



# Chinese Agriculture in Southeast Asia: Investment, Aid and Trade in Cambodia, Laos and Myanmar

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## Abbreviations

<b>ASEAN</b>	Association of Southeast Asian Nations
<b>CAFTA</b>	China-ASEAN Free Trade Area
<b>CBRC</b>	China Banking Regulatory Commission
<b>CDC</b>	Council for the Development of Cambodia
<b>DICA</b>	Myanmar Directorate of Investment and Company Administration
<b>ELC</b>	Economic land concessions
<b>Eximbank</b>	Export-Import Bank of China
<b>FAO</b>	Food and Agriculture Organization of the United Nations
<b>FDI</b>	Foreign Direct Investment
<b>MAFF</b>	Ministry of Agriculture, Forestry and Fisheries, Cambodia
<b>MEP</b>	Ministry of Environmental Protection, China
<b>MOAI</b>	Ministry of Agriculture and Irrigation, Myanmar
<b>MOFCOM</b>	Ministry of Commerce, China
<b>MOU</b>	Memorandum of understanding
<b>NDRC</b>	National Development and Reform Commission, China
<b>OFDI</b>	Overseas foreign direct investment
<b>UN</b>	United Nations
<b>UNDP</b>	United Nations Development Program
<b>SAFE</b>	State Administration of Foreign Exchange, China
<b>SASAC</b>	State-owned Assets Supervision and Administration Commission, China
<b>SFA</b>	State Forestry Administration, China
<b>SOE</b>	State-owned enterprise

## Executive Summary

### Introduction

Since the adoption of China's 'going out' strategy, Chinese enterprises have been strongly encouraged to engage overseas in a range of sectors, including agriculture. This has gathered a significant amount of interest in recent years, with a critical focus on large scale acquisitions by Chinese companies. Agriculture accounts for a small percentage of China's overall outbound investment, and many of the large-scale land acquisitions reported in the media have not materialized.<sup>1</sup> Nonetheless, Chinese companies of various sizes are now active in agriculture projects across the world, not only in production, but also processing, purchasing and trade. This report seeks to provide an overview of the current state of China's overseas investment in agriculture in the Mekong region, with a focus on Cambodia, Laos and Myanmar.

The approaches utilized by Chinese companies in Cambodia, Laos and Myanmar vary due to the different local contexts, regulatory regimes and government policies, although there are similarities and points of comparison. In Cambodia, Chinese investors secured a considerable number of large-scale land concessions for agricultural purposes. Companies active in Laos obtained land concessions, but on a smaller scale to Cambodia, and many instead work through contract farming or land rental agreements with local landholders, especially in the Northern provinces. Detailed information on land-based investments in Myanmar is difficult to obtain, but the information that is available indicates that some Chinese companies have secured land concessions, often working in partnership with local companies. They also work through contract agreements with local growers or purchase agricultural products from local brokers.

### The Development of China's Engagement in Overseas Agriculture

China has been engaging in overseas agriculture projects since the 1960s. During this time the nature and approach utilized in foreign agriculture projects has evolved significantly. Initially, much of China's overseas agriculture activity was in the form of foreign aid. Agriculture aid projects continue today, and include sending Chinese experts overseas to provide advice on Chinese agricultural technologies and training government officials and technical staff. China has also built farms and 'demonstration centres', constructed irrigation infrastructure, and supplied agricultural machinery, tools, processing equipment, seeds and fertilizers.

In the early 2000s, China adopted its 'going out' strategy, encouraging Chinese enterprises to expand globally. Since 2004 overseas investment by Chinese enterprises has increased exponentially and has eclipsed China's foreign aid budget. According to official statistics from China's Ministry of Commerce (MOFCOM), mainland China's outbound foreign direct investment flows reached a record high of US\$145.67 billion in 2015.<sup>2</sup> Although China's overseas agriculture investments have received a considerable amount of attention in the global media, agriculture receives only a small portion of China's recorded outbound investment. In 2015, agriculture, forestry, husbandry and fishing accounted for just US\$2.57 billion of China's total overseas investment, which is less than 2%.<sup>3</sup>

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<sup>1</sup> Buckley, L. (2012), *Chinese Agriculture Goes Global: food security for all?*, London: International Institute for Environment and Development.

<sup>2</sup> MOFCOM, National Bureau of Statistics and State Administration of Foreign Exchange (2016), *2015 Statistics Bulletin of China's Outward Foreign Direct Investment*, Beijing: China Statistics Press.

<sup>3</sup> Ministry of Commerce et al. (2016).

Although the statistics from MOFCOM indicate that agriculture accounts for a fraction of outbound investment, for several years the Chinese Government has been eager to promote investment in the sector. This is in part due to domestic demand within China. Over the past two decades increases in disposable income have resulted in increased domestic consumption. At the same time, China is dealing with pressure on its land and water resources as the population grows and urban areas expand. While the amount of arable land is shrinking, demand for agricultural products is growing as citizens' disposable income increases. This growing demand has led China to increase its agriculture imports and to expand into global agriculture markets.

### Chinese Agriculture in Cambodia

Agriculture is central to the lives of millions of Cambodian people, and according to the 2013 Cambodian Agriculture Census around 85% of rural Cambodian households are engaged in some form of agriculture-related activity. At present, much of Cambodia's agriculture trade involves unprocessed or semi-processed products being exported to neighbouring Thailand and Vietnam. The Cambodian Government therefore aims to further commercialize the Cambodian agriculture sector and develop processing industries that can add value to exports.

For over a decade economic land concessions (ELCs) have been utilized by the Cambodian Government in its effort to promote investment in large-scale plantations and industrialize the agriculture sector. ELCs are long-term leases for areas of land measuring up to 10,000 hectares and are intended to be used for agro-industrial development. Between 2005 and 2012 up to 2 million hectares of land were granted as ELCs in Cambodia to domestic and foreign companies. Over 40 concessions were granted to Chinese companies for crops including rubber, acacia, cassava and sugarcane. The ELC system became notorious due to its connection to land grabs and widespread deforestation. After years of controversy, the Cambodian government suspended the granting of new concessions in 2012.<sup>4</sup>

For several years China has been the biggest investor in Cambodia. MOFCOM statistics indicate that annual investment to Cambodia peaked at US\$566 million in 2011 and had declined to US\$419.68 million by 2015.<sup>5</sup> It is not clear exactly how much of this investment goes to the agriculture sector, however as noted above, Chinese companies have received many agriculture concessions. Several projects have made the headlines in recent years due to reports of illegal logging, conflicts with local communities and pollution of ground water.

Most Chinese companies that are directly involved in development of plantations in Cambodia are private enterprises. Some may have links to state-owned companies, but the investment chains are difficult to examine as most companies have no website and do little to publicize the work that they are doing in Cambodia. On the other hand, Chinese SOEs are openly involved in the trade of agricultural commodities with Cambodia, and have signed several major deals to purchase rice exports. In 2014, the top three agriculture exports from Cambodia to China were rice, cassava and rubber. Cambodia and China have signed a number of major deals for rice exports, but so far Cambodia has been unable to meet its export targets due to a lack of processing and storage facilities. In order to overcome these limitations, Cambodia has requested aid and investment in agricultural processing. China is also Cambodia's largest aid donor, and in addition to investment by Chinese companies, China has supported a number of training programs and facilities as well as numerous irrigation projects.

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<sup>4</sup> Grimsditch, M. and Schoenberger, L. (2015), *New Actions and Existing Policies: The Implementation and Impacts of Order 01*, Phnom Penh: NGO Forum Cambodia.

<sup>5</sup> Ministry of Commerce et al. (2016).

## Chinese Agriculture in Laos

As of 2014, 70% of the workforce of Laos was engaged in agricultural work, with the most common crop being rice.<sup>6</sup> Other crops grown in Laos include maize, vegetables, fruits, coffee, tea, spices, sugarcane and cotton. Although resource rich, Laos is a least developed country and the poorest nation in Southeast Asia. The Government of Laos is promoting foreign direct investment in order to reduce dependence on aid and promote economic development. Much like Cambodia, the Lao growth strategy includes a focus on modernizing agriculture by transitioning from subsistence agriculture towards commercial agricultural production.<sup>7</sup>

Two principle approaches utilized by private investors are land concessions and contract farming. As in Cambodia, concessions have proved controversial, and since 2007 the government has issued several moratoriums on the granting of new concessions. Contract farming has also been utilized by foreign investors, especially in the rubber sector.<sup>8</sup> This was actively promoted by local governments during the time of the rubber boom, but since the boom passed, a more common mechanism has been for farmers to rent land directly to companies who then develop plantations themselves with hired labour.

As a land-locked nation, Laos depends on maintaining strong diplomatic, commercial and trade links with its neighbours. Over the last decade, China's influence in the country has grown and it is now the country's largest foreign investor. Trade between Laos and China has increased significantly in recent years, and in 2015 China's exports from Laos exceeded US\$1.3 billion, over US\$150 million of this trade concerned agriculture products.<sup>9</sup> China's official investment statistics recorded over US\$517 million of Chinese investment in Laos in 2015, but again, there is no breakdown of which sector this investment went to.

Much of China's agriculture investment is concentrated in the northern provinces that border China, although Chinese companies are also active elsewhere in the country. The main crops being cultivated by Chinese companies include rubber, sugarcane, maize, bananas, cassava and tree crops such as teak and eucalyptus. Previously, most companies active in the north operated through contract farming agreements with local farmers, but in recent years the use of land rental agreements has become increasingly common. Although there have been a number of reports regarding large agricultural concessions granted to Chinese companies, it appears that few of these concessions have been fully developed.

Information on Chinese agriculture aid to Laos is limited, but media coverage indicates that a handful of high profile agriculture projects have been supported by China's aid program. This includes an agreement to establish a "modern agriculture development zone" in Savannakhet Province, southern Laos, which aims to produce high quality rice products for export to the Chinese market.<sup>10</sup> China also supported the construction of the China-Laos Technical Centre in Oudomxay Province, northern Laos.<sup>11</sup> Which has now been completed and handed over to the Government of Lao.

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<sup>6</sup> World Bank (2014), *Lao Development Report 2014: Expanding Productive Employment for Broad-based Growth*, Washington DC: World Bank Group, p.25.

<sup>7</sup> Campbell, R., Knowles, T. Amphaphone, S. (2012), *Business Models for Foreign Investment in Agriculture in Laos*, Geneva: The International Institute for Sustainable Development, p.11.

<sup>8</sup> For an in-depth look at the concession and contract farming models used in northern Laos, see Shi, W (2008), *Rubber Boom in Luang Namtha: A Transnational Perspective*, Vientiane: GTZ.

<sup>9</sup> Trade Map, [http://www.trademap.org/tradestat/Bilateral\\_TS.aspx](http://www.trademap.org/tradestat/Bilateral_TS.aspx) (accessed November 2016).

<sup>10</sup> Vientiane Times (2015, 20 May), *China to establish modern agriculture development zone in Savannakhet*.

<sup>11</sup> Vientiane Times (2009, 30 December), *Agriculture demonstration centre to benefit northern farmers*.



## Chinese Agriculture in Myanmar

Myanmar also has a majority rural population which is heavily reliant on its agriculture sector. According to statistics from Myanmar's Ministry of Agriculture and Irrigation (MOAI), in 2013-2014 agriculture employed more than 61% of the labour force, and accounted for over 20% of total export earnings.<sup>12</sup> The development of the agriculture sector is a priority area for the government. Attracting foreign investment is also seen as a crucial step towards achieving goals for economic reform and to reintegrate Myanmar into the global economy.<sup>13</sup> After an extended period of international isolation and sanctions, Myanmar is courting foreign investors and financial institutions, and promoting private investment through the liberalization of laws and regulations.

Foreign investors are already active throughout the various stages of the agriculture supply chain, from production to export. In terms of production, these investors utilize various approaches, including land purchases, contract farming, renting land from local landholders, and a handful of foreign companies have received large land concessions.<sup>14</sup> Official statistics indicate that Myanmar's most important foreign investors are from Asia, with China, Singapore and Hong Kong accounting for the largest amount of approved investment. As of May 2015, Chinese companies accounted for over 30% of all approved foreign investment.<sup>15</sup>

There is no data available that breaks down agriculture investment by country of origin, so it is challenging to accurately gauge the role of the various investors. However, a review of media sources, civil society reports and company websites indicates that China and Thailand are the two biggest foreign actors in the sector. Much of China's investment is concentrated in the northern states of Kachin and Shan, although they are also active elsewhere in the country. In addition to direct investments in crop production, Chinese companies also play a major role in buying and trading agricultural commodities, and many operate through contract farming agreements with local producers. In some areas farmers rent their land directly to investors. The focus of China's agriculture investment in Myanmar is on cash crops, including rubber, cassava, sugarcane and fruits such as watermelon and banana. Alongside this investment in agriculture, China again provides support through its aid program to support agriculture training and facilities and has provided loans for irrigation projects.

## Opportunities and Challenges

Foreign investment in agriculture in the three countries covered by this report has the potential to make significant contributions to economic development and poverty reduction. For example, in Cambodia the private sector employs a large percentage of the workforce and due to Cambodia's youthful population, new job creation is vital. Cambodia, Laos and Myanmar have relatively undeveloped agriculture sectors, and could benefit from technology and techniques utilized in China. Development of the agriculture sector could potentially raise revenue through taxation and exports, and contribute to

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<sup>12</sup> Ministry of Agriculture and Irrigation (2014), *Myanmar Agriculture in Brief 2014*, Nya Pyi Daw: Department of Agricultural Planning, MOAI, p.1.

<sup>13</sup> Ministry of National Planning and Economic Development (2013), *Framework for Economic and Social Reforms Policy Priorities for 2012-15 towards the Long-Term Goals of the National Comprehensive Development Plan*, p.24, 25.

<sup>14</sup> Byerlee, D. et al. (2014), *Agribusiness Models for Inclusive Growth in Myanmar: Diagnosis and Ways Forward*, MSU International Development Working Paper 133, Michigan: Michigan State University, p. vi.

<sup>15</sup> DICA (2017, 31 May), *Foreign Investment of Existing Enterprises as of 31/05/2017 (by country)*. [http://www.dica.gov.mm/sites/dica.gov.mm/files/document-files/fdi\\_country\\_permitted.pdf](http://www.dica.gov.mm/sites/dica.gov.mm/files/document-files/fdi_country_permitted.pdf) (accessed June 2017).

lifting all three above least developed country status. Unfortunately, benefits such as these will not be fully realized unless both the hosts and incoming actors improve the way in which agriculture investments are being implemented.

Transparency is a major problem, and one which made the research for this report especially challenging. Cambodia is the only country that has published documentation regarding the granting of land concessions, and this information is patchy. On the part of companies, communication and consultation with local people is often a weak point which means that problems cannot be addressed as they emerge. When information flow is lacking or non-existent, distrust between foreign investors and local people grows. Chinese investors are often singled out for failing to communicate with local people, while favouring the development of relationships with local business elites and government.

In all three countries, legal compliance is a major weakness. This has resulted in widespread land conflicts between investors and local communities, including indigenous peoples. Meanwhile, concessions have been left idle, in some cases used for speculation or as a front for forest clearance. Often these problems are exacerbated by undeveloped legal systems, but even in Cambodia, which has a well-developed legal framework for land and investment issues, weak enforcement renders key legal provisions ineffective. Land conflicts impact on the livelihoods of affected people and the profits of investors but also come with the risk of more widespread social conflict. This risk is especially high in Myanmar where conflicts between the central government and ethnic groups continue to simmer.

## **Conclusion**

China is a major donor, investor and trading partner of Cambodia, Laos and Myanmar. Although the data on both investment and development assistance is incomplete, it is clear that China plays a crucial role in the economies of all three countries. In terms of approved investment, China ranks first in each country, with investment flowing to agribusiness projects of various sizes, from small farms to major plantations. Chinese development assistance has supported the donation of farm equipment, construction of training centres and demonstration farms, development of irrigation systems, as well as the construction of transport and energy infrastructure, all of which can contribute to the development of the agriculture sector and trade in agricultural commodities.

China has developed strong diplomatic links with all three countries over the past few decades. However, Chinese companies have developed a reputation for prioritizing relationships with officials and local business elites, rather than the communities in the areas where projects are located. In some cases this has led to animosity and in Myanmar in particular, China's reputation among the general population has suffered in part due to business practices of Chinese companies during the years of military rule and beyond.

Foreign investment in agriculture can potentially bring benefits to local populations if it creates employment, generates revenue through land rental, taxation and export duties, and contributes to the development of downstream industries. Local farmers can potentially take advantage of improved infrastructure, new farming techniques, and access to markets that are opened up by incoming investors. In practice, foreign investment in agriculture in Cambodia, Laos and Myanmar has had very mixed results. In all three countries, the governments embraced the concession model as a means to attract foreign investment but this has led to widespread land disputes, speculation and deforestation, and it appears that a large percentage of concessions have not actually been put to productive agricultural use.



All three countries face significant governance challenges and have weak systems for taxation and collection and control of state revenues. In this environment, a continued increase in investment may enrich companies, politicians and officials, but it will not automatically translate to improved livelihoods for the citizens of Cambodia, Laos and Myanmar. A fundamental re-think needs to take place in the region and there needs to be a reprioritization of *quality* of investment over *quantity* of investment. The responsibility for making this a reality lies on both host governments and incoming investors.

## Introduction

After the adoption of the 'reform and opening-up' policies in 1978, China's economic development entered a new phase. New regulations encouraged foreign firms to invest in China, and Chinese state-owned enterprises (SOEs) gradually began to increase their overseas activities. In the late 1990s the government began to actively encourage Chinese enterprises to invest overseas and in the process laid the foundations for what became known as the 'going out' or 'going global' strategy.<sup>16</sup> This strategy was formally recognized in the 10<sup>th</sup> Five-Year Plan (2001-2005). Since then China's overseas investment has increased significantly and in 2015, for the first time, Chinese outbound investment exceeded incoming foreign investment.<sup>17</sup> China's Belt and Road Initiative has now injected new energy into China's overseas investment, and these trends can be expected to continue.

Much of China's overseas investment has been in infrastructure, energy, natural resources, manufacturing and construction, and Chinese state-owned and private enterprises are now active across the world in both developed and developing economies. According to official statistics, only a small fraction of China's overseas investment is targeted at agriculture. Nonetheless, Chinese overseas agriculture has been subject to much discussion. Foreign investment in agriculture is often sensitive, touching on numerous complex issues including land tenure security, displacement, food security and poverty. Many of the developing countries in which China is investing, including the three countries covered in this report, have large rural populations and millions of people rely on land and natural resources for their livelihoods. In such an environment, large land deals are often controversial – especially when foreign actors are involved.

China's overseas agriculture activities began in the 1960s, when the country provided aid to its allies to develop their agricultural capacities. During this time, the focus was on supporting the establishment of state farms for producing staple crops and raising animals. In the 1970s China moved away from this model and began to support 'demonstration' farms, which sought to pass on techniques and approaches used in Chinese farms. However, in the 1980s it became clear that the approach of the previous few decades had only limited success, and many of the projects supported by China proved unsustainable. Around this time the emphasis in China's agricultural cooperation began to shift towards 'mutually beneficial' projects, linking its aid with Chinese enterprises.

Since the adoption of the going out strategy, Chinese enterprises have been strongly encouraged to expand overseas in a range of sectors, including agriculture. This has gathered a significant amount of interest in recent years, with a critical focus in particular on large scale acquisitions by Chinese companies. However, agriculture accounts for a small percentage of China's overall outbound investment, and many of the large-scale land acquisitions reported in the media have not materialized.<sup>18</sup> Nonetheless, Chinese companies of various size are now active in agriculture projects across the world, not only in production but also processing, purchasing and trade.

This report seeks to provide an overview of the current state of China's overseas investment in agriculture in the Mekong region, with a focus in particular on Cambodia, Laos and Myanmar. The research is based on a literature and media review, supported by 59 meetings and interviews with

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<sup>16</sup> Huang, W. and Wilkes, A. (2011), *Working Paper: Analysis of China's Overseas Investment Policies*, Bogor, Indonesia: Centre for International Forestry Research, pp.5-10.

<sup>17</sup> MOFCOM, National Bureau of Statistics and State Administration of Foreign Exchange (2016), *2015 Statistics Bulletin of China's Outward Foreign Direct Investment*, Beijing: China Statistics Press.

<sup>18</sup> Buckley, L. (2012), *Chinese Agriculture Goes Global: food security for all?*, London: International Institute for Environment and Development.

organizations, institutions and individuals conducted during 2014-15 in China, Cambodia, Myanmar and Laos. The report was subsequently revised and updated in 2016-17. This research was conducted for the Heinrich Böll Foundation with the aim of providing an overview of this complex topic and to better understand recent dynamics. It is hoped that this will be a useful resource for civil society groups, foundations, academics and others working on agriculture investment and seeking to engage in informed and constructive dialogue around the opportunities and challenges raised here.

The first part of this report provides an outline of China's overseas agriculture, including a brief overview of its evolution since the 1960s, and the nature of Chinese agriculture aid and investment today. This is followed by a discussion of the drivers behind Chinese overseas agriculture aid and investment, the actors involved, and the regulations and guidelines that currently apply. It ends with a brief summary of the potential opportunities and risks. Part two looks in more detail at China's agriculture aid and investment in Cambodia, Laos and Myanmar. It provides a background on the agriculture sector of each country, followed by a review of China's role in each, examining the scope and scale of Chinese agriculture, approaches utilized by Chinese companies, and the opportunities and challenges associated with agriculture investment in these countries.

## Part I: China's Overseas Agriculture Activities

### ***The Development of China's Engagement in Overseas Agriculture***

China has been engaging in overseas agriculture projects since the 1960s, both through its aid program and (mostly since the 1990s) through direct investment. During this time the nature and approach utilized in foreign agriculture projects has evolved significantly. In the early days, the majority of projects were located in Africa. Much of the existing research on this subject concerns China in Africa, and the literature on Chinese agriculture in the Southeast Asia region is more limited to recent years. However, the evolution of agricultural aid and investment in Africa provides useful insights into China's changing approach to overseas agriculture.

In the 1960s, financed by its foreign aid program, China established a number of large state-owned farms in Africa, including in Tanzania, Mali, Madagascar and Sierra Leone. These projects included among others, irrigated rice, dairy farms, poultry and sugarcane. Although China continued to finance large farms up to the mid-1980s, in the 1970s the focus began to move towards 'demonstration' farms. By 1985 China was supporting 35 agricultural aid projects across the world, including 25 in Africa.<sup>19</sup>

In the late 1980s it became clear that the approach of the past two decades had only limited success. Projects were not sustainable without ongoing support from China and many failed due to a lack of funds and limited management and technical capacity in the recipient country. Chinese aid projects were hindered by the fact that China itself had limited funds and a lack of experience operating in societies with market economies, and projects struggled to integrate into local markets and supply chains. Chinese technicians also had little knowledge of African languages, culture, and local economies.<sup>20</sup> In the 1980s China began to move towards a focus on 'mutually beneficial' agriculture projects. During the 1990s, China further developed its policies in the direction of supporting Chinese agri-business companies to implement and maintain Chinese aid projects.<sup>21</sup>

In the early 2000s, China adopted its 'going out' strategy. This encouraged Chinese enterprises to invest globally in a range of industries and sectors, including agriculture. Since 2004 overseas investment by Chinese enterprises has increased exponentially and has eclipsed China's aid budget.

### ***China's Overseas Agriculture Aid***

In 2011, China's State Council released its White Paper on Foreign Aid. This was the first English language document published by China detailing the development and approach of its aid program. In its preface, the paper states that through its aid program China has endeavoured "to help recipient countries to strengthen their self-development capacity, enrich and improve their peoples' livelihood, and promote their economic growth and social progress." China characterises its aid as mutually beneficial, and through its aid program has sought to develop relations with other countries and create a strong foundation for economic and trade cooperation. The State Council describes the program as "a

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<sup>19</sup> Bräutigam, D. and Tang, X. (2009), 'China's Engagement in African Agriculture: "Down to the Countryside"', *The China Quarterly*, 199, pp 686-706.

<sup>20</sup> Spring, A. (2009), 'Chinese Development Aid and Agribusiness in Africa', *Proceedings of the International Academy of African Business and Development*, pp.1-12.

<sup>21</sup> Bräutigam, D. and Tang, X. (2009).

model with its own characteristics”, adhering to the principles of equality and mutual benefit without imposing political conditions on recipient countries.<sup>22</sup>

During the 1980s, in an attempt to pursue ‘mutually-beneficial cooperation’, China’s program moved away from simply providing economic aid and began developing more diverse approaches and mechanisms. In the early 1990s, China deepened the reform of its aid program and established funds and lending mechanisms that created opportunities for Chinese companies to implement overseas economic cooperation. Through these mechanisms, developing countries gained access to interest-free and low-interest loans, while Chinese companies were given the opportunity to develop and operate overseas projects.<sup>23</sup>

For many years, little was known about the details of China’s foreign aid program. However, more detail is available since the release of the White Paper in 2011 (covering the period up to 2009), and a second White Paper in 2014 (covering 2010-2012). Up to 2009 China provided a total of RMB 256.29 billion in foreign aid.<sup>24</sup> Between 2010 and 2012 a further RMB 89.34 billion was dispersed.<sup>25</sup> Up to 2009, almost 40% of aid recipients were least developed countries, rising to 52% in the 2010-2012 period.<sup>26</sup> Asia receives a large amount of China’s aid, accounting for over 30% in the 2010-2012 period.<sup>27</sup>

Aid funds are dispersed using three main mechanisms: grants, interest-free loans and concessional loans. Grants and interest-free loans come directly from China’s state finances<sup>28</sup> and concessional loans are provided by the Export-Import Bank of China (China Eximbank) and subsidized by the state.<sup>29</sup> Up to 2009, aid was split relatively evenly between these three mechanisms, however, statistics for 2010-2012 indicate that concessional loans are now the most important instrument for aid dispersal, accounting for more than half of China’s aid flows during that period.<sup>30</sup> Concessional loans can be granted for projects with a minimum value of RMB 20 million (US\$2.9 million) which involve at least 50% use of Chinese goods and services, including contracting services.<sup>31</sup>

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<sup>22</sup> State Council of the People’s Republic of China (2011), *White Paper: China’s Foreign Aid, 2011*, Beijing: Information Office of the State Council.

<sup>23</sup> State Council of the People’s Republic of China (2011).

<sup>24</sup> State Council of the People’s Republic of China (2011).

<sup>25</sup> State Council of the People’s Republic of China (2014), *White Paper: China’s Foreign Aid, 2014*, Beijing: Information Office of the State Council.

<sup>26</sup> State Council of the People’s Republic of China (2011; 2014).

<sup>27</sup> State Council of the People’s Republic of China (2011; 2014).

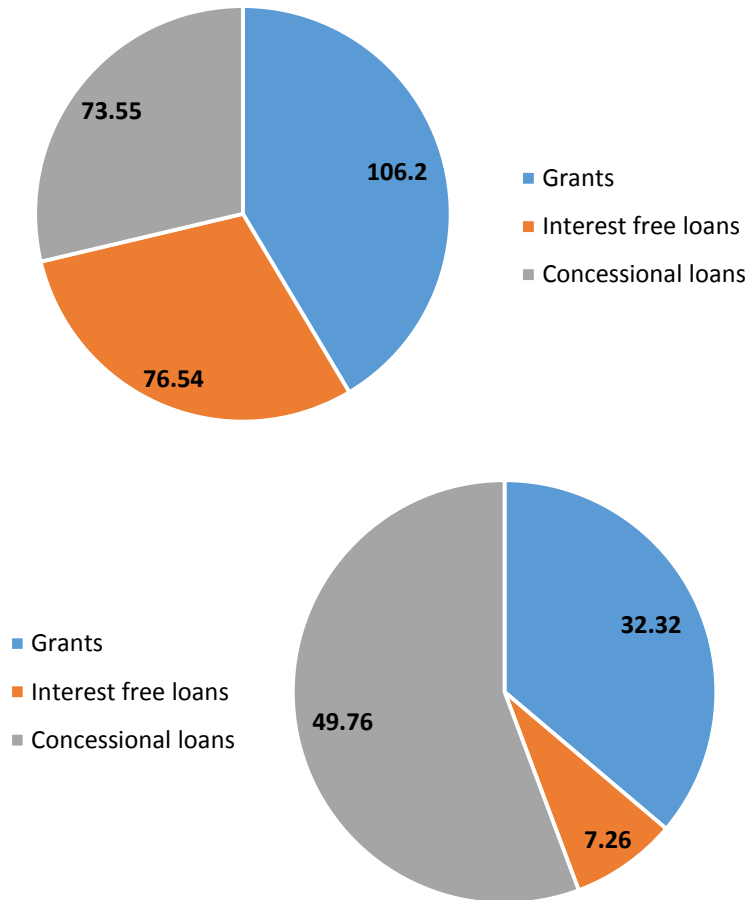
<sup>28</sup> Foreign aid expenditure is managed by the Ministry of Finance and implemented by the Ministry of Commerce and other relevant departments.

<sup>29</sup> Concessional loans are raised by Eximbank on the market, but as interest rates are lower than the market, the difference is made up by the state.

<sup>30</sup> State Council of the People’s Republic of China (2011; 2014).

<sup>31</sup> Bräutigam, D. (2011), ‘Chinese Development Aid in Africa: What, Where, Why, and How Much?’ in Golley, J. and Song, L. (Eds), *Rising China: Global Challenges and Opportunities*, Canberra: Australia National University Press, 2011, pp. 203-223.

Figure 1: Breakdown of Chinese Aid up to 2009 (top) and 2010-2012 (below)



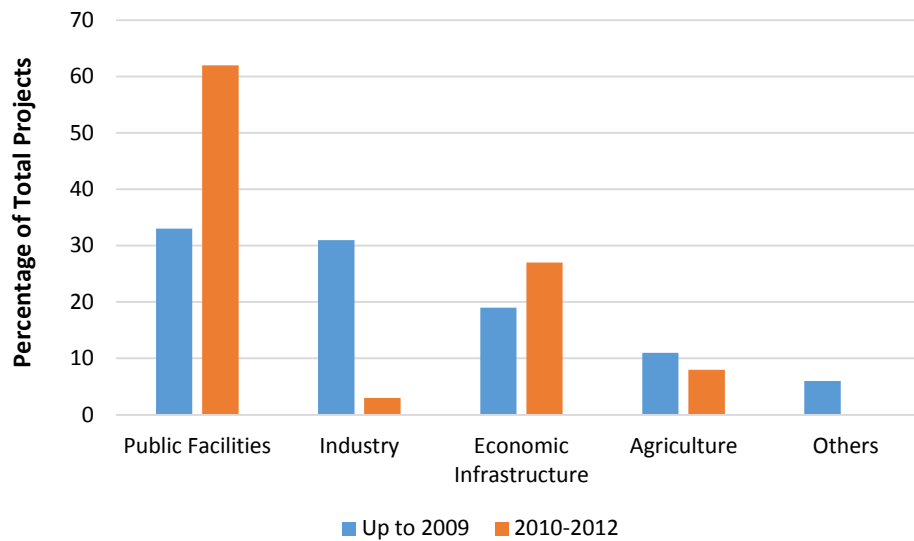
Source: State Council (2011; 2014). All figures in billion RMB.

Figure 2 below illustrates the changing priorities of China's aid program. While support to industry has reduced drastically, the percentage of aid projects that support public facilities has almost doubled. (Public facilities includes hospitals, schools, cultural venues, sports venues, office buildings and conference centres.) During 2010-2012 the largest share of China's overseas aid – almost 45% – went to economic infrastructure projects, which includes major works such as transport and energy infrastructure. Up to 2012, Chinese aid supported 264 overseas agriculture projects. This accounted for 11% of all projects up to 2009 and 8% between 2010 and 2012. However, in terms of value, agriculture only accounted for 2% of China's total aid expenditure between 2010 and 2012.<sup>32</sup>

<sup>32</sup> State Council of the People's Republic of China (2011; 2014).



Figure 2: Breakdown of Foreign Aid Projects up to 2012



Source: State Council (2011; 2014)

Although it accounts for a small percentage of overall aid expenditures, agriculture is still an important element of China's overseas cooperation. Supported by its aid program, China sends experts to provide guidance on growing crops, raising animals, processing products, and sharing Chinese agricultural technologies. Chinese aid also supports training government officials and technical staff from developing countries, including those from agriculture ministries and departments. Between 2010 and 2012 China deployed 1,000 experts to recipient countries.<sup>33</sup>

China has also built farms and 'demonstration centres', constructed irrigation infrastructure, and supplied agricultural machinery, tools, processing equipment, hybrid seeds and fertilizers. In response to global food security concerns, China increased aid to grain production, and at the UN High-Level Meeting on the Millennium Development Goals in 2010, China committed to establish 30 demonstration centres for agricultural technologies in developing countries, dispatch 3,000 agricultural experts and technicians, and invite 5,000 agricultural personnel to China for training. By the end of 2009, China's aid program had supported: 35 farms; 47 agro-technology experiment and promotion stations; 11 animal husbandry projects; 15 fisheries projects; and 47 farmland irrigation and water-conservancy projects.<sup>34</sup> China established a further 17 demonstration centres in 2010-2012, including one in Oudomxay Province, northern Laos (returned to in Part II).<sup>35</sup>

While still pursuing its own bilateral programs, China is now also engaging with established donor platforms, and as discussed later in this report, has also entered 'trilateral' cooperation projects with other multi and bilateral development institutions. In addition, between 2010 and 2012 China contributed RMB 1.76 billion (US\$281.8 million) to multi-lateral programs run by organizations including the United Nations Development Programme, World Food Programme and the Food and Agriculture Organization.<sup>36</sup>

<sup>33</sup> State Council of the People's Republic of China (2014).

<sup>34</sup> State Council of the People's Republic of China (2011).

<sup>35</sup> State Council of the People's Republic of China (2014).

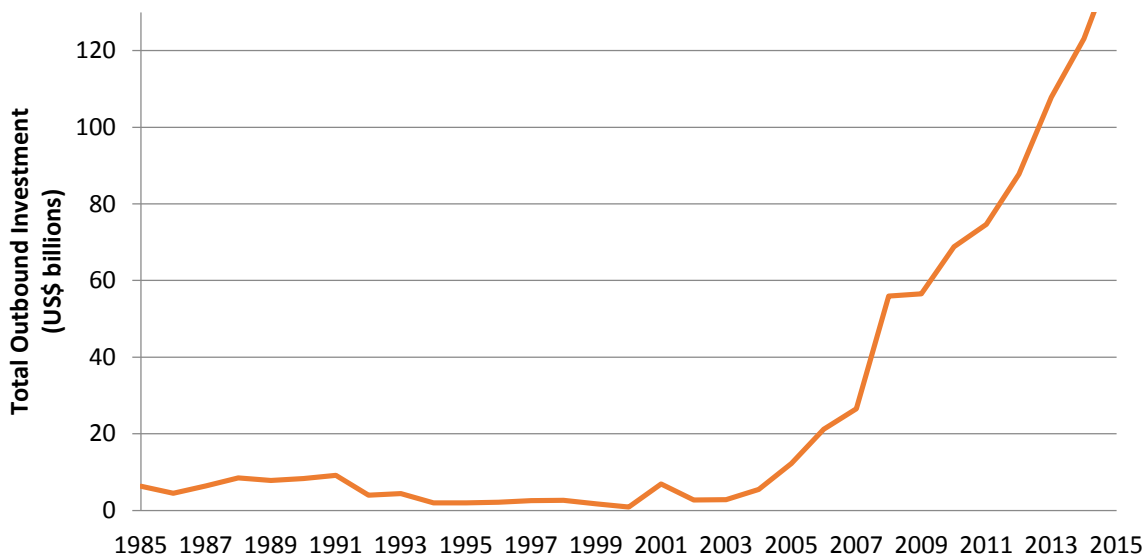
<sup>36</sup> State Council of the People's Republic of China (2014).

## Overseas Agriculture Investment

The going out strategy was formally recognized in China's 10<sup>th</sup> Five-Year Plan in 2001. The plan encouraged domestic companies to expand overseas, promote trade and export of products, services and technology, and invest in strategic natural resources. The plan also stated that the government would create the conditions necessary to facilitate overseas investment, including providing finance, insurance and foreign currency.<sup>37</sup> Subsequent five-year plans have repeated this support for the going out strategy and called for further expansion of overseas investment, encouraging investment in a number of priority areas, including the expansion of agricultural cooperation.<sup>38</sup>

Since 2004, China's overseas investment has risen rapidly. According to official statistics from China's Ministry of Commerce (MOFCOM), mainland China's outbound foreign direct investment (OFDI) flows reached a record high of US\$145.67 billion in 2015.<sup>39</sup> Figure 3 shows the historical trends in China's outbound investment flows.

**Figure 3: Mainland China's OFDI Flows, 1985-2015**



Source: UNCTAD (2014), MOFCOM (2016)

Although China's overseas agriculture investments have received a considerable amount of attention in the global media, as can be seen in Figure 4 below, agriculture receives only a small portion of China's recorded outbound investment. MOFCOM statistics on outbound investment utilize 17 different categories to classify investment flows. "Agriculture, forestry, husbandry and fishing" accounted for just US\$2.57 billion of overseas investment in 2015, which is less than 2% of total investment.<sup>40</sup> By the end of 2015, China's total OFDI stock reached US\$1097.86 billion.<sup>41</sup> Of this amount, agriculture investments accounted for just US\$11.18 billion, around 1%.<sup>42</sup> Although agriculture makes up a small

<sup>37</sup> Government of the People's Republic of China (2001), *10<sup>th</sup> Five-Year Plan, 2001-2005*, Ch.17, section 4.

<sup>38</sup> Government of the People's Republic of China (2011), *12<sup>th</sup> Five-Year Plan, 2011-2016*, Ch.52, Section 2.

<sup>39</sup> MOFCOM, National Bureau of Statistics and State Administration of Foreign Exchange (2016), *2015 Statistics Bulletin of China's Outward Foreign Direct Investment*, Beijing: China Statistics Press.

<sup>40</sup> Ministry of Commerce et al. (2016).

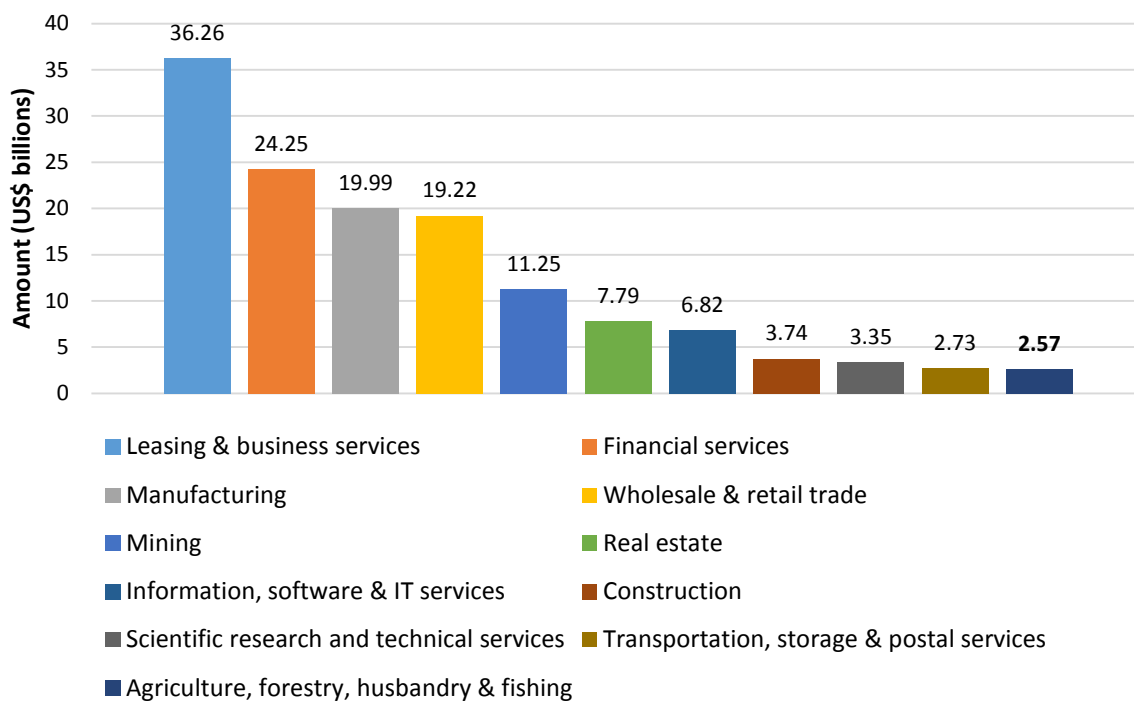
<sup>41</sup> Ministry of Commerce et al. (2016).

<sup>42</sup> Ministry of Commerce et al. (2016).

percentage of China’s OFDI, China is still a major global overseas investors in agriculture.<sup>43</sup> (Note: “OFDI flows” refers to the value of annual outbound investments approved by MOFCOM. “OFDI stock” refers to the accumulated value of investment over time.)

It should be noted that it is not always entirely clear what criteria MOFCOM uses to categorize projects, and agriculture related investments may also be included in other categories. The category receiving the largest amount of investment was “business and leasing services”, which is a vague category, and could potentially include investments in various sectors, including agriculture.<sup>44</sup> For example, acquisitions of shares in agriculture commodity traders (discussed later) may be recorded under this category. Likewise, “manufacturing” could include investments related to processing agricultural products.

**Figure 4: Sectoral Distribution of China’s OFDI Flows, 2015**



Source: MOFCOM (2016)

By the end of 2015, approximately 20,200 Chinese companies (both state-owned and private) had registered overseas investments with MOFCOM. This included 764 investors specializing in the agriculture, forestry, animal husbandry and fishery sector, or 3.8% of total registered investors.<sup>45</sup> The percentage of total OFDI flows in agriculture has been gradually increasing, but is still relatively minor in terms of overall outbound investment value.<sup>46</sup>

<sup>43</sup> Smaller, C., Qiu, W. and Liu, Y. (2012), *Farmland and Water: China invests abroad*, Manitoba: International Institute for Sustainable Development, p.5.

<sup>44</sup> Wang, B & Huang, Y. (2012), *Industry and Ownership Structure of Chinese Overseas Direct Investment*, Canberra: East Asian Bureau of Economic Research, Australian National University.

<sup>45</sup> Ministry of Commerce et al. (2016).

<sup>46</sup> Ministry of Commerce et al. (2016).

**Table 1: China's OFDI Flows to Agriculture, 2006-2015**

Year	Annual OFDI Flows to Agriculture (US\$ millions)	Percent of Total OFDI Flows (%)
2006	185.04	0.9
2007	271.71	1.0
2008	171.83	0.3
2009	342.79	0.6
2010	533.98	0.8
2011	797.75	1.1
2012	1,461.38	1.7
2013	1,813.13	1.7
2014	2,035.43	1.7
2015	2,572.08	1.8

Source: MOFCOM (2016)

Although the statistics from MOFCOM indicate that agriculture is not a major focus of OFDI flows, for several years the Chinese Government has been eager to promote overseas investment in agriculture.<sup>47</sup> It is also worth noting that agriculture investment in ASEAN nations in 2015 was 3.7% of total investment.<sup>48</sup> This is more than double the percentage of China's total global investment in agriculture (1.8%), and indicates that the region is a particular focus for outbound agriculture investment and trade.

### **Motivations and Drivers of China's Overseas Agriculture**

China is a major producer of agricultural products, but over the past three decades the contribution of agriculture to GDP has dropped considerably. In 1985 this stood at over 28%, but by 2015 had dropped to under 9%.<sup>49</sup> At the same time, the percentage of the workforce employed in agriculture dropped as China's economy diversified and higher paying work became available in other sectors.<sup>50</sup>

Despite the declining contribution of agriculture to China's GDP over the last three decades, production has risen and China has maintained impressive outputs due to improvements in technology and productivity. However, China faces challenges in sustaining self-sufficiency as demand for agriculture products and pressure on land are rapidly increasing.

According to China's Ministry of Agriculture, China accounts for around 20% of the world's population, but has less than 10% of the world's arable land and under 6% of the world's water resources.<sup>51</sup> Over the last two decades China's development has been land and resource intensive, and concerns have been raised that the already limited amount of arable land is shrinking. In response, the Chinese Government adopted the 'red line' of 120 million hectares (ha), and committed to ensure that total

<sup>47</sup> National Development Reform Commission et al. (2006), *Outward Investment Sector Direction Policy and 2006 Catalogue of Industries for Guiding Outward Investment*.

<sup>48</sup> Ministry of Commerce et al. (2016).

<sup>49</sup> World Bank (2016), *World Bank Open Data*, <http://data.worldbank.org/> (accessed November 2016).

<sup>50</sup> Ministry of Agriculture of the People's Republic of China (2010), *Agriculture in China*. [http://english.agri.gov.cn/overview/201301/t20130128\\_10644.htm](http://english.agri.gov.cn/overview/201301/t20130128_10644.htm) (accessed August 2015).

<sup>51</sup> Zhong N. (2014, 10 January).

arable land does not drop below this figure. However, the pressures on land are intense, and according to China's Ministry of Land Resources, between 1997 and 2009 the country lost 8.2 million ha of arable land.<sup>52</sup> Much of this land loss is a result of infrastructure construction, expansion of industry, real estate development and urbanization.

While the amount of arable land is shrinking, demand for agricultural products is growing as the country's population rises and citizens' disposable income increases. Consumption of meat has risen exponentially, and the livestock industry consumes large amounts of agriculture products for animal feed. As population and incomes increase, other non-food agriculture crops are also increasingly in demand. For example, as car ownership increases so does the need to secure adequate stocks of rubber for manufacturing tyres. Cotton is also in high demand, as are biofuels and edible oils.

This growing demand has led China to increase overseas investment in agriculture. China is now a major importer of agricultural products and as of 2013 was the world's second largest importer after the European Union.<sup>53</sup> According to statistics from China's Ministry of Agriculture, total agricultural imports reached US\$ 187.56 billion in 2015 (including animal and aquatic products). Soybean by far accounts for the majority of these imports, both in terms of quantity and value.<sup>54</sup> These figures indicate that staples such as rice and wheat make up a low percentage of total imports, and imports are focussed on products for use in food processing, manufacturing and fuel. For example, palm oil is used in various processed foods; soybeans for animal feed, cooking oil, and bio-diesel; and cotton in manufacturing. Unfortunately, the statistics below have some gaps (including data for rubber imports).

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<sup>52</sup> Xinhua (2010, 18 October), *Shrinking Arable Land Threatens Grain Security*, China Daily.

[http://www.chinadaily.com.cn/china/2010-10/18/content\\_11423618.htm](http://www.chinadaily.com.cn/china/2010-10/18/content_11423618.htm) (accessed June 2017)

<sup>53</sup> Food and Agriculture Organization (2014), *FAOSTAT: Trade*, [http://faostat3.fao.org/browse/T/\\*/E](http://faostat3.fao.org/browse/T/*/E) (accessed August 2015).

<sup>54</sup> Ministry of Agriculture (2016, 28 February), *China's Agricultural Import and Export for Jan-Dec of 2015*, [http://english.agri.gov.cn/service/mew/201602/t20160204\\_165007.htm](http://english.agri.gov.cn/service/mew/201602/t20160204_165007.htm) (accessed November 2016).

**Table 2: Top Agricultural Commodity Imports to China, 2015\***

Commodity	Quantity (1,000 tonnes)	Year-on-Year Change (%)	Value (US\$ million)
<b>Oilseeds</b>	<b>87,571</b>	<b>+13.0</b>	<b>38,390</b>
Soybean	81,694		
Canola Seeds	4,471		
<b>Grain</b>	<b>32,715</b>	<b>+67.6</b>	<b>9,400</b>
Sorghum	10,700		
Barley	10,732		
Maize	4,730		
Rice	3,377		
Wheat	3,007		
<b>Cassava (dried chips)</b>	<b>9,376</b>	<b>+8.4</b>	<b>-</b>
<b>Edible oil</b>	<b>8,391</b>	<b>+6.6</b>	<b>5,990</b>
Palm oil	5,909		
Soybean oil	818		
Canola oil	815		
Sunflower oil	651		
<b>Dried Distillers Grains</b>	<b>6,821</b>	<b>+26.0</b>	<b>-</b>
<b>Sugar</b>	<b>4,846</b>	<b>+39.0</b>	<b>1,770</b>
<b>Cotton</b>	<b>1,759</b>	<b>-34.1</b>	<b>2,720</b>
<b>Natural rubber</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fruit</b>	<b>-</b>	<b>-</b>	<b>5,870</b>
<b>Vegetables</b>	<b>-</b>	<b>-</b>	<b>540</b>

\* Excluding animal and aquatic products

Source: Ministry of Agriculture (2016)

Chinese companies are eager to integrate with global supply chains and capitalize on the potential profits associated with growing, processing and importing products that are in high demand in China. For example, China imports tens of millions of tonnes of soybeans every year. However, the market is dominated by four large international agricultural traders – *ADM*, *Bunge*, *Cargill* and *Louis Dreyfus* – which control up to 90% of the global grain trade.<sup>55</sup> According to the president of the state-owned *Chongqing Grain Group*: “Most Chinese companies import soybeans through the four largest international grain dealers ... However, if importers can purchase [directly] from the producers, 18 to 24 percent of the profit could be saved.”<sup>56</sup>

A number of attempts by Chinese firms to acquire large land concessions for production of soybeans in South America indicates a desire to enter this supply chain at the ground level, maximizing profits and producing soybeans overseas for import to the Chinese market. Many of these deals have fallen through, but Chinese firms continue to gain access to agriculture supply chains through acquisition of regional multinational companies.<sup>57</sup>

<sup>55</sup> Murphy, S., Burch, D. and Clapp, J. (2012), *Cereal Secrets: The World's Largest Grain Traders and Global Agriculture*, Oxford: Oxfam GB.

<sup>56</sup> Bao, C. (2011, 24 November), *CGG is setting up a soybean base in Brazil*, China Daily. [http://usa.chinadaily.com.cn/business/2011-11/24/content\\_14154127.htm](http://usa.chinadaily.com.cn/business/2011-11/24/content_14154127.htm) (accessed June 2017).

<sup>57</sup> Myers, M. & Guo, J. (2015), *China's Agricultural Investment in Latin America: A Critical Assessment*, Washington: Inter-American Dialogue.



### China's Belt and Road Initiative<sup>58</sup>

Announced by President Xi Jinping in 2013, China's Belt and Road Initiative (BRI) aims to increase interconnectivity between China and other countries on route to Europe. The BRI seeks to promote and facilitate development of transport, energy, trade and communications infrastructure, among other things. Although the initiative has a focus on infrastructure and connectivity, it also aims to break down barriers to investment and trade in all sectors, including agriculture production and processing.<sup>59</sup>

In March 2015, China released its *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road*. The vision states that BRI will promote economic prosperity, develop regional economic cooperation, strengthen exchanges, and promote peace and development.<sup>60</sup> To realize these objectives, China will seek to develop new memoranda of understanding, plans and bilateral cooperation projects with countries within BRI. A plan for promoting agriculture cooperation in Belt and Road countries was adopted in 2017.<sup>61</sup>

The BRI initiative reflects a renewed emphasis from China on promoting outbound investment, especially in projects that enhance regional connectivity. Dedicated funds have been created to support BRI, and existing institutions, banks and companies have been quick to express their support and announce plans to increase investment and financing in projects within the BRI area.

### Actors Involved in Overseas Investment

A range of actors are involved in China's overseas investment, including various state entities, regulatory bodies, private and state-owned enterprises, individual investors, banks and investment funds. A number of government institutions play a role in the approval and management of China's overseas investment. This includes:

- *State Council*: China's most senior administrative body, chaired by China's Premier and composed of the heads of all major government agencies. The State Council drafts laws and regulations and supervises China's ministries and various other entities. It is directly involved in the approval process for overseas projects, but only those that are worth more than US\$2 billion and which involve "sensitive" countries, regions or industries.<sup>62</sup>

<sup>58</sup> For a more detailed overview of the One Belt One Road and other recent developments in China's outbound investment, see: Inclusive Development International (2016), *Making Inroads: Chinese Infrastructure Investment in ASEAN and Beyond*, Asheville, NC: IDI. <http://www.inclusivedevelopment.net/making-inroads-chinese-infrastructure-investment-in-asean-and-beyond/> (accessed June 2017).

<sup>59</sup> National Development and Reform Commission, Ministry of Foreign Affairs & Ministry of Commerce of the People's Republic of China (2015), *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road*. [http://en.ndrc.gov.cn/newsrelease/201503/t20150330\\_669367.html](http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html) (accessed November 2016).

<sup>60</sup> National Development and Reform Commission et al (2015).

<sup>61</sup> National Development and Reform Commission & Ministry of Agriculture of the People's Republic of China (2017), *Vision and Action on Jointly Promoting Agricultural Cooperation on the Belt and Road*. [http://english.agri.gov.cn/news/dqnf/201705/t20170512\\_247847.htm](http://english.agri.gov.cn/news/dqnf/201705/t20170512_247847.htm) (accessed June 2017).

<sup>62</sup> National Development and Reform Commission (2014), *Administrative Measures for Approval and Record Filing for Overseas Investment Projects*, article 7. Note: Sensitive countries or regions include those that China does not have diplomatic relations with, and countries subject to international sanctions or affected by conflict. Sensitive sectors include those that require large-scale land and resource development, telecoms, media, and several other industries.

- *National Development and Reform Commission (NDRC)*: The main government body responsible for developing and implementing strategies related to national economic and social development.<sup>63</sup> Overseas investment projects worth over US\$1 billion and which involve sensitive countries, regions or industries require NDRC approval.<sup>64</sup>
- *Ministry of Commerce*: Responsible for formulating strategies, guidelines and policies for developing domestic and foreign trade and international economic cooperation.<sup>65</sup> Overseas projects in sensitive countries, regions or industries must be approved by MOFCOM, but other projects only require registration with MOFCOM or provincial level commerce departments.<sup>66</sup>

MOFCOM previously played a much bigger role in approving overseas investments, however, regulations issued in 2014 increased the threshold at which approval is required from MOFCOM, NDRC and the State Council. Most outbound investments now only require registration, rather than approval. This change aims to create a more streamlined process.

- *State-owned Assets Supervision and Administration Commission (SASAC)*: State-owned enterprises (SOEs) are subject to the oversight of SASAC, which sits under the State Council and is responsible for auditing SOEs and appointing senior executives.<sup>67</sup>
- *State Administration of Foreign Exchange (SAFE)*: SAFE is under the authority of the People's Bank of China and is responsible for supervising and monitoring flows of China's foreign exchange reserves.<sup>68</sup>
- *China Banking Regulatory Commission (CBRC)*: The CBRC is responsible for developing the rules and regulations for the supervision of China's banking and finance institutions. It aims to promote financial stability and innovation, and enhance the competitiveness of the Chinese banking sector.<sup>69</sup> The CBRC has issued guidelines which include provisions relating to financing for overseas projects.
- *Administration of China's aid program*: Three ministries are responsible for China's overseas development assistance program, under the authority of the State Council. The *Ministry of Foreign Affairs* plays an advisory role, while the *Ministry of Finance* is responsible for the foreign aid and multilateral aid budgets. *MOFCOM* implements the aid program through its Department of Foreign Aid. This department directly administers China's zero-interest loans

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<sup>63</sup> National Development and Reform Commission, *Main Functions of NDRC*. <http://en.ndrc.gov.cn/mfndrc/> (accessed June 2017).

<sup>64</sup> National Development and Reform Commission of the People's Republic of China (2014), *Administrative Measures for Approval and Record Filing for Overseas Investment Projects*, article 7.

<sup>65</sup> Ministry of Commerce, *Mission*, <http://english.mofcom.gov.cn/column/mission2010.shtml> (accessed June 2017).

<sup>66</sup> Xinhua (2014, 7 September), *China Unveils New Rules on Overseas Investment*, Xinhuanet, 7 September. [http://news.xinhuanet.com/english/china/2014-09/07/c\\_133626884.htm](http://news.xinhuanet.com/english/china/2014-09/07/c_133626884.htm) (accessed June 2017).

<sup>67</sup> SASAC website, *About SASAC: Main Functions*. <http://en.sasac.gov.cn/n1408028/n1408521/index.html> (accessed June 2017).

<sup>68</sup> State Administration of Foreign Exchange, *Major Functions*. <http://www.safe.gov.cn/> (accessed June 2017).

<sup>69</sup> China Banking Regulatory Commission, *About the CBRC*. <http://www.cbrc.gov.cn/showyjhhjindex.do> (accessed June 2017).

and grants in cooperation with the Ministry of Foreign Affairs, and channels China's concessional loans through the China Eximbank.<sup>70</sup>

- *Line ministries:* Various line ministries, including the ministries for agriculture, health, education and communication, also play a role in implementing foreign aid projects within their field of expertise.<sup>71</sup> According to the website of China's *Ministry of Agriculture*, one of the ministry's main functions is: "To undertake foreign-related agricultural affairs and organize related international economic and technical exchanges and cooperation."<sup>72</sup> The ministry's Department of International Cooperation is responsible, among other things, for:
  - studying and formulating development programs for international cooperation and exchanges in agriculture;
  - organizing and coordinating implementation of international cooperation and exchange projects related to agriculture;
  - promoting agricultural trade; and
  - participating in bilateral trade negotiations.<sup>73</sup>

Historically, China's overseas investment has been dominated by state-owned enterprises, but the role of the private sector is rapidly increasing. In 2006, SOEs held over 80% of total overseas investment stock, but by 2013 this had reduced to 50%.<sup>74</sup> Although SOEs were once at the forefront of China's going out strategy, according to a MOFCOM official quoted in the *China Daily* in 2012, outbound investments by private enterprises will eventually surpass those of state-owned enterprises.<sup>75</sup>

Although the role of the private sector is growing, large SOEs still play a major role in China's current overseas agriculture investment. This includes the *China National Agricultural Development Group* and *Chongqing Grain Group*. These companies have invested in agricultural projects in Russia, Southeast Asia, Africa and South America. Other state-owned companies pursuing overseas agriculture investments include *Chinatex Corporation* and *China National Cereals, Oils and Foodstuffs Corporation (COFCO)*. COFCO has offices around the world, and has announced plans to invest more than US\$10 billion overseas in the coming years.<sup>76</sup>

As well as investing directly in overseas agriculture projects, Chinese companies are seeking to gain a foothold in the trade of agricultural products which, as mentioned earlier, is an industry dominated by a small group of international companies. In 2014 COFCO purchased a majority stake in the Dutch grain trader *Nidera* (it has since acquired 100% of the company shares), and soon after acquired a 51%

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<sup>70</sup> Cabria, N. (2013), *Does China Plan and Evaluate Foreign Aid Projects Like Traditional Donors?*, Stellenbosch University: Centre for Chinese Studies, p.19.

<sup>71</sup> Chin, G.T. et al (2007), *Emerging Donors in International Development Assistance: The China Case*, Ottawa: International Development Research Centre, p.7.

<sup>72</sup> Ministry of Agriculture, *Main Functions of the Ministry of Agriculture*.  
<http://english.agri.gov.cn/aboutmoa/mandates/> (accessed June 2017).

<sup>73</sup> Ministry of Agriculture, *Main Functions and Organs of Department of International Cooperation*.  
[http://english.agri.gov.cn/aboutmoa/departments/201301/t20130115\\_9508.htm](http://english.agri.gov.cn/aboutmoa/departments/201301/t20130115_9508.htm) (accessed June 2017).

<sup>74</sup> Ministry of Commerce et al. (2016).

<sup>75</sup> Wei, T. and Ding Q. (2012, 31 August), *Private Investors Play Bigger Role Overseas*, China Daily.  
[http://www.chinadaily.com.cn/business/2012-08/31/content\\_15722433.htm](http://www.chinadaily.com.cn/business/2012-08/31/content_15722433.htm) (accessed June 2017).

<sup>76</sup> Bao, C. (2011, 24 November), *CGG is setting up a soybean base in Brazil*, China Daily.  
[http://usa.chinadaily.com.cn/business/2011-11/24/content\\_14154127.htm](http://usa.chinadaily.com.cn/business/2011-11/24/content_14154127.htm) (accessed June 2017).

share in the agriculture business of Singapore-listed *Noble Group* in a US\$1.5 billion deal.<sup>77</sup> In 2015 COFCO made a deal with China's sovereign wealth fund, *China Investment Corp*, to create a joint-venture through which to invest in *Noble Agri* and compete with the established global agro-commodity traders.<sup>78</sup> In 2016, state-owned *ChemChina* made a US\$44 billion offer for the Swiss seeds and pesticide company Syngenta, the biggest outbound investment in China's history.<sup>79</sup>

While many of the major overseas agriculture investments are connected to SOEs, private enterprises are also active in global agriculture investments. This includes large companies, such as the *New Hope Group*, all the way down to small-scale enterprises and individuals investing in smaller plantations, or purchasing products from local farmers through contract agreements. Due to sensitivities around foreign individuals or companies acquiring land, as well as concerns around domestic food security, many countries do not permit foreign companies to purchase land. For this reason, it is not uncommon to see both state-owned and private Chinese companies operating in joint-venture with local firms or business people.

### **Regulation of Overseas Investment**

Regulation of China's outbound investment has evolved considerably over the last decade. As outbound investment has increased, the Chinese Government has issued numerous documents calling on Chinese companies to adhere to appropriate laws and standards when operating overseas. For example, in 2006, China's State Council issued the *Nine Principles on Encouraging and Standardizing Foreign Investment*, which call on Chinese enterprises to comply with local laws and regulations, commit to social responsibility, pay attention to environmental protection, and support local communities and people's livelihoods.<sup>80</sup> In 2009 MOFCOM issued *Measures for Overseas Investment Management*, which includes an article that explicitly states that enterprises investing overseas shall learn and abide by the relevant domestic and foreign laws, regulations, rules and policies, and follow the principles of "mutual benefit" and "win-win".<sup>81</sup> Additional policy documents and guidelines have been released which call on Chinese enterprises and financial institutions to improve social and environmental responsibility in overseas projects.

### **Social and Environmental Guidelines for Overseas Investment**

In early 2013 China's MOFCOM and Ministry of Environmental Protection (MEP) issued joint *Guidelines for Environmental Protection in Foreign Investment and Cooperation*. These guidelines state that Chinese enterprises should abide by local laws and regulations, respect local customs and beliefs, and promote harmonious development of the economy, environment and local communities. The guidelines instruct companies to conduct environmental impact assessments and create management plans to

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<sup>77</sup> Hornby, L. and Terazono, E. (2014, 28 October), *Cofco unveils IPO plans to compete with US agribusinesses*, Financial Times. <http://www.ft.com/intl/cms/s/0/05686af6-5ea1-11e4-b81d-00144feabdc0.html> (Accessed August 2015).

<sup>78</sup> Terazono, E. and Sanderson, H. (2015, 14 May), *Cofco teams up with Chinese fund to create global grains trader*, Financial Times. <http://www.ft.com/intl/cms/s/0/0bce9d96fa3911e4b43200144feab7de.html> (accessed June 2017).

<sup>79</sup> Atkins, R. & Weinland, D. (2016, 22 August), *ChemChina Clears Hurdle in \$44bn Takeover of Syngenta*, Financial Times. <https://www.ft.com/content/cd814530-682c-11e6-ae5b-a7cc5dd5a28c> (accessed November 2016).

<sup>80</sup> Bernasconi-Osterwalder, N. et al. (2013), *Chinese Outward Investment: An Emerging Policy Framework*, Manitoba: International Institute for Sustainable Development, p.10.

<sup>81</sup> Bernasconi-Osterwalder, N. et al. (2013), p.76.

mitigate the negative impacts associated with their investments. Once projects are operational, companies should monitor pollution and establish contingency plans in case of accidents. Importantly, the guidelines state that companies should improve communication with local people and gather opinions and suggestions concerning the operation and impacts of development projects.<sup>82</sup>

Several sector-specific guidelines relating to agriculture have also been developed, including the *Guide to Overseas Silviculture by Chinese Enterprises*, which was issued in 2007 by China's State Forestry Administration (SFA), and the *Guide to Sustainable Overseas Forests Management and Utilization by Chinese Enterprises*, developed by the SFA and MOFCOM in 2008. Updated guidelines are currently being developed for overseas forestry projects. At the time of writing, guidelines are also under development for investment in rubber and palm oil projects, as well as guidelines for overseas agriculture investments in general.<sup>83</sup>

Promising as they are, none of the guidelines discussed here create binding frameworks for overseas investment. However, they address important issues including legal compliance, impact studies, pollution, public communication and public participation. The sector specific guidelines are becoming increasingly detailed, and overseas mining guidelines released in 2014 include specific references to human rights and international standards and principles. While these developments are positive, the challenge that remains is ensuring that the guidelines are disseminated, understood, implemented and enforced.

## Regulation of State-owned Enterprises

There are also additional regulations applying to SOEs, which, as mentioned above, are subject to the oversight of SASAC. In 2008, SASAC issued guidelines encouraging SOEs to fulfill their corporate social responsibilities,<sup>84</sup> and in 2011 SASAC issued 'Interim Measures' regarding the supervision and administration of overseas assets of central SOEs.<sup>85</sup> These measures instruct SOEs to establish sound management systems and strong corporate governance structures for overseas subsidiaries, and to abide by the laws and regulations of the host country. Further detail was added in 2012 by another Interim Measure which stated that all SOEs must submit overseas investment plans to SASAC which include investment amounts, sources of funding, and general information on key projects (including business activities, shareholding structures, locations, investment amounts, and risk analyses).<sup>86</sup> SASAC performs audits of SOEs, and may discipline companies that perform poorly.<sup>87</sup> SASAC also has powers to conduct inspections of central SOE's overseas investments, but it is not clear how frequent

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<sup>82</sup> MOFCOM and MEP (2013), *Guidelines for Environmental Protection in Foreign Investment and Cooperation*. <http://english.mofcom.gov.cn/article/policyrelease/bbb/201303/20130300043226.shtml> (accessed June 2017).

<sup>83</sup> For more information on China's overseas investment guidelines, see Inclusive Development International (2017), *Safeguarding People and the Environment in Chinese Investments*, Asheville: IDI. <http://www.inclusivedevelopment.net/wp-content/uploads/2017/03/Safeguarding-People-and-the-Environment-in-Chinese-Investments.pdf> (accessed June 2017).

<sup>84</sup> SASAC (2008), *Guidelines to the State-owned Enterprises Directly under the Central Government on Fulfilling Corporate Social Responsibilities*.

<sup>85</sup> SASAC (2011), *Interim Measures on the Supervision and Administration of Overseas Assets of Central State-owned Enterprises*. [http://www.gov.cn/flfg/2011-06/24/content\\_1891821.htm](http://www.gov.cn/flfg/2011-06/24/content_1891821.htm) (accessed June 2017).

<sup>86</sup> SASAC (2012), *Measures on the Supervision and Administration of Outbound Investment of Central State-owned Enterprises*. <http://www.sasac.gov.cn/n1180/n1566/n258237/n258899/14404719.html> (accessed June 2017).

<sup>87</sup> SASAC, *About SASAC: Main Functions*. <http://en.sasac.gov.cn/n1408028/n1408521/index.html> (accessed June 2017).



these inspections are conducted, how thorough they are, and to what extent social and environmental performance is considered.<sup>88</sup>

## Regulations Related to Overseas Finance

In 2012, the China Banking Regulatory Commission (CBRC) issued its *Green Credit Guidelines* which cover issues including due diligence, client compliance review, and project performance assessment. Article 21 of the Guidelines relates specifically to overseas investment, stating:

Banking institutions shall strengthen the environmental and social risk management for overseas projects to which credit will be granted and make sure project sponsors abide by applicable laws and regulations on environmental protection, land, health, safety, etc. of the country or jurisdiction where the project is located. The banking institutions shall make commitments in public that appropriate international practices or international norms will be followed as far as such overseas projects are concerned, so as to ensure alignment with good international practices.<sup>89</sup>

There are currently no mechanisms in place to enforce implementation of these guidelines, but the CBRC has established a system of Green Credit Key Performance Indicators, which Chinese banks are expected to use to conduct annual self-assessments of their green credit implementation.<sup>90</sup> In addition to these guidelines, the China Development Bank and China Eximbank have also adopted their own environmental and social guidelines which have relevance to their overseas financing.<sup>91</sup>

### International Principles and Standards

To date, relatively few Chinese enterprises have signed up to or fully integrated international best practice standards into their business operations. However, this is beginning to change and both private and state-owned companies have begun to make reference to such initiatives. A number of Chinese companies have now signed onto the *United Nations Global Compact*,<sup>92</sup> and the chairman of the Chinese oil company Sinopec is also a Global Compact board member.<sup>93</sup> Chinese companies have begun to adopt the sustainability reporting guidelines of the *Global Reporting Initiative (GRI)*. Two Chinese banks, the Industrial Bank and Bank of Jiangsu, has adopted the *Equator Principles*.

<sup>88</sup> Cheng, P. et al (2012, 24 April), *China Issues New Rules on Outbound Investments by Centrally-administered State-owned Enterprises*, Hogan Lovells. <http://www.hoganlovells.com/china-issues-new-rules-on-outbound-investments-by-centrally-administered-state-owned-enterprises-04-24-2012/> (accessed June 2017).

<sup>89</sup> China Banking Regulatory Commission (2012), *Green Credit Guidelines*, article 21. <http://www.cbrc.gov.cn/EngdocView.do?docID=7FB627CCEB26412C91F4A4B14F2F8ABC> (accessed June 2017).

<sup>90</sup> China Banking Regulatory Commission (2014), *Notice of the China Banking Regulatory Commission on Key Performance Indicators of Green Credit Implementation*. <http://www.cbrc.gov.cn/EngdocView.do?docID=C5EAF470E0B34E56B2546476132CCC56> (June 2017).

<sup>91</sup> Grimsditch, M. and Yu, Y. (2015), *Development Finance in the BRICS Countries: A Review from China*, India: Heinrich Böll Foundation. [https://in.boell.org/sites/default/files/development\\_finance\\_in\\_brics\\_countries\\_1.pdf](https://in.boell.org/sites/default/files/development_finance_in_brics_countries_1.pdf).

<sup>92</sup> UN Global Compact, *Participants and Stakeholders*. <http://database.globalreporting.org/search> (accessed June 2017).

<sup>93</sup> UN Global Compact website, *Board Members*. [http://www.unglobalcompact.org/AboutTheGC/The\\_Global\\_Compact\\_Board/bios.html](http://www.unglobalcompact.org/AboutTheGC/The_Global_Compact_Board/bios.html) (accessed June 2017).



As will be discussed in more detail later, in cases where investment is implemented in host countries with undeveloped legal frameworks and/or limited capacity for enforcement of existing regulations, risks are especially high. This is true in all three countries covered by the second part of this report. In such cases, best practice standards can provide guidance to both businesses and governments, minimize the risk of harm to local people and the environment, and increase the chances that an investment project will be successful and profitable. Several international standards exist that have relevance to responsible agriculture investment, including the *UN Guiding Principles on Business and Human Rights* and *OECD Guidelines for Multinational Enterprises*.

**UN Guiding Principles on Business and Human Rights:** The UN Guiding Principles are a set of standards that support the implementation of the United Nations “Protect, Respect and Remedy” policy framework. The Guiding Principles are not legally binding, but have been unanimously endorsed by the UN Human Rights Council and are an authoritative reference point for business and human rights. In addition to setting out the responsibilities of businesses, the Guidelines include the foundational principle that states should clearly set out the expectation that all businesses domiciled in their territory respect human rights throughout their operations. Therefore, the Guidelines can be useful for both businesses and the Chinese state in ensuring higher standards in overseas investment.<sup>94</sup>

**OECD Guidelines for Multinational Enterprises:** The OECD Guidelines are a comprehensive set of recommendations on responsible business conduct. The Guidelines state that obeying domestic law is the first obligation of enterprises, but also provide additional principles and standards in areas including: employment, the environment, information disclosure, conducting risk-based due diligence, stakeholder engagement and corporate governance. When the Guidelines were last revised in 2011 a new section on human rights was added, which is consistent with the *UN Guiding Principles on Business and Human Rights*.<sup>95</sup> China is not an OECD member, however, the Guidelines can still be drawn upon by non-members.

### ***Risks Associated with Overseas Agriculture Activities***

Overseas agriculture projects come with numerous potential benefits, but as with any land and resource intensive investment, the risks can be complex and potentially far-reaching. Agriculture investment can generate employment both directly and in connected industries and markets. Investment can lead to increased exports and facilitate transfer of technology, techniques and inputs from countries with more developed agriculture sectors.<sup>96</sup> However, large-scale agriculture projects have become an extremely sensitive issue, especially when foreign firms are involved. Concerns have emerged around land acquisition, working conditions, pollution, transparency in the signing of land deals and sharing of benefits, and impacts on the rights of local people. Smaller investments have also raised concerns, as many small investors often operate under the radar and may have limited knowledge or concern for formal investment procedures and local regulations.

Land conflicts in particular have emerged as a major issue. For example, as discussed later, agriculture investments in Cambodia have become synonymous with land conflict. Internationally, resistance to what many see as agricultural ‘land grabs’ has grown. In countries with weak governance, companies risk becoming implicated in rights abuses and entangled in protracted and damaging disputes with local

<sup>94</sup> Office of the United Nations High Commissioner for Human Rights Cambodia (2011), *Guiding Principles on Business and Human Rights: Implementing the United Nations “Protect, Respect and Remedy” Framework*, Phnom Penh: OHCHR.

<sup>95</sup> OECD (2011), *OECD Guidelines for Multinational Enterprises - 2011 Edition*, Paris: OECD Publishing.

<sup>96</sup> Songwe, V. and Deininger, K. (2009), *Foreign Investment in Agricultural Production: Opportunities and Challenges*, Washington DC: World Bank.

people. This often leads to criticism from civil society groups and negative media coverage, which exposes companies to serious reputational risk, and in some cases has led to projects failing all together. A 2013 study by the Food and Agriculture Organization of the United Nations (FAO) found that agriculture investments involving large-scale land acquisition were often highly problematic due mainly to the potential for land conflict:

[F]or investment involving large-scale land acquisitions in countries where land rights are unclear and insecure the disadvantages often outweigh the few benefits to the local community, especially in the short run. This outcome is even more likely when the acquired land was previously utilized by local people whether in a formal or informal manner. Consequently, acquisition of already-utilized land to establish new large farms should be avoided and other forms of investment should be considered. Even from the investor's perspective, business models that do not involve the transfer of land control are likely to be more profitable.<sup>97</sup>

Alarming, agriculture investments in some areas may actually be *increasing* food insecurity, especially in cases where small-holders are losing their land to large concessions. In some cases, concessions are obtained for speculation or for forest clearance, and the land is therefore not used productively. In cases where development of plantations does move forward, they are often used to produce commodities such as sugar, rubber, cassava, and biofuel crops, which do not necessarily contribute to increased food security at the local level, and tend to be produced for export. It can be argued that interventions that result in increases in local incomes can contribute to improved food security. However, as noted in Part II, there is limited evidence that this has been the case. Large monoculture plantations can also be water intensive, reduce soil fertility, and limit biodiversity, which has detrimental impacts on surrounding areas and communities.

In addition to seeking land for agricultural production, some foreign investors are also implementing contract farming models. This approach involves providing local farmers the inputs to grow a certain crop and agreeing to purchase produce from those farmers. This is a common feature of agriculture investment in both Laos and Myanmar. While this approach can potentially increase income for small-scale farmers and connect them to markets, in situations where legal systems are weak, smallholders can lose out due to their unequal bargaining power and poor understanding of contract terms. In some cases, contracts are not even used or buyers fail to honour contracts and smallholders have no avenues through which they can force the buyer to follow the agreed terms.

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<sup>97</sup> Liu, P. (2014), *Impacts of Foreign Agricultural Investment on Developing Countries: Evidence From Case Studies*, Rome: FAO, p.13. <http://www.fao.org/3/a-i3900e.pdf> (accessed June 2017).

### Gender and Agriculture Investment

A number of studies have found that the large-scale agricultural investment can impact negatively on women. While women in rural areas contribute to agricultural work and are usually responsible for most unpaid work connected to the home and family, they often do not enjoy equality in terms of assets, access to education, financial services and participation in decision making.<sup>98</sup> Poor rural women are often disadvantaged with regards to land access and ownership, and in both customary and formal land administration systems men tend to be viewed as 'head of household'. This means that land documents for family land may include only the man's name.

Disparities in the way in which land ownership and occupation is recorded can be exacerbated when incoming investments lead to land conflicts or acquisition. In cases where companies engage in contract farming agreements with local people, they often tend to engage with men rather than women. Where agriculture investment generates employment opportunities, wage labour is often regarded as 'man's work'. In such cases, women may be assigned tasks that are less physical, which usually pay less.<sup>99</sup> Incoming investors risk exacerbating these issues if they lack a thorough understanding of the local context and gender dynamics in countries and areas where they are investing.

As mentioned earlier, China's OFDI in agriculture is a small percentage of its overall outbound investment. Likewise, despite the attention that it has received, global foreign agriculture investment in general is much lower than in other sectors such as energy, infrastructure and mining. In developing countries, most agriculture investment is domestic, with the majority coming from small-holders, rural enterprises and cooperatives.<sup>100</sup> However, a significant increase in foreign agriculture investment commenced in the late 2000s, leading to the transfer of control over large areas of land and other productive resources to investors from all across the world.<sup>101</sup> For this reason, many of the risks outlined above have become a reality in countries hosting foreign agriculture investment. These issues are returned to throughout the rest of the report, where trends and impacts observed in Cambodia, Laos and Myanmar are explored in more detail.

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<sup>98</sup> Behrman, J., Meinzen-Dick, R. and Quisumbing, A.R. (2011), *The Gender Implications of Large-Scale Land Deals*, IFPRI Policy Brief 17, Washington DC: International Food Policy Research Institute.

<sup>99</sup> Behrman, J., Meinzen-Dick, R. and Quisumbing, A.R. (2011).

<sup>100</sup> Committee on World Food Security (2011), *Policy Roundtable on Increasing Food Security through Smallholder-Sensitive Investment in Agriculture*, Thirty-seventh Session, Rome, 17–20 October 2011. [http://www.fao.org/fileadmin/templates/cfs/Docs1011/CFS37/documents/CFS\\_37\\_Final\\_Report\\_FINAL.pdf](http://www.fao.org/fileadmin/templates/cfs/Docs1011/CFS37/documents/CFS_37_Final_Report_FINAL.pdf) (accessed June 2017).

<sup>101</sup> Karlsson, J. (2014), *Challenges and Opportunities of Foreign Investment in Developing Country Agriculture for Sustainable Development*, Rome: Food and Agriculture Organization, p.3.

## Part II: China's Engagement in Agriculture in Cambodia, Laos and Myanmar

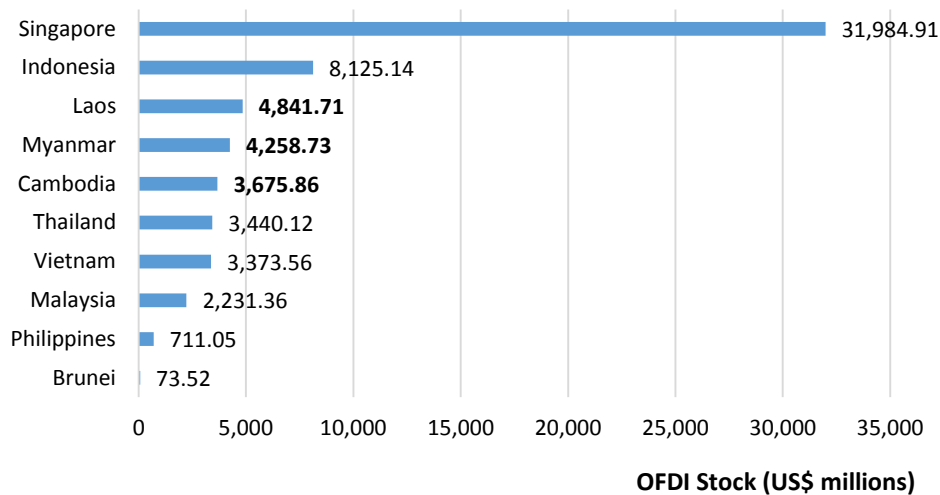
The report now turns to look specifically at Chinese agriculture activities in Cambodia, Laos and Myanmar. Chinese stakeholders are very active in these countries, and official statistics indicate that China is the number one investor in all three. Chinese investment is flowing to a broad range of sectors, including infrastructure, energy production and transmission, manufacturing, extractive industries, telecommunication, and agriculture. The agriculture sectors of each country also receive support through China's aid program, although specific figures are difficult to obtain and there is generally less information available on aid than there is on investment.

### **Chinese Investment, Aid and Trade in the ASEAN Region**

According to MOFCOM, US\$14.6 billion of Chinese investment went to members of the Association of Southeast Asian Nations (ASEAN) in 2015, the highest amount to date.<sup>102</sup> This investment focussed on leasing and business services, manufacturing, power generation, trade and mining. Recorded agriculture investments in the region reached US\$504.32 million in 2015, accounting for 3.7% of total investment.<sup>103</sup> This is more than double the 1.8% that China invested in agriculture globally in 2015.

Within ASEAN, Singapore is the top destination of China's cumulative OFDI stock, accounting for US\$31.98 billion up to 2015 (Singapore is an investment haven, and much of this investment is likely to be re-invested elsewhere). Laos, Myanmar and Cambodia rank third, fourth and fifth, respectively. In terms of OFDI flows in 2015, Singapore was again top, and Laos ranked third, Cambodia sixth and Myanmar eighth.<sup>104</sup>

**Figure 5: China's OFDI Stock in ASEAN Countries Up to End of 2015**



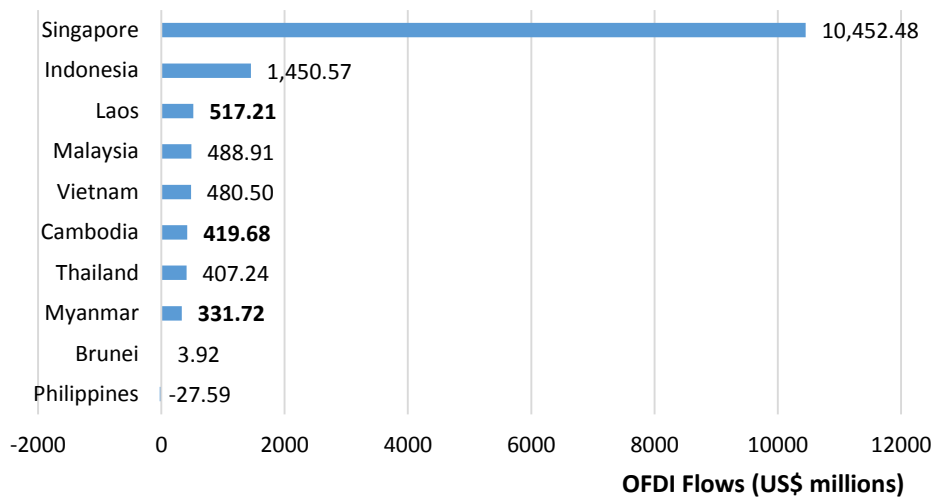
Source: MOFCOM (2016)

<sup>102</sup> Ministry of Commerce et al. (2016).

<sup>103</sup> Ministry of Commerce et al. (2016).

<sup>104</sup> Ministry of Commerce et al. (2016).

Figure 6: China's OFDI Flows to ASEAN Countries, 2015



Source: MOFCOM (2016)

China also provides aid to agriculture projects in ASEAN. In 2007 China's Ministry of Agriculture and ASEAN signed a five-year memorandum of understanding (MOU) on agricultural cooperation.<sup>105</sup> Among other things, this MOU included a commitment from China to provide training on hybrid rice, cultivation methods, fertilizer use, water management, agro-industry, and agricultural extension. This included training in China for specialists from ASEAN, as well as sending experts from China to ASEAN nations to provide short-term services.<sup>106</sup> Through its aid program China supported the establishment of 20 'experimental stations' for new crop varieties and three agricultural technology demonstration centres between 2010 and 2012. During this period China also dispatched 300 agriculture experts and technicians to provide technical guidance and training to officials and technicians in ASEAN nations.<sup>107</sup>

Agriculture projects make up a small percentage of China's overseas aid, and the majority of China's aid in the region goes to infrastructure projects, with a major focus on transport and connectivity. Strong road, rail and port infrastructure are all essential to facilitate trade. ASEAN also lies within the '21<sup>st</sup> Century Maritime Silk Road', which is one arm of the Belt and Road Initiative announced by China in 2013 (as discussed in part I). The major focus of this initiative is enhancing regional interconnectivity, which will potentially support the expansion of various industries, including agro-industry and trade in agricultural commodities.<sup>108</sup>

In 2002, China and ASEAN signed the *Framework Agreement on Comprehensive Economic Co-Operation*. This agreement aimed to strengthen economic, trade and investment co-operation between China and ASEAN, facilitate more effective economic integration and bridge the development gap

<sup>105</sup> ASEAN and Ministry of Agriculture (2007), *Memorandum of Understanding between the Association of Southeast Asian Nations (ASEAN) Secretariat and the Ministry of Agriculture of the People's Republic of China on Agricultural Cooperation*. <http://www.asean.org/news/item/memorandum-of-understanding-between-the-association-of-southeast-asian-nations-asean-secretariat-and-the-ministry-of-agriculture-of-the-peoples-republic-of-china-on-agricultural-cooperation-3> (accessed June 2017).

<sup>106</sup> *Ibid.*, article 2.

<sup>107</sup> State Council of the People's Republic of China (2014).

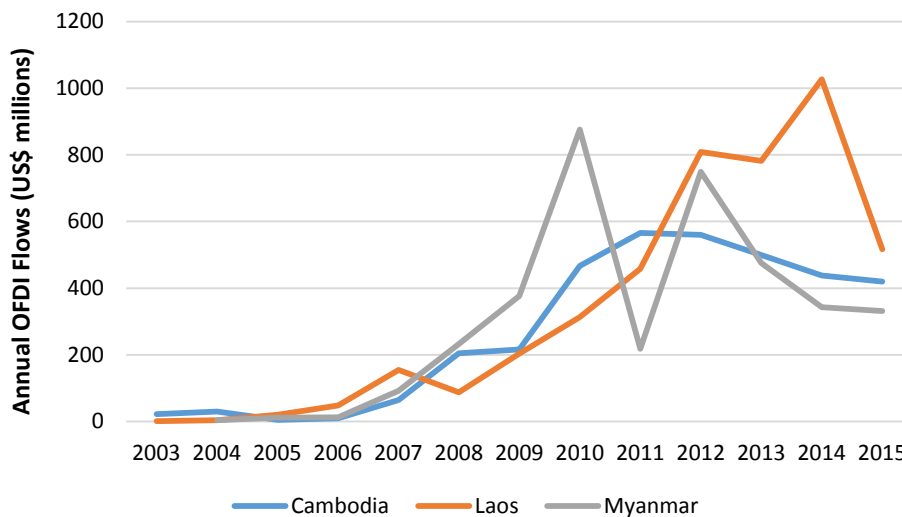
<sup>108</sup> National Development and Reform Commission, Ministry of Foreign Affairs and Ministry of Commerce of the People's Republic of China (2015), *Vision and Actions on Jointly Building Silk Road Economic Belt and 21<sup>st</sup> Century Maritime Silk Road*. [http://en.ndrc.gov.cn/newsrelease/201503/t20150330\\_669367.html](http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html) (accessed June 2017).

between the various parties. The agreement set out five priority areas for cooperation, one of which was agriculture.<sup>109</sup> This agreement envisioned establishing the China-ASEAN China Free Trade Area (CAFTA), which eventually came into effect in 2010. Under the FTA, members are required to cut tariffs on around 7,800 product categories, or 90% of imported goods.<sup>110</sup> China is now ASEAN's biggest trading partner, and agriculture products are an important part of this trade.

### **Investment in Cambodia, Laos and Myanmar**

The figures below illustrate the historic trends in China's OFDI flows and OFDI stock in the three countries. MOFCOM statistics show a steep rise in investment in all three beginning around 2006, but flows fell between 2014 and 2015. Investment in Laos has risen most steadily (until 2015), whereas recorded investment to Myanmar has been most erratic. OFDI stock in each country has risen steadily, with Laos accounting for the largest amount as of the end of 2015.<sup>111</sup>

**Figure 7: China's OFDI Flows to Cambodia, Laos and Myanmar, 2003-2015**



Source: MOFCOM (2016)

<sup>109</sup> ASEAN and The People's Republic of China (2002), *Framework Agreement on Comprehensive Economic Co-Operation Between ASEAN and the People's Republic of China Phnom Penh*.

<http://www.asean.org/communities/asean-economic-community/item/framework-agreement-on-comprehensive-economic-co-operation-between-asean-and-the-people-s-republic-of-china-phnom-penh-4-november-2002-3> (accessed June 2017).

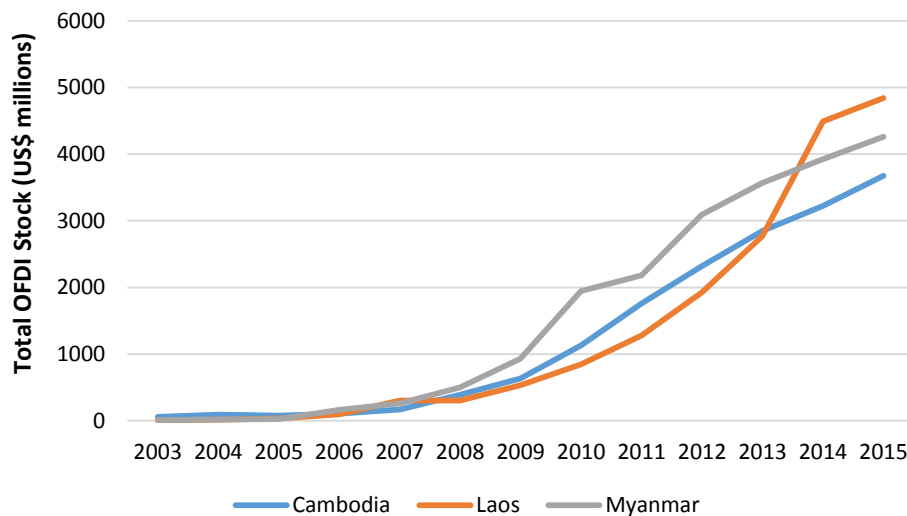
<sup>110</sup> Xinhua (2010, 1 January), *China-ASEAN Free Trade Area*, Xinhuanet.

[http://news.xinhuanet.com/english/2010-01/01/content\\_12740470.htm](http://news.xinhuanet.com/english/2010-01/01/content_12740470.htm) (accessed June 2017).

<sup>111</sup> Ministry of Commerce et al. (2016).



Figure 8: China's OFDI Stock in Cambodia, Laos and Myanmar, 2003-2015



Source: MOFCOM (2016)

The remainder of this report turns to each country individually, providing a short background of each nation's agriculture sector, an overview of China's agriculture investment, trade and aid, and a discussion of the opportunities and challenges that have emerged in recent years.

## Chinese Agriculture in Cambodia

### The Agriculture Sector of Cambodia

Agriculture plays a crucial role in Cambodia's economy, and in 2015 contributed over 28% to the country's GDP, according to World Bank indicators.<sup>112</sup> Agriculture is central to the lives of millions of Cambodian people, and according to the 2013 Cambodian Agriculture Census around 85% of rural Cambodian households are engaged in some form of agriculture-related activity. This includes growing rice, raising livestock, fishing or tapping rubber. 73% of these households use the products of these activities for home consumption and the remaining 27% sell crops and livestock on the market.<sup>113</sup>

A priority of the Cambodian Government is to promote increased productivity and diversification in the agriculture sector. The government is also seeking to add value by developing Cambodia's processing capacities, increasing modernization and moving Cambodia away from "low productivity and subsistence-based extensive agriculture" towards "high productivity and commercialized intensive agriculture."<sup>114</sup> At present, much of Cambodia's agriculture trade involves unprocessed or semi-processed products being exported to neighbouring Thailand and Vietnam, where they are processed and then exported to third countries (or even back to Cambodia) at a higher value. The Cambodian

<sup>112</sup> World Bank (2016), *Agriculture, value added (% of GDP)*.

<http://data.worldbank.org/indicator/NV.AGR.TOTL.ZS?locations=KH> (accessed November 2016).

<sup>113</sup> Kimsay, H. and Morton, E. (2014, 21 August), *Agriculture census unveiled, to the delight of the industry*, Phnom Penh Post. <http://phnompenhpost.com/business/agriculture-census-unveiled-delight-industry> (accessed June 2017).

<sup>114</sup> Royal Government of Cambodia (2013), *"Rectangular Strategy" for Growth, Employment, Equity and Efficiency Phase III of the Royal Government of Cambodia of the Fifth Legislature of the National Assembly*, Phnom Penh: RGC, p.7, 43.

Government therefore aims to further commercialize the Cambodian agriculture sector in order to develop processing industries that can add value to exports.

For over a decade, economic land concessions (ELCs) were utilized by the Cambodian Government in its effort to promote investment in large-scale plantations and industrialize the agriculture sector. ELCs are long-term leases for areas of land measuring up to 10,000 hectares, and are intended to be used for agro-industrial development. There is a lack of clarity on exactly how much land has been granted through ELCs in Cambodia. Cambodia's Ministry of Agriculture, Forestry and Fisheries (MAFF) stated in its 2014 annual report that it had granted concessions to 122 companies covering an area of over 1.3 million hectares.<sup>115</sup> A further 133 concessions were granted by the Ministry of Environment.<sup>116</sup> NGOs have estimated that the total figure for the amount of land leased to companies is over 2 million hectares.<sup>117</sup> As discussed in more detail below, ELCs have proved to be extremely controversial, and in May 2012 the Cambodian Prime Minister issued an order suspending the granting of new concessions and called for an inspection of existing concessions.<sup>118</sup> At the time of writing this suspension was still in place.

ELCs can be granted to both domestic and foreign companies, and statistics from MAFF indicate that most foreign investors holding land concessions in Cambodia are Chinese and Vietnamese. Map 1 on the following page identifies a total of over 40 concessions granted to Chinese companies. ELCs have been granted for various purposes, including development of rubber, acacia, eucalyptus, teak and palm oil plantations. They have also been granted for cultivation of cash crops such as cassava, sugarcane and maize. However, as can be seen in Map 2 below, the vast majority have been granted for rubber.

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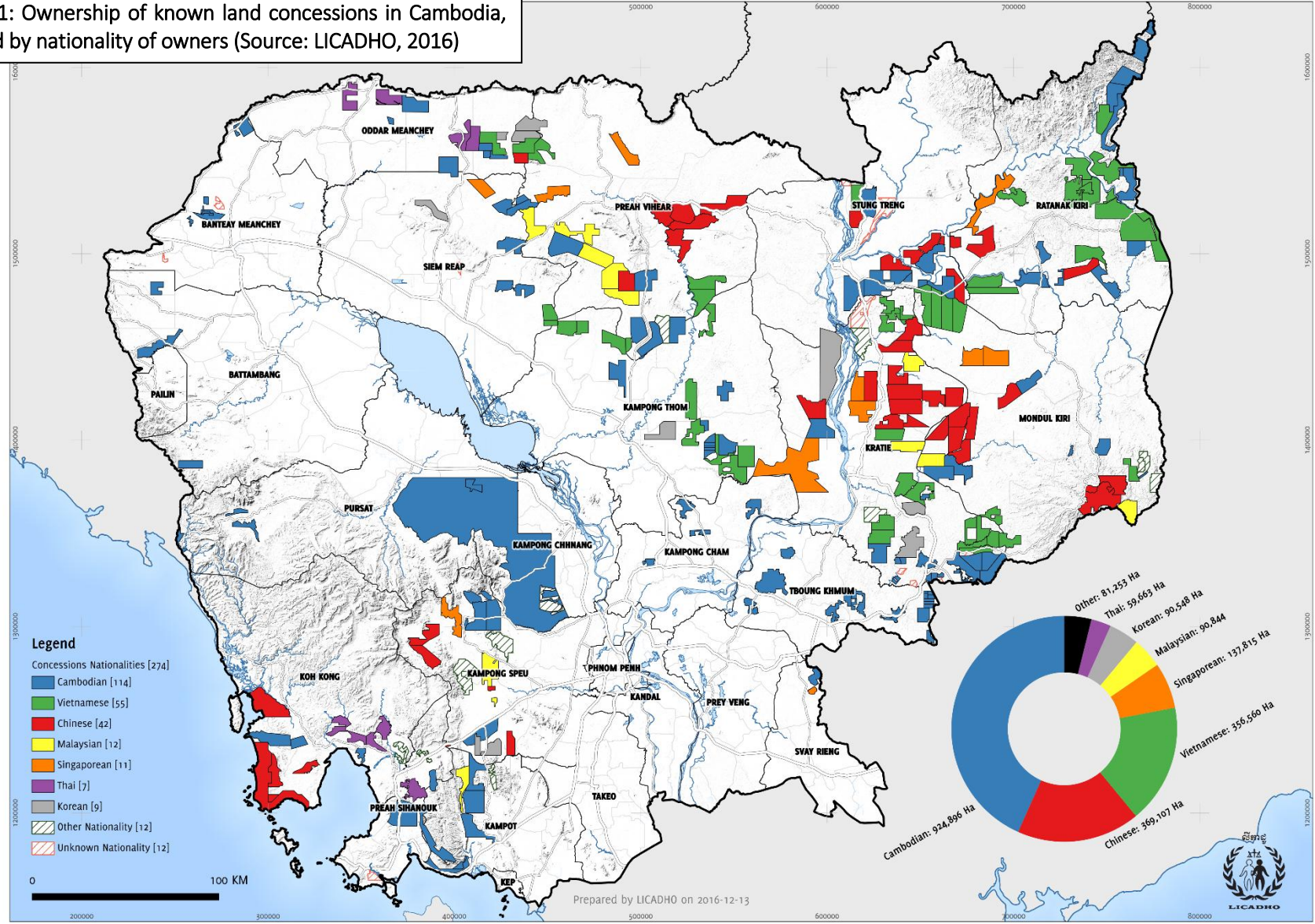
<sup>115</sup> Ministry of Agriculture, Forestry and Fisheries (2014), *Ministry of Agriculture, Forestry and Fisheries Annual Report 2013-2014*, Phnom Penh: MAFF, p.64.

<sup>116</sup> Chea, V. (2015, 30 September), *Agriculture Ministry to End ELC Assessment in October*, Agence Kampuchea Presse. <http://www.akp.gov.kh/?p=69494> (accessed November 2016).

<sup>117</sup> Subedi, S.P. (2012), *Report of the Special Rapporteur on the situation of human rights in Cambodia*, Surya P. Subedi, Addendum: *A human rights analysis of economic and other land concessions in Cambodia*, Human Rights Council 21<sup>st</sup> Session, 11 October 2012, p.9.

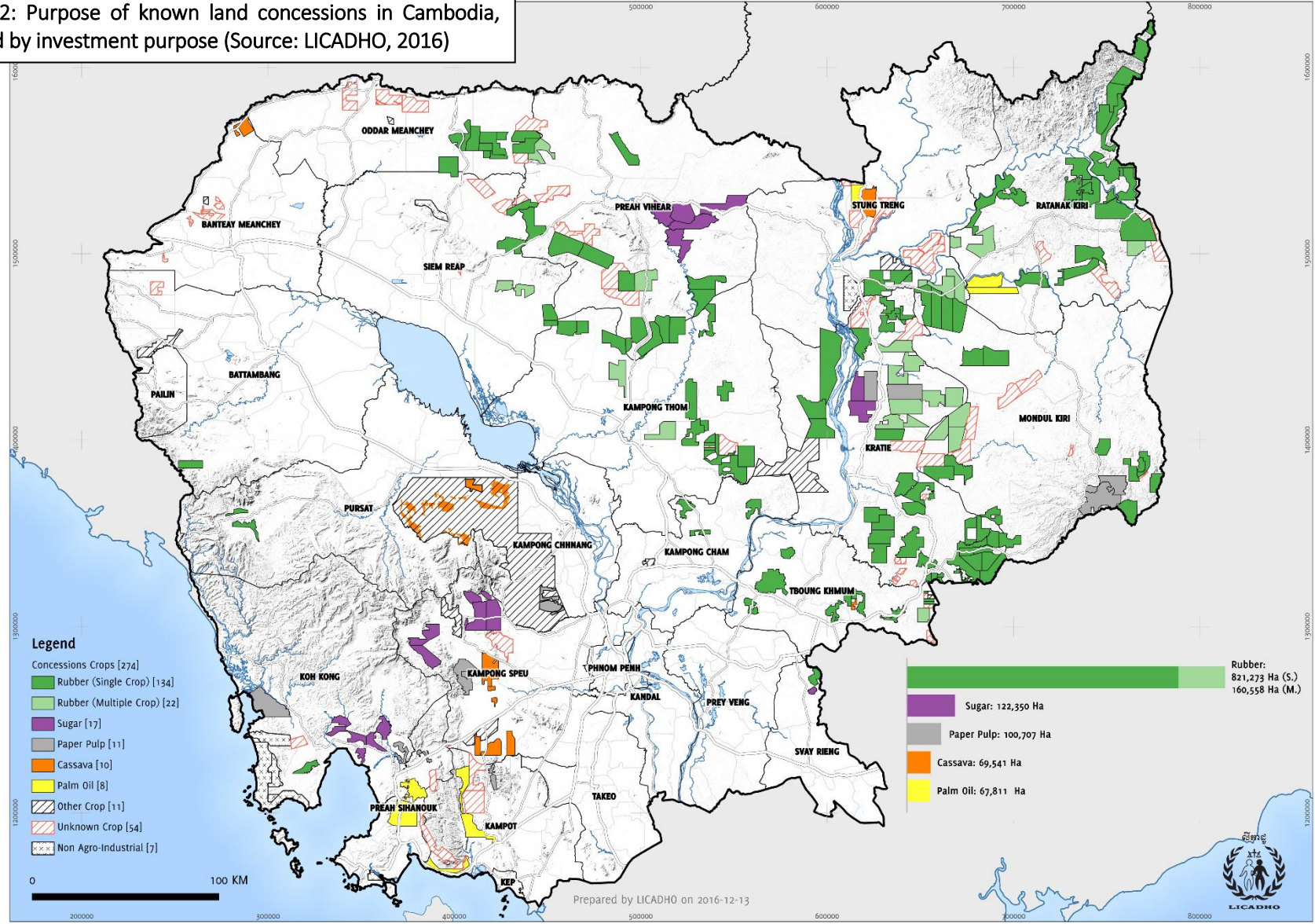
<sup>118</sup> Grimsditch, M. and Schoenberger, L. (2015), *New Actions and Existing Policies: The Implementation and Impacts of Order 01*, Phnom Penh: NGO Forum Cambodia.

Map 1: Ownership of known land concessions in Cambodia, coded by nationality of owners (Source: LICADHO, 2016)





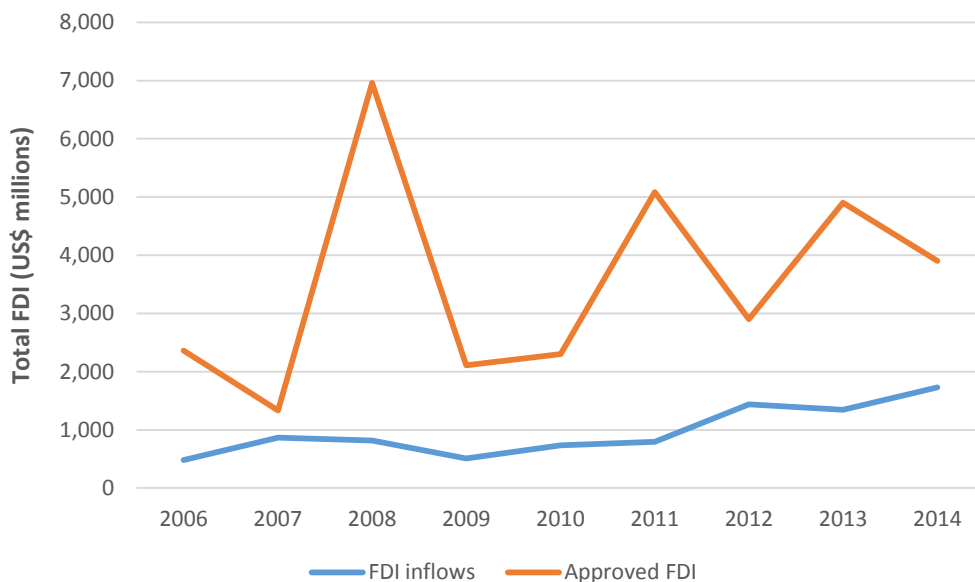
Map 2: Purpose of known land concessions in Cambodia, coded by investment purpose (Source: LICADHO, 2016)



## Chinese Agriculture Investment and Trade in Cambodia

MOFCOM statistics indicate that overall investment to Cambodia peaked at US\$566 million in 2011 and has declined slightly each of the following years. MOFCOM recorded investment flows of US\$419.68 million in 2015, and by the end of that year total OFDI stock in the country stood at US\$3.68 billion.<sup>119</sup> China is Cambodia's largest foreign investor, however, the figures publicized in Cambodia regarding investment often over-state the size of Chinese investment (and foreign investment in general). This is because the Council for the Development of Cambodia (CDC), Cambodia's highest decision-making body responsible for private and public sector investment, publishes statistics for *approved* investment rather than *realized* investment. These figures are often quoted and re-quoted in the media, and can give an inaccurate picture of exactly how much investment is actually coming into Cambodia. Figure 9 illustrates how large the gap is between approved and realized foreign direct investment (FDI) in Cambodia.<sup>120</sup>

**Figure 9: Comparing Approved FDI with Realized FDI in Cambodia, 2006 - 2014**



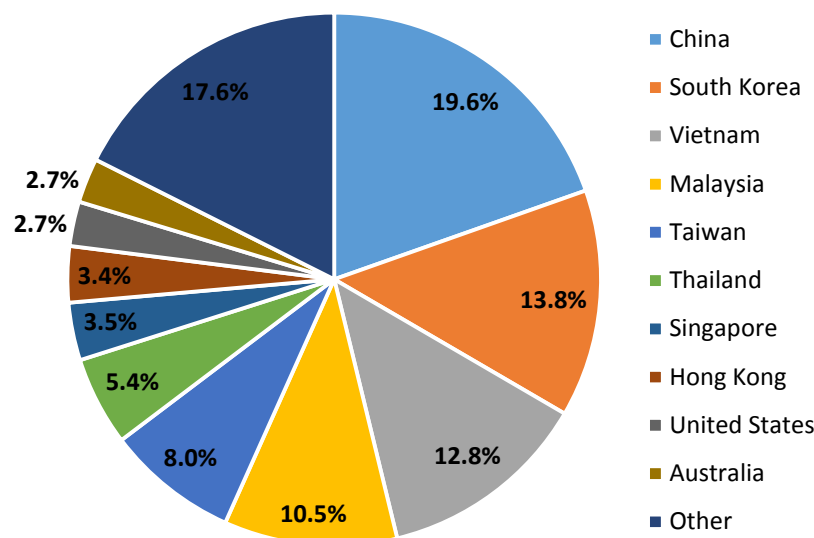
Sources: World Bank World Development Indicators (realized FDI),  
Council for Development of Cambodia (approved FDI)

<sup>119</sup> Ministry of Commerce et al. (2016).

<sup>120</sup> Statistics for approved investment 2006-2011 from: CDC (2013), *Cambodia Investment Guidebook 2013* (p.II-4). Statistics for 2012-2013 from report of a speech by Cambodia's Prime Minister in: Khan, S. (2014, 13 January), *PM Hun Sen Highlights Cambodia's Potentials to Vietnamese Investors*, Agence Kampuchea Presse. <http://www.akp.gov.kh/?p=40904> (accessed June 2017).

The large spike in approved investment in 2008 was caused by the approval of a single Chinese project worth US\$3.8 billion. However, China's MOFCOM recorded a total of only US\$205 million in investment flows to Cambodia that year. The spike in 2011 is a result of the Cambodian Government approving a US\$2.2 billion fertilizer plant that was never actually developed.<sup>121</sup> According to Cambodia's Ministry of Commerce, between 2000 and 2012 just 29% of all approved foreign investments were actually realized.<sup>122</sup> Although the amount of realized Chinese investment is much lower than the amount approved, mainland China still ranks as the country's top investor, and between 2005 and 2012 accounted for almost 20% of all realized investment, as shown below.<sup>123</sup>

**Figure 10: Cambodia's Top 10 Foreign Investors in Terms of FDI Inflows, 2005-2012**



Source: National Bank of Cambodia, quoted in Ministry of Commerce (2014)

According to data from the CDC, between 2005 and 2012, 11% of *approved* investments from China were for agro-industry (439 projects).<sup>124</sup> There is no breakdown available that indicates exactly how much of this investment was actually realized. However, as mentioned above, among Cambodia's foreign investors, Chinese companies have received the second largest number of agricultural concessions after Vietnam.

In addition to rubber and wood plantations, several Chinese companies are engaged in the development of sugar plantations. In 2010, two associated Chinese companies were granted 17,650 hectares within a wildlife sanctuary in Kampong Speu, these concessions are now under cultivation and a processing plant has been constructed.<sup>125</sup> This project has come under the media spotlight as it has been accused on several occasions in the last two years of laundering illegally cut timber through an

<sup>121</sup> Lewis, S. and Phorn, B. (2013, 6 February), *Ambition Trumps Reality in Investment Figures*, Cambodia Daily. <https://www.cambodiadaily.com/archives/ambition-trumps-reality-in-investment-figures-9387/> (accessed June 2017).

<sup>122</sup> Ministry of Commerce (2014), *Cambodia Trade Integration Strategy 2014-2018*, Phnom Penh: MoC, p.136.

<sup>123</sup> Ministry of Commerce (2014), p.137.

<sup>124</sup> Ministry of Commerce (2014), p.159.

<sup>125</sup> Kim, Y. (2010, 2 March), *More protected land in Kampong Speu given to private agribusiness*, Phnom Penh Post. <http://www.phnompenhpost.com/national/more-protected-land-kampong-speu-given-private-agribusiness> (accessed June 2017).



on-site saw mill.<sup>126</sup> Another major project is operated by five locally registered subsidiaries which are all owned by a single Guangzhou-based sugar company. The five companies hold five adjacent concessions totalling over 42,000 hectares in the north of the country.<sup>127</sup> In April 2016, the company opened a \$360 million sugar processing plant. China's ambassador and the Cambodian Prime Minister joined the opening ceremony.<sup>128</sup> As discussed later, this project is associated with a long-running conflict with local people.

The majority of Chinese companies that are directly involved in development of plantations in Cambodia are private enterprises. Some may have links to state-owned companies, but the investment chains are difficult to examine as most companies have no website and do little to publicize the work that they are doing in Cambodia. On the other hand, Chinese SOEs are openly involved in the trade of agricultural commodities with Cambodia, and have signed several major deals to purchase rice exports. For example, in 2014 *China National Cereals, Oils and Foodstuffs Corporation (COFCO)* signed a deal to purchase 100,000 tonnes of rice from Cambodian state-owned firm *Green Trade Co.*<sup>129</sup> In 2014, the top three agriculture exports from Cambodia to China were rice, cassava and rubber, as illustrated in table 3 below:

**Table 3: Top 5 Cambodian Agriculture Exports to China (US\$)<sup>130</sup>**

Product	2012	2013	2014	2015
Rice	3,006,000	19,033,000	31,690,000	68,946,000
Cassava	5,343,000	12,846,000	25,654,000	22,080,000
Rubber	38,030,000	53,170,000	31,070,000	9,229,000
Sugar	0	0	898,000	1,039,000
Cocoa	0	0	568,000	746,000

Source: International Trade Centre calculations based on UN COMTRADE data

Promoting increased rice production has been a priority of the Cambodian Government for several years. Under its *Policy on Paddy Rice Production and Promotion of Milled Rice Export*, the government is seeking to improve irrigation and increase private sector investment in rice processing and export.<sup>131</sup> In 2014 more than 60% of Cambodia's rice exports went to Europe. This trade is facilitated by the *Everything But Arms* scheme, which allows duty free imports from least developed countries to the EU. According to the Cambodia Rice Federation, although the EU is the main destination for Cambodian

<sup>126</sup> Aun, P. (2016, 6 October), *Sugar Plantation Caught Again with Illegal Wood*, Cambodia Daily. <https://www.cambodiadaily.com/news/sugar-plantation-caught-illegal-wood-118908/> (accessed November 2016).

<sup>127</sup> Subedi, S.P. (2012), *Report of the Special Rapporteur on the situation of human rights in Cambodia*, Surya P. Subedi, Addendum: A human rights analysis of economic and other land concessions in Cambodia, Human Rights Council 21<sup>st</sup> Session, 11 October 2012, p.128

<sup>128</sup> Liu, K. (2016, 13 October), *Chinese sugar mill opens in Cambodia*, CCTV.com English. <http://english.cctv.com/2016/10/13/VIDEdKjtFMVXfl2ct620vEgg161013.shtml> (accessed November 2016).

<sup>129</sup> Chan, M. (2014, 12 August), *China signs 100,000-tonne rice import agreement*, Phnom Penh Post. <http://www.phnompenhpost.com/business/china-signs-100000-tonne-rice-import-agreement> (accessed June 2017).

<sup>130</sup> Trade Map, [http://www.trademap.org/tradestat/Bilateral\\_TS.aspx](http://www.trademap.org/tradestat/Bilateral_TS.aspx) (accessed November 2016).

<sup>131</sup> Royal Government of Cambodia (2010), *Policy Document on Promotion of Paddy Rice Production and Export of Milled Rice*, Phnom Penh: RGC.

rice exports, China is also seen as a major potential market.<sup>132</sup> Media reports indicate that in addition to COFCO's 2014 agreement to purchase 100,000 tonnes of rice from Cambodia, state-owned *China Grain Reserves Corporation (Sinograin)* signed a deal in 2011 to purchase 200,000 tonnes of rice annually from Cambodian firm *TTY Corporation*.<sup>133</sup> However, the current status of this deal is unclear, and TTY has been involved in serious violent conflict with villagers affected by its plantations, including one incident where company security guards shot four villagers.<sup>134</sup>

Despite the signing of these major deals, Cambodia is falling short on its rice export targets. The Government set the goal of exporting 1 million tonnes of rice annually by 2015, but in 2016 achieved just over 540,000 tonnes.<sup>135</sup> This is due in large part to a lack of adequate processing and storage facilities. In order to address this issue, Cambodia has requested support from China, which in 2014 approved a US\$300 million loan to construct 10 rice warehouses across the country.<sup>136</sup> This project initially stalled as the Cambodian Government failed to meet criteria set by China for the project to go ahead.<sup>137</sup> In early 2016, three Chinese SOEs agreed to develop rice warehouses under this agreement,<sup>138</sup> but it is unclear if construction has yet begun. There are already several Chinese rice mills operating in Cambodia, for example, in 2012 *Guangxi Guohong Development Cooperation* opened a rice mill in Kampong Chhnang Province with capacity of 30,000 tonnes per year.<sup>139</sup> As can be seen above, rice exports to China doubled between 2014 and 2015, but Cambodia is still falling short of its targets for rice exports to China and the rest of the world.

After Vietnam, China is Cambodia's second largest market for rubber exports. Much of the rubber exported to Vietnam is subsequently processed there and then re-exported to other countries, especially China.<sup>140</sup> The industry has suffered in recent years due to the global drop in rubber prices, and although Cambodia's total exports have increased, revenues have fallen.<sup>141</sup> Cambodian media reported in 2012 that *Yunnan Rubber Co. Ltd.* signed a deal with a Cambodian and a Thai company agreeing to purchase 500,000 tonnes of rubber per year from plantations in Cambodia and Laos. However, it is again unclear what the status of this deal is, or how much of the total amount was to be

<sup>132</sup> Oryza (2015, 5 January), *Cambodia Exports 387,100 Tons of Rice in 2014; Up 2% from Previous Year*, Oryza.com. <http://oryza.com/cambodia-exports-387100-tons-rice-2014-2-previous-year> (accessed June 2017).

<sup>133</sup> Xinhua (2011, 27 August), *Cambodia's rice export scheme sees good omen with Chinese investments*, Xinhuanet. [http://news.xinhuanet.com/english2010/indepth/2011-08/27/c\\_131078477.htm](http://news.xinhuanet.com/english2010/indepth/2011-08/27/c_131078477.htm) (accessed June 2017).

<sup>134</sup> May, T. (2012, 5 March), *Arrest over Kratie gunfire*, Phnom Penh Post. <http://www.phnompenhpost.com/national/arrest-over-kratie-gunfire> (accessed June 2017).

<sup>135</sup> Cambodia Rice Federation (2017), *Homepage*. <http://www.crf.org.kh/> (accessed June 2017).

<sup>136</sup> Chan, M. (2014, 19 December), *Prime minister admits 1 million tonne goal is unlikely for rice sector*, Phnom Penh Post. <http://www.phnompenhpost.com/business/prime-minister-admits-1-million-tonne-goal-unlikely-rice-sector> (accessed June 2017).

<sup>137</sup> Sok, C. (2015, 29 July), *Chinese loan for rice sector on hold*, Phnom Penh Post. <http://www.phnompenhpost.com/business/chinese-loan-rice-sector-hold> (accessed June 2017).

<sup>138</sup> Baliga, A. (2016, 5 January), *Rice warehouses are put back on the table in talks with China*, Phnom Penh Post. <http://www.phnompenhpost.com/business/rice-warehouses-are-put-back-table-talks-china> (accessed November 2016).

<sup>139</sup> Cheng, G. (2012, 19 November), *Rice plant helps grow Sino-Cambodian ties*, China Daily. [http://europe.chinadaily.com.cn/world/2012-11/19/content\\_15939799.htm](http://europe.chinadaily.com.cn/world/2012-11/19/content_15939799.htm) (accessed June 2017).

<sup>140</sup> Ministry of Commerce (2014), p.336.

<sup>141</sup> Thou, P. (2014, 31 July), *Cambodia's Rubber Export Increases, but Revenue Earned Rises Slightly*, Agence Kampuchea Presse. <http://www.akp.gov.kh/?p=49178> (accessed June 2017).

sourced from Cambodia and how much from Laos.<sup>142</sup> However, as noted in Table 3, China's imports of Cambodian rubber have dropped considerably in the past two years.

In January 2015, it was reported in Cambodian state media that Chinese companies have begun to purchase cassava directly from Cambodia. This purchase of 7,500 tons of cassava was loaded onto a Chinese cargo ship docked in Sihanoukville port and shipped to China. Such direct exports are important for Cambodia, as cassava crops are usually exported raw to neighbouring countries where they are processed and shipped to China. By shipping directly to China, Cambodia could potentially increase its profit margins.<sup>143</sup> Chinese buyers have signed several large deals to purchase cassava exports from Cambodia, this includes multi-million dollar deals involving *Tianguan Global Cassava Processing* purchasing 150,000 tonnes of cassava and *Ru Hui International Group* purchasing 200,000 tonnes in 2015.<sup>144</sup> As discussed in the following section, Cambodia's cassava industry is also a focus of China's aid program.

### Chinese Development Assistance to Agriculture in Cambodia

In addition to being a major investor in Cambodia, China is also one of the country's most important development partners. For many years, Japan was Cambodia's top donor, but since 2010 China has been the largest provider of development assistance, as illustrated in Figure 11 below. According to the Council for Development of Cambodia, in 2015 Cambodia received an estimated total of US\$1.34 billion in development assistance. China provided almost US\$349 million – 26% of the total amount received from all multilateral and bilateral donors.<sup>145</sup> According to Cambodia's Ministry of Finance, as of December 2013 China had provided a total of US\$2.89 billion in grants, interest free loans and concessional loans.<sup>146</sup>

<sup>142</sup> Sieam, B. (2012, 4 April), *SEA firms to ship \$2b of rubber to China*, Phnom Penh Post.

<http://www.phnompenhpost.com/business/sea-firms-ship-2b-rubber-china> (accessed June 2017).

<sup>143</sup> Chan, M. (2015, 5 January), *Direct Cassava Export to China for the First Time*, Agence Kampuchea Presse.

<http://www.akp.gov.kh/?p=56298> (accessed June 2017).

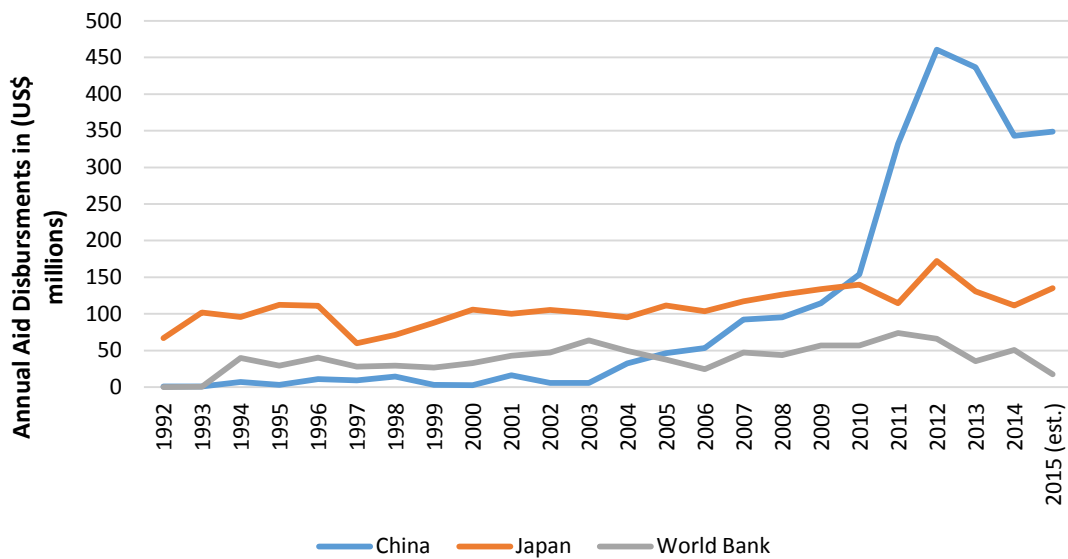
<sup>144</sup> Styllis, G. (2015, 5 January), *First Cassava Shipment of Major Deal Leaves Port*, Cambodia Daily.

<https://www.cambodiadaily.com/news/firstcassavashipmentofmajordealleavesport75322/> (accessed June 2017).

<sup>145</sup> Council for the Development of Cambodia (2016), *Development Cooperation and Partnerships Report*, Phnom Penh: Royal Government of Cambodia, p.36.

<sup>146</sup> Xinhua (2013, 4 December), *Cambodia's progress cannot be separated from China's support: PM*, Xinhuanet. [http://news.xinhuanet.com/english/china/2013-12/04/c\\_132941302.htm](http://news.xinhuanet.com/english/china/2013-12/04/c_132941302.htm) (accessed June 2017).

Figure 11: Development Assistance to Cambodia, 1992-2015<sup>147</sup>



Source: Council for the Development of Cambodia (2016)

A full quarter of China's aid to Cambodia went to the agriculture sector in 2015. That year, 15% of Cambodia's total development assistance was allocated to the agriculture sector. Of this amount over 53% (US\$87.5 million) came from China.<sup>148</sup> China's agriculture aid has supported several major irrigation projects. This includes a concessional loan from China Eximbank of RMB 291,000,000 (US\$46.5 million) to support the Prek Stung Keo Water Resources Development Project in Kampot. The Stung River Basin Water Resources Development Project also received a concessional loan from Eximbank, this time valued at RMB 329,750,000 (US\$52.72 million). Utilizing preferential buyer's credit from Eximbank, China also provided a US\$99,283,600 loan for the development of a multipurpose dam in Battambang.<sup>149</sup> These projects are just a selection of the irrigation projects funded by China Eximbank, and there are several more. In all cases the contracts for construction have been awarded to Chinese engineering companies, including *Guangdong Foreign Construction Co. Ltd.*

There are various reports of China donating equipment and machinery including tractors, vehicles, ploughs, pumps, and other agriculture equipment to the Cambodian government.<sup>150</sup> In addition, China has supported the construction of agriculture centres in Cambodia. For example, in 2014 China approved funding for construction of an agricultural school in Kratie Province. The construction contract was awarded to the Chinese firm *Yanjian Group*. At a cost of RMB 53,520,000 (US\$8.38 million), the project includes basic teaching facilities, a laboratory, offices and a lecture theatre, and covers 6,700 square meters.<sup>151</sup>

<sup>147</sup> Council for the Development of Cambodia (2016), *Development Cooperation and Partnerships Report*, Phnom Penh: Royal Government of Cambodia, p.36. Note: figures for 2015 estimated.

<sup>148</sup> Council for the Development of Cambodia (2016), p.25.

<sup>149</sup> Council for Development of Cambodia, *The Cambodia ODA Database*. <http://cdc.khmer.biz/index.asp> (accessed June 2017).

<sup>150</sup> Embassy of the People's Republic of China in Cambodia (2011, 30 May), 驻柬埔寨大使潘广学出席四川省政府向柬埔寨国会捐赠物资交接仪式 / *Ambassador to Cambodia, Pan Guangxue attended the handover ceremony as Sichuan Provincial Government donated materials to the Cambodian National Assembly*. <http://kh.china-embassy.org/chn/dssghd/t826405.htm> (accessed August 2015).

<sup>151</sup> Yanjian Group (2014, 25 November), *Cambodia Kratie Agricultural School Project Awarded to Yanjian Group*. <http://english.yanjian.com.cn/Article/ShowArticle.asp?ArticleID=151> (accessed June 2017).

Several projects in Cambodia have linked commercial and development goals. For example, in 2015 a Chinese-invested agricultural park was inaugurated which aims to broaden agricultural cooperation between the eastern Chinese city of Zhangzhou, Fujian Province, and Cambodia. The park was opened by the Chairman of Zhangzhou's Municipal Chinese People's Political Consultative Conference (CPPCC) and the governor of Cambodia's O'raing Ouv District, Tbong Khmum Province. According to the CPPCC Chairman, the project will facilitate investment from Zhangzhou and bring modern agricultural technology to help develop Cambodian agriculture. A Cambodian official stated that the project would enhance agricultural techniques and reduce poverty. As of mid-2015 the 3,000 ha park had 11 Chinese investors and was under the management of Fujian's Chamber of Commerce in Cambodia.<sup>152</sup>

Another case that illustrates well the link between Chinese agriculture aid and investment is that of the company *Guangxi Forward Agricultural Technology International Cooperation*. The company holds a 666 hectare 'demonstration base' which is split between rice cultivation, tropical fruit, and cassava production.<sup>153</sup> Located in Kampong Speu province, the establishment of the centre was funded by Chinese aid through the China-Cambodia Agricultural Promotion Center Project (CAPROC). The initial phase runs for three years with funding from the Chinese government, after which the company will take over operations for 15 years. According to the company website "In the future eighteen years, we will make CAPROC as the platform for connecting China and Cambodia as well as China and ASEAN in agricultural technology cooperation and communication."<sup>154</sup> At a cost of US\$6.7 million, the project aims to "equip farmers with techniques to respond to climate change, use more machinery in the fields, create more resilient crops, and encourage more agricultural goods to be exported," according to a Secretary of State from Cambodia's Ministry of Agriculture, Forestry and Fisheries.<sup>155</sup>

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<sup>152</sup> Xinhua (2015, 24 May), *Chinese-invested Agricultural Park Unveiled in Cambodia*, China.org.cn.  
[http://www.china.org.cn/world/Off\\_the\\_Wire/2015-05/24/content\\_35648199.htm](http://www.china.org.cn/world/Off_the_Wire/2015-05/24/content_35648199.htm) (accessed June 2017).

<sup>153</sup> Guangxi Forward Agriculture, *Company Introduction*.  
<http://www.forwordland.com/index.php?m=contentandc=indexanda=listsandcatid=34> (accessed June 2017).

<sup>154</sup> Guangxi Forward Agriculture, *Cambodia-China Agricultural Promotion Center (CAPROC) Assisted by China*.  
<http://www.forwordland.com/index.php?m=contentandc=indexanda=showandcatid=46andid=19> (accessed June 2017).

<sup>155</sup> Chan, M. (2014, 25 December), *China to fund farming centre*, The Phnom Penh Post.  
<http://www.phnompenhpost.com/business/china-fund-farming-centre> (accessed June 2017).

### Trilateral Development Assistance

A new approach to overseas development assistance being utilized by China is to engage in 'trilateral' projects with other multi and bilateral partners. For example, in 2010 China and the United Nations Development Programme (UNDP) signed a memorandum of understanding aimed at strengthening south-south cooperation. Following on from this, Cambodia was selected as a pilot country to test trilateral development assistance. This led to the establishment in 2013 of the US\$400,000 China-Cambodia-UNDP Trilateral Cooperation Cassava Project, Phase II. The project is implemented by Cambodia's Ministry of Agriculture, Forestry and Fisheries, China's MOFCOM, and supported by the UNDP.<sup>156</sup>

Phase I of this project was implemented bilaterally between China and Cambodia in 2011. This involved 30 academic and government staff from Cambodia travelling to China for training and meetings aimed at building technical capacity.<sup>157</sup> Phase II focused on strengthening Cambodia's cassava supply chains in order to facilitate increased exports to China. The project covers the various levels of the supply chain, including farmers, processors, traders and exporters, and seeks to develop the skills necessary to produce high quality cassava suitable for export. This includes working with farmers on techniques and managing environmental impacts, as well as training exporters on how to meet necessary standards for things such as packaging and certification.

China is also engaged in a trilateral project involving the Australian Government: the Cambodia–China–Australia Irrigation Project.<sup>158</sup> Beyond Cambodia, China has also agreed to develop trilateral activities with the FAO, and in June 2015 signed an agreement worth US\$50 million to "support developing countries in building sustainable food systems and inclusive agricultural value chains". This contribution to the FAO-China South-South Cooperation Trust Fund will support exchanges of Chinese agricultural experts with countries in the global South, particularly in low-income countries in Central Asia, the Pacific Islands, Africa and Latin America.<sup>159</sup>

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<sup>156</sup> UNDP (2013, 22 May), *Cambodia, China and UNDP launch joint cassava project*.

<http://www.kh.undp.org/content/cambodia/en/home/presscenter/pressreleases/2013/05/22/cambodia-china-and-undp-launch-joint-cassava-project.html> (accessed June 2017).

<sup>157</sup> UNDP (no date), *Cambodian officials complete training in cassava cultivation techniques in China*.

<http://www.kh.undp.org/content/cambodia/en/home/ourwork/povertyreduction/successstories/cambodia-n-officials-complete-training-in-cassava-cultivation-tec.html> (accessed June 2017).

<sup>158</sup> Australian Government, Department for Foreign Affairs and Trade (no date), *Aid Program Performance Report 2012–13 Australian Mekong Water Resources Program*. <http://dfat.gov.au/about-us/publications/Documents/mekongwater-appr-2012-13.pdf> (accessed June 2017).

<sup>159</sup> FAO (2015, 7 June), *China signs 50 million South-South Cooperation Agreement with FAO*. <http://www.fao.org/news/story/en/item/289386/icode/> (accessed November 2016).



## Agriculture Investment in Cambodia: Opportunities and Challenges

The private sector in Cambodia employs a large percentage of the workforce, and due to Cambodia's youthful population, new job creation is vital. Thousands of new workers enter the labour force each year, but the lack of opportunities within Cambodia is driving many Cambodians to seek work in other countries, often without appropriate documentation. Migrant workers are often exposed to exploitation and other risks.<sup>160</sup> Generation of stable and well-paid employment at home could potentially dissuade more people from seeking work abroad. Currently, many young people are leaving rural areas due to the lack of opportunities, and investment in agriculture can *potentially* raise salaries, provide job security, and improve living standards in the countryside. However, as discussed below, many of the agricultural concessions granted in Cambodia have not been developed, which means in many cases that employment opportunities are unlikely to have been generated.

Of the three countries subject to this study, Cambodia has published the most detailed information on foreign investment, and documents are available online which can help to paint a broad picture of foreign investment in agriculture. While basic information is available regarding the granting of most land concessions, the Cambodian Government does not maintain accurate and up-to-date public databases of these concessions. Many have since changed hands, been cancelled, reduced or simply left dormant. It is therefore difficult to ascertain which are still active and where their boundaries lie. This lack of transparency has caused serious concern among civil society groups and other agencies.<sup>161</sup>

Legal compliance is a major issue in Cambodia. A particular area of concern has been the lack of implementation of the law related to economic land concessions. According to the 2001 Land Law, ELCs should not exceed 10,000 hectares, and it is not legal for a single person or company to control multiple concessions totalling more than 10,000 hectares. Concession holders must begin operations within one year of receiving a concession and it is illegal to use the land for a purpose other than that specified in the concession contract. ELCs also require public consultation prior to granting, and should first be subject to an environmental impact assessment.<sup>162</sup> Despite the various regulations set out in Cambodian law, many concessions have been found to be in breach.<sup>163</sup>

The stated aim of the ELC mechanism is to develop the country's agro-industrial capacities and increase outputs. However, despite the fact that the law requires concession holders to commence development within one year of signing the concession contract, most concessions have never been fully developed. According to the 2013-14 annual report of Cambodia's Ministry of Agriculture, Forestry and Fisheries, less than 20% of the land that had been granted as ELC had actually been utilized for agro-industrial development.<sup>164</sup> Despite granting almost 2 million hectares of land to companies for agriculture purposes, as of 2016, agricultural products made up around 5% of all Cambodia's exports in terms of value.<sup>165</sup>

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<sup>160</sup> Baker, S. (2015), *Migration experiences of Cambodian workers deported from Thailand in 2009, 2010 and 2012*, Bangkok: UNDP.

<sup>161</sup> Grimdsitch, M. and Schoenberger, L. (2015), *New Actions and Existing Policies: The Implementation and Impacts of Order 01*, Phnom Penh: NGO Forum Cambodia, pp.60-66.

<sup>162</sup> Land Law (2001); RGC (2005), *Sub-decree #146 on Economic Land Concessions*, 27 December.

<sup>163</sup> Grimdsitch, M. and Schoenberger, L. (2015), pp.83-84.

<sup>164</sup> Ministry of Agriculture, Forestry and Fisheries (2014), *Ministry of Agriculture, Forestry and Fisheries Annual Report 2013-2014*, Phnom Penh: MAFF, p.64.

<sup>165</sup> Trade Map, [http://www.trademap.org/\(X\(1\)S\(ou1pah45jplnfh55kfegl055\)\)/Product\\_SelCountry\\_TS.aspx](http://www.trademap.org/(X(1)S(ou1pah45jplnfh55kfegl055))/Product_SelCountry_TS.aspx) (accessed June 2017).

In addition to the lack of productivity, disputes between concession holders and local people have dominated the local and international media for years, and ELCs have become widely associated with dispossession and land conflict.<sup>166</sup> The local NGO LICADHO reported in 2012 that in the 12 provinces where it has offices it had recorded 654 disputes involving the land of 85,000 families, approximately 400,000 people.<sup>167</sup> Some of these people have lost lands and homes to make way for public infrastructure, but most disputes are connected to private investment, often through ELCs.

Chinese concession holders have become involved in conflicts with local people. In one of the more high profile cases, a Chinese company operating through five locally registered subsidiaries has been accused by villagers in Preah Vihear province of clearing their farmland, resin trees and community forest areas.<sup>168</sup> In total the company was granted over 40,000 hectares under a 99 year lease, and established five different local subsidiaries in order to circumvent legal limitations on the total ELC area a single company can receive.<sup>169</sup> Disputes between the company and local people have at times become heated, and in 2014 villagers took two company workers hostage and confiscated bulldozers.<sup>170</sup> At the time of writing, this conflict is still ongoing. This is just one example, but a brief search of media and civil society reports will quickly reveal dozens more land conflicts involving both domestic and foreign concession holders in Cambodia.

For the last decade, civil society groups have lobbied the government to address these issues. The Cambodian Government often dismissed criticisms of the concession mechanism, but also admitted that “large areas under economic land concessions have not been utilised efficiently as targeted, needing strict government measures to tackle them.”<sup>171</sup> Finally, in May 2012 the Cambodian Government issued an Order which suspended new ELCs and called for a review of all existing ELCs. Between May 2012 and early 2015 many concessions were reduced in size and some were cancelled entirely.<sup>172</sup> Chinese concessions were also caught up in this review and had land taken back by the government due to failure to cultivate or comply with contract terms and legal regulations.

During the fieldwork for this report, the author met with several civil society groups working on community development, human rights and corporate accountability issues. One local NGO director explained that Chinese companies often behave differently according to their size, with larger companies more concerned about their image than small and medium size enterprises. He explained that in some cases staff from large companies have joined public meetings and consultations with local people, whereas smaller companies are less likely to be open to engagement. Smaller companies often do not know about, understand or respect local laws, in the opinion of this interviewee, and fail to

<sup>166</sup> Surya P. Subedi (2012), *Report of the Special Rapporteur on the situation of human rights in Cambodia*, Surya P. Subedi, *Addendum: A human rights analysis of economic and other land concessions in Cambodia*, Human Rights Council 21<sup>st</sup> Session, 11 October 2012.

<sup>167</sup> Licadho, *The Great Cambodian Giveaway: Visualizing Land Concessions over Time*. [http://www.licadho-cambodia.org/concession\\_timelapse/](http://www.licadho-cambodia.org/concession_timelapse/) (accessed June 2017).

<sup>168</sup> Chin, C. (2013, 30 January), *Chinese Sugar Firms Accused of Land Grabbing*, Cambodia Daily.

<sup>169</sup> The local subsidiaries are Rui Feng, Lan Feng, Heng You, Heng Rui, and Heng Non. See company profiles on Open Development Cambodia: <http://www.opendevdevelopmentcambodia.net/company-profiles/economic-land-concessions/> (accessed June 2017).

<sup>170</sup> Phak, S. and May, T. (2015, 2 January), *Preah Vihear villagers win small concession*, Phnom Penh Post. <http://www.phnompenhpost.com/national/preah-vihear-villagers-win-small-concession> (accessed June 2017).

<sup>171</sup> Royal Government of Cambodia (2010), *National Strategic Development Plan Update 2009-2013*, 30 June 2010, Phnom Penh: RGC, p.10.

<sup>172</sup> Grimdsditch, M. and Schoenberger, L. (2015), *New Actions and Existing Policies: The Implementation and Impacts of Order 01*, Phnom Penh: NGO Forum Cambodia, pp.83-84.

communicate with local people.<sup>173</sup> Another interviewee explained that in some cases, even local officials do not have information on development projects in their area because companies only communicate with higher level authorities. Foreign investment in land has caused serious challenges for this organization and its partners. In some cases, after spending years supporting community development in a certain area, that land has been granted by the government to private actors, including Chinese companies, with minimal consultation with local people.<sup>174</sup>

One NGO interviewee explained that in cases where families lose land or access to resources due to domestic or foreign investments, the impacts on women are often more severe. For example, in some areas of Cambodia communities rely on forest products, such as bamboo, rattan, fruit, nuts, and honey, to supplement their income. In cases where forest access is lost, men must travel further to find the products they need for family consumption and to sell at the market. As forest products become more scarce men may spend many days in the forest, leaving the women to take care of the home, children, and the day-to-day tasks that they normally do, including farming, vegetable growing, small business, and so on. In such cases the burden and responsibility that falls on women is disproportionately high.<sup>175</sup>

Much work has gone into liberalizing Cambodia's environment for private investment and in recent years there has been an influx of foreign investment, including from China. However, implementation of laws and regulations that should mitigate the impacts of development projects is still seriously lacking. Incoming investors need to be aware of this context, ensure that they have a sound awareness and understanding of regulations, and communicate with local people in order to ensure that the social and environmental impacts are avoided or mitigated, and that benefits are shared. The move towards industrialized agriculture has the potential to impact on the food security of people who depend on the land. It is therefore crucial that while supporting the development of Cambodia's agriculture sector, Chinese investors do not only focus on large-scale agriculture investments, but also pay attention to the needs of small-holders and assist them to increase productivity and access local and regional markets.

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<sup>173</sup> Interview with program officer of international NGO, October 2014.

<sup>174</sup> Interview with director of local NGO in Phnom Penh, October 2014.

<sup>175</sup> Interview with director of local NGO in Phnom Penh, October 2014.

## Chinese Agriculture in Laos

### The Agriculture Sector of Laos

World Bank data indicates that in 2015 agriculture accounted for over 27% of Laos' GDP.<sup>176</sup> As of 2014, 70% of the country's workforce were engaged in agriculture work, with the most common crop being rice.<sup>177</sup> Other crops grown in Laos include maize, vegetables, fruits, coffee, tea, spices, sugarcane and cotton.<sup>178</sup> Laos has extensive natural resources, including timber, agricultural products, water resources, and minerals such as gold, copper, zinc, tin and lead. Although resource rich, Laos is a least developed country and the poorest nation in Southeast Asia. The Government of Laos is promoting foreign direct investment in order to reduce dependence on aid and promote economic development.<sup>179</sup> Development of the country's natural resources is seen as crucial for increasing national revenue and eradicating poverty, and the government has identified hydropower, mining, tourism, and the timber and agricultural processing industries as priority areas for investment.<sup>180</sup> This growth strategy includes a focus on modernizing agriculture "in a manner that fully meets sustainable practices and that achieves food security and better livelihoods for all Lao people".<sup>181</sup> Laos' Agricultural Development Strategy seeks to promote a transition away from subsistence agriculture towards commercial agricultural production.<sup>182</sup>

According to Laos' Ministry of Planning and Investment, agriculture was the third largest target for foreign investment between 1989 and 2015. During this period, the government approved 990 projects worth over US\$2.9 billion.<sup>183</sup> Two principle approaches utilized by private investors are land concessions and contract farming. Concessions can be granted at the national or provincial level and tend to last 30-35 years.<sup>184</sup> As in Cambodia, concessions have proved controversial, and since 2007 the government has issued several moratoriums on the granting of new concessions. This includes a suspension on new concessions for rubber, eucalyptus and mining, which at the time of writing is still in place (although its enforcement is questionable).<sup>185</sup> Contract farming has also been utilized by foreign investors, especially in the rubber sector.<sup>186</sup> This was actively promoted by local governments during the time of the rubber boom, but since the boom has passed, a more common mechanism has been for farmers to lease land directly to companies. This is discussed below in relation to banana and other fruit farms.

<sup>176</sup> World Bank (2016), *Agriculture, value added (% of GDP)*.

<http://data.worldbank.org/indicator/NV.AGR.TOTL.ZS?locations=LA> (accessed November 2016).

<sup>177</sup> World Bank (2014), *Lao Development Report 2014: Expanding Productive Employment for Broad-based Growth*, Washington DC: World Bank Group, p.25.

<sup>178</sup> Campbell, R., Knowles, T. and Amphaphone, S. (2012), *Business Models for Foreign Investment in Agriculture in Laos*, Geneva: The International Institute for Sustainable Development, p.6.

<sup>179</sup> Ministry of Planning and Investment, UNDP and UNEP (2011, 18 May), *Press Release: Presenting the new National Investment Strategy for quality Foreign Direct Investments in Lao PDR*, Vientiane. [http://www.unpei.org/sites/default/files/dmdocuments/Press%20release\\_sustainable%20investment%20for%20um\\_18\\_19%20may%202011.pdf](http://www.unpei.org/sites/default/files/dmdocuments/Press%20release_sustainable%20investment%20for%20um_18_19%20may%202011.pdf) (accessed June 2017).

<sup>180</sup> Lao People's Democratic Republic (2004), *National Growth and Poverty Eradication Strategy (NGPES)*, Vientiane: Ministry of Planning and Investment, p.5.

<sup>181</sup> Lao People's Democratic Republic (2004), p.53.

<sup>182</sup> Campbell, R., Knowles, T. Amphaphone, S. (2012), *Business Models for Foreign Investment in Agriculture in Laos*, Geneva: The International Institute for Sustainable Development, p.11.

<sup>183</sup> Ministry of Planning and Investment, <http://www.investlaos.gov.la/> (accessed November 2016).

<sup>184</sup> Campbell, R., Knowles, T. and Amphaphone, S. (2012), *Business Models for Foreign Investment in Agriculture in Laos*, Geneva: The International Institute for Sustainable Development, p.20.

<sup>185</sup> Campbell, R. et al (2012), p.21.

<sup>186</sup> For an in-depth look at the concession and contract farming models used in northern Laos, see Shi, W (2008), *Rubber Boom in Luang Namtha: A Transnational Perspective*, Vientiane: GTZ.

## Chinese Agriculture Investment and Trade in Laos

As a land-locked nation, Laos depends on maintaining strong diplomatic, commercial and trade links with its neighbours. China, Vietnam and Thailand are therefore major trading partners and the top three investors in Laos. Over the last decade, China's influence in the country has grown and it is now the country's largest foreign investor. Trade between Laos and China has increased significantly in recent years, and in 2015 China's exports from Laos exceeded US\$1.3 billion. Almost one third of this was wood and wood products, but over US\$150 million concerned agriculture products.<sup>187</sup> The table below shows Laos' top agriculture exports to China in 2015 as reported by UN COMTRADE, although it should be noted that this will not include unreported border trade.<sup>188</sup>

**Table 4: Top 5 Lao Agriculture Exports to China, 2012-2015 (US\$)**

Product	2012	2013	2014	2015
<i>Rubber</i>	53,622,000	80,376,000	78,439,000	71,001,000
<i>Maize</i>	13,124,000	26,490,000	35,848,000	39,301,000
<i>Rice</i>	6,432,000	5,743,000	6,830,000	22,993,000
<i>Beans &amp; oil seeds</i>	9,748,000	14,099,000	17,724,000	17,070,000
<i>Tea</i>	337,000	355,000	981,000	1,172,000

*Source: International Trade Centre calculations based on UN COMTRADE data (2016)*

According to the Ministry of Planning and Investment of Laos, between 1989 and 2015, the government recorded 834 investment projects worth a combined value of almost US\$5.5 billion from China. China is followed by Thailand (US\$4.5 billion) then Vietnam (US\$3.6 billion).<sup>189</sup>

<sup>187</sup> Trade Map, [http://www.trademap.org/tradestat/Bilateral\\_TS.aspx](http://www.trademap.org/tradestat/Bilateral_TS.aspx) (accessed November 2016).

<sup>188</sup> Trade Map, [http://www.trademap.org/tradestat/Bilateral\\_TS.aspx](http://www.trademap.org/tradestat/Bilateral_TS.aspx) (accessed November 2016).

<sup>189</sup> Ministry of Planning and Investment: Investment Promotion Department, *All Approved Investment Projects by Country*, [http://www.investlaos.gov.la/images/Statistics/rpt\\_Invest\\_Summary\\_Country1A1989-2015.pdf](http://www.investlaos.gov.la/images/Statistics/rpt_Invest_Summary_Country1A1989-2015.pdf) (accessed November 2016).

**Table 5: Top Foreign Investors in Laos (projects and value), 1989 - 2015**

Number of Approved Projects			Value of Approved Projects		
Country	#	% of total	Country	US\$	% of total
China	834	24	China	5,484,429,971	30
Thailand	748	22	Thailand	4,491,684,613	25
Vietnam	417	12	Vietnam	3,574,681,539	20
South Korea	291	8	Malaysia	812,558,773	4
France	223	6	South Korea	751,072,139	4
United States	114	4	France	490,626,243	3
Malaysia	103	3	Japan	438,267,441	2
Japan	102	3	Netherlands	434,466,484	2
Australia	87	3	Norway	346,435,550	2
Other	535	15	Other	1,400,415,055	8
<b>Total</b>	<b>3454</b>	<b>100</b>	<b>Total</b>	<b>18,224,637,808</b>	<b>100</b>

Source: Lao PDR Ministry of Planning and Investment, Investment Promotion Department (2016)

As is the case in Cambodia, the figures released by Laos' investment department refer to *approved* rather than *actual* investment. It is therefore likely that, as in Cambodia, there is a gap between the amount of approved investment and the amount that is actually realized.

According to a 2013 report from China's state news agency, *Xinhua*, the Chinese government had recorded around 700 Chinese enterprises active in Laos. Of these companies around 20 were central state-owned enterprises and the rest private companies.<sup>190</sup> There may be many more small and medium Chinese enterprises that are not recorded as they do not go through formal investment procedures on either side of the border. In many cases, small companies and individuals from Yunnan bring money across the border in order to invest in small scale projects including plantations.<sup>191</sup> Detailed and up to date statistics on the number and nature of Chinese investments are difficult to locate, but as of 2011, according to one study, there were 67 licensed agricultural projects worth US\$233 million invested by Chinese companies. Almost two thirds of this investment occurred in the five-year period between 2006 and 2011.<sup>192</sup>

Many of those interviewed by the author in Laos stated that it is often difficult to ascertain exactly which actors are involved in agriculture investments, especially in the north of the country which borders China and is a hotspot for overland investment and trade. Some projects that appear to be domestic in fact have a Chinese backer. Agricultural value chains also tend to have many levels and involve multiple actors. For example, local farmers may grow and harvest rubber, which is then bought by a local buyer, the buyer may then sell to a company that can do basic processing of the rubber after which it can be sold on again. Eventually it may be sold to a Chinese company that can import to China, often through the opium substitution program, which provides tariff free status to approved investments

<sup>190</sup> Xinhua (2013, 29 March), 独家：中国企业在老挝各显神通, Xinhuanet.

[http://news.xinhuanet.com/cankao/2013-03/29/c\\_132271125.htm](http://news.xinhuanet.com/cankao/2013-03/29/c_132271125.htm) (accessed June 2017).

<sup>191</sup> Global Environmental Institute (2014), *Mekong Sustainable Landscapes: Scoping Study of Chinese SOEs in Lao PDR*, Beijing: GEI, p.36.

<sup>192</sup> Onphanhdala, P. and Suruga, T. (2013) *Chinese Outward FDI in Agriculture and Rural Development: Evidence from Laos*, GSICS Working Paper Series #25, Kobe University: Graduate School of International Cooperation Studies, p.11.



(discussed in more detail below). In some cases, Chinese companies buy directly from producers, or they may use a local partner to do so.

Much of China's agriculture investment is concentrated in the northern provinces that share a border with China, although Chinese companies are also active elsewhere in the country. For the most part, companies active in the north operated through contract farming agreements with local farmers, but in recent years the use of land rental agreements has become increasingly common. Although there have been a number of reports regarding large agricultural concessions granted to Chinese companies, it appears that few of these concessions have been fully developed.<sup>193</sup> The main crops being cultivated by Chinese companies include rubber, sugarcane, maize, bananas, cassava and tree crops such as teak and eucalyptus. Agribusiness investments are driven by external demands, i.e. the markets in Thailand, Vietnam and China.<sup>194</sup>

In November 2006, China and Laos signed a joint statement committing to strengthen trade between the border provinces and create favourable conditions for bilateral trade. The statement called for trade to be combined with anti-drug cooperation, contributing to development of alternative cultivation industries in border areas.<sup>195</sup> In recent years the Chinese government has committed strong support to the opium substitution program in Laos.

#### China's Opium Substitution Program

Much of China's rubber investment in Laos and Myanmar is connected to the opium substitution program. This program has been the subject of detailed study elsewhere, and interested readers are recommended to refer to *Financing Dispossession* published by the Transnational Institute.<sup>196</sup> Companies operating through the opium substitution program receive subsidies, access to credit, reduced restrictions on movement of labour and equipment, and exemption from tariff and import taxes on products produced under the program.<sup>197</sup> According to a 2008 study on rubber in Luang Namtha Province:

All large investors are supported by the Chinese government through opium replacement subsidies. Their senior management is exclusively Han with strong governmental ties, some formerly holding official posts. Their predominant mode of operation in Laos is extensive subcontracting and partnership with the existing Chinese communities and employing Chinese Akha and Leu personnel to bridge cultural and language gaps. They also buy existing establishments from small investors who lack funds or capacity to continue the plantations.<sup>198</sup>

According to an official from China's Ministry of Public Security quoted in a 2014 *China Daily* article, China allocated RMB 500 million (US\$80.2 million) to Myanmar and Laos along with technical assistance during

<sup>193</sup> This was confirmed by various interviewees in Laos, who stated that many concessions were granted by the government, but at the local level there was inadequate land to provide to investors. This led to companies cutting back their developments or using other models such as contract farming.

<sup>194</sup> Baumüller, H. and Lazarus, K. (2012), *Agribusiness Investment in Lao PDR: Opportunities and challenges for poverty reduction*, Yunnan: Yunnan Science and Technology Press.

<sup>195</sup> Central People's Government of the People's Republic of China website (2006), *Joint Statement Between China and Laos*, 20 November. [http://www.gov.cn/gongbao/content/2007/content\\_487046.htm](http://www.gov.cn/gongbao/content/2007/content_487046.htm) (accessed June 2017).

<sup>196</sup> Woods, K. & Kramer, T. (2012), *Financing Dispossession: China's Opium Substitution Programme in Northern Burma*, Amsterdam: Transnational Institute. <https://www.tni.org/en/publication/financing-dispossession> (accessed November 2016).

<sup>197</sup> Shi, W. (2008), *Rubber Boom in Luang Namtha: A transnational perspective*, Vientiane: GTZ, p.21.

<sup>198</sup> Shi, W. (2008), p.49-50.

2013 in order to support development of plantations. The ministry stated that to date Myanmar and Laos had implemented more than 200 alternative planting projects under the program.<sup>199</sup> The most popular crop developed under the program is rubber, but companies have invested in various other crops including maize, rice, banana and watermelon.<sup>200</sup>

Media in Laos and China has reported on a number of very large deals being struck between Chinese companies and the Government of Laos concerning the development of rubber concessions in the north. For example, in 2007 an agreement was made with *Yunnan State Farms* to develop rubber plantations with an investment of up to US\$120 million across 2.5 million mu (166,666 hectares) in Laos' four northern provinces. Under the agreement, *Yunnan State Farms* agreed to plant and develop 500,000 mu (33,333 hectares) of rubber plantations itself, and promote the development of the remaining 2 million mu (133,333 hectares) by local producers, who would then sell tapped rubber to the company.<sup>201</sup> Although this deal was signed back in 2007, progress on the ground has been limited, in part because villages refused to give up land.<sup>202</sup> A declaration posted on Kunming's Provincial Government website states that as of 2013 the company had only planted 5,946 hectares of rubber.<sup>203</sup>

Although several large land deals have failed to come to fruition, rubber production in the north of Laos is largely dominated by Chinese companies. Several companies have secured concessions, for example, *China-Lao Ruifeng Rubber*, which is a joint-venture between a Kunming-based company and the Luang Namtha provincial military. This company received a massive concession although it was eventually reduced to a fraction of the original size (returned to below).<sup>204</sup> The company *Yunnan Power Biological Products* holds agreements for agro-industrial development in several provinces, including at least five concessions in Vientiane Province totalling over 4,000 hectares, including rubber plantations.<sup>205</sup>

The concession system in Laos differs from that in Cambodia, where a company is generally granted a single area of land and given the right to develop the majority of the land contained within (excluding public properties such as roads, rivers, etc.) In Laos, a concessionaire receives approval from either national or provincial authorities to develop a certain amount of land in principle, but then needs to reach agreement with local authorities on which specific areas they can develop. Some companies that have been granted large concessions have struggled to secure land, or have developed multiple

<sup>199</sup> Zhang, Y. and Chen, M. (2014, 25 June), *China vows to expand support for neighbors' drug fight*, China Daily. [http://usa.chinadaily.com.cn/epaper/2014-06/25/content\\_17614596.htm](http://usa.chinadaily.com.cn/epaper/2014-06/25/content_17614596.htm) (accessed June 2017).

<sup>200</sup> Woods, K. (2015), *Commercial Agriculture Expansion in Myanmar: Links to Deforestation, Conversion Timber, and Land Conflicts*, Washington DC: Forest Trends, p.44.

<sup>201</sup> Ministry of Commerce Website (2007, 8 July), *老挝云南加大橡胶种植合作 / Laos and Yunnan to Increase Cooperation in Rubber Plantations*. <http://www.mofcom.gov.cn/aarticle/difang/yunnan/200708/20070805031713.html> (accessed June 2017).

<sup>202</sup> Shi, W. (2008), p.36.

<sup>203</sup> Kunming Provincial Government website (2013, 28 November), *关于昆明市替代企业 2014 年境外罂粟替代种植返销国内农产品进口计划申报情况的公示 / Kunming Alternative Enterprise 2014 Overseas Opium Crop Substitution Plan to Declare the Import of Agricultural Products Sold Back to the Domestic Market*. [http://www.km.gov.cn/structure/sylm/gsggxx\\_250327\\_1.htm](http://www.km.gov.cn/structure/sylm/gsggxx_250327_1.htm) (accessed August 2015).

<sup>204</sup> Shi, W. (2008), p.16; Flanagan, A. (2013), *Australia–Laos Timber Chain of Custody Capacity Building Project*, Australian Centre for International Agricultural Research. [http://aciarc.gov.au/files/node/15281/fr2013\\_06\\_australia\\_laos\\_timber\\_chain\\_of\\_custod\\_14476.pdf](http://aciarc.gov.au/files/node/15281/fr2013_06_australia_laos_timber_chain_of_custod_14476.pdf) (accessed June 2017).

<sup>205</sup> Schoenweger, O. and Üllenberg, A. (2009), *Foreign Direct Investment (FDI) in Land in the Lao PDR*, Vientiane: GTZ.

scattered plantations. These plantations may be subject to different conditions. For example, a single company may hold various rubber plantations under concession, land lease, contract farming agreements, and/or demonstration plantations.<sup>206</sup>

As noted above, many Chinese investors have utilized contract farming arrangements with local producers. In October 2005, Luang Namtha, Bokeo, and Oudomxay provinces made an official agreement to avoid granting land concessions for rubber, and instead to promote the contract farming following a model in which villagers contribute the land and labour, the investors provide the capital, technical skills, and market access. Under this scheme the general rule is that villagers get 70% of the profits and the investor 30%.<sup>207</sup> The extent to which this has actually been implemented on the ground is unclear. Academic researchers found that local people were reluctant to engage in contract farming under these terms as rubber plantations do not offer returns until the trees are mature, which takes 7 years.<sup>208</sup>

In addition to investment in rubber, Chinese investors are also active in rice production and milling, vegetables, dairy and livestock. In the north, Chinese companies are producing cassava, sugarcane, maize, and fruits such as watermelon for export to China.<sup>209</sup> According to a 2008 study looking at contract farming in Luang Namtha Province, the *Lao-Yunnan Power Biological Products Company* held the monopoly for cassava planting in the province and export to China, and the *Mengpeng Sugar Manufacturing Company* held similar rights for sugarcane – both operating under the opium replacement program.<sup>210</sup> In recent years banana plantations have also become a major focus of Chinese investors, in particular in the north, which now exports tens of thousands of tonnes of bananas to Yunnan Province every year.<sup>211</sup> Banana plantations have raised concerns regarding environmental pollution. This is returned to below.

### Chinese Development Assistance to Agriculture in Laos

China is an important development partner of Laos, and according to a 2015 report by the Laos-China Cooperation Commission, China's development assistance to Laos had exceeded RMB 2.35 billion (US\$368 million), including RMB 800 million in the form of grants, RMB 400 million yuan as interest-free loans, over RMB 1 billion in concessional loans.<sup>212</sup> Although details of China's aid commitments to Laos are limited, media coverage indicates that a number of high profile agriculture projects have been supported by China's aid program.

The governments of Laos and China have agreed to establish a "modern agriculture development zone" in Savannakhet Province, southern Laos, which aims to produce high quality rice products for export to the Chinese market. The agreement was subject to a memorandum of understanding between the Lao Ministry of Agriculture, Savannakhet Provincial Agriculture and Forestry Department, and the Chinese company *Xuanye (Lao) Sole Co., Ltd.* The company operates in a 2,000 ha area in Savannakhet

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<sup>206</sup> Thongmanivong, S. (2009), *Concession or Cooperation? Impacts of Recent Rubber Investment on Land Tenure and Livelihoods: A Case Study from Oudomxai Province, Lao PDR*, Bangkok: National University of Laos (NUoL), Rights and Resources Initiative (RRI) and the Regional Community Forestry Training Center for Asia and the Pacific (RECOFTC).

<sup>207</sup> Shi, W. (2008), p.3.

<sup>208</sup> Shi, W. (2008).

<sup>209</sup> Vientiane Times (2014, 13 December), *Banana exports in Luang Namtha exceed 60 billion kip*.

<sup>210</sup> Diana, A. (2008), *Navigating the Way through the Market: A First Assessment of Contract Farming in Luang Namtha*, Vientiane: GTZ, p.13.

<sup>211</sup> Vientiane Times (2015, 19 August), *Oudomxay improves environmental measures for banana plantations*.

<sup>212</sup> Vientiane Times (2015, 21 May), *China's financial assistance hits 3,077 billion kip, cooperation grows*.

utilizing a contract farming model. In order to increase rice outputs, the company plans to develop a new agriculture development zone where it will conduct research on new seed varieties, demonstrate planting techniques and use of machinery, grain drying and selection, processing, packaging and warehousing. The deal was facilitated by the Chinese government, which has agreed to purchase a quota of 8,000 tonnes of rice in 2015-16. This tri-lateral arrangement provides another example of China's merging of bilateral assistance and commercial operations.<sup>213</sup>

China also supported the construction of the China-Laos Technical Centre in Oudomxay Province, northern Laos. Lao media reported that construction of the centre was supported by a RMB 40 million (US\$6.3 million) grant from China and the construction contract was awarded to *Yunnan Native Produce Import and Export Company*.<sup>214</sup> The centre has now been handed over to the Government of Lao. In addition to teaching facilities, the centre has a seedling nursery and demonstration gardens. The project has three phases: construction, training Lao agriculture technicians, and finally, "economic cooperation", which involves linking the centre to Chinese companies in order to develop projects which both generate profit and support the running of the centre.<sup>215</sup> There is little information available regarding the operation of the centre since it was formerly opened, however, an agriculture expert working in the area stated during an interview that very little training had occurred there as of mid-2015.

### Agriculture Investment in Laos: Opportunities and Challenges

Chinese agriculture aid and investment in Laos has the potential to contribute to the modernization of agriculture techniques and increase productivity. This has the potential to increase incomes of local farmers, as well as tax revenues and exports. As a major purchaser of agriculture products from Laos, it is also in China's interest to support the development of its neighbour's agriculture sector. However, Laos faces many of the same challenges encountered in Cambodia, with weak rule of law and undeveloped legal frameworks and/or lack of implementation heightening the risk of land conflict. In some areas, local people have benefited from increased employment and income as a result of foreign investment in agriculture, but there is also evidence to suggest that working conditions on some plantations are poor. In particular, minimal protective gear is provided to farm labourers who are exposed to chemicals on a regular basis. Lao media has reported on numerous incidents of chemical poisoning, including on Chinese banana plantations (which are returned to below).<sup>216</sup> Chemicals are often imported informally overland in containers with Chinese, Thai and Vietnamese labels, but no local language instructions.<sup>217</sup>

Investment in processing facilities has the potential to make a significant contribution to revenues generated through agriculture in Laos. A large amount of Lao produce has simply been exported raw or with only basic processing. For example, until 2009, domestic processing of rubber was limited and most output was exported raw. A number of processing plants have now been established, several by

<sup>213</sup> Vientiane Times (2015, 20 May), *China to establish modern agriculture development zone in Savannakhet*. <http://en.vietstock.com.vn/2015/05/china-to-establish-modern-agriculture-development-zone-in-savannakhet-71-202711.htm> (accessed June 2017).

<sup>214</sup> Vientiane Times (2009, 30 December), *Agriculture demonstration centre to benefit northern farmers*.

<sup>215</sup> Department of Commerce of Yunnan Province (2012, 27 April), 老挝国家主席朱马里视察援老农业技术示范中心 / *Lao President Choummaly inspected Laos agricultural technology demonstration centre*. <http://www.bofcom.gov.cn/bofcom/432933820128296960/20120427/322178.html> (accessed June 2017).

<sup>216</sup> Vientiane Times (2016, 30 September), *Inspectors Invest Banana Plantation After Workers Fall Ill*.

<sup>217</sup> See for example, photographs from Lao Uplands, showing Chinese banana and Thai maize plantations: <https://www.flickr.com/photos/33057984@N00/> (accessed November 2016).

Chinese companies. Since the establishment of these plants, export of raw rubber has declined while export of rubber blocks has increased – potentially increasing revenues for Laos.<sup>218</sup>

While promotion of agricultural diversification is important, several individuals interviewed for this report expressed concern that government policies and investor priorities were pushing farmers away from producing their staple crops and in the direction of mono-cropping cash crops. The volatility of global agriculture commodity markets raises serious concerns for the livelihoods and food security of farmers that abandon food crops to produce cash crops for export, especially if they focus on a single crop. Unfortunately, the fall in global rubber prices has impacted significantly on the relatively young rubber industries of Laos and Myanmar, and many of the rubber trees planted during the rubber boom by both companies and smallholders have now come to maturity, but remain untapped due to drastically reduced global rubber prices and labour shortages.<sup>219</sup>

Large-scale land concessions have been controversial and in a number of cases have resulted in land disputes. The investment of *China-Lao Ruifeng Rubber* (mentioned earlier) is one such case. The company is a joint venture between a Chinese company and the military headquarters of Long district, Luang Namtha province.<sup>220</sup> Operating through the opium substitution program, the project was established to export rubber to Yunnan province.<sup>221</sup> According to a 2012 study of the project published by an environmental NGO, the company paid only minimal compensation to affected people, and depletion of the area's natural resources changed local livelihoods so drastically that residents faced food insecurity after the project commenced. Many local people previously used shifting agriculture methods to grow rice, but this is no longer possible due to the reduction in available land. The company later cleared highlands and villagers who protested reported that they faced intimidation from the military.<sup>222</sup>

Concessions are often popular with investors as they grant control over a large area of land for extended periods of time. In theory, the inflow of foreign capital and expertise stimulated by concessions can assist with modernization of agriculture practices and increase outputs. However, there is minimal transparency around the terms of concession contracts, and in order to attract investors, concessions have been granted under terms that are favourable to investors, but which generate minimal revenue for the state.<sup>223</sup> The effectiveness of the concession model and its ability to generate employment has been questioned by various observers, including by the World Bank, which stated in its 2014 development report for Laos:

<sup>218</sup> Ministry of Agriculture and Forestry of Lao PDR (2013), *Rubber Value Chain Concept of Luang Namtha Province (2013-2025)*, Vientiane: MAF.

<sup>219</sup> Shi, W. (2015), *Field Notes: Rubber Boom in Luang Namtha - Seven Years Later*, [http://pages.ucsd.edu/~w3shi/rubber boom in luang namtha seven years later.pdf](http://pages.ucsd.edu/~w3shi/rubber_boom_in_luang_namtha_seven_years_later.pdf) (accessed June 2017).

<sup>220</sup> National Land Management Authority and Land and Natural Resource Research and Information Centre (2009), *Draft Report: Findings of the State Land Lease and Concession Inventory Project in Luangnamtha Province*, Government of Laos.

<sup>221</sup> Kunming Provincial Government website (2013), 关于昆明市替代企业 2014 年境外罂粟替代种植返销国内农产品进口计划申报情况的公示 / *Kunming Alternative Enterprise 2014 Overseas Opium Crop Substitution Plan to Declare the Import of Agricultural Products Sold Back to the Domestic Market*, 28 November. [http://www.km.gov.cn/structure/sylm/gsggxx\\_250327\\_1.htm](http://www.km.gov.cn/structure/sylm/gsggxx_250327_1.htm) (accessed December 2013).

<sup>222</sup> Athu (2012), 'The Impacts of Chinese Rubber Concessions on Local Livelihoods in Northern Lao PDR: A Case Study of China-Lao Ruifeng Rubber Company in Long District, Luang Namtha Province', in EarthRights International, *Land, Water, Rights Voices from the Tibetan Plateau to the Mekong Delta*, Chiang Mai: ERI.

<sup>223</sup> Smaller, C., Qiu, W. and Liu, Y. (2012), *Farmland and Water: China invests abroad*, Manitoba: International Institute for Sustainable Development, p.36.



The large agricultural concessions, which have increased in number significantly since the early 2000s, cannot replace an increase in the agricultural productivity of smallholders. In 2009, about 1.1 million hectares was estimated to be managed by the economic land concessions, with the number of agricultural concessions reaching about 1,700 (Schoenweger et al., 2012). While there are many complaints that they do little to create jobs, they also do not seem to encourage farm labor to migrate for non-farm jobs and to produce spillover effects to smallholders, for example through technology transfer. The traditional farm sector remains the largest employer in Lao PDR, and unless the productivity and profitability of this sector are improved, the labor market will continue to be harmed by the low outflow of farm labor.<sup>224</sup>

Contract farming has been utilized by foreign agriculture investors, and while there are numerous potential benefits to this approach, there are challenges associated with implementing this model in Laos. On the one hand, contract farming arrangements can potentially connect landholders with investors that can provide expertise, capital and connections to markets that can increase the income of farmers without them giving up control of their land. At the same time, investors can secure agricultural products without having to struggle to find and receive rights to land and without the need to source and recruit labour. Contract farming can also be risky for farmers who have limited knowledge of market conditions. For example, they may not have access to information regarding the prices that their crops can demand in neighbouring countries, and they may not have a full understanding of the volatility of agricultural commodity markets. Enforcing contracts is also challenging in Laos. This exposes farmers to risks such as investors failing to fulfil the agreed quota or refusing to purchase crops at the price agreed prior to harvesting. Weak contract enforcement also exposes investors to risks as farmers may sell to other traders that offer a higher price.<sup>225</sup>

Concerns are also growing regarding the over-use of chemical fertilizers, pesticides and fungicides in some plantations, especially those growing fruits for export to China. One crop that has become a major focus of Chinese investors in recent years is bananas. Over the past few years there has been a boom in banana plantations, with Chinese investors rushing to invest in the crop much like they did the previous decade in rubber plantations. Chinese companies are now running plantations, renting land from local landholders, or purchasing bananas from local producers in order to export to China.<sup>226</sup> However, the banana industry has become notorious for high levels of pollution.<sup>227</sup>

A Vientiane-based researcher who has studied the growth of banana plantations explained that in many cases Chinese companies rent land from local smallholders in order to develop plantations, and then recruit a workforce of local and migrant Lao labourers. The interviewee confirmed that chemical use is high, and that in some cases conflicts have emerged over water use as banana production is water-intensive, and the plantations often pump from shared water resources. The intensive techniques have resulted in degradation of soil quality, and in some cases companies will wrap up their project and move to a new area after soil fertility reduces past a certain level, leaving the farmers with land that is no longer productive.<sup>228</sup> During an interview in Vientiane, staff from a local organization working with Lao farmers expressed concerns regarding the implementation of contract farming, and explained that in some cases villagers sign contracts that are written in Chinese – which they cannot read.<sup>229</sup>

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<sup>224</sup> World Bank (2014), *Lao Development Report 2014: Expanding Productive Employment for Broad-based Growth*, Washington DC: World Bank Group, p.28.

<sup>225</sup> Smaller, C., Qiu, W. and Liu, Y. (2012), *Farmland and Water: China invests abroad*, Manitoba: International Institute for Sustainable Development, p.37.

<sup>226</sup> Meeting with NGO worker, October 2014.

<sup>227</sup> Vientiane Times (2015, 20 May), *Chinese banana growers reap high yields from Lao crop*.

<sup>228</sup> Meeting with Laos-based researcher, October 2014.

<sup>229</sup> Meeting with NGO worker, October 2014.



Banana production has received considerable attention in local media. Concerns regarding the impacts of these plantations resulted in the provinces of Luang Namtha, Oudomxay and Bokeo banning expansion of banana plantations in 2015.<sup>230</sup> The Lao Prime Minister himself voiced concern regarding the impacts of banana plantations, ordering a nationwide ban on banana expansion in 2016.<sup>231</sup>

Finally, Lao law requires investment projects with likely adverse environmental or social impacts to conduct environmental and social impact assessments and create management and monitoring plans. However, these assessments tend not to be rigorous, and at the provincial level, projects are often approved without the requirement for these documents.<sup>232</sup> This lack of assessment risks exposing local people and the environment to unmitigated adverse impacts.

## **Chinese Agriculture in Myanmar**

### **The Agriculture Sector of Myanmar**

Myanmar also has a majority rural population which is heavily reliant on its agriculture sector. According to statistics from Myanmar's Ministry of Agriculture and Irrigation (MOAI), in 2013-2014<sup>233</sup> agriculture contributed 23% of the country's total GDP, employed more than 61% of the labour force, and accounted for over 20% of total export earnings.<sup>234</sup> Agriculture is therefore central to the livelihoods of millions of people. Most farming that currently goes on in Myanmar is conducted by smallholders, the majority of which are subsistence farmers. Agriculture has long been central to the economy of Myanmar, and prior to military rule the country was a major rice exporter.<sup>235</sup>

The development of the agriculture sector is a priority area for the government. The Government of Myanmar recognizes the need to support smallholders by improving access to credit and providing affordable fertilizers and seeds. Attracting foreign investment is also seen as a crucial step towards achieving goals for economic reform and to reintegrate Myanmar into the global economy.<sup>236</sup> Following Myanmar's move to civilian rule in 2010, the government embarked upon a series of reform agendas. Reforms announced in 2012 were based on four economic policies, which included "sustaining agricultural development towards industrialization and all round development."<sup>237</sup> Myanmar's constitution also confirms the state's commitment to facilitating the changeover from manual to mechanized agriculture.<sup>238</sup>

<sup>230</sup> Vientiane Times (2015, 23 April), *Xayaboury approves banana investment*.

<sup>231</sup> Kittisilpa, J. & Tostevin, M. (2017, 15 May), *Laos prime minister concerned over banana plantations*, Reuters. <http://www.reuters.com/article/us-china-silkroad-laos-pm-idUSKCN18BON8> (accessed June 2017).

<sup>232</sup> Smaller, C., Qiu, W. and Liu, Y. (2012), *Farmland and Water: China invests abroad*, Manitoba: International Institute for Sustainable Development, p.22-23.

<sup>233</sup> Official statistics in Myanmar often follow the financial year, which runs from 1 April – 31 March.

<sup>234</sup> Ministry of Agriculture and Irrigation (2014), *Myanmar Agriculture in Brief 2014*, Nya Pyi Daw: Department of Agricultural Planning, MOAI, p.1.

<sup>235</sup> World Bank (2014), *Myanmar: Capitalizing on Rice Export Opportunities*, Bangkok: World Bank Southeast Asia Sustainable Development Unit.

<sup>236</sup> Ministry of National Planning and Economic Development (2013), *Framework for Economic and Social Reforms Policy Priorities for 2012-15 towards the Long-Term Goals of the National Comprehensive Development Plan*, p.24, 25.

<sup>237</sup> Kudo, T., Kumagai, S. and Ishido, H. (2013), *Agriculture Plus: Growth Strategy for Myanmar Agriculture*, Chiba, Japan: Institute for Developing Economies - Japan External Trade Organization.

<sup>238</sup> Constitution of the Republic of the Union of Myanmar (2008), Article 29.

MOAI statistics from 2010 show that rice is Myanmar's major crop, accounting for 45% of all harvested areas. This is followed by pulses (23%) and oilseeds, such as groundnut and sesame (19%).<sup>239</sup> The largest industrial crops are sugar, rubber and cotton.<sup>240</sup> Myanmar is one of the world's top exporters of pulses, and the industry was estimated to be worth US\$1.2 billion in 2012-13.<sup>241</sup> In 2015, beans accounted for over 8% of the country's exports, rice just over 1%, and maize, coffee, tea, fruits, oil seeds, rubber and cotton all contributed less than 1% each.<sup>242</sup> Statistics on agriculture trade and investment in Myanmar must be viewed in context, and it is likely that a considerable amount of unrecorded cross-border trade is also going on.

After an extended period of international isolation, Myanmar is liberalizing its investment regimes and making efforts to attract foreign investment. After years of sanctions and international isolation there is a huge amount of interest from foreign investors to enter Myanmar. Natural resources in particular are likely to play a major role in both domestic and foreign investment.<sup>243</sup> The Myanmar Government is courting foreign investors and financial institutions and promoting private investment through the liberalization of laws and regulation. Among the economic reforms currently being implemented by the Myanmar Government are measures that seek to develop the private sector, stimulate direct foreign investments and integrate Myanmar into the regional and international economy. This includes the adoption of a new Investment Law and a new Companies Law. Along with reforms to its investment framework, Myanmar is also overhauling its laws related to land use, and a new Land Use Policy has been developed which will set the roadmap for further land reform in the coming years.

Foreign investors are active throughout the various stages of the agriculture supply chain, from production to export. In terms of production, investors utilize various approaches, including purchasing land, contract farming, renting land from local landholders, and a handful of companies have received large land concessions.<sup>244</sup> In its 30 year Master Plan for the Agriculture sector issued in 2000, the MOAI gave further support to the concession system, and pledged to convert 10 million acres of "wasteland" for use in agribusiness.<sup>245</sup> Later, in 2012, the passage of the Farm Land Law and the Vacant, Fallow and Virgin Land Management Law further facilitated the granting of land concessions, and provided numerous investment incentives, including low rental fees and land tax exemptions.<sup>246</sup>

According to the MOAI, 377 concessions have been granted as of April 2014. These concessions cover a combined area of 939,683 hectares. Kachin State, home to some of Myanmar's most long-running military conflicts, has the largest number of concessions and the largest land area under concession. In terms of area, Kachin is followed by Sagaing Region, Tanintharyi Region, Ayeyarwady Region and Shan State. MOAI data indicates that the area granted under concessions increased drastically in recent years, and between 2010 and 2012 there was an almost 100% increase in the amount of land

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<sup>239</sup> OECD (2014), *OECD Investment Policy Reviews: Myanmar*, Paris: OECD Publishing, p.300-301.

<sup>240</sup> OECD (2014), p.301-302.

<sup>241</sup> OECD (2014), p.303.

<sup>242</sup> Trade Map, [http://www.trademap.org/tradestat/Bilateral\\_TS.aspx](http://www.trademap.org/tradestat/Bilateral_TS.aspx) (accessed November 2016).

<sup>243</sup> World Bank (2014), *Myanmar Overview*. <http://www.worldbank.org/en/country/myanmar/overview> (accessed June 2017).

<sup>244</sup> Byerlee, D. et al. (2014), *Agribusiness Models for Inclusive Growth in Myanmar: Diagnosis and Ways Forward*, MSU International Development Working Paper 133, Michigan: Michigan State University, p. vi.

<sup>245</sup> Woods, K. (2015), *Commercial Agriculture Expansion in Myanmar: Links to Deforestation, Conversion Timber, and Land Conflicts*, Washington DC: Forest Trends, p.14.

<sup>246</sup> Byerlee, D. et al. (2014), p. 8.

granted for large-scale agribusiness.<sup>247</sup> Most concessions are for rubber, oil palm and rice, but they have also been granted for jatropha, sugar and cassava.

It should be kept in mind that this does not include concessions granted by provincial or military authorities, or in areas beyond the administration of central government. In addition, concessions granted in forest areas are granted by the Ministry of Environmental Conservation and Forestry (MOECF) and therefore not included in MOIA data. A 2014 study by Michigan State University estimated that a further 822 concessions were granted over 300,000 hectares of forest land up to May 2013.<sup>248</sup> Foreign companies have been able to obtain concessions since 2011 if approved by the Myanmar Investment Commission.<sup>249</sup> Few concessions have been officially granted to foreign companies,<sup>250</sup> but there are rumoured to be many cases where domestic companies are operating in partnership with a foreign partner, although the foreign company may not be visible.<sup>251</sup> As in Cambodian and Laos, the concession system has proved to be controversial (returned to below).

Contract farming has also been identified by the MOI as one strategy for developing the agriculture sector,<sup>252</sup> and both domestic and foreign investors are utilizing contract farming arrangements. This includes companies from various countries, including *PepsiCo* which sources potatoes from farmers in Shan State,<sup>253</sup> and the Thai company *CP Corn*, which works with contracted farmers to produce corn for shipping to China as animal feed.<sup>254</sup> Interviewees in Yangon explained that contract farming is especially common in Shan and Kachin states, with smallholders selling cash crops to Chinese investors through a network of brokers, buyers and traders. This issue is also returned to below.

### Chinese Agriculture Investment and Trade in Myanmar

Official statistics from Myanmar's Directorate of Investment and Company Administration (DICA)<sup>255</sup> list over US\$60 billion of approved investment.<sup>256</sup> However, as is the case in Cambodia and Laos, these figures do not accurately reflect *actual* investment inflows. World Bank data provides further evidence that foreign investment in Myanmar may be considerably lower than the approved investment reported by Myanmar's investment department.

The World Bank's *World Development Indicators* database, which utilizes data from the International Monetary Fund (IMF) and other national sources, indicates that foreign investment has increased

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<sup>247</sup> OECD (2014), p.324.

<sup>248</sup> Byerlee, D. et al. (2014), p. vi.

<sup>249</sup> OECD (2014), p.322.

<sup>250</sup> Byerlee, D. et al. (2014), p. 8.

<sup>251</sup> Woods, K. (2015), p.13.

<sup>252</sup> Ministry of Agriculture and Irrigation (2014), p.4.

<sup>253</sup> Zaw Htike (2014, 9 June), *Pepsi to use Shan State spuds in its Thai chips*, Myanmar Times.

<http://www.mmtimes.com/index.php/business/10608-pepsi-to-use-shan-state-spuds-in-its-thai-chips.html>

(accessed June 2017).

<sup>254</sup> Byerlee, D. et al. (2014), p. 34.

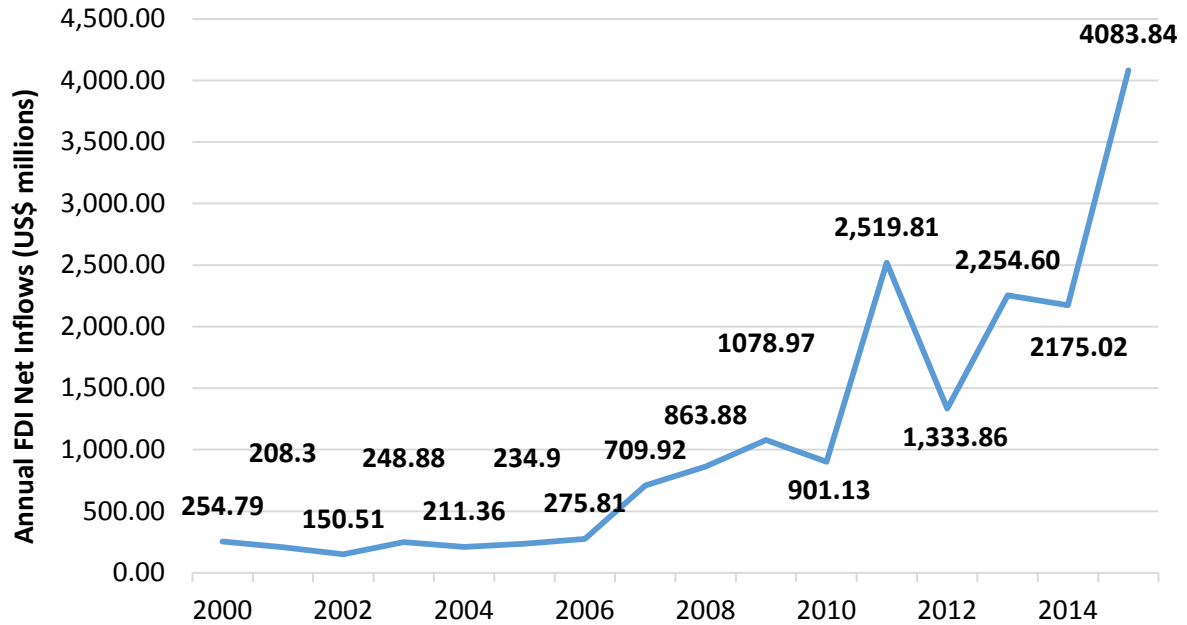
<sup>255</sup> DICA is under the authority of the Ministry of National Planning and Economic Development. For more detail see: <http://dica.gov.mm.x-aas.net/>.

<sup>256</sup> DICA (2017, 31 May), *Foreign Investment of Existing Enterprises as of 31/5/2017 (by country)*.

[http://www.dica.gov.mm/sites/dica.gov.mm/files/document-files/fdi\\_country\\_permitted.pdf](http://www.dica.gov.mm/sites/dica.gov.mm/files/document-files/fdi_country_permitted.pdf) (accessed June 2017).

rapidly in recent years. In 2015 FDI exceeded US\$4 billion – more than 15 times the amount recorded ten years previously.<sup>257</sup>

Figure 12: Annual FDI Inflows to Myanmar, 2000-2015 (World Bank)



Source: World Bank (2017)

As can be seen below, statistics from DICA are significantly higher, with a peak of almost US\$20 billion in 2010-2011.<sup>258</sup>

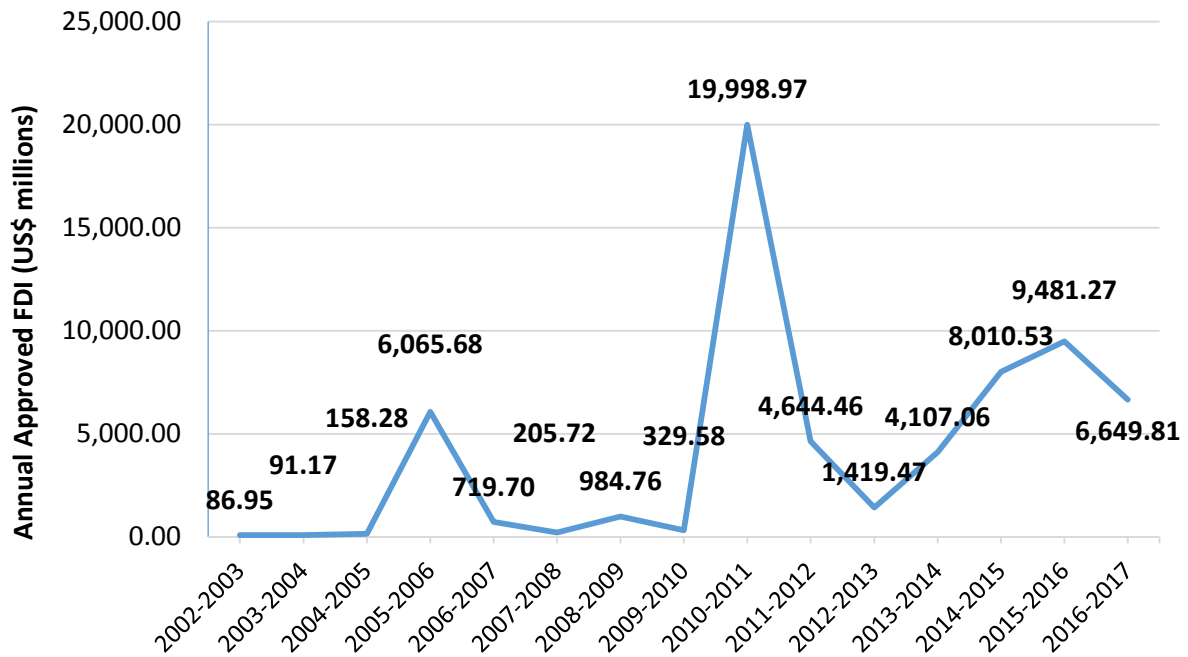
<sup>257</sup> World Bank (2017), *World Development Indicators*.

<http://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD> (accessed June 2017).

<sup>258</sup> DICA (2017, 31 May), *Yearly Approved Amount of Foreign Investment (by country)*.

[http://www.dica.gov.mm/sites/dica.gov.mm/files/document-files/fdi\\_yearly\\_country.pdf](http://www.dica.gov.mm/sites/dica.gov.mm/files/document-files/fdi_yearly_country.pdf) (accessed June 2017).

Figure 13: Annual Approved FDI in Myanmar, 2002 – 2017 (DICA)



Source: Myanmar Directorate of Investment and Company Administration (2015)

There may be multiple reasons for this large discrepancy. As elaborated in other sections of the report, a significant percentage of approved investment is never realized. In some cases, projects may fail to get off the ground, they may be abandoned or redesigned after they commence, or an investment may be approved and then dispersed over a number of years, all of which may distort annual investment statistics.<sup>259</sup>

This is also complicated by the fact that a significant amount of foreign investment in Myanmar, especially in border areas, is going unreported, as foreign investors use local partners as proxies and operate as domestic companies.<sup>260</sup> One motivation for using this approach in the past was that investors wished to avoid the time-consuming requirements of the formal investment channels.<sup>261</sup> Others invested through local partners in order to avoid taxes, fees and informal payments that are often required of foreign investors.<sup>262</sup> Foreign companies working in joint venture with military-controlled enterprises may also be missed by DICA statistics.<sup>263</sup> Investment in ethnic areas that are not under the control of central government is also likely to be vastly underreported, especially in projects in areas such as Kachin and Shan states.<sup>264</sup> Therefore, while some foreign investment may be over-reported, a significant amount may also be also under-reported.

Regardless of what the statistics say, it is clear from the number of reports published in the media, by civil society, and by companies themselves, that there is considerable interest in expanding investment

<sup>259</sup> Jared Bissinger (2012), 'Foreign Investment in Myanmar: A Resource Boom but a Development Bust?', *Contemporary Southeast Asia*, Vol. 34, No. 1, pp. 23-52.

<sup>260</sup> Buchanan, J., Kramer, T. and Woods, K. (2013), *Developing Disparity - Regional Investment in Burma's Borderlands*, Amsterdam: Transnational Institute, p. 23.

<sup>261</sup> Jared Bissinger (2012).

<sup>262</sup> Buchanan, J., Kramer, T. and Woods, K. (2013), p.28.

<sup>263</sup> OECD (2014), p.53.

<sup>264</sup> OECD (2014), p.307.

in Myanmar. Official statistics from DICA indicate that the most important foreign investors are from Asia, with China, Singapore and Hong Kong accounting for the largest amount of approved investment. Thai, Malaysian, Korean and Vietnamese companies are also major investors.

As of May 2017, DICA recorded 156 enterprises from China with approved investment of over US\$18.49 billion, which is over 30% of all approved foreign investment.<sup>265</sup> The total figure for Chinese investment is boosted by a number of very high value investments in the energy and infrastructure sectors.

**Table 6: FDI of Existing Enterprises in Myanmar as of 31 May 2017 (by country)**

Country	Number of Enterprises	Approved FDI (US\$)	Percent of Total FDI
1. China	156	18,487,774,000	30.55
2. Singapore	200	16,204,999,000	26.78
3. Hong Kong	129	7,505,351	12.40
4. Thailand	69	3,794,166	6.27
5. United Kingdom*	53	3,564,804	5.89
6. South Korea	127	3,500,268	5.78
7. Vietnam	15	2,092,532	3.46
8. Malaysia	31	1,348,599	2.23
9. The Netherlands	16	1,278,173	2.11
10. India	24	735,205	1.21

\* Including overseas territories

Source: Myanmar Directorate of Investment and Company Administration (2017)

Although the true scale of foreign investment in Myanmar is difficult to determine, and it is unclear to what extent approved investment has actually been implemented, these statistics are at least indicative of which countries are actively pursuing investment in Myanmar. As is the case with Chinese investment in Cambodia and Laos, China's official statistics on outbound investment flows to Myanmar indicate much lower levels than those reported by the Government of Myanmar. For example, in 2015 China's MOFCOM recorded approximately US\$332 million in FDI flows to Myanmar.<sup>266</sup> In April 2015 to March 2016 (Myanmar's financial reporting year), DICA reported US\$3.3 billion in approved investment by Chinese enterprises.<sup>267</sup> As can be seen in these figures, there is a significant discrepancy. Presumably a large amount of the approved investment has not been implemented, or is still in the process of being implemented.<sup>268</sup>

<sup>265</sup> DICA (2017, 31 May), *Foreign Investment of Existing Enterprises as of 31/05/2017 (by country)*. [http://www.dica.gov.mm/sites/dica.gov.mm/files/document-files/fdi\\_country\\_permitted.pdf](http://www.dica.gov.mm/sites/dica.gov.mm/files/document-files/fdi_country_permitted.pdf) (accessed June 2017).

<sup>266</sup> Ministry of Commerce et al (2014), p.127.

<sup>267</sup> Myanmar Directorate of Investment and Company Administration (2015), *Yearly Approved Amount of Foreign Investment (by country)*. <http://dica.gov.mm.x-aas.net/admin/Pages/DisplayPdf?path=By%20Country%20%28Approved%29%20Feb%202015.pdf> (accessed August 2015).

<sup>268</sup> Ministry of Commerce et al (2014), (p.132).



Agriculture investment makes up a relatively small percentage of Myanmar's officially registered foreign investment, and the energy and extractive industries account for the vast majority of FDI. Up to May 2017 less than 1% of foreign investment went to the agriculture sector.<sup>269</sup>

**Table 7: Existing Foreign Investment in Myanmar as of 31 May 2017 (by sector)**

Sector	Number of Enterprises	Approved FDI (US\$ millions)	Percent of Total FDI
1. Oil and Gas	96	21,486,951,000	35.50
2. Power	12	14,564,525,000	24.07
3. Transport & Communication	40	8,078,231,000	13.35
4. Manufacturing	667	6,978,753,000	11.53
5. Real Estate	27	2,768,319,000	4.57
6. Hotel and Tourism	51	2,573,675,000	4.25
7. Mining	10	2,352,624,000	3.89
8. Livestock and Fisheries	23	302,528,000	0.50
9. Agriculture	18	225,994,000	0.37
10. Industrial estate	3	194,444,000	0.32
11. Other services	61	993,070,000	1.64
<b>TOTAL</b>	<b>1,008</b>	<b>60,519,114,000</b>	<b>100.00</b>

Source: Myanmar Directorate of Investment and Company Administration (2017)

Although investment in agriculture is minor in the context of foreign investment as a whole, it is certain that more than 18 foreign companies are active in Myanmar's agriculture sector, which points to the under reporting of investment mentioned above. In addition, a senior official from the MOAI was quoted in local media in 2015 as saying that an additional 65 companies were in discussions with the government regarding potential investments in agriculture.<sup>270</sup> Myanmar has just emerged from the initial stages of a complex political transition, and many more investors may be waiting to see how things develop before committing to major investments in the country.

There is no data available that breaks down foreign agriculture investment by country, so it is challenging to accurately gauge the role of the various investors active in Myanmar. However, a review of media sources, civil society reports and company websites suggests that China and Thailand are the two biggest foreign investors in agriculture, with investors from Singapore, Malaysia, Indonesia, Vietnam, India and South Korea also active in the sector. A small number of western companies are active, including *PepsiCo* and *Heineken*, but their share of total investment is likely minimal.

Information gathered during interviews with civil society groups and academics indicates that there are a broad range of Chinese companies active in Myanmar's agriculture sector in various parts of the country, although due to the close geographical proximity, much of this activity is concentrated in the northern states of Kachin and Shan. In addition to direct investments in production, Chinese companies also play a major role in buying and trading agricultural commodities, and many operate through contract farming agreements with local producers. In some areas farmers are renting their land directly to investors. The focus of China's agriculture investment in Myanmar is on cash crops, including rubber,

<sup>269</sup> DICA (2017), *Foreign Investment of Permitted Enterprises as of 31/05/2017 (by sector)*. [http://www.dica.gov.mm/sites/dica.gov.mm/files/document-files/fdi\\_sector\\_permitted.pdf](http://www.dica.gov.mm/sites/dica.gov.mm/files/document-files/fdi_sector_permitted.pdf) (accessed June 2017).

<sup>270</sup> Eleven Newsmedia (2015, 10 March), *FDI ignoring agro-industry: MP*. <http://www.elevenmyanmar.com/business/fdi-ignoring-agro-industry-mp> (accessed June 2017).

cassava, sugarcane and fruits such as watermelon and banana. Chinese companies have also invested in biofuel crops.

Much of the agriculture investment taking place in Kachin and Shan states has received support from the opium substitution program (as in northern Laos). Various statements and agreements have been issued related to the opium substitution program. For example, in 2007 China and Myanmar signed an “action plan” which confirmed that China’s State Council would provide special funds, credit, and tax-breaks to participating companies, and that both countries would facilitate entry and exit of people and goods between the two. Both sides agreed to develop supporting policies to encourage enterprises to invest in alternative crop planting in areas agreed by China and Myanmar.<sup>271</sup>

Rubber is a key crop for foreign investors, including Chinese companies. China is the top importer of rubber from Myanmar. Chinese companies are especially active in rubber production in Kachin and Shan states, however, rubber production is still dominated by smallholders.<sup>272</sup> This indicates that much of the rubber exports from Myanmar are acquired through contract farming agreements and brokers purchasing rubber from local producers. Companies from Yunnan Province are the main actors involved in rubber production in northern Myanmar, and most Chinese rubber production is connected to the opium substitution program.<sup>273</sup>

The provincial state-owned enterprise *Yunnan State Farms* group is active in northern Myanmar, where it operates through several subsidiaries. According to Chinese media reports, in 2006 a *Yunnan State Farms* subsidiary signed an agreement to develop 100,000 mu (6,666 hectares) of rubber through the opium substitution program.<sup>274</sup> The following year, another subsidiary, *Dongfeng Tianyu Co. Ltd.*, was reported to have signed a 30 year agreement to develop rubber over 20,000 mu (1,333 hectares).<sup>275</sup> In 2008, another agreement was signed between a *Yunnan State Farm* subsidiary, *Yunnan Natural Rubber Industrial Co. Ltd.*, and a local government in a Wa controlled area of Shan State. This agreement granted 100,000 mu (6,666 hectares) to the company to develop rubber plantations. In order to develop the project, *Yunnan Natural Rubber* set up a joint-venture company with the local government.<sup>276</sup> More recently, in 2012, Yunnan State Farms opened a rubber processing plant in Shan State at a cost of 23.65 million RMB (US\$3.7 million), which is operated by the subsidiary *Menglian Rubber Co. Ltd.*<sup>277</sup>

<sup>271</sup> National People’s Congress of China website (2012), *Myanmar Profile*, 7 September.

[http://www.npc.gov.cn/npc/wbgwyz/wsgz/cfylsg/2012-09/07/content\\_1736588\\_5.htm](http://www.npc.gov.cn/npc/wbgwyz/wsgz/cfylsg/2012-09/07/content_1736588_5.htm) (accessed June 2017).

<sup>272</sup> Thein, S. (2012), ‘Industrial Readjustment in Myanmar: Agro-industrial Preparedness for Integration with the AEC’, in Yasushi Ueki and Teerana Bhongmakapat (Eds.), *Industrial Readjustment in the Mekong River Basin Countries: Toward the AEC*, BRC Research Report No.7, Bangkok: Bangkok Research Centre, IDE-JETRO.

<sup>273</sup> Kramer, T. and Woods, K. (2012), *Financing Dispossession: China’s Opium Substitution Programme in Northern Burma*, Amsterdam: Transnational Institute.

<sup>274</sup> Simao Daily (2006, 18 August), 孟连农场与缅甸签订橡胶开发种植协议 / *Menglian Farm and Myanmar Sign a Rubber Plantation Development Agreement*, China Ministry of Commerce.

<http://puer.mofcom.gov.cn/article/dongtai/200608/20060802916457.shtml> (accessed August 2015).

<sup>275</sup> Diao Xiaoming (2007), *China State Farms Magazine*, 12th edition.

<http://www.cqvip.com/qk/90467X/200712/26036693.html> (accessed August 2015).

<sup>276</sup> Yunnan State Farms Group website (2008), 产业公司与缅甸第二特区（佤邦）勐波县政府签定 10 万亩天然橡胶替代种植开发协议 / *Industrial Company and Myanmar’s Second Special Administrative Region, (Wa) Meng Bo County, Sign 100,000 mu of Natural Rubber Plantation Development Agreement*, 27 May.

<http://www.ynnk.com.cn/readinfo.aspx?B1=6154> (accessed August 2015).

<sup>277</sup> Yunnan State Farms website (2012, 23 May), 云南农垦和缅甸佤邦合作项目云康制胶厂建成投产 / *Press Release: Yunnan State Farms and Myanmar Cooperative Project Open Rubber Processing Plant*.

<http://www.cnraw.org.cn/ShowArticles.php?id=2399> (accessed August 2015)

Private companies are also developing rubber in Myanmar, this includes *Kunming Gaoshen Rubber Planting Co. Ltd.*, a subsidiary of *Gaoshen Group*. According to the Kunming Provincial Government website, as of 2013 the company had invested in rubber production over 120,800 mu (8,000 hectares) in Shan State.<sup>278</sup> Another subsidiary of *Gaoshen Group* located in Yunnan has established a rubber processing plant specifically to process products from the Myanmar rubber plantations.<sup>279</sup> The private company *Yunnan Jin Chen Investment Company* is reported to have planted 140,000 mu (9,333 hectares) of rubber in Mongmao, Shan State. Although this company focuses on rubber, it has also invested in maize, coffee, nuts, sesame, rice, and longan.<sup>280</sup> Another company investing in a diverse range of crops is *Yunnan Hongyu Group*. This company is active in Shan State in an area controlled by the United Wa State Army. Through the opium substitution program it has invested in longan, tea, orange, rubber, rice, banana, and lemon plantations. These investments are operated through a joint-venture with a division of the United Wa State Army.<sup>281</sup> According to a report by the China Council for the Promotion of International Trade, Hongyu signed an agreement to develop plantations for various crops over 1 million mu (66,666 hectares).<sup>282</sup>

Myanmar's sugar industry has historically been state-owned, and only recently opened to private investment.<sup>283</sup> There are now more than 20 sugar factories operational, with more under construction. Most sugar mills source sugarcane from local farmers under contract agreements, and close to 70% of sugar plantations are smaller than 2 ha.<sup>284</sup> Chinese companies are also investing in sugarcane production, including reports of some large operations, however, there is limited data available on the scale of this investment.

There are scattered reports of Chinese investment in rice production, but this does not appear to be a major focus for Chinese companies. China is Myanmar's top export destination for rice exports, but for years this trade was illegal as exports did not meet Chinese quality standards. A system has now been put in place through which the Myanmar Rice Federation (MRF) facilitates trade with *China National Cereals, Oils and Foodstuffs Corporation* (COFCO). Companies who are registered with MRF as meeting China's export standards may export to China, and beginning in 2015 a small number were approved to commence exports.<sup>285</sup> It has also been reported that a Chinese company will support the development of rice mills in Ayeyawady Region. Two mills will be developed by state-owned CAMC

<sup>278</sup> Kunming Provincial Government website (2013, 28 November), 关于昆明市替代企业 2014 年境外罂粟替代种植返销国内农产品进口计划申报情况的公示 / *Kunming Alternative Enterprise 2014 Overseas Opium Crop Substitution Plan to Declare the Import of Agricultural Products Sold Back to the Domestic Market*. [http://www.km.gov.cn/structure/sylm/gsggxx\\_250327\\_1.htm](http://www.km.gov.cn/structure/sylm/gsggxx_250327_1.htm) (accessed August 2015).

<sup>279</sup> Gaoshen Group (2012), 普洱高深橡胶有限公司 / *Pu'er Gaoshen Rubber Co. Ltd.*, 14 May. <http://www.gaoshengroup.com/Item/260.aspx> (accessed August 2015).

<sup>280</sup> Kunming Provincial Government Website (2013), 关于昆明市替代企业 2014 年境外罂粟替代种植返销国内农产品进口计划申报情况的公示 / *Declaration of Kunming Enterprises Engaging in Opium Crop Substitution Importing Agricultural Products Back to the Domestic Market*, 28 November. [http://yxht.xxgk.yn.gov.cn/Z\\_M\\_003/Info\\_Detail.aspx?DocumentKeyID=422A57CBD1664819B499B7C2115B87E5](http://yxht.xxgk.yn.gov.cn/Z_M_003/Info_Detail.aspx?DocumentKeyID=422A57CBD1664819B499B7C2115B87E5) (accessed August 2015).

<sup>281</sup> Yunnan Hongyu Co. Ltd., *Agriculture, Technology*. <http://www.uniworldgroup.cn/col.jsp?id=106> (accessed August 2015).

<sup>282</sup> China Council for the Promotion of International Trade (2007), *Chinese Enterprise "Going Out" Case Studies*.

<sup>283</sup> Byerlee, D. et al. (2014), p.21.

<sup>284</sup> Byerlee, D. et al. (2014), p.22.

<sup>285</sup> Su Phyo Win (2015, 16 March), *Criticism dogs Myanmar Rice Federation's China choices*, Myanmar Times. <http://www.mmtimes.com/index.php/business/13522-criticism-dogs-myanmar-rice-federation-s-china-choices.html> (accessed June 2017).

*Engineering Co., Ltd.* in partnership with a local company and rice from the mill will be exported to China.<sup>286</sup>

On the Chinese side of the border a number of industrial zones have been established with state support which, among other things, are geared towards border trade and processing of agriculture products. This includes the Ruili Border Economic Cooperation Zone and Wanding Border Economic Cooperation Zone, both established in 1992 to promote trade between the two countries.<sup>287</sup> In 2015 an agreement was signed to construct an additional industrial park on the border.<sup>288</sup> According to Myanmar’s Ministry of National Planning and Economic Development, China has become Myanmar’s biggest trading partner.<sup>289</sup> In 2015, total recorded exports were worth US\$5.3 billion, which included the following agriculture products.

**Table 8: Top 5 Myanmar Agriculture Exports to China (US\$)<sup>290</sup>**

Product	2012	2013	2014	2015
<i>Rubber</i>	120,268,000	123,305,000	86,310,000	72,158,000
<i>Beans</i>	40,019,000	45,523,000	53,593,000	53,243,000
<i>Dried vegetables</i>	20,569,000	15,427,000	16,900,000	26,983,000
<i>Fruits &amp; nuts</i>	35,888,000	21,081,000	20,598,000	21,137,000
<i>Oil seeds</i>	14,720,000	18,490,000	12,396,000	12,622,000

Source: International Trade Centre calculations based on UN COMTRADE data (2016)

### Chinese Development Assistance to Agriculture in Myanmar

In November 2014, the governments of China and Myanmar issued a joint statement on deepening bilateral comprehensive strategic cooperation. This included commitments to create a conducive environment for bilateral trade and investment, and in the field of agriculture it was agreed to establish a China-Myanmar committee on agricultural cooperation. China pledged to support the development of rural areas and agriculture, provide agricultural concessional loans, and encourage Chinese companies to participate in agricultural development. China also agreed to construct an agricultural demonstration centre in Myanmar.<sup>291</sup> Once again, this statement illustrates the trend of China linking investment to aid commitments in recent years.

There is no publicly accessible list that compiles Chinese aid projects in Myanmar. However, the MOAI’s annual report for 2014 provides highlights of ongoing multilateral and bilateral assistance projects in the agriculture sector. In 2013-14 this included several projects supported by China, two of

<sup>286</sup> Myanmar Eleven (2015, 10 February), *China to help build rice mills*. <http://www.nationmultimedia.com/aec/Chinatohelpbuildricemills30253791.html> (accessed June 2017).

<sup>287</sup> Yunnan Cultural Industries (2013, 26 June), *Economic and Technological Development Zones*. [http://yunnan.chinadaily.com.cn/cultureindustry/2013-06/26/content\\_16598119.htm](http://yunnan.chinadaily.com.cn/cultureindustry/2013-06/26/content_16598119.htm) (accessed June 2017).

<sup>288</sup> China-South Asia Expo (2015, 15 June), *Yunnan-Myanmar Industrial Park to Be Built at the Border*. <http://www.csa-expo.org/en-us/topic/topicdetail/611749> (accessed June 2017).

<sup>289</sup> Eleven Media Group (2015, 23 March), *China top trading partner of Myanmar*. <http://eu-myanmar.org/china-top-trading-partner-myanmar/> (accessed June 2017).

<sup>290</sup> Trademap, [http://www.trademap.org/tradestat/Bilateral\\_TS.aspx](http://www.trademap.org/tradestat/Bilateral_TS.aspx) (accessed November 2016).

<sup>291</sup> Xinhua (2014, 14 November), *China, Myanmar agree to deepen comprehensive strategic cooperation*, Xinhuanet. [http://news.xinhuanet.com/english/china/2014-11/15/c\\_133790813.htm](http://news.xinhuanet.com/english/china/2014-11/15/c_133790813.htm) (June 2017).

which relate directly to agriculture: an RMB 51.86 million (US\$8.1 million) irrigation network and an RMB 40 million (US\$6.3 million) agriculture demonstration centre.<sup>292</sup> The same report also states that cooperation MOUs had been signed between China's agriculture ministry and Myanmar's Ministry of Livestock, Fisheries and Rural Development, as well as between Northwest Agriculture and Forestry University in China's Shaanxi province, and Yezin Agriculture University in Nay Pyi Taw.<sup>293</sup> China Eximbank also provided US\$15.09 million for the Kye On Kye Wa Multi-purpose Dam Project, but it is not clear if this was aid or a commercial project.<sup>294</sup> A search of media reports also shows that China Eximbank has provided preferential loans to support the construction of a fertilizer plant, which was built by a subsidiary of state-owned *China National Petroleum Company (CNPC)* and commissioned in 2010.<sup>295</sup>

### Agriculture Investment in Myanmar: Opportunities and Challenges

A number of studies have been conducted looking into the scope and impacts of foreign investment in agriculture in Myanmar. However, due to a lack of up to date and reliable official information, and challenges associated with conducting research in some areas, it is difficult to paint a comprehensive picture of the current situation. After many years of international isolation, increased investment in Myanmar is welcomed by the Government. As is the case in Cambodia and Laos, investment and development assistance that contributes to improved agriculture techniques, increased productivity, and stronger international trade can potentially contribute to reducing poverty and improving livelihoods of rural households. At the same time, Myanmar is in the midst of a complex transition to civilian rule, its regulatory systems and institutional capacities are still weak, and rule of law limited. Increased investment in agriculture could bring benefits, but it could also increase competition for land and resources. In the current context of limited transparency, accountability, and lack of access to legal remedies, this poses considerable risks to the livelihoods of small-scale farmers.

Land disputes have been an ongoing concern in Myanmar for many years, and many existing disputes pre-date the transition from military rule. However, new disputes continue to occur, often as a result of development projects including agriculture investment. In 2014 the Myanmar National Human Rights Commission (MNHRC) reported that 45% of all complaints it received that year were connected to land disputes.<sup>296</sup> In 2012, Myanmar's parliament established the Farmland Investigation Commission to investigate land disputes. According to one report from 2015 this body had received over 6,000 complaints.<sup>297</sup>

Chinese agriculture investments have been implicated in land disputes with local communities, for example the activities of *Yunnan Hongyu Group* in Shan State (mentioned earlier), have been

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<sup>292</sup> Ministry of Agriculture and Irrigation (2014), p.50.

<sup>293</sup> Ministry of Agriculture and Irrigation (2014), p.50.

<sup>294</sup> Ministry of Agriculture and Irrigation (2013), *Myanmar Agriculture in Brief 2013*, Nya Pyi Daw: Department of Agricultural Planning, MOAI.

<sup>295</sup> China Huanqiu Contracting and Engineering Corporation (2012, 22 February), *Overseas Fruitful Achievements*.

<http://hqcec.cnpc.com.cn/hqcecen/NewsCenter/201205/46d22b0983ab4efda396ccde2aafb1bf.shtml>

(accessed June 2017).

<sup>296</sup> Nobel Za (2014, 12 November), *Land Disputes Leading Cause of Human Rights Complaints*, The Irrawaddy.

<http://www.irrawaddy.org/burma/land-disputes-leading-cause-human-rights-complaints.html> (accessed

June 2017).

<sup>297</sup> Amnesty International (2015), *Myanmar Annual Country report 2014/2015*.

<https://www.amnesty.org/en/countries/asia-and-the-pacific/myanmar/report-myanmar/> (accessed June 2017).



connected to forced eviction, pollution and forced labour. The project is a joint venture with a division of the United Wa State Army, and in one case the military reportedly ordered villagers to burn forest lands previously utilized by 17 villages to make way for rubber planting.<sup>298</sup>

Land disputes are often exacerbated by the fact that Myanmar does not have strong land administration systems, and many smallholders do not hold land ownership papers. According to the World Bank: “The rules and procedures for obtaining, keeping and transferring land use rights are complicated, non-transparent, and uncertain.”<sup>299</sup> With limited access to effective dispute resolution mechanisms, the environment is ripe for land disputes. Under these circumstances, foreign investors from all countries must proceed with caution in order to avoid becoming involved in land disputes with local people. Before acquiring land or entering any joint-venture with a local partner, it is crucial that investors conduct strong due diligence to ensure that there are no pre-existing land rights over the land in question.

Myanmar is an ethnically diverse country, with over 130 different ethnic groups.<sup>300</sup> Many of the upland groups use customary land tenure systems and traditional cultivation methods.<sup>301</sup> The state does not formally recognize these practices, and in recent years has actively tried to eradicate traditional swidden (slash and burn) cultivation in favour of “modern” farming methods.<sup>302</sup> This lack of recognition has made upland ethnic groups especially vulnerable to land conflict. Traditional farming practices tend to involve rotation, and farmers will leave some plots of land fallow for a period while they cultivate elsewhere. However, if land is not actively cultivated is often regarded as “vacant” by the state. A significant number of ethnic groups are present in the areas where Chinese companies are most active, e.g. Shan and Kachin states, and it is therefore important that these investors are aware of the traditional land use methods in those areas.

As is the case in Cambodia, recent studies have found that development of land concessions in Myanmar has been relatively limited. A 2015 study by Forest Trends reported that in Kachin State and Tanintharyi Region – which contain some of Southeast Asia’s most valuable forests – only 12% and 19% of agriculture concessions were actually planted by the end of 2013. The lack of development suggests that many concessions were obtained with the motivation of speculation and securing control of land or for obtaining high-value timber.<sup>303</sup> The concession model has attracted considerable criticism, for example, as stated in a 2015 report published by the UN Food and Agriculture Organisation:

Senior government officials conceded that State land leases/concessions have been negotiated and awarded in haphazard and inconsistent ways with negligible quantification and qualification of their impacts. The government’s experiment with land concessions has yielded little positive economic or social results. Investors are reluctant to invest anything more than nominal sums on land. Consequently, few concessions have generated expected revenue streams for the government.<sup>304</sup>

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<sup>298</sup> Lahu National Development Organization, *Undercurrents: Monitoring Development on Burma’s Mekong*, Issue 3, April 2009.

<sup>299</sup> World Bank (2015), *Myanmar Investment Climate Assessment: Sustaining reforms in a time of transition*, Washington DC: World Bank Group, p.ii.

<sup>300</sup> Myanmar Information Management Unit, *Country Overview*. <http://www.themimu.info/country-overview> (accessed June 2017).

<sup>301</sup> Woods, K. (2015), p.19.

<sup>302</sup> Ministry of Agriculture and Irrigation (2014), p.37.

<sup>303</sup> Woods, K. (2015), p.vii.

<sup>304</sup> Shivakumar Srinivas and U Saw Hlaing (2015), *Myanmar: Land Tenure Issues and the Impact on Rural Development*, UN Food and Agriculture Organization, p.xi.



As is the case in Laos, Chinese companies are also using contract farming agreements in Myanmar to produce agricultural products. The potential benefits and risks of the contract farming approach are similar to those elaborated elsewhere in this report. No detailed regulation exists which governs business partnerships between smallholders and investors.<sup>305</sup> In some cases companies are simply renting land from smallholders and using that land for cultivation of cash crops. This approach is being utilized by Chinese investors producing watermelon in Myanmar's 'dry zone' – the central regions of Mandalay, Magway and Lower Sagaing.

A 2015 academic study of Chinese watermelon farming in Mandalay Region explored the relationship between Chinese investors and landholders and uncovered various aspects of the investors' approach that were problematic. In the area subject to this study, the Chinese investors had minimal engagement with local farmers and often had no permission from local authorities to conduct investment activities in those areas. Instead, the investors would work with local brokers to negotiate land rental contracts with farmers. In some cases, farmers simply made a verbal agreement with the broker. When contracts were used they were basic, and the brokers kept the signed contracts and did not provide the landholders with a copy. Investors rent land from local farmers for 4-6 months per year and cultivation relies on heavy use of chemical fertilizers. Farmers were initially happy with the arrangements as they could make a similar income from renting the land as they would from farming it themselves. However, the methods used by the Chinese investors relied on heavy use of chemical fertilizers, and as time went on the landholders could see that the soil quality was being negatively impacted by these methods.<sup>306</sup>

Situations such as those described above appear to be common, but even in cases where farmers are questioning the equity of such arrangements, they often lack the capital to develop cash crops by themselves. Even when they do, they must often work with brokers to get their produce to foreign markets where demand is high. Several NGO workers interviewed for this study explained that Chinese investors would come to rent land or make contract farming agreements with local people, farm the land intensively for a year or so and then move on to new areas. Several interviewees explained that Chinese investors operating in this way bring in labourers from other areas of the country, including Shan State and villages close to the area of investment. In some cases, this influx of 'outsiders' can result in animosity and conflict with local residents.

A major concern raised by many of those interviewed in Myanmar is the lack of transparency in how foreign agriculture investment is implemented. Multiple respondents stated that they know of cases where on paper the developer is a Myanmar company, but in reality the project is at least partially backed by Chinese capital. This issue is frequently mentioned in the literature dealing with investment in Myanmar.<sup>307</sup> Chinese investment in border areas is especially hard to track, and much of the agriculture investment going on in these areas is agreed directly with armed groups and regional administrations that do not report to Myanmar's central government.<sup>308</sup> The lack of transparency regarding investment in Myanmar is a result of both the weaknesses in local reporting and recording, and a lack of openness on the part of investors. Regardless of the cause, this lack of transparency increases the risk of agriculture projects resulting in negative social and environmental impacts.

For many years the governments of the two countries have enjoyed close relations. However, public hostility has grown due to a number of controversial large-scale investment projects. The relationship

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<sup>305</sup> OECD (2014), p.292.

<sup>306</sup> Interview with researcher from Hohenheim University, December 2014.

<sup>307</sup> See for example: Woods, K. (2015), p.13.

<sup>308</sup> Buchanan, J., Kramer, T. and Woods, K. (2013).

between China and Myanmar came into stark focus with the suspension of the Myitsone hydropower dam. As limitations on speech and the media have reduced, more stories have emerged of local opposition to Chinese projects of various sizes, disputes over compensation, and environmental concerns. A common perception is that Chinese companies prioritize developing relationships with the government, but neglect communicating with local people and earning the 'social license' to operate.<sup>309</sup> This is a critique that has been raised more broadly about Chinese companies operating overseas, not only in Myanmar.<sup>310</sup>

As Myanmar's political transition continues, a reality that China has to face is that its strong support for the military regime over the past decades has tainted its image among the general public, and much work is required to earn the trust of the public in the new political climate. The recent rough patch in China-Myanmar relations has been acknowledged by China, and according to the *Xinhua* news agency in a 2014 joint statement between China and Myanmar, the two sides "agreed to resolve the problems in their economic cooperation and trade through consultations to promote sustainable growth of trade and economic cooperation."<sup>311</sup>

Despite ongoing developments, Myanmar's legal and regulatory framework related to land, natural resources and investment is still lacking. Existing laws related to land use have been utilized in a manner that leans heavily towards promoting large-scale investments.<sup>312</sup> This approach has come under considerable criticism, especially for its failure to protect the rights of smallholders.<sup>313</sup> The shortcomings of the existing legal framework have been acknowledged by the Government of Myanmar, and in order to address this a new National Land Use Policy was developed.<sup>314</sup> One stated objective of the policy is to promote responsible investment in land resources in order to support the equitable economic development of the country.<sup>315</sup> As the legal framework develops, the institutions responsible for implementation, enforcement and oversight will also have to grow. In order to ensure both legal compliance and sustainable investments, foreign companies, including those from China, will have a major role to play in ensuring that their projects respect these new laws.

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<sup>309</sup> Chen, L. (2014, 3 September), *Formerly a Brother, Many in Myanmar Now See China as a Big Bother*, Caixin Online. <http://english.caixin.com/2014-09-03/100724647.html> (accessed June 2017).

<sup>310</sup> Wang, X. (2012), *Thorns in the African Dream*, China Dialogue, 1 February. <https://www.chinadialogue.net/article/show/single/en/4748-Thorns-in-the-African-dream-1-> (accessed June 2017).

<sup>311</sup> Xinhua (2014, 14 November), *China, Myanmar agree to deepen comprehensive strategic cooperation*, Xinhuanet. [http://news.xinhuanet.com/english/china/2014-11/15/c\\_133790813.htm](http://news.xinhuanet.com/english/china/2014-11/15/c_133790813.htm) (accessed June 2017).

<sup>312</sup> OECD (2014), p.294.

<sup>313</sup> See, for example, Buchanan, J., Kramer, T. and Woods, K. (2013), p.35-36.

<sup>314</sup> Transnational Institute (2015), *Assessment of 6th draft of the National Land Use Policy (NLUP)*. [https://www.tni.org/files/publication-downloads/nlup-6-key\\_points.pdf](https://www.tni.org/files/publication-downloads/nlup-6-key_points.pdf) (accessed June 2017).

<sup>315</sup> Government of Myanmar (2015), *National Land Use Policy (6th Draft)*, article 6.

## Conclusion

China is a major donor, investor and trading partner of Cambodia, Laos and Myanmar. The data on both investment and development assistance is often incomplete, but it is clear that China now plays a crucial role in the economies of all three countries. Statistics indicate that agriculture is in fact a minor focus for China overseas, however, the amount of investment flowing to agriculture is rising year-on-year as a percentage of total investment. In terms of approved investment, China ranks first in each country, with investment flowing to agribusiness projects of various sizes, from small farms to major plantations. Chinese development assistance has supported the donation of farm equipment, construction of training centres and demonstration farms, development of irrigation systems, as well as the construction of transport and energy infrastructure, all of which can contribute to the development of the agriculture sector and trade in agricultural commodities.

China has developed strong diplomatic links with the three countries over the past few decades. For example, China has developed a very strong relationship with the Cambodian government, and on numerous occasions Prime Minister Hun Sen has praised the role of China's aid and investment in Cambodia. In 2013 the Prime Minister stated:

The progress in Cambodia cannot be separated from the contribution and support from China, particularly the aid in roads, bridges, electricity facilities and irrigation systems ... All Chinese assistance to Cambodia has not only helped develop the Cambodian economy, but also strengthen Cambodia's independence and sovereignty in the international arena.<sup>316</sup>

However, Chinese companies have developed a reputation for prioritizing relationships with officials and local business elites, rather than the communities in the areas where projects are located. In some cases this has led to animosity, and in Myanmar in particular, China's reputation among the general population has suffered in part due to business practices of Chinese companies during the years of military rule and beyond.

Cambodia, Laos and Myanmar are all least developed countries, and significant portions of their populations still live in poverty, struggling to meet their daily needs. However, foreign investment in agriculture is often focussed on commercial crops, and is resource seeking and export oriented.<sup>317</sup> This is certainly the case regarding Chinese investment in agriculture in Cambodia, Laos and Myanmar, where investment in rubber, sugarcane, cassava, fruits, and other crops is geared towards producing crops for export to China, or for trade on global markets. Nonetheless, foreign investment in agriculture can potentially bring benefits if it is able to create employment, generate revenue through land rental, taxation and export duties, and contribute to the development of downstream industries. Local farmers can potentially take advantage of improved infrastructure, new farming techniques, and access to markets that are opened up by incoming investors.

As the largest investor in Cambodia, Laos and Myanmar, China has a major role to play in this shift. A number of key steps can be taken by the state, regulators, financial institutions, and companies themselves, in order to ensure that outbound investment is more sustainable. This includes:

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<sup>316</sup> Xinhua (2013, 4 December), *Cambodia's progress cannot be separated from China's support: PM*, Xinhuanet. [http://news.xinhuanet.com/english/china/2013-12/04/c\\_132941302.htm](http://news.xinhuanet.com/english/china/2013-12/04/c_132941302.htm) (accessed June 2017).

<sup>317</sup> Karlsson, J. (2014), *Challenges and Opportunities of Foreign Investment in Developing Country Agriculture for Sustainable Development: FAO Commodity and Trade Policy Research Working Paper No.48*, Rome: Food and Agriculture Organization of the United Nations, p.3.

- **Implement stronger safeguards in overseas investment and finance:** At the very minimum, Chinese companies must abide by local regulations when operating overseas. However, in countries with undeveloped legal frameworks and/or weak rule of law, local regulations and systems are not always adequate to ensure protection for local people and the environment. China must therefore continue to further develop its guidelines for companies going out, and develop mechanisms to disseminate and enforce those guidelines.
- **Implement international best practice standards:** A number of international standards can be drawn upon by Chinese companies investing overseas, including in the agriculture sector. This includes the *UN Guiding Principles on Business and Human Rights* and the *OECD Guidelines to Multinational Enterprises*.
- **Enhance transparency in overseas investment:** Chinese companies must disclose more information regarding their outbound investment. Although some companies publish news releases on their websites containing basic materials, in general it is hard to find more detailed project information. This information is important for local communities that may be affected, but also for regulators and civil society groups, who play a crucial role in monitoring implementation. Chinese state authorities should require that disclosure standards are met by companies investing overseas, especially in high risk areas.
- **Enhance transparency and professionalize overseas development assistance:** At present, it is challenging to obtain clear and comprehensive information related to China's overseas development assistance. China has no dedicated aid agency staffed by development professionals and no coordinated approach to disseminating information on activities conducted through its aid program. Steps have been taken in recent years to improve the efficiency of China's overseas aid, but more still needs to be done to disclose information and ensure adequate evaluation and reflection on successes and challenges.
- **Develop deeper understanding of local contexts:** It is crucial that Chinese investors understand the social, political, cultural and legal context in which they are investing, especially when those resources impact on land, natural resources and the environment. For example, in situations where local legal systems are weak or governance is poor, it is not enough for investors to rely only on approvals and licenses from state authorities, they must also have a clear understanding of the situation on the ground. In many land disputes that have occurred in Cambodia, Laos and Myanmar, foreign investors have held licenses and concessions, but these documents are often not granted in full compliance with legal process.
- **Conduct thorough due diligence prior to making investment decisions:** Given the high risks associated with land-based investments in Cambodia, Laos and Myanmar, thorough due diligence is crucial. Investors must be aware of the local legal situation. Based on this, they must investigate land claims, potential environmental issues, and any other potential risks both to their investment and local people. Many Chinese investors partner with a local well-connected partner in order to enter the market and secure the necessary permissions. While this may be expedient, incoming investors must also conduct due diligence on their partners' background and practices.
- **Communicate with and listen to local people:** A common criticism of Chinese investors is that they do not communicate adequately with local people or civil society. Before making any decision to invest, businesses should consult with and listen to local people – not simply

promote their investment project, but listen to people's views and opinions. If a decision is made to go ahead with that investment, communication with local people must be maintained, people should be informed about the development of the project, and they should be able to approach the company with concerns or grievances.

In practice, foreign investment in agriculture in Cambodia, Laos and Myanmar has had mixed results. In all three countries, the governments embraced the concession model as a way to attract foreign investment, but this has led to widespread land disputes, speculation and deforestation, and it appears that a large percentage of concessions have not actually been put to productive agricultural use. Cambodia, Laos and Myanmar all face significant governance challenges and have weak systems for taxation and collection and control of state revenues. In this environment, a continued increase in investment may enrich companies, politicians and officials, but it will not automatically translate to improved livelihoods for the citizens of Cambodia, Laos and Myanmar. A fundamental re-think needs to take place in the region, and there needs to be a reprioritization of *quality* of investment over *quantity* of investment. The responsibility for making this a reality lies on both host governments and incoming investors.