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# **Drivers and Implications of Chinese Investments in Brazilian Agribusiness**

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# **Summary**

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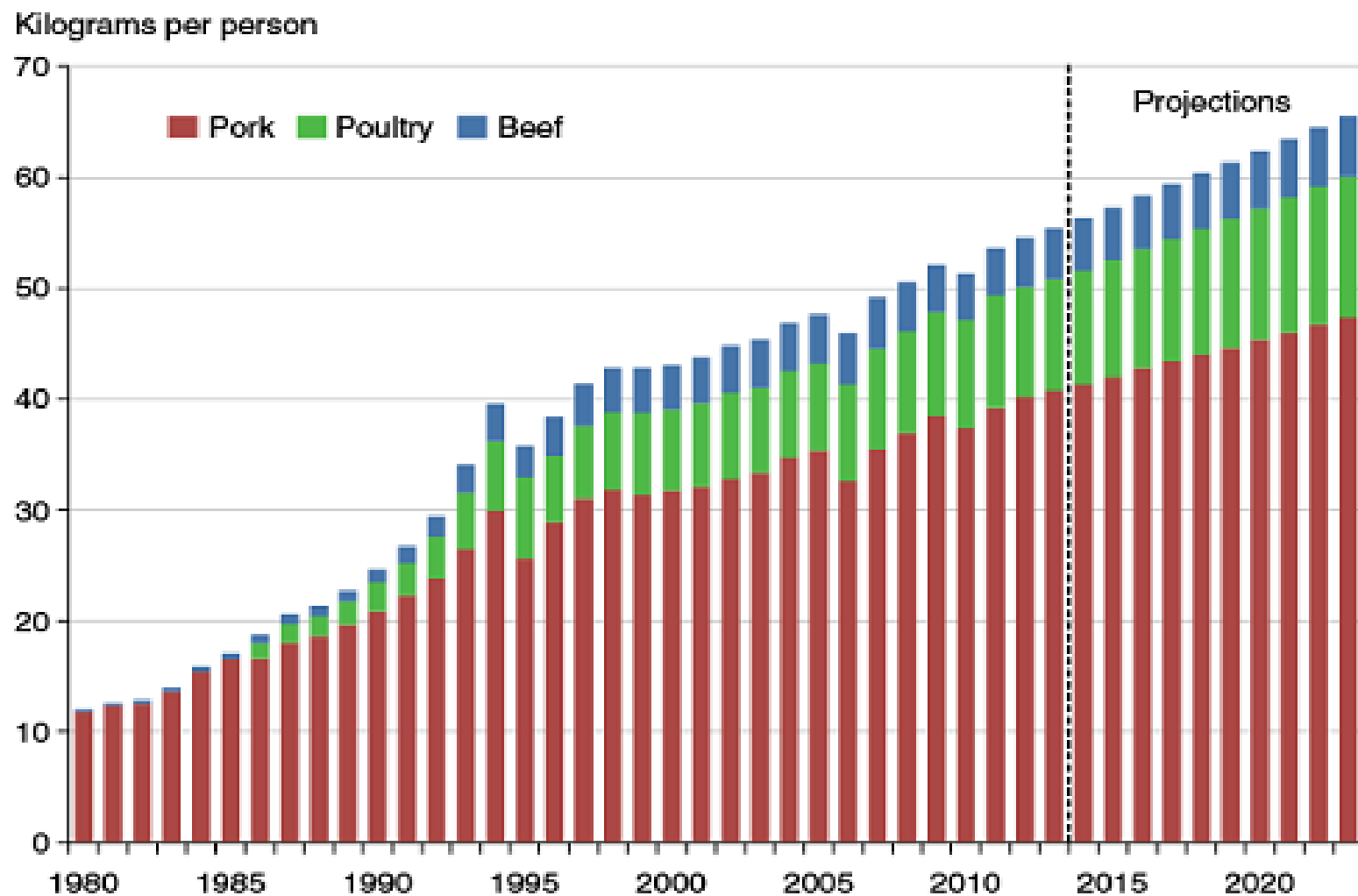
# 1. Introduction

- The “Brazil-China Soy-Meat Complex” represents a polycentric shift in the current global agrifood relations, driven by the interests of agribusiness corporations and food industries, as well as the national states, towards a South-East direction, challenging the North Atlantic capital;
- China works as an “importing pole” and Brazil as an “exporting pole”;
- However, it goes beyond trade relations, as Chinese foreign direct investments (FDI) in Brazilian agribusiness is increasingly significant;
- What is the relationship between the Chinese government's food security policy and the involvement at the companies’ level in the process of “going out” with FDIs in agribusiness of other developing countries? And how do these investments “arrive in” and impact on the dynamics of the “Brazil-China soy-meat complex”?
- Sources: Brazilian, Chinese and international statistical data, fieldwork in Mato Grosso, business media, relevant literature.

## **2. The agrifood question in China: connections between food security and “going out” policies**

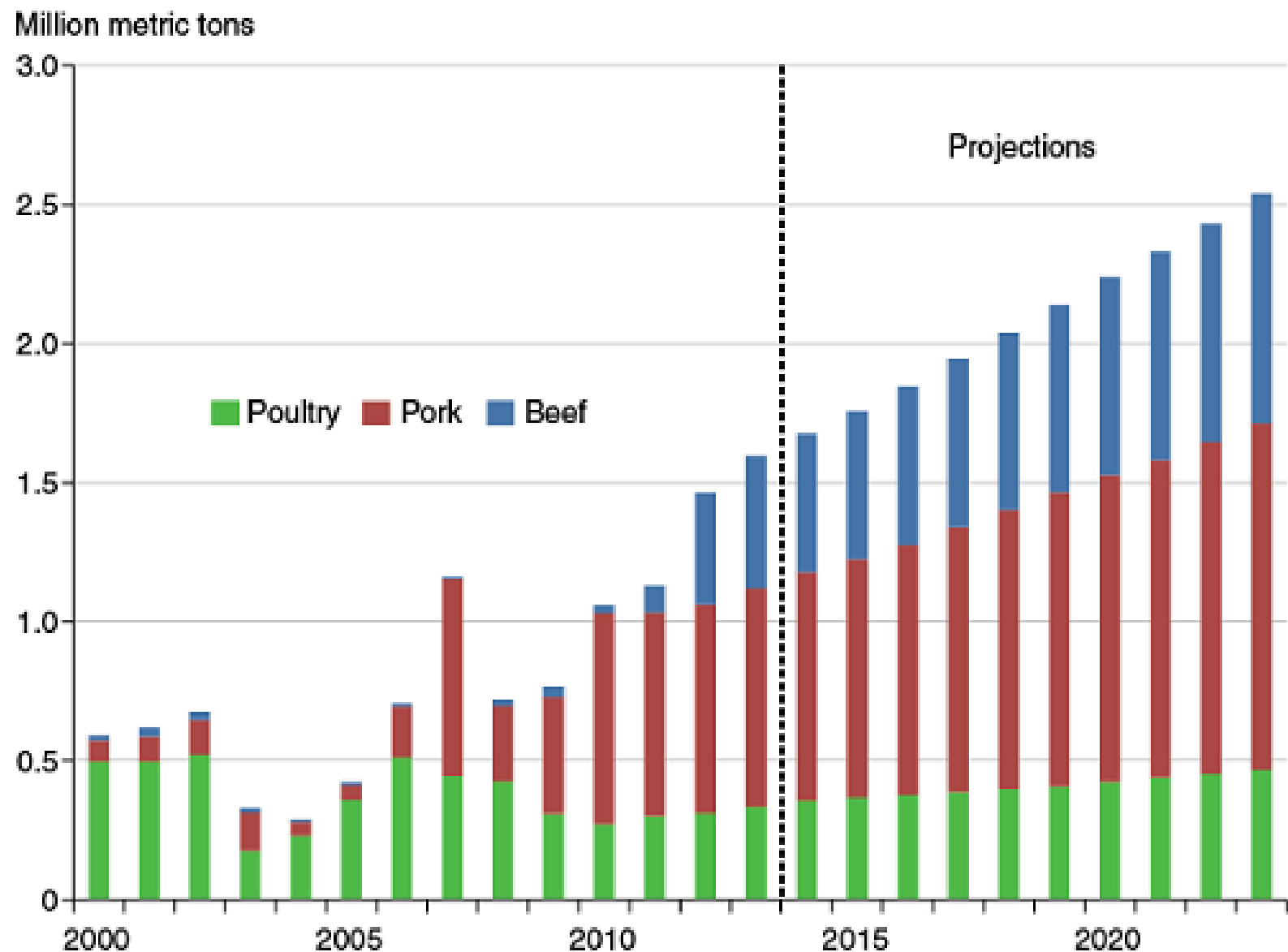
- Major trends: 1) changing eating habits and class-related diets, 2) transformations in livestock production and the meat and feed industries, and 3) the complexities of the concept of food security, given the increasing dependence on the commodity markets to import food and agricultural raw materials (especially soybeans) to feed the ‘meatification’ of diets;
- Going out to secure control over natural resources – Three Phases:
  - 1) from 2004 to 2008 – China’s rise in world commodity markets;
  - 2) from 2009 to 2012 – greenfield FDI in farmland, runned by Chinese professionals through centralized command (failed “Paper Tigers”);
  - 3) from 2013 up to now – M&A FDI in value chain control and infrastructure (most still only promises), runned by Brazilian professionals through decentralized command (successful “Dragon Heads”).

**Figure 8: Continued growth projected in China's per capita meat consumption**



Source: USDA Production, Supply and Distribution database and projections.

**Figure 9: China's global meat imports projected to continue upward trend**



Source: USDA Production, Supply and Distribution database and projections.

## China – Soy industry highlights

### China

|   |        |
|---|--------|
| China's soy imports as a share of total global soy trade                      | 66%    |
| Share of soy used in China from imported beans                                | 85%    |
| Share of soybeans in China crushed for meal and oil                           | 85%    |
| Share of soy crushing industry in China that is foreign owned                 | 60%    |
| Soy crushing in China as a share of total global soy crush                    | 28%    |
| Share of crush capacity that is domestically owned                            | 72%    |
| Excess crush capacity in China's soy industry in 2012 (capacity: utilization) | 50%    |
| Annual crush capacity added by domestic companies from 2009 to 2010           | 15 mmt |
| Annual crush capacity added by multinationals from 2009 to 2010               | 7 mmt  |
| Number of state-owned enterprises in the list of top 10 crushers              | 6      |

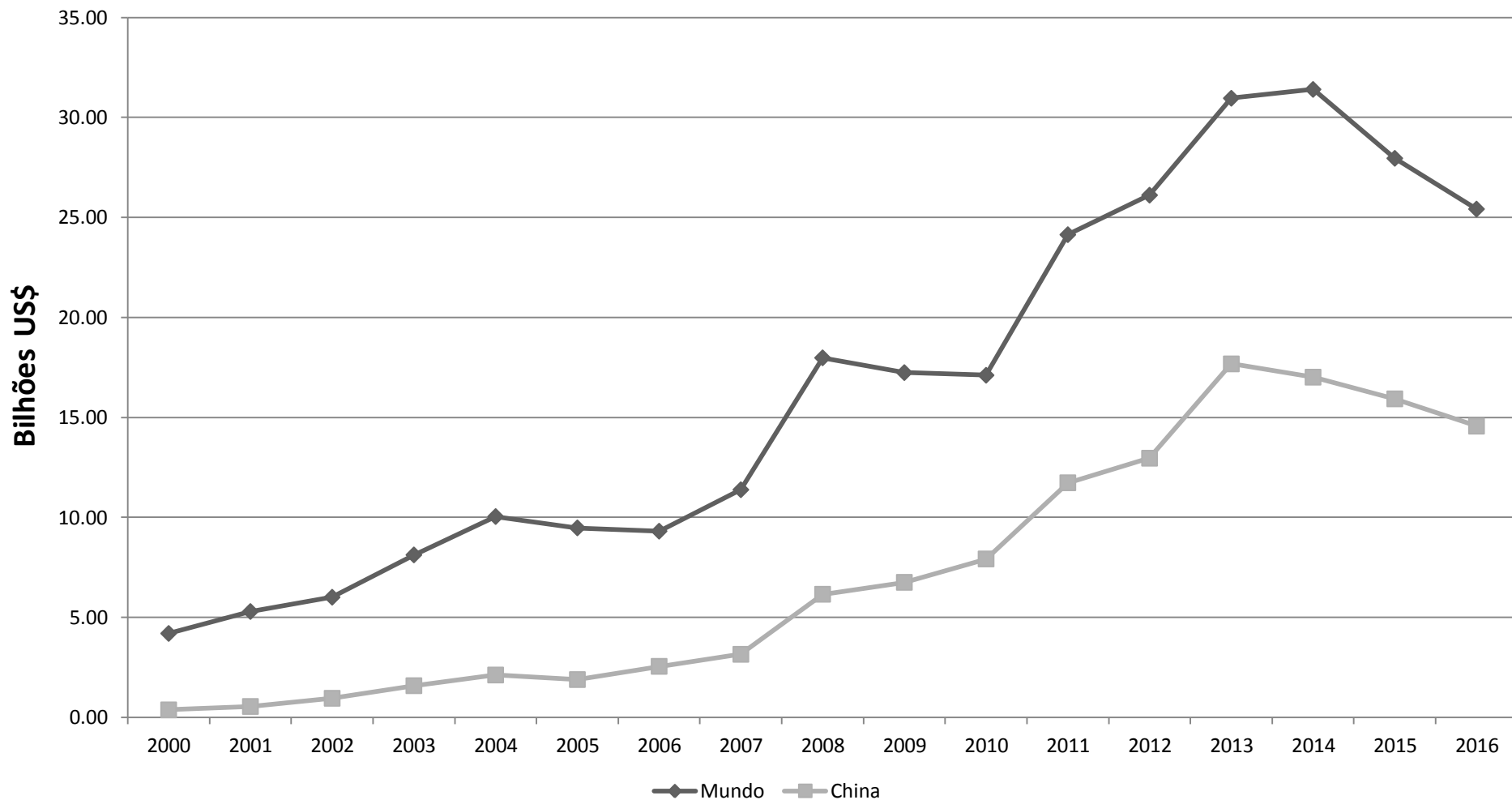
Source: Oliveira, Schneider, 2016

# **3. Chinese investments in Brazilian agribusiness: evolution and trends, perspectives from Mato Grosso**

- The expansion of soybean agribusiness: commodities boom and land markets – growth in soy production, productivity, planted area, value added in agribusiness GDP, and importance in the total trade balance, dependence on Chinese demand, impact of the agribusiness boom on the level of land prices, and Chinese failed attempts to buy land in Brazil;
- ABCD, COFCO and other new entrants: restructuring the grain market - In 2014 ABCD exported 46% Brazil's grain, the Asian firms 36%, but in 2015 Asian traders exported 45%, while ABCD 37%; in 2017 COFCO achieved a market share of 11% and wants to reach 22% in the next 5 years;
- Strategies of vertical integration: origination, financing and barter – until 2014 ABCD dominated 80% of the soybean origination in Mato Grosso, but now only 50%, while COFCO originates 70% of its traded volume.
- FDIs beyond agribusiness: storage, transport and logistics infrastructures - expectations that Chinese FDIs can help fill these bottlenecks, both on the Brazilian part, who wants to reduce its costs and improve its profitability, and on the Chinese part, who wants to cheapen its imports.

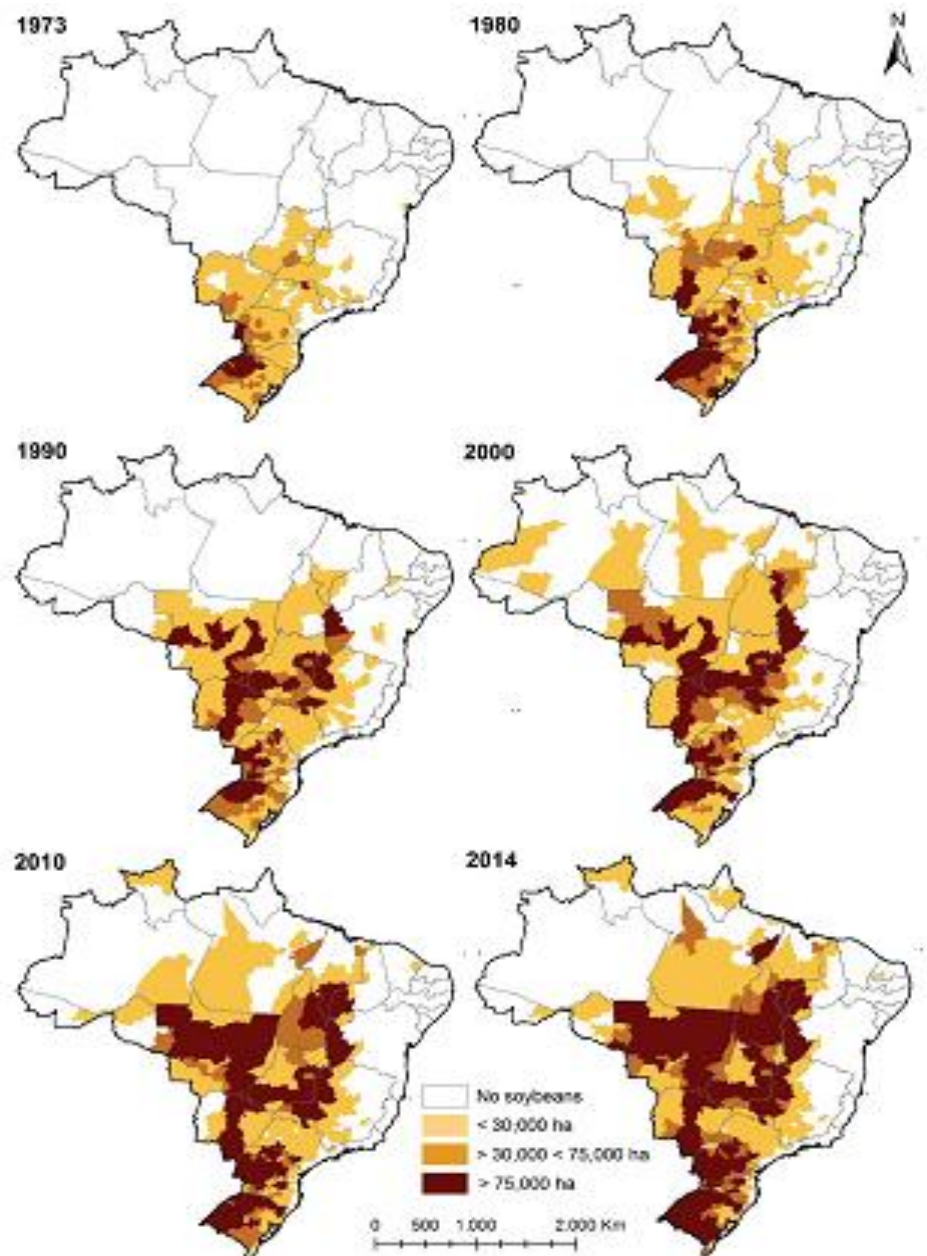


## Brazil - Value of Soy Complex Exports, China and the World, 2000-2016



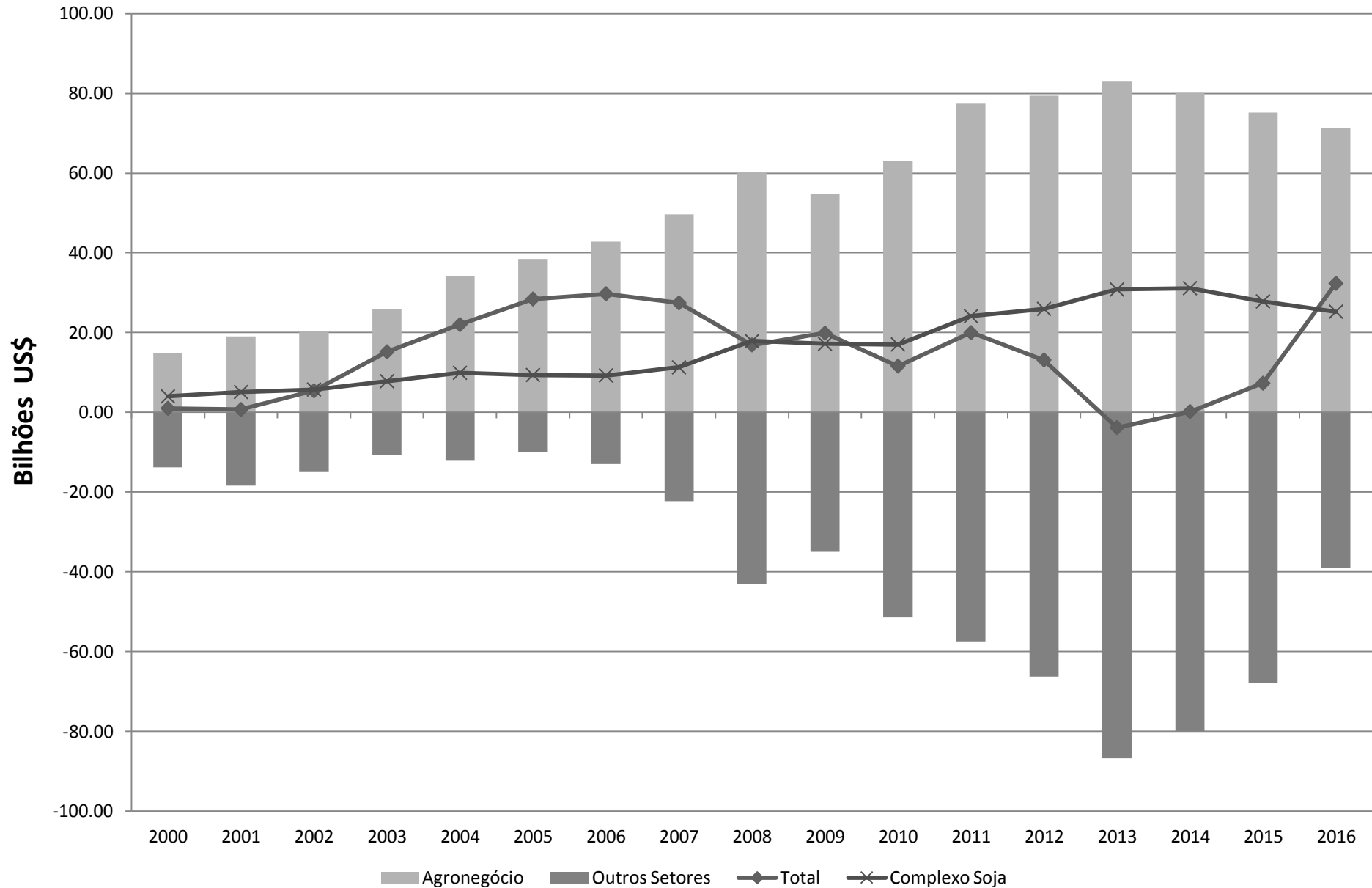
Source: the authors, data from MAPA.

# Brazil - Expansion in the area of soybean cultivation by micro-region



Fonte: Flexor e Leite (2017, p.410). Elaborado por V. J. Wesz Jr. com dados do IBGE.

# Trade Balances of Brazil – Total, Agribusiness, Other Sectors, Soy Complex



Source: the authors, data from MAPA.

## Brazil – Soy industry highlights

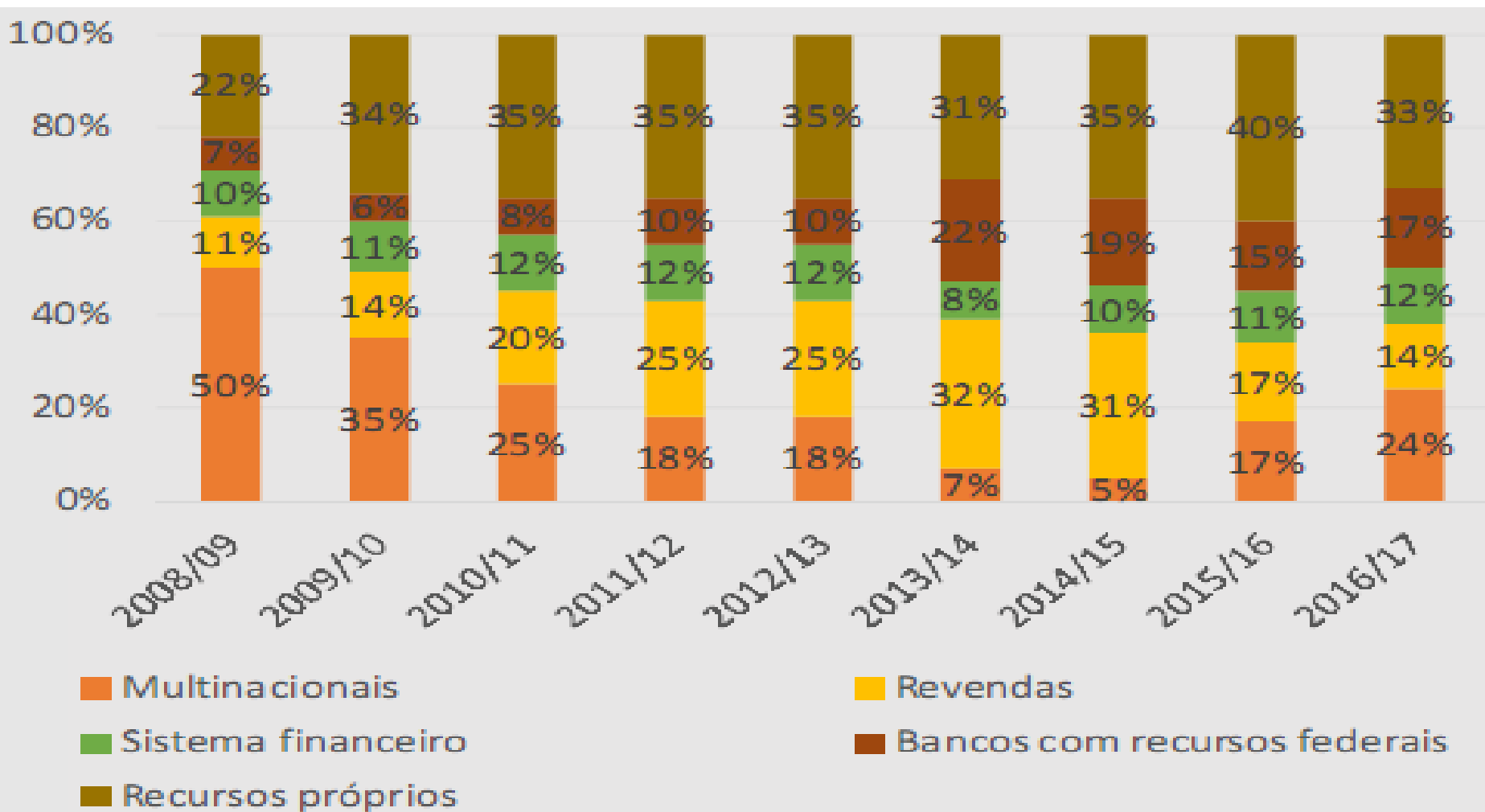
### Brazil

|  |        |
|--|--------|
| Brazil's soybean exports as a share of total global trade  | 41%    |
| Brazil's soybean exports as a share of total domestic production   | 51%    |
| Soy crushing in Brazil as a share of total global soy crush  | 15%    |
| Soy meal exported from Brazil as share of total domestic production                                      | 52%    |
| Soy oil exported from Brazil as share of total domestic production                                       | 23%    |
| Share of soybean production in Brazil used for biodiesel   | 10%    |
| Excess crush capacity in Brazil's biodiesel refineries   | 50%    |
| Annual crush capacity added by all companies from 2003 to 2008   | 15 mmt |
| Annual crush capacity added by all companies from 2008 to 2013   | 8 mmt  |
| Crush capacity of Brazil's state-owned biodiesel company as share of total domestic biodiesel production | 28%    |

Source: Oliveira, Schneider, 2016.

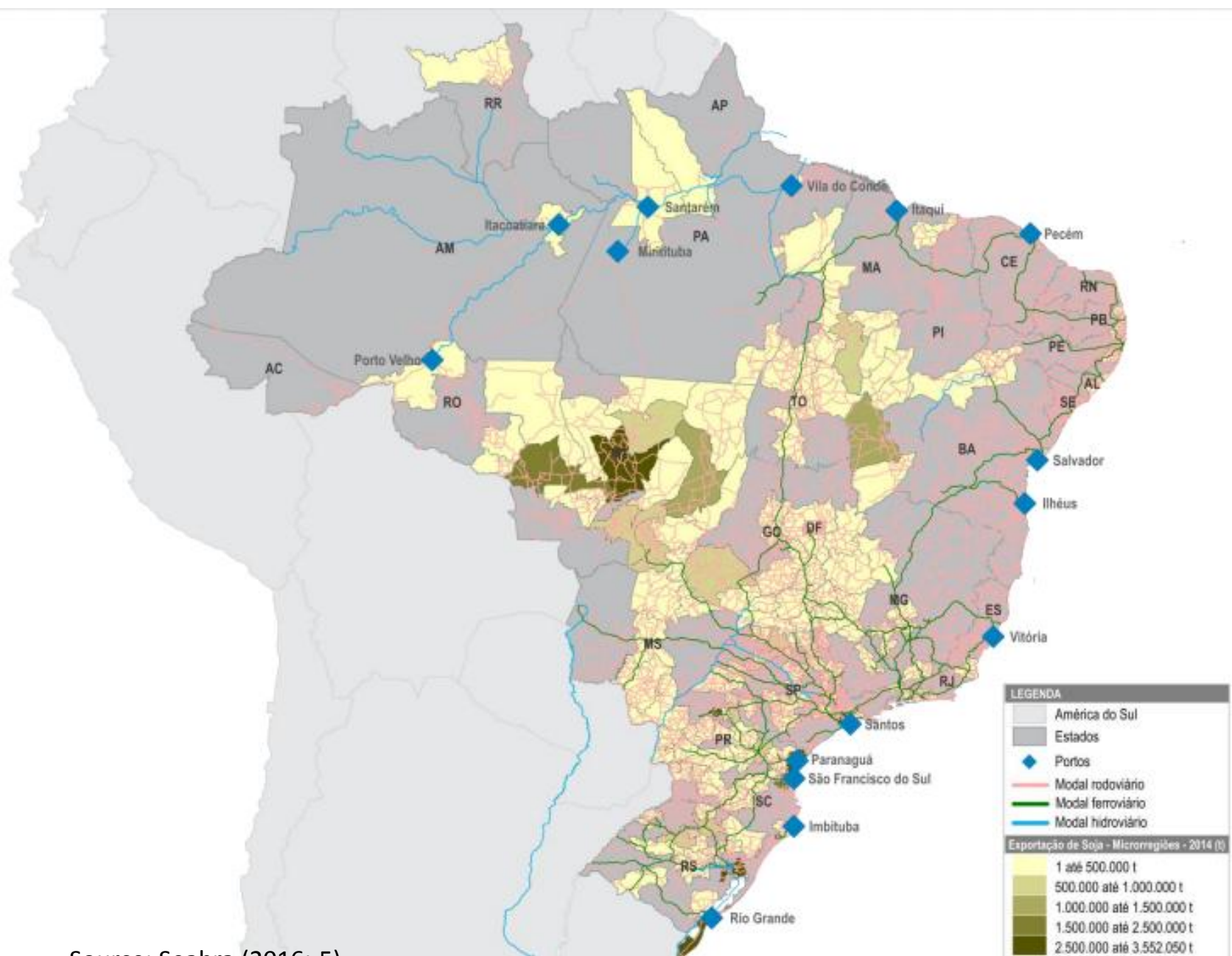
| Year | Origin   | Destination                                  | Stage     | State                              | Value (US\$) | Objective   | Modality              | Ownership            | Nature                       |
|------|--|--|-----------|------------------------------------|--------------|---|-----------------------|----------------------|------------------------------|
| 2011 | China National Agriculture Development Group Corporation (CNADC) | Goiás Government                             | Announced | GO                                 | 7 bi         | Participation in projects to expand grain cultivation and the construction of the North-South railway line in Goiás. An area of 24 million hectares for the production of soybeans and its export to China. | Greenfield            | Central SOE          | Resource Seeking             |
| 2011 | Chongqing Grain Group (CQGG)                                     | N/A  | Announced | BA                                 | 300 mi       | Purchase of 100 thousand ha to soybean production; installation of a crushing plant; investment stopped due government restrictions to land purchases by foreigners   | Greenfield            | SOE                  | Resource Seeking             |
| 2011 | Anhui Longping High-Tech Seeds                                   | N/A  | N/A       | N/A                                | N/A          | Provide genetics of rice seeds to the local partner, who multiplies and markets them by paying royalties; or create a joint venture, with terms to be discussed in the future                               | Strategic Partnership | Private              | Competence/ Market Seeking   |
| 2011 | COFCO Ltd.   | Companhia Nacional de Açúcar e Alcool (CNAA) | Announced | GO, MG                             | N/A          | Purchase of two plants of CNAA  | F&A                   | Central SOE          | Resource Seeking             |
| 2011 | Grupo Pallas International (GPI)                                 | Bahia Government                             | Announced | BA                                 | N/A          | Land purchase for soybean and bioenergy production to export to the Chinese market  | Greenfield            | Private              | Resource Seeking             |
| 2012 | Universal Timber   | N/A  | Announced | AC                                 | 20 mi        | Forest management project in the municipalities of Madureira and Feijó  | Greenfield            | Private              | Resource Seeking             |
| 2013 | BBCA   | N/A  | Confirmed | MS                                 | 320 mi       | Construction of a processing unit with capacity for 1,200,000 tons of grain in Maracajú   | Greenfield            | Central SOE          | Resource Seeking             |
| 2014 | Tide Group   | Prentiss Química                             | Confirmed | PR                                 | N/A          | Restore the productive capacity of Prentiss and invest in research and development of agrochemicals   | F&A (partial)         | Private              | Competence/ Resource Seeking |
| 2014 | China Tobacco International do Brasil (CTIB)                     | China Brasil Tabacos Exportadora (CBT)       | Confirmed | RS                                 | 20 mi        | Tobacco production and construction of factories, warehouses and offices in Santa Cruz do Sul and Venâncio Aires  | Joint Venture         | SOE                  | Resource Seeking             |
| 2014 | ChemChina  | Adama Brasil                                 | Confirmed | PR, RS                             | N/A          | 29 generic pesticides under development, assets and personnel   | Acquisition           | SOE                  | Competence Seeking           |
| 2014 | COFCO Ltd.   | Nidera Agri                                  | Confirmed | RS, PR, MT, SC, SP, MG, GO, BA, DF | 1,2 bi       | Origination, processing and trading of soy and corn, distribution of inputs, infrastructures and services of storage, transportation and logistics  | F&A                   | Central SOE          | Competence/ Resource Seeking |
| 2014 | COFCO Ltd.   | Noble  | Confirmed | BA, MT, MG, SP, PR                 | 1,5 bi       | Origination, processing and trading of soy and corn, distribution of inputs, infrastructures and services of storage, transportation and logistics  | F&A                   | Central SOE          | Competence/ Resource Seeking |
| 2018 | Hunan Dakang Pasture Farming Co/Pengxin                          | Flagril                                      | Confirmed | MT, AP, TO, PA                     | 200 mi       | Origination, processing and trading of soy and corn, distribution of inputs, infrastructures and services of storage, transportation and logistics  | F&A (partial)         | Private              | Competence/ Resource Seeking |
| 2017 | DKBA/Pengxin   | Belagricola                                  | Confirmed | PR, SC, SP                         | N/A          | Origination, processing and trading of soy and corn, distribution of inputs, infrastructures and services of storage, transportation and logistics  | Acquisition (Partial) | Private              | Competence/ Resource Seeking |
| 2017 | CITIC Ltd.   | Dow Sementes do Brasil                       | Confirmed | N/A                                | 1.1 bi       | Research centers, seed processing plants and corn geoplasm bank, licenses for the use of Morgan and Dow Seeds brands  | Acquisition (Partial) | Private/State backed | Competence Seeking           |

## Financing of agricultural custing in Mato Grosso, 2008-2016.



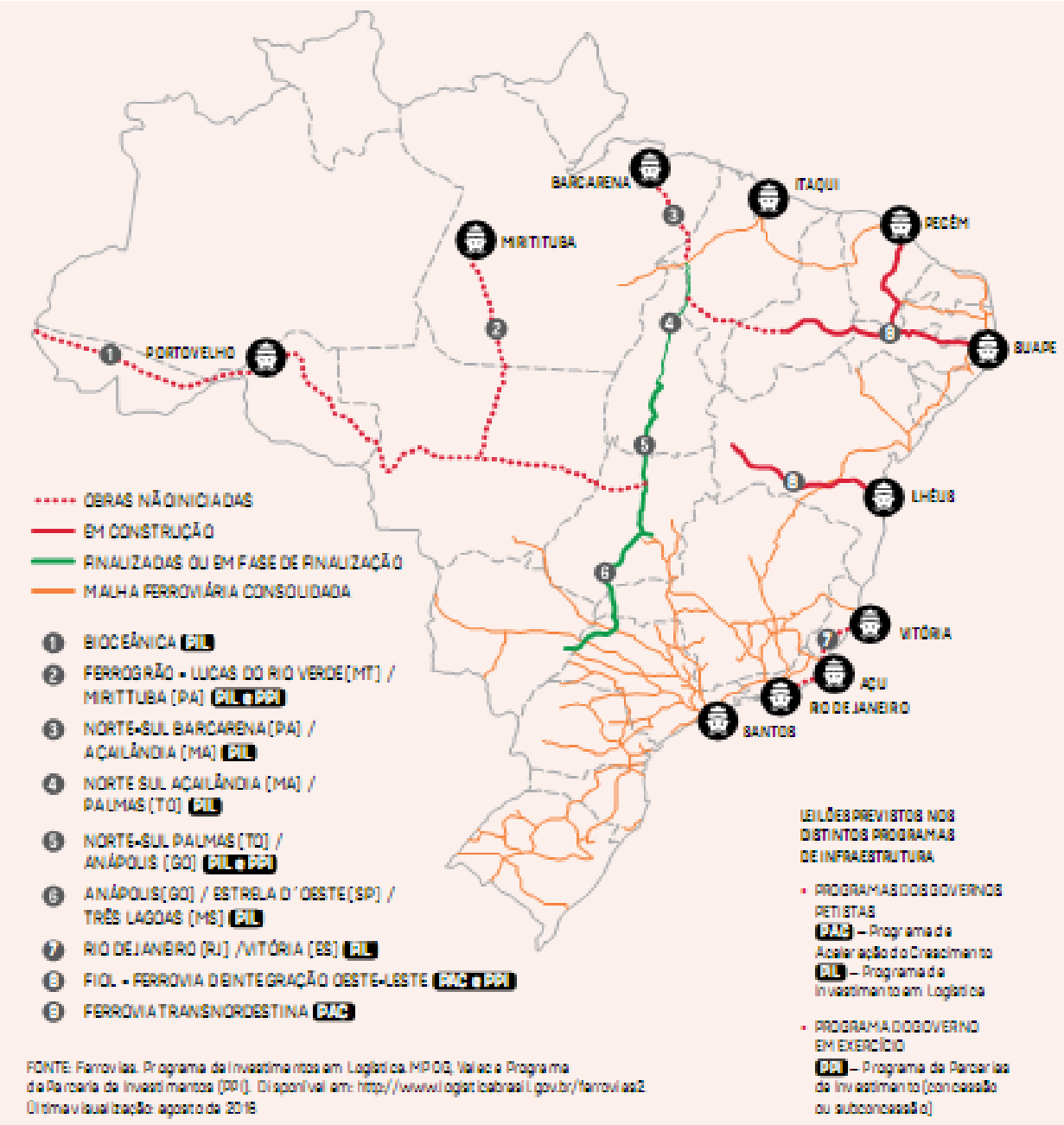
Fonte: IMEA (2017).

**Figure 3.** Logistics infrastructure to Brazil’s soybean exports by micro-regions, 2014.



Source: Seabra (2016: 5).

**Figure 4.** Railway projects for agriculture outflow via the Arco Norte



Source: Aguiar (2017: 69).



# 4. Conclusions

- The paper analyzed the causes and motivations of China's food security and going out policies with FDI in the agribusiness sector of developing countries and its implications on the Brazil-China soy-meat complex, beyond trade relations;
- More than searching eventual comparative advantages, Chinese FDI in Brazilian agribusiness is motivated by strategies of resources and value chain control;
- It's not out of reason to think it within the dynamics of OBOR geopolitical project;
- Despite domestic concentration and specialization, Brazilian agribusiness is competitive at a global scale and its value chains have high technological content;
- The entry of Chinese companies in Brazilian agribusiness and grain market generate tensions and opportunities for domestic actors: positive impacts (increased competition and infrastructure building) and negative impacts (primary specialization and restrictions to value addition);
- However, Brazil lacks a strategic view to deal with the Chinese "arriving in" and the possible conflict of interests (agro-industrialization, innovation, employment);
- Furthermore, Brazil lacks a rural development strategy capable not only of increasing agricultural productivity and generating trade surpluses, but also of integrating broader issues such as income and wealth distribution, social and productive rural diversity, social justice, food and nutritional security for the rural and urban population, and environmental sustainability;
- Whether and how Chinese FDI could help us to meet these ends is a question...

# Thanks! Obrigado! 谢谢!



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