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Review paper

Agricultural outsourcing: A two-headed coin?

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ABSTRACT

Since two decades ago, when China's economic strength has made this most populated country as a leading global agricultural outsourcer, there have increasingly been hot debates on whether such outsourcing is destructive or constructive, especially for host countries. Some critics pessimistically call it 'land grabs' or 'neo-colonialism' that should be prevented while others optimistically appreciate it as a development opportunity that should be promoted. The first group interprets the outsourcing as a win–loss process while the second considers it as a win–win deal. This study tries to show the possible gains and losses of both outsourcers and host countries. Accordingly, this paper introduces four different situations; i.e. loss–loss; win–loss; loss–win; and win–win. The first situation is understood as a 'red-deal' which should urgently be stopped. The second and third situations are called 'yellow-deal' which should be adjusted to come up with the last situation which we call 'green-deal' that addresses the benefits of both outsourcers and outsourcees. The paper concludes that in order to understand the main impacts of such deals, we still need to create more evidence for each situation in the framework of a series of risk assessment studies on the bases of both "country-case" and "crop-case".

Contents

1. Introduction

A secure and sustainable food production system is needed for surviving human being societies. The world is making only slow progress in reducing food insecurity, according to the Global Hunger Index (GHI)[1] (Ackello-Ogutu, 2011). Some regions—in particular South and Southeast Asia, the Near East and North Africa, and Latin America and the Caribbean—have made significant headway in combating hunger and malnutrition since 1990, but in South Asia and Sub-Saharan Africa, the GHI still remains high (Grebmer et al., 2008). While one billion

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[1] The GHI is a multidimensional statistical tool and measures progress and failures in the global fight against hunger.

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people currently suffer from hunger (UN, 2009), the Food and Agriculture Organization (FAO, 2009a) of the United Nations estimates that by 2050, the world's population will exceed 9 billion, most of which will be inhabitants of the developing world.

At the same time, the majority of the world's remaining cultivatable land lies in developing countries (Cotula et al., 2009). Many large land areas in the developing world are in fact cultivated by indigenous communities, but return very low yields. This limits the capacity of the developing world to meet the world's demands without outside investment (Hallam, 2009). Most of Sub-Saharan African nations suffer from food insecurity. Among all, according to the latest GHI scores (in 2011), three countries[2] stay at "extremely alarming" and 13 countries[3] at "alarming" mode (Wünsche, 2011). Consequently, it seems that they need a great help to produce enough food for their own and also to other countries with insufficient cultivable land. Yet, the food and fuel scarcities push some countries, especially capital-rich and natural resources-poor nations like China, South Korea, Japan, Saudi Arabia and Kuwait (STWR, 2012) to buy or lease huge quantities of foreign lands mainly for the production of food and biofuels for domestic consumption (Haralambous et al., 2009).

Since about 95% of Asia's croplands have already been used, Africa and Latin America are seen as the most likely places where foreign investors will seek arable land (Kersting, 2011). The cheap and abundant farmlands in developing nations, particularly in Africa, drive capital rich nations to outsource their food productions (Cotula et al., 2009). Among agricultural outsourcing (AO) scramblers, some of the most populated countries; i.e. China and India, have put serious attempts to drive global AO due to domestic shortages in land, energy and natural resources (Friis and Reenberg, 2010). Yet, the scarcity of land and sprawling overpopulation in those countries have led to political backlashes that prompted the central government to turn its attention to Africa at the beginning of this decade to fill its people's rice bowl (Horta, 2009). Since the 1990s, in order to accommodate the food and energy growing demand, China, the most populated country in the world, has come into this picture as the main feature. In Latin America, overall Chinese direct investments have been small but on rise. Currently, China's interest in this region has focused on oil and metals, not agriculture (Davies, 2009). By 2011, 26 Chinese companies have been actively in negotiation with Latin American and African countries especially Argentina, Brazil, Mozambique, Nigeria, Angola, Malawi, Sudan, Ethiopia, Madagascar and Zimbabwe to invest on agriculture, food, forestry, fishery and biofuels (Afripol, 2010; Cobo et al., 2011; Saturnino et al., 2011).

Much of the AO is taking place in developing countries with weaker governance and less developed civil societies (Grindle, 2002). Among others, the most AO is taking place in Africa. Although foreign nationalities have been engaged in agriculture in this continent for many years, the scale of such deals has increased significantly in recent years. Consequently, the contentious issue of 'land grabbing' has become the subject of numerous media reports since the global food crisis worsened in 2008 (FIAN, 2012). The latest wave of land grabbing began towards the end of 2008 when the global food crisis generated a serious concern over supplies in countries that consume more food than what they produce (STWR, 2012).

Across Africa, governments are already leasing large areas of land that are traditionally used by small-scale farmers to transnational companies for industrial agriculture or for planting trees as carbon sinks so as to gain carbon credits. Pearce (2011) asks whether such a lease will accelerate if the soil itself becomes a carbon commodity. According to him, the high costs of employing scientists, consultants, and practitioners to monitor the carbon uptake of farm soils will make it unfeasible for poor farmers to pocket any income from the sale of the carbon absorbed by their soils. He believes that only rich farmers are able to lessen these transaction costs significantly to profit from the carbon markets. Consequently, a new phase of land grabbing—called "soil grabbing" is taking place in this continent. Another essential issue is that the desire to use water resources is embedded in many land deals (Skinner and Cotula, 2011; Woodhouse and Ganho, 2011). In many cases water itself is the target of deals, not only for agricultural purposes but also for other purposes like mining which could result in "water grabbing" (Mehta et al., 2012).

Concurring with the liberalization of trade, competition for AO is more and more played out directly between local land users, national economic elites, and transnational investors (Oxfam, 2009). As a result, land acquisitions are on the increase in Africa and other continents, raising the risk or opportunity that poor people will be evicted or lose access to land, water, and other resources, if not made properly (FAO, 2009b), or gain some benefits to promote their socio-economic and ecological services and facilities. Correspondingly, some believe that AO has generated some envisage economic opportunities for local communities while others see it as a serious threat to the livelihoods of local poor people (Grau and Aide, 2008; Smaller and Mann, 2009; Ezra, 2010; Friis and Reenberg, 2010; Mihretie, 2010; Smith, 2010; Madebo, 2011).

Although indicative evidence has started to emerge, there is yet very little systematic monitoring of these trends, research into the impacts, or exploration of the opportunities that may be created for rural development. These trends pose both a threat and an opportunity to the rural poor, who are increasingly losing their land rights and the future food production security. Particularly, dispossession is likely to occur where their land tenure rights are weak and unrecognized. Most at risk are groups such as women, pastoralists, indigenous people and others dependent on customary and common-pool resource rights that are insecure and undocumented (Quan, 2006). The vulnerability of these groups is often compounded by corruption that can accompany large-scale land transfers. There is already evidence of the displacement of poor resource-users by agro-fuel production, while others may lose access to resources, such as rangelands and forests, which may constitute an important safety net and livelihood source for marginalized groups. However, where poor people have secure land use rights, these trends may actually offer opportunities for development.

Hence, the question surfaces whether AO has an entirely negative impact as critics posit, or whether it might also carry some potential benefits. Furthermore, there remain some other crucial questions as follows: what are the main subsequent of global AO? Are the consequences destructive or constructive and for whom? Will the AO be a win–win or a win–loss deal? And what are the main gains and losses of such deals?

2. A two-headed coin: win or loss?

AO can be considered as a two-headed coin since it can lead to win and/or loss. It is clear that investors and investees both expect to win the most and loss the least. Undoubtedly, the investors come to developing countries to earn something, i.e. food and energy security. But the big question is that what they would bring to the host (mostly poor) countries. It is essential to regulate the conditions that can direct AO to win for both sides of the deal. However, apparently, as a consequence of investors' power and investees' weakness, the most so far AOs have led to win for the guest and loss for the host countries. AO must reduce, and not expand, the number of hungers and communities that struggle to survive. Leaseholders might push the host governments for better tax situations for farmers, while host countries could insist on the local hiring. Some empirical studies of the past few years clearly indicated that foreign investment companies are profiting from "land grab", and AO in developing countries has failed to deliver its promise of jobs, infrastructure, schools, and

[2] Democratic Republic of Congo, Eritrea and Chad.

[3] Ethiopia, Central African Republic, Comoros, Sierra Leone, Madagascar, Mozambique, Zambia, Angola, Tanzania, Malawi, Sudan, Niger, Liberia.