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Chinese Agricultural Investment in Africa: Motives, Actors and Modalities

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ABSTRACT

Against the backdrop of the high-profile re-encounter and reunion between China and Africa since the new millennium, agriculture has been one of the most important co-operation fields between the two sides. In contrast to its earlier, mostly aid-focused engagement with African agriculture in the 20th century, the Chinese government began to actively encourage and support Chinese companies' investment in the agricultural sector on the continent. This paper will look back on the practices of Chinese agricultural investors on the ground over the past decade, investigating the combined motives, diverse actors and different modalities involved in this process.

ABOUT THE AUTHOR

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ABBREVIATIONS AND ACRONYMS

CAAIC	China–Africa Agriculture Investment Corporation
CACC	China–Africa Cotton Company
CADFund	China–Africa Development Fund
CDB	China Development Bank
COFCO	China Oil & Foodstuffs (Group) Corporation
CSFAC	China State Farms Agribusiness (Group) Corporation
EXIM	Export-Import Bank of China
FDI	foreign direct investment
FOCAC	Forum on China–Africa Cooperation
M&A	mergers and acquisitions
SAE	state-owned agricultural enterprise
SFE	state farming enterprise
SOE	state-owned enterprise
SSR	self-sufficiency rate

INTRODUCTION

The agricultural link between China and Africa can be traced back to the late 1950s when China started to provide agricultural aid to Africa. Agricultural aid has remained an integral part of Chinese African aid and constitutes a significant component of China's contemporary, more diversified agricultural engagement with the continent. Since the early 1990s onwards, there has also been a new trend in agricultural investment efforts, mostly by Chinese state-owned agricultural enterprises (SAEs) and reflecting a mix of investment and aid in that they were often funded through concessional loans from the Chinese government. The scale of investment, however, has remained at a low level in terms of both the total value of the investment and the number of participating companies. A few private individuals have also invested, but at a much lower rate.

Enter the new millennium and although agricultural co-operation has always been a priority under the Forum on China–Africa Cooperation (FOCAC) framework, it was only with the Beijing Summit in 2006 that the Chinese government began to formally encourage Chinese companies to invest in the agricultural sector of Africa.[1] During this period (the mid-2000s), the Chinese government was in the process of initiating its overseas agricultural investment policy, or 'Agricultural Going Out', in alignment with the country's broader 'Going Out' strategy (see Table 1). In 2010, the Chinese government convened a high-profile agricultural forum and invited official representatives from 18 African countries to Beijing to discuss the possibilities of deepening bilateral agricultural co-operation. On this occasion the Chinese government placed special emphasis on the role of corporate actors in the new era of agricultural co-operation and called for the joint efforts of China and the African countries in creating a favourable environment that could facilitate investment activities.[2]

Table 1: Chinese agricultural foreign investment policy

Policy objectives[a]	• Guarantee the adequate supply of major agricultural produce by utilising overseas agricultural resources • Explore and expand international markets for China's advanced agricultural produce and technology • Utilise advanced foreign agro-technology • Enhance the international competitiveness of Chinese agricultural enterprises
Investment destinations[b]	*Principle: prioritise neighbouring countries; countries rich in agricultural resources; and countries with a good investment environment* • Neighbouring countries/regions: Russia, Central/Eastern Europe, Central/Southeast Asia • Latin America • Africa • The West (Europe, North America, Australia, etc.)

Investment fields[c]	*Principle: prioritise significant cash crops of high import-dependency, complemented with grain crops in appropriate regions* • Crop farming » Southeast Asia: palm oil, rubber, rice, maize, etc. » Russia, Central Asia and Central/Eastern Europe: soybean, rapeseed, cotton, wheat, barley, maize, etc. » Latin America: soybean, cotton, sugar products, etc. » Central/Southern/Eastern Africa: cotton, grain crops, etc. » Central/Western Africa: cotton, palm oil, rubber, etc. » South Asia, Australia, North America: soybean, cotton, rapeseed, wheat, sugar products, etc. • Animal husbandry • Fishing industry
Investment value chain[d]	*Principle: start from and focus mainly on storage and logistics; complementing with production, processing and international trade, etc.* • Production • Processing • Storage • Logistics • Trade
Investment modalities[e]	• Greenfield investment: to start a new enterprise (farm and/or progressing factory) in the investment destination country • Equity investment: to participate in corporate operations through share purchases or mergers and acquisitions (M&A) with established agro-enterprises in the investment destination country
Investment entities[f]	• To support some central enterprises and large-scale agricultural enterprises to become the main force of China's overseas agricultural investment • To encourage non-agricultural, private and medium/small-sized firms to participate in the agricultural foreign investment process
Supporting measures[g]	• Policy encouragement and investment guidance • Financial support • Insurance and tax measures • Diplomatic backup

Notes: Given the fact that there have not been many comprehensive official documents or action plans from public sources that clearly explain the objectives and means, of China's overseas agro-investment policy, this table is a summary by the author based mostly on reports conducted by relevant government departments, think tanks and agricultural officials regarded as more representative of government views.

Source:

a Song HY *et al*., 'Expanding agricultural foreign investment and quickening the implementation of Agricultural Going Out Policy', Research Centre for Rural Economy under China's Ministry of Agriculture, *Review of Economic Research*, 28, 2012 (in Chinese).

b NDRC (National Development and Reform Committee) & MOC (Ministry of Commerce of China), 'Guidance on Overseas Agricultural Investment Cooperation'. Beijing: NDRC, 2012 & MOC, 2013; Song HY *et al*., *op. cit*. (in Chinese).

c NDRC & MOC, *op. cit*.; Song HY *et al*., *op. cit*.; Ye XQ, 'Chinese agriculture should go out', Outlook, 20, 2007 (in Chinese).

d NDRC & MOC, *op. cit.*; Wan BR 'Quickening the implementation of Agricultural Going Out Policy', *People's Daily*, 5 June 2102. (in Chinese).

e Wan BR, *op. cit.*; Zhang YH, 'China's overseas agricultural exploitation', *China Economic Times*, 2011, http://www.gdcct.net/politics/feature/nyhwkz/hwztkqlhm/201101/t20110127_434115.html.

f NDRC & MOC, *op. cit.*; Wan BR *op. cit*. (in Chinese).

g Ma ZG *et al.*, 'Supporting measures of China's agricultural foreign investment', *International Economic Articles Digest*, 2, 2014, pp. 10–13.(in Chinese).

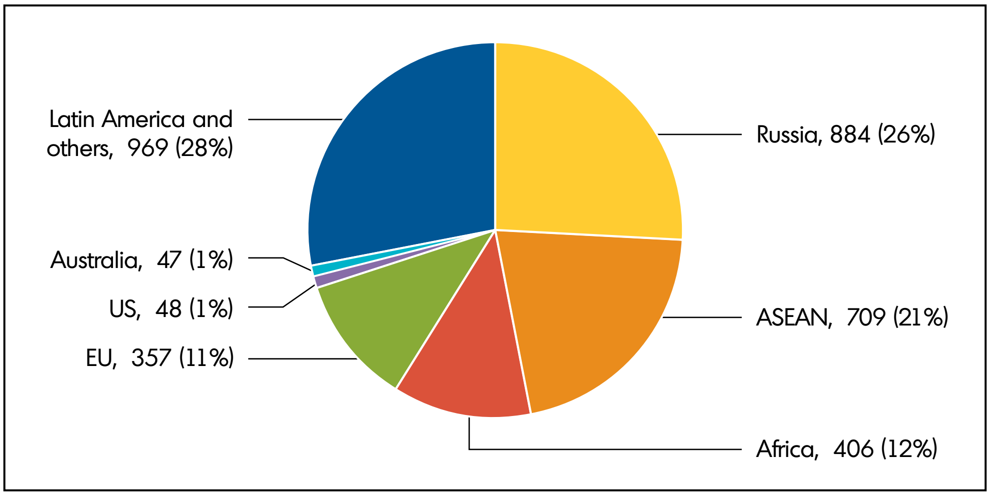
By the end of 2011, Chinese agricultural foreign direct investment (FDI) in Africa amounted to about $400 million, which comparatively speaking is not a significant figure, representing as it does about 12% of China's total overseas agricultural FDI and only 2.5% of its total investment in Africa (see Table 2 and Figure 1). In terms of the number of companies investing, one source[3] estimated that approximately 78 Chinese companies were involved in agro-investment in Africa by May 2012, representing about 13% of the total figure when compared to the rest of the world (see Table 3).

Table 2: China's outward FDI stock in Africa in selected years, $ million

Year	Agriculture	Total	Share
2009	289	9,330	3.1%
2011	406	16,250	2.5%

Source: Edited by the author based on MOC, 'China–Africa Economic and Trade Relations Reports: China–Africa Economic and Trade Relations Report', Beijing: MOC, 2010 and 2013.

Figure 1: China's agricultural FDI stock by region by 2011, $ million



Source: Edited by author based on MOC, 'Statistical Bulletin of China's Outward Foreign Direct Investment 2011'. Beijing: MOC (in Chinese)

Table 3: Distribution of Chinese agro-investment companies in the world

Continent/region	Number	Percentage	Main countries
Asia	354	59.20%	Laos, Indonesia, Korea, Vietnam, Cambodia, Thailand, Myanmar, etc.
Europe	80	13.38%	Russia, France, Germany, UK, etc.
Africa	78	13.03%	Zambia, Ethiopia, Tanzania, Mozambique, Mali, etc.
Australasia	34	5.75%	Australia, New Zealand, etc.
North America	30	5.02%	US, Canada, etc.
South America	20	3.34%	Brazil, Argentina, Venezuela, etc.

Source: Edited by the author and based on the work of Yang Y *et al*., 'Analysis on the current situations of Chinese agricultural foreign investment', Foreign Economic Cooperation Centre under China's Ministry of Agriculture, *World Agriculture*, 12, 2012, pp. 107–112 (in Chinese).

MOTIVES

Admittedly, China's state-led overseas agricultural investment policy in the past decade (2005-2015) has largely been resource-oriented. There is significant tension between increasing demand for major agricultural products, both food and non-food, and the actual capacity of domestic supply, primarily due to a low people-to-land ratio. The arable land area per capita in China is about 0.08 hectares, less than half of the world average of 0.2 hectares.[4] In the face of this challenge, the Chinese government has adopted a strict farmland protection policy and has tried to increase the unit output by every possible means while keeping careful control over population growth. Despite these efforts, however, it remains difficult for China to fulfil its needs for all the major agricultural products solely through domestic production. Filling this gap between demand and supply by using external agricultural resources, either through imports or agricultural FDI, is an almost inevitable route for China.[5]

It is worthwhile clarifying the target crops of China's agricultural imports and FDI. Instead of importing or growing staple-food crops, especially grains/cereals for human food-use that are considered essential in food security terms,[6] as many are concerned about,[7] the main focus of Chinese agro-imports and overseas farming is cash crops (for the definition and differentiation between staple-food and cash crops see Table 4). For instance, it is hoped by the Chinese government that through agricultural FDI China will have access to overseas equity holdings of soybeans, cotton, sugar crops, palm oil and rubber amounting to respectively 20%, 40%, 30%, 15% and 20% of its total imports by 2020.[8]

Table 4: Main crop classifications as used in the Chinese context

Staple-food crops			Cash crops				
grains/ cereals	beans	roots and tubers	fibre crops	oil crops	sugar crops	tropical crops	others
rice, wheat, maize, etc.	soybean, pea, mung bean, etc.	potato, sweet potato, cassava, yam, etc.	cotton, etc.	soybean, palm oil, etc.	sugarcane, rapeseed, etc.	rubber, sisal, etc.	coffee, tea, tobacco, etc.

Note: Staple-food crops (as defined by the Chinese government in its official documents, include mainly grains, beans, and root and tuber crops. Staple-food crops are used both for human food (eg, rice and wheat) and animal feed (eg, maize and soybeans). Cash crops are those supposed to have more commercial value added, and can be used for both food and industrial purposes. Although cash crops can be used for food purposes – some of them, for example oil and sugar crops, are dispensable as well – comparatively speaking, they are not imperative in food security terms. One of the tricky crop types for differentiation is soybean, which is generally treated as an oil crop in China although the residue, soybean meal, is also used as animal feed.

Source: Compiled by the author.

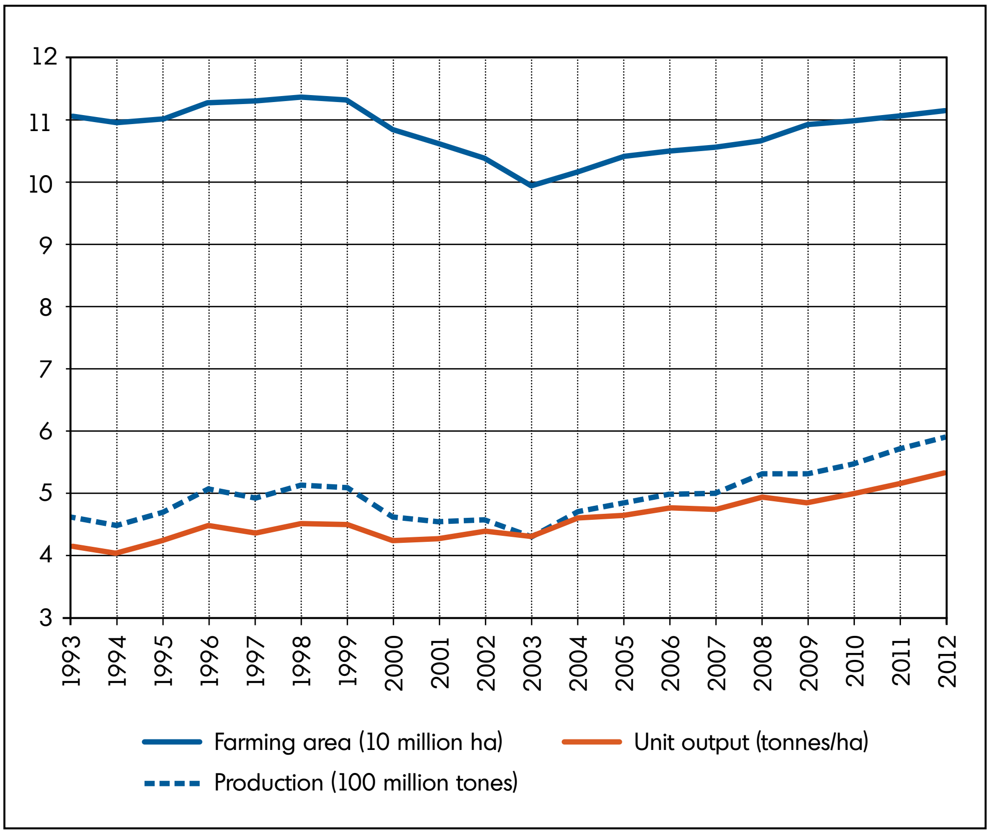
Economically, the sheer size of the Chinese population makes it impossible for China to rely on external food supplies. The total volume of the global food trade in recent years equals less than half of China's domestic production. If China should halve its domestic production and accordingly its self-sufficiency rate (SSR) to the level that is the common for many countries (for example, 58.5% for the UK and 39% for Japan in 2010), China would consume all the food supplies available on the international market solely to satisfy half of its appetite. Given the tight balance between global food demand and supply, no one can be sure whether a 10% drop in China's SSR will be tolerated. In the best-case scenario this would encourage food competition with other countries, with China paying higher prices during normal times. In times of crisis, however, if food hoarding and trade embargoes were to be adopted, it would jeopardise the food supply of more than 100 million Chinese people, which is why former Chinese Premier Wen Jiabao stated, 'As a guideline, China has to always reply on domestic production and achieve general food self-sufficiency. For a country with 1.3 billion people, no one can help us if anything goes wrong in food and agricultural production. Pinning hopes upon massive food imports is not only unrealistic but highly risky as well.'[9]

Even if there were an adequate food supply on the international market, given the projected increase and volatility of global food prices depending heavily on food imports would have direct negative effects on the Chinese people's economic wellbeing. Until 2012 there were still 128 million people living below the poverty line, accounting for roughly 10% of China's total population;[10] and for ordinary Chinese families food expenditure consumes the biggest share of the household budget, with the Engel's Coefficient standing at 36.3% and 40.4% in urban and rural area respectively.[11] The high number of poor citizens and the high percentage of food expenditure indicate that China will be affected by global food price fluctuations on a larger scale than more affluent countries.

It is also asserted by some in China that the food issue should be seen not only as an agricultural, trade or even food security problem but also as a matter of sovereignty, in that it relates to a state's independence and autonomy in feeding its own population, which is probably the most basic sovereign affair of all.[12] Failure to maintain food sovereignty can also incur political risks. History recalls the Kennedy Administration's refusing to end its embargo on exporting food to China during the Great Famine of 1959–1962, which led to the death of millions.[13] The US government also impeded the export of food to China by other Western countries, including Canada and Australia.[14] The oil-rich but arable land-scarce Middle East countries can also be taken as examples of how a food surplus has been used as a diplomatic weapon by other countries. It has been said that food, rather than oil, will become the trump card in contemporary geopolitics.[15] This explains, from a political/diplomatic perspective, why China has upheld its food self-sufficiency policy for decades.

Motivated by these rationales, the government has made every effort to retain a high-level SSR. With a steady increase in the area of land being cultivated and unit output, China's grain production maintained a continual growth from 2004–2014 (see Figure 2).

Figure 2: China's grain (mainly rice, wheat and maize) production (1993–2012)



Source: Edited by the author based on the online database of China's Ministry of Agriculture (http://www.agri.cn/V20/cxl/)

During the same period, net imports of grain remained low in relation to domestic production, although recent years show an upward import trend. The SSR of China's key grain crops – rice, wheat and maize – has stabilised at around 98–100%, both in total and separate terms (see Table 5). Having said that, since priority is given to farming grain crops, which use 80–90% of the country's arable land, the question is how to ensure a sufficient supply of other important types of agricultural products, for example land-intensive cash crops such as soybeans, cotton, rubber, etc. The production shortfalls in these agricultural products will have to be offset by utilising foreign agricultural resources, as seen in China's contemporary agricultural trade and FDI practices.

Table 5: China's grain production (tonnes millions) and SSR from 1993–2012

Year	Production	Exports	Imports	Net imports	SSR
1993	456.49	13.28	7.33	-5.95	101.32%
1994	445.10	11.04	9.20	-1.85	100.42%
1995	466.62	0.65	20.40	19.75	95.94%
1996	504.54	1.24	10.84	9.60	98.13%
1997	494.17	8.35	4.17	-4.18	100.85%
1998	512.30	8.89	3.88	-5.01	100.99%
1999	508.39	7.38	3.40	-3.98	100.79%
2000	462.18	13.80	3.15	-10.65	102.36%
2001	452.64	8.77	3.44	-5.33	101.19%
2002	457.06	14.84	2.85	-11.99	102.69%
2003	430.70	22.00	2.09	-19.92	104.85%
2004	469.47	4.80	9.75	4.96	98.85%
2005	484.02	10.17	6.27	-3.90	100.81%
2006	498.04	6.10	3.60	-2.50	100.51%
2007	501.60	9.91	1.56	-8.35	101.69%
2008	528.71	1.86	1.54	-0.32	100.06%
2009	530.82	1.37	3.15	1.78	99.67%
2010	546.48	1.24	5.71	4.47	99.19%
2011	571.21	1.21	5.45	4.23	99.26%
2012	589.57	1.02	13.98	12.97	97.85%

Source: Edited by the author based on the online database of China's Ministry of Agriculture (http://www.agri.cn/V20/cxl/)

This logic applies to Chinese agro-investment in Africa as well. Cash crop farming makes up the majority of China's sizable agro-investment projects in Africa, but the Chinese government prefers the neighbouring regions of Southeast Asia, Russia, Central Asia and

Eastern Europe to Africa (see Table 1). This may be due to purely economic factors such as higher production and transport costs, as well as to social factors such as the challenges Africa faces in feeding its own people. Therefore, while Africa is one of the important destinations for Chinese resource-oriented overseas agro-investment, the often-seen food security argument does not hold.

Chinese agricultural engagement in Africa is also driven by diplomatic considerations. As is widely recognised, the agricultural sector constitutes the backbone of the national economies of many African countries.[16] Given that around 70–80% of the total population, including 70% of the continent's extremely poor, live in rural areas and depend on agriculture for their livelihood, the agricultural sector is believed to have the potential to lift people out of hunger and poverty on a massive scale. By providing capital to help boost Africa's agricultural sector, China also hopes to forge a responsible image in its contemporary engagement with the continent, and thus maintain and strengthen its traditional, strategic African alliances in the international political arena.

ACTORS

According to the database of the Chinese Ministry of Commerce, by August 2014 there were about 185 Chinese companies established in Africa and involved in agricultural investment.[17] Of these, 101 companies focus their core business on crop farming, which at 54.6% is the largest percentage of all Chinese agro-firm interests, with another 41 companies involved in fishery, 33 in forestry and 11 in animal husbandry (see Table 6).

Table 6: Chinese agro-investment firms in Africa

Region	Number of countries	Number of Chinese agro-firms				Chinese firms of all kinds	Share of all agro-firms (%)
		Crop farming	Animal husbandry	Forestry	Fishery		
East Africa	17	73				1000	1.7
		53	9	4	7		
West Africa	16	57				761	7.5
		25	0	11	21		
Central Africa	9	34				388	8.8
		12	2	17	3		
North Africa	7	17				439	3.9
		7	0	1	9		
Southern Africa	5	4				294	1.4
		4	0	0	0		
Total (% share in all agro-firms)	**54**	**185**				**2882**	**6.4**
		101 (54.6%)	**11 (5.9%)**	**33 (17.8%)**	**41 (22.2%)**		

Source: Edited by the author based on the online database of China's Ministry of Commerce (http://wszw.hzs.mofcom.gov.cn/fecp/fem/corp/fem_cert_stat_view_list.jsp), updated by 8 August 2014

This paper focuses on the 100 or so crop-farming companies. Most of these crop-farming companies are located in East Africa, with Zambia, Tanzania, Mozambique, Zimbabwe and Madagascar hosting the largest number (see Table 7). About 25% of these companies are involved in cash crop farming, primarily cotton, but they also farm rubber, sugarcane, sisal, palm oil, etc.[18] The majority of the companies are engaged in farming food crops, mostly grains and vegetables.[19] In terms of enterprise ownership, up to 80% of the projects are held by private Chinese companies.[20] State-owned/controlled enterprises (SOEs) and those with mixed ownership (companies co-invested by state and private capital) represent only a small percentage. Most of the Chinese agro-investment projects in Africa are medium/small-scaled. There are only about 30 relatively sizable projects with at least 1 000 hectares of land or $1 million worth of investment involved (see Table 8).[21]

However, these sizable projects show different features when compared to the general trend. Specifically, almost two-thirds of these projects are invested in by Chinese state-owned companies (including those mixed with state element). The majority of these sizable projects are concerned with cash crops; few Chinese companies are engaged in large-scale food crop farming in Africa.

Table 7: Top 10 African countries hosting Chinese agro-firms

Rank	Country	Number of Chinese agro-firms	Number of Chinese companies of all kinds	Share of agro-firms
1	Zambia	23	187	12.3%
2	Gabon	12 (11 in forestry and fishery)	33	36.4%
2	Mozambique	12	81	14.8%
3	Ghana	12 (7 in fishery and forestry)	142	8.5%
4	Tanzania	12	147	8.2%
5	Mauritania	8 (All in fishery)	21	38.1%
6	Liberia	8 (6 in forestry and fishery)	34	23.5%
7	Sudan	8	91	8.8%
8	Angola	8	116	6.9%
9	Madagascar	7	32	21.9%
10	Zimbabwe	7	94	7.4%

Source: Edited by the author based on the online database of China's Ministry of Commerce (http://wszw.hzs.mofcom.gov.cn/fecp/fem/corp/fem_cert_stat_view_list.jsp), updated by 8 August 2014

Table 8: Some of the sizable agro-projects invested in by Chinese companies in Africa

Central-level SAEs and SOEs					
1	CAAIC	Tanzania (1999)	Sisal	6 900ha	EXIM
2	CAAIC	Zambia (1994)	Wheat, maize	3 600ha	
3	CAAIC	Madagascar (2014)	Hybrid rice		CADF
4	CSFAC	Zambia (1990, 1999)	Grains, vegetables, animals	3 200ha	In co-operation with Jiangsu SFE
5	SINOLIGHT	Mali (1960–70s, 2009)	Sugarcane	30 000ha	EXIM
6–9	COMPLANT	Togo, Benin, Sierra Leone, Madagascar	Sugarcane	18 000ha	
10	China SDIC International Trade (2012)	Central African Republic	Cotton		
Provincial-level state farming enterprises[a] (SFEs) and SOEs					
11	Jiangsu SFE	Zambia	Grains, vegetables	2 300ha	In co-operation with CSFAC
12	Shanxi SFE	Cameroon	Rice, cassava	10 000ha	CDB
13	Anhui SFE	Zimbabwe	Wheat, maize, soybean, tobacco	50 000ha	EXIM (in co-operation with private Tianrui)
14	Hubei SFE	Mozambique	Rice	22 000ha	In co-operation with private Wanbao and Hefeng
15	Hubei SFE	Zimbabwe	Tobacco, vegetables	3 000ha	
16	Hunan Rubber Group	Sierra Leone	Rubber, rice	135 000ha	EXIM
17	Xinjiang Production and Construction Corps	Angola	Maize, soybean, rice, vegetables	17 000ha	
18	Jilin Overseas Agricultural Investment and Development Group	Zambia		2 000ha	

Mixed-ownership companies					
19	SDIETC Group (Shandong)	Sudan	Cotton	6 700ha	
20	Tianli Group (Shanxi)	Madagascar	Cotton	60 000ha	CDB/CADF
21	ZTE Energy	Democratic Republic of the Congo	Palm oil, maize, cassava [biofuel]	5 300ha	
22	COVEC	Nigeria	Rice	2 000ha	
Private companies					
23	China-Africa Cotton Company (Shandong)	Zambia, Mozambique, Malawi, Zimbabwe	Cotton		CADF
24	Lianfang (Shandong)	Zambia	Cotton	over 10 000ha	
25	Junde (Shandong)	Zimbabwe	Cotton		
26	Jinfang (Shandong)	Zimbabwe	Cotton		
27	Wudi (Hubei)	Zambia	Cassava, soybean, maize [biofuel]	80 000ha	
28	Wanbao (Hubei)	Mozambique	Rice	20 000ha	CDB/CADF (in co-operation with Hubei SFE)
29	Hefeng (Hubei)	Mozambique	Sugarcane	2 000ha	In co-operation with Hubei SFE
30	Haode (Henan	Mozambique		1 000ha	
31	Tianrui (Anhui)	Zimbabwe	Maize, tobacco	3 000ha	In co-operation with Anhui SFE
32	Tianyuan (Shandong)	Sudan	Cotton	1 300ha	
33	Fenghui (Shandong)	Sudan	Cotton	3 000ha	
34	Yingma (Hunan)	Madagascar	Hybrid rice	7 000ha	
35	Yuemei (Zhejiang)	Nigeria, Tanzania, Togo, Sierra Leone, Mali	Cotton		

a State farming enterprises are an important type of Chinese SAE, widely seen at the provincial level.

Source: Edited by the author based on Chinese media reports, company websites and the author's fieldwork

MODALITIES

Financing model

Financing has been one of the greatest problems confronting Chinese companies that intend investing in foreign agriculture. The underdeveloped domestic financing market and the high risks of overseas investment make investment funding difficult in China, and not only for agricultural foreign investment. A number of factors, including greater dependence on climate, relatively low profits and the extended period of capital returns, as well as the generally weak strength of capital, technology, human resources, etc. of Chinese agricultural enterprises, have made it even harder for those agricultural foreign investors to raise the capital they need. In most cases financing is through self-owned capital and bank loans from two of China's policy-oriented national banks, namely EXIM Bank of China and the China Development Bank (CDB).

After the launch of the 'Agricultural Going Out' policy, EXIM Bank and the CDB signed co-operation agreements with China's Ministry of Agriculture in 2008 and 2011 respectively, to support Chinese agro-companies wishing to invest abroad. EXIM Bank, for example, agreed to provide $8 billion in credit loans during the period 2009–2013 to support overseas agro-investment projects. In early 2014, the Chinese government started to encourage Chinese financial agencies to assess the feasibility of establishing an Overseas Agricultural Development Fund.[22] Agro-investors in Africa specifically benefit from the Africa-focused financial facilities provided by the two banks, namely the Government Concessional Loans and Preferential Buyer's Credit of EXIM Bank and the China–Africa Development Fund (CADFund) of the CDB.

It is, however, worth noting that, given the policy-oriented nature of the two banks, they tend to provide financial support to SOEs or, in cases of private investment, to large or medium-sized agro-firms or projects that are better aligned with China's national interests (see Table 8).

Value chain

There are different stages along the agribusiness value chain that could potentially be targets for foreign investors, from the upstream input supply and seed propagation to the primary stage of agro-production, through to the downstream trading and logistics, processing and retailing.[23] Chinese investors in Africa have so far focused mostly on the production segment of the value chain. Many Chinese agro-projects do involve some processing activities but these are in most cases limited to preliminary rather than deep processing. Very few Chinese companies are investing in other upstream or downstream agribusiness.

The idea of investing in agro-production abroad was promoted by many during the early years of the 'Agriculture Going Out' policy.[24] The argument was logical: given domestic land constraints, Chinese companies should go abroad, buy or lease land and establish overseas agricultural production bases in relatively land-abundant countries. There have been some subtle shifts, however, in terms of the agro-investment value chain in recent years, as seen at both policy and practice levels. According to an official document released in 2013, Chinese companies are now encouraged to invest in the downstream activities, such as storage and logistics, of foreign agribusiness, with the other segments, including production, seen as complementary.[25] For instance, China Oil & Foodstuff Group Corporation (COFCO), one of China's largest SAEs, completed two significant cross-border mergers and acquisitions deals by buying out other transnational agro-trading companies in 2014. In doing this, COFCO gained access to agro-produce through the established sourcing channels of these multinationals rather than having to engage directly in production activities.

While being in line with the common practice of transnational agro-companies,[26] this policy modification might have something to do with China's agro-investment experience accumulated over the past decade, and particularly the setbacks and accusations triggered by some land deals. Yet, the new policy rests on the precondition that the host country must have a relatively mature domestic agricultural production system, which is lacking in most African countries. This means that even though this modified policy may be increasingly seen in Chinese overseas agricultural investment practice in the future, it would still be difficult to apply to the African environment. Land-involved, production-based agro-investment is therefore to some extent an inevitable choice for foreign investors on the continent.

Production models

There are three types of production models currently in use by Chinese agro-investors in Africa, namely farm/plantation production, contract farming and a combination of both.

The farm/plantation production model has been the most commonly used model among Chinese agro-investment projects in Africa. Under this model, Chinese investors need to either buy or lease land from the local government or private owners to build their farms, which can be farms of a few hectares or plantations of tens of thousands of hectares. The length of the lease can vary from 15 or 20 years up to 99 years or more on a country-specific basis. The farms/plantations are usually run by a small Chinese management team and local workers are employed to grow the crops. The number of local employees depends on the size of the project. The sisal farm invested in by CAAIC in Tanzania has a 99-year lease on 6 900 hectares of land obtained from a Tanzanian in 1999 (see Table 8). The farm is run by a top-level management team of six Chinese people alongside a middle-level management team of 100 local staff working in areas such as production, administration, accounting, security, engineering, medical care, etc. The staff are hired as permanent employees with formal labour contracts signed with the farm. In addition, the farm also employs hundreds of farm workers (700 long term, 500 temporary in 2013) who work on a seasonal basis. The output of this sisal farm has accounted for one-tenth of total sisal production in Tanzania, ranking third in terms of the company's asset value among the 32 sisal farms in the country.[27]

Contract farming refers to an agreement signed between a farmer and a company that clearly specifies the obligation of the farmer to produce agricultural commodities of a certain quality and quantity, and of the company to purchase the goods and realise payment as agreed on. The companies often provide embedded services such as agro-inputs, pre-financing and other non-financial services to the contracted farmers.[28] Different from the farming/plantation model, contract farming usually depends on the land of the contracted farmers and does not necessarily require investors to supply land for farming. In the case of Chinese agro-investment in Africa, contract farming has not been very widely adopted except for some cotton projects, in which the contract form seems to have worked effectively. A typical case here is the private China Africa Cotton Company (CACC), which has established affiliates in seven African countries, working with more than 200 000 contracted cotton farmers.[29] Its Mozambique affiliate, for instance, contracts 30 000 local farmers in three provinces around the country. CACC provides seeds and upfront capital to the cotton farmers and assigns Chinese agro-technicians to help with the planting process. During the harvest season, it also establishes hundreds of purchasing stations in the surrounding villages to collect the crops from the farmers (which they are obliged to sell to the firm). CACC is responsible for transporting the cotton to the ginning factory in the port city of Beira. It is currently the largest cotton company in the central province of Sofala in Mozambique.[30]

In the combined form of farm production and contract farming, Chinese companies source the agricultural produce from their own farms and from contracted local farmers. Their efforts are usually focused on their own farms, over which they have greater control and thus can ensure the basic production output.[31] They also work with neighbouring farmers for the purpose of expanding production and, in some cases, as a way to benefit the local community.[32] This combined production model can be seen, for instance, with several rice farms owned by Chinese private companies in Mozambique, and the sugarcane and rubber plantations owned by the Chinese SAEs in Madagascar and Sierra Leone respectively (see Table 8).

Market

As mentioned earlier, the majority of Chinese crop farming projects focus on producing different types of grains and vegetables. In most cases they are relatively small scale except for a few run by Chinese state companies (see Table 8). These food crop projects usually adopt the farm/plantation production model and, due to their limited scale, mostly serve local markets.

In Zambia, for instance, the Chinese farms run by CSFAC, the central SAE since the 1990s, supply all of their outputs to locals, including the Zambian government, local agro-processing firms and the open market. One of these farms alone used to account for 20% of Lusaka's agro-market share.[33] The farms developed by Xinjiang Production and Construction Corps, one of China's provincial state farming companies, in Angola have become the largest supplier of vegetables to Luanda.[34] Several rice projects developed by Chinese private companies in Mozambique have also targeted mainly the local market, through different channels such as their own outlets, small convenience stores or big local supermarkets.[35]

Importantly, the ever-expanding Chinese community in Africa has also been a key market for these Chinese farms. The Chinese population prefers eating rice (instead of the typical staple foods in Africa of maize or cassava) and Chinese vegetables. Many of these farms, especially the small-scale farms, were started to supply food to the Chinese engineering and construction companies at work in Africa. For example, Fenghui, a private firm in Sudan, has become the largest food supplier to Chinese companies. The head of Fenghui used to work for CNPC when the oil giant began oil exploration in Sudan during the late 1990s and he started his agribusiness then.[36] Some of the farms are run by the construction companies themselves; for instance, the rice project by COVEC in Nigeria (see Table 8) is an industrial diversification attempt of the company after its long existence in the host country. In Mozambique, Chinese agro-firms and some individual farmers supply their products to Chinese supermarkets and also have direct and fixed selling channels to a large number of Chinese firms, as seen, for instance, in Maputo and Beira.[37]

Some bigger food-crop projects are considering the possibility of exporting their products to neighbouring countries in Africa. Yet the plan does not seem to be feasible – at least in the short run – due to practical constraints such as the companies' limited production, the grain export and import controls of host countries, and the lack of selling channels abroad, among others.[38] There is no solid evidence that the Chinese companies have produced food in Africa for shipping back to China.

For cash crops, the market channels have been more diversified. Local markets are prioritised if there is demand from the host country. The three sugarcane plantations developed by the Chinese central SOE, SINOLIGHT, in Mali, aim primarily to fulfil local needs. With an expected annual output of 140 000 tonnes of sugar by 2015, these three sugarcane plantations will be able to satisfy the total demand of the Malian domestic market.[39] In many African countries where cash crops are mostly export-oriented, agricultural commodities are also sold directly on the international market. The sugar products produced by the central SOE, COMPLANT, supply the African countries where its four subsidiaries are located and increasingly the EU market, as well as other transnational sugar traders.[40] In some cases, the cash crops are shipped back to China; the sisal farm in Tanzania exports 80% of its production to China.[41] CACC exports around 40 000 tonnes of raw cotton to China every year.[42] Some of the other larger cotton projects have also expressed their intention to export cotton to China, for instance, the provincial SOE, SDIETC Group, and the central SOE, China SDIC International Trade Company (see Table 8).

CONCLUSION

Chinese agro-investment in Africa can be traced back to the 1990s, although the state-led investment promotion policy was launched only in the mid-2000s. It is therefore a new development, especially when compared with the hundreds of years of agro-investment in Africa by the West, and is still limited in terms of the investment scale.

The motives for Chinese agro-investment in Africa can be understood from economic and diplomatic perspectives. Economically, Africa is indeed an important destination for China's current, resource-oriented overseas agricultural investment; but cash crops have been the main focus of the Chinese investment in Africa, largely in line with the general guidelines of China's agricultural FDI. Diplomatically, the Chinese government tries to maintain good foreign relations with different African states through boosting the agricultural sector, which is of special significance to the host countries' economy and their population's welfare.

As to the actors, thus far there have not been many Chinese companies investing in Africa's agricultural sector, particularly when compared with investment in other sectors.

In general, most are privately owned Chinese companies involved in small-scale food crop projects. State companies, on the other hand, take the lead in the more sizeable cash crop projects.

Chinese agro-investment in Africa is chiefly financed by private capital and bank loans from EXIM Bank of China and the CDB, with Chinese agricultural investors targeting the production and preliminary processing stages of the agribusiness value chain. In terms of specific production models, the farm/plantation production model is the most commonly practiced model, although contract farming has proved to work well in several of the larger cotton projects. As for the markets, food crop projects, which are in most cases limited in scale, basically only serve the local market at the current stage. Cash crop projects, however, have shown more diversified market channels. Some of the products are sold on local or international markets; others have also been exported to China.

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