China's Agriculture “Going global”

By Uwe Hoering, December 2010

In spite of a growing demand and proving sceptics like Lester Brown wrong[1], China can still feed itself, at least more or less. But commodities like cotton or feed like soybeans have to be imported to supply the industry. This not only drives up the prices in the world markets but also Chinese investors into neighbouring countries in the region, to Africa and even to Latin America. At the same time for exporters like the European Union the Chinese market becomes more attractive.

China is considered to be one of the countries of origin of soybeans. For thousands of years it has been cultivated, as sauce and tofu it is the embodiment of Chinese cooking. But today farmers hardly grow soy any more. Instead the country imports three quarter of its needs and has changed within a few years from an exporter to the biggest importer. When China opened its borders for imports after its accession to the *World Trade Organisation* (WTO) in 2001, farmers from Brazil, where former natural forests had been converted into huge monocultures with genetically modified soy, and from the USA took over the market. And it is not just soy, mainly used as feed in the rapidly growing intensive animal industry. Many other agricultural products are imported, from milk to rubber, from palm oil to hides and skins. „We are dependent on land and water resources in other countries“, admits Zhang Xioashan from the research institute *Chinese Academy of Social Sciences* (CASS).

Foreign Trade

Such a statement seems to be unjustified looking at the foreign trade balance. While the imports of agricultural products increased between 2000 and 2007, that is since the accession to the WTO, more than threefold to 65,2 billion US-Dollar and China became the fourth largest importer of agricultural commodities, their proportion decreased continuously to 6,8 per cent of all imports. Naturally, difficulties in paying the import bill don't exist with the enormous reserves in foreign currencies. And in the same period of time exports grew strongly as well. With 39 billion US-Dollar in 2007, China was the fifth largest exporter of agrarian products, mainly pork and chicken meat, fruits and fish.

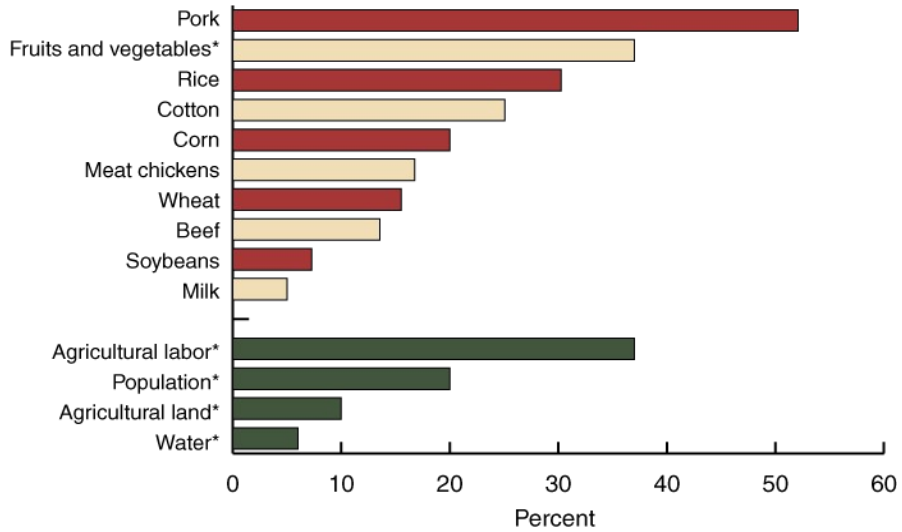
There is also no dependency looking only at the food sector. Not only staple foods like wheat and rice are often produced far beyond the internal demand, but also meat and fish, fruits and vegetables. Milk and milk products, in recent years increasingly in high demand thanks to a government school milk programme, are some of the exceptions. The gap between internal production by Chinas cows and the demand is bridged by imports, mainly from New Zealand and Australia.

> *„We should keep strengthening the fundamental role of agriculture. It is always the first task for such a populous country as China to solve the problem of feeding its more than a billion citizens. It decides the development and stability of our nation”.*
>
> Sun Zhengcai, Minister of Agriculture

[1] Lester Brown, Who Will Feed China? 1995 (Worldwatch Institute)

Ian Neeland even believes that „China could become Asia's farm and kitchen“[2]. The Australian agroeconomist, living and working in China, teamed up with *Syngenta*, the Swiss agribusiness and seeds multinational, to grow hitherto unknown products like sweet corn and iceberg salad in Shanxi province. Main customer in China is *Kentucky Fried Chicken*, but the Australo-Swiss joint venture aimed at high value markets in the region too like Japan and South Korea. In these export markets China can succeed with products that are labour intensive like organic products or which have a high financial yield per acre like vegetables, salads, herbs and spices or fruits. The exports into the countries of the region are already large enough to out-compete local farmers resulting in angry protests.

Figure 3
China's estimated world shares of agricultural production, 2005



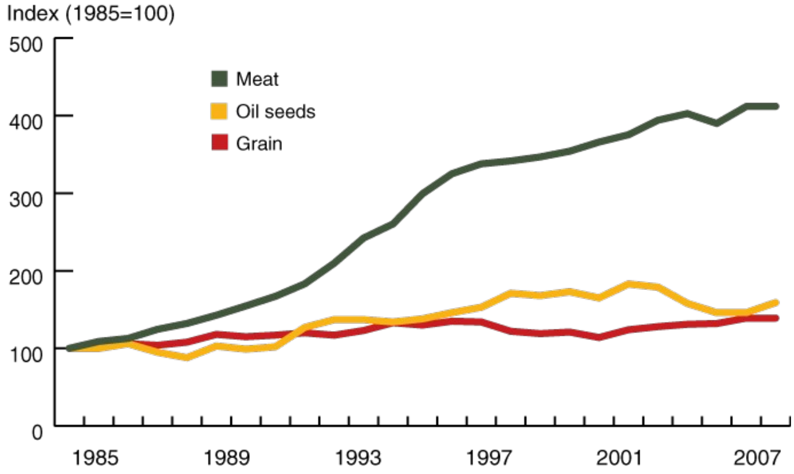
*Source: Food and Agriculture Organizaion data.
Source: Economic Research Service calculations based on USDA data (except where noted).

Different from staple food, there is an increasing dependency on imports of commodities. The industrialised agriculture not only needs feed, but fertiliser and oil too. To reduce this dependency and to promote the further expansion of agriculture, the state supports the development of a national agroindustry. The state owned oil company *Sinochem*, mother of the largest Chinese fertiliser company *Sinofert,* showed strong interest in taking over the Canadian fertiliser producer *Potash* and was prepared to pay between 40 and 60 billion US-Dollar.

Secondly, the demand for agrarian commodities is being driven to ever new heights by industrial growth: Today, China is the largest buyer on the world market of cotton for the textile industry, which is imported to a large extent from the USA, increasingly from Africa too. To supply the booming car industry, China surpassed the USA already in 2002 as the world's largest consumer of natural rubber, and demand for the year 2020 is estimated to reach 11.5 million tons per year, equal to 30 per cent of world wide production. A growing proportion of this is imported from neighbouring countries like Vietnam.

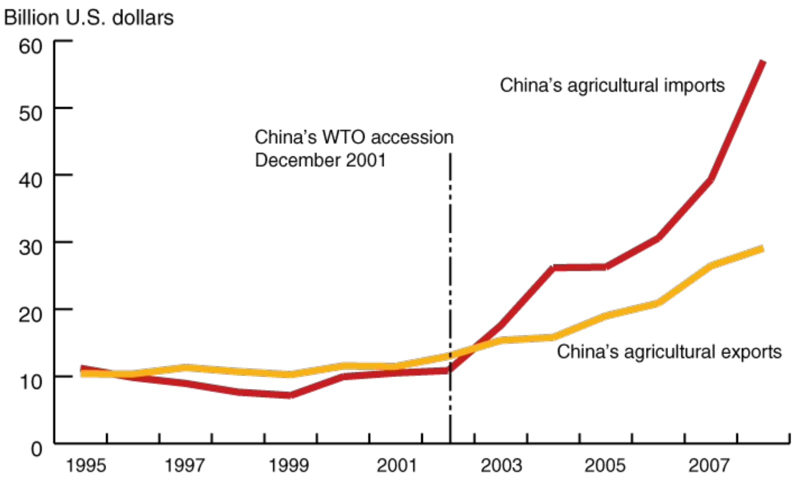
[2] Financial Times, 30. September 2003

Figure 4
Indexes of grain and meat production, China, 1985-2008



Source: China's National Bureau of Statistics (NBS) data.

Figure 5
China's agricultural imports outpaced exports after WTO accession



Source: Economic Research Service calculations based on China customs data.

For other plantation products like soybeans, corn, palm oil or rubber, that need a lot of land and water, observers expect a continuously growing trade as well. The limits to growth, the scarce natural resource base in China itself will lead to a growing virtual import of land and water from other countries around the globe for its own economic development. Conflicts are unavoidable: Japanese soy dealers for example complained already about difficulties in procuring enough soybeans because China is sweeping the market and pushing up prices. As a response Japanese companies began to invest in Brazil and Africa to grow soybeans for their internal markets.[3]

> *"As long as government policies are supporting the concept of food security by China's own agriculture, there is hardly any danger that the demand of 1.3 billion Chinese will drive up world market prices for food and will buy up the life saving rations of poorer countries or people."*

[3] Financial Times, 4. Oktober 2010

Chinese Farmers in Africa

Since China's global expansion not only stirs up the markets for industrial and consumer goods but pushes up prices for raw materials too, there are again and again stories about huge land deals. Reports about concessions for one million hectares in the Philippines, for large estates in Mozambique, Indonesia, Papua New Guinea, Zimbabwe or in the north-east of Brazil, and rumours about hundreds of thousands of Chinese labourers and hundreds of Chinese villages in Africa, where construction workers settled after their contracts ended, do the rounds. Looking at the limited resources of land and water and the well known financial power and entrepreneurial appetite of Chinese companies, such news, reports and rumours are only too plausible.

Looking back in history, China's engagement in the agricultural sector of other countries is not entirely new. Since decades the government channelled development aid into agricultural projects, especially in Africa, and often for growing rice. But most of them did hardly fare better than projects financed by Western donors. As soon as the Chinese experts left and the money flow dried up they collapsed.

More successful was the support for state farms like the *China State Friendship Farm* with 3.600 hectares which was set up in Zambia in 1990. Deborah Brautigam in her book about China's engagement in Africa[4] estimates, that at the turn of the Millennium, in Zambia alone there were between 15 and 23 state owned or private Chinese farms, mostly producing for the local market. The *China State Farms Agribusiness Corporation* (CSFAC), which started and ran many of these enterprises, had more agroinvestments in Tanzania, South Africa, Gabon, Togo, Ghana, Mali, Guinea and Mauritania. „They were in the first wave of Chinese 'going global' in agriculture!", Brautigam writes. Ironically, Chinese investors benefited from Structural Adjustment Programmes and privatisation of African state enterprises, pushed through by Western donors and international financial institutions.

With the *Forum on China-Africa Cooperation*, which took place first time in October 2000 in Beijing, there was additional élan introduced into the cooperation with Africa. At the third meeting, again in Beijing, China's President Hu Jintao promised to send experts, to train five million Africans every year and to build ten agricultural demonstration centres, a figure which grew quickly to 30. It seems as if agrotechnology and seed development were employed to balance the wide spread worries about China's advance in mining and trade. The aid was closely connected to large Chinese agrocompanies, often state owned like the *Shaanxi State Farm*, which recently leased 10.000 hectares of land in Cameroon to grow rice and other products.[5] They are expected to run the demonstration centres, started with government funding, and take over later. The reduction of custom duty for African agroexports to China is another incentive for Chinese investors.

But the ambitions met soon with resistance like in Mozambique, a country with a huge potential for irrigated agriculture. The story goes that China promised a loan of 800 million US-Dollar for the modernisation of agrarian infrastructure, the construction of a dam and for irrigation systems and to dispatch at least one hundred experts. Furthermore, the country received the first of the demonstration centres President Hu Jintao had promised earlier. Mozambique wants to increase rice production five fold. How much of this is meant for export to China is not known. In spite of such

4 Deborah Brautigam, The Dragon's Gift: The Real Story of China in Africa. 2010, p 255

5 http://farmlandgrab.org/16485 vom 20. Oktober 2010

generous support and promising perspectives the project was skipped after massive protests.

And this was not the only flop. Last year a project of the CSFAC with an investment of 10 million US-Dollar in Ghana was shelved after a change in government.[6] CSFAC-manager Xu Jun lamented, that the „unstable political situation is the greatest challenge for Chinese companies which want to invest in Africa."

Like with other investment deals into agriculture, also known as "land grabbing", it is difficult to clarify, which reports about Chinese negotiations and agreements are correct, which projects are just rumours or vague ideas, and which really materialised. ZTE *International* for example, one of the largest state owned Telecom-companies in China, is reported to have acquired 10.000 hectares of land in Sudan for cultivating wheat and corn. It is also reported, that it is investing in Ethiopia and other African countries into agriculture, into feed factories and the production of oil seeds. Chinese investors might be planning to acquire 6.000 hectares for rice and cassava in the Nigerian state of Edo, where they want to set up processing facilities for ethanol, starch and noodles. In Tanzania, Beijing concluded an agreement with the government, that Chinese companies shall invest in aquaculture and cattle farms.

Apparently, in August 2007 there has been a contract by a Chinese investor with the Democratic Republic of Congo (DRC) for 100.000 hectares of oil palm plantations, in November 2008 an agreement with Uganda for a huge Free Trade Zone close to the Lake Victoria, which also would include agriculture. There are more reports about plans for more large scale concession in Zimbabwe and Angola, but little of this is fixed, believes Brautigam. She estimates, that in 2007 there were just around 300 companies with an investment volume of 1.2 billion US-Dollar engaged in the agricultural sector in Africa, a fraction of the investments and activities in the energy sector or in mining. And also the hundreds of thousands Chinese labourers and hundreds of villages don't exist, she claims as a result of her research.

Aid for Africa's agriculture

In March 2009 the *Chinese Academy of Agriculture* (CAA) started a project called „Green super rice for the poor in Asia and Africa", that is supported by the *Bill&Melinda Gates Foundation*. In seven African countries the cultivation of high yielding varieties, which should resist drought, floods, bad weather and various pests, is to be promoted. CAA, which cooperates in this project with several international organisations like the *Africa Rice Center,* expects, that the rice production could increase by 20 percent and the food availability for 20 million poor farmers improve.

Too, the numerous conflicts with land users, strikes of employees and swaying governments seem to have taken their toll on the enthusiasm of investors as well as of the government in Beijing. „It is not realistic to grow grains in far away countries, especially in Africa or Latin America. There are so many hungry people in Africa. And the grains have to be transported by ship to China. The costs and the risks are very high", said Xue Guoli from the Ministry for Agriculture.[7] And in Beijing, officials deny any knowledge of a government plan of summer last year to give

6 http://farmlandgrab.org/14825 vom 12. August 2010

7 Cit. by Stephen Marks, China and the great global land grab. Pambazuka News, December 11, 2008

stronger support to investors for acquiring land in Africa and Latin America.[8]

The grass is greener on the other side

Some critics, upset by Chinese investments, talked of “vultures” circling above Australian farms. Like in neighbouring New Zealand, Chinese investors show a growing appetite for cattle farms and dairy companies. This engagement is not at all a new thing. Already in 1987 investors from Wuxi, a town west of Shanghai, bought a sheep farm of 4.400 hectares, two years later the *China State Farm Agribusiness Corporation* acquired 43.000 hectares in Queensland.

In China's next door neighbourhood it is not high value consumption goods like milk or beef which attracts investments, but staple foods and raw materials for industries, feeds and agrofuels. They go side by side with a growing trade in agricultural products – in both directions. Favourite destinations are the small and rather poor neighbours like Burma, Laos, Cambodia and Vietnam. For them, China is already the most important economic partner. Relations are decades long, though not always without conflicts like in the case of Vietnam. Furthermore they belong to the immediate sphere of economic, political and strategical interest of China.

In Cambodia, at the end of 2006 every second of the 26 economic land concessions with foreign ownership with an area of 188.000 hectares belonged to Chinese. Most of them seem to be plantations with fast growing trees like acacia and eucalyptus, with oil palms, cassava, sugar cane and rubber. For the improvement of irrigation, China gave a loan of 240 million US-Dollar in support of Cambodia’s ambitious plan to become one of the leading rice exporters.

In Laos too, China's government encourages agroinvestments, among others into rubber production. Like in Africa or other countries reliable data are difficult to come by, but there are estimates, that around 150.000 hectares have been provided for private companies at low rates and with lease periods of 30 to 50 years.

Often there are Chinese provincial governments prominent among the investors. Under the “Going out” programme, intended to reduce the growing income disparities between the industrialised eastern provinces and the North-east, the Central government opened up spaces for them for their own economic activities. Within less than a decade some of them emerged as the biggest trading partners, investors and donors for neighbouring Asian countries. Expansion of export markets and access to resources often go hand in hand with infrastructure development.[9] Part of this engagement are concessions for more than 400.000 hectares of land, which the north-eastern province of Heilongjiang, most probably the biggest grain producer in China, negotiated with neighbouring Russia. The agreements cover investments into agriculture, cattle farming and processing. The city of Mudanjiang, located in the south-east of the province, acquired agricultural areas of nearly 150.000 hectares in Russia, an increase of 42 per cent over the year before.[10]

But like in Mozambique, China's search for land and water meets with resistance. One of the first large scale projects in *Off shore farming* was the Memorandum of

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8 Duncan Freemann u.a., China's foreign farming policy. 2008 (Brussels Institute of Contemporary China Studies) p 11

9 Julia Bader, China's Impact on its Neighbours' Political Systems, Deutsches Institut für Entwicklungspolitik, 1/2010

10 http://farmlandgrab.org/13438, May 29, 2010

Understanding, which Fuhua, a company owned by the provincial government of Jilin, signed in June 2007 with the Philippine government for leasing one million hectares of land for growing rice, maize and sorghum. After strong opposition and a successful mobilisation of civil society groups, farmers' organisations, churches and the media, which got widespread international support, the government in Manila retreated.

Even in the authoritarian states of the former Sowjetunion there is growing protest. When Kazakhstan's President Nursultan Nazarbayev in December 2009 announced the intention to lease out one million hectares of land for soybeans and rapeseed to China, there were massive demonstrations. "They borrowed 13 billion US-Dollar from China", Bolat Abilov from the opposition party Azat complained, "now they want to repay this with our land". Shortly afterwards the government denied any such plans.

"Global Europe" in China

It is not surprising that the European Union as the most important trader of agricultural products in the world is keen to expand its trade with China. The growing demand for high value food on one side, the obvious natural limits to agricultural growth in China on the other are drivers of high expectations.

Gerd Müller from the Ministry for Agriculture in Berlin for example hopes, that "against the background of the booming Chinese market there are tremendous chances for Germany" to sell milk, butter and other animal products. Referring to the scandal with polluted milk in China, he boasts that German milk is known to be "of high value" and "safe". But many areas have been occupied already by others. Australia and New Zealand supply milk, the USA corn and poultry, Brazil cattle feed. And for grains from Europe there is hardly any demand, at least not yet.

Though EU-China-trade in agricultural products increased by 82 per cent in four years to 5 billion € in 2007, the breakthrough, which the EU with the export promotion strategy "Global Europe" envisages, is not in sight. The European Union mainly exports processed products like alcohol including champagne, and some less important raw materials, valued 1.6 billion Euro (2007), with a trade deficit of 1.8 billion Euro in 2007. The proportion of exports to China was just 2.2 per cent of EU agricultural exports, imports from China had a share of 4.4 per cent. Imports were mainly cashmere wool, fruits, vegetables and nuts.[11]

Regarding investments into the agrarian sector and its up- and downstream segments of seeds, marketing and research, others are way ahead too, among them many US-American companies. In 2008 the world's largest meat processor, the US-company *Tyson Foods*, announced a cooperation agreement with the private *Jinghai Poultry Industry Group*. In the case of pork, which is an essential part of 'good food' with a consumption increase of 100 per cent within ten years, the US-market leader *Smithfield* is building a new huge unit for half a million animals. Several international animal genetics companies have set up breeding stations in China, seed Multinationals like *Monsanto* collaborate closely with the government and universities.

Though the booming demand for milk so far didn't benefit German milk farmers, it helped European companies like Nestlé. The Swiss food conglomerate had started

[11] European Commission, Monitoring Agri-trade Policy. China: Out of the Dragon's den? No. 01-08 May 2008

the boom with a study that proposed a milk feeding programme for schools. Today Nestlé is an integral part of the milk industry with more than 20 processing units and a huge research centre, the first one outside of Switzerland. The growing demand for milk helped French *Danone* too to expand, for example with a joint venture with *Mengniu Dairy*, Chinas largest milk processor.

Therefore, a study commissioned by the EU is optimistic. Because of "huge opportunities" in the agrarian sector in China, EU exporters and importers should "become more active in China", especially in the market segment of organic products. This scenario is based on the purchasing power of the huge middle class, the agricultural situation in China and the "comparative advantages" of the European agroindustry, especially in the production of a variety of processed food and because of advanced experiences with sustainable land management, organic production methods, agro-tourism, regional marketing and geographical certification.[12] European agrocompanies are advised to look for niche markets with high spending power, to take advantage of low production costs and to invest into own factories to supply Asian markets, and to strengthen service offers for organic farming and land management.

On the other hand, there are complaints about trade barriers like SPS-regulations,[13] bad infrastructure, the lack of protection for intellectual property rights, and the existing land user rights as an obstacle for agribusiness investments. It seems as if there is still a long way to go till "Global Europe" can get more than just a foothold in China's prospering agroindustry.

Competition between food and fuel?

As part of the comprehensive plan to reduce the emissions of greenhouse gases substantially[14], there are proposals by the government to substitute 12 million tons of crude oil per year with agrofuels. Because energy plants like jatropha, palm oil, cassava, maize or sugar cane would compete with the domestic production of food, observers expect that the demand will mainly be met by imports. Already in 2007 the state owned *China National Offshore Oil Corporation* (NOOC) concluded an agreement for the production of agrofuels to be supplied from huge plantations in Indonesia. *Nanning Yongkai Industry Group*, which is one the the largest private companies in China, signed a contract for the production of ethanol in the Philippines.[15] It is supposed that ZTE *International* has plans to invest 1 billion US-Dollar into oil palm plantations of three million hectares in the DRC. And China is already the biggest importer of palm oil.

Note: *Translation of Chapter 4 of: Uwe Hoering, Landwirtschaft in China: Zwischen Selbstversorgung und Weltmarktintegration, published by Asienstiftung, Essen, and the Network "EU-China: Civil Society Forum", December 2010. Download (pdf): http://www.eu-china.net/german/Eigene-Publikationen/Eigene-Publikationen.html*

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[12] Nariman Rutten, Michael van der Meer (eds.), Study on the Future Opportunities and Challenges of EU-China Trade and Investment Relations. Study 6: Agriculture. 2007 www.development-studies.en/en-china%20competivesness.php

[13] Sanitary and phytosanitary regulations, which the EU too likes to use as trade barriers against unwanted competitors.

[14] In June 2007 China declared a national programme on climate change. One year later the law E10 prescribes a ten percent proportion of ethanol, the production is subsidised.

[15] See Duncan Freeman u.a., pp 16ff