

Promoting food security amid growing competition for land

China Association for NGO Cooperation (CANGO)

Current State of China's Agriculture

As of October 2006, the cultivated area in China (excluding Hong Kong, Macao and Taiwan) was 121,775,900 ha. In 2007, the cultivated area increased to 122,342,000 ha. This decreased by 17,420 ha in 2008, to 122,324,580 ha).

By the end of 2006, there were 200,160,000 agricultural manufacturers and business households and 395,000 agricultural business entities in China with a rural labor force of 531 million. There were

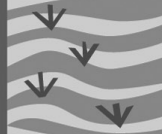
348.74 million agricultural employees as well as 2.07 million technicians engaged in agricultural technology and development. The outbound rural labor force stood at 131.81 million.

Imports and Exports

According to data from the Domestic Economic and Social Development Statistic Report released by the National Bureau of Statistics in 2009, China's annual grain output was 530.82 million tons, with an annual growth rate of 0.4%. Annual cotton output was 6.4 million tons, but this has been decreasing

Table I: Share of Agriculture in the National Economy

Year	Agro-added value to GDP	Labors in farming to national total employment	Off-farm rural labors to national total employment	Rural retail sales of consumer goods to the total	Agricultural imports to the total imports	Agricultural exports to the total exports
1978	28.2	70.5	5.4	67.6
1980	30.2	68.7	4.8	65.7
1985	28.4	62.4	13.5	56.5	12.1	24.5
1990	27.1	60.1	13.4	53.1	16.1	17.2
1995	20	52.2	18.7	40	9.3	9.4
2000	15.1	50	21	38.2	5	6.3
2001	14.4	50	21.6	37.4	4.9	6
2002	13.7	50	22.4	35.8	4.2	5.6
2003	12.8	49.1	23.8	35	4.6	4.7
2004	13.4	46.9	25.4	34.1	5	3.9
2005	12.2	44.8	26.9	32.8	4.3	3.6
2006	11.3	42.6	...	32.5	4.1	3.2
2007	11.3	40.8	...	32.3	4.3	3
2008	11.3	39.6	...	32	5.1	2.8



at a rate of 14.6 per annum. Sugar output was 122 million tons, with an annual decrease rate of 9.1%.

Tobacco output was 2.8 million tons, with an annual growth rate of 6.7%. Tea output was 1.35 million tons, with an annual growth rate of 7.1%. Annual meat output was 76.42 million tons, with an annual growth rate of 5%.

China's annual output of aquatic products was 51.2 million tons, up by 4.6% from the previous year. The country's annual wood output was 69.38 million cubic meters (25 million tons), but has been decreasing at an annual rate of 14.4%.

Agricultural Investment in Asian Countries

Agricultural investment in Asia by Chinese enterprises includes technical investment, product cooperation, foreign aid, and direct investment.

According to statistics, **China has established agricultural cooperation with more than 30 countries in five continents.** In the Philippines and Central Asian countries, Chinese investments boosted soybean and corn plantations. In Southeast Asia, Latin America and other regions, it helped develop grain, rubber, and tropical fruit. In the Philippines, Cambodia, Indonesia, Malaysia, and other countries, agricultural technological demonstration centers were established.

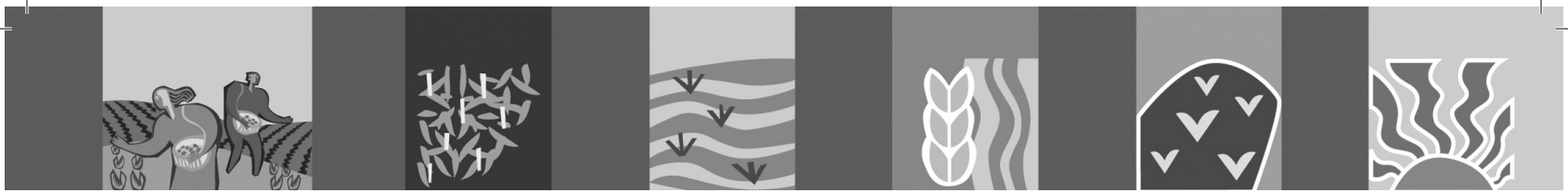
In addition, special financing policies are under establishment by The State Development Bank, Export-Import Bank of China, Bank of China, Agricultural Development Bank of China, and other financial institutions. The goal is to increase financing supply for enterprises with urgent demand to provide a complete range of financial services for overseas agricultural investment enterprises.

China's strategy for agricultural investment in other countries has four main features:

- 1. Diversified project investments:** State-run land reclamation, seed enterprises, and fishery companies play a leading and demonstrative role. Private-owned agricultural enterprises are also increasing their ventures.
- 2. Project areas are increasing:** In 2007, there were about 1,500 fishing boats with nearly 40,000 people engaged in fishery production overseas, operating in exclusive economic zones of 32 countries. A number of enterprises built development bases for grain, soy, natural rubber, palm oil, sisal and tapioca.
- 3. The field of project investment is diversifying:** China's "Going Out" investments cover food crops, economic crops, wildlife and plant protection, agricultural facilities, agricultural machinery, rural energy production, biological energy agriculture, and fishing.
- 4. The form of investment has diversified:** The "Going Out" strategy is now involved in land leasing and contract growing, purchase of fishing licenses, establishment of production and processing bases, agricultural resource development, processing, and trade. In recent years, China and some Asian countries signed a series of related agreements, which contribute to creating a favorable international environment for agricultural cooperation.

Current and Potential Impact

According to the 2009 World Investment Report published during the Trade Development Conference of the United Nations, the impact of agricultural investment for the host countries are reflected in capital formation, technology transfer, and entry into international markets. As in most Asian developing countries, farmers and agricultural



and rural areas are key issues that received much attention. The report analyzes further the current and potential impact of agricultural investment in Asia through the following perspectives:

Impact on farmers

The development of contract-based agriculture has helped farmers effectively enter the international market. The contracts enabled a large population of farmers to generate higher income from a wider market. They also gain access to credit, proprietary knowledge, and techniques from multinational companies.

Impact on agriculture

Foreign investment in agriculture promotes capital formation. In most Asian countries, there is more labor and land for agriculture, but not enough capital. Therefore, increasing agricultural capital investment would improve agricultural productivity and solve the problem of food scarcity, as well as provide employment for a surplus labor force.

Agricultural investment enhances the level of production and technology in the local agricultural department through a series of pilot projects, which could promote local economic development in the long term. Several trial projects aided by the Chinese government are the Agricultural Technology Center in the Philippines, the Boar Trial Center in Cambodia, Biogas Trial Center in Laos, Nursery-grown Plant Production in Burma, and Hybrid Rice Project in Indonesia.

In terms of agricultural modernization, multinational companies promote modernization and commercial development through investments in agriculture in developing countries. In some Asian countries, agricultural investment provided urgently needed technology, new models of production, and marketing ideas, and catalyzed the transition from traditional to modern agriculture.

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Impact on Rural Areas

Agricultural investment helps promote an outward orientation and “rural urbanization” in developing countries. The construction of agricultural bases in some Asian countries pushes the development of an orientation toward exports. Foreign investment leads to agricultural modernization with the transition from basic agriculture to commercialized agriculture.

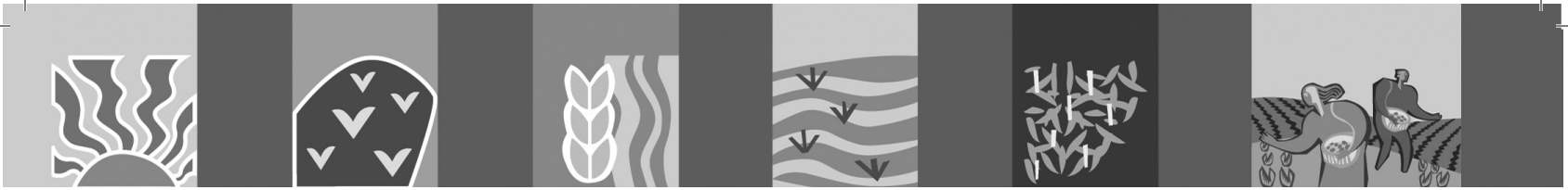
Current and Potential Challenges and Risks

Challenges and risks to farmers

Overseas agricultural investment may directly challenge local industries and lead to unemployment of the local farmers. Small-scale farming and decentralized operations could also be threatened by large-scale agricultural investments. Lack of experience and capacity on the part of farmers in commercialized, organized, and industrialized agriculture could be a general weakness, especially in the provision of standardized products and in problem-solving cases. Finally, the application of capital-intensive technology by large-scale foreign enterprises will directly push small farmers out of their lands and intensify rural unemployment.

Challenges to Agriculture

Foreign agricultural investment might cause challenges to the simple agricultural structure, food security, and agricultural status of host countries. Foreign investment will likely introduce more complex agricultural structures that override local traditional ones. Lack of evidence regarding agricultural investment’s contribution to higher food



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security and improved production of major grains also casts agricultural investment in doubt, though it may improve agricultural production and efficiency. Monopolistic tendencies of strong multinational companies could curtail the agricultural self-reliance of the host countries. Direct investment of multinational enterprises may also wipe out competition from local enterprises unable to match the scale of productivity and efficiency.

Challenges to Rural Areas

Large-scale agricultural investment brings social and environmental challenges to rural areas. Although direct agricultural investment sometimes brings in new technology that considers the local environment, water resources and biodiversity are run aground by massive exploitation. Improper and harmful technology and agricultural models could also be introduced by some. Moreover, agricultural investment agencies own considerable farmland, a situation which invites social and political tensions. According to a report released by GRAIN in 2008, overseas farmland possession of Japanese Food Enterprises are thrice larger than the totality of Japan's domestic farmland.

Recently, a Gulf States Cooperation Committee formed by several grain importers such as Saudi Arabia and Bahrain, Kuwait, Oman, Qatar, the United Arab Emirates, Jordan, and other gulf states purchased farmland in Southeast Asia, East Asia and Europe.

GRAIN also reports that Chinese companies are leasing or buying land, setting up large farms, and flying in farmers, scientists, and extension workers into host countries.

Recommendations

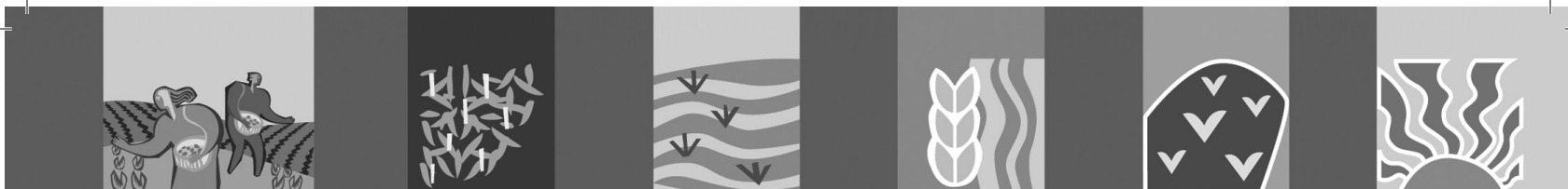
The impact of agricultural investments on food security and relevant agricultural and food value chains is increasingly complex. This trend is likely to continue. Although the present scale of China's agricultural investment is yet to expand, and potential impact and challenges are not yet evident, basic agriculture is already positioned for growth, penetration and impact with the increase in investments. However, despite the challenges, the potential of agricultural development in Asian countries could not be underestimated. The political, economic, and social effects of these investments, nevertheless, should invite more awareness.

Increasing opportunities for agricultural cooperation, promoting the level of cooperation

Take measures to reduce further tariffs on agricultural products, open up markets to each other in order to have more favorable trade. Governments should lead the promotion of cooperation, the creation of a favorable political environment and conditions for promoting agricultural investment and trade, improvement of the mutual exchange of technicians, and the continuous enhancement of agricultural development, while jointly creating a common region of agriculture.

Promoting agricultural investment with monitoring and supervision

Chinese investors are more interested in direct investment in economical crops or contract farming. In this case, China and other Asian countries should strengthen the controls, reasonably plan and guide the direction of foreign investment, and set up



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provisions to avoid negatively impacting national food security.

The agricultural technology of investment companies should adapt to the conditions of host countries. They could sell products to local farmers to ensure a fair share of local input procurement, and promote the establishment and enhancement of local long-term sustainable production capacity. Meanwhile, through the process of investment contract performance, they should closely monitor and assess the overall impact of their activities on local social and environmental development. Before the end of an investment contract, local governments should critically evaluate the project's impact.

Establish a risk prevention mechanism

Government departments should strengthen the monitoring of industries, trade, and financial structure to minimize risks. Relevant government departments should extend financial or policy support to affected industries, regions, and farmers. At the same time, relevant departments should strengthen the cooperation and communication with host countries in the areas of commodity inspection and quarantine, economic security, and risk prevention mechanisms to solve external market challenges. Furthermore, they should also support the leading enterprises and trade associations, which have been established on the basis of voluntary mutual support and specialized cooperative economic organizations.

Enlarge the scope of agricultural technical cooperation in order to develop the technical advantage of both sides

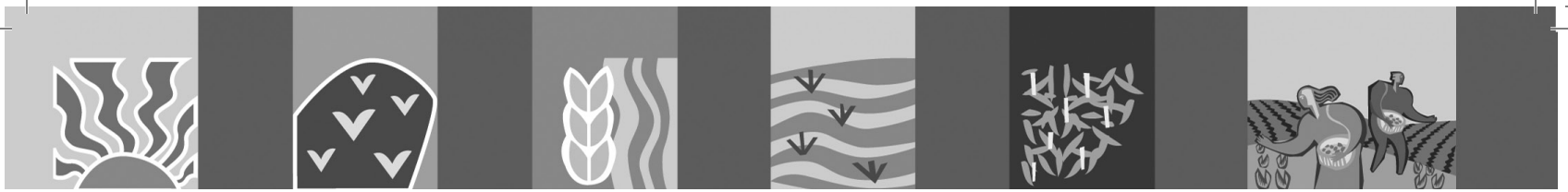
Cooperation in agricultural research with ASEAN countries should be strengthened by establishing a number of scientific research bases for improving the quality of agricultural products. Expanding pilot and demonstration projects should continuously push bilateral technological exchanges forward.

Support cooperation between enterprises

Enterprises are necessary for agricultural products to enter the markets. They are also vehicles for farmers to participate in organized competition. Enterprises should be given incentive for self-adjustment and participation in fruitful compromises or win-win situations. Chinese enterprises should be called upon to consult the Ministry of Commerce, the local Chinese Embassies and other relevant bodies, with initiatives to assess and reduce the potential risks run by imminent investments. The familiar “Dispute Settlement Mechanism” signed with ASEAN in November 2004 should be used to protect the interests of farmers and other stakeholders.

Role of Civil Society Organizations

Besides the relevant stakeholder participation and support of governments, local and international civil society organizations (CSOs) would need to be involved and dedicated consistently in this field. Local and international CSO in both countries should intervene in supervising the effectiveness of agricultural investment from Chinese enterprises in other Asian countries. CSOs can contribute advocacy for the vulnerable groups, through partnerships with the media and the elevation of their voice and cause to the government. CSOs should also learn to work constructively with enterprises, especially small-scale enterprises, in helping to promote and understand corporate social responsibility (CSR).



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CANGO's mission is the creation of a strong, empowered network of Chinese NGOs to address poverty alleviation, environmental protection and social development in China's poor, remote and minority inhabited areas.

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