality requirement of potential buyers. One of the challenges for the regional cooperative is to maintain trust of its members, particularly on the issue of price determination. Board members receive training in marketing, but pure commercial activities are delegated to professional staff. Another challenge is to maintain a clear division of tasks between regional cooperative, the town cooperatives and the village cooperative.

6. Discussion

The rural economy in China is experiencing major transformations. While most farmers are still small scale producers, they are pressed to adjust to rapidly changing agricultural markets. Producer organizations are a major tool in the hands of farmers to improve their access to and position in markets and thereby raise their income. In setting up and running associations and

cooperatives, farmers are faced with a number of organizational and operational challenges. Governments are both part of the solution and the cause of these problems. In this concluding section we will summarize the major challenges for Chinese POs as they have appeared in the general and case descriptions above.

First, economic and political reforms provide many opportunities for farmers and thereby for new POs to be established. However, the new national law on cooperatives is sending ambivalent signals to farmers and local government officials. On the one hand it emphasizes that POs are self-help organizations of farmers who associate voluntarily and maintain control over their organization. On the other hand it considers POs as organizations that can be entrusted with the task of implementing rural and agricultural development projects, which may turn the cooperatives into agents for the implementation of government policy. Farmers planning to set up a PO, or those in the boards of existing POs, may find it hard to keep sufficient distance from state authorities, as they need financial and other support to get the PO really working. Here, third party support from inside or outside of China may be helpful in training both farmers and government officials about the need to keep a clear separation between private and public roles.

Second, POs in China seem to be very heterogeneous in their membership. It is not uncommon for the membership to include individual farmers, representatives from processing and trading enterprises, government agencies, and people from research institutes. Non-farmers often take the lead in managing the PO. While this may be rational from the perspective of getting different stakeholders to support the establishment of new POs, it usually leads to difficult decision-making processes. In addition, other interests than farmer interests may become dominant, which may affect member commitment and thereby organizational efficiency. Related to the issue over heterogeneous membership is the distribution of income rights and decision rights. Having non-members as providers of equity capital may lead to conflicting interests between members and investors. Members want favorable patronage conditions, investors want a high return-on-investment. Even when investors have no decision rights (no votes), the cooperative still has to take their interest into account otherwise they may withdraw their investments.

Third, most small farmers do not have the knowledge and experience to actively participate in the PO decision making, even though this is one of the basic conditions for the good functioning of a farmer-controlled PO. While in most developed countries generations of farmers have had experience with jointly owned, democratically run POs, farmers in China have only recently started to learn about the advantages and disadvantages of a PO as well as about their rights and obligations as members.

Fourth, the experience of PO in other countries has shown that, even when a favorable legal and regulatory framework exists, an independent catalyst is often needed to get POs started, and to expand and perform better. Such PO promoting agencies could preferably not be state agencies, as it is important that the catalysts are first and foremost responsive to the needs of farmers and their organizations. Such catalysts could be cooperative extension services linked to (agricultural) universities, or they could be special independent institutes promoting POs. Such institutes should preferably be set up by the POs themselves. The main role of such institute would be to provide training to PO leaders, to help lobby governments, and to facilitate the actual establishment of POs.

References

- Feng, S. (2006), *Land rental market and off-farm employment: rural households in Jiangxi Province, P.R. China*, Wageningen: Wageningen University (PhD Thesis)
- Fock, A. and J. Zhao (2006). *Farmer-controlled organizations in China: pushed forward or taking-off? An assessment against international experience*. International Conference on Promoting the Development of Farmer Cooperative Economic Organization in China. Beijing (December 16-17).
- Fulton, M. (2005). Producer Associations: the international experience. In: B.H. Sonntag, J. Huang, S. Rozelle and J.H. Skerritt (eds.): *China's agricultural and rural development in the early 21st century*. Canberra: Australian Centre for International Agricultural Research (ACIAR Monograph No. 116), pp. 174-196.
- Gale, F.H. (2003). China's growing affluence: how food markets are responding. *Amber Waves*, June 2003, Washington: USDA/ERS, (www.ers.usda.gov/amberwaves/june03/features/chinasgrowingaffluence.htm)
- Hu, D., T. Reardon, S. Rozelle, P. Timmer, and H. Wang (2004). The emergence of supermarkets with Chinese characteristics: challenges and opportunities for China's agricultural development. *Development Policy Review* 22(5): 557-586.
- Hu, Y., Z. Huang, G. Hendrikse, and X. Xuchu (2007). Organization and strategy of farmer specialized cooperatives in China. In: G. Cliguet, G. Hendrikse, M. Tuunanen and J. Windsperger (eds.). *Economics of Management and Networks. Franchising, Strategic Alliances, and Cooperatives*. Heidelberg, Physica-Verlag / Springer, pp. 437-462.
- Münkner, H.-H. (2005). Answer to Questionnaire. World Bank Office in Beijing: *International Workshop on Farmer's Cooperative Law Establishment*, Beijing, 20-21 April.
- Münkner, H.-H. (2006). *Comments on the Farmer Professional Co-operatives Law, 2006, passed by the 24th Session of the 10th National People's Congress on October 31, 2006*, University of Marburg, Germany.
- Shen, M., S. Rozelle, and L. Zhang (2005). Farmer Professional Associations in Rural China: State dominated or new state-society partnerships? In: B.H. Sonntag, J. Huang, S. Rozelle and J.H. Skerritt (eds.). *China's agricultural and rural development in the early 21st century*. Canberra: Australian Centre for International Agricultural Research. ACIAR Monograph No. 116: 197-228.
- Shepherd, A.W. (2005). *The implications of supermarket development for horticultural farmers and traditional marketing systems in Asia* (revised paper). FAO/AFMA/FAMA Regional Workshop on the Growth of Supermarkets as Retailers of Fresh Produce. Kuala Lumpur (October, 4-7, 2004).
- Sonntag, B.H., J. Huang, S. Rozelle, and J.H. Skerritt (eds.) (2005). *China's agricultural and rural development in the early 21st century*. Canberra: Australian Centre for International Agricultural Research (ACIAR Monograph No. 116).
- World Bank (2006), *China – Farmers Professional Associations; Review and Policy Recommendations* (http://www.worldbank.org.cn/english/content/fpa_en.pdf)