

**China's Role in the Re-Agriculturalization of Latin America's Economies- Blessing or Curse? A Study of Potential Chinese Foreign Direct Investment in the Argentine Soybean Sector**

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In the spirit of South-South cooperation as well as to ensure its own food security, China should directly invest in Latin America's agricultural production and processing. In particular, the Argentine soybean sector would be an attractive investment destination. Soybean has transformed into Argentina's *oro vegetal* (gold vegetable) as the mainstay of its economy and the first important export commodity of the Common Market of the South (MERCOSUR), a customs union which includes Argentina, Uruguay, Paraguay and Brazil. This paper will explore the extent to which Chinese foreign direct investment (FDI) could benefit the Argentine soybean processing sector. In light of the current debate on the negative effects of the "re-agriculturalization" of Latin America's economies- a term used to describe the return from manufacturing to the export of primary products as a major foreign exchange earner- how can Chinese FDI in the Argentine soybean sector ensure the continued supply of soybean products for the Chinese market while creating positive spillover effects for the rest of the Argentine economy? The Chinese initiative represents a historic opportunity for Argentina to benefit from its significant agricultural presence in global markets. For China, involvement in Argentina could serve as a valuable learning experience on how to deal with FDI flows to agricultural sectors abroad.

To feed its growing population, the Chinese government is reemphasizing food security policy, which ensures continued soybean imports in future years. China has limited land and water resources, and a low yield of soybean production for domestic consumption. Under its 10th Five-Year Plan for National Economic and Social Development (2001-05), China adopted a strategy of international cooperation to

strengthen its outward investment as part of the move to globalize its economy, known as the 'going out' (*zou chu qu*) policy. The agricultural sector is an important component of 'going out' to ensure domestic food security. Concerned about domestic social harmony, Prime Minister Wen Jiabao has called for more efforts to boost food supplies. "I am aware that even a one Yuan increase will affect people's lives," he stated.<sup>i</sup> The Chinese government looks on warily as grain exporters such as Russia, Ukraine and Kazakhstan, restrict shipments to secure supply for local consumption or to curb food inflation, which causes fluctuations in international prices and contributes to riots in importing countries such as Egypt and Haiti.<sup>ii</sup> The BRIC countries- Brazil, Russia, India, and China- are quickly developing into formidable players in the global economy, and the increased spending power of their populations is exponentially increasing their ability to consume foods and biofuels. Soybean meal demand in China will exceed 80 million in tons in 2020<sup>iii</sup> and today, Chinese soybean imports represent 60% of world trade- good news for the world's top soybean producers such as Argentina, Brazil and the US.

China has already begun to recognize that there are few countries in the world that are as geographically varied and natural resource abundant in the world as Argentina. Today, the country is planning to transform the MERCOSUR region into the world's leading agro-food business region by eliminating production asymmetries between member states. Argentina recognizes the need of its agribusiness sector to satisfy the nutritional needs of the world population, set to increase from 6.8 billion in 2009 to 8.2 billion by 2025. "We have held talks so as not to compete in foreign markets independently but united, because this would further strengthen our countries as main

players in world food markets," declared Argentine president Cristina Kirchner.<sup>iv</sup> Chinese firms are increasingly diversifying their investment portfolios in Latin America, and its forays into Argentina are no exception. Chinese FDI has been directed at mainly energy and mining sectors in Latin America, but Chinese companies have also made important investments in the agro-industrial sector, for example in cooperating with Brazil in the production of bio-diesel production. The Chinese government is also encouraging Chinese companies to export from Argentina both foodstuffs and manufactured products to other MERCOSUR countries, using the country as a platform to access the region.<sup>v</sup> The tendency of Chinese investments seems to be following the pattern of other countries' investments in Argentina – looking to take advantage of natural resources, but also moving toward investments that add value to those natural resources by manufacturing.

However, trade ties between China and Argentina remain highly asymmetrical and Chinese involvement may be perpetuating the negative effects of the "re-agriculturalization" of Argentina. According to Argentine economist Raul Prebisch's theory of structuralism, when Latin America exports raw materials and imports Chinese manufactures, there is less opportunity for the diversification of exports, leading to deteriorating terms of trade as prices in the trade of primary commodities tend to fall in relation to manufactured goods. Prebisch proposed that economic development strategies should focus on industrialization- a strategy that many Latin American governments followed in the 1970s in the form of import substitution industrialization (ISI) where imports were replaced with domestic made products, which boosted local productivity and national self-sufficiency. Since the agricultural sector was perceived as

having weak linkages with rest of the economy and perpetuating Latin America's quasi-feudal, landowner elite-dominated rural structures, high import tariffs and credit should favor industry, while low import tariffs and price controls were imposed on agricultural products. Leaving behind its legacy of ISI, Argentina may once again be exposing itself to volatile international commodity prices and its boom-bust cycles. Trade with China is concentrated in a few countries and few primary commodities- in Latin America, Brazil, Chile and Argentina account for 77% of exports to China, and of basic products that are not technologically intensive or knowledge based.<sup>vi</sup> With the appropriate policies, the Argentinian government can channel Chinese FDI in such a way that aids the diversification and upgrading of its economy.

The characteristics of Argentina's agricultural sector make it a favorable FDI destination for China. The importance of Argentina's agro-industrial sector to the Argentina economy is immense, generating up to 18.5 percent of its Gross Domestic Product (GDP).<sup>vii</sup> Employment resulting from its activity and its backward and forward interrelationships accounts for 35.6 percent of total employment.<sup>viii</sup> Agricultural commodities constitute about 56 percent of exports, making it the most important net foreign exchange earning sector.<sup>ix</sup> Overall, the country is an efficient agricultural producer. The country has 40 million inhabitants, but the ability to feed 400 million.<sup>x</sup> Argentina has the largest soybean processing plant in the world and the capacity to process 12,000 tons of soybeans per day- in comparison, the largest plant in Brazil can process only 3,800 tons per day.<sup>xi</sup> Furthermore, there was an early adoption of technology and strong scientific support for agriculture.<sup>xii</sup> Today, Argentina is a leader in the adoption of the most advanced innovations in agriculture such as employing the

direct seeding system, and was the testing ground for genetically modified (GM) soybean seeds which accelerated the worldwide process to launch new seeds. It has significant areas of land available to expand production. The proximity of production areas to Atlantic ports facilitates the transport of soybean exports to the world.

However, China should be aware of Argentina's turbulent historical and economic history. Despite its advantages in soybean and agricultural production, Argentina's position as a top producer has fallen in recent years due to a combination of poor weather conditions and weak macroeconomic and allocative mismanagement. Argentina suffers from highly unstable macroeconomic environment, high inflation, an overvalued exchange rate, and a heavy external debt burden. Recently, Argentina is sharply contrasted with its neighbor Brazil by the lack of policies designed to promote agriculture<sup>xiii</sup> - most worryingly, increasing government intervention in the soybean sector is threatening to derail production. The Argentine government under former President Nestor Kirchner and current President Cristina Kirchner, is propagating an "export oriented populism"<sup>xiv</sup> where revenue from soybean export taxes is used to fund government programs and control domestic inflation. Argentina consumes little soy, and so can export soybean without inflationary effects on domestic consumption. But by reducing international supply, taxes have been shown to actually exacerbate the increase of international prices and erode producer profit margins, decreasing long term output productivity.<sup>xv</sup> Export taxes are not controlled by Congress, but mandated by executive decree. The tax revenues are unfairly shared with the provinces of Argentina, where the bulk of soybean is being produced and processed. The use of export taxes may be justified by the serious nature of the 2001-2002 economic crisis and the funding of

social programs, but their discretionary use demonstrates how the lack of international disciplines and the absence of domestic cohesiveness has negatively impacted the agro-industrial chains and undermined Argentina's comparative advantage.<sup>xvi</sup> An elimination of export barriers in Argentina would increase production and employment levels of primary agriculture- it would could increase GDP between 2 and 4 percent and lead to an expansion of employment by 300,000 jobs.<sup>xvii</sup> The long-run costs of losing credibility and access to international financing is higher than the country's short-run benefits.<sup>xviii</sup> China should be interested in promoting multilateral and regional disciplines on export controls in the region, similar to those that exist for import restrictions.<sup>xix</sup>

The Argentine farmer blockade in 2008 is indicative of the tension between the agricultural sector and the central government, where farmers blocked highways and ports in protest of extensive government export taxes in the agricultural sector. When food did not reach major urban centres, urban residents began criticizing the Nestor Kirchner government and four major agricultural associations came together for the first time in Argentine history to argue that the imposition of export taxes is not the right strategy for the country.<sup>xx</sup> Today, amid 17-19% inflation, the government of President Cristina Fernández de Kirchner is trying to control the prices of locally consumed agricultural products by preventing their export. Since agriculture earns Argentina much of its foreign currency, for produce that leaves the country President Kirchner has placed export taxes as high as 35%. These policies will cause long-term damage to output as expenses build up for struggling farmers, who ask for higher income taxes to replace market-distorting export tariffs. In recent congressional elections, current or

former farmers have won up to ten seats, with the candidates spread across political parties. Lucio Castro of the Center for the Implementation of Public Policy says this sort of co-ordinated farming lobby is “a complete novelty in Argentina” and President Kirchner should note this lobby is winning support within the traditionally pro-industry ruling Peronist party.<sup>xxi</sup>

The increasing industrialization of soybean processing, the concentration of profits and the dominance of US owned multinational (MNCs) or agribusiness firms in Argentina has increased markedly since President Carlos Menem’s 1990s privatization program, where MNCs have absorbed Argentinian companies to take advantage of their domestic developments, distributive networks and prestigious trademarks, but also to exert disproportionate power and influence in Argentine national political institutions. Since then, more than half of Argentina's productive land is now given over to soybean monocrop. The concentration of profits is a result of the technological package that forces farmers to become indebted by bank loans with high interest rates to pay back for investments in machinery, chemicals and seeds. This process favors larger farms with fewer farmers- the average size of a producer’s farm in Argentina doubled from 243 to 538 hectares in 2003.<sup>xxii</sup> Not only are agribusinesses taking the vast profits out of Argentina, according to Ricardo Echegaray, head of the Argentinian revenue service, the companies are facing allegations of tax evasion and fraud. Up to four companies- Cargill, Bunge, ADM and Dreyfus- had submitted false declarations of sales and routed profits through tax havens in Uruguay in contravention of Argentinian tax law. He also accused them of using phantom companies to buy grain. “These companies have descended into criminality,” Echegaray said. “We have noticed the companies with the



biggest sales show the least profits here. But all the work is done here. The soil is Argentinian, the harvest is done with Argentinian machinery by Argentinians, it is transported on Argentinian roads, through Argentinian ports. It uses Argentinian services and resources – so why are all the gains made in Argentina appearing on paper in other countries?”<sup>xxiii</sup> Eduardo Barcesat, the constitutional lawyer who is helping the government draft legislation to restrict foreign ownership of land in Argentina, “The US big traders control most of the storage and the price,” he said. “This is a move to put things in order: no more cheating. Argentina is not getting enough of the value of its resources. We are colonised and we have to be free.”<sup>xxiv</sup>

Environmental degradation has also been the result of the extensive production on new lands, with agribusinesses pushing forward the agricultural border with new varieties of soybeans in Argentina’s northern regions of Formosa, Salta, Tucumán, Jujuy and Santiago del Estero.<sup>xxv</sup> According to the National Directorate of Forests, Argentina is undergoing the most intense deforestation in its history due to the replacement of forests with soy plantations. The displacement of more Argentine farmers may culminate in more protests like those in 2008 and 2009, which paralyzed production and processing. Argentine farmers now organizing along the lines of Brazil’s powerful farming unions as a model.<sup>xxvi</sup> The heightened state of antagonism between the Argentinian government and farmers bodes ill for hungry Chinese and world consumers of soybean and its derivatives.

A big developing country such as Argentina will not be content merely to complement China<sup>xxvii</sup> in the world economy. Nor do Chinese companies want to

become “the World Bank” of Latin America, says Charles Tang, president of the Brazil-China Chamber of Industry and Commerce- both parties are better off without such illusions.<sup>xxviii</sup> What China should be aware of is Argentina’s national plan to boost agribusiness based mainly on family farming and cooperatives, called the Strategic Agribusiness Plan (PEA) and prepared by representatives of the country's 23 provinces, 53 university departments, 140 business chambers and 450 agrotechnical schools, with the goal of producing and exporting more food in a more sustainable manner. "More growth is possible, but we don't want it at the expense of the environment or by driving people from the countryside," said Norma Pensel, the national coordinator of Argentina’s Research and Development at the National Institute for Agricultural Technology.<sup>xxix</sup> That is what China’s private enterprises, state-owned enterprises (SOEs), banks and individual investors should keep in mind- it is not enough that their enterprises are highly flexible and adapt quickly to local conditions, but they must also comply with local desires for sustainability and equity in agricultural production.

China could promote the diversification of Argentina’s agricultural sector. The Argentine tax structure was created in a way to stimulate the industrialization of the harvest, since the tax differential between primary and secondary stages became stabilized at 3 % in the 1990s.<sup>xxx</sup> But Argentina cannot export soybean with added values- only 2% of a national production of 70 000 000 metric tons will be processed in the agro-industrial food chain because of the effects of protective systems in the importing countries.<sup>xxxi</sup> To decrease soybean monoculture, Argentina could re-promote the diversification of its agricultural production. Land for the production of other famed Argentine products such as fruits, dairy, cattle, maize, wheat, sunflower and cotton is

diminishing, but with careful policy formulation, and taking advantage of its comparative advantage in counterseason produce, the pressures of soybean monoculture could be alleviated. Scientific exchange is also promising between the two countries, since China's advances in agricultural technology, such as hybrid rice breeding, could be made available internationally.<sup>xxxii</sup> Chinese academics have also been involved in research related to agriculture, particularly in Africa.<sup>xxxiii</sup> In 2009, the construction of Chinese-aided agricultural technology demonstration centres begun in Africa. In Guinea-Bissau, Chinese experts established 11 rice production demonstration areas covering a total of 2 000 hectares, where the yields for many new varieties were over three times higher than those of varieties currently used.<sup>xxxiv</sup> Private sector agricultural development exchange should also be promoted, since research is increasingly undertaken by private firms rather than public research institutes.

As GM farming is considered an important economic and development strategy in Argentina, China could assist Argentina against foreign agribusiness dominance by supporting Argentina's battle to claim seed rights, especially from US MNC agribusinesses. As the world's largest developing country, China is in a perfect position to lead an agricultural intellectual property alliance. Argentina is the world's second largest GM crop cultivator, after the US.<sup>xxxv</sup> As a proactive member state in the United Nations' biosafety negotiations and as a proponent of the WTO case brought against the EU's GMO regulations, Argentina's domestic politics on GM crops have global repercussions. The early adoption, production and sale of GMOs meant that by 1996, GM crops had become widespread before the rest of the world became mired in controversy about the technology's future. By the time the Alert Network on

Transgenics had been created in 1999, 75 per cent of Argentine soy was already GM.<sup>xxxvi</sup> Without GM crops, the Argentine soybean sector would not be as large as it is today. But the country is currently on the US's watchlist of countries violating TRIPS terms, as a result of US agribusiness Monsanto filing a case against Argentinian farmers for the unregulated dispersal of its trademark Roundup Ready soy seeds. In December 2003, Monsanto stopped selling its own seed in Argentina, and in 2004, terminated soybean research and marketing in the country- a strategy aimed at pushing the government into negotiations about compensation and technology fees. Monsanto's strategy is one of attrition where they aim to draw out the legal cases since they have the funds and personnel to outlast the resistance of the Argentine government.<sup>xxxvii</sup>

Argentina has experience employing international assistance in claiming seed rights, such as when it used its influence within MERCOSUR in 2005 to generate backing for its position against paying Monsanto royalties on soya crops, with official Argentine sources assuming that aggressive lobbying by Monsanto was behind the reluctance of Brazilian and Paraguayan governments to support Argentina.<sup>xxxviii</sup> Like Argentina, China does not want to become dependent on foreign agribusiness, particularly US ones. Therefore, while allowing joint ventures (JV) with foreign companies such as Monsanto, the Chinese government has supported setting up native Chinese biotech companies such as Weiming and Biocentury that develop GM seeds and supply them more inexpensively. There has been strong initiative to discover the benefits of GM crops by Chinese bioscientists at research institutes and universities, subsidized by the Ministry of Science and Technology. A confidential study prepared for China's State Council in 2001 was straightforward in stating its concerns- "GM organisms do not pose a higher risk than varieties bred through ordinary breeding. The greater risk lies in

a state that neglects to use these powerful techniques in order to solve the daily increase in food demand. . . . China should not accept being controlled by others”.<sup>xxxix</sup> But Monsanto itself has pressured the Argentine government to initiate a dumping case against China following the alleged dumping of imports of glyphosate fertilizer, a direct threat to the company’s foothold in the market. In February 2004, the Argentine government decided not to pursue the case, a decision that found support across the agricultural sector, which was concerned about antagonising a key trading partner. China may consider opening up its agricultural seed market to Argentina as an alternative to the expensive and highly protected seeds of MNC agribusiness.

The GM model has not been without its costs, however. A state of bio-hegemony has been produced and sustained by an alliance of interests which includes powerful agribusiness producers and traders (such as Cargill), export-oriented elements of national Argentine capital (such as Bio Sidus, Relmo, and Don Mario), multinational biotechnology firms (such as Syngenta, Dow, and Monsanto), large commercial banks, and supportive elements within the Argentine state itself.<sup>xi</sup> Moreover, the biotechnology boom in Argentina favors large scale farming. This increase in the scale of operations, enabled by the technology, has concentrated power in the hands of large landowners at the expense of smaller producers.<sup>xii</sup> An agricultural census conducted by *Instituto Nacional de Estadística y Censos* (INDEC) ten years later showed that since 1988, the number of farming units in Argentina has declined by 24.5 per cent.<sup>xiii</sup> Biotechnology corporations are heavily involved in formal decisionmaking in Argentina. Their close links with government have led to accusations of a revolving door and co-option of leading ministers by biotechnology interests. Greenpeace Argentina, for example, went

so far as to label Roberto Lavagna, a former Minister of Economy and presidential candidate, ‘Monsanto employee of the month’.<sup>xliii</sup> The fact that he founded and worked for the firm ECOLATINA, which was hired by Monsanto during the trade dispute with China, only served to fuel the activists’ claims.<sup>xliv</sup> Political pressure and vast sums of money were mobilised towards pushing the Argentine Congress to loosen restrictions on what can be patented and by whom.<sup>xlv</sup> Argentine producers proceeded to create a rival seed growers’ association, the *Cámara Argentina de Semilleros*. In the mid-1990s, a new organizational form of production agriculture appeared in Argentina called the “planting pool.” Planting pools consist of agreements among producers and suppliers of input enter the production and/or commercialization process. Planting pools have contributed to the expansion of agricultural output in Argentina in various ways. First, they are a major source of financing for agricultural production. Some studies argue that the perennial lack of adequate financing in Argentinean agriculture was a major reason for the advent of planting pools.<sup>xlvi</sup> In recent years, planting pools captured funds from both short- and long-term investors outside of agriculture- some of the largest pools have also successfully issued equity shares aimed at attracting capital from foreign investors.<sup>xlvii</sup> The PEA no doubt would promote planting pools as a major destination of Chinese FDI to Argentina.

Another way to create positive spillovers for the rest of Argentina’s economy is Chinese FDI to fund the improvement of Argentina’s infrastructure. China has assisted African countries, such as Zambia and Nigeria, in building over 500 infrastructure projects. A World Bank report estimates that China’s investment in Africa’s

infrastructure from 2001–06 was roughly comparable to that financed by all the Organisation for Economic Co-operation and Development countries combined over the same period.<sup>xlviii</sup> Chinese FDI could spur the improvement of Argentine rail in particular. A deal between President Cristina and Prime Minister Hu Jintao has already been reached for \$4.35 billion from China to renovate three freight railroad lines in Argentina, including \$1.85 billion for the improvement of the Belgrano line, which links the country to Bolivia and its Pacific ports.<sup>xlix</sup> Despite an extensive network, Argentina has a low use of railroads for commercial transport, and this Chinese initiative would no doubt help boost their use. Furthermore, due to the geographic distribution of its production areas and a proximity to international ports, freight costs in Argentina are greatly reduced. An example of a freight project that China may be involved in the future is the dredging by the Argentine-Belgian company Hidrovía of 650 kilometers of the River Parana from the River Plate, heartland of Argentina's fertile farm land. It could even provide access for landlocked Paraguay to major ports in Argentina. "This is the main watercourse of MERCOSUR and is vital for fluvial transport and trade in the region", said President Kirchner. "We need to move forward with other infrastructure projects towards the Pacific, as proposed by Brazil so we become the most important countries in food production." <sup>1</sup> On a larger scale, China could consider investing in the Initiative for the Regional Integration of Infrastructure in South America ( IIRSA) Project, a continent-wide initiative to improve infrastructural links within and between countries as a way to boost productivity. But it could be a long time before investment on such a large scale materializes. For example, blame for the slow pace of Chinese investment in Brazil lies with both countries, as Brazil has yet to publish rules that would activate public-private investments in infrastructure and China imagined that it

could build Brazilian railroads with Chinese labour in exchange for long-term contracts to buy commodities at fixed prices—two delusions in one.<sup>li</sup>

Chinese- Argentine farm JVs can offer security of supply to Chinese investors, as foreign investment involving acquisition of local land is controversial and carries a number of inherent risks. China itself does not allow private ownership of farmland, and it cautioned local governments against granting large-scale or long-term leases to companies.<sup>lii</sup> If Chinese labor and landowners were to descend upon Argentine land, resentment to them may be similar to that of Paraguay towards Argentine and Brazilian business men, where a great number of Paraguayan famers have been displaced by the creation of large monocrop farms owned by foreigners. Looser arrangements such as JVs may be more conducive to the interests of the host country as it offers more accessible benefits to smallholders and their associations, such as the idea of China being involved in Argentina's PEA. Questions about the compatibility of the volume and quality desires of investors with such dispersed smallholder agriculture may emerge. Nevertheless, JVs between Chinese foreign investors and local producers as partners might offer more spillover benefits for Argentina, where Chinese investors could follow the lead of the key innovation of Argentine large agribusiness company Los Grobos, which was to detach production from land ownership. By renting instead of buying, Los Grobos achieved gains from scale and lept over the hurdle of initial investment.<sup>liii</sup> Under contract farming or outgrower schemes, smallholders can be offered inputs including credit, technology and a guaranteed market at a fixed price, although at the cost of the freedom of choice over crops to be grown. Mixed models are



also possible with investments in a large-scale core enterprise at the centre but also involving outgrowers under contracts to supplement core production.<sup>liv</sup>

There still exists much potential for an increase in Chinese investment flow into the Argentine agricultural sector. Chinese financial institutions also play a key role in outward investment. The Import-Export Bank of China provides concessionary loans, in the form of buyers' and sellers' credits. Until now, however, little of this has been used in the agricultural sector. The Development Bank of China has a greater role in the agricultural sector- the bank is responsible for operation of the China-Africa Development Fund.<sup>lv</sup> But investment by Chinese enterprises in agriculture abroad is not new- there has been a gradual increase in investment dating back to the 1990s. Investment activity can be divided into three categories- SOE activity, private initiatives and individual investment.<sup>lvi</sup> First, there is investment from Chinese SOEs associated with organs of the central government. Such national investment activity is global in reach, often ambitiously targeted at distant regions in Southeast Asia and Africa. The policy support for outward investment in agriculture, as in other sectors, is focused on other countries' large enterprises. At the central level, the most significant national state owned enterprise active in this sector is the China State Farm Agribusiness Corp (CSFAC), which is associated with the Ministry of Agriculture. The company is particularly active in Africa, where it operates in several countries. The China National Agricultural Development Group Corp is another SOE active in investment outside China, and is reported to operate seven farms in Africa. However, these companies do not feature in the rankings of China's 30 largest investors abroad, and not one of the

companies in the list is in agriculture sector.<sup>lviii</sup> Nevertheless, changing priorities are bringing new actors to the sector at the national level. For example, the China National Offshore Oil Corporation in 2007 invested in Indonesia's bio-fuels processing industry based on one million hectares of palm oil plantations, a project to be undertaken with other regional partners from Southeast Asia.<sup>lviii</sup> There are also provincial SOEs that are active in investment either independently or in conjunction with CSFAC.<sup>lix</sup> In line with Beidahuang's ongoing deal with Argentina's Entre Rios state in June 2011, the company also announced that it had signed a cooperation agreement with Cresud, Argentina's largest soybean producer and prominent agriculture company. According to the media, Beidahuang wanted to establish cooperation in the rental for agricultural equipment and logistics in the soybean sector.<sup>lx</sup> By investing in Argentina, Chinese investors not only gain a foothold in the local market, but also access to MERCOSUR's large and attractive market of 241 million inhabitants with a joint GDP of US\$ 1.9 billion.

Secondly, there has also been significant investment at the provincial level and private companies, supported by national authorities. While the activities of SOEs and its provincial arms are often closely, regional companies have been actively seeking business opportunities on their own. In 2009, Chongqing Seed began growing rice on 4,500 mu in Tanzania. In 2005, SunTime International Techno-Economic Cooperation Co Ltd signed an agreement for investment of RMB213 million to establish an agricultural development zone in Kazakhstan-it had previously made an investment of \$50,000 on 150 hectares in Cuba growing rice paddy and \$3.2 million in Mexico for a faro of 1,050 hectares, also for rice paddy.<sup>lxi</sup> The global economic downturn has created an "extremely good opportunity" for Chinese buyers, according to Ge Junjie, vice-

president of Shanghai-based Bright Foods.<sup>lxii</sup> A Chinese food giant, COFCO, made its first overseas purchase in 2010 by acquiring Chilean winery Biscottes for \$18 million. At the moment, outbound M&As accounted for merely 1 percent of the total, but according to Zhang Yanan, an analyst with Beijing-based research firm Zero2IPO Group, this is set to change since Chinese investment in food and beverage companies overseas is increasing nowadays. "The food consumption structure is changing in China, as people ask for more premium foods."<sup>lxiii</sup> If this means searching for food abroad, then Argentine companies will be in a good position to supply China with quality foodstuffs.

Regarding GM crops, Chinese consumers are displaying stronger demand for safe, high-quality food as their incomes rise and as they become more aware of safety issues and traceability from farm to table. China offers a whole new market for Argentine produce, since Argentine soybean exports face an inflexible EU position on GMO crops. A poll of 600 consumers in China found that 62 per cent had a favourable opinion about biotechnology, and only 9 per cent had a negative opinion.<sup>lxiv</sup> But food scandals involving GM contaminated rice and the outbreak of chicken influenza in Hong Kong and Guangzhou have damaged consumers' trust in the food safety of their own produce. Indeed, China's food safety standards are often inconsistent and unorganized.<sup>lxv</sup> In comparison, US growers pay for higher premiums from Japanese consumers of soy as they plant fewer acres of non-GM crops that are more expensive to produce and lower-yielding than modified varieties. But Japanese makers of soy sauce and other traditional foods do not use GM crops because of consumer concerns that

they are not safe. For the moment, Argentina produce does not face this sort of consumer discrimination in China yet.

Regarding soybean diesel production, one of the keys towards sustainable, efficient production will be the access to world-class technology which is currently only available through imports. No Argentine local machinery producer has achieved a world-class product- the machinery market for biodiesel production in Argentina is a highly heterogeneous one, both in quality and price. It might be interesting for China to note that the profitability of growing crops for biofuel feedstock as an attractive incentive for private investment in this activity.<sup>lxvi</sup> Although many JVs and strategic alliances have happened around the world in the biofuel industry, this has not happened in Argentina yet.<sup>lxvii</sup> Argentina uses approximately one fourth of the national soybean harvest to produce biodiesel, and the industry benefits from a special export tax regime, subjected to an export tax rate of only 14%, compared to 35% on soybeans and 32% on oil.<sup>lxviii</sup> However, the biggest five producing companies already concentrate approximately 70% of total supply, with the main exporter companies being Cargill, Bunge Argentina, AGD, Dreyfus, Vicentín, and Molinos Río de la Plata,<sup>lxix</sup> which may complicate Chinese insertion into this technology-intensive sector of soybean production.

Last but not least, it is also likely that considerable local investment activity is a private initiative and takes place without any direct official backing. Much of this

activity is probably not reported by China's official statistics. The amount of this activity is difficult to gauge, although some sources indicate that it may be quite extensive in countries such as Laos and Burma, and even as far away as Zambia.

Could Chinese-Argentine cooperation eventually culminate in a comprehensive FTA? Argentina faces competition in agricultural exports from Australia, New Zealand and ASEAN. In light of unbalanced terms of trade, Argentina must include provisions for Chinese cooperation on enhancing productive capacity and increase higher value-added processed agricultural products to strengthen mutual trust. In the WTO Doha Round, the lobbying by developing countries calling for the decrease US or EU agricultural subsidies has yielded little results. The US and EU have asked the G20 more greater access in non-agricultural goods, but the proposal was unacceptable for some of the G20 members, particularly Argentina, Brazil and India, unless the two would make larger concessions in agricultural market access. China seeks to limit anti-dumping allegations from other countries in regards to the export of its competitive manufacturing products, and in particular, must placate Latin America's grievances in losing its manufacturing competitiveness to China. An FTA would elicit strong opposition from Argentina's heavily protected manufacturing sector, but would benefit the agricultural sector, since China does not have a competitive advantage in Argentina's produce. The Argentine Secretariat for Trade and International Economic Relations, is leading ongoing negotiations to further open the Chinese market to Argentine products. "Argentina is very competitive in many products that are currently not allowed into the Chinese market...recently, the Chinese beef market was opened for Argentine exports... Argentine food products have outstanding sanitary conditions, and

this is one of the many factors Chinese authorities are taking into account. They are evaluating our products, and gradually opening more and more markets for Argentina. We will sign a protocol in a few months on the export of semen and ovaries from cattle from Argentina to China to improve cattle production in China.”<sup>lxx</sup> Even though there is currently no FTA in the wings, cooperation is increasing in a promising manner.

China's outward investment policy in agriculture has not been without its critics. Despite the inclusion of agriculture in China's outward investment policy, it has not been the main beneficiary of government support. Analysts in China have called on the government to improve its strategy, noting a lack of policy continuity and finance for the sector.<sup>64</sup><sup>lxxi</sup> Some critics argue that China's foreign farming policy investment in agriculture cannot solve the problems China faces- the idea that China can grow crops overseas and then transport them back home is not feasible since it is not cost effective, and would be unwise for China to make its own food security hostage to corrupt and inefficient governments abroad.<sup>lxxii</sup> Other critics argue that the government should focus on resolving the problems of China's own domestic agriculture, notably by ensuring that farmers are able to gain sufficient remuneration from their efforts and thus have an incentive to grow the crops the country needs.<sup>66</sup><sup>lxxiii</sup> Furthermore, China is not the only country circling Latin America- other investors from Asia are also eyeing Latin American agricultural assets. Japan's Mitsui is planting non-GM soybeans on part of its 120,000 hectares of Brazilian farmland.<sup>lxxiv</sup> Japan is considering providing loans from a government- owned bank for companies to purchase and lease farmland abroad, and may also use foreign aid to improve infrastructure such as storage and port facilities in

developing countries.<sup>lxxv</sup> But competition concerns aside, every country in the world would benefit from any form of investment in the fertile farmlands of Argentina, especially if few countries willingly provide the funding.

Argentina is the second biggest producer of soybean export in the world, and if China wants to guarantee supply in the years to come to feed its population, it may consider implementing measures to assist Argentina in achieving a more sustainable and equitable soybean export production with positive spillover effects.

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