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Situating Tian Ze's role in reviving Zimbabwe's Flue-Cured Tobacco sector in the wider discourse on Zimbabwe-China cooperation: Will the scorecard remain Win-Win?

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This Working Paper series emerges from the China and Brazil in African Agriculture (CBAA) programme of the Future Agricultures Consortium. This is supported by the UK Economic and Social Research Council's 'Rising Powers and Interdependent Futures' programme (www.risingpowers.net). We expect 24 papers to be published during 2015, each linked to short videos presented by the lead authors.

The CBAA team is based in Brazil (University of Brasilia, Gertulio Vargas Foundation, and Universidade Federal do ABC), China (China Agricultural University, Beijing), Ethiopia (Ethiopian Agricultural Research Institute, Addis Ababa), Ghana (University of Ghana at Legon), Mozambique (Instituto de Estudos Sociais e Económicos, Maputo), Zimbabwe (Research for Development Trust, Harare), the UK (the Institute of Development Studies, the International Institute for Environment and Development and the Overseas Development Institute).

The team includes 25 researchers coming from a range of disciplines including development studies, economics, international relations, political science, social anthropology and sociology, but all with a commitment to cross-disciplinary working. Most papers are thus the result of collaborative research, involving people from different countries and from different backgrounds. The papers are the preliminary results of this dialogue, debate, sharing and learning.

As Working Papers they are not final products, but each has been discussed in project workshops and reviewed by other team members. At this stage, we are keen to share the results so far in order to gain feedback, and also because there is massive interest in the role of Brazil and China in Africa. Much of the commentary on such engagements are inaccurate and misleading, or presented in broad-brush generalities. Our project aimed to get behind these simplistic representations and find out what was really happening on the ground, and how this is being shaped by wider political and policy processes.

The papers fall broadly into two groups, with many overlaps. The first is a set of papers looking at the political economy context in Brazil and China. We argue that historical experiences in agriculture and poverty programmes, combine with domestic political economy dynamics, involving different political, commercial and diplomatic interests, to shape development cooperation engagements in Africa. How such narratives of agriculture and development – about for example food security, appropriate technology, policy models and so on - travel to and from Africa is important in our analysis.

The second, larger set of papers focuses on case studies of development cooperation. They take a broadly-defined 'ethnographic' stance, looking at how such engagements unfold in detail, while setting this in an understanding of the wider political economy in the particular African settings. There are, for example, major contrasts between how Brazilian and Chinese engagements unfold in Ethiopia, Ghana, Mozambique and Zimbabwe, dependant on historical experiences with economic reform, agricultural sector restructuring, aid commitments, as well as national political priorities and stances. These contrasts come out strikingly when reading across the papers.

The cases also highlight the diversity of engagements grouped under 'development cooperation' in agriculture. Some focus on state-facilitated commercial investments; others are more akin to 'aid projects', but often with a business element; some focus on building platforms for developing capacity through a range of training centres and programmes; while others are 'below-the-radar' investments in agriculture by diaspora networks in Africa. The blurring of boundaries is a common theme, as is the complex relationships between state and business interests in new configurations.

This Working Paper series is one step in our research effort and collective analysis. Work is continuing, deepening and extending the cases, but also drawing out comparative and synthetic insights from the rich material presented in this series.

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List Of Acronyms

CPC	Communist Party of China
CNTC	China National Tobacco Company
EU	European Union
FDI	Foreign Direct Investment
GoZ	Government of Zimbabwe
MTC	Mashonaland Tobacco Company
RMB	Renminbi; Chinese currency
TIMB	Tobacco Industry and Marketing Board
TRB	Tobacco Research Board
US$	United States Dollar, currency in use in Zimbabwe since 2009
ZANU-PF	Zimbabwe African National Union – Patriotic Front

1. Abstract

The milestone 1998 land reform conference convened by Zimbabwe and major donors ended in a stalemate on how the country was to proceed thereon. In the aftermath of that landmark event, Zimbabwe proceeded unilaterally in implementing a fairly radical land reform programme that saw land owned by almost all white large scale commercial farmers being redistributed among indigenous people.

The West proceeded in unison in imposing economic sanctions on the country and the economy experienced a major slump. Leveraging on strong political ties between the Communist Party of China (CPC) and Zimbabwe African National Union – Patriotic Front (ZANU-PF) that date back to Zimbabwe's protracted liberation struggle, Zimbabwe succeeded in courting the Chinese as alternative development partners in a wide range of economic sectors. The two governments have framed discourses and narratives on Zimbabwe-China cooperation as win-win engagements, while the West and Zimbabwe's private media have been sceptical, intimating that benefits have been skewed in favour of China bearing in mind Zimbabwe's vulnerability in the face of limited options post land reform.

A Chinese state-owned company, Tian Ze, has since assumed a prominent status in Zimbabwe's tobacco sector through its contract farming scheme and purchase of the country's crop. This paper draws on the knowledge encounters framework in discussing the basis for the evolution of enhanced economic cooperation between the two countries and critically considers the current activities and power of Tian Ze and what influence the company could exert in the continued resurgence of Zimbabwe's tobacco sector.

2. Background and Introduction

The agricultural sector has long been key to Zimbabwe's economy and contributes 14-18 percent of the country's Gross Domestic Product (GDP). The sector also contributes over 40 percent of national export earnings and provides 60 percent of raw materials to agro-industry (MoAMID 2012). There has been a strong correlation between the performance of the agricultural sector and that of the national economy and years of droughts have been associated with low to negative GDP growth rates.

Tobacco is by far the most important agricultural crop by value, with 98 percent of the crop exported and contributing on average 45 percent of all agricultural exports (MoLARR 2000).

Prior to the land reform phase that was started in 1999, flue-cured tobacco was produced almost exclusively by white large scale farmers on land held under freehold title. Flue-cured tobacco is dried in small, heated curing barns for several days, and is used to make cigarettes, pipe tobacco and chewing tobacco.

The trends in number of flue-cured Virginia tobacco farmers, area under the crop and mass sold in the years leading to the land reform programme are shown in Table 1.

Table 1: Selected trends in the flue-cured tobacco sector in Zimbabwe, 1990-2000

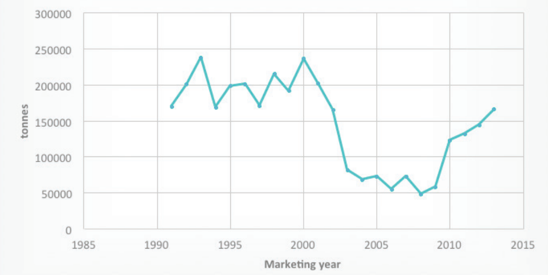
Year	Number of growers	Area (ha)	Mass sold (tonnes)
1992	2,604	80,070	201,162
1993	2,999	82,900	218,370
1994	2,338	76,416	169,218
1995	2,525	74,550	198,752
1996[1]	2,921	81,231	201,551
1997	5,101	90,630	171,543
1998	8,334	91,905	215,914
1999	7,194	84,762	191,145
2000	8,537	84,857	236,946

Source: TIMB (2013)

The partitioning of former large scale farms among many smallholders through the land reform programme resulted in a dramatic increase in the number of farmers growing flue-cured Virginia tobacco. The ease with which finance for that crop has been secured coupled with its profitability have continued to fuel interest in the crop since 2005, but the number of farmers registering to grow the crop each year seems to be plateauing of late. As at the end of November 2014, 87,418 growers had registered to sell the crop in 2015; this was a mere 1.58 percent increase from the preceding year's 86,057 (TIMB 2014), unlike the double-digit growth rates between earlier seasons (TIMB 2013).

Figure 1 shows the annual trends in marketed tobacco in Zimbabwe from 1991 to 2013.

Fig. 1: Quantity of flue-cured tobacco (tonnes) marketed, 1991-2013



Source: TIMB (2013)

Due principally to funding challenges, tobacco production plummeted between 2000 and 2003. It has, however, been on the upsurge since 2009.

Former commercial farmers secured the bulk of their finance from commercial banks and agricultural merchants using land as collateral. With the land reform programme, title to farmland was vested in the State and funding commercial agriculture became a challenge as farmers could no longer use land as collateral. As a consequence of the dearth of funding for agriculture, the volume and value of tobacco exports plummeted by 64 percent from 192,145t worth US$334m in 1999 to just 68,901t worth $138m by 2004 (TIMB 2013).

The long-established merchants were initially reluctant to support the new farmers, fearing a backlash from the European Union (EU) which had hitherto been the major market for Zimbabwe's tobacco. Much as the government has always had oversight on the tobacco industry, prior to the land reform programme the sector remained a politically and economically powerful 'white-men's enclave' of large scale commercial farmers closely linked to a few multinational tobacco merchants who were widely perceived to operate as a cartel.

To stem the further decline in tobacco production and provide a springboard for the recovery of the agricultural sector and the economy at large, the Government of Zimbabwe (GoZ) in 2004 enacted the enabling legislation for contract farming through which merchants have been financing the bulk of the crop. All merchants are obliged to support farmers across all sectors and the current contract farming legislation mandates each merchant to finance at least eight percent of its farmers from newly-resettled areas (Irwin et al. 2012).

Each year since 2004, 13-16 merchants have been licensed to contract flue-cured tobacco farmers. Among the businesses that have been established to support tobacco farmers through contract farming are two wholly Chinese registered companies – Tian Ze and Midriver.[2] The entry of the Chinese companies and their bias towards newly-resettled farmers which Western tobacco multinationals had vowed not to support endeared them with the GoZ. Of the two, Tian Ze has a much larger footprint, and while this paper will focus largely on that company it no way dismisses the activities of the other company as insignificant.

While at its inception the contract farming scheme financed about half the tobacco crop, its share of the crop has continued to increase, rising to an estimated 72 percent of the 2013 crop (TIMB 2014), and the participation of Chinese companies has been critical. Self-financing farmers have sold their crop to the highest bidders at all three of the country's floors where the contracting companies have featured as the major buyers.

This paper discusses the context in which Zimbabwe had to 'Look East' in courting alternative investors in light of its falling out with the West, who proceeded in concert to ostracize the country post land reform. The alternative investment has overwhelmingly been Chinese and the paper explores why that has been so. The paper introduces contract farming and discusses how Tian Ze was established to become a major entity in Zimbabwe's flue-cured Virginia tobacco sector. The structure and operational modalities of Tian Ze are discussed interspersed with experiences of farmers and other industry stakeholders who have insights of the company's support to the tobacco sector. Conscious of the impact that contract farming has made in reviving Zimbabwe's flue-cured tobacco sector and the increasing influence of the Chinese thus far, the paper discusses some challenges that the development could present in the medium to long term.

This study was undertaken in a knowledge encounters framework (Keeley and Scoones 2003) with a particular emphasis on discourses and narratives; i.e. how the Zimbabwe-China engagements have been framed by either party over time. Within the suite of methods used are narrative analysis (from reviewing secondary documentation), semi-structured interviews of key informants, structured interviews of farmers and participant observation.

3. The Context of Zimbabwe Courting China

With support from bilateral and multilateral development partners, Zimbabwe held a major land reform conference in 1998. The conference ended in a stalemate with each party (GoZ and donors) blaming the other for the fallout.

In the aftermath of that landmark conference, widespread invasions by indigenous people into large scale commercial farms ensued, precipitating a major fallout with the West. The GoZ had long considered land reform as an imperative to correct a colonial legacy and characterised the land invasions as spontaneous acts of frustration at the slow pace of land reform by disgruntled communal farmers; the West on the other hand accused the GoZ of complicity for not stopping the incursions.

3.1 Sanctions imposed on the country

From September 1999 to September 2000, the International Monetary Fund and the World Bank stopped all cooperation with Zimbabwe thus denying the country access to concessionary finance and technical assistance. In 2001 the US Congress went further by enacting the Zimbabwe Democracy and Economic Recovery Act (ZEDERA) that prohibited the US from conducting business with named Zimbabwean entities and provided for closer policy collaboration with other Western countries. The US maintained its hard-line stance on Zimbabwe and it was no surprise that in 2005 while addressing a Senate committee that was considering her nomination for US Secretary of State, Condoleezza Rice named Zimbabwe along with Cuba, Myanmar and Belarus as 'outposts of tyranny' that required 'close US attention' (AP 2005). Zimbabwe took the labelling seriously as from precedence, the US overtly and covertly undermined regimes it had so categorised.

The EU and the rest of the white Commonwealth followed suit in isolating Zimbabwe by imposing their own set of sanctions in 2002. The GoZ was rattled by the coordinated raft of measures, qualifying them as illegal sanctions designed to effect regime change.

Following Zimbabwe's fallout with the West, the country made inroads in strengthening political and economic ties with Libya, with which the country signed a number of Memoranda of Understanding for supplying agricultural produce in exchange for Libyan oil. Much as the relationship between the two countries was established and strengthened during Zimbabwe's liberation struggle, it also flourished from the strong personal relationship between the presidents of the two countries and their shared antipathy towards western hegemony by erstwhile colonial powers.[3] FES (2003) posits that the rapprochement between Libya and the West that culminated in the lifting of sanctions against the north African country in 2003 put paid to moves along that track.

3.2 Zimbabwe devises the Look East Policy

Zimbabwe devised the Look East Policy[4] in 2003 to wriggle itself out of isolation. While initial pronouncements on the policy were for expanded trade, bilateral relations and investment with major Asian countries, it soon focused almost exclusively on China due largely to the fraternal relations established between the CPC and Zimbabwe African National Union – Patriotic Front (ZANU-PF)[5] that date back to Zimbabwe's independence struggle. The importance which the GoZ attached to the Look East Policy was apparent, as the country's president led a high-level government delegation to the Far East in 2003. A special plea was reportedly made to the senior leadership of the CPC (and by extension to the government of China) to take up the offer to invest in key sectors of the economy of Zimbabwe, tobacco included.

3.3 ... and China a willing partner

At the time Zimbabwe embarked on its Look East Policy, China was already into the fourth year of its Going Global Strategy, also referred to as the Go Out policy.

Since the Asian country embarked on economic reforms that opened its economy from the 1980s, China amassed huge foreign reserves that resulted in an appreciation of the national currency, the renminbi (RMB), much to the chagrin of the West. The country has used foreign direct investment (FDI) primarily as a prudent way of reducing the size of the massive foreign reserves, in doing so both easing pressure on the RMB and pacifying the West. The policy position is also in no small measure aimed at consolidating the country's foreign policy standing in the world, with countries that benefit from such investments increasingly in Beijing's orbit.

Chinese FDI rose from US$3bn in 1991 to US$35bn in 2003 and US$70bn in 2007. China's acceding to the World Trade Organisation in 2001 implied deeper integration with the world economy through trade and investment flows, thus giving even greater impetus to the country's Going Global Strategy since.

China has given special focus in its FDI portfolio to Africa and has been investing about US$51bn per year on the continent since 2007; a level five times larger than the rest of the world relative to the size of its economy (Gurria 2014). Zimbabwe seized on China's Going Global Strategy by devising its Look East Policy, which was warmly embraced by the Chinese as the two policies were largely in sync. Much as the GoZ harped on its success in courting Chinese investment as a mark of its resourcefulness in the face of condemnation and sanctions from the West, the engagement was made easier in no small measure by the relationship that had long existed between ruling parties of the two countries coupled with the Going Global Strategy that the Asian country was actively pursuing.

3.4 *Strengthening links between the ruling parties and governments of the two countries*

From the time of Zimbabwe's independence up to 2000, ties between the two countries were largely in the military[6] and political spheres. The Western sanctions provided the basis and impetus for strengthening and broadening cooperation between the two countries. The visit by the President of Zimbabwe to China in August 2014 was his 13th to that country (Chinese Embassy in Harare, pers. comm.) and the Chinese have reciprocated, notably through the Vice Premier and senior members of the CPC Politburo.

Even prior to the land reform programme, China had become a major market for Zimbabwe's flue-cured tobacco and FES (2004) opined that China had a genuine economic interest in restoring Zimbabwe into the top tier of the world's tobacco producers. China is home to a third of the world's smokers and the tobacco sector accounts for 6.7 percent of that government's revenue (Sunday Mail 2014).

Zimbabwe-China economic ties have been unique among non-crude oil producing African countries as the trade balance has remained in favour of the Southern African country since 1998 (Ibid); the country registered a US$274m trade surplus from its US$688m of exports in 2013. Affirming their long-term commitment and support for Zimbabwe's development, the level of China's investment in Zimbabwe was the highest in Africa and topped US$602m in 2013 (Chinese Embassy in Harare, pers. comm.).

In public statements China and Zimbabwe describe their relationship as 'win-win'; a 'friendship built on mutual cooperation' (Lin 2014). China's espoused policy of non-interference in the internal affairs of sovereign states resonated strongly with Zimbabwe considering that the country had been ostracised into a pariah state by the West. The two countries have supported each other's causes in foreign policy statements; China disapproves of sanctions as they 'curtail Zimbabwe's sovereignty', while Zimbabwe on the other hand has consistently supported China in 'affirming its major interests' (Ibid). Conscious of its economic standing in the world, China has however been careful in the choice of words lest it alienates the West – the country 'disapproves' of sanctions rather than 'denounces' them. Indeed, Hao (undated: 1) asserts that lately Chinese foreign policy 'has become less radical, less ideological, and more pragmatic and professional'.

While grateful for the Chinese engagement, the GoZ however remains open to engagement with other development partners; on the close cooperation with the Chinese, the then Vice President of Zimbabwe remarked to a visiting British business delegation that the Look East Policy was enunciated 'to attract absent nations' (British Expertise 2014: 23) and did not reflect any special affinity for Chinese development or business models. From the foregoing, it is apparent that the relationship between Zimbabwe and China will continue to flourish and will increasingly be guided by the pursuit of national interests by each side. British Expertise's report to the UK Foreign and Commonwealth Office recently acknowledged that even with the normalisation of relations with the West, Zimbabwe will continue to Look East, particularly towards China, and especially for infrastructure projects and finance (Ibid).

The public media in Zimbabwe and China extol the relationship, epitomising it as win-win and emphasising the increasing trade, investments in infrastructure and expanding cultural ties. The Zimbabwean private media is sceptical of the reported level of investment (deemed not as high) and has been critical of the negative impacts of Chinese economic presence on local industry and the environment.

The paper next discusses the context under which contract farming has emerged to become the dominant and only viable mechanism through which commercial farming in Zimbabwe across all sectors has been funded since 2000, after which the Tian Ze tobacco contracting case is presented.

4. Contract Farming and Funding Zimbabwe's Agricultural Sector

Funding Zimbabwe's agriculture has been a nightmare since 2000 due to hyper-inflation (2000-2008) and the liquidity crunch that has persisted since dollarization in 2009. The country remains debarred from accessing cheaper finance from bilateral and multilateral financial sources due to its high indebtedness and high repayment arrears.

Irwin et al. (2012) discuss the funding needs by enterprise, noting the significant shortfalls across all enterprises. Most farmers have not been able to finance themselves as margins have been eroded over the years due to increased cost of inputs that have rendered the local agricultural sector uncompetitive.

For the 2013/14 season, Zimbabwe's commercial banks set aside US$720m to finance agriculture with 50 percent of the funds earmarked for tobacco, 7.55 percent for cotton, 4.87 percent for maize, 3.52 percent for horticulture, 6.94 percent for sugarcane and 4.88 percent for seed houses (Zinyuke 2013). The availed funds were not fully taken up as they were considered expensive due to the high interest rates (16-22 percent); further, they were not readily accessible as acceptable security in the form of immovable assets other than farmland was needed. Contract farming has thus far presented itself as a viable option for funding agriculture under the prevailing circumstances.

Table 2 Projections on the scope for contract farming for field crops in Zimbabwe			
Crop	**Area (ha)**	**Yield (tonnes/ha)**	**Production (tonnes)**
Maize	74000	3.5	259000
Soyabeans	71300	2.0	142600
Wheat	33000	2.5	82500
Sorghum	10500	2.0	21000
Barley	7700	5	38500
Sugarbeans	1050	1.5	1575
Tobacco	55784	1.72	95948
Cotton	160000	0.7	112000

Source: AMA (2013)

Addressing the Confederation of Zimbabwe Industries 2015 Economic Outlook Symposium recently, the Deputy Minister of Agriculture extolled contract farming: '...going forward the future of agriculture growth in this country will depend on contract farming; contract farming providing the major two aspects which are pre-financing and assured markets' (Mandizha 2015).

Underlying the importance it is assuming in the country, Table 2 shows the projections by the Agricultural Marketing Authority (AMA) on the scope of contract farming for major field crops in 2013. Of note is that the set thresholds had already been surpassed with tobacco and cotton.

Contract farming defined

Contract farming can be defined as 'agricultural production carried out according to a prior agreement in which the farmer commits to producing a given product in a given manner and the buyer commits to purchasing it' (Minot 2011: 2). Variations in the scope and types of contracts have been noted with some providing inputs, extension-advisory and monitoring services (Irwin et al. 2012). Some have been formal (written), others informal (verbal), with some fixing producer prices while others have not done so (Minot 2011). Minot notes that contract farming is suited to tobacco and other enterprises such as export and processing horticulture, tea and cotton due to high value of produce (justifying coordination costs), high input costs (justifying providing input credit) and difficulties in growing the crop (making extension and continuous monitoring indispensable). Contract farming is most effective when companies have a monopsony position and avenues for side-marketing are plugged (Zhang 2012).

Contract farming policy development and experiences by sector

The GoZ adopted contract farming as one strategy for the recovery of the country's agriculture and is currently at an advanced stage in developing a sector-wide guiding legal framework (AMA 2013; MoAMID 2013).

For field crops, contracts across all farming sectors have overwhelmingly been with tobacco and cotton. For tobacco, all contracts are registered with the Tobacco Industry and Marketing Board (TIMB), a statutory body that regulates the industry. Each year, the TIMB stipulates the input packages under various farming conditions that all contracting merchants have to comply with, including timeliness in delivering inputs. As the crop is marketed, TIMB activates a stop order system through which each contracted farmer is only paid after the merchant has been fully reimbursed for the financial support that would have been extended.[7] That there have been very few cases of contract breach that the TIMB has had to arbitrate could be an indication that in their current form the regulations are fairly robust and/or that there is a fairly high level of compliance by both parties.

A number of successful contract farming schemes funded by Western donors have been set up, particularly for high-value fruits and vegetables, all of them skirting newly-resettled areas; e.g. the initiative underway on 'commercializing small-scale growers on communal and non-contested land' (Zim AIED 2010: 1) through the Zimbabwe Agricultural Incomes and Employment Development Programme, a five-year project funded by the United States Agency for International Development (USAID).

Tobacco has presented itself as one crop ideally suited for contract farming, hence the continued interest among merchants to fund tobacco farmers and meet almost all requests made. Tian Ze Zimbabwe Tobacco has been one merchant that has been expanding its contract farming scheme over the years and the sections that follow discuss the company, some of its activities in supporting tobacco farmers and some impacts (albeit preliminary) arising thereof.

5. The Tian Ze Tobacco Contract Farming Scheme

In the aftermath of Zimbabwe's land reform programme of 2000, China through Tian Ze has played a pivotal role in reviving the country's flue-cured tobacco sector in two ways: as a major contracting merchant, and through buying tobacco at all three auction floors. The company has been credited for the high average prices of the country's premium crop. This comes at a time when demand for tobacco in the West has been declining partly due to the effectiveness of the anti-smoking lobby. Zimbabwe posed its successful wooing of the Chinese as a double-pronged victory in that it secured significant support for its vilified land reform programme and also secured an alternative and better paying market for its tobacco.

Tian Ze has invested heavily in Zimbabwe's tobacco sector to be among the top tier tobacco companies in the country.

5.1 Who is Tian Ze?

At the invitation of the GoZ, a high level Chinese government delegation drawn largely from Yunnan province[8] visited Zimbabwe to explore investment opportunities in flue-cured tobacco in 2004. This was at a time when Zimbabwe had enacted the enabling legislation for contract farming. The Chinese delegation was warmly received by the GoZ and got briefings from the TIMB and the Zimbabwe Investment Authority on the tobacco sector's potential, the regulatory framework for the crop, its business potential and requirements that needed to be fulfilled in setting up a tobacco business. The Chinese promptly decided to set up Tian Ze as a 100 percent subsidiary of the China National Tobacco Company (CNTC). The company was registered as a tobacco merchant and has been trading since as Tian Ze Tobacco Zimbabwe.[9]

Tian Ze operates from an expansive two storey leased premises in an industrial area of Harare, in the vicinity of many other tobacco processing companies and not far from the auction floors. The inscription in English and Chinese, 'Tian Ze Tobacco (Pvt) Ltd', is clearly visible at the entrance. Security staff at the gate inquire on the purpose of the visit as part of the clearance procedures, after which each guest signs the visitors' book.[10]

As you enter the premises, it is apparent that you are in a Chinese establishment as there are a number of Chinese paintings in the reception areas (one downstairs, another upstairs), plus occasional Chinese calligraphy in the passageways and in offices. Calendars and other office accessories in the upstairs reception area and offices have some inscriptions in Chinese.

The organogram of Tian Ze mirrors that of all tobacco merchants; in particular the phenomenon of the 'colour glass ceiling' (Lee 2014) is apparent, with all key executive posts held by the Chinese.[11] Tian Ze operates with a total fixed staff establishment of 98 among which are 11 Chinese managers (100 more employees are hired as seasonal workers from February to August). Work is organised through a number of departments with the Production Department being the most important as it oversees contracting arrangements. Technical staff of the Production Department include the Production Manager (who also doubles as the Chief Executive Officer) and five area managers.

The Chief Executive is a middle-aged Chinese employee and occupies a spacious office at the end of the upstairs office block. Farmers wait their turn for an audience with Dr Li, the Production Manager, in the conference room furnished with antique Chinese hardwood. The Production Manager confirms all contracts negotiated between farmers and Area Managers. After a meeting with each contracted farmer, the Production Manager escorts his guest to the conference room from where he greets and invites the next farmer to his office.

Researchers were impressed by the unassuming demeanour of the officer in charge, his intimate knowledge on the operations of each of his clients, and the mutual respect that he shares with contract farmers. Dr Li's guests were free to indulge in the generous assortment of Chinese snacks on his desk. The Officer in Charge had two packets of high quality Chinese cigarettes on his desk and smoked during the interviews.

The researchers mingled with the Tian Ze staff and farmers in the upstairs reception area, offices and conference room and in the process interviewed them on the company's operations.

In the 2013/14 season, 378 farmers committing a total area of 8,467ha registered with Tian Ze as its contract tobacco growers. Of the total contracted farmers, 255 got input support for a total crop of 6,974ha.[12] Tian Ze spent a total of US$40m in input support in that season.

Input requests differed among farmers but all expressed a general level of satisfaction[13] in the support provided. The industry estimate of average direct costs for tobacco is US$10,000 per hectare under commercial farming conditions and the size of the crop supported by Tian Ze ranged from 10-300ha per farmer.

The area supported by the company per farmer has consistently been higher than the national average, with the company preferring to exploit economies of scale. Tian Ze's contract growers are exclusively larger land owners who are either large scale commercial farmers or those settled on newly-acquired land. The government has welcomed the company's bias as it ran counter to an earlier position taken by traditional merchants who had vowed to stay out of newly-acquired areas. Tobacco merchants headquartered in the West have had to reconsider their earlier position, initially to conform to the contracting regulations and now increasingly to exploit economies of scale with larger farms.

Zhang (2012: 463) notes that contract farming has produced 'conflicting empirical findings about its impact and offered diverse assessments of its role in agrarian change'. The risks of default are inherent in contract farming as some farmers enter into the arrangement largely to secure inputs with their overriding objective being to get the highest proceeds from sales. Zhang further argues that where available, legal enforcement of contracts among smallholder farmers is impractical and/or expensive. Such experiences at home could have driven Tian Ze to directly contract almost exclusively large scale farmers.

Across the board, average areas supported per farmer have declined over the years. Tian Ze has moved from an average of 35ha per farmer in 2010 to just over 22ha currently, and the national average area has come down from 1.3ha to 1ha over the same period (TIMB 2014; German et al. 2011).

5.2 Range of services provided by Tian Ze

The participation of the Chinese in Zimbabwe's tobacco sector through Tian Ze has been pivotal to the resuscitation of the tobacco sector, as one senior executive with a major Western tobacco company aptly put it in an interview with the researchers:

> It [Tian Ze] has brought in capital, competition, confidence and improved prices.... The Chinese came when the industry was dying.... Tian Ze has been warmly welcomed by the industry as it has been willing to share costs (through the contract farming scheme).

Another manager confided with the researchers that the Western companies have since embraced the Chinese companies as partners despite their earlier apprehension.

Tian Ze's activities in Zimbabwe's tobacco sector range from running a contract farming scheme to buying the crop from the country's three auction floors. At the time of conducting the fieldwork, Tian Ze used other merchants to process its tobacco as it was yet to put up a processing plant.

5.2.1 Tian Ze and the contract farming scheme

Under the contract farming scheme, the company provides all that is needed by a tobacco farmer including seasonal inputs, cash for labour payments and capital equipment such as tractors, trucks and even funding for constructing tobacco barns. The drawback is that the total loan advanced in any season (including for capital equipment) has to be amortised with that season's crop. For example, with US$250,000 needed to construct a barn to satisfactorily cure a 25ha crop that with adequate maintenance could be used for up to 20 years, farmers would have preferred that the capital costs be spread over the capital item's useful life rather than be fully recouped before the farmer gets any payment.

All the farmers interviewed had varied years as Tian Ze contract growers, with earlier years tied up with other merchants. They had been persuaded to switch to Tian Ze by their peers and all had no regrets with the move and looked forward to maintaining their links with the Chinese tobacco company. They foresaw themselves being even more embedded in the contract farming arrangement with Tian Ze into the foreseeable future through expanding tobacco area and capital investment.

The company pays merchants directly for inputs and services rendered rather than making cash disbursements to farmers. Each contracted farmer is visited periodically by Tian Ze staff who ensure that agronomic practices are undertaken as recommended, all supplied inputs are used on the crop, and that at least the crop stipulated in the contract is delivered. High recovery rates for the support provided are set in the contracts that the company enters into with its field officers.

The credit database for growers is shared among merchants through TIMB and the prospect of further support being withheld for any farmer in default serves as a deterrent among contracted farmers not to do so.

5.2.2 Participation of Tian Ze at tobacco auction floors

Tian Ze is active on all the three auction floors where it buys non-contracted tobacco from all categories of farmers. German et al. (2011) report of incidences, especially early in the marketing season, where Tian Ze has been able to outbid other buyers resulting in the early buying season price being inordinately high only to drop when the company slackened purchases.[14]

In addition, Tian Ze coordinates the buying of tobacco by other merchants that will eventually be re-sold to CNTC. Merchants buy tobacco on the auction floors and process it for re-sale when acceptable offers are made by secondary buyers. During the tobacco buying period, Tian Ze staff discreetly liaise on preferred quality and price considerations with those merchants who would be considering to supply the Chinese market. At the end of the season, a team of buyers from CNTC visits Zimbabwe to assess the quality of the crop held by designated merchants and makes an offer. Tian Ze on behalf of CNTC coordinates the payment and export of such processed tobacco. CNTC has seconded some of its senior staff to Tian Ze to ensure that the operations and practices followed in Zimbabwe produce the ideal crop for the Chinese market.

On a visit to Zimbabwe at the end of the 2014 tobacco auction season, Mr Ling Chengxing the Chief Commissioner of the State (Tobacco) Monopoly Administration of China who headed the CNTC delegation commended Zimbabwe for producing premium tobacco that has a unique flavour to the extent that China was importing the bulk of its high quality tobacco from Zimbabwe:

> Tian Ze subsidiary in Zimbabwe exports the bulk of the high quality tobacco to China and this is the largest of the China Tobacco Subsidiaries in the world…..Zimbabwean tobacco has a unique

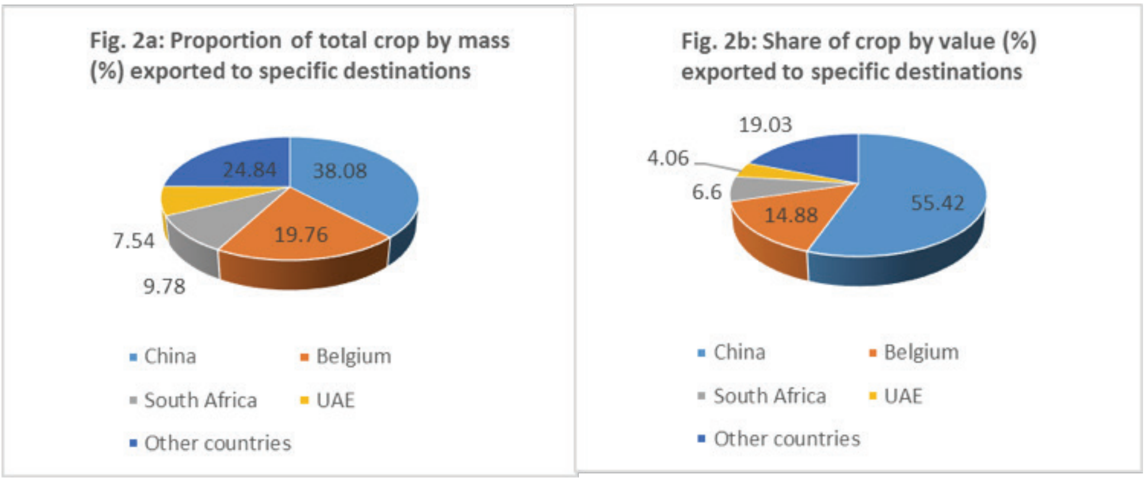
flavour which is a favourite for China.' Mr Ling looked forward to a long-term relationship with Zimbabwe, resonating with an observation made by Lee (2014) that Chinese State Owned Enterprises (SOEs) invest for the long term. (Herald 2014a)

5.3 *The clout of Tian Ze*

Gurría (2014) notes that the inherent advantages of a Chinese SOE include access to concessionary finance, monopoly trading position, ease in hiring staff and the ability to incur losses over a long period and still stay in business. Tian Ze as a Chinese SOE is no exception and it got a head-start over other merchants in 2004 particularly through access to cheaper finance. Through the practice of accumulation that Lee (2014) notes is prevalent in Chinese companies, Tian Ze has over the years been ploughing back its profits to support its increasing business and has not sought any further finances from the parent company. With China being the world's largest market for tobacco, Tian Ze has a further advantage as it is the exclusive importer of all tobacco from Zimbabwe into mainland China, where it is vertically integrated with the country's major cigarette manufacturing company. As such, Tian Ze's business differs from its competition in that it buys tobacco primarily for cigarette manufacturing through its parent company while other merchants are middlemen who buy and process tobacco for resale to domestic and foreign buyers (including Tian Ze).

The clout of Tian Ze was inferred from the company's market share and the proportion of the total tobacco crop that is exported to China. Comparative prices offered for the crop by various merchants provide an additional useful indicator.

Fig. 2: Market share and value of Zimbabwe's tobacco exports by major destinations, 2014



Source: TIMB (2014)

Figure 2 shows the volumes and values of the 2014 flue-cured Virginia tobacco crop that was exported to major destinations. Much as China accounted for (only) 38.08 percent of the 2014 processed tobacco, it was largely of the highest quality and the Chinese market accounted for 55.42 percent by value of the Zimbabwe's tobacco exports. A similar trend was apparent in 2013 with the Chinese market taking 38 percent of exports that were 52.57 percent by value.

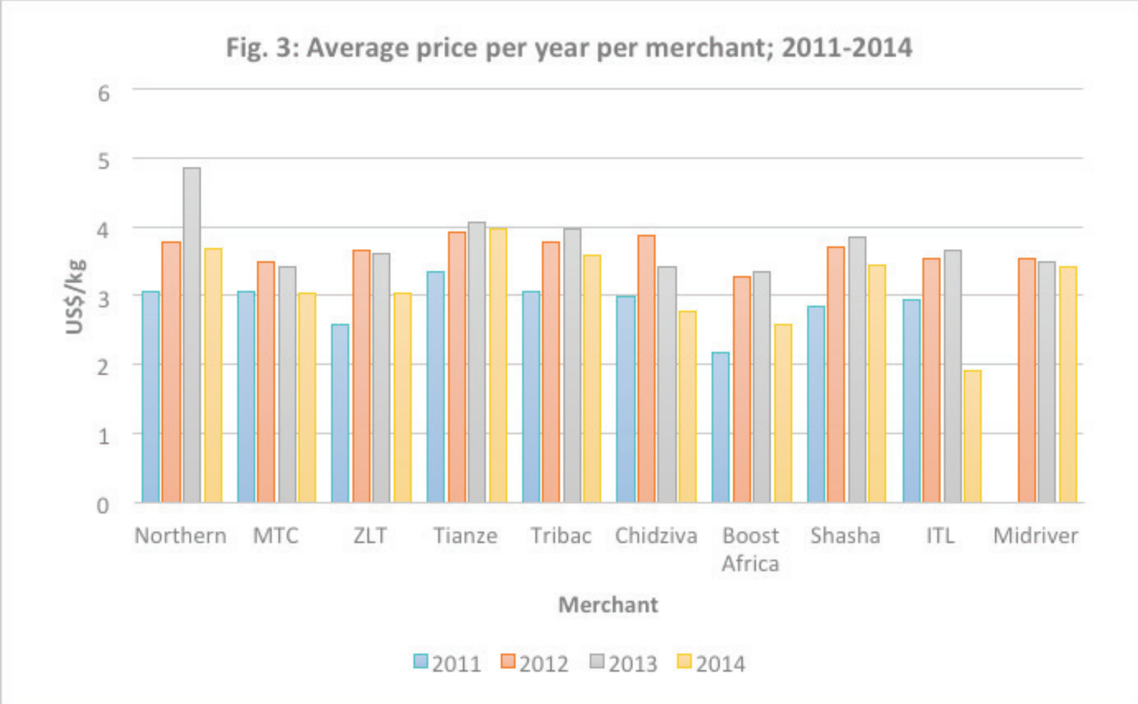
Tian Ze's share of the total contract flue-cured tobacco crop has, however, remained in the 11-15 percent range over the last six years, even as the company is accounting for almost 60 percent by value of the exported crop. The company buys 40-45 percent of the flue-cured Virginia tobacco crop directly from auction floors and thorough other merchants.

Figure 3 shows the comparative prices that respective tobacco merchants offered farmers from 2011 to 2014. Bearing in mind the myriad factors considered in pricing tobacco and that quality attributes preferred by different merchants differ, Tian Ze has been among the companies that have been offering comparatively higher prices.

Tian Ze maintains that the contract crop is of much better quality, and much as the company will continue to participate at auction floors, in future they anticipate securing all their tobacco needs through contract arrangements. Tian Ze maintain that contract farmers are getting average yields of 3t/ha, a far cry from the average of 1t/ha among those non-contracted. The company's position corroborates Irwin et al. (2012) who estimated a yield increase of 177 percent with contracting. Unlike the case with non-contracted farmers, the company insists it is better assured of the cocktail of chemicals that would have been used in growing the crop; such assurance has become indispensable with all internationally traded commodities, including tobacco.

5.4 *Tian Ze accommodating smallholder farmers*

As earlier noted, Tian Ze contracts large farmers exclusively. To counter the criticism it has received for bias towards larger farms, the company has set up a joint working arrangement with Mashonaland Tobacco



Sources: TIMB (2014; 2013; 2012; 2011)

Company (MTC), a local merchant that has a long history of successfully contracting smallholder farmers. The modalities for the collaboration could not be established but it was apparent that Tian Ze was partnering with MTC in funding the smallholder contract farming scheme in addition to buying the crop.

Through that arrangement, smallholder farmers committing an average of 1ha each to tobacco are provided with all needed inputs (including coal for curing the crop) and agronomic advice throughout the season. MTC boasts of successful clusters of smallholder farmers under such an arrangement, particularly in Hurungwe and Wedza districts in Mashonaland West and Mashonaland East provinces respectively; expanding from 600 farmers at its inception in 2005 to 12,000 in 2014.

5.5 Tian Ze planning for the long term?

Tian Ze has been working strenuously with a number of key stakeholders in strengthening the flue-cured tobacco value chain in Zimbabwe.

In 2008, Tian Ze sent five farmers who excelled in the 2007/08 season on a fully-sponsored trip to one of China's leading tobacco producing provinces to as a reward for their efforts and to motivate other farmers to join the company's contract farming scheme. The five were among the 150 that the company had then contracted. The trip could however have been mainly for public relations purposes, as the company has stopped doing so, saying that it is no longer necessary since they have become a household name among tobacco farmers.

Links have been formalised between the Tobacco Research Board (TRB) and the Yunnan Province Tobacco Research Station. Through the links, the two research stations are sharing knowledge in tobacco culture including exchanging germplasm (non-genetically modified), agronomic and curing technologies, and staff. A number of researchers and senior staff of TRB have been sent on trips fully funded by Tian Ze to Yunnan Province Tobacco Research Station, benefiting from exchanges with the Chinese on developing varieties and characteristics preferable for the Chinese market.

Tian Ze facilitated the visit of senior management of the TIMB and its Board to Yunnan province to familiarise themselves with the tobacco industry in China. TIMB benefited from the exposure to the tobacco value-chain in the country. Zimbabwean researchers who visited China were particularly appreciative of the visit, noting that it exposed them to more advanced breeding and laboratory technologies at a time when links with Western research institutions had almost been severed. Funding for the TRB declined considerably in the immediate period following land reform as lower levies were collected from a reduced crop. Compounding the TRB woes was the massive exodus of senior white staff who held key research, technical and administrative positions.

TRB and TIMB feel that the Chinese overtures have been sincere and unconditional and are solely for capacity building; a development that is foreseen to yield mutual benefits to the two countries. Researchers and TIMB executives laud the exchanges and look forward to their continuation, with the TRB additionally expecting a facelift of its laboratories.

A major research focus for the TRB has long been the development of fuel-efficient curing systems for flue-cured tobacco. Whilst former large scale commercial farmers largely used coal to cure the crop, that has not been the case with smallholder farmers, with estimates of as much as 65 percent of the crop over the last decade having been cured by fuel wood (GoZ 2013). A farmer uses up to 1kg of fuel wood to cure 1kg of tobacco (Towindo 2013); a sharp contrast with coal and its higher energy value, where 1kg can cure 2.5kg of tobacco. The Forestry Commission (Zimbabwe) estimates that 280,000ha of forests are destroyed each year to provide tobacco curing fuel wood (Ibid). Whilst the legislation compelling all tobacco farmers to plant trees as part of afforestation efforts was enacted, alarming rates of forest loss will continue for a while as the plantations can only be harvested in five years.

Through its links with the Yunnan Province Tobacco Research Station, the TRB in collaboration with Chinhoyi University of Technology currently has a research project exploring the scope of substituting bamboo for fuel wood in tobacco curing systems. Through a separate wider staff development programme between the Governments of Zimbabwe and China, a number of agro-forestry research and extension staff have been sent to China for training in production, processing and utilisation of bamboo (Tugendhat 2014). The two countries (including some Zimbabwean Non-Governmental Organisations) are collaborating in screening bamboo species that can be adapted to Zimbabwe and could be used for curing tobacco and/or manufacturing charcoal. Bamboo is more suited to curing tobacco than fuel wood as it can be harvested earlier (3-4 years) and has a higher energy value (Agro-Forestry Specialist D. Mwenye, personal communication).

6. Tobacco Farmers as Disparate Cases: Disappointment and Contentment, But Overall Success

The main basis for the continuous increase in the number of farmers growing flue-cured tobacco over the years has been the perceived high profit margins with that crop and the expansion of services offered by merchants that have made the shortage of finance no longer an impediment to successfully growing the crop. Whilst the livelihoods of a number of farmers have undoubtedly been transformed significantly for the better (see Marawanyika 2013), a number of farmers are seething with high losses. Inadequate knowledge of growing the crop has been a factor, as has been the continuous extension of the catchment area for the crop, often into areas less suited to its cultivation.

The cases presented below illustrate the contrast in fortunes among contracted tobacco farmers. These include large scale tobacco farmers who moved over to Tian Ze from other merchants, and numerous smallholder farmers who are being contracted by local merchants who in turn sell the bulked crop to Tian Ze.[15]

As part of the fieldwork for the project, a group of tobacco farmers in Hurungwe district, Mashonaland West province, who were contracted by a local merchant who has Tian Ze as its major buyer, were continuously followed up with throughout the 2013/14 season. One such farmer is 28-year-old Mr Alex Moyo, a married father of three who committed 2ha to tobacco. He got the full input pack and was visited every fortnight by the company's field extension officers. He built a barn according to guidelines provided and stayed at his farm throughout the cropping season. The farmer expected to make a net profit of US$1500-2000 that he considered would be adequate to sustain his household for a year. He was not paid after three sales ('got only white papers!') as he was yet to clear the loan. He was only paid a paltry US$80 on the last sale. The farmer was contemplating moving out of tobacco altogether next season. Higher household expenses are expected from next year as his firstborn child is starting secondary school in January 2015. He is currently actively seeking formal employment off-farm. The price for the farmer's best crop was US$2.80/kg, but most of it was sold at US$1.50/kg. The farmer is understandably dejected as he maintains he followed all practices to the latter.[16]

Contractors distribute inputs among smallholders from designated points in major tobacco growing areas. Small scale farmers allege that contractors add an inordinate mark-up on tobacco inputs to cover transport and interest. While incidences of overcharging cannot be ruled out, the scope for that happening on a wide scale are slim considering the TIMB's overarching oversight.

The fortunes of Mr Alex Moyo do not in any way represent the lot of smallholder contract tobacco farmers, as the livelihoods of the majority have been transformed for the better. The Best Small Scale Tobacco Grower for the Year 2013 was from the same general area and reportedly earned US$34,000 from the crop (Marawanyika 2013).

Four cases which follow, involving large scale commercial farmers and newly-resettled farmers all in prime tobacco growing areas, present a sharp contrast to the case just presented.

Mr Mubaya, a 36-year-old married father of six and a holder of a post-graduate degree, was interviewed in May 2014. His farm is in the prime tobacco belt and he has 2013/14 as his first season with Tian Ze, who are fully supporting him on 120ha. He resigned as a senior executive with a major local financial institution to become a full-time farmer after being allocated a farm through the land reform programme. He is contended and is already planning for next season's tobacco crop. He will sign another contract with Tian Ze and even include capital equipment. At the time of the interview, the farmer's crop had been sold at an average price of US$4.50/kg and he expected the rest of his crop to be sold at around that same price. The price he had got was double what he got last season through another merchant he had been contracted to.

Mr le Cock is a white farmer of British origin who has 56ha under tobacco fully supported by Tian Ze with a seasonal loan of over US$300,000. The average price expected for the crop was US$3.73/kg. He is among the country's most productive tobacco farmers, boasting an average yield of 3,800kg/ha. He is in a prime tobacco area with light sandy soils and only 20ha of his farm is suitable for other crops. Mr le Cock's farm is a thriving business and employs 50 permanent workers and 100 contract workers. Free accommodation for all workers is provided on site as are treated water and electricity to the residential quarters. Thirty children from the farm are attending school. Fees are set at US$40 per term and the farmer pays half the fees.

Mr Moosa is a white commercial farmer of 34 years and was educated up to high school. He has a 20ha tobacco crop and expects to get an average yield of 1,900kg/ha, up from the 1,500kg/ha that he got last year. The farmer employs 27 workers. He moved to Tian Ze in the 2013/14 season from another merchant who had contracted him since 2010. The farmer cites higher prices, 'better efficiency',[17] and access to cheaper funds as motivations for the change. The major motivation for signing up as a Tian Ze contract farmer, however, is access to cheaper finance. The farmer is grateful for the field days that Tian Ze organises throughout the season and expects an average price of US$4.14 per kg, which is about ten percent higher than what he got through a previous merchant. Much as he is not quite sure of the profit he will make, Mr Moosa expects to sign another contract with Tian Ze next season.

A number of whites still farming have remained unsettled as statements on an impending purge of all remaining whites on farms have been made repeatedly by senior government officials. It is speculated that some whites are choosing to enter into contract farming arrangements with Tian Ze as a shield from eviction, riding on the reverence for China by Zimbabwe. While such a position was neither confirmed nor proved, it couldn't be dismissed as farfetched.

Ms Mudzi is a 51 years old single mother of six and was educated up to high school. She has 15ha under tobacco and expects to get an average yield of 2,400kg/ha. She got land through the land reform programme and moved to Tian Ze from another merchant (TSF) as better services are provided. The farmer employs 27 permanent workers. Ms Mudzi is appreciative of the technical support that Tian Ze provides, particularly on agronomy and curing, and she is adamant that without such support (especially finance) she would not be the successful tobacco farmer she has become. This farmer expects to sign another contract with Tian Ze next season and commit more area to tobacco.

6.1 Risks of contract default?

The tobacco selling season opens when farmers are critically short of cash. It was noted that to get some cash early, a strategy used by a number of smallholder farm households was to register many family members as tobacco growers and then sell some of the contracted crop through the account of the spouse or child.

Illustrative of the hazards with contracting small farmers, a Zimbabwean tobacco merchant in 2014 took a number of smallholder farmers to court for breach of contract through side-marketing (Pito 2014). The company took this step to serve as a deterrent to other smallholder farmers who may contemplate to do likewise, as the restitution that could be made may not fully cover all costs incurred.

Unlike the other merchants who draw most of their farmers from smallholders, incidences of contract default and side-marketing are fewer with Tian Ze as the company monitors its farmers more intensively. Tian Ze reports loan default rates in the 5-7.5 percent range and credits the high recovery rates to stringent loan recovery mechanisms that have been put in place, in particular closer monitoring of supported farmers. The recovery rates through Tian Ze have consistently been much higher than through other merchants who have more farmers each committing a smaller area to the crop.

6.2 Need for consolidation

While the dominant narrative in Zimbabwe over the last five year has been that growing tobacco has been profitable and that livelihoods of farmers of that crop have been transformed for the better (Kawadza 2014), farmers who have tried their luck on the crop outside the prime catchment area have been disappointed. The modest increases in number of farmers registering to grow the crop in recent years could be a sign that the country's production level is stabilising. It could be an opportune time for the industry to now embark on a consolidation phase to improve quality. This could be done through intensifying extension and dissuading famers outside the prime tobacco growing areas from growing the crop.

Table 3: Proportions of the Zimbabwe flue-cured tobacco crop sold by contract and auction, 2011-2014

Marketing year	Production season	% contract	% auction
2011	2010/11	56.27	43.73
2012	2011/12	63.94	36.06
2013	2012/13	67.83	32.17
2014	2013/14	76.52	23.48

Source: TIMB (2014; 2013; 2012; 2011)

7. Contract Farming and the Future of the Flue-cured Tobacco Sector

With tobacco maintaining its pole position as the most profitable crop over a number of seasons, it is no wonder that contractors have been funding more of the crop over the years; see Table 3.

A number of challenges are being presented by these developments and there are fears that if the current trend is maintained, the industry could be harmed in the long term. While the challenges arising from the contract farming system cannot be attributed to the activities of Tian Ze or any other merchant(s), they give urgency to TIMB to start exploring alternative arrangements for marketing the country's tobacco.

7.1 Pricing

The auctioning system for setting prices for the country's tobacco has long been the envy of the world, with the producer/farmer–auctioneer interface in setting prices hardly changing over the years.

Average final prices at auctions on any day have guided sales on subsequent days. The contract crop is directly influenced by trends at auctions, as the TIMB stipulates that its price cannot be lower than the price for the auction crop of the same quality from sales conducted on the immediate past day. As more and more of the crop is contracted, the country may need to develop an alternative system for pricing tobacco.

7.2 Demise of tobacco auction floors?

Over the years more and more of the tobacco crop is being grown on contract and contractors are anticipating that in future they will abandon auctions altogether.

The demise of tobacco auction floors will hurt smallholder farmers more, as they have not fully embraced contracts, alleging that merchants over-charge on inputs. Smallholders currently dominate auction floors.

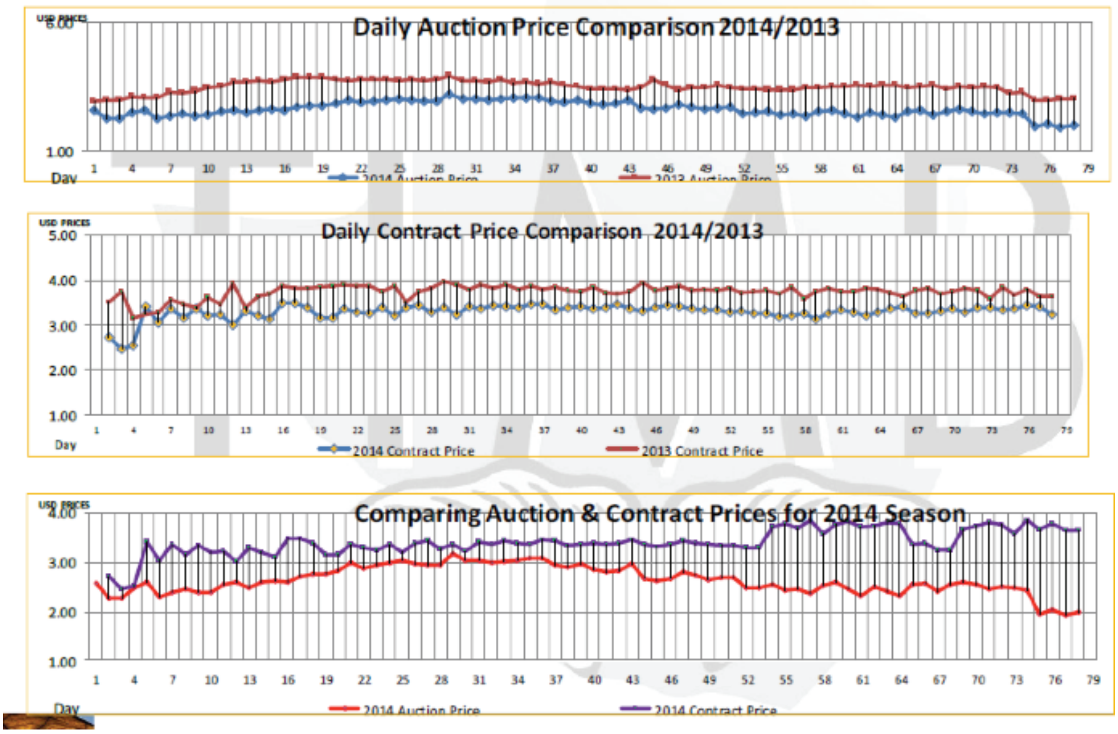
Tobacco auction floors are already lamenting the decline in revenue over the years as more and more of the crop is being contracted.[18] Lamenting the demise of auctions, one of the three tobacco auction floors has diversified into contract farming and could secure as much as a third of its 2014 crop through that arrangement.[19] From Table 3, less than a quarter of last year's crop was sold on the auction floors.

There are allegations that agents participating at auction floors are colluding in offering low prices and that they set a ceiling of US$4.99/kg for the best crop over the last three years (Herald 2014b). The highest price achieved by the 2014 contract crop was US$6.15/kg. Sales have had to be suspended on a number of days in 2014 and in 2013, with more of such incidences in 2014. Figure 4 shows the daily trend in prices for the contract and auction tobacco crops in 2013 and 2014.

From Figure 4, it is apparent that:

- Prices offered for the auction crop in 2014 are on average lower than they were in 2013.

Figure 4: Trends with tobacco auction and contract prices for 2013 and 2014



Source: TIMB (2014)

- Prices offered for the contract crop in 2014 are on average lower than they were in 2013.

- Prices offered for the auction crop in 2014 are much lower than what was offered for the contract crop.

Under current tobacco marketing regulations, a contract farmer is guaranteed at least the same price as what would have been offered on the auction floors for the same quality of the crop on the preceding day. Farmers are alleging that prices differ between the contract and auction crops even of the same quality due to covert activities by merchants to force tobacco growers to switch to the contract arrangements. For the 2014 marketing season, there have been reported cases of non-contracted farmers selling their tobacco to merchants through the accounts of their contracted colleagues ostensibly to benefit from higher prices (Herald 2014c).

Merchants allege that the self-financed crop is of poorer quality as farmers tend to use less inputs than recommended, as manifested by lower average yields. An even more damning indictment made by merchants justifying lower prices is that traces of banned chemicals have been found in some of the auctioned crop; these claims have, however, been refuted by the TIMB.

The TIMB Chief Executive Officer proffered an explanation for the lower prices for recent selling seasons, noting that Chinese buyers have become more discerning: 'The Chinese used to buy low quality tobacco, but they have since stopped buying lower leaves. They now prefer tobacco from the upper plant. Obviously with increased tobacco volumes, buyers tend to become choosy so this is what basically explains this situation.'

Zimbabwe ratified the Framework Convention on Tobacco Control which compels all tobacco merchants to set up a traceability scheme (to the farm) for the entire tobacco crop that is marketed internationally. Merchants are insisting that an assurance system of such a nature is easier to set up when all of the crop is grown under contract.

7.3 Whither competition among tobacco merchants?

Tian Ze directly and indirectly controls more than half of the tobacco market and trends suggest it will continue to increase its share in coming years. More and more large-scale tobacco farmers are migrating to Tian Ze as the company is reportedly offering better support services and higher prices. There are fears that in time a number of merchants could be elbowed out of large-scale areas and will have their operations confined to smallholder areas. Confronted with the prospect of higher risks (side-marketing) and higher costs when operating in smallholder areas, merchants could be forced to scale down operations or go out of business altogether. There are fears that as it continues to consolidate its position among tobacco merchants, Tian Ze can with time become the only merchant (a monopsony) and could exploit such a position to the detriment of the industry.

7.4 Tobacco contract farming and the future

It has long been recognised that contract farming thrives in situations where reduced public sector support to agriculture results in farmers deprived of alternatives for entering commoditised agriculture (Cai et al. 2008; Little and Watts 1994). Zhang (2012) presents contract farming as a transitional arrangement facilitating farmers in moving from subsistence farming to commercial production, stressing that the arrangement is not supposed to be permanent.

For Zimbabwe, reduced state support to agriculture increased particularly when the neo-liberal Economic Structural Adjustment Programme was adopted in the mid-1990s. Such reduced support was accelerated during the economic crisis experienced between 2000 and 2008, with support for agricultural extension, agricultural credit and marketing all but collapsing. Public service support services to agriculture are yet to be fully restored. The state grain marketing institution, the Grain Marketing Board, has perpetually failed to pay farmers on time, thus deterring farmers from diversifying from contract crops such as tobacco and cotton. With the persistence of liquidity challenges in the economy, contract farming could remain as the main viable option for financing agriculture.

The country recently adopted the Zimbabwe Agenda for Sustainable Socio-Economic Transformation (2013-2018) as its blueprint for economic revival. The blueprint envisages contract farming as the major source of funding for agriculture.

Until the economic fundamentals in Zimbabwe are addressed, the country will have to remain dependent on contract farming as a major form of funding its agriculture. The tobacco sector will have to deal with the ramifications that could arise, particularly regarding pricing of the crop and ensuring competition is maintained among merchants.

8. Conclusion

Zimbabwe's economic slump from 2000 to 2008 was unprecedented.

From 1999 the country embarked on a land reform programme that displaced almost all white large scale commercial farmers, particularly in areas of high agricultural potential where, incidentally, most of the flue-cured tobacco crop has been grown.

The EU and other Western cooperating partners suspended all government-to-government ties and went on to impose sanctions on specified government and ruling party officials and designated state companies.

Such isolation accelerated economic decline and financing of agriculture became a challenge as concomitant with the land reform programme, land ceased to have collateral value. Receipts from tobacco, which accounted for almost half of all agricultural export proceeds, declined by over 60 percent between 2000 and 2004.

Zimbabwe had to 'Look East' to fill the void in funding agriculture, and China was most forthcoming amongst all Asian countries. Notwithstanding the value of the close ties that had been established between the ruling parties of the two countries, China's acquiescence could partly be explained by the Going Global Strategy that the Asian country was actively pursuing at that same time.

Chinese investment in the country's tobacco sector through Tian Ze, both as a major buyer on the auction floors and through contract farming, has been pivotal to the sector's recovery and production is now at 80 percent of the pre-land reform status. Long term links between the two countries' tobacco sectors continue to be strengthened through close collaboration in research and staff development. While Zimbabwe is indebted to China for its role in reviving Zimbabwe's tobacco sector, the investment could also be considered a classic win-win case; the Asian country has also benefited thorough more influence on the value chain up to the export of the premium processed crop.

Zimbabwe considered the sanctions and the other raft of measures that the West imposed on the country as designed to effect regime change. Zimbabwe will remain indebted to China for living up to its tag of an all-weather friend by investing in a key sector of Zimbabwe's economy at a time when the country was ostracised by most of the world. The coming in of the Chinese provided significant funding for newly-resettled areas, a development that has immensely helped in the country's economic revival.

Tian Ze facilitated closer collaboration between the two countries' tobacco research institutions and sponsored TIMB board members and senior management staff on a tour to familiarise themselves with the tobacco value-chain in China. As China has become the major market for Zimbabwe's tobacco, such linkages have potential to benefit the two countries. The collaborations will not only be maintained but strengthened, signalling that Tian Ze has invested in Zimbabwe's tobacco sector for the long haul. Tian Ze has become a household name in the country's tobacco sector.

The auctions have hitherto provided the basis for pricing all tobacco and the low prices at the auctions, especially in 2013 and 2014, have most tobacco farmers apprehensive about the future, bearing in mind that the auctions provide the benchmark prices for the contract crop. Farmers are however in a dilemma as tobacco has remained the most viable enterprise that has had funding readily available.

China currently accounts for just over 55 percent of Zimbabwe's flue-cured tobacco crop by value and could continue to consolidate its position in the future. With even more of the crop to be produced under contract in the future, and bearing in mind the merchants' preferences and international dictates regarding traceability, there is scope for one or a few companies to corner the market. Much as the country is grateful to merchants for reviving the country's tobacco sector through contract farming, TIMB as the regulatory authority has to explore alternative price setting arrangements for the future.

End Notes

1 There was a dramatic increase in area under flue-cured tobacco as farmers switched to more profitable export crops following the adoption by the country of the Bretton Woods-inspired Economic Structural Adjustment Programme in 1995.

2 Golden Driven Investments has been another Chinese merchant that has offered contracts to tobacco growers. The Hong Kong-based company operated on a smaller scale, buying the crop exclusively through contracts. The company was last active in 2012.

3 Even after Libyan President Muammar Gadhafi's execution, the President of Zimbabwe still extols him.

4 FES (2004) however describes the Look East Policy as more of a slogan than a genuine foreign policy position, as it is not supported by any public policy document.

5 The imposing 16-storey ZANU-PF headquarters in Harare was built by the Chinese, as was the President's private residence in the capital city.

6 Relations between the military services of the two countries have always been very close and have become even closer as sanctions by the West include an arms embargo on the country. Due to a long association, military staff of the two countries have built a good rapport between themselves and most Chinese investments in Zimbabwe have included high ranking army personnel as the local partners/agents.

7 The farmer is free to market any crop in excess of the value of support provided through alternative arrangements.

8 Most key stakeholders in Zimbabwe's tobacco sector are of the view that Tian Ze is a Chinese state company from Yunnan province. While most of the initial staff and most contacts have been with that province, Tian Ze is more than just a provincial investment.

9 The boundaries between the activities of Tian Ze and CNTC in Zimbabwe are blurred, with Tian Ze representing CNTC and the latter seconding some of its staff to Tian Ze. In this paper no attempt is made to distinguish between the activities of the two companies with all Tian Ze/CNTC work in Zimbabwe discussed as Tian Ze's.

10 On leaving the premises, the security guards check each guest for company valuables before making them sign out.

11 With other merchants, a disproportionate number of key posts are held by whites and even expatriates.

12 123 farmers that delivered to Tian Ze were not supported with input.

13 Tian Ze was widely commended for providing a more comprehensive input package with a number of farmers joining its scheme from other merchants. The company was reported to be charging the lowest mark-up on inputs when other companies were adding 10-12 percent; considered high as the credit is for up to than six months.

14 The first bales laid on the floors have traditionally been those of the biggest producers or top politicians.

15 Names of all farmers were changed to protect their identities.

16 Despite the disappointment from the 2014 sales and vowing to stop growing tobacco, the farmer has reconsidered and took another set of inputs from the same merchant for the 2014/15 season. With no other crop offering funding and an assured market, farmers who sign up to the tobacco contract arrangement can easily find themselves in a perpetual trap with a lingering hope of a favourable outcome.

17 This included the speed with which the farmer's requests were met by the company vis-à-vis previous standards (particularly related to operational resources) as well as access to top management.

18 Tobacco auction floors charge a commission of 2.5 percent of the value of tobacco to cover their overheads.

19 Boka Tobacco Floors contracted 4m kg in the 2013/14 season and may contract an even bigger crop going forward. Another auction floor, Tobacco Sales Floors, also contracted but the scale could not be established (Herald 2014b).

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