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China's Global Resources Drive: A market-oriented strategy for food

By Zhang Hongzhou

Synopsis

While China's overseas agricultural expansion will be led by state-owned companies with strong support from the government, China is more likely to adopt a market oriented strategy to safeguard the country's food security.

Commentary

IN A paradigm shift in China's food security strategy, China has been rapidly expanding its agricultural presence overseas. And not surprisingly, the country's global hunt for food is being led by state-owned agricultural companies with strong government support. A few months ago, COFCO-China's biggest state-owned agricultural company made a back to back purchase of controlling stakes in two global agricultural traders-Nidera NV and agribusiness division of Noble Group. In June 2014, China Investment Corp-the country's \$650 billion sovereign wealth fund announced that it will invest more in agriculture around the world and across the entire value chain. In addition, China also intends to set up an international agricultural trade fund and an overseas agricultural development fund to facilitate China's agriculture *Going Global* efforts.

Apart from major merger and acquisition, China has been acquiring land and other agricultural resources overseas. According to China's Ministry of Agriculture, by the end of 2013, China has 23 Nongken groups (state-owned agricultural company) setting up 113 foreign subsidiaries or projects in 42 countries, producing 10 million tonnes of grain annually. While the above tends to suggest China is following a neo-mercantilist approach in its global hunt for food as that for oil, a closer analysis of China's overseas agricultural activities and global agricultural strategy indicates that China is more likely to adopt a market oriented strategy in its global hunt for food.

The private actors should not be overlooked

Unlike the energy sector which is dominated by state-owned companies, China's agricultural sector provide employment for over 200 million farmers and there are millions of food related private companies along the whole supply chain. Driven by employment opportunities and profit, numerous Chinese farmers and private agribusiness voluntarily went abroad to undertake agricultural activities. Although national data is not available, data at the provincial level suggest that private companies and farmers are playing a very important role in China's overseas agricultural expansion. For example,

there are over 500,000 entrepreneurs from Zhejiang undertaking business in agricultural sectors in over 40 countries or regions. Also, among the 110 companies from Heilongjiang which undertake agricultural activities in Russia, 58 are joint-equity cooperative enterprises, 40 are private companies and only 12 are state-owned enterprises.

Despite the fact that China plans to consolidate its fragmented food industry and create its own global food players which can lead China's agriculture *Going Global* efforts that are capable of competing with global agribusiness giant such as Cargill, the country also intends to let the private sector play a bigger role. A report published by Ministry of Agriculture suggested that in future private capital should play the main role in funding the country's overseas agricultural expansion and investment should target less on direct acquisition of land resources; instead, contract farming should be promoted.

In recent years, some international media accused China of grabbing land overseas and producing food for domestic consumption; however, in fact China's agricultural produce from its investment in foreign soils, particularly in Africa, are primarily sold at the local market. On the surface, this is due to three reasons: sufficient domestic supply, customs control and high cost. However, fundamentally, this is a reflection of the grand vision of China's overseas agricultural investment.

A market oriented vision

Although there is no official document clarifying the real intention of China's global agricultural expansion, remarks of high ranking government officials and China's recent actions could serve as useful references. Chen Xiwen, the deputy head of China's central agricultural working group revealed China's intension during a press conference in 2012. He said agricultural produces from the country's overseas investment need not be transported back to China. As long as China's overseas agricultural operations could help harness the potential of global food production, the increase in global food supply could be the bulwark against China's food insecurity.

Furthermore, during a meeting with Heilongjiang Nongken groups in July 2014, Wang Guangkun, Director of the National Agricultural Comprehensive Development Office said agriculture *Going Global* is a national strategy with political significance and the purpose is to enhance the supply capacity of the international food trade and reduce the unnecessary political risk faced by China in the international market. Wang told the Nongken groups to abandon the old concept of "farming overseas and shipping grain back to China"; instead, he urged Nongken groups to sell agricultural produce in the local market according to local conditions and strive to enhance the market power of China in international grain trade.

Besides, China's recent attempt to reform COFCO also shows that it intends to become a better market player. The purpose of reform-exploring mixed-ownership and board-led human resources management is to weaken the state background and send a message to the international community that COFCOs overseas expansion is merely corporate action.

China's intention to follow a market oriented approach is also evident in its strong support for agricultural trade liberalization. At the global level, for instance, in the December 2013 Bali WTO meeting, when India's strong position on food subsidy nearly led to the collapse of the Doha Round, China told India that China backed a successful WTO meeting, though China appreciated India's strong position on food security. At the regional level and bilateral level, agriculture is included during China's negotiation of FTAs with other countries, unlike many other FTAs which normally excluded agriculture. For instance, in the case of China-ASEAN FTA, agriculture was negotiated upfront and was the key component of its Early Harvest Program.

Positive stance in global food governance

Fully aware that China's food security cannot be achieved without a stable and favorable external environment, China has put in a lot of efforts to strengthen global food governance. Apart from donating food to countries that suffered from hunger and famine, China is providing agricultural

technological and financial assistance to developing countries around the world to augment their food supplies.

In addition, China shows more willingness to cooperate with other countries particularly the United States on food security cooperation, China is also very active in participating in global food governance via increasing support to the Food and Agricultural Organisation (FAO) and World Food Programme.

As China's food demand and supply gap widens, the country's further integration into global food market is inevitable. Even though its agriculture *Going Global* push will still be led by the state-owned grain companies, China is more likely to pursue a market oriented approach-safeguarding the country's food supply and minimizing uncertainty of the global food market through deepening global food trade and strengthening its market power.

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