

Mixed Starts and Uncertain Futures: Case Studies of Three Chinese Agricultural Investments in Zimbabwe¹

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This Working Paper series emerges from the China and Brazil in African Agriculture (CBAA) programme of the Future Agricultures Consortium. This is supported by the UK Economic and Social Research Council's 'Rising Powers and Interdependent Futures' programme (www.risingpowers.net). We expect 24 papers to be published during 2015, each linked to short videos presented by the lead authors.

The CBAA team is based in Brazil (University of Brasilia, Gertulio Vargas Foundation, and Universidade Federal do ABC), China (China Agricultural University, Beijing), Ethiopia (Ethiopian Agricultural Research Institute, Addis Ababa), Ghana (University of Ghana at Legon), Mozambique (Instituto de Estudos Sociais e Económicos, Maputo), Zimbabwe (Research and Development Trust, Harare), the UK (the Institute of Development Studies, the International Institute for Environment and Development and the Overseas Development Institute).

The team includes 25 researchers coming from a range of disciplines including development studies, economics, international relations, political science, social anthropology and sociology, but all with a commitment to cross-disciplinary working. Most papers are thus the result of collaborative research, involving people from different countries and from different backgrounds. The papers are the preliminary results of this dialogue, debate, sharing and learning.

As Working Papers they are not final products, but each has been discussed in project workshops and reviewed by other team members. At this stage, we are keen to share the results so far in order to gain feedback, and also because there is massive interest in the role of Brazil and China in Africa. Much of the commentary on such engagements are inaccurate and misleading, or presented in broad-brush generalities. Our project aimed to get behind these simplistic representations and find out what was really happening on the ground, and how this is being shaped by wider political and policy processes.

The papers fall broadly into two groups, with many overlaps. The first is a set of papers looking at the political economy context in Brazil and China. We argue that historical experiences in agriculture and poverty programmes, combine with domestic political economy dynamics, involving different political, commercial and diplomatic interests, to shape development cooperation engagements in Africa. How such narratives of agriculture and development – about for example food security, appropriate technology, policy models and so on - travel to and from Africa is important in our analysis.

The second, larger set of papers focuses on case studies of development cooperation. They take a broadly-defined 'ethnographic' stance, looking at how such engagements unfold in detail, while setting this in an understanding of the wider political economy in the particular African settings. There are, for example, major contrasts between how Brazilian and Chinese engagements unfold in Ethiopia, Ghana, Mozambique and Zimbabwe, dependant on historical experiences with economic reform, agricultural sector restructuring, aid commitments, as well as national political priorities and stances. These contrasts come out strikingly when reading across the papers.

The cases also highlight the diversity of engagements grouped under 'development cooperation' in agriculture. Some focus on state-facilitated commercial investments; others are more akin to 'aid projects', but often with a business element; some focus on building platforms for developing capacity through a range of training centres and programmes; while others are 'below-the-radar' investments in agriculture by diaspora networks in Africa. The blurring of boundaries is a common theme, as is the complex relationships between state and business interests in new configurations.

This Working Paper series is one step in our research effort and collective analysis. Work is continuing, deepening and extending the cases, but also drawing out comparative and synthetic insights from the rich material presented in this series.

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Abstract

Chinese agricultural investments in Africa have grown significantly in the past two decades, but there remains very little empirical research on the nature of these investments. This paper aims to address this knowledge gap by looking at three different types of Chinese investors in Zimbabwe's agricultural sector: a National State Owned Enterprise (SOE), a Provincial SOE and a private company. Collectively, their experiences not only challenge the pervasive view that Chinese companies are progressing at unstoppable rates in African markets, but also raise deeper questions about the importance of company structures, financial stability and the environments in which they operate.

Key words: outward investment, agricultural outward investment, China-Africa cooperation

Introduction

Along with its rapid economic growth over the last four decades, China's outward foreign investment has expanded significantly. This process began in the 1980s with the implementation of a 'going global' strategy (走出去战略) and was greatly accelerated after China joined the World Trade Organization (WTO) in 2002. From an annual average of below US\$3bn before 2005, China's outward foreign investment flows grew to US\$20bn in 2006, and more than US\$50bn in 2008. By 2010 flows reached US\$60bn amid declining levels of global Foreign Direct Investment FDI, making China one of the world's top ten exporters of direct investment in the post-crisis years (Daniel et al. 2012). Between 2012 and 2013, China's official FDI increased by a further 15 percent from US\$88bn to US\$101bn (UNCTAD 2014), a development that has attracted mixed reactions worldwide.

Based on the Chinese FDI data of 2012, the top five economic sectors of outward investment are tenancy and business services (US\$26.7bn annually), mining (US\$13.5bn), wholesale and retail (US\$13.0bn), financial services (US\$10.1bn) and manufacturing (US\$8.7bn). Agriculture was only of peripheral importance among the sectors that China invests in; however, the share of that sector in the country's overseas investment portfolio has been rising, from 0.86 percent in 2005 to 1.66 percent in 2012 (National Bureau of Statistics of China, 2013).

With regards to Africa in particular, the continent only makes up 4 percent of Chinese FDI stock (MOFCOM 2014); however, this has increased steadily in recent years, and from the African perspective China is now the continent's third largest investor as well as the continent's largest trade partner (UNCTAD 2013; MOFCOM 2011). Various actors are at the forefront of these investments, each with different drivers and pull-factors that lead them to Africa. While some might be focused specifically around big cities in Africa with a view to sell in local markets, other investments may serve niche markets such as the

supply of food materials to Chinese restaurants and companies (Cook 2015). These are often broadly categorised as private sector actors, State Owned Enterprises (SOEs) and hybrid mixtures of the two.

In the agricultural sector there were 141 enterprises registered with the Chinese Ministry of Commerce that had invested in Africa in 2012. Among them were 46 SOEs (non-listed enterprises), 54 privately owned enterprises (non-listed enterprises), seven listed companies, three joint state-private enterprises and 31 other enterprises that could not be classified into any of the listed categories (MOFCOM 2014).

Indeed, agriculture has remained the most important livelihood activity for most African countries, estimated to be employing 75 percent of the continent's population (Basara 2014). Within this context, the need for more Chinese engagement with African agriculture has been a recurring theme at successive Forum on China-Africa Cooperation (FOCAC) conferences since their inception (Gabas and Tang 2014; Bräutigam and Tang 2009). The three main targets for Chinese agricultural investments in Africa are farming, fishing operations and agro-processing. Separately, there is also an increasing amount of trade in farm tools and agrochemicals (Spring 2009).

Having established a strong relationship with Zimbabwe during its independence struggle, it is no coincidence that the country has become an important economic partner of China's as the 'Going Global' strategy looks towards Africa. Since 2011, Zimbabwe has become one of the top three African destinations for Chinese investment, with China's non-financial direct investments in Zimbabwe increasing from US\$460m in 2011 to US\$602m in 2013 which was the largest amount of Chinese investment in all African countries (Lin 2014). Trade between the two countries has continued to expand over the years and surpassed US\$1.1bn in 2013; almost doubling the 2010 level. The balance of trade is in Zimbabwe's favour with the Southern African country's exports to China in 2013 valued at US\$688m with its imports at US\$414m (Ibid). Zimbabwe welcomed such investment as it came when the country was still largely ostracised as an investment destination by the West. As at the end of May 2014, eight Chinese companies had set up investments in Zimbabwe's in agricultural sector.

In this context, our study will seek to better understand these investments by looking in depth at the different types of Chinese companies involved and how they engage in Zimbabwe's agricultural sector. This will be followed by a presentation of some of the more significant cultural, institutional and environmental challenges that each of these investors face in pursuing their various interests. The paper will then conclude by asking whether there are any discernable connections that can be made between the nature of the company and the outcome of their engagements. Throughout this paper our analysis will move beyond the simplistic discourses of 'land grabs',

'neo-colonialism' or 'neo-imperialism' that have often come to shroud discussions of China-Africa relations (Bräutigam 2011).

Literature review

In the twenty-first century, China's increased economic engagements with Africa have come to be of great interest within academia and the media, in Western countries initially (Bräutigam 2011; Alden 2005), and increasingly in Africa and China too (Manji and Marks 2007; Gaye 2006; Shi 1989). Present in many of these narratives, however, is the assumption that China's growing presence in Africa means that its business interests are moving from strength to strength. Some argue that this is at the expense of local interests, others that this success is mutually beneficial. Regardless, this macro-view of Chinese business engagements often overlooks the day to day challenges that many of these companies face.

The most repeated narrative is that China's agricultural engagement in Africa is a form of neo-colonialism (Large 2008; Zafar 2007; Tull 2006). Other narratives suggest that China's investments in Africa are aimed at buying energy, food and raw materials, and securing political support from state leaders (Taylor 2010). In this framing, African countries are viewed as little more than a 'resource' for China, and just as the Europeans did during colonialism, they are also exploiting Africa as a market to sell their goods (Zhao 2014).

Other major concerns raised on Chinese investments include the neglect of local labour rights and the undermining of employment opportunities. For instance, low agricultural wages in Africa are certainly part of the attraction for the Chinese to invest in African agriculture (Kevin et al. 2014) and there have been reports of some Chinese entrepreneurs discriminating against local workers and keeping wages low and such practices have made local workers resent Chinese businesses (Zhao 2014).

Furthermore, Chinese investments are also accused of bringing unwelcome competition. For example, in Zambia, Chinese companies have invested in more than 20 farms and their products are now a major feature on the Zambian domestic market (Bräutigam and Tang 2009; Xinhua 2006). These criticisms come despite the fact that Chinese investments may also positively influence local employment opportunities.

What is particular about Chinese investments in agriculture, however, is the claim that they have resulted in 'land grabs' across the continent (Alden 2013; Spring 2009). This argument is often based on a premise concerning China's own internal agricultural pressures. This involves the very real concern that urbanisation in China has resulted in the shrinking of the country's farmland. The expanding population and higher life

expectancy have also resulted in even less cultivated land being able to meet the growing demands (Lu 2015). However, in seeking to answer how China will meet its food security needs in the near future, this has led to the acceptance of a narrative that China will buy up African farmland (Alden 2005). This claim has been repeatedly exposed as false, as there are still relatively few occurrences of Chinese companies acquiring land leases, let alone any sizeable ones (Smaller et al. 2012; Bräutigam and Tang 2009).

As Guo Chatelard (2014) argues, many critiques focus on what China wants to get from Africa, with few reporting on the real activities of Chinese investments in Africa. Further studies by Bräutigam and Zhang (2013) concluded similarly that that numerous media reports on the subject of Chinese agricultural investments are unreliable and lack evidence, and that the overwhelming focus on China's policies is unhelpful. Furthermore, in many cases, Chinese companies are being invited by African states to boost FDI, which is foreseen to benefit both China and Africa. This is happening at a time when many developed countries have decreased their investments and aid in Africa, arguably making China's FDI all the more important (Chen et al. 2014).

In sum, the most common critiques of Chinese investment in Africa that appear in the current literature have three major deficiencies that can lead to unconvincing conclusions. First, most critiques just focus on what China can get from Africa, but neglect the benefit to Africa itself. The positive function of Chinese investments and economic activities is minimised and the negatives are accentuated. Second, the methodology of many papers and reports is dubious; some depend on news reports and other second-hand information sources without first-hand investigation and confirmation. Third, irrespective of whether commentators have argued in favour or against Chinese business engagements in Africa, most have ignored the challenges and difficulties that arise at the micro level. Instead, conclusions have often been based on a hypothesis of perceived success.

It is this last point in particular that the following paper will seek to address. For this we draw on firsthand information collected from three Chinese companies in Zimbabwe. The fieldwork was undertaken in 2014, focusing on two SOEs and one privately owned company. During our investigations, we conducted interviews with a cross section of stakeholders which included government officials, company leaders, middle-level managers, workers and farmers. Structured and semi-structured interview guides were developed and tested before being used to collect data.

The three companies interviewed were all agricultural enterprises and their lines of business can be categorised into two groups: the first are engaged in cash crops such as tobacco and cotton and the other works with food crops such as maize and wheat. Wanjin Company is one

of the three companies and is a joint venture between a Chinese state-owned company and local holders of large commercial farms. Tianze Tobacco Company is a branch of a Chinese state-owned tobacco company and

China Africa Cotton Company (CAC) is a privately owned company. Table 1 below gives an overview of these companies, and it is to their structures and engagements in Zimbabwe that we now turn.

Table 1: Basic information on the selected three Chinese companies

	Wanjin Company	Tianze Tobacco	China Africa Cotton
Enterprise property	Provincial SOE	Central SOE	Private
Capital source	Bank loan	Self-raised fund	China-Africa Development Fund and self-raised fund
Business model	Farm production	Contract farming and tobacco ty	Contract farming
Main products	Soybean, maize, wheat	Tobacco	Cotton
Product marketing	Local market	China	Local market and China
Year of commencement of Zimbabwe operation	2010	2004	2013

Source: Key informant interviews

Information on the three companies

Wanjin Company

Wanjin Company was founded in 2010 by Anhui Farming, a provincial state-owned company, operating with the support of Zimbabwe's Ministry of Defence (MoD). The MoD offered information on large-scale commercial farms for potential cooperation agreements and then facilitated the contracts between them and the farmers. Following a major land reform programme in Zimbabwe from 2000, the majority of new commercial farms have, for a host of reasons, failed to fully utilise their allocated land. Lack of capital has been cited as a major constraint, with one farmer lamenting: 'We have no money to invest on our farm and most of [the] commercial farms have accumulated huge debts with the banks.' Another of the local farmers told the researchers that some commercial farms had been abandoned and agricultural infrastructure and equipment had been either vandalised or stolen.

The MoD, through government-to-government bilateral arrangements, approached Anhui Farming to set up a joint farming scheme to resuscitate production on underutilised commercial farms in a prime farming area around Chinhoyi town in northern Zimbabwe. The tie-up between Anhui and Zimbabwe's MoD was not

surreptitious, as it built on links between the armies and ruling parties of the two countries. At present, the company has established joint farming schemes with four local farms. The farmers offer their land to Wanjin Company and receive rent, while also working for the company as managers. Each farm ranges in size from 700-800ha and the total area under the scheme is about 3,000ha. The main crops grown are maize and soybean in summer and wheat under irrigation in winter.

The general manager of Wanjin Company, Mr. He, said that,

In the beginning the owners of farms did not know us and neither did they trust us. We had to depend on the MoD to develop linkages with other farms. Now we have developed our business with them for three years. Our cooperating partners are benefiting from our investment and more and more owners come to talk with me voluntarily. They are keen on our investment. About ten local farmers have approached us and we found eight of them have high potential.

The common features of these farms are:

- 1) They were transferred to locals from white farmers as part of the land reform programme.

- 2) Only a small part of land has been cultivated and the local owners lack enough capital to carry out further agricultural production.

For example, in one farm of 800ha of arable land the owner could only cultivate 43ha of maize, 18ha of soybean, 1ha of potato, 21ha of tobacco and 11ha of bamboo. The total cultivated land is therefore about 94ha, or only 11.75 percent utilisation.² Furthermore, the farm's irrigation system had been destroyed and they have accumulated a debt of about US\$180,000. The owner confirmed that he can no longer borrow money from the local bank to support his farming operations and he fears that the government could repossess the farm.

Under the joint-venture cooperation programme, Wanjin Company provides all of the agricultural machinery and equipment required as well as working capital. Wanjin Company is then entitled to 50 percent of net profits made on the harvest. The investment in fixed assets for the resuscitation of a farm is quite high. According to the information provided by one of the Chinese managers at one such farm, an investment of at least US\$2m is required for each farm for tractors, a pumping station, a combine harvester, tractor-drawn trailers, ploughs, an irrigation system, warehouse repair and land development. Furthermore, the working capital for annual input requirements is about US\$60,000. In the first two years the typical farm was forecast to make no profits, and at best break even. In 2013, however, one of

the farms turned over from deficit to profit and about US\$120,000 was disbursed to the owner.

Another problem faced in these joint farming agreements is that almost all of the commercial farms are carrying over heavy debts with the banks. The Wanjin Company has agreed to repay this debt to the bank and such payments constitute a significant component of the farming turnover. 'Without input from Chinese, it would be very difficult to continue farming,' a holder of one branch farm told the researchers. 'Around this farm a lot of commercial farms have been left fallow.'

The Wanjin Company has set up a headquarters + branch farms model to manage the farms. The headquarters consists of the Board, general manager and six departments which are Product, Finance, Marketing, Security, Audit and Human Resources. The administrative positions are shared by Chinese and Zimbabweans but the Chinese dominate at the management level. The headquarters also manages a branch farm directly to save staff costs. The other three branch farms are managed separately by one Chinese manager and a Zimbabwean deputy manager. The headquarters approves the annual agricultural plan and budget, allocates the financial resources needed, sets down the target yield for each branch farm, purchases required agricultural inputs and undertakes sales for all crops. As an incentive, when the branch farm attains the targeted yield within the budget set by the headquarters, they are entitled to an additional bonus. At the time of

Table 2: The administrative set-up of Wanjin Company

	Chinese	Zimbabwean
Board of Directors	1 Chairman of the Board 1 Director	1 Deputy Chairman of Board 1 Director 1 Secretary
General Manager	1 General Manger 1 Deputy General Manager	1 Deputy General Manger
Department of Finance, Production and Marketing	1 Manager for each Department	1 Deputy Manager for each Department
Department of Human Resources, Audit and Security	1 Deputy Manager for each Department	1 Manger for each Department
Branch Farm	1 Manager for each Branch Farm	3-5 Deputy Manager for each Branch Farm

Source: Key informant interviews

conducting the fieldwork this incentive scheme appeared to be working, as the four farms were competing amongst themselves to increase yields and profits.

The Wanjin Company now has 14 Chinese staff and all of them are at the administrative and managerial levels. The company has hired many locals as general hands, including six administrative staff at its headquarters. At the time of conducting the field survey, the company had on its establishment 12 deputy farm

managers, three security managers and 195 formal contract workers that included security guards, drivers and agricultural machinery repairers. All the employees were full-time staff. The company was paying its employees agreed salaries at the end of each month and paying school fees for the children of its employees. In addition, the Company is conforming to statutory requirements regarding workmen compensation and social security. The company also offers free housing to its employees and provides safe (treated) water and

electricity for domestic use. Furthermore, the Company each year hires a number of casual workers during the busy season for such operations as planting, weeding and harvesting. In the summer of the 2013/2014 season, the company hired about 370 casual workers. Casual workers are paid at least the minimum wage stipulated by the government and are paid at a higher rate for overtime work and work done over the holidays. Wanjin provides lunch to all its workers, including casuals. The salaries for all types of local employees are higher than what local non-Wanjin farmers pay on average, and meet the legal minimum requirements.

The main crops grown by Wanjin Company are maize, wheat and soybean; all for the local market. One branch of farms has 50 ha of tobacco.

Some criticisms of Chinese agricultural investment in Africa suggest that ventures are intended to export food crops back home to meet the increasing needs of China's domestic market. The Wanjin Company shared with the researchers records of crops that were sold to local food companies including National Foods, a major food-manufacturing company. National Foods contacts Wanjin in April each year to negotiate a purchasing contract for summer crops, and the price has been 20 percent higher than on the local market due to the premium placed on quality and convenience with large volumes and guaranteed supply.

Tianze Company

In China, the cigarette market is dominated by the State Tobacco Monopoly Administration, which is responsible for all aspects of the industry's staff, finance, properties, products, supply, distribution, and domestic and foreign trade' (Gov.cn 2005). These operations are carried out through the China National Tobacco Corporation (CNTC), an SEO that is estimated to contribute roughly 7 percent of the state's revenue each year (He et al. 2013) making it one of China's most important companies. Internationally it is also the largest company of its kind, largely due to the fact that China makes up roughly one third of the world's smoking population (WHO undated). In 2013 CNTC was reported to have manufactured 2.5 trillion cigarettes whereas its next largest competitor, Philip Morris, manufactured only 880 billion, and its revenue in 2012 was estimated at US\$170bn (Martin 2014).

Zimbabwe's worldwide reputation for high quality tobacco first attracted CNTC to trade as a buyer on its auction floors, and in 2005 the company established a subsidiary branch called Tianze. Tianze purchases tobacco in two ways. First, it has contract farming agreements with local farmers and provides them with all the inputs and equipment required. Second, it purchases from other tobacco companies or buyers, such as Northern Tobacco, the Mashonaland Tobacco Company (MTC) and Midriver. Tianze has thus become

the largest customer of Zimbabwe's tobacco. The size of the crop marketed in 2014 was 109,000t and Tianze accounted for 62,626t (57.5 percent). Of this, 15,000t were acquired through its contract farming agreements and the rest was bought indirectly through other companies and independent farmers at auction floors.

Tianze has five departments; the management of tobacco production is overseen by a production manager, some contract farming managers and five area managers. There are 11 Chinese managers in the company, seven seconded by CNTC and four hired in Zimbabwe. There are 87 contract employees from Zimbabwe and five of them are senior managers in different departments being paid industry-competitive salaries. In each department there are two to three local employees in charge of administrative affairs. Tianze also provides these local administrative staff with special incentives such as a free trip to China. From February to August each year, the company hires an additional 100 short term workers for the peak period of processing tobacco. The workers' average salary is slightly lower than what some of the more established companies are offering but not lower than that set for the industry. All staff have medical insurance cover as well as accident insurance and endowment insurance. The company pays a total of US\$20,000 per month in insurance cover for its workers.

As a sign of its confidence in Zimbabwe's tobacco sector, Tianze in the 2013/14 season invested several tens of millions of dollars on the contract farming scheme. As the general manager of Tianze Company, Mr. Zhang, said,

Before Tianze was founded, the price of tobacco was controlled by western companies and as western countries imposed sanction on Zimbabwe, farmers gave up growing the crop. Tianze broke the monopoly through offering higher prices and more re-started growing tobacco after that.

The impact of Tianze on the local tobacco market was confirmed by the CEO of MTC, who have operational partnerships with Tianze: 'We worked with China, but we had no Chinese investment. China is the biggest purchaser of tobacco in Zimbabwe, if there is now more competition and confidence in the industry, farmers can get better prices.'

Tianze currently has 378 contract farming agreements, 255 of which are active. The total area contracted by the company in the 2013/14 season was 8,467ha. Among the active farmers, 161 of them got input support from Tianze for a total area of 6,974ha. The remaining 94 farmers cultivated a total of 1,493ha without input support. The minimum area per contracted farmer set by that company is 10ha and the larger the area per farmer the more preferable it is for the company. Among the contract farmers the highest area is 300ha of tobacco.

Tianze only starts to provide the inputs after monitoring the performance of a prospective client for a season.

The input package includes seed, fertilisers, pesticides, fuel (diesel or petrol), coal and payment for electricity. These inputs are provided by suppliers to farmers and procedures have been put in place to ensure that the inputs are not abused. Loans are repaid with tobacco harvest at fixed values and the company terminates support for farmers in default. Support may be resumed if farmers can clear their debts through tobacco deliveries with input support sought from elsewhere. The total cost of inputs per hectare is estimated to be US\$10,000, and the yield is 3-3.5t/ha. The average price for contract farmers was US\$3.36/kg, contrasting with US\$2.84/kg for the auction crop. At the close of tobacco sales in 2014, the average price for both the contract and auction crops was US\$3.21/kg. In China, however, per hectare input costs are only about US\$4,000, and in 2014 a CNTC delegation that visited Zimbabwe implored Zimbabwean officials to explore ways of reducing costs.

As a result of these high input costs, many farmers cannot grow tobacco without external financial support. One farmer who highlighted this issue was Mr. Stockil, a white commercial farmer who farms 56ha of tobacco and 8ha of maize. Since joining Tianze, all of the inputs for his tobacco crop in the 2013/14 season were provided by the company. They provided tractors, chemicals, coal, fuel and many other materials at a total value of support of US\$323,000. This was provided as an interest-free loan to be repaid by selling the tobacco produced to Tianze. Mr. Stockil's total yield of tobacco in 2014 was 212,800kg on 56ha, while the price given by Tianze was US\$3.73/kg. This was significant, as one local farmer had said himself that 'without Tianze tobacco, only 20 hectares can be managed.' In order to operate this farm, he had hired 150 workers, among them 50 permanent and 100 casual workers, and each casual worker was being paid the stipulated minimum farm wage. In his case, it was thus due to the continued demand for Zimbabwe's premium tobacco from China and the subsequent investment from Tianze that more employment opportunities were created.

Another case was that of another local farmer. She grew 15ha of tobacco in the 2013/14 season. Before signing a contract with Tianze, she was contracted by TSF, a local, long-established merchant that also owns one of the tobacco auction floors. She says that she moved to working with Tianze because of the better service:

I can visit the headquarters of Tianze and talk with Chinese managers, I can also get technical assistance from the company, such as on agronomy and curing, and these technologies are useful. Without the help of the company, I can't grow tobacco

The farmer reiterated that she will continue signing contracts with the company, and planting more tobacco.

Our research suggested that many farmers with large tobacco operations preferred to be supported by Tianze due to the cheaper and timelier input support, as well as the higher purchasing prices. Tianze charge a more modest interest on the input loan package, unlike their competitors who often charge 12 percent in interest.

China-Africa Cotton Company

China-Africa Cotton Company (CAC) was founded in 2008 as a joint venture between Qingdao Ruichang Cotton Industrial Co., Ltd. (青岛瑞昌棉业有限公司), Qingdao Huifu Textile Co., Ltd. (青岛汇富纺织有限公司) and the China-Africa Development (CAD) Fund (CAC undated). CAC started operations in Zimbabwe towards the end of 2013 for the 2013/14 summer and had 29,120 contract farmers registered with it at the time of research (out of the 200,000 among all companies). The company expects to increase these numbers further in the following seasons. The company commanded the second largest share of business among all registered cotton merchants, coming after Cotton Company of Zimbabwe (Cottco) and ahead of Cargill, who have both been operating in Zimbabwe for over 15 years. The average area of planted cotton among contract farmers registered with the company is 1.8ha, slightly less than the industry average of 2ha. All registered cotton companies have to comply with regulations that were developed and agreed by the industry with the concurrence of the Ministry of Agriculture, Mechanisation and Irrigation Development (MoAMID) and farmer associations. The guidelines have now been put into law through a Statutory Instrument (SI) that was passed by the government. Under the regulations, each cotton merchant has to supply farmers with inputs and each is prohibited from buying a cotton crop that was grown with inputs provided by other companies. A statutory body called the Agricultural Marketing Authority enforces the SI.

At the beginning of each season, cotton companies agree on a minimum input package to be provided to farmers. The minimum package per hectare set for the 2013/14 season was two 50kg bags of basal cotton fertiliser, a 50kg bag of top dressing fertiliser, a 15kg bag of seed, 1.5l of synthetic pyrethroids, 1kg of Carbaryl 85 WP and 100g of Aphicide. The provision of chemicals is compulsory for all contracted farmers (for pest control) but farmers in areas where the soil still has significant inherent fertility opt to not take up fertilisers (especially in the Zambezi Valley and the Lowveld). In the 2013/14 planting season, all the inputs were sourced by the company which incurred a further cost of about US\$500,000 in transporting the inputs to farmers. Merchants were buying the crop from farmers at an average price of US\$0.50/kg, implying that CAC required at least US\$20m for the 40,000t it expected to purchase.

CAC (along with other Chinese companies) has had an advantage as it has access to cheaper sources of funds from the CAD Fund. The company mentioned this aspect as its major advantage and that it passed on the lower

costs to farmers through charging lower interest rates on borrowed inputs. By comparison, local cotton companies have been borrowing money at 15-18 percent interest rates and have thus passed on these higher costs to farmers. Due to this access to lower cost finance, the input package per hectare for China Africa Cotton is about US\$115 compared to US\$166 amongst its competitors.

The growing of cotton will remain a major livelihood activity among smallholder farmers, particularly those in low rainfall areas. As the crop is labour intensive and most cotton farmers have had to hire additional casual workers for picking the crop, it can be a valuable source of employment. Additionally, the crop is a cash crop that most smallholder farmers have experience in growing. In the past, farmers have managed to meet a host of household expenses from the proceeds of cotton sales. But low producer prices are forcing farmers to pay contract workers low wages and as a result most cotton farmers have lately been struggling to attract enough workers.

To obtain farmers' opinions on contract farming and CAC, the researchers interviewed five farmers in Karoi Region who were contracted by CAC. From their responses, the input package is by far the most important component of the contract farming arrangement.

As discussed earlier, the recommended input package agreed by the cotton industry is 2 bags of basal dressing and 1 bag of top dressing. Some merchants reduce this unilaterally to 1 bag of basal and ½ to 1 bag of top dressing, which could partly explain why farmers often change contractors from season to season – a development that delays the disbursement of inputs through long registration processes with merchants each year. Farmers commended CAC for providing an improved package (especially higher quality fertilisers) and supplying the first batch of inputs early. Farmers got 2 bags of basal fertiliser and 1 bag of top dressing from CAC; this represents a doubling of the basal fertiliser level from the previous industry-wide standard.

Contract farmers also received training and technical assistance from the cotton companies. Training is done by extension workers recruited locally and all companies use an industry-wide agreed curriculum. Field Days⁴ are held at the homesteads of farmers who excel in each area. Such gatherings serve as additional training platforms for farmers as well as motivation.

Among the commercial crops suited to the Karoi area are cotton, maize, soybean and flue-cured tobacco. On the basis of returns tobacco gives the highest margin, followed by maize, soybean and then cotton. There is a high proportion of farmers who are members of the apostolic religious sect in this (Karoi) area. The sect encourages polygamy and prohibits its followers from

growing and handling tobacco. The big families associated with polygamy are therefore a source of significant (family) labour which is crucial in successfully growing a cotton crop. Although margins were reported to be higher with maize as compared to cotton, most farmers were deterred from committing high areas to maize due to the high cost of hybrid seeds and fertilisers associated with it. The use of hybrid maize seed (rather than selecting the *best* of the commercial crop as seed) is now almost universal and farmers are constrained by the high fertiliser rates (at 8 bags basal and 8 bags top dressing). Interest in soybeans has similarly remained subdued due to low yields, low producer prices and high labour demands for harvesting the crop.

The company operates through three departments at its headquarters: the Finance Department, Business Department (imports and exports) and Cotton Department (the most important department that administers the field operations for contracted farmers). In each department a Chinese manager works with two to three local support staff. In total there are ten local workers employed at the CAC headquarters. The largest local employee group more broadly is within the Cotton Department and includes regional managers and extension workers. As part of its Cotton Department, the company has nine regional managers, 50 extension officers and 25 supervisors who undertake audit duties. The nine operational areas for the company are in the main cotton growing areas: Checheche, Chiredzi, Rutenga, Kadoma, Gokwe, Sanyati, Chinhoyi/Karoi, Mzarabani and North-Eastern (for Mt Darwin/Dotito and Rushinga areas).

Field management staff up to regional managers are issued with all-terrain company vehicles that are fuelled and serviced by CAC. Each extension officer is issued with a motorbike and is allocated 60l of fuel per month which can cover their operational area. Extension officers periodically interact with peers in other cotton companies and ensure that standards agreed upon by the Cotton Growers Association (to which all cotton merchants are members) are uniformly applied.

The company also has two ginneries for processing the seed cotton and each has eight Chinese managers and a total of 300 local workers. Among the 300 workers, half of them are permanent contract workers and the rest are casuals.

Salaries under CAC are generally higher than with other companies but researchers were advised that they will be reviewed at the end of each season. CAC estimates that 3.5 percent of the salary budget is spent on commercial insurance which includes medical and accident cover. All the staff members are covered by the insurance scheme and the company spends about US\$300,000 for such coverage each year.

Challenges and Uncertainty for Chinese companies

Following Zimbabwe's land reform programme in 2000, Western countries imposed heavy sanctions on the country over alleged human-rights abuses and the breakdown in rule of law. To resuscitate the economy in the years that followed, the government of Zimbabwe embarked on a major campaign of wooing investors from alternative sources. The 'Look East' policy was a major initiative in this regard and most Chinese companies came to establish themselves in this period, especially between 2003 and 2008. Effectively, just as the West began to ostracise Zimbabwe, China had just embarked on its 'Going Global' initiative.

In 2010, Zimbabwe passed the Indigenization and Economic Empowerment Act, which prohibited foreign investors from owning a majority stake in any business (up to 49 percent equity). The Law rattled foreign investors who feared their businesses would be expropriated. However, as China had been most forthcoming at the country's greatest time of need, Chinese companies were given special dispensation by the Zimbabwean government and allowed to own majority stakes in certain businesses. This is especially important in the cases presented by Tianze and Wanjin in that they are both state entities and Chinese law prohibits them from forming joint companies with other entities, even abroad. Despite the assurances of special consideration regarding compliance with the Indigenization Act given to Chinese companies by the Government of Zimbabwe, the companies however feel particularly vulnerable considering the level of investment in fixed assets they have made to date.

The following section discusses other specific challenges facing each of the three Chinese investments and the future prospects of each.

Wanjin Company and the future

Wanjin has invested more than US\$5m in their joint farming ventures. The money was borrowed from a Chinese bank and has to be repaid with interest. There have been concerns within the company that Zimbabwean law may not allow them to repatriate some of their profits to service the loan. Recently the Reserve Bank of Zimbabwe amended the regulations to allow repatriation of profits, but Wanjin would have to fulfil a number of requirements before being allowed to do so, a process that could be arduous and expensive.

The company has been in operation in Zimbabwe for just one year and has so far incurred losses from its business. From next year the company anticipates to make a modest profit but will still be servicing its loan. The Wanjin General Manager remarked, 'We are all afraid of policy changes in Zimbabwe; land reform displaced white people; we are not sure if it will also expel the

Chinese someday.' Wanjin feels its investment is particularly vulnerable as not much profit is being generated from its current line of business and heavy investment has been needed to restore its partner farms' infrastructure and purchase the necessary farming equipment.

A major concern raised by most key informants was the high cost of agricultural production in Zimbabwe. Average working capital needed for maize is about US\$1240/ha, for wheat US\$1850/ha and for soybean US\$887/ha. The yields of maize, wheat and soybean are 6t/ha, 5t/ha and 2t/ha respectively. In other words, the producer cost of maize is US\$0.21/kg, of wheat US\$0.37/kg and of soybean US\$0.40/kg. The production costs of these crops are actually much higher than they are in China which therefore makes them unappealing for Chinese buyers.

Tianze Tobacco Company and the future

Tianze tobacco has been operating in the country much longer and has been doing so at a profit. Tianze was invited following the precipitous decline in tobacco deliveries due to challenges with securing funding. Currently over 75 percent of the tobacco crop is produced under contract and the regulatory and marketing authority for that crop (Tobacco Industry and Marketing Board) has successfully established order in the industry. There have been no reports of substantial cases of contracts being breached by either the merchants or the farmers. Over 95 percent of the crop is exported.

Since Tianze handles all tobacco imports from Zimbabwe into mainland China, it still has significant influence over pricing. Amongst the merchants registered to buy tobacco in Zimbabwe, prices offered by Tianze have been among the highest. The support package offered to its contractors also appears to be the most comprehensive. In the season when the field survey was undertaken, Tianze also charged the lowest interest under contract arrangements. Furthermore, although Tianze raised some concerns on the level of default among its contracted growers, these levels remained manageable. In any case, it is always in the interest of their contracted farmers to clear arrears with the company, as tobacco merchants closely share databases of their registered growers.

Business prospects for Tianze will remain bright, on the back of firm demand for the premium crop from China and the host government's indebtedness to the company for quickly responding to its invitation to set up the investment. The government of Zimbabwe has however requested Tianze to set up a cigarette manufacturing factory in Zimbabwe in line with its policy of local beneficiation and discouraging the export of raw materials. In response, the company maintains that they only required Zimbabwe's premium crop for blending with other tobacco leaves in China, which means Tianze may find it difficult to meet that request.

China Africa Cotton Company and the future

CAC faces some of the most formidable challenges of the three, the most serious being competition from other companies. There are at least seven other companies, among them Cottco, Cargill, Romsdal, Alliance Gineries, Olam, Grafax, Sino Zimbabwe, Jinmac and Sino-tex. Cottco, Cargill and CAC are the top three companies and between them command as much as 50 percent of the market. Competition among the companies has always been relentless. Despite the Zimbabwean government having developed fairly robust guidelines for regulating the industry, numerous cases of merchants and farmers flouting the rules over the past seasons have been

reported. This is particularly manifest in cases of side-marketing, for which several merchants have already taken families to court to serve as a deterrent to other would-be defaulters. It is reported that merchants could have lost as much as a third of the crop to side-marketing in 2012, a loss estimated at US\$19m (Sunday Mail 2013).

Another challenge faced by the company is the increasingly poor yield from the crop. This has ranged from 440kg/ha in 2009/10 to 770kg/ha in 2012/13 (MoAMID, various). Moreover, although the generating capacity of cotton in Zimbabwe currently stands at 700,000ha, the area of farmland allocated for cotton production has been fluctuating between seasons in response to viability. Lately, this has been characterised by a major decline as shown in Table 3 below.

Table 3: Trends in area planted to cotton in Zimbabwe, 2009-2013

Season	Oct. 2009	Nov. 2010	Dec. 2011	2012/13	2013/14
Area under cotton (ha)	261,191	379,689	432,709	239,335	201,678

Source: MoAMID (various)

Legislators have recently expressed concern over the challenges confronting the cotton industry, even alleging that farmers have been abandoning the crop due to imprudent government policies. For example, in the year 2015, the government asked all cotton companies to offer input packages worth at least US\$148 per hectare. Farmers would then be expected to pay this back in cotton, but the price and yield of cotton was so low that farmers would not have received a good income if they paid back the input packages. Legislators also argue that the country has missed out on some key technological advances, which has resulted in Zimbabwe's cotton crop being uncompetitive. Overall, more than 70 percent of Zimbabwe's crop is exported, and cotton companies have based their prices each year on the outlook from the world market – much to the chagrin of local farmers who insist local costs of production be used as the primary basis for price negotiation. As a result, farmers have been moving to other crops such as tobacco and maize.

These issues are clearly not restricted to CAC; even the more established cotton companies appear to be suffering. Due to historical advantages, Cottco has always occupied the pole position among the cotton companies. However, as a sign of the challenges faced across the cotton industry, it has also been making losses since 2009 when the country demonetised its local currency and replaced it with the US Dollar. In the year ending 31 March 2013, Cottco made a loss of US\$14.9m. Despite the company reporting a modest profit of US\$2m the previous year, the company remains in a precarious state, as it continues to service significant debts estimated at US\$126m in March 2013 and US\$41m in March 2014 (Mtomba 2014). Furthermore, in the 2014 marketing year the company handled a crop of only 35,665t against its target of 110,000t, and by October 2014 Cottco had

applied to the courts for judicial management (bankruptcy protection). This was intended to form a shield against claims on the company when what it owed far exceeded what was owing to it. It remains questionable if the company will be able to offer the expected level of support to farmers in the 2014/15 season.

Lastly, Cargill, a multinational US-registered company, claimed to suffer such consistent challenges that it closed its Zimbabwe business in 2014 citing a poor crop and high levels of contract breach by its registered growers. The company was the third largest cotton merchant and accounted for 15 percent of the nation's crop. It was one of the first companies to compete with Cottco when it started operations in Zimbabwe in 1996, when the laws that established Cottco as the sole monopoly for the industry were repealed.

Conclusions

In summary, what this study shows us is that we cannot necessarily conclude that company structures have played a huge role in terms of commercial success. Despite ongoing discussions of China's 'State Capitalist' model and the efficiency of private versus public sector enterprise, it would appear that all of these companies have had to balance their own commercial experiences from China with the challenging realities of Zimbabwe's political, social and market circumstances. While all three of these case studies have stable funding and all of them enjoyed the support that came from strong relations between the Chinese and Zimbabwean governments, each had very different outcomes.

The provincial SOE, Wanjin, appears to be suffering the most, and despite its status as an SOE and favourable

concessions at the outset, still feels at risk of expropriation of the land it contracts. It brings with it experiences developed through its Anhui Farming operations in China, including inputs, technology, financial management and so forth. Yet it seems unable to overcome the prohibitive production costs and has struggled to help indebted farms return to full productivity and profitability. Depending on how much concessionary funding continues to be available to the company, longer term investments may still turn a profit, but for the time being there is a sense that the days of their current operations are numbered.

Conversely, Tianze has been hugely successful. The financial stability of being a subsidiary of one of China's most powerful SOEs has surely given it greater scope to invest substantially across Zimbabwe's abundant tobacco sector. However, this success is also buoyed by the fact that the Zimbabwean government was keen on this specific form of investment and therefore offered them a greater degree of political stability and support in the form of legal and economic concessions. Furthermore, China's strong demand for tobacco is perhaps the most important factor behind the company's success, as Tianze acts as an intermediary between all other tobacco producers and companies in Zimbabwe and one of the world's most lucrative tobacco markets.

Lastly, the private cotton company with funding from the CAD Fund is also facing significant challenges. With the local market leader, Cottco, filing for bankruptcy protection, and Cargill closing its operations in Zimbabwe, it is clear that times are bad in the industry. This is partly due to stiff competition, but more importantly, decreasing crop yields and a lack of inputs have spurred local farmers to shift their attention to other crops – which then reduces total outputs further. As with Wanjin it is unclear what the future holds: whether continued finance will prove to be a wise move while times are bad, or whether it is just pouring more money into a situation that will ultimately prove unprofitable anyway. Again, though, what we see is a case of local dynamics playing out in ways that are beyond the control of company structures.

From the Zimbabwean perspective, these investments have all been very welcome, and there is clearly a commitment to ensure long-term engagements. Yet it seems that how the state addresses issues within its agricultural sector, and particularly the cotton market, will really be the most important deciding factor for the future of these Chinese companies. This will no doubt aim to balance the interests of farmers with those of companies, be they Zimbabwean, Chinese or from elsewhere.

Henceforth, although all three Chinese companies maintain that they invested in Zimbabwe's agricultural sector for the long haul, it is possible that the unforeseen challenges which have befallen Wanjin and CAC may seriously impede their long-term prospects. Together, these three case studies disprove the narrative of

unstoppable Chinese business successes in Africa, and particularly within the agricultural sector. Rather, they present a reality that is a lot messier on the ground and together they take us a step closer to understanding the challenges and opportunities of Chinese companies in Africa.

End Notes

- 1 This research was co-funded by the China and Brazil in African Agriculture (CBAA) project, China International Development Research Network (CIDRN) research funding and the Beijing Youth Elite Programme
- 2 The utilisation percentage could be even lower if the potential for irrigation in winter is factored in.
- 3 The two payments are made monthly for each employee to the National Social Security Authority through which the worker (or surviving relatives) can claim compensation in case of injury or death at work, or on retirement.
- 4 Field Day: this is a function hosted by the best farmer (usually for a village) for a given crop. Several Field Days can be held in a season at key stages of the crop but most emphasis is given to the one held when the crop is ready for harvesting. The host farmer shares with guests how the various management practices were undertaken. Some refreshments are usually served, with a commercial company funding the event.

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