Development of Contract Farming in Chinese Sericulture and Silk Industry

Ni Hui & Shuji Hisano
Grad School of Economics, Kyoto University, Japan

Outline

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1. Introduction

1.1. Backgrounds

- Change from “collective land-use system” to “individual land-use system” under the Rural Land Reform Policy in 80’s
- Collectively managed farmland ➔ small, dispersed farmland distributed to huge numbers of individual farmers
  - Difficult and unfavorable condition for large-scale farming of main crops
  - But, sericulture is suitable for small-scale family farming

1.2. Sericulture and Silk Industry

- Production cycle is short: about one month ➔ Farmers can get cash income from raring silkworm once a month
- To realize its value, however, cocoon needs to be purchased by a silk company as the only outlet ➔ The silk industry value chain
1.3. Contract Farming in China

- **Vertical coordination**: silkworm farmers under the control of a silk company
- A typical model of local rural development under a Dragon-head company with the support of local government
  - Ex. vegetable farmers and food-processing companies
- Leading silk companies as Dragon-head companies ➔ How responsible for local economic development?
1.3. Contract Farming in China (cont.)

- State-owned silk companies reformed (privatized) in mid 90’s ➔ Dagon-head companies
- Farmers organized under silk companies through silkworm cocoon production contracts
- The role of local government through its Technology Guidance Station
- Trilateral relations established: according to different regions at different stages of development

Trilateral Relations: Silk Company, Silkworm Farmers and Guide Station

Contract Farming
(silkworm eggs, mulberry seedlings, etc)

Silkworm Farmers ➔ Cocoon Purchase Station ➔ Silk Company

Tech Guidance
(to what extent?)

Technical Guidance Station
(Local/Regional Government)

Cooperation
(for what?)
Objectives of this research

- Two case studies based on field surveys: Xinyuan Company and Guihua Company
- To clarify the situations of two different types of contract farming in Chinese sericulture and the silk industry
- To give implications for a possible type of contract farming to benefit family farmers while assuring the development of the silk industry
2.1. Developing Process

- 1980’s ~ mid 90’s:
  - Unorganized farmers without direct connection with state-owned silk companies until mid 90’s
  - Price fluctuation and intermediate exploitation
  - Located in an economically developed region
  - Industrial/commercial/residential development
  - Decline of sericulture and the silk industry

- Mid 90’s ~ 2000:
  - A state-owned silk company reformed to Xinyuan Company in 1994
  - Then launched contract farming to secure cocoon
2.2. Contract Farming by Xinyuan Co.

- Traditional producing region ➔ Contract farming launched based on the existing production base of sericulture and silk industry
- Turnaround from the declining trend of sericulture in mid 90's
- Improvement of the cocoon quality and quantity ➔ Provision of silkworm eggs, mulberry seedlings and relevant technology

- Coordinated largely by the company instead of the local government technology station: the latter has little power
  - Xinyuan Co. in the position to decide on the production (quality, quantity and price)
  - Closed market for silkworm eggs ➔ No option other than those offered by Xinyuan Co.
  - Closed market for cocoon: all cocoon purchase stations under the control of Xinyuan Co. ➔ No option other than sale to Xinyuan Co.
- Silkworm farmers divided into groups by Xinyuan Co., but no organizations by farmers themselves
2.3. Impacts of Contract Farming

- **Benefit for farmers**
  - Rapid development of sericulture as a whole ➔ Farmers’ cash income increased

- **Risks for farmers**
  - Change of land use and cropping pattern: some farmers expanded mulberry field at the expense of food crop production ➔ “No food-crop village” appeared

- **Growth of Xinyuan Co. as a Dragon-head company**
  - Through vertical coordination of upstream (contract farming) as well as downstream (silk textile and apparel sectors) ➔ More powerful influence on farmers

3. Guihua Company in Guang Xi Province

- [Map of Guangxi Province](www.china-map-guide.com) showing location of Guihua Company
3. Guihua Co. in Guang Xi Province

- Located in the southwestern part of China
- Economically less developed: farmers’ income level lower than the eastern provinces → Income increase is main concern for the regional government
- Subtropical area: suitable for the growth of mulberry trees and silkworm rearing → An advantage over traditional sericulture regions

3.1. Developing Process

- Before 1990s:
  - Mulberry silkworm sericulture production almost nonexistent
- 1990s~2000:
  - China’s Western Development Policy → Applied to sericulture and the silk industry
  - Guang Xi gov. began to promote sericulture as a means of increasing farmers’ cash income
  - Guang Xi tech guidance station (+ regional univ) focused on subtropical sericulture technologies
  - Guihua Co. established in 2000 → Organized local farmers by use of oral contracts
3.2. Contract Farming by Guihua Co.

- Need to develop the local sericulture to secure quantity of cocoon ➔ Guihua Co. launched contract farming
- Extension of silkworm rearing technologies ◀ Guangxi technology guidance station
- Guihua Co. also learned technologies from the station

- Open market system for silkworm eggs and cocoon ◀ Guangxi government worried about the situation in traditional regions (closed market system under the control of leading silk companies)
  - Farmers can decide on the type of silkworm eggs
  - Farmers can sell their cocoon anywhere they want ◀ different prices within and between regions
- Farmers are organizing themselves to negotiate with companies
  - The technology guidance station supports farmers’ organizations, but companies do not
3.3. Impacts of Contract Farming

- Many farmers with no experience of sericulture began to rear silkworms for cash income
  - Including sugarcane farmers who have turned to sericulture in hope of more cash income
- As a result, Sericulture in Guang Xi has developed rapidly
  - Quantity: more than enough for Guihua Co. due to its small capacity to process
  - Quality: Guidance Station plays an important role to improve
  - No need to vertically coordinate the local sericulture as in the traditional region “yet”

4. Conclusion

<table>
<thead>
<tr>
<th>Xinyuan in Jiang Su Traditional Region</th>
<th>Guihua in Guang Xi Emerged New Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large production scale</td>
<td>Small production scale</td>
</tr>
<tr>
<td>(Auto silk reeling machine 120 groups)</td>
<td>(Auto silk reeling machine 13 group)</td>
</tr>
<tr>
<td>Almost all farmers have contract with Xinyuan</td>
<td>Some farmers have contract with Guihua, while others do not yet</td>
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<tr>
<td>Tech guidance provided by Xinyuan</td>
<td>Farmers decided the type of seeds. Guihua and the tech station guide the farmers</td>
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<tr>
<td>‘Closed market’: farmers can sell cocoon only to Xinyuan</td>
<td>‘Open market’: farmers can sell cocoon at higher price</td>
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<tr>
<td>Farmers are divided into groups by Xinyuan</td>
<td>Several farmers are organizing themselves to negotiate with Guihua etc.</td>
</tr>
</tbody>
</table>
4. Conclusion

- Contract farming by Xinyuan Co.
  - Company controls local sericulture farmers, local government and the silk value chain

- Contract farming by Guihua Co.
  - Company, local farmers, local/regional governments cooperate with the aim of developing sericulture and silk industry to boost local/regional economies

- A question remains to be answered: is this just a matter of the different stages of development?

Thank you for your attention!