

Singapore Management University

## Institutional Knowledge at Singapore Management University

---

Research Collection School of Social Sciences

School of Social Sciences

---

7-2017

### Farmers' cooperatives in China: A typology of fraud and failure

Zhanping HU

*Singapore Management University, zphu@smu.edu.sg*

Qian Forrest ZHANG

*Singapore Management University, forrestzhang@smu.edu.sg*

John A. DONALDSON

*Singapore Management University, jdonaldson@smu.edu.sg*

Follow this and additional works at: [https://ink.library.smu.edu.sg/soss\\_research](https://ink.library.smu.edu.sg/soss_research)



Part of the [Agribusiness Commons](#), [Asian Studies Commons](#), [Rural Sociology Commons](#), and the [Sociology of Culture Commons](#)

---

#### Citation

HU, Zhanping, ZHANG, Qian Forrest, & DONALDSON, John A..(2017). Farmers' cooperatives in China: A typology of fraud and failure. *China Journal*, 78, 1-24.

Available at: [https://ink.library.smu.edu.sg/soss\\_research/2285](https://ink.library.smu.edu.sg/soss_research/2285)

This Journal Article is brought to you for free and open access by the School of Social Sciences at Institutional Knowledge at Singapore Management University. It has been accepted for inclusion in Research Collection School of Social Sciences by an authorized administrator of Institutional Knowledge at Singapore Management University. For more information, please email [cherylids@smu.edu.sg](mailto:cherylids@smu.edu.sg).

# Farmers' Cooperatives in China: A Typology of Fraud and Failure

Zhanping Hu, Qian Forrest Zhang, and John A. Donaldson\*

## ABSTRACT

Since the 1990s, agricultural cooperatives—particularly what China calls Farmers' Specialized Cooperatives—have experienced rapid expansion in China. After more than two decades of growth and policy support, what is the overall performance of the ever-increasing numbers of these cooperatives? We visited 50 cooperatives across the country, most of which had officially been lauded as successful, to make a first-hand evaluation of their overall status and performance. We argue that, judging by either international or Chinese standards, the vast majority of these agricultural cooperatives are not authentic and fail to deliver expected benefits to smallholders. We categorize them into five types: genuine cooperatives, shell cooperatives, de facto private agribusinesses, decooperativized cooperatives, and failed cooperatives. Four barriers impede the long-term prospects of authentic cooperatives: social differentiation, lack of trust, unpredictable markets, and poor policy design and implementation.

The Xiajia farmers' specialized cooperative<sup>1</sup>—one of China's first—has been lauded as an unusually successful national model. Honored by China's Ministry of Agriculture in 2003 as a "National Excellent Farmers' Cooperative," the leader of this northeastern cooperative, Zhang Shuxiang, toured China to share the secrets of the cooperative's success and to inspire other aspiring cooperative leaders.<sup>2</sup> The myriad national and international honorary titles bestowed on Zhang lauded her selfless contribution to both the Xiajia cooperative and China's rural cooperatives in general. A continuous stream of visitors—university profes-

---

\* This research was supported by a grant from the Singapore Ministry of Education Academic Research Fund Tier 2 (Fund #MOE2012-T2-2-115).

1. Before the 2006 Cooperatives Law was issued, Chinese cooperatives were referred to by a variety of terms, such as farmer cooperatives or agricultural cooperatives. The law explicitly dictated that farmers' cooperatives should be both specialized and economically oriented. For the sake of convenience, this article uses the term "cooperative" to refer to "farmers' specialized cooperative" (农民专业合作社) unless otherwise noted.

2. Xiajia and Zhang Shuxiang are real names, as the basic information contained here is publicly accessible. Unless otherwise noted, this article refers to other people and agribusinesses by pseudonyms to protect the identities of interviewees.

sors and students, journalists and officials—visited her village to better understand the cooperative’s success. Even as late as November 2014, Xiajia remained on the list of national demonstration cooperatives compiled by nine ministries of China’s State Council and was featured in a number of national newspaper articles.<sup>3</sup> Yet when we visited Xiajia in August 2015 we were greeted by an abandoned office, with neither founder nor staff anywhere in sight. We were not the only ones seeking Ms. Zhang—the cooperative’s office door was papered with court summonses impugning the character of Xiajia’s charismatic leader. Interviews with neighbors and former members revealed that Zhang, unable to repay money borrowed from villagers, had disappeared without a trace nearly six months earlier.

The closure in Xiajia was not an unusual failure among China’s cooperatives. Indeed, all but two of the 50 so-called cooperatives that we visited in all regions of China either were failing or moribund, or had been transformed into private companies, or from the beginning were private commercial businesses masquerading as cooperatives. Among these, an entirely private agribusiness in Dingbian County, Shaanxi, has been registered as a cooperative, as has a private potato-noodle factory in Shaanxi and a private farmhouse restaurant and resort in Yanchi County, Ningxia. A cooperative fever has hit rural China, but almost all of the registered co-ops are far from what cooperatives were intended to be under China’s national Cooperatives Law or by any other reasonable definition of cooperative. Unwittingly exemplifying the confusion as to what constitutes a cooperative, the boss of one dairy company that had been certified as one retorted, “How are we not a cooperative? After all, we cooperate with Mengniu Dairy Corporation.”

Extensive fieldwork conducted throughout China revealed that nearly any organization related to agriculture can be registered as a cooperative. This reality forms a sharp contrast with the story portrayed in both the popular news media and Chinese scholarly publications about the positive impact of these alleged cooperatives to small farmers.

According to official data, by October 2015 approximately 1.5 million farmers’ specialized cooperatives had been registered,<sup>4</sup> whereas as recently as 2008 there had been only 110,000.<sup>5</sup> It is officially reported that about 100 million farming households belong to cooperatives,<sup>6</sup> which, if true, would represent some 47 percent of all of China’s farmers. Scholars both inside and outside of China initially had high hopes for the positive impact on agricultural production, farmers’ livelihoods, and China’s rural development. Many expected the new co-ops to spur

---

3. See, e.g., [http://www.farmer.com.cn/xwpd/jjsn/201412/t20141212\\_1000677.htm](http://www.farmer.com.cn/xwpd/jjsn/201412/t20141212_1000677.htm) (accessed October 27, 2015).

4. See [http://news.xinhuanet.com/politics/2015-12/08/c\\_128509962.htm](http://news.xinhuanet.com/politics/2015-12/08/c_128509962.htm) (accessed February 29, 2016).

5. See [http://www.saic.gov.cn/zwgk/tjzl/200903/t20090320\\_50532.html](http://www.saic.gov.cn/zwgk/tjzl/200903/t20090320_50532.html) (accessed October 27, 2015).

6. See [http://news.xinhuanet.com/politics/2015-12/08/c\\_128509962.htm](http://news.xinhuanet.com/politics/2015-12/08/c_128509962.htm) (accessed February 29, 2016).

smallholder farmers to work collectively to scale up their production, gain greater bargaining power in markets, and secure more advantageous prices for agricultural inputs and produce. The farmers were expected to pool their knowledge and resources, and it was hoped that the co-ops would augment their social and even political power. However, in contrast to these optimistic expectations, we found only a tiny number of authentic cooperatives that managed to survive.

Annually, both central and local governments provide substantial subsidies to support registered cooperatives. In 2014 the central government alone reportedly spent RMB 2 billion (approximately US\$290 million) in subsidies,<sup>7</sup> a figure over and above the support provided by local governments at every level. In our fieldwork, the subsidies that each cooperative received ranged from hundreds of thousands to millions of yuan. It is these subsidies that attract a large number of applications to register as a cooperative.

Several previous case studies have cast doubt on the validity of specific registered cooperatives and on the impact these have had on agricultural production and rural livelihoods.<sup>8</sup> But our article is the first, to our knowledge, to analyze systematically both the heterogeneous types of operations that can call themselves cooperatives and the variety of ways they fail to deliver any benefits to smallholder farmers. We identify four types of cooperatives that failed to measure up to the standards outlined in China's Cooperatives Law.

The first are “shell cooperatives”—where the term “cooperative” from the start was simply a name falsely inscribed on a plaque hung on the office door. The people who set these up are essentially swindlers who had no intention of engaging in agricultural production or sales. These frauds have no organizational framework and often did not even bother to recruit genuine farmers to pretend to be members.

The second type, although registered as cooperatives, are actually private agribusinesses that have market-based transactions with participating farmers. While they sometimes provide technology and marketing services to smallholder farmers, these were founded and controlled by their private owners. They have no genuine cooperation with members, nor do they share profits with them.

---

7. See <http://www.sdhzslm.com/a/tongzhigonggao/2015/0804/224801.html> (accessed February 9, 2016).

8. See, e.g., Tong Zhihui and Wen Tiejun, “Ziben he bumen xiexiang yu xiaononghu jingji de zuzhihua daolu” [Rustication of capital and governmental sectors and the organizational pathway of the peasant economy], *Kaifang shidai* [Open times], no. 4 (2009): 5–26; Xiong Wansheng, “Hezuoshe: Zuwei zhiduhua jincheng de yiwai houguo,” *Shehuixue yanjiu* [Sociological research], no. 5 (2009): 83–109; Pan Jin, “Zhongguo nongmin zhuan ye hezuoshe: shuju beihou de jiedu” [Specialized farmers' cooperatives in China: An interpretation of the data on their development], *Zhongguo nongcun guan cha* [China rural surveys], no. 6 (2011): 2–11; Christof Lammer, “Imagined Cooperatives: An Ethnography of Cooperation and Conflict in New Rural Reconstruction Projects in a Chinese Village” (master's thesis, University of Vienna, 2012); Deng Hengshan and Wang Wenlan, “Hezuoshe de benzhi guiding yu xianshi jianshi: Zhongguo daodi you meiyou zhenzheng de nongmin hezuoshe?” [Analysis of the nature and reality of cooperatives: Are there real farmer cooperatives in China?], *Zhongguo nongcun jingji* [Chinese rural economy], no. 7 (2014): 15–38.

In reality, neither of these first two types should ever have been classified as cooperatives. The difference between the two is that the second has some sort of engagement with farmers. The first type can be a business of any type or even not a company at all, but an entity established to attract the subsidies that the government offers to cooperatives.

The third type, the decooperativized cooperatives, was initially relatively authentic. Due primarily to market pressures, these cooperatives progressively converted into commercial enterprises, no longer practiced voluntary participation nor cooperated in bulk purchases and sales or coordinated production, democratic management, or dividend distributions.

The fourth type are cooperatives that eventually failed for various reasons, including poor leadership, lack of management experience or skills, or hostile external market environments. In short, the third and fourth types began as authentic cooperatives but deviated from that model due to internal and external factors. While the fourth type has ceased operations, the third type has adapted to market forces but at the cost of the cooperative elements of the operation.

The fifth type are genuine cooperatives. Despite our best efforts, we found only two among our 50 case studies. Both of these co-ops possess dedicated and competent leaders who have helped their organization withstand various challenges. In practice, they continue to provide benefits to members and operate in accord with any reasonable definition of cooperative.

## THE HISTORY AND DEBATE OVER COOPERATIVES

The history of China's cooperatives, though less lengthy than Europe's, can be traced back to the early twentieth century. Notably, between 1931 and 1936, the founder of the Rural Reconstruction Movement, Liang Shuming, advocated cooperatives as a third road for China, as distinct from socialism and capitalism.<sup>9</sup> Although Mao's regime disbanded most bottom-up cooperatives in favor of state-organized communes in the 1950s, rural cooperatives began to reemerge in rural China after 1998, when farmer cooperatives at the grassroots began increasing markedly in number.<sup>10</sup> These newly formed cooperatives enjoyed intellectual support from university professors and activists, the best known of whom is Professor Wen Tiejun.<sup>11</sup> Adopting a critical approach to modernization

---

9. Alexander F. Day, *The Peasant in Postsocialist China: History, Politics, and Capitalism* (Cambridge: Cambridge University Press, 2013).

10. Xiaoping Jia, Jikun Huang, and Zhigang Xu, "Marketing of Farmer Professional Cooperatives in the Wave of Transformed Agrofood Market in China," *China Economic Review*, no. 23 (2012): 665–74. For a detailed account of the development of cooperatives in postreform China, see Jenny Clegg, "Rural Cooperatives in China: Policy and Practice," *Journal of Small Business and Enterprise Development*, 13, no. 2 (2006): 219–34.

11. Other well-known supporters include Philip C. C. Huang and Yang Tuan.

theory and its emphasis on industrialization, Wen advocates comprehensive community-based cooperatives, as opposed to specialized cooperatives.<sup>12</sup> According to Wen, comprehensive cooperatives should perform additional functions beyond bulk purchases and sales, transport, processing, and technical support, such as organizing cultural and moral-education activities.

The central government launched pilot programs to encourage cooperatives in the late 1990s and early 2000s, for which the Ministry of Agriculture selected 100 cooperatives nationwide to be demonstration cases. These received favorable support and services from the government, including free training in quality control and product certification.<sup>13</sup>

Governments at all levels, starting in 2004, began systematically promoting farmer cooperatives (农民合作社),<sup>14</sup> and in 2006 the National People's Congress passed the Farmers' Specialized Cooperatives Law (农民专业合作社法).<sup>15</sup> The law defines cooperatives as "mutual-aid economic organizations joined voluntarily and managed democratically by the producers of the same kind of agricultural products or by the suppliers or users of services for the same kind of agricultural production and operation, based on the fundamental household responsibility system" (art. 2).<sup>16</sup> The main difference between China's Cooperatives Law and the International Cooperative Alliance's definition is that the Chinese law does not mention comprehensive community-based cooperatives or credit cooperatives. Instead, the law focuses more narrowly on cooperatives that assist agricultural production and marketing of specific types of agricultural produce.<sup>17</sup>

The law provides principles and application procedures for cooperatives that are broadly consistent with international standards. Registered cooperatives are supposed to adhere to the following: (1) membership is constituted mainly of

12. Wen Tiejun, "Zonghe xing hezuo jingji zuzhi shi fazhan qushi" [Comprehensive cooperative economic organization is the development trend], *Zhongguo Hezuo Jingji* [China co-operation economy], no. 1 (2011): 29–30; Wen Tiejun and Yang Shuai, "Zhongguo nongcun shehui jiegou bianhua beijingxia de xiangcun zhili yu nongcun fazhan" [Rural governance and rural development in the context of social structural transformation in rural China], *Lilun Tantaol* [Theoretical investigation] 169, no. 6 (2012): 76–80.

13. Hengshan Deng, Jikun Huang, Zhigang Xu, and Scott Rozelle, "Policy Support and Emerging Farmer Professional Cooperatives in Rural China", *China Economic Review*, no. 21 (2010): 495–507..

14. Jia, Huang and Xu, "Marketing of Farmer Professional Cooperatives."

15. This is when formally formed cooperatives of all types began being referred to as Farmers' Specialized Cooperatives (农民专业合作社). The law came into effect in July 2007.

16. See [http://www.gov.cn/ziliao/flfg/2006-10/31/content\\_429392.htm](http://www.gov.cn/ziliao/flfg/2006-10/31/content_429392.htm) (accessed October 28, 2015). This is comparable with international definitions such as that of the International Co-operative Alliance; see <http://ica.coop/en/what-co-operative> (accessed October 28, 2015).

17. While China's Cooperatives Law does not recognize credit cooperatives, the China Banking Regulatory Commission (CBRC) has approved a number of rural mutual credit cooperatives. The CBRC launched the rural mutual credit cooperatives regulations in 2007. In recent years, the registered mutual credit co-ops have grown remarkably, though their numbers remain dwarfed by the registered agricultural cooperatives.

farmers; (2) the cooperative's mission should be to serve its members and to work for their common interests; (3) members are free to join and withdraw from membership; (4) members enjoy equal status, and democratic management must apply; and (5) profits should be distributed proportionally according to the volume of the transactions between the cooperative and its members (art. 3).

The application procedure used to register a new cooperative is both simple and straightforward. The minimum number needed for registration at the local government Industrial and Commercial Bureau is five members, and there is no mandatory requirement for registered capital.<sup>18</sup> Most important, as will be observed, in practice the Chinese law's stringent rules are bypassed and ignored when applicants go to register a so-called cooperative.

Since the law is simultaneously too stringently defined and too loosely enforced, we needed to adopt our own standards to define the minimal requirements for judging what is and is not a cooperative. In evaluating our cases, we ignored the democratic management principle and dividend distributions to members, and we focused on whether a registered cooperative functioned as a cooperative in providing members with either bulk input purchasing and marketing, branding, and/or technical services. For the purposes of this article, in order to be considered a cooperative:

- First, it should be voluntarily formed by and made up of members specializing in the same kind of agricultural activity, who are independent producers or suppliers, instead of hired employees.
- Second, the members collectively own the cooperative's assets, if any.
- Third, the members benefit through at least one of the following ways:
  - the profits (if any) of the cooperative are proportionally distributed to members;
  - and/or the cooperative provides additional benefits exclusively to members, such as bulk input purchasing, collective marketing, branding, and/or technical services
- Fourth, even if a cooperative contains a handful or even one especially large or even dominant player, as long as the rest are members with shares who enjoy the benefits listed above, we consider this to be a genuine cooperative. But we exclude cases where a so-called cooperative keeps all the profits and these are not shared among the member households.

---

18. Favorable central and local policies designed to encourage and foster the growth of cooperatives supplement this central legal framework; Deng et al., "Policy Support."



We were surprised that so few of the registered cooperatives that we visited meet even these minimum standards.

## RESEARCH METHODOLOGY

Our research spans a seven-year period (2009–16) and covers all of China’s macroregions, 18 provinces in total (see table 1). Examining diverse provinces is important because the implementation of central government policies nearly always varies across different provincial and even local governments.

China’s central and provincial governments publish annual lists of thousands of high-performing cooperatives in all subsectors of agriculture to hold up as national and regional demonstration cooperatives. With these lists, we adopted a purposive sampling strategy to ensure the inclusion of a wide range of specializations and geographic areas. In addition, we asked scholars and activists for their suggestions of authentic cooperatives to visit. We visited not only model cooperatives in China’s fertile plains and near large cities such as Beijing and Shanghai but also in remote mountainous and desert areas, such as a semidesert village in Ningxia province and a remote mountain village in Shaanxi province. We supplemented “model” cases with cooperatives that had not received outside recognition by seeking them out in every locality we visited. We sometimes chanced upon registered cooperatives, or they were referred to us during local interviews. We believe this snowballing approach enhanced the representativeness of our sample and gave us an opportunity to identify cooperatives that are neglected by officials or the media.

Despite our efforts, it remains possible that we missed finding some very small-scale, grassroots cooperatives that are informally organized and unregistered with the government. Thus, there may be a higher number of authentic cooperatives than our research would lead us to believe. However, if a cooperative that focuses on agricultural production were authentic and successful, regardless of its size, we would expect that it would be referred to us locally, promoted by an activist, or publicized somewhere in China. Groups of progressively minded scholars in China pay close attention to cooperatives, both large and small, and these scholars could be expected to discover genuine cooperatives. Thus, given their efforts and our long-term and extensive geographical range of fieldwork, the fact that they and we could find very few indicates that genuine cooperatives are indeed scarce.

To secure information at our field sites, we adopted in-depth interviewing in order to obtain more comprehensive information than standardized questionnaires. At each field site, we triangulated information from interviews with cooperative leaders by interviewing a number of others from the same community, including village officials, co-op employees, and especially member farmers and



Table 1. Summary of Cooperative Cases

Type	Cooperative
1. Shell cooperatives:	
• Registered as cooperatives but have no real members or any basic characteristics of cooperatives	1 A dairy cow farm in Ningxia
• No meaningful transactions or activities with surrounding farmers	2 A landscape tree nursery in Ningxia
• May or may not be agribusinesses	3 A farm guesthouse in Ningxia
	4 An agricultural company in Shaan'xi
	5 A cattle and sheep cooperative in Shaan'xi
	6 A potato starch processing factory in Shaan'xi
	7 An agroindustrial park in Shaan'xi
	8 An agricultural sideline product cooperative in Shanghai
	9 A shrimp farmer cooperative in Shanghai
	10 A dairy cooperative in Beijing
	11 An orange sales association in Fujian
	12 A tea farm-cum-teahouse in Sichuan
	13 A large-scale rice farm in Sichuan
	14 An ecological enterprise in Guizhou
	15 A fruit tree company in Guizhou

2. De facto private agribusinesses:

Registered as cooperatives, but actually are private agribusinesses	16	A hazelnut cooperative in Liaoning
Have members but not treated as members but more like clients	17	A dairy cow cooperative in Liaoning
Have no democratic management or profit sharing	18	A rice cooperative in Liaoning
Exchanges with farmers primarily commercial	19	A vegetable retail cooperative in Liaoning
	20	A vegetable cooperative in Jilin
	21	A pig feed cooperative in Jilin
	22	An agricultural machine cooperative in Jilin
	23	A fruit cooperative in Ningxia
	24	A grape wine cooperative in Ningxia
	25	A livestock feed cooperative in Ningxia
	26	A medicinal herb cooperative in Ningxia
	27	A deer farmer cooperative in Beijing
	28	Medicinal herb cooperative A in Yunnan
	29	Medicinal herb cooperative B in Yunnan
	30	An edible flowers cooperative in Yunnan
	31	A wine cooperative in Yunnan
	32	A tobacco cooperative in Yunnan
	33	A tobacco cooperative in Yunnan
	34	Dairy cow cooperative A in Sichuan
	35	Dairy cow cooperative B in Sichuan
	36	A pig-farming cooperative in Chongqing
	37	A vegetable cooperative in Shaan'xi
	38	A rice cooperative in Hunan
	39	A fruit cooperative in Guangdong
	40	A tea cooperative in Guizhou

*continued on next page*

Table 1. (*Continued*)

Type	Cooperative
	41 A crop and livestock cooperative in Guizhou
	42 A machinery cooperative in Guizhou
	43 A hotbed chives cooperative in Sichuan
	44 A horticulture marketing cooperative in Jiangsu
	45 A credit cooperative in Jilin
3. Decooperativized cooperatives: Began as authentic cooperatives For various reasons, commercialized to seek profits	
	46 A comprehensive cooperative in Jilin
	47 An organic rice cooperative in Henan
	48 An organic grain cooperative in Shandong
4. Failed cooperatives: Began as authentic cooperatives Failed to sustain the organization and folded	
	49 A comprehensive cooperative in Shanxi
	50 A comprehensive cooperative in Anhui
5. Genuine cooperatives: Satisfying the standards of cooperatives Bringing benefits to members in practices	

*Note:* The names here only present the crop/livestock type, to protect the confidentiality of the cases. All names of interviewees are pseudonyms unless otherwise stated.

neighboring nonmember farmers. In many cases, this range of interviews uncovered the tensions and contradictions regarding registered cooperatives. It was not unusual to find that the leaders' claims about the many benefits the cooperative brought to farmers were emphatically rejected time and again in interviews conducted independently with members, which underscores the pitfalls of relying on leaders as informants.

We also visited a handful of cooperatives twice during the seven-year period to look for changes over time. This, combined with the recollections of interviewees at all 50 sites, provides a picture of the moribund state of China's cooperatives today, including almost all of those that started out as genuine. Our research enabled us to understand the development processes, causes, and impacts of the cooperatives.

### THE FIVE TYPES OF COOPERATIVES

Table 1 shows the general information from our 50 case studies of registered cooperatives, arranged in the five types we listed earlier.

#### Type 1: Shell Cooperatives

This type consists of organizations that in no way adhere to any reasonable definition of a cooperative. They have no actual member farmers. Many of the five founders needed to register the cooperative are individuals who lent their identification cards to the registrant to qualify for registration. Establishing a fake cooperative is possible because the eligibility for registering a cooperative is so low that basically any private company or even a household can easily register as one. Among the registered cooperatives we visited, a substantial proportion (30 percent)—including many of those officially listed as model cooperatives—belong to this category. Many of these are not even related in any way to agricultural production; and those that are do not meaningfully interact with farmers.

As our fieldwork revealed, shell cooperative leaders are motivated mainly to obtain the sizeable subsidies that are specifically allocated to cooperatives or to help local governments to meet their policy implementation goal (in this case, supporting the growth of cooperatives). According to national policies, the subsidies come in various forms, including direct payments, loans, tax considerations, and subcontracted development projects. Local governments often blindly encourage the establishment of cooperatives, including fake shell cooperatives, in order to demonstrate their achievements to their superiors. Since both entrepreneurs and local officials alike have incentives to establish shell cooperatives, there is little or no inspection of an application's validity, and monitoring thereafter remains lax. Below are two examples.

### A Dairy Cooperative in Ningxia

A dairy company that we visited in Ningxia province is a typical private enterprise that has registered as a cooperative. This “cooperative” was founded by Mr. Niu, who has devoted himself to his dairy business for more than 20 years. He has more than 1,000 dairy cows, with a dozen full-time employees. His registered cooperative has no actual members and he has no interaction with other farmers. The front door of Mr. Niu’s company is nevertheless adorned by a nameplate that announces it is a dairy cooperative.

### A Vegetable and Pig Cooperative in Shaanxi

Similarly, the Fengshou cooperative in a county in Shaanxi province is actually a large private agricultural firm that grows greenhouse vegetables and raises pigs. Mr. Zhu, the owner, is a businessman who has accumulated capital via the construction industry and who began investing in agriculture in 2011. Now the company has become a leading agribusiness in the county. Mr. Zhu invited four friends who are businesspeople in the construction and service sectors to make up the five needed to register as a cooperative. Ninety percent of the company’s RMB 50 million startup capital came from the founder. Although the cooperative was selected as a model demonstration cooperative, it is in fact a fake, without any participation by or benefits distributed to farmers.

## Type 2: De Facto Private Agribusinesses

The second major form of cooperatives are essentially private agribusinesses that operate under the guise of a cooperative, and that, unlike type 1, have market-based transactions with farmers, both members and nonmembers. But their transactions are entirely commercial and for the owner’s private profit. Most of these so-called cooperatives boast physical infrastructure (such as offices and computers), can present visitors with paperwork that make them seem like a cooperative (including sheets of paper showing the cooperative’s rules, procedures, management structures, leadership and democratic practices), and have participating member farmers listed in their books. But while these agribusinesses conduct transactions with so-called members, their activities, including providing technical and marketing services, are conducted in a completely commercial manner, not in ways consistent with a cooperative.<sup>19</sup>

One distinct feature is that they are controlled by and serve the interests of a small elite group or one core leader. The three types of actors who typically es-

---

19. For details on how agribusinesses operate and on the different forms of relationships they adopt with smallholder farmers, see Qian Forrest Zhang and John A. Donaldson, “The Rise of Agrarian Capitalism with Chinese Characteristics: Agricultural Modernization, Agribusiness and Collective Land Rights,” *China Journal*, no. 60 (July 2008): 25–48.

establish and control these commercial cooperatives are entrepreneurs and current or former village leaders.<sup>20</sup> Below are three such examples.

#### A Hazelnut Cooperative in Liaoning Province

Mr. Zhen is the manager and de facto leader of this hazelnut cooperative, which has about 20 member producers. The combined size of members' individual farms adds up to over 30,000 mu of land.<sup>21</sup> By renting the land of other farmers, Zhen now operates a hazelnut farm on 40 mu of arable land, on which he cultivates seedlings that he sells to other producers. Through his experience in hazelnut cultivation, he has accumulated abundant management skills and was growing patented hazelnut varieties. The local government and local hazelnut growers often rely on him to provide technical support on hazelnut farming. In turn, his hard-earned reputation facilitates his own businesses, which includes providing timely technological services, such as applying pesticides and curing diseases, as well as selling hazelnut seedlings and other inputs to both member and non-member farmers.

Mr. Zhen himself readily acknowledges that this cooperative is not authentic. He charges to provide services to both members and nonmembers indiscriminately and even nurtures seedlings for clients from other provinces, including Inner Mongolia and Shandong. Zhen's experience and technical expertise is the core element that unites this organization, which never has significant actual cooperation among member producers, let alone profit sharing or other elements of an actual farmers' cooperative.

#### A Rice Cooperative in Liaoning Province

The village head, Mr. Fan, founded this cooperative in 2009. It was recently selected as a province-level demonstration cooperative and claims more than 1,000 household members with 19,000 mu of farmland not only in the village but also in other counties. It boasts a rice processing factory and its own brand of rice. Though registered as a cooperative, interviews with local villagers reveal that the enterprise functions no differently from a private agribusiness company, acquiring huge swaths of land from land transfers within and outside the village.<sup>22</sup> While the cooperative claims that member farmers receive dividends, members we inter-

---

20. Large-scale urban corporations entering into agricultural production can also establish commercial cooperatives, although we did not discover such cases during our fieldwork.

21. This land includes a small proportion of arable land, as well as much larger acreage of either undeveloped land or slope land.

22. Mr. Fan rebuffed our efforts to interview him. One staff member was dispatched to urge us to contact the city government first; Mr. Fan would meet us only if a formal introduction letter from the government could be produced. We pointed out, to no avail, that many leaders of cooperatives were willing to talk to us. We did, however, talk to cooperative staff and member farmers.

viewed counter that the only payment they have received so far was the rent for their transferred farmland, around RMB 800 per mu annually, a standard market price for that area. No actual cooperative relationship exists between member farmers and the cooperative. The rent also fluctuates with the market price of rice, indicating that the risk is still borne by farmers. Farmers who are not members of the cooperative can sell their rice to the cooperative on the same terms as members. Hence, instead of deeming the farmers to be members of this “cooperative,” it is more accurate to say they are clients of this agricultural company. The cooperative received RMB 5 million in subsidies from the government, but the members received none of it. Members who wanted to quit report that the leaders threatened to cut off their irrigation water, plant trees alongside their land, or otherwise obstruct their farms. These stories reflect a poor relationship between the cooperative’s so-called leaders and its members. One farmer dismissed the cooperative as like “a landlord from the old times.” There are no real benefits to being a member. Indeed, membership has become a form of bondage rather than a privilege.

#### A Vegetable Cooperative in Shaanxi Province

Mr. Luo, then the village head, established this cooperative in 2008. It has subsequently grown to become a demonstration cooperative at the national level for the production of carrots. Luo, the chair of the cooperative’s board, claims more than 600 household members, a 1,000 mu carrot base,<sup>23</sup> his own brand of carrot, and annual revenue in excess of RMB 10 million. Luo argues that the cooperative provides comprehensive services for member farmers, including organizing farmers to plant carrots, helping farmers select varieties, providing inputs and technological guidance, and helping market the produce. However, member farmers we interviewed universally contradicted these claims. Most farmers reported that the main service of the cooperative is selling seeds and buying produce at the prevailing market price. Member farmers are not obliged to sell their carrots to the cooperative and are free to sell to other merchants who also operate purchasing stations in the area. For all practical purposes, this cooperative operates as a private agribusiness, producing its own crops, but also sells inputs to and buys produce from farmers. The ownership and revenues of the cooperative belong to the handful of founders, who invested RMB 200,000 each at the beginning and over time subsequently invested more than ten million yuan into this enterprise. They also received a few hundred thousand yuan in subsidies

---

23. This land is rented from a local state-owned farm. While this farm previously grew alfalfa for sheep, it was managed so poorly that the land was rented out for more profit. The term “base” (基地) is commonly used in Chinese academic and official writing to refer to production on expanses of land that are far larger than small family plots.



from governments at various levels. Farmers do not have any real ownership over the cooperative.

### Type 3: Decooperativized Cooperatives

These are organizations that started off as authentic cooperatives that have now abandoned their original mission. Instead of serving the needs of members, these cooperatives are focused on commercial activities that have nothing to do with their members. Most of the assets are from external large-scale investors. Thus, these organizations are not made up of farmers engaging in the same kind of activity, and the members do not meaningfully own the assets. While members can potentially benefit, serving the members is a small portion of the entire operation, and members have become more like customers and/or minority shareholders of a commercial operation. We were surprised that we could unearth only one such example.

#### A Decooperativized Mutual Credit Cooperative in Jilin Province

In 1999, long before the establishment of China's law on cooperatives, eight small-scale sheep farmers informally collectively formed an authentic farmers' cooperative without seeking registration. To buffer themselves from the vagaries of a volatile market, the sheep herders formed a mutual credit cooperative, through which they pledged to help each other with expenses and finances. For years, this cooperative operated successfully but grew only slowly. Subsequently, the cooperative received help from a dedicated activist, Mr. Qian, a government official in the local bureaucracy who deals with finance. Mr. Qian helped the cooperative take the unprecedented step to obtain a banking license in 2007—something that would have been impossible for ordinary rural residents.<sup>24</sup> The capital of the credit cooperative was mainly sourced from deposits and membership shares, with financial support from local governments and cash borrowed from interbank loans. Obtaining the license by itself did not undermine the organization's status as an authentic cooperative: prospective borrowers had to be cooperative members, and the loans were used to support agricultural operations and living expenses. By 2010, the total assets of the credit cooperative remained a modest RMB 390,000.<sup>25</sup> Subsequently, the cooperative, which remained largely confined to its original membership, became dormant, and loans to members ceased.

However, by the time of our interviews in 2015, the cooperative had been completely transformed. A relative of Mr. Qian saw the value of the cooperative's

---

24. See [http://news.xinhuanet.com/fortune/2014-08/18/c\\_126885269.htm](http://news.xinhuanet.com/fortune/2014-08/18/c_126885269.htm) (accessed September 1, 2016).

25. See <http://www.caein.com/index.asp?xAction=xReadNews&NewsID=57627> (accessed October 15, 2015).

banking license. He took the reins of the organization, bringing in tens of millions of yuan in external capital by leveraging the organization's banking license. By doing so, he transformed what had been a small-scale cooperative among farmers into a full-fledged commercial bank. The cooperative's offices in the village are now comparable to rural branch offices of typical commercial banks. Interviews with the bank's manager revealed that the lion's share of the capital derives from external private investors, whose identities he would not divulge. Seeking new outside investors has become part of the managers' mission, and the erstwhile cooperative sought to increase its profits by directly investing in a variety of undertakings, such as restaurants and hotels.<sup>26</sup>

Thus, what had originally started out as an authentic grassroots cooperative underwent a process of decooperativization. After a "corporate takeover" of the dormant cooperative, it became dominated by external commercial capital and started to serve the capital holders through seeking higher returns from commercial investments. The members continued to be members in name and can still deposit and apply for loans from the bank. However, their relationship with the organization has become more like that of an ordinary bank customer. Members hold a tiny minority of the shares in the bank, and as such they receive small dividends in profit sharing. But they no longer have any kind of input into the bank's operations or any meaningful ownership over the assets. Lending to members has become only a small part of its total operations—and this kind of microcredit service became almost like a part of the bank's corporate social responsibility, rather than its core function. The organization is still officially a cooperative, but it has lost its essence as a cooperative.

#### Type 4: Failed Cooperatives

Type 4 were once authentic cooperatives that worked well in the beginning, but subsequently failed for a variety of reasons such as mismanagement, corrupted leadership, or unfavorable market conditions. Two examples of well-known cooperatives can illuminate this.<sup>27</sup>

---

26. This seems to violate relevant China Banking Regulatory Commission's regulations, which state that credit cooperatives can only absorb capital from three sources: member deposit, charitable donations and funds raised from banks (chap. 6, art. 39). Credit cooperatives should not absorb deposits or offer loans to nonmembers (chap. 6, art. 42). See China Banking Regulatory Commission (CBRC), "Zhongguo yinjianhui bangongting guanyu yinfa 'nongcun zijin huzhushe shifan zhangcheng' de tongzhi" [Notice from CBRC regarding the rules of rural credit cooperatives], no. 51 (2007), available at [http://www.cbrc.gov.cn/chinese/home/docDOC\\_ReadView/20070215C5084335DFA16921FFACA83015710500.html](http://www.cbrc.gov.cn/chinese/home/docDOC_ReadView/20070215C5084335DFA16921FFACA83015710500.html) (accessed June 2, 2016).

27. We use real names in the discussion of these two cases, which are among the most widely known and studied cases throughout China. Most of the evidence used here is public information. The informants we directly interviewed remain anonymous.

### Xiajia Farmer Cooperative in Lishu County, Jilin

Established in 2000, this was one of postreform China's earliest farmer cooperatives. As described in the introduction, a local villager, Zhang Shuxiang, was the initiator and chair of the cooperative. She had originally had aspirations to attend university, but her entrance examination scores fell just short of what was needed to pass. After holding a series of jobs, she began pig farming in 1992. After building her scale in pig farming, Zhang sought to increase her bargaining power in the pig market in 1999 by cooperating with six other pig farmers in her village to purchase pig feed together at somewhat reduced prices and to sell live pigs together at a slightly higher price. Other pig farmers in the village enthusiastically joined the informal group, which soon led to the formal establishment of the Xiajia Farmer Cooperative. In a few months, the cooperative's membership multiplied, reaching 70 households. In addition to unified purchases and sales of most agricultural inputs and outputs, the main activities of the cooperative were initially to provide training and education services and mutual aid among the members. By 2006, the cooperative boasted 172 member households, claimed to have saved RMB 170,000 through unified purchase of agricultural inputs, and alleged to have made RMB 13 million in sales volume and RMB 930,000 in net income.<sup>28</sup> In 2004, the cooperative received a RMB 150,000 subsidy from local governments, and they used RMB 82,000 to build a small feed-processing factory serving the members.<sup>29</sup>

Zhang soon became a nationally popular role model for leading farmers to pursue common prosperity. She attended numerous training sessions organized by international organizations such as the International Co-operative Alliance regarding the rules, procedures, and skills of managing a cooperative. Xiajia Cooperative also had a well-designed governance structure that was broadly consistent with the Chinese law and the international principles of cooperatives. In 2003, it was selected as a national demonstration farmer cooperative, a status it sustained until 2014, with numerous visitors and accolades. With so much support from the government and goodwill from the public, most expected that Xiajia could overcome the challenges that other cooperatives faced and would continue to flourish.

However, by August 2015, as noted earlier, the cooperative had completely shut down. Villagers reported that while members benefitted from the co-op's increased bargaining power when purchasing inputs and in sales prices, as the

---

28. Yu Luna, "Zhang Shuxiang de banshee zhidao: zhonghao 'wutongshu' caineng yinlai 'jinfenghuang'" [The approach of Zhang Shuxiang's cooperative: Planting Firmiana trees to attract phoenixes], *Zhongguo Hezuo Jingji* [Chinese Cooperation Economy], no. 11 (2007): 22–23. It should be noted that we are doubtful of the accuracy of the large revenue and net profit. We present them here only for reference.

29. Yuan Peng and Zhao Jun, "Yige funu chengqi bantian de hezuoshe" [A woman's cooperative], *Zhongguo Hezuo Jingji* [Chinese cooperative economy], no. 11 (2007): 17–21.

cooperative expanded it encountered numerous problems. For instance, the feed-processing factory operated at a loss due to the leadership group's lack of management skills and experience. Contrasting with claims of impressive financial success, the cooperative ran short of capital. The original subsidy received from the government was never augmented by other external financial support. The shareholding capital from members was too meager to sustain the factory, which shut down in the late 2000s. Also, the cooperative was unable to predict overall market trends at a time of dramatic fluctuations in the national pork market. Amidst these problems, the locals complained that the renowned founder had become less dedicated over time: as one cooperative manager put it, "she later became selfish." Ms. Zhang had borrowed money from members of the cooperative under the pretext of supporting its activities but was unable to pay the loans back. In the end, she fled, forcing her creditors to take legal actions against her.

#### Nanmazhuang Organic Rice Cooperative, Henan Province

The Nanmazhuang cooperative was established in 2004, with considerable support from the Rural Reconstruction School. Two prominent scholars served as advisors: He Huili, a sociology professor from China Agricultural University, who had been seconded to the Lankao County government for several years, as well as the intellectual leader of the rural cooperative movement, Wen Tiejun of Renmin University.<sup>30</sup> In the beginning, the cooperative helped members coordinate the planting and management of organic rice. By 2006, in order to increase the profitability of organic rice, the cooperative established a shareholding system, with 20 members investing between RMB 5,000 and RMB 100,000 each to establish a rice-processing factory. However, as a member farmer said, this factory operated at a loss as of 2008 and closed in 2009 due to poor management. At that point, the factory was transferred to the leaders and became a private company. Although the cooperative still has members, the number has dwindled and the remaining members gradually lost trust in the leading group. Many farmers began selling their rice to other market traders. The rice cooperative still exists nominally, but it has failed as a cooperative and at best operates on a weak "company plus farmer" model.

The failure can be ascribed to three primary reasons. First, the cooperative did not arise as a spontaneous initiative of the farmers but rather was fostered primarily by outside scholars. That did not inherently lead to failure, yet according to former cooperative members, the cooperative lacked a foundation of trust within the community. Second, the leaders of the cooperative lacked sufficient management skills to run a market-oriented factory, further undermining trust in the remaining operations. Third, according to one well-regarded source, in-

---

30. The involvement of the school mirrors the involvement of prerevolution intellectuals such as Liang Shuming in the 1930s.

tense competition and conflict among different lineages and cliques in the village further eroded the trust needed for cooperation.<sup>31</sup>

### Type 5: Genuine Cooperatives

Of the 50 cooperatives that we studied in 18 different provinces, we found only two that can be considered authentic and successful.

#### Riverbend Comprehensive Farmers' Cooperative, Shanxi Province

Riverbend is a large self-governing mutual-help community with 113 full-time employees and 3,865 household members across two rural townships.<sup>32</sup> It started as an agricultural technological service center and a women's dance association, initiated by a local teacher who had dedicated her life to transforming the backwardness of her rural community. Among Riverbend's broad-based initiatives are two successful authentic cooperatives. The first is an umbrella agricultural cooperative, made up of 22 separately registered smaller cooperatives unified under a single professional management team. These 22 branches each have a distinct membership base that specializes in one crop (such as grain, fruits) or livestock. In addition to collective purchases of inputs and sales of produce, the cooperative organizes the processing of organic wheat, oil seeds, and vegetables and directly delivers these foods to customers in two nearby cities.

Riverbend also operates an authentic, highly profitable credit cooperative. This is funded primarily from members' deposits and shares, and it lends exclusively to members to support their agricultural activities. Thanks to a large and loyal membership base, the credit cooperative's scale is large; its annual lending ranges between RMB 20 and 30 million. With a 15 percent annual interest rate, these loans generate profits in the order of millions for the cooperative.

All the members of both the agricultural and credit cooperatives are exclusively small producers from the community, and the modest physical assets of the cooperatives (all of its facilities are stationed inside unoccupied houses rented from their owners) are collectively owned by the members. The cooperative distributes most of the profits to the members, and the remaining profits help fund a range of social services provided to the broader community.

The cooperatives in Riverbend remain successful and authentic for a number of reasons. First, the cooperatives were formed as part of a broader local move-

---

31. Zhao Xiaofeng, *Xinxing nongmin hezuoshe fazhan de shehui jizhi yanjiu* [Social dynamics of China's new rural cooperatives] (Beijing: Social Sciences Academic Press, 2015).

32. Researchers sometimes label this a "farmer's association" because it covers multiple socioeconomic and cultural functions. It provides a range of services, including elder care, children's educational activities, and cultural activities. For more information about the broader community, see, for example, Zhao, *Xinxing nongmin hezuoshe*.

ment that spent nearly a decade organizing the community and promoting social cohesion and mutual help. Second, the leaders remain deeply dedicated to serving the cooperative, its members, and the community, and they have steadfastly resisted the temptation either to maximize the cooperative's profits or to pursue their own personal financial interests. For instance, the leaders say they are proud that they turned down government subsidies in order to protect their management autonomy from government interference and influence. In addition, they decided to scale down the community's commercially successful handicraft cooperative because they believed it was beginning to stoke distrust and tension among the cooperative's members, as it was causing them to compete against each other at the cost of other priorities.

However, even the successful umbrella cooperative has not been very successful in increasing the profitability of agricultural production. Economically, the community benefits most from the operations of the credit cooperative, not from the agricultural initiatives of the agricultural cooperative. The savings from joint purchases of agricultural inputs and benefits from the sales of agricultural products constitute only a small portion of farmers' income. Moreover, some of the branches that focus on nonorganic crops have performed poorly and have provided disappointingly modest benefits to members, despite their best efforts. Most of the benefits stem from the dividends and access to credit. It is notable, though, that both the agricultural cooperative and the credit cooperative are authentic.

#### Northpoint Farmers' Cooperative, Anhui Province

Mr. Quan formed the Northpoint farmers' cooperative in 2004, after spending eight years organizing farmers to resist excessive rural taxes imposed by a rapacious local government. As farmers organized petitions and protests, they developed a sense of solidarity and trust among themselves. This sense of group feeling led in turn to formally organized cultural and leisure activities of various kinds. Soon afterward, the farmers leveraged their sense of efficacy into an agricultural cooperative for the bulk purchase of inputs and then, a year later, a credit cooperative.

These have had mixed results. Most members continued to grow grain, primarily corn, and the cooperative did not engage in branding or joint marketing of members' produce. An initiative by the cooperative to establish its own farm failed after only a couple of years. Today, the cooperative has almost totally withdrawn from supporting agricultural production, with bulk purchases making only a marginal difference, and participation in this is not exclusive to cooperative members. The cooperative leaders now mostly focus on the credit cooperative and cultural activities, as well as entering into commercial activities, such as opening a distillery and a nursery school, neither of which directly involves

members. The provision of credit, which is smaller in scale than in Riverbend, is the co-op's greatest benefit. Riverbend's use of credit helped some farmers switch production to organic agriculture. While this allows the credit and agricultural cooperatives to complement each other, Northpoint lacks coordinated efforts like this to improve agricultural incomes. Therefore, the credit only supports individual farmers' own initiatives, diminishing its impact. Nevertheless, the cooperative currently serves most effectively as an authentic credit cooperative that brings substantial benefits to members, and some of the profits are used to fund cultural activities and nurture community spirit.

### DISCUSSION AND CONCLUSION

Although the officially recorded number of cooperatives has increased rapidly, based on our extensive fieldwork, most of these are not authentic cooperatives. In most cases, they are dominated by private interests. In this sense, cooperatives have become an instrument of social and economic differentiation, rather than addressing the common needs of smallholders.

Some of these so-called cooperatives do benefit farmers, but they do so through the same mechanism that some agribusinesses employ: by providing an outlet for the marketing of farmers' crops.<sup>33</sup> At their worst, they cheat farmers out of their livelihood and abscond with subsidies intended to support authentic cooperation, which was the intention behind China's Cooperatives Law. Instead, many of the registered cooperatives exacerbate China's policy bias that favors large-scale private agricultural producers.<sup>34</sup> Indeed, most of the cooperatives that we examined operate as private agribusinesses and call themselves cooperatives in order to receive government subsidies and many other kinds of support. With these subsidies, they often compete at an unfair advantage against smallholder farmers, adding further pressure to the farmers' viability.

As our sample shows, only a handful of cooperatives—five out of 50 cases—were genuine co-ops initiated by smallholder farmers. Yet by the time we visited these—including some that were still highly lauded by the central government and others—they either had decooperativized, become largely dormant, or gone bankrupt. While we eagerly sought authentic cooperatives to examine, what we largely found were commercial enterprises controlled by officials, business entrepreneurs, and merchants.

---

33. See, e.g., Zhang and Donaldson, "Rise of Agrarian Capitalism."

34. On this policy bias, see Weigang Gong and Qian Forrest Zhang, "Betting on the Big: State-Brokered Land Transfers, Large-scale Agricultural Producers, and Rural Policy Implementation," *China Journal* 77 (January 2017): 1–26; Qiangqiang Luo, Joel Andreas, and Yao Li, "Grapes of Wrath: Twisting Arms to Get Villagers to Cooperate with Agribusiness in China," *China Journal* 77 (January 2017): 27–50.



Why did we find so few? It was not for lack of effort. As noted in the methodology section, in addition to visiting model cooperatives extolled by the government or written up in the media or academic reports, we used word of mouth and other means to seek genuine cooperatives. Yet we discovered only five, three of which are either dormant or no longer authentic cooperatives.

On the other hand, we found a number of agribusinesses registered as cooperatives that are beneficial to agricultural production. Through them, some farmers have enjoyed a modest boost to their incomes, as well as assistance in marketing agricultural produce. But the benefits to ordinary farmers remain limited, while the lion's share of the revenue accrues to the individual or the small leadership group that effectively owns the so-called cooperatives. In any case, the vision of cooperatives as organizations of farmers helping each other overcome the difficulties of the modern economy has gone unfulfilled.

More broadly, our research left us pessimistic about rural China's current political, social, and economic situation. First, in many rural localities farmers have become increasingly polarized in terms of scale of production and income. We believe that this kind of market-driven economic and social differentiation has largely undermined the social basis needed for significant collective action or mutual help.<sup>35</sup> This helps to explain why some larger producers form inauthentic cooperatives in order to receive personal benefits using the pretense that these go to a broad membership of their neighbors (type 2) and also why some authentic cooperatives have changed their character when their leaders pursued profits for themselves (type 3).

Because of this differentiation, cooperatives face a serious collective action problem in an increasingly atomized rural society. Overcoming this often requires social cooperation that contributes to social cohesion and trust—this must precede, not follow, economic cooperation.<sup>36</sup> Moreover, this social cohesion and trust often relies on dedicated, selfless leaders. After all, overcoming collective ac-

---

35. He Anhua, Shao Feng, and Kong Xiangzhi, "Ziyuan bingfu chayi yu hezuo liyi fenpei—Liaoning sheng HS nongmin zhuan ye hezuoshe anli fenxi" [Difference of resource endowments and distribution of cooperative interests: Based on a case of HS farmers' specialized cooperative in Liaoning Province], *Jiang Huai Tribune*, no. 1 (2012): 11–18; Yan Hairong and Chen Yiyuan, "Debating the Rural Cooperative Movement in China: the Past and the Present," *Journal of Peasant Studies* 40, no. 6 (2013): 955–81; Qian Forrest Zhang and John A. Donaldson, "From Peasants to Farmers: Peasant Differentiation, Labor Regimes, and Land Rights Institutions in China's Agrarian Transition," *Politics & Society* 38, no. 4 (2010): 458–89; Qian Forrest Zhang, "Class Differentiation in Rural China: Dynamics of Accumulation, Commodification and State Intervention," *Journal of Agrarian Change* 15, no. 3 (2015): 338–65; He Xuefeng, "Quxiao nongyeshuihou nongcun de jiecheng jiqi fenxi" [The analysis of rural social classes after the abolition of agricultural taxes], *Shehui Kexue* [Social sciences], no. 3 (2006): 70–79.

36. Elinor Ostrom, "Constituting Social Capital and Collective Action," *Journal of Theoretical Politics* 6, no. 4 (1994): 527–62; Robert D. Putnam, *Bowling Alone: The Collapse and Revival of American Community* (New York: Simon & Schuster, 2000); Ruerd Ruben and Jorge Heras, "Social Capital, Governance and Performance of Ethiopian Coffee Cooperatives," *Annals of Public and Cooperative Economics* 83, no. 4 (2012): 463–84.

tion problems is difficult even in the best of circumstances. As the owner of one agribusiness “cooperative” frankly related, “it is not realistic for farmers to be shareholders in China. What’s important is whether farmers can benefit” from their business operations. Many farmers we interviewed suggested that they want to cooperate together but lamented the lack of resources or a focal point around which to organize.

One such focal point is the leader of the Riverbend cooperative. When asked about the factors that made the co-op successful, members typically focused on their chairperson, Ms. Zheng. They were convinced that without her, the cooperative could never have formed. A good leader can work to develop genuine trust, the lifeblood of rural cooperatives. Yet such a person is increasingly rare in this materialistic and commercialized society. The leader has to adhere to principles of cooperation and mutual benefit and must sacrifice his or her self-interest for the greater good. Such capable leaders often enjoy numerous opportunities to engage in commercial activities. The temptation is high for a talented leader to seek to increase profits by eroding the cooperative’s essence.

Third, the market has largely impeded, not supported, the establishment of authentic cooperatives. The intrusion of external capital in the form of agribusiness has already established market-based, capitalistic relations with farmers.<sup>37</sup> While such relationships fall short of the cooperative ideal they have brought some benefits to farmers, such as vertical integration. This reduces farmers’ incentives to cooperate, thus undermining the incentive to establish cooperatives.

Fourth, the Cooperatives Law, combined with the related subsidies and government support, is an example of poor policy design and implementation. While local governments are tasked with subsidizing cooperatives’ activities, the selection standards are often ambiguous and poorly regulated. This creates opportunities for the misapplication of funds, cronyism, and corruption.<sup>38</sup> The subsidies are rarely applied as intended. As the hazelnut cooperative manager, Mr. Zhen, noted, “Applying for subsidies depends on connections with government officials.” While groups of small-scale farmers typically lack the wherewithal to secure such subsidies, well-connected, larger-scale farmers and businesses often capture benefits to which they are not legally entitled. Consequently, authentic bottom-up cooperatives that need government support have difficulty acquiring it.

These four barriers notwithstanding, China’s authentic cooperatives, though dispiritingly few in number and often struggling, hold fast as inspiring anomalies that provide not only material benefits to individual farmers but also invaluable community benefits. However, their material benefits do not derive primar-

---

37. Zhang and Donaldson, “Rise of Agrarian Capitalism”; Qian Forrest Zhang, “The Political Economy of Contract Farming in China’s Agrarian Transition,” *Journal of Agrarian Change* 12, no. 4 (2012): 460–83.

38. See also Matthew A. Hale, “Reconstructing the Rural: Peasant Organizations in a Chinese Movement for Alternative Development” (PhD thesis, University of Washington, 2013).

ily from supporting agricultural production, since the margins for the task of bulk buying of inputs and selling of produce is often low or even trivial. On the other hand, the provision of microcredit and other financial services can help farmers shift to more valuable crops or activities. Given that most of China's formally organized credit organizations all but ignore individual farmers, this is no small matter. Moreover, these rural credit cooperatives—unlike cooperatives that are ostensibly designed to promote agricultural production—show that cooperation in some forms is possible in rural China. Additional research is needed to better understand the conditions under which rural credit cooperatives can provide needed services to farmers.

For advocates who envision cooperatives as representing some sort of third way for the development of China's rural society and agricultural production, the results are profoundly disappointing. The leader of Northpoint hypothesized that cooperatives are well positioned to mobilize social activities and provide social services but lack the ability and resources to successfully organize collective purchasing of inputs and sales of produce among small landholders. Our findings are consistent with this conclusion.