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著者	李, 順杰; LI, Shunjue
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中国山間部農村における農民專業合作社の実証研究

— 陝西省南部の現地調査に基づいて —

An Empirical Study on Farmers Specialized Cooperatives in Mountainous Countryside of China

-Based on the Fieldwork in Southern Shaanxi Province

北海商科大学 大学院商学研究科

21370037 李順杰

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INTRODUCTION

The hometown to the majority of Chinese is a place always radiating the glory of memories of rivers on foot of hills, folk guys, relatives, the old but still “fashionable” shacks, along with the profound feelings of homesick. In comparison with the sky-scrapers, chaos shopping malls and busy street in cities, the green mountains with briskly flowing brooks, and the farmland emitting pleasant smell of wheat and corn to the heaven can definitely comfort the exhausted mind in cities with its natural tranquility. The beauty of hometown in the countryside always impresses people with warm comfort and familiar simpleness.

The report on “Investigation on Peasants’ Return and Starting Their Own Business in 100 Counties” conducted by the Agriculture Bureau of China said that the cling to home land is the key in peasants’ decision to go back and start business in their hometown. Fei Xiaotong defined the cling as the psychological complex, such as feelings, attitudes and wishes, that peasants

harbor toward the villages and motherlands where they live in. The rate of urbanization in China has been more than half in 2011 (51.27%), the population in urban area, for the first time in history, exceeded that living in countryside. But another fact which can not be ignored in the meanwhile is that there are still a huge amount of seasonal migrating peasants coming back and forth between their hometowns and cities where they are working in. The scale of this migration in 2011 is 2,300 million, and in 2013, it amounted to 2,680 million. There are still many “citizens” renting farmland and farmhouse in suburbs to plant vegetables and enjoy the leisure time, experiencing the joy and calmness of this mini or duplicated countryside. All of these actually showed the unforgettable memories of countryside, a place which is inseparable to human civilization.

Despite the beautiful memories, countryside, especially in the rural mountainous area in northwestern China however, has been going downhill so quickly in the last two decades. On one hand, the decline of countryside is an undeniable fact; on the other hand, it is an issue of development that should be confronted in the area because of its importance due to the geographic features and the large size of population in China. Besides many

initiatives conducted in history, the farmer specialized cooperatives (FSCs) is a new try in promoting the development of countryside. While the practices of farmer specialized cooperative not only closely relate to the agricultural production and the economic development in countryside, the various types of farmer specialized cooperatives also influence deeply on those aspects such as rural culture and custom, form of habitation, ways of living etc. How could the farmer specialized cooperatives survive and develop themselves in the mountainous area? What are the unique factors influencing the development of farmer specialized cooperatives? How can they administrate farmer specialized cooperative and make it the driver to the harmonious and coordinated development in rural countryside? These are the questions that this research is trying to explore, which also serve as a primary motive of doing this research.

Since the implementation of the Reform and Opening-up policy, the developing process of countryside can be divided into three stages. The first stage started right after the Third Plenary Session of the 11th Central Committee of CPC (the Communist Party of China). The nature of the policy was to reform the production relations in the countryside with the implementation

of the household contract responsibility system, and open the domestic market to the outside world, especially the coastal cities in south-eastern China. The reform in countryside was actually finished in 1984, which greatly promoted the agricultural production.

Then came the second stage from the early 1990s till 2007. The starting year of the stage is hard to define because the focus of countryside development quickly shifted to the township enterprise with the restoration of agricultural production. Take township enterprises in Shangluo, Shaanxi Province for example, as shown in table 1, the township enterprises in Shangluo region had experienced major changes from 1979 to 1999. The changes not only reflected by number increase, from only 2,560 in 1983 to 61,301 in 1999, and the employment expanded from 27,780 to 196,722. These changes greatly promoted the economic development in the region. The total revenue of township enterprises amounted to 525,000 million yuan in 1999, about 123 times the number in 1983 (4,238 million); the net profit also increased 111 times, from 6.67 million to 740 million in 1999. With the rise and fall of township enterprises in the period, the harmonious development of countryside was neglected to some extent, “Some people becoming rich first” was the

policy encouraged by the central government of China. Terms such as “geti hu” (the small private business based on one person or family members) and “xia hai” (means the person left their original position of being a governor or other occupations and try to be a business person) became a popular sign of the age. These factors therefore weakened the level of cooperation among peasants in their production, which contributed part of the reasons to the decline of the rural countryside.

Table 1 Township Enterprises in Shangluo Region (1979–1999)

Year	Enterprises No.	Employment No.	Revenue (M)	Net Profit (10,000 )
1983	2560	27,780	4,238	667
1984	13939	73,343	8,316	1,017
1987	40910	155,141	30,000	4,943
1999	61301	196,722	525,000	74,000

Source: Made by the author according to data in *Shangluo Annals*

The third stage is the era of the new countryside construction and the development of cooperative economy. The issue of the “Farmer Specialized Cooperative Law of the People’s Republic of China” in 2007 marked the beginning of the new era because the rural development and cooperation among peasants once again became the focus the central government.

In contrast to the rural development, cities in China have dramatically



expanded in both of their land area and population. The statistics showed that the average level of urbanization (in terms of population) was 51.27% in 2011. Some big cities such as Beijing, Shanghai, and Tianjin even exceed 80 percent, among which, Shanghai peaked at 89.3 percent. Other cities including Guangdong, Liaoning, Jiangsu and Zhejiang also went over 60%. In south-eastern China, countryside has well integrated with cities, the gap between cities and countryside in the area has been narrowed dramatically. These served as good examples that industrialization can greatly promote the level of urbanization, which also served as the evidences of the success of the Opening-up policy.

However, the importance of countryside has been fully illustrated in China as well as in international communities. Karl Marx had interpreted the countryside as “water tank” regarding its importance. Chairman Mao stated that “the very core issue of China is the issue of countryside and peasants”. Urbanization is the world trend as well as the strategic option of china. But the target and final purpose of urbanization is to promote harmonious and coordinated development between cities and countrysides, human being and environment. The urbanization alone can not solve the problems in mountainous

countryside. Professor Zheng Fengtian said in China Economic Weekly(January 7, 2013) “the countryside in China will be relatively in the condition of decline in the long run” . But a “dying” countryside does not accord the basic national situation of China; also, it is negative to the realization of sustainable development. How to promote the rural development in mountainous countryside is another reason of conducting the research.

## Part I Research Background and Development Status of FSCs

### Chapter 1 Research Status, Significance, and Methodologies

#### Section 1 Survey of Preceding Studies on Cooperatives

##### 1.1 Status of Foreign Studies on Cooperatives

Researches all over the world have been conducted on various economic cooperatives. United Kingdom is the cradle of cooperative organization, which has a long history of more than 150 years. At the end of 1995, there were 532 agricultural associations, a membership of 259,000 farmers in UK, among which about half were comprehensive associations and half were purchasing associations. The sales of these cooperatives amounted to 6 billion pound, which account for 40 percent of the total sales of agricultural products. Germany is also one of the countries with a long history of cooperative organizations. There are agricultural associations at three levels: associations at local community; the united agricultural associations; national agricultural associations. In 1994, there were 6,511 associations, covering 80 percent of farmers in the country, among which there were 2,124 associations also ran other businesses; 3,670 cooperative banks in the countryside with 19,700 branch banks across the country. France is another

important country of agricultural associations with a history of more than 120 years. In 1994, there were 16,800 associations, among which 3,800 associations were engaging in manufacturing and selling, and 13,000 associations focused on providing service. They had a membership of 720,000 farmers which account for 90 percent of the total.

Among those studies, the Japanese Agricultural Association (JAA), which share the common characteristics of farmer specialized cooperatives in China, takes a large proportion. Sakashita Akihiko (2006) analyzed the organizing mechanism and operation of JAA. Shichinohe Chosei (1974) also stressed the importance of cooperation and the role of JAA. Hagihara Shota (2013) categorized the JAA and analyzed its functions and problems. Yuan Fangcheng and Cai Yang (2009) observed the JAA's development in the 20<sup>th</sup> century and the cooperation between the JAA and farmers in bridging agricultural production and the market. Liu Guanghui (2008) and Liu Shuyun (2005) studied on the supporting system and policies of JAA. Zhou Yingheng, Li Qiang and Geng Xianhui focused on the current status of JAA, explained JAA's challenges from internal and external environment, discovered the the new trend including the decrease in its membership, streamlining the managing levels,

and shift of operational focus to the booming regional economy. Hayami Yujiro's study (2005) asserted that the rural cooperatives, which were represented by the academic associations, the JAA and other organizations, played an intermediate role of government and market to prevent agricultural production from market risks.

## 1.2 Domestic Research Status on Cooperatives

Meanwhile, abundant researches on various cooperatives in China was conducted. There were quite a few researchers focusing on the cooperatives practiced in 1950s. Chen Yiyuan (2005) analyzed the co-relations between the Cooperatives Campaign and the reinforcement of local governments, and he insisted that the campaign played a positive role in both restoring agricultural productivity and strengthening the control of local governments in countryside. Wang Yuling(2007) discussed that the transformation of individual small-scale peasant economy through agricultural cooperation and the rural industrialization after the founding of New China were two aspects of the same issue. Rural industrialization consisted of the development of industrial enterprises in rural areas and agricultural industrialization.

Moreover, numerous studies were conducted on peasants cooperation in the

countryside since the implementation of reform and opening-up policy. 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. Shi Jinshan (2005) compared features and trend of farmers’ cooperatives in US, Japan and Europe, then introduced the changes of their principles, scale problems and enterprise trend. Zhou Lianyun and Lu Xiaohui (2006) took a further step on the institutional innovation of farmer specialized cooperatives in the background of market economy. 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” .

Since the “Farmer Specialized Cooperative Law of the People’s Republic of China” was implemented, researches boomed at an alarming rate regarding the development of farmer specialized cooperatives. Xu Hongmei and Li Xiaohua

(2009) reviewed the problems of cooperatives in the last three decades since reform and opening-up. They illustrated the functions of cooperatives in promoting urbanization, industrialization and social employment, which greatly narrowed the gap between urban area and rural countryside. Zhang Xiaoshan (2009) stressed the importance of pillar enterprises and elite farmers to the development of farmer specialized cooperatives in China. Sun Xiaohong and Zhang Huijuan (2012) studied on specific distribution system of farmer specialized cooperatives.

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 farmer specialized cooperative is not appropriately expanded, and various types of farmers’ organizations are considered or registered as a farmer specialized cooperative”. Besides farmers’ organizations, quasi-enterprises also contribute a lot to the generalization of farmer specialized cooperatives, by aiming to enjoy the same preferential policies designed for farmer specialized cooperatives only, such as tax relief and subsidies. These quasi-enterprises register as farmer

specialized cooperatives and become strong contenders for the national financial subsidies and projects designed for farmers. Their behavior damages the interests of other farmer specialized cooperatives, and is not in accordance with the national policy that is designed to support farmers and the development of rural areas.

Discussion of the quality of farmer specialized cooperatives has been a focus in academic fields. Huang Zuhui et al. (2009) believed that the fundamental nature of an farmer specialized cooperative, such as self-serving, democratic management, is changing. Xiong Wansheng (2009) observed that an farmer specialized cooperative 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” .

Much of the above researches on farmer specialized cooperatives were mainly related to areas in good geographic locations. The research contents firstly include introductions to the principles of farmer specialized cooperative, development process and current status. Then a majority of the studies conducted analysis on problems such as scale problems and enterprise



trend, member investment, cooperatives inefficiency, cooperatives' seeking for rent and the relation between cooperatives and government. Finally, those researches raised suggestions and guidance for the development of farmer specialized cooperatives in China.

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 farmer specialized cooperatives in mountainous areas, 3 aspects were mainly focused upon.

The greatest amount of research done in such regions focused on difficulties that farmer specialized cooperatives are faced with. Yang Kai (2012) conducted field research on farmer specialized cooperatives 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 farmer specialized cooperatives in the Qin-ba mountainous area in Shaanxi Province to determine the strengths, weaknesses, opportunities and challenges that farmer specialized cooperatives faced in the region. Yang Jianguyun et al. (2013) explored the fundamental reasons preventing the

development of farmer specialized cooperatives 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 farmer specialized cooperatives 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 farmer specialized cooperatives in Gansu Province. He noted the existing problems of farmer specialized cooperatives 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 farmer specialized cooperatives in China.

The second aspect of research conducted in mountainous countryside focused on the operation of farmer specialized cooperatives. Liang Biwen (2008) observed operational models of farmer specialized cooperatives in Enshi, in Hubei Province. Of these, an enterprise-driven model, namely the “enterprise+farmer specialized cooperative+base” model was found to account for 56.42 percent. This was followed by a model of farmer specialized

cooperative in which large planting by professional farmers, which accounted for 26.56 percent 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 farmer specialized cooperatives in mountainous countryside. Liu Yuwen and Shi Liying (2014) discussed the role of farmer specialized cooperatives 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 farmer specialized cooperative in that area.

### 1.3 The Disadvantages of Previous Studies

In conclusion, the primary focus of previous research within the mountainous countryside was mainly about on the problems encountered by farmer specialized cooperatives 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 farmer specialized cooperatives exert on the rural economy. While the previous research has laid a very good foundation to the future study of farmer specialized cooperatives, it seldom relates to a very important aspect: the influence that farmer specialized cooperatives have on the rural countryside as a whole, such as restructuring rural culture and customs. Furthermore, few research was conducted from the socio-economic point of view to explore the factors influencing the development of farmer specialized cooperative. These factors include rural cultures, customs, families, consanguinity, squire, as well as local government and party members of the Communist Party of China.

Research with such focus would enable understanding of the impact that farmer specialized cooperatives 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 farmer specialized cooperatives and the strategy of New Countryside Construction. Finally, it would help us to gain an insight into the impact that farmer specialized cooperatives 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 farmer specialized cooperatives within Zhen'an County, a mountainous countryside area in the southern Shaanxi Province.

## Section 2 Research Significance

Mountainous areas normally refer to mountains, hills and rugged plateaus.

Fig.1 Map of Shan-nan Region



In China, mountainous areas cover two thirds of the country: such areas account for 33%, 26%, and 10%, respectively.

Southern Shaanxi Province (also known as Shan-nan region , see Fig.1) mainly includes the 3 prefectures of Shangluo, Ankang and Hanzhong. This region

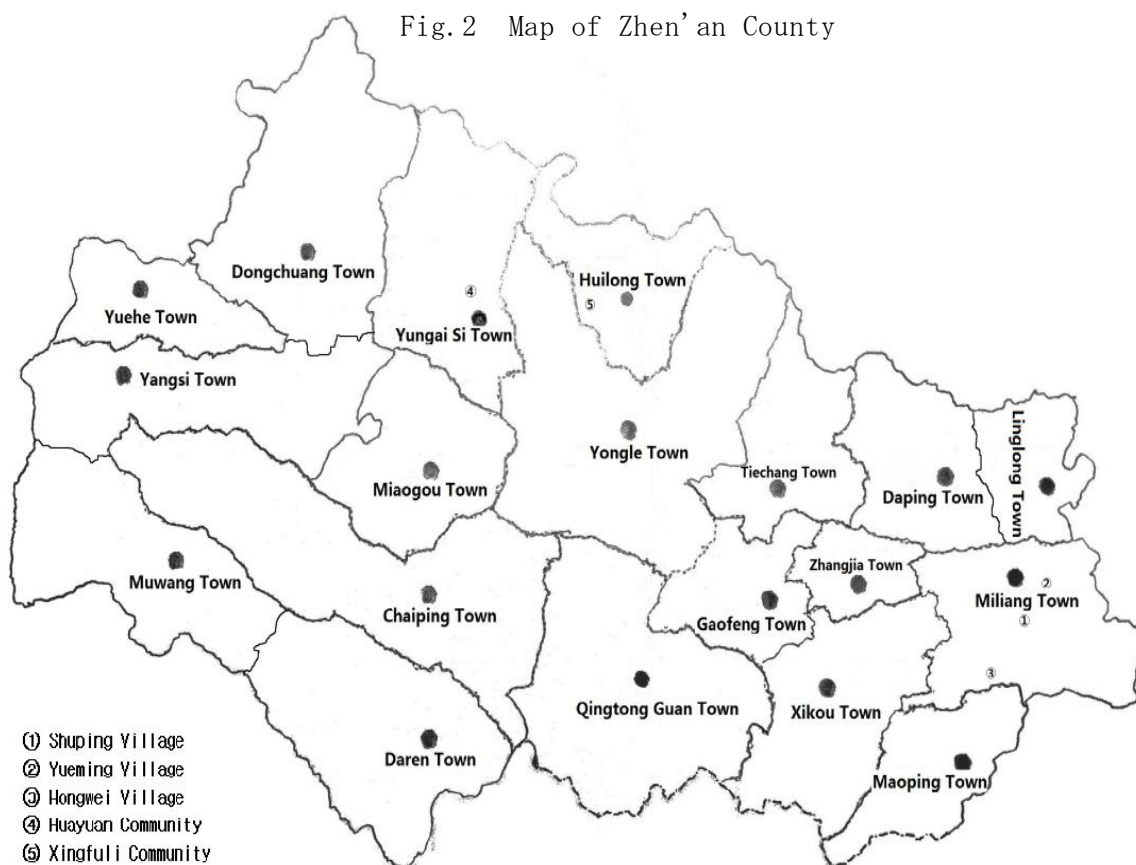
represents a typical example of

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.<sup>1</sup>

Since farmer specialized cooperatives began to operate in the southern Shaanxi Province, Zhen'an County(see Fig.2) 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.<sup>2</sup> Due to its particular environment, economic conditions and policies, farmer specialized cooperatives in the southern Shaanxi Province displayed features that distinguished it from other regions. Therefore, research conducted on farmer specialized cooperatives in this mountainous countryside would have great practical significance and social value for that area.

Fig.2 Map of Zhen'an County



2.1 Research into the operations of farmer specialized cooperatives in mountainous regions is conducive to deepening our understanding of these

cooperatives and in helping to optimize models of farmer specialized cooperatives that are capable of functioning effectively in various topography. The problem with the Laiyang model, Jiangshan model, or the Hebei model of farmer specialized cooperatives is that they only provide summaries of operations of farmer specialized cooperatives 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 operations of farmer specialized cooperatives 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 cooperative campaign 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, the 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.

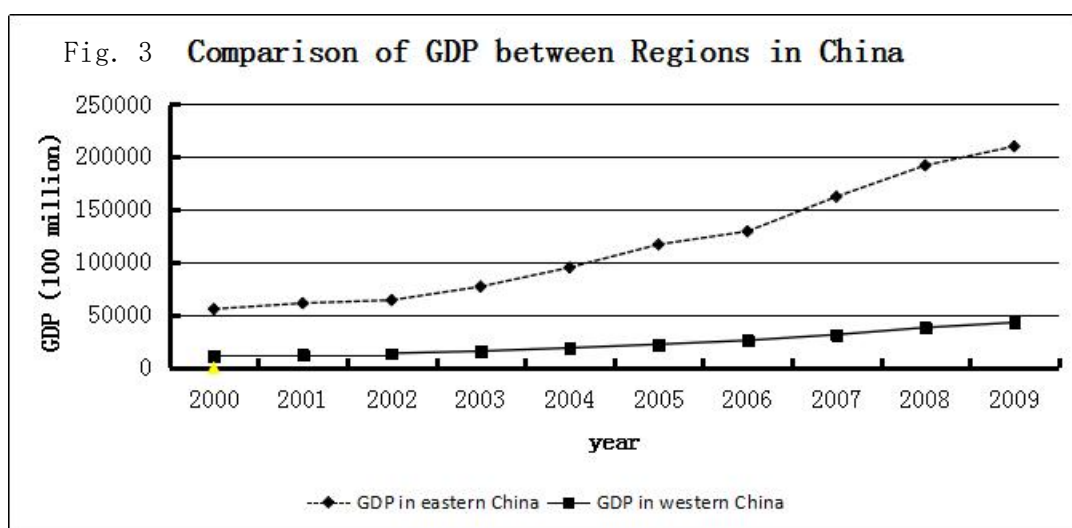
While such measures greatly promoted rural development, these driving forces came to an end upon entering the 1990s, by which time the driving effects of the household contract responsibility system had gradually diminished, requiring new initiatives for further rural development. Meanwhile, the rural areas in eastern China had undergone agricultural modernization and rural-urban integration through the new models of cooperation. While much research on farmer specialized cooperatives was conducted in eastern China, little research had been carried out on farmer specialized cooperatives 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 farmer specialized cooperatives in mountainous area would help provide a more complete model of farmer specialized cooperatives.

2.2 By revealing the functions and limitations of farmer specialized cooperatives 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 area 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 (see Fig.3). 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.



Source: Made by the author according to *China statistical Year Book (2001-2010)*.

Therefore, it is of great significance to examine the practical effects

that farmer specialized cooperatives have on rural areas, and to determine existing operational problems in order to improve their model. Because the effects that various farmer specialized cooperatives 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, farmer specialized cooperatives 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 Farmer specialized cooperatives 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. According to Thodore W. Schults, the economic driving effect of human capital is far more than that of material investment. But the human resource capacity in the countryside is rather low in comparison with that in cities based on the years of education people received. The *China Rural Statistical Yearbook (2011)* showed that in countryside the illiteracy rate was 5.94 percent, the rate of people who fulfilled primary school education was 24.67 percent, middle school was 52.68 percent, high school was 11.74 percent, college and

university was merely 2.1 percent. The low literacy rate pose great challenge to rural development. Farmer specialized cooperatives in this case provide a possible way. Studies on the models, problems, and management mechanisms of farmer specialized cooperatives 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, farmer specialized cooperatives offer one possible way of doing so.

Above all, research on the farmer specialized cooperatives in mountainous countryside is a real and urgent task to engage in. On one hand, the status of countryside has undergone major changes along with the development of urbanization. Countryside has converted from the place of living and production in history, to a temporary habitat currently for peasants' seasonal return from cities where they are employed most time of the year. The transportation improvement in mountainous area did little to restore the vitality of the area. On the contrary, it accelerated the outflow speed of local labor forces. These major changes have already caused many social problems such as children being left behind in the countryside by their parents and the seniors with nobody to take care of. More than that, this research is also helpful to the development of farmer specialized

cooperatives in the future. Researches in regions with sound natural environment have more or less been done regarding the development of farmer specialized cooperatives. Studies on farmer specialized cooperatives in mountainous area are in short. It is undeniable that farmer specialized cooperatives have gained tremendous growth in number, a quality and sound development of farmer specialized cooperatives in the future demands fundamental research which can provide support theoretically and practically. Further more, besides the economic contributions, farmer specialized cooperatives also exert positive role in promoting protection and succession of traditional culture heritage in countryside.

### Section 3 Research Methodology

In order to get access to the operation of farmer specialized cooperatives in the mountainous countryside and gain insight into the influencing and determining factors of the effective operation models in the region, a combination of research method were employed in conducting this research.

#### 3.1 Literature Review

Before launching this research, the author firstly focused on reading the previous research regarding cooperatives and cooperative economic organizations in China and other major nations which had a long history of developing cooperation among peasants. In addition, the author also read a lot about the works on urbanization because the farmer specialized cooperative in china is also a key drive to the New Countryside Construction Strategy, which was set to promote urbanization and the coordinated development between cities and countryside. These sources include articles published in major journals, works, and relevant websites. By sourcing, sorting, analyzing and summarizing, it could enrich knowledge related and lay a sound basis to the future study.



### 3.2 Systematic Analysis

The farmer specialized cooperatives in the mountainous area are different from those in better geographic locations. Therefore, the study on farmer specialized cooperatives in mountainous countryside should be taken from economic, cultural, social perspectives, and try to explain and analyze their existence and operation in the background of rural cultures, customs and their way of living. A systematic research involving government, enterprises, farmers, neighborhood communities is quite necessary. Any explanation failed to take these factors as a whole can not answer the question about why farmer specialized cooperatives came into being, or why they take a certain form of existence. Neither can this kind of research provide any effective countermeasures on how to solve the real problems and promote the development of farmer specialized cooperatives.

### 3.3 Comparative Study

Based on the analysis on different types of farmer specialized cooperatives, this research tends to compare their development from regional, economic, cultural and educational differences, and analyze the unique factors influencing the farmer specialized cooperative in mountainous

countryside. Through comparison, the research endeavors to supply positive suggestions on the coordinated development of countryside, explore a farmer specialized cooperative model which could function positively in mountainous rural area.

### 3.4 Field Research

This research focuses on farmer specialized cooperatives in mountainous area. One of the difficulties when conducting the research is that the recorded data, documents and other paper materials are quite limited due partly to the relatively short period of time since the implementation of the “Farmer Specialized Cooperative Law of the People’s Republic of China” in 2007, and partly to the low educational level in the area. In order to obtain primary data, a field research along with personal interview, free chat with villagers, members and initiators of farmer specialized cooperative, and other stakeholders will be conducted.

## Chapter 2 Development of Cooperatives in China

### Section 1 What is Farmer Specialized Cooperative? An Overview

Cooperation among farmers and cooperative associations have been a common practice since the first appearance of cooperatives in United Kingdom. In China, when it comes to the new expression, many questions arise as to what is the farmer specialized cooperative? What is the difference between the new type of cooperative and the former one practiced from early 1950s to 1970s? Is the farmer specialized cooperative really “special”? Besides that, people also harbored reservations on its implications and influence on regional development. Thus, it is necessary to get insight into this new term and observe its functions in this part.

The nature of farmer specialized cooperatives in China 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 the mechanism of agricultural production in rural areas began with the household contract responsibility system. It was not until 2007 that the practice of farmer specialized cooperatives 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 farmer specialized cooperatives 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 farmer specialized cooperatives.

In chapter one of the second provision of the “Farmer Specialized Cooperative Law of the People’s Republic of China” , farmer specialized cooperative is defined as an economic and cooperative 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 farmer specialized cooperative exercises the principle of voluntary union and democratic management. The definition shows the great importance of the Cooperatives practiced in 1950s and the exercises of farmer specialized cooperatives since it became a major government policy in 2007, they both played a very important role in agricultural production and rural development.

In the first sense, the former cooperatives and farmer specialized cooperatives today share some common features. To begin with, both of the cooperatives and farmer specialized cooperatives have greatly promoted the production mode of agriculture from the traditionally scattered and individual dominated type to scale management. They both emphasize the importance of collective work, mutual benefit and fair distribution. For example, in the initial stage of cooperatives in 1950s, each cooperative had a membership from four or five households to more than 10 households. These households joined the cooperatives with their animals, tools and labor force to provide mutual help in the agricultural production. Each household acted as a shareholder who hand over the access to their land to the cooperative and manage the farmland collectively. In the cooperation, however, it does not change the ownership of the means of production, and the products were allocated based on their contributions or share (it is actually the means of production portion they contribute to the cooperative).

Secondly, the scale management in agricultural production, as a result of the practice of the former cooperatives and the farmer specialized cooperatives, promoted the application of machine in agricultural production

in return. Finally it helped to accelerate the development of non-agricultural industry as well as the agricultural industrialization in the countryside. Gao Huamin (1999, p.424) believed that the purpose of the cooperation in agricultural production is to realize its industrialization.

The definition above also highlights the key differences between farmer specialized cooperatives and common enterprises. The former mainly aims at providing a service to its members besides purely economic benefits. 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), farmer specialized cooperatives are both a political and nationwide economic campaign to restore agricultural production. However, nowadays farmer specialized cooperatives 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 farmer specialized cooperatives. Although government policies still play a very important role in the operation of farmer

specialized cooperatives, essentially they are self-managed by farmers to provide economic support and mutual assistance, without political nature.

The distinct differences between the cooperatives, practiced from early 1950s to mid 1970s (the people's communes were regarded as the result of cooperative movement and the highest form of cooperatives), and the farmer specialized cooperatives can also be illustrated from their ownership of property(land as a key), way of cooperation, scale of cooperatives, nature of the cooperatives and distribution system.

As shown in table 2, the practices of the cooperatives from 1950s to 1970s can be divided into two phases: the initial stage started with cooperative movement in early 1950s and the people's commune movement. In its initial stage, the cooperative movement appeared naturally among farmers who organized freely according to their production need. The cooperation at that time was mainly in the form of labor exchange; the production resources were owned privately; members would come together to offer help in agricultural production without allocation of products. In most of the cases, this kind of organizations were limited to a small scale both in the range of their activities and business scope. To some degree, they operated like a working

union. Then the cooperatives were quickly pushed to set up people's commune which, as mentioned above, was both a political and economic organization. It deprived farmers' ownership of their land, working tools, animals and other means of production, exercising public ownership and even distribution within the people's commune. Besides, the people's commune engaged in variety of business from agricultural production to small workshops manufacturing necessities. In contrast, farmer specialized cooperatives are independent economic organizations. They show greater complexity in its ways of cooperation and distribution. Farmers may set up or join a farmer specialized cooperative by investing their land, labor forces, capital or even talents in it. Benefits and profits are distributed in the form of material products, cash salary and dividend, according to their contributions to the farmer specialized cooperatives. The cooperatives in 1950s practiced collective ownership featured with planned economy while farmer specialized cooperatives are owned by the cooperative members and therefore they are characterized with market oriented operations.



Table 2 Comparisons between the Former Cooperative, People's Commune and Farmer Specialized Cooperative

		Way of cooperation	Scale	Nature of cooperative	Distribution system	Ownership of land
Farmer specialized cooperatives (since 2007)		labor, capital	small	economic	based on labor, transactions, stock dividend	public
Cooperatives	1950~1955	Seasonal labor cooperation	small	Labor cooperation	Labor-based, Factor-based	private
	1956~1958	All means of production	large	Production unit	Labor-based distribution	public
People's commune	1958~1978	all means of production	large	political and economic org.	Even distribution	public

Source: Made by the author.

Further more, government played different roles in the expansion of the former cooperatives from 1950s and the farmer specialized cooperatives started from 2007. In the 1950s, the cooperative's expansion was greatly accelerated by the central government in a top-down manner, by which the cooperatives were then quickly transformed into people's communes that administered local affairs. Although the establishment of farmer specialized cooperatives is also guided and encouraged by government policies, they are operated independently by cooperative members. In the purpose of economic

benefits and common prosperity, the farmer specialized cooperatives by no means represent a level of government. But the people's commune had strict system in its structure, its members enjoyed lower flexibility in production management and peasants almost had no options in membership.

The concept above discussed in detail about the nature and evolutionary changes of farmer specialized cooperatives in China. But questions still remain as to what kind of cooperation is going on in mountainous rural areas today? Furthermore, what is the role of farmer specialized cooperatives in rural production, and how does this exert influence on rural development? Research on these above questions would be helpful to improve the development of farmer specialized cooperatives and contribute to the well-being of those living in mountainous areas.

## Section 2 Development Status of FSCs

The rapid development of farmer specialized cooperatives has become an innovative way to gradually form an effective institutional mechanism in agriculture, such as increasing agricultural production and bridge the gap between farmers and markets. With the analysis of the development process, the development models and the scale of farmer specialized cooperatives, people can master the development status of farmer specialized cooperatives in general.

### 2.1 The Strategic Background of Launching Farmer Specialized Cooperatives

The word “cooperative” reminded some people of the old days in 1950s and questions arose as to why the central government of China once again took active measures to encourage the development of farmer specialized cooperatives. Besides the differences between the farmer specialized cooperatives and the cooperatives in 1950s, the fundamental role of countryside and the increasingly worsening situations in rural area exerted great influences on the decision making process of government.

First of all, the hollowing problems of countryside, especially those in

northwestern China, ask for urgent actions taken to restore the vitality. The term “hollowing problem” was firstly used and explained, in the Japanese Governmental Socio-economic Plan in 1967, as “a state in which it is difficult to maintain a normal living standard, such as disaster prevention, education, medicare and other essential segments which laid fundamental basis to a society. Also, it is difficult to make use of local resources and the production capacities show strong signs of weakening due to the decrease in populations. In other words, the hollowing area refers to a place where its population density is continuously declining and a regular daily life is hard to come by” . According to *China Statistics Yearbook (2013)*, population in urban area was about 712 million at the end of 2012, exceeded the number (about 642 million) in countryside, accounted for 52.57 percent of the total population in China. Thus, the cooperation on the platform of farmer specialized cooperatives is a must in the condition of population decrease in the rural area.

Secondly, the ever-increasing amount of deserted farmland endangered the safety of agricultural production, which served as cornerstone of the social stability. China has a population of more than 1.3 billion, agricultural

production has always been a strategic segment in its overall development. But the proportion of population engaging in agriculture has fallen dramatically from 70.2 percent in 1978 to 34.8 percent in 2011. The problem not only showed by the loss of agricultural population, a far worse fact is that the remaining population majoring agriculture are the old, women and kids. In the First General Survey on agriculture carried out in 1996, the percentage of peasants over 50 years old was 18.1; but this percentage increased to 32.5 in 2006. The unwillingness to work in the field pose new challenge to the rural development. In June 2011, the central government of China conducted “investigation on 100 villages” showed that the deserted farmland area amount to 40 percent in Binhu Village, Hubei Province. Data also showed that from 2000 to 2003, the loss of farmland nationwide was 135.8 million acre.

The outflow of population in the countryside and the endangered agricultural production formed the general background of the era in which the farmer specialized cooperatives were encouraged.

## 2.2 Development Process

The development of Chinese farmer specialized cooperatives has

experienced a complicated course in which it was initially promoted by the motives of human beings; then a stage which government played a decisive role; and finally come to the current phase that featured with the combination of government guidance and independent development. Before the foundation of the people's Republic of China, most farmers were tenant farmers and farm laborers, who lacked the necessary assets and independent development, the situation restricted the development of cooperation among farmers.

In the early stage after the foundation of new China, the central government implemented the reform of the land system, the land ownership was transformed from private ownership, mainly occupied by a few landlords, to public ownership, or national ownership. The reform actually provided the necessary conditions for the early cooperation among farmers in the form of mutual cooperation and agricultural cooperatives right after 1950s. Before the implementation of Reform and Opening-up policy, launching cooperatives and promoting cooperation were actually fell into a campaign-like national movement, which went too far and overlooked the law of development. Thus the numbers and scale of cooperatives were blindly expanded regardless the real situation in the historical stage. Moreover, because in the period, the

ownership of personal property was also completely denied in the Peoples' Commune Movement, it exerted detrimental effects on the farmers' interests and motivations on cooperatives as well as agricultural production. Accordingly, the development of cooperatives were in great difficulties and came to a cease.

Since the Third Plenary Session of the Eleventh Central Committee was held in 1978, the land management began to exercise "Family Operation and Collective ownership Two-tier Management System", which greatly promoted the development of agricultural production. With the gradual transformation, cultivation and maturation of market economy, a number of farmers who engaged in mass agricultural production gradually emerged. The new agricultural production mode has different requirements in operation management including land centralization, employment of machinery, higher level of specialization in agricultural production et al. Therefore, it is inevitable to change the form of organizing the productions in the rural countryside. The specialized farmer cooperative, in this case, is one of the most practical options which is more likely to succeed in countryside. The development of farmer specialized cooperatives mainly went through three stages.

(1) The embryonic stage (from 1978 to 1994). Since the implementation of Reform and Opening-up policy, the central government of China adopted positive policies to encourage the development of various of cooperative economy. From 1983, the Central Committee of CPC and the State Council issued a number of documents regarding the cooperatives' development to encourage, guide and support specialized cooperatives, technical associations, supply and marketing cooperatives and many other forms of cooperative organizations. After the issue of "The Charter of Farmers specialized Associations" in 1994, there appeared a new type of cooperatives with distinctive modern characteristics.

(2) The initial stage (from 1995 to 2000). In this period, the contents of the cooperative activities gradually expanded from the technical cooperation mainly in the past, to the joint purchase of production means and selling of agricultural products, sharing of capital and facilities and other factors in their production cooperation. In the Document No. 2, issued by the Development and Reform Committee of the State Council in 1998, it encouraged farmers to set up a variety of professional cooperatives, perfect the agricultural service system, and gradually establish cross-regional



operation of professional cooperatives.

(3) The acceleration stage (since 2000). The restructuring of rural economy and the influence brought by the entry of “WTO” gradually revealed the importance of cooperation, which in turn showed the emergency of promoting the development of farmers’ cooperative organizations. The Central Committee of the Communist Party of China and the State Council firmly assisted farmers to develop cooperative associations with supportive measures such as subsidies, low interests loans and other preferential policies. In July 1, 2007, the enforcement of the “Farmer Specialized Cooperative Law of the People’s Republic of China” marked a new phase of the cooperative economy, entering a stage of new type of cooperative association, the farmer specialized cooperative.

### 2.3 Development Model

With the continuous development and growth of farmer specialized cooperatives, the farmers cooperative economic organizations presented diversified development trends, different development models with distinctive characteristics, advantages and disadvantages, and their different adaptability. There are different ways to categorize cooperatives.

But in general, the farmers specialized cooperatives can be put into different groups according to the leading driving forces of their establishment, and the way of their cooperation.

(1) Professional farmers driven type. By the leading role of farmers who engage in mass plantation, or large quantity of livestock cultivation, other farmers, who also engage in providing the same products, also participate in and form a united association to apply for the establishment of farmer specialized cooperatives. Relying on the introduction of new varieties and new technologies, the leading producers organize other farmers to carry out a variety of training to promote the development of a particular product or industry. And finally cultivate competitive advantages in the market place. The advantages of this type of cooperatives are that most of the leading producers already have possessed relatively good technical basis, the new technology can be put into practice with low cost. Also, they have developed marketing network, which make it easier for them to market their products. However, the disadvantages are also obvious: the leading farmers may become the sole decision makers, and they are likely to put the cooperatives under their personal control.

(2) Production base driven type. This type of farmer specialized cooperatives give full play to the leading role of the grassroots organizations, which take the production base as a carrier to unite and cooperate with farmers to set up specialized cooperatives, to make full use of their unique resources in producing a particular type of agricultural products or providing service. The advantages of this type are that it is easy to introduce advanced technologies and fine varieties, carry out standardized production, implement intensive management, so as to exercise scale management and improve economic efficiency. The drawbacks of the type actually derive from the production base itself such as the poor product variety, relatively short industry chain, higher requirement on its environment, risk of mass production et al.

(3) Enterprise driven type. This is a kind of cooperatives with well organized production and marketing operation, seeing the farmer specialized cooperatives as the bridge or link between farmers and enterprise. Based on the contract, enterprises provide farmers with raw materials, capital, agricultural facilities and technical assistance via farmer specialized cooperatives. Also, the enterprises buyback the harvest products, then market

the final products after processing. The advantages of enterprise driven type are illustrated by its market oriented operation as well as advanced technology, sufficient capital, mass production, and risk resistant mechanism brought by the cooperation between enterprise and cooperative. Disadvantages can not be ignored either. In enterprise driven cooperatives, enterprise is more likely to take a dominant role in their cooperation which may be detrimental to the cooperation nature of cooperatives since profit seeking is the priority of enterprise. Other parties in the type may lose their voice in service providing and benefits distribution.

(4) The government oriented type. Led by the township government or the relevant functional departments, the farmer specialized cooperatives were set up to attract farmers to participate in. The government oriented cooperatives on the one hand expanded the business scope of government and accelerated the role transformation of government; on the other hand, governments functioned positively in providing service of technical support and product sales for the farmers. This type of cooperatives enjoyed higher level of organization in the process both of production and products selling. Therefore, the cooperatives enjoyed higher stability, rich content and a

diversified functions in their cooperation. The government oriented cooperatives also confronted challenges due to the government power invasion into the cooperatives' operation, which easily lead to rigid operation and poor economic benefits.

(5) Stock cooperative. The stock cooperatives differed from other cooperatives in that they raised money from investors, who may or may not get involve in daily operations but share benefits of the cooperatives and operate the cooperative like a stock enterprise. Based on the basic characteristics of the cooperative system, the stock cooperative system has a certain economic strength in both capital raising, responsibility sharing and risk prevention. But the disadvantages are that this type of cooperatives has a complicated organizational structure, and it is more likely to be controlled by those major shareholders. In this condition, the small or weak shareholders and especially farmers will lose their say in cooperative operation and benefits sharing.

#### 2.4 Development Scale

By the end of 2011, according to the data of the farmers' specialized cooperatives registered in the country, there are 521,700 households, an

increase of 37.62% over 2010, a total investment of 720 billion yuan, an increase of 60% over 2010; By the end of 2012, farmer specialized cooperative has 689,000 households, an increase of 32.07% over the previous year, the total investment of 1,100 billion yuan, with the increase of 52.07%. By the end of 2014, the national Industrial and Commercial Department registered FSCs with 1,288,800 households, an increase of 31.18% over the end of last year, total investment of 2730 billion yuan, with an increase of 44.15%, about 94 million households, more than the total number of rural households. The detailed information of these data is shown in Table 3.

Table 3. Statistics on FSCs in the Latest 5 years

Year (year-end)	Quantity of household (10,000)	Growth rate(%)	Capital contribution (Trillion yuan)	Growth over the previous year (%)
2010	37.91		0.45	
2011	52.17	37.62	0.72	60.00
2012	68.90	32.07	1.10	52.07
2013	98.24	42.58	1.89	71.82
2014	128.88	31.18	2.73	44.15

Source: Made by the author based on data from the website of China Farmer Cooperatives.

It can be seen from table 3 that in the latest 5 years, rural farmer specialized cooperatives have showed a trend of rapid growth in both its

number and the volume of investment. With the average annual growth rate of 35.86%, the number increased by 3.4 times in 4 years. Capital contribution, with the average annual growth rate of 57.01%, increased by 6.1 times in the same period. Through the actual investigation and analysis of the relevant literature, the characteristics are as follows in the development of the past few years: number of farmer specialized cooperatives and their members grow fast; the cooperatives showed positive influence on rural development but the participating rate of farmers is low; the large amount of investment into the cooperatives and the main form of the investment is in cash; the business scope of the cooperatives is relatively concentrated in the field of agricultural production; the operation standardization and branding level of cooperatives is not high; most of the cooperatives major in plantation and animal husbandry; service ability of cooperatives needs improving.

### Section 3 Functions of the FSCs in the New Rural Construction

The strategy of the Socialist New Rural Construction is a way to promote urbanization in mountainous area to achieve a coordinated development between regions. It refers to the construction of rural economic, political, cultural and other social aspects under the socialist system in accordance with the requirements of the new era. The ultimate goal is to bring a fundamental improvement of the countryside, which includes the economic prosperity, the better facilities, the beautiful environment, and the harmony of civilization.

Farmer specialized cooperative is based on the system of rural household contract management, through the provision of agricultural products sales, processing, transportation, storage, and agricultural production and management of technique, information and other services to achieve the purpose of mutual aid organizations, with the characteristic of economic cooperation from the beginning of the establishment. It has a certain organizational structure, and members enjoy a certain right and a certain responsibility. Farmer specialized cooperative is another major reform of



the way of production organization after the household contract responsibility system exercised in rural areas in China.

Since 1980s, various forms of farmer cooperative economic organizations have been booming, and the stock cooperation system has been carried out in 1990s. In 2007, the law of farmer specialized cooperative came into force, followed by the flourish of the farmer specialized cooperatives. The range of its service has been expanded, as well as the the expansion of its numbers in China. It has become one of the main driving forces of promoting the innovation of agricultural management system and the development of modern agriculture. In the process of constructing a socialist new rural countryside, farmer specialized cooperatives will play a major role in the following aspects.

(1) It is advantageous to strengthen the farmer's market position, and increase the farmers income. The key task of the socialist new rural construction strategy is to develop rural productivity and increase the income of farmers, which is the material basis for farmers to improve their living standards and lead a quality life; it is also helpful to protect the village environment and to promote the rural civilization. If the

cooperatives can get directly involved in the process of production, processing and circulation of agricultural products according to the market demand, it can reduce the intermediate links, save the transaction costs; it can also improve the bargaining position and bring farmers competitive advantages in the sale of their products.

(2) It is conducive to the acceleration of rural countryside to be organized with higher standard and improving the quality of farmers. Farmers are the master of the country, they are the main force in the construction of the socialist new countryside. And the new rural construction should pay attention to the development and utilization of the rural human resources. The construction of socialist new countryside must be helpful to the improvement of the scientific and cultural quality of farmers, such as equipping them with better education and further understanding about cultures, technologies. Farmers who have taken part in the cooperatives can broaden their horizons and enhance their competitiveness to survive and develop in the modern market environment. A number of farmers participating in the operation management of cooperatives have exercised and improved their abilities in the aspects of marketing, division of labor, et al.

(3) It is conducive to promoting the division of agriculture and improving agricultural production efficiency. Modern agricultural production needs to improve production efficiency and scale management. The farmer specialized cooperatives can solve the contradiction between the demand for money and the shortage of capital in rural area. The farmer specialized cooperatives also possess a unique advantage in a certain field by deepening the labor division in the agricultural production and promoting the production efficiency. The farmer specialized cooperatives also have advantage in adopting advanced technology, getting access to production and processing equipment. Some competitive cooperatives can improve production efficiency through technological transformation, institutional innovation and industrial upgrading as well.

(4) It is conducive to the promotion of advanced technology and agricultural industrialization. In the technical service, it can play the overall technical advantages of the members of the cooperative organizations to popularize a new technology or idea by mutual learning, mutual exchange and mutual help. If a certain industry which has distinctive characteristics, a bright market prospect and meets the industrial development plan set by

the local government, the farmer specialized cooperatives can make it bigger and stronger through its pilot demonstration. The practice can also reduce the cost of production and the market risk for a single peasant, which is conducive to the improvement of agricultural product quality and accelerate the pace of industrialization.

(5) It is conducive to promoting the comprehensive reform of rural areas and improving the government service. To promote the comprehensive reform of rural areas, it is a good way to solve the problems of agricultural investment mechanism, land scale management, collective economic management, rural grassroots organization construction and so on. The government utilize the farmer specialized cooperatives to implement the national industrial policy and support measures to reduce the blindness and disorder in agricultural production of farmers. Through farmer specialized cooperatives, farmers can reflect their wishes and requirements to the government timely, and obtain the latest and reliable information of agricultural production, marketing, technology and policy. These will in turn improve the effectiveness of government's regulation on agriculture and rural economy.

## Part II An Empirical Study on FSCs in Zhen'an County

### Chapter 3 The Development of FSCs in Zhen'an County

#### Section 1 Progress of Government Policies

Before getting into farmer specialized cooperatives, it is necessary to take a brief look at major policies regarding the development of cooperatives in Zhen'an County before 1978. In the December of 1951, the central government of China issued documents on the path, strategies and policies of the agriculture's socialist transformation. The document noted that farmers should be positively guided and encouraged to organize on their own will to cooperate in agricultural production. This marked the beginning of the cooperative practice after the foundation of the People's Republic of China.

In 1953, "Zhonggong zhongyang guanyu nongye shengchan huzhu hezuo de jueyi" [the Resolution on Exercising Mutual Help and Establishing Agricultural Cooperatives] was issued, which guided farmers to join cooperatives by hand over their ownership of farmland to cooperatives. Thus, the traditional micro-economy based on personal farmers and households was gradually transformed into socialist collective economy. At the end of 1957, there were 2,858 cooperatives in Shangluo, consisting a number of 313,096

households, which accounted for 99.7 percent of total numbers in the region.

In August 1958, China Daily issued Chairman Mao's instruction, who emphasized the advantages of establishing people's commune, and Shangluo government issued "Jiakuai jianli renmin gongshe de juti yjian" [suggestions on accelerating the establishment of people's commune], which required all counties in Shangluo complete the establishing process. Then 68 communes were quickly set up within one month, covering 318,800 households, a population of 1.42 million, which accounted for 97.97 and 96.79 percent of the total respectively.

In 1962, the central government of China issued "Nongcun gongzuo tiaoli" [Regulations on Countryside Administration], which formally determined that the people's commune was a level of administrative government as well as an association organizing production and distribution. This system continued its existence in countryside until early 1980s.

In conclusion, the policies regarding the cooperatives' development before 1978 contributed a lot to the rise and fall of farmers cooperatives. In its initial stage, the farmer cooperatives functioned positively in the restoration of agricultural production. Then, the cooperatives stepped

forward in haste for the purpose of realizing communism. In the period of people's commune movement, it went too far in the aspect of cooperative scale, even distribution, and farmers were deprived of almost everything they had such as land, livestock and trees et al. It was really disastrous to farmers' motivation and enthusiasm in agricultural production. Despite the negative impacts, the Cooperative Movement and the people's commune contributed a lot in restoring the rural economy and the improvement of rural infrastructure. As shown in table 4, huge amount of farmlands, riverbanks, water dams and highways were accomplished in the period, which laid a good basis to the future development.

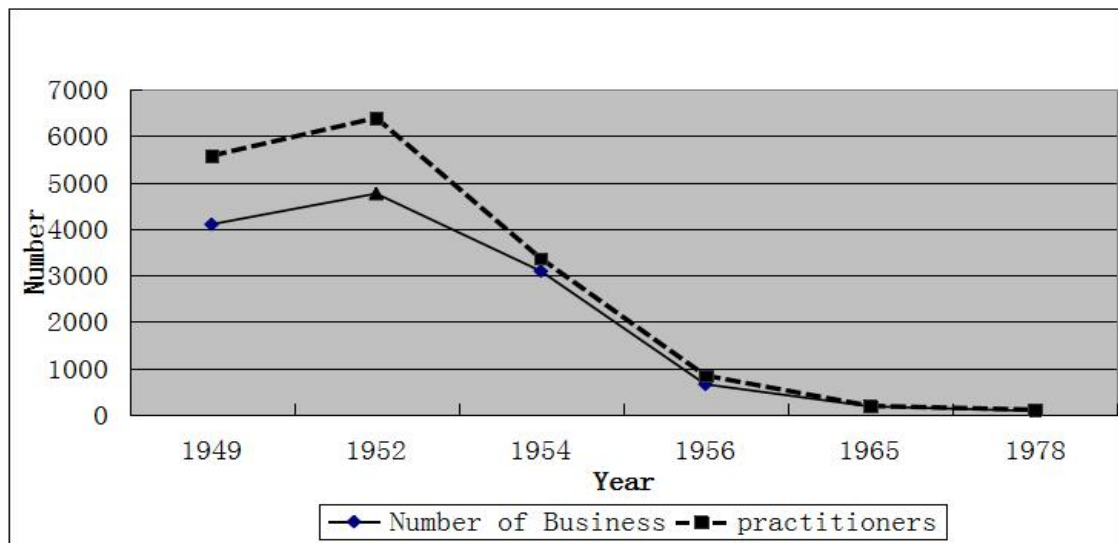
Table 4 Rural Construction in Shangluo Region (1955-1978)

Project	Number
Farmlands	1.25 million acres
Riverbanks	400,000
Water dams	80,000
Highways	Before 2000, more than 87% highway between cities, 69% between cities and towns were built in the period

Source: Made by the author according to the data from *Shangluo Annals*.

In the contrary, the development of private business (Fig. 4) was hindered especially in the period of the people's commune. There was a dramatic decline from 4,099 in 1952, to only 80 in 1978. And the practitioners in private business fall from 5,577 to 106 in the same period.

Fig.4 Development of Private Business in Shangluo Region



Source: Made by the author based on the data from *Shangluo Annals*.

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. [Documents issued by Shaanxi provincial government, No. [2003]23.]

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 [Documents No.37, issued by Agricultural Bureau of Shaanxi Province in 2004].

After the National People's Congress issued 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). [Documents No.8, issued by Agricultural Bureau of Shaanxi Province in 2008]. 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 farmer specialized cooperatives. In December 2013, the Shaanxi Provincial Government issued Opinion on Reforming the System of Business Registration to Promote the Development of Main Market Body, [ Documents issued by Shaanxi provincial government, No. [2013]50.] 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 farmer specialized cooperatives, as well as guiding their branding management to further develop contract farming.

In order to promote the development of related industries, the Zhen'an County government set up administrative committees including the Leading Group of the Silkworm Industry Development and the Guidance Center of the Tobacco Industry. In 2012, a decision-making coordination agency, which consisted of governmental departments of agriculture, science and technology, water conservancy, was established to guide the standard operations of farmer specialized cooperatives. At the beginning of each year, the county government would assess performance of farmer specialized cooperatives registered, 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 farmer specialized cooperatives. 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 the fiscal subsidies from county government, other bureaus and most of town-level governments had various temporary allowances, which although very small, could be operated at random. One example of a temporary allowance in an animal husbandry farmer specialized cooperative 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 per m<sup>2</sup> 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.”

[Document issued by Zhen’an County government: “the Implementation of Supporting Green Husbandry, Promoting the brand of Zhen’an Chicken” , 2012-09-10.]

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 farmer specialized cooperatives 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 farmer specialized cooperatives. 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 farmer specialized cooperative 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 farmer specialized cooperatives with projects. However, farmer specialized cooperatives which apply to undertake government planned projects must fulfill certain requirements; First, the applicants must be a registered farmer specialized cooperative; Second, farmer specialized cooperatives 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 farmer specialized cooperatives must have been operating without loss for more than two years.

All of the government policies discussed in this section contributed to the development of rural cooperatives.<sup>3</sup>

## Section 2 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 number of two farmer specialized cooperatives. By the end of 2014, there were more than 400 farmer specialized cooperatives 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 farmer specialized cooperatives 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 farmer specialized cooperatives, 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 farmer specialized cooperatives in Zhen'an County have accelerated structural adjustment and agricultural industry optimization, contributing to a steady increase of farmers' income. Similarities between farmer specialized cooperatives in Zhen'an County and other mountainous areas are: They are small in scale, having scattered distribution, and they lack economic strength.

However, the cooperatives in Zhen'an County 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 farmer specialized cooperatives 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 report<sup>4</sup>, there was a slight drop in their growth during the first half of 2015. The same period (from 2007 to 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 farmer specialized cooperatives. The second unique feature of farmer specialized cooperatives 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 farmer specialized cooperatives 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.<sup>5</sup> farmer specialized cooperatives have become the main form of rural economic activities in Zhen'an County.

## 2.1 Investigative Report on Zhen'an Farmer Specialized Cooperatives

To get great insights into the the real situation of farmer specialized cooperatives in Zhen'an County, the author conducted a survey on the farmer specialized cooperatives in terms of its size, location, industry, socioeconomic condition and its founder via telephone interview, personal interview and also study on some related documents. These field sites include three key towns of farmer specialized cooperatives, one autonomous town of Hui nationality and two towns which population is the largest and the second largest in the county (see table 5).



Table 5 Field Towns for Local Survey Work

Town	Population	GDP (10,000 yuan)	Town	Population	GDP (10,000 yuan)
Tiechang	13182	20,697	Huilong	10871	27,478
Daren	12036	24,794	Miliang	24162	39,150
Chaiping	19186	40,740	Gaofeng	10801	22,663
Dongchuan	11796	30,226	Daping	17531	29,981
Yongle	62267	138,358	Linglong	10378	20,447
Qingtong	20647	36,532	Yungai Si	13651	27,303

Source: Made by the author based on data from *Zhen'an Statistical Report (2014)*.

This survey focused on the key component features of the farmer specialized cooperatives, which include the places where the farmer specialized cooperative locates, industries that the farmer specialized cooperative's activities focus on, the driving forces of farmer specialized cooperative's establishment, the farmer specialized cooperative's vitality, and many more. To learn about these farmer specialized cooperatives, the author firstly referred to some directories on the internet and other information sources including Zhen'an Statistics and registration information from Zhen'an Administration of Industry and Commerce. Then the author distributed a mail survey to all the incorporators of farmer specialized cooperatives, and also a population of around 70 members of farmer specialized cooperatives, 50 non-FSC members were asked by the researcher

or his team members the same questions because many peasants in the mountainous countryside can not even read the questionnaire. The result is an enormously rich body of data that challenges much of the conventional understanding about farmer specialized cooperative. Three findings of this in particular deserve mention here.

## 2.2 Key Findings of the Investigation

### 2.2.1 Distribution of Farmer Specialized Cooperatives

In the first place, the distribution of farmer specialized cooperatives in Zhen'an County has its own characteristics(see table 6). The word distribution here not only refers to the geographic location, but also refers to the number of various types of farmer specialized cooperatives in the region. In terms of geographic location, the number of farmer specialized cooperatives located in western town of Zhen'an County take up 43 percent, about 175 farmer specialized cooperatives in specific, followed by eastern towns in which there are 124 farmer specialized cooperatives, account for 31 percent. Meanwhile, only 105 farmer specialized cooperatives, about 26 percent are there in the mid Zhen'an County. This unbalanced distribution of farmer specialized cooperatives is also displayed in its types. The number

of farmer specialized cooperatives engaging in the pillar industries supported by the government such as tobacco growing, sericulture and tea industry, is up to 74 percent. And many of these farmer specialized cooperatives were established with the support of local government directly (especially the support from village committee level), or they enjoy a high level of cooperation with government. The survey results showed that less than 20 percent of the farmer specialized cooperatives were established and dominated by peasants independently.

### 2.2.2 Sector Diversity

As shown in table 6, not only the farmer specialized cooperatives in Zhen'an are not evenly distributed, but also the sectors that they engaged in are quite diversified. The business they take part in range from vegetable, tobacco and Chinese medicine farming to forestry, animal husbandry, service providing in scenic spot and labor export et. al. Among which farming is still the key business activity. More than two thirds of the farmer specialized cooperatives in Zhen'an engaged in the various farming including tobacco, tea, vegetable, chestnut etc. This finding in part reflects the broad range of the farmer specialized cooperative's activities. Furthermore, few farmer

specialized cooperatives focus on the traditional crops farming.

Table 6 Distribution of Farmer Specialized Cooperatives in Zhen'an County

Towns	Number of FSCs	Number of Government-oriented	Major business
Western Zhen'an			
Dongchuan Town	47	39	Sericulture, tobacco
Yuehe Town	21	15	Sericulture
Yangsi Town	19	4	Medicine
Muwang Town	23	8	Animal husbandry
Chaiping Town	31	20	chestnut
Daren Town	34	26	Tea, tobacco
Mid Zhen'an			
Yongle Town	29	-	
Huilong Town	11	-	Agriculture
Yungai si Town	18	-	
Miaogou Town	10	-	Vegetable
Qingtong Town	8	-	
Tiechang Town	13	-	
Gaofeng Town	16	-	Vegetable
Eastern Zhen'an			
Daping Town	24	16	Tobacco
Zhangjia Town	35	-	Vegetable
Xikou Town	3	-	
Maoping Town	1	-	
Linglong Town	24	17	Tobacco
Miliang Town	37	26	Tobacco, animal husbandry, tourism

Source: Made by the author according to the information from the survey on Zhen'an FSCs and data from Zhen'an Administration of Industry and Commerce.

### 2.2.3 Focus of Farmer Specialized Cooperatives

A third key finding of this survey is the great challenge to the

traditional concept of cooperatives. The popular principles of cooperatives came from International Cooperative Union (ICU). In 1995, the ICU proposed seven principles which were recognized by International Labor Union on June 20<sup>th</sup>, 2002. These seven principles are: (1) voluntary and open membership; (2) democratic member control; (3) member economic participation; (4) autonomous and independence; (5) education, training and information sharing; (6) cooperation between cooperatives; (7) community concern. Those principles defined the nature of cooperatives and its function as well.

However, these principles does not reflect the real condition of farmer specialized cooperatives in Zhen'an. In the survey, people's opinions and understanding toward function of farmer specialized cooperatives varies from different farmer specialized cooperatives and the role the interviewee performed in the farmer specialized cooperative.

In terms of industries, about two thirds in farming industry believe that they (FSC members) are cooperating with each other to help achieving the production goals as well as reaping benefits for themselves; a majority of peasants in husbandry and handicraft industry tend to regard farmer specialized cooperative as a commercial organization, or put it in another

word, a company. People's understandings on FSCs' focus not only vary from industry to industry, it also closely related to the role the people perform in the farmer specialized cooperative. Most of the leaders in farmer specialized cooperatives think it is a very important goal for the farmer specialized cooperative to promote cooperation and improve members living condition. Whereas, many local government employee such as Village Committee members view farmer specialized cooperative as an assignment and a way to be promoted in the assessment of their performance. To peasants concern, increasing their income always comes first place.

### Section 3 Development Trend and Types of FSCs

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 farmer specialized cooperatives involved in production of tea, vegetables, aquaculture, and tobacco in Daren Town. That year saw an increase of 102 farmer

specialized cooperatives, 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 farmer specialized cooperatives 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 7). This is partly due to poor management and bankruptcy, and also partly due to mergers of similar cooperatives. However, the number of households taking part in farmer specialized cooperatives increased to 17,213, about 25 percent of total number of households majoring in agriculture (there were 67,119 agricultural households in Zhen'an County at the end of 2014), regardless of the decrease in the total number of farmer specialized cooperatives.

Table 7 Change in the Number of Cooperatives in Zhen'an County

Year	2007	2009	2011	2012	2013	2014	2015
Number of FSCs	13	44	95	197	348	423	404
Number of households	56	531	2,032	6,470	11,764	13,578	17,213

Source: Made by the author based on the data from the Zhen'an Administration of Industry and Commerce.

There are many ways to classify the types of farmer specialized



cooperatives. If grouped by industries, for example, cooperatives can be divided into agriculture, handicrafts, commerce, distribution and other types. Since farmer specialized cooperatives 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 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(see table 8).

The government-dominated type refers to farmer specialized cooperatives 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 farmer specialized cooperatives, 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.

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.

Table 8 Classification of FSCs in Zhen'an County

Standard	Type of Cooperatives (C.)		
Initiators of FSCs	Government-dominated Sericulture FSCs: Yijiu, Qingfeng, Lvran Tobacco FSCs: Puyi, Luojiaying, Anshan town, Dongpu	Elite-oriented Nongwang FSC. Xianghe FSC Jindi FSC. Dongpu FSC.	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 FSC.	Mixed type Jindi FSC Tea plantation cooperatives

Source: Made by the author based on the data from Zhen'an Administration of Industry and Commerce.

## Section 4 Observations on Three Typical Cases of FSCs

In order to get an overall view of all farmer specialized cooperatives in Zhen'an County, this paper selected three successful or failure cases, majoring in agricultural plantation, livestock cultivation and handicraft industry respectively, to present the current situation and development problems.

### 4.1 the Jindi Chicken Farm

#### 4.1.1 the Jindi Chicken Farm: a Company or a Cooperative?

The 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 2009, 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...”<sup>6</sup>

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 farmer specialized cooperative received subsidies of 300 thousand yuan in total (it includes subsidy for farm construction cost, subsidy according the number of chicken raised, and subsidy or say, bonus , for the cooperative’s excellent

performance in the year) from the county government and 30,000 yuan from the town government. In 2013, the cooperative started to do well, fulfilling a net profit about 870 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 37 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)." <sup>6</sup>

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.”<sup>6</sup>

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!”<sup>6</sup> (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.”<sup>6</sup>

#### 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 farmer specialized cooperative, this was reflected in two aspects. First, in accordance with the provisions of an farmer specialized cooperative,



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 1.27 million 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 the Anyi Tobacco Plantation FSC

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 farmer specialized cooperative 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” .<sup>6</sup>

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” .<sup>6</sup>

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” .<sup>6</sup>

Member C: “He is always the decision-maker in the cooperative. He has made money by establishing the farmer specialized cooperative, but nothing has changed for us. However, there is nothing more we can do...” <sup>6</sup>

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 farmer specialized cooperative, 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... ”<sup>6</sup>

#### 4.3 The Meiyun Qinxiu Farmer Specialized Cooperative

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 Qinxu FSC

According to public information, by the end of 2012, the Meiyun Qinxu 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 Qinxu 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 Qinxu 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 Qinxu 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 Qinxu 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 Qinxiu Cooperative at all before 2015. If anything, the name of cooperative was done for the benefit of the premier”.<sup>6</sup> This comment indicates that the Meiyun Qinxiu Cooperative is only a shell cooperative, existing only for the sake of official media.

#### 4.3.2. The Transformation of the Meiyun Qinxiu Cooperative.

In 2015, in alliance with the residents’ committee, the Meiyun Qinxiu 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 Qinxiu 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 Qinxiu 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.”<sup>6</sup>

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 farmer specialized cooperative. 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 Qinxu 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 Qinxu 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 farmer specialized cooperative: “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.”<sup>6</sup>

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.”<sup>6</sup>

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”<sup>6</sup>.

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.”<sup>6</sup>

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 ever 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 farmer specialized cooperative 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 Qinxu Cooperatives are a typical example of many cooperatives growing out of nothing. In comparison, quite a few farmer specialized cooperatives 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 farmer specialized cooperative. The same year, he received 20,000 yuan subsidies from the county government, and another 50,000 yuan from the county Agricultural Bureau in 2012. It was said that he borrowed some goats from other villagers and “raised” them in his shed to deal with government inspections.



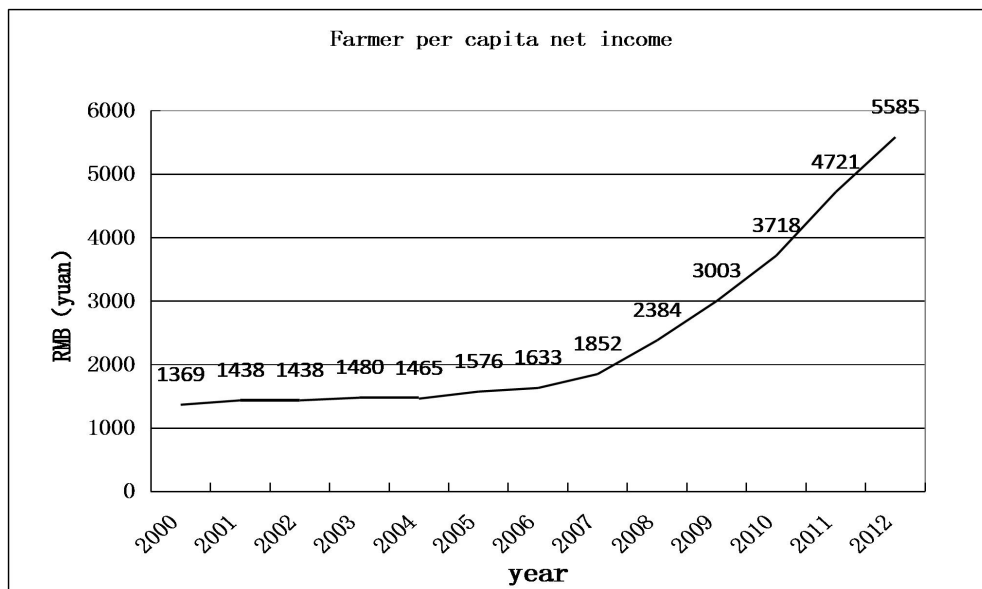
## Section 5 Reflections on the Cases Study

In the cases above, the Meiyun Qinxiu FSCs and Jindi FSC are the typical example of handicraft industry and livestock cultivating industry respectively, in Zhen'an County. However, due to the lack of specialized statistical data on farmer specialized cooperatives, their status and functions in the county economy are difficult to determine. The Anyi Tobacco FSC is one of the cooperatives in the tobacco plantation industry. With a plantation model serve as a representative of the majority cooperatives in the area, its practice reflect the real situation of farmer specialized cooperatives in mountainous countryside.

On one hand, the operation of farmer specialized cooperatives does exert positive influence on the regional social and economic development. For example, since the launching of farmer specialized cooperatives in 2007, it has greatly promoted farmers' income and rural development to some degree. As shown in fig.5, the farmer per capita net income experienced steady increase from year 2000 (1,369 yuan) to 2007 (1,633 yuan). But after 2007, the per capital net income gained dramatic increase from 1,852 yuan in 2008 to 5,585 yuan in 2012, it tripled three times within only 5 years. Though

there was no relevant data to testify the tie between this increase and the practice of farmer specialized cooperatives, the contribution brought by the cooperatives was still quite obvious which is mainly by promoting employment, sales of agricultural production and labor export.

Fig.5 Changes of Farmer Per Capital Net Income in Zhen'an County



Source: Made by the author based on the *Zhen'an Statistical Report*.

On the other hand, the operation of farmer specialized cooperatives in mountainous area is greatly influenced by a complex of factors, such as the lack of capital and talents, low literacy rate and the awareness of small farmers. Thus, there are problems inevitably in the operation of farmer specialized cooperative and challenges in dealing relationship between

farmer specialized cooperatives and other farmers and village committee; between environment protection and economic development.

(1). In their present stage, the farmer specialized cooperatives 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 farmer specialized cooperatives 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 farmer specialized cooperative is to primarily enjoy preferential policies such as subsidies, instead of being for the purpose of conducting real business.

(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 farmer specialized cooperative 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 farmer specialized cooperative. These problems reflect the farmers' ignorance of the true meaning of cooperatives.

(3). Greater understanding and expansion of the farmer specialized cooperative 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 farmer specialized cooperatives all contributed to the difficulties and limitations getting along with the development of farmer specialized cooperatives 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 farmer specialized cooperatives.

## Chapter 4 A Field Research on the S Village

### Section 1 An Investigative Report on S Village

In order to get into the real situation of farmer specialized cooperatives in mountainous area, the author chose S Village to conduct field research which was taken mainly in the form of personal interview, free chat, policies evaluation. Besides, due to the high illiteracy rate of local residents, a simple questionnaire survey was carried out with the help of a team of university students. Students read questions to villagers and record their answer on the questionnaire; then they helped me to sort and processing these data. The field research actually started in October 2014, lasted for more than one year. The primary data collected provided solid evidence to this research. The survey report on S Village mainly focused on its overall village situations, the cooperative tradition in history, evolution of village industry, and the establishing procedures of farmer specialized cooperatives.

#### 1.1 Why not Other Villages? An Overview to S Village

The village being studied here locates in Qin-ling Mountains, Zhen'an County of southern Shaanxi Province. With the continuous improvement of transportation, among all of the towns in Zhen'an County, Miliang Town, which

has the second largest population, has become one of the sub-center towns of “One district, Two Towns Project” in the county’s Twelfth Five-year Plan of National Economic and Social Development[1]. And the S Village is one of the three key villages being constructed by the Miliang Town government due to its advantageous geographic location. In the meanwhile, S Village is faced with massive development opportunities in the background that governments at all levels encourage vigorously to develop farmer specialized cooperatives in the countryside. S Village has set up numerous and diversified farmer specialized cooperatives.

The S Village is a typical mountainous village in Zhen’an County. It is located in the eastern Miliang Town, neighboring to Hubei Province and it is close to Zhenyang highway so that it enjoys convenient transportation in comparison with other villages in the county. It is about 5 kilometers from the town government, 61 kilometers far away from the county government. S Village enjoys very good regional geographic location and rich tourism resources. Currently S Village has 65 households with a population of 2734, which is the second largest village in Miliang Town. It also has a complex structure of surnames in the village which is up to 9 in total.

At the beginning of 1980s, some handicraft workshops started to arise in S Village, their products included paper-making (which resembled bank notes and was burned as offerings to the dead), firecrackers, candles and so on. In the late 1990s, these handicraft workshops gradually collapsed due to the impacts from competition of external market. Instead, tourism began to grow and gradually became the pillar industry and the main source of the village's revenue. At that time, the annual economic income of the whole village was no more than half a million, with an annual per capital income less than a thousand yuan. Although it is not a considerable amount of money, since the village committee took charge of local tourist attractions, villagers struggled openly and secretly to become the committee leaders to chase benefits. Thus, it led to tension between the village committee and villagers. As a result, there were even as many as five re-elections of the main village cadres from 2003 to 2006.

In 2006, another election was held in S Village because of the economic dispute occurred in the construction of HLD Scenic Resort, and Mr. Liu, who undertook contracted projects outside the village all year round, was elected mayor of the village. Under Liu's leadership, S Village set up its first farmer



specialized cooperative, the HLD Scenic Resort Cooperative, and started to develop cooperative economy. Since the “Farmer Specialized Cooperative Law of the People’s Republic of China” was implemented in 2007, the village committee called on the villagers to set up planting farmer specialized cooperatives like tobacco, vegetable, and schisandra chinensis. Besides the village committee-oriented farmer specialized cooperatives, some villagers also set up many farmer specialized cooperatives by various means, among which the most significant one is the Jindi Chicken Cooperative. Thus there are the village committee-oriented farmer specialized cooperatives and the elite-dominant farmer specialized cooperatives, and these two types are also the typical forms of farmer specialized cooperatives existing in mountainous area, which accelerated the scale management of cooperative economy in agricultural production by reclaiming or circulating villagers’ land. In 2010, S Village’s revenue was more than 5 million yuan, and the number at the end of 2014 was up to 28 million, with an annual per capita income of 5574 yuan (Shangluo Daily, 2015-7-9). Now many public facilities have been built in S Village, including village credit cooperative bank, clinic, broadcasting station and so on.

With the improvement of traffic conditions, the pattern of agricultural production has undergone major changes and the traditional way of living in mountainous countryside gradually disintegrated. The rural development not only encounters competition from the market in urban area, it also experiences problems like population outflow, depopulation and hollowing problem. These problems call for an urgent restore in villages' economic vitality and competition. The implementation of the "Farmer Specialized Cooperative Law of the People's Republic of China" and other relevant policy incentives offered by governments at all levels provided the mountainous villages with a favorable social and legal environment to explore a new development model. Meanwhile, in it's development, the village has been accompanied with many issues such as land-deserting, population outflow, aging and industry hollowing. These problems also demand objectively a new way to promote the rural development, to accelerate the transition of production mode and to further emancipate and develop productive forces.

Since S Village locates in a long and narrow east-to-west valley, there are also quite a few disadvantages especially in land farming. For example, it can hardly centralize quality land resources, which is essential for modern

agriculture to promote scale management in production, due to the scattered farming as a result of the household contract responsibility system. Also, because of the ever increasing and worsening conflicts in pursuing benefits among Village Committee, villagers, families and other powers inside and outside the village, many quality tourism resources are also difficult to explore and provide quality products to tourists.

Moreover, due to the limited education, quite reserved character and the shortsightedness cultivated in long history, most people in the mountainous villages are timid to the precedent ways when trying something new to improve their economic condition. They get used to the traditional way of living and they are afraid of changes which they are not familiar with. All of these factors make it rather difficult for the future development in rural area. Therefore, it is not only an economic issue to develop the mountainous countryside, it is more of a social-economic issue on how to make these changes happen and improve the living conditions in the rural area. Cooperation in this case is one of the most possible and feasible options which is likely to exert positive effects on the agricultural production and promote rural development.

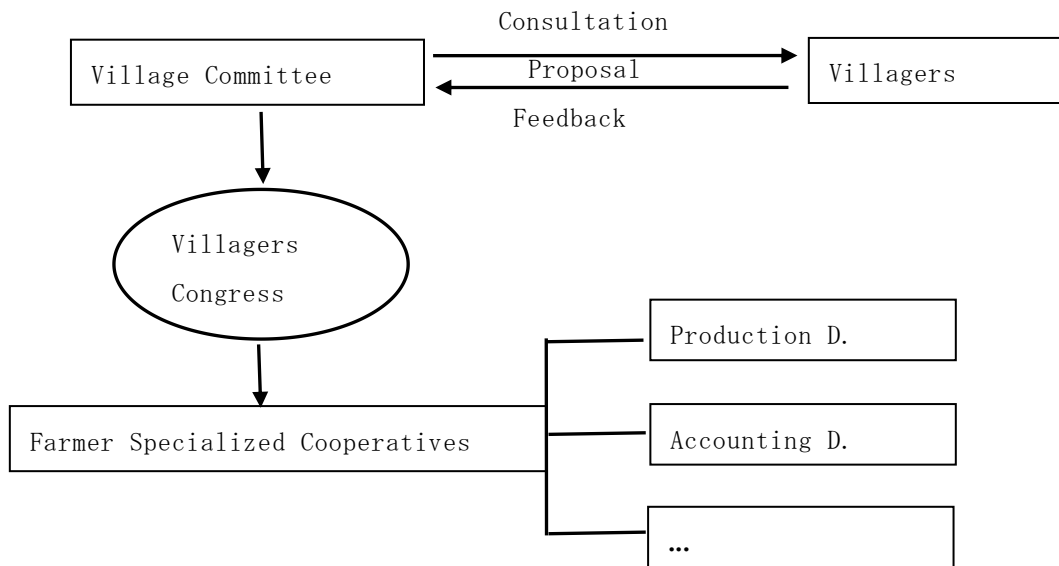
## 1.2 The Establishment Procedures of the FSCs in S Village

In the process of its establishment, the village committee-oriented farmer specialized cooperatives and the elite-dominant farmer specialized cooperatives showed tremendous differences although both of their establishment should be formally registered with the Industry and Commerce Administration. The establishing process of farmer specialized cooperatives will be illustrated with the help of two specific cases: the HLD Scenic Resort Cooperative (the village committee-oriented FSC) and the Jindi Chicken Cooperative (the elite-dominant FSC).

The paper firstly take a Village Committee-oriented farmer specialized cooperative for example. The establishing process of the HLD Scenic Resort Cooperative is shown as following (Fig.6). First of all, it is the stage of preparation. In the preliminary meeting convened by the S Village Committee in November, 2006, issues as to whether to set up economic cooperative organization (ECO), the nature of the future ECO, and the business scope of the ECO were fully discussed among members of the village committee, they reached a consensus and drafted a proposal on the establishment of HLD Scenic Resort Cooperative. The proposal put forward concrete plans on issues like

ways of cooperation, FSC management, distribution of profits, decision making mechanism, leadership responsibility, the working staff selection and so on. All the members of the village committee were initiators of the farmer specialized cooperative.

Fig.6 Establishing Procedure of Village Committee-oriented FSC



Source: Made by the author.

The second stage is to inform and mobilize the masses in S Village to join farmer specialized cooperative actively. The committee had those materials including the proposal of launching HLD FSC and the introduction to raise capital published in form of handbooks which were distributed house-to-house by the members of the village committee. Every household was required to sign on the Notification Sheet to affirm that they had received those materials,

which is to make sure that no conflicts would arise at the excuse of that they were not being fully informed. The purpose of the material distribution was to achieve the utmost consensus among villagers.

The third stage is the perfection of the proposal. villagers may put forward any questions, suggestions, sometimes disagreements, doubts and complaints when they first came to learn about the farmer specialized cooperative, a new “monster” to them because it reminded some villagers of the old days in 1950s, during which they had already experienced and suffered terrible famine due partly to the practice of collective economy and people’s commune movement. In this process, the village committee should try to address the villagers concern. The committee kept on working on the details including those questions and concerns of the masses to revise and perfect the proposal. The committee member explained their revision and listened to the feedback, then revised the proposal and did their working circle again. By the prescribed deadline, 387 villagers signed up for capital subscriptions of the HLD FSC.

The fourth stage is the establishment of HLD FSC. In December 3, 2006, a general assembly of S Village was held. the village committee organized

them to learn the “Farmer Specialized Cooperative Law of the People’s Republic of China” first, and introduced the purpose, operation management and the business scope of the HLD FSC. Then they voted and agreed to establish the farmer specialized cooperative, promulgated the charter of the cooperatives. According to the principle of majority, the assembly clarified that the capital to be raised was 1000 yuan per share, each farmer can subscribe no more than 100 thousand yuan, the potential shareholders were required to sign on the sheet to confirm the amount of subscription. The money they subscribed should be deposited in the bank account within the future one month. Guidelines on method of investors combination are as follows:

- (1). In order to make sure that the capital raised to be used with efficiency, every investor can subscribe an amount of no more than 100,000 yuan RMB, with 1000yuan RMB the lowest; director of the farmer specialized cooperative can subscribe no more than 200,000 yuan RMB, with 20,000 yuan RMB the minimum.
- (2). Identity of the shareholder will be verified by the amount of money they subscribed first in a top-down manner, then by the time order when they deposit the money.
- (3). If there are more than 50 investors, the top 50 (based on the second provision) are the legal shareholder of the cooperative.
- (4). Other investors who want to make investment with limited amount of money should find a legal shareholder to be a representative of their investment. The dependent relationship should be registered in the cooperative;
- (5). All investors have the equal rights in farmer specialized

cooperative. But the legal shareholders have the right to vote, to elect or be elected in the board meeting; other investors can present the meeting but their voting right is exercised by their representatives.

(6). Every legal shareholder can represent no more than 50 investors.

The way of organizing investors was a core to the HLD FSC's establishment.

According to the "Farmer Specialized Cooperative Law of the People's Republic of China", there should be no more than 50 investors in one farmer specialized cooperative. In S Village, far more villagers have the willingness to subscribe to the capital raising but most of their subscription is only a small amount. These small investors were the primary target group which the farmer specialized cooperatives should serve and help to relieve them from sufferings of poverty. Thus, the village committee put forward Guidelines on Method of Investors Combination for further discussion in village congress.

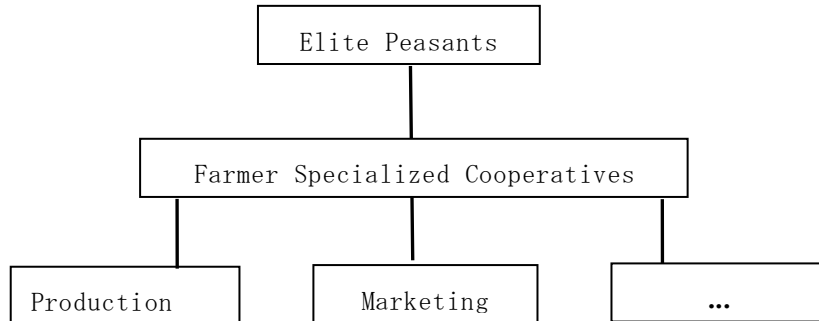
On December 10, a final meeting was held to vote by a show of hands to affirm issues including the shareholders of the farmer specialized cooperative, ways of combination of share investors, and the method for selecting the managing board of the farmer specialized cooperative. Then Mr. Liu was elected chairman in the first board meeting of the HLD FSC, and the



FSC was officially set up.

The establishing procedures of the elite-led farmer specialized cooperatives are comparatively less complicated than that of the village committee-led farmer specialized cooperatives. A typical example of the elite-dominant farmer specialized cooperatives is the Jindi FSC in S Village. Its initiator, Feng Dejie, originally intended to establish a chicken breeding company in collaboration with other villagers by means of money, land, manpower and so on. Although the Jindi FSC finally became a real farmer specialized cooperative due to its ever increasing demand of production expansion and the fierce competition in the market place, there still existed great differences in its establishing procedures when compared to the village committee-led farmer specialized cooperatives.

Fig.7 Establishing Procedure of Elite-led FSC



Source: Made by the author.

The first stage of the Jindi FSC's establishment was the planning and partner-seeking stage. In March, 2009, Feng suggested establishing a chicken breeding company in cooperation with Mr. Mao. After discussion they finally reached an agreement as following: Mr. Feng invested an amount of 1.8 million yuan, while Mr. Mao provided his own chicken farm, along with the land which was necessary for the construction of the new chicken farm.

Then in May, 2009, they signed the contract on cooperation mainly according to Mr. Feng's concrete scheme. They registered with the administrative department using identification cards borrowed from their relatives in order to fulfill the requirement in the number of its membership. The farmer specialized cooperative was decided to exercise market-oriented operation. Those resources they invested in the farmer specialized

cooperative such as money, land and labor were converted into shares by a certain proportion. Dividends were allocated according to shares, both partners were co-sponsors of the cooperative. The contract also confirmed the duties and responsibilities of both sides. Through consultation, Feng served as the independent legal person of the cooperative, who had the final say on development planning of the chicken farm, while Mao was in charge of daily operation management.

The third stage, also the most important transition of the farmer specialized cooperative, was the mergers of other chicken farms and perfection of its cooperative charter, which represent the Jindi's essential change into a real farmer specialized cooperative. In its development, the Jindi FSC gradually expanded by purchasing or taking over of other chicken farms. The members of the FSC also increased due to the need of land and other resources in its expansion. The member increase also demand a revision of the relevant regulations of the cooperative charter. Finally, Jindi made itself a stock FSC by Feng's holding.

## Section 2 Operations of FSCs at the Local Level

In comparison with the hierarchical administrative systems of the farmer associations in Japan, which possessed a complete system from national level to provincial and town level, the administration of farmer specialized cooperatives in China showed less hierarchical characteristics, in spite of the developmental policies issued by governments at all levels. In a micro scope, farmer specialized cooperatives are practicing a diversified operations in ways of their establishment, capital raising, operation management, decision making mechanism, community involvement, distribution and et al. It should be noted that at the early stage of the development of farmer specialized cooperatives, since the encouragement of the establishment of farmer specialized cooperatives is the first priority, quality control or supervision is secondary to the number expansion in the development of farmer specialized cooperatives. Therefore, operation of farmer specialized cooperatives is quite different in practice. Due to the special geographical location and unique cultural, economic environment in the rural countryside, operations of farmer specialized cooperatives in the mountainous area are inevitably different from other cooperatives.

## 2.1 An Overview on the FSCs in S Village.

The operation between farmer specialized cooperatives differs a lot due to many factors such as the business scope, ownership, founders of the cooperative et al. A farmer specialized cooperative engaging in plantation is certainly different from the one majoring in livestock cultivation due to the different way of cooperation; a cooperative publicly owned by all villagers definitely differ from those privately owned by a few farmers in benefit distribution, service priority, public fund accumulation. Therefore, it does make sense to put the farmer specialized cooperatives in S Village into different group, according to the ownership, founders and business activity of the cooperatives, before exploring their management. There are 17 farmer specialized cooperatives in S Village in total. They engage in a diversified industries and the number of cooperatives members varies (see table 9).

Table 9 An Overview of Farmer Specialized Cooperatives in S Village

Name	Members	Business	Name	Members	Business
Jindi FSC *	37	husbandry	HLD FSC	50+	Tourism
Xinyuan FSC*	9	Vegetable	Shuping FSC	22	Tobacco
Tianran FSC*	5	restaurant	Fu'an FSC	50+	Labor export
Nongjia FSC*	8	restaurant	Ying li FSC	25	Sericulture
Xiwang FSC*	11	Recreational agri.	Lv yuan FSC	23	Vegetable
Yongchang FSC	27	Tobacco	Hui tian FSC	36	Tobacco
Xingwang FSC	23	Restaurant	Changsheng FSC	29	sericulture
Ziran FSC	22	hotel	Xiaoshanji FSC	20	husbandry
Nong jia FSC	16	Transportation			

Source: The author produced the table according to the result of field research in 2014. Those farmer specialized cooperatives marked \* are the elite-dominant cooperatives.

It is obvious that the number of Village Committee-oriented farmer specialized cooperatives is overwhelmingly larger than that of the elite-dominant types, which is 12 and 5 respectively. Another important feature is that the major business activities between these two types of farmer specialized cooperatives are different. The village committee oriented farmer specialized cooperatives mainly engage in fields like plantation, public service providing, labor export et al. These business activities often demand higher level of organization, coordination and mass production. Take labor export for example, it is one of the major sources

of the people's income in S Village. But great challenges are there in the process. Firstly, there should have enough job opportunities with low requirement of education; another point is that, to most of the farmers, whether they can get a better pay (relatively speaking ) and get their money with no delay; at the same time, the working condition is becoming more and more important to their concern, such as safety and pollution.

Besides the differences in business scope and number, the elite-dominant FSCs and the village committee-oriented FSCs are also differ in the size of their organizations (see table 10). There are five elite-dominant farmer specialized cooperatives among which 3 small cooperatives have less than 20 members, 2 medium size cooperatives with less than 40 members. Generally speaking, the elite-dominant farmer specialized cooperatives have a smaller size of membership and managing board, which tend to possess greater flexibility in their operations. the village committee-oriented type instead can call on and organize people to set up farmer specialized cooperatives, which can provide necessary services to the public needs. In S Village, there are 12 cooperatives of this type, among which there is only one small cooperative less than 20 members, 9 medium size cooperatives and 2

cooperatives have a membership of more than 50 farmers.

Table 10 A Comparison between Different Types of Farmer Specialized Cooperatives

	Number of the elite-dominant FSCs	Number of the village committee-oriented FSCs
5–20 (small)	3	1
21–40 (medium)	2	9
Above 40 (big)	0	2

Source: The author produced the table based on the data collected in the survey.

## 2.2 Operation Management of FSCs in S Village.

It does not make sense without taking account of the different types of cooperatives in talking about operation management, because there are distinct differences in the operation management between the elite-dominant farmer specialized cooperatives and the village committee-oriented type. In the elite-dominant farmer specialized cooperatives, the elite farmers or the key investors play a key role in the operation management, they are always in the dominant position such as decision making, staff selection, accumulation and distribution. Take Jindi farmer specialized cooperative for example, the initiators, Mr. Mao and Mr. Feng (Feng is also the capital investor) act as the actual managers in the Jindi's operation, although there is a manager, named Zhang Fang, employed as manager on the chicken farm.



Their leading role and position in the cooperative is not voted or elected by its members but decided by Mr. Mao and Mr. Feng themselves. Mr. Feng is especially the one who can deny or push forward every suggestion regarding the cooperative's development. At present, this condition is changing with the development of the Jindi farmer specialized cooperative, the cooperative charter is getting more complete. Members of the cooperative now have more chances to participate in daily operation, and they have a say in policy making process. But still, Mr. Mao and Mr. Feng have the control over Jindi farmer specialized cooperative (it can not be denied that personal talent is also a key determining factor).

In comparison, the operation management of village committee-oriented farmer specialized cooperatives follows regular process. Take HLD farmer specialized cooperative for example, it exercises democratic management. In selection of managing board, meetings were held by the village committee for consultation to decide the candidate of manager, board members. Generally speaking, these candidates were required qualities like higher credibility, morality, good reputation and excellent ability in management. Then their candidates, along with other candidates proposed by shareholders will be

there voted by the meeting of all share holders. The one with the highest votes win the election and serve as the manager of HLD cooperative. Then, the manager appoints 10 members of the managing board, who should also be approved by all share holders. The responsibility and duty of the managing board is prescribed in the form of cooperative charter. This operation mechanism with democratic characteristics is applied to the processes like strategic planning, distribution and other important policies making.

### 2.3 Distribution System of Farmer Specialized Cooperatives in S Village.

As part of operation management, distribution system, along with other institutions including ownership property, internal management, audit, finance management, plays an essential role and it is a core in the operation of farmer specialized cooperatives. It also the key to innovations of farmer specialized cooperative. Benefits distribution includes distribution in both internal and external the cooperative. The external distribution refers to the process of benefits allocation with governments, enterprises and other farmer specialized cooperatives; internal distribution refers to the allocation process among members of cooperative as well as the process between cooperative and its members.

### 2.3.1 The Source of Cooperative's Income

The sources of farmer cooperative's income can be divided into two types: external subsidy and sales of its own products. External subsidies are mainly obtained from government. There were various subsidies at the early stage of cooperative's development which constitute a large part of cooperative's income. From 2008 to 2013 for example, the Jindi farmer specialized cooperative continuously obtained subsidies from county government and town government for a variety of reasons. The amount of subsidies were displayed in table 11. In 2009, the subsidy accounted for more than half of Jindi's revenue (60.2 percent), followed by year 2012 and 2010, in which the subsidy percentage were 34 and 32.6 respectively. If only take account of the amount of money, the subsidy in 2010 is the single largest since Jindi's establishment. From 2009 to 2014, the total subsidies obtained by Jindi farmer specialized cooperative amounted to one million. Generally speaking, although the percentage of subsidy in revenue is declining, with 2014 the lowest, 11.3 percent, subsidy still play an important role in cooperative development.

Table 11 An Overview of Subsidies Obtained by the Jindi FSC

	2009	2010	2011	2012	2013	2014
Revenue (10,000 yuan)	8.3	12.9	34.1	97	146.4	221.9
Subsidy (10,000 yuan)	5	7	5	33	25	25
Subsidy percentage	60.2	32.6	14.7	34	17	11.3
Cooperative members	5	5	7	11	23	37

Source: Made by the author.

The external subsidies may also refer to the money obtained from companies, which may be partner of a farmer specialized cooperative, in the form of bonus. This kind of practice is very common in economic crop farming. For example, the Anyi Tobacco Plantation farmer specialized cooperatives got a small amount of money rewarded by the cooperative company at the end of every year since it was launched. But this kind of subsidies is determined by the cooperative's performance in scale, production, and product quality. In other words, the amount of subsidies obtained by cooperative is largely decided by its contribution to the company, and the profit margin of the company. Sometimes a farmer specialized cooperative may also get amount of money donated by someone or an organization. The HLD farmer specialized cooperative received an amount of donation as much as 2.07 million yuan RMB when it decided to reconstruct the HLD temple in 2009. HLD temple was an important shrine

to worship the dragon long believed to have been living in the HLD water and protecting people. The temple was destroyed in the cultural revolution started in 1960s in China. Among the contributors are disciples, local talents and the rich. But this kind of contribution is quite unpredictable, and in most of the cases, the money donated were required to be used in the planned projects. Thus, it can not be allocated although it does helped to improve the financial status of farmer specialized cooperative and contribute to final net income.

Besides the external income, the sales of their own products or service constitute the major source of the income. In the survey, although the subsidy from government or companies took large percentage in some years especially in the initial stage of farmer specialized cooperatives, still, these practices served as accelerator to the cooperative's development. No matter it is the plantation farmer specialized cooperation or cooperatives providing services, their sales contribute a big part to the income of their members. In table 11, it can be noticed that except 2009, in which the subsidy took 60.2 percent of its revenue, subsidy was only a small part of its revenue.

### 2.3.2 Distribution Principle

The benefits distribution should follow some principles. The sources of farmer cooperative's income contribute to the basic principle of profits distribution. That is, the benefits should be allocated mainly according to its sources. The nature of the cooperatives is to promote mutual help and fulfill common prosperity. Therefore, the farmers should be both of the benefit producer and receiver. They should be paid firstly according to their transactions; then, the surplus left, if any, should also be returned in proportion to their transactions as well. Since the development of farmer specialized need financial support, capital investors should also be part of the benefits allocation. Therefore, two basic distribution principles were exercised in the farmer specialized cooperatives in S Village: distribution based on transactions and capital reward.

Distribution based on transactions was firstly exercised by Rochdale Equitable Pioneer Society in 1844 in UK. The principle of Rochdale evolved along with cooperative's practice. In 1966, the International Cooperative Alliance (ICA) prescribed the cooperative principle as following: capital reward should be controlled in a moderate degree. If the capital was invested in the cooperative, the interests should be strictly limited. And most

importantly, it said that the development of public affairs should be the top priority, and the interests of its farmers should be taken into consideration firstly. Thus, distribution according to transactions is a common practice in farmer specialized cooperatives majoring plantation industry. In S Village, Shuping, Yongchang, Lv yuan, and Hui tian farmer specialized cooperatives are the exercisers to the method. They cooperate in purchasing means of production, sharing working facilities, offering mutual help in techniques, labor and talents. But in other industries, due to the fierce competition, huge amount of financial resources is needed if the cooperative wants to remain competitive in the market place. In this case, the stock cooperatives appeared in the development of farmer specialized cooperatives, and they exercise distribution based on both transactions and capital reward. The HLD cooperative and the Jindi cooperative are examples to the type.

### 2.3.3 Form of Distribution

The distribution among farmer specialized cooperatives may take the form of salary, share dividend, and sometimes real commodities. Salary is a big part in Jindi cooperative. There were 37 employee by the end of 2015, among

which 11 were also the members of Jindi cooperative, 26 were non-cooperative members. Average workers got an average salary of 1800 yuan per month and manager got 2100 yuan (there is only one production manager in Jindi cooperative). Thus, it can be roughly calculated that the total disbursement of salary in 2015 was 802,800 yuan, which account for about 34 percent of its revenue (the revenue in 2015 was 2.38 million yuan ). Then the leftover of net profit (was about 1.09 million), except salary, public accumulation and other costs, was distributed among cooperative members according the proportion of shares. In the Jindi cooperative, the share proportion of each member depends on his or her investment such as money, land, labor or other resources. According to their contract, Mr. Feng, the initiator who provided financial support got 43.3 percent of shares; Mr. Mao 19.6 percent and the other 15 members enjoy the rest 37.1 percent.

The distribution may also take form of real commodities. This takes place in some small farmer specialized cooperatives, especially those majoring in plantation industry in which distribution based on transaction plays a key role and there was little surplus at the end of the year. In this case, the cooperative will buy some daily necessities like washing powder, rice, or



other items as a kind of distribution. But it is quite different from the sense of real distribution in Jindi, because that those small items could most likely be distributed evenly among cooperative members, instead of based their transactions. In the case studied in Chapter IV, Part III, the Anyi tobacco FSC followed this kind of practice in the latest few years.

Another questionable distribution form should be mentioned is community involvement. The reason why it is questionable is that some people do not think it is distribution. They believe that it is donation or for some specific reasons. For example, in 2012, the Jindi farmer specialized cooperative financed 56,700 yuan in the construction of a bridge in S Village. Some villagers are convinced that Jindi's contribution originated from its own interests. Because the bridge connected its chicken farm to the highway and make it easier to transport. This contributions was regarded as distribution in this research. On one hand because it is in fact a kind of distribution between farmer specialized cooperatives and village, or community; on the other hand, it is a very important way to promote coordinate development between cooperatives and village. From 2007 to 2015, donation of various forms from the farmer specialized cooperatives exceeded 500,000 yuan RMB, according

to the data supplied by the village committee. These contributions improved the infrastructure of S Village.

### 2.3.4 Distribution Process

The distribution shared common features with other organizations. It should be noted that many cooperatives at village level do not have surplus, thus the distribution process discussed here mainly involve those successful cooperatives. Take the HLD cooperative for example, firstly, the board of HLD cooperative will publicize its expenditures and income every three month.

Fig.8 Poster of HLD FSC

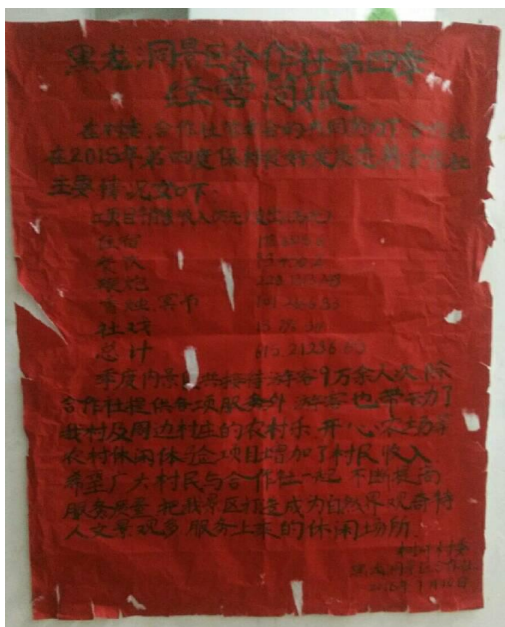


Fig.8 is a poster to publicize the sales and expenditure of 2015. To make it clear,

the poster was transformed in to table 12.

The poster listed sales and expenditures

of its hotel, restaurant, fire crackers,

candles, play show. Because the HLD

cooperative is a village committee

oriented cooperative, the rate of its

public accumulation is about 30 percent of its revenue, which is higher than

other forms of cooperative. The public accumulation is reserved for public

facilities improvement, education or other issues of common concern. The distribution proportion of net profit, based on shares, will be discussed and decided by meeting of all share holders before it is put into practice.

Table 12 Introduction of Sales and Expenditure of HLD FSC

	Sales (10,000 yuan)	Expenditure (10,000 yuan)
Hotel	178.63	25.6
Restaurant	93.4	50.2
Fire crackers	228.13	137.48
Candles et al.	101.26	66.83
Play show	13.79	6.54
Total	615.21	286.65

Source: Made by the author based on the poster.

In comparison, the elite-dominant farmer specialized cooperatives exercise distribution in a less easier way. In most of the cases, the elite farmers, at the same time the initiators, make the final decision of the rate, form or process of the distribution. For example, in the Jindi farmer specialized cooperative, the distribution will be implemented every 6 months, distribution percentage decided by all members but no less than 65 percent of the net profit. Farmers of the FSC and shareholders sign their names and then get their reward.

Both of these two types, the should follow the distribution guidelines of the “Farmer Specialized Cooperative Law of the People’s Republic of China”,

which prescribed the lowest distribution percentage of cooperative's income is 60.

### Section 3 The Distinctive Features of the FSCs in S Village

Compared with the elite-dominant FSCs, it is easier to find the nature of collective ownership in the village committee-oriented FSCs, as well as the nature of public service. While the elite-dominant FSCs reflect more of economic benefits attributes and relatively less in public service.

First, the elite-dominant FSCs and the village committee-oriented FSCs differ in their final purpose of pursuing economic benefits. For the village committee-oriented farmer specialized cooperatives, the harmonious development of village and the improvement of villagers' living standard is prior to generating direct economic benefits. In the Charter of HLD Scenic Resort Cooperatives, the statement regarding the cooperative's purpose emphasized that "the HLD Cooperative commits itself to strengthening the competitiveness of the scenic spot and adheres to the principle of moderate development, preserving the natural environment, optimizing villagers' living environment; encouraging harmonious development of both natural and humanities landscapes; promoting coordinate development between scenic spot

and village, village and villagers; and ushering quality living of villagers fundamentally.” The HLD cooperatives was established with no feasible plan, no asset injection which is a normal practice of many companies, but merely by raising money and operating on the platform of the village committee. The fact that the cooperative members shared the common interests and risk enabled the HLD FSC improve the infrastructure of the scenic spot and the village as a whole.

The HLD FSC tried to promote their service quality in the scenic spot by providing villagers with training and education. Some traditional plays with local characteristic were also employed to attract tourists, which also enriched the cultural life of the villages in return. In the meanwhile, the cooperative mainly aimed at solving the local issues of common concern, it successively set up real estate department, garbage collection department, broadcasting station, medical clinic and so on, acting positively to usher the development of village’s collective industry and common well being. In contrast, the service scope of the Jindi FSC was rather limited. Its operations showed distinctive features for profits, especially at the beginning of its establishment.

Secondly, the operations of the village committee-oriented FSCs showed greater attributes of pursuing political interests. A major characteristic showed in the establishing process of the HLD Cooperative is the influence of members of the Communist Party of China (CPC). According to the final result of capital-raising, the party members accounted for 68% of all the 387 investors, with a proportion of 80% of the total capital amount. Six people from the village committee such as village head, village secretary, accountant and so on were in the top 10 payment amount, and the rest of the top 20 were either economic strongmen or elites, while an ordinary villager's subscription amount is no more than 5,000 yuan on average.

It is hard to deny the great influence that the political interests exerted on the occurrence of this phenomenon. The reason why some people put large amount of money into the HLD FSC was that they showed greater interests in politics after getting rich economically, in other words, they prefer to play a positive role in village governance. Thus, they want to influence the village committee by pouring money into the HLD FSC, hoping that they could have greater possibility to run for the position in the village committee in the future. On the other hand however, there is no deny that many people

chose to be a shareholder was solely because they firmly believe that the HLD FSC could bring them economic benefits. Only 7 of the top 50 payments based on the amount were ordinary villagers, it can be learned in the interview that their payment is 15,000 yuan on average. Their purpose of paying for the share is for neither political nor economic benefits, but a way to show their support for the work of the village committee. Other Village Committee-oriented FSCs such as tobacco planting cooperatives and silkworm cooperatives also showed great features of governmental planning. They were established not only to stimulate the economy of S Village, but also a reply to the government's call at upper level. the village committee will try to fulfill the production quota because it is one of the important assessment criteria on government's achievement.

Thirdly, these two types of farmer specialized cooperatives are different in their ownership and distribution. the village committee-oriented FSCs deeply feature themselves with collective economy. Taking the HLD Cooperatives for example, the cooperatives practices collective ownership of S Villagers, every household automatically obtained a share of 0.3 percent no matter whether they subscribed to the capital or not. It is an essential

step to show that the HLD FSC is the collective property of the S Village. In terms of income distribution, the village committee-oriented FSCs would preserve 30% of the annual net profits as the village's development fund, which was set up for the purpose of perfection and construction of public facilities. While in the the elite-led FSCs, village elites or initiators usually play a decisive role in FSC's operation. For instance, although the Jindi FSC is jointly owned by its share holders, Feng is actually in the dominant position and he has the final say on issues of the FSC development due to his huge contribution in both talents and finance. The distribution proportion of net profit in the Jindi FSC is more than 90 percent and there is no reserved funds for any kind of public interests.

Finally, there is a striking gap between the two types of farmer specialized cooperatives in terms of the standardization in their operating management and internal supervision mechanism. the village committee-oriented FSCs follow a set of relatively standard procedures and regulations in the process of FSC establishment from its preliminary stage such as planning, preparation, draft, publicity, to confirmation of each member's qualification, board and chairman election and distribution of



profits. A proper and strict procedures guaranteed the basic justice and equity in segments of FSC's foundation, operation, supervision etc. It is also the best interpretation of the basic connotation of farmer specialized cooperatives, which advocate mutual help and equal cooperation. While more flexibility and non-standardization are showed in the elite-dominant FSCs. In the case of the Jindi FSC, Feng played an obvious dominant role in the whole process of the Jindi's establishment in spite of some consultations with his partner. What's more, there were no standard cooperative charter and procedures to follow at its initial stage. In other words, in the early stage of the Jindi FSC, it was basically a private enterprise operated on personal will, showing strong characteristic of market-orientation and profit seeking.

The differences above are bound to cause great differences of these two types of farmer specialized cooperatives in their operation management and the influences they exert on the village. the village committee-oriented FSCs performed ordinarily in bringing villagers direct economic benefits. For example, the tobacco planting cooperatives and silkworm cooperatives could get higher economic benefits than planting traditional cereals, but the

income brought by the farmer specialized cooperatives is still not competitive than that of working in cities. Thus, it was less appealing for the young people to stay and work in the farmer specialized cooperatives as a career. However, the village committee-oriented FSCs showed great advantages in the issues like environment protection, optimizing public facilities and promote harmonious relationship between villagers. The residents in S Village expressed higher level of satisfaction toward works of the village committee since they believed that they were enjoying better environment and neighborhood relationship. The villagers also showed greater interests in the public affairs due to the ease of contradiction caused by economic benefits. Now they have more interests in common as a result of the FSC's practices especially those led by the village committee.

In contrast, the elite-dominant farmer specialized cooperatives show great competitive advantage in economic vitality. Now the Jindi's annual income exceeds a million yuan. In its expansion, the Jindi FSC has created more than 30 employment opportunities which significantly promoted the local employment and is helpful to improve the living conditions of the FSC members. In the standardization process of farmer specialized cooperative, conflicts

are easily to take place between the elite-led FSCs and villagers since villagers who did manual work in the farmer specialized cooperatives are not satisfied with their salaries. Moreover, villagers were also not that interested in working in farmer specialized cooperatives because of their discontent with the FSC's practice in environmental protection and community involvement.

#### Section 4 Reflections on the FSCs in S Village

After a close observation on the the two types of farmer specialized cooperatives in S Village, such as the village situation, establishing background and procedures, FSCs' unique features and the influence that the farmer specialized cooperatives exerted on the local area, it turned out that there is still great uncertainties regarding the FSC development in mountainous region, no matter it is Village Committee-oriented or the elite-dominant farmer specialized cooperatives.

Firstly, of the two types of farmer specialized cooperatives, the village committee-led FSCs have enjoyed and will continue enjoy higher popularity in the rural mountainous countryside within a certain period. The competitive advantage of this type of farmer specialized cooperatives derive from its focus on collective ownership and common interests. More than that, the village committee-oriented FSCs showed a kind of ties between villagers' economic benefits and the power of the committee to some degree. On one hand, public power holders, or the authorities expect to have more control over villagers. Cooperatives provide such option for them to tie villagers together in the name of public interests and common well-being. They hope

that the successful operations of the farmer specialized cooperatives will win them support in the re-elections. On the other hand, it remains unchanged for most of the villagers to seek safety first before starting their own business. Villagers show greater willingness to enjoy the dividend by taking part in the farmer specialized cooperatives, with the belief that risks could be reduced, and even leveled off by the strong leadership of the village committee, which is viewed as a guarantee to their investment. But this kind of cooperatives still confront risks, which may occur possibly due to the poor management, internal conflicts, less market-oriented operation, absence of supervision and personal arbitrary decision. Especially the poor stability of the committee leadership under the games of economic and political benefits, which endangers the sustainable development of the farmer specialized cooperatives.

Secondly, although the elite-dominant FSCs have distinct advantages in market-oriented operation, economic vitality, employment promotion and bringing its members cash incomes, they are also liable to be dominated by the peasant awareness of their initiators due to their limited education and personal experiences. So problems are likely to arise owing to the

arbitrariness and the lack of necessary operational systems and norms. Moreover, there still remains a wide gap in the competitiveness between the elite-dominant FSCs and real enterprises in the marketplace. It is suspicious that this type of farmer specialized cooperatives will survive the fierce competition in the long run. Meanwhile, villagers' reaction should be considered in assessing the FSCs' development. Since farmers tend to make decisions merely based on self-interests, everything will be okay if the farmer specialized cooperatives can bring them real benefits, otherwise, some emotional and negative reactions from villagers would make it harder for FSC operations. The capacity of making profits by the farmer specialized cooperatives contributes great part to the issue of stability for the FSC's future development.

Thirdly, the development of farmer specialized cooperatives promoted the level of self governance and democracy in S Village. In the past, because the village committee was more of a regulator of villager's conflicts in their daily life and has little influence on economic life. Therefore, villagers had no enthusiasm in the election of Village Committee. The situation is changing due to the economic development. the village committee is playing

an increasingly important role in village affairs. More and more villagers begin to realize that the election of Village Committee is not something far away from them but closely related to their own interests. Thus, every one tends to think and choose someone who can help them to lead a better life. Mr. Liu was firstly elected in 2006 and he was re-elected in 2010 and 2014 owing to his great contributions to the development of local economy. One thing should be noted here is that he is the first cadre who come from a small family but won the election for three terms without break since 2000.

Lastly, the economic conflicts between the farmer specialized cooperatives and other interests parties like village committee, urban market and villagers are inevitable in the FSC operation. It is no denying the fact that there are some leaders who run for village committee with the intention of obtaining more economic interests for themselves, they even had invested a lot of money during the campaign. Once the economic income becoming the sole criteria in the election, it deserves suspicion that whether the committee-oriented FSCs could really serve people without abusing of public rights. Meanwhile, the village committee-led FSCs have unique advantages in bidding and funding projects owing to their dominant position in the village

and the power they have. Competitions lacking fairness would hinder the development of other types of farmer specialized cooperatives as well.

The practices of the farmer specialized cooperatives offer a new option for rural development. Peasants cooperate with the purpose of developing competitive industries with local characteristics to improve the economic conditions and natural environment. It is fundamental to improve the living standard and promote development of mountainous countryside. But in the real practice of cooperatives in mountainous region, it calls for in-depth studies on talent cultivation and selection, operation management standardization, administration and supervision of farmer specialized cooperatives and government policy support. These will be the essential part to realize the coordinated and healthy development of farmer specialized cooperatives and rural countryside.



## Chapter 5 An Additional Case and Rethinking of FSCs

### Section 1 A Successful Example of Farmer Cooperation

When discussing the future development of farmer specialized cooperatives, the important role of Village Committees and the residents' committees is essential to be mentioned, especially in the rural countryside. 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.

### 1.1 Rural Cooperation and Development under the Leadership of Village Committee: a Case Study of Dongsheng Village

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, fiddlehead 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 fiddlehead 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.

### 1.2 The Implication of the Success in Hongwei Village

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 farmer specialized cooperatives 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."<sup>7</sup> 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 Village Committee or resident committee plays 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 there 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.

## Section 2 The Changing Form of Government Actions

In China, government plays a central role in social affairs. The development of farmer specialized cooperatives is another example to illustrate the key role of government. Although the appearance and expansion of cooperative economic organizations is a natural result of rural development, the booming and prosperous farmer specialized cooperatives increased at an alarming rate is in no way to come by despite the efforts made by government. In the past, the central government of China and governments at all levels delivered various form of subsidies to the farmer specialized cooperatives. Although there was no customized statistics on this category, the field research implied that government subsidies constitute a major part of the FSCs' income at the very beginning of the implementation of "Farmer Specialized Cooperative Law of the People's Republic of China" in 2007.

After a dramatic boom in the first six to seven years, farmer specialized cooperatives are now step into a period of moderate growth. Accordingly, government's financial supports are undergoing major changes. Governments found in practice that a huge amount of the subsidies allocated to farmer

specialized cooperatives, partly generated positive results though, were abused. They went into someone's pocket under the table, instead of promoting employment or accelerating economic development. Under the scheme of former subsidy policies, the subsidy receivers would make their applications for the subsidies without any responsibility of using the money allocated properly. Therefore, subsidy became a sheer bonus to the applicants, which could easily lead to corruptions of those governors who were in charge of the huge amount of subsidies. In order to make full use of financial resources, governments now convert to other forms of encouraging initiatives on quality farmer specialized cooperatives instead of cash subsidy.

### 2.1. Government Financing

Financial support is one of the many encouraging initiatives provided by the government. After about 10 years development of farmer specialized cooperatives, there is a shift in governmental support. In stead of the direct subsidy to the farmer specialized cooperatives, governments are now liable to provide loans with low interest rate.

In Zhen'an, the county government stopped cash subsidies in 2014 and started to cooperate with the county Rural Commercial Bank to provide a total

amount of 125 million yuan to encourage the development of farmer specialized cooperatives every year. This low interest loan was guaranteed by the county government. Every household can get an maximum of 50,000 yuan and every farmer specialized cooperative can get no more than 500,000 yuan in total. The Rural Commercial Bank give 30 percent decrease of the loan interest while county government give an additional 50 percent interest subsidy to the money borrower. From May to August in 2014, the program finished financing 69 million yuan on various farmer specialized cooperatives .With the special policies of these low interest loans, Mr. Wang Hechun applied 200,000 yuan and set up a farmer specialized cooperative to manufacture clothes, which employed more than 40 people and brought an annual income increase of about 15,000 yuan per person.

## 2.2. Government Planned Program

Even more important than these tax subsidies, however, are the direct program resources that the farmer specialized cooperatives receive as a result of their great influence on rural economic development. Far from being a money giver or a competitor of farmer specialized cooperatives, the government is emerging as a partner of these cooperatives, using programs

to encourage cooperatives to act positively in local community and promote environment protection, employment and bridge the gap between urban market and rural countryside. These programs on one hand provide cooperatives with an opportunity to enlarge their business; the nature of the government programs is for public interests which is also the core nature of farmer specialized cooperatives; on the other hand, most of the government programs are carefully planned which may play a positive role in rural area. More importantly, government use programs instead of cash subsidies can avoid the problems that cooperatives exploit the preferential policies to deliberately apply for subsidies and produce nothing.

In 2015, the county government issued “Regulations on Programs for Poverty Alleviation Loan”, which detailed the requirements of applying for government programs. The regulations require applicants should be farmer specialized cooperatives with a membership of more than 20 households. Meanwhile, the registered cooperatives should run well in the past two years. If the applicant succeeded in its application, it will get no more than 500,000 yuan RMB subsidy from the county government.

The various form of government programs may also be helpful to reduce the

farmer specialized cooperative's dependability on government policy, which served as a key drive to the development of farmer specialized cooperatives. These will finally lead to the healthy development of farmer specialized cooperatives.

### 2.3. Government Administration

In the first five to six years of the development of farmer specialized cooperatives, governments at all levels put one thing on top of their agenda that is to encourage and help the development of farmer specialized cooperatives. In the stage, number increase of cooperatives was the first priority of the achievement assessment (it is possibly because that the increase in number is easy to assess and local governors have the motive to accelerate its development as one of their major achievements in order to be promoted), quality control and other administrative measures were greatly weakened. As a result, the number of farmer specialized cooperatives boomed at an alarming rate during the first 10 years. For example, in Zhen'an County, there was 13 farmer specialized cooperatives in 2007, but the number in 2014 was 423, about 33 times increase in seven years.

The situation began to change since 2014. The state Administration Bureau



of Commerce and Industry issued “the Interim Measures on the Annual Report Publicity of Farmer Specialized Cooperatives” in October 1, 2014. The measures require that every cooperative should report its activities last year through the publicity system of local Administration of Industry and Commerce. The farmer specialized cooperative’s report include information of its production and operation, registration change, asset status et al. The Administration of Industry and Commerce should conduct random inspection on a number of farmer specialized cooperatives following a certain procedures according to “the Interim Measures on Inspections on enterprises” . Besides, the Administration of Industry and Commerce will publicize the cooperatives, which operation is abnormal, to the society and determine the punishment to deal with the situation.

Accordingly, the county Administration of Industry and Commerce in Zhen’ an strengthened its inspection on the farmer specialized cooperatives. In July 14<sup>th</sup>, 2015, the Administration of Industry and Commerce publicized a long list of farmer specialized cooperatives operating abnormally. The list included farmer specialized cooperatives such as Shanzhuang Tea Plantation FSC, Shengfeng Livestock and Poultry Breeding FSC, Tianyuan Animal Husbandry

FSC, Hongchang Flower Cultivation FSC, Qingshan Vegetable FSC et al.

These signaled the major changes of government policies toward the development of farmer specialized cooperatives, from the priority of number increase in the past to quality improvement in current stage. Those farmer specialized cooperatives with no actual activities or poor performance will be suspended the qualification of being a farmer specialized cooperative.

### Section 3 The Influence of FSCs on Mountainous Villages

The FSC's influences on mountainous villages' development are complicated and multifaceted. The influences are not confined to economic aspect but a broader scope such as restructure of rural traditional culture and the interactive mode between local government and the masses.

Firstly, the village committee-oriented FSCs have double-edge sword effects on the public power of local government in the mountainous areas. In the past, the affairs in the mountainous villages were naturally administrated by the local customs and folkways, a very traditional way of management which could be termed as self governance. However, the villagers' pursuits diversified quickly with the economic development. These pursuits include cultural and spiritual benefits as well as economic interests. This diversified interests emphasize more on personal satisfaction and neglect public interests, which may worsen the situation in the countryside. The establishment of the farmer specialized cooperatives offered them one more options to realize their common interests. But the new practice also pose great challenges to the local authorities. Take the power of Village Committee for example, in mountainous village, the realization of the committee's power

is largely susceptible to local customs and personal moral prestige. When the economic interests get involved in, the village committee's power is also influenced by other forces such as owners of capital, power hankers and elites. Meanwhile, the question remains on whether leaders of the village committee utilize public resources and collective assets for personal interests. In this case, the operation of the village committee-led FSCs is closely related to the credibility of the village committee and leaders' personal prestige as well. If the cooperatives run successfully, it will not only benefit the common villagers, but also increase the likelihood of leader's re-election. Otherwise, it will make villagers boil with resentment, and probably weaken the authority of the village committee, or may even cause re-election. If that happens, it could further endanger the stability of the FSCs' operation.

Secondly, the practices of farmer specialized cooperatives accelerated the restructuring process of the traditional culture in mountainous area. The "Household Responsibility System" reform implemented since 1978, in which the agricultural production is organized on a family unit, has greatly motivated peasants and made great contribution to the settlement of food and clothing problems in the countryside. But it shouldn't be ignored that the

gap between the rich and the poor was greatly widened because the production mode based on families as labor units encouraged some people to get well-off first. Those ideas such as venality, opportunism, making fortune overnight, and instant benefits were overspread in the countryside. The excellent traditions like mutual assistance and harmonious neighborhood gradually faded. People became snobbish and indifferent to each other. The farmer specialized cooperatives, especially the village committee-led FSCs however, played a positive role in reminding people of protecting their living Environment, taking part in the public affairs and maintaining a harmonious relationship with each other. It also encouraged people to achieve common prosperity and fight for common interests by cooperation instead of confrontation. These norms and practices of the farmer specialized cooperatives accelerated the restoration and reconstruction process of the traditional culture in the rural countryside.

This restructure is reflected in many aspects. For example, the economic improvement transformed customs like marriage. In the past, wedding ceremony was normally held in the evening and the banquet continuing for several days. However, nowadays people are busy with their own business. Many of them have

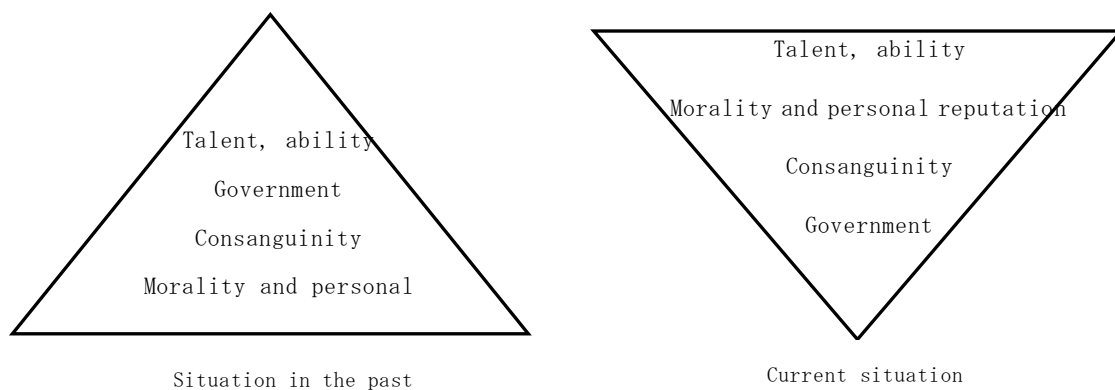
to go to work in the farmer specialized cooperatives. Thus, the wedding ceremony resembles that in cities which is organized by wedding agency and the banquet last for about two to three hours and then it is finished. Also, as mentioned in the case of Dongsheng Village, girls are willing to marry boys from villages located in remote areas due to the improvement of transportation and economic condition. Another exciting phenomenon worth mentioning here is that we saw a return and inflow of college graduates and experts who refuse to leave cities in the past. For example, Shangluo Zhongrun FSC was set up by Xu Xiangyong who graduated from Central Academy of Fine Arts, a key university in China. The cooperative now has a membership of more than 60 households and operates on “government + cooperative + e-commerce” model. This is perhaps the hope of FSC’s development in the future. Thirdly, the development of farmer specialized cooperatives is changing the structure of local politics. In the stage of self governance, the election of village cadres followed a universal principle in mountainous area which naturally put the cadre’s morality and reputation on top list of candidate qualities, followed by consanguinity, government influence and the candidate’s talent and ability. As shown in fig. 9, morality and personal reputation of candidate

was the basic but fundamental quality to be elected in the past. A candidate with good reputation would be accepted easily by people from different families although they preferred to choose a candidate from their own families; in the past, the candidate's ability in helping villagers to increase their income and improving their living standard received least concern in election. Therefore, in most of the cases, the village cadres were respectable seniors, usually from big families. However, with the rise of farmer specialized cooperatives, villagers show great concern on both personal reputation and economic benefits. It is hard to say that economic benefits has replace morality and reputation in nowadays Village Committee election, but the ability to promote economic development is becoming a key determinant, which exceeded the influence of consanguinity. While government remains a factor which exerts little influence on the cadres election in mountainous area.

In S Village for instance, the surnames of top three big families (in terms of the population) are Mao, Ma and Zhang. Because of the number advantage in population, the members of the village committee were long occupied by members from these three big families due to the strong sense of consanguinity among villagers. With the rise of farmer specialized cooperatives, people

tend to choose the one who can bring them more economic benefits. This in turn weakened the tie between family and politics. The fact that Mr Liu was elected the cadre of S Village showed the changing trend of local political structure. In the case of Dongsheng Village, although the surname Quan is the largest family in population, Mr. Quan Longhua won the cadre's election with his reputation and ability.

Fig.9 Changes of Influencing Factors on Village Cadre Election



Source: Made by the author.

At last, the development of the farmer specialized cooperatives further promoted rural population flowing to small cities and towns around, which in fact boosted the swelling of city population and accelerated urbanization process in mountainous regions. In Miliang Town, there are three residential communities (Qingquan, Hongwei and Miliang Chuan) with population of more than 400 on average completed and another two under construction. Also, the



development of farmer specialized cooperatives accelerated the government reform. The cooperation of farmers is not confined to a certain administrative region. In some cases, a farmer specialized cooperative may include farmers and farmland across villages and towns, which required government reduce the levels of administration and give farmers and cooperatives more freedom to cooperate according to the need of modern scale management. Take Zhen'an for instance, the number of town governments experienced dramatic decrease in the last 3 decades (table 13). There were 58 administrative towns before 1996, but only one third (19) left at the end of 2014. This combination of towns also took place at village level. This reform allows people to migrate with more freedom as to select towns or small cities to reside in.

Table 13 Change in Number of Towns in Zhen'an County

Year	1990~1996	1997~2001	2002~2008	2014
Number of towns	58	28	24	19

Source: Made by the author according to the data from Zhen'an County government.

The key functions of the farmer specialized cooperatives include: to transform the traditional extensive production mode through higher level of cooperation and the employment of machinery; to launch projects which are tailored to the local situations and make full use of local edges; to bridge

the gap between the agricultural products in the rural countryside and the consumer market in the urban area. On one hand, the cooperatives can play a positive role in increasing farmers' income and improving their living conditions; on the other hand, the production mode transformation, from the scattered management in the past to scale management due to the cooperation of farmers, has and will further liberate surplus labor forces in the countryside. This segment of population will gradually flow to new communities, market towns and small cities, thus promoting regional urbanization level. Since 2007, several new rural communities such as Qingquan, Hongwei and Miliang have been built in Miliang Town of Zhen'an County. Furthermore, with the development of farmer specialized cooperatives, people are more likely to be employed in local area. According to the government report of Miliang, more than 85% of the rural residents will move to new residential communities and market towns by means of voluntary migration, geological disasters migration, employment and so on.<sup>[8]</sup>

The practice of farmer specialized cooperatives in S Village and the cooperation among villagers in Dongsheng Village both achieved social stability and economic development. The stability in S Village is mainly

reflected by its leadership of the village committee which remain slight change in the past about ten years. And the continuous economic improvement contribute a lot to the stable leadership and harmonious relationship of local community.

### Part III Problems and Solutions of Farmer Specialized Cooperatives

#### Chapter 6 Problems and Countermeasures

##### Section 1 Problems in the Development of FSCs

In recent years, despite the rapid development of farmer specialized cooperative and its positive influence on rural economy in China, there are still some problems which hinder the further development of the farmer specialized cooperatives. Some common problems are as following.

(1) Limited capital accumulation and insufficient capacity to expand.

Adequate capital is not only a necessary condition for the survival and development of enterprises, but also an important indicator to measure the operating status of the production and management of an enterprise. It is very difficult for cooperatives to get loan from bank and the main source of investment is the farmers raise funds. But the low income of farmers and their limited accumulation limit the expansion of the cooperative production.

(2) Low level of service quality and weak market competitiveness. Except some of the larger cooperatives, service of the majority of cooperatives mainly confined to information sharing, technical advice and sales service. Most of the cooperatives lack value-added process like procession of their

agricultural products, which limit the organizational advantages of farmers specialized cooperatives and weakened the competitiveness of their agricultural products on the market place. As a result, farmer specialized cooperatives are vulnerable to risks outside and put themselves on a disadvantageous position in competition.

(3) The scarcity of human resource limit the further development of farmer specialized cooperatives. The further development of the cooperatives should be carried out in the upstream and downstream in the chain of agricultural industry. It means that more talents in marketing management, brand management, financial management and operation management. Human resource is a key to the upgrade of the industrial chain and the standardization of farmer specialized cooperatives management.

(4) Supporting policies are not stable, and the external environment for farmer specialized cooperatives is not ideal. Although the government of all levels support the development of cooperatives, but the policies and measures to sustain the development of specialized cooperatives are not perfect. There is still a big gap between the real practice of the cooperatives and the requirements of the farmers. Although a lot of regulations and policies

concerning the farmer specialized cooperatives have been provided by the central government, concrete and feasible measures are still urgently needed at the real operational level.

(5) People are still not clear about the nature of farmer specialized cooperatives and the enthusiasm of taking part in cooperatives is not high. Some organizations and village cadres believe that the farmer specialized cooperatives are voluntary and cooperative economic organizations, its survival and development can only go with the flow. Thus, the enthusiasm of leaders in organizations is not high. Most farmers got used to their own independent production and management mode since the implementation of household contract responsibility system in 1978. they even think that the development of farmer specialized cooperatives is a practice stepping back into early years between 1950 and 1970s. These factors have affected the development of farmer cooperatives.

(6) The operational mechanism of farmer specialized cooperatives is not complete and standardized [16]. Due to the characteristics of small size, low market share of the farmers specialized cooperatives, their impact on the market is very limited, and the ability of risk resistance is weak. In

some cooperatives, the interests between cooperative and its members, interests among members are hard to coordinate. And a harmonious relationship is hard to come by. Besides, many cooperatives have no employment contract with their employees, neither do they have formal charters with their own members. These problems may lead to serious problems such as instability.

Except these common problems encountered by farmer specialized cooperatives, factors such as educational level, generalization and alienation also exert great influence on the development of farmer specialized cooperatives.

In the southern Shaanxi Province, besides its unique geographic features, the internal management of farmer specialized cooperatives is also quite different in terms of efficiency, compared with market-oriented enterprise. Therefore, the development and expansion of farmer specialized cooperatives is closely related to the policy environment. Since the Chinese government currently emphasizes the quantity expansion of farmer specialized cooperatives over the administration of farmer specialized cooperatives, much industrial capital (enterprises) is pouring into farmer specialized cooperatives. Moreover, government policy intervention, and the

self-interests of elites in local areas have caused many problems in the operation of farmer specialized cooperatives. These problems are mainly embodied in three aspects. First, the large number of “quasi enterprises” registered as farmer specialized cooperatives. Such enterprises not only lead to the generalization of farmer specialized cooperatives, but also cause unfair distribution of public resources, due to their advantageous position in competition with other farmer specialized cooperatives 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 farmer specialized cooperatives. 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 farmer specialized cooperative. 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 farmer specialized cooperatives, and also damages the



relationship between FSC members and other people.

According to a survey by Fang Hang (2015), of all the 404 farmer specialized cooperatives 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 farmer specialized cooperatives which are registered but do not yet have any actual business activity. The second explanation is even simpler: many farmer specialized cooperatives have been established purely for the purpose of obtaining state subsidies.

## Section 2 The Regular Countermeasures

Although the farmers specialized cooperatives have been developed to some degree, there are still many problems, which are far from the strategy requirements of the socialist new rural construction. Based on the analysis above, the paper puts forward the following suggestions to solve the problems encountered, and promote the development of farmer specialized cooperatives and in the meanwhile to serve the national strategy of the new rural construction.

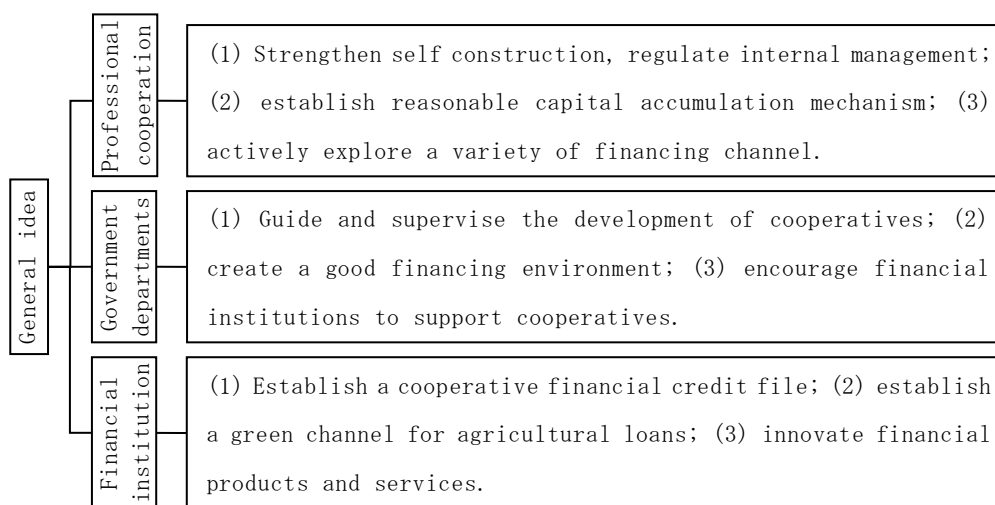
### 2.1 Solution to Financing Difficulties

Capital is one of the difficult problems which puzzled the development of farmer specialized cooperatives. There is a need for joint efforts between the cooperatives, the finance departments and the relevant departments of the government to tackle down this problems. The general idea to solve the problem of financial difficulties is shown in Figure.10.

(1) The fundamental way to solve the financing difficulty of farmer specialized cooperatives is to strengthen its economic power. In the development process, cooperatives should improve the financing mechanism, perform standard internal management, especially the regular financial

management; it should also formulate scientific fund accumulation system, encourage members to make cash investment, establish the scientific distribution mechanism of the surplus, and adopt a combination of distribution methods of surplus, in accordance with the transaction amount and shares, to achieve the best combination of fairness and efficiency; refer to the excellent financing experience of the advanced cooperative, and explore suitable financing channels for their own development.

Fig. 10 Solution to the Financial Difficulties



Source: Made by the author.

(2) Government departments play the role of supervision and coordination in the process of financing. It should enforce a comprehensive implementation of the tax incentives for farmers specialized cooperatives, create a good

financing environment; expand the financial support funds, expand the scale of special funds, focus on the introduction of new varieties, promote new technologies, foster new and famous brands, encourage cooperation between cooperatives, encourage various types of organizations to provide loan guarantees and explore policies of agricultural insurance to cover all types of farmer specialized cooperatives.

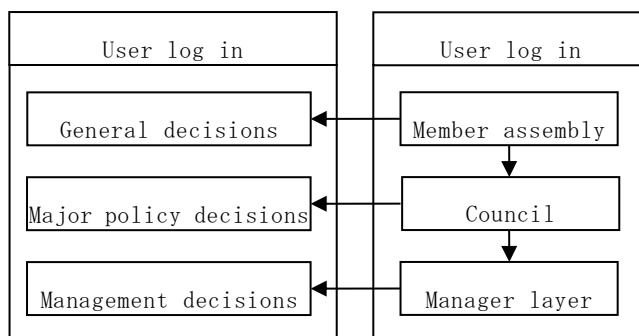
(3) Financial institutions offer cooperatives the direct financial services. The institutions should put the cooperatives into credit evaluation, establishing a financial credit file with relevant departments of the government; the institutions should also combine the cooperative legal person's credit with the credit of its cooperative member to establish the green channel of agricultural credit; the financial institution should innovate flexible financial products and services for the cooperative's needs and innovate various types of loans in accordance with the law and the actual needs of the loan.

## 2.2 Solutions to Perfection of Decision-making Mechanism

In the course of the development of farmer specialized cooperatives, with the gradual improvement of the external development conditions, in order to

make farmers the main body of the interests of specialized cooperatives, it is necessary to fully promote democracy inside the cooperatives, make members participate in the process of decision-making, supervision and management. Member Assembly is an effective mechanism in protection the economic interests of the cooperative members. Whether the democratic rights and benefits of farmers can be protected, the decision-making mechanism in a cooperative will be the key, besides its function in promoting the operation and sustainable development of cooperatives. The hierarchical structure of the cooperative decision-making mechanism is shown in Figure.11.

Fig.11 The Cooperative Decision-making Mechanism



Source: Made by the author.

(1) Members of the general assembly make the major decisions. According to the function and purpose of the cooperative and the legal requirements, the members of the general assembly is the supreme authority of the cooperative, the major issues are decided by the general assembly, all members

can participate in the decision-making and management of cooperatives through the members of the general assembly. Thus, it is necessary to adhere to the dominant position of the general assembly in decision-making process, and adhere to the general assembly system in its operation, that is, the general assembly should be authorized the power of all decision-making in the cooperative governance. The participation in decision-making of the cooperative members is realized through two ways. One is the direct decision making made by the general assembly of all members; the other is the indirect decision-making made by the council, which was elected by the cooperative members. The council act as representatives of all members and exercise the power of decision-making.

(2) The council make decisions in daily operation with the power entitled by the members general assembly. Then the manager performs his duties under the leadership of the Council. The Council shall establish rules and procedures to ensure that the decision-making power is exercised in accordance with the principle of the cooperative charter and requirements of the general assembly, which can effectively avoid privatization of the cooperative or put the cooperative under control of a single elite farmer

or investor. The system plays a key role in protecting all members benefits and work as a shield to resist risk.

(3) Manager is in charge of the daily operations of farmer specialized cooperatives. A general manager is someone with professional experiences. The position can either be a professional manager employed, or core member from the council. However, due to the limitations of small farmer consciousness, cultural and educational background, the decision-making process will be turned out to be a waste of time and low efficiency, if it follows and exercises in a complete democratic way, which in fact go against the nature of scientific decision-making. The manager, in this case, is responsible for the daily operations. The practice will be truly conducive to the development of specialized cooperatives. The manager layer is composed of a certain authority, managing skill, and a wide range of social relations.

(4) It is necessary to improve the consciousness of democratic management among ordinary members. Firstly, it is essential to narrow the gap between ordinary members and the core members of the cooperative in terms of resources. It includes the efforts to enhance the economic strength of ordinary members, human capital and management skills. This lay a fundamental basis to the

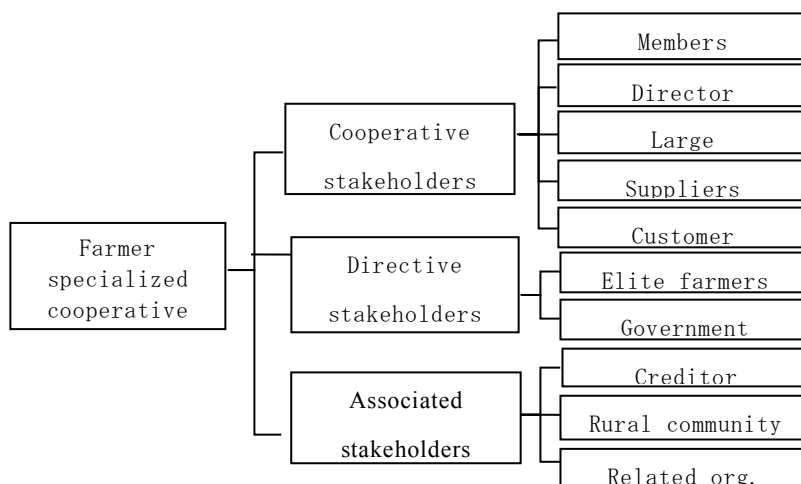
formation of homogeneity among cooperative members, and in the long run, it is helpful to cultivate the sense of quality and democracy. It will in turn boost their enthusiasm in participating activities of the farmer specialized cooperatives.

### 2.3 Integration of Stakeholders

Stakeholders are those who have direct or indirect relationship (interests) with an organization. The stakeholders may exert great influences on the business performance of an organization since they believe that their interests are closely related to the activities of the organization. But the degree of this influence may vary. It is a world trend to take account of the interests of stakeholders in organization management. Thus, there is no exception to the farmer specialized cooperatives. The farmer specialized cooperatives include three types of Stakeholders in terms of the way they relate to each other: cooperative stakeholders, the guiding stakeholders and the associated stakeholders. The constitution of the stakeholders is shown in Figure.12.



Fig.12 Stakeholder Structure on Farmer Specialized Cooperative



Source: Made by the author.

(1) Cooperative stakeholders include cooperative members, cooperative director, major shareholders, suppliers, customers and so on. Large shareholders are individuals or organizations that possess a larger portion of the cooperative's shares. Members of the cooperative and major shareholders have a common interest which is to get a good return on their investment. In the pursuit of benefits, the director of the cooperative also focus on the cooperative development and expansion; the customers are the trading partners who buy products from the cooperatives; suppliers are the those who supply production materials and facilities to the cooperative. The benefits of both customers and suppliers depend on the transaction volume, trading range and trading prospects with the cooperatives.

(2) Directive stakeholders include government and elite farmers. Among whom, the government is the supervisor of the farmer specialized cooperatives. The support of the government policies provide farmer specialized cooperatives with legal protection and social environment. The government has many interest demands, including promoting agricultural industrialization management, increasing farmers income, accelerating the construction of new rural countryside, developing local economy, et al. These stakeholders expect that the cooperatives may exert positive influence on both the cooperative members and other non cooperative members in the area.

(3) The associated stakeholders include creditors, rural communities and other relevant organizations. Among these stakeholders, the creditors are those, other than the farmers, who claim to recover their investment and obtain higher returns; rural community is the very important platform of cooperatives, interest of these communities is to improve public facilities, promote harmonious relationship among residents and protect the community environment; interests of other economic organizations, including supply and marketing cooperatives and credit cooperatives, is to promote their own development by improving efficiency.

(4) Establishing mechanism of common governance by cooperatives and stakeholders. The involvement of a variety of stakeholders in cooperative governance is helpful to unite people with different interests and constantly transform the relationship between different interests, so that the relationship can be reflected in the system and the law of the cooperative. Thus, in the development of farmer specialized cooperatives, common interests among different stakeholders could be reached, which is also helpful to cultivate consensus in their cooperation. These consensus include promoting high level of cooperation, establishing relationships of mutual understanding, mutual help as to achieve win-win situation.

#### 2.4 Internal Motivation And External Conditions Of Interaction

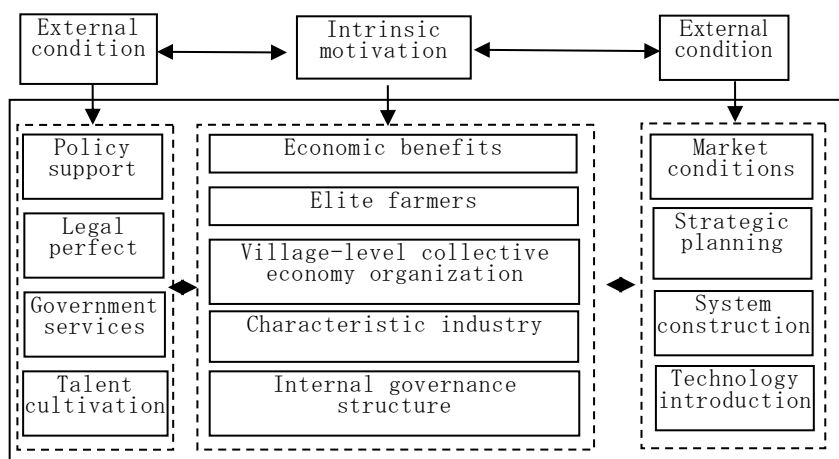
The internal cause is the fundamental reason and the key drive of the development of an organization or a person; and the external factors refer to the condition or environment outside an organization which impose influences on the development. In the development process of a farmer specialized cooperatives, internal factors can be understood as the internal motivation and external conditions can be understood as the external conditions. The intrinsic motivation and external conditions of the

development of farmer specialized cooperative model are shown in Figure.13.

(1) Analysis on the intrinsic motives for the development of specialized farmers cooperatives. The development of farmer specialized cooperative has its intrinsic motives and inner logic. It takes the economic benefits as the basic driving force which is supported by the elite farmers who serve as the important pioneers; it takes the village collective economic organization as the platform to organize pillar industries with local characteristic; all these activities are managed and monitored by the internal governance system of the cooperatives. Economic benefits is the core drive to cooperative development and the establishment of farmer specialized cooperatives is to obtain better economic benefits and to achieve common prosperity through cooperation; the elite farmers or professionals are the important power in the development of cooperatives, because compared with the ordinary farmers, they possess more natural resources, cash capitals, information, human resources and social capitals; organizations based on the village collective Economy can ensure the dominant position of farmers who enjoy voluntary participation and exit, mutual benefit. The farmer specialized cooperatives thus reflect the basic features of the dominant position of farmers and the

public ownership. The farmer specialized cooperatives can take full advantages of local resources to cultivate pillar industries with local characteristic. Therefore, it is easier to get competitive advantages within the industry. Besides, a complete and democratic internal governance mechanism guarantees the healthy development of cooperatives.

Fig.13 Interactive Relationship Model



Source: Made by the author.

(2) Analysis of the external conditions of the development of farmer specialized cooperatives. Farmer specialized cooperative is one of the possible options in promoting agricultural modernization, accelerating the construction of new rural areas, and promoting the increase of farmers' income in rural countryside. Talent is of utmost importance in the development of cooperatives. It is necessary to cultivate a good cultural and technological

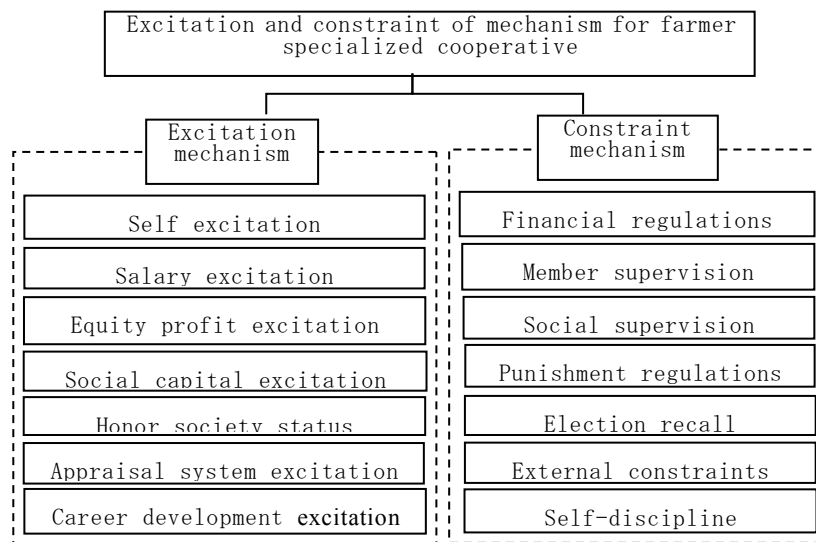
environment in which talents and experts could be encouraged; besides, policy support from the government is also the key to the healthy development of cooperatives. It is urgent to establish a complete system which integrate financial, tax, credit, insurance policies with high efficiency; the concept of “benefit sharing, risk sharing” should be the core to the incentive system and the income distribution system; government should also perform as service provider and allow the market to play a basic role in the development of farmer specialized cooperatives.

## 2.5 Innovate Incentives and Restraint Mechanism

Incentive and restraint mechanism is the process which aims to stimulate people’s inner motives and power, through a variety of ways, to fight positively and creatively for a certain purpose of the organization, according to the organization’s objectives and the law of human behavior. How to mobilize the enthusiasm of human resources is the eternal theme of human resource development and management. In the development of farmer specialized cooperatives, the goal of the development can only be realized by a series of actions. How to employ a variety of management means to induce, stimulate and control the behavior of people is the main topic in management.

The incentive and restraint mechanism is one of the main management tools. The incentive mechanism has a positive effect on the participants of cooperatives, and the restraint mechanism has an inhibitory effect on the behaviors of related personnel. The hierarchical structure of the incentive constraint mechanism is shown in Figure.14.

Fig.14 Hierarchical Structure on Excitation and Constraint Mechanism



Source: Made by the author.

(1) “Incentive mechanism” means that in the organization system, the main body uses many kinds of incentive methods and makes it more standardized and relatively fixed; and it is the compound of the structure, mode, relationship and evolvement of the interaction incentive receivers. Incentive mechanism is the connection means that helps the enterprise

transform the strategic objectives into the concrete steps. The innovation of incentive mechanism needs to be considered from the perspectives of investors, managers and cooperative members. The incentive for investors, in addition to the limited benefits as share dividend, the incentive should be reflected by the additional voting rights, which is the embodiment of the incentive mechanism of control; the ideal incentives for managers is to give them the rights of remaining claim. The reward to the managers related directly to the performance of cooperatives. This type of incentive can both increase the manager's enthusiasm in their position, and guarantee the cooperative a sustainable development ; incentives for cooperative members should not be confined to stock dividend, it should also be reflected by the members' right to use cooperative's resources, accept specialized and technical training and participate in cooperative management.

(2) "Restraint mechanism" is the general term of the rules and regulations of normative requirements and standards implemented to regulate members' behavior after the statutory procedures, in order to facilitate the operation of the organization, and give full play to its function. Constraints include the state's laws and regulations, industry standards, the



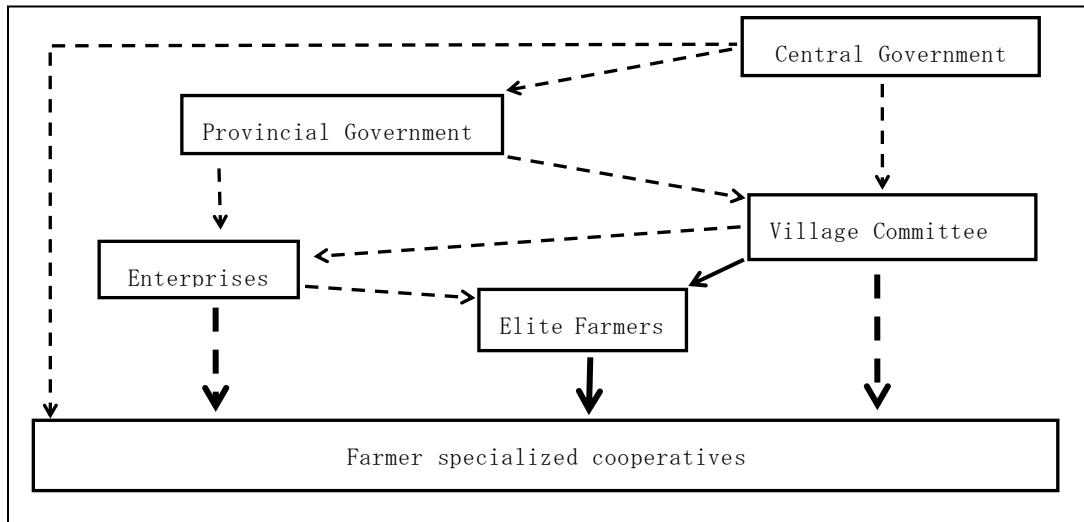
organization's internal rules and regulations, and various forms of supervision, et al. The innovation restraint mechanism includes internal constraint mechanism and external constraint mechanism. The internal restraint mechanism refers to the individual character, moral emotion and reputation, which exert influence on self control in cooperation. The external restraint mechanism is the regulation enforced by the state laws and regulations, including the constraints of cooperative entry, the standard requirements of the production process, the penalty mechanism, the protection of interests of the members.

### Section 3 Establishing A New Type of FSCs

#### 3.1 The Village Committee-cooperative Partnership in Local Political and Cultural Regimes.

The countermeasures mentioned above are far from being enough due to the unique cultural and geographical factors in mountainous countryside. In china, the central government plays an important role in political, economic and cultural fields. It has become the predominant source of government spending in promoting rural development but it by no means the only source. Provincial and local government also play significant roles, in strategic planning, service delivery and finance. Much of the activities, as we have seen, operates through local governments, especially town governments and Village Committees which often add their own resources and tailor their regulations with greater feasibility and flexibility to adjust to real situation. Besides, enterprises have invade rural countryside and exert great influence by the power of capitals. Farmer specialized cooperative is another party in promoting rural development. It is an organization comprised of farmers and operated on the spirit of equality and cooperation.

Fig.15 Relationship between Social Parties and FSCs



Source: Made by the author.

The relationships between other social parties and farmer specialized cooperatives are shown in figure.15. All these factors function on the farmer specialized cooperatives to some degree. However, the elite farmers are the direct driving force and the leading practitioners while local government and enterprises exert far obvious influence on the operation of farmer specialized cooperatives. Meanwhile, it is local government that impose direct influence on farmers and cooperatives. This proved from another angle the importance of farmer specialized cooperative. Based on the fact, the author suggest that a partnership between Village Committee and farmer specialized cooperatives will likely to function positively in the development of both farmer specialized cooperatives and rural area.

On one hand, the village committee-cooperative partnership can promote a harmonious relationship between farmer specialized cooperative and Village Committee, farmer specialized cooperative and villagers, Village Committee and villagers. Firstly, the village committee enjoys higher credit and authority in dealing with village affairs. It has a diverse focus such environment protection, poverty alleviation, fairness in distribution rather than economic development only. Farmer specialized cooperatives have a strong capacity in business activity, their operation is based on market demand and they can adjust their production with greater flexibility to get better economic benefits. Farmers have got used to the traditional way of production. They put the economic improvement the top priority when they came to take part in farmer specialized cooperatives. A stable and harmonious environment is critical to the development of farmer specialized cooperatives, the village committee-cooperative partnership can ease the tension between cooperatives and villagers when conflicts take place. Meanwhile, the village committee-cooperative partnership will integrate the economic competitiveness of farmer specialized cooperatives with the strong capacity of Village Committee in mobilizing and organizing villagers, and help the

cooperatives to achieve better economic performance. Thus villagers can benefit more from the development of farmer specialized cooperatives. This will in turn promote a harmonious relationship among villagers.

On the other hand, as we mentioned above, the development of farmer specialized cooperatives encounter many problems in financing, marketing, talents in management et al. Generally speaking, members in Village Committee enjoy better education, broaden horizon, better economic condition and higher reputation among villagers. More importantly, they have the motivation and ability to mobilize villagers and unite them together to tackle down the problems they are face with. Therefore, the village committee-cooperative partnership not only can provide the cooperatives with capital needed in their development, the participation of talents and elite farmers can also help the cooperatives avoid risks in the market place, increase management efficiency.

There is one thing should be noted is that the village committee plays a special role in the development of farmer specialized cooperatives. Village Committee is both of an administrative level of government and a autonomous organization of villagers. It is a bridge between government and villagers

as well as a real practitioner of village governance. In the mountainous area, the reality is that most of residents are more familiar with Village Committee, or they regard Village Committee as the sole government in their mind. This unique role of Village Committee makes it a hub in local political and cultural regimes, possibly also in economic regime especially after the partnership between Village Committee and farmer cooperatives was established. Their cooperation will exert strong influence on local development.

### 3.2 The Way of Realizing Committee-Cooperative Partnership

The village committee-cooperative partnership is not, of course, to say that this cooperation has worked out in practice the way they should be, although it has been turned out to be partly positive in the case study. To the contrary, any relationship as complex as this one is likely to encounter immense strains and difficulties, especially given the unique conditions in the countryside.

The village committee must worry about the problems of exercising management when decision-making authority is widely dispersed and vested in organizations with their own independent sources of authority and support. From the perspective of farmer specialized cooperatives, the concern raised by the village committee-cooperative partnership mainly lie in two points:

first, loss of autonomy or independence; second, bureaucratization and a resulting loss of the flexibility that are considered the cooperative's greatest strength. Perhaps the central concern on the part of those worried about the village committee's involvement in farmer specialized cooperatives is the fear that such involvement would rob cooperatives of their independence. A fundamental feature of the farmer specialized cooperatives is its voluntary cooperation based on equality. If the cooperatives become an agent of the village committee, it will lose this nature and be vulnerable to political change.

In the absence of a firm theoretical basis for the relations between the Village Committee and cooperative, neither government nor farmer specialized cooperatives manage to develop a meaningful and coherent set of standards in terms of which to guide their interactions. Rather, both sides tend to view the relationship from their own perspective and to apply standards that are rigid and absolute. Therefore, a set of criteria are suggested by the author which should be followed.

First, the farmer specialized cooperative is still a cooperative economic organization which remains independent operation and management. The

managing board of the farmer specialized cooperative should be voted by all its members and more importantly, members in Village Committee should be refused to be the board members in the cooperative.

Second, the village committee still focus on managing public affairs, promoting employment and economic development, maintaining social stability and achieve coordinate development. In addition, in order to guide or ensure health development of farmer specialized cooperatives, the village committee, acting as a legal person, can make investment into farmer specialized cooperatives with public accumulation, and becomes a shareholder of the cooperative so that it can put forward suggestions and supervise the operation of farmer specialized cooperatives. The share of Village Committee should be no more than 5 percent of the total in a specific cooperative. As a shareholder, Village Committee has the right to supervise the daily operations. It is also an investment so it can stimulate the motivation of Village Committee to play the role of supervisor. The benefits gained from the investment make it possible for the village committee to perfect the infrastructure of the village, expand the public accumulation. Thus the development of farmer specialized cooperatives will finally benefit all



villagers.

Taken as a whole, the case studies above suggest that many of these fears have not been borne out in practice. Clearly, dangers to agency independence, pursuit of agency purposes, and internal management style may result from involvement of Village Committee, but these dangers do not appear to be so severe as to argue for dismantling the partnership. In contrast, this kind of cooperation under the leadership of Village Committee showed positive influence on rural development as well as the development of individual farmer specialized cooperatives.

## CONCLUSION

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

### 1. Research Findings

1.1 This empirical research on the historical and current situations of farmer specialized cooperatives up to date in Zhen'an County reveals that there were diversified types of farmer specialized cooperatives. Each type portrays its own strong points and shortcomings. Among which, the

elite-dominant type and Village Committee-oriented type are two typical types of farmer specialized cooperatives in mountainous regions. The elite-dominant FSCs displayed better performance in economic activity while the village committee-oriented FSCs functioned well in protection and promotion of public interests.

1.2 The case studies in this research revealed that the success of farmer specialized cooperatives, established in mountainous areas, was largely dependent on the degree to which the customs and specific culture of that area were understood. In the mountainous area, the village committee-oriented FSCs are the majority in number due to the local culture under which farmers have regarded the village committee as the sole solution provider and the representative of government in the long history. Villagers are liable to trust the village committee and feel safer when they decide whether to make investment in farmer specialized cooperatives. The village committee-oriented FSCs only showed one aspect of local cultures. Another important aspect of the rural culture, the notion of benefit pursuing and rushing for benefits among farmers, was shown by the elite-dominant FSCs, which attracted farmers by higher economic income.

1.3 In addition, this research explored the complex interaction between farmer specialized cooperatives, villagers and the role of the elite farmers. The case studies reveal that, mainly due to economic reasons, conflicts can easily break out during the process of a farmer specialized cooperative's establishment, operation, or expansion. Elite farmers play a very important role in the establishment of a cooperatives, both in the elite-dominant FSCs and the village committee-oriented FSCs. Not only because the elite farmers show great talents in economic activities, the case of the Jindi cooperative and Dongsheng Village served to illustrate how important they were in protecting the rural environment and improving the farmers' living standard. Along with the continuing development of Zhen'an County, although still not high in economic contribution, farmer specialized cooperatives have brought some positive changes to the mountainous area. For example, in later development of the successful Meiyun Qinxiu Cooperatives and Jindi Cooperative, a harmonious relationship between cooperatives and residents was greatly promoted.

1.4 Taking account of the special geographical, cultural, economic and political features in the mountainous area, the research analyzed the unique

role of Village Committee in the development of farmer specialized cooperatives and promoting rural development. Village Committee in the mountainous countryside served as both lowest level of government in the administrative system and an autonomous organization of villagers. Therefore, Village Committee functioned positively in conflicts settlement, mobilizing people and organizing them in production, protecting public interests such as improving public facilities, fair distribution and environment protection.

## 2. Research Contributions

2.1 This research, which focused on the development of farmer specialized cooperatives in mountainous countryside, has greatly enriched the content and scope of the study. Based on the empirical study, this author proposed a new model of farmer specialized cooperative, the “elite leadership FSC - based on the village committee” model, or establishing FSCs under the Leadership of Elite Village Committee. The model showed the utmost importance of elite farmers and Village Committee in the mountainous countryside. It seems to be the best way for enriching the development of farmer specialized cooperatives in the mountainous countryside of Zhen’an County. It turned out

that the drive of elite farmers, community involvement, supervision from residential committee or Village Committee were key to the development of farmer specialized cooperatives.

2.2 Based on the case studies, the research put forward the concept of establishing partnership between Village Committee (or residential committee) and farmer specialized cooperatives. The research turned out that the development of farmer specialized cooperatives were tied closely to the public sector in a complex network of relationships such as government subsidies, tax and program. The partnership between village committee and farmer specialized cooperative is helpful to integrate the strong points of both parties. In addition, the author also proposed principles to realize the involvement of Village Committee in operation of farmer specialized cooperatives while keeping the cooperative's independence and autonomy.

2.3 This research was based on field survey. Due to the unique geographical, economic factors, it is hard to get the related documentary data concerning farmer specialized cooperatives. In order to gain great insight into the real situation and get the primary data of the farmer specialized cooperatives, a large number of interviews, free chat were conducted. The development of

farmer specialized cooperatives in mountainous area is not only an economic issue, but more of a social, cultural matter. As a result, the field work resembled an observation from socio-economic perspective.

Three pieces have been published regarding this thesis. “The Operational Models of Farmer Specialized Cooperatives in China’s Mountainous Countryside: Case Studies Based on Zhen’an County, Southern Shaanxi Province” was published in *Hokkai Shoka Ronshu* (Volume 4, pp.26-61) in February, 2016, which mainly included the content of chapter 3 ; “Research on Development Countermeasures for Farmer Specialized Cooperatives on the Background of New Rural Construction” was published in the *Journal of Investigative Medicine* (pp.401-407) in December,2015, which mainly included the content of chapter 2 and chapter 6; the third piece was published in *Advances in Social Science, Education and Humanities Research* (pp.13-17) in May,2016, the title of the paper is “An Analysis on the Farmer Specialized Cooperatives in Mountainous Countryside: Based on a Field Research in S Village” , which mainly included the content of chapter 4.

### 3. Future Research

The farmer specialized cooperatives remain a sizable and important

component of the social and economic life in rural countryside. They embodies a distinctive national commitment to the coordinated development between urban area and rural countryside. The farmer specialized cooperatives have held their own in a shifting economic climate by encouraging farmers to cooperate effectively to fight for the common wealth as well as personal interests. In particular, farmer specialized cooperatives have started to develop other sources of financial support and form supportive links with other sectors of Chinese society. One of these routes of evolution has been in the direction of increased reliance on self-generated income from its product sales, service, and other innovative measures.

3.1 Collectively, these case studies show the complexity of developing farmer specialized cooperatives, particularly in mountainous countryside. In this research, because of the inadequate of existing data sources, it has been difficult to show very clearly the relationship between farmer specialized cooperatives and regional economic development, between cooperatives and collective economy. Further research in fields related to this topic is required: firstly, statistical research is necessary on the impact of farmer specialized cooperatives on rural development, both economic



and cultural.

3.2 Land ownership was not discussed in this research, but it is also a key factor hindering the development of FSCs, so future research should also be focused on the land circulation and the transformation of land ownership and its impact, such as collective ownership by villages practiced in some places in China.

3.3 What is equally important, is the study on the relationship between farmer specialized cooperatives and local governments. These relationships are now still under challenge. Farmer specialized cooperatives exist firstly as economic cooperative organizations which enjoy higher level of independence, so further studies on the impact on the rural society caused by this partnership between cooperatives and governments will be helpful to the healthy development of farmer specialized cooperatives.

This research has proved so far that the farmer specialized cooperatives exerted positive influence on rural development in mountainous countryside in general. But it does not necessarily advocate that farmer specialized cooperatives achieve universal success in rural development. As turned out in the case studies, failure examples may occur as well. The decline of

countryside in some areas is inevitable unless local government can employ a multiple of measures to deal with it.

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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 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)
- 4 Details of the government report please visit the web page of Zhen'an County government: <http://www.zazf.gov.cn/>. 2015-9-23.
- 5 It is a news report in the Shangluo Consuming Network: [www.SLXFXX.com](http://www.SLXFXX.com)
- 6 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 the 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.
- 7 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](http://www.npc.gov.cn)

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