

The Comparative Study Between Chinese Agricultural Cooperative and Canadian New Generation Cooperative

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Abstract

Cooperative, as an organization of the weak originated from the need of economic alliance. It is an inevitable result of the development of market economy. But with the increasingly competitive and gradually diverse requirement, there are many organization structures of cooperative in practice. Each has its characteristic, some may stress the help with each other, like traditional cooperative, the others may pay attention to the profit returns, like new generation cooperative. In China, a new legislation related to the cooperative has just implemented for several years, although the management of agriculture cooperatives was unified and the new system supplies played a role gradually, there are still some questions need solve, in which a very important one is whether the legislation has set enough choices for the people who want to adopt the structure of cooperative. According to the current provisions, Chinese cooperative largely can be classified as traditional cooperative which may be suit for most, but in practice, there are more cases about members dominate the cooperative and democracy management mechanisms are often undermined. However, in my opinion, it can be interpreted as the need for the institution innovation from another angle, so it is necessary for legislator to consider system supplying about new forms of cooperative.

Key words: Cooperative; New generation; Institution innovation; China; Canada

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INTRODUCTION

A cooperative may be considered a form of economic system, a community development organization, or a form of business organization (Coley, 2000). Because of the complex meaning, the accurate description for cooperatives seems difficulty in theory, but along with the development of the cooperative, the characteristic of cooperative has been concluded. The Rochdale Equitable Pioneers' Society, one of the earliest cooperative businesses was founded in England in 1844. The Rochdale Society set up the first of what was to become the true-type of the cooperative as we know it today. These principles distinguish cooperatives from non cooperative businesses and finally become the famous The Rochdale Principle. Despite of some changes, the Rochdale Principle such as open membership, limitation on the number of shares owned, net margins distributed according to patronage, dividend on equity capital is limited have been applied to cause cooperatives to be a unique form of business organization. At last, in 1995, International Cooperative Alliance issued “The declaration on the cooperative characteristics” which defined the cooperative as “an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise”.

In practice, cooperative has many types, such as production cooperative, circulation cooperative, credit cooperative and service cooperative. Among these enterprises, agriculture cooperative is the most representative and more common organization.

1. DEVELOPMENT OF CHINESE AGRICULTURAL COOPERATIVE AND THE CURRENT REGULATION

China is a large agricultural country, but the regulation of agricultural cooperative has been a long time confusion and absence. In practice, various forms of rural cooperatives economic organizations existed. Some of these organizations were initiated by agricultural technique extension station, science and technology association or supply and marketing cooperatives, others were initiated by farmers. The registration and supervises of these organizations were chaotic, cooperative can be a company governed by the administrative department for industry and commerce, or a civil social groups, a people-run non-enterprise unit governed by the civil affairs departments. Just as some scholars described (Ferrell, 2002), in this phase, many kinds of cooperation organization existed, but due to the lack of authority cooperatives law in which the organization structure, management mode, operation mechanism, the rights and obligations of the members should be provided, these cooperatives have a big difference from internal institutional arrangement to the organizations' name and the nature. These cooperatives which can be named as "professional technological associations", "professional cooperatives", "professional technology research institute" or "synthesis of agriculture, industry and business" have the characteristics of the enterprise, but meanwhile can be divided as civil groups.

Such confusion has always been existed until "Farmer Specialized Cooperative Society Law" was implemented in 2007. At the same time, the State Council issued "Farmer Specialized Cooperative Society Registration Management Regulations", and Ministry of Agriculture issued "Farmer Specialized Cooperative Society Demonstration Constitution". From then on, any types of agriculture cooperative should follow these rules, so farmer specialized cooperatives have almost the same meaning with agriculture cooperative in China.

According to these legislations, farmer specialized cooperatives shall observe the following principles: (a) Their members are mainly farmers; (b) They aim to serve their members, working for the common interests of all the members; (c) The members join the cooperatives voluntarily and are free to withdraw from them; (d) The members are equal in status and democratic management is practiced; and (e) Profits are to be distributed mainly in proportion on the volume of the transactions effected between the cooperatives and their members. So, it can be find that Chinese agricultural cooperative has the characteristic of tradition cooperative, but on the other hand, there are do some new features exists.

First, in the membership, the principles of volunteer to enter into and withdraw freely were reserved, but the

legislation also makes some corresponding restrictive provisions. Not all people can join the cooperative, the member should be farmers or public institutions and organizations that are engaged in production and operation which are directly related to the business of a specialized farmers cooperative may become members of the cooperative, provided that they can make use of the services offered by the cooperative, recognizes and abides by the charter of the cooperative and complete the formalities for joining the cooperative as prescribed in the charter. Farmers shall account for at least 80 percent of the membership of a cooperative. If the total number of members of a cooperative is 20 or less, there may be one enterprise, public institution or organization as its member; if the number exceeds 20, the number of enterprises, public institutions or organizations shall not exceed five percent of the total number. On the other hand, not any time can member withdraw from cooperative, the procedures is strict and should be followed at all times. For example, If a member of a specialized farmers cooperative intends to withdraw from the cooperative, he shall submit a request to the director-general or the board of directors three months prior to the end of the fiscal year; and if an enterprise, public institution or organization intend to withdraw from the cooperative as a member, it shall do so six months prior to the end of the fiscal year.

Second, in the management, the legislation confirms the equality of the position of each member, and the enterprise executes democracy management, the system of "one person, one vote" shall be adopted for election and voting at the membership assembly of a cooperative, and each member shall have the right to one basic vote, but meanwhile the by-laws can provide otherwise. Members who make considerably large capital contributions or who effect considerably large amounts of transactions with the cooperative may, according to the stipulations of the by-laws, enjoy the right to extra votes. The total number of extra votes of the cooperative shall not exceed 20 percent of the total number of the members' basic votes.

Third, in the distribution, the profit divided by patronage mainly but can also by proportion of capital contribution. The legislation provides that the specific measures for distribution shall be decided according to the stipulations in the charter or the resolution of the membership assembly, but the profits distribution must abide by the following provisions: (a) one to return the profits in proportion to the volume of the transactions effected between the members and the cooperative, and the total amount returned shall not be less than 60 percent of the distributable profits; and (b) to distribute pro rata to the members of the cooperative the rest of the profits left after the return according to the provisions in the preceding subparagraph, on the basis of the capital contributions and shares of common reserve funds

recorded in the members' accounts and the members' average quantified shares of the assets accumulated from subsidies directly given by the government and donations made by other persons to the cooperative. From the provisions above it can be seen that capital is the second standard in the distribution which is impossible in the traditional cooperatives.

In my opinion, Chinese farmer specialized cooperatives are mainly traditional cooperative though some changes have made. On the one hand, just as the legislation stipulate, farmer specialized cooperatives are mutual-help economic organizations joined voluntarily and managed in a democratic manner by the producers and operators of the same kind of farm products or by the providers or users of services for the same kind of agricultural production and operation, so it can be found that mutual-help is still the main target of farmer specialized cooperatives just like the traditional cooperative, and on the other hand, the original cooperative principles and operation mechanism still have dominant positions. In general, farmer specialized cooperatives in China can only be defined as a traditional cooperative with some new characteristics.

2. THE CHARACTERISTICS OF CANADIAN "NEW GENERATION COOPERATIVES"

As the twentieth century gave way to the twenty-first, farmers found themselves in a predicament yet again as decreasing profit margins and poor commodity prices led to dismal returns on farm investment. Given the same powerful motivators that lead to the surge in cooperative formation at the beginning of the century, farmers again sought a self-empowering solution. Hoping to recapture profits that were going to processors and marketers of intermediate and final goods, many farmers started to form a new type of cooperative (ZHANG & LIU, 2005). Frequently called "value-added", "new wave", or "new generation" cooperatives, these new entities have a number of distinctive characteristics while still adhering to the basic principles of the cooperative concept. The term "new generation cooperative" can be abbreviated as NGC. The distinguishing features of NGC might simply be summarized as delivery shares and restricted membership (FU, 2003).

Equity shares in a NGC give cooperative members both the right and obligation to deliver a certain amount of farm product to the cooperative each year. The use of delivery rights that are purchased by the member means that their investment is proportional to their use of the cooperative. Any patronage refunds that the cooperative generates are distributed to members according to the level of product they delivered to the NGC. Delivery rights shares act as a two-way contract between the members and the cooperative -- they obligate the members to deliver product each year to the cooperative,

and in turn the cooperative is obligated to accept delivery of the product. This assures producers of a market for their product and the cooperative of a steady supply of its primary input. If producers cannot meet the quality or quantity commitments from their own product, they must purchase the product elsewhere to fulfill the delivery requirements. Otherwise, the cooperative will purchase the needed product and charge the member the difference.

In contrast to many traditional cooperatives that typically accept new members on a continual basis, membership in new generation cooperatives is restricted once the targeted amount of delivery rights shares are sold. Once that occurs, new members will only be allowed if an existing member wishes to sell some of his delivery rights shares to another producer. This ensures a stable level of supply of product for the NGC; membership may change somewhat because producers wish to sell some of their delivery rights shares, but this does not change the supply of product being delivered to the cooperative. The sale of shares between producers typically requires approval from the board of directors before they occur.

3. COMPARATIVE ANALYSIS AND SUGGESTION

Through the comparison, it can be found that traditional cooperative pay more attention to mutual cooperation between farmers, social benefits is considered in priority. New generation cooperatives largely absorb the arrangement of joint-stock company and pay more attention to economic benefit. Seeing from the current provision, Chinese cooperative is between them, although different from traditional cooperative and made some changes, by and large, the institution emphasizes social benefits while economic benefit is secondary consideration.

Each cooperative organization has its rationality and the real question is who use it. For vulnerable groups in the farmers, who may have weak economic foundation and limited personal ability shall adopt the traditional cooperative as the organization. For the individual with more economic strength and pursue more returns may found a new generation cooperative. In china, most farmers are weak, especially in financial situation which may be the cause why the provisions keep traditions in large. But in practice, it happens frequently that some rich and influential family or individual or some organizations dominate the cooperative and democracy management mechanisms are often undermined. As we believed, it can not be simply concluded that the enforcement has a serious problems, but indicated that a different system arrangement maybe needed. So the legislation of new generation cooperative shall contribute to solve these questions.

In a word, the traditional cooperative based on the cooperative values of self-help and benefit targets

is secondary. The new generation cooperative is an adaptation to the fierce market competition, so the benefit targets are primary goal. In a sense, although made some changes, Chinese cooperative is more like traditional cooperative no matter the principle or the mainly arrangement. To develop the cooperative in china, we believe that the rules should be abided strictly and meanwhile the arrangement of cooperative should be various, which means institutional innovation is needed and the institution of new generation cooperative can be adopt in the practice.

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