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The Operational Models of Farmers Specialized Cooperatives in China's
Mountainous Countryside: Case Studies Based on Zhen'an County, Southern
Shaanxi Province

中国山間部農村における農民專業合作社の役割
— 陝西省鎮安県を例として —

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Abstract: This paper reports case studies on Farmer Specialized Cooperatives (FSC) in the mountainous countryside of Shaanxi Province, which serve to highlight problems related to their establishment, operation, and interactions with their local community. Cases were studied from 2007 to 2015: That is, cases from the initial implementation of the Farmer Specialized Cooperatives Law of the People's Republic of China to the latest development of FSCs. Close observation and analysis were conducted on the local culture, customs, and involved social parties such as village committees and cadres in the focused region. Employing case studies and field research methodology, these cases were analyzed to determine the FSC development models operating in this region, and to evaluate the effectiveness of each model. This analysis enabled the author to identify an effective FSC development model; "elite leadership cooperatives based on local community". The distinctive feature of this paper is to identify the functions and limitations of the FSCs to the development of rural mountainous countryside.

要旨: 本論文は、陝南地域の山間部農村における農民專業合作社の近年の発展を分析したものである。2007年から2015年まで、すなわち、中国農民專業合作社法の実施から現在までの事例を分析することにより、農民專業合作社の成立、運営、当地の農村社会に及ぼした影響などの問題について検討した。山間部の農村の文化、風習習俗、関係する社会団体例えば村委員会、エリートたちを詳細に観察・分析をした。事例研究と現地調査の方法によって、当地の農民專業合作社の発展モデルと各モデルの有効性について分析した。それによって、「農村地域社会におけるエリートがリードする合作社」という発展モデルが山区農村では有効であることを見出した。本論文は、農民專業合作社が山間部農村の経済発展に対して果たす役割と限界を実証的に明らかにした点に特徴がある。

Keywords: Mountainous countryside, Farmer specialized cooperative,

Local government Farmer leader, Urban-rural gap

キーワード: 中国山間部農村、農民專業合作社、地方基層政府、農民指導者、
都市と農村との格差

1. Introduction

The nature of Farmer Specialized Cooperatives (FSCs) has developed over the course of many years. The Cooperative Movement began in the early 1950s, which was soon followed by the People's Commune Movement that lasted until 1976. In 1978 further reform to agricultural production in rural areas began with the household contract responsibility system. It was not until 2007 that the practice of FSCs finally began. The change of organizational form of agricultural production in the countryside typically reflected efforts made by the Chinese government to solve 3 major problems: those related to peasants, agriculture and to the countryside under different social and economic conditions. Since 2004, China began to pilot FSCs in Shaanxi, Zhejiang, Shandong, as well as other provinces. In 2007 the "Farmer Specialized Cooperative Law of the People's Republic of China" was put into practice, which greatly promoted the practice of FSCs. Meanwhile, abundant research of various cooperatives was conducted. Liu Qian (2004) investigated a small town named Nanjie in Henan Province and established the "Nanjie Town" model. The town had managed to transform from a rural countryside to an industrialized communist community by exercising collectivism and public ownership. Li Yan (2007) studied the operations of cooperatives in Laiyang city in Shandong Province, where peasant activity, distribution enterprises, and agricultural service departments in the government were found to be well-organized into these cooperatives in order to satisfy the needs of agricultural enterprises that specialized in processing and export. These types of operations were thereafter known as the "Laiyang model".

Much of the above research into FSCs' models was related to areas in good geographic locations. However, far less research was conducted in the mountainous countryside, which comprises the largest portion of China in terms of land area. Of the limited research carried out on FSCs in mountainous areas, 3 aspects were mainly focused upon: The greatest amount of research done in such regions focused on difficulties that FSCs are faced with. Yang Kai (2012) conducted field research on FSCs in the countryside of Wulin Mountain in Hunan Province. He put forward the difficulties such as limited farmland, shortage of capital, talent and labor force due to the low comparative benefits. Du Hongbo (2013) applied SWOT analysis to FSCs in the Qin-ba mountainous area in Shaanxi Province to determine the strengths, weaknesses, opportunities and challenges that FSCs faced in the region. Yang Jiangyun et al. (2013) explored the fundamental reasons preventing the development of FSCs from the perspective of the existing economic

gap between eastern and western China, and from the perspective of geographic location. Li Hong (2014) conducted an investigation in Shouning County in Fujian province. He determined that FSCs in the county confronted problems such as a lack of sense of cooperation, low levels of education, and poor management. Zhang Xiaoping (2010) also investigated problems with FSCs in Gansu Province. He noted the existence of FSCs that existed in name only without actual activity, as well as those suffering from poor brand management. Collectively, this above research highlighted the major barriers to the future development of FSCs in China.

The second aspect of research conducted in mountainous countryside focused on the operation of FSCs. Liang Biwen (2008) observed operational models of FSCs in Enshi, in Hubei Province. Of these, an enterprise-driven model, namely the enterprise+FSC+base model was found to account for 56.42% of this total. This was followed by an FSC model in which large planting by professional farmers accounted for 26.56% of the total. The “Jiangshan model” proposed by Guo Hongdong and Jiang Wenhua (2008), who observed a model of cooperative practice in the bee husbandry industry in Zhejiang Province. This model comprised industry associations, related companies, bee farming cooperatives and professional beekeepers.

The third aspect of research within the mountainous countryside attempted to determine the specific role played by FSCs in mountainous countryside. Liu Yuwen and Shi Liying (2014) discussed the role of FSCs in the New Countryside Construction strategy in the mountainous countryside of Hebei Province. They proposed suggestions for improvement, such as greater government support, and improvements to supporting systems that would accelerate the development of FSC in that area.

The primary focus of previous research within the mountainous countryside was mainly about on the problems encountered by FSCs and their counter measures, as well as their models of operation. Also, the major industries in which they were engaged, and the positive impact that FSCs exert on the rural economy.

While this previous research has laid a very good foundation for the future study of FSCs, it seldom relates to a very important aspect: the influence that FSCs have on the rural countryside as a whole. Such a focus would enable understanding of the impact that FSCs have on rural relationships between villagers, families, and on the relationship between village committees and the government. Also, it would take into account the relationship between the development of FSCs and the strategy of New Countryside Construction. Finally, it

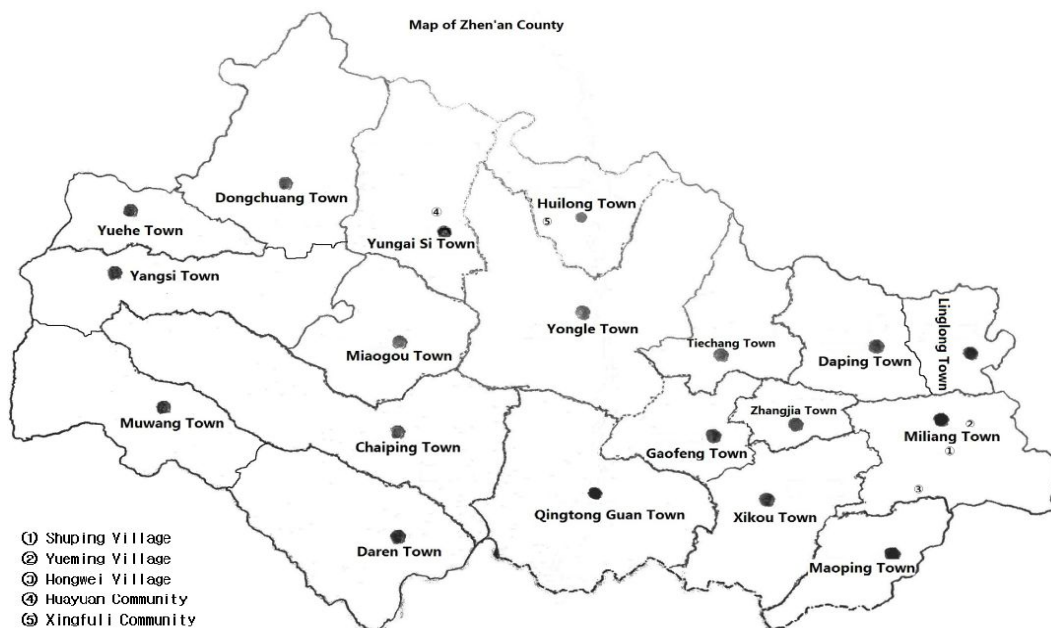
would help us to gain an insight into the impact that FSCs have on the socio-economic environment of the countryside. For these reasons, this paper focuses on the above 3 aspects in relation to Shan-nan (a mountainous area in the southern Shaanxi Province) to closely observe the development of FSCs within Zhen'an County, a mountainous countryside area in the southern Shaanxi Province.

In chapter one of the second provision of the "Farmer Specialized Cooperative Law of the People's Republic of China", FSC is defined as an economic association for farmers growing the same products, or the service providers and users of a particular type of agricultural production. Based on the household contract responsibility system, a FSC exercises the principle of voluntary union and democratic management.

The definition above highlights the key differences between FSCs and common enterprises. The former mainly aims at providing a service to its members besides purely economic benefits. Compared with the cooperatives of the 1950s, FSCs are different in their nature, scale and purpose. As Chen Yiyuan (2005) noted at that time, the cooperative campaign was a socialist transformation of agriculture towards collective ownership. Besides one of its key purposes being to achieve higher stability of government control in the countryside under the leadership of the Communist Party of China (CPC) FSCs are both a political and nationwide economic campaign to restore agricultural production. However, nowadays FSCs operate in a context in which agricultural production is becoming increasingly industrialized and globalized. Therefore, promoting the transformation and upgrading of agriculture is the key operational motive for FSCs. Although government policies still play a very important role in the operation of FSCs, essentially they are self-managed by farmers to provide economic support and mutual assistance, without political nature. The reason for this is that in the 1950s the cooperatives' were first established by the central government in a top-down manner. They were then quickly transformed into people's communes that administered local affairs. However, the establishment and purpose of FSCs today is solely for economic benefits, and by no means represent a level of government. Then, what kind of cooperation is going on in mountainous rural areas today? Furthermore, what is the role of this cooperation in rural production, and how does this impact on rural development? Research on these above questions would improve the development of FSCs and contribute to the well-being of those living in mountainous areas.

2. Significance of Research on the Operational Practice of FSCs in the Southern Shaanxi Province

Mountainous areas normally refer to mountains, hills and rugged plateaus. In China, mountainous areas cover two thirds of the country: such areas account for 33%, 26%, and 10%, respectively. Southern Shaanxi Province mainly includes the 3 prefectures of Shangluo, Ankang and Hanzhong. This region represents a typical example of mountainous countryside, and has been targeted as one of the key areas for national poverty alleviation. It is located in central China, connecting the east and west, and the north and south regions.¹ Since FSCs began to operate in the southern Shaanxi Province, Zhen'an County in particular has enjoyed fast economic development. In 2014, Zhen'an was the only county in the southern Shaanxi Province to be awarded the title of “top ten counties of Shaanxi Province” following comprehensive assessment of all counties within that province.² Due to its particular environment, economic conditions and policies, FSCs in the southern Shaanxi Province displayed features that distinguished it from other regions. Therefore, research conducted on FSCs in this mountainous countryside would have great practical significance and social value for that area.



2-1. Research into the operations of FSCs in mountainous regions is conducive to deepening our understanding of these cooperatives and in helping to optimize FSC models that are capable of functioning effectively in various topography. The problem with the Laiyang model, Jiangshan model, or the Hebei model of FSCs is that they provide only summaries of FSC operations within good geographical locations. As a result, the models in those regions emphasize the production scale

and process of modernizing production. However, little attention by researchers has been given to determining the type of development model best suited to mountainous countryside, which has poorer production conditions. Therefore, research into FSC operations within mountainous areas in the southern Shaanxi Province would represent a positive attempt to improve and optimize the cooperative model as a whole.

Similar to other regions of China, southern Shaanxi Province experienced cooperatives and people's communes from the early 1950s until the mid-1970s. This collective economic system featured collective labor and an average distribution system. Within this system, administrative institutions and economic organizations were combined. In such a system, farmers were deprived of their rights and freedom to operate their land independently, which resulted in low efficiency in agricultural production (Chen Yiyuan, 2005). After the Third Plenary Session of the Eleventh Central Committee in 1978, the household contract responsibility system was reformed, establishing the dominant status of farmers within the production process, and providing them full autonomy over their production.

While such measures greatly promoted rural development, these driving forces came to an end upon entering the 1990s, by which time the driving effects of the household contract responsibility system had gradually diminished, requiring new initiatives for further rural development. Meanwhile, the rural areas in eastern China had undergone agricultural modernization and rural-urban integration through the new models of cooperation. While much research on FSCs was conducted in eastern China, little research had been carried out on FSCs in the southern Shaanxi Province. Fang Hang (2015) conducted an investigation on the status of farmer specialized cooperative development in Zhen'an county. Jian Chunxiao et al. (2013) and Du Hongbo (2013) analyzed tobacco growers' specialized cooperatives in the Shan-nan region. They put forward suggestions for improvement such as standardizing operations, unifying planning, perfecting mechanisms, introducing talent, and increasing farmers' income. In addition to the abundant research into other rural areas of China, further study of FSCs in mountainous area would help provide a more complete FSC model.

2-2. By revealing the functions and limitations of FSCs in mountainous areas, living conditions in the countryside can be improved, and the gap between rural and urban areas can be narrowed. Mountainous areas are mainly distributed among the 12 provinces in western China. According to the *China Regional*

Economic Statistical Yearbook (2012), mountainous areas have a population of 362.2 million, cover a land mass of 6.867 million square kilometers. That is, mountainous areas account for 27 percent of the total population and 71.5 percent of the total land area. As of this writing, the per capita net income of rural residents in the 12 western provinces is 5,247 yuan, far below the 9,585 yuan in the 10 eastern provinces, and also lower than the 6,530 yuan earned in the 6 central provinces of China. Since the implementation of China's "Reform and Opening-up Policy" in the 1980s, the southeastern provinces have experienced rapid development. At the same time, however, the economic gap between the east and west has quickly widened. As a result of this gap, a huge amount of people flooded into southeastern China. On the one hand, the large number of migrants has provided abundant cheap labor for the development of cities in the region. On the other hand, it has exerted great pressure on urban transportation, education, medical and other infrastructure of the region, endangering social stability and further economic development. To help alleviate these problems, rural development is the key. Therefore, creation of a vibrant, coordinated and modernized countryside has become a priority. Also, it is a necessary requirement for dealing with the reality of China's large population. Therefore, it is of great significance to examine the practical effects that FSCs have on rural areas, and to determine existing operational problems in order to improve their model. Because the effects that various FSCs have on rural areas differ, due to different geographic location and socio-economic conditions, it is very necessary to conduct field research, and to find and solve problems via case studies. As a result, FSCs will be able to play a more positive role, and help to narrow the gap between the rural countryside and urban areas, both in the east and west.

2-3. FSCs also represent one of the possible ways to solve the problem of hollowing of countryside populations and a means of promoting the rural development in the southern Shaanxi Province. Study of the models, problems, and management mechanisms of FSCs would prove helpful in solving the dilemma of development in mountainous rural areas. Although there is a total population over nine million in the southern Shaanxi Province, it has only a few cities (e.g. Xi'an, Hanzhong and Shangzhou). However, according to the *Statistical Yearbook of Shaanxi Province (2013)*, these cities have already become heavily populated. For example, the resident population of Xi'an in 2012 was 8.55 million. This shows that the impossibility of solving development problems through an increase in the level of urbanization. Furthermore, the geographic features of the region prevent

the construction of large cities. Therefore, modernization of countryside would seem the only feasible option. In addition, because economic development in this region has lagged behind, its resident population has experienced a gradual decrease in recent years. The population decline in rural areas of the region has also had a negative influence on peoples' lives, economic production and on their education. For example, the increased number of the elderly living alone and children left behind in rural areas while parents work in faraway cities poses a potential risk of leading to greater social problems. Therefore, it seems unavoidable that this region explore new ways of integrating the development of both urban and rural areas in the southern Shaanxi Province, FSCs offer one possible way of doing so.

3. The Current State of FSCs in Zhen'an County

There are currently 202 administrative villages in Zhen'an County. Each administrative village has an average of two FSCs. By the end of 2014, there were more than 400 FSCs registered with the Zhen'an Administration of Industry and Commerce, representing a total capital of 523 million yuan and employing 2,813 people. According to Zhen'an Statistical Report (2013), the rural residents' per capita net income of Zhen'an County in 2013 was 6,394 yuan, an increase of 28.96 percent compared to the 2007 per capita income of 1,852 yuan in 2007. Of all the cooperatives in the county, 205 are involved in crop farming, 167 in stock farming, 31 in forestry, and 1 involved in fishery. Among those FSCs involved in crop farming, 58 focused on tea production, 43 on traditional Chinese medicine, 15 on sericulture, 12 on vegetables, and 11 on tobacco production. It is noticeable that there are no cooperatives involved in traditional grain production (Fang Hang, 2015). With the rapid development of FSCs, Zhen'an county became prominent in the production of tea, medicine, rearing of livestock, and in the cultivation of chestnut and walnut, which all achieved scale management to some extent. The FSCs in Zhen'an County have accelerated structural adjustment and agricultural industry optimization, contributing to a steady increase of farmers' income. Similarities between FSCs in Zhen'an County and other mountainous areas are: They are small in scale, having scattered distribution, and they lack economic strength.

However, Zhen'an County's cooperatives also display unique features. Firstly, cooperatives in this county have continuously grown in number. Since the implementation of the cooperative law in 2007, the number of FSCs in Zhen'an County has steadily increased. It is predicted that the number of cooperatives will

increase by one hundred in 2015 alone, although according to the county government's work report³, there was a slight drop in their growth during the first half of 2015. The same period (2007-2015), number of cooperatives in places like Ankang, Xianyang and Baoji kept relatively steady, while Shanyang County, has seen a noticeable decrease in its number of FSCs. The second unique feature of FSCs in Zhen'an County is their increasing contribution to the county's overall economy. According to the Shangluo Consumption Information Network, the number of leading enterprises related to FSCs had increased from 1 in 2008 to 16 in 2014, with annual sales of more than 300 million yuan. Modern agriculture, mainly dominated by cooperatives, directly supported 25 thousand rural households, generating over 500 million yuan in revenue.⁴ FSCs have become the main form of rural economic activities in Zhen'an County.

3-1. Progress of Government Policies Focusing on FSCs

In 1997, Shaanxi Province formulated *the Development Plan of Agricultural Industrialization of Shaanxi Province* and the *Qualifications Recognition Method of Leading Enterprises of Agricultural Industrialization in Shaanxi Province*.⁵ In 2004, Shaanxi Province became one of China's first pilot provinces for farmer cooperative economic organization. In the same year, the provincial government issued the *Opinions on Accelerating the Development of Farmer Specialized Cooperative Economic Organization*, and implemented the construction of "113" demonstration projects. These new policies resulted in the provincial government focusing on construction of 10 cooperative models, each city focusing on 10 cooperative models, each county focusing on 3 cooperative models, and the whole province constructing about 400 cooperative organizations.⁶ After the National People's Congress passed *the Farmer Specialized Cooperative Law of the People's Republic of China* on October 31, 2006, the Industry and Commerce Administration of Shaanxi Province soon issued the *Notice on the Model Charter of Farmer Specialized Cooperatives of Shaanxi Province (trial)*.⁷ In 2009, the provincial government of Shaanxi issued the *Opinions on Accelerating the Development of Farmer Specialized Cooperatives*, giving more support to cooperative registration, credit aid and tax preferences. Meanwhile, the No. 88 document of the Agriculture Department of Shaanxi Province required that the communication network between related departments and cooperatives concerning grain production and marketing should be well established. In addition, the Industry and Commerce Administration of Shaanxi Province introduced 15 measures to implement related policies with greater flexibility, and to support the development of FSCs. In December 2013, the

Shaanxi Provincial Government issued *Opinion on Reforming the System of Business Registration to Promote the Development of Main Market Body*,⁸ supporting farmers to set up professional cooperatives by using contracted management rights on land and forest, and encouraging cross-regional, cross-ownership, and cross-sectoral operation of FSCs, as well as guiding their branding management to further develop contract farming.

To promote the development of related industries, the Zhen'an County government set up organizations the Development Leading Group of the Silkworm Industry, and the Guidance Center of the Tobacco Industry. In 2012, a decision-making coordination agency, which consisted of agriculture, science and technology, water conservancy, was established to guide the standard operations of FSCs. At the beginning of each year, the county government would assess and award those cooperatives that showed good prospects, normative operations, and those that exerted a positive influence on the local economy.

Since 2008 Zhen'an County has also been constantly adjusting its subsidy policy for FSCs. Subsidies take various form at the very beginning. For example, the subsidy standard for cooperatives involved in the planting of crops like tobacco, vegetables, and yellow ginger between 2008 and 2010 was: an annual subsidy of 10 to 30 thousand yuan for qualified cooperatives with a registered capital of more than 50 thousand yuan (canceled in 2010). The subsidy standard for aquaculture cooperatives between 2011 and 2013 was: an annual subsidy of 5 to 35 thousand yuan for cooperatives whose registered capital was more than 500 thousand yuan and whose sales exceeded 400 thousand yuan (canceled in 2013). Except for county-level fiscal subsidies, most villages and towns had various temporary allowances, which although very small, could be operated at random. One example of a temporary allowance in an animal husbandry FSC involves chicken farming. In 2012, the subsidy standard of the Animal Husbandry Bureau of Zhen'an County stated, "The Bureau will provide a subsidy of 160 yuan/m² for farm construction costs, and 1.5 yuan per baby chicken. In addition, the town government will provide five tons of cement to each farm, as well as 5 yuan per baby chicken."⁹

At the end of 2013, all subsidies were canceled due to a boom in the number of cooperatives. In 2013 there were 348 cooperatives, nearly 30 times the number in 2007 (see Table 1). This substantial increase in the number of FSCs made it impossible to continue with former subsidy policies. Therefore, from 2014 cash subsidies were replaced by government planned projects and low interest loans, in order to encourage cooperatives to be more aligned to the region's future

development. In May 2014, the Zhen'an County government launched a reserve fund totaling 25 million RMB to enable regional banks to make poverty alleviation loans, and issued *Jingzhun fupin daikuan danbao chubei jijin guanli banfa* [*Regulations on the Reserve Fund for Poverty Alleviation Loan*]. At the same time, the Zhen'an Rural Commercial Bank provided 125 million RMB to help professional farmers and FSCs. According to the above regulations, these loans are to be provided by banks at a preferential discount interest rate of 30%, and 50% of the total interest is to be paid by the county government. Every FSC and professional farmer can get a loan of up to 500 thousand yuan, which is guaranteed by the county government. In 2015, county government started to support FSCs with projects. However, FSCs which apply to undertake government planned projects must fulfill certain requirements; First, the applicants must be a registered FSC; Second, FSCs applying for this type of loan must have a registered capital of more than 500 thousand yuan, and membership of more than 30 households. Third, these FSCs must have been operating without loss for more than two years.

All of the government policies discussed in this section have greatly contributed to the development of rural cooperatives.¹⁰

3-2. Development Trends of FSCs in Zhen'an County

Since ancient times, people in Zhen'an County had developed a habit of labor exchange and mutual cooperation during the production process. The earliest cooperative found in the Zhen'an County Annals (1995) was the "Tangjiang Banzi" of 1952, which was a farmer collaborative and economic organization, exercising the principle of "volunteer entry and free disaffiliation". The first cooperative organization recorded in the Zhen'an County Bureau of Agriculture was the silkworm breeding cooperative originating from the silkworm industry development office of the county government in 2001. It was a government-led professional economic cooperative organization, which consisted of the county silkworm office, filature factory, and silkworm offices of village and town government at all levels, as well as supply and marketing cooperatives and sericulture farmers. After the cooperative law came into effect in 2007, there has been a dramatic expansion of agricultural cooperatives in Zhen'an County. In 2012, for example, the County Industry and Commerce Administration held a licensing ceremony for 60 FSCs involved in production of tea, vegetables, aquaculture, and tobacco in Daren Town. That year saw an increase of 102 FSCs, which was 7 more than the sum of the first four years since the implementation of the cooperative law,

illustrating the rapid expansion rate of cooperatives in the county. In 2014, Zhen'an County FSCs reached a record-breaking number of 423. As a result of changes to government policies, blind expansion has since been eased, and the latest statistics show that in 2015, Zhen'an County has 404 cooperatives, 17 less than the previous year (see table 1). This is partly due to poor management and bankruptcy, and also partly due to mergers of similar cooperatives.

Table 1: Change in the Number of Cooperatives in Zhen'an County

| Year | 2007 | 2009 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---------------|------|------|------|------|------|------|------|
| Number of FSC | 13 | 44 | 95 | 197 | 348 | 423 | 404 |

Notes: Data is collected from the Zhen'an Administration of Industry and Commerce. This table was created by the author.

3-3. Types of FSCs in Zhen'an County

There are many ways to classify the types of FSCs. If grouped by industries, for example, cooperatives can be divided into agriculture, handicrafts, commerce, distribution and other types. Since FSCs in mountainous rural areas are dominated by agricultural production, classification can be made according to two aspects: initiators and means of cooperation in cooperatives, if we only take into account planting cooperatives. According to different organizers, cooperatives can be classified into three types: the government-dominated type, the elite-oriented type and the enterprise-oriented type.

The government-dominated type refers to FSCs led by government departments. Its main advantage is that public resources can be effectively used to set up and put into cooperative organizations rapidly. However, its weakness is that government-dominated cooperatives are easily influenced by administrative instructions, violating economic law and damaging the enthusiasm of farmers. In particular, some cooperatives have become government vanity projects or prestige projects. The elite-guided type refers to a cooperative model in which intelligent farmers utilize their personal abilities and charisma to organize other peasants to form mutual-help production groups. Within this FSC model there is limited cooperation in production and in the marketing process. This kind of cooperation allows greater flexibility, but it also limited in the business scope, service quality, and efficiency. The enterprise-guided type is a relatively good model for the current development of FSCs, in which leading enterprises cooperate with farmers to set up production bases, or directly make contact with cooperatives, that are involved in the planting or production of raw materials needed by enterprises through contract

farming. This type of cooperatives has currently developed better, as enterprises are able to react more quickly to the market, since the enterprises themselves are directly involved in the market place.

Table 2: Classification of FSCs in Zhen'an County

| Standard | Type of Cooperatives (C.) | | |
|----------------------------------|--|--|---|
| Initiators of Cooperatives | Government-dominated Sericulture cooperatives: Yijiu, Qingfeng, Lvran Tobacco cooperatives: Puyi, Luojiaying, Anshan town | Elite-oriented Nongwang Plantation C. Xianghe Plantation C. Jindi Poultry C. Dongpu Tobacco C. | Enterprise-oriented Tea plantation: Xiangyuan Tea C. Laowuchang Tea C. Guangyuan Tea C. Meiyun Qinxiu C. |
| Ways of Cooperation | Labor cooperation All the sericulture FSCs and Tobacco plantation FSCs | Capital cooperation Guofeng Pig-rearing C. | Mixed type Jindi cooperatives Tea plantation cooperatives |

Notes: Data was collected from Zhen'an Administration of Industry and Commerce. This table was created by the author.

From the aspect of ways of cooperation, cooperatives can also be divided into three types: labor, capital and mixed type. The labor cooperation type mainly exists in farmers' spontaneous collaboration, where cooperation does not extend to the change of production factors like land, but is confined to mutual help of labor and autonomous management. The capital type has higher level of cooperation than the previous cooperation type. The partners invest a certain amount of money as the basis for cooperation, are jointly responsible for production and operation, and share benefits and risk. While the mixed type mostly exists in enterprise-guided cooperation, enterprises mostly provide the capital and necessary production factors while farmers provide land and labor, to form an organization with common interests. There may also be overlap between these two types, such as the Lvran silkworm FSC, which is not only enterprise-guided, but also elite-guided and labor-cooperative. The Jindi cooperatives, on the other hand, is both elite-guided and labor-cooperative.

4. Generalization and Alienation of FSCs as a Consequence of Interactions among Social Parties

In the southern Shaanxi Province, besides its unique geographic features, the internal management of FSCs is also quite different in terms of efficiency, compared with market-oriented enterprise. Therefore, the development and

expansion of FSCs is closely related to the policy environment. Since the Chinese government currently emphasizes the quantity expansion of FSCs over the administration of FSCs, much industrial capital (enterprises) is pouring into FSCs. Moreover, government policy intervention, and the self-interests of elites in local areas have caused many problems in the operation of FSCs. These problems are mainly embodied in three aspects. First, the large number of "quasi enterprises" registered as FSCs. Such enterprises not only lead to the generalization of FSCs, but also cause unfair distribution of public resources, due to their advantageous position in competition with other FSCs launched by farmers for public resources like subsidies from government. Second, because the great demand for well-educated, experienced local elites in rural areas, it is more likely for them to hold dominant positions in FSCs. An internal hierarchical structure has therefore come into being. Inequality between an FSC leader and its members weakens the degree of cooperation and service quality, leading to conflicts and alienation of that FSC. Finally, for the sake of "achievement", local governments pay less attention to the regulation and supervision of cooperatives, resulting in FSCs being falsely registered to apply for a national subsidy. Not only does this waste abundant resources, it worsens people's impression of FSCs, and also damages the relationship between FSC members and other people.

4-1. The Generalization of FSCs

Ma Yanli and Huang Shengzhong (2013, p.7) noted in the article *Farmer Specialized Cooperatives: the Generalization of the Theory Research and the Alienation of Practice* that extension or generalization of cooperatives refers to a situation in which "the range of FSC is not appropriately expanded, and various types of farmers' organizations are considered or registered as an FSC". Besides farmers' organizations, quasi-enterprises also contribute a lot to the generalization of FSCs, by aiming to enjoy the same preferential policies designed for FSCs only, such as tax relief and subsidies. These quasi-enterprises register as FSCs and become strong contenders for the national financial subsidies and projects designed for farmers. Their behavior damages the interests of other FSCs, and is not in accordance with the national policy that is designed to support farmers and the development of rural areas.

4-1-1. Jindi Chicken Farm: A Company or Cooperative?

Jindi Chicken FSC is located in the eastern end of Mao's village by Huashui River. This cooperative used to be a simple chicken farm, run by a resident of the village, with no more than one hundred chickens. In 2011, a new chicken farm,

with a capacity of 30 thousand chickens, was established with an investment of more than 1.8 million yuan from Feng Dejie, who cooperated with Mao Jiazhu, a peasant in the village who provided the necessary farmland. The company had 7 employees in 2011, who were all female peasants from the surrounding villages. Zhang Fang, the manager of the farm, is one of these employees. She comes from the neighboring village and is responsible for daily feeding. Her salary is 1,800 yuan, also receiving some food or cash as holiday allowance. However, the farm did not sign a contract with her, nor do they pay her social insurance, as is required by the state employment law.

Zhang Fang told this author by phone, "The advantages of working in the chicken farm are that it is close to my home, which make it easy to go to work. I can also take care of elderly relatives, and can even do work in the field. But as there is no contract and no insurance, I do not think I will stay long term. But at this moment, going out to find a job is not a possible choice, so I choose to stay..."¹¹

In its early stage, because the farm did not market its chicken well, it was not running at full capacity, raising only around 10,000 chickens. Afterwards, with the support of the Shuping Village committee and the Miliang Town government, the Jindi Chicken Farm successfully applied for an FSC license by faking the identity of its members, using the ID cards of other villagers. As a result of this deception, in 2012 the Jindi cooperative received subsidies of 300 thousand yuan from the county government and 30,000 yuan from the town government. In 2013, the cooperative started to do well, earning about 200 thousand yuan. That same year it was honored as a model cooperative by Zhen'an County. At the same time, it obtained 150 thousand yuan and 10 thousand yuan from the county and town government, respectively. In 2014, the cooperative got approval to upgrade the farm to a modern poultry farm and received financial support of 250 thousand yuan from the county government. Now, the Jindi FSC has grown to a scale of feeding more than 50,000 chickens, with 27 employees. Other surrounding chicken farms either followed Jindi's practice of obtaining an FSC license for the purpose of receiving benefits such as tax exemptions, subsidies and other preferential policies, or went bankrupt or were merged into the Jindi FSC in order to become more competitive in the marketplace.

A local farmer told the author: "Subsidies have become a big part of cooperative income. Those who have the network can easily get subsidies and enjoy many other preferential policies. Otherwise, it is hard to keep it running (meaning inability to sustain operations)."¹¹

Another peasant said, "Jindi's boss has enough money to start a big business, and therefore it is easier for him to get a cooperatives license and subsidies; but other chicken farms are too small to compete with Jindi FSC, so it is getting worse and worse for them." ¹¹

The expansion of the Jindi FSC also bring with it a lot of problems. The chicken farm is essentially a business enterprise at its initial stage, the employees working in the farm are only employees, and they do not participate in the company's decision making and profit distribution. In addition, only a small number of villagers have the opportunity of working on the farm, which has created very complex feeling among villagers toward the farm. Some of them are jealous about the success the farm has achieved, others expressed their resentment on the distribution of government subsidies. Therefore, the problems the farm was facing, such as expansion in scale, pollution, and resentment among villagers, had not been well solved. As Jindi is a major project supported by the county government, many issues and problems remained unsolved, and some of these had been intentionally neglected by government. At the end of 2013, a poisoning incident occurred on the farm, resulting in the death of more than a thousand chickens. The villager Mao, was finally convicted a criminal, and was sentenced to one and a half years in prison. In addition, he was required to pay a compensation of more than 100 thousand yuan. His conviction came about as a consequence of the increasing resentment between the villagers toward the chicken farm.

The villagers complained, "... the chicken farm focused on making money only. The terrible smell of chicken feces is so strong that we have to keep the window closed all the time in summer. No one wants to swim in the river any more. It's really disgusting!" ¹¹(Due to a lack of awareness of environment protection, the farm always threw the garbage directly into the river, causing serious air and water pollution.)

A member of the village committee explained, "It is not easy work for such a poor and remote village to grow its business. We understand the complaints of the villagers, but since we have to develop the economy, we have no other choice but to develop the economy first. Then we can begin to govern the environment."¹¹

4-1-2. Jindi's Transition from Company to Cooperative

By the year 2013, Jindi Chicken Farm was actually a company employing the title of FSC, this was reflected in two aspects. First, in accordance with the provisions of an FSC, a cooperative must have at least 5 people. However, Jindi was actually owned by Feng Dejie and Mao Jiazhu. Second, the relationship

between the farm and its staff as purely that of employer and employees. The workers did not participate in the enterprise's decision making and profit distribution. Therefore, Jindi was essentially a private enterprise based on partnership. Severe problems started to appear from 2013. One of the biggest problems was the pollution caused by the chicken farm. The dissatisfaction of villagers mounted from complaints to protest, with the poisoning event triggering a burst of resentment that led to greater challenges to the farm. Moreover, as it was difficult to reach an agreement with villagers on the issues of land circulation, limited land prevented the farm from further expansion. Finally, villagers from the surrounding villages continued to protest over the preferential treatment Jindi seemed to enjoy, as evidenced by its ability to obtain subsidies repeatedly from the government. As a result, it became increasingly difficult for the village committee and town government to continue to play a role in appeasing the resentment of villagers toward Jindi.

On December 11, 2013, Jindi made great progress toward its transformation to a cooperative. Under the coordination of the village committee, another two small chicken farms joined Jindi FSC as new shareholders. In early 2014, Jindi succeeded in negotiations with another four peasants, who agreed to provide their own land to Jindi for its further expansion. They also became members of the cooperative. Now, Jindi has changed from a farming company to a joint stock cooperative, consisting of 18 members who had made an investment of land, capital, labor, and other assets. All members agreed that the cooperative should represent equality among its members; it should exercise democratic management, and the profits of the Jindi FSC should be allocated every six months based on the shares held. The profit allocation ratio should be decided by all members following discussion, but the distribution percentage of the profits should not be less than 65% of the total. It was also decided that Jindi should try to encourage more villagers to work in the cooperative, and try to provide better pay. The cooperative should also try to improve its operation efficiency, and at the same time actively participate in community activities and make efforts to improve the environment, and traffic flow. Also, it was agreed that the cooperative should keep harmonious relations with villagers.

Since 2014 until now, the Jindi FSC has achieved rapid development. With investment in new equipment, farm pollution was solved. In the first half of 2015, the total sales revenue reached 977,600 yuan, another 4 villagers have also been employed, bringing the total number of working staff in the cooperative to 37. The

company has also financed the construction of a bridge in the village. Now it enjoys a more harmonious relationships with local residents.

4-2. Connotation Deterioration or Alienation of FSC in Its Development

Discussion of the quality of FSCs has been a focus in academic fields. Huang Zuhui et al. (2009) believed that the fundamental nature of an FSC, such as self-serving, democratic management, is changing. Xiong Wansheng (2009) observed that an FSC is more in name than in reality. Ma Yanli et al. (2013, p.8) defined the root cause of alienation as being: "in practice, cooperatives are often controlled by the sponsors (enterprise) or major shareholders, the interests of ordinary members cannot be improved".

In the study of FSCs in Zhen'an, this author finds that although the "leading enterprise+base+farmers" model is considered one of the important cooperative models, many FSCs are launched by local elites. There were 16 leading enterprises in Zhen'an County by the end of 2014, but the number of FSCs in this same period totaled 404 (see table 1). This indicates that the vast majority of cooperatives were established by farmers. So enterprise-control is not the main cause of alienation of FSCs, in terms of quantity. Rather, it would seem that the alienation of FSCs stems more from the large number of FSCs being established by rural elites.

Next, the operation of the Anyi Tobacco Plantation FSC will be analyzed.

In 2011, Li Anyi was encouraged by the Yueming Village committee to grow tobacco. In the first year, he planted tobacco on approximately seven acres of his own land. His net income was more than ten thousand yuan, including sales of tobacco and government subsidies, which was more profitable than growing food crops. As a result, in the following year, in addition to his own farmland, Li rented more land from villagers who had taken up employment in cities, or whose farmland was abandoned because its owner was unwilling to work on it. This provided him more than 60 acres at an average annual rent of about 120 yuan per acre. At the same time, he united with other villagers who also wanted to grow tobacco, and applied for an FSC license. Since he was more experienced in growing tobacco, and also because he had a good network with the village committee and the town government, Li was actually the boss of the cooperative. In 2012, because the tobacco crop land area was more than 100 acres, the FSC received subsidies from the county government of 150 yuan per acre. Meanwhile, the Zhen'an County Tobacco Administration Bureau provided a motor tricycle to transport tobacco for free. In addition, the Zhen'an County Tobacco Planting Promotion Center not only financed the construction of two tobacco drying furnaces in Li's field, but it also

gave a cash award to the cooperative based on its number of transactions. At that time, because the other eight members did not know the relevant policy nor were informed of it by Li Anyi, the FSC ran peacefully. The tricycle and drying furnaces were used exclusively by Li Anyi, and the subsidies were obtained by himself alone. By 2013, the number of cooperative members reached 11 households since tobacco planting was still mainly based on the family unit. Cooperatives were responsible for tobacco curing, grading and sales. These members gradually learned about the relevant preferential policies. They asked for a return of the share of subsidies they deserved, and they also suggested the vehicle be used for all members of the cooperative.

Li Anyi said, "The FSC was originally established by me, they just put their names there in applications for an FSC license. Moreover, they just grow tobacco with their own land, but I rent land from others so I should get the subsidies. In addition, my farming area is the largest, which is the key to our enjoying various preferential policies".¹¹

Member A: "He is indeed the leader of the cooperative, without him it would not exist. But the subsidy is based on planting area, so every member should get a share in accordance with his planting area".¹¹

Member B: "Since it is a cooperative, no matter whether it is a subsidy or a vehicle, each member should have the right to share them".¹¹

Member C: "He is always the decision-maker in the cooperative. He has made money by establishing the FSC, but nothing has changed for us. However, there is nothing more we can do..."¹¹

Finally, the cooperative members reached the following agreement with the co-ordination of the village committee. First, the subsidy in the cooperative should be allocated according to growing area. Second, any surplus money of the FSC, should be equally divided. Third, the tricycle, drying furnaces and any other equipment obtained from the government are the FSC's public property, which should therefore be enjoyed by all members. Although these issues of resentment were finally resolved, it still resulted in a member quitting the cooperative.

Conflicts also existed between the Anyi cooperative and other villagers or cooperatives. In 2012, trees on farmland rented from Wang Xiaohe were secretly cut down by Li Anyi in order not to affect the growth of tobacco. After consultations, they reached an agreement regarding compensation. However, in 2013 Li Anyi decided not to rent the land anymore, believing the rent was too high and not reasonable. Li's decision further angered Wang Xiaohe, who insisted that since his

trees had been cut down without his permission, Li should not have refused to continue farming the land. This anger finally developed into a feud between the two families, which was only resolved when the village committee convinced Li to continue to rent the land, at the same time, persuading Wang to make concessions regarding his land rental fee. The two parties finally renewed their land rental contract under the guidance of the village committee.

Concerning these conflicts, the mayor of Yueming Village, Li Mingju, expressed his opinion: “The development of the village economy depends on such people, who are creative and willing to do things. If such people did not try these things, the villagers would go to cities. Then what would happen to the farmland? It would also become abandoned! People cannot rush to increase their rent just because they find that tobacco plantation is profitable. But they can sit down and have a discussion about it...”¹¹

4-3. The Spread of Cooperatives that Lack Actual Business Activity

According to a survey by Fang Hang (2015), of all the 404 FSCs registered in Zhen'an County only 176 show evidence of production and business activity. This number accounts for only 48.8% of the total. That is, over half of the cooperatives have actual business activity. Why are there so many of these “shell cooperatives” and “zombie cooperatives”? Also, what are the consequences of this situation? Following investigation of these questions, two explanations can be put forward: First, in order to develop the local economy, and provide statistical evidence of performance, the local government gives silent consent to those FSCs which are registered but do not yet have any actual business activity. The second explanation is even simpler: many FSCs have been established purely for the purpose of obtaining state subsidies.

Next, the Meiyun Qinxiu FSC will be analyzed. Although it started out as a cooperative that lacked actual business activity, it later developed to become regarded as the “home center” of its community.

Zhen'an County has a long history of silkworm breeding and embroidery, which had been the main source of peasants' income of Zhen'an County in the 1980s and 1990s. In 2014, Ge Lianghui, the manager of Meiyun Qinxiu Company had become a well-known female in Zhen'an as a result of her company's products being put on the list of the fourth batch of intangible cultural heritage by the Shaanxi provincial government in September 2013. In December 2014, when Chinese premier Li Keqiang was investigating the development of cooperatives in Zhen'an County, he visited the Meiyun Qinxiu Cooperative. In addition, the

Shaanxi Daily, the Shaanxi Media Network, the Shangluo News Network, the Shangluo Consumer Information Network, the Zhen'an Government Public Information Network, and the Zhen'an Tourism Network all carried reports related to the company and Ge Lianghui's story.

4-3-1. The Establishment of the Meiyun Qinxiu FSC.

According to public information, by the end of 2012, the Meiyun Qinxiu Company's annual output value was more than 12 million yuan, and it had trained more than 5,000 embroidery workers; helping to drive an embroidery industry in Zhen'an County with a total output value of 1.5 billion yuan. A report by the Zhen'an Tourism Network indicated that the company had newly trained 1,100 embroidery workers, employed more than 2,000 people, and had realized an output value of 2,000 million yuan in 2014. The company also took the lead in the establishment of the Zhen'an Embroidery Industry Association, the Meiyun Qinxiu Cooperatives, and established branch cooperatives in Wen Jiamiao Village and Yuanyangchi Village. It is of great interest to this author to explore the complex process by which the Meiyun Qinxiu Cooperatives transitioned from initially being a 'shell cooperative' to finally becoming regarded as the "home center" of its community.

To learn about this cooperative, it is necessary to first know about the Meiyun Qinxiu Company. A staff member of the Zhen'an Administration of Industry and Commerce, who declined to disclose his name, described the origin of the company: Different from the description in the above news report, Ge Lianghui herself was not a worker in the Zhen'an filature factory, which had gone bankrupt early this century. Instead, she was a senior vocational school teacher, teaching embroidery. However, Ms. Ge had contacts in some embroidery companies, occasionally receiving some orders from those companies and distributing them to rural women to work on. She would then buy back the final products and sell them to the companies to earn the price difference.

In 2011, when the *Embroidery Industry Development Plan of Zhen'an County* was issued, the senior vocational school was authorized to train embroidery workers. Ms. Ge seized on this opportunity. She received more orders from embroidery companies because she knew more embroidery workers. With the establishment of the Small and Medium-sized Enterprise Incubator Park, and encouraged by the government, Ge Lianghui officially registered the Meiyun Qinxiu Company; the first batch of enterprises stationed in the park. However the company's business model remained the same as before: getting orders from other

companies, distributing these to local embroidery workers, and buying back the final products.

Therefore, can the Meiyun Qinxu Company be considered a cooperative? When this question was put forward to a personnel in the Zhen'an Administration of Industry and Commerce, he commented: "There was no Meiyun Qinxu Cooperative at all before 2015. If anything, the name of cooperative was done for the benefit of the premier".¹¹ This comment indicates that the Meiyun Qinxu Cooperative is only a shell cooperative, existing only for the sake of official media.

4-3-2. The transformation of the Meiyun Qinxu Cooperative.

In 2015, in alliance with the residents' committee, the Meiyun Qinxu Company launched two cooperatives in the Xingfuli and Huayuan community, in which all residents were immigrants because of relocation projects. In the first four months of 2015, the Xingfuli branch of the Meiyun Qinxu Cooperative had 128 members who had finished 328 embroidery products, which brought its members an income of 230,000 yuan (Shangluo Daily, 2015-03-24). A staff member of the Meiyun Qinxu Company explained the motive behind establishing these cooperatives.

"Firstly it was considered necessary for company development. As a result of the visit by Prime Minister Li Keqiang, media reports, and its display in the Western Trade Fair, the company's products have become more popular. Now the company not only produces commodities for brands other enterprises, but it also produces its own brands. However, our sales have since doubled those of 2012, and the traditional way of production can no longer meet our requirements of both quantity and quality. The second reason is the orientation of government policy. Due to the implementation of relocation projects, there is great pressure to employ new migrants in the region. Therefore, in order to build these immigrant communities, the government is trying to explore new ways to integrate them into urban and rural areas by issuing preferential policies that would encourage enterprises to cooperate with these communities. Taking account of the special nature of the embroidery industry in relation to achieving these government goals, the company believes that the establishment of cooperatives in these communities would further enable the company's development."¹¹

The cooperatives operate on a "company + neighborhood committee + residents" model. First, in accordance with *The Cooperative Law of the People's Republic of China*, the cooperatives formulated their articles of Association. Because residents in these two communities are all immigrants, and because

neighborhood committees are democratically elected, the board of each cooperative and its neighborhood committee contain the same set of personnel.

Take the Xingfuli community, for example. There are 315 families and a total of 1,135 people, among whom 128 household joined the cooperative, accounting for 40.6 percent of total membership. The fact that some people work in faraway cities has been considered in the process of committee elections, and so only permanent residents are eligible to participate in the affairs of the residents committee and the FSC. Therefore, the neighborhood committee, at the same time as being the leading body of the cooperative, displays a nature of democratic management. In addition, the neighborhood committee provides a convenient way to contact residents and serve the community. The committee consists of 13 residents, 10 females, and 3 males, having an average age of 42.3.

The cooperative's production plan is decided by the amount of company orders, but specific task allocation, and time scheduling are managed by the neighborhood committees (cooperatives). Allocation of the cooperative's surplus is carried out based on the principle of single piece valuation and based on the quantity of transactions made by each member. That is, the Meiyun Qinxiu Company trades with the cooperatives by order clearing. In addition to the amount of the payment determined per contract, the company also rewards the cooperatives with one percent of successfully completed sales. Accordingly, besides getting fees for each finished product, the embroidery workers can also obtain a bonus based on the amount of sales transactions. All surplus of the cooperative is allocated to its members every four months, three times a year. The cooperative is responsible for task assignment, the making of production plans, product inspection, binding and layout, accounting, wages and distribution of surplus. The Meiyun Qinxiu Company is responsible for product development, providing the necessary means and equipment for production, as well as providing marketing, technical training, and capital.

Xie Peiqin, a resident in the Huayuan community, expressed her opinion on the FSC: "The biggest change of joining the cooperative is convenience. In the past, I had to go to the company to receive and return an embroidery task, bargaining with the person in charge for a better price each time. This was both time-consuming and laborious. Sometimes the finished products lacked sufficient quality, so I had to go back to the company several times to resolve the issue. Now everything can be resolved within my neighborhood. The business can earn me about 20,000 yuan annual income."¹¹

Zhou Ling, another resident in the community told the author: "Since migrating to the neighborhood, everything has gotten easier but except making money. Establishment of the cooperative has not only given me a chance to work, I can now also take care of my child. Things are getting better every day."¹¹

Besides the economic benefits they provide, the implementation of cooperatives has also seen some unexpected but pleasant results such as enhancing harmony within the community. An elderly lady in the neighborhood said: "In the past, although we lived in the same community, people were indifferent, and did not even know each other. Because of the cooperative, people interact more than before and we... We are like a family, a warm family".¹¹

Li Guanting, 32 year old male, working in Xi'an all year round, expressed the following opinion: "I was always worrying about my parents, who stayed at home far away from me... There was nobody to take care of them and, you know, they always felt lonely ... Since the cooperative was established, my parents were kept kind of 'busy'. At least, they now know more people...Therefore, I am not that anxious anymore."¹¹

The Meiyun Qinxu FSC has also encountered several problems. First of all, the task distribution process can easily lead to conflicts. For example, member A may get more tasks while member B gets less, and some members may even have nothing to do. Therefore, questions arise regarding the fairness of task distribution. Secondly, leadership in the company and cooperative deliberately lower prices when buying back finished products from FSC members, with some leaders of the FSC even having accepted bribes from the company. These situations created challenges to the service aspects of cooperatives. Finally, the economic benefit to its members is not obvious, nor is age structure of the cooperative members reasonable. Although the requirements of workers in the embroidery industry are high, such as the need for good eyesight, the economic benefits for these workers are far less than those benefits obtained by workers in factories or other industries. The author conducted a survey on the income of Meiyun Qinxu FSC members and that of those who work in cities. This survey revealed that the average annual income of workers in the Meiyun Qinxu FSC was about 20,000 yuan, while those working in cities can get an average income of around 40,000 yuan per year. Therefore, there exists a big gap between them in terms of cash income. As a result of this disparity, most of the embroidery workers are more than 40 years old, who would have difficulties in finding a job in cities. On the one hand, the embroidery industry needs more employees. On the other hand, more people are leaving this

industry due to its lack of economic benefits. These problems will seriously influence the future development of the industry.

The Meiyun Qinxiu Cooperatives are a typical example of many cooperatives growing out of nothing. In comparison, quite a few FSCs are merely 'shell' cooperatives. For example, in the Muwang Town a person owned not even one goat, but only had a few sheep sheds. Regardless of this, in 2011, he successfully registered as an FSC. The same year, he received 20,000 yuan in subsidies from the county government, and another 50,000 yuan from the county Agricultural Bureau in 2012. It is said that he borrowed some goats from other villagers and "raised" them in his shed to deal with government inspections.

5. Difficult Problems Cooperatives Are Faced with in the Southern Shaanxi Mountainous Area

In the cases above, the Meiyun Qinxiu FSCs and Jindi FSC are the typical example of handicraft industry and breeding industry, respectively, in Zhen'an County. However, due to the lack of specialized statistical data, their status and functions in the county economy are difficult to determine. The Anyi Tobacco FSC is one of the cooperatives in the tobacco industry. With a plantation model representative of the majority of cooperatives in the area, its practice reflect that of the real situation of FSCs in mountainous countryside. Although FSCs help promote farmers' income and rural development to some degree, their problems cannot be ignored.

5-1. In their present stage, the FSCs in the mountainous areas show a very strong tendency toward exploiting government policy by obtaining subsidies and using these for purposes other than that for which these subsidies are intended. In order to encourage the development of cooperatives, the Zhen'an County Government introduced incentives in 2007, by deciding to give subsidies to those FSCs deemed qualified to receive them. Although in 2014, these subsidies were canceled, the government has continued to support FSC development via financing programs. In addition, the county and town government have also simplified registration procedures, issue preferential tax policies, and provide technical guidance and other services to support the development of cooperatives. These series of policies have stimulated the rapid growth in the number of cooperatives. According to Fang Hang's survey on the county's cooperatives, the purpose of a many organizations registering as a FSC is to primarily enjoy preferential policies such as subsidies, instead of being for the purpose of conducting real business.

5-2. Founders of cooperatives pay much more attention to their own personal

interests, ignoring cooperation among members and the provision of services. This has led to conflicts among cooperatives members, among cooperatives and communities, and among cooperative members and local residents. During its establishment, the Jindi FSC used fictional members in its application for a FSC license to maximize its economic benefits. What is more, this FSC paid no attention to environmental protection, which caused tension in the local community. The founder of Anyi Tobacco FSC regarded the cooperative as his personal property, misappropriating government subsidies to the cooperative, which finally caused one member to quit the FSC. These problems reflect the farmers' ignorance of the true meaning of cooperatives.

5-3. Greater understanding and expansion of the FSC resulted in little improvement of its members' living standards, and the rural economy. Take Shuping Village for example. According to the village party secretary Wang Chunlin, since the beginning of 2012 Shuping Village has gradually established 6 types of cooperatives specializing in tobacco, vegetables, aquaculture, tourism, construction, and labor export. However, excluding the labor export cooperative, the total income of the other five cooperatives was about eight million yuan in 2014. Meanwhile labor export income alone was more than 20 million yuan. This indicates that the positive role of cooperatives in the local area has not yet been fully realized.

Above all, these factors such as educational level, a lack of talents, false understanding about FSCs all contributed to the difficulties and limitations getting along with the development of FSCs in mountainous countryside in Shan-nan region. Among which, talents with full knowledge of the local situations become one of the key factors to the future development of FSCs.

6. The Important Role that Village Committees and the Residents' Committees in Future Development of FSCs

The three cases outlined above clearly show the unique role that the village committees and the residents' committees can play in the development of cooperatives in terms of coordination, participation, organization and management. In the case of the Jindi Cooperative, the village committee exerted great influence in regard to its operations. Its involvement not only allowed successful resolution of conflicts between Jindi Cooperative and the villagers, but it also enabled a process of upgrading the poultry farm. Confrontations among members of the Anyi Tobacco Cooperative, and the problems they had with other villagers were also finally resolved by intervention of the village committee. Furthermore, the

residents' committee in Huayuan community took the step of becoming directly involved in the Meiyun Qinxiu FSC, functioning in the roles of organization and management body. Considering the special geographic and cultural environments of mountainous rural areas, the village committee or the residents' committee should be viewed as having a positive role to play in the future development of cooperatives in these regions.

6-1. The practice of the Hongwei Village, previously known as Dongsheng Village before being incorporated into the Hongwei Village in 2013, can justify to this fact. Dongsheng Village was a small village in the mountainous regions, located in the southwest of Miliang Town of Zhen'an County, Shaanxi Province. The village abounds with the fruit of Chinese magnolia vine, fiddlehead and walnuts. Because of difficulties with transportation, the approximately forty households of Dongsheng Village had lived in almost complete isolation, and was a notorious poverty-stricken village in the Zhen'an County. Prior to 1996, it was very difficult for the young men of Dongsheng Village to get married. The girls of the village preferred to marry boys from the other villages, and the girls from the other villages were reluctant to marry the young men of Dongsheng Village. As a result, there were more than a dozen bachelors in the village, and arranged marriages with other households was common in Dongsheng at that time. In addition, more than 80 percent of Dongsheng's population was illiterate. Historically, the "South Ditch", which is pronounced "Nangou" in Chinese, where the Dongsheng Village was located, was mocking nicknamed the "Difficulty Ditch", which is also pronounced "Nangou" in Chinese.

In 1998, a teacher named Quan Longhua retired from school and returned to the village. In order to change the backward situation of Dongsheng Village, Quan took advantage of a re-election of the village committee, and was elected head of the Dongsheng Village. He organized young people who worked outside the village and consulted with them to find out a way to develop Dongsheng. Finally they decided to tackle the problem of transportation as the first step. Using his network of former students, Mr. Quan succeeded in making Dongsheng the only village in the Miliang Town to build a village-level road, aided financially by the Zhen'an County in May, 1999. Owing to limited funds, which was only enough to cover the basic expenses of explosives, cement and technical survey, the Dongsheng people had to solve labor problems by themselves. When the project was approved, Mr. Quan mobilized labor from the village, who worked voluntarily. While attempting to mobilize labor by going door to door, Mr. Quan noticed that several households

were reluctant to build the road due to their limited education and narrow-mindedness.

Because of his many failed attempts to persuade them, Mr. Quan and his committee drafted coercive measures in October, 1999. Firstly, the calculation of each family's workload was decided according to the number of its family members. Mr. Quan took on the workload of households who had difficulties in undertaking their assigned tasks. Secondly, it was decided that coercive measures would be applied to those stubborn villagers who insisted on refusing to work on their assigned tasks. These measures included forbidding them from making use of the road in the future, and not offering them help during times of marriage and funerals. Such measures were designed to force stubborn villagers to complete the section of the road allocated. During the process of the road's construction, quarrels occurred over issues such as the fairness of how sections of road were re-partitioned, calculation of quantities, time limit schedules for the project, and over their acceptance of quality checks. The village committee, headed by Mr. Quan, adopted the principle of "democracy first, then power". The project was divided into several sections in terms of having the same quantity in relation to the overall project. When carving up the road in this manner, a delegate from each household of the village drew by lot to decide which section they would voluntarily build. Each household was required to fulfill the contracted assignment by a specified time and guarantee both quality and quantity. At the same time, the village committee stipulated that each household should ensure that at least one family member work on the road from 8 am to 6 pm every day, except in poor weather conditions. Furthermore, no-one should not attend work without asking for leave or providing good reasons. Lunch, to be provided by the household themselves, was to last from 12 pm to 1:30 pm.

Great efforts were made from November, 1999 to July, 2001 and the road connecting the South Ditch and the arterial road of the towns was finally completed. Subsequently, a group of people headed by Mr. Quan entered towns and cities to contact companies and invited them to purchase all the kinds of fruits, vegetables and mountain products of the place in which village committee was located. The villagers picked the fruit of the Chinese magnolia vine, fiddle-head and walnuts, and delivered them to the village committee. The village committee took charge of bargaining and consulting the prices with business people. In the beginning, because the village committee acted as middlemen between farmers and buyers, some villagers suspected village committee members of profiting during

these transactions. However, the villagers found out that having the village committee take charge of marketing was more expedient compared to selling the products themselves. Finally, the village committee became the marketing agent of agricultural products and the guardian of villagers' interests.

In 2005, Quan Longhua left his job and proposed three standards regarding the election of rural cadres. Firstly, the cadres should enjoy high prestige and command universal respect. Secondly, the cadres should have the spirit of a path breaker and lead the villagers to achieve prosperity. Finally, the cadres should have an higher educational level above that of junior high school. He also made a proposal that the villagers living in remote mountainous regions away from the road be moved roadside areas by means of individual consultation, mediation by the village committee, land purchase and by replacement of functional land. To improve the living standard and economic situation, the villagers should be encouraged to engage in artificial cultivation of crops, such as the fruit of the Chinese magnolia vine, which favor the natural conditions in the mountainous regions. By 2011, the village had almost realized the voluntary relocation of villagers. The cultivation of agricultural products such as the fruit of Chinese magnolia vine and fiddle-head has also begun to take shape. Among the 47 households in the village, 15 households owned their own villa, 22 households purchased motorcycles, and 3 households purchased trucks or cars. Furthermore, the enrollment rate of school-aged children was 100 percent, and more than 90 percent of households had domestic appliances such as televisions and washing machines. Such achievements resulted in the Dongsheng Village being honored as a model village in the Miliang Town between 2010 and 2012.

6-2. The Hongwei Village is not a registered cooperative, but its example gives the expression as to the spirit of cooperatives. The practice of the Hongwei Village provides the following lessons about cooperatives and rural development.

Firstly, elite leadership characterized by authoritarianism can have a positive impact on the development of the mountainous rural regions in the South Shaanxi Province. Quan Longhua in Hongwei Village is a powerful leader. A leader with high prestige and respect is the key to avoiding poverty in the mountainous rural regions, with their low educational level and being dominated by the consciousness of small farmers. Under the leadership of Quan Longhua, the villagers of Hongwei Village could make concerted efforts. With respect to the success of the Hongwei Village, cooperation with companies and governments had also contributed to its success. However, cooperation among villagers was the key consideration needed.

In the case of self-reliance and self-made, they selectively associated with governments and markets and made great efforts to promote their own regional development. Accordingly, a courageous leader with full knowledge of the region's cultural ecology, and its local resources, customs and practices must be taken into consideration in terms of developing cooperatives in the mountainous rural regions. In this respect, the "company+base+farmer" model or a model dominated by government can be considered flawed.

The second lesson we can learn from the Hongwei Village experience is the pressing need to improve the systems and regulate the development of cooperatives. The "Farmer Specialized Cooperative Law of the People's Republic of China" was promulgated and went into effect in 2007. However, the governmental approach to focus on development instead of regulation gave rise to a separation between the operations of FSCs and the law, and this separation was not rectified by governments in time. *The Report on the Enforcement on Farmer Specialized Cooperative Law of the People's Republic of China* written by the National People's Congress says: "The relationship between normalization and inclusion should be addressed properly via a process of enforcement.....The key to promoting their development is to regulate properly, and gradually improve their internal management mechanisms while they develop."¹² After about 10 years' development, the cooperatives should and must be regulated. First, at the level of government, the detailed rules and regulations of the cooperatives need to be improved. Better systems need to be established that would enable government bodies to better supervise allowances they give cooperatives. Such system would allow the tracing, supervising and investigation of cooperative allowance, and the cracking down on illegal conduct in which defrauding of national allowances occur in the name of cooperatives. Second, in the primary villages and the residents' communities, the practice of appointing university students as rural officials, based on the national civil servant exam should be changed. These university students of higher education are not acquainted with the rural situation and lack relevant work experience. This practice is not favorable to rural development, and instead gives rise to wasting talent and creating financial pressure due to the burden of their salary. The way that leaders were elected by the villagers of Hongwei Village based on their merits, abilities and integrity sets a good example. Until now, most cooperatives have been established by rural cadres who were either directly or indirectly in the establishing process. However, these rural cadres had never been elected. As a result, many cooperatives have been used by rural

cadres as merely tools through which to enjoy their own interests.

Finally, rural communities based cooperatives in which administrative villages or residents' committees play a central role (i.e. an "elite leadership FSC—based on the rural community" model) should be gradually spread. Zhang Xiaoshan (2009), the head of the Rural Development Institute, Chinese Academy of Social Sciences, believed that in the long term Chinese rural areas will maintain a structure in which they coexist with the minority of specialized plantation, cultivation, and marketing households, and in which a large amount of peasants continue to engage in small-scale farming. Therefore, the number or the scale of the cooperatives should not be the only focus. Consideration should also be given to making full use of the ecological advantages of the mountainous regions, and to encouraging the development of new industries such as farm stays, specialized plantations, and tourism.

7. Conclusion

Development of FSCs in the southern Shaanxi mountainous area represents a microcosm of how it is occurring throughout China. The psychological impact on residents brought about by rural cooperatives in mountainous areas is very complex. Under certain economic, cultural, and geographical conditions, a FSC is not only the product of government policy, but also embodies the dream of farmers to lead a happy life. No matter whether it be a quasi-enterprise registered as a cooperative, or whether it be a pseudo-cooperative for the purpose of obtaining subsidies, cooperatives operate as a result of interactions between the farmers' dreams and the existing system.

This in-depth investigation on the historical and current situations of FSCs in Zhen'an County has revealed several shortcomings of certain FSC models: The case studies in this paper revealed that the success or failure of FSCs established in this area was largely dependent on the degree to which the customs and specific culture of that area are understood. For that reason, this author has proposed an "elite leadership FSC - based on rural community" model, since this FSC structure was seen to best enrich the development of FSCs in the mountainous countryside of Zhen'an County. Moreover, this research explored the complex interaction between FSCs, villagers and their village committee. The case studies reveal that, mainly due to economic reasons, conflicts can easily break out during either a FSC's establishment, operation, or expansion. Elite leaders thus play a key role in a FSC's development. The case study examples of the Jindi cooperative and Dongsheng Village served to illustrate how elite leadership is also the key to

protecting the rural environment and improving the farmers' living standard.

The case studies in this research also illustrate the unique importance of the village committee, and the important role they play in a FSC's development promotion, conflict settlement, establishment of mutual trust, and protection of public interest. Along with the continuing development of Zhen'an County, although still not high in economic contribution, FSCs have brought some positive changes to the mountainous area. For example, during later development of the successful Meiyun Qinxiu Cooperatives and Jindi Cooperative, a harmonious relationship between cooperatives and residents was greatly promoted.

Collectively, these case studies show the complexity of developing FSCs, particularly in mountainous countryside. Further research in fields related to this topic is required: Firstly, further research is necessary on the impact that FSC development has on rural culture. Almost every aspect of life in mountainous countryside involves complex concepts of family, ancestral ideas, and hometown. A further study on how these factors exert influence on the development of FSCs is fundamental to FSC research. Second, no FSC can isolate its development from government support. China is currently implementing its New Countryside Construction strategy. Therefore, it is important that research be done that seeks to answer the following questions: What is the relationship between this strategy and FSC development? How do we promote the construction of the countryside by accelerating FSC development? Finally, what is the relationship between FSC development and a village's collective economy?

Notes

- 1 See Shaanxi Provincial Geography Data Base (<http://www.sxsdq.cn>) for more detailed information.
- 2 See Shangluo Daily: “Zhen’an is entitled the top ten counties in Shaanxi Province”, 2015-5-5.
- 3 Details of the government report please visit the web page of Zhen’an county government: <http://www.zazf.gov.cn/>. 2015-9-23.
- 4 It is a news report in the Shangluo Consuming Network: www.SLXFXX.com
- 5 Documents issued by Shaanxi provincial government, No.[2003]23.
- 6 Documents issued by Agricultural Bureau of Shaanxi Province, No.[2004]37.
- 7 Documents issued by Agricultural Bureau of Shaanxi Province, No.[2008]8.
- 8 Documents issued by Shaanxi provincial government, No.[2013]50.
- 9 Document issued by Zhen’an County government: “the Implementation of Supporting Green Husbandry, Promoting the brand of Zhen’an Chicken”, 2012-09-10.
- 10 Please visit China Farmers’ Cooperatives for more information: [http:// news.b2cf. cn/hzskx/ 201508/ 28888_1.shtml](http://news.b2cf.cn/hzskx/201508/28888_1.shtml)
- 11 These information was collected from an investigation. In August 2015, this author conducted an investigation on the Jindi FSC and other FSCs related to this research in Zhen’an County, Shaanxi Province. The investigation was conducted mainly by personal interview, phone interview and free chat with local residents, and author’s observation. It took the author more than one year to finish the investigation since it started from 2014.
- 12 Read more about The Report on the Enforcement on Farmer Specialized Cooperative Law of the People's Republic of China, (2008-10-27), please visit website of the National People’s Congress of the People’s Republic of China. www.npc.gov.cn

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