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# CHINA, AFRICA, AGRICULTURE AND LABOR MARKETS

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# Introduction

Chinese companies have been investing in agriculture in Africa since the mid-1980s. As China opened up to markets at home, Chinese companies in Africa were encouraged to seek new sources of income. Most had arrived in Africa to carry out foreign aid projects during the 1970s and 1980s, although some were sent by their parent companies to explore investment opportunities in agriculture, forestry, and fisheries. These investment efforts have accelerated in recent years, although not nearly as far as is commonly believed.

In the late 1980s and 1990s, Chinese companies sought to lease several of the old Chinese aid projects that were being privatized under structural adjustment programs: Segou sugar complex in Mali, Magbass sugar complex in Sierra Leone, Koba Farm in Guinea, Mpoli Farm in Mauritania, and so on. China State Farm Agribusiness Corporation (CSFAC) began new agricultural investments in Zambia in 1989 and invested in two colonial-era sisal farms in Tanzania in 1999. By the new millennium, CSFAC had seven agricultural investments in Southeast Africa and West Africa, worth approximately US$35 million. These investments have continued in a pattern that has emphasized acquisitions of existing farms as well as new, green-field investment.

The Chinese government has programs to encourage agricultural investment overseas, although most of these are components of larger programs promoting ‘going global’ across a number of sectors. Agriculture was included in the ‘going global’ program as early as 2001, and was included as part of the Ministry of Finance program of special funds set up in 2005 to promote outbound foreign investment. The Ministry of Agriculture and the China Development Bank signed an agreement in 2006 to work together in five areas, including development of projects using overseas land and water. China Eximbank signed an agreement with the Ministry of Agriculture in 2008 to promote overseas investment in agriculture using export seller’s credits and investment loans.

While the efforts above were not specific to Africa, in June 2010, China’s top state-owned agribusiness group, China National Agricultural Development Corporation Group (CNADC) and the China-Africa Development Fund, set up a joint venture, ; China-Africa Agriculture Investment Co., Ltd. (CAAIC). Funded at RMB 1 billion (US$161 million), CAAIC was intended to be a platform to promote China’s farming, fishing, animal husbandry, livestock, and agro-processing and marketing investments in Africa. China’s 12th five year plan (2011-2015) encouraged Chinese firms to build productive capacity in developing countries with comparative advantage in agriculture, as part of the ‘going global’ strategy.

# Value of Investment

In 2013, China’s Ministry of Commerce reported that China’s accumulated overseas foreign direct investment (OFDI) stock in African agriculture, forestry, animal husbandry, and fishing operations amounted to 3 percent of the total of $21.73 billion, or $652 million, as of the end of 2012. By March 2013, China’s Ministry of Commerce had approved a total of 2,372 African investments for medium- and large-scale Chinese companies. Of these, 212 were broadly related to agriculture (grains, cash crops, animal husbandry, fisheries, forestry, agro-processing, and commodity trade) in 37 African countries. Only 86 out of 2,372 approved investment proposals were specifically about farming (production of grains, cash crops, or animal husbandry) in 27 African countries.

The top four African countries for approved Chinese farming FDI proposals – by number, not value – were Zambia (16), Zimbabwe (7), Mozambique (6), Nigeria (6) and Sudan (6). Having an investment project officially approved allows firms to access multiple benefits, including subsidies for feasibility studies and other pre-investment expenses. This creates an incentive for companies to go through the paperwork intensive process. However, smaller individual private investors will often decide to invest without getting official approval.

Not all of the approved proposals have been realized and several will not involve land acquisition, but rather buying arrangements with local contract farmers. Fieldwork we conducted in Zambia and Zimbabwe May-June 2013 showed that out of 16 farming investment proposals approved by MOFCOM for Zambia, only eight were in operation, and some of these were very small (40 hectares, for example). In Zimbabwe, only two out of seven were actually producing anything directly, at least so far. Other Chinese firms approved for farming were only operating as contract purchasers of cotton and tobacco. There are also likely also to be some small investments under the minimum size for approval, and possibly other large acquisitions (such as Sinochem's GMG Global investment, discussed below) that will not show up in the Africa data, as they were approved as investments in non-African countries, ; in this case, Singapore.

Taking the 212 approved projects as the approximate total gives us the modest value of $3 million per investment. Researcher James Keeley reported that in 2008, in one country, Zambia, a total of 23 Chinese farming investment proposals had been approved by the Zambian authorities, but the total projected value was only US$10 million (or US$435,000 per farm, on average). The first Chinese agricultural investment in Zambia occurred in late 1989, and Zambia is still the country with the largest number of realized Chinese agricultural investment projects.

Chinese companies are interested in investing in farming in Africa; yet, the number of firms is small compared with companies in other sectors and other regions, such as Southeast Asia. Their investments are also still fairly small, with the exception of leasing existing plantations in places like Cameroon, Mali and Sierra Leone, and several newer farms in Zambia and Mozambique. In the next section we I summarize existing patterns of investment.

# Patterns of Investment

## (1) Acquisitions of Existing Farms

So far, significant Chinese agricultural investments in Africa have tended to occur as acquisitions of existing farms. China State Farm Agribusiness Corporation acquired long term leases on half a dozen farms, some of which had earlier been constructed for African governments by the Chinese foreign aid program. Others, such as the sisal estates in Tanzania and several mixed farming investments in Zambia, were simply purchased in market transactions. Two construction companies – Complant and CLETC – acquired a handful of sugar plantations in Benin, Madagascar, Mali, Sierra Leone and Togo. Most were built earlier under the Chinese aid program, but some were acquired during privatization efforts by African governments. A Chinese company from Anhui has partnered with several Zimbabwe government officials, state bureaus, ministries and Chinhoyi University of Technology to manage farms acquired under Zimbabwe's chaotic land reform process.

So far, the largest Chinese agricultural acquisition in Africa occurred in 2008, when the state-owned Sinochem bought 51 per cent of a Singapore rubber company, GMG Global. GMG Global had long-term leases on rubber plantations in Cameroon and Côte d'Ivoire, most of which were started during the colonial period, later nationalized, then privatized at least once. GMG Global's largest concession comprised 41,000 ha in Cameroon (less than half under cultivation).

## (2) Greenfield Investment: New Farms

Chinese companies have expressed considerable interest in acquiring land for new investment in Africa, although few of these projects have materialized. Research summarized in my forthcoming book[1] shows that the media have reported multiple stories of Chinese agricultural investments that have allegedly occurred in Africa since 2000. If all had been carried out, the total of these purported investments would be just under 6 million hectares. Research we conducted while I was a visiting scholar at the International Food Policy Research Institute (IPFRI) determined that these reports include multiple mistakes, myths, and mere expressions of interest without follow up. Eliminating these through fieldwork, and documenting actual land transfers, suggests that the actual number of hectares transferred to Chinese companies or joint ventures since 2000 has been fewer than 200,000. Furthermore, less than half of the transferred land was under cultivation, as of the end of 2013.

The largest of these new investments is in Mozambique, where Wanbao, a private Chinese grain trading company, has rebuilt about 10,000 hectares of a colonial-era irrigated perimeter. The company cultivates rice using a combination of company-farmer contracts and direct production, and plans to expand to a full 20,000 hectares. Several companies are currently pursuing large investments in Madagascar (castor oil), Sierra Leone (rubber), Sudan (cotton and sugar), but these have yet to materialize on the ground.

Three obstacles have prevented most proposals from being realized. First, after doing feasibility studies, some companies have backed away from proposals that appeared to be less profitable than expected. Second, in some cases, Chinese firms have given up after facing difficulty in moving from a government promise of land to the actual transfer, due to effective protests by local farmers occupying the land with insecure title, who do not want to move or fear

[1] Deborah Brautigam, Will Africa Feed China? Oxford University Press, forthcoming.

inadequate compensation and resettlement programs. Third, companies that have received land have often had difficulty in securing the finance to develop the land. Private firms are less likely to obtain policy bank loans, and even state-owned firms have had difficulty as China's policy banks become more risk-averse.

### (3) Contracting and Outgrower Investment

A third and growing area for Chinese agricultural investment involves contractor or outgrower arrangements as called by the Chinese "company-farmer mode". In this model, popular in cotton and tobacco, and sometimes used in sugar, sesame and rice, Chinese firms provide inputs including high quality seeds, fertilizer, and pesticides on credit, while receiving farmers are obliged to repay by selling their harvest to the sponsoring company, often under a pre-arranged price. This model has had mixed impact in Africa. In tobacco and cotton, it is believed to work fairly well, in part because buyers in places like Zambia have agreed to respect each others' contract arrangements. A Chinese company that tried the model with sesame in Senegal found it had no recourse when farmers sold their output to a competing company that was not deducting the cost of inputs.

## Labor Markets and Chinese Agricultural Investment

Chinese outward trade and economic cooperation have long emphasized labor exports, both as part of Chinese engineering and contracting work, and on their own. When the going global policies were announced in 2001, they included the accelerated pursuit of labor service exports through, for example, contracts to develop agricultural lands and hydropower projects overseas. In 2007, the president of China Eximbank, Li Ruogu, famously urged Chongqing officials in central China to boost China's labor exports by organizing Chinese farmers to invest, in groups, in Africa.

The large-scale migration of Chinese farmers to Africa has been feared (or anticipated) but so far, it has not come to pass. It is more common for Chinese companies to actively seek construction contracts offered by African states. Over the past decade, in Angola, Sudan, Mali and Zimbabwe, Chinese construction firms have won large contracts to build farms that would be owned by African governments. Not all of these contracts have been implemented, often due to financial shortfalls. Chinese construction contracts typically involve from 10 to 30 percent Chinese personnel (this percentage is higher in oil-rich countries where trained local labor is expensive, including Angola, Sudan, and most of North Africa), but they also employ many Africans, most on a temporary basis with effort to avoid permanent contracts and union protections.

In the few farming investments that have taken place to date, Chinese investors use local labor. In Tanzania, for example, there were only two Chinese present at the 6000 hectare sisal estate the day we visited. The estate employs fewer than 10 Chinese, with a local labor force of over 1000 permanent and part-time workers. Anhui province's joint venture investments in Zimbabwe[2], with about 10,000 hectares on seven farms (as of April 2014), employ 16 Chinese experts and over 800 local employees. Sugar complexes use a higher proportion of Chinese, mainly to operate the factories. In Sierra Leone, for example, the Magbass sugar complex[3] had 33 Chinese experts and up to 1000 local workers. While labor relations are often contentious in these plantations, they can be said to provide employment opportunities in rural locations where incomes are low, and other options often scarce. Indeed, in Tanzania, the sisal plantation draws its workers not only from the surrounding villages but from towns many miles away.

## Labor Market Research Questions:

1. To what extent are Chinese firms aware of socially responsible investment guidelines on labor relations such as those promoted by the UN's Compact and the IFC?

2. How much training do Chinese agribusiness firms conduct in their company investments, and how effective is the training they conduct?

3. What localization strategies do Chinese firms adopt to reduce their costs and increase local employment?

[2] http://allafrica.com/stories/201404142275.html

[3] https://journals.macewan.ca/index.php/apgr/article/download/103/pdf