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China's foreign farming policy

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Main policy recommendations: The Chinese government is under growing pressure to secure supply of foreign agriculture products. Therefore, Beijing will opt for a wide array of policies. One the one hand it will continue to resort to the global market and further open its borders for imports. On the other hand, it will continue to experiment with active aid and investment policies abroad. China's increasing dependence on foreign farming requires the European Union to:

. **examine the opportunities** of China's demand for agricultural goods;

. prepare an assertive **export promotion** policy;

. provide support for **SME's** in exporting value-added products to China;

. back European food and agriculture companies in their operations abroad;

. join forces for **sustainable** agricultural development in Africa and Asia;

. raise awareness in China that agriculture systems in Africa are fragile and should not be exposed to **aid policies** without a careful social and environmental impact assessment.

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China's foreign farming policy: can land provide security?

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China's economic growth is spurring a spectacular demand for agricultural goods. At the same time, prices are volatile and can add to social instability. This has led the Chinese government to launch a series of measures to secure foreign supplies. Beijing is therefore resorting to the international market, as well as state-supported agriculture projects abroad. Both strategies are immature, but in whatever scenario their impact on developed and developing food producing countries could be substantial. One the one hand, China's demand for agricultural products could generate more revenues and investment. On the other, reckless investment aid and investment might threaten impoverished farmers in Africa and Asia. *Topics:* economic diplomacy, food security and investment. *JEL-codes:* N5, P33 and P44.

1. Introduction

The rapid rise in the price of commodities in 2007 focused the attention of many countries on the security of supply of food and other important agri-commodities. Among the means of achieving security that have been adopted by some commodity importers has been the acquisition of land in producer countries, in the belief that it will guarantee supplies. Countries such as South Korea, Saudi Arabia and some Gulf states have initiated policies along these lines.[1] These policies themselves have become highly controversial, and have been criticised on several grounds, including their economic, environmental and social impacts. There have even been warnings that such policies represent a reversion to a colonial system of production. For instance, Jacques Diouf, the director-general of the Food and Agricultural Organization (FAO) has said that, "The race by food importing countries to secure farmland overseas to improve their food security risks creating a neo-colonial system."[2]

The scramble by growing economies for agricultural resources is by no means a new phenomenon; the question is first and foremost what kind of strategy China is going to pursue. Between the second and third waves of the industrial revolution, the sheer lack of agricultural goods was one of the main drivers for states like the United States and imperial Japan to conquer territory for the production of cotton, rubber, sugar and other resources. A second option is that of the post-World War II industrializing powers. Rather than conquest, states like South Korea, Taiwan, South Africa and Japan sought to buy themselves access to the farmlands of Southeast Asia, Latin America and Sub-Saharan Africa.[3] A third option is open markets. From the 1970s, the member states of the European Union and the United States relied more on strong transnational companies, mainly American, dominating the international markets for the supply of goods like rubber and cotton. A key purpose of this paper is thus to clarify to what extent the Chinese government aims at national ownership and control over the supply of foreign agricultural goods.

"Soaring food prices have placed China under pressure to focus on the supply of agricultural goods."

Soaring food prices have placed China under pressure to focus on the supply of agricultural goods. The first aim of this paper is to assess the dependence of the People's Republic of China on the import of agricultural and food products. How is its consumption evolving and to what extent will domestic production be sufficient to meet these demands? Is there a serious challenge for domestic security of supply? In sum, how much pressure is China under to maintain access to foreign crops? Secondly, the paper examines how high this issue has moved up the political agenda in China. It will also consider the degree to which access to foreign food supplies is being securitized, meaning that it will require the use of exceptional policies and measures. Clarification is needed as to whether the government is considering more state intervention in obtaining direct and controlling access to important commodity producers, i.e. equity projects, or whether it will facilitate import by more openness, i.e. a market driven approach. It is important to recognize that this process is in an early stage, but nevertheless, the options and arguments that are considered in the internal debate are significant as an indicator of China's trust or distrust in global market mechanisms. Finally, the paper provides perspectives on the implications of China's policy for the EU.

2. China's appetite for agricultural goods

While China is a leading producer of many crops, its consumption of agricultural goods has grown spectacularly. Until recently, China had for many years been a net exporter of agricultural goods. In 2003 this surplus was reversed, and China became a net importer of agricultural goods.[4] The increase in China's agricultural imports has a number of causes, but in simple terms the equation appears straightforward: China accounts for approximately 20 percent of the world's population but possesses no more than seven percent of its farmland.[5] While economic reform has increased output of the agriculture sector, the land shortage is and will continue to be a major factor in determining the degree to which China will be a net agricultural importer.

China's limited arable land has come under strain because of its rapid economic development. Industrial production, both for domestic consumption and export, has been a primary cause of increasing imports. For instance, China's position as leading consumer of natural rubber has been consolidated because of the strong growth in motor vehicle production and manufacturing of consumer goods. In 2006, China accounted for as much as 22 percent of worldwide rubber consumption.[6] Textile manufacturing tripled demand for cotton between 1998 and 2007.[7] In 2008 China is expected to import 27.5 million tons of cotton, while domestic production will be about seven million tons.[8]

The pattern of this consumption is changing. China is turning from being a factory for the world into a factory for itself. An increasing proportion of production is consumed domestically. In 2007, textile exports amounted to only 157 billion USD out of total production that was worth 419 billion USD. In the last five years, the average annual income of Chinese citizens increased by 16 percent per year. Expenditures for clothing,

growing at an annual rate of seven percent, boost the demand for cotton and other natural textile fibres. Higher incomes also lead to a more varied diet and greater demand for meat in particular. In 2007, Chinese citizens consumed five kilos of pork and two kilos of vegetable oils more than the per capita average in 1998. Another factor of great importance is China's interest in bio-fuels. As part of the massive greenhouse gas reduction plan, China intends to replace 12 million tons of oil with two million tons of bio-diesel and ten million tons of bio-ethanol every year. Much of this will be supplied by imports.

But economic growth and rising demand are not the only explanations of increases in imports. There have also been quite significant shifts in agricultural production in China, as farmers have tended to move from growing grains, to planting fruit and vegetables. China's accession to the WTO in 2001 has also resulted in policy shifts that have affected the growth of import demand. Most substantial was the reducing of import tariffs on agricultural commodities. For instance, in 2002 the maximum tariff on soybean imports was cut from 114 percent to three percent, a factor which contributed to the sharp increase in imports in the two following years.

Between 1998 and 2007, imports of most important agricultural commodities multiplied by six. The main products are oilseeds, cereals, cassava, animal vegetables, maize, wheat, palm oil and textile fibres. Palm oil imports multiplied 25 times and maize by 70 times.[9] The fastest growing categories are commodities for daily household consumption and food production (garlic, mushrooms, palm oil, cassava and animal fodders), goods for industrial production (hides, fibre, rubber and cotton), and luxury products (game meat, cranberries, vanilla, cocoa and strawberries).[10] But in the same period, rice imports have grown only by 30 percent, as consumption of the staple has not grown as rapidly as other commodities. Imports have been decreasing for many labour-intensive crops like papayas and bananas, as well as semi-processed goods.[11] Hence

"Between 1998 and 2007, imports of most important agricultural commodities multiplied by six."

the bulk of China imports are very land-intensive commodities. They are in addition non-processed goods that can be purchased at relatively low prices in comparison with processed or labour-intensive goods, which China often produces and exports itself.[12]

Although China imports many agri-commodities, the bulk of them are accounted for by only a few commodities that mostly are imported from a small group of countries. North and Latin America provided most of China's imports of grains: 76 percent for soy beans, 48 for wheat and 46 percent for maize. Asia is supplying most of China's non-grain foodstuffs and rubber imports.[13] Africa, which has often been the focus of attention in discussing agricultural investment, at present only accounts for four percent of Chinese imports.[14] The only commodity of significance here is cotton, for which Africa accounts for 45 percent of total imports.

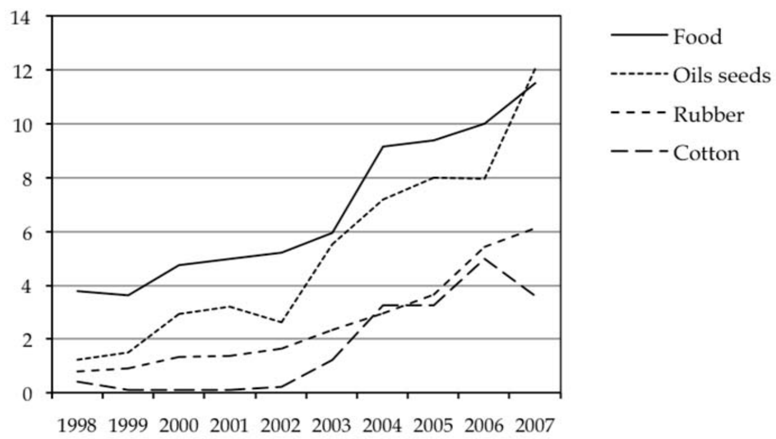

Figure 1. Imports of main agricultural commodities (value in billion USD). Source: Comtrade, 2008.

It has been predicted that China's import demand for agricultural products will grow at double-digit rates over the next 25 years.[15] The Food and Agriculture Policy Research Institute (FAPRI) forecasts that China's

soybean imports will increase from 33.7 million tons in 2007/2008 to 52 million tons in 2017/18. Palm oil imports are forecast to increase from 5.5 million tons in 2007/2008 to 10.8 million tons in 2017/2018. According to FAPRI forecasts, China will shift from a net wheat exporter of 2.3 million tons in 2007/2008 to importing 1.4 million tons in 2017/2018 while cotton imports will rise from 3 million tons to 6.1 million tons. By contrast, China is forecast to increase its rice exports from 435,000 tons to 739,000 tons over the same period.[16]

While it is not yet sure how China will increase or diversify the output of its domestic agriculture, the need for China to complement internal production with increasing amounts of foreign agricultural goods will become more urgent. Even a relatively small change in China's food consumption pattern may have a major influence on the global agriculture commodities market.[17]

3. Policy options

Guaranteeing agricultural supplies is a matter of national security for the China's government. Food makes up more than one third of the average consumer basket. In 2007 food prices became a key concern and in the first half of 2008 they rose 20 percent compared with a year earlier. The risk for social discontent looms large. "The ghost of 1989 is still haunting the Party leaders," says a scholar at the National Development and Reform Commission, "food prices were the main triggers for turmoil in the past, and with millions of poor labourers concentrated in our cities, we cannot underestimate the risk of violence." On several occasions China's leaders have signalled their concern at the potential risk of higher prices stoking public unrest. At the annual National People's Congress session in March 2008, a plenary debate focused on food security. President Hu Jintao concluded that, "China must ensure stable production and prices of 'vegetable basket' products for urban and rural consumers."[18] Prime Minister Wen Jiabao has visited vegetable and meat markets and called for more efforts to boost supplies. "I am aware that even a one Yuan increase will affect people's lives," he stated.[19]

But today China alone is unable to guarantee that the food basket can be filled at low cost. China's imports of agricultural goods are almost entirely dependant on international commodity markets. Growing reliance on imports for a number of key commodities has caused increasing concern in China over whether such dependence is detrimental to its interests. These concerns have been intensified by recent market events which resulted in sharp rises in the prices of many commodities. As a result, both short- and long-term options have been considered.

First and foremost, the Chinese government will continue to invest in the development of domestic agricultural production. China's agricultural sector has been the laggard in the country's rapid economic growth since reform began in 1979. An early period of strong development was followed by several years of relative stagnation. The Chinese government has adopted policies intended to stimulate agriculture, including providing greater support to farmers and increasing investment in the sector. China's government expenditure on agriculture has risen from RMB123 billion in 2000 to RMB317 billion in 2006.[20] Government investment was significantly raised in the late 1990s, and new income support and subsidies have been introduced. Nevertheless, government support for agriculture remains well below the levels of the advanced economies.[21] In October 2008, the Chinese Communist Party Central Committee adopted a new set of reform measures intended to boost the rural economy, with the aim of doubling rural incomes by 2020.[22] The government also announced that it would raise wheat prices in order to secure supplies and improve farm incomes.[23] The prices of agriculture goods are considered crucial in economic development and are constantly monitored at the highest level.[24] The Central Committee stressed the necessity of China's grain security in its agriculture policy paper issued in October 2008 and recognized the importance of stable grain supply.

A second option has been to reduce import costs. Over the long term China has cut import tariffs on agri-commodities. This has been prompted by long-term economic considerations as in the case of soybean, where China in effect abandoned self-sufficiency in favour of the international

market. Short-term considerations have also played a role. In June 2008, inflation prompted the State Council to cut its import tariffs for pork and grain from 12 to six percent, and for soy and peanut meal from five to two percent, and for olive and coconut oil from about ten to five percent. In addition, the Ministry of Finance also temporarily lowered the levies on imported cotton.[25]

Thirdly, the Chinese government has taken steps to project domestic supplies by restricting exports, as has been the case with rice. China's domestic rice production has been recently severely hit by drought which affected an estimated 19.4 million hectares of arable land in 2008.[26] Even though rice production has risen to record levels in Asia, Africa and Latin America, international rice prices jumped by 76 percent between December 2007 and April 2008.[27] To avoid food scarcities at home, some large rice exporters have introduced export bans or imposed rice export taxes.[28] Currently, of the leading exporters only Thailand and the United States are exporting rice without an increased tariff rate. China itself imposed a five percent tax on rice exports in January 2008.[29] Adoption of such policies by China has, however, been limited in scope. This may be a counterproductive policy, as wider adoption by other countries would certainly lead to restriction of supplies of commodities that China imports.

Another approach is to use aid to boost production abroad. According to the Central Committee in October 2008, a decisive factor in maintaining food security is strengthening international cooperation in grain production.[30] Over many years China has provided agricultural aid to other countries involving technology transfers, training and the establishment of demonstration farms. This policy will continue and be intensified especially in Africa under the China-Africa Development Fund which was announced in 2006 and formally established in 2007. This is arguably enlightened self-interest, and is justified not only on humanitarian grounds, but also as contributing to helping solve wider global supply problems that will benefit China.

Finally there is outward investment in agriculture. China has a policy of encouraging investment in agriculture abroad as part of its general policy on outward investment that has existed for a number of years, but which has recently attracted increasing attention in China and abroad. The policy on outward investment in agriculture has been widely debated in China, and is far from being finally settled. Whatever foreign farming policy the Chinese government finally adopts, its impact may be substantial.

4. Outward investment in agriculture: Chinese policy

The Chinese government has for a number of years offered support to outward investment, including in the agriculture sector. In May 2008 international press reports claiming that the Ministry of Agriculture was in the process of formulating a new policy on outward investment in agriculture attracted considerable attention, leading many outside observers to the conclusion that the Chinese government was preparing to a adopt a strategy of land purchases or leases abroad to guarantee its food security.[31] The reports of the new policy were also widely carried in the Chinese media and some stated that the Ministry of Agriculture had already presented the proposed policy to the State Council for approval.[32] The exact status of this policy remains uncertain, as is its proposed content. The attention attracted by these press reports resulted in the Ministry of Agriculture subsequently denying that any new policy initiative had been taken.[33]

Regardless of the prospects for any new policy initiatives, the fact is that China has had a policy of encouraging its agriculture to "go-global" that has been in place for a number of years. This has been part of the government's wider efforts to encourage the internationalization of its enterprises that has been implemented under the go-global slogan for most of the past decade. The government officially adopted the go-global slogan as part of its economic policy in 2001 when it was included in the 10th Five-Year Plan. Since then the policy has been refined in a number of policy documents and regulations. The thrust of China's policy to encourage outward investment has had two main elements. The first was the removal of previously existing administrative barriers to outward investment, for instance in approval procedures for investment projects and the transfer abroad of foreign exchange or other assets for use in investment.[34] The

second has been the provision of positive incentives for outward investment. Agriculture has featured as a part of the policy, and is included in the incentives which are offered.

The broad aims of the go-global policy from its earliest days were described as using both domestic and foreign markets and resources. In the case of agriculture, this not only referred to outward investment, but also to wider policy of internationalization of China's rural economy that was in large degree a response to the challenges of accession to the World Trade Organization (WTO) in 2001. Agriculture, it was widely believed in China, would be one of the sectors adversely affected by increased foreign competition resulting from WTO accession, and going global would help meet the challenge, while also pushing forward the goal of agricultural modernization. Thus, increasing both imports and exports, as well as greater technical cooperation with foreign countries and also attracting foreign investment to the sector and adopting the methods of developed economies were all considered to be part of the go-global policy for agriculture.

"There has been a clear shift in policy concerns in recent years and outward investment in agriculture has attracted much greater attention as China's circumstances have changed."

Nevertheless, there has been a clear shift in policy concerns in recent years and outward investment in agriculture has attracted much greater attention as China's circumstances have changed. This has been driven by the recognition of a number of factors, of which the most important has been China's increasing incapacity to rely on its own production for supply of the agri-commodities it needs to sustain its economic growth. The attention given to investment abroad has intensified more recently as the international price of commodities sharply increased in 2007, resulting in many calls in China for outward investment in agriculture to be undertaken as a matter of urgency.

China's policy on outward investment has evolved enormously in the past decade. Until the turn of the century, China had a highly restrictive policy on outward investment, but since the launch of the go-global policy, many of the previous administrative barriers to investment have been removed, and positive support and incentives provided. The government seeks to direct outward investment in sectors which it believes are important for achieving national goals. The targets for this policy are set out clearly in the Outward Investment Sector Direction Policy (Outward Investment Policy) of 2006.[35] The Outward Investment Policy divides sectors into those that are encouraged, permitted and prohibited. Investment projects in sectors that are encouraged receive government support, while investment in permitted sectors may take place, but does not receive any government policy support. In general the encouraged sectors are defined as those that can obtain resources or raw materials that are lacking within China and which the development of the national economy urgently requires, those that can stimulate the export of products, equipment or technology in which China has a comparative advantage and labour service exports, and those which can raise China's technological R&D capability, and which can make use of internationally advanced technology, advanced management experience and specialist human resources.[36]

The encouraged sectors are broadly divided into the categories of resources extraction, manufacturing and services as well as agriculture, forestry, animal husbandry and fisheries. In the agriculture, forestry, animal husbandry and fisheries sectors, those that are specifically encouraged include cultivation of natural rubber, oil-bearing crops, cotton and vegetables, as well as felling, transportation and planting of timber, animal husbandry and breeding, and fisheries. The Outward Investment Policy provides for policy support in areas such as macroeconomic adjustment, multi-lateral and bilateral economic and trade policy, foreign policy, finance, taxation and foreign exchange, customs, and provision of raw materials and information, credit and insurance.[37]

This broad range of support policies for investment is manifested in many ways, but the most important of these is financial support. Although the policy speaks of providing tax concessions for outward investment, there are actually no reductions in taxation for such projects. The main form of direct financial support the government provides is through subsidies.

These are provided by Special Funds for Foreign Economic and Technical Cooperation (Special Funds) which are administered by the Ministry of Finance and MOFCOM. Among other things, these are used to support outward investment and agricultural, forestry and fisheries cooperation projects. The Special Funds provide support by means of subsidies for costs, which may be either pre-investment expenses or operating costs, and also in the form of interest rate subsidies. The availability of the support depends on the type of project.

Subsidies for pre-investment expenses are available for enterprises that engage in outward investment and cooperative projects in agriculture, forestry or fisheries. The pre-investment expenses for which subsidies are available include the costs for obtaining third party legal, technical or business consulting services, surveys or investigations, project feasibility studies and the purchase and translation of regulatory documents and specifications.[38] Agricultural, forestry and fishing cooperation projects are in principle not eligible for subsidies for operating costs. They are, however, able to benefit from interest rate subsidies on loans.[39]

In addition to these incentives, the government also attempts to guide and encourage investment in many other ways. The government has issued guidance lists that set out targeted sectors in various countries where it believes there are strong possibilities for investment. These have no mandatory force, but are indicative of government thinking. The government also backs investors through provision of market studies, investment guides and diplomatic support through the Ministry of Foreign Affairs and the Ministry of Commerce.

Beyond direct government action, there are also financial institutions that play a key role in outward investment. The Import-Export Bank of China provides concessionary loans. Most of these are in form of buyers' and sellers' credits. Until now, however, little of this has been used in the agricultural sector. The Development Bank of China has a greater role in the agricultural sector. In addition to its normal activities, the bank is responsible for operation of the China-Africa Development Fund. Part of this fund is to be used to support agricultural activities, including the establishment of 10 demonstration farms in Africa. Other enterprises such as the China Export and Credit Insurance Corporation provide preferential export credit insurance and also investment insurance in support of government policy.

5. Investment Activities

In theory China has a multi-faceted policy of support for outward investment in agriculture, but in practice the results so far have been modest at best. How much financial support flows to outward investment in agriculture is not clear, but even with the support apparently on offer, compared to other sectors, outward investment in agriculture remains very small. According to Chinese statistics, in 2006, China's outward investment in agriculture, forestry, animal husbandry and fisheries together was 190 million USD, which was only 0.9 percent of the total outward investment for the year.[40] This total was greater than the 105 USD million invested in agriculture in 2005, but was less than the figure of 288 USD million for 2004. By contrast, in 2006 China invested 8.5 USD billion in resource extraction, accounting for 40.4 percent of the total. By the end of 2006, China's official cumulative stock of investment in agriculture, forestry, animal husbandry and fisheries was 820 million USD, again a mere 0.9 percent of China's total stock of outward investment, and insignificant compared with 17.9 billion USDinvested in resource extraction (19.8 percent of the total), 15.6 billion USD in the financial sector, and 12.9 billion USD in wholesale and retail trade.

"Investment falls within the scope of nationally directed polices, and includes both aid and commercial activities."

Investment by Chinese enterprises in agriculture outside China is not new.[41] There has been a slow trickle of investment dating back to at least the 1990s. Although the flow of investment remains small, the activity is increasingly diverse and originates at both the national and local level. Broadly speaking, investment activity can be divided into three categories. First, there is investment from major national enterprises associated with organs of the central government. Such national investment activity is

global in reach, in that it is often targeted at distant regions in Southeast Asia and Africa. Secondly, there has also been significant investment at the local level involving major regional companies and supported by either provincial or national authorities. Activity by local companies, usually at the provincial level, is important in countries that border China, although these companies also venture further afield. This provincial investment involves both aid and increasingly commercial activities. Lastly, it is also likely that considerable local investment activity takes place without any direct official backing, involving small enterprises and even individuals, especially in regions directly bordering China. Much of this activity is probably not captured within China's official support policies or its statistics.

The policy support for outward investment in agriculture, as in other sectors, is focused on large enterprises. At the central level, the most significant national state owned enterprise active in this sector is the China State Farm Agribusiness Corp (CSFAC), which is closely associated with the Ministry of Agriculture. This company is particularly active in Africa, where it operates in several countries. The China National Agriculture Development Group Corp is another national state owned enterprises active in investment outside China, and is reported to operate seven farms in Africa.[42] It is perhaps an indicator of its low priority that these companies do not feature in the rankings of China's 30 largest investors abroad, and not one of the companies in the list is in agriculture sector. The China National Cereals, Oils and Foodstuffs Corp, which is in the list, focuses on agri-commodities trading and processing, rather than agricultural production. Nevertheless, changing priorities are bringing new actors to the sector at the national level. One of the most important agreements in recent years has been that signed by the China National Offshore Oil Corporation (CNOOC) in 2007 for investment in bio-fuels processing based on one million hectares of palm oil plantations to be developed in Indonesia, which will be undertaken with other regional partners from Southeast Asia.[43]

In addition to CSFAC at the national level, there are also provincial SFACs that are active in investment either independently or in conjunction with CSFAC.[44] The CSFAC is most active in Africa where it has established the Africa Agriculture Development Centre which has projects in several countries.[45] The company has a long history in Africa. For instance, the China Zambia Friendship Farm was established by CSFAC and Jiangsu SFAC in the 1990s on 667 hectares growing barley, maize and soybean.[46] The CSFAC operates another farm in Zambia on 3,500 hectares which has chickens, cattle and pigs was reported to provide about 10 percent of the eggs sold in Zambia.[47] According to Chinese reports, there are now 15 farms established in Zambia by six different state-owned enterprises with a total of 10,000 hectares. [48]

At the local level Hubei SFAC established a 1,000-hectare demonstration farm in 2005 in Mozambique using a grant of land from the government.[49] According to Chinese reports, the Mozambique government is eager to expand this, and establish a demonstration farm in every province in the country. The Hubei SFAC subsequently formed Lianfeng Overseas Agricultural Development Co Ltd to expand its activities in Mozambique and other countries in Africa. Heilongjiang SFAC in 2004 reportedly signed an agreement to farm 1.4 million mu (93,000 hectares approx.) in Russia. [50] The Shaanxi SFAC has also established a 5,000-hectare farm with investment of 62.5 million USD in Cameroon mainly growing rice.[51]

While the activities of the CSFAC and its provincial arms are often closely associated, and are often regarded as aid rather than commercial investment, other regional companies have been actively seeking business opportunities. For instance, companies from Chongqing have been active in Laos, but they are also expanding further afield. From 2009 Chongqing Seed will grow rice on 4,500 mu (300 hectares approx.) in Tanzania.[52] SunTime International Techno-Economic Cooperation (Group) Co Ltd is a company listed on the Shanghai stock exchange, but which operates under the control of the Xinjiang Production and Construction Corp and is one its main international business arms. In 2005 it signed an agreement for investment of RMB213 million to establish an agricultural development zone in Kazakhstan [53] It had previously made an investment of 50,000 USD to set up

a farm on 150 hectares in Cuba growing rice paddy[54] and also 3.2 million USD in Mexico for a farm of 1,050 hectares, also for rice paddy. The Russian Far East is seen as offering great potential for companies in Heilongjiang.[55]

Jilin Fuhua Agricultural Science and Technology Co, an agriculture enterprise based in Jilin, has been active in Burma where it established a demonstration maize farm of 1,600 hectares.[56] The company signed an agreement with the Philippine government to farm 1 million hectares of land in the Philippines.[57] The project, one of 18 agricultural project agreements signed between China and the Philippines in January 2007, was, however, suspended following widespread opposition in the Philippines. Even though they were suspended, these agreements showed the ambitions of China's local companies. Apart from Jilin Fuhua, a number of other regional entities signed agreements at the same time. These included Beidahuang Group, China's largest agricultural enterprise based in Heilongjiang, which signed an agreement to invest 120 million USD in a 200,000 hectare agroindustrial project. They also included Nanning Yongkai Industry Group, one of the largest private companies in China based in Guangxi, which is active in the sugar industry. The company signed an agreement on the establishment of bio-ethanol processing plants in the Philippines producing 150,000 litres a day.[58]

At the very lowest level there is considerable private, and probably individual, initiative. The amount of this activity is difficult to gauge, although some sources indicate that it may be quite extensive in countries such as Laos and Burma, and even as far away as Zambia. In the case of Laos and Burma there are reports of considerable impact as a result of Chinese activities in agriculture, although not all is apparently at the instigation of government policy.[59] However, it appears that companies and individuals have managed to establish a strong foothold in both countries.

The multifaceted nature of China's investment activities raises a number of questions. While some is obviously directed by central government policy, it is not clear how far this extends. It is apparent that significant activity is carried out at the local level without the direct support of the central government. Some of this local activity has the support of central and local governments, but, as in other economic sectors, the authorities in China are not fully able to direct and control activities in agricultural investment.

In China it is clear that investment in agriculture abroad has its enthusiastic supporters, and that the question has received the attention of government at the highest level. There have been numerous commentaries in the media calling for agriculture to go global and invest abroad.[60] The reasons given for following such a policy include China's high population, but lack of resources such as land and water as well as the effects of factors such as agricultural pollution and land loss. The sharp rise in grain prices on world markets has intensified these concerns. Commentaries have voiced the need for investment in many commodities such as grain and rubber[61] and also advocate targeting different regions including Africa, Southeast Asia, Latin America and Russia.[62] The government and commentators in China also point to the existence of incentives provided by other nations to attract investment in agriculture as a reason to go abroad. [63]

"Despite the inclusion of agriculture in the outward investment policy, it is obviously very much the poor relation to other sectors."

Despite the inclusion of agriculture in the outward investment policy, it is obviously very much the poor relation to other sectors that have gathered the benefits of government support, and has not been a priority. The existing policy on outward investment in agriculture has come under criticism in China for failing in its aims. Analysts in China have called on the government to improve its strategy, noting a lack of policy continuity and finance for the sector. [64] It is likely that the failure of existing policy to effectively encourage outward investment in agriculture, and the low priority given to it in comparison to other sectors, was behind the efforts of the Ministry of Agriculture to push for greater support earlier this year.

However, the advocates of outward investment do not go unchallenged in China. The effectiveness of investment overseas in agriculture as a means to resolve the problems of China's need for agri-commodities is questioned. There are critics who have argued that

investment in agriculture cannot solve the problems China faces. The policy has been attacked on economic grounds. According to these critics, the idea that China can grow crops overseas and then transport them back home is not feasible since it cannot be cost effective. It has also attacked on security grounds, since many of the proposed host countries have poor business environments and are politically unstable. Hence, it would be unwise for China to make its own food security hostage to such governments.[65] Other critics argue that the government should focus on resolving the problems of China's own domestic agriculture, notably by ensuring that farmers are able to gain sufficient remuneration from their efforts and thus have an incentive to grow the crops the country needs.[66]

"The Chinese government's legitimacy still bears resemblance to the heavenly mandate of the Emperors: hunger and stability remain two main benchmarks for the population in judging the leadership."

In some public pronouncements, Chinese officials have specifically rejected the idea that satisfying China's domestic needs is the main goal of outward investment in agriculture. Rather, the aim of the policy was help agricultural development in recipient countries. In the case of Africa, China emphasizes the needs of the continent and the benefits its investment may bring.[67] The publicity that was engendered by the claims that a new policy was in the offing earlier this year was followed by media coverage in which officials expressed much more cautious opinions about the prospects for investment in agriculture.[68] In November 2008 the National Development and Reform Commission reiterated that China has no plan to seek land holdings abroad.[69] The controversial nature of the subject has certainly filtered through to China. A policy of investment in agriculture is in many respects a high-risk strategy with uncertain rewards. Already, in the cases the Philippines and Mozambique local opposition has impeded ambitious plans for Chinese agricultural activity.[70] In recent months the prices of agri-commodities have fallen from their previous peaks, although most forecasts predict that they will remain at historically high levels in the near future.[71] Even if the fundamental concern with security of supply remains, the recent falls in prices of agri-commodities will perhaps make the issue less pressing for the Chinese government. Following the denials that there is a new policy, at least for the moment, it is unclear whether the government will move toward any significant initiatives to expand outward investment beyond existing measures adopted under the slogan of going global.[72] Nevertheless, China will continue to be active abroad in the agricultural sector.

6. Implications for the EU

Since 1949, food security has been a key political priority for Beijing. In several ways the Chinese government's legitimacy still bears resemblance to the heavenly mandate of the Emperors: hunger and stability remain two main benchmarks for the population in judging the leadership. Rapid demographic growth, industrialization, the prospering middle class and alarming pollution mean that pressure on fertile land will continue to increase, and lead China to tap overseas agricultural markets. As in the case of other commodities, such as oil and mineral ores, the question now arises of how much control the Chinese government and Chinese companies should exert over these foreign supplies. For importers of food the international market remains open, as long as the importer is able to absorb higher prices. Indeed, many major commodity producers are eager to supply China. For China the most plausible option will be to diversify its suppliers, strengthen its buyer's position and provide financial support for imported goods whenever price jumps become destabilizing.

This opens various opportunities for developed agricultural producers. Agricultural giants like Brazil and the United States have been reaping substantial benefits from China's appetite for farm crops. The EU has been slow in formulating an aggressive export promotion policy that aims at seizing the opportunities of one of China's most promising consumer markets. The soaring imports of luxury products prove that this involves raw commodities as well as processed products and local culinary specialties. For the EU it is important to recognize the benefits that its own food and agriculture companies could enjoy if they succeed in becoming

strong intermediate players between producers and consumer markets. Measures should be considered to mitigate the impact that these companies are experiencing from their state-supported counterparts.

Even if no new policies are adopted, it is clear that China will be an active investor in the agriculture sector beyond its borders. Market-based trade relations with well-organized producing countries may be complemented with more assertive state-backed initiatives towards weak developing countries in Africa and Asia. There will also be increasing activity by non-state actors from China. To a limited extent this has been the case in countries like the Burma, Laos and the Philippines. For these ventures to become beneficial though, China will have to put standards in place to safeguard the local environment and make agricultural development compatible with and inclusive towards the local farming activities. The EU and China should work together to share their expertise in tackling problems such as soil erosion and desertification. Agriculture is obviously one of the sectors that hold a large potential for EU-China cooperation in regions like Africa and Asia. China's investment in the agricultural sector has the potential to bring significant benefits to host nations, but in case of state-backed projects and aid as well as private activities, both sides should be aware of the very precarious structure of farming. As agriculture underpins social and political stability in many developing countries, China and Europe are both stakeholders in converting local natural wealth into sustainable economic growth.

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