

Copyright is owned by the Author of the thesis. Permission is given for a copy to be downloaded by an individual for the purpose of research and private study only. The thesis may not be reproduced elsewhere without the permission of the Author.

**FACTORS FOR SUCCESSFUL DEVELOPMENT OF FARMER
COOPERATIVES IN NORTHWEST CHINA**

A study at Shandan county, in Gansu Province

A thesis presented in partial fulfilment of requirement for the degree of

Master of Agricommerce

At Massey University, Palmerston North

New Zealand

Guozhong Liu

2010

Abstract

Cooperatives, as member owned, and controlled self-help organisations, have demonstrated a significant contribution to social and rural development around the world. In China, the development of cooperatives has been varied due to political, social and economic reasons. However, in recent years, the farmer cooperative has been recognised as one of the main approaches leading Chinese farmers to become involved in domestic and international market competition. Although farmer cooperatives have developed rapidly in China, over the last three years since the Farmer Specialized Cooperative law took effect in July 2007, their progress was varied in the different provinces, due to farmers' education and their economical and social situations.

In order to identify factors for successful development of farmer cooperatives in Northwest China, a qualitative methodology was employed by using two case studies. Two provincial successful cooperatives, the Shandan Dongwan Lvdadi Melon and Vegetable Growing cooperative and the Shandan Ronghua Growing Cooperative in Shandan County, in Gansu province were selected. The study has found that factors related to policy and legislation, the cooperative initiator and leadership, membership, governance, management, training and education were all important for the successful development of farmer cooperatives in Northwest China. This study also emphasised the importance of government support for farmer cooperatives' successful development, especially in their initial stage. There were also challenges ahead, such as the increasing number of associate members becoming 'free-riders', and the increasing gap between large and small farm holders causing decision-making problems. Recommendations on how farmer cooperatives can develop successfully in the future are also formulated for policy-makers and cooperative leaders.

Keywords: farmer cooperatives, successful factors, cooperative development, Northwest China.

Acknowledgements

My sincere thanks to my supervisors, Dr Elena Garnevaska and Assistant Professor Nicola Shadbolt, for the patience and time they had to guide me through the study difficulties and their encouragement to me to finish my research. My thanks also go to the Institute of Food Nutrition and Human Health at Massey University for its logistic and funding support for my data collection.

I would like to recognise and thank everyone from Sylvia Hooker's team of International Student Support Office (ISSO), especially Olive Pimentel, for their help, support and encouragement, which enabled me to complete my studies at Massey. My thanks also go to the Massey Student Learning and Development Services for their support, especially Lois Wilkinson, in polishing my English and Eric Liu in formatting the thesis. I would like to thank everyone in NZAID, who have provided me with funding for my two years journey of study.

Many thanks to the staff at Shandan Agriculture and Economic Management Station as well as Shandan Cooperative Federation for their support and for allowing me access to visit the case study cooperatives. My special thanks to the leadership and members of both Dongwan Lvdadi Melon and Vegetable Growing Cooperative and the Ronghua Growing Cooperative, for their time and participation in helping me with the interviews and data collection, in order to complete my thesis.

Special thanks to Maurice and Dorothy Alley for their kindness in having us stay with them and providing invaluable support for my time and study here in Palmerston North. Lastly, my sincere thanks go to my wife and daughter, for their patience and time, as they accompanied me during my two years of study at Massey.

Table of Contents

Abstract	i
Acknowledgement.....	ii
Table of Contents	iii
List of Figures.....	viii
List of Tables	ix
List of Abbreviations.....	x
Appendix	xi
Chapter 1 Introduction	1
1.1 Background:	1
1.2 Problem statement	2
1.3 General aim and specific objectives of the research	3
1.4 Overall methodology of the study	4
1.5 Importance of the study.....	5
1.6 Outline of the thesis	5
Chapter 2 Overview of the Evolution of Farmer cooperative Development in China.....	6
2.1 Pre 1949: Government awareness of cooperatives' potential	11
2.1.1 Characteristics of the cooperative movement.....	12
2.2 Period from 1949 to mid 1984.....	13

2.2.1 Changes in cooperative development.....	13
2.2.2 Legislation for the promotion of cooperative development.....	18
2.2.3 Some characteristics of the cooperative movement, during this period	19
2.3 Mid 1980s to 2007: restoration and development.....	20
2.3.1 The responsibility system	20
2.3.2 Diversified farmer’s cooperative economic organisation	22
2.3.3 Features of cooperative during this period.....	23
2.3.4 Factors affecting cooperative development during this period	24
2.4 Current development (2007 onwards): standardisation and development by following the new Farmer Specialized Cooperative Law	26
2.5 Summary.....	28
Chapter 3 Literature Review.....	30
3.1 Definition of a cooperative.....	31
3.2 Evolution of cooperatives.....	33
3.3 Role of farmer cooperatives	36
3.4 Factors affecting successful cooperative development.....	39
3.5 Challenges to cooperative successful development	44
3.6 Summary.....	47
Chapter 4 Methodology	49
4.1 Research process	50
4.1.1 Research problem identification.....	50

4.1.2 Literature Review.....	51
4.1.3 Aims and objective of the research.....	52
4.2 Research strategy identification.....	52
4.2.1 Qualitative versus quantitative.....	53
4.2.2 Research strategy for this study.....	55
4.2.3 Site selection.....	56
4.3 Data collection.....	57
4.3.1 Secondary data	57
4.3.2 Questionnaire design.....	57
4.3.3 Primary data.....	58
4.4 Data analysis.....	60
4.4.1 Data management.....	60
4.4.2 Case description.....	61
4.4.3 Discussion and analysis of the cases.....	61
4.5 Limitations of the study	62
4.6 Summary.....	63
Chapter 5 The Case Studies.....	65
5.1 Evolution of the Shandan Cooperative	66
5.2 Current development of Shandan Farmer Cooperative	68
5.3 Case 1: Dongwan Lvdadi Melon and Vegetable Growing Cooperative	71
5.3.1 Background of Dongwan village.....	71

5.3.2 Key initiator of the cooperative.....	74
5.3.3 The development of the Dongwan Melon and Vegetable Growing Association..	76
5.3.4 Development of the Dongwan Lvdadi Melon and Vegetable Growing Cooperative.....	79
5.3.5 Difficulties and problems in the process of the cooperative’s development.....	96
5.4 Ronghua Growing Cooperative: A case study	100
5.4.1 The background of Shanyangpu village	100
5.4.2 Key initiator of the cooperative.....	101
5.4.3 The Development of the cooperative	103
5.4.4 Difficulties and problems during the establishment process of the Ronghua cooperative.....	115
5.5 Summary.....	118
Chapter 6 Analysis and discussion of factors for successful farmer cooperatives	121
6.1 Analysis of factors which have influenced successful development in the two case studies.....	122
6.1.1 Cooperative initiator	122
6.1.2 Cooperative members.....	123
6.1.3 Cooperative governance.....	129
6.1.4 Cooperative management.....	130
6.1.5 Government intervention.....	133
6.1.6 Non-government intervention	135
6.2 Discussion	136

6.2.1 Evolution of farmer cooperatives in Northwest China.....	136
6.2.2 Key factors for successful development of the cooperative	138
6.2.3 Problems and opportunities for future cooperative development.....	147
Chapter 7 Conclusion and recommendations.....	150
7.1 Conclusions.....	150
Problems in the development of farmer cooperatives	154
7.2 Limitations of the study	155
7.3 Recommendations.....	156
Recommendations for farmer cooperatives:.....	156
Recommendations for policy makers:.....	158
Recommendations for further research.....	159
Appendix.....	162
References	201

List of Figures

Figure 2-1: Map of China	8
Figure 5-1: Map of Shandan (with the location of the Dongwan and the Ronghua Cooperative--).....	72
Figure 5-2: Map of Gansu	73
Figure 5-3: Government administration system in China	75
Figure 5-4: Governing structure of the Dongwan Cooperative	80
Figure 5-5: Number of Dongwan cooperative shares purchased by members, when it was established	89
Figure 5-6: Background of land contracted by members	89
Figure 5-7: Structure of the Dongwan cooperative's management system.....	92
Figure 5-8: Ronghua Cooperative governing structure	105
Figure 5-9: Supply Chain of Ronghua Growing Cooperative	114

List of Tables

Table 2-1: Agriculture contribution to GDP and farmer construction	10
Table 2-2: Farmer net income (NZD)	11
Table 3-1: Key milestones in cooperative history	35
Table 4-1 Interview structure for the two case studies	59
Table 4-2 Discussion structure of the cooperative case studies	62
Table 5-1: Evolution of Shandan Cooperative	67

List of Abbreviations

- CASS: The Chinese Academy of Social Science
- CCA: The Canadian Cooperative Association
- CCP: The Chinese Communist Party
- CIC: The Chinese Industrial Cooperative Association
- CIFRC: The China International Famine Relief Commission
- ICCIC: The International Committee for the Promotion of Chinese Industrial Cooperatives
- ICIS: International Cooperative Identity Statement
- FSA: Farmer Specialized Association
- FSC: Farmer Specialized Cooperative
- KMD: Kuomingdang
- NGC: New Generation Cooperative
- NGO: Non-Government Organisation
- NPC: National People's Congress
- NZAID: New Zealand Agency for International Development
- NZCFS: New Zealand-China Friendship Society
- PRC: People's Republic of China
- RSCE: Rural Shareholding Cooperative Enterprise
- SCF: Shandan Cooperative Federation
- SMC: Supplying and Marketing Cooperative
- WB: World Bank

*Exchange ratio: 1 NZ DOLLAR =5.00 Yuan (RMB) (August, 2010)

Appendix

Appendix 1 : main type of farmers' organisation and features, since the 1980s, in China	162
Appendix 2: the milestones of cooperative development in China, over the last century	164
Appendix 3: Criteria and process for the approval of the top 100 cooperatives in Gansu Province	166
Appendix 4: Letter to key participants	168
Appendix 5: Consent form	173
Appendix 6: Field work interviewing list	175
Appendix 7: Questionnaires	177
Appendix 8: Price change trend of products in China	200