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Firm that cottoned on to a good deal

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Employees of China-Africa Cotton Development Ltd at a goods yard in Mozambique. Photos provided to China Daily



An employee of China-Africa Cotton Development buys cotton from a farmer in Zambia.

Agricultural firm makes big inroads in Africa by bringing company and farmers together

The days of foreigners managing vast plantations, highlighted in movies such as Out of Africa, have long gone.

Today, most international agricultural companies have left the planting to local farmers, and focus instead on buying the harvest, and China's largest agricultural company in Africa is now making significant inroads into the market.

China-Africa Cotton Development Ltd is a joint-venture between Qingdao Ruichang Cotton Industrial Co, China-Africa Development Fund and Qingdao Fuhui Textile Co.

Established in its current form in 2008, the company dates back to the 1970s, when Chinese workers built Tazara Railway. Few people knew that two textile companies were gifted to Zambia as well, one built by Qingdao Ruichang.

By the end of last year, China-Africa Cotton had grown a presence in Malawi, Mali, Mauritius, Mozambique, Tanzania, Zambia and Zimbabwe, and its main stakeholder, China-Africa Development Fund, had invested \$60 million in its operations.

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Its assets had grown from an original \$22 million to \$128 million, and its profits had hit \$6.5 million.

It is now the second-largest cotton processing company in Zimbabwe, after the state-owned company.

Wang Chuanyuan, its general manager, says Africa has become a key global cotton growing and processing market.

"In Zambia, for instance, more than 70 percent of people are involved in agriculture and the country has more than 43 million hectares of arable land.

"The land is fertile and the sunshine aplenty - this is natural cotton-growing land."

Wang says that while it costs 10 yuan (\$1.60) to buy 1 kilogram of cotton in China, it costs just 2-3 yuan in Africa.

"Back in the 1970s, when we were operating the plant in Zambia, African labor was also more expensive than Chinese labor, but now it is much cheaper," Wang says.

Adeyemi Achamou Fahala, secretary-general of the African Cotton Association, says the organization aims to raise cotton production to 5 million tons by 2022, from the current 1.5 million tons.

"We will also introduce more advanced levels of technology to improve the standard of cotton being produced and raise the capacity of our ginneries," he says.

China's Ministry of Commerce says that about 8 percent of the world's cotton is produced in sub-Saharan Africa.

As US cotton continues to be grown on huge plantations, in sub-Saharan it is generally grown by individual farmers.

In Malawi, for example, cotton is still grown using the traditional method of mixing the cotton plants with those of other crops such as soy, corn and peanuts, so it acts naturally to reduce pests.

Wang says the company's business model is one of "company plus farmer".

During the growing seasons, they sell seeds, fertilizers and pesticide to farmers, and then buy their cotton after harvest.

"Growing cotton is not our strength, and we will never be a plantation company, in any sense," Wang says.

"There is more profit in trading cotton on the international market, or processing it locally."

Like other large multinational agricultural companies, China-Africa Cotton does not buy or rent land to grow cotton, but has only small-scale lands for seed breeding.

"By doing this, we increase local farmers' income and avoid the risk of losing the land if and when policies change," he says.

China-Africa Cotton has established a seed-breeding base and a ginnery in Malawi, with annual capacity of 30,000 tons.

Zhao Jianping, assistant general manager of China Development Bank, says its company-plus-farmer model is excellent at promoting sustainable development in Africa.

"It not only brings technological support to Africa, but also introduces management experience that helps improve local economies."

China-Africa Cotton has also bought a plant in Malawi from Cargill, the food, agriculture, financial and industrial products and services giant, to extract oil from cotton seeds. Local people there generally use cotton oil for cooking.

The company now employs more than 3,000 local staff across the continent, and more than 200,000 farmers supply the company with cotton.

Last year it harvested 35,000 tons of cotton worth 500 million to 600 million yuan.

A small amount of the cotton is processed locally, with most of it shipped back to China, Wang says.

But this is where the company meets its biggest obstacle: China has import and export quotas on cotton, so the produce collected in Africa cannot be traded inside the country, but only internationally.

"So we are forced to compete with the giant multinational cotton companies on the international market, such as ADM, Bunge, Cargill and Louis Dreyfus," Wang says.

Given the situation, the company plans to extend its operation into downstream industries such as yarn, weaving and clothes-making, "but these are likely to be expensive and we are only gradually moving into them", Wang says.

To build a local company, Wang needs to start from scratch. "We need to ship



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AT A GLANCE

**CHINA-AFRICA COTTON
DEVELOPMENT LTD**

Established in Africa: 2008

Number of local employees: 3,000

Locations in Africa: Malawi, Mali, Mauritius, Mozambique, Tanzania, Zambia and Zimbabwe

Revenue last year: about 600 million yuan



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literally everything, even the screws, from China, which can take months and adds greatly to the cost."

Wang says Chinese companies should learn from Western companies, which focus more on the higher-margin selling of seed and offering grain reserve services.

Despite difficulties, Wang's company is making profits, last year of \$6.5 million.

"Unlike the mining industry, for instance, which brings cash flow immediately after you start operating, we have only one cotton harvest every year and we need to fight with other companies for that cotton - so it is not easy to stay profitable."

Wang says China is making quick progress compared with its Western counterparts.

"Many of the big Western companies established their cotton plantations in the colonial days, but China has only been involved in this business for the past decade. We can't expect to reach Western companies' scale overnight, but we can borrow their management experience."

As the company keeps expanding in more African countries, funding also remains an issue for China-Africa Cotton's development, Wang says.

"Major European and US companies have invested billions of dollars over the past decades and have developed a complete industry chain including seedling, procuring and processing - but so far we have managed to invest just \$60 million.

"I hope the Chinese government can open up more financing channels to agricultural companies in Africa, so we can perform better in this area," Wang says.

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