

# New trends in workers' co-operatives in China

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## 1. Historical background (from the forties to the seventies)

The first important development of workers' co-operatives in China took place between 1938 and 1944. the «Gung Ho» (Industrial co-operatives) movement, part of the resistance effort against the Japanese invasion, had, at its peak in 1941, around 3000 cooperatives across the Chinese hinterland, plus schools and dispensaries. The movement was coordinated by a Gung Ho Association. A Gung Ho International Committee was also set up in Hong Kong to mobilise support for the movement from abroad, and committees of support were formed in several English-speaking countries (USA, UK, Australia, New Zealand). Most of the Gung Ho co-operatives produced badly needed consumer goods and material for the army. Although Gung Ho was the only Chinese organisation, together with the Red Cross, who operated in both Kuomintang and communist areas (the two parties were then united in an uneasy war coalition government), many of its members were victims of harassment by the kuomintang authorities who saw Gung Ho as a pro-communist force, and whole co-operative staffs were massacred in cold blood (Alley, 1988).

The Gung Ho movement was weakened, but did not die out, during the subsequent civil war period (1945-1949). In 1952, Gung Ho was merged with the National Federation of Supply and Marketing Co-operatives, a new organisation that was set up with the help of Gung Ho veterans and that still enjoyed an important degree of autonomy. The mid-fifties in fact saw a new peak in the creation of workers' co-operatives in China, especially in big cities in the coastal provinces. However, this originally autonomous movement increasingly fell under government control, which became absolute in 1958 with the Great Leap Forward, «*a move towards everything «large and public» and towards 'chopping off the tail of the private economy'»*» (Ge Xiulu 1996).

The drive towards state collectivisation reached its climax under the cultural revolution: «*Member shares were refunded, dividends on shares were eliminated, and a system of fixed wages was enforced. The factory leaders and enterprise managers were no longer elected democratically by the workers, but were appointed from above. Production lines and targets were decided by higher administrative units. The enterprises were put under unified financial management, and their workforce was subject to a unified personnel assignment system. They became called «collectively-owned enterprises». The «flesh and blood» relationship between the individual worker and the enterprise collective, from the points of view of property and assets, was lost. Everyone «ate from the same big pot», the workers lacked motivation, and the enterprises lacked dynamism: the co-operative system had completely disappeared»*» (Ge Xiulu 1996).

## 2. The eighties: an incubation period

It was only in the early eighties, with the economic reforms engineered by Deng Xiaoping, that the political and economic conditions could again be met for a revival of workers' cooperative enterprises (political acceptance by local authorities, liberation from state quotas and planning, free market for raw materials and finished products etc.).

Under these conditions, the *Gung Ho Association* was revived, again as an independent, non-governmental organisation, in Beijing in late 1984. However, the genuineness of its affiliated co-operatives (around 200 in 1987) was in most cases doubtful: before the private enterprise law was passed at the Chinese parliament in 1988, co-operative statutes were a convenient window-dressing for setting up private enterprises. An important exception must be noted: the Gung Ho Shanghai branch developed better than the other ten-odd provincial branches, both in terms of numbers of its

affiliated enterprises (around half of all Gung Ho coops across the country) and of their conformity to co-operative principles and in terms of their genuineness, especially in the rural areas surrounding the city. This was no coincidence, as Shanghai had already been at the forefront of the development of workers' co-operatives in the fifties.

The distorted development of the Gung Ho Association prompted Gung Ho veterans to revive, in 1987, the *Gung Ho International Committee* (or ICCIC, i.e. International Committee for the promotion of Chinese Industrial Co-operatives), the support organisation which functioned in Hong Kong in the forties. This time, the organisation opened its secretariat in Beijing.

Gung Ho International Committee's objectives were to engage in international liaison and networking in favour of the development of Chinese workers' co-operatives (financial aid, trade, experience sharing etc.) and to set up model co-operatives in selected experimental areas. Three rural areas, each having roughly the size and population of a Dutch province or a French Departement were chosen: drought-ridden and poverty stricken Shandan county in Northwestern Gansu province, at the beginning of the silk road; Honghu in the fertile plain of the Central-South Yangtse river; and Longkou on the maritime coast of Shandong province. A fourth experimental area, a district of Beijing, was later selected. In all, around 30 co-operatives were organised.

The «experimental area» strategy is a typically Chinese way of testing socio-economic innovations before popularizing and extending them: it has been used for the People's Communes, the agricultural reform, enterprise reform etc. Experimental areas are not only governmental testing grounds: they also have a strong bearing on ordinary people's ideas and behaviour. Many want to hear about them, visit them and copy from them. Therefore, Gung Ho International Committee's «experimental areas» strategy was highly justified in the Chinese context.

Unfortunately, Gung Ho International Committee first used a «top to bottom» approach to its experimental area strategy. The experimental areas were selected mainly on historical grounds (places where Gung Ho co-operatives or schools had been set up in the 40's, or where Gung Ho activists had been born). Understandably, Gung Ho International Committee's «top to bottom» strategy only brought about very moderate successes (only a handful of genuine co-operatives, too little enterprise networking and inter-cooperation among them, too much interference on the part of the local authorities etc.). Although this approach was conceptually wrong from the start, as Gung Ho International Committee later recognised, the organisation's options and freedom of action were objectively narrowed in the three years that followed the Tiananmen incident, when the political atmosphere in the country was not favourable to the development of «bottom up», non-governmental socio-economic initiatives; those three years in fact coincided with the successive creation of Gung Ho International Committee's four «top to bottom» experimental areas. At the time, the development of independent co-operative enterprise networks, especially in the rural areas of the hinterland, could hardly have come about without the clear consent of local authorities, and such consent could have hardly materialised without a historical justification.

Nevertheless, Gung Ho International Committee's work during these three politically tense years was useful in so far as:

1. it was one of the few experiments in China at the time that kept the co-operative ideal alive as genuinely as possible;
2. it allowed Gung Ho to gather experience in setting up workers' co-operatives in very different socio-economic contexts across the country;
3. it enabled the organisation to draft and amend a Gung Ho model charter in consultation with the

grassroots co-operatives within the experimental areas.

Apart from the two Gung Ho organisations (the Association and the International Committee), a much bigger organisation was set up in the 80's with the purpose of federating so-called workers' co-operatives: the *All China Federation of Handicraft and Industrial Co-operatives* or ACFHIC. This «federation» is more akin to a registrar grouping the «collective» enterprises under the Light Industry Corporation (ex-Second Light Industry Bureau). In fact, the latter is a state ministry. Collective enterprises under the Light Industry system are supposed to represent about one third of the total, the rest being made up of state-owned enterprises. However, there is little difference in the management and *de facto* ownership pattern of «collective» and state-owned enterprises within this system: managers are usually nominated from above, and production is at least partly determined by quotas and targets set by higher echelons within the bureaucracy.

### **3. 1992: things pick up again**

The three politically tense years that followed the Tiananmen incident ended with Deng Xiaoping's «Southern Speech»<sup>1</sup>, a political event which put the reform agenda back on track. The new climate also had a positive influence on the development of workers' cooperatives.

Gung Ho International Committee and ACFHIC started to intensify their links with the outside world. They both became members of CICOPA (i.e. the world confederation of workers' co-operatives under the International Co-operative Alliance), in 1992 and 1993 respectively. They have since then made sincere efforts to study, debate and popularize cooperative experiments abroad, with a number of trips to European countries, conferences and publications. This exposure to the outside world also encouraged them to engage in internal debates on hot topics within the international co-operative movement, such as the importance of enterprise networking, financial instruments, indivisible reserves, and share differentials among co-operative members. ACFHIC leaders increasingly understood, and honestly acknowledged, how far their affiliated enterprises were from real workers' cooperatives, while Gung Ho International Committee gradually understood that, although their co-operatives were more genuine, they needed to opt for a more «bottom up» approach.

Relations among the three Chinese organisations set up to promote workers' co-operatives also grew closer. Although officially rather cold with one another, Gung Ho International Committee and ACFHIC intensified their informal contacts. Gung Ho International Committee's relations with Gung Ho Association, which had previously remained rather distant, started improving slowly, especially with the Association's Shanghai branch.

Meanwhile, in Shanghai itself, a new development of workers' co-operatives sprang independently from the above mentioned organisations, directly from the grassroots. It started with the *All-Masters Printing House*, set up in 1988 by a young man called Mao Lai and 15 other people. Due to a good customer service (it is the only enterprise in Shanghai that provides double cross-checks on all contracted reviews) and almost no competition except from crippled state enterprises, the co-operative expanded rapidly. However, in 1990, in the middle of the conservative backlash which followed the Tiananmen incident, the enterprise became victim of bureaucratic harassment by the local authorities, who claimed that it was a «false collective», meaning a private enterprise; the co-operative was forced either to disband or to be affiliated to a municipal school. The co-operative members chose the second solution in the hope that, after lobbying high level officials, their cooperative status could be eventually restored. They managed to contact reform-minded Shanghai

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<sup>1</sup> Incidentally, this speech was made in the most publicised experimental area of modern China, Shenzhen, at the border with Hong Kong, and a symbol of everything modern in the mind of ordinary Chinese.

mayor Zhu Rongji (now vice prime minister and likely next prime minister) and were allowed to revert to their co-operative management and ownership system after 9 months of struggle and dwindling profits.

Shortly afterwards (early 1992), Deng Xiaoping made his southern speech and the political atmosphere was again on the reform side. Reform-minded Shanghai officials then tried to extend the experience of the All-Master Printing House with the so-called «shareholding co-operative» system. This system, at least in its Shanghai version, is a rather heterodox brand of cooperativism, characterised by high individual investments by the workers, high dividends on these shares, high re-investments, and therefore high differentials among workers-shareholders<sup>2</sup>. These measures are justified by:

1. a lack of access to credit for non-state enterprises and the legal-political impossibility, so far, to set up independent co-operative financial institutions;
2. the need to break away from the paternalistic «iron rice bowl» labour culture and to a new culture of risk and involvement in one's enterprise.

Nevertheless, the system maintains the essence of co-operative management: decisions are taken through «one person one vote» procedures, irrespective of the amount of shares, the great majority, or even the totality, of the voting powers in the general (or delegates) assembly belong to the workers; and the majority, or even the totality, of the workers are co-operative members.

In their effort to promote the shareholding co-operative model, the authorities of Shanghai's central Changning district invited the Director of the All-Masters Printing House, Mao Lai, to hold the post of vice-Director of the district's Commission for Restructuring the Economy. After discussing with his co-operative colleagues, Mao Lai accepted the post while retaining his job as Director of the co-operative. He used his government post to promote the creation, in Shanghai's Changning district, of hundreds of shareholding co-operatives and, since 1995, the experimental conversion of a few state and «collective» enterprises into shareholding co-operatives.

#### **4. Workers' co-operatives and the reform of China's state-owned enterprises**

The conversion of state enterprises into shareholding co-operatives is a particularly significant experiment given the efforts that the Chinese authorities are making to reform this largely inefficient sector of the Chinese economy, with more than 60% of money-losing enterprises and more than 30% (around 30 million workers) surplus labourers. It is even more significant because, whereas the whole banking system is paralysed by state subsidies to its ailing enterprises, these conversions are funded by their own workers, with no financial intervention from the state.

Shanghai has so far been unique in handling this type of experimental conversions, under three different scenarios:

The first one consists of small-scale state enterprises that are sold to their workers. All the staff invest shares and democratically elect the enterprise manager in a general assembly or a representatives' assembly. Management becomes completely autonomous from the state, and the enterprise becomes

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<sup>2</sup> «Shareholding co-operatives» are not limited to Shanghai: the term has become very fashionable in 1992-1993 across the country. However, there is a clear difference as to what the term means in Shanghai and what it means elsewhere: in general, shareholding co-operatives are enterprises that were municipality-managed and owned «collectives» in which the workers and other members of the local community are encouraged to invest shares, but in which the local government tries to remain the biggest shareholder; they can be regarded as shareholding companies with a minority participation by the workforce, like in part of the American ESOP's or in a number of Japanese enterprises. In Shanghai, however, the insistence on workers' control (quasi-identity between the workers and the shareholders) is due to the fact that the enterprise that served as a model, the All-China Printing House, was a real co-operative from the outset.

responsible for its profits and losses. Twelve small state-owned factories and 66 state-owned shops in Shanghai have thus far been converted into shareholding co-operative enterprises. The first one was the Shanghai Qunzhong Wooden Furniture Factory, a small money losing state enterprise under the Second Light Industry Bureau with 187 workers. One year after the buy-out, the sales had increased by 179%, net profit by 235%, and personnel income by 20%.

The second scenario consists of large state enterprises out of which one department is converted into a co-operative enterprise. The transport department of Tianyuan Chemical Works was the very first experiment of that kind. Till June 1993, the department was still a deficit-ridden unit, when it was transformed into an independent co-operative called Tianyuan Transport & Development Ltd. The 108 workers contributed around US \$250 each in shares, A number of workers from Tianyuan Chemical Works also contributed «shares» which, in fact, were more akin to participatory bonds in the sense that they did not give their owners any right to voting powers nor to dividends, but only interests. In this fashion, the decision-making power remained firmly within the workers' hands, In spite of the existence of both internal and external shares, initial capitalisation was still quite insufficient to buy all the assets that the transport department was previously handling (lorries, offices etc.); instead of buying these assets, as most reconverted co-operatives in the world do, the new co-operative rented them from Tianyuan Chemical Works, This also enabled them to rent even more premises, such as a petrol station and a workshop, and therefore to engage in more activities, such as managing a petrol station 24 hours a day, and making noodles, By so doing, they reaped a profit of around US \$5 million in 1995, while they had a net loss two years earlier,

The third scenario consists of state-owned enterprises where the surplus labour force leaves their job to organise new jobs together by setting up a co-operative enterprise. For example, Yangshupu Gas Factory had 2000 workers, among which 400 were surplus labour force; these left the enterprise to set up a co-operative in the service sector,

Similarly, a number of so-called «collective» enterprises, in fact second-rate state enterprises<sup>3</sup>, were resold to their workers. It must be pointed out that all workers' buy-outs of whole enterprises, either of state (first scenario above) or «collective» ones, required complicated negotiations concerning e.g. the value of the enterprise's assets, the share that should be considered as belonging to it and the share that should be considered as pertaining to the upper level bureaucracy, the way to pursue the enterprise's welfare obligations towards its retired workers, etc., with clear ownership transfer procedures. This shows that the upper level bureaucracy «means business» and considers such buy-outs are substantial ones, not as mere window-dressing,

## **5. A first assessment of the Shanghai movement**

The growth of the shareholding co-operative movement in Shanghai since 1992 has been absolutely spectacular: there were previously around **150** workers' co-operatives registered in the Shanghai area (under the Gung Ho Association), plus a handful of isolated and non-affiliated ones such as the All-Master Printing House; the number of shareholding cooperatives registered in the Shanghai area was estimated in May 1996 at **10 000** units,

Of course, this growth, from around 150 to more than 10 000 units in four years, is linked to:

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<sup>3</sup> In an interview in May 1996, the General Manager of the Shanghai Filter Plant, a «collective» enterprise under the Second Light Industry Bureau, told me that, in his mind, the main difference between state and «collective» enterprises was that the former were lucky enough to be assigned university-level technicians, while the latter usually had to put up with secondary school level ones...

1. the clear political signals towards economic liberalisation expressed by Deng Xiaoping in 1992; and

2. the formidable economic expansion of Shanghai since the late eighties, which must be seen within the much broader framework of East Asian economic expansion,

Of course, not all these shareholding co-operatives follow the basic co-operative principles. Although they tend to follow these principles at the time of their creation, many tend to bar access to membership to the bulk of the workforce that are appointed during their subsequent expansion period, and therefore to transform themselves into common shareholding companies. I personally visited several enterprises of this type. However, all testimonies converge to suggest that a very significant part, i.e. at least one fourth or one third of the total, do follow the main co-operative principles. It must be pointed out that the situation is, in this respect, very different from Gorbachov's USSR, where co-operatives were the only legal loophole at hand for people who wanted to set up private enterprises. By contrast, private enterprises employing from 8 to a few hundred workers are legal in China since 1988, and the development of conventional private enterprises in Shanghai has also been very substantial since 1992.

The impressive development of shareholding co-operatives in Shanghai, due to an interaction between popular forces and an enlightened faction of the bureaucracy, has dwarfed the performance of the organisations that were supposed to promote workers' cooperatives, namely the two Gung Ho organisations (Gung Ho Association and Gung Ho International Committee) and the ACFHIC. Whereas unaffiliated shareholding cooperatives in Shanghai are around 10 000 with an estimated minimum of 200 000 workers (20 workers on the average by unit, according to Shanghai co-operative specialist Ge Xiulu), the Gung Ho Shanghai Association has 229 affiliated enterprises with 6595 workers, and the Shanghai branch of ACFHIC (supposedly a much bigger organisation) has little more than 200 affiliated enterprises, out of which only 17 have been re-sold to their workers and converted into shareholding co-operatives, with an estimated combined workforce of less than 2000 workers.

Although Shanghai's shareholding co-operative movement has grown independently from the three organisations that are supposed to promote co-operative enterprises, it has gradually intensified its relations with them. The main promoter of the movement, All Master Printing House Director Mao Lai, was first approached by Gung Ho International Committee in 1993. He became a member of this organisation in 1994, a member of its executive committee in 1995, and its Deputy General Secretary in 1996. His co-operative, the All-Masters Printing House, has recently been chosen as the base for the creation of a new Gung Ho International Committee Shanghai experimental area. At the same time, Mao Lai also became Deputy General Secretary of the Gung Ho Association's Shanghai branch, while more informal links were also built with the ACFHIC's Shanghai branch.

## **6. The CICOPA project**

It is in this context that CICOPA launched its co-operative consultancy project in China together with its two affiliates, Gung Ho International Committee and ACFHIC, and with the help of Freres des Hommes, in June this year. The CICOPA project aims at setting up second degree consultancy co-operative enterprise, providing enterprise counselling in the fields of enterprise management, production strategies, purchase of raw material: obtention of financial loans, and marketing of finished products, so as to support workers' co-operatives in their take off and expansion. CICOPA and the beneficiary co-operative share the cost of the service during the whole period of the project (three years) with decreasing proportion for CICOPA and an increasing one for the beneficiary co-operatives. These, in fact, will have to shoulder 100% of the cost after three years.

While the project had originally been designed to include Gung Ho International Committee's first four «experimental areas», the partial failure of the latter on the one hand, and the impressive development of co-operatives in Shanghai on the other, prompted the three organisations to launch the project in Shanghai first, and then to extend it to other areas. Besides, the project was supposed to be directed to co-operatives affiliated or directly linked to the two CICOPA Chinese members, Gung Ho International Committee and ACFHIC. However, given the fact that co-operatives linked to those two organisations in Shanghai are only a small fraction of the total, the two organisations agreed with CICOPA that the beneficiaries would be any enterprise responding to the basic standards of a workers' co-operative, needing the services of the consulting co-operative, and ready to pay for them.

The Shanghai co-operative network, in this context, is seen as a base that needs to be consolidated before it can, in turn, actively promote workers' co-operative in the rest of China. It is far more cost effective and in conformity with sustainable development theories to promote an enterprise network whose surpluses can then be partly used for the development of other enterprises in poorer areas, possibly with the prospects of economic complementarity and cooperation, than to channel aid funds directly to those areas.

Besides, two other reasons which are more specific to China plead for this choice: firstly, there is far less government interference in Shanghai than in most other parts of China, and a whole culture of self-reliance has already been created, contrasting with the paternalistic culture of most poverty-stricken areas. Secondly, we have seen above that the Chinese tend to make socio-economic innovations through experimental models. Shanghai will much more easily appeal to the ordinary Chinese as a co-operative model than, say, drought-ridden Shandan in the far North-West, about 3000 km away. This is not only because Shanghai is the old business hub of East Asia, but also because it has been earmarked as the new model for economic reform with the present construction of the Pudong economic zone. Whereas the first phase of the Chinese economic reform, which began in late 1978, focused on rural areas (radical changes in the agricultural quota and land tenure systems and dramatic development of rural industrialisation), the second phase, which started in early 1992, concentrates on enterprise reform in urban areas. This is also the most difficult stage in the government's reform agenda; if the challenge is met, it can boost further enterprise reform in the rural areas<sup>4</sup>.

As far as the implementation of the CICOPA project is concerned, Gung Ho International Committee and ACFHIC agreed with CICOPA that All Master Printing House Director Mao Lai (with his experience of managing a co-operative and advising people on how to set up co-operatives from scratch or as conversions, with his exposure to the co-operative system both at home and abroad, with his credibility with both CICOPA Chinese members, many co-operatives in Shanghai, and the Shanghai government) was in the best position to set up the consultancy co-operative.

A seminar was then held in Shanghai in early June, with the leaders of the two Gung Ho organisations (Gung Ho International Committee and Gung Ho Association) and ACFHIC, plus co-operative members from Shanghai and other Gung Ho International Committee-linked experimental

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<sup>4</sup> The composition of the leadership team also reflects this change in emphasis from rural to urban reform: several top leaders in the eighties, including Zhao Ziyang and Wan Li, had been the artisans of experimental agricultural reforms in the late seventies as provincial governors. By contrast, there is now a strong Shanghaiese group at the top leadership: the present party secretary, president of the republic and president of the Central Military Commission Jiang Zemin, and the vice Prime Minister in charge of the whole Chinese economy and probably next Prime Minister when Li Peng completes his term of office in early 1997, Zhu Rongji, were until a few years ago Shanghai party secretary and Shanghai mayor respectively.

areas, academics and Shanghai government officials. It was probably the first time in China that people such as a high level government official (ACFHIC's vice-president), an ex-Deputy Chairman of the All China Federation of Trade Unions (Gung Ho International Committee's President), an old naturalised revolutionary of Polish origin (Gung Ho International Committee's vice President and ex director in chief of «China reconstructs»), a peasant woman from Hebei province, an official from the commission for the restructuring of the economy, a Shanghai worker turned enterprise manager, a university professor and the president of CICOPA, who came from France, were gathered in the same room to discuss the problems and prospects of workers' co-operatives in China and in the world.

Mao Lai and his colleagues are now setting up the Shanghai Ximeng Consultancy Cooperative, which will be responsible for implementing the project, first in Shanghai, and within a few months also in Hebei province where Gung Ho International Committee is promoting a new project of workers' co-operatives among peasant women, this time in a much more «bottom up» fashion.

## **7. Future perspectives**

Shanghai's shareholding co-operatives have taken advantage of a sudden and unprecedented business climate, just at the passage point between a planned and a market economy, and between a closed economy and an economy open to the outside world. This opportunity will not be repeated. With the gradual opening of the country and compliance with WTO/GATT standards, competition with foreign companies could easily become fatal to a substantial part of those small and medium scale enterprises. China does not seem ready to embrace all-out deregulation and complete exposure to competition in the near future, as the state will probably continue to play a strong role in selecting foreign imports and in promoting Chinese exports. But even without considering foreign competition, the gradual stabilisation of the domestic market will bring about relative saturation, and domestic competition may be enough to brush aside an important number of presently booming shareholding co-operatives. In order to avoid such a prospect, these enterprises should now unite into a well-knit inter-co-operative network. The CICOPA project aims precisely at laying the basis for that.

But enterprise consulting is only part of the answer. Credit is another important factor which is badly lacking with the virtual inexistence of credit schemes for non-state enterprises. The promoters of the movement are now lobbying the central government to approve the establishment of China's first independent co-operative bank. They are also looking at business opportunities in the west. Mao Lai is due to visit Europe in October to meet business executives from some of the most successful Italian, French and Spanish workers' co-operatives and co-operative groups, in order to explore possibilities to set up production contracts, sub-contracting arrangements, and even joint ventures between European and Chinese workers' co-operatives.

The encouraging development of China's workers' co-operatives needs to be strengthened if they are to meet the challenges ahead in terms of competition and obtention of financial support. For this, Shanghai may play the most important role. As a hub between the outside world's and China's urban and rural hinterland, Shanghai's shareholding co-operative movement could not only provide the model and experience, but could also channel the necessary financial, technical and human resources.

Bruno Roelants  
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