

## Development Strategy of Organic Agriculture in China: A Case of Rural Urbanization in Xingyi

WILLIAM CHIH-HUAI YAO<sup>1</sup>

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### Author's Background

William Yao established China's first social-based organic standard (Sunshine Earth Standard, included in IFOAM's FOS) based on consumers monitoring and cloud computing ([www.igarden.cn](http://www.igarden.cn)). His company started the development of China's first organic town in 2011, and he is currently a board member in IFOAM Asia.

### Summary

Background:

China's development focus has been on rural development since 2000, as the country tries to upgrade the rural areas' infrastructure and economy system. Different development methods had been applied with limited sustainability in terms of lifting the income of rural residents, who are primarily farming-based group. In this paper, we will introduce a real case study on an on-going rural urbanization project taking place in rural China, while primarily focusing on how this non-governmental project utilize organic farming to try to shape a possible method to sustainably upgrade the income of the local residents in rural China in the process of a complex rural urbanization development.

Rural urbanization movement has been one of China's most significant social and economic tasks since 1979, as the majority of China's population was in rural. In 2013, China's urban population surpasses rural population for the first time in the past 5,000 years. As urban population continues to grow, rural areas also continue to undergo urbanization process to withstand the excess urban population whom the current urban areas cannot sustain.

The growth of urban population generates three key issues that require effective methods of rural urbanization to alleviate. First of all, urban area's lack of physical space to withstand the increased population coming from rural areas has forced the city to expand to a degree that exceeds its original designed capability to provide an efficient living quality for its residents. Secondly, the lack of suitable career opportunity for the new urban residents that come from the rural areas, as these "new" residents' professional background mainly surrounds labor-intensive industries such as agriculture and construction- neither has much prospect in earning enough salary for the relative workers to support a reasonable lifestyle in urban areas. Lastly, the unbalanced resources and infrastructure development distribution between rural and urban areas caused rural work force to abandon their rural homes and move to urban area, leaving rural areas with insufficient work force to develop its own industry effectively.

One of the main elements of China's national-level development strategy to rural urbanization is to explore an effective set of rules and regulations to utilize private capital in developing rural areas. A typical rural urbanization development process on the government side involves rural residential land rearrangement and consolidation, real estate development, courting and attracting of business investments, and local economic system development. Each of these development processes requires significant financial input and a long-term strategic development plan in order to allow both the private capital and local development to head into a sustainable better future together. Looking back the past 30 plus years, China has been conducting different experiments on bringing in different development models into rural development, none of them had been proven to be sustainably efficient in terms of benefiting both sides (the participating private companies, investors and rural residents). Rural residential land rearrangement and consolidation and real estate development takes up the biggest portion in terms of monetary investment at the initial stage of a typical rural urbanization project. The main purpose of land rearrangement and consolidation process is to ensure that, after urbanization process is completed, each rural urbanization development does not result in loss of farmland in terms of area, as China has imposed a strict limit in maintaining the size of farmland at 1.8 billion mu (about 1,200,000 square kilometer) nationwide.

Due to the fact that each of the local residents has the decision power on determine the cost of each piece of land involving in rearrangement, the budget of completing the rearrangement and consolidation process is growing unpredictably high. As the initial cost of real estate development depends largely on the cost of the land rearrangement, the local residents' personal willingness in cooperating with the rearrangement process become the first key element in affecting the investment efficiency and the cash flow in a rural urbanization development project.

Conclusion:

*Based on the paper's arguments and analysis, the introduction of e-commerce and the utilization of real-estate development business model is the least risky way for a private enterprise in both long and short terms. E-Commerce enables complex management and integration in the supplier side while providing direct service and communication channel between consumers and the producers. Real-estate thinking enables private organization to ease its cash flow pressure and shorten the investment return time by capitalizing China's rural urbanization's policies that compensates agriculture investment with real-estate property return.*

## Background

Part 1: Providing preliminary answers to the following questions:

1. What is the most crucial set of business-related strategic factors for a private enterprise to implement in order to successfully initiate a rural urbanization project with the approval from both the government-side and rural resident-side in China?
2. What is the least risky set of business-related strategic factors for a private enterprise to implement in order to build an organic agriculture business model with sustainable and unique competitive advantages to survive the competition in China?
3. What is the least risky set of business-related strategy to integrate organic industry with rural urbanization development in terms of achieving a closely interdependent economic future and business model between the private enterprise and the local entities?

Part 2: Paper Objectives:

1. To investigate and analyze the strategic environment under China's Rural Urbanization Movement for organic agriculture enterprises
2. To investigate and analyze IGARDEN's business development strategy in the development of Xing-Yi Organic Eco-Town project
3. To establish a generic business strategy development model for doing organic agriculture in China under rural urbanization movement

## Main chapter

Numerous approaches had been taken by the private capitals in designing a set of economic model and development plan to earn supports from both the local governments and rural residents in order to participate in their respective rural urbanization projects. To encourage innovative approaches, China has even set some cities, like Chengdu and Chongqing, as the special experimental zones for rural urbanization projects to take approaches that might be prohibited in all other regions. Although none of the urbanization cases has yet to be proven as a demonstrational success in terms of being able to be sustainable for both the private capital and local economy development, China has accumulated different experiences in helping them to identify the types of development plan that might be over-risky.

As the importance of environmental awareness grows higher in China's strategic development, agriculture modernization to achieve higher efficiency and food safety standard has been the center of focus for many years in the No.1 Document issued every year by the central government of China. The sales of organic market in China have been growing at 15-30% annually since 2003, which is one of the rapidest growth rates globally. Since 2012, the size of organic farmland in China is ranked in top three worldwide. All these figures have indicated China's future in becoming not only the largest organic producing country but also the largest consuming one in the world. The positive forecast of organic industry, along with China's strategic focus on supporting agriculture modernization and rural urbanization movement, has encouraged private capitals to explore different models in integrating the development of organic agriculture and rural urbanization.

Among the private capitals that participated in China's rural urbanization projects since 1979, Sunshine Enterprise is the first company that attempts to develop a rural town based on organic agriculture. Sunshine Group's project takes place in a rural town named "Xing-Yi" that is 25 kilometers away southwest of Chengdu, one of the experimental regions for revolutionary rural urbanization. It is the first non-domestic company that obtains official governmental contract to develop an entire rural town in China. This development project is officially named "Xing-Yi Organic Eco-Town" by Chinese government and began operating in June 2010.

"IGARDEN" is the code name and also the primary brand of Sunshine Group, and it represents the "platform strategy" that the group company is using to explore innovative ways to integrate organic agriculture development with China's rural urbanization movement. IGARDEN's platform strategy can be separated into two correlated modules: one is the IT module that aims at integrating international and domestic organic resources into a B2B2C (Business to Businesses to Consumers) E-Commerce platform based on various interactive databases; the other one is a physical platform based on Xing-Yi town's land resources that attract actual investments and Organic Eco-Town related companies. The overall strategic goal is to use Xing-Yi's development model as a template that can be applied to the future rural urbanization projects in China. The primary cases, data and facts used to support this paper is based on Sunshine Group and IGARDEN's actual development experiences from 2010 and onward.

As nearly half of China's current population is in rural area, along with the over-populated development trend of urban areas, rural area urbanization development in China has become one of the main focuses of national strategy. Rural urbanization movement creates a new market for different investors and enterprises, as new real estate developments, industries and job opportunities are required for every single rural urbanization projects. Because of the large scale of financial input required for this type of development, state-owned enterprises that carry political duty in their business

actions are usually the key players in rural urbanization, as state-owned companies are built to withstand politics-sensitive business action that closely related to the distribution of benefit of civilians.

Private capitals are usually involved in bringing new industries and business opportunities to rural urbanization development, and these tasks usually risky investments as the businesses brought to rural areas have to adapt to rural environments and to form sustainable competitive advantages against their urban competitors. The factors in defining the type of businesses to develop in different rural areas lies in the hands of local governments and both short-term and long-term opportunity presented in the market. These factors make the business decision-making process of private capitals similar to state-owned enterprises, as the business decisions involve the benefit of the locals.

IGARDEN's rural urbanization development is based on the development of local organic industry and an urbanization method that focuses on sustainably assisting organic-related development. As agriculture is considered a weak (in terms of producer's bargaining power and profit margin) industry and organic industry is booming but immature in terms of its supply chain and sales channels in China, the fundamental factors for IGARDEN to success lie in locating an innovative business model that fully utilize Xing-Yi's resources to create a sustainably profitable organic business platform, which not only ensures the survival of the company itself but also leaves Xing-Yi a self-supported and sustainable economy system.

### **Core messages and conclusions**

Based on the paper's arguments and analysis, the introduction of e-commerce and the utilization of real-estate development business model is the least risky way for a private enterprise in both long and short terms. E-Commerce enables complex management and integration in the supplier side while providing direct service and communication channel between consumers and the producers. Real-estate thinking enables private organization to ease its cash flow pressure and shorten the investment return time by capitalizing China's rural urbanization's policies that compensates agriculture investment with real-estate property return.

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