The SAIS CHINA★AFRICA RESEARCH INITIATIVE at Johns Hopkins University

POLICY BRIEF

CHINESE AGRICULTURAL INVESTMENT IN MOZAMBIQUE: THE CASE OF THE WANBAO RICE FARM

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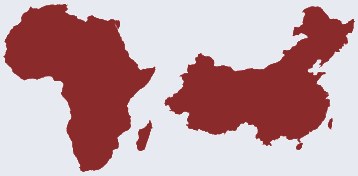

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The Hubei Gaza Friendship Farm was established in 2007 in Xai-Xai, Mozambique, and has been managed by Wanbao Africa Agriculture Development Limited (WAADL), a private Chinese company, since 2011. Critics see this project as a "land grab"; supporters argue that the investment is a positive force for agricultural growth and development. This case demonstrates the many obstacles to successful agricultural investment in Mozambique, which are exacerbated by tension between local civil society organizations, the Mozambican government, and Chinese investors.

Chinese engagement in Mozambique has increased significantly over the last decade, particularly since the former Chinese president, Hu Jintao, visited the country in February 2007. Chinese foreign direct investment (FDI) in Mozambique rose from US$905,000 in 2006 to US$61.15 million in 2007. **By 2011, China was investing US$312.9 million, making it Mozambique's largest investor of the year.**

Much of this engagement has been directed toward Mozambique's agriculture sector. Since the Forum on China-Africa Cooperation (FOCAC) in 2000, China has supported agro-processing, storage, and agricultural technology transfer in Mozambique.

To date, the most significant example of Chinese investment in Mozambican agriculture is the **Hubei Gaza Friendship Farm**. The farm was established in 2007 in Xai-Xai, the capital of Gaza Province, thanks to an agreement between the Hubei Province and Gaza provincial governments. This agreement gave the Hubei Lianfeng Mozambique Company, LDA (HLMO Co., LDA), a Chinese state-owned company, an area of 300 hectares (ha) to produce rice in the Xai-Xai irrigation scheme.

In 2011, management of the farm was turned over to Wanbao Africa Agriculture Development Limited (WAADL), a private Chinese company. Wanbao received a concession of 20,000 ha for a period of 50 years, and plans to invest US$289 million in three to five years, beginning in 2012.

Chinese engagement has raised concern and garnered criticism among local civil society organizations. Critics call the Wanbao investment a "land grab," arguing that the project only serves the needs of elites and Chinese investors and does not benefit local populations. Mozambican authorities, however, maintain that the project positively impacts local livelihoods by creating employment, facilitating technology transfer, and thereby increasing agricultural productivity.

The research presented here aims to (1) analyze the prospects, features, and challenges of Chinese investment in Mozambique's agriculture sector, and (2) examine the reasons behind the widespread critiques of the Wanbao project.

CHINESE AGRICULTURAL INVESTMENT IN MOZAMBIQUE

From 2000 to 2012, data from Mozambique's Investment Promotion Centre (CPI) show that six Chinese companies submitted plans for agricultural investment projects, with a total value of US$13,950,000 (see Table 1). This figure does not include any of China's investment in forestry projects or Wanbao's investment, estimated at US$289 million. Nevertheless, two important patterns and trends can be observed in this investment data:

- ***Rice and cotton*** were the main crops targeted by Chinese investments in Mozambique over the analyzed period.
- The data demonstrate an emerging ***pattern of partnership*** between local businessmen, generally linked to Frelimo (the Mozambican governing party), and Chinese companies. The new Mozambican bourgeoisie has begun to ally itself with foreign capital in order to implant itself in the local business world.

Table 1: Chinese investment in Mozambique's agriculture sector (2000-2013)

Company	Objective	Year	FDI (USD)
Hubei Lianfeng Mozambique	Import and commercialization of industrial machines and agricultural equipment, fertilizers, and other chemical products for agriculture; development of agricultural activities, including all kind of cereals, vegetables, and livestock.	2007	$1,200,000
Sunway International Mozambique, LDA	Production and industrial processing of peanuts and sesame	2010	$500,000
Chamei Agrícola	Agriculture and agro-industry	2011	$750,000
Agrícola CCM	Cereal production and livestock	2012	$10,000,000
China Africa Agriculture, Co. LDA	Agriculture and agro-industry	2012	$500,000
China Africa Agriculture, Co. LDA	Cultivation and cotton agro-processing	2012	$1,000,000

RESEARCH METHODS

The author used data from the Investment Promotion Centre (CPI), a Mozambican state entity subordinate to the Ministry of Planning and Development that is responsible for coordinating the promotion, analysis, follow-up, and verification of foreign investment in Mozambique. Foreigners can open businesses in Mozambique without going through the CPI; submitting an investment project to the CPI for approval is optional. However, those that submit their projects to the CPI obtain tax and customs incentives. The data used in this study only include investment projects submitted to the CPI for approval, not all Chinese investment projects in Mozambique during the period of study. Also, CPI data only show the investment interests of Chinese companies; the CPI does not have information on how many of the projects have actually been implemented.

In addition to using CPI data, the author carried out fieldwork in Xai-Xai between 2012 and 2014. Interviews were conducted with state officials from Regadio de Baixo Limpopo (RBL), the company responsible for the management of the Xai-Xai irrigation scheme; with Wanbao employees (both Mozambicans and Chinese); with local farmers; and with Fórum de Organizações Nacionais de Gaza (FONGA) members.

In 2005, a Chinese state-owned enterprise, China Grains & Oils Group Corporation Africa (CGOG Africa), planned a joint venture with Aruangua Agro-Industrial Limitada, a Mozambican enterprise owned by a local businessman with close ties to the ruling Frelimo party. With a projected investment of US$5.5 million, this project would have been one of the largest Chinese investments in agriculture in the country. However, the project never materialized for reasons that remain undisclosed. Several explanations have been advanced for the failure of this project, including the withdrawal of investors, an unclear regulatory environment, and financial and technical difficulties.

WANBAO IN THE LIMPOPO LOWER VALLEY

The Hubei Gaza Friendship Farm was established in 2007 in Xai-Xai, the capital of Gaza Province, by an agreement that permitted Hubei Lianfeng Mozambique Co., LDA, a Chinese state-owned company, to produce rice in the Xai-Xai irrigation scheme. After three years of operation, HLMO Co., LDA began to experience financial and material difficulties. In 2011 it was replaced by Wanbao Africa Agriculture Development Limited, a private Chinese company.

Wanbao was given a concession of 20,000 ha for a period of 50 years. However, as of 2014, Wanbao is only using approximately 7,000 ha of this 20,000 ha concession: in Chicumbane, about 4,000 ha are being used to grow rice, and 1,000 ha are being used to grow maize. In 2013, serious floods affected the Chicumbane plots. The remaining 2,000 ha in use are in Chimbonhanine, and are also used for rice cultivation. In addition to rice and maize, Wanbao is also working with the local government to identify an area to implement a cotton production project.

According to its 2013 annual report, the China Development Bank (CDB) considers Wanbao to be "China's largest agribusiness project in Africa."[1] By the end of 2013, the CDB had disbursed US$20 million for this project. Moreover, in November 2013, US$10 million was granted to the Wanbao project through the Fund *for Cooperation between China and the Portuguese-speaking Countries*, becoming the first project to benefit from the Fund since its creation in June 2013 by the China Development Bank and the Macau Business Development Fund.

Wanbao uses two agricultural models:

(1) *Free Training for local farmers in Chinese rice technical production. As of 2013, two groups of farmers had received training: a group of 25 farmers was trained in 2012, and a group of 40 farmers began its training in 2013.*

In learning how to use Chinese rice technology to increase agricultural productivity, farmers are first trained in an area of 1 ha over a period of one year. Subsequently, farmers are moved to an area of 4 ha or 5 ha where they are assisted in the stages of rice production, with the company providing all materials and means of production. At this stage, the farmers must pay 50 percent of the total production costs before the Chinese company will provide agricultural assistance. Farmers must often ask for bank credit in order to pay for this assistance. The farmers then have to pay the remaining 50 percent of the production costs to Wanbao after the harvest. To facilitate this process, the Chinese company buys rice from the farmers and subsequently deducts the service costs from their income.

(2) *Subcontracting Chinese farms.*

Thus far, Wanbao has subcontracted its land to four Chinese state-owned agribusiness companies: two companies from Hubei province share an area of about 1,300 ha, and two companies from Heilongjiang Province share an area of approximately 6,000 ha. At these farms, Wanbao is responsible for providing all agricultural inputs (e.g., seeds, herbicides, fertilizers, pesticides), and for constructing all agricultural infrastructure, including irrigation system improvement, roads, and processing factories.

Whereas Wanbao uses its own agricultural equipment for the locals' farms and they have to pay half of the production costs in advance and half after the harvest, the company buys the agricultural equipment that is used by the Chinese subcontractors. The Chinese companies are then obligated to pay back the equipment costs to Wanbao within a period of three to five years at a rate of 20 to 30 percent per year.

Currently, Wanbao relies more heavily on the second model because, according to Wanbao's manager, the Mozambicans do not work as hard as the Chinese.

WANBAO: LAND GRAB OR FRIENDSHIP FARM?

2011

- Wanbao began its activities.
- Local civil society organizations (CSOs) and private media began to voice concerns about land deprivation.

2012

- The first negative reports about the Wanbao project appeared when the Fórum de Organizações Nacionais de Gaza, an NGO based in Xai-Xai, was quoted by the independent daily Canal de Moçambique, ***claiming that the company displaced more than 80,000 small farmers in the process of establishing their project.*** FONGA later amended its estimate to 38,000 farmers, although this figure was still unsubstantiated.
- In addition to allegations of forced resettlement of the local population, FONGA also voiced concern that the project's water usage would be likely to contribute to drought in the Lower Limpopo Valley.

2013

- On August 16, 2013, a group of around 400 local farmers armed with blunt weapons took to the streets to protest against the Chinese project, bringing Wanbao activities to a halt. Police intervened to break up the demonstrations.
- Following the demonstration, FONGA wrote an open letter to the Mozambican President, Armando Guebuza, on behalf of the local farmers. According to FONGA, local populations were angry because they were not consulted about the project and found themselves to be summarily deprived of their land. FONGA divided the affected people into two groups:
  (1) ***Cattle herders*** who lost their grazing land. This group was not asking for the suspension of the project, only for fair compensation.
  (2) ***Farmers*** who lost their land. They were asking for the project to be terminated and for their land to be returned.

There are vastly different accounts of the number of farmers that have been displaced. For example, during the demonstrations of August 2013, FONGA stated that the dislocation affected almost 1,000 families. However, in its open letter to the Mozambican president, the same organization mentioned that 38,000 small farmers had been impacted.

Overall, Wanbao was also accused of failing to transfer agricultural technology and knowledge to the local farmers, instead selling its services at unaffordable prices, and of not respecting local labor laws by paying salaries below the minimum wage, terminating contracts unilaterally and without explanation, and obligating workers to work extra hours without being paid.

From the Chinese perspective, the locals' dissatisfaction was caused by the lack of transparency and prevalence of nepotism in the local government. The local government failed to inform the community about the project and, when asked to select locals to work with the Chinese, only selected friends and family of prominent officials.

The Chinese do not see the Wanbao project as a "land-grab"—before their arrival the local people were not using the land and there was no agricultural infrastructure present. Moreover Wanbao officials claim that the project benefits local people by training them in Chinese rice agro-technology.

EMERGING NARRATIVES FROM THE WANBAO PROJECT

Mozambican officials use Chinese investment as a political tool, often citing the Wanbao project as evidence that the government is successfully fighting poverty and promoting development. The Chinese are considered to be "serious investors," and Mozambican government officials applaud Chinese investment for prompting Mozambicans to take agricultural issues seriously. According to the National Director of Economy at the Ministry of Agriculture:

> *"Before it was normal to delay sowing [for] one or two weeks, but [now] the investor insists with [the local] producers in the sense that if it is scheduled to start on the 12th, we must start on 12th because if we start after that date, we will compromise the production and the productivity. [Now] our producers are learning how to work seriously according to the rules. Even if the Limpopo valley was flooded we still have producers making 5 and 8 tons of rice [by hectare], which is very good because before they used to make only 1.5 tons."*

Mozambican workers, however, see the Chinese as rude and authoritarian managers who think their ideas are better and believe that they work harder than Mozambicans. Meanwhile, the Chinese view the Mozambicans as: (1) thieves who steal materials and equipment; (2) lazy, slow workers, who do not like to work extra hours even when they are promised extra pay; and (3) irresponsible because once they are paid at the end of the month, they disappear and only come back after having spent their salaries, and they exhibit little concern for their families' livelihoods.

CHALLENGES FOR CHINESE AGRICULTURAL INVESTMENT IN MOZAMBIQUE

Chinese investors in the Mozambican agriculture sector face a number of obstacles:

(1) The lack of infrastructure has traditionally been one of the primary obstacles for companies investing in Mozambican agriculture. Today, land conflicts are emerging as a similarly serious issue.

(2) The Chinese have cited the theft of farm machinery, and the inability of the local authorities to address the problem, as a serious concern. According to the Wanbao managers, irrigation pumps are the most frequently stolen agricultural equipment, although construction equipment has also been stolen.

(3) Recurrent floods in the rice-production areas also create enormous problems. For example, in 2013, it was estimated that flooding caused US$13 million in damages and losses at the Xai-Xai irrigation scheme, and some Wanbao equipment was submersed. In 2014, Wanbao reported a loss of 5,000 ha of rice. According to Wanbao, the extent of damage caused by the floods is related to the poor infrastructure, and can therefore be solved by greater government commitment to improving local infrastructure. Although the government has shown an interest in supporting agricultural infrastructure, no tangible progress has been made thus far.

POLICY LESSONS

Chinese investments in the Mozambican agricultural sector are increasing and diversifying after beginning timidly and mainly limited to the forestry sector. China is not the only actor; other countries, especially the "rising powers" like Brazil, are also increasing their presence in the African agricultural sector. The request for huge land concessions as part of these investments—not only for agriculture, but also for the extractive industries (in particular, coal and gas)—has caused concern among local communities and civil society organizations. To avoid land conflicts, most of the large land concessions are conceded in areas formerly used by state farms established in the Marxist-Leninist period (1975-1990). However, the Wanbao case shows that this strategy has not been entirely effective because, in many of these areas, the local population has profited from the collapse of the state farms by using the land that they formerly occupied.

For the Wanbao investors, it is clear that the main challenges are the lack of transparency, the lack of a system of dialogue with the local community and civil society organizations, and the absence of alternatives for displaced people with respect to employment or concession of other areas to pursue agricultural or livestock activities. If these issues are not taken seriously, conflicts are more likely to arise between the local population and the Chinese investors. As Wanbao plans to expand its activities to other areas, such as the Chokwe irrigation scheme in the same province, promoting dialogue and information sharing, and developing public policies towards local communities, will be crucial to avoid the mistakes made in Xai-Xai.

The Wanbao case also demonstrates the need for greater investment in agricultural infrastructure if Mozambique wants to attract more foreign investment in this sector. Although foreign investors like Wanbao see Mozambican land as fertile for agriculture, the absence of agricultural infrastructure discourages private investment in the sector.

Finally, the state should help local farmers who have been trained in Chinese technology and are working under contract farming systems with Wanbao to easily obtain bank credit so that they can carry out their farming activities. Without access to credit, only the Chinese companies that are subcontracted by Wanbao and that rely on the support of the Chinese state will be successful in the Xai-Xai irrigation scheme.

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FOR FURTHER READING

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