

Working paper

6th International
Conference of the
BRICS Initiative for
Critical Agrarian
Studies



BRICS Initiative for
Critical Agrarian Studies

Why does China go abroad?

A study case of the methods and dynamics of COFCO's
expansion towards Brazil

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October/2018

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Published by: BRICS Initiative for Critical Agrarian Studies (BICAS)

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Abstract

Since 2012, Chinese investments in the Brazilian agricultural sector have been accomplished through methods other than exclusive land purchase. Among all methods, mergers and acquisitions of traditional agri-food transnationals have been the main choice of some of the Chinese investors, like the giant state-owned enterprise, COFCO. After purchasing two big transnationals, the company became the third largest soybean exporter in Brazil. COFCO's exports have met a growing consumer market in China, providing abundant raw material to the Chinese feed and livestock industry. Notwithstanding, besides controlling and seeking profits from sectors directly linked to China, COFCO has also reproduced and promoted multiple forms of capital accumulation abroad by mimicking methods of recently acquired corporations, and by engaging in diversified industrial and commercial operations across the world. This paper explores the basis of this phenomenon by raising the hypothesis that COFCO “goes outwards” in order to evade from latent problems of over-accumulation of capital in the sectors it operates in China. Accordingly, the Chinese agriculture has experienced different methods of accumulation, followed by the vertical integration within all segments of the production. Consequently, an increasing concentration of industrial capital in agriculture, as well as its connections to banking capital, has been responsible for the consolidation of huge financialised conglomerates. At the same time, a restructuration of the state sector has constituted dominant and monopolistic forms of capital which has shaped and has been shaped by the process related previously. Finally, these factors combined have been responsible for an increasing over-accumulation of different segments of China's economy. From the perspective of the feed and processing industry, this paper argues that over-accumulation has been solved by exporting capital across global commodity chains. It identifies COFCO as a result of this process, which is one way to explain the main dynamics of COFCO's investments in Brazil.

Keywords

China; COFCO; agribusiness; Brazil; soybean

Acronyms

CIL	COFCO International Ltd.
COFCO	Cereals, Oils and Foodstuffs Corporation
M&A	Merges and Acquisitions
SOE	State Owned Enterprise

1. Introduction

This paper is a first attempt to understand COFCO's expansion towards Brazil from the perspective of internal tendencies of the Chinese economy. It remarks important steps that have already been taken by the existing literature in identifying dominant forms of investments and the main players among Chinese agribusiness in Brazil. Still, it notices that the reasons behind this process are yet to be explored.

In order to address such gap, this paper will use the Marxist theory on capitalist accumulation, and categories explored by Lenin to describe the tendencies for international expansion from advanced capitalist countries. Those categories will be presented in parallel with a literature review on the economic transformations of Chinese agriculture. Furthermore, primary data on COFCO's operations at the related agro-industrial segments will be presented in order to identify its role throughout the general transformations.

It is not the intention of this paper to reduce the Chinese foreign agricultural investments into a unilateral process, based in a single player. However, an actor-centred approach focused on COFCO aims to be a representative study on predominant forms of capital which have been able to expand overseas. Moreover, COFCO's investments in Brazil, as well as its role in the soybean commodity chain and in the Chinese domestic feed industry, will receive special attention considering its importance to the determinants analysed throughout this paper.

The sections in this paper are: Dynamics of Chinese agricultural investments in Brazil, Existing analysis of the global expansion of Chinese agriculture, Contribution to Address the Limitations of the Current Literature, The Marxist theory of imperialism as a methodological tool, Dynamics of capitalist accumulation in the Chinese agriculture, The concentration of capital in the Chinese agriculture, Financialization of the Chinese agriculture, The formation of monopoly capitalism in China, Overaccumulation in China and the tendency for exporting capital, Final considerations on COFCO's expansion to Brazil.

2. Dynamics of Chinese agricultural investments in Brazil

Chinese agricultural investments in Brazil have expanded rapidly in the recent years. Through investments in Brazil, Chinese agri-food corporations have been able to increase their insertion at global commodity chains, competing with

transnationals that have historically dominated this sector. Accordingly, in 2003, the so-called ABCD (ADM, Bunge Ltd., Cargill Inc. and Louis Dreyfus) was responsible for 57 percent of all grain cargos exported by Brazil, while Asian companies purchased only 9 percent. In 2014, the ABCD fell to 46 percent, while the Asian reached 36 percent. In the following year, the ABCD corresponded to only 37 percent, being replaced by Asian companies that reached 45 percent (Bonato, 2016).

Among the different Asian companies that soared their investments in Brazil, the Chinese State Owned Enterprise, COFCO, is one of the most prominent. It has been able to challenge the global control of trade by the “big four” and has become the third largest soybean trader in Brazil, only behind Bunge and the Tokyo-based Marubeni (Freitas and Freitas Jr., 2018).

When analysing COFCO's and other Chinese companies' investments in Brazil, the existing literature (Escher et al., 2018; Myers and Guo, 2015; Oliveira, 2017, 2015) has identified a wide range of activities, from production and commercialization of agrichemicals, construction of ports and logistics infrastructure, holds of shares, mergers and acquisitions of multinational companies, finance operations, etc. Notwithstanding, Oliveira (2015) and Escher et al. (2018b), among other scholars, argue that the focus of Chinese investments in Brazil has varied throughout different periods: At the initial phase, delineated from 2008 to 2012, Chinese firms have placed great effort on farmland purchase, seeking benefit from geographical advantages and more favourable land prices in Brazil (Guo, 2016).¹

Nevertheless, Oliveira elucidates that this type of investment has not been as successful as it was expected. Chinese direct engagement in agricultural production was particularly sensitive in Brazil, where it has encountered a disproportionate negative media coverage, along with other political obstacles related to environmental and sovereignty issues (Oliveira, 2015: 18-24). For this

¹ As Escher et al. (2018b) show, already in 2007, the Hongkongese company, Pacific Century Group, has acquired 27.397 hectares in a minor transition led by the Argentinean CalyxAgro. The cooperation between the ZheJiang province's private firm, Fudi Agriculture Co, and the SOE Beidahuang, from Heilongjiang province, has acquired 600 hectares in the Southern province of Rio Grande do Sul and 16.000 hectares in Tocantins, and sold it afterwards to Universo Verde, a subsidiary of another Chinese SOE, the Chongqing Grain Group (CGG) in 2011 (Escher et al., 2018b: 306). Also in 2011, CGG announced the acquisition of 200.000 hectares on the east of Bahia state for soybean production. However, due to the reinforcing of the Brazilian legislation towards foreign land acquisition, the Chinese local SOE bought 52.000 hectares, built a crushing facility for soybean.

reason, a significative number of farmland purchases and other related investments that were previously announced had to be cancelled.² On the opposite direction, since 2008, European, American, Argentinean and Japanese transnationals like Cresud/Brasilagro, Adecoagro, El Tejar, TIAA-CREF, Multigrain/Xingu Agro, and V-Agro have acquired 750.000 hectares in Brazil for soybean production for export (Oliveira, 2015).

Therefore, since 2012, Chinese engagement in Brazilian agricultural production started been articulated through different means, such as loans and finance services, construction contracts, as well as the more preferable method of mergers and acquisitions (M&As) of multinationals that already operate in this field, through which COFCO has achieved prominence abroad (Oliveira, 2017; Wilkinson et al., 2016). In 2014 COFCO acquired two important transnationals, the Dutch company Nidera (for USD 1.2 billion) and the Asian company Noble Agri (for USD 1.5 billion), which provided the Chinese a direct entry "into the procurement and marketing of soy in the whole of the Southern Cone" (Wilkinson et al., 2016: 10).

However, the current literature has not given a complete explanation of the economic reasons behind the shifts of the tendencies of Chinese agricultural investments in Brazil. How have Chinese enterprises been able to adapt their strategy to other forms of investment, why COFCO, among all Chinese enterprises, has assumed a central role, and what are the reasons for its investment in the Brazilian agriculture, are questions yet to be answered.

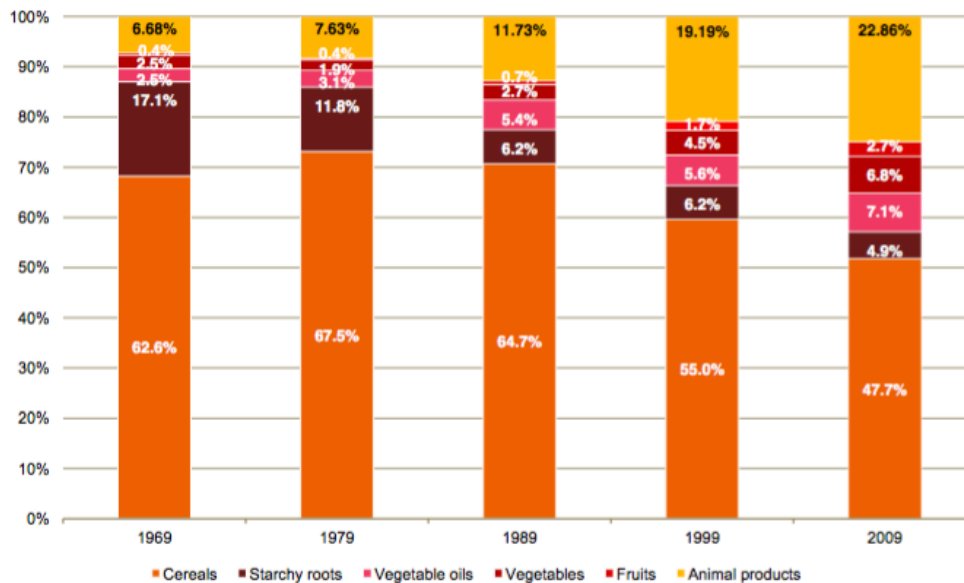
3. Existing analysis on the global expansion of Chinese agribusiness

The current literature shows that the growth in Chinese agricultural investments abroad is mainly due to the fact that they follow China's increasing demand for food products, especially items related to diets high in protein, fats, and sugar.

² Fudi Agriculture Co. and Beidahuang's land purchase encountered difficulties imposed by the Brazilian legislation. Sanhe Hopeful Grain and Oil Co. and SOE CNADG (China Agricultural Development Group) have announced the acquisition of a huge amount of 2,4 million hectares for railway and stocking infrastructure in the State of Goiás worth an amount of US\$ 7,5 billion. However, in the end, it has only taken 20% of a harbour construction project in the state of Santa Catarina, and it is still waiting for an environmental check and approval. The Pallas International group has also announced its willingness to purchase 250.000 hectares for soybean production for export, but it has not confirmed yet due to political disprove (Escher et al., 2018b, 306, 307, extracted from CEBC).

Accordingly, China's rapid urbanization, rising incomes, and improvements in living standards at the main cities have contributed to the transformation of consumption habits of the Chinese population. Although cereals are still the foundation of the Chinese diet, there has been a consistent growth of meat and fish consumption in recent years, as it is shown in graphic below.

China calorie consumption distribution



Source: FAO

In order to guarantee the access of raw materials for the domestic consumption, the Chinese government has given incentives to national companies to invest abroad (Escher et al., 2018; Myers and Guo, 2015). As a ratification of such practice, China has officially launched its agricultural 'going-out' policy in 2007 in the Chinese Central Government's Number 1 Document. This policy was an extension of the broad "going out" (zou chuqu) strategy introduced on China's Tenth Five-Year Plan (in 2000), which encouraged Chinese companies to operate and invest overseas with a wide range of supports provided by the state (McKay et al., 2016: 3). At the same time, the Chinese government has been redefining its policy for food security, considering the need for controlling global supply chains, particularly for feed crops (Sharma, 2014).

Given the centrality of China's growing food demand, along with the country's strategy for food security, Escher et al. (2018), among other scholars, consider that Chinese investments in Brazil have received a political strategic character, going beyond immediate economic advantages. Therefore, COFCO is considered a typical player for what they call a "more than a market strategy" (uma estratégia

mais do que mercado). COFCO is a centrally-controlled state-owned enterprise, which gives it prioritised financial support to do international mergers and acquisitions. COFCO is also categorized into a group of companies under the State-owned Assets Supervision and Administration Committee (SASAC). These companies are considered strategic to China's national defence and development, and are directly administered by the State Council. In addition, COFCO's enormous proportion in China's domestic economy has determined its unique role in using international markets and global resources for the implementation of national food security goals (Guo, 2016).

COFCO's strategic role has given it the potential for conducting a more aggressive expansion, with no or very small profit margin in applications abroad. As the former senior grain executive at Bunge in Brazil, and current head of the Brazilian trader Algar Agro, Murilo Braz Sant'Anna, has informed to Reuters, enterprises like COFCO have operated in Brazil with a profit margin near to zero for a large period of more than two or three years, which secure them a foothold, and increase their competitiveness among other long-established companies (Bonato, 2016).

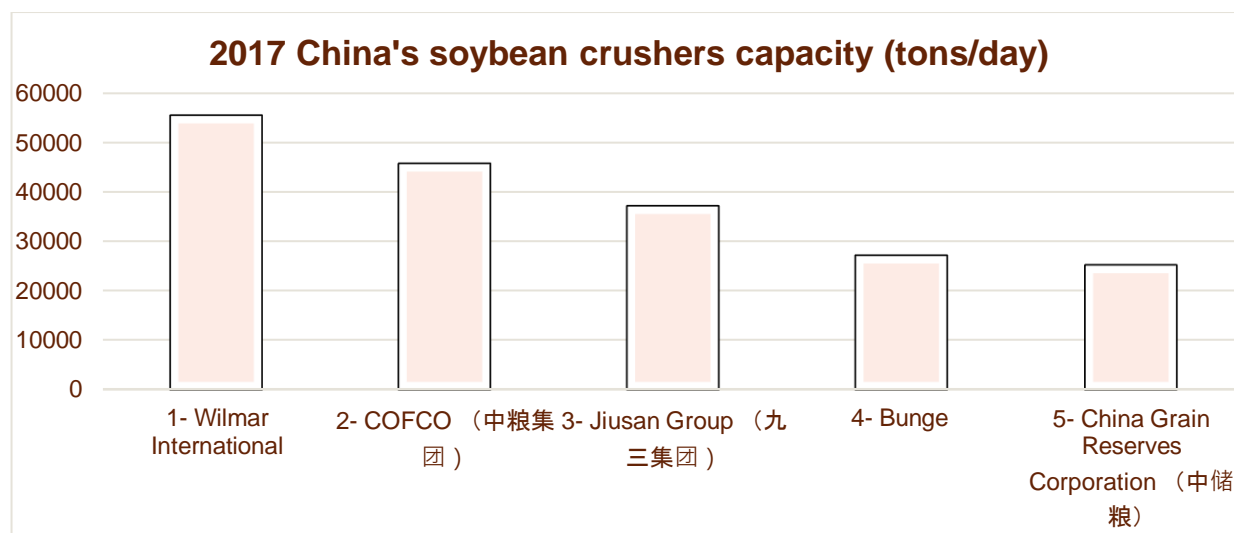
Apart from the explanation presented above, McKay et al. (2016), Oliveira and Schneider (2014), and Sharma (2014) focus on a slightly different issue. They suggest, through different approaches, that the Chinese strategy for agricultural "going out", besides being central to the country's growing food demand, also represents an attempt to situate Chinese enterprises along the domestic feed and livestock industry due to its value addition and its capacity to obtain high profits. In order to appropriate most of the value-added economic activities from the related industry, China opted to secure the control over price and supply of feed crops from the international market.

Among the feed crops, soybean plays a very important role. It is, along with maize, often combined, considered as the two primary crops for feed purposes (Weis, 2007: 17). After the soybean oil is pressed, its hardened mass - the soybean cake or soybean meal (SBM)- provides protein-intensive feedstock. The SBM is responsible for an average of 75% of protein meal, as it is one of the key components of animal feed (Sharma, 2014: 16).

Since the 1990s, the Chinese government took clear steps to increase the supply of raw materials for its domestic feed industry. In 1995, it cut tariffs, waived value-added taxes, and eliminated import quotas of nongrain feed materials, such as soybean and other oilseeds meal, fish and bone meal, brans and husks of grains, distillers dried grains, byproducts of sugar and starch processing, as well as pulp or dregs from winemaking. Following these measures, in 1998/99, tariffs of soybean imports were cut off and import quotas were eliminated (Gale, 2015: 5).

However, the liberalisation policy turned the domestic feed industry highly dependent on imports, which at a first moment, brought benefits from cheaply imported soybeans, but afterward, brought insecurities from the high volatility of world market prices. Moreover, Yan et al. (2016) identify two major problems originated from this situation: 1) the overflow of imported soybean from foreign countries provoked stagnation and devaluation of profits in the Chinese agricultural production, pushing many soy farmers to switch to corn plantation or to engage in other economic activities - if not becoming idle; 2) during price picks, particularly after 2000, soybean crushers were easily bankrupted. The most emblematic case was around 2004-2005 when a sudden rise of international soybean price provoked the collapse of most national firms. This was followed by the take-over of 70% of the Chinese soybean-processing capacity by North Atlantic-based transnationals and the Singapore-based Wilmar, giving them concomitant control over the exports to China and the production and trade in the Chinese food system (Oliveira and Schneider, 2014: 5).

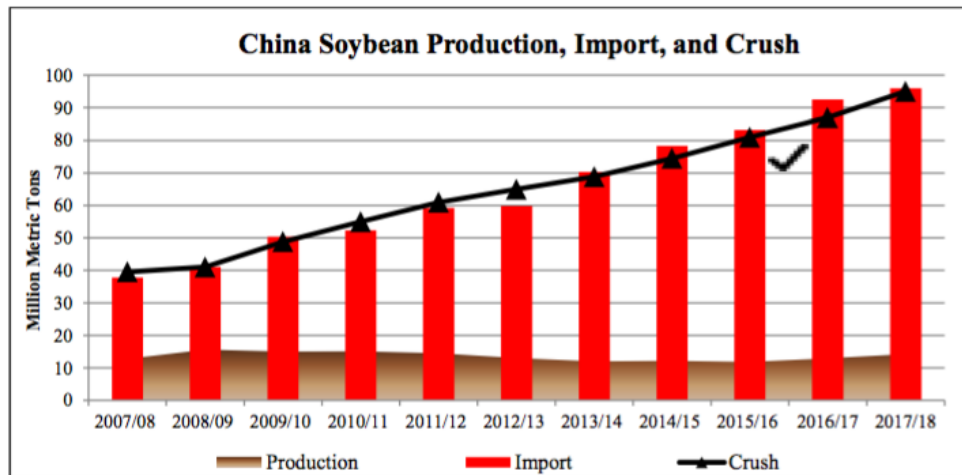
Facing this situation, the Chinese government has put great effort to protect the national feed and livestock industry, imposing taxes on processed soybean imports, as well as to stimulate domestic entities through massive state investments - providing earmarked loans, subsidies and public offerings (Sharma, 2014: 16). As a result, Chinese agri-food companies like COFCO have been able to recover ownership of the soy processing for feed and edible oil as it is shown on the rank below.



Source: Data compiled by author on bases of “2017 nian zhongguo dadou yazha qiye channeng shiqiang [Top 10 crushing enterprises production capacity in 2017],” 2018, and extra information provided by the Chinese commodity assessment consulting, Sublime China Information Co., Ltd.

In addition, the Chinese government has created new incentives to the domestic soybean production in order to avoid import dependence, although, under the free

competition of a globalised market they have limited effects (Yan et al., 2016). Still, instead of reverting the liberal policy for soybean trade, the agricultural "going out" strategy has been a preferable choice for Chinese enterprises to control the supply and price of the soybean commodity chain. Therefore, raw soybean production has been relegated to countries like Brazil, as shown in the table below (extracted from USDA, 2017), while the domestic processing industry has been preserved in China.



In short, better access to food-producing resources through investments overseas have been the choice of Chinese agri-food corporations for obtaining higher profits throughout the soybean commodity chain. Their investments in production and trade abroad can be translated into lower per-unit costs, stronger control of raw materials and more ability to withstand price fluctuations, which assure favourable terms of trade for the Chinese feed and livestock industry, along with trading itself, where these companies obtain higher value-addition (McKay et al., 2016; Sharma, 2014).

4. Contribution to Address the Limitations of the Current Literature

Both explanations presented above help us to understand how Chinese companies have been able to coordinate their activities throughout global commodity chains, and why COFCO has a central role in this process. For instance, after the integration of Nidera and Noble, COFCO consolidated its control over 11 percent of the grain market in Brazil, and it intends to reach 22 percent in the next five years (Escher et al., 2018). It now owns two port terminals in Santos - the T12A, with an annual transit capacity of over 3 million tons, and the Cereal Sul, with an annual transit capacity of 500,000 tons - along with 12 silos with a 1.18 million tons of storage capacity, one transfer centre, two soybean

crushers, four sugar mills as well as their associated farmland, which Oliveira (2017) estimates at around 120,000 ha of both owned and leased sugarcane fields (Oliveira, 2017: 9; “Zhongliang jituan kaikuo baxi shichang chujian chengxiao [COFCO’s success in opening up Brazil Market],” 2015).

However, the reasons for COFCO’s expansion based on Mergers and Acquisitions still require a further explanation. COFCO’s strategy has set the company in a position that goes beyond the needs of guaranteeing supply and establishing favourable prices for Chinese consumption and Chinese industrial chains - or in McKay et al. (2016) words, of “resource control”. Besides operating and seeking profit from sectors directly linked to its own country, COFCO has inaugurated and intensified capitalist dynamics of accumulation abroad, with the self-claimed aim of optimising “resources and assets to create and apply different profit models aiming to maximise revenues” (“Our strategy,” 2018).

For instance, in Brazil, COFCO inherited diversified operations that have been carried out by its predecessors Nidera and Noble, such as processing, trading, inputs distribution, infrastructure, stock services, transportation, and logistics. The T12A port terminal, owned by COFCO since 2014, is not only specialised in exporting agricultural products such as soybeans and sugar to China but also soybean oil and soybean meal intended for Asian and European markets, as Escher et al. (2018) and Oliveira (2017) also clarify. At the same time, the port terminal, Cereal Sul, is specialised in importing wheat for different purposes (“Zhongliang jituan kaikuo baxi shichang chujian chengxiao [COFCO’s success in opening up Brazil Market],” 2015). Besides the downstream operations, COFCO has also extended its activities to all stages of the upstream level, controlling 14 percent of the Brazilian corn seed market (“Zhongliang jituan kaikuo baxi shichang chujian chengxiao [COFCO’s success in opening up Brazil Market],” 2015).

What then, explains COFCO’s wide range of activities due to its expansion through Merger and Acquisition? From a strict political frame, M&A can simply be considered an efficient way of obtaining abundant resources while escaping from land grabbing accusations and direct political/environmental obstruction. Nevertheless, in order to explore this phenomenon on its totality, it is necessary to review the determinants internal to the Chinese agriculture and to China’s macroeconomic transformations, which are the background for the rise of specific types of capital represented by COFCO.

The following sections will make a first attempt on this direction while drawing a parallel with Marxist categories analyzed by Lenin at the turn of the twentieth century. By making such parallel, this paper raises the hypothesis that COFCO’s international expansion, although corresponding to Chinese political specificities, follows the main dynamics of other advanced capitalist countries.

5. The Marxist theory of imperialism as a methodological tool

In 1916, Lenin has elaborated the concept of imperialism as an "upper phase of capitalism" in order to understand the new tendencies of the development of capitalism in the world economy. However, it is worth noticing that his concept of imperialism is not limited to a simple notion of expansionism and the "conquest of foreign lands". It actually describes the general changes experienced by the capitalist class of advanced economies at different levels. (Mandel and Germain, 1966).

As Almeida (2015) elucidates, among such changes, Lenin and other authors have pointed (1) the increasing concentration of capital in large companies, followed by (2) the economic growth of capitalist monopolies; (3) the expansion of the role of financial capital as a link between concentrated banking capital and industrial capital; (4) and exporting capital from central countries to the rest of the world, seeking further exploration of surplus value.

On the following sections, these four aspects will be explored in line with China's particular development, along with a previous review on processes of capital accumulation in the Chinese agriculture.

6. Dynamics of capitalist accumulation in the Chinese agriculture

The process of accumulation of capital has been theoretically understood as the transformation of surplus value into capital. At least two main forms of capitalist accumulation can be recognized from the Marxist literature: the primitive accumulation, and the expanded capital accumulation. The former relates to Marx's *Capital*/Volume 1, in which he analyses the separation of the workers from their means of production by taking over, direct or indirectly their land properties. As a result, workers would be compelled to reproduce themselves through the market and selling their labour power to those who own the means of production. The latter is related to Marx concept of extended reproduction, explored on *Capital*/Volume 2. He classifies reproduction into two types: simple and extended reproduction. The first occurs when the entire surplus value is spent to purchase consumption goods, the necessary to sustain society at a given living standard, while the second occurs when the entire surplus value exceeds that necessity and a fraction of it is employed to purchase additional capital, allowing accumulation by enlarging the scale and variety of production.

Processes of capital accumulation have been verified throughout recent changes in the Chinese agrarian economy. This has been accomplished through the introduction of capitalist imperatives for growth on agricultural production since the 1990s but intensified particularly after 2008 (Day and Schneider, 2017).³ According to Zhang et al. (2015), the political orientation for agricultural modernisation, along with general changes at the Chinese economy, has brought the intensification of commodity relations into all aspects of agricultural production, turning this sector into a new venue for capital accumulation (Zhang et al., 2015: 308). They remark that unprecedented infusions of capital and technology have been put in agriculture with the state's support.

Furthermore, Ye (2015) notices that a current process of commodification of land - by which land acquires exchange value and is transacted according to agents of the market - has been the bases for increasing capitalist relations and forms of production in the Chinese agriculture. As he notices, although the agrarian land has not been privatised in China, the current legislation allows the trading of land use rights, opening space for its transfer and the expelling of workers from their original means of production.

Moreover, Yan and Chen (2015) notice that the commodification of land has been associated with the increasing penetration of capital into agriculture - "capital going to the countryside" (ziben xiaxiang) - by distinguished methods of accumulation. These are "accumulation from above", related to the penetration of external capital into agriculture; "accumulation from below", related to mechanisms of class differentiation, where specialised households⁴ have been

³ Accordingly, during Jiang Zemin's government, a series of announcements have been made towards structural reforms in order to accelerate "agricultural modernization". Among the announcements, there is the Ninth Five-Year Plan of 1996, a Jiang's report to the 15th party congress in 1997, and the CCP's document named "Decisions by the Central Committee of the Chinese Communist Party on Several Key Issues in Rural and Agricultural Works", issued in 1998. This policy claimed a transition from uncoordinated and low-scale operation (cufangshi jingying) to coordinated large-scale operation (jiyueshi jingying) (Zhang and Donaldson, 2008: 29). However, in the next decade, such structural reforms started taking shape. Between 2003-2012, China's central government has included in its Number 1 Document (zhongyang yihao wenjian) - yearly issued by the Central Committee of the Chinese Communist Party and the State Council, setting priorities and guidelines to the central government's agenda - issues related to agriculture, farming and rural affairs, after seventeen years of no record (Zhang et al., 2015: 302). The most common targets raised in these Documents were modernising agriculture and rising productivity (Zha and Zhang, 2013).

⁴ Households specialised in producing for the market.

able to expand the scale of production through tenant farming; as well as a concomitant process that aggregates both models.

7. The concentration of capital in the Chinese agriculture

As it has been said previously, a common feature of capitalist economies in Lenin's analysis is the tendency for concentration of capital. Concentration can be accomplished either by a process described as combination of production or/and by increasing the scale of production (Lenin, 2015: 17). The former occurs by integrating a single enterprise throughout consecutive stages of production or integrating it into branches that are auxiliary to one another, while the latter is accomplished through technical improvements at the production level. Both forms allow a better control over the fluctuations of trade, assuring the capitalist firm more stable rates of profit, as well as a way of gaining super-profits over and above those obtained by other enterprises.

The scaling-up and combination of agricultural production in China has been accomplished through the penetration of capital and the integration of different sectors, such as processing, farming, and trading. Taking the processing sector as an example, it has undergone rapid expansion over the last two decades. From this, domestic soybean crushers - that produce animal feed and edible oil - have been able to build large and modern plants under the state support, expanding rapidly the scale and geographic scope of their activities (Gale, 2015: 9; see also Oliveira and Schneider, 2014, and Sharma, 2014). At the same time, soybean crushes have grown by forward-integrating into livestock production (Fang, 2011, in Gale, 2015), as well as, in the case of the largest ones, integrating into crop farm production (China Securities News, 2015, in Gale, 2015: 10) - through direct engagement on farming and/or by selling services and providing credit to farmers (Yan and Chen, 2015; Zhang and Donaldson, 2008).⁵ In addition, some

⁵ A more accurate picture has been described by Zhang and Donaldson (2008). From findings extracted at an empiric study, they noticed at least five levels of vertical integration of agribusiness agricultural production: (1) companies purchasing part of the production and providing technical support to independent commercial farmers; (2) establishing formal contracts with farmers also for purchasing and providing services; (3) renting collective land from villages and hiring the local producers, managing the production although preserving the worker's land-use rights in the village; (4) establishing production bases in leased farmland or 'wasteland' and hiring migrant farmers as waged labour, although preserving their land-use rights elsewhere or (5) hiring landless workers as waged labour (Zhang and Donaldson, 2008: 32).

companies have also started to supply branded meat products to self-operated supermarkets and specialty shops in an attempt to convert themselves from "feed companies" to "food companies" (China Feed Industry Association, 2014; in Gale, 2015).

The modernisation and vertical integration of Chinese processing plants have shaped and have been shaped by a powerful domestic constituency of companies vested in the entire supply chain and with a huge production capacity even for international standards (Sharma 2014). As it can be seen in the compilation of data produced by Feed International in 2015, among the world's top 101 companies, already 23 were Chinese (Roembke, 2015, in Gale, 2015).

Among these companies, COFCO has the leading position. Its achievement has also been done through a strong concentration of capital, building a fully-integrated value chain throughout consecutive stages of production. Besides processing, COFCO extends its operations to all activities of the upstream and downstream level of production. The former entails seeds, technological development, and inputs distribution, while the latter involves engagement in agricultural production through sales platforms, technical support, financial services, storage services ("Marching onto the Global Scene," 2018), outputs distribution, and online food retailing (Ma, 2017). COFCO is also strongly engaged in livestock production. It holds leading industries, such as Wuhan COFCO Meat and COFCO Meat (Jiangsu) ("BRIEF-Cofco Meat Announces Meat Supply Agreement Worth RMB11.4 Mln," 2018). In addition, COFCO leads food and drink brands and delivers renewed food products, such as Greatwall wines, Mengniu Dairy, China Tea, and it owns 65% of shares from Coca-Cola Beverage Co., Ltd. in China. Moreover, COFCO has horizontally integrated into branches beyond the foodstuff business. COFCO Group has diversified into bioenergy development, real estate and hotel management (Ma, 2017: 9).

8. Financialization of the Chinese agriculture

The Marxist concept of finance capital comes from the assertion of a concomitant concentration and fusion of industrial and banking capital. From a historical perspective, banking capital in advanced capitalist countries has grown by investing in industry and controlling it through direct or indirect means. The former includes the purchase of shares and the presence of bank representatives on the boards of directors, while the latter includes the establishment of holding companies, concerns and 'influence groups' (Lenin, 2015). At times, the accumulation of enormous profits has enabled corporations to expand primarily by self-financing, freeing themselves of bank tutelage, while sometimes pure

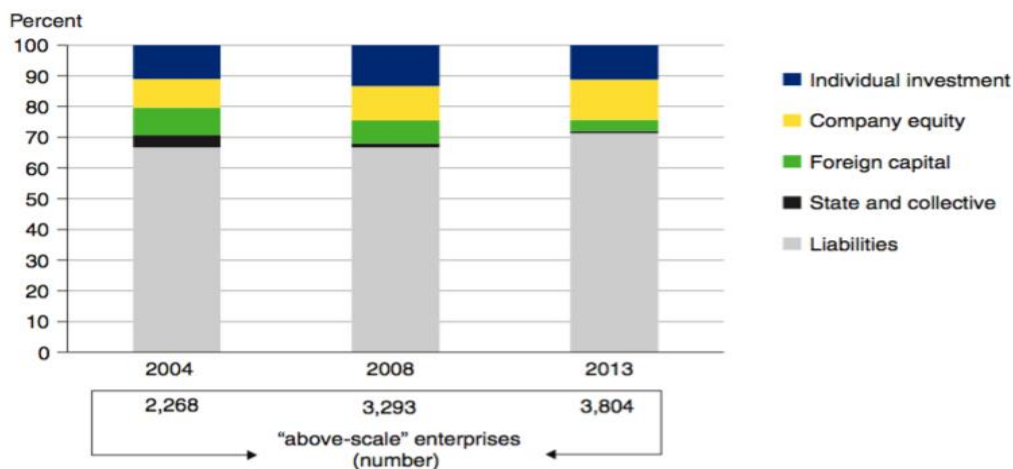
forms of banking capital have remained predominant (Mandel and Germain, 1966). In all cases, the fusion between these both forms has gained preponderance over production, although it is still based on the real economy and it benefits from its valorization (Almeida, 2015).

From the existing literature, Yang et al. (2016) and other scholars, argue that the penetration of capital in Chinese agriculture has been driven mainly by financial operations. Yang et al. (2016) point cases where agricultural corporations have specialised in financial guarantee services, providing loans to producers. They "mobilize and pool the savings of producers and uses it for reinvestment in the supply chain" (Yang et al., 2016: 18). By controlling financially the production without being directly involved in it, they transfer to the household farmers the risks and burdens of debt related to the production process.

In a field survey at Sichuan, Yang et al. concluded that Newhope Group, the province's largest feed producer, does not rely on agriculture as its main source of profit; rather, it relies on finance and other investment activities. Accordingly, in 2014, the company's commercial bank, the Newhope-Liuhe, contributed to 79.13 percent of the group's total net income (Yang et al., 2016: 16).

Although Newhope is a private-owned enterprise and, therefore, does not represent the totality of the biggest Chinese agri-food corporations, other sources have shown that growing finance operations is a widespread tendency. At the Chinese feed sector, Gale notices that agricultural enterprises have gradually increased their reliance on debt, derived mostly from investment funds and retained earnings, as shows the figure below (Gale, 2015).

China feed industry sources of financing, 2004-13



Note: Chart shows proportions of aggregate paid-in capital and total liabilities for "above-scale" feed enterprises—that is, with sales of 5 million yuan or more. "Foreign" includes Taiwan, Hong Kong, and Macau.
Source: USDA, Economic Research Service analysis of data from China National Bureau of Statistics, Economic Censuses 2004, 2008, and 2013.

Regarding COFCO, despite the limited amount of proving data, some evidence shows that it increasingly relies on banking capital. Since 2000 it has accelerated a finance reform that culminated with the creation of its own company in charge of the financial operations of the entire COFCO Group. The new company, named China Agri-Industries Holdings Limited, was established in an agreement with the China Investment Corporation (CIC), a Chinese sovereign fund, that controls 19.9 percent of its stakes, while COFCO controls 80.1 percent (Escher et al., 2018b: 311; Ma, 2017: 11). Moreover, COFCO opened investments in banking, securities, *futures*,⁶ and insurance in China and abroad, with the cooperation of renowned large financial companies.

Its subsidiary for *futures* market, the COFCO Futures, has achieved a leading position in agricultural commodities like soybeans, soybean oil, soybean meal, rapeseed meal, and sugar. Over 20% of China's trading in agricultural *futures* are performed by COFCO Futures ("COFCO Capital," 2018). Furthermore, COFCO has subsidiaries that provide integrated international financial and asset management services. For instance, COFCO Capital, based in Hong Kong, COFCO Shenzhen Trading Services and COFCO Futures International are engaged in cross-border *futures*, as well as general cross-border financial business ("COFCO Capital," 2018). COFCO also has investment banks for agricultural businesses. For example, the COFCO Trust is engaged in supply chain management, land circulation trust, agricultural equity investment, and

⁶ A financial instrument agreed between parties unknown to each other to buy or sell a product at a predetermined price and at a specified time in the future.

consumption trust; the Longjiang Bank is engaged in farmer loans, land rights mortgages, inventory financing. Besides that, COFCO holds an Insurance Brokerage, the Aon-COFCO, that provides risk management and employee benefits, among other services, to every business sector of COFCO, including its own and other companies' operations abroad ("COFCO Capital," 2018).

9. The formation of monopoly capitalism in China

From processes of concentration and financialization of capital, Lenin has drawn attention to a tendency towards the formation of great capitalist monopolies. These are classified as huge capitalist enterprises or unions of capitalist enterprises who concentrate in their hands the most important part of the production or sale of a given product (Lenin, 2015). As Marx has underlined in the *Capital* Volume 3 (chap. 23), the rapid growth of these corporations represented a new form of expropriation by a small handful of big capitalists. Accordingly, the mechanism which enables this process is an increase of the amount of capital from the accumulation of surplus value. After reinvesting part of the surplus value appropriated in the production, capitalist enterprises become the owner of an ever-increasing capital and, throughout market competition, are able to ruin and absorb small and medium capitalist enterprises.

This process opens up possibilities for the concentration of capital on the hands of a few large enterprises with the capacity of limiting competition and setting high monopoly prices for goods. The competition between monopolistic enterprises, however, does not overcome competition. Monopoly capitalism merely raises the competition to a higher level that encompasses new and bigger competitors (Mandel and Germain, 1966).

Monopolistic formations can be verified throughout all sectors of Chinese agriculture. Taking the feed industry as an example, although small and medium enterprises are still numerous, a small number of leading companies have increased their control over a significative part of this sector. By 2010, 16 companies were producing 33 percent of total output in China - each with an individual output greater than one million tons annually (Sharma 2014: 21, see also Reuters, 2010, in Sharma 2014: 18). Only three years later, this portion has changed to 10 companies accounting for 36 percent of the total feed output. Still, the Chinese central government has publicised its will to reduce the number of small firms with inefficient facilities, striving for transforming China from a "big feed country" to a "strong feed country" (2011-15 Five-Year Plan for the feed industry, in Gale, 2015).

Throughout the concentration and formation of monopolies in this sector, the role of COFCO is evident. This company is China's current larger soybean producer, crusher, oil refiner, food processor and trader (Gu and Patton, 2018). However, COFCO's historical constitution differs from most part of traditional capitalist monopolies. The consolidation of COFCO have been strongly mediated by and even originated from the state. Its predecessor was the North China Foreign Trade Company, established in Tianjin in September 1949, which was converted into a national trading company one year later. Such company started to congregate specialized branches, such as North China grain, North China fat, North China Egg Products, North China Bristles, North China Fur, North China Local Products. In 1952, the Chinese government transferred this cluster to the discipline of a specialized trade company, which after many adjustments and mergers, was named (in 1961) China Grain, Oil and Food Import and Export Corporation. Further adjusts have been made and the company was renamed several times in 1965, 1998 and 2004, until assuming its current name in 2007 (Guo, 2016).

Notwithstanding, since the 2000s, COFCO has expanded rapidly through more and more frequent mergers and acquisitions of auxiliary companies, combined with the intensification of processes of accumulation, financialisation, and concentration of production described on the previous sections. For instance, from 2004 to 2016, COFCO merged and acquired 14 national and international corporations from different segments of the food production and supply chain (see the graphic below), and it spread its scope to 2.3 million terminal sale points all over China's cities, counties, and villages ("About COFCO," 2018).

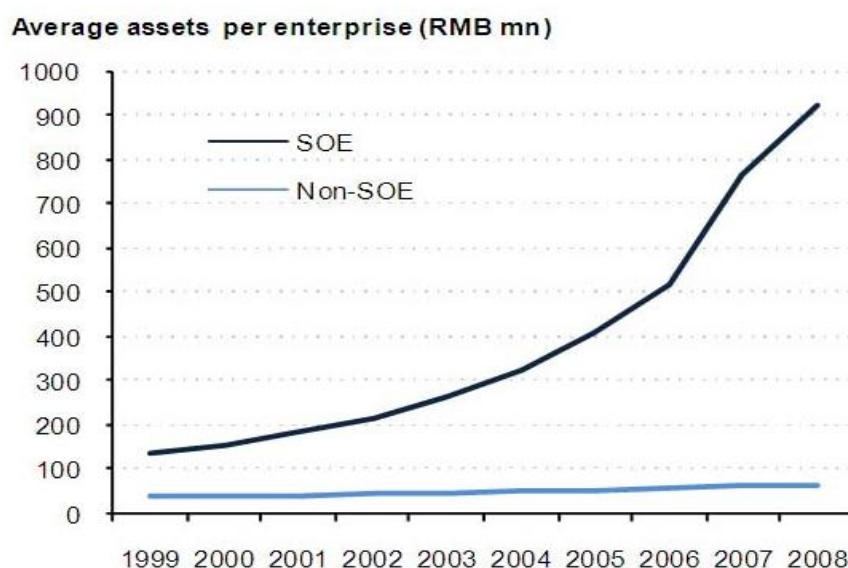
Year	Merges	Acquisitions
2004	China Native Produce & Animal By-Products Import & Export Corporation (TUHSU).	
2005	Xinjiang Tunhe Investment Co., Ltd.	
2005	Xinjiang Sifang Sugar (Group) Co., Ltd.	
2005		37.03% of the equity in China Resources Biochemical (600893)

2005		100% of the equity in China Resources Alcohol
2005		20% of the equity in Jilin Fuel Ethanol
2006		BBCA Biochemical
2006	China Grains & Oils Group	
2011		Completed its acquisition of the Australian sugar refinery Tully Sugar
2013	China Grains & Logistics Corporation.	
2014		Noble Agri (completed in 2016)
2014		Nidera (completed in 2016)
2015	China Huafu Trade & Development Group Corporation	
2016	COFCO merged Chinatex Corporation	

Source: Data compiled by author on bases of COFCO's official website <http://www.cofco.com>, ("COFCO, History and Honor," 2018).

Changes in COFCO have been triggered by a large restructuring of the Chinese state sector during the recent decades. Such restructuring was responsible for the scaling-up of industrial clusters and the consolidation of huge market-oriented conglomerates. It has started in the turn of the 80s when SOE's operations received more autonomy, and restrictions imposed by the state to the entry of non-SOEs were gradually loosed (Bai et al., 2006). Moreover, one decade later, the Chinese economic reform outset the opening-up of markets, privatization of small and medium urban state and collective enterprises, as well as township and village enterprises, along with the attraction of foreign investments in various areas of the economy (Andreas, 2008; Gallagher, 2005: 131). Under this scenario, the Chinese leadership announced the policy "hold the large, let go the small" (zhuada

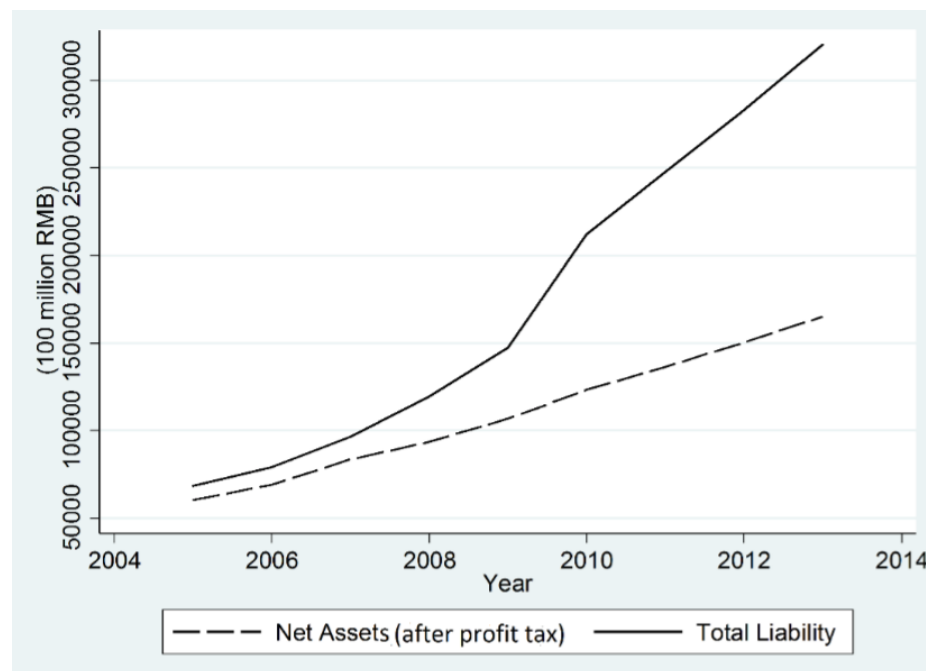
fangxiao), which approved the merger and acquisition of public firms, while adapting them to a technologically advanced and competitive constitution (Gallagher, 2005: 140; Naughton, 2010). This effort was formalised at the Fifteenth Party Congress in 1997 when Jiang Zemin announced China would "establish highly competitive large enterprise groups with transregional, inter-trade, cross-ownership, and transnational operations" (Jiang Zemin, 1999: 194, in Gallagher, 2005: 140). Afterwards, during premier Wen Jiabao's term in office, the Chinese government continued promoting the formation of bigger and stronger state-owned conglomerates by providing abundant stimulus packages (Shen et al., 2017). As a result, the average asset size of SOEs has grown faster than Non-SOEs, as it can be seen in the graphic below.



Source: CEIC, in Gao, 2010.

While the Chinese SOEs were reconfigured, a new competitive environment permeated their operations (Gallagher, 2005; Naughton, 2010). This was marked by losses of rights and a culture of rivalry between workers, as well as an increasing competition in all the sectors in which state ownership was prominent. For instance, only within the tiny group of companies under the State-owned Assets Supervision and Administration Committee (SASAC), besides COFCO, there are three other agricultural companies that dispute the same markets. They are China Grain Reserves Corporation, ChemChina (that in February 2016 has purchased the Swiss seeds and pesticides group Syngenta), and China National Agricultural Development Group.

Furthermore, many authors (Andreas, 2008; Au, 2012; Morais, 2017; Shen et al., 2017) argue that the reform of state-owned enterprises has shifted their mission of delivering public goods into "corporatised" profit-seeking companies, turning themselves into fast vehicles of formation of great fortunes. A considerable number of SOEs has opened to stock exchange share, boosted by the establishment of new investment funds and new holdings (Wang, 2015, in Morais, 2017: 13). This was followed by the allowance of parent companies to have their subsidiaries listed domestically or overseas, turning them into joint-stock and mixed ownership companies (Au, 2012: 18), which marks the increasing connection between SOEs production and banking capital illustrated in the graphic below by their growing financial liability over their net assets.⁷



Source: Wind.com.cn, in Shen et al., 2017

In short, China's macroeconomic transformations and the structural changes of its state sector has allowed SOEs like COFCO to take part in processes of concentration and financialization of production, and to acquire dominant forms of monopolistic capital. Although this is a particular historical process with its own characteristics, it presents one more case between innumerable historical

⁷ Total assets minus total liabilities.

precedents where the formation of monopolist capital was supported, or even guided by the state.⁸

10. Overaccumulation in China and the tendency for exporting capital

In Marxist terms, the finality of capitalist accumulation is, besides obtaining profits, to provide the necessary conditions of more efficient forms of further accumulation. From a geographic sense, it might provide the necessary physical infrastructures for production and consumption to proceed over space and time (Harvey, 2011: 246). In this sense, surpluses of capital may be absorbed by temporal displacement, spatial displacement, or a combination of both. The first term may involve investment in long-term capital projects or social expenditures, encouraging the re-entry of current excess capital values into circulation later. The second entails geographical expansion, such as opening up new markets, new production capacities and new and cheaper resource complexes, as well as the intensification of capitalist social relations and institutional rearrangements, including rules of contract and private property arrangements (Harvey 2011: 246, 248).

However, according to the Marxist literature, the development of capitalism in advanced economies have faced the common problem of "maturing too much", consequently finding less and less "lucrative position" for further capital accumulation. This scenario is attributed to the increasing surplus of capital through gains of productivity with the aid of technological innovations, as well as the decreasing purchasing power of the working class due to unemployment (the saving of 'labour-time' at the production). This leads to the devaluation of profit rates and the incapacity of surpluses of capital to be entirely absorbed within a given territorial system (described on *Capital*, Volume III, chap.14).

In order to do not devalue, surplus capital must be allocated to find room for their profitable realization elsewhere. It usually sets capital accumulation where there are advantages like few capitals, low wages, cheap raw materials, and relatively low land prices; and it can be accomplished by different means, such as by granting loans to institutions abroad, by setting up industrial, commercial and banking enterprises and concessions abroad, by building infrastructure and by purchasing of companies abroad.

⁸ One of the most well-known cases is the U.S government right after World War II providing credit and other financial support, as well as enforcing a protective jurisdiction in favour of monopolies.

When transposing such tendencies to the Chinese economy, it is possible to verify that forms of accumulation inaugurated during the reform period now show signs of saturation, which are directly linked to general devaluation of profit rates.

As Kroeber (2016) systematises, the Chinese high economic growth of the first three decades of reform relied on two main factors: (1) the state's ability to mobilise resources in order to increase the country's capital stock (the total value of equipment, buildings and other forms of physical capital); and (2) productivity gains, followed by the gradual and increasing transfer of those resources into private hands (Kroeber, 2016: 214, 219). In other words, the Chinese state policy has committed to boosting the country's capital stock by adding more capital into the system while increasing its efficiency.⁹ As a result, between 1980 and 2010, China's capital stock rose from about 1.8 to 2.4 times the GDP (Kroeber, 2016: 212, in Baston et al., 2011: 46-49).

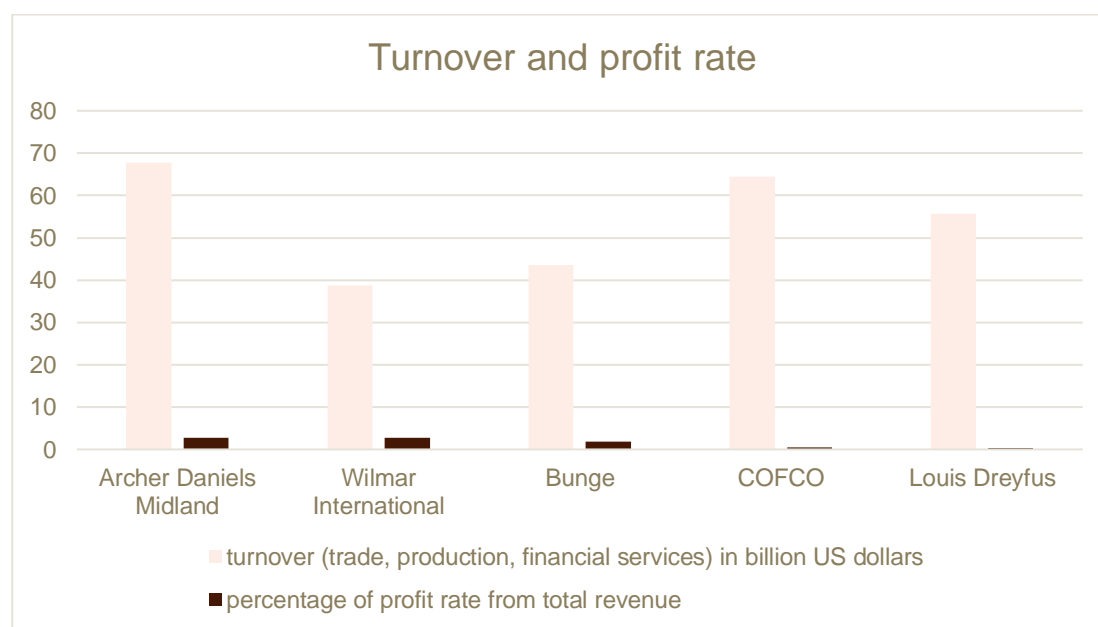
However, this strategy of growth has reached its limit in the recent years, particularly after the global economic crisis. The Chinese economy has shown increasing difficulty of absorbing greater amounts of capital surplus in the production, and therefore, further resource mobilisation has giving continuously lower returns (Kroeber, 2016: 214). As a recent OECD report shows, between 2007 and 2014, the average return on capital in China fell from 17 percent to 9 percent (OECD, Economic Survey in China 2015, 26, fig. 12, in Kroeber, 2016: 219).

A clearer indicator of China's over-accumulation is the level of debt compared to the size of its economy. The total borrowing of households, nonfinancial companies, and the government (nonfinancial sectors) dramatically shifted from a stable scenario of a bit less than 140 percent of GDP to 230 percent of GDP in 2015 (Kroeber, 2016: 220). Most of this debt has been taken on to finance productive investments. This means, among other things, that "people are taking on more and more debt to finance projects with a lower and lower return" (Kroeber, 2016: 221).

⁹ This includes promoting industrial technology and modern management techniques, developing infrastructure at all levels, such as electricity and telecoms for running "modern business", building ports and airports for integrating the national industry into global markets, providing transportation for moving workers to their jobs, as well as granting roads, railways, and housing to knit together the domestic market (Kroeber, 2016: 211; Naughton, 2010: 248-252).

Regarding agriculture, Chinese investments in the domestic production have, similarly, surpassed the capacity of absorbing surplus capital for expanded reproduction. As a result, many sectors have faced some degree of overcapacity, particularly those receiving special state incentives. The feed industry is a typical example of this problem: according to the government agency, China National Grains and Oil Information Center (CNGOIC), in 2012, soybean crushing plants were already on average running at half of its capacity, although they were still expanding (in Sharma 2014: 16), which means that investments in processing infrastructure have resulted in less profitable returns.

The scenario presented above might be one of the reasons for COFCO's profit rates be relatively low - one other reason might be COFCO's aggressive strategy of international expansion, as it was described in a previous section. According to the estimative made by the Chinese non-official agency "China Business Intelligence Network", COFCO's profit rate corresponds to 0,41 percent of its total revenue, behind some of the biggest agri-food transnationals with comparable amount of turnover (trade, production and financial services) like ADM, Wilmar International, Bunge and Louis Dreyfus.



Graphic organised by the author on bases of Zhongshang qingbao wang [China Business Intelligence Network] (2016), and Agrifood Atlas 2017 / Fortune, Files and compiled by the author of this paper.

II. Final considerations on COFCO's expansion to Brazil

Although the data provided in the previous sections are yet to be completed, there is already strong evidence that COFCO's international engagement has followed the logic of advanced capitalist expansion, where monopolised and financialised capital, finding less profitable investments in a given territorial system, turns its surplus into production in other areas for accumulation. By investing abroad, it concomitantly solves its limits of over-accumulation and creates opportunities for gained profits to be flown back from where it came.

Therefore, besides operating and seeking profit exclusively from international trade, guaranteeing resource control for China's domestic consumption, COFCO expands through export of capital, reproducing and promoting multiple forms of capital accumulation abroad. For instance, as much as one-third of COFCO's processing capacity is located out of China - 30 million tons out of an overall of 90 million (see "About COFCO," 2018). COFCO self-advocates the maxim "buy from the world, sell to the world", which reflects its widespread trade network and its globalised production and procurement platform ("Marching onto the Global Scene," 2018). COFCO's business reaches over 140 countries and regions of the world, from where it already obtains 50% of its entire earns ("About COFCO," 2018).

Through an expansion based primarily on Mergers and Acquisitions, COFCO extracts both agricultural resources and surplus value by mimicking the methods of traditional agri-food corporations in Brazil. As Oliveira says in a recent work, through the incorporation of transnational companies from the Global North, Chinese capital "sustains their same character and manner of operations" (Oliveira, 2017: 4, 5).

The acquisition of Noble Agri and Nidera has ratified COFCO's financial constitution. COFCO International Ltd. (CIL), who conducted this process, is a multinational joint-stock investment group. It has 40 per cent of stakes owned by a Singapore state investor Temasek, the China-based private equity firm, HOPU Investments, the London-based Standard Chartered, and the World Bank's commercial arm, the International Finance Corporation (IFC); other 48 per cent are held by Beijing's parent COFCO Corp, and 12 percent by the sovereign wealth fund, China Investment Corp (Guo, 2016; Saul et al., 2018).

At the downstream level, CIL applies similar forms of exploitation of agrarian labour through contracts, storage and financial services towards local producers. The company plans to increase its investments in logistics and warehouse assets in Mato Grosso, where the main modality of production is large-scale monoculture

with a strong presence of agri-business transnational corporations (Freitas and Freitas Jr., 2018).

At the managerial level, although around half of CIL's workforce is composed of former employees of the COFCO Group, this multinational investment corporation has incorporated professionals with a large trajectory in traditional transnationals. That is the case of CIL's head of grains and oilseeds in Brazil, Eduardo Gradiz Filho, who came from a higher position in Bunge, as well as Pierre Lorinet, former chief financial officer at the trader Trafigura, and Serge Schoen, an ex-Louis Dreyfus chief executive, all occupying pivotal roles at the new management team ("COFCO International names new grain, oilseed heads," 2018, "COFCO says Brazil needs more logistics investments," 2018; Saul et al., 2018).

At the operational level, CIL has dedicated itself to a cost control program in order to increase the return on capital invested in Brazil (Freitas and Freitas Jr., 2018). As the chief executive of COFCO International, Johnny Chi, has recognised in an interview for Reuters in November 2017, besides meeting the Chinese strategic interests, CIL has also focussed on its own commercial aims.

These evidences reinforce the hypothesis that expansion through Mergers and Acquisitions has not only been a providential choice, given the fact that Chinese land purchases in Brazil are politically sensitive, but it is also an efficient way of exporting capital. Likewise, neither has COFCO's prominent role in this process been only a providential choice, given its strategic and advantageous position at supply chains, but also reflects the Chinese agro-industrial capital's need to solve internal economic contractions.

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