Corporations replace peasants as the “vanguard” of China’s new food security agenda

Dairy farmers in Hebei Province. China dairy farmers are being hurt by tainted-milk scandals, as well as lower prices and higher costs. (Photo: Nelson Ching/Bloomberg News)
The past few years have been horrible for China’s small dairy farmers. Demand for domestic production has slumped because of milk contamination scandals that they had nothing to do with, and milk prices have dropped below the costs of production. Many farmers are choosing to slaughter their cows, but even this desperate act rarely saves them from bankruptcy.

The same cannot be said for China’s big dairy companies. These are high times for companies like the New Hope Group and Bright Foods. As they gouge Chinese farmers with low prices for their milk, they are using their profits to establish their own mega dairy farms in China and abroad, especially in New Zealand and Australia, where they can export powdered milk back to China under free trade agreements and market it as “safe”.

Liu Yonghao, the chairman of Chinese agribusiness giant New Hope Group, is emblematic of China’s new agribusiness leaders. Seizing upon the milk crisis affecting Chinese farmers as an opportunity for his company, he’s established an alliance to purchase Australian dairy farms with two of the biggest families in the Australian dairy industry. Their joint venture will start off with the construction of Australia’s first 10,000-head dairy farm, and then they plan to build two more 10,000-head dairy farms within the next 10 years.

This same story has unfolded with other foods in China. The flood of imports of soybeans and palm oil ushered in with China’s accession to the World Trade Organisation, fueled the growth of processed food companies and corporate factory farms for poultry and pigs. Multinational companies like Cargill, Wilmar and Charoen Pokphand made a killing from these changes; Chinese farmers were decimated.

Many Chinese companies also shut down, but several emerged much stronger, and, with the backing of the state, have been moving aggressively to establish global supply chains and even their own farms both in China and overseas (see Table 1). The impacts of these changes extend well beyond mainland China and affect peasants around the world.

“Family farms” displace peasant families

Food security has always been a top priority for China’s rulers. Up until recently that meant ensuring that enough food was produced in China to feed the entire population, and this task fell almost entirely to China’s peasant farmers.

Over the past couple of decades, however, the government has shifted its approach to food security, gradually breaking with the old food self-sufficiency policies. Part of the impetus comes from the government’s embrace of trade agreements that oblige China to allow imports of certain foods into the country. But the government has also pursued its own domestic policies aimed at shifting food production from peasant farms to larger...

4. See GRAIN, “Who will feed China: Agribusiness or its own farmers? Decisions in Beijing echo around the world”, August 2012, https://www.grain.org/e/4546
commercial farms and shifting agriculture extension and procurement from public programmes to agribusiness and food corporations.\textsuperscript{5}

This year, the government put forward a third round of adjustment policy for the agricultural sector in which it says it will enhance previous efforts to reform land holdings, consolidate farms, and develop corporate supply chains for inputs (seeds, machinery) and outputs (foods).\textsuperscript{6} It will also be providing policies and programmes to foster so-called “dragon head enterprises”, specialised in vertically integrated supply chains, and to encourage industrial and commercial companies to get directly involved in farming.\textsuperscript{7} The effects of this shift in state support from peasants to agribusiness are most advanced with meat production. Twenty years ago, backyard farms supplied China with 80\% of its pork; today, it is larger specialised farms and massive factory farms that produce 80\% of the pork.\textsuperscript{8}

One central plank of the Chinese state’s new agricultural policy is support for the transfer of lands from peasant farms to larger farms, which the government ironically calls “family farms”. China’s ‘family farms’ have on average 27 times more farmland than a typical peasant household, and by the end of 2012, there were already around 877,000 such “family farms” covering 11.7 million hectares of land.\textsuperscript{9}

Chinese law, however, still prevents peasants from selling their lands, so instead the transfers are of “use rights” organised through various schemes, of which perhaps the most important is the land circulation trust. Under this scheme, a company establishes a trust to acquire multiple land-use rights from farmers in a particular area, identify entities interested in the lands, and then arrange for the lands to be leased to these entities. The trust is like a bank where farmers deposit their land rights for the trust to then rent out to much larger farming operations.\textsuperscript{10}

The first company to jump into the trust business was the giant state-owned financial company CITIC. Its founder is China’s former vice president Rong Yiren – one of Asia’s richest men and one of the main politicians responsible for opening up the country’s economy to foreign investment. CITIC’s land circulation trusts are done in partnership with the German seed and pesticide corporation, Bayer CropSciences, and they integrate Bayer’s products into the consolidated farm holdings that they manage.

CITIC and Bayer’s first land trust project in Anhui Province, East China, involves the transfer of 2,100 hectares of farmland from local farmers, who are supposed to receive an average annual payment of 700-800 yuan (US$112-128) each. The Chinese government is using the project as a pilot for a nationwide programme, launched in 2015, that will register the contractual rights of 200 million rural households over the nation’s arable land and pave the way for further transfers. According to China’s Ministry of Agriculture, use rights for 25 million

\begin{figure}[h]
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\includegraphics[width=\textwidth]{pigbusiness.png}
\caption{Shuanghui International took over the world’s largest pork producer, Smithfield Foods in 2013 through financial support from the Bank of China, Goldman Sachs and Temasek Holdings. Smithfield Foods was the focus of the critical documentary film ‘Pig Business’}
\end{figure}

\begin{footnotes}
8. GRAIN, op cit.
10. GRAIN, “Asia’s agrarian reform in reverse: laws taking land out of small farmers’ hands,” 30 April 2015, https://www.grain.org/e/5195
\end{footnotes}
hectares of arable land have already been transferred – more than a quarter of the total land in farmers’ hands.  

Other large companies have followed CITIC and Bayer into the trust business, including China’s largest grain trader COFCO, the US seed company Pioneer, and even China’s largest e-commerce merchant Alibaba.

“Going global”: overseas agribusiness investment

In November 2014, the Chinese press reported that CITIC would be investing US$5 billion to develop farming operations on 500,000 ha of lands in Angola. The company has already developed two 10,000 ha operations in the country and is negotiating with the government for a third farm of 30,000 ha. The announcement came at the same time that two of Asia’s largest food companies, Itochu of Japan and Charoen Pokphand of Thailand, announced a deal under which they would purchase a combined 20% stake in CITIC for US$10 billion.

The two deals reveal much about the current direction of China’s food security policy. They provide an example of the close integration between the Chinese companies leading the transformation of the Chinese countryside and their foreign counterparts that already dominate the global food trade. They also highlight the interest that Chinese companies have in establishing control over the production of food abroad for the export of foods back home.

GRAIN pulled the information available on the farm-landgrab.org website, up to August 2015, to create a database of large-scale overseas land acquisitions by Chinese companies for food production (see Annex). We identified 61 deals in 31 countries covering over 3.3 million hectares that have been concluded or are in process.

What we can see from this list is a focus on the production of certain key foods that China imports (soybeans, palm oil, dairy) or is predicted to be importing.


12. Numerous other deals that were announced and are part of GRAIN’s 2012 database have since been abandoned and are not included in the table. See GRAIN, “GRAIN releases data set with over 400 global land grabs,” February 2012: https://www.grain.org/e/4479

In 2011, the Chongqing Grain Group announced a US$2 billion project to build a soy processing complex in the states of Bahia and Rio Grande do Sul, Brazil. The projects, however, appear to have been put on hold or abandoned for unknown reasons. On 19 October 2015, around 400 families from the Landless Rural Workers’ Movement (MST) occupied the 750 ha Sol Agricola Farm, in the municipality of São Lourenço do Sul, Rio Grande do Sul, which they say is owned by Chongqing Grain Group and has been left unproductive. (Photo: MST)
much more of (maize, wheat, rice, meat) in the near future. Chinese companies are both looking to establish a presence in the already established centers of export production (US, Argentina, Brazil, Indonesia, Australia, New Zealand) or the areas seen as next frontiers for low cost production of foods for export (Africa, Cambodia). And there is a tendency to target food production from places that are viewed as having higher “food safety” standards than China, such as New Zealand and Australia, where Chinese companies are interested in producing milk powder for use in infant formula.

In Australia alone, Chinese companies have acquired nearly one million hectares during the past few years, mainly for dairy and beef cattle, and another US$700 million worth of deals for rural properties were reported to be under negotiation as of September 2015. Several Chinese companies are also in the bidding for Australia’s largest landholder, S. Kidman & Co, which owns 11 million hectares of cattle stations. The surge in Chinese interest in Australian farms is tightly connected to the free trade agreement signed between the two countries, which gives protections to Chinese investors and allows for greater exports of Australian foods to China.

The scale of China’s new outward investment in global farmland is clearly significant, and is having an impact on local farmers – from Australian farmers being squeezed off their lands because of rising land prices to Mozambican farmers being simply thrown off theirs. More is bound to come. The government is concerned about the country’s over reliance on foreign corporations for food imports and, as a counter strategy, it provides direct support to foster China’s own food multinationals and to build the infrastructure and trading logistics that can ensure their access to and control over food exports. As the case of CITIC shows, much of these plans are unfolding through mergers, take-overs and joint ventures with established foreign companies.

The Chinese company that has moved the most aggressively in this direction is the state-owned China National Cereals, Oils and Foodstuffs Corporation Group (COFCO), China’s largest processor, manufacturer and trader of food.

“Whatever Chinese consume more of, need more supply of from outside, this is our area,” says Frank Ning, COFCO Chairman. COFCO has recently acquired controlling stakes in Nidera of the Netherlands and Noble of Singapore, two of the largest traders of grains and oilseeds from the Southern Cone of Latin America. Noble is also an important player in the palm oil trade from Indonesia. The acquisitions were supported by China’s sovereign wealth fund, the China Investment Corp (CIC), and made possible by a previous US$4.7 million cash injection from the China Development Bank in 2013. But COFCO has also sought alliances with foreign financial players to fund its expansion. At home, COFCO sold a major stake in its meat subsidiary, one of the largest in China, to the US private equity firm KKR to raise funds for the construction of mega hog farms. KKR also has a partnership with leading Chinese dairy producer, China Modern Dairy, for the construction of mega dairy farms.

Similarly, when Shuanghui International, a subsidiary of China’s WH Group, took over the world’s largest pork producer, Smithfield Foods of the US, in 2013, the deal was financed by a US$4 billion loan from the Bank of China and funded in part by the Wall Street financial

16. For example, China signed a deal with Brazil in May 2015 to provide US$50 billion towards the construction of a railway link from Brazil’s Atlantic coast to the Pacific coast of Peru to reduce the cost of exports to China, particularly for soybeans and other food commodities. See BBC, “China to invest $50bn in Brazil infrastructure”, 15 May 2015, http://www.bbc.co.uk/news/business-32747454
firm Goldman Sachs and Singapore’s sovereign wealth fund, Temasek Holdings.20

New Hope’s overseas expansion plans, coordinated from its offices in Singapore, are financed in part through partnerships with the World Bank, Singapore’s sovereign wealth fund and several transnational grain traders, notably Mitsui and Marubeni of Japan and ADM of the US.21

To put a number on all this activity: overseas agriculture investment by Chinese companies is reported to have surpassed US$43 billion over the past decade.22

Chinese agribusiness versus food sovereignty

China has already experienced the largest and fastest rural to urban migration in history. It is unlikely, however, that China’s manufacturing sector can continue to absorb this migration, and already there are movements of workers back to the countryside. The current shift to agribusiness means that they will have a much more difficult time surviving back home, as their lands are taken over by larger farms, the markets for their produce are controlled by powerful retailers and food companies and their environment is polluted by pesticides, chemical fertilisers and waste from factory farms.23

Jian Zhong Yin is one of the new faces of Chinese overseas agribusiness investment. He oversees China’s biggest potential investment in Australian agriculture—a AUS$1 billion high-risk foray in the fabled Ord River irrigation scheme. (Photo: The Australian)

23. For impacts of factory farms see Mindy Schneider, “Box 4: Major impacts of the industrialisation of meat production in China”, in GRAIN, “Who will feed China: Agribusiness or its own farmers? Decisions in Beijing echo around the world”, August 2012: https://www.grain.org/e/4546; another example of the scale of the environmental problems facing Chinese agriculture is soil pollution. See, “Soil pollution survey finally announced”, Dim Sums, April 2014: http://dimsums.blogspot.co.id/2014/04/soil-pollution-survey-finally-announced.html
into other countries, where peasants and small farmers are also struggling to maintain access to their lands.

Chinese companies are, of course, not behaving any differently than agribusiness corporations from other countries. In fact, they typically cooperate with foreign food, agribusiness and financial corporations. And this is precisely the problem. China has quickly become a major new source of agribusiness expansion, working directly against the interests of small farmers and local food systems in China and around the world.

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<tr>
<th>Company</th>
<th>Activities</th>
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<tr>
<td><strong>Agria Corp</strong></td>
<td>Mainly involved in seeds, fertilisers and rural services. It owns New Zealand’s PGG Wrightson, Agrocentro Uruguay and Australia’s largest cereal and pulse seeds company, Grainland Moree Pty Ltd.</td>
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<td><strong>Chongqin Grain Group (CGG)</strong></td>
<td>State-owned CGG in 2011 set aside US$3.4 billion for an overseas expansion that included a 200,000 ha soybean farm in Brazil, a 130,000 ha soybean farm in Argentina’s Chaco province, and other operations in Canada, Australia, Cambodia and Malaysia. All overseas projects, however, appear to have been put on hold or abandoned for unknown reasons.</td>
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<td><strong>CITIC</strong></td>
<td>CITIC is a state-owned financial company active in financing land transfers in China and acquiring farmland abroad, notably for oil palm plantations in Indonesia and a massive 500,000 ha farm project in Angola. In 2014, Itochu of Japan and Charoen Pokphand of Thailand, purchased a combined 20% stake in CITIC.</td>
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<tr>
<td><strong>China National Cereals, Oils and Foodstuffs Corporation Group (COFCO)</strong></td>
<td>COFCO is China’s largest food processor, manufacturer and trader. It is a diversified conglomerate, active in farming, food-processing, finance, warehouse, transportation, port facilities, hotels and real estate. Since acquiring controlling shares in two of the world’s largest grain traders, Nidera and Noble in 2014, COFCO is now one of the world’s main grain traders, particularly from the Southern Cone of Latin America.</td>
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<td><strong>Heilongjiang Beidahuang</strong></td>
<td>Heilongjiang Beidahuang is China’s largest agricultural enterprise, with activities spanning rice, flour, oil, dairy products, pork, and potatoes. The state-owned company manages almost 3 million ha of farmland, 920,000 hectares of forest land and 350,000 hectares of grassland in the province of Heilongjiang. Overseas, it is pursuing farmland in Argentina, Philippines, Australia and, potentially, Russia.</td>
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<td><strong>New Hope Group (NHG)</strong></td>
<td>NHG is the largest private agribusiness enterprise in China, with more than 400 different subsidiaries and more than 80,000 employees in China and abroad. It is the largest producer of feed and largest supplier of dairy, egg and meat products in China. It has set up more than 20 animal feed plants and poultry farms in Southeast Asian countries, including the Philippines, Indonesia, Cambodia and Singapore, and is looking to establish operations on other continents. Its overseas expansion plans are supported by the World Bank, Temasek and several transnational grain traders, notably Mitsui and Marubeni of Japan and ADM of the US.</td>
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<tr>
<td><strong>Shanghai PengXin</strong></td>
<td>PenXin is a diversified conglomerate active in real estate, agribusiness, mining, infrastructure and finance. It established a soybean farm in Bolivia in 2005 and has purchased or is in the process of acquiring numerous dairy farms in New Zealand and Australia.</td>
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<tr>
<td><strong>WH Group</strong></td>
<td>WH Group of China is the world’s largest pork company, with number one positions in China, US and key markets in Europe. It owns US-based Smithfield Foods and major China pork producer Shuanghui Development. In 2013, WH Group recorded sales of more than US$20 billion.</td>
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GRAIN is a small international non-profit organisation that works to support small farmers and social movements in their struggles for community-controlled and biodiversity-based food systems. *Against the grain* is a series of short opinion pieces on recent trends and developments in the issues that GRAIN works on. Each one focuses on a specific and timely topic.

The complete collection of *Against the grain* can be found on our website at: [www.grain.org/article/categories/13-against-the-grain](http://www.grain.org/article/categories/13-against-the-grain)

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