

# Political Economy of Agricultural Cooperatives in Southeast Asia

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## Abstract

The cooperative movement in Southeast Asia has already passed through a long history. However, the membership of agricultural cooperatives still consists of a small portion of all farmers. Economic functions of cooperatives are partial, not affecting all aspects of the production and distribution activities of farmers. They are likely to regard cooperatives as formal organizations regulated by the government agencies involved. The incentives to form of cooperatives usually come from the central authority of government. But, changeable government attitudes towards cooperatives have caused serious confusion into their organization and management. During the 1970s to the 1980s, policy for cooperatives seems to have been in a chaotic state. This is mainly because the policy had to diversify its social and economic objectives along with agrarian differentiation.

The recent ideal of cooperative policies places a greater emphasis on agricultural development and business efficiency. Governments do not always regard cooperatives as cost-effective. They tend to review the economic rationale of the private sectors in agricultural development. Privatization affects negatively the promotion of cooperatives. There is increasing disagreement over what the role of agricultural cooperatives should be in agricultural development.

Key words: economic nationalism, political instrument, multi-purpose type, production-oriented cooperatives, changeable policy, complicated system, disagreement over policy, privatization, business efficiency

## I. Introduction

This study will analyze the characteristics of policies for agricultural cooperatives that governments of Southeast Asian nations have so far adopted. Special attention will be given to socioeconomic surroundings of the policies and viable roles of cooperatives in agricultural development.

Southeast Asian nations have been striving to establish a well-arranged cooperative system since the end of World War II and their release from colonialism. They have helped a mass of peasants participate as cooperative members in many ways; therefore, it may be unnecessary to review the development of cooperatives' policy. However, agricultural cooperatives have found many obstacles on their way to sound development. They have not yet attained initial objectives. They have neither succeeded in extending their membership on a nation-

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wide scale nor in attaining economic efficiency in cooperative business. Moreover, cooperatives have occasionally complicated the efforts of governments to narrow the widening income gap between rich and poor. The elites among their members have a monopoly on cooperatives' benefits, while the remainder are alienated from its organization and management. Not unnaturally, cooperatives' lack of success has earned them an unenviable reputation. There is increasing disagreement today over the appraisal of agricultural cooperatives.

The pessimistic appraisal of agricultural cooperatives stems partly from unrealistic objectives. They would be responsible for restructuring rural society, attaining equity of income distribution among members, solving the problems of the landless farmers, and improving the social and political status of rural society (STEVENS & JABARA 1988). Those responsible for planning and implementing agricultural development programs tend to hesitate to concentrate more on the further expansion of a cooperative system. Rather than cooperatives, they would much prefer to seek another instrument better-suited to the implementation of the programs. A policy for cooperatives becomes a controversial issue, even if its ideology is widely accepted. In this context, much of the argument that follows will analyze dubious policies and the changeable attitudes of governments towards the promotion of agricultural cooperatives.

## II. Fresh Departure of Cooperatives as a Political System

During the colonial periods, cooperative systems were a pillar of colonial economy. Colonial bureaucrats made an effort to extend their memberships, and took the leadership in the cooperative movement. In Indonesia, a nationalists' party also expanded its own set-up of cooperatives, opposing the cooperatives regulated by the Dutch colonial authority. The cooperative movement was frequently divided into factions by colonialism and nationalism.

Naturally, in Southeast Asia, newly independent nations had to prepare a fresh departure of policy for cooperatives immediately after their independence from colonialism. The declared aims of the new policies were to help ethnic peasants adapt themselves to the penetrating capitalist economy and to eradicate increasing rural poverty. Governments predicted that cooperatives would bring accumulation of capital and enhance the purchasing power of rural people, through which national economies would be industrialized and become more independent.

New policies for cooperatives were much concerned with the ideal of feverish nationalism. All cooperatives held a great responsibility for the attainment of economic nationalism based on 'economic democracy'. Governments regarded cooperative organization as the most appropriate form of people's participation in the process of nation-building. The newly promulgated constitutions of Indonesia and the Philippines stressed that the expansion of a cooperative system should be at the core of their respective national economies.

Meanwhile, the elites of dominant ethnic groups faced political and economic dilemmas. Political 'superstructure' was not merely a reflection of economic foundation. When they

came into power, they had to reduce the potential danger of aliens' economic power. In reality, these ethnic elites obtained more funds from Chinese capitalists to sustain a greater influence over politics. Ethnic middle classes were virtually absent, and the great majority of native people had persisted in subsistence economy having little opportunity to leave traditional farming. This was a result of the racial division of labor that had been structured by European colonialism. The colonial authority had not stripped away the social guarantees of native society shielding the peasantry from the impact of market economy. Bureaucratic and political elites recognized that the traditional patterns of native specialization could no longer be shattered by modest forms of reformation. Such a pressing need for economic independence presented a powerful motive to establish cooperatives.

The newly formulated policies included racism. The cooperative's ideology was arbitrarily, sometimes bluntly, applied to the urgent work of nation-building and combined with anti-foreigner - mainly anti-Chinese - campaigns. Not surprisingly, cooperatives were rapidly expanding their memberships and the scope of their business activities just when governments introduced serious repressive measures against aliens.

In Indonesia, Malaysia and Thailand, more typical repressive measures against overseas Chinese consisted of both exclusion and assimilation. An outstanding example of economic exclusion was occupational restriction barring aliens from particular occupations. In the early 1950s, the Thai government prohibited aliens from engaging in such occupations as barbering, salt production, metal inlaying, driving buses and taxis, manufacturing charcoal and umbrellas, and commercial fishing (SKINNER 1957). The government strictly controlled aliens' ownership and investment, too<sup>1)</sup>. In the agricultural sphere, the government restricted aliens from possessing land-based property. This decision would preclude Chinese middlemen from dominating the distribution of agricultural products and the circulation of money. Such exclusion facilitated the spread of cooperative membership. A cooperative system acted as something that would stimulate major native groups to take over from alien-controlled economies and to take the initiative in economic development.

Agricultural cooperatives were to solve the problems of debt and landlessness from which native peasants had long suffered. In particular, credit cooperatives were to create mutual financing among the members, to mitigate the heavy burden of their outstanding debts. This was in recognition of the fact that the lack of a modern banking system in rural society enabled Chinese middlemen and money-lenders to severely dun the native peasants. The colonial authorities had introduced the Raiffaizen type credit cooperatives: even after World War II, this particular type was still dominant as the peasants were burdened heavily with debt.

Regarding the effects of repressive policies against Chinese, there were many differences between economic classes inside the Chinese society. This is because class struggle and differentiation had already become severe in the society. Political elites recognized that governments had to proclaim occupational restrictions on such field as native people grew more competitive with the lower classes of Chinese. Those cooperatives, being responsible for taking over small trade and service activities, may well have ruined the livelihood of these Chinese.

Governments established state enterprises to monopolize commerce, trades and finance. They also gave various privileges to indigenous businessmen. With the desire to preclude Chinese from dominating their national economies, the governments increasingly invested in industries through the state enterprises. They provided a large source of revenue to the governments so that the political elites could reduce heavy dependence on Chinese entrepreneurs<sup>2</sup>). Clearly, the expansion of the governments' role in national economy forced the upper classes of Chinese to assimilate themselves into native society. They intensified the partnership with the political elites of major ethnic groups to secure special privileges. State enterprises much preferred to cooperate with Chinese entrepreneurs to have access to their managerial skills and distribution networks. Such new partnership brought Chinese entrepreneurs a chance to accumulate more capital.

Southeast Asian nations vigorously attempted to introduce multiple types of cooperatives that would affect various aspects of national economy. Many of these cooperatives were to establish a specific business link with those enterprises regulating the distribution networks of commodities on a provincial and nationwide scale. Cooperatives were in charge of channeling the flow of important commodities, exporting agricultural products, and sometimes producing and processing them. They held a position in the lower reaches of nationwide distribution networks. Governments and state enterprises gave financial support and trading privilege to these cooperatives.

The establishment of cooperatives was also intended to improve the unsettled political situation during transitional years. To further reconstruct the social and economic system currently prevailing, there was need for a racist approach to expanding cooperatives. The interpretation of cooperative ideology became more attuned to the importance of nation-building. Political and bureaucratic elites intended not only to assume control over national economy but also to develop the political stability of rural society. Cooperatives were less concerned with the real efficiency of business operation than they were with developing political unity among the native people. Governments increasingly provided cooperatives with paternalistic subsidies and special privileges, which led to widespread cooperative membership.

Heavy dependence on government sponsorship hindered the growth of self-help cooperation coming from the people themselves. Members were more likely to consider the cooperative an official agent of relief work than to voluntarily participate in its membership to enhance the self-reliance and cohesiveness of native people. The mere mention of 'dole-out mentality' may remind us of the fact that many agricultural cooperatives faced members' severe default, leading to the deterioration of the financial position of cooperatives' management.

A number of small-scale credit cooperatives fell dormant due to the lack of managerial skill, the meager scale of capital and the default of members. Moreover, state enterprises and cooperatives in Indonesia and Thailand could not afford to replace alien traders (COPPEL 1983). They only disrupted national economy<sup>3</sup>). Political elites often based their power on patronage within state enterprises and cooperatives; as a result, they became a drain upon the treasury (INGRAM 1971). Governments viewed cooperatives as an effective manner of

accelerating economic nationalism and of strengthening their power base. It grew into a political set-up. The inefficiency of cooperatives became obvious.

### III. Reorganization of Agricultural Cooperatives

From the 1960s onwards, policies for agricultural cooperatives have been changeable and have made many fresh departures. There are several substantial reasons for the reorganization of cooperatives. Above all, many of those cooperatives that had been early established could not attain efficiency in business operation. This became a great impediment to the smooth operation of agricultural development programs.

Revolutionary changes in agricultural technology and a rapid rise in productivity, caused by the *Green Revolution*, forced governments in Southeast Asia to abandon ill-suited cooperative systems. An increasing demand for productive farm materials became a strong inducement to set up a new system. The old-fashioned credit cooperatives hardly satisfied farmers with the purchasing of farm materials and the raising of funds. These cooperatives still persisted in operating based on personal relationships between members in a narrow locality. They only acted as agents of government financial institutions. The cooperatives could neither develop mutual financing among members nor diversify their economic functions to supply and marketing activities.

The obvious expectation of governments was that the provision of agricultural credit and farm materials through cooperatives would be of great use to extending highly-yielding varieties of rice. However, cooperative membership consisted of only a tiny portion of the many accessible farmers. Cooperatives' credit did not cause a sharp rise of borrowers' agricultural productivity. A great part of the credit given to members was not production-oriented, but consumption-oriented.

Several external forces urged the restructuring of cooperative policy. In some countries where economic nationalism collapsed, most notably in Thailand, a shift towards 'laissez-faire' economic policies occurred. Governments began to encourage both local and foreign investments on a private basis. They reconsidered repression against the local Chinese society, and then relaxed economic restrictions on it. From the aspect of foreign relations with China, Southeast Asian nations had to alleviate control over local Chinese. Since China was becoming a super-power in the Far East, it was disadvantageous to take further oppressive measure against them.

The changes of political leadership decisively caused severe fluctuation of policy for cooperatives. In Indonesia, the Suharto regime amended the cooperative laws that the Sukarno government had instituted. In the early 1960s, the Sarit regime of Thailand ceased costly sponsorship to cooperatives that Premier Phibun had continued to provide. New regimes tended to regard conventional cooperatives as a political pillar of the previous authorities. Privilege and sponsorship for cooperatives were stripped away, thereby making them shift their nature from a paternalistic organization to an independent economic one.

Political and paternalistic policies for the promotion of agricultural cooperatives obviously

came into question. The pessimistic appraisal of cooperatives was rapidly spread due to the disastrous failure of early trials. In the 1970s, the United Nations pinpointed how the pessimistic appraisal was widely accepted, and then criticized this. The pessimism came from too highly optimistic expectations for the cooperatives: the early trial of establishing cooperatives was probably dreamlike (United Nations 1974).

The Food and Agricultural Organization (FAO) proposed that the establishment of production-oriented cooperatives might be a cost-effective alternative to the improvement of inefficient ones. This approach consisted of three substantial elements, i.e., (1) increase in agricultural production, (2) greater participation by farmers, and (3) enhanced cooperative efficiency (FAO 1977,1984). Contrary to the conventional type of cooperative, the new ones adopted distinct operating procedures on the basis of economic efficiency. Cooperative membership was to extend over a wider area than that of the old ones. New cooperatives' laws emphasized how to realize the efficiency of cooperative business. Yet another distinction was to operate multifarious activities such as provision of loans, supply of productive farm materials, collection and sale of produce: multi-purpose cooperatives. More than the single-purpose type, this would be suited to the development of agrarian transformation.

The expansion of production-oriented and multi-purposed cooperatives in Southeast Asia started on a full scale before and after 1970<sup>4)</sup> (ICA 1974). Much effort had already been devoted to the establishment of these types since the early 1960s. The start of agricultural development projects, a part of which probably met broad military and political requirements of rural development, needed a new type of cooperatives.

The government of Thailand made an effort to create new cooperatives when the growing influence of the United States directed Thai development programs towards rural security<sup>5)</sup> (BRAILEY 1986). Generous assistance designed to demonstrate the government's involvement in local affairs was given by the autocratic, authoritarian regimes (RANDOLPH 1986). The obvious expectation was that economic growth would be indispensable to political stability and represent the best measure of counterinsurgency. The government experimented with the operation of production-oriented cooperatives mainly in strategic rural areas, with such objectives as commercialization of traditional agriculture and diversification of crop production. This eventually led to the complete amendment of cooperatives' laws in 1968.

The authoritarian regimes that placed great emphasis on rural development were trying to extend multi-purpose and production-oriented cooperatives. In the Philippines, the Marcos administration proclaimed Presidential Degree No. 175 "Strengthening the Cooperative Movement." This was declared to foster the creation and growth of cooperatives as a way of increasing the income and purchasing power of the low income sector of the population. Cooperatives would attain a more equitable distribution of income and wealth. The Samahang Nayan (SN) program started in 1973 to build the base of a rural cooperative system that would facilitate land reformation. The SNs were pre-cooperatives, not having complied with all the requirements of cooperatives. They joined in the memberships of full-fledged (secondary) cooperatives such as area marketing cooperatives and rural cooperative banks.

In 1967, the Malaysian government transformed farmer associations, whose function was specializing in technical improvement of small holders, into multi-purpose, quasi cooperatives<sup>6)</sup> (WELLS 1981). Under the Second Malaysian Plan (1971–75) of the New Economic Policy (NEP), the state began to break down the *laissez-faire* framework of economy. Its objectives were eradicating poverty in Malay (Bumiputra) and restructuring the Malaysian society<sup>7)</sup>.

In 1973, to challenge the declared aims of the NEP, the government decided to establish a farmer organization into which farmer associations and cooperatives would amalgamate. This organization would affect the whole process of agricultural production by conducting multifarious activities. Moreover, it was responsible for coordinating those local agencies involved in rural development, and for managing the delivery systems for farm materials under the sponsorship of government.

In the 1970s, the Suharto regime set up 'Badan Usaha Unit Desa'(BUUD, village unit cooperative) and 'Koperasi Unit Desa'(KUD). It also proceeded to systematize concessive government support of the expansion of highly productive technology in agriculture. In 1978, Presidential Instruction No. 2 ordered the enhancement of the role of KUD such that it become a cooperative of the classical type. BUUD was purely an advisory unit consisting of government officials involved in cooperatives and of local leaders (HASSAN 1986). The KUDs covering 5–6 villages channeled fertilizers of specified crops in the government's credit schemes such as 'BIMAS.' They also grew as a center of economic activities in rural areas (ASIAN PRODUCTIVITY ORGANIZATION 1991).

Likewise, in Thailand, the 1968 Cooperative Act proclaimed the transformation of credit cooperatives into multi-purpose ones whose membership covered a wider area. Economies of scale would become accessible to members through appropriate operation of cooperative business. The meager scale of capital and business represented a great obstacle to cooperatives' development.

The development of cooperatives varied from nation to nation. However, there was a common expectation that production-oriented and multi-purpose cooperatives would be at the core of rural development, through which farmers would receive appropriate incentives to increase their use of highly-productive technology. A rapid increase in agricultural productivity stimulated capital accumulation in agrarian sectors: much of the newly acquired capital was transferred in various forms to the growing urban sectors. Cheaper prices of staple food encouraged non-agricultural industries and foreign capital influx, since the reproduction cost of the labor force could be lowered relatively. Import substitution rapidly advanced, and export-oriented industry grew more competitive in the world economy. A shift from extensive to cost-intensive farming provided the growing manufacturing sectors with a large outlet for their commodity, too.

Agricultural cooperatives were assigned the role of channeling manufactured farm materials by depending on government concessive credit schemes. They increasingly enhanced farmers' purchasing power, and expanded markets for agricultural credit and farm materials. The cooperatives contributed a considerable portion of the growth of national economy. Thus, the rationale for the cooperative policy formulated in the 1970s shifted from political to

economic.

#### **IV. Complication of Agricultural Cooperative Systems**

Yet another type of farmer organization had to be proposed, while governments promoted production-oriented cooperatives. This was due to severe differentiation in rural areas. There was a pressing need to encourage those farmers having less access to technological innovation in agricultural production to join cooperatives. It caused a vast gap in productivity between farmers. There increasingly emerged lower classes such as small holders, tenants, wage-laborers and landless, but they were mostly excluded not only from cooperatives but also from any form of state patronage. On the other hand, a number of well-off farmers received state patronage such as preferential access to opportunities to raise agricultural productivity.

After the mid 1970s, policies for agricultural cooperatives had to consist of two different profiles, since the social demand for farmers' cooperatives became diverse and complicated. The first profile was that cooperative business dealt with those farmers involved actively in commercial production. Their primary motivation to participate in cooperatives was a strong will to move up through economic classes. These farmers much preferred production-oriented, large-scale cooperatives from which they obtained the economic advantage of large-scale transactions.

The second profile was to approach the socioeconomic problems caused by severe differentiation in rural areas. However, only a small portion of farmers was able to become members of agricultural cooperatives. Despite the basic cooperatives' principles such as equitable spread of benefits and opportunities among members, larger, wealthier farmers tended to dominate the operation of cooperative business. They had a monopoly on cooperative benefits (TURTON 1989). Many of the subsidized resources delivered through agricultural cooperatives did not reach the poorer members.

Attempts were made to set up effective systems of delivering subsidized resources to peasants, and to prepare poverty eradication programs. Conventional type cooperatives found it difficult to attain their initial objectives: their lack of success had earned them an unenviable reputation. Governments had to organize new type organizations, such as a lending group for a particular financial institution and a farmer organization for extension services. They were not regulated by the laws of cooperatives. Any new type adopted a rather different form of organization from that of conventional types. It might be a paternalistic one that would deliver a segment of the subsidized resources to as many "small-scale" farmers as possible. The establishment of such organizations sometimes aimed at building a base of political support of authoritarian regimes in rural areas.

The newly designed type was either smaller-scale cooperative or financial group because large-scale cooperatives were less effective at extending membership to small-scale farmers. This type covered a narrow locality and operated business activities on a smaller scale, such as the provision of loans and farm materials, by depending heavily on the sponsorship of the

governments. It was thought that smaller-scale organization on the basis of well-defined narrow locality would be able to rely on mutual trust and reciprocal watching among members.

In Thailand, the 1971 revolutionary authority proclaimed the establishment of an agriculturist group in 1972<sup>8)</sup>, the economic function of which was similar to that of cooperatives. The group was primarily responsible for mitigating class struggle and resentment against inequity in rural villages. It would be able to ensure uniformity of control and stability in the countryside. The local governments aggressively intervened in the expansion of agriculturist groups, while striving to rearrange the local bureaucratic systems. This was the course of depoliticizing village structure and incorporating it into rural development programs initiated by central and local governments. The organizing procedure of the agriculturist group was much more concerned with the social unity of village members than the efficiency of business operation. Eventually, agricultural credit and farm productive materials delivered through the agriculturist group strengthened the economic power of village leaders who had close linkages to local officials (and merchants). This led to developing political support within villages. These leaders became apparatuses for state intervention to incorporate villages into the orbit of national society more efficiently in the name of 'national security'(CHAROENSIN-O-LARN 1985).

One factor that made agriculturist groups spread rapidly through the country as a whole was the direct intervention of local administrations. District and village administrative organs gave farmers bureaucratic incentives to join the groups. A considerable percentage of those farmers, having been excluded from cooperative membership, could gain access to develop cost-intensive agriculture by dealing with the groups' business.

However, non-repayment of members again became a great obstacle to the smooth operation of business activities. This was bound to result in excessive governmental intervention in the process of organization and operation. Farmers tended to regard agriculturist groups as an official relief work, thus exacerbating their "dole-out" mentality. As a result, many of these groups had to cease business operation immediately after the sponsorships of central and local governments were reduced or cut due to heavy budgetary burdens.

In the 1970s, the Indonesian authority devoted itself to the spread of highly-yielding varieties in rice production. It started 'BIMAS' and 'INMAS' schemes, both purposing to spread highly-yielding varieties through the country as a whole. The 'BIMAS' scheme was a package credit through which farmers could procure both credit and farm materials. Guided by extension officers, farmers put them into the process of production: they repaid their obligation in cash or kind. In contrast, the 'INMAS' scheme allowed farmers to procure farm materials according to their own will (KANO 1988).

Along with the expansion of institutional credit schemes, the government made a plan to build a 'village unit' that would replace the implementing of agricultural policies at a local level. This unit would totally act as agents of the extension office, the Indonesian national bank, KUD and BUUD. It was to conduct multifarious activities by connecting farmers to these organizations. It is noteworthy that the extension office was attempting to establish

farmers' grouping. However, this plan was impossible to realize, because disastrous default of borrowers made 'BIMAS' find it hard to continue.

In the Philippines, under the Masagana-99 program of supervised credit, the government organized small-scale financial groups (*selda*) modeled on traditional kinship and territorial society. It was to make a small number of farmers jointly liable for every member's loan. Cooperatives as well as conventional banks had rarely financed those farmers who possessed little property. The *selda* system enabled a large number of poor farmers to raise loans at lower interest rates from rural banks by participating in this system. They could purchase farm productive materials such as highly-yielding varieties of rice and chemical fertilizers. Such a financial group with joint and several liabilities guaranteed by the government would have worked successfully in smaller territories.

After the introduction of the *Green Revolution* in Southeast Asia, the traditional institutional frameworks of rural communities were rapidly changing. Intimate and paternalistic relationships between village people were reduced or replaced by more businesslike ones (TJONDTDONEGORO 1984). They tended to regard the motivation of individual benefit as more important than that of traditional communal benefits based on the subsistence ethic of peasant society. This was clearly reflected in the penetration of capital economy.

In the Philippines, the *selda* system did not work well; it struggled with the disastrous non-repayment of members. The borrowers lacked a sense of responsibility for their obligation<sup>9</sup>), and many of members would neither obtain any more loans nor repay their current obligation. Therefore, farmers regarded the group lending system as more costly and risky than the individual lending of financial institutions. Such group lending succeeded in expanding its membership at the beginning, but could not develop its business operation properly.

In Thailand, the Bank for Agriculture and Agricultural Cooperatives (BAAC) expanded client groups with joint liability. These groups were not regulated by the laws of cooperatives. Group lending arose for a number of reasons. The most obvious was that the bank intended to establish a direct link to upper economic classes by replacing both agricultural cooperatives and agriculturist groups. Although their business activities flourished, they were not large enough to meet ever-increasing demands for loans coming from the upper classes of farmers. The BAAC was also suffering heavy losses from the severe defaults of these cooperative organizations. It was reducing the amount of "on-lending funds" that was financed to farmers by passing through the cooperative organizations. Contrary to the Philippines' experiences, the BAAC's group lending succeeded in achieving an initially high rate of loan repayment<sup>10</sup>). This was because the BAAC's local branches strictly controlled the membership and operation of client groups.

Apart from a ministry (or department) engaged in the promotion of cooperatives, several governmental agencies involved in rural development deeply intervened in policy for cooperatives. Or they created different kinds of farmer organizations in their own interests- the agency of extension services, for example. The major achievement of extension services lay in the approach to delivering productive materials and agricultural credit through their organizations. This approach would be a hindrance to the sound development of coopera-

tives just as informal groups regulated by agricultural banks were.

From the 1970s onwards, several governmental agencies have framed policy for farmer organizations in different ways. A pressing need to organize their own system arose from the performance of development projects: they recognized that 'classical' cooperatives did not succeed. As a result, the system of the cooperative organizations has become more complicated, and the cooperative movement has been divided into sections by plural controls of bureaucracy. It naturally became very hard to effectively coordinate different systems. A lack of unity in bureaucracy has given a negative impetus to the cooperative movement as a whole.

Even today, farmer organizations find themselves in competition with one another regarding business activities and membership. One particular type hampers the smooth development of the other side. Outstanding examples can be seen in Malaysia and Thailand. In Malaysia, despite the government's effort to amalgamate cooperatives and farmers' associations into a new organization, there still remains conflict between both parties. In Thailand, there seems to be less leverage whereby plural systems of cooperatives can combine to create a single, strong cooperative movement. In Indonesia, the government has arranged integration between KUD and farmers' groups under the supervision of the Ministry of Agriculture.

Recent years have seen a development of economic privatization and liberalization in Southeast Asia. The rationalization of the monetary sector has profoundly affected agricultural and cooperative credit. For instance, the government of Indonesia has reduced the gap in interest rates between ordinary commercial credit and agricultural credit. Moreover, governments encourage greater participation of non-governmental organizations and private enterprises in rural development programs. In the organization and management of cooperatives, controls have passed largely into the hands of government officials. However, nowadays, policies for agricultural cooperatives are to place a greater emphasis on the ethics of self-reliance and the workable framework of business operation.

In Malaysia, farmer organizations have to reduce their heavy dependence on state patronage and take over a portion of public production as a component of the private sector. In other nations, agricultural cooperatives are required to enlarge the scale of business operation as a way of overcoming inefficient management. These are associated with the relaxation of detailed control over cooperatives that will make them compete with private enterprises on an equal footing. Conflicts may also arise among cooperatives, and between cooperatives and agricultural credit banks. Governments have already classified cooperatives into several categories according to the specified criteria in terms of business management. Only some of the cooperatives may be more deserving than the governmental agencies involved in rural development.

An extreme example can be found in Thailand. Faced with the incompetence of cooperative management, the BAAC has begun a concerted effort to establish a new type of cooperative with the enterprise's framework of business activities. Its membership consists of the bank's clients, covering a province, but not a district. Officers appointed by the bank's branches conduct day-to-day operations, and decision-making lies with the branch administration.

During the 1970s and the 1980s, policies for cooperatives were severely fluctuating between optimism and pessimism, and between political and economic aspects. The policies suffered the lack of long-term vision, sticking to temporizing strategies of development. A decisive turning point, however, has come in the policies for agricultural cooperatives, by passing through a chaotic state in the 1970s and the 1980s.

## V. Lessons From The Past Experiences of Agricultural Cooperatives

The political economy of cooperative policy may remind us of the fact that changeable government attitudes have hampered the sound development of cooperatives. The cooperative movement in Southeast Asia has already passed through a long history. However, the membership of cooperatives has still consisted of a small portion of all farmers. There has been not much leverage whereby cooperatives work effectively and improve members' socioeconomic conditions.

Many failures of agricultural cooperatives in Southeast Asia arise for a number of reasons; above all, farmers are likely to regard cooperatives as 'formal organizations' regulated by the governmental agencies involved.

Obviously the 'independent aim'- the extent to which members voluntary participation in cooperatives largely determines the direction of the cooperative movement- has been quite fragile since the embryonic stages of development. In the development of agricultural cooperatives, incentives usually take the form of state patronage, not that of members' feverish efforts. Governments have long taken the leadership in organizing and managing cooperatives. Unfortunately, such excessive intervention often results in more inefficiency of cooperative management, or aggravates the "dole-out mentality" of members.

Economic functions of agricultural cooperatives are partial, not affecting all aspects of the production and distribution of farm products. The cooperatives are no longer the main elements in an economic order that leads to the enlargement of members' production, even if governments occasionally provide concessive support with farmers through the cooperatives. Compared to traders dealing in agricultural products and farm materials, farmers find the procedures that cooperative business adopts rather complicated or impossible to follow.

Likewise, the organization of cooperatives is difficult to transform into an indispensable factor built into the inner structure of rural society. This is a reflection of traditional and socioeconomic linkage between peasant society and governmental authority. The incentives to form cooperatives usually come from the central authority of governments. Officers of central and local administration have stirred organization and management of cooperatives. However, their changeable attitudes towards cooperatives have introduced serious confusion into the operation of cooperatives. Political parties have often intervened in the cooperative movement, too. These external forces cause the alienating nature of members' voluntary participation in cooperatives.

A particular group, consisting of wealthier farmers, local bureaucrats and merchants, has vigorously striven to establish some type of formal organization (including cooperatives).

These local powers do not always take the leadership of the cooperative movement in a proper way, but often monopolize a considerable part of cooperative resources. This bias affects negatively the group cohesion of the members. The majority of members are excluded not only from the decision-making process of cooperative management but also from business operation on a daily basis. Of course, the upper classes of farmers often recognize the advantage of 'economies of scale' in cooperative business. These leaders want the rapid growth of business activities through the increased participation of farmers, rather than monopolizing cooperative resources.

Policy for agricultural cooperatives seems to have been in a chaotic state during the 1970s to the 1980s. It is understandable that the policy had to diversify its social and economic objectives in keeping with agrarian transformation and differentiation. Cooperatives tried to stimulate as many farmers as possible to deal with their business activities in one form or another. They varied organizing and operating principles from locality to locality, and from farmers' class to class. The coexistence of plural systems seems to have been rational in this regard, even though this was a result of many fresh departures of cooperative's policy. On one hand, cooperative membership based on well-defined narrow locality could afford greater participation of small-scale farmers. On the other hand, production-oriented cooperatives developed their entrepreneurial forms of business activities by which they hoped to attract those farmers becoming more mature in commercial production.

Clearly, a single model of agricultural cooperative cannot at once stimulate a greater participation of peasants and an extensive development of cooperative business. There should emerge a variety of patterns in forms of membership and business administration.

Out of many cooperative models, the production-oriented, multi-purpose type has become the most popular. The multi-purpose type is one that involves at least in the extension of supervised credit (production-oriented), the supply of productive farm materials, and the marketing and processing of agricultural produce. Moreover, these business activities must be inter-locking in accordance with the production and distribution procedures of the members. This type not partially but totally affects on the economic behavior of members.

A continuous trading relationship between cooperative and member is seen as the main element that enhances the financial ability of cooperative administration. The stimulation of one side of the business affects the expansion of other business activities, although there may be a time lag concerning the expansion of each aspect of business. The multi-purpose type mitigates risks resulting from meager-scale transactions with marginal farmers, in the same way as does a merchant by diversifying his economic functions. A drastic fluctuation in total profits is avoidable, even if a certain side of the business may suffer a deficit. A wide range of activities will also balance working capital in various sections of business administration.

The formation of a multi-purpose cooperative has to pass through a number of stages from its inception. It is probably more practical for a cooperative to concentrate on one particular business only - either credits or supply business. However, such a single-purpose type may limit its effectiveness only to one specific stage of members' production, attracting few farmers to its potential membership. Most decisively, those cooperatives not engaged in marketing business struggle with a lower repayment of members' debts.

Particularly in the depressed regions, farmers still remain at low productivity and partly persist in the ethics of subsistence economy. A single-purpose type may be in a vulnerable position vis-à-vis such traders as establish exclusive business links to farmers. They perform multifarious functions and provide various kinds of service covering all aspects of farmers' production. It is hard for the single-purpose type to encroach upon a kind of patron-client relationship between the two parties. Few cooperatives have benefited farmers without state-subsidized resources.

A cooperative, in which either one of the credit or the supply businesses expands sufficiently, will then be able to embark upon another sphere of activity. The supply of farm materials causes the need for some kind of financial services. Likewise, the provision of short-term loans will possibly lead to a rapid growth of the supply business. Such a combination represents the preliminary stage of a multi-purpose cooperative. This benefits its administrative side, too, in terms of increasing profits. Encouraging one particular aspect of the business will simultaneously bring an evolution in another aspect, which generates revenue concerning interest payment on loans and commission fees to the supply business.

Even at the preliminary stage of a multi-purpose cooperative, interdependence between the credit and the supply businesses may well raise farmers' bargaining power in markets, since they become more competitive. This enables the cooperative to gradually encroach upon uncompetitive marketing conditions in its immediate vicinity. The evolution of saving facilities enhances members' financial capability, and then brings a radical improvement in the financial position of cooperative. By passing through such a transitional stage, a cooperative can evolve into a multi-purpose institution.

However, different kinds of experiences in Southeast Asia commonly show that a temporizing strategy of cooperatives' development has been an impediment to the evolution of the multi-purpose type. Many cooperatives have ended in failure or fallen dormant before they gained the opportunity to transform their single-purpose form into a multi-purpose one. The specialized policies for marketing, supply, agricultural credit, and extension services should be integrated into one comprehensive policy for the development of the multi-purpose type. In actuality, policy for the promotion of cooperatives has tended to be cut off the related programs of agricultural development, due to little coordination among the governmental agencies involved.

There is still much disagreement today over what the role of agricultural cooperatives (whatever the type) should be in agricultural development. Many of the cooperatives have faced grim realities, so that policy for cooperatives has tended to fall victim to pessimistic appraisal. The ideal and conceptual frameworks that the policy implies are hard to prove to be valid.

The recent ideal of cooperative policy places a greater emphasis on agricultural development and business efficiency. However, governments do not always find the promotion of cooperatives cost-effective: cooperatives cannot develop at their own pace without short-term success.

More decisively, governments have recognized the economic necessity of the growing private sectors in the process of agricultural development. It was widely understood that

middlemen were much exploitative and agricultural marketing became inefficient for farmers. It is generally acknowledged, today, that agricultural marketing in Southeast Asia is indeed competitive and effective despite the minimum intervention of governments. As seen in revolutionary changes in the productive force, middlemen have played an important role in the expansion of new technology and capital investment in commercial agriculture.

In the sphere of agricultural credit, agricultural development would have advanced more slowly without informal credit. There would be much need for informal credits through the increased provision of formal credit. Typical middlemen have changed their own economic nature of exploitation, along with a rapid increase in their transactions. Governments do not find it necessary to regulate their ever-enlarging mercantile activities. The dogmatic statement about the socioeconomic reasons of policy for cooperatives is criticized as misleading. The negative light of the policy leads to appreciation of the role of the growing private sector, and vice versa.

Privatization has brought a rapid progress in agricultural development programs, being less concerned about concessive sponsorship towards cooperatives. This also encourages greater participation of commercial banks in rural development programs. Governments reduce state patronage for state-owned banks or raise their loan interests at commercial levels. They often transfer the ownership of state-owned banks into private enterprises.

Furthermore, agricultural central banks grow more competitive with cooperative credit. The banks usually provide 'on-lending funds' to cooperatives, which will be a source of their loan activities. In cases where the banks suffer from non-repayment by cooperatives, they tend to hesitate to provide more 'on-lending funds'. The banks would much prefer to lend directly to farmers, not passing through any cooperative organization. In Thailand, the BAAC has rapidly expanded direct lending by organizing non-members of cooperatives into its client groups. The Thai government identifies the efficiency of the BAAC's direct lending; therefore, cooperatives have had lesser leverage in credit activities.

The BAAC has also provided clients with agricultural credit in kind: it has supplied farm materials such as chemical fertilizer, pesticide, agricultural machine and seeds, the same as have cooperative supply businesses. The amount of dealing in the farm materials is larger than that of cooperatives. The BAAC has decreased the provision of credit in kind under the privatization programs led by the government. However, it has exerted efforts to organize a new type of cooperative the membership of which is based on client groups. The non-financial activities are taken over by these cooperatives. Not unnaturally, the BAAC's cooperatives hamper conventional cooperatives in further extending their membership.

Apparently, policy for cooperatives has come to a turning point. It has to seek more efficient and stable principles of organization for effectively delivering cooperative services.

In more concrete terms, the membership of agricultural cooperatives is based on the social intimacy among the people in rural society. However, today, the intimacy is increasingly weakened. The central authorities of governments have exerted themselves to ruin the traditional framework of rural community. Moreover, farmers make the motivation of individual benefit take precedence over communal benefit. Cooperative membership should be attuned to the importance of efficiency of business operation. A strong inducement to

enlarge membership has also come from the many failures of cooperatives. Their membership has been restricted to a narrow locality, such as the agriculturist groups in Thailand and the *selda* in the Philippines.

Governments tend to consider that the organizing methods of farmer groups are free from the people's social intimacy within a narrow locality. They have passed through the depoliticizing of village structures during the period from the 1970s through the 1980s. Agricultural cooperatives -whatever the type- are encouraged to develop their nature as economic enterprises. In 1992, the Indonesian government proclaimed the new cooperative laws with a great emphasis on business operation. In Thailand, the BAAC has started to devote itself to the establishment of a 'marketing cooperative for clients' without any enactment of cooperative laws. This cooperative extends its membership over the area that the BAAC's provincial branch covers, consisting of several tens of thousands of members. Such a new attitude towards farmer organizations no longer regards cooperatives as local groups of restricted farmers. This may be criticized as misleading by those engaged in the cooperative movement. However, there is increasingly a basis for this as long as the conventional type has found it hard to attain its initial objectives.

As well as organizing rules, cooperatives have changed their economic function along with the rapid development of agro-based industries. From the 1970s onwards, 'commercial elites' in rural areas became mature enough to integrate the existing scattered farmers' production into their distribution networks on a nationwide scale, or to supply farm materials. Nowadays, agro-based companies, including multi-national corporations, are vigorously trying to control the whole process of production and distribution. In particular, the growth of export-oriented processing industries in Southeast Asia has stimulated contract farmers to participate in cooperatives. Influenced by a policy for the promotion of export-oriented, agro-based industries, there emerge agricultural cooperatives that act as an intermediary between farmers and processing companies, operating subordinate business activities. A company provides productive technology and farm materials, and exclusively buys products. A cooperative selects competent contract farmers from its members, and connects them with its partner. The support of the government, such as lower interest loans and tenure of public land, may be delivered to contract farmers through the cooperative. This eventually benefits the company, since it will be able to curtail a part of the required funds for contract farming. It often happens that such agro-based companies establish cooperatives the membership of which consists of contract farmers only. Of course, governments tend to encourage joint ventures between cooperatives and private companies in various fields of commercial agriculture.

Agricultural cooperatives have evolved into enterprises, maximizing the economic profit of business operation rather than conducting collective services effectively and delivering their benefit equally to all members. Governments are searching for a new strategy of policy for cooperatives by taking into account dynamic agrarian transformation.

## Conclusion

Obviously, the promotion of agricultural cooperatives has been preferred as an instrument of economic and political development in rural area rather than to encourage voluntary participation of the people in the cooperative movement. This fact has enormous implications for the problems of cooperative development. Recently, the cooperative movement in Southeast Asia has had to be more attuned to the significance of economic self-reliance in keeping with the rapid growth of members' commercial production. Otherwise, people and governments could no longer recognize the existence of cooperatives in agricultural development. In the 1970s and 1980s, there still remained a wide scope of the development of cooperatives. Today, the conventional values of cooperatives, which has been stressed by both governments and the people engaged in the cooperative movement, have become dreamlike in light of economic development. Many efforts are made to rebuild a new system of cooperatives while abandoning the old-fashioned one. Agricultural cooperatives have to become independent in both economic and political terms, and then grow to be more competitive in business operation. Clearly, the cooperative movement needs to search for its own new 'basic value,' including economic efficiency of business operation.

## Notes

- 1) Such economic restrictions were accompanied by the ceasing of mass immigration and the head tax imposed on aliens or increase in the alien registration fee.
- 2) The state and semi-state enterprises also provided a wide variety of opportunities for private gain to government officials. In Thailand, state ownership of industry seems to have never been found on ideology one (INGRAM 1971).
- 3) The retail trade ban (1959) severely disrupted relations between Indonesian and Chinese, and caused the exodus of more than 100,000 Indonesian Chinese to China.
- 4) In 1972, the International Co-operative Alliance (ICA) opened regional seminar. It defined the multi-purpose type of cooperative and recommended to expand this throughout Southeast Asia.
- 5) The escalation of the Vietnam War urged the Thai government to make a new development plan for the security of rural areas in the Northeast of Thailand in collaboration with the American agencies. The United States Operations Mission to Thailand (USOM) suggested to convert small-scale credit cooperatives into large-scale multi-purpose ones. The USOM's security program was predicted on an assumed direct relationship between economic development and counterinsurgency.
- 6) There existed two types of farmer organizations, "classical" cooperatives and farmer associations.
- 7) Jesudason pointed out that the laissez-faire model was based on the two main ethnic groups respecting their particular 'resource monopolies', Malay political predominance and Chinese economic power (JESUDASON 1989).
- 8) This declaration was done without passing through the normative procedures.
- 9) Hart points out that massive misallocation of resources associated with the Masagana-99 credit program contributed to the deterioration of macroeconomic conditions (HART 1989).
- 10) Siamwall points out that the BAAC came to be seen by farmers as a permanent institution (SIAMWALL 1989).

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