Agricultural Investment in oversea ---Case Study from P.R. China

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Outline

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China Overseas direct investment in 2011

- By the end of 2011 the total amount of direct investment overseas of China has achieved 400 billion dollars, ranking 13th globally. In 2010 China was still ranking 17th globally.
- China ranked the 6th largest country in new outbound investment in 2011
- China's outbound direct investment rose 8.5 percent to $74.7 billion in 2011, slowing from the year before
- In 2011, developing countries were the biggest recipients of China's investments, which attracted $61.2 billion of Chinese capital and accounted for 82 percent of China's total outbound investment
- China's direct investments to Southeast Asia climbed 34 percent to $5.9 billion
- while that to European countries rose 27 percent to $7.6 billion
- Agricultural investment account for 3%
• Agriculture investment to the World by Chinese enterprises broadly includes:
  – agricultural product technical investment
  – agricultural product cooperation
  – agricultural foreign aid
  – direct investment

• In a narrow sense, it means that enterprises are engaged in
  – legal agricultural production
  – business activities with profit
  – cooperation orientated

• In the way of
  – Capital
  – Technical
  – Products
  – labor/services output

• based on equality and mutual benefit
Agricultural cooperation relationship with more than 30 countries in five continents

- In Russia, Philippines and central Asian countries, the soybean and corn planting bases were built up successively.
- In Southeast Asia, Latin America and other regions, the grain, rubber, tropical fruit, sisal scarce resources base were developed successively.
- In the Philippines, Cambodia, Indonesia, Malaysia, other countries, agricultural technological demonstration centers were established.
Who Approved from Centre Government?

- Approved by over 6 major government central departments, include
  - The State Council
  - Ministry of Commerce
  - Ministry of Agriculture
  - Development and Reform Commission
  - Ministry of Finance
  - Ministry of Foreign Affairs,

- the Agricultural “Going Out” Coordination Leading Group was established

- On this basis a working mechanism with several departments was formed

- Which has laid a favorable foundation for overall planning of China’s overseas agricultural investment strategy
Special financing policies are under establishment

- The State Development Bank
- Export-Import Bank of China
- Bank of China
- Agricultural Development Bank of China
- Other financial institutions
- Specific fund for Africa 5 billion US$

The goal is to increase financing supply for enterprises which have urgent demand of financing based on existing financing support:
- design of business varieties and patterns
- support all kinds of enterprises, especially small and medium side enterprises loans
- to provide a complete range of financial services for overseas agricultural investment enterprises
China’s Agriculture “Going Out” Policy with following four main features

• 1. Diversified project investments
  – The state-run land reclamation, seed enterprises, fishery enterprises play a leading and demonstrative role
  – Local governmental owned enterprises increasing
  – The private agricultural enterprises are stepping up “Going Out”
Project areas are increasing

- In 2007, there were about 1500 fishing boats with nearly 40,000 people engaged in fishery production overseas
- The operation areas include exclusive economic zones of 32 countries
- West Africa, Malaysia, Indonesia, Burma, Sri Lanka, Fiji, and Argentina, and three territorial waters in the Pacific Ocean, the Atlantic Ocean and the Indian Ocean
- Chinese enterprises built development bases for grain, soy base and natural rubber, oil palm, sisal, tapioca scarce resources
- In Russia, Southeast Asia, Central Asia, Latin America and other regions successively
Case in Uganda

• Through two years test (2008-2010), Hebei Hanhe Agricultural S & T Co., LTD had been reclaimed land about 2,600 Chinese Mu for vegetables in Uganda successfully.

• Now, Hanhe Company are ongoing to set up development planning land of 260,000 Chinese Mu for Vegetables.
Case in Russian

- land reclamation projects of He Longjiang Province rent and produce grain in Russian from the year of 2004
- In 2007, the planting area amounted to 42,478 hectares, and at the same time, grain pre-treatment centers were to be built, the agriculture industry value chain continued to expand in Russia
3. The field of project investment is diversifying

- It now covers
  - food grown
  - economic crops
  - wildlife and plant protection
  - agricultural facilities
  - agricultural machinery
  - rural energy field
  - biological energy agriculture
  - ocean fishing
  - etc.
4. The form of investment is diversifying

- with land leasing and grow
- purchase fishing license
- establish production and processing bases
- agricultural resources development
- agricultural production
- processing
- trade
- etc
CASE in Zambia

- China Reclaim Group had been developed six agricultural project in Africa for 38 million US$ with regards to farm.
- Jiangsu Reclaim Group, China had been operated with farm call Friendship, Chinese and Xiyangyang.
- Jiangsu Reclaim Group established farm product stories in Lusaka, Zambia, the products is from Farmland.
China and partly Asian countries signed a series of related agreement

• With the example of ASEAN, on November 4, 2002, the signing of “The Framework Agreement on Comprehensive Economic Cooperation between The People's Republic of China and the Association of Southeast Asian Nations” in Phnom Penh, Cambodia marks the launch of the China-ASEAN free trade area officially.

• As one of the important contents of the “Framework Agreement”, the agricultural cooperation determines two implementation stages.
the sign of “Cancel Fruit and Vegetable Tariff Agreement between China and Thailand” has accelerated and promote the implementation of the plan

- Under the agreement, which started in October 2003, the tariff of vegetable, fruit and nut products (altogether 188 species products) trade was eliminated between the two countries
- In June 2004, Singapore joined this zero-tariff agreement. Vietnam also proposed to join
- Since the implementation of this policy, both import and export of vegetables and fruits to and from China is growing fast, especially for apples and pears
- In January 2005, the plan of “Zero Tariffs” was extended to six other Asian countries, including Thailand, Singapore, Malaysia, Indonesia, the Philippines and Brunei
The Trade in Goods Agreement of China-ASEAN

- signed in 2004, giving preferential tariff for those agricultural products which were not listed in the “Early Gain Plan”
- According to different timetable, the products with normal classes and sensitive classes decreased the tariff, based on rate of customs in Free Trade Areas
- From 20 July, 2005, the tariff of approximately 7000 items and products was reduced
- which promotes a new round of opportunities for agricultural cooperation and development
Current and Potential Impact for farmland

• **Impact to the farmers**
  • The development of contract-based agriculture has effectively helped farmers to enter the international market, improved agricultural technical and commercial level
  • With the contracts, a large number of farmers who are engaged with basic agriculture and could receive
    – expected income
    – opportunities to enter international market and full support of credit
    – proprietary knowledge and technique from multinational companies
    – enlarge the cooperation space with overseas market
Impact to agriculture (1)

• Firstly, foreign investment of agriculture promotes the agricultural capital formation
  – In most Asian countries, there is more labor and land of agriculture, but less capital
  – Increasing agricultural capital investment will be effectively improving agricultural productivity of basic element
  – Solving the problem between food supply and demand
  – Transferring a number of rural surplus labor forces
Impact to agriculture (2)

• Secondly, in the aspect of agricultural technology transfer, agricultural investment enhances the level of production and technology in local agricultural department through a series of pilot projects.

• This could further promote the local economic development in long term.

• There were several trial projects which provided aid by the Chinese government:
  - The Agricultural Technology Center between China and Philippine
  - The Boar Trial Center in Cambodia
  - Biogas Trial Center in rural areas of Laos
  - The Nursery-grown Plant Production in Burma
  - Hybrid rice planting project in Indonesia
Impact to agriculture (3)

- Lastly, in the element of agricultural modernization, “The 2009 World Investment Report” states that multinational companies have brought and promoted local agricultural modernization and commercial development by agriculture investment to some developing countries as a whole.
- In some Asian countries, agricultural investment provided urgently needed
  - technology
  - new models of production and marketing ideas
  - give strong impact to the local undeveloped economic structure in rural areas
  - promoted the transfer from traditional agriculture to modern agriculture
Impact to Rural Areas

- Agricultural investment helps to promote the outwards orientated and rural urbanization of Asian developing countries
- In the perspective of outward orientatation, the construction of agricultural bases in some Asian countries push the development of export orientated of local agriculture
- From the perspective of rural urbanization, the foreign investment improves the development of agricultural modernization
- the transition from basic agriculture to commercialized agriculture. In addition, it helps to increase farmer’s income
- In order to attract the foreign agriculture investment, the agricultural infrastructure and necessary urban living conditions need to be improved
Current and Potential Challenges and Risks for agricultural investment

- **Challenges and Risks to Farmers**
  - Overseas agricultural investment may directly challenge the industrial competition and unemployment for the local farmers.
  - On the one hand, the agricultural situation in most developing countries in Asia faces problems and small-scale farming and decentralized operations could be at risk through agricultural investments.
  - Other issues are less experience and capacity in commercialized, organized and industrialized agriculture.
  - Especially lack of capacity to provide standardized products and solve problems.
Challenges and Risks to Farmers

- Furthermore, providing abundant technology and capital, especially within the contract based mode, the information between small scale farmers and multinational cooperation is not seriously matched.
- It is not good to attract too much foreign direct investment since the high risk and cost with local farmers.
- Another challenge can be the negotiation with foreign agricultural enterprises.
- Finally, applying the capital-intensive technology by large-scale foreign enterprises will directly push local small farmers out and intensify agricultural rural unemployment.
Challenges to Agriculture(1)

- Foreign agricultural investment might challenge the simple agricultural structure, food security and agricultural status of host countries.

- In the aspect of agricultural structure, except the increasing direct investment of major grain crops in Technical Co-operation among Developing Countries (TCDC), at present there are a lot of multinational enterprises interested and directly invest in major cash crop, the tendentious investment will lead to more complex local agricultural structures.

- Regarding the aspect of food security, although agricultural investment may improve the agricultural production and productive efficiency.

- There is not evidence to indicate to what degree investment could secure the food security and improve production of major grain crops.
Challenges to Agriculture(2)

- Technical innovation and development of large-scale multinational enterprises not just focus on the major grain crop in most of Asian developing countries.
- The strategy of some Asian countries who wish to improve the food security through multinational enterprises engaged with agricultural investments.
- Limit the potential of growing opportunities of host countries, through monopoly the comparatively weak industrial field.
- The direct investment of multinational enterprises may force some enterprises in host countries make over or give up the local brand with strong advantage of capital, technology, branding, channels and market, which runs the local agricultural brand and intangible capital off.
- The limitation of branding and growing space makes the field of relevant agricultural product processing, land and food exports trade being dominant.
Challenges to Rural Areas (1)

- Large-scale agricultural investment brings social and environmental challenges to rural areas in part of Asian countries.
- Although there is not specific impact model, there are some case indicated that, even though direct agricultural investment brings new technology with consideration of local environment, the impact of water resources and biodiversity due to mass used of those new technology cannot be ignored.
Challenges to Rural Areas (2)

• It is going to be blocking the development of local agricultural technology if some agricultural investment agency may provide or adopt improper technology or agricultural models into rural areas.

• In additions, excessive investment and exploitation may result that agricultural resources are operated piratical; simplex planting may harm biodiversity, making use of cancer-causing pesticides may lead to deterioration of the environment, etc.

• Moreover, agricultural investment agencies own a lot of farmland which might result in social and political problems.
Role of Civil Society Organizations for government with advocacy

- To take measures to further reduce tariff of agricultural products, open up the product markets to each other in order to have more favorable trade
- Meanwhile, based on the communication and cooperation between federations of agricultural cooperation in both sides, continued expansion of cooperation opportunities and promoting the level of cooperation include aspects of trade, investment and technology exchange
- Governments should take initiative from perspective of serving for enterprises and promote cooperation, create a favorable political environment and conditions for promoting agricultural investment and trade, improving mutual exchange between technicians, continuously enhance agricultural development and jointly create a common region of agriculture
Role of Civil Society Organizations for enterprises

- Chinese investors are more interested in direct investment in economical crops or contract farming.
- China and other Asian countries should strengthen the control of small classes of foreign agricultural investment, reasonably plan and guide the direction of foreign investment, and avoid the structure of agriculture impacting national food security.
- Promote the seeds and agricultural technology of agricultural investment companies to adapt the actual conditions in Asian countries.
- Distribute and sell products to local farmers to ensure a fair share of local procurement of inputs, and promote the establishment and enhancement of local long-term sustainable production capacity.
- Especially the projects which have significant positive external effects, such as ecological management, environmental protection, and transformation of wasteland.
Role of Civil Society Organizations for practical work

- CSO should play a more important role in supervising the effectiveness of agricultural investment from Chinese enterprises in other Asian countries, land issues and food security, based on a communication platform
- CSOs can contribute to advocate for the vulnerable groups, for instance local farmers’ livelihoods and development of local communities, especially in environmental issues
- CSO can use new media and raise their voice to the government and enterprises, Micro-blogging etc
- CSOs should learn to work constructively with enterprises, especially the private enterprises in helping to promote and understand corporate social responsibility (CSR) through International NGO network
- CSOs need to realize their important role and key vehicle in accelerating understanding and solution of the land issues
Conclusion

• It is not clear for the land investments which China is making in others parts of world
• Government can control for State-Owned enterprises for land investment, it is very difficult to work with private companies
• CSOs can work with stakeholder for monitoring and evaluation work
• CSOs focus on CSR the land investment through International NGO network
Thank you very much for your attention!

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