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China Looks to Lease Large Tracts of Russian Land in Siberia

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Last week, Chinese company Zoje Resources Investment and its daughter company Huae Sinban signed a letter of intent with regional authorities to **lease** 115,000 hectares in the Transbaikal region for a period of 49 years at a cost of 250 rubles per hectare per year. Of this land, 65,000 hectares is considered 'wasteland' with 50,000 hectares being pasture. The company will need to invest an estimated 24 billion rubles to prepare the sites for agricultural usage. If successful in acquiring the land, the Chinese plan to **grow** fodder, grain, oilseeds (including pharmaceutical ingredients), poultry, meat and dairy. The project has two stages, the second being contingent on success in the first stage. If successful, the company will seek to lease more land, increasing the size operation to upwards of 200,000 hectares.



Transbaikal region, Siberia

This is a large area of land that is likely to be leased out and because of that, it is easy to jump to the conclusion that China is making (or could eventually make) a land grab in Russia, though this is rather unlikely to happen. First, all that has been done so far is signing a **letter of intent**. The letter of intent provides the Chinese company confirmation that the Russian side is ready to cooperate. Now, both sides can

begin studying the project's implementation, risks, costs, and other terms of cooperation, all of which will take at least a **year**.

Furthermore, this land is going to be spread between **several sites** in the region, making any consolidation of Chinese influence limited. The regional government is expecting that of the new jobs created, approximately 75% will be local, further limiting the Chinese presence. Lastly, and perhaps most importantly, much of the land has been agriculturally and economically unproductive for 20-30 years. Once an agreement is signed, Huae Sinban will have **three years** (dictated under Russian law), to prepare the land for agricultural production, which, given the size of the area as well as the climate, make this a very difficult undertaking.

This is certainly not the first time Chinese companies have leased land abroad for agricultural purposes. Chinese pork producer **Shuanghui International Holdings** is reported to have acquired 100,000 acres of land in Missouri, Texas and North Carolina when it purchased American producer Smithfield Food Inc several years ago. Another example of Chinese land acquisition for agriculture abroad is a consortium acquiring a 200,000 acre cotton plantation in **Australia**. Chinese companies were engaged in agriculture throughout the world, **including in Russia**, before this project was announced, and there may be a degree of overreaction to this particular deal.

With sanctions in place, this deal with China will likely become reality for several fairly obvious reasons: it is easy money, it will create jobs for Russians, and the land is not being used. It is an understandable and necessary move by Russia to make gains when possible. There will of course be naysayers and alarmists, but the downsides for this deal are limited, with backlash likely to come from nationalists and regionalists. For the first time in several decades, this land could once again become agriculturally viable, and if Russia is unable or unwilling to make the investments themselves, there are certainly potential investors elsewhere in the world willing to do so.

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