

A growing trend in foreign direct investment in agriculture: potential implications

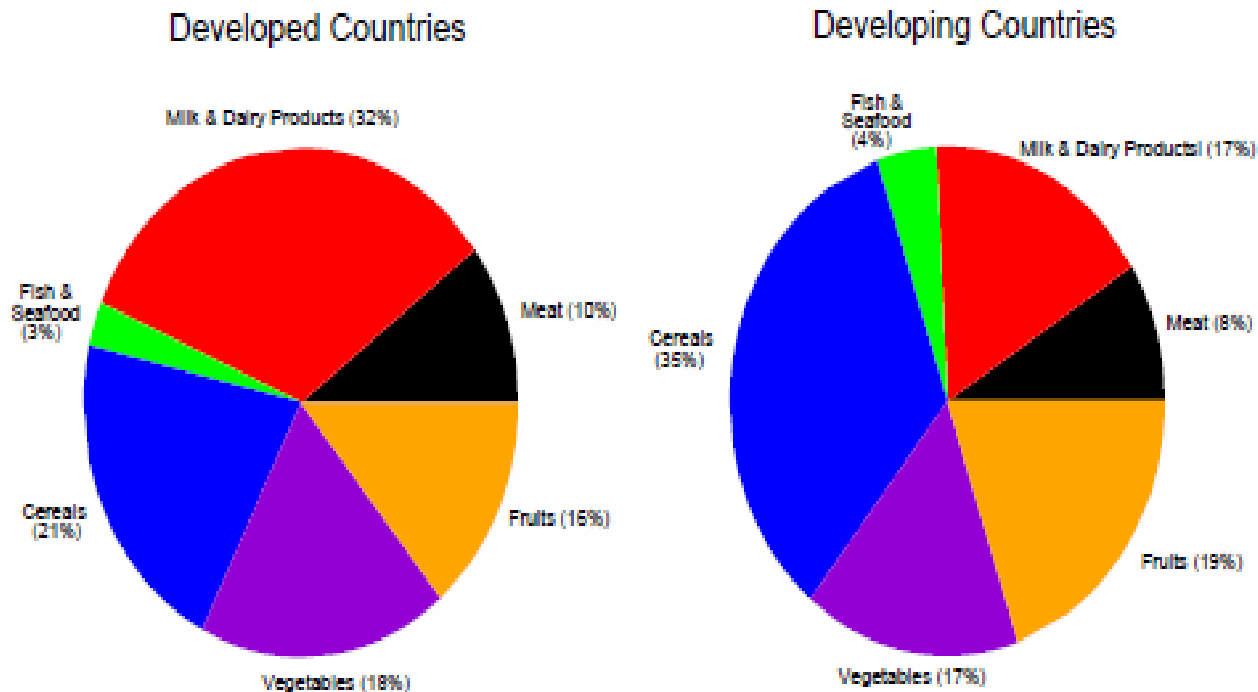
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What is triggering interest in agricultural FDI?

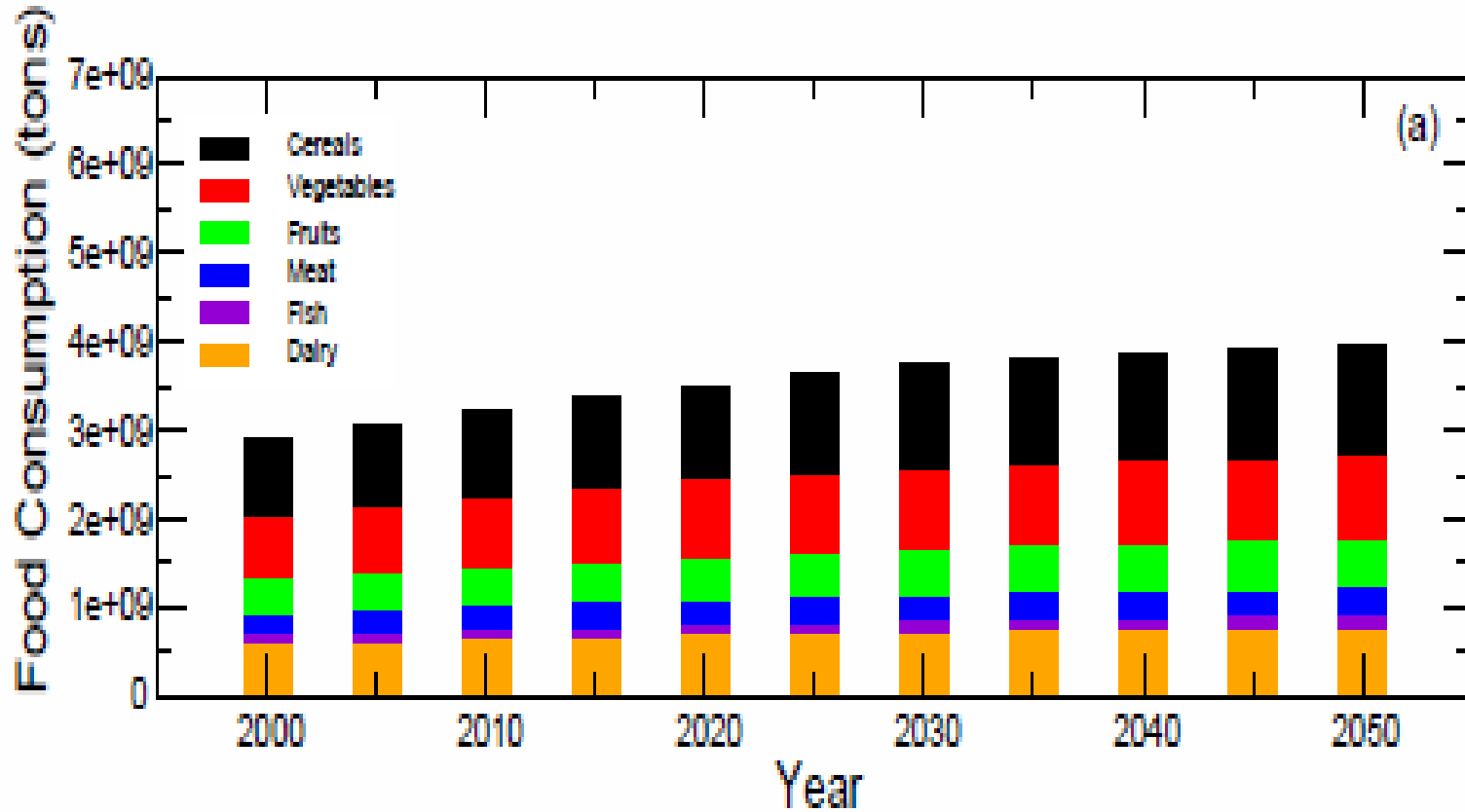
- **Increasing demand for food and feed in major importing countries**
 - **Rising incomes and population growth in key emerging economies are contributing to this**
 - **Need to seek opportunities to secure adequate food supplies overseas**
- **Growing demand for biofuel feedstock**
- **Continuing anxiety about potential vulnerability to substantial volatility in global food markets - food insecurity**
- **Relocating production to regions where land is cheaper and scope for productivity growth is higher**
- **Projections of secure returns from land-based investments**
- **Increasing expansion in large scale agro-processing and agro-industrial operations with forward and backward linkages**
- **Sources: World Bank (2010), UNCTAD (2010), FAO (2010)**

Developed vs. developing country diet composition (in % of calories)

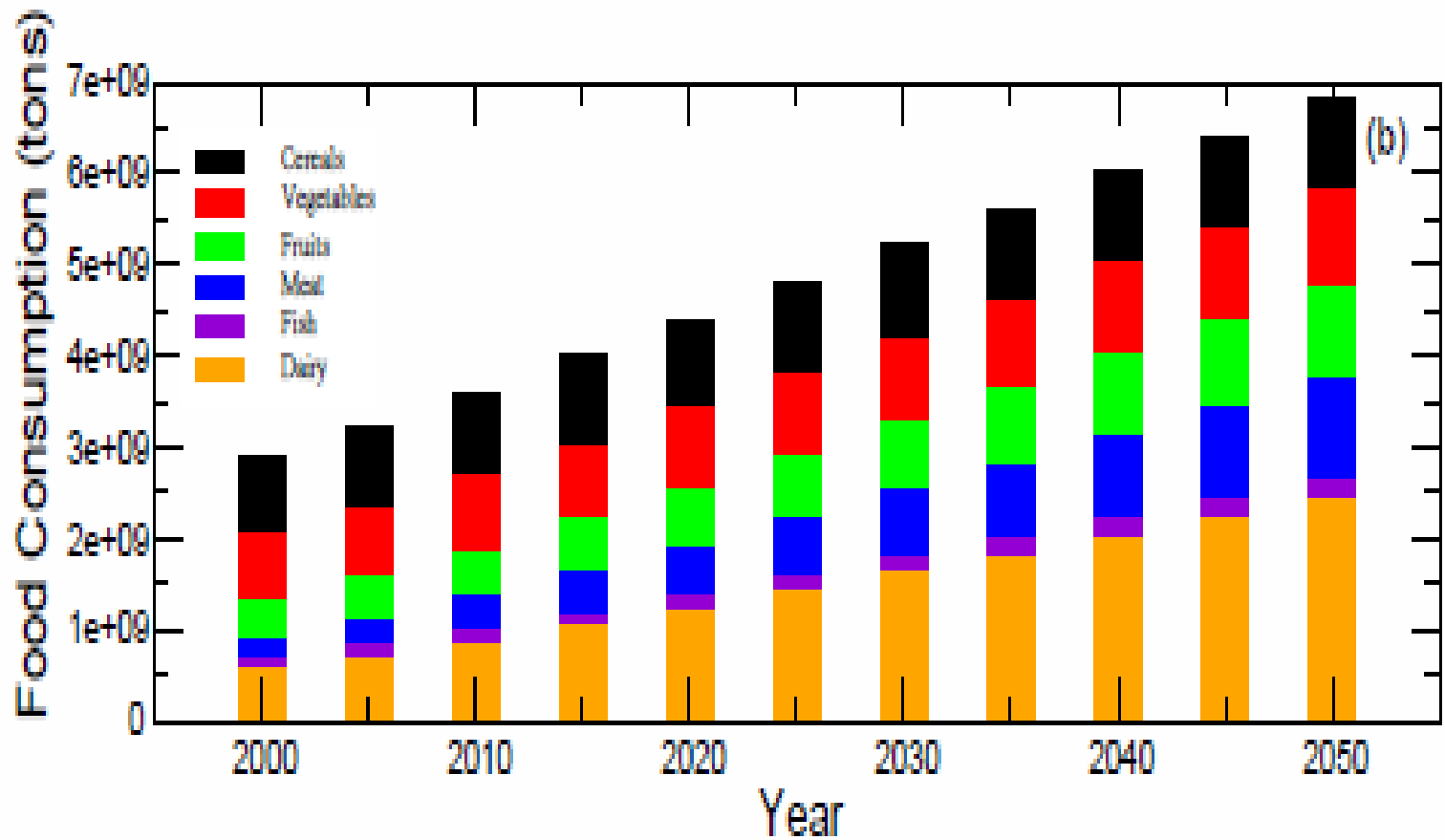


Source: Food and Agriculture Organisation (2009a)

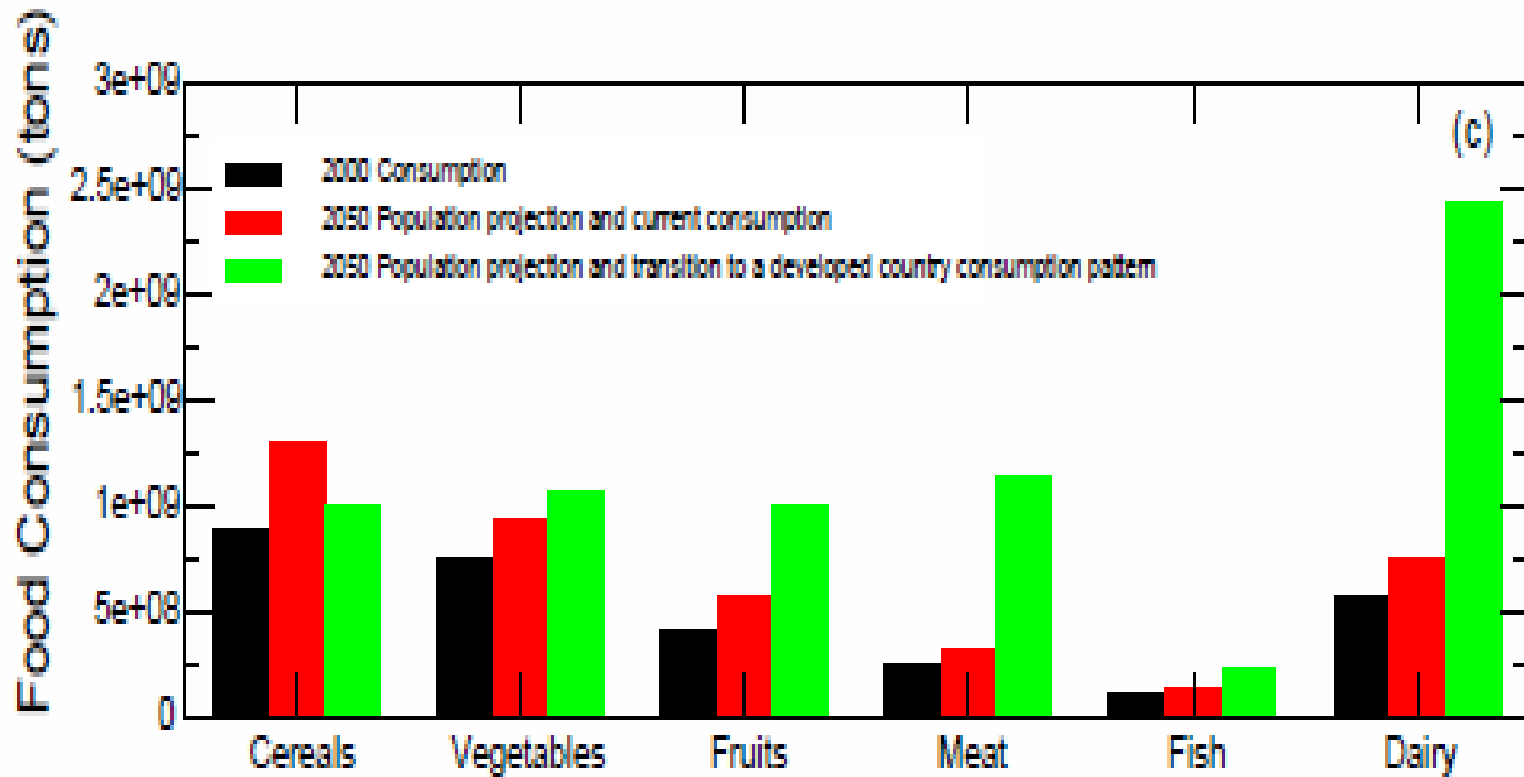
Projections for global food consumption based on current trends (scenario a)



Projected food consumption with transition to developed country consumption patterns (scenario b)



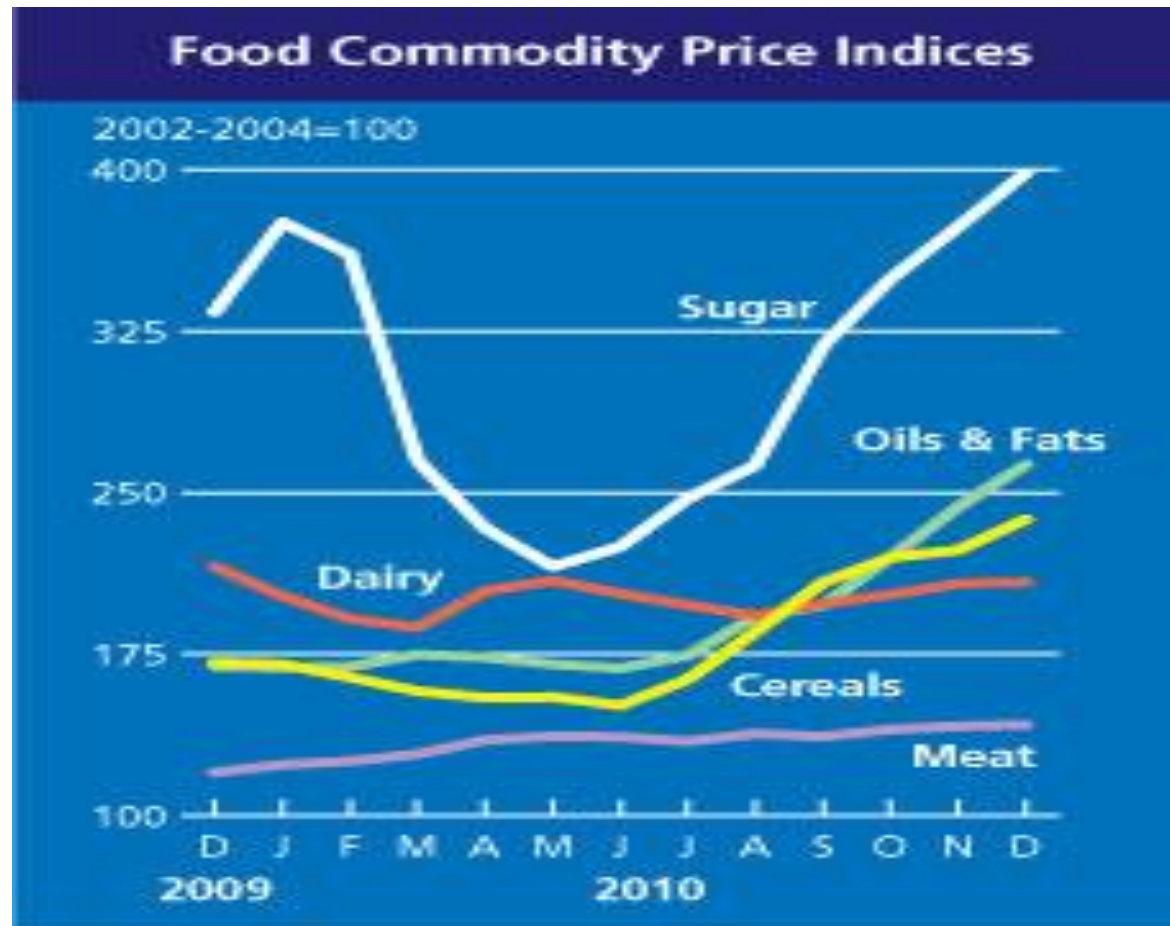
Comparison between current consumption and projected consumption for the two scenarios (a) and (b)



World food price index (FAO 2011)



Food commodity price indices (FAO 2011)



Meeting the growing D for food

- **Little consensus on increasing food supply sustainably**
 - **Food supply: need to rise by 70% by 2050**
 - **Cereals: need to rise from 2bt (2009) to 3bt (2050)**
 - **Meat: need to rise from 270mt (2009) to 470mt (2050)**
 - **Net cereal imports in developing economies: need to rise from 120mt (2000) to 250mt (2050)**

Source: OECD and FAO (2009)

Land acquisitions and investment

- **Three key groups of investors:**
 - Food importing countries (e.g. China, South Korea and Saudi Arabia); Financial entities (e.g. pension funds); Large agricultural and agro-industrial firms
 - **Investors expressed interest in 42m ha of land in 2008-09. Of these 75% (32m ha) were in Africa**
 - This compares with an average annual expansion of global farm land of less than 4m ha before 2008.
 - **More than 50% of land that could be used for expansion of cultivated area is in 10 countries, of which five are in Africa.**
 - **Different stages of investment (2009):**
 - 30% exploratory stage; 20% approved but not started
 - 30% initial development stage; 20% started farming
 - **Types of land acquisition:**
 - Purchases; leasing; sub-leasing
- Source: World Bank (2010)

Key source countries of agricultural FDI

- **China**
- **South Korea**
- **The Gulf States (e.g. Saudi Arabia, United Arab Emirates, Qatar, Kuwait and Bahrain)**
- **North Africa (e.g. Libya and Egypt)**
- **Russia**
- **UK and US**

Source: World Bank (2010)

Availability of uncultivated land (1,000 ha)

Sub-Saharan Africa	201,761
Latin America and Caribbean	123,342
E Europe and Central Asia	51,136
East and South Asia	14,769
Middle East and North Africa	2,716
ROW	52,134

Source: World Bank (2010) based on Fischer and Shah (2010)

Major land acquisitions in selected countries

	Area (1,000 ha)	Domestic investors share (%)
Cambodia	958	70
Ethiopia	1190	49
Liberia	1602	7
Mozambique	2670	53
Nigeria	793	97
Sudan	3965	78
Source: World bank (2010)		

Key commodities driving land use change (1990-2007)

- **Maize**
- **Oil palm**
- **Rice**
- **Canola**
- **Soybean**
- **Sunflower**
- **Sugarcane**
- **Plantation forestry**

Source: World Bank (2010)

Conflicting concerns about agricultural FDI

IN FAVOUR

- Opportunity to reverse long term underinvestment in agriculture
- Allow land abundant regions to access better technology
- If managed well, could lead to broad based development, generate employment and reduce poverty
- Help meet the growing global demand for food triggered by income and population growth and changing food consumption patterns

AGAINST

- Inadequate infrastructure, weak regulatory institutions, lack of and/or ill-defined property rights for land, water and other natural resources and poor governance of FDI could lead to project failures
 - **Could result in conflict, environmental and resource degradation, enhanced inequality in FDI recipient regions**

Potential implications of agricultural FDI

- **Global financial requirement for agricultural development is huge:**
 - \$ 25-40b/year (UNCTAD 2010)
 - Too high for most developing countries
 - World FDI inflows in agriculture: \$3b/year (2005-07) – relatively low share
 - Local investment needs to be supplemented by FDI
- **FDI could help foster technology transfer, marketing opportunities, links to global value chains, help adopt climate change mitigation and adaptation measures in agriculture**
- **Need to avoid/reduce risks with FDI such as environmental degradation and dislocation of local communities**
- **Fostering the links between domestic and FDI could be undermined by distortionary trade and farm policies:**
 - **Such policies create a disincentive for investors and undermine the competitiveness of agricultural products**

Source: UNCTAD (2010)

Principles of responsible agro-investment

- **Respecting land and resource rights**
- **Ensuring food security**
- **Ensuring transparency, good governance and a proper enabling environment**
- **Consultation and participation**
- **Responsible agro-investing**
- **Social sustainability**
- **Environmental sustainability**

Source: FAO, IFAD, UNCTAD and World Bank (2010)

Thank you

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