Land grabbing, conflict and agrarian-environmental transformations: perspectives from East and Southeast Asia

An international academic conference
5-6 June 2015, Chiang Mai University

Conference Paper No. 13

Tapping into the Rubber Market:
Opium Replacement and the Role of Rubber in Developing Laos

Juliet Lu

April 2015

The Regional Center for Social Science and Sustainable Development
Chiang Mai University

BICAS
www.plaas.org.za/bicas
www.iss.nl/bicas

mosaic
iss.nl/mosaic

Transnational Institute
A worldwide fellowship of scholar activists

Land Deal Politics Initiative
LDPI

ICCO COOPERATION

FOCUS ON THE GLOBAL SOUTH

In collaboration with:

Demeter (Droits et Egalite pour une Meilleure Economie de la Terre), Geneva Graduate Institute
University of Amsterdam WOTRO/AISSR Project on Land Investments (Indonesia/Philippines)
Université de Montréal – REINVENTERRA (Asia) Project
Mekong Research Group, University of Sydney (AMRC)
University of Wisconsin-Madison

With funding support from:

FORD FOUNDATION

NWO
Netherlands Organisation for Scientific Research
WOTRO Science for Global Development

DFID Department for International Development

ISS International Institute of Social Studies

The Journal of PEASANT STUDIES

Tapping into the Rubber Market: Opium Replacement and the Role of Rubber in Developing Laos
by Juliet Lu

Published by:

BRICS Initiatives for Critical Agrarian Studies (BICAS)
Email: bricsagrarianstudies@gmail.com
Websites: www.plaas.org.za/bicas | www.iss.nl/bicas

MOSAIC Research Project
Website: www.iss.nl/mosaic

Land Deal Politics Initiative (LDPI)
Email: landpolitics@gmail.com
Website: www.iss.nl/ldpi

RCSD Chiang Mai University
Faculty of Social Sciences, Chiang Mai University Chiang Mai 50200 THAILAND
Tel. 66-53-943595/6 | Fax. 66-53-893279
Email : rcsd@cmu.ac.th | Website : http://rcsd.soc.cmu.ac.th

Transnational Institute
PO Box 14656, 1001 LD Amsterdam, The Netherlands
Tel: +31 20 662 66 08 | Fax: +31 20 675 71 76
E-mail: tni@tni.org | Website: www.tni.org

April 2015

Published with financial support from Ford Foundation, Transnational Institute, NWO and DFID.

*Note: This paper is simultaneously published online in the BICAS Working Paper Series (http://www.plaas.org.za/bicas; www.iss.nl/bicas) and Chiang Mai Conference Paper Series.

Abstract

Development cooperation is an increasingly prominent focus in Chinese foreign diplomacy, and a central justification for Chinese firms' engagement in large-scale land acquisitions (LSLAs) across the global South. China claims itself a success story of developing country industrialization and economic growth, and models its development interventions abroad after its own experience. This is exemplified by China's Opium Replacement Program (ORP), which aims to reduce opium production in Northern Myanmar and Laos by incentivizing Chinese companies to invest in agribusiness in those areas. Since its establishment in 2004, the ORP has catalysed a wave of Chinese investments in these areas, predominantly in the form of rubber plantations. This paper examines the ORP's implementation in Laos as a lens through which to understand the role Chinese firms play in China's vision for development cooperation. It compares the conditions under which rubber emerged in Yunnan, China to those of northern Laos, and demonstrates how incongruities between the two contexts complicate efforts to translate the Yunnan rubber model abroad. It then explores the political economy of ORP supported rubber investments in northern Laos, with specific focus on the growing commercial power and market access the ORP affords Chinese companies.

The study finds that the ORP goes far beyond just incentivizing individual companies; it establishes a system that privileges Chinese firms to the point of their effective monopoly in the rubber industry in northern Laos. Since the drop in global rubber prices in 2011, ORP quotas for import tariff exemptions have made participating companies the only firms able to profitably process and export raw latex back to China. This may allow them to outcompete smallholders, contract farmers, and unsubsidized companies for land and inputs as well as to dominate processing and export – the most profitable activities in the sector. This case therefore questions the idea, central to China's development cooperation approach, of translating China's unique development experience into other country contexts, and the ability of Chinese companies to act as effective agents of development when investing in LSLAs.

Acknowledgements

The findings of this paper are derived from fieldwork I carried out as a researcher for the Centre for Development and Environment (CDE), University of Bern. I am extremely grateful for support from all my colleagues at CDE, particularly Vong Nanthavong and Oliver Schoenweger. I also thank Mike Dwyer, Miles Kenney-Lazar, Cecilia Springer, You-Tien Hsing and my advisor Nancy Peluso for their comments and reviews. Finally, Ms. Yan Mei of the World Agroforestry Centre was an instrumental contributor to the initial development of this paper and to her I am especially indebted.

1 Introduction

The global boom in large-scale land acquisitions (LSLAs), dubbed "land grabs", introduces a new group of emerging market investors striking land deals throughout the global South. Of these, China represents the most prominent "land grabber" (Smaller et al. 2013) and whereas critics characterize its investments as predatory and self-serving, China portrays them as a form of development cooperation that benefits recipient countries (Scoones et al. 2013). Modeled after its own path to development, China eschews aid-based development interventions and instead emphasizes large-scale infrastructure and commercial agriculture investments as beneficial tools for capital, technology and knowledge transfer (Buckley 2013). Under this business-oriented approach to development, Chinese companies investing abroad act as agents of development, and their investments are expected to provide wage labor opportunities, infrastructure, market access and skills training.

By establishing the Opium Replacement Program (ORP) in 2004, the Chinese government catalyzed a wave of LSLA investments by Chinese agribusiness companies in northern Laos and Myanmar. The ORP aims to reduce opium production and trade into China by supporting alternative agricultural activities, primarily in commercial agriculture (especially rubber), which it does by providing financial incentives and regulatory support for Chinese agribusinesses (TNI 2010). With the aid of this program, Chinese companies have poured into both countries, investing primarily in large-scale rubber plantations (Shi 2008). Critics of the ORP say the program has engendered widespread dispossession among rural smallholders by enclosing rural land (Kramer & Woods 2012), and some suggest it functions merely as political justification for meeting China's growing demand for rubber (Cohen 2009). Chinese proponents, on the other hand, claim it stimulates technology and capital transfer and increases Lao producers' access to Chinese rubber markets (Cao & Guo 2012).

I examine the ORP's implementation in Laos as a lens through which to understand the role Chinese firms play in China's approach to development cooperation. I begin with an overview of the development of rubber in Xishuangbanna, which demonstrates the crop's symbolic and strategic role in shaping the area's development. The crop was attributed with bringing modernity and prosperity to Xishuangbanna, and Chinese policymakers and rubber companies alike take its success as justification for rubber investments in Laos. Next, I outline the ORP's establishment and design, highlighting its underlying preference for large-scale plantations over smallholder outreach and market-based instruments for driving the policy. Finally, I examine the implementation of four ORP rubber projects in northern Laos to explore the challenges and question the validity of translating China's experience with rubber into other contexts. I highlight how company activities have shifted under the global rubber price drop and their

Most analyses of Chinese investments abroad fail to examine firm-level actors, dynamics and approaches (Nyiri 2013, Brautigam & Zhang 2013), and thus rarely distinguish between ideological contradictions at a policy discourse level and implementation challenges on the ground. My study of the ORP, which focuses on four ORP rubber companies operating in Laos, suggests that firms differ significantly in their approach to development cooperation and thus their potential development impacts in Laos. For each, the process of translating ORP objectives into action depends heavily on the negotiation, planning and decision-making approaches of individual company managers and their companies' experience and role in the Yunnan rubber sector. This process, from policy design to implementation, is thus fraught with complications, obstacles and disjunctions between the motives and capacities of different actors involved. The ORP's implementation in northern Laos serves as a case for exploring whether China's LSLAs can provide meaningful development benefits for recipient countries and whether companies can act as agents for delivering those benefits.

China's approach to development cooperation is relevant to the larger debate over the implications of LSLAs for recipient country development. Transnational corporations have steadily grown in their influence over the global food regime and have profited and grown through the sweeping transition to commercial agriculture (see Friedmann &McMichael 1989, McMichael 2005). Land grabs are considered a new phenomenon in part because these corporations are now purchasing or leasing land themselves, not only buying and trading agricultural products. Decision-making over land management and profit accumulation from land and resources are thus removed from the local contexts where impacts occur, and placed in the hands of foreign companies (Peluso and Lund 2011). This is described as the "foreignization of space" (Zoomers 2010) and considered a potential threat to local food security and autonomy, as well as recipient country state sovereignty (Hall et al. 2013). Meanwhile, emerging market companies driving the boom in LSLAs often have minimal legal limitations imposed by their governments on their operations abroad, and many recipient countries are considered weakly governed states, regulating and overseeing these new corporate actors has been of central focus in the land grabs debate (Wolford 2013).

Land grabs are also considered unique in terms of the types of agrarian transformation they engender. Since the 2008 report published by GRAIN placed an international spotlight on the issue, a split has occurred between outright opposition to LSLAs and qualified support. In her pivotal analysis, Tania Murray Li (2011) questions the World Bank's support for LSLAs, which she paraphrases as a belief that "large-scale land acquisitions can be a vehicle for poverty reduction through three main mechanisms: the generation of employment for wage workers, new opportunities for contract farmers, and payments for the lease or purchase of land" (p. 281). The Bank qualifies its support by suggesting various regulatory provisions recommends for mitigating the risks of LSLAs and harnessing them for host country development, but these have been criticized as impractical and unlikely to be implemented. Instead, Li asserts that returns to labor are far greater for smallholders when they own land themselves than when they rely on work on plantations (p. 285), and further that the large-scale plantation model has historically required cyclical conditions of poverty and landlessness in order to remain profitable long-term. Thus, Li argues, the prioritization of profit over poverty alleviation, which is central to corporate agribusiness models, places companies at odds with poverty alleviation objectives and limits their capacity as agents of development.

The literature on China's approach to development cooperation through agricultural land investments leaves two gaps that this study seeks to fill. First, many studies fail to include Chinese perspectives (Nyiri 2013), especially of private sector actors whose interests and perceptions differ from broad, state-level discourses. This has led to a preoccupation with comparing Chinese investors to investors from other countries, which, while valuable, asks a different question than what I pursue here. It also suggests homogeneity among Chinese investors, and portrays China as a monolithic economic force (Hofman & Ho 2012). But Chinese companies' vary significantly and CK Lee (2014) describes a "hierarchy of capitals of varying status, resourcefulness and connection to the Beijing government" and suggests that companies embody very different logics of capital depending on their ownership structure (whether they be state-owned enterprises (SOEs) or private) and especially on the sector they are active in (p. 34). I therefore seek to differentiate between and among Chinese corporate and government actors, place them in their historical and political contexts and explore how they transition from domestic operations to working abroad.

Second, there is a focus on China's presence in Africa in the literature on land grabs and development cooperation, but the transferability of lessons learned in the African context to other regions must be explored. Studies of China in Africa have generated important observations as to broader trends, particularly that China models its development interventions on its own experience (Jiang 2009). But how this shapes firm-level decision making, especially in country contexts outside the African continent, remains under-researched. My case suggests that regional geopolitics, especially the role of Yunnan Province as China's bridge to Southeast Asia and the assumed similarities between Yunnan and Laos, affects ORP implementation in important ways. These context-specific historical and political factors must be considered not only to help recipient countries better manage foreign firms, but also to find common ground in wider visions of development.

This paper is based on fieldwork conducted between 2012 and 2014 in Laos (Vientiane, Luang Namtha and Luang Prabang Provinces) and China (Yunnan Province). Four ORP companies were studied in depth, which involved interviewing managers, villagers in the areas surrounding plantations and Lao state officials involved in approving and managing each company. Key informants in Kunming, China and Vientiane Capital City, Laos were also interviewed and relevant secondary sources were collected.

2 Plantations and Progress: Yunnan's Transformation through Rubber

To contextualize China's concept of development cooperation, it is helpful to consider its own path to economic development. China's economic rise was negotiated through heavy state-led macroeconomic planning in which corporations served as vectors for both economic organization and the provision of social services. Under the planned economy (from China's establishment in 1949 to the early 1980s), production was organized into "work units" – state owned enterprises in industrial areas and agricultural collectives in rural areas. These units organized both economic and private life, and provided most state services (e.g. education, health care). In the early 1980s, China began its transition to a market economy through the Opening and Reform policy. It experienced sudden and rapid growth through economic liberalization and the influx of foreign direct investment. While State Owned Enterprises (SOEs) were gradually privatized, they remain pillars of the country's political and economic structure today and the Chinese state continues to exercise great power over economic planning, market mechanisms and SOEs.

Yunnan Province has played a peripheral role in China's development but is now gaining prominence. Once a flourishing trade hub connecting Tibet, China and Siam, its international borders were closed after the PRC's establishment in 1949 and the province lagged behind eastern China. Xishuangbanna Dai Autonomous Prefecture (XSBN), the area of southern Yunnan that borders Laos, was particularly poor until the arrival of rubber. Until 1951, when the US blocked rubber imports (needed for military jet and truck tire production) (Mann 2009), China had no domestic rubber production areas. The US blockade sparked an effort in China to establish its own rubber sector and to designate rubber a "strategic national crop" (Fox & Castella 2013). Rubber has therefore been more than just an income-generating cash crop – its military and political significance also shaped Yunnan's path to development.

Only three areas in China are suitable for natural rubber cultivation (Hainan, Yunnan and Guangxi) and even these have cooler, higher elevation climates than Malaysia and Indonesia, the traditional growing areas of Asia (*ibid*). As a result, rubber cultivation techniques had to be adapted to the XSBN context and maximizing productivity per land unit has been of central focus in China's rubber sector. Extensive rubber cultivation research and development was carried out in XSBN by the Jinghong Tropical Crops Research Institute (TCRI). At first, the Tropical Crops Research Institute was a branch of Yunnan State Farms (YNSF; 云南农垦基团), the province's rubber SOE, until the early 2000s when it was taken over by the Chinese Academy of Sciences. When China's rubber plantations began to succeed, they were described as a "miracle of science" (Sturgeon 2013, 76) and YNSF has since established cultivation, processing and quality standards for the entire rubber sector. Even now, the TCRI performs nearly all of its rubber research in YNSF plantation areas and continues to inform the company's production model and rubber sector standards (TCRI Researcher, *Interview*, Aug 9, 2014). Sturgeon (2013) concludes that, even today, "state rubber farms have a mythic cachet as emblems of socialist science and revolutionary zeal" (76).

Once the technology of rubber cultivation was adapted to the XSBN context, labor proved the second bottleneck to the sector's development. Initially, local Dai smallholders were considered too uncivilized for rubber production, which was believed (based on the Malaysia and Indonesia models established under colonialism) to require large-scale, factory-like production (Sturgeon et al. 2013). Youth members of the People's Liberation Army came in waves to clear vast areas of land and plant rubber trees, and they were supplemented with Han Chinese who migrated into the province (Mann 2009). Only in the 1980s, when China's industrial sector began drive up the demand for rubber, did YNSF turn to local smallholders (Xu 2006). Agricultural collective land had been reallocated to households, allowing individual smallholders to convert their own land to rubber and the transformation of XSBN's rural areas has been extraordinary (Xu et al. 2005). Thus just as Yunnan state rubber companies began to reach the limits of suitable state land available, the reallocation of collective land incentivized "skilling" formerly excluded smallholders, and incentivizing rubber planting with credit for inputs, training and extension support.

It is important to note that, throughout its development, domestic rubber production has enjoyed extensive protection and support from the Chinese state and profitability has never constituted the main driver or justification of rubber expansion (Shi 2008). In its early stages, research and development for the rubber sector was heavily state-funded due to its military significance. During the integration of smallholders in the 1980s, agricultural extension support for planting and tapping was supplied by the state and also through YNSF (Sturgeon 2013). As a strategic crop, the quantity and stability of supply was emphasized over cost-effectiveness, and domestic producers (SOEs and smallholders alike) have enjoyed protectionist trade policies that shielded them from global price fluctuations (Shi 2008, p. 55). This reflects an effort by the Chinese state to dissuade domestic producers from converting to other crops or livelihoods (*ibid*) and these protectionist policies continue today.

Recently, the role of rubber has shifted but it is still considered a crop of strategic national importance. In 2003, the Department of Agriculture formulated an action plan for the rubber sector (中国农业部 2003, 《NY/T 734-2003 天然生胶通用标准橡胶生产工艺规程》), which focuses on improving rubber processing technology in order to raise rubber quality standards to meet tire sector requirements. In 2009, China overtook the US as the world's top market for automobiles (Horton 2013) and China is working to increase the market share of domestic tire and automobile producers. Despite cutting most tariffs and price controls after its accession to the WTO, China retains a 20% import tax per metric ton of latex (Bloomberg News 2012).

To many, the economic transformation of XSBN appears to prove rubber's instrumentality as a tool for modernization and development progress. With its strategic military and now economic importance, rubber is seen in China as far more than a lucrative cash crop. It is also credited with transforming XSBN from a peripheral border region to a development success story, and its "backwards", uncivilized minority population into a civilized, disciplined workforce (Sturgeon 2013). This myth of rubber translates into the Lao context in peculiar ways with both Lao and Chinese actors often glorifying its development benefits based on the XSBN example.

3 Opium Replacement with Chinese Characteristics

In the early 2000s, a rise in injection drug use in Southwest China was viewed by Beijing as a critical threat to China's national security and social stability (TNI 2010) and the ORP was established in response. Related legislation was initiated by the central government, but in 2004, funding and administrative responsibilities were allocated directly to Yunnan Province, which borders the "Golden Triangle" countries (the border areas between Thailand, Myanmar and Laos) from which most of the opiates found in China originate. Like initiatives by the US and UNODC, it focuses on creating alternative livelihoods to opium in commercial agriculture but, in contrast to efforts by other actors, ORP funds go directly to Chinese companies, and not to state or local actors in Laos or Myanmar.

The ORP came at an opportune moment for both Laos and China in three different respects. First, Lao's own opium eradication efforts, which featured intensive campaigns to destroy opium fields but limited alternative livelihood provision, had temporarily culled production but also exacerbated economic difficulties for cultivating communities. Lao state officials were searching for alternative livelihoods to stem a backslide into opium (Shi 2008; Cohen 2009) and foreign land investments were seen as effective instruments for development (Dwyer 2007). Rubber was particularly appealing to Lao state officials because tree plantations are categorized as forest cover, and the Government of Laos (GoL) has set ambitious reforestation goals that officials are keen to demonstrate progress in (Fujita & Phengsopha 2008). Lao smallholders in areas bordering China had also witnessed XSBN's rise to prosperity (Mann 2009) and some villages in Luang Namtha had already adopted the cultivation techniques of their neighbors across the border (Shi 2008; Hicks 2009).

Second, Yunnan's rubber SOEs had been gradually privatized by that point (云南省政府 2000, 《关于加快国有农垦企业改革与发展的通知》), which forced them to compete with other suppliers just when their plantations, established decades before the boom among smallholders, had begun to wane in productivity. But in the early 2000s, high global rubber prices and rising domestic demand for rubber from the burgeoning tire industry had driven a planting frenzy by smallholders in XSBN, and little land was available within the province for further expansion (Smajgl 2013). Third, security issues and a rise in injection drug use in Southwestern China brought opium cultivation in the "Golden Triangle" to Beijing's attention.

The ORP was purposefully designed to be business-oriented and allows Chinese companies to act as "agents" of development cooperation (Shi 2008, p. 27). Qualifying companies can receive reimbursements for up to 80% of their initial exploration and project establishment costs, eases in customs requirements such as import/export tariffs and quotas, and exemption from interest on loans (Mann 2009). It has therefore been easy to characterize the ORP as "primarily an economic strategy in support of Chinese business investment" overseas (Cohen 2009, p. 6) or a "covered up operation" to "accelerate extraction of timber, exploration of mineral deposits and land suitable for rubber investments" (Sommer 2010). But the Transnational Institute (2010) suggests that Beijing is genuinely invested in controlling the opium trade, improving border security and contributing to development in Laos as real national security concerns. The Beijing government allocated a special fund to Yunnan Province for the ORP's implementation and in 2004 established the 122 State Council Working Group, a high level committee for designing its implementation, thus expressing overt and concrete support for its active implementation.

The ORP has also been criticized for favoring large-scale investments over smaller, more locally focused interventions. Indeed, rubber plantations (and most other crops grown under the ORP) do not coincide with opium cultivation, which occurs at much higher elevations (TNI 2010). The program has set minimums for required capital invested and ORP benefits are calculated based on the area of land developed, which encourages investors to seek expansive areas of land (《云南省开展境外罂粟替代种植项目管理办法（试行）》 (Xinhua 2004)). Smaller companies with less capital to invest have thus been squeezed out of participation and complaints that the ORP's approving committee favors Yunnan's politically connected, large companies abound.

These aspects of the policy's design do not, however, strike the Chinese companies participating in the ORP as contradicting the policy's objectives. In XSBN's experience, large, politically connected companies have historically been bastions of government service and technical expertise provision in the rubber sector. Meanwhile, large-scale plantations are expected to induce greater infrastructure investments by companies, including road and factory construction. When interviewed, company managers admitted that, although they were interested in investing in beforehand, the program's support permitted them to invest at larger project scales (Company Manager, *Interview*, 12 November 2012). As for targeting opium cultivation areas, another manager clarified that their aim was to provide alternatives to opium by generating wage labor opportunities, not by physically replacing opium fields, which he noted were far smaller in scale and have a distinct political economy from large-scale rubber plantations (*Interview*, 14 November 2012). This echoes TNI's conclusion that the ORP aims at "overall economic development by integrating the local economy of the border regions of Burma and Laos into the regional market" (p. 3). This distinction is often missed in analyses of the ORP, but it is pivotal to understanding the approach taken by the Chinese actors interviewed for this study, particularly their belief in the efficacy of large-scale plantations for poverty alleviation.

Still, the prevalence of rubber over other crops promoted by the ORP serves Yunnan economic interests as much as it purports to further Beijing's security interests. Yunnan's state budget is heavily reliant on agribusiness taxes and large rubber companies retain notable political influence despite some moves towards privatization in recent years. Thus, the ORP provides a much-needed opportunity (along with financial support and political justification) for the Yunnan rubber sector to expand. As a result, Chinese firms – both experienced and inexperienced in rubber – have poured into Laos and Myanmar as a result. Public records on ORP company participation in Yunnan are incomplete and out of date, and in Laos, even state officials involved in approving Chinese rubber projects are unaware which companies receive ORP support. I also found during fieldwork that the areas granted in concession agreements or reported to the Yunnan government by companies were consistently larger than the actual size of their plantations – sometimes because companies inflate reported figures but also due to challenges actually obtaining land in Laos. Still, it is clear that a larger proportion of investments have been made in Myanmar than Laos – in 2008, Weiyi Shi reported that of the over 41,000 ha granted to ORP companies, 11% of that area constituted plantations in Laos. Nevertheless, the ORP allows participating companies to shape the expansion of rubber and the path of development in northern Laos far beyond their plantation areas.

4 Translating the Myth: Rubber for Development in Northern Laos

> "Laos has a lot of land, very few people, and is very poor. It needs foreign companies to solve its development difficulties, especially opium. It needs the support of China."
>
> -Company manager. Interview, Luang Namtha. 27 December 2012

The majority of ORP rubber projects[1] in Laos are located in Luang Namtha (47), Bokeo (19), Oudomxay (14) and Phongsaly (20) – the four provinces bordering China. ORP rubber companies constitute between one and two thirds of all rubber companies registered in each province (MoNRE 2009), thus representing a significant portion of the rubber sector in each province. Almost all (89% of ORP rubber projects in Laos) were approved by the Yunnan Ministry of Commerce between 2005 and 2008, which coincides with the 2004 launch of the 122 State Council Working Group for the ORP. Plantations are typically established gradually in the years following granting, thus most rubber is only reaching tapping age (6-7 years after planting in Laos, depending on climatic factors) now, although many companies have decided to delay tapping due to low global rubber prices. As plantations enter the tapping stage and because the ORP's project approval phase has come to an end, now is a critical

[1] Some companies have more than one project; Data compiled from www.xinlaowo.com ("云南省在老挝投资企业名录"), a Chinese language website on investing in Laos, and cross-checked with public information from multiple online sources citing Yunnan Department of Commerce project approval information.

time to explore how it has impacted Laos to date and whether ORP companies are poised to deliver on the development benefits they have promised.

Xishuangbanna has comparable climatic, geophysical, sociocultural and agricultural systems to northern Laos. Chinese companies believe their decades of experience with rubber in XSBN will smoothly translate to Lao contexts. Thus where existing studies criticize the tones of Chinese exceptionalism alive in the ORP's policy level discourses, and China's "broader civilizing mission that envisages the transference of idealized Chinese qualities (such as scientific rationality, technical competence and entrepreneurial spirit) to 'backward' peoples" in Laos (Cohen 2009, p. 6), Chinese managers are not inclined to disagree. Presenting their own development model as a path to be emulated or imposed in Laos is, in the minds of a range of Chinese actors, a vision of optimism and comradery. But because Yunnan was closed to international trade and travel for so long and companies are new to operating abroad, actors within these companies are ignorant of many important distinctions between XSBN and Laos.

The ORP incentivizes large-scale land acquisitions over smaller holdings, in part because in China, large companies were the first movers in the rubber sector and have long been instruments for technology and capital delivery. Chinese company and Lao state interviewees alike explained that larger concessions were expected to engender the infrastructure construction, whereas contract farming and extension services to individual smallholders did elicit such major company inputs. To some degree, ORP support is based on plantation area, thus "the more you invest, the more money you get from the government" explained a company representative (Company Manager. *Interview*. November 2012), which encourages companies to seek as much land as they can conceivably be granted, regardless of their calculated management capacity.

While managers interviewed held in common a view of Laos as having 'abundant' or 'empty' land, obtaining large parcels of land in Laos has proven far more complicated than they initially expect. The vital role of shifting cultivation land in rural economies in Laos and the opaque regulations surrounding its ownership are not well understood by Chinese investors. During the expansion of rubber in XSBN, large companies were allocated state land, which was already delineated from shifting cultivation and agricultural communes' land. Later, when smallholders were integrated into the rubber sector, they converted their own land, thus land transfers were between companies and villagers were not necessary. But in Laos, much land has yet to be zoned and titled and government offices often have minimal accurate information on land availability and quality in their jurisdictions (Wellmann 2012). Furthermore, although shifting cultivation areas are heavily relied upon for household food and livelihoods security, they are not officially recognized or titled by the GoL. The GoL categorizes shifting cultivation areas as 'degraded forest', thus it is technically considered state land (Kenney-Lazar 2013). As local government offices scramble to allocate large areas to investors, shifting cultivation land is often granted with minimal or no compensation from companies. Many companies reason (and are often informed by their GoL counterparts) that because shifting cultivation areas are categorized as state land, they need not compensate villagers. They compensate households for paddy fields and other stationary crops, but suspect villagers of manipulating the company when asked for compensation for shifting cultivation land.

More responsible companies have compensated for shifting cultivation land regardless of Lao law, but typically in the form of free rubber seedlings, not with monetary compensation. This has assuaged villagers' complaints temporarily, but overlooks the larger issue, foundational to the ORP's aims, of generating livelihood alternatives to opium.

GoL actors and company managers alike suggest that the loss of land by villages is compensated by incomes generated from plantation work. But rubber takes seven years before it reaches tapping phase and employment opportunities during pre-tapping years are minimal. Temporary wage labor opportunities for clearing land, digging holes, planting and weeding rubber seedlings occur during the years before tapping, but these activities coincide with the busiest season for shifting cultivators. Meanwhile, villagers experience economic strain as soon as they lose land to plantations. "I have no choice to work, I would like income but first I must eat, I must tend my own fields" explained a villager in Ban Houaygoum. Intercropping of dry rice is typically allowed in early years, but villagers report that productivity plummets after the second year when soil nutrients have been exhausted, and by the fourth year the rubber canopy blocks much sun needed for rice. As a result, villagers have had to develop new shifting cultivation areas to replace those granted to companies, which requires increased labor and travel time. Compensation in the form of rubber seedlings hardly addresses this issue. Thus even if wages earned from companies for tapping eventually deliver higher incomes for Lao villagers, granting shifting cultivation areas to companies essentially places a major cost of foregone land productivity onto local communities.

Understanding the ORP's emphasis on large-scale plantations and companies' ignorance of Lao land and agricultural labor regimes is useful for explaining the spatial patterns and management approaches taken by companies. But a drop in global rubber prices over the last four years has exposed the program's deeper weaknesses in design – that is, the contradiction between companies' profit motive and their role as agents of development under conditions of economic stress.

What many forget in comparing rubber development in XSBN to Laos is that the Chinese state heavily subsidized rubber cultivation within its own borders, while the Lao state cannot provide comparable support. As a result of decades of protection and state extension services and other supports, Chinese smallholders are highly skilled in rubber tapping and check global rubber prices daily, thus enabling them to effectively plan tapping activities and negotiate with processing factories. These factors, far beyond the profitability of rubber alone, have resulted in the wealth and consumption of motorbikes, televisions, cars, etc. which Lao farmers envy (Mann 2009; Shi 2008). China's import taxes on natural rubber remain set at 20% – a level that has become intolerable to producers in Laos since the drop in global rubber prices in 2011. The GoL has been unsuccessful in negotiating a decrease in this rate as China still classifies rubber as crop of strategic national importance. This gives ORP companies who have import quotas to avoid this tax an important market advantage as the only entities able to profitably export rubber from Laos to China.

Three troubling situations have resulted from this. First, Lao individuals whose land has been converted into ORP rubber plantations, either under contract farming or concession, must wait longer before enjoying access to the supposed benefits of wage labor. Larger companies have stopped tapping, sending their seasonal wage laborers home, and smallholders with other income sources have also limited tapping. The most vulnerable households, however, report that they "have no choice, all my fields are now rubber, we have to tap to eat" (Villager. Interview. 16 Jul 2014). These households are thus far more vulnerable to global price fluctuations than ORP companies whose initial costs were subsidized. And although some smallholders and contract farmers have negotiated price floors for their products, companies are not typically obligated by contract to buy, thus rendering price floors inconsequential.

Second, latex processing activities have been consolidated in the hands of ORP companies. Most rubber companies throughout Laos have included plans to build processing factories – a necessary infrastructure to prepare rubber latex for transport. Company factories typically process latex from their own fields or contracted farmers, but managers interviewed also planned initially to process latex from independent smallholders. With the downturn in global prices, however, most have halted their factory construction plans and are waiting for higher prices before tapping their plantations. In Luang Namtha, Yunnan Natural Rubber (a subsidiary of Yunnan State Farms) now holds the only factory in operation and conducts all latex processing for the entire province (Canet, M. *Interview*. 14 Jul 2014) as it is simply not cost effective for other companies to process rubber.

Third, as a result of this consolidation at the processing level, Yunnan Natural Rubber has an influence over the margin of profit for all rubber production in Luang Namtha. As the only processing factory in operation in the province, Yunnan has the power to set prices and determine quality standards for all the latex it processes. And because all latex originating in Luang Namtha province has been labeled low quality, all producers are paid in the lowest price bracket. Should market conditions change and more producers begin tapping, this could discourage other companies from investing in training for tappers as the gains in the quality of latex produced may not result in increased prices and profitability unless the entire province's quality reliably improves. Should rubber prices rise enough to encourage other ORP companies to finish building processing factories, Lao producers may benefit from an increase in competition among processors. But until prices rise significantly, only ORP companies will be able to profit from exporting.

The consolidation of processing and export power among ORP companies is more than a bottleneck for the rubber sector in northern Laos. Processing and export, especially with the benefit of ORP quotas that allow ORP countries to avoid the Chinese import tariffs, represent the activities with the highest profit margins. Obtaining land and recruiting and training labor in Laos is far more difficult than in China where rubber is much more established. In interviews, companies expressed a limited interest in obtaining new land for plantation development. "We can't handle more, and this year we're realizing there is a labor problem" admitted on manager. Another echoed this saying, "labor is the main bottleneck for rubber development here". Compared to China, especially to the massive movements of migrant workers and students imported during the Cultural Revolution who established the first wave of plantations in XSBN, Laos has an extremely limited labor supply. Companies would prefer for the Lao government to recruit workers, thus avoiding language barriers and their own poor knowledge of Lao labor markets. Many hire middlemen, typically Lao villagers who speak Chinese or Chinese wage laborers within the company, who organize groups of Lao laborers but take cuts of their wages. Companies must also train Lao tappers themselves, whereas the history of rubber in XSBN has generated vast reserves of skilled labor.

These findings demonstrate that ORP companies are able to outcompete other actors at the higher margin nodes along the rubber commodity chain. This highlights the tension between corporate profit and local livelihoods development, and casts the suggestion that companies may act as agents of development in a critical light.

5 Pulling Back from Opium Replacement

When interviewed in 2012, many company managers had criticized other countries' development interventions, particularly grassroots level, small-scale projects they observed in Laos (e.g. well maintenance and agrobiodiversity initiatives). They portrayed these aid-driven projects as having failed the Lao people, since deep poverty and development issues remained. They refer to these development projects as small-scale and short-term compared to theirs and proclaim their own companies' dual development and profit motives as the strength of their approach. One manager interviewed in Long District, Luang Namtha stated,

> "Many others, Japanese and Western companies, come here and give a bit of money. That just solves surface problems ... Our company will be here for many decades. Of course our main purpose is to make money! But as such, we need to take care of our relationships, so we invest in the villages around here. We have a long term outlook."
>
> -Company manager. *Interview*, Luang Namtha. 23 December 2012

Such statements surely involve posturing, and respondents were aware that I was an American and that my research was enabled by the Lao government. But it does demonstrate that managers see their claims to bringing lasting, sustainable development impacts to Laos as legitimized by the fact that rubber is a long-term investment. They refer to cultivating strong village relations as being central to their business plan (e.g. the recruitment of labor and avoiding the cost of conflict), not as a moral project. It seems, therefore, that the managers running ORP plantations consider their business operations and their development objectives to be intertwined.

But the global downturn in rubber prices has likely reduced managers' optimism, and it has certainly forced introspection in Kunming. According to company managers interviewed, ORP Special Fund resources were beginning to dwindle in 2008 and since 2011, no new projects have been approved. Key informants in Kunming (Agricultural Expert. *Interview.* Dec. 2012; Rubber Researcher. *Interview*. Aug. 2014) have also cited rumors of accusations of favoritism leveled from other rubber companies in Yunnan as having forced the Provincial Government to slow the pace of approvals and commission stronger monitoring and evaluation efforts. The Yunnan government has attempted to verify the size of plantations claimed by ORP companies by giving satellite imagery to GIS analysts at the Kunming Engineering College and the Southwest Forestry College, but detecting rubber plantation plots in satellite imagery is difficult and highly inaccurate. Efforts to monitor ORP plantations suggest that Yunnan means to hold companies accountable, but lacks the capacity to do so.

Still, quotas for importing natural rubber tariff-free continue to allow ORP companies to profit despite the global price downturn, while many non-ORP processors and exporters are turning away smallholders' rubber (Vientiane Times 2013a; Vientiane Times 2013b). In 2012, the Laos central government placed a moratorium on rubber plantation concessions. The Department of Agriculture and Forestry in Luang Namtha even reports villagers converting from rubber to other crops before tapping phase. This suggests that rubber has lost its appeal in Laos and that the absence of a system of accountability has reduced the efficacy of the ORP significantly.

Still, extensive areas of land across northern Laos are already planted with rubber – a serious investment which must be carefully managed in the future. Laos can learn many lessons from XSBN's experience with rubber, as long as the differences between country contexts are taken into account. Furthermore, smallholders may benefit to some extent from the transfer of technology, capital, knowledge, and market access through Chinese actors. But it is unclear whether the ORP has been any more instrumental in providing development benefits than the cross-border smallholder connections that preceded the ORP or other companies who lack the ORP's excessive support.

6 Conclusions

As China's global economic influence grows, so too do the diversity of actors involved in its expansion. The Chinese companies studied here are far from the sophisticated, centrally controlled and supported SOEs that embark upon vast infrastructure projects or strike high level deals in countries remote to China. The Opium Replacement Policy reflects a vague set of Beijing's ideals for development – the stabilization of insecure borderlands through commercial agriculture. But its implementation is shaped at the province level where Yunnan interests may contrast those of the central government, but are nevertheless translated into the Lao context.

In this process of articulating a policy design and then translating it into action, Chinese companies have perhaps delivered many of the anticipated benefits of plantation rubber to Laos. For example, many small roads and bridges have been built, rubber seedlings and other inputs provided and training in rubber cultivation and tapping have all been provided by these companies. But while policymakers and companies alike champion this 'business-oriented' approach to development cooperation, the policy's incentive structure goes far beyond what is necessary to incentivize rubber plantation establishment. It allows participating companies to push out competition at the more profitable points in the rubber sector. The ORP's full impacts at the local level cannot be gauged until more extensive tapping begin in Laos, but this study nevertheless flags concerns that will endure, regardless of a recovery in global rubber prices.

Attempting to translate China's development path into other country contexts seems a highly questionable exercise. Rubber functions very differently in Laos due to the different strategic role the crop plays, differences in the regulatory systems surrounding land and shifting agriculture, and the limited economic support the Lao state can provide its own the rubber sector. When rubber was militarily important to China (during the Korean war blockade of rubber imports), national security concerns trumped market and profit considerations and domestic rubber production was sheltered from price fluctuations and competition at all costs. China's producers are still sheltered but for a different purpose: to ensure supply to the burgeoning tire and automobile industries. These downstream sectors are reliant on access to high quality, skillfully processed natural rubber and despite gradually declining domestic production, China already has the infrastructure for large-volume processing established. Thus China is extremely likely to retain the highest value-added activities for rubber, more than any other, less strategically established and protected crop, within its own borders. And while rubber plantation establishment in northern Laos has been rapid and cheap because of the ORP, the program has also reinforced a ceiling to the benefits Laos can derive from rubber.

This case tells a story both unique to China and applicable more widely. China's own vision of development is based on its own experience and Chinese actors tend to believe that emulating China's own approach will bring similar outcomes in other countries. It can be assumed that all global market actors might behave based on earlier experiences, especially in their home countries. But because China sees itself as a developing country, it considers its own path to development more directly applicable to other developing country contexts. Its claim to being a success story of developing country industrialization and economic growth also has a compelling appeal in other developing countries. The danger is that this perspective blinds Chinese actors, many of whom are new to investing abroad, to the extensive differences in country contexts and the adjustments in policy and business design these differences require.

References

Bräutigam, D. and H. Zhang (2013). "Green dreams: Myth and reality in China's agricultural investment in Africa." *Third World Quarterly* 34(9): 1676-1696.

Buckley, L. (2013). "Chinese Agriculture Development Cooperation in Africa: Narratives and Politics." *IDS Bulletin* 44(4): 42-52.

Cao Yin (BJ), Gyo Anfei (KM). (2012). Alternate crops replacing opium poppies. *China Daily*. Beijing, Kunming, China Daily.

Cohen, P. T. (2009). "The post-opium scenario and rubber in northern Laos: Alternative Western and Chinese models of development." *International Journal of Drug Policy* 20(5): 424-430.

Dwyer, M. (2007). "Turning land into capital: A review of recent research on land concessions for investment in Lao PDR." Land Issues Working Group, Vientiane, Laos.

Fox, J. and J.-C. Castella (2013). "Expansion of rubber (Hevea brasiliensis) in Mainland Southeast Asia: what are the prospects for smallholders?" *The Journal of Peasant Studies* 40(1): 155-170.

Friedmann, H. (1982). "The political economy of food: the rise and fall of the postwar international food order." *American Journal of Sociology*: S248-S286.

Friedmann, H. and P. McMichael (1989). "Agriculture and the state system: The rise and decline of national agricultures, 1870 to the present." Sociologia ruralis 29(2): 93-117.

Fujita, Y. and K. Phengsopha (2008). *The gap between policy and practice in Lao PDR*. London.

GoL (2011). State Land Leases and Concessions Inventory. D. G. f. I. Z. G. Ministry of Natural

Resources and Environment (GoL). Vientiane, Centre for Development and Environment.
Hall, R., I. Scoones and B. White (2013). "Governing Global Land Deals."
Hicks, C., S. Voladeth, W. Shi, Z. Guifeng, S. Lei, P. Q. Tu and M. Kalina (2009). "Rubber investments and market linkages in Lao PDR: approaches for sustainability?" Sustainable Mekong Research Network, Bangkok.
Hofman, I. and P. Ho (2012). "China's ‘Developmental Outsourcing’: A critical examination of Chinese global ‘land grabs’ discourse." *Journal of Peasant Studies* 39(1): 1-48.
Horton, C. (2013). "Writing Yunnan a Rubber Check." China File. from http://www.chinafile.com/writing-yunnan-rubber-check.
Jiang, W. (2009). "Fuelling the dragon: China's rise and its energy and resources extraction in Africa." *The China Quarterly* 199: 585-609.
Kenney-Lazar, M. (2013). Shifting Cultivation in Laos: Transitions in Policy and Perspective, Sector Working Group-Agriculture and Rural Development (SWG-ARD).
Kramer, T. and K. Woods (2012). "Financing dispossession: China’s opium substitution programme in northern Burma." Amsterdam: Transnational Institute. Accessed online on October 10: 2012.
Li, T. M. (2011). "Centering labor in the land grab debate." *The Journal of Peasant Studies* 38(2): 281-298.
Mann, C. C. (2009). "Addicted to rubber." *Science* 325(5940): 564-566.
McMichael, P. (2005). "Global development and the corporate food regime." *Research in rural sociology and development* 11: 265.
Nyiri, P. (2013). "Chinese Investors, Labour Discipline and Developmental Cosmopolitanism." *Development and Change* 44(6): 1387-1405.
Peluso, N. L. and C. Lund (2011). "New frontiers of land control: introduction." *Journal of Peasant Studies* 38(4): 667-681.
(TNI), T. I. (2010). "Alternative Development or Business as Usual? China's Opium Substitution Policy in Burma and Laos." *Drug Policy Briefing* No. 33.
Poole, J. (2012). "China Cuts Natural Rubber Import Taxes to Boost Local Supplies." Bloomberg News.
Scoones, I., L. Cabral and H. Tugendhat (2013). "New Development Encounters: China and Brazil in African Agriculture." *IDS Bulletin* 44(4): 1-19.
Shi, W. (2008). "Rubber Boom in Luang Namtha." A Transnational Perspective. GTZ RDMA.
Smajgl, A., X. Jianchu, S. Egan, Z. Yi and S. Yufang (2010). "Agent-based Social Simulation of Government Incentives for Diversifying Rubber in Yunnan, China."
Sommer, R. (2010). "Report on ‘China in Laos’ - final China and its Influence on the Swiss Development Cooperation in the Mekong Region." Issue Paper commissioned by SDC.
Sturgeon, J. C. (2013). "Cross-border rubber cultivation between China and Laos: Regionalization by Akha and Tai rubber farmers." *Singapore Journal of Tropical Geography* 34(1): 70-85.
Sturgeon, J. C., N. K. Menzies, Y. Fujita Lagerqvist, D. Thomas, B. Ekasingh, L. Lebel, K. Phanvilay and S. Thongmanivong (2013). "Enclosing ethnic minorities and forests in the golden economic quadrangle." *Development and Change* 44(1): 53-79.
Transnational Institute (TNI). (2010). "Alternative Development or Business as Usual? China's Opium Substitution Policy in Burma and Laos." *Drug Policy Briefing* No. 33.
Vientiane Times. (2013)a. "Phongsaly rubber farmers seek buyers."
Vientiane Times. (2013)b. Rubber factories encounter export problem with China.
Wellmann, D. (2012). The Legal Framework of State Land Leases and Concessions in the Lao PDR. IRDP, NUDP, GIZ.
Wolford, W., S. M. Borras, R. Hall, I. Scoones and B. White. (2013). "Governing global land deals: the role of the state in the rush for land." *Development and Change* 44(2): 189-210.

XinLaowo. Accessed January 2015. “云南省在老挝投资企业名录”. www. Xinlaowo.com

Xu, Jianchu. (2006). “The political, social, and ecological transformation of a landscape: the case of rubber in Xishuangbanna, China.” *Mountain Research and Development*. 26(3): 254-262.

Xu, Jianchu, J. Fox, J. Vogler, Y. Zhang, P. Fu, L. Yang, Q. Jie and S. Leisz. (2005). “Land-use and land-cover change and farmer vulnerability in Xishuangbanna prefecture in southwester China.” *Environmental Management*. 36(3): 404-413.

Yunnan Provincial Government. 2004. 《云南省开展境外罂粟替代种植项目管理办法（试 行）》 http://www.yn.xinhuanet.com/drug/2004-05/26/content_16810645.htm

Zoomers, A. (2010). "Globalisation and the foreignisation of space: seven processes driving the current global land grab." *The Journal of Peasant Studies* 37(2): 429-447.

Land grabbing, conflict and agrarian-environmental transformations: perspectives from East and Southeast

An international academic conference
5-6 June 2015, Chiang Mai University

International Conference Paper Series

The purpose of the 2015 Chiang Mai conference is to contribute to *deepening* and *broadening* of our understanding of global land deals, resource conflict and agrarian-environmental transformations – in the specific regional context of Southeast and East Asia, with special attention to climate change mitigation and adaptation policies as well as the role of China and other middle income countries (MICs) within the region.

The Conference Paper Series aims to generate vibrant discussion around these issues in the build up towards the June 2015 conference – and beyond. We will keep these papers accessible through the websites of the main organizers before, during and after the conference.

About the Author

Juliet Lu is a doctoral student at UC Berkeley's Department of Environmental Science, Policy and Management. She worked from 2009-2011 at the World Agroforestry Centre in Yunnan, China and from 2012-2013 with the Centre for Development and Environment in Vientiane, Laos. Her research interests involve the impacts of China's growing demand for raw materials on land and natural resource management in Southeast Asia, and the political economy of Chinese development cooperation initiatives.