

China's Agricultural Investment in Latin America

Margaret Myers
Inter-American Dialogue
November 21, 2013



Main Points

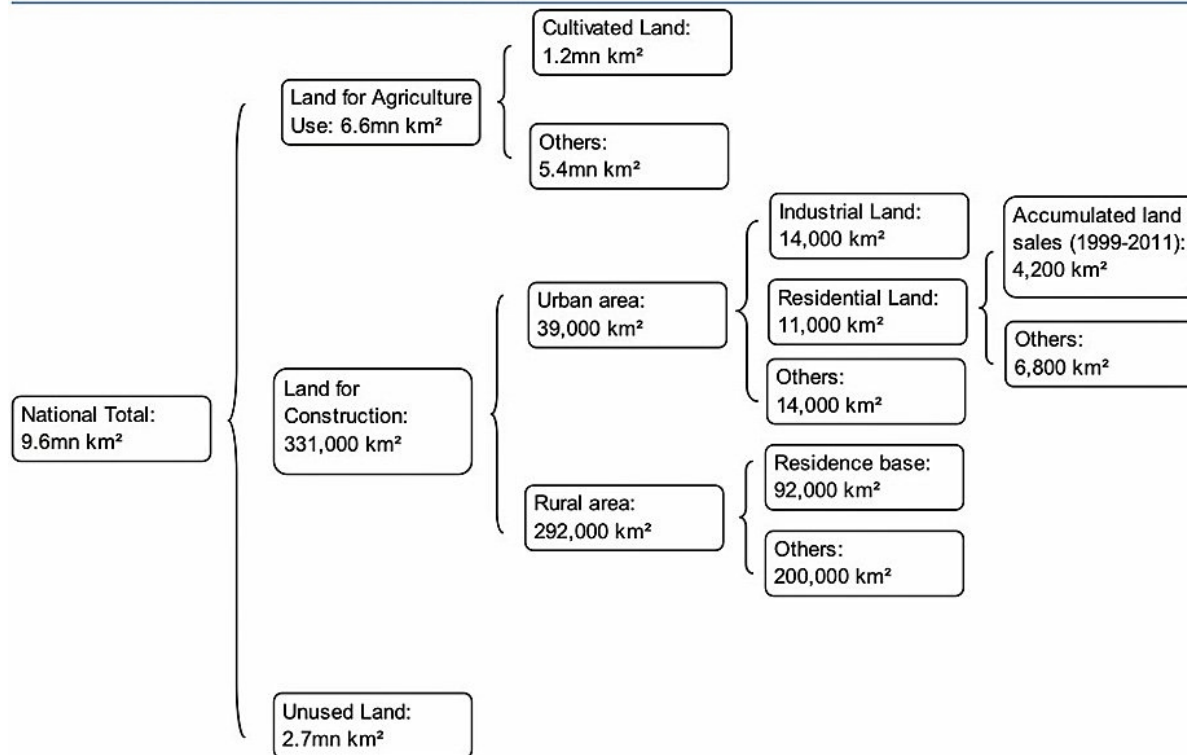
1. China is committed to achieving self-sufficiency in food production
2. But production limitations and an interest in limiting price volatility are pushing Chinese firms abroad
3. Overseas agricultural investment increasingly seeks to control production, processing and logistics for commodities that cannot be supplied domestically
4. China's agricultural investment in Latin America is very limited and rarely focus on 'land grabbing'
5. Thus far, investments in Latin America are not dominated by state-owned enterprises
6. Chinese firms face several obstacles to investment in Latin American agricultural sectors

#1 - China is committed to achieving self-sufficiency in food production

- Target: 95% self-sufficiency in corn, wheat, and rice (staple foods)
- 1.8 billion mu red line to ensure sufficient grain production
- Grain storage system established in 1990
- Removed agriculture tax, incentivizing grain production
- Subsidies: agricultural inputs, farm machinery purchases, crop-related inputs
- Increase agricultural mechanization

#2 - But production limitations and other considerations are pushing Chinese firms abroad

Chart 1: Breakdown of land use in China



Source: NBS, Ministry of Land and Resources, BofA Merrill Lynch Global Research

Other considerations...

China – Traditional Food Consumption Ratio

	grains:	meat-fish:	vegetables-fruit
1980	8:	1:	1
2005	4:	3:	3

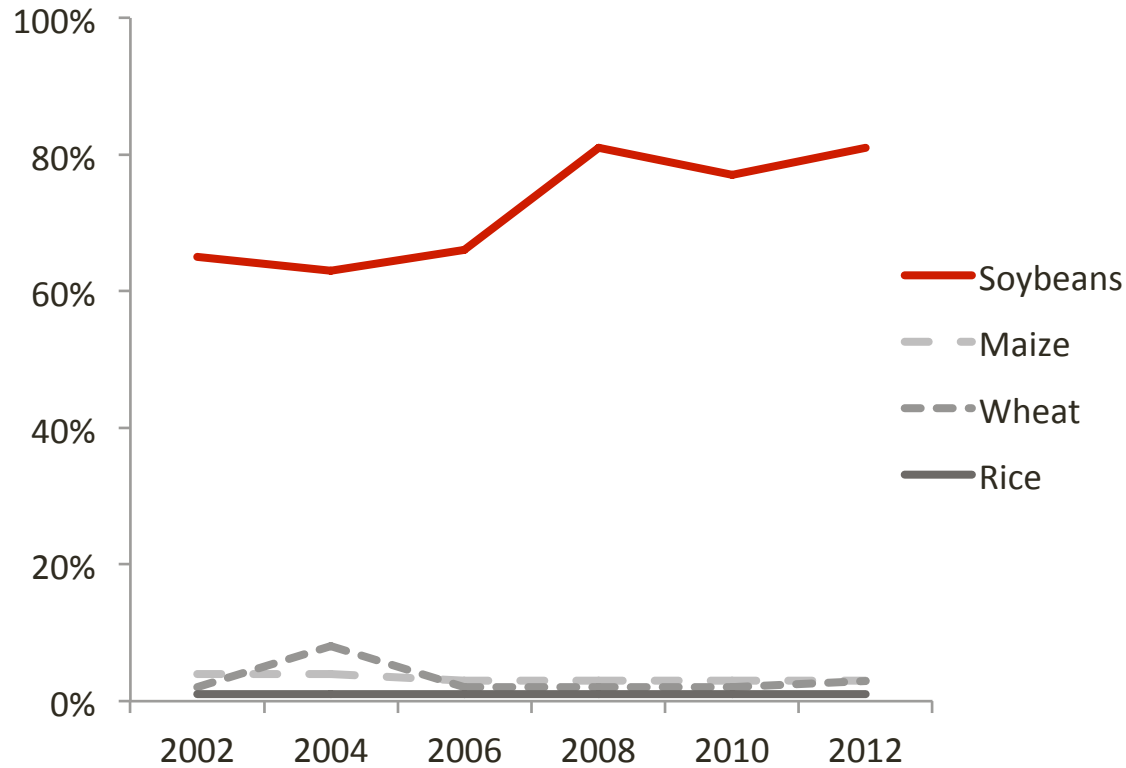
(Source: Huang 2011; Huang and Peng 2007)

- Demand for meat, fruit, milk, and eggs growing across all income groups within the last thirty years.
- China to become the world's largest consumer of pigmeat per capita by 2022
- Future growth in soy and other grains to feed China's stock of animals raised for meat.

China's Agriculture Imports

Mixed strategy of soybean imports and grain security

Import Penetration of Major Crops in China, 2002-2012
(Imports/Domestic Utilization, %)

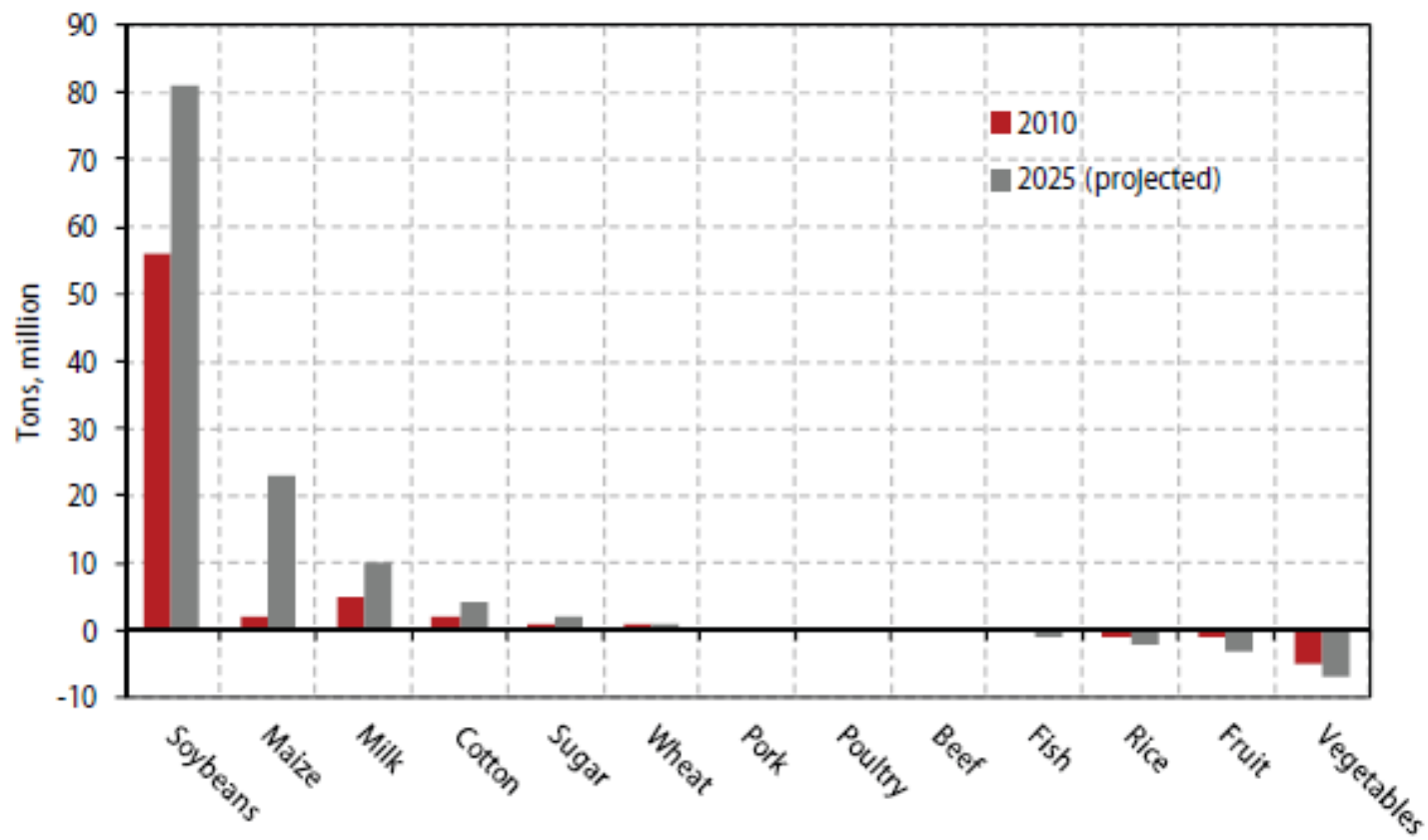


Source: FAO *Agricultural Market Information System*.

From Koch-Weser Presentation, Inter-American Dialogue, November 20, 2013.

China's future food imports will be mostly of grain

Actual and projected net imports of agricultural products



Center for Chinese Agricultural Policy

Tabela 8: Demanda da China por produtos alimentícios em 2020

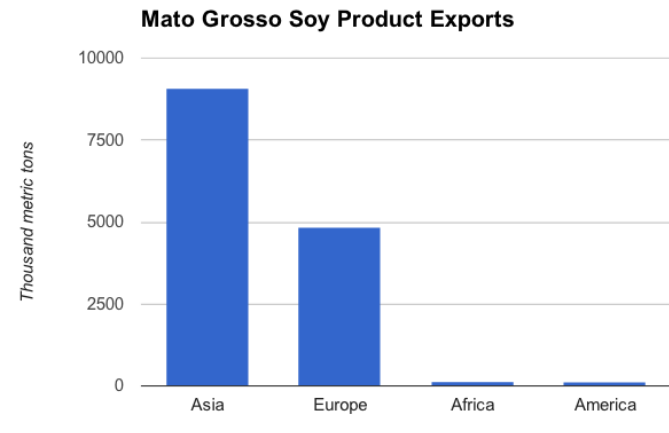
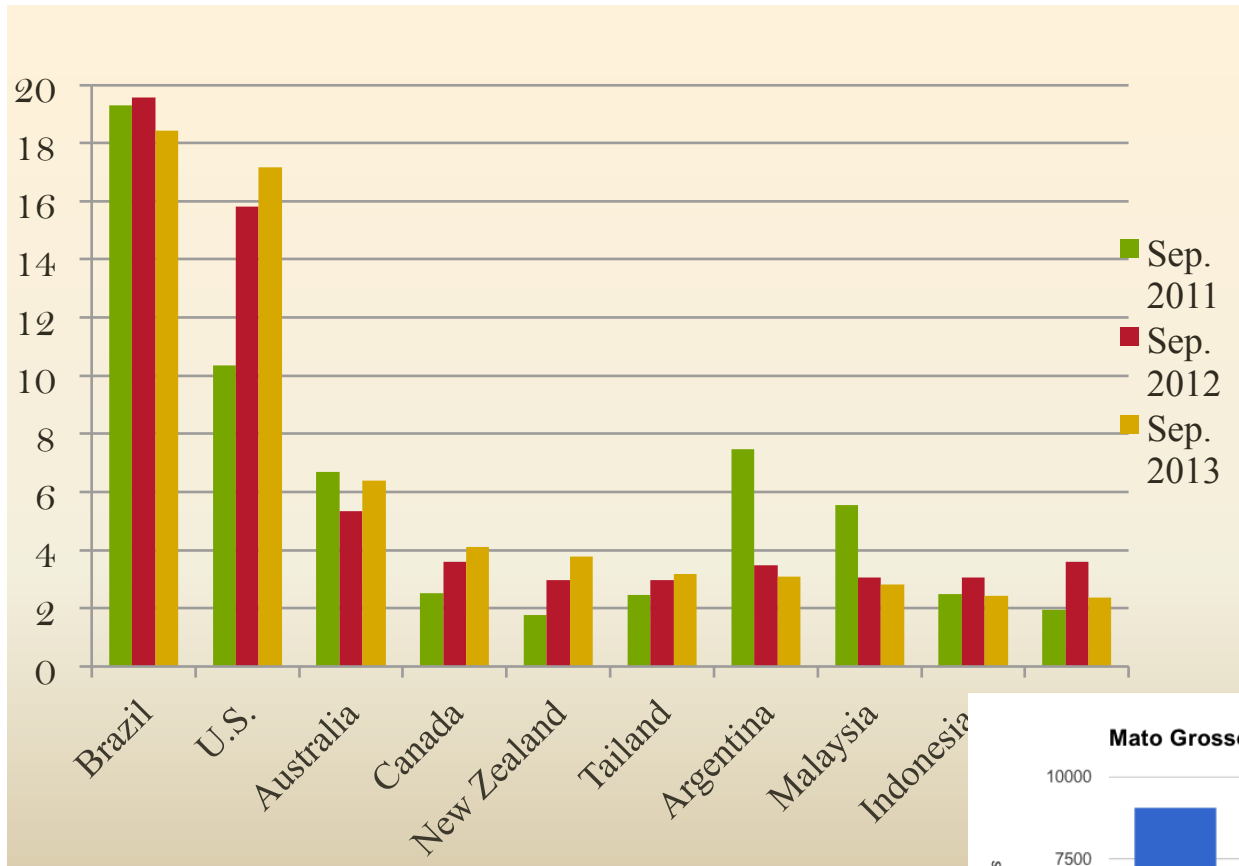
PRODUTOS	Produção Ton (milhões)	Consumo Ton (milhões)	Importação Ton (milhões)	Mais de 95% de autossuficiência	Fonte
Trigo	114	112	•	Sim	USDA
Arroz	126	125	•	Sim	OECD-FAO
Milho	210	213	3	Sim	OECD-FAO
Soja	17	105	88	Não	USDA
Açúcar	17	23	6	Não	OECD-FAO
Carne Suína	61	61	•	Sim	USDA
Carne Bovina	7	7	•	Sim	OECD-FAO
Carne de Aves	20	21	1	Sim	OECD-FAO
Leite e derivados	47	47,5	0,5	Sim	FAPRI

Fonte: Zhou et al, Chinese Academy of Agricultural Sciences²

² Zhou, Z.; Tian, W.; Wang, J.; Liu, H.; Cao, L. Chinese Academy of Agricultural Sciences (2012) Prospects for Food Demand in China. Apresentação realizada na universidade James Cook University.

By 2020, China is expected to be self-sufficient in all major food products other than soy, corn, sugar, and milk. Soy imports expected to rise to 88 million tons.

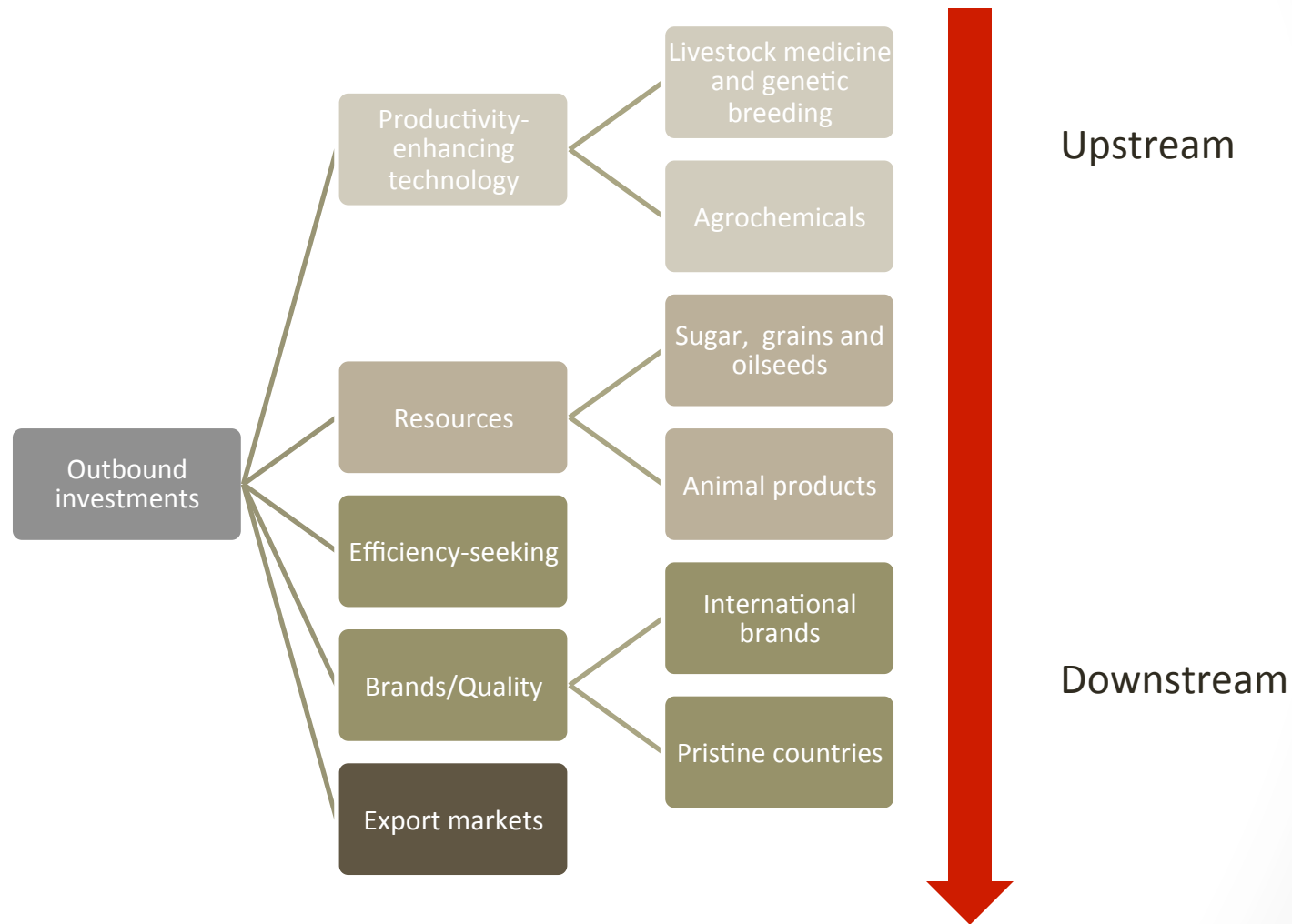
Sources of Food Imports



#3 - Overseas agricultural investment increasingly seeks to control production, processing and logistics for commodities that cannot be supplied domestically

- 两个市场，两种资源
- “Two markets, two resources”
- Mentioned on numerous occasions by Li Keqiang
- Improve domestic production capacity in staple foods while seeking to control production, processing and logistics for commodities that cannot be supplied domestically

Following the 'ABCD' Model?



The COFCO Example

- “Whatever Chinese consume more of, need more supply of from outside, this is our area. The company may be engaged in...logistics, processing, and trading ventures in supplier countries.” - Frank Ning, COFCO Chairman
- ABCD四大国际粮油巨头在上游的优势其实是得益于国际化运营体系。例如在巴西，ABCD不直接涉入种植环节，而是为农民提供农业服务，如化肥、种子、农药等。此外，他们还和当地的运输公司签订了长期合约，有自己的车皮，也有自己的投资码头，可以将收购的产品规模化地运往世界各地。



Overseas Agricultural Policy

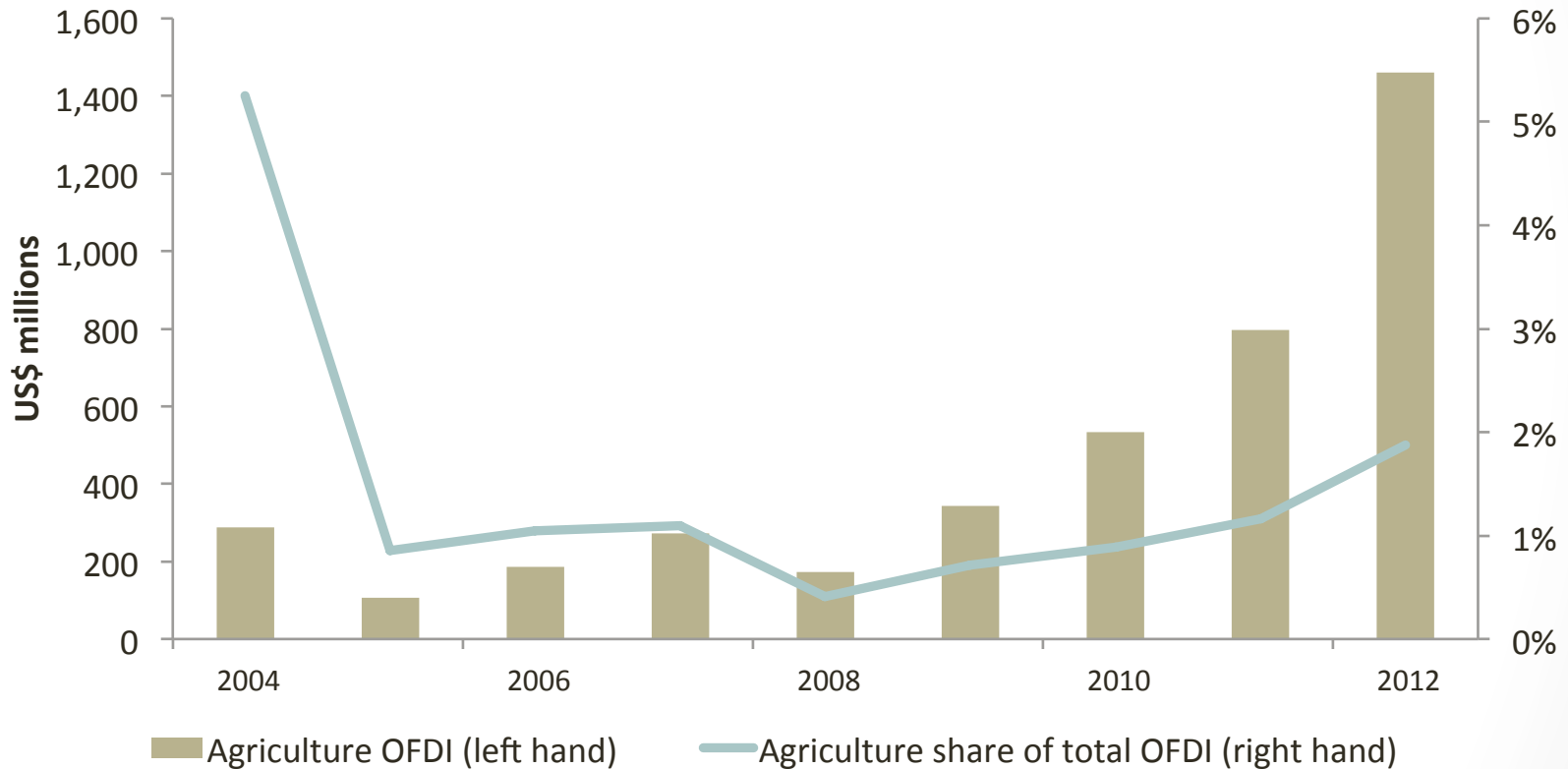
YEAR	KEY DOCUMENTS	POLICY DESCRIPTION
2001	10 th Five-Year Plan (2001 – 2005)	“Implement ‘going out’ strategy”
2007	No. 1 Document for 2007	“Speeding up the implementation of ‘Going Global’ strategy in agricultural sector”
2011	Notice of Application of the 2011 Special Funds of Foreign Economic and Technology Cooperation (MOF & MOFCOM)	“Overseas agriculture, forestry, fishing and mining cooperation projects will be highly supported ”since 2011
2012	National Modern Agriculture Development Plan, 2011-2015	“More actions shall be taken to upgrade the quality and the level of ‘bringing-in’ strategy in agriculture” , AND “enhance international agricultural trade.”
2012	12 th Five-year plan for Agricultural cooperation and development (MOA)	Speeding up “going abroad”, upgrading the quality of “bringing-in” strategy, and promoting the sound development of international trading of agricultural products

From Guo Jie Presentation, Inter-American Dialogue, November 20, 2013.

#4 - China's agricultural investment in Latin America is very limited

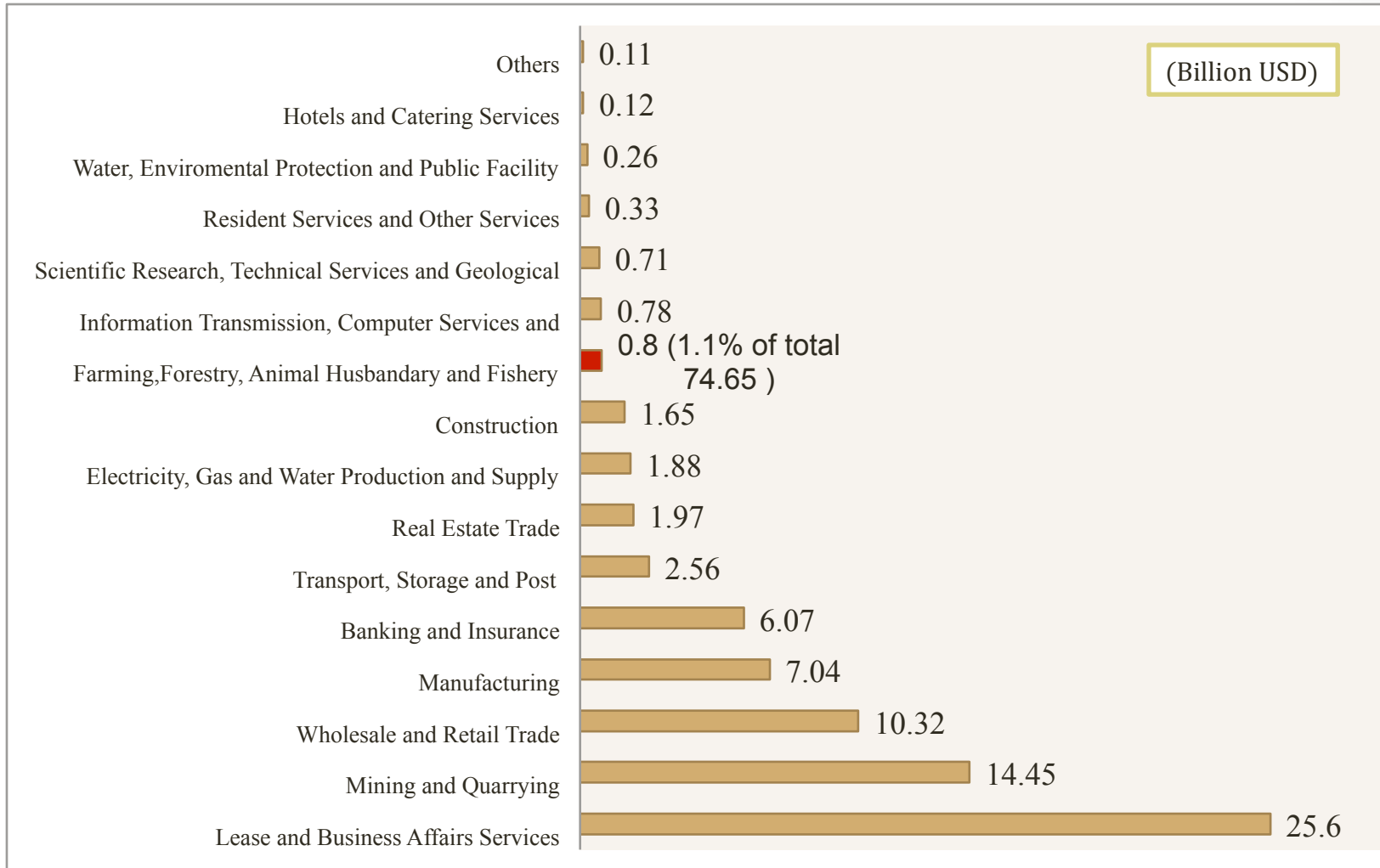
China's Outbound Investment in Agriculture (MOFCOM)

China's annual OFDI in agriculture (total US\$ m; share %)



Source: MOFCOM, via CEIC Database. From Koch-Weser Presentation, Inter-American Dialogue, November 20, 2013.

OFDI Flows by Industry (2011)



Source: *2011 Statistical Bulletin of China's Outward Foreign Direct Investment*, Beijing: China Statistic Press, 2012, pp.7-8.

...they are also rarely focused on
'land grabbing'

Evolution of China's Overseas Agricultural Cooperation

Year	Policy	Activities
Since 1950s	Agricultural cooperation through aid	Developing large, state-owned farms in the host countries, mainly in Southeast Asia and Africa. In the 1970s, there was a shift to develop small- and medium-sized agricultural demonstration projects.
Since mid-1980s	Market-Based Agricultural Cooperation	State-owned farms were replaced by joint ventures, public-private partnerships, and co-operation contracts with an increased focus on making profit.
Since 2001	'Go Global' policy and enhanced bilateral agricultural cooperation	Encourage companies to invest abroad and compete internationally through the removal of barriers to outward investment aid and incentives such as preferential loans or tax incentives to invest abroad.

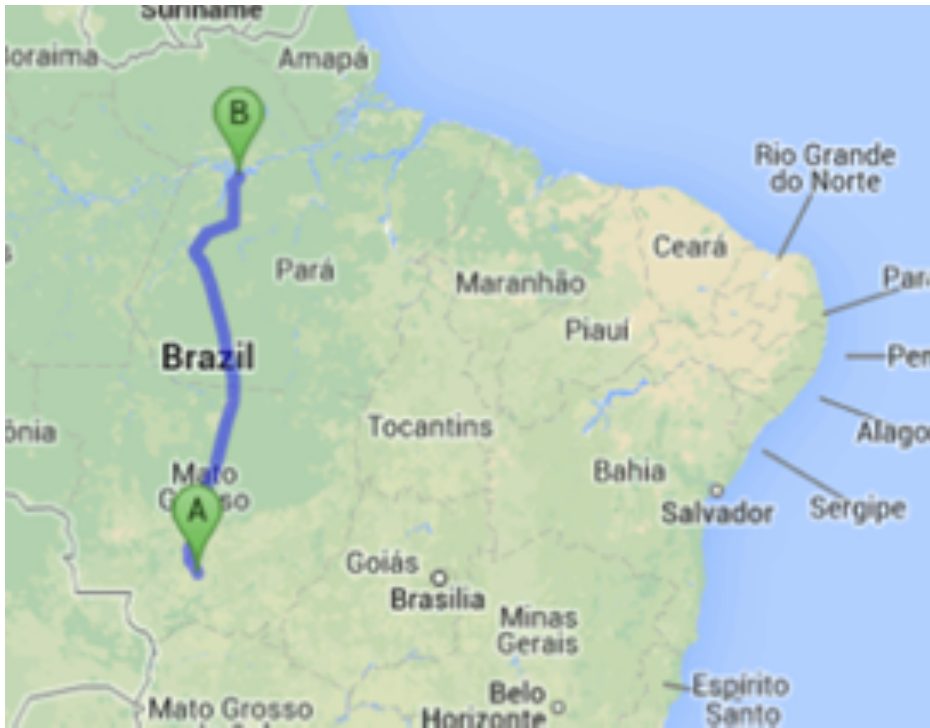
#5 - Thus far, investments in Latin America are not dominated by state-owned enterprises

COUNTRY	CHINESE INVESTORS
Brazil	<p>CHINATEX (中纺集团)</p> <p>Beijing Triunion Cereals & Oils Co. Ltd. (联众博亚)</p> <p>Sanhe Huifu OFCO Fodder Protein Products Co., Ltd. (三河汇福)</p> <p>Wuxi Five-star Garden (无锡五星花园)</p> <p>Jiangsu Muyang Group Co.,Ltd (江苏牧羊)</p> <p>Zhejiang Fudi Agriculture Co., Ltd (浙江福地)</p> <p>Weiteng Investment Co. (广州伟腾)</p> <p>Shandong Guanfeng Hi-Tech Seed Co.,Ltd (山东冠丰)</p> <p>Chongqing Grain Group (红蜻蜓粮油)</p>
Argentina	<p>Beidahuang Nongken Group Co.(北大荒农垦)</p> <p>Sanhe Huifu OFCO Fodder Protein Products Co., Ltd. (三河汇福)</p> <p>Chongqing Grain Group (红蜻蜓粮油)</p> <p>BBCA Group (安徽丰原)</p> <p>Huishang Group (徽商集团)</p>
Venezuela	<p>Shenzhen China-Venezuela Agricultural Investment Co.,LTD (中委农业投资)</p> <p>Guangxi Nongken Group (广西农垦)</p> <p>Yunan Defu Wood Products Co.,LTD (云南德福)</p>
Bolivia	Pengxin Group (上海鹏欣)
Chile	Qingdao MingYue Seaweed Group Co.,Ltd. (青岛明月海藻)
Uruguay	Sichuan Demetre Biological Sci-tech Co., Ltd. (四川迪美特)
Peru	Weiteng Investment Co. (广州伟腾)
Cuba	Suntime-Group (新天集团)
Mexico	Suntime-Group (新天集团)

From Guo Jie Presentation, Inter-American Dialogue, November 20, 2013.

#6 - Chinese firms face several obstacles to investment in Latin American agricultural sectors

- Anti-China investment policy
 - “para que no suceda lo que ha pasado en Brasil, que tiene que limitar después.”
 - “China bought Africa and is trying to buy Brazil.”
- Inability to compete effectively with ABCD
- Local conflicts, unable to agree on terms



	Year	Country	Region(s)	Project	Land (ha)	Amount (\$m)	Investor	Type
1	2005	Brazil	?	Cotton and Soybean Farming	200,000	?	Shanghai Pengxin International Group Ltd.	Unconfirmed
2	2008	Brazil	Bahía	Soybean Farming and Industrial Complex	200,000	2,470	Chongqing Grain Group	Stalled
3	2010	Colombia	Orinoquía	Cereals	400,000	?	?	Unconfirmed
4	2010	Brazil	Bahia and MAPITO (Maranhão, Piauí and Tocantins)	Grain Production and a Bioenergy Sector	200,000 - 250,000	?	Pallas International Consultants Group	Unconfirmed
5	2010	Bahamas	Abaco	Vegetable, Fruit and Livestock Production and Processing Plant	5,000	?	?	Unconfirmed
6	2011	Argentina	Rio Negro	Soybeans, Corn and Wheat Farming	300,000	1,500	Heilongjiang Beidahuang Nongken Group Co.	Rejected
7	2012	Argentina	Cordoba	Soybean and Dairy Farming	10,000	1,200	Chongqing Grain Group	Unconfirmed
8	2012	Argentina	Chaco	Soybean	130,000	420	Chongqing Grain Group	Unconfirmed
9	2013	Venezuela	Guarico, Barinas, Apure, Delta Amacuro & Portuguesa	Corn, Rice and Soybean Production	60,000	?	Beidahuang	In progress

Conclusions

1. China will continue its “two-pronged” approach to food security
2. Land purchase/leasing is not a top priority
3. Chinese firms will increasingly focus on controlling production, processing and logistics for commodities that cannot be supplied domestically
4. Deals will continue to be limited by legislation and public sentiment

THANK YOU