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Financialization of agriculture in China: the role of private equity firms, agribusiness companies and local governments

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Abstract: This paper examines the evolving tendency of financialization of China's agriculture. While focusing on the role of private equity, agribusiness companies and local governments, it seeks to shed light on the underlying elements and the *modus operandi* that explain the surge of corporate capital investment to the countryside after the financial crisis of 2007-08. Based on the fieldwork in Shanghai and Shandong Province, this paper argues that Chinese agriculture is exposed to financialization in the process of corporate investment. Corporate capital has vividly participated in the farmland transactions and has been integrally involved in the organization of farming activities. Agricultural companies use their new business of the finance supply chain to improve profitability and strengthen their power over other players along the food chain. Local governments are important players and in fact promoting the financialization of agriculture.

Key words: Financialization, China, SCF, Peasant, Agriculture

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I. Introduction

As an emerging country with a growing population of over 1.4 billion people, China relentlessly sought to address its problems related to agriculture and food safety. Despite the fact that investments in agriculture could have been a great opportunity for corporate investors, the latter found themselves in a circumstance in which they were unable or unwilling to invest until recently. Left to their own device, Chinese peasants were the only ones supporting their own farms (HLPE, 2013; Huang & Gao, 2013). However, since the late 2000s, investment going to the agricultural sector saw a dramatic surge. In this new turnaround, Chinese policy makers and mainstream scholars placed at the top of their agenda that industrial agriculture is the way forward for China[4]. The capital to the countryside (*Zīběn xià xiāng*) plays a central role in this narrative. It embodied the ideas that such approach would be a determining factor for poverty alleviation and an essential element to accelerate the industrialization of agriculture (Zhang & Donaldson, 2008, 2010).

Opinions were divided within the school of critical political economy in the view of the rise of the corporate capital going to the countryside. On the one hand, Philip Huang (2012), through a Chayanovian perspective, supported that Chinese agriculture should depend on peasants and agricultural cooperatives. Huang stressed that farmers in China were able to avoid proletarianization due to "hidden agricultural revolution" in which prevailed labor-capital-intensive mode of production (Huang, Gao, & Peng, 2012; Huang, 2016). On the Other hand, while many rural sociologists have taken up this emphasis on the vitality of peasants, such Chayanovian viewpoint is strongly criticized by the Marxist school, which postulates that the traditional relationship between peasants and agriculture is being eroded by capitalism. From the Marxist perspectives, the Chinese peasants are either being crowded out from agriculture or losing their autonomy within the capitalist agro-food system (Hairong Yan, 2015; Zhang & Donaldson, 2008).

Analogously, the Marxist school holds that the investment of corporate capital in agriculture has resulted in rural class stratification (Hairong Yan & Chen, 2015), rapid "proletarianization" (Feng, 2015; Sun, 2015) and "real subsumption" (Y. Huang, 2015).

Although these debates assiduously inform the conditions of agricultural transition in China, the theories advanced by the two camps suffer from a narrow view regarding the recent changes that occurred since 2012. Thus far, it is not clear why and how corporate capital flowed in agriculture at an unparalleled pace. Chinese scholars have not yet unveiled whether agriculture has been subject to financialization, and if so, to what extent. Philip Huang

[4] See: Tao, W. (2013). China wants to "deepen overall reforms". *China Daily - Europe*. Retrieved 10 September

(2012b), for instance, over-emphasizes the merits and the continuity of the Chinese peasantry. Such premise, however, ignores and discounts the expansion of the power of capital. Furthermore, a reality that Huang failed to acknowledge is the rapidly increasing rate of circulation on farmland and the impelling expansion of integrative agribusinesses after 2012. Concurrently, Marxist scholars also failed to pursue in depth analysis on financialization and agrarian capitalism in China. The latter has not yet paid enough attention to the internal dynamics of corporate capital alongside its investment mechanism. Above and beyond the theoretical divide, the approach and perspective so far used to understand financialization also matters. To date, only few studies acknowledge the endogenous forces of financialization in emerging countries (see: Isakson, 2014). The methodological approaches of previous analyses on financialization have been conducted under the perspectives of Western countries where the financial system is already at its most advanced stage.

Against these backgrounds, the objectives of this paper are to fill these gaps. By analyzing why and how corporate capital is flowing into agriculture, it seeks to examine the evolving tendency of financialization of the Chinese agriculture with a focus on the role of private equity (PE) firms, agribusiness firms and the local government. In this regards, the paper aims to shed light on the underlying elements and the modus operandi that explain the surge of corporate capital investment to the countryside after the recent financial crisis of 2007-2008. This paper argues that Chinese agriculture is exposed to financialization in the process of funneling corporate capital to the countryside. Corporate capital has vividly participated in the farmland transactions and has been integrally involved in the organization of farming activities. It contends the idea that corporate capital entering agriculture is solely functioning as commercial capital or as a deterrent to farming as argued by Phillip Huang (2012).

We situate the present study of financialization within the context of China's agricultural transition taking place in a new era of capitalist agro-food system. Since the "global food crisis" of 2007 to 2008, researches on financialization were concentrated on the increasing influence of financial capital and financial logic over the production and distribution of food (Burch & Lawrence, 2009; Magnan, 2015). Food and agriculture are not immune to this tendency as capitalist system has evolved from the supremacy of capital in general to the domination of financial capital (Isakson, 2014; Marsden & Whatmore, 1994). In China, not only did financial capital initiate the first round of agricultural investment in the pork and dairy industry in 2008 (GRAIN, 2015), but developing financial system in agricultural and rural sector is also seen as a tool to modernize agriculture and stimulate rural economic growth (Gale, 2009).

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To deepen our understanding of the internal dynamics and the investment mechanisms of financial capital in agriculture, we conducted two rounds of field research in Shanghai, Jixi City (Anhui province) and Qingdao City (Shandong province) respectively in October 2015 and February 2016. Our investigations through informal interviews focused on two leading agribusiness companies Tony Farm and Jutudi and expanded to NewAccess capital, a leading investment and financial advisory firm operating in Shanghai. The Newhope rural finance project in Shandong province was the last site of our field research. The purpose of the visit was to understand the ramification of supply chain finance business in the region. Upon the completion of the field research, we attempted to construct the mechanism of the financialization of the Chinese agriculture using first and secondary source data.

The remainder of this paper is organized as follows: the next section introduces the various concepts used in this study, namely: Food regime and financial capital as well as financial system based on Marxist perspectives. The third section presents the historical background behind the idea of bringing "corporate capital to the countryside" to elaborate on the rise of financial capital in China. The subsequent three sections analyze the process of the financialization of agriculture driven by three entities: PE, agribusiness corporations and local governments. The final section concludes this paper by proposing a re-conceptualization of the Chinese agricultural transition in the context of financialization.

II. The Political Economy of Financial Capital and Financialization

Over the past two decades and particularly after the recent food crisis, agro-food scholars widely used the concept of food regime to inform the strategic role of agriculture and food under the global capitalist system. In the same way, the current financialization of Chinese agriculture can be approached with the food regime concept. McMichael (2009) in a retrospective analysis of the concept stated that food regime went through three mutation phases. The first food regime (1870-1914) was marked by a British Hegemony over food trade/production to support industrial development in Europe. The second food regime (1945-1972) emerged after a restructuring of the global food system under the domination of the United States. The third scheme, despite the on-going debate, was described by McMichael as "corporate food regime" in which, transnational corporations and financial institutions were playing a central role. While the approach was criticized for its overemphasis on the transnational "structure" and its lack of attention on the diversity of local food systems (Long, 2003, p. 10; Bernstein, 2016) – food regime remain an important analytical tool to grasp the big picture of the ongoing process of financialization. In this regard, McMichael (2014, p. 100) stated that finance has been one of the key restructuring relations of the corporate food regime.

The rise of financial capital emerging from the corporate food regime is not a recent phenomenon. Since the early twentieth century, the scholarship of political economy has observed the booming of financial capital described as a natural evolution of capitalism (Arrighi, 1994; Hilferding 1910; Marois, 2012). There are numerous definitions of financial capital, but that of Burch and Lawrence (2013) is perhaps one of the most comprehensive considering of the historical and contextual evolution of the concept. They defined the term as follows:

> "Financial capital is not simply underwriting the corporate control of land and resources overseas by companies in the agro-food chain, but is emerging as part of a wider process in which financial capital is directly and independently applied in a variety of ways—that is, in speculation as well as productive investment" (Burch & Lawrence, 2013).

Burch and Lawrence (2013) also argued that financial capital is reshaping the upstream and downstream relationships in the food chain in order to maximize profits. Other research complemented this thesis, presenting different perspectives with a focus on the financialization of agriculture (see: Clapp, 2012, 2014; Isakson, 2014; Magnan, 2015). Considering the driving forces that stimulate the capitalist system in our day, the surge of financial capital appears as an inexorable process mainly motivated by a preference for liquidity over other forms of tangible assets.

According to the early studies of Hilferding and Lenin, the initial formation of financial capital fundamentally derives from the concentration of production and the development of the capitalist credit system (see: Marois, 2012). Likewise, in an early writings of Marx, the credit system constituted "the form of transition to a new mode of production", and accordingly, it then transmutes into an "enormous social mechanism for the concentration of capital" (ibid). The expansion of industrial production over the past centuries necessitated a more secure and a regular investment that the accumulation of industrial surplus can no longer satisfy. To respond to this demand, financial institutions (especially banks) thereby bring all available savings to transform them into financial capital, which in turn, is put at the disposal of the industrial sector. The consequence of this profound mutation, as it will be elaborated further, was the transformation of the relationship between banks and industries.

In the past, banks acted as intermediaries in payment operations and credit granting with the only concern on the short-term solvency of the enterprises. Since an increasing number of "loan capital" from banks become fixed assets for industries (capital credit), a sustainable pecuniary interest took shape between the two entities. This kind of relationship has necessarily pushed banks to be more interested in the enterprises' conditions of production as well as their prospective market positions (Hilferding, 1981, pp. 83-89). The creation of a joint-stock company (JSC) further deepens the relationship between banks and industry and largely promotes the formation of financial capital. JSC frees industrial entrepreneur from their traditional functions and facilitates the circulation of fixed industrial capital in the form of "monetary capital" (Hilferding, 1981, p. 121). Not only does this type of circulation trigger the expansion of the production, but it also provides industrialist more freedom and opportunity to convert "industrial capital" into "financial capital". Nevertheless, the consequence of this relationship manifests itself through the increase of banks' powers in industrial production.

The shares that banks acquire from businesses allow them to capture a significant proportion of profits. Banks investing more capital in the industry, in the form of monetary capital can earn a greater share of the "promoter's profit". This occurs every time a JSC is created or when new equity is being raised on the market. Promoter's profit is important to banks as it facilitates the mobilization of capital. The mechanism enables banks to create fictitious capital through the conversion of profit-bearing capital into interest-bearing capital (Hilferding, 1981, pp. 101-129). Motivated by the preferences for liquidity, banks are usually unsatisfied with the promoter's profit. They often attempt to cooperate with the giant industries to hoard a greater quantity of enterprises' shares and eventually gain a monopoly interest. To this end, banks frequently resort to stock dilution and stock watering[5] strategies.

The deepening of the mutually reinforced relationship between banks and industry eventually led to the rise of financial capital molded by the combination of capital from banks and industries. Hence, "financial capital" becomes a capital that is controlled by banks and used by industries (Hilferding, 1981, p. 223). Financial capitalism is a "new bourgeoisie" that, at the highest level of its development, controls the bank's capital and the industrial production. Hilferding's analysis indubitably helps to understand the rise of financial capital and its relations with the JSCs and industries. Nonetheless, capital pictured in Hilferding's work has been outstripped by sophisticated institutional arrangements. In the present day, the credit system has developed in a way that is not restricted to banks. Financial capital remains fragmented and competitive in most countries, and it is becoming distant from the real economy (Arrighi, 1994; Clapp, 2014; Harvey, 1982; Krippner, 2011). The weakness of Hilferding's theory, as noted by Harvey (1982, p. 230), is that it does not consider the organizational structure of the unification of capital hailing from banks and industries. The accumulation of financial capital is not a shifting balance of power between the two entities,

[5] Watering stock is usually identified as a form of securities fraud now. But Hilferding highlighted it as a financial device to increase promoters' profit. The founders of JSC could use the ordinary shares in their hands for lucrative speculation. For example, the founders of JSC always sell their ordinary shares in stock market when the share price soars

but rather an internalized tension, antagonism and contradiction among banks, industries and states (Harvey, 1982, p. 320).

Historical observations, particularly in the case of the United States (see: Arrighi, 1994; Harvey, 1982), illustrated that some large-scale conglomerates choose to internalize their financial operations. The newly formed businesses, with their new structures were "vertically integrated, bureaucratically managed and multi-unit". Analogously, the objectives pursued via the internalization were based on "economy of speed" instead of "economy of scale" (Arrighi, 1994, p. 302; Harvey, 1982, p. 149). The state has been described as "executive committee of the bourgeoisie" vigorously involved in the financial system. Krippner (2011) in her book “Capitalizing on Crises”, gives an account on US government behavior toward the financial system in a context of over-accumulation crisis. According to Krippner, the over-accumulation crisis in the late 1960s and 1970s was a social crisis (inflation and stagnation), a fiscal crisis (government deficit) and a legitimacy crisis (as a result of fiscal crisis). Policymakers (especially during the Reagan era) abandoned Fordism and Keynesianism to make room to *monetarism* and *neoliberalism*. The US government in the midst of the event attempted to assert market rule, accompanied by policy measures such as tax reductions and high interest rates. As a result, the de-politicized market economy contributed to the dramatic expansion of credits that fueled the financialization of the economy. According to Krippner (2011), this episode was marked by 'the increasing role of financial motives, financial markets, financial actors, and financial institutions in the domestic and international economy' or 'the tendency for profit-making to occur through financial channels rather than through productive activities' (cited in Isakson, 2014).

To Harvey and Krippner, financialization is regarded as a temporary solution, a financial fix to the capitalist system (Harvey, 1982; Krippner, 2011). Arrighi’s theory of “systemic cycles of accumulation” suggests that financial expansion is a sign of the maturity of a particular phase of capitalist development (Arrighi, 1994, p. 373). Financial capital that is transferred or withdrawn from the material world and accumulated in the financial market, is just a preparation for another round of material expansion with new organizational innovations. Similarly, the financialization of agriculture is seen to provide a spatial fix to disentangle over-accumulation. However, according to agro-food scholars, financialization is more than a threat to the sustainability of agriculture. The threat extends to people’s rights to food, peasants’ livelihood and ecological diversity (Clapp, 2012; Russi, 2013; Isakson, 2014).

III. Agricultural Development and the Corporate Capital to the Countryside

In the past centuries, Chinese agriculture relied on the hard work of the traditional peasant households. However, the pressure of large population in the rural regions drove Chinese agriculture into the trap of involution (Huang, 1985, 2016). This situation did not change until the 1980s when the farm labor was gradually shifting to non-agricultural activities. Although the household responsibility system (HRS) significantly contributed to the growth of agricultural production, the rapidly changing market economy represented a barrier for Chinese farmers. The scattered smallholder has been recognized as one of the limitations to agricultural industrialization (Yan, 2015; Yan & Chen, 2015). Since then, the Chinese Communist Party has recurrently recommended large-scale type of farming. The main agricultural policy white paper series, "Central Document No. 1", for instance, stressed on the importance of the "Specialist Farm Households" (*Nóngyè shēngchǎn zhuānyèhù*) and "Lease-holding Farm Households" (*Chéngbǎo zhuānyèhù*). In 1990, Deng Xiaoping stated that HRS was just a temporary and transitional policy and that Chinese agriculture should make a great leap from HRS to a scientific agriculture. The aim was to scale-up socialized production, which in practice, would lead Chinese agricultural policies from de-collectivization to de-peasantization (Zhang & Donaldson, 2008).

From the 1990s to the early 2000s, the Chinese government dedicated itself to urban-driven growth having as a consequence budget cuts in agriculture. The surplus from agriculture was largely allocated to the urban area. The rapid development of the urban economy absorbed a substantial amount of rural capital and farm labor. While this structural change lessened the peasants' conflicts about farmland, it also disrupted the original order of rural society and the potential for peasant self-organization (He, 2011; Wen, 2012). Through the administrative control of the agricultural production and distribution, the Chinese government ensured the provision of abundant and cheap food to the urban working class albeit it plundered the wealth of the peasants.

Monetary savings of peasants were also drawn to the urban sector through the rural financial system (Yan, 2002). Furthermore, the "urban bias" policies and the paucity of the rural credit system handicapped the development of the "Dragonhead companies"[6]. With the capital shortage, neither peasant households nor the Dragonhead could complete the second leap of agriculture by relying solely on agricultural accumulation[7]. Until the end of 2001, the

[6] The Dragonhead companies in recent policies were promoted as vehicles for agricultural vertical integration see: Zhang & Donaldson (2008).
[7] In the late 1990s, because of the extrusion of the urban economy, the shortage of credit access and the complexity of ownership, the township and village enterprises (TVEs) experienced a wave of bankruptcy, see Huang (2008)

rate of circulation of farmland did not exceed 5 percent. Such figure entails that Chinese agriculture was still dominated by small farming households. Most of these households had a low capability and willingness to enlarge the scale of their farmland (Sun, 2015).

As noted by Kautsky, the tragedy of traditional peasants began when they are drawn into market relationships (Kautsky, 1988, cited in Watts, 1996). In China, the gap prompted by the fast growing market power and the lagging agricultural reform utterly intensified endogenous contradictions of peasant farming (Zhang, 2008). First, the peasants' means of production had almost been subsumed by the capitalist institutional arrangement since the 1990s. The consumption of industrial inputs (fertilizers, pesticides, and machines) increased their market dependence and the cost of reproduction (Huang et al., 2012; Huang & Gao, 2013). Second, to gain a higher output and income, peasants tended to overuse chemicals and water, which put food safety at risk and caused great concerns to urban consumers (FORHEAD, 2014). Third, the large number of scattered peasant households largely increases the transaction cost of agricultural enterprises and regulation cost of government departments (Huang, Wu, & Rozelle, 2008; Zhang & Donaldson, 2008).

The prolonged exodus of capital coupled with the deteriorating conditions of the peasants were attributed to market failure and government dysfunction (urban and industry-biased policies), which eventually, caused the "three agrarian problems"[8] (Wen, 2012). By the early 2000s, the government began to use a "visible hand" to improve investment in the agriculture sector and the rural areas. In the process of bringing "capital to the countryside", various agriculture-related government departments took the lead in improving the conditions of production (Tong & Wen, 2009).

The intensification of the investments suggested that Chinese agriculture would reach a new turning point in the future. Farmland was considered as a safe haven as it became a scarce resource, especially, during the economic crisis of 2007-2008. As the investors shared similar visions with the national programs, local governments have gradually opted for a policy of alignment with the private sector. This unification squeezed out peasant households and gave rise to a stratification of the rural society (Tong & Wen, 2009; Zhang & Donaldson, 2010; Yan & Chen, 2015).

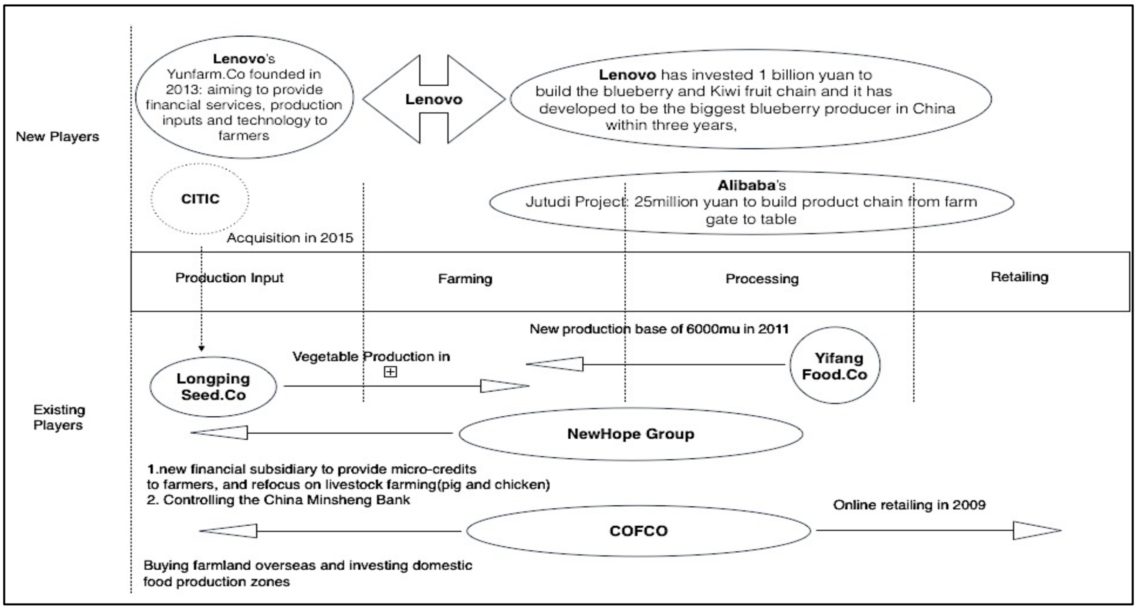
According to statistics from the Ministry of Agriculture, 28 million mu[9] of farmland was leased by companies at the end of 2012, an increase of 115 percent from 2009. This number grew up to 44 million mu by the middle of 2015 (Sun, 2015). In the developed coastal areas,

[8] The notion of "three agrarian problems" (*Sān nóng wèntí*) in China generally refers to the three development issues : un-industrialization of agriculture (*nong ye*), poverty of farmers (*nong min*) and underdevelopment of rural areas (*nong cun*).

[9] 1 mu is equal to 1/15 hectare.

the rate of circulation was much higher, and the agricultural investments hailing from corporate capital were more aggressive than in the inland provinces.

Furthermore, as reported in the survey of the Shanghai Municipal Agricultural Commission in 2013, the scale of farmland run by 288 agribusiness companies was more than 780 thousand mu, which represents more than 36 percent of the total farmland (Shanghai Yearbook, 2014). In some rural villages in Beijing, all the village farmland has been circulated to one or several agribusiness companies for rice, fruit, or flower production since 2009 (Beijing Agriculture Committee, 2015). According to media sources, investors include giant Chinese agricultural conglomerates such as the Newhope Group, IT firms such as Lenovo and Alibaba and many other corporate investors (**see: Graph 1**).



Graph 1 Corporate Investment in Agriculture: New Players and Existing Players

Sources: Authors' elaboration, date compile from various online medium sources and corporate annual reports

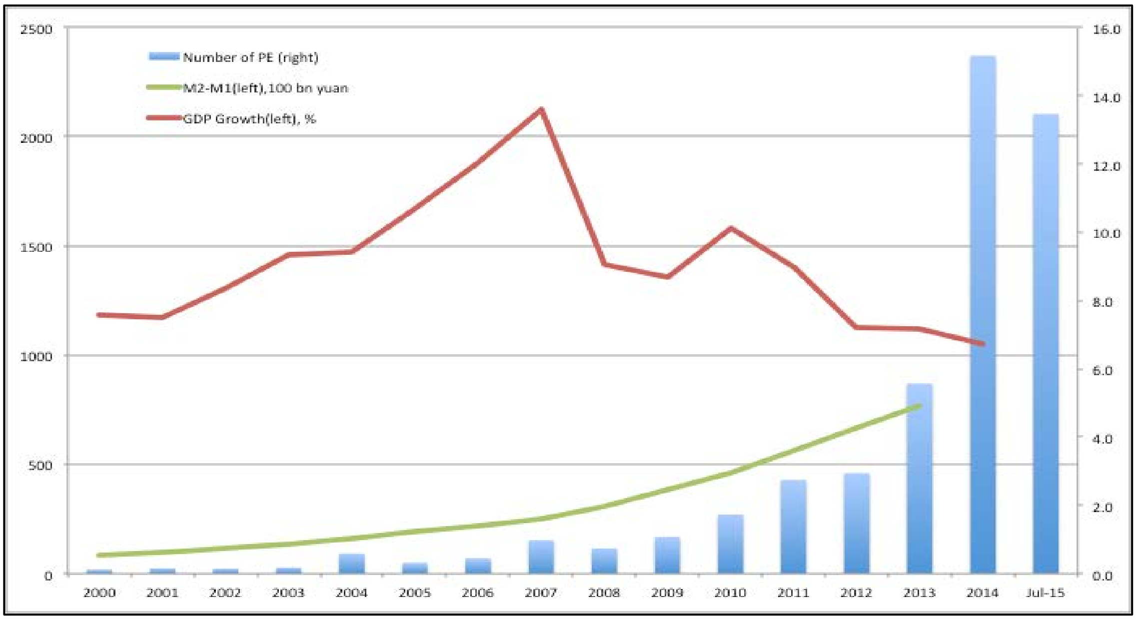
The conclusion of the interviews with PE, financial investors, and manager of agribusiness companies in the provinces of Shanghai and Shandong, indicated a tendency toward financialization of Chinese agriculture under the framework of the capital to the countryside. The modern financial instruments, the institutional arrangements within and beyond the financial system are increasingly motivating corporations to invest in agriculture.

IV. Financialization Driven by Private Equity Companies

PE is usually based on the establishment of a limited partnership between a "general" partner (GP) who has unlimited liability for the debts and obligations and a plural number of "limited" partners (LP) who, provide the loans and other forms of capital and whose liability is restricted to the amount of their investment (Burch & Lawrence, 2009, 2013). Compared to other financial institutions, PE has many advantages such as low entry level (RMB 1 million in China), diversified investment objectives (equity, stock and others) and relatively loose regulations.

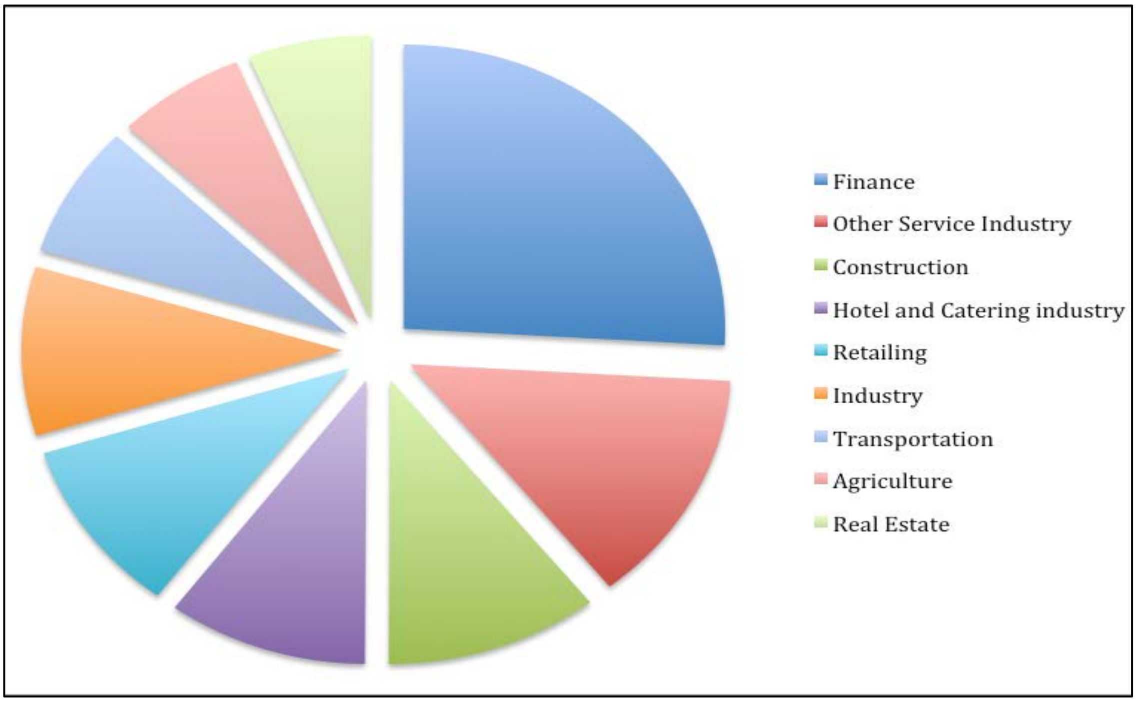
PE not only invests in enterprises during a mature period, but also invests in newly established small companies with strong growth expectations (Robertson, 2015). The PE that focuses on the latter is called venture capital (VC). Both PE and VC are risk-seeking businesses, and therefore aggressively pursue higher returns on invested capital than industrial firms. The concept of equity investment as a "financial instrument" has been introduced in China in the early 1980s. However, due to the corporate regulations, LPs were not allowed within limited liability companies until 2002 (Robertson, 2015, p. 36; Zhang & Zhuge, 2013). The real development opportunity for the Chinese PE occurred around 2006 when the government amended the law on partnership. Through the ten-year long shareholding reform starting in the early 1990s, most of the Chinese companies, including State-owned enterprises, made a transition to the status of JSC. With the clear shareholding structure (also known as the "shareholder revolution"), companies could place their assets on open market to raise capital (Wu, 2010, p. 194; Robertson, 2015). The direct-equity financing was an important milestone for Chinese companies, which made possible the increase of liquidity without raising the level of debt (Zhang & Zhuge, 2013).

The improvement of the institutional environment reflects the development of the credit system and the increasing need of capital to expand production. In that sense, the rise of PE and financial capital are supposed to remain within the sphere of the real economy. Nonetheless, after 2008, PE and financial capital have deviated from the path of the Chinese economy as it is illustrated in **Graph 2**. Despite the sluggish economic performance, the number of PE soared from 116 in 2008 to a record high of 2,371 in 2014. As depicted in **Graph 3**, the financial sector became the most causative driver of Chinese economic growth. Similar to the United States in the 1970s, Chinese entrepreneurs and policymakers also yearned to *fix* the economic crisis mainly caused by long-lasting uneven strategies in the developing financial sector. In the past decades, China saw a rapid economic growth that relied on the government's investment in infrastructure and on labor-intensive export-oriented manufacturing sector. Government investment and export contributed to over 70 percent of the GDP growth (Wen, 2005; Lin, 2012). Entrepreneurs were the greatest beneficiaries of the government policies, accumulating tremendous wealth while the system headed toward a primitive accumulation of capital. The conflict between overproduction, the limited domestic consumption coupled with the deteriorating overseas market finally resulted in a decline of the rate of profit. Therefore, entrepreneurs instinctively chose to save their capital in monetary form (Arrighi, 1994).



Graph 2 The Rise of PE Industry along with the Recession of Real Economy

Sources: data.PEdaily.com; China Yearbook (2014)
Note: M1 includes cash and checking deposits, while M2 refers to savings deposits, money market securities, mutual funds and other time deposits. The enlarging gap between M1 and M2 can be understood that Chinese enterprises move the money from production to non-productive investment.



Graph 3 Contribution of Finance to Chinese Economic Growth, 2015

Source: Bureau of Statistics, China, 2016

As argued by Harvey (1982), if the rise of financial capital is perceived as a temporary fix to the crisis of capitalism, then capital that flows in agriculture is an attempt to scheme a spatial fix. Chinese agriculture has attracted the attention of investors in 2008, when the pork and poultry related industry received funds from major Chinese banks and sovereign wealth funds, partially funded by banks like Goldman Sachs and Deutsche Bank (GRAIN, 2015; Isakson, 2014).

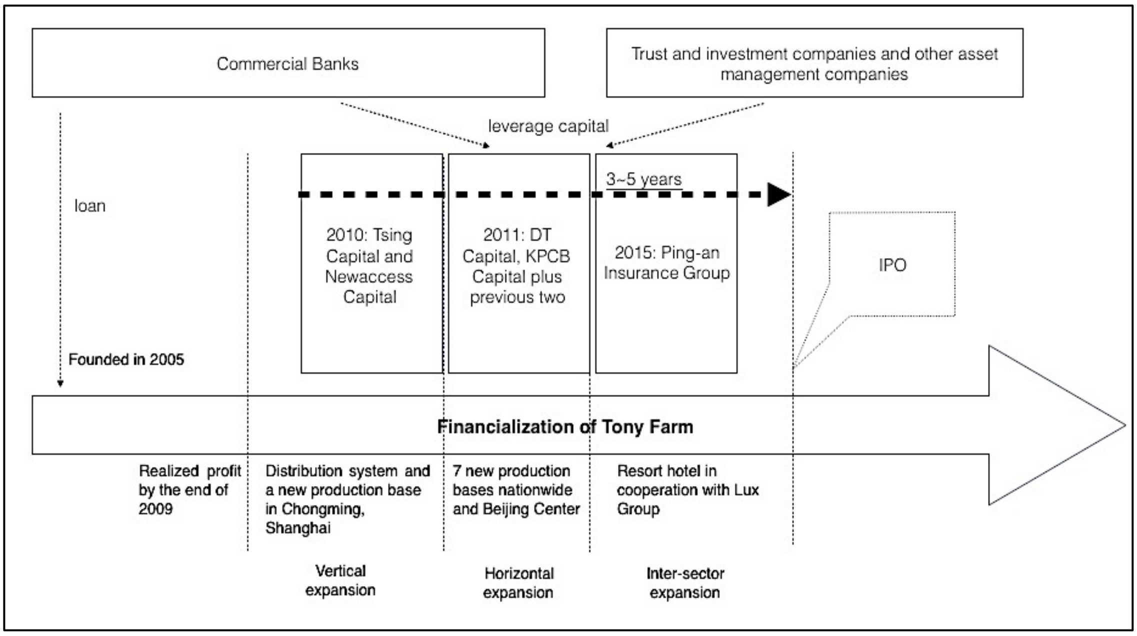
The participation of investment banks was a signal underlying that Chinese agricultural companies provided good valuation to the agricultural assets. This valuation is decisive for the activities of PE as it gives a *reference point* to determine the potential for profitability as well as the “exit” signal (Russi, 2013, p. 34). In practice, when a PE decides to invest in a company, the performance of other similar companies in the stock market or previous investment deals by other leading financial actors are used as basic criteria.

Most of the Chinese agricultural companies are categorized as small and medium size enterprises (SMEs). Of the more than 27,000 Dragonhead agriculture companies, only 4.3 percent manage to achieve revenue over 100 million Yuan. Besides, only 12 percent of the SMEs can obtain loans from commercial banks (Man, 2011; Sun & Yang, 2012). Because of the shortage of capital, it is difficult for small companies to control an integrated value chain or capture a large market share (Huang et al., 2008). This therefore creates opportunities for PE to help agriculture companies adjust their business strategies and educate entrepreneurs on how to *communicate* with investors to ensure future financing.

Some typical cases of agricultural investments conducted by PE companies are summarized in **Table 1** (appendix). The data were retrieved from PEdaily.cn with more than 180 investments records. The top three PE companies have foreign backgrounds and mainly manage foreign funds. For this group, the data indicate that dairy and food-processing industries are the main investment targets, because they have expertise learned from the western market. The middle four are domestically based and therefore have strong and complex connections with local agricultural companies and governments. Their style of the investments is diversified and aggressive. The bottom two PE companies act as the financing vehicles for Chinese consortia. The main driver of their investments in agriculture is diversification or to strengthen position within the product chain (see notes in the table).

Tony Farm is one of the largest organic farming companies in China that began its activities in the Pudong district, Shanghai in 2005. Its founder, Tonggui Zhang, was an owner of a chain of Sichuan food restaurants. After acquiring 1,750 mu of farmland from the Shanghai government for vegetable production, Zhang gradually transferred his main business from the restaurant to organic farming. Until 2009 when his organic products began to sell on the market, Zhang and his partners had invested over 100 million Yuan, which included individual deposits and money from the partners and commercial banks. However, the company did not make a profit until the end of 2009 as shown in **Graph 4** below.

In November of 2010, Tony Farm received its first round of investment of 70 million Yuan from PE companies. The company based its business model on Whole Foods Market in the United States. The money was immediately used to improve its distribution system and to build a new production base in Chongming Island in Shanghai. Less than one year later, Tony Farm received the second round of investment of 180 million Yuan from the other four PE companies. Its business domain rapidly expanded beyond Shanghai, and the company announced its plan to apply for an Initial Public Offering (IPO) in 2016 or later years. Zhang registered a series of new subsidiaries in the period from 2010 to 2012, including seven new production bases in Hainan Island and other inland provinces, a new sales center in Beijing, two agriculture technology companies and a restaurant that serves organic food. The scale of the farmland owned by Tony Farm increased from 1,750 mu to 30,000 mu. With the financial support hailing from PE companies, Tony Farm has achieved vertical and horizontal expansion while aiming to lower its average management costs and enlarge its market shares.



Graph 4 Private Equity Companies and the Development of Tony Farm

Source: Authors' elaboration, date compiled from company websites, news articles, and field survey in Shanghai production base

In June of 2015, Tony Farm received the third round of investment from one of China's largest finance consortia Ping-an, which owns banks, insurance, stock and trust companies. As the company reached the stage of maturity which made it possible to apply for IPOs, the expected results from the third round of investment was considered as the decision point for transfer of the equity to PE.

Although the amount invested by Ping-an was not exactly known, through the series of investments, the consortia has become the second largest shareholder of Tony Farm. In the same month, Tony Farm announced that it would build a five-star resort hotel at the Chengdu production base with the cooperation of Lux Group with the help of Ping-an (Ping-an, 2015). Ping-an also expected to earn a promoters' profit from Tony Farm's IPO through its other subsidiary Ping-an Stock Company.

The case of Tony Farm, one example among many others, illustrates that companies in China are subject to financialization by PE at an early stage of their development. With the new institutional arrangement regulating financial capital, Tony Farm was able to expand its market share and obtain farmland at an accelerated rate. In the process, the company not only acquired farmland and built a production base on its own, but it also took advantage of the means of equity investment to merge and acquire other agricultural companies such as its subsidiary Wugushengtai in Zhejiang.

PE played an essential role in the development of Tony Farm, however, over time, shareholder pressure was becoming more intense. As explained by Zhang, "we must seek to become a public company to fulfill the shareholders' expectations". The company continues to perform successfully by building nine organic production bases all over the country while strengthening its cooperation with Ping-an and Lux Group.

V. Financialization Driven by Agribusiness Companies

In China, the financialization of agriculture is also evident through the activities of agribusiness companies. Although the majority of the agricultural dragonhead generally falls into the SME category, some enterprises endowed with higher performances are taking advantage of the financial instruments to expand their businesses. A large and growing body of literature has investigated how Chinese companies capitalized on financial instruments by expanding businesses different from their initial activities (Tan & Fan, 2014; Zhuang, 2013). This section elaborates on how high performing agribusiness companies are using supply chain finance (SCF) also known as supply chain trade finance, to 1) construct their own "food empires" (Ploeg, 2009), and 2) to make profits from their extended financial activities with peasant households and other enterprises in the chain.

SFC is a financial tool that makes it possible the optimization of the transaction between buyers and suppliers with the intermediation of third party called "funder". To illustrate this interaction with a simple example, a downstream company, for instance, can use the purchasing invoice of the core company to obtain money from a bank at a discount rate before the production begins. The core company then sends the money back to the bank directly after the deal is completed. SCF therefore, enables the supplier to be paid earlier and for the buyers to optimize its working capital (Wang & Song, 2013).

Typically, SCF is outsourced to a third party such as banks and other professional SCF firms. Yet, with the deregulation of the financial sector and the expansion of the supply chain, many large multinational enterprises opt for the internalization of their SCF business due to their concern for the speed of transactions and profitability. As a result, the boundary between finance and industry is becoming increasingly opaque. One of the most emblematic examples is GE Capital, a financial service unit of General Electric, which generates over 50 percent of the total profit of the entire group (Burch & Lawrence, 2009). This model has been replicated in China within the context of bringing capital to the countryside. Chinese companies such as Newhope, Pioneer Seed China and Lenovo expanded their investments in the SCF business with the goal of improving the rural credit system and enhancing agricultural industrialization (Gale, 2009). The consequences of the financialization of agriculture through the intermediation of financial firms are twofold. On one hand, SFC gives an opportunity to agricultural companies to find new growth points. On the other hand, SFCs breaks the traditional mode of farming as peasant households are progressively commercialized and integrated in the chain.

Newhope is known as the largest animal feed producer in Sichuan Province founded by Liu Yonghao and his three brothers in 1982. Over three decades, The Company built strong record of accomplishment as an agricultural conglomerate with more than 600 subsidiaries. Although the latter always describes itself as an agriculture company, its main profit however, derives from finance and other investment activities but not from agriculture. In 1995, Newhope invested more than 100 million Yuan to establish the first non-state commercial bank CMB[10] in cooperation with other entrepreneurs and the government. The investment not only made it possible for the company to gain access to financial capital for the expansion of its business, but it also enjoys large dividends from CMB. According to the annual reports of Newhope-Liuhe, CMB contributed over 79.13 percent of the company’s total net income in 2014 (Newhope, 2015). In contrast, the performance of its main business, which includes animal feed, dairy and meat processing, has fallen to single digit growth. The annual growth of the animal feed sector, for instance, declined from more than 30 percent to 2 percent in 2014 (Newhope, 2015). The decline of the initial agricultural business has pushed Newhope to

[10] Newhope is also the largest shareholder of CM Insurance, a subsidiary of CMB.

adjust its strategies. In the statement of its 2014 annual report, the company affirmed that its agriculture business would evolve from “product-oriented” to “service-driven” approaches. The company aims to become a “master the food system” rather than being a single upstream or downstream player in the product chain (Burch & Lawrence, 2013; Isakson, 2014).

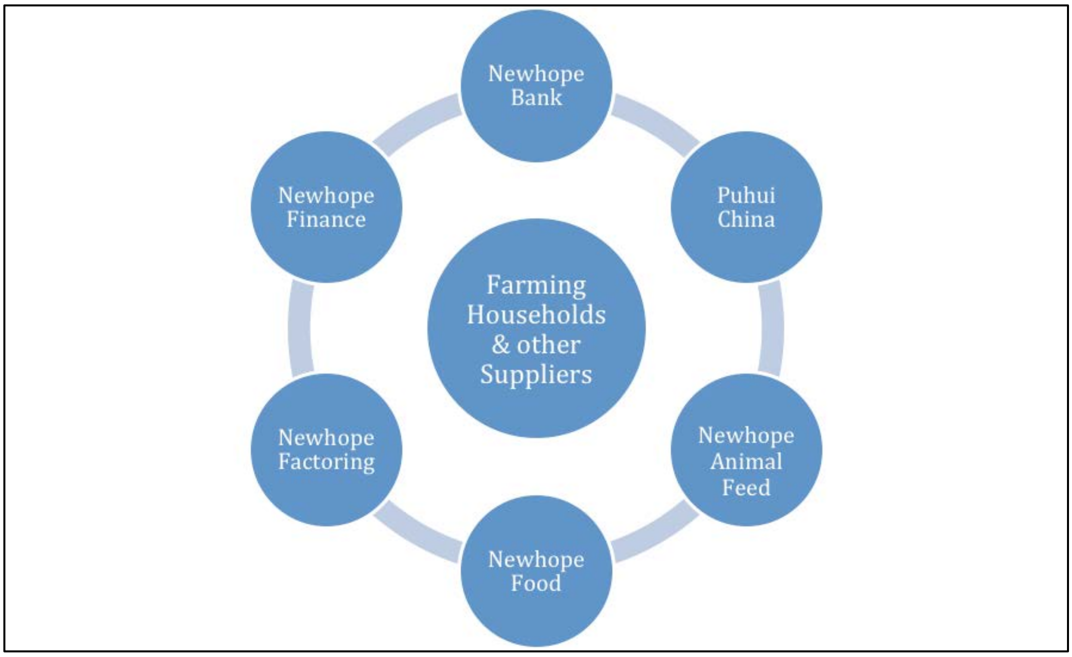
In 2007, Newhope initiated a pilot project to provide loan guarantee service to chicken farmers in Shandong Province. Newhope invested 150 million Yuan to establish a specific rural guarantee corporation named Puhui China in 2009. At the end of 2014, Puhui recorded 20 subsidiaries and provided 18 billion yuan to over 100 thousand farming households all over the country. Puhui China provided a so-called “eight-in-one”[11] financial guarantee service to professional large-scale chicken and pig farming households to help them upgrade their facilities and expand their business.

The model, however, largely affects the autonomy and decision-making of farmers since Puhui China instituted itself as an agent – provider of capital, and therefore, having a stronghold on the mode of production adopted by farmers who join its programs. Thanks to its countrywide sales and purchases network, Newhope could identify a large number of peasant households having a potentially good profile for credit subscription. The interviews with peasant households in Shandong province informs that despite the reluctance of farmers to take out a loan, they are often encouraged by the staff of Newhope, offering them advices and recommendations. When receiving the applications from the farmers, the regional retailers report to Puhui, which, after a double-checking on the farmers’ backgrounds, underwrites bank loans on behalf of the applicants. Once accepted, the loan is not directly transferred to the farmers. Instead, Puhui China pays all the costs and fees farmers need during the production, such as animal feed products (from Newhope retailers) and the construction of new facilities. In addition, to manage risks, Puhui also takes out agricultural insurance on behalf of the farmers. Nonetheless, the beneficiary of the insurance policy in case of any liability is the company. At the same time, Newhope also provides technical support for the farmers to reduce the risk of loss during production. Nonetheless, if the farmers incur loss and go into bankruptcy for any reason, Puhui China is entitled to dispose of the farm assets.

Since early 2015, Newhope has adopted a more aggressive investment strategy and expanded its SCF business. Liu announced a plan to establish a series of subsidiaries that will mainly provide financial services to participants in Newhope’s supply chain. Thus, Newhope Finance was founded in early 2015 as a peer-to-peer finance company (P2P) that aims to mobilize and pool the savings of farming households and uses it for reinvestment in the supply

[11] The “eight” includes Newhope, other suppliers, Puhui, commercial banks, insurance companies, local government and farmer cooperatives and farmers

chain. Newhope Finance took the role of third party in Puhui China's "eight-in-one" model. In addition, Newhope Finance introduced four types of financial products such as equity-loans and invoice-loans, to the SMEs operating in the Newhope's chain.



Graph 5 Newhope' s Finance-Driven "Empire"

Source: authors' elaboration data compiled from annual reports and news articles, field survey and Van der Ploeg (2009)

Newhope Factoring is a firm that helps Newhope Finance and the SMEs to accelerate the cash flow inside the supply chain. In mid-2016, Newhope also established its own commercial bank Hope Bank to expand its "empire". Within the empire described in **Graph 5**, Newhope entrenches the "debt relationship" in the "cooperative relationship" along the supply chain. Through the control of the flow of capital within the relatively closed loop, it successfully captures a hierarchical type of power over the SMEs and the farming households. The company then, makes profits from the movement of capital (financial services) inside and outside of the loop. Despite being an agricultural company, Newhope increasingly relies on the finance business, while agriculture becomes subordinate to finance. Farming households left at the bottom of the hierarchy must bear most of the risks and burden of debt during the production process. Hence, the only way for farmers to earn more profit is to enlarge the scale of their farms. Such mechanism reflects how Chinese agriculture is progressively shifting into a capitalist agriculture mode of production (Zhang & Donaldson, 2008; Yan & Chen, 2015). As a key player in the food system that can derive benefit from every node in the food chain, Newhope is transitioning to a "light-assets"[12] agribusiness company, as stated by the company's president Liu.

VI. Financialization Driven by the Local Government

The financialization of agriculture in China could not progress swiftly without the assistance of the government. This support goes mainly into two policy measures: farmland transactions and capital access. In contrast to the previous claims on the protective role of collective land ownership for Chinese peasants, an increasing number of case studies suggest that the local government is taking advantage of the peasants to build a favorable environment for corporate capital (Zhang & Donaldson, 2008; Andreas & Zhan, 2015; Feng, 2015).

Previously, local governments depended on agricultural taxes and other fees for their budget. However, due to the abolition of these taxes in 2006, local cadres were pushed to look for companies that can invest in the agricultural sector to levy taxes on corporations. As the program "capital to the countryside" was strongly supported by the central government policy, local cadres have been relentlessly using their authority to lease the peasant farmlands in their localities (Brandt, Huang, Li, & Rozelle, 2002).

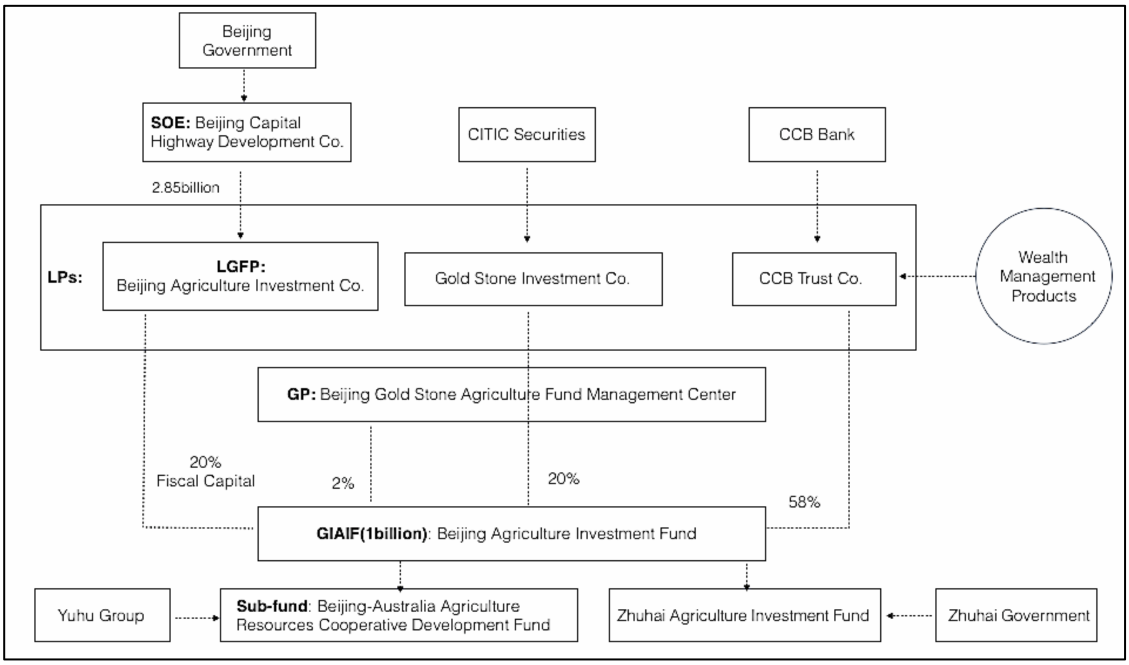
In recent years, many scholars have described the changing role of collective land ownership with concrete and undated cases (Andreas & Zhan, 2015; Feng, 2015). During our field research in February 2016, we also witnessed similar cases. In a village close to Tony Farm in Pudong, Shanghai, local cadres demanded that residents no longer rent farmland to individuals after the expiry of existing contracts. These requests were justified by the fact that local cadres are considering to rent farmlands in a unit of 100 mu to companies with strong capital (*Yǒu shílì de gōngshāng qǐyè*). Access to agricultural land has been facilitated for large-scale companies as these latter only needs to make a contract with the villages. These companies may also receive a government subsidy, which makes the cost per unit of agricultural land 100-200 Yuan cheaper than the cost paid by migrant farmers who also make a contract with local farmers to obtain land. In addition to the support in farmland transactions, the local governments are also using various financing means to provide credit to domestic agriculture companies and farming households that are willing to enlarge the size of their farms.

Many agricultural loan guarantee companies have been established with the government support to promote lending to agricultural Dragonhead companies, farmer organizations, and large-scale farming households (Gale, 2009). These companies, which originated in the relatively wealthy areas of Zhejiang Province in 2005, have spread to all of the inland

[12] Simply, the business model of light-assets means less investment in production facilities, such as building plantations and factories.

agriculture provinces. They were also mentioned in the Central Document No.1 of CCP in 2016 as an important part of the rural financial reform (CCP, 2016). The financial or agricultural bureaus of local governments at the provincial level or the city level usually provide the startup capital of these companies. Though the efforts of the government have improved the rural credit system, most of the financial services at present are biased in favor of capitalized scale farming.

Besides the guarantee service, local governments also establish many Agriculture Industry Funds (AIFs) to direct financial capital to domestic agriculture companies. Initially, financial firms and large agriculture companies only used AIF as a vehicle for a merger and acquisition in Chinese agricultural companies. Like the agricultural loan guarantee companies, AIFs were also mentioned in the Central Document No.1, to be an important component of agricultural policies since 2009. From 2009 to 2011, 14 new AIFs were founded by agricultural and financial companies (Cao, 2014). Since 2014, many local governments have replicated the structure of AIFs and used fiscal incentives to establish the so-called "Government Instructed Agriculture Industry Funds" (GIAIFs) – to attract capital for domestic agriculture. The GIAIFs evolve from the Local Government Financing Platforms (LGFPs) in the new pattern of Public-Private Partnership (PPP). Compared to the old LGFPs, GIAIFs are fully operated by financial firms. Local governments also invest approximately 20 percent in the GIAIFs capital but require in return that the fund will be invested domestically. In 2015 alone, provincial governments established six new GIAIFs.



Graph 6 Capital Structure of Beijing Agriculture Investment Fund

Sources: authors' elaboration based on company websites and news articles, interviewed with a manager working for the project

The Mechanism of the financialization driven by the local government is illustrated in **Graph 6** with the case of the Beijing Agriculture Fund. Beijing Agriculture Investment Company is a LGFP owned by the Beijing government, which has developed several subsidiaries providing guarantee, factoring and other financing services for agricultural producers in the Beijing area. In order to raise capital to support agricultural development in the region, without encumbering the local budget, the Beijing government has decided to cooperate with Gold Stone, designated to manage the GIAIF of $ 1 billion Yuan. The Beijing government has allocated 200 million Yuan as capital endowment, Gold Stone then, has invested 202 million Yuan. The remaining funds were raised with the support of the CBC. GIAIFs' investment cycle is generally 10 years. However, Institutional investors such as CBC trust, illustrated in the present case, have the privilege to exit after three years. The government thus, can claim 10 to 20 percent return on investment proportional to its initial investments.

According to the policy adopted by Shandong government, the proportion of capital endowment cannot exceed 25 percent in a single GIAIF. This total capital endowment however, should not exceed 40 percent if further allocation is envisioned by the local government. However, due to financial constraints, the case of new allocations of capital endowment is rare. Despite the fact that the return on investment is economically low, political return is however greater among their constituencies. Shandong Government for instance requires that 80% of the GIAIF's capital to be invested in locally (Shandong Government, 2014).

The present case illustrates that local government used their administrative power and their financial resources to repeal all the barriers that hinder corporate capital from entering agriculture. While seeking to attract investment in the local agriculture, the local government acted as the spearheads of corporate capital by taking farmland from the peasants (Feng, 2016). Putting forth the improvement of the financial environment in rural areas, policymakers were able to disguise the increasing influence exerted by the companies on farmlands.

VII. Conclusion

This paper examined the evolving tendency of financialization of the Chinese agriculture as a result of the interactions between private equity, agribusiness and local governments. It attempted to shed light on the underlying elements that explain why and how corporate capital investments surge after the recent financial crisis and particularly within the context of China's agricultural transition taking place in a new era of financial food regime. Based on our line of reasoning, the dramatic surge of corporate capital going to the agriculture was mainly driven by the rise of financial capital and the deregulation of Chinese financial system. This major policy shift has also given rise to the creation of an institutional space in which the financial logic is overshadowing the "real" relations of production in agriculture.

The process of "bringing capital to the countryside" is not only a process of modernization, but also a process of capitalist extracting profits from agriculture resources and farming households. Different with the agricultural transition of western capitalist countries, which was for primitive accumulation of capital, Chinese agricultural transition is more like a passive process driven by over-accumulated non-farming corporate capital that has developed to the highest stage of financial capital. On the other hand, ordinary farming households and most of agricultural companies that are short of access to capital can not withstand the magic of capital. In this paper, we have elaborated on the increasing roles of financial institutions (PE) and financial mechanism (SCF, GIAIF) in corporate investment in agriculture, which informs us that the industrialization of agriculture in China is proceeding in parallel with financialization[13].

The realities in the present studies also demonstrate that finance is not only one of the key structuring relations under corporate food regime (McMichael 2014, pp. 100-103), it is also determining the life of agriculture companies. Without the support of finance capital, newly established agriculture companies hardly can survive, as what happened to the TVEs in 1990s.

The present research also suggests the need for construction an innovative approach to the research on financialization of the food system – by taking into consideration the contextual factors and avoiding a simple representation of financialization as an inexorable force (Magnan, 2015). Such process is mediated by a combination of social and historical contexts as well as the choices and strategies of the key social actors. For the future of Chinese agriculture, a rapid transition largely relying on early capital and industrial inputs will eventually have to return to the development of peasants and farm laborers, which should have been learned during the urban industrial development phase (Wen, 2005, 2012).

Every process of social transition has its costs. The industrialization of agriculture catalyzed by financial capital may appears to be against the policymakers' expectations in many aspects and give rise to underlying conflicts between corporate capital and peasants, as well as consumers. For example, the competition for farmland between corporate capital and peasants could lead to "re-peasantization" (Ploeg, Ye, & Pan, 2014), while consumers may become more concerned about the food safety and diversity provided by the corporate food system.

[13] In a speech of vice minister of technology, Zhang Laiwu, financialization is seen as a premise of industrialization, retrieved from: goo.gl/VIUKvW

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Appendix

Table 1 Agricultural Investment by the PE companies

PE	Project	Year	Investment	Business	Note	Other Investment
KKR & CDH Fund	Modern Dairy Co.	2008	USD 150 million from KKR; 50 million from CDH	Dairy company founded in 2005	The number of plantation own by the MD expands from 3 to 22 with the help of investment. After MD completed the IPO in Hong Kong in 2010, KKR and CDH sold majority of equity to Mengniu Dairy owned by COFCO,with a net profit of at least RMB 1 billion	Sunner Development Co. COFCO Meat Co. Shuanghui Co. Yurun Co. Mengniu Co.and Asian Dairy Co.
		2013	USD 140 million in 2013		KKR and CDH invested to build another two plantations to produce high quality mild. The difference is KKR and CDH take 82% of majority equity in the new plantations.	
SAIF	Tianjing Food(Jilin)	2008/2010	more than USD tens of million	Corn agribusiness founded in 2001	SAIF controls USD 4 billion assets。 The president of SAIF is also board member of Tianjing Food	OrganiFarm Co.Landunxumei Co.Jyorganic Co.Greatnortheast Co.
SBCVC	Yifang	2010	Third largest shareholder	Fruit farming and processing	Yifang has expanded production base to 7000mu after getting the investment from Pes	
JD Capital	Gifore Farming Machine	2009	RMB 20 million	Farming machine company founded in 1994	JD capital earned more than 270 million after the IPO. Internal Rate of Return as high as 1200%	
	Liming Chemical	2009	RMB 55 million	Agriculture chemical company founded in 1995	JD capital raises an industrial fund of 1 bimmion yuan with Limin in 2015 for merges and acquisitions	
Green Pine Capital	Wufeng Agriculture (Liaoning)	2010	RMB 230 million	Rice agribusiness founded in 2000	GreenPine, China Evernight Bank and COFCO Agriculture Fund plan to invest more than RMB 1.3 billon to build a new integrative rice chain from growing to deep-processing. Wufeng now has rice paddy of more than 400 thousdand mu	Tianjing Food Co.
Tsing Capital & Newaccess Capital	Tony Farm	2010	RMB 70 million from Tsing; RMB 10 million from Newaccess	Organic agriculture company founded in 2005,full control from production to distribution	Tony farm has expaneded its farmland scale from 1500 mu only in Shanghai to more than ten production base of 30000 mu nationwide after getting investment.Tsing Capital is one of subsidary of TsingHuas University; The founder of Newaccess worked at SBCVC,funded by Japanese Softbank.KPCB is one of famous financial company and the LPs of DT capital include Wal-Mart family. Ping-an is one of Chinese biggest insurance company.Chinese policymakers gradually de-regulate the investment scope of insurance companies from 2010.	Xinnonge Nut Co. Hongxu Agriculture Co.
DT Capital,KPCB other two		2011	RMB 180 million			Bainianliyuan Farming Co. Hengyang Beaf Co.
Ping-an Insurance		2015	Second largest shareholder			
Hony Capital	Joyvio	2010	RMB 1 billion	Full chain of fruits and tea started in 2010	Hony Capital is a financing platform of Lenove. Joyvior now is the biggest blueberry producers in China. Lenovo also invests in tea, wine and other fruits plantation in both China and South America	YNC365.Com
Alibaba	Jutudi	2014	RMB 25 million	Contract Farming	Jutudi company makes contracts with local government to utilize peasants and farland to produce local foods, and then sell them through Alibaba's onlin platform. Now it has controlled farmland of more than 30 thousand mu.	

Source: Authors' elaboration based on data.Pedaily.com; Robertson (2015)