Chapter 3
Sino-African Foreign Direct Investment in Land: Problems and Prospects

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ABSTRACT

This chapter examines the political economy of Sino-African land acquisition with emphasis on land use for agriculture. Set within an institutions framework, it articulates a discourse on the motivation of Chinese cooperation with Africa. On China's role in Africa, the chapter identifies pessimistic views that focus on the potential imperialist character of China in African development as well as optimistic views that posit that African states have a crucial role to play in being architects of their own development, by setting institutions in place to maximize gains from Chinese development cooperation. From an historical perspective, large-scale land acquisition involves dispossession of land capital, legal aspects of property rights—which have gendered perspectives—and information asymmetry, all of which are recognized challenges to foreign investment in Africa. The chapter amplifies the silent reality that other emerging economies such as India and Brazil can influence agrarian transformation of Africa.

INTRODUCTION

The African population, 60 to 70 per cent of which reside in rural areas, is largely dependent on low-productivity traditional agriculture as a means of livelihood. Consequently, in the growing discourse on Africa's structural transformation, agriculture has been identified as a crucial driver of economic transformation, with potential to increase food supply, rural incomes, exports as well as inputs for industry. Agriculture also has a huge potential to distribute labour to the industrial and adjoining service sectors. In this way agricultural productivity has financed most industrialization experiences in Africa (African Center for Economic Transformation, ACET, 2014). Land holdings for agricultural use thus contribute to economic development. Empirical evidence is replete on the channels through which agricultural productivity reduces poverty, increases income, employment, as well as its rural non-farm multiplier and food prices effects. Nonetheless, levels of technology

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adoption, initial asset endowment and the extent of market access places a limit on the capability of the poor to contribute to the gains that accrue from growth in agricultural productivity (Schneider & Gugerty, 2011). Thereby, limited access to land can reduce the contribution of smallholder-driven agricultural development to poverty reduction (Cervantes-Godoy & Dewbre, 2010; Schneider & Gugerty, 2011).

On the whole, about 2.5 billion people in developing countries secure their livelihoods by engaging in agriculture; also far reaching is how the agricultural sector links to other sectors of economy (DFID, 2005). Not only is agriculture a source of input for other industries, it generates foreign exchange, value added and has multiplier effects across the economy (Mucavele, 2010). There are examples across Africa of how agriculture contributes to employment, growth and poverty reduction. In Malawi, agriculture accounts for 39 per cent of Gross Domestic Product (GDP), 85 per cent of labour force and 83 per cent of foreign exchange earnings and by 2010 it contributed 33.6 per cent to the Malawian economic growth. Also, in Mozambique agriculture is the main stay of the economy, employing 90 per cent of rural households (80 per cent of total population). 97.4 per cent of rural households in Zambia are engaged in agriculture (amounting to 45 per cent of the population), with most of the farming households being smallholder, subsistence farmers (Mucavele, 2010). Thus, wherever agricultural production is prime, such as in Africa, land is capital.

The strategic nature of land capital dates back to the 18th Century, during which period Physiocrats posited that land was the ultimate source of value, thereby investing heavily to secure it. In the 19th and 20th centuries respectively, labour and capital were perceived to be more important factors of production. Notably, the turn of events in the 21st century has resulted in the renewed pursuit of land as a strategic asset (Adusei, 2010). Land is a vital part of social, economic and political life in most parts of Africa. It is also of historical and ancestral significance to the African people, thus making the management of land rights a central concern of African governments and cooperation agencies (Quan, Tan & Toulmin, 2004). Moreover, the rapid growth of population and expanded markets puts increasing pressure on land resources which before seemed inexhaustible. The limited coverage of formal land institutions and weakened nature of customary land management, results in insecurity of property rights for the grassroots in Africa, a major factor relegating Africa's development (Quan, Tan & Toulmin, 2004). Hence, a scramble for foreign investment in land (especially for agriculture) is with the hope that investment in land would facilitate the diffusion of modern agricultural technology, enhance domestic capacity and skills, invigorate low productive agro-sectors and lead to sustained increases in agricultural output (Adusei, 2010).

Even though there has been a decline in FDI to Africa since 2009, Chinese FDI in Africa has increased from US$1.44 billion in 2009 to US$2.52 billion in 2012 with an annual growth rate of 20.5 per cent (China-Africa Economic and Trade Cooperation, CAETC 2013). With over 2000 Chinese enterprises engaging and growing in several parts of Africa, the share of sector distribution ranges from 1.1 and 2.5 per cent for real estate and agriculture investments respectively, to 20.6 and 15.3 percent respectively for mining and manufacturing interests (CAETC, 2013). While most of the growth in Africa is accounted for by the energy resource boom and gains from extractive activities as well as improvements in services, there is a growing need to direct investment to agriculture, which accounts for 70 to 80 percent of employment on the continent (Africa Progress Panel, 2013). Specific to FDI in African agriculture; Chinese engagements increased by 175 per cent, from US$30 million in 2009 to US$82.47 million in 2012. These engagements include agricultural investments in the use of improved seed varieties, cultivation of grain and cash crops as well as processing of agricultural products (Africa Progress