

Rural Supply and Marketing Cooperatives in China: Historical Development, Problems and Reform

Xiangyu Guo, Brian Henehan, and Todd Schmit*

Presented at:
2007 Annual Meeting NCERA-194
Improving the Management and Effectiveness of Cooperatively Owned Business Organizations
November 6-7, 2007
St. Paul, MN

Abstract

The historical development and performance of rural Supply and Marketing Cooperatives (SMCs) in China are examined. A review of Chinese and Western literature uncovered limited, recent research on the impact of reform and the performance of SMCs. There are over 20,000 primary SMCs operating at the local or village level with federations of SMCs operating at the County, Prefecture, Provincial, and National levels. These organizations perform a wide range of purchasing and marketing functions. The All-China Federation of Supply and Marketing Cooperatives provides a wide range of services for SMCs, including communications, research and extension, trade association activities, international affairs, and policy formulation. The historical development and performance of SMCs is linked to various reform periods. Three reform periods are identified and discussed including, 1949-1957, 1958-1981, and 1982-present. SMCs suffered a loss of focus on members as well as member control during several periods of reform and experienced declining financial performance during the most recent reform period. Market share for farm purchasing and marketing declined from 36% in 1954 to only 2% in 2006. A historically heavy debt load increased to more than 20 billion yuan in 1995 resulting in interest payment burdens for many SMCs. In aggregate, SMCs in China experienced financial losses for eight consecutive years from 1992 to 2000, peaking in 1997 with losses of 70.2 billion yuan. Rate of return on investment (ROI) declined from 25% during the vigorous and healthy development period in 1949 to only 10% by 1957. ROI continued dropping from 8% to 5% during the period from 1958 to 1981, and declined to further to only 4 % from 1982 to 1988. A number of factors related to this decline are presented including: ineffective reforms, lack of accountability and transparency, limited focus on member needs, a negative image for cooperatives, and poor understanding of contemporary cooperative management and governance practices. Recommendations are made for further research and policy changes.

Key words: China, economic reform, rural supply and marketing cooperatives

* Respectively, Professor, College of Economics and Management, Northeast Agricultural University, China and Visiting Scholar, Department of Applied Economics and Management, Cornell University, and Senior Extension Associate and Assistant Professor, Department of Applied Economics and Management, Cornell University.

Rural Supply and Marketing Cooperatives in China: Historical Development, Problems and Reform

Introduction

Given the scope of today's global market for food and agricultural products, there is a growing need to gain a better understanding of the impact of globalization and the world-wide outlook for food and agriculture. China is experiencing both increased demand for food products as well as growth in production of various farm and food products. Along with increasing production is a paralleled increasing interest in institutional and organizational alternatives to increase the efficiency and operation of farm supply and food markets. An alternative governing and operational structure being explored is a more effective utilization of the cooperative business model. Recent reforms are encouraging the growth and development of member-driven cooperatives in China. As the rural and agricultural economy of China experiences significant change and the impact of government reform, there is a growing interest in adopting market driven business structures including new progressive, farmer-focused cooperative businesses.

The history and economic role of rural cooperatives in China has received limited attention in Western literature and the changing structure of rural cooperatives in China following the most recent economic reforms has not been studied. Meanwhile, rural communities and agricultural areas of China are not experiencing the economic growth and increases in per capita income that urban areas are. More effective development of efficient and well-managed rural cooperatives might result in stimulating the rural economy of China. As such, the objectives of this study are to: (i) describe the historical development and operations of rural supply and marketing cooperatives (SMCs) in China, (ii) discuss the six phases of reform from 1980 to today that have impacted cooperative development and operations, (iii) review the potential problems and challenges related to cooperative performance and success, and (iv) recommend strategies to enhance the performance of cooperatives and successful new cooperative development.

We begin with a review of previous research and literature related to the performance and development of SMCs in China. This is followed by an analysis of economic and financial data on SMCs including: total revenues, operating income (loss), financing and market share for various periods of reform, and a review of the deliberations of the All-China Federation of SMC Congress. We continue with an analysis of changing organizational characteristics during the various periods of reform, such as emphasis on members; and conclude with a consideration of policy strategies to enhance the success of ongoing SMCs and new cooperative development.

Literature Review

SMCs in China are an important component part the planned economy system and are considered a unique economic entity. Several authors have recently analyzed the operational challenges and reform issues associated with SMCs in China, although each addressing the issues differing angles. We follow now with a review of some of these alternative approaches.

Although the performance and economic efficiency of rural credit cooperatives in China have been studied (e.g., see Dong and Featherstone), the performance and impact of reform on SMCs have received less attention. Tsang reviewed the changing role of SMCs and the additional functions being undertaken by them, including transportation, storage, technical assistance, and

sourcing of raw materials beyond traditional locations (1994). Tsang concludes that the role of SMCs has been changing rapidly as the rural economy has opened up due to economic reform, but that reform progress for SMCs has been far from smooth during the 1980s.

According to Xu and Huang (2006), SMCs in China are currently facing rigorous challenges and problems, such as complex property rights, vague positioning, shrinking functions, poor links to farmers, and weak performance of the organization. SMCs have gradually lost their traditional superiority due to the dramatic development of the country's market economy. The most fundamental problem of the SMC is the absence of the ultimate owners, which leads to a less effective governance structure and can result in insiders' domination over the residual claims (Xu and Huang, 2006). As such, a key element of successful transformation will be in identifying the proper ultimate owners and in establishing a scientific governance and management structure.

Yang (2003) focused on the reform goals of China's SMCs, and concludes that, even after twenty-one years of reformation, SMCs still had a long way to go to become "real" farmer's cooperatives. A primary reason for such slow adaptation was in miss-interpreting reform goals between the long- and short-run. Reform and development of SMCs have entered a new era. Yang recommended that China's SMCs should concentrate on modernized supply chain networks that are based on a corporate Chinese SMC structure (2003). Also, Chinese SMCs should construct a business service network, which mainly consists of farmer cooperatives, and a public service network which mainly consists of associations.

Shen (2004) analyzed the current situation and problems facing the SMC system and explored ways for China's SMC economy to address barriers to further development. The author suggests that more emphasis be given the word "Cooperative" in the SMC name and that the character of the cooperative be strengthened. SMC's should energetically set up all kinds of new farmer specialized cooperatives and then change SMCs into cooperative economic organizations owned and controlled by farmers as a whole.

Furthermore, according to Zhang (2003), the reform of SMCs has not been successful due to (i) ownership worship that hinders reform efforts, (ii) current policies that mislead reform, and (iii) confusing and imperfect allocation of property rights that limits effective reform. For reform to succeed these important issues will have to be addressed.

The Role and Structure of SMCs

SMCs are part of a nationwide, federated system that consists of the All-China Federation of Supply and Marketing Cooperatives, 31 Provincial cooperatives, 336 Prefecture cooperatives, 2,370 County federations, and 22,537 primary societies (Figure 1). The Federation of SMCs provides a wide range of services for SMCs in China, including communications, research and extension, trade association activities, international affairs, and policy formulation. (Figure 2)

Cooperative economic organizations with farmers as the main body, such as rural SMCs, are an important component of the rural economy. Before China's reform, SMCs served as an important tool with which the government controlled agriculture, rural areas, and farmers. SMCs once played an important role in promoting the interflow of goods between the cities and

countryside, ensuring adequate market supplies, accelerating the industrialized management of agriculture, and providing services to farmers and agricultural production activities. The current role of SMCs has expanded into fulfilling additional supply procurement and farm product marketing functions (Figure 3).

Historical Development

In China, agricultural and rural cooperatives have experienced various challenges and changes as a micro-economic firm model. The road of development has been full of twists and turns since the founding of the People's Republic of China in 1949. While this paper focuses on the rural supply and marketing cooperatives (SMCs), Chinese agricultural and rural cooperatives also include rural credit cooperatives, rural community cooperative organizations, and new farmer specialized cooperatives. The history of China's SMCs can be divided into three main periods: the flourishing and growth period from 1949 to 1957, the zigzag and slow development period from 1958 to 1981, and the reform period from 1982 to present. A summary of the cooperative characteristics over these periods is shown in Table 1.

The "Golden Age" of SMCs

At the beginning of the Republic, from 1949 to 1957, SMCs developed smoothly and successfully. This period is called the "Golden Age" of SMCs in history. On November 1, 1949, the Central People's Government of the People's Republic of China set up the State Administration of Cooperative Business with responsibility for organization, guidance, and promotion of the development of supply and marketing, consumer, credit, transportation, fishery, and handicraft industry cooperatives for the whole country. In July of 1950, the State Administration of Cooperative Business held the first national soviet of cooperative staff, at which the United Headquarters of the Chinese Cooperatives was created and took charge in leading and controlling all types of cooperatives.

In July of 1954, the first national congress of China's cooperatives was convened under the new name of the All-China Federation of Supply and Marketing Cooperatives (ACFSMC) and set up a unitary system of supply and marketing cooperatives nationwide. In this way, the cooperative's leading bodies at all levels were established from the top down and a national organizational system took shape. At the same time, the SMC organizations at all levels were established from the bottom up and an independent, unitary and comprehensive supply and marketing cooperative system was completed. By the end of 1957, the number of primary societies of SMCs was 19,402; their 157,450,000 members accounted for 30 percent of rural population, with equity of 331.52 million yuan and 1.68 million employees.

During this period, the mission of SMCs was to serve the agricultural producers and to expand agricultural business. As a result, SMCs played a dominant position in the rural market and evolved into the main channel of commodity circulation. In 1957, the total purchase of farm products by SMCs amounted to 5.61 billion yuan, accounting for 26% of the total farm products sold by farmers. Total retail sales of commodities amounted to 9.51 billion yuan or 20% of the total retail sales in 1957 and 40% of the retail sales in rural areas. Total SMC sales of agricultural inputs amounted to 1.92 billion yuan or 59% of the total agricultural inputs in China.

Several factors influenced the vigorous and healthy development of SMCs during this period.

First, the actual needs of the development of rural commodity economies were the internal forces that caused SMCs to emerge and develop rapidly. Second, the appropriate participation of the government was the external surroundings essential for the establishment and healthy development of SMCs. During this period, the government promoted development of the SMCs by means of law protection, economic support, and technical direction. In July, 1950, the “Cooperative Law of People’s Republic of China” was approved. In July, 1954, the “Bylaws of the All-China Federation of Supply and Marketing Cooperatives” were passed and, at the same time, the government gave SMCs financial, tax, and credit support. The central and local governments appropriated funds to new SMCs and were free of income taxes for the first year. The lending rate of state banks to SMCs was discounted below the 10% interest rate for state-run commerce. Third, sticking to the operational aims of serving the farmers was the full and essential condition that made the SMC develop and grow steadily. Fourth, adhering to collective ownership was the prerequisite for the existence and smooth development of SMCs. Finally, implementing and steadily improving the system of democratic member control was the basic guarantee of vigorous development. SMCs adhered to the system of a member congress, the National Committee of ACFSMC, elected in the first national congress of China’s cooperatives in 1954, acted on their behalf, and furthermore conferred three additional conferences in 1955, 1956, and 1957. At the same time, SMCs improved the roles of the council board of directors and supervising committees.

A Difficult Developmental Period for SMCs

From 1958 to 1981, SMCs entered a long period of slow development due to a misleading “Left” deviation in political ideology. During this period SMCs were reorganized as state-run commerce. The SMC form of collective ownership was replaced by ownership of the entire people. SMCs had deviated from the concept and principles of cooperatives, such as user-control and user benefits, and then sustained historic losses.

In February 1958, the National Supply and Marketing Cooperative and the Urban Service Department were amalgamated by the State Council and renamed as the Second Ministry of Commerce. From then on SMCs changed into a kind of business administrative organization of the government at all levels. Businesses the SMCs previously operated were placed under the control of the state-owned commercial sectors. The democratic arrangements within a cooperative, such as member meetings and boards of directors, were abolished. The cooperatives remained in name, but were actually operated by the Ministry of Commerce as public firms (Yao, 1958).

A departure from the aim of serving its members brought setbacks to SMCs. The Central Committee of the Communist Party of China decided to resume SMCs in 1961. SMCs were separated from the Ministry of Commerce to handle official business on July 1, 1962. Hence, the SMCs were reestablished and the internal democratic arrangement was restored. Some new changes had taken place after the resumption of SMCs. By the end of 1962, there were 25 provinces, 176 prefectures, and 2,042 counties which had resumed SMCs, and the primary societies returned to the system of SMCs again.

At the direction of “Left” thinking, SMCs were criticized as something like the capitalism and the revisionism after the Great Cultural Revolution began. The “Demonstration Regulations of

the Grass Root Supply and Marketing Cooperative” adopted in 1954 were abolished in September, 1966. On July 1, 1970, the National Supply and Marketing Cooperative Federation was combined with the Ministry of Commerce, the Ministry of Food, and the Bureau of Industry and Commerce Administration. At that time the national system of SMCs were merged with the state-run commerce. The SMCs lost their right of independent decision making and their businesses were once again combined under the control of the Ministry of Commerce. The SMCs of all levels had to turn in their profits to the Ministry of Finance and consequently suffered significant losses of capital and equity. While the SMCs still existed in name, they were no longer farmer-owned and managed economic organizations.

In order to strengthen rural commerce and improve relations with farmers, the All China Federation of Supply and Marketing Cooperatives, ACFSMC was created on March 1, 1975. But, in fact the ACFSMC was still, in reality, the Ministry of Commerce in rural areas and a department of the States Council. After the Third Plenary Session of the 11th CPC Central Committee, which reformed the rural economic system, farmers needed to buy more agricultural inputs and sell more products. Although farmers’ economic activity increased, the market share of SMCs descended due to abuse of the management system, as well as other problems. Compared with the 1974, the market share of retail sales of commodities of SMCs in relation to total retail sales and to that in rural areas decreased by 5.1 and 14.2 percentage points, respectively, and the market share of the purchase of farm products by SMCs of total farm products sold by farmers declined by 9.8 percentage points in 1981.

A number of conclusions can be drawn from this difficult developmental period. First, the dominance of "Left" thinking and a misunderstanding of the SMC cooperative structure led to the downfall of many SMCs. Second, the establishment of the planned economy undermined SMCs’ ability to own property. Third, that the organizational system was destroyed time and again was a direct obstacle to SMCs in accomplishing its aims of serving its members. Fourth, a lack of legal and statutory protection and the excessive government intervention resulted in the SMCs merging with the state-run commerce twice. And fifth, limited accountability and transparency resulted in less effective management and governance of SMCs.

The Reform period of SMC

Entering the 1980s, with the arrival of rural economic reform, the SMC has been faced with rigorous challenges. SMCs have gradually lost their traditional dominant role due to the dramatic development of the country’s market economy. These changes created challenges for the development of the rural economy and for meeting the needs of farmers. Therefore, China began SMC reform in 1982. The course of this recent reform can be divided into six phases as described below.

Phase 1: 1982-1983. The main focus of this phase was to *restore three characteristics* of SMCs: (i) member participation, (ii) flexibility in operation, and (iii) democracy in management. By the end of 1983, over 91% of primary societies of SMCs had cleaned up, enlarged equities, and developed new members. The number of farmers who had bought shares and became members reached 130 million, accounting for over 70% of all farmers.

Phase 2: 1984-1985. The main content during this time was to *make five significant*

breakthroughs; (i) break through the restriction of farmers' buying shares, (ii) break through the limited scope of operation and service, (iii) break through the unreasonable employment and personnel system, (iv) break through the traditional distribution system, and (v) break through the price administration system. In September 1985, farmer equities and funds raised reached 2.2 billion Yuan, six times that in 1981, prior to the SMC reforms.

Phase 3: 1986-1987. The focal points of the reform was to stress the *development of six operational aspects*: (i) develop a series of service for commercial production, (ii) develop crosswise economic affiliations, (iii) develop agricultural product processing industries, (iv) develop various operational forms, (v) develop rural commercial networks, and (vi) develop educational, scientific, and technical undertakings. In 1987, the purchase sum of agricultural products of SMCs reached 39.5 billion yuan, an increase of nearly 32% over 1985; retail sales of 93.6 billion yuan were up 28% over 1985; profits were 3.76 billion yuan, and taxes paid to the states totaled 4.38 billion yuan.

Phase 4: 1988-1994. This phase was largely tasked to deepen and improve the former contents of the reform.

Phase 5: 1995-2001. On February 27, 1995, the CPC Central Committee and the States Council issued the “Decision about Deepening Reform of Supply and Marketing Cooperatives”. The central authorities had set the deepening reform of SMCs as a major and pressing task. The aim was to reform the SMCs into farmer cooperative economic organizations and the main measures were to grasp at *five links*: (i) rationalize the organizational system, (ii) strengthen the service function, (iii) perfect the operational mechanism, (iv) intensify the supervision and management, and (v) offer protection and support. From May 12 to 15, 1995, the second National Congress of China’s Supply and Marketing Cooperatives was held.

Phase 6: 2002-. Beginning in 2002, the ACFSMC put forward *four reconstructs* aimed at improving the economic operation and performance of rural SMCs: (i) reconstruct primary societies by participating in industrialized management of agriculture, (ii) reconstruct cooperative enterprises by allowing multiple property rights, (iii) reconstruct federations of cooperatives by separating cooperatives with subordinate cooperative enterprises, and (iv) reconstruct business networks by developing modern management practices.

Problems and Challenges

The reform of SMCs has achieved some success. By the end of 2005, the aggregate system of SMCs had assets totaling 464.61 billion yuan, members of 160 million, and employees of 4.3 million (Xu, 2006). SMCs had gross sales of 748.9 billion yuan in 2006, with total profits of 7.95 billion yuan, nearly a five-fold increase from 2000 (Bai , 2007).

At the same time, however, SMCs continue to be faced with many problems and challenges. The most fundamental problem is that the existing rural SMCs in China are not structured or operated on member-driven cooperatives basis and are not a business owned by farmer-members. In the early 1950s, the original SMCs were owned and organized by the farmers themselves on a voluntary basis. At that time, the main business of most SMCs included marketing agricultural products to the industrial sectors as raw materials and to urban consumers as part of consumption

goods. In addition, SMCs provided farmers with manufactured products as inputs for their production as well as their daily use (Yao, 1985). The two historic transitions from 1958-1981 changed the structure of SMCs into state-run commercial agents in rural areas. They were no longer farmer-owned cooperatives. After 1982, although the reform of the SMCs lasted 25 years, the relationship between the SMCs and the farmers hasn't improved materially and the status of farmer-members that are owners of SMCs has not accurately been reflected.

To date, the underlying purpose of SMCs in serving its members has not been fully implemented and accomplished. Under the conditions of the current market economy, it is the supply services of agricultural production and the marketing services of agricultural products that farmers need urgently. Current business practices and activities of SMCs has not addressed these farmer member needs. SMCs merely provide emblematic service to its members through the supplying of capital and consumption goods. SMCs have not differentiated its members from non-members and have not adopted an appropriate interest in its members.

Current SMCs are not democratically controlled by farmer-members. That is to say, the cooperative principles, especially the principle of democratic member-control are not being followed. The over-riding problem is that the SMC Congress has become a mere formality. For instance, the All-China Federation of Supply and Marketing Cooperative Congress was not held again until 41 years after the Congress of 1954. The second All-China Federation of Supply and Marketing Cooperative Congress, held in 1995, was attended by only 51 farmer representatives, and represented only 7% of the total representatives¹. More than 90% of those attending were directors of boards of primary societies and other federation levels of SMCs and managers of subordinate cooperative enterprises. These representatives were not members of SMCs themselves, and were not elected by their members, but appointed and assigned directly by the government. In this instance, the farmer members were poorly represented in decision-making and supervision.

Financial Performance

SMCs continue to face many economic difficulties and poor operating performance that threatens their future existence. One of the prominent problems has been the historically heavy debt load. The debt load of more than 20 billion yuan in 1995 has resulted in SMCs bearing a huge interest payment burden. Large operating deficits are another current problem for SMCs.. The aggregate system of national SMCs experienced losses for eight consecutive years from 1992. A total loss of 4 billion yuan in 1994 amounted to over 5% per cent of SMC's own funds. Losses topped 70 billion yuan in 1997 and nearly 13 billion yuan in 1999.

Furthermore, levels of SMC's economic benefits has been trending downward. Rate of return on investment (ROI) declined from 25% during the vigorous and healthy development period from 1949 to only 10% in 1957. ROI continued declining from 8% to 5% during the tortuous developmental period from 1958 to 1981, and further declined to around 4 % after the reform period from 1982 to 1988 (Guo, 1999).

¹ 1995. The representatives about the second All-China Federation of Supply and Marketing Cooperative Congress. China Supply and Marketing Cooperative Review. 6:15

The market share of SMC sales in relation to total sales of consumer goods has also declined considerably. In 1971, SMC market share was relatively high at over 31%. Since then, SMC market share of retail sales of consumer goods have shown a precipitous decline. Retail sales of consumer goods by SMCs in 1992 accounted for just over 8% of market share, down 17 percentage points from 1981, the year before the SMC began to reform. Retail sales of consumer goods of SMCs in 2006 accounted for only slightly more than 2.3%, down 5 percentage points from 1992 (Table 2 and Figure 4).

Along with the decline in market share of retail sales of commodities, the SMC's market shares of retail sales of agricultural inputs, and of the purchase of aggregate farm products have also declined substantially since 1971. Retail sales of commodities by SMCs in 1992 accounted for roughly 13% and 25% market shares of total retail sales and rural retail sales, down 23 and 43 percentage points since 1971, respectively, and down 17 and 28 percentage points since 1981, respectively. The retail sales of agricultural inputs by SMCs in 1992 accounted for a 46% market share of total retail sales, down 13 and 10 percentage points since 1971 and 1981, respectively. The purchase of farm products by SMCs in 1992 accounted for nearly a 12% market share of total farm products sold by farmers, down 22 and 13 percentage points since 1971 and 1981, respectively. Since 1992, SMC's market shares for these categories continue in decline, similar to the trend in market share of sales of consumer goods.

Knowledge of Contemporary Management and Governance

Many SMCs are lacking the knowledge of contemporary cooperative management and governance. This is an ideological obstacle to the further reform and success of SMCs. Up to now, in the course of SMC's reform, many managers and employees were unfamiliar with how contemporary cooperatives are governed and administered effectively. For this reason, they have not gained an intimate understanding of the general and specific policies relating to SMC's reform formulated by the Central Committee of the CPC and the State Council and, therefore, have difficulty in implementing reform effectively.

Managers, members, and employees are having difficulty working out feasible counter-measures. Vast numbers of farmer-members are not only short of knowledge about cooperatives but go so far as to misinterpret cooperative principles. As a result, their participation in the democratic control of SMC is limited. A major challenge facing SMCs is gaining a better understanding of their role as a distinct institutional arrangement, namely its necessity and potential as a successful cooperative contributing to the economic development of rural China.

Outlook for Cooperative Reform

On the whole, cooperatives have three current options; i.e., they must take on the responsibility of either (1) become oriented to "agriculture, rural areas, and farmers", (2) become oriented to an "administrative institution", or (3) become oriented to an "enterprise". The first orientation is the most realistic and feasible compared to the other two. However, moving towards a stronger orientation to "agriculture, rural areas and farmers" is difficult, requiring the cooperative to undergo a further and deeper reform, and restructuring aimed at addressing the fundamental problems that the cooperative faces. In other words, the key link of reform is how to identify the proper ultimate owners and to establish an effective governance structure.

To deepen the reform of SMCs, a process enjoined with the complementary needs of rural economic development may accelerate an increase in the income of farmer members, bring about improvements to their living conditions, and raise their social and economic status. In addition, considering the establishment of a socialist market economy will encourage farmers and SMCs to organize accordingly in response to market conditions. Finally, continued support of existing and new SMCs in China is needed to enhance their formation, viability, and development.

Conclusions, Recommendations, and Directions for Future Research

As recent reforms (begun in 2002) continue to unfold, there is an increased emphasis on reconstructing primary cooperative societies to allow for separate cooperative enterprises that encourage modern management approaches and multiple property rights of members. Reform has achieved some success; however, a significant number of SMCs face ongoing operating losses and heavy debt loads. Reform is advancing at a slow rate while the farm economy is failing to keep up with the rest of the Chinese economy.

There are a number of challenges in educating cooperative managers, members, farmer-leaders and policy makers on the cooperative business model. The principles and practices of member-oriented cooperative enterprises can be misunderstood and misinterpreted which can result in creating a “negative image” for cooperatives (see e.g., Anderson and Henehan, 2005). This negative image can deter farmers from joining or remaining loyal to cooperatives as well as undermine confidence among policy makers in the cooperative business model.

Only aggregate data on the performance of all Chinese SMCs at the national level were available for this study. Individual cooperative data were not available. Therefore, any analysis of individual SMC performance or correlation with data on cooperative management performance and effective governance was limited. It is difficult to empirically link various reform policies to SMC performance during various reform phases. Areas for further research and data collection are suggested later in the paper

Recommendations from this study include areas for further research and considerations for policy-makers and cooperative leaders in China. Research focusing on developing a better understanding of why SMCs are performing poorly could assist in developing educational and management tools aimed at improving SMC performance. A particular area to consider for further research would include measuring and analyzing individual SMC financial performance. Data collected could be used for creating benchmarks for use by cooperative managers and leaders. Increased resources should be made available for applied research and educational efforts aimed at better understanding and implementing a more contemporary cooperative business model in rural China.

Educational programs should be developed to teach contemporary cooperative administration and governance practices to key decision makers. Policy makers should gain a better understanding about the impact of reform on SMC performance and related effects on the rural economy. Deeper reform of the cooperative sector might better accommodate member ownership, member-control, and more member-driven governance structures. A more member-driven cooperative system could yield better economic results in stimulating the rural economy.

References

All China Federation of Supply and Marketing Cooperatives web site <http://www.acfsmc.cn>

Anderson, B.L. and B. Henahan. 2005. "What Gives Agricultural Co-operatives a Bad Name?" *International Journal of Co-operative Management* 2(2):9-15.

Bai, L.. 2007. "Searching after the Road of the Development of the Supply and Marketing Cooperatives under the Market Economy." *China Co-Operation Economy* 6: 10-15. (Chinese)

China Domestic Market Statistic Yearbook. (1989, 1990, 1992). China Statistic Press. (Chinese)

China Domestic Trade Yearbook. (2001, 2002), China Statistic Press. (Chinese)

China Commercial Yearbook (1991, 2003, 2005, 2006). China Statistic Press. (Chinese)

China Financial and Economic Press. 1986. Selected Historical Materials of China's Supply and Marketing Cooperatives. Vol. 1. (Chinese)

China Financial and Economic Press. 1994. Selected Historical Materials of China's Supply and Marketing Cooperatives. Vol. 4. (Chinese)

Dong, F. and A. Featherstone. 2003. "Scale Economies and Efficiencies for Chinese Rural Credit Cooperatives" Paper presented at the Southern Agricultural Economics Association Annual Meeting, 2003.

Guo, X., P. Sun, and Z. Qiumei. 1999. "The Plight and its Courses Facing the Supply and Marketing Cooperatives in China." *Commercial Research* 5:63-65. (Chinese)

Shen, L. 2004. "The End and Rebirth of an Important Economic Organization." *Journal of Kunming University of Science and Technology* 4(2):37-39. (Chinese)

State Statistic Bureau and Office of the Board of Directors , All-China Federation of Supply and Marketing Cooperatives. 1989. *Statistic Data of China's Supply and Marketing Cooperatives (1949-1988)*. China Statistic Press. (Chinese)

Tsang, E.W.K. 1994. "The Changing Role of Supply and Marketing Co-operatives in China." *Small Enterprise Development*. Vol. 5 (9).

Xu, X. and Z. Huang. 2006. "Supply and Marketing Cooperatives in Institutional Transition - Problems, Property Rights and Tendencies." *Journal of Zhejiang University (Humanities and Social Sciences)* 36(3):117-124. (Chinese)

Yang, Z.. 2003. "Research on Reform Goal of the China Supply & Marketing Cooperatives." *Problem of Agricultural Economy* 6: 56-60. (Chinese)

Yao, X. 1985. "The Reform of Agricultural Marketing and Supply Cooperatives in China." M.S. Thesis. Michigan State University.

Zhang, S. 2003. "The Reform of Supply & Marketing Cooperatives: Crux, Misunderstanding and Dilemma" *Journal of Finance and Economics, Shanxi University* 25(1):27-30. (Chinese)

Table 1. Organizational Characteristics of SMCs by Developmental Phases

Cooperative Characteristic	Successful Development 1949-1957	Difficult Development 1958-1981	Reform 1982-
<u>Member Control</u> -participation in meetings - voting	Participated Voting rights	None None	Few SMCs Few SMCs
<u>Board of Directors:</u> - majority government appointees - majority member elected	No Elected by members	All None	SMCs appoint SMCs appoint
<u>Property Rights:</u> - members can own equity -members can redeem equity	Yes Yes	No No	Less No
<u>Earnings Distribution:</u> - members can receive - earnings go to government	Yes No	No All	Few SMCs All
<u>Independent Management:</u> - accountable to members	Yes	No	Few SMCs
<u>Transparency</u> -member access to financial and operating data -receive annual/ quarterly reports	Yes More	No No	Few SMCs Few SMCs
<u>Legal or Statutory Requirements</u> - Director or manager liability - Member rights - Outside accounting audits	No SMC Law or other cooperative law		

Table 2. Market Share of Supply and Marketing Cooperatives in the Whole Society

Year	Market Share-Consumer goods(%)	Year	Market Share-Consumer goods(%)	Year	Market Share-Consumer Goods(%)	Year	Market Share-Consumer goods(%)
1952	16.5	1966	25.6	1980	27.3	1994	3.7
1953	22.3	1967	27.2	1981	25.3	1995	3.0
1954	36.2	1968	25.5	1982	23.1	1996	4.6
1955	26.6	1969	29.3	1983	19.9	1997	4.3
1956	21.0	1970	30.9	1984	16.9	1998	3.8
1957	17.2	1971	31.1	1985	14.4	1999	3.6
1958	26.6	1972	30.8	1986	12.9	2000	3.3
1959	28.4	1973	30.4	1987	12.2	2001	3.0
1960	27.9	1974	30.7	1988	11.8	2002	3.0
1961	25.9	1975	30.7	1989	11.0	2003	2.9
1962	24.6	1976	30.8	1990	10.2	2004	2.6
1963	26.0	1977	31.2	1991	9.3	2005	2.3
1964	24.7	1978	31.0	1992	8.3	2006	2.3
1965	25.3	1979	29.9	1993	5.2		

Sources: China Domestic Market Statistic Yearbook (1989, 1990, 1992). China Statistic Press.

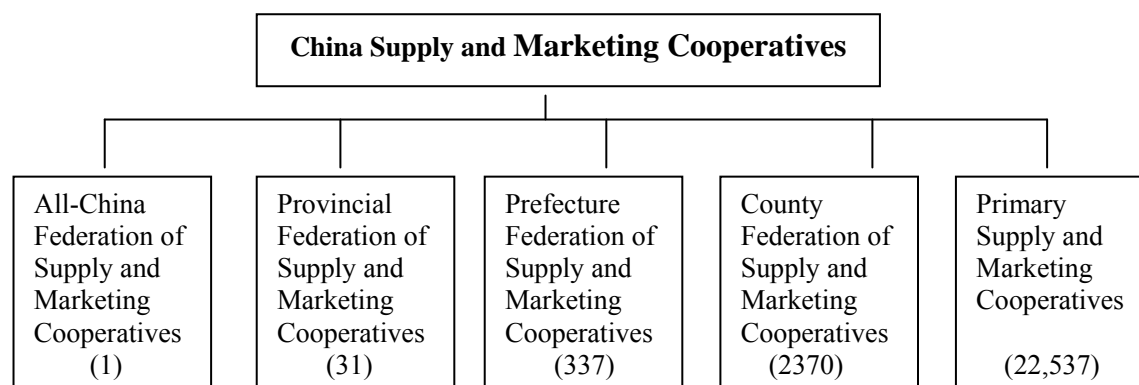
China Domestic Trade Yearbook” (2001, 2002), China Statistic Press

China Commercial Yearbook (1991, 2003, 2005, 2006). China Statistic Press.

China Financial and Economic Press. Selected Historical Materials of China’s Supply and Marketing Cooperatives. (Vol. 1), 1986.

China Financial and Economic Press. Selected Historical Materials of China’s Supply and Marketing Cooperatives. (Vol. 4), 1994.

Figure 1. Type and Number of China Supply and Marketing Cooperatives



Source: All China Federation of Supply and Marketing Cooperatives web site <http://www.acfsmc.cn>

Figure 2. Organizational Structure of All-China Federation of Supply and Marketing Cooperatives



Source: All China Federation of Supply and Marketing Cooperatives web site <http://www.acfsmc.cn>

Figure 3. The Role of SMC's in Purchasing and Marketing Supply Chains

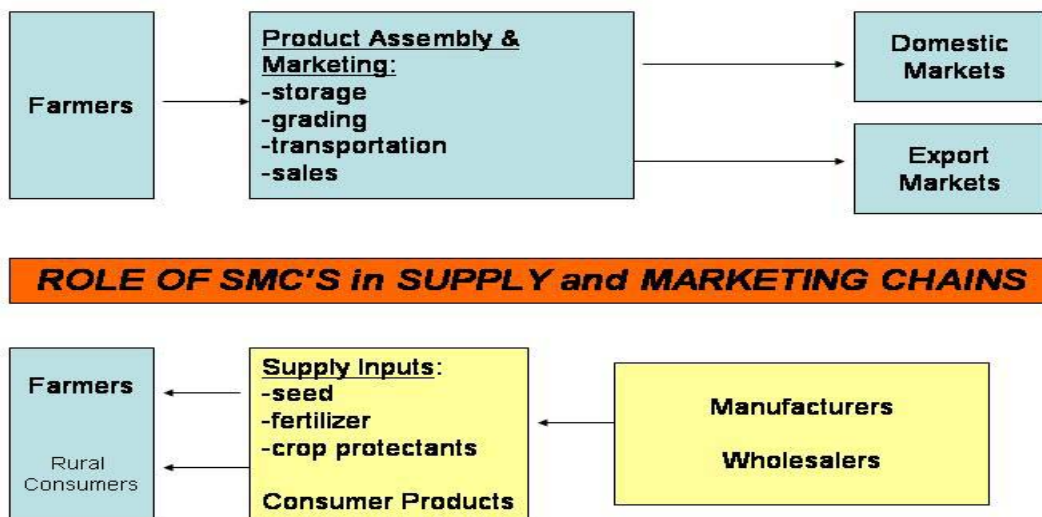
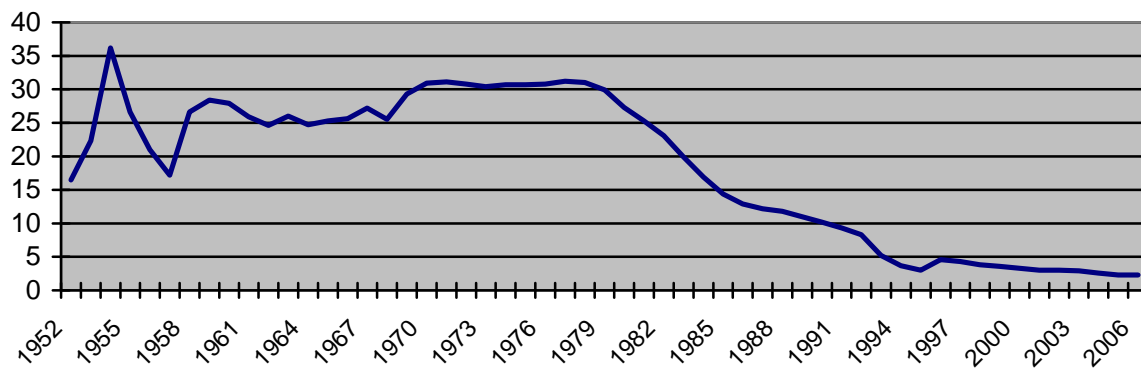


Figure 4. Market Share of Supply and Marketing Cooperatives in the Whole Society

(percent)



Sources: China Domestic Market Statistic Yearbook (1989, 1990, 1992). China Statistic Press.
 China Domestic Trade Yearbook” (2001, 2002), China Statistic Press
 China Commercial Yearbook (1991, 2003, 2005, 2006). China Statistic Press.
 China Financial and Economic Press. Selected Historical Materials of China’s Supply and Marketing Cooperatives. (Vol. 1), 1986.
 China Financial and Economic Press. Selected Historical Materials of China’s Supply and Marketing Cooperatives. (Vol. 4), 1994.