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**Why Farmers' Cooperatives Failed in China?  
Re-evaluating the Viability of Peasant Cooperatives in Agrarian  
Transition**

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## Why Farmers' Cooperatives Failed in China? Re-evaluating the Viability of Peasant Cooperatives in Agrarian Transition

[Very rough draft. Please do not cite or circulate.]

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### Abstract

*Through a study of 50 farmers' cooperative across 19 provinces in China, we found that except for two, all the rest either deviated from the model of cooperative economic organization in significant ways or failed to continue operating as genuine cooperatives. Through examining both the successful and failed cases, we argue that the current model of economic cooperatives as adopted in rural China is ill-suited with the political-economic reality and has little chance to succeed. Four key conditions in rural China severely limit the economic competitiveness and feasibility of cooperatives: deficiency in social capital, intense market competition, the limited scale and profitability of small-holder agriculture, and policy mismatch. The current policies supporting farmers' cooperatives in fact have aided the expansion of agribusinesses, often at the cost of smallholders. We also challenge the theoretical arguments about both the viability of peasant cooperatives in a commodified political-economic context and the benefits it can bring to smallholding family farmers. We argue instead that a re-collectivization of the village economy provides a better solution to the social and economic challenges rural China now faces.*

## 1 Introduction

This paper attempts to address the puzzle that why cooperatives failed to enhance smallholding agriculture in China where conventional cooperative theories predict that cooperatives are most urgently needed and have high possibility to emerge. Cooperatives have been theorized as a promising instrument for the small-scale, the poor or the vulnerable to achieve common interests (Staatz, 1987; Valentinov, 2007). As a development model, cooperatives have been promoted in different countries to a various degrees for more than one hundred years; and the achievement of cooperatives has long been well witnessed worldwide. According to a survey covering 2829 cooperatives across 79 countries in 2015 initiated by International Co-operative Alliance (ICA) and the European Research Institute on Cooperative and Social Enterprises (Euricse), the turnover of the surveyed cooperatives has reached 2951 billion dollars and the top 300 cooperatives up to 2360 billion dollars in 2013<sup>1</sup>. According to ICA's estimation, global cooperative enterprises have helped more than 250 million individuals obtain employments. In the United States, the 3000 cooperatives covered 256 million individual members, taking around 80% of its whole population<sup>2</sup>. Moreover, to address the global financial crisis of 2008, people started to reconsider the power of cooperatives in protecting the poor, the smallholders and the marginal in society. The figures suggest that cooperatives can indeed make impressive impacts on growth and social development across the world. Notably, the United Nations General Assembly declared 2012 as the International Year of Cooperatives, with the theme of "Cooperative Enterprises Build a Better World", in recognizing the contribution that cooperatives have delivered to human society.

In the family of cooperatives, agricultural cooperatives take the largest proportion. According to the report by ICA in 2015, agricultural cooperatives take 27% of the 2829 surveyed cooperatives<sup>3</sup>. However, agricultural cooperatives have varied impacts in different countries, with much better performance in developed countries such as EU, North American countries, and some East Asian countries or regions (Japan, South Korea, Taiwan etc.), and much poorer performances and many failures in developing countries (Ortmann and King, 2007; Francesconi and Wouterse, 2015; Badiane, 2016). The frequently observed phenomenon is that there are large quantity of cooperatives in developing countries, but the real, authentic or well-operated cases have remained rare. To take China as an example, by October of 2015, there had been about 1.5 million farmers' cooperatives (FSCs) officially registered and about 1000 million farmer households cooperative members, around 47% of the national total farmer households (MAC, 2015), comparing to only 22000 cooperatives in EU countries, and 2106 agricultural cooperatives in the USA by 2014 (Kidd, 2015). But the real status is that the vast majority of the FSCs in China are either fake, forgeries, or deformed commercial organizations, instead of authentic cooperatives (Pan, 2011; Deng and Wang, 2014). The large quantity of cooperatives in China have not delivered expected qualitative change in agriculture and farmer's livelihoods. Not coincidentally, as studies revealed, agricultural cooperative in Central and Eastern Countries which have also been experiencing dramatic socio-economic transitions from collectivization to modern society like China have also remarkably underperformed comparing to their other EU counterparts (Chloupkova et al. 2003; Gijssels and Bussels, 2014). In contrast, with a similar socio-cultural and agricultural setting with China, agricultural cooperatives in Japan, South Korea and China Taiwan have been widely considered successful in enhancing farmers' bargaining power, stabilizing product price, sustaining farmers' income, protecting farmers' interests and strengthening community cohesion.

Although the failure or underperformance of agricultural cooperatives in developing countries has been widely found (Ortmann and King, 2007; World Bank, 2007), the reasons of the failure has long

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<sup>1</sup> The 2015 World Co-operative Monitor [http://monitor.coop/sites/default/files/WCM\\_2015%20WEB.pdf](http://monitor.coop/sites/default/files/WCM_2015%20WEB.pdf)

<sup>2</sup> Co-operative facts & figures <http://ica.coop/en/whats-co-op/co-operative-facts-figures>

<sup>3</sup> The 2015 World Co-operative Monitor [http://monitor.coop/sites/default/files/WCM\\_2015%20WEB.pdf](http://monitor.coop/sites/default/files/WCM_2015%20WEB.pdf)

remained a myth. As Francesconi and Wouterse (2015:263) recently stated, the failure of “agricultural cooperatives operating in the developing world have remained black boxes”. This research, based on the case of FSCs in contemporary China, attempts to reveal the reasons why the cooperative model, although with superficial boom in quantity, has largely failed, and explore what lessons can be drawn from the Chinese case for the other developing counterparts. We argue that there are four major reasons resulting in the failure of FSCs in China: strong social differentiation of the peasantry, market squeeze driven by agrarian capitalization, deficit of social capital and poor policy frameworks and implementation. We believe that under the specific socio-economic and political context of contemporary China, should the social-economic conditions be not changed, FSCs as a development model can hardly succeed.

This paper proceeds as follows. Next section presents the literature regarding the concept of cooperatives, expected impacts of cooperatives, agricultural cooperatives in the world and in China, and the reasons of the failure in developing countries and in China. Then, the third section discusses the research methodology and data collection, and the fourth section presents the situations of FSCs in contemporary China, setting the scene of the failure story of FSCs. The fifth section elaborates on the four reasons with various case studies. The last section presents discussion and concluding remarks.

## 2 Cooperatives and agrarian change

The ICA defines a cooperative as “an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically-controlled enterprise” (ICA, 1995). Following the definition, there are seven fundamental principles guiding an authentic cooperative in 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. In reality, not every cooperative follow all the seven rules. A core or defining rule is that cooperatives are *owned and run by* and *serve for* their members, who have to be both patron and owner simultaneously (Deng and Wang, 2012). One fundamental feature that distinguishes cooperatives from other economic organizations is the superiority of member or individuals to capital (Holmén, 1990; Birchall, 2003). In normal joint stock organizations, the individual who invests the highest amount of capital has the largest say in decision making; that is, capital overtops members. However, in cooperatives, no matter how much share that one member holds, all of them have equal vote in decision making. Another fundamental feature is the “double nature” of cooperatives, representing simultaneously both “a group of persons in the sociological and psychological sense and a joint commercial enterprise” (Bijman et al., 2011: 83). In other words, cooperatives are a mixed form of organization exerting both social and economic functions, and solely emphasizing any single aspect would result in unauthenticity or unsustainability of cooperatives (Valentinov, 2004).

We argue that theoretically there are three fundamental principles defining cooperatives: 1. Independence, 2. Egalitarianism, 3. Enhancement. Independence points to the principle that cooperatives should be constituted by independent producers, marketers, suppliers, or enterprises, instead of hired employees. The independence of members ensures the autonomy and voluntariness of members. The egalitarianism principle is the basis for equal cooperation and democratic decision-making within the organization. It also entails that whatever assets the cooperative has or profit it makes will be shared in egalitarian ways among its members. Each member has the right to enjoy the benefits that cooperation brings. The enhancement principle indicates the ultimate goal of cooperatives should be to bring benefits to members, either through forms of dividend, profits return, price gap, or through technological service, information sharing and so forth. These three principles are organically interrelated to lay the most important features of cooperatives. Enhancement is the motivation for forming cooperatives; independence is about how cooperatives are formed; equalitarianism about how cooperatives are operated and benefits are distributed.

### *Theoretical expectations*

As a form of organizations building on the values of self-help and self-responsibility, cooperatives are particularly needed in agriculture where farmers, especially peasants, frequently face difficulties in the operation of their enterprises independently. Two strands of theories have argued for the importance of cooperatives as a mechanism for serving the interests of small producers in a commodified agriculture. First, in the theoretical tradition of populism, featured by Russian theorist Chayanov, peasant farms have powerful vitality to survive in the future and agricultural cooperatives are the best available venue to protecting family farms and realizing vertical integration in the agrarian transition (Brass, 2007). In Chayanov's view, family farms are superior to large-scale farm in production, and agricultural development should take the road of cooperatives based on peasant family farms, through which peasants can truly benefit.

In a similar vein, Valentinov (2007) amply explained why cooperatives are so necessary in agriculture, or particularly in family farm-based agriculture through the perspective of institutional economics. He argued that due to its distinctive attributes (dependence on nature), agriculture cannot be completely integrated into industrial production, and can only be partly industrialized through appropriation and subsumption. Its attributes also create difficulties in monitoring activities, which can best be addressed by family-based farms. However, family farms are often constrained by its member size and thus operate in small sizes, which makes family farms unable to realize the economies of scale and are frequently weak in dealing with the powerful markets. Agricultural cooperatives can address this dilemma through pooling resources of family farms to reduce transaction costs, and achieve economies of scale without altering ownership. More specifically, as he further argued, economy of scales can be achieved through machinery-pooling cooperatives, specialized service cooperatives; and bargaining power can be raised through marketing and supply cooperatives.

Second, transaction cost theory also provides conceptual support in understanding the essential role of cooperative in peasant livelihoods and agriculture. Through the lens of transaction cost theory, Staatz (1987) pointed out the potential benefits that cooperative could bring to farmers. He contended that cooperative could help farmers to reduce risks and increase bargaining power in dealing with traders; to build countervailing power and preserve market access; to stabilize and increase farmers' income, strengthen rural communities. More broadly, well-functioned farmer cooperatives can also enhance economic efficiency of markets, preserve product quality, provide public goods, and redistribute rights and promote democracy. Furthermore, he highlighted the importance of cooperatives to farmers especially in poor operated markets, where farmers are more vulnerable to opportunism in transaction. This implies that farmers in developing countries where the issues of imperfect markets, and poor institutional arrangements have been widespread particularly need and tend to form cooperatives to address their difficulties.

Researchers have empirically identified multiple functions and benefits that cooperatives can bring to smallholders and agricultural development. Smallholders in developing countries often face market imperfections and failures, but cooperatives help smallholders access agriculture extension, input provision and marketing channels and other favorable opportunities (Fischer and Qaim, 2012). Cooperatives serve as intermediary organization to promote agricultural and rural development through connecting smallholders to innovation system, food markets and other resources (Yang, 2013; Francesconi and Heerink, 2010). Given the unique attributes of cooperatives in sharing and equality, cooperatives have been considered an effective venue to poverty alleviation and sustainable development in the literature of development studies (Birchall, 2003; Spielman, 2008; Wanyama et al. 2008; Getnet and Anullo, 2012; Fischer and Qaim, 2012). International donors and non-governmental organizations have been vigorously promoting farmer cooperative in developing countries (Bernard and Spielman, 2009; Bijman, et al. 2011). As the Secretary-General Ban Kim-moon highlighted in his message for the International Year of Cooperative of 2012 (UN, 2012):

“Through their distinctive focus on values, cooperatives have proven themselves a resilient and viable business model that can prosper even during difficult times. This success has helped prevent many families and communities from sliding into poverty.”

In short, smallholders in agriculture are a disadvantageous group in the developing world. Furthermore, in these countries, market economy and institutional arrangements have been in general poorly developed, which further plunges smallholders into poverty trap. As a form of organization stressing mutual help and social responsibility, cooperatives are particularly needed in agricultural and rural development. However, the situations of cooperatives in developing countries have been full of failures and disappointments, which will be further discussed in the next section.

### *Disappointments in practice*

It has been widely revealed that although cooperatives can bring many positive impacts to agriculture and rural society, the performance in the developing countries has been exceptionally poor and the organizations very prone to failure (Ortmann and King, 2007; World Bank, 2007; Francesconi and Wouterse, 2015; Badiane, 2016). Researchers have attempted to uncover the “black box” of cooperative failure in developing countries. Chloupkova et al. (2003) compared the experiences of the cooperative movement in Denmark and Poland, and found that cooperatives had been more successful in Denmark than in Poland. One major reason is the social capital in post-socialist Poland was destroyed by the communist regime, which caused significant deficit of trust among people. Cooperatives are built on mutual trust, without which cooperatives cannot be organized, operated and maintained. Similar findings have also been found by (see also Forgács, 2008; Lissowska, 2013, Gijssels and Bussels, 2014). Lack of social capital, trust, or cultural codes of cooperation has also been widely identified in Chinese FSCs (Fan, 2011; Xu et al. 2011; Pan, 2011; Xu, 2012). Closely related with lack of social capital is the deficit of entrepreneurship and leadership in cooperatives in agriculture (Forgács, 2008; Francesconi and Wouterse, 2015). Cooperatives are not profit-maximizing organization, and often have much lower profitability than other commercial corporations (Boone and Özcan, 2014). Therefore, successful cooperatives need altruistic leaders with virtues to mobilize the members, without which cooperatives can hardly be established or sustained (Murray, 2004). The requirements of cooperative leaders are demanding, not only moral virtues such as integrity, honesty, and sacrifice, but also excellent management skills. Lack of sufficient well-qualified leaders is an important reasons for the failure of cooperatives in developing countries.

Strong state intervention has also been accountable for the failure of cooperatives in developing countries (Holmén, 1990; Brass, 2007; Markelova, et al. 2009). Tom Brass (2007) analyzed the failure of agrarian cooperatives in Peru, and found that the main reason lied in the powerful state bureaucracy blindly enforcing policies to the powerless peasantry. In Ethiopia, farmer cooperatives have been initiated to follow government plans, and the aim became to grab subsidies, instead of serving farmers themselves (Francesconi, 2008, similar findings in Ghana by Francesconi and Wouterse, 2015). In China, the majority of FSCs are organized through top-down approach by government officials or elites, instead of bottom up by smallholders (Fan, 2011; Liang and Hendrikse, 2013). The government relies on cooperatives to demonstrate the effectiveness of the policies, which severely distorts the functions of cooperatives as an autonomous organization (Xiong, 2009). Inappropriate policies have also been attributed to the failure of farmer cooperatives in development countries.

Another important but little mentioned factor is the social differentiation of rural society alongside the modernization and marketization processes in developing countries. Researchers have noted the enlarging heterogeneity of farmers engendered by social differentiation in impeding rural cooperation in China (Lin and Huang, 2007; Xu, 2011; He et al. 2012; Yan and Chen, 2013). He et al. (2012), based on an in-depth analysis of a case cooperative from north China, pointed that rural social differentiation caused significant difference of resource endowments of farmers. Farmers with unequal resource endowments have different demands from cooperatives and difference power to satisfy their

demands, resulting in cooperatives dominated by farmers with higher resource endowments, and farmers with lower resource endowments marginalized in the organization. Zhao (2015) outlined five rural strata driven by social differentiation in contemporary China, and distinguished the different cooperative willingness and cooperative capabilities of each stratum. According to his observation, two groups of farmers, part-time farmers and large-scale commercial farmers, have the strongest cooperative willingness and capabilities, and therefore become the mainstay and leadership group of contemporary cooperatives. Small-scale, poor peasant farmers, which actually mostly need help from cooperatives, do not have enough resources to benefit from cooperatives. In consequence, cooperatives are controlled by the rich and powerful, owning the majority of stock ownership and most decisive say in the organization, with the poor being marginalized and barely gaining any benefits. In this sense, social differentiation hinders the function of poverty alleviation of cooperatives to a great degree.

We argue that the existent theories have four theoretical flaws. The first is that in conventional theories, smallholders are taken as abstract and economically rational individuals, without social, cultural and political backgrounds. In the sense, cooperatives are indeed of necessity and feasible instrument for smallholders to realize scale economy and resolve opportunistic behaviors. However, merely stressing the transaction cost effect of cooperative may overlook the intricate social, cultural and political relations that smallholders are actually embedded in. These relations may define and impact the cooperative behaviors of smallholders.

Second, conventional cooperative theories are based on the premise that all farmers are generally homogeneous, with common needs and similar level of resource endowments. However, the reality is that significant differentiation has been occurring and heterogeneity has kept rising in rural society in developing countries, which has brought great impacts on the cooperative behaviors of farmers. The group of farmers are never monolithic anymore alongside modernization and marketization, but have differentiated into different strata. Each stratum has different needs and resource endowments, and requires different pathways to accomplish it. The increasing heterogeneity brings significant challenges to the establishment and operation of cooperatives.

Third, previous cooperative theories assume the persistence of peasant farming, and assert that peasant family farms can withstand the powerful trends of agricultural industrialization and capitalization. They believe that the mode of peasant farming has unique features that industrialized agriculture does not possess. However, they failed to recognize the overwhelming dominance of agribusinesses in front of peasants, and the agriculture-related markets have largely been occupied by commercial agribusinesses, left little space for cooperatives. Furthermore, conventional theories failed to recognize the dramatic development of non-farm economy and rural out-migration, which further diminishes the peasant mode of life. Agricultural income only take a minor proportion in the overall income of peasant families.

Fourth, conventional cooperative theories tend to ideally emphasize the spontaneity and voluntariness from members, and autonomy of cooperatives. They romanticize the agency of the weak grassroots and neutralize the role of the state. However, in many cases, the state intervenes the society, particularly in developing countries. As for cooperatives, the state has taken various measures to support, regulate, and guide the cooperatives. Without taking the state into account, many phenomena related with cooperatives cannot be fully understood.

Last, most of the empirical studies only present the findings and have not provided sound theoretical explanations to the failure or underperformance of cooperatives in developing countries. Our research, drawing on extensive and in-depth case studies from China, provides a comprehensive understanding of the failures of cooperatives in developing countries. We argue that existent cooperative theories failed to take the cost of social mobilization into account, and thus failed to provide appropriate explanations to current status of cooperatives in developing countries. We argue that four major elements are attributed to the failure or underperformance of cooperatives in the developing countries:



social differentiation of peasant society, market squeeze imposed by agrarian capitalization, deficit of social capital of the society, and inappropriate state intervention. These four factors are widely found in developing countries, and cooperative movement can hardly succeed without fundamental changes of the four factors. Previous cooperative theories depict a promising blueprint for smallholders in developing countries, but it proves to nothing more than a mirage, which looks so beautiful but is just an illusion.

### **3 Research methodology and data**

The data drawn on in this research derives from multiple and long-term fieldtrips across China from 2009 to 2015, as a part of a comprehensive research project on agricultural and rural changes of contemporary China. Our research method tries to address two major deficiencies we found in the existing studies of cooperatives in China.

First, many studies reached their conclusions only basing on a very small number of cases (one or two cases). In contrast, we collected 50 in-depth case studies of various types of FSCs through six-year-long fieldwork in 18 provinces or regions of China. Our cases are drawn from all seven macro-geographic regions of China and include cooperatives specializing in all major types of agricultural products except aquaculture.

In selecting our cases, we opted for a typical-case approach instead of random sampling. We purposely selected the most famous or national or regional demonstration cooperatives, based on the assumption that if the most famous or demonstration cooperatives perform badly, it is reasonable to infer that the less famous majority would have even less likelihood to perform well. This approach was feasible to practice, because every year Chinese central government and all levels of local governments select and award a certain number of cooperatives as demonstration cooperatives.

Second, another strand of empirical studies are based on limited questionnaires which are often accomplished through interviewing cooperative leaders (e.g. Bijman and Hu, 2011; Jia et al. 2012). There are two methodological deficiencies here. One is that taking questionnaires as the only data source may omit important information about processes and “why” questions. Questionnaires are pre-determined, and can hardly adapt to the extremely diverse reality. To address this issue, we adopted in-depth interview as our main method. In data collection, we did not only ask the basic information that questionnaires often provide, but also or more importantly, we collected information about the processes or the “biography” of the cooperative from establishment until present, and asked a lot of “why” and “how” questions that structured questionnaires can hardly cover. Another related problem is reliance on one group of informants, which, we believe, may significantly distort the real situation. For instance, cooperative leaders may well aggrandize or glorify the performance of their cooperatives for their own good, which as a result greatly alters the real picture. In the fieldtrip, we frequently encountered with the situation that the leaders told us a very successful story, but the members gave a completely different one. In our data collection, we insisted on interviewing multiple stakeholders of the cooperative, including local government officials, cooperative leaders or managers, cooperative employers, member farmers and neighboring non-member farmers, and other market actors.

To collect complete data, we also revisited a couple of cases during our fieldtrips to complement the data obtained from the first time. Therefore, we believe our data not only provide a comprehensive and up-to-date picture of China’s FSCs, but also shed light on the reasons that why only a few cooperatives succeed and the majority failed in the end, which is the focus of our present article.

## 4 Understanding the Failure of cooperatives in China

### *Underperformance of FSCs in contemporary China*

In China, farmers' cooperatives have existed since the early twentieth century. In the 1930s, Chinese intellectuals, such as Liang Shuming and Yan Yangchu, raised the first wave of rural cooperative movements, attempting to fix Chinese society under the invasion of western forces. After the coercive socialist collectivization period, grassroots cooperatives begun to reemerge in the market reform era from 1980s. Particularly, the number of farmers' cooperatives started to increase rapidly since the end of twentieth century. However, it was until 2007 that China launched the first cooperative law, named "Farmers' Specialized Cooperative Law" (FSCL), which provided comprehensive legitimate framework for cooperative development in China. FSCL and attached supportive policies markedly promoted the blowout of FSCs in China. According to MAC, by the end of June, 2013, there had been 828 thousand registered FSCs, about 32 times of the number of 2007 (Tang, 2013). And the latest figure is 1.5 million by October, 2015, and about 99.97 million farmer households have joined in cooperatives (MAC, 2015).

Agricultural cooperatives in China are addressed farmers' specialized cooperative (*nongmin zhuanye hezuoshe*) by law, which defines a FSC as "mutual-aid economic organizations joined voluntarily and managed democratically by the producers of the same kind of agricultural products or by the suppliers or users of services for the same kind of agricultural production and operation, based on the fundamental household responsibility system" (FSCL, Article 2).<sup>4</sup> It should be noted that as discussed above, although cooperatives should possess "double nature", only the economic aspect was given priority in the Chinese context, significantly downplaying the social-cultural facet. Specifically, the Law confines cooperatives within the production domain and cooperatives should be specialized economic organizations, excluding other forms of cooperative organizations, such as credit cooperatives, cultural cooperatives/ associations, and community-based cooperatives. The article 3 of the FSCL states five principles that FSCs should follow, "1. The members constituted mainly by farmers; 2. The FSC's mission should be to serve their members, and to work for their common interests; 3. Members are free to join and withdraw from membership; 4. Members enjoy equal status and democratic management must apply; 5. Profits should be distributed proportionally according to the volume of the transactions between the cooperatives and their members (FSCL, Article 3)."<sup>5</sup> Put it simply, the five principles can be simplified into: patron-owner unity, voluntary participation, democracy, and dividend distribution. It can be easily noted that the fundamental principles of FSCs remain consistent with those provided by the ICA, except from the last two: cooperation among cooperatives and concern for community. Therefore, FSCs in China operates in similar framework to other international counterparts.

Although with dramatic expansion in quantity in recent years, many studies have revealed the underperformance of FSCs in contemporary China (Tong and Wen, 2009; Xiong, 2009; Pan, 2011; Lammer, 2012; Xu, 2012; Deng and Wang, 2014). Tong and Wen (2009) argued the rapid growth of FSCs in China is superficial prosperity, and most of FSCs had the problem of "peasant farmers eaten up by large-scale rich farmers" (*danong chi xiaonong*), which suggests that cooperatives are controlled by elite farmers and peasant members are taken advantage of and cannot really benefit from the transaction. Deng and Wang (2014), based on a few case studies from Fujian Province, found that the vast majority of Chinese cooperatives did not match the qualitative nature of cooperative, measured by the core rule of "patron-owner unity". Deng and Wang (2014) also found the widespread phenomena of elite capture, echoed with Tong and Wend (2009). Some practitioners or experts evaluated that in China only about 5% to 20% of FSCs are real cooperatives, and the rest are either fake or commercial

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<sup>4</sup> The Central Government of China: [http://www.gov.cn/ziliao/flfg/2006-10/31/content\\_429392.htm](http://www.gov.cn/ziliao/flfg/2006-10/31/content_429392.htm) (accessed on October 28, 2015)

<sup>5</sup> The Central Government of China: [http://www.gov.cn/ziliao/flfg/2006-10/31/content\\_429392.htm](http://www.gov.cn/ziliao/flfg/2006-10/31/content_429392.htm) (accessed on October 28, 2015)

organizations (Yuan, 2013; Yan and Chen, 2012). Also, FSCs in China have been established mainly from top down rather than bottom up. Based on a national sample covering 758 villages, Xu et al. (2011) found that only 18% cooperatives were established by farmers themselves, and 69% were promoted by local government officials.

Besides academic research, social media have also frequently reported stories about fake, shell cooperatives. Economic Information Daily sponsored by Xinhua News Agency reported the serious phenomenon of fake FSCs in six provinces of China, and pointed that FSCs had many problems such as blindfold expansion, chaos internal management, subsidy grabbing and so forth, which remarkably weakened the performance of cooperatives (Economic Information Daily, 25 February, 2013). People's Daily reported widespread cases of illegal fund-raising by credit cooperatives. One well-known case occurred in Nanjing City, where a fake credit cooperative cheated 200million Yuan from 200 people (People's Daily, 14 April, 2015). Our research reveals similar, if not worse, situations of FSCs in contemporary China as the following section shows.

#### *Four types of failures: the findings*

We categorized our 50 cases into five types based on our standards<sup>6</sup>: 1, Shell cooperatives (15 cases); 2. De facto private agribusinesses (29 cases); 3. De-cooperativized cooperatives (1 case); 4. Cooperatives that have ceased operating (3 cases); 5. Genuine cooperative (2 cases). Shell cooperatives point to fake, empty cooperatives that do not have any attributes of an authentic cooperative. In reality, shell FSCs only have an office with a plaque hung on the front door, and they do not have any membership, institutional design, management rules and so forth, let alone cooperative activities. Due to loose regulation on cooperative registration, a person just need to borrow five identity cards from relatives or friends to register a cooperative in local governments without any inspection. Registered capital can be any amount, which are often exaggerated. Shell cooperatives are mostly set for grabbing state subsidies or other beneficial policies.

De facto private agribusinesses are “cooperatives” that are actually commercial organizations or private businesses. They are formed by commercial or governmental elites, without mobilizing and organizing ordinary farmers. In general, these private agribusinesses have satisfied the essential conditions, both hardware facilities and institutional arrangement. However, the key defining feature is that all the private agribusinesses conduct transactions with members in a completely commercial manner, without a consideration of extra benefits to members. Put it another way, there is no difference for farmer members to do transactions with these cooperatives and with other market enterprises. In these “cooperatives”, the ownership is controlled by only a few elites who invest the most registration capital; and therefore, ordinary members do not have decision right on the operation of the organization. The profits also belong to the leading group, instead of farmer members. Therefore, different from the shell cooperatives, the private agribusinesses have transactions with farmers, but without cooperation in between. One main reason for the establishment of private agribusinesses is that the funders want to grab subsidies in the name of cooperative. As we evaluate, the majority operating FSCs in China are commercial and private enterprises, instead of cooperatives.

De-cooperativized cooperatives are the organizations that started as authentic cooperatives but were converted into commercial enterprises or other non-cooperative organizations in their life cycle. As researchers already contend, the overall profitability of cooperatives are generally lower than commercial forms because cooperatives have more social responsibilities, and profit maximization is not the ultimate goal of cooperatives. Lower profitability often renders cooperative unsustainable in operation, and then commercial capital may take over the cooperative to purchase profits in the name of cooperative, and in the end, the authentic cooperatives become commercial enterprises, and

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<sup>6</sup> It needs to state here that in judging the authenticity of cooperatives, we loosed the principles by removing the principle of democratic management. In China, democratic management of cooperatives is largely nonexistent.

ordinary members become marginalized in the organization. Due to the small number of authentic cooperative in China, therefore, there are only a limited number of de-cooperativized cooperatives in reality. De-cooperativization mostly happens in credit cooperatives, where private capital or outside investors are more willing to join to seek for profits. One example is a credit cooperative in Jilin Province, which started as a really authentic, bottom-up, and successful cooperatives. However, in subsequent stages, the leading group decided to focus on credit services, and started to absorb deposit from members within the village and outside. In the end, the outside investors became the largest stockholder, and controlled the cooperatives. The farmer members became marginalized in the management and revenue redistribution. Although farmer members can still benefit somewhat from the transactions, this cooperative is not an authentic cooperative anymore, but a vague organization with mixed features of cooperatives and private enterprises.

Cooperatives that have ceased operating refers to the cooperatives that often started as authentic cooperatives but completely failed or shut down due to various reasons. There are not many in this group because authentic cooperatives have been always rare in China. One example is the famous Xijia FSC in Lishu County, Jilin Province. Xijia FSC was a very authentic, bottom-up, and nationally well-known cooperative, established by a rural woman of ability. It had been selected as national demonstration cooperative from 2003 to 2014. However, when we visited it in August, 2015, the cooperative had been completely shut down, and the charismatic leader Ms. Zhang disappeared without a trace for six month. We did not have the chance to interview the leader, but we did interview some members and other villagers to obtain a rough picture of the cooperatives. According to the interviews, the reasons of the failure included poor management skills from leaders, insufficient support from government, unfavorable market conditions and less dedication from the leader.

The fifth type are genuine cooperatives. Despite our best efforts, we found only two among our fifty case studies. Both of these co-ops possess dedicated and competent leaders who have helped their organization withstand various challenges. In practice, they continue to provide benefits to members and follow the fundamental principles of cooperatives.

Therefore, either from academic literature or social media, or our own findings, it became evident that the model of FSCs has been in severe plight; or more straightforwardly, although Chinese government has enthusiastically promoted the development of FSCs for nearly a decade, FSCs have largely failed in contemporary China. We will elaborate on the underlying reasons of the failure in next section with details of case studies.

### *Dissecting the failure of cooperatives in China*

#### *Social differentiation of the Chinese peasantry*

Classical Marxists have highlighted that social differentiation of peasantry in the process of agrarian capitalization would be a great barrier for agrarian cooperatives, in which rich and powerful peasants control cooperatives and marginalize poor peasants (Brass, 2007). More than three decades of marketization has been accompanied by a gradual process of agrarian transition in China. Agrarian capitalism has gained development and the peasantry class has been experiencing significant social differentiation in rural China (Zhang and Donaldson, 2010). Researchers categorized peasantry differentiation into different groups based on different criteria. According to the position in the capitalist agriculture, Zhang and Donaldson (2008) found six different strata of peasants emerging in contemporary China: commercial farmer, entrepreneurial farmer, contract farmer, semiproletarian farm worker with Chinese characteristics, semiproletarian farm worker and proletarian farm worker. He (2011) grouped Chinese farmers into five strata based on the farmer-land relationship: non-farming rural residents, semi-worker semi-farmer, in situ part-time farmer, ordinary full-time farmer, poor/disadvantaged farmer. In a similar categorization, Zhao and He (2012) found the differences of cooperative participation willingness and capability in five groups. Researchers have found that peasant differentiation leads to strong heterogeneity of demands and capabilities, which have great

repercussions on the operation of cooperatives (Lin and Huang, 2007; Zhao and He, 2012). Given cooperatives are largely constituted by a group of members with common demands and interests, heterogeneity can be a fatal obstacle for cooperation (Putnam, 2000). The formation of cooperatives is supposed to be taken by a close homogenous group, with common demands and interests, and with expansion of the cooperative, heterogeneity may grow (Valentinov, 2004). However, the social differentiation has been destroying the previous close homogeneous rural society, and engendered dramatic stratification among the peasantry, and demolished the social prerequisite for cooperatives. In consequence, rich, large-scale, commercial farmers frequently take the largest share in the cooperative, and in decision-making, they have much larger decision right than ordinary farmers. The cooperatives operate to purchase profits as much as possible for the leader group, and pay little attention to their social responsibilities for the ordinary members. In other words, these cooperatives experienced elite capture, and mostly belong to the abovementioned commercial FSCs.

In our cases, most of the commercial FSCs were established by large-scale, rich, commercial farmers, and in turn they take the cooperatives as private enterprise, instead of mutually-owned cooperatives.

#### **Case study: An Asparagus FSC in Yongji County, Jilin Province**

Mr. Lu is called the “King of Asparagus” by local people because he was the first in Northeast China to develop techniques of greenhouse asparagus. His family has been specialized in large-scale cultivation and marketing of greenhouse vegetables for many years. He acquired commercial and technical experiences in his migrant work many years ago and went back to hometown to plant high-end vegetables, such as asparagus, okra and so forth. He is the largest vegetable farmer in the town, with 48 hectares of greenhouse, and most of the product are exported to foreign countries. To achieve larger scale and more profits, he established an asparagus cooperative, with about 100 member farmers. Lu is the largest stakeholder in the cooperative, and most of the members are small-scale vegetable farmers. In the cooperative, Lu provides some technological and marketing services regarding vegetable cultivation to members through commercial transaction. There is no dividend distribution and democratic management at all. In essence, the cooperative is profit-oriented private agribusiness run by an elite farmer.

In this case, we can see that there is a distinctive line between Lu and ordinary farmers, who are from two different social strata. As an elite farmer, Lu has techniques, capabilities and resources to lead and dominate the cooperatives, and his demands are to purchase more profits through selling his experiences and marketing product in a larger scale. Therefore, for him, establishing the cooperative was for profits, not for satisfying common needs from other vegetable farmers. The small scale vegetable farmers need techniques and marketing channels, and they do not have enough resource and capabilities to establish a cooperative themselves. Therefore they join in Lu’s cooperative to meet their demands. The cooperative was set not by small-scale farmers who have common difficulties, and thus not for the common interests either. The dividend rights and voting rights of the members have been deprived, and transferred to the hand of Lu. Objectively, small-scale farmers did to some degrees meet their demands, but this transaction is a market behavior instead of cooperation. Hence, this cooperative is actually a commercial enterprise. Similar model has also been found in a hazelnut cooperative in Kaiyuan County, Liaoning Province. Echoed with our finding, Zhang (2009) found that the large-scale farmer led or controlled cooperatives have been the mainstream form of Chinese FSCs.

#### *Market squeeze driven by agrarian capitalization*

Market squeeze driven by agrarian capitalization is a rarely highlighted reason for the cooperative failure in the literature. From the perspective of transaction cost theory, farmers form cooperative because they have difficulties in acquiring essential services from private enterprises, or corporations, and through formation of cooperatives, farmers may push private firms to improve their services

(Staatz, 1987). Therefore, in general, private firms, instead of cooperatives, provide the most efficient services to farmers if the market runs smoothly.

Cooperatives have multiple functions in comparison to private corporations, not only providing economic benefits, but also having social, cultural and even political missions to fulfil. In China, the government confine the cooperative within the domain of economic organization, excluding other comprehensive social and cultural organizations, let alone political ones. However, in many cases, the economic functions of cooperatives have been well provided in the market by private agribusinesses; therefore, farmers do not have strong incentives to form cooperatives. They can obtain decent services from markets in a more efficient manner, why bother cooperatives which is much more time-consuming but with low benefits? One case from Shaan'xi Province can vividly illuminate this point.

**Case study: “we do not need cooperatives”**

Liulin Township in Shaan'xi Province has perfect climate and geographical conditions for apple production, and has become a nationally well-known specialized mountain apple production base in recent years. In promoting the apple production base, the government has taken great efforts, including providing technological guidance, facility subsidies, marketing information, brand promotion and so forth, so that Liulin apple are very popular in market and sold to all over China and even exported to EU and USA. Therefore, apple farmers in Liulin do not worry about techniques and marketing, which they can easily access via either from government support or from commercial corporations. Mr. Chang is a local apple farmer, with around one hectare apple land and annual income of one hundred thousand RMB. He received subsidies for apply sapling and free anti-hail net from local government. For apple marketing, there are many traders coming to their village to purchase in the field because of the large volume in the township. When we asked why did not form a cooperative, he asked firmly that: “we never thought of it. We do not need cooperatives”.

In this case, we understand that the formation of cooperatives is based on the need of farmers, and the economic functions of cooperatives is substitutable by alternative organizations. When the services and infrastructures have been provided sufficiently, the incentives of forming cooperatives are in general low. It is true that a cooperative may help farmers achieve slightly better market prices, but the cost of organization and participation of cooperatives often outweighs the little price benefits from it. In maintaining a well operated local market and public services, the local government plays a vital part in the process. Similar situations can be referred to other government sponsored specialty markets, and one well-known example is Shouguang vegetable base in Shandong Province, China (Huang, 2010). Therefore, economic cooperatives are not needed by every farmer in every rural community. Blindly promoting cooperatives nationwide only demolishes the initiatives of farmers, and distorts the voluntariness and independence of cooperatives in China.

Except the pressure from local governments, FSCs also face intense competition from powerful agrarian corporations in China, where agrarian capitalization has been constantly deepened since its market reform (Zhang and Donaldson, 2008). The conditions of Chinese agricultural commodity markets have made dramatic progression (Huang and Rozelle, 2006). Agribusinesses have always been playing a dominant role in Chinese agriculture, with considerable supports from governments, and exacerbated by recent promotion of commercial capital going to countryside (Ziben xiexiang) (Tong and Wen, 2009). As a result, the expansion of agribusinesses and external capitals greatly squeezed the market space for cooperatives which face formidable competition pressure from commercial enterprises. Even if cooperatives are established, they more often than not become an agency between agricultural enterprises and farmers, are controlled by and serve the commercial enterprises, and therefore hardly fulfill their mission of protecting farmers (Xiong and Shi, 2011; Fan, 2011; Feng, 2014; Yan and Chen, 2015). Cooperatives alone still cannot compete with powerful agribusinesses.

In fieldwork, we often heard from farmer members stating that although they are in cooperatives, they sell products to anyone. One reason is that the regulation of the cooperatives is loose, and does not have control power on members. Another reason is that the cooperatives do not have abilities to compete with other economic organization and to influence the market price, and therefore fail to fulfil the “countervailing market power” function.

Besides, the market of agricultural supply and marketing services have been occupied by commercial agribusinesses, and cooperatives are crowded out in the markets. As a cooperative training participant stated:

At present in the village, the large-scale profitable projects are undertaken by dragon-head agribusinesses; small-scale profitable projects are managed by rural elites; other profitable projects are conducted by small traders. In the market, a systematic interest chain has been formed, gradually developing into monopoly interests...(original quote from Pan, 2012: 143; secondary quote from Yan and Chen, 2015)

In the process of marketization and capitalization, farmers are frequently situated in a disadvantageous and exploited position relative to powerful corporations. Therefore, cooperatives are needed objectively to enhance the position and bargaining power of farmers. However, the powerful and overwhelming dominance of commercial agribusinesses laid formidable barriers on the road of genuine cooperation. Moreover, the other socio-economic, cultural and regulative conditions for cooperatives have not been matured in contemporary China; therefore, it would not be surprised by the fact that cooperatives cannot manage to operate independently and competitively in front of other more powerful market players (Fan, 2011).

Lastly, it should not be neglected that in contemporary China, the income from agriculture has largely remained unchanged in the constitution of rural household income. Salary income acquired from employments in other sectors has been the largest part in the rural income (Yan and Chen, 2015). Consequently, the decreasing attractiveness of smallholder agriculture has further made farmers’ interests in cooperatives less and less. Farmers’ low interests and incentives in participation of cooperatives has been not only due to the minimum survival space of cooperative, but also because of the low profitability of smallholder agriculture in the competition with other non-farm employments.

#### *Leadership deficit, lack of social capital, and the predicament of collective action*

Formation and operation of cooperatives are in essence a series of coordinated collective actions of a certain number of individuals. However, collective actions are not easy to achieve, but need strong social and cultural foundations, or in another term, social capital (Putnam, et al. 1993; Ostrom, 1994; Woolcock, 1998; Putnam, 2000; Ruben and Heras, 2012; Nilsson et al. 2012). Cooperatives as a form of collective action are a heavily social capital based organization (Valentinov, 2004). Researchers have different definitions on social capital, but most agree that social capital refers to a set of interconnected social norms including trust, reciprocity, networks and institutions (Valentinov, 2004). To better understand the complexity, some researchers distinguish the contents of social capital into two categories: structural social capital and cognitive social capital (Uphoff and Wijayarathna, 2000; Valentinov, 2004). The structural form refers to “established roles, social network and other social structures”, and the cognitive form includes “shared norms, values, trust, attitudes, and beliefs” (Valentinov, 2004:10). These elements are closely linked. “Trust and reciprocity provide the core links between networks and collective action and are considered most relevant factors for enhancing voluntary cooperation”; and institutions “represent the (in)formal rules for structuring social relationships”, and how institutions are incorporated into governance determines the level of reciprocity and trust (Ruben and Heras, 2012: 467-68). Therefore, if we view collective action as the result, high levels of trust and reciprocity are particularly essential. Or more vividly, Koutsou et al. (2014:210) made a pertinent metaphor:

“Trust is the root of a tree, the foundation, what lies beneath but cannot be seen. Networks are the leaves and truck of the tree. Under a set of conditions, the tree may yield fruit, which stand for collective actions in this example. None of the aforementioned parts can be solely and separately considered as a tree, as social capital. What is sought by society is fruit, the collective action, that is the actual value of its social capital (if any), which will lead to development”.

It can be seen that the importance of trust in collective action has been particularly highlighted. Without trust, the network is unable to create effective action. In this article, we mostly focus on the most severe issue of social capital in China, the deficit of trust, to illustrate how low level of social capital impedes the formation and operation of cooperatives.

In transitional China, the overall social capital has been significantly weakened thanks to long-term penetration of marketization and modernization. Interpersonal trust has declined to an alarming level. Traditional Confucian culture which emphasizes collective interests and reciprocity has been gradually replaced by increasing individualization (Yan, 2010). These all have implications on the cooperative movements. The internal trust within cooperatives are generally low. Farmers do not trust the leaders and deeply doubt the public good aspects of cooperatives. In fieldwork, we looked for cooperation, trust, belongingness, but what we heard was distrust, complaints, suspicion, apartness, and disappointment. The participation of cooperatives are based on networks and face-saving culture, which does not create trust. In other words, farmers joining the cooperatives does not because they believe the organization can bring benefits to them, but because they do not want to lose face in front of the organizers. They are all from the same community and have networks with each other. Testimonies are countless, just to name a few:

*A crop cooperative manager from Tieling, Liaoning: The problem of trust is very severe in cooperatives. Members do not trust the leaders, they do not want to share their resources such as land to the cooperatives, they do not trust the leader, also do not trust the policy. They do not want to lose their own interest.*

*A dairy cooperative member from Kaiyuan, Liaoning: The leader just borrowed our identity cards to register a cooperative, after that he did not do anything beneficial to us. He is selfish, only thinking about his own interests. He only takes advantage of us. Now many members retreated from the cooperative, and we would rather to do business with the commercial company in our dairy community.*

*A former rice cooperative member from Lankao, Henan: the leaders are selfish. They never really think of the members. They established the cooperative only for their own interests. We do not trust them, so we retreated from the cooperative.*

We can see that without trust, even if the cooperative is established in form, it won't operate well, or last long. Another relevant issue is the leadership. The formation and management of cooperatives need trustworthy and dedicated leaders, whose identification is based on trust from members and reputations accumulated in the community (Markelova, et al., 2009). However, in reality, this kind of leadership is extremely rare in contemporary China (Fan, 2011). The individualism and development of economy-first culture in rural China have squeezed out the social culture soil for ideal leadership for cooperatives, which in general have lower economic profitability than other organizations. Even though so many people including agribusiness bosses, government officials, and rural elites are enthusiastic to establish and lead cooperatives, farmer members do not really trust the voluntariness and alleged commitment of these leaders, who actually take advantage of cooperatives and the members to pursuit personal instead of common interests. There are cases that cooperatives were established at the beginning based on strong trust and high level of reciprocity among members and leaders within a small grassroot group. However, in subsequent life period, the trust was demolished



by the poor performance of the leaders, and the cooperative may be terminated. An example can be referred to two famous FSCs from Jilin Province and Henan Province.

**Case study:** a FSC in Lishu County, Jilin Province

This cooperative was one of the first and also one of the most famous farmer cooperatives in post-reform China. It was established by a local, dedicated woman who hoped to help raise farmers' bargaining power in the market and conduct mutual helps among community. It was quite successful at the beginning, and had been selected as national demonstration cooperative for more than ten years. The cooperative had well-designed and authentic institutions, and did bring benefits to members through collective supply purchase and productive marketing. However, in recent years, the leader group made wrong decisions on establishing new processing factory, and rumors had raised about the selfishness of the leader. This broke the trust among the members, and the cooperative finally shut down in 2015 and the leader had disappeared without trace when we visited in August, 2015. We did not meet the leader, but heard many complaints and disappointments from villagers and members.

**Case study:** an organic rice FSC in Lankao County, Henan Province

This cooperative was established with substantial help from high level government officials and university professors. The leaders were the village head. Farmers join the cooperative not because of the village head, but because of the high level government official, who gave substantial organizational help in the whole process of formation. The cooperative also went well under the supervision of the official, and successfully made their own organic rice brand. Farmer members did get some benefits from the cooperatives. However, after the official was dispatched away, conflicts arose in the leader group, and due to poor management skills, the leaders failed to establish a rice processed factory, and led to cooperative at severe loss. Distrust and conflicts started to permeate in the cooperatives, and many farmers retreated the cooperatives. Finally, the cooperative was shut down in 2009, and the village head transferred the asset into his private company. Later, he tried to establish another cooperative, but many farmer did not trust him anymore. The membership of his "commercial FSC" remained low.

The two cases reveal that a trustworthy leadership is of vital importance to cooperative, and it emerges from trust and also may destroy trust if it deteriorates. Assistance from outside cannot replace the internal social capital which determines the long-term life course. Well qualified cooperative leaders are extremely rare in rural China; and be it that someone are willing to dedicate himself/herself to cooperatives, other factors such as management skills and external changes may also destroy the trust and in the end the cooperative itself. In our cases, the leaders of the vast majority of our case cooperatives are either commercial elites or village cadres, who may have good management skills but without dedication, sacrifice, and deep trust from members. Therefore, most of these cooperatives are commercial enterprise, not cooperatives.

It is important to note the dynamic relationship between social capital and cooperative. In the cooperative life cycle theory, social capital matter significantly at the beginning of the establishment of the cooperative, but may decrease along with the development of the organization, which requires the governance structure of cooperative makes corresponding changes to sustain the organization (Deng, 2014). But what we discuss here is that we do not even have the most fundamental threshold social capital for the initial establishment.

*Policy mismatch: misguidance from the above*

Most researchers agreed that successful farmer cooperatives should be supported by the government (Deng et al. 2010; Koutsou, et al. 2014; Huang, 2015). Drawing on cooperative experiences from JKT, Huang (2015) argued in a strong tone that the government should play a leading role in FSCs movement in contemporary China. At the same time, however, authentic cooperatives are supposed to be established in a spontaneous, bottom up, and voluntary manner. Therefore, the tricks are how and to what degrees the government should support farmer cooperatives. All levels of Chinese governments have taken great efforts to encourage and support FSCs in recent years, but the effectiveness has been largely disappointing, significantly misguiding the directions of FSCs. Three aspects are discussed here in details.

First, contemporary policy support in China has been one-dimensional, material-oriented or subsidy-based, without considerations of “software” construction such as social and cultural facilities. Even the material-oriented policies have been largely ineffective in promoting authentic cooperatives.

We admit that subsidies are important indeed; especially at the initial period, most cooperatives have high financial pressure. Subsidies can help them extend their services, consolidate their operations and sustain the organization. However, we found that the subsidy policy itself had critical problems. One is that the subsidizing process is not well regulated and lack of transparency, leaving plenty space for rent-seeking or corruptions. One cooperative manager stated that not every cooperative could get subsidies, maybe only less than 10 percent can get them, frequently through informal connections of cooperative leaders with the governmental sectors instead of other proper reasons. The poor regulation and transparency on subsidies is one major reason for so many shell FSCs that were forged to grab state subsidies. Another issue of subsidy policy is that in many cases, the policy only supports the large-scale, strong FSCs, the newly-established, small FSCs can rarely obtain any subsidies (see also Fan, 2011). Given the majority of large-scale demonstrational FSCs are actually private-owned enterprises as our research and previous studies collectively revealed, the subsidy without doubt ends up in the hand of private owners, instead of the cooperative members. From the perspective of governments, local officials need the strong cooperatives to showcase the policy effectiveness, hence it is a rational choice for them (Tong and Wen, 2009; Xiong, 2009). Subsidy does not come for free, but with control and compromise involved. For example, one manager of the successful Yongji cooperative stated that they wanted to remain self-made and independent, so they did not apply subsidies from the government. Because subsidies are channeled to big cooperative, newly established, immature cooperatives cannot have the opportunities to obtain helps, worsening their developmental trajectory. Therefore, it is fair to say that the subsidy policy toward FSCs has been largely a failure, and in effect most of the funding was grabbed by local elites, instead of benefiting farmer members. Objectively, and ironically, the subsidy policy encouraged the emergence of shell FSCS and increased the registered number of FSCs in China.

Solely focusing subsidies reflects the incapability from the state to promote FSCs with better efforts. As we revealed earlier, for Chinese cooperative movement, subsidy is not the most important issue. How to address the organizational dilemma caused by strong differentiation within peasantry and rural society, and poor social capital featured by low levels of trust and poor leadership and alike are far more important and decisive for Chinese FSCs. For contemporary rural China, rebuilding the destroyed interpersonal trust, restoring lost traditional cultural activities, and fostering trustful and altruistic culture are the prerequisites for successful cooperative movement. This process will be long-lasting, slow, less visible, and extremely challenging, but much more necessary and rewarding than materialistic support.

Ultimately, cooperatives are not just economy-oriented, but also social and cultural oriented. The successful story of Yongji cooperative suggests that cooperatives can survive in contemporary China, but in the process, the association and trust amongst farmers and the leaders have been carefully built and maintained, which is the major reason for the success. Yang (2013) explained the story of Yongji

cooperative in a national newspaper that the success of the cooperative demonstrates that the problems of Chinese rural society are not just economic issues, but more social relational issues that are linked by cooperative organizations. Taking FSCs as just an economic organization and omitting the social and cultural attributes are the major flaw of Chinese cooperative policy. Experiences from JKT has shown that cooperatives cannot survive solely as economic organization, and farmers need comprehensive organization to satisfy their economic, social, cultural and political demands; and governments indeed can provide substantial help in the process. In JKT, agricultural cooperatives are an integral part of comprehensive farmer associations which are promoted by the government and serve both the government as an agency and farmers as civil organizations (Huang, 2015). Han (2014) reviewed the history of separation and reunion of agricultural cooperatives (economic organization) with farmer associations (multifunctional organization) in Taiwan, and found that cooperative as economic organization could not success alone, and were prone to elite capture and ended up with becoming a profit-maximizing private organization. After reunion with farmer association, constraints and guidance from farmer associations, agricultural cooperatives became much more successful in assisting smallholder farmers in agricultural production.

In China, comprehensive farmer associations are still not politically accepted by the state, therefore, only economic cooperatives are promoted. But the policy should not only concentrate on materialistic support, instead should make more comprehensive measures to provide enabling environments to foster a favorable social, cultural and political culture for cooperatives, such as cultural activities, manager or leader nurturing and training, collective activities and so forth. Put it in another way, cooperatives are a form of social economy, and the economic functions would not work well without social foundation. The government should take the responsibility to lay the social, cultural and political foundation for cooperatives, instead of one-dimensional subsidy support. As Koutsou et al. (2014) argued in a similar vein in the context of Greek rural collective actions,

The role of the state in such a development model would be vital, yet rather different than providing purely economic assistance for sectoral interventions, which as the case until recently. The state should assist local societies in order to take control of their own destiny, by initially providing them with organizational assistance and not just provide financial assistance.

Second, there are substantial flaws of the policies in regulations that indirectly results in the emergence of shell and fake FSCs. The Chinese characteristic sweeping approach treats cooperatives as a temporary movements, without considering local conditions.

The registration procedures are too easy. Any individual can come to register a FSC with five identity cards. There are no inspection of how genuine the cooperative, and the membership are. The registrants can state any amount register capital and membership. In fieldwork, many farmers complained to us that the registration was too easy, so they were actually taken advantage of by the leaders to grab state subsidies. The government just encourages farmers to register cooperatives, and pay large amount of subsidies, if the subsidies are misused, there is no punishment from the state. This in effect connives the constant emergence of shell and fake FSCs.

In China, policies are often implemented blindly or exclusively, without considering the concrete situations. Boone and Özcan (2014) argued that cooperatives are built on concrete local conditions, rather than being a universally-applied organization form. In other words, cooperatives are socially embedded (Valentinov, 2004, Zhao, 2015). As we argued above, not every farmer need cooperative, and not every village need cooperative. Successful formation and operation entails appropriate social, cultural and even political prerequisites. It should be not promoted blindly in every place. Therefore, the government should distinguish where should promote cooperatives and where should not. Promoting cooperatives blindly only results in resources waste and discouragement of farmers' incentives, furthering the distrust of farmers in government and leaders. Strong distrust of local governments and elites was frequently heard from farmers.

Lastly, at the macro level, the state still consider large-scale agribusinesses as the major approach of Chinese agricultural and rural development, and policy priorities are mostly given to capitalist agribusinesses (Huang, 2015). Large-scale capitalist farms are thought to be the future of Chinese agriculture, and peasant farmers are backward and should be eliminated or absorbed into the large-scale commercial farms. Small-scale farmers based cooperatives are only a complimentary and temporary measure for the state. What the state pursuit is more about the food security and agricultural modernization, less about the wellbeing of small farmers and the countryside (He, 2015). Therefore, cooperatives, albeit with apparent state support, are not taken very seriously by the governments. Better opportunities and resources are in most cases offered to dragon-head agribusinesses. FSCs always came to the secondary, and in many cases became an instrument for agribusinesses to deal with farmers.

## 5 Concluding remarks

In this article, we found that in contemporary China, FSCs as a development model is a one-side wish from the proponents. Ideally, cooperatives are well positioned to benefit Chinese peasant farmers and agriculture; however, under the concrete socio-economic, cultural and political context of contemporary China, the FSCs model has failed to deliver the expected outcomes, and may continue to fail, should the conditions do not change. Therefore, we remain pessimistic about the contemporary cooperative movement in rural China. Based on long-term observations and typical case studies cross China, we uncovered four fundamental barriers on the road of Chinese FSCs movement: social differentiation of the peasantry; market squeeze from the agrarian capitalization; deficit of social capital and severe policy mismatch.

Although we found a successful cooperative in all of our cases, it should be mentioned that even Yongji cooperative also faces formidable challenges ahead. As the managers worried, outside farmers still do not accept the idea of cooperative, because it cannot generate much profit. The majority of the management team are older people, facing challenges in attracting young people joining the cooperative. Therefore, the development of authentic cooperatives in China is extremely bumpy and the future seems not very bright. Without profound policy adjustments and fundamental social-cultural improvement, the chance for FSCs succeeding in China will be extremely slim. Individual successes could be witnessed in some places, but, in contrary to Huang (2015)'s arguments, the cooperative model as an overall developmental approach is impracticable in contemporary China.

For other developing counterparts, the Chinese experiences may bring a few lessons. First, social differentiation of the rural society should be taken account. Donors and NGOs that are interested in promoting cooperatives should consider the heterogeneity of farmers. Identifying the stratum of farmers and distinguishing groups with similar needs should always be the first step. Second, it is a big challenge for farmer cooperatives to survive in an era where agricultural economy has been dominated by agricultural corporations. How to deal with the competitive relationship with commercial enterprises needs to be seriously considered, and should be analyzed concretely according to different situations in different countries. Third, farmer cooperatives are socially embedded, and high level of social capital is a prerequisite, without which cooperatives cannot truly accomplish the multiple functions. Fostering social capital is an extremely long-lasting and complicated but also very rewarding process. The state and the public should spare no effort to nurture social capital in the society. Appropriate leadership is of critical importance to farmer cooperatives. Last, the government should definitely play a role in cooperatives, but needs to be confined in an appropriate scope, balancing between being interventionist and standing by. The intervention degree is dependent on the different contexts. Building an enabling environment for the grassroots to build their own organizations is strongly recommended.

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