Food and Agriculture Organization of the United Nations

Foreign Direct Investment to Agriculture, Forestry and Fishery

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From 1997 to 2011, Foreign Direct Investments (FDI) inflows to agriculture, forestry and fishery (AFF) increased from $1.2 billion to $1.7 billion, with significant year-to-year volatility. FDI inflows to AFF peaked in 2007 when they reached a record-high $7.3 billion (all prices are in constant 2005 US dollars).

During this same period, total FDI inflows doubled from $560 billion in 1997 to $1.1 trillion in 2011, driven largely by cross-border Mergers and Acquisitions (M&A), with a peak of $1.6 trillion in 2007. The value of M&As fell by 48% in 2000-2001 and 38% in 2001-2002 as a result of economic slowdown and a sharp decrease in stock prices in early 2001. FDI inflows rose again in 2004 (21% annual increase), 2005 (35%), 2006 (48%) and 2007 (35%), and fell in 2008 and 2009 due to a tightening of credit and an end to high stock prices. The value of M&As increased by 36% in 2010 with improved economic and financial conditions.[1]

The AFF share of total FDI remained below 0.5% throughout the period, peaking at 0.46% in 2007. By contrast, the food, beverages and tobacco (FBT) share of global FDI inflows averaged 2%. In the AFF industry, FDI inflows are largely aimed at resource control, mostly land.[2] In Africa, FDI focuses largely on rice, wheat, oilseed and floriculture production; in Asia the focus is on rice, wheat, meat and poultry productions; and in South America, the focus is on fruits, sugarcane, fruits, flowers and soya beans.[3] Other investors are engaged in producing agricultural inputs such as equipment, fertilizer and seeds.

Figure 1. Total FDI inflows, AFF and FBT Shares, 1997-2011, 2005 constant prices ($billions USD)

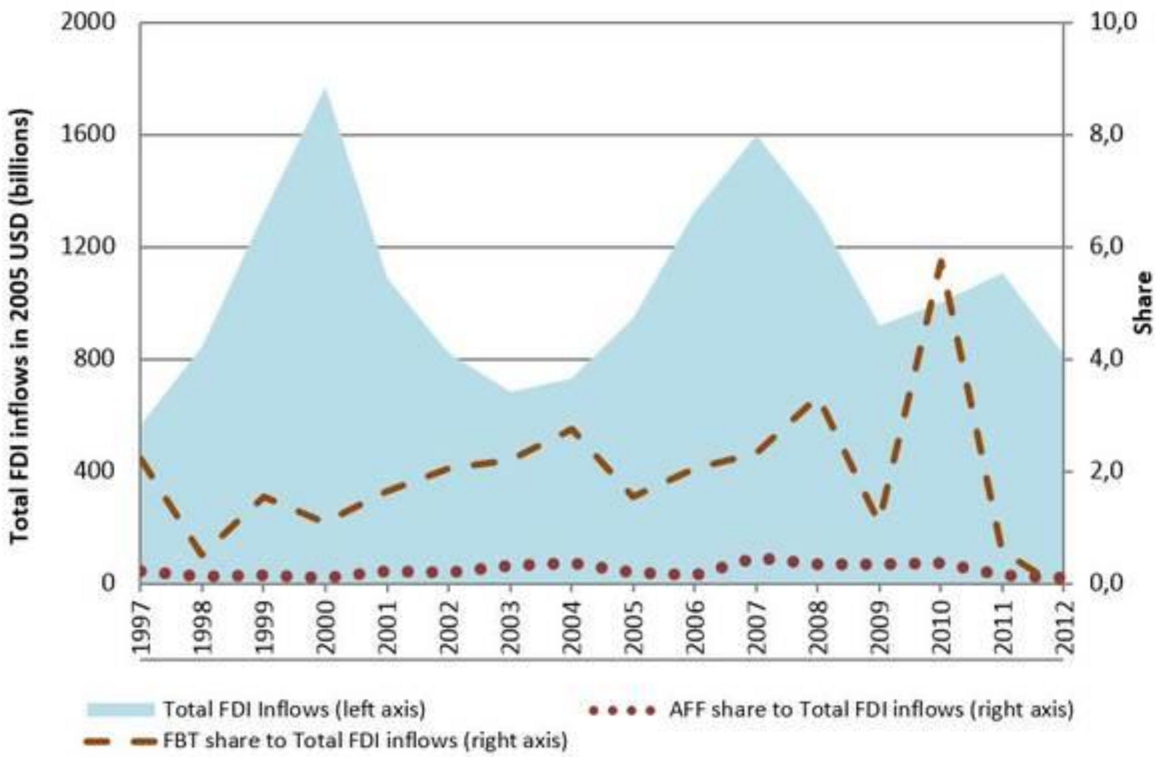
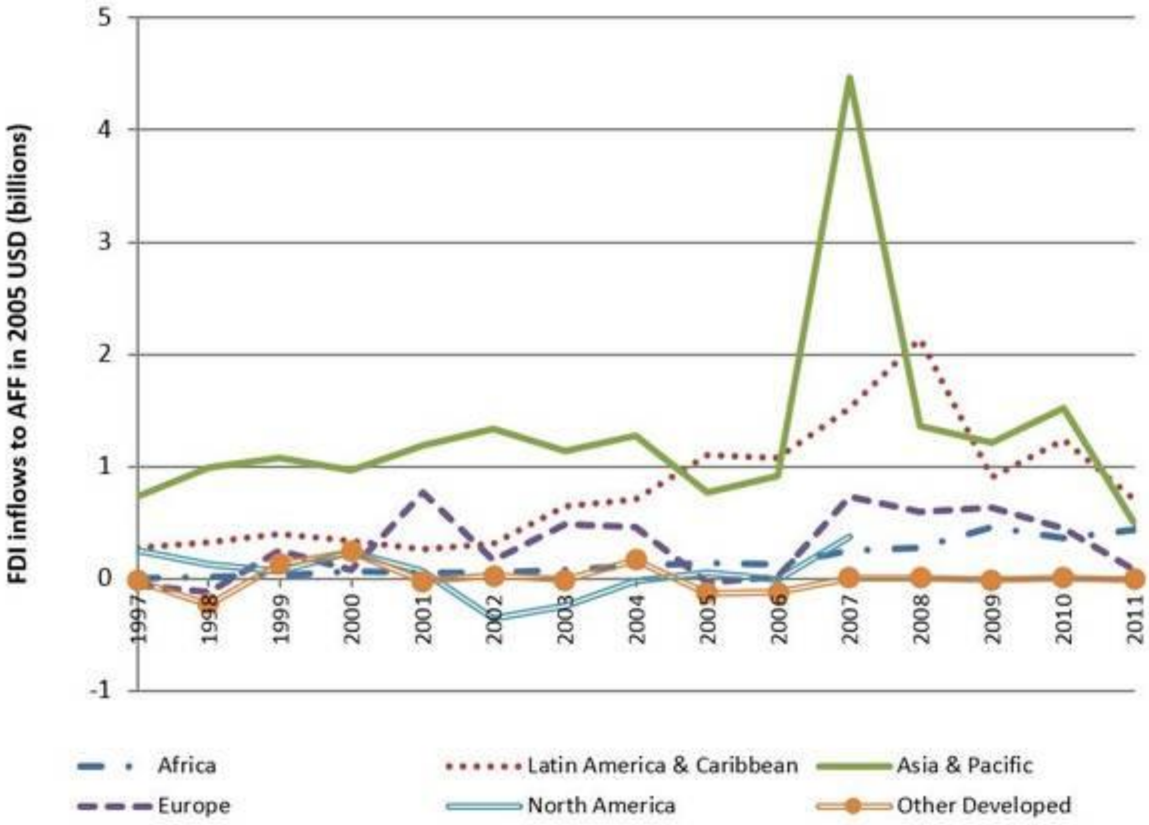


Figure 2. FDI inflows to AFF by region, 1997-2011, 2005 constant prices ($billions USD)

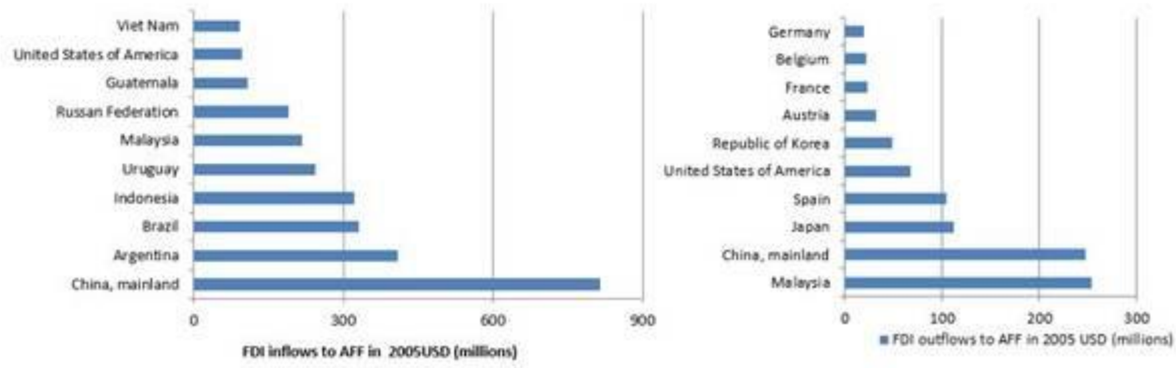


Developing regions were the main destination for AFF FDI inflows with developing countries accounting for almost 90% of all inflows between 2004 and 2011, or a total of $23.6 billion. Countries in Asia and the Pacific (A&P) were the largest recipients, receiving 45% of the total inflows to AFF. However, inflows to Africa grew rapidly during this period, rising from 4% to 25% of total FDI inflows to AFF.

In 2006, all regions experienced an increase in FDI inflows to AFF rising to a record high of $7.3 billion. Increases were highest in A&P, where they increased almost 4 times over the previous year to a record high of $4.5 billion. After 2007, FDI inflows to AFF began to decline in all regions, and despite increases in some years, remained below the 2007 highs.

The 2007 highs are explained by the Food Price Crisis, during which food price increases attracted Transnational Corporations and institutional investors looking to acquire land and a larger share of the agro-food export market.[4] Part of the large 2007 growth in A&P can be attributed to large domestic consumer markets and a productive agricultural sector,[5] and the trend reversal after 2007 to food export restrictions and currency appreciation.[6]

Figure 3. Top 10 countries in annual FDI inflows and outflows to AFF, 2005 USD (millions), 2004-2011 averages



Between 2004 and 2011, the top ten recipients of FDI inflows to AFF included China ($800 million annually), followed by Argentina ($400 million), Brazil ($330 million) and Indonesia ($320 million). The top 10 source countries for FDI outflows to AFF included Malaysia ($254 million), followed by China ($247 million) and Japan ($110 million).

FDI outflows to AFF from developing countries may be motivated by increasing domestic agro-food prices and lower agricultural production costs elsewhere, as in the case of China and the Republic of Korea, who invested in foreign agricultural production to help meet growing domestic demand.[7]

References

[1] UNCTAD. *World Investment Reports (2001 to 2011)*.

[2] Hallam, D., (2009). *Foreign Investment in Developing Country Agriculture—Issues, Policy Implications and International Response*, OECD Global Forum on International Investment VIII , 7–8 December 2009.

[3] UNCTAD. *World Investment Report 2009*.

[4] McNellis, P., (2009). *Foreign Investment in Developing Country Agriculture – The Emerging Role of Private Sector Finance*. FAO Commodity and Trade Policy Research Working Paper No. 28.

[5] World Bank (2015) Data, *World Development Indicators* (Cereal yield).

[6] Sharma, R., (2011), *Food Export Restrictions: Review of the 2007–10 Experience and Considerations for Disciplining Restrictive Measures*.

[7] McNellis, P., (2009). *Foreign Investment in Developing Country Agriculture – The Emerging Role of Private Sector Finance*. FAO Commodity and Trade Policy Research Working Paper No. 28.

Note

Data on FDI were obtained from the United Nations Conference on Trade and Development (UNCTAD).

FDI is defined as an investment which aims to acquire a lasting management influence (10 percent or more of voting stock) in an enterprise operating in a foreign economy (International Monetary Fund's Balance of Payments Manual 1993, Fifth Edition, and OECD's Detailed Benchmark Definition of Foreign Direct Investment 1996, Third Edition). FDI can be decomposed into two types of investments: mergers and acquisitions (M&A) and greenfield investments. The latter results in the creation of new entities and setting up of offices, buildings, plants or factories in a foreign economy. FDI is the sum of equity capital, reinvested earnings and other FDI capital, where other FDI capital includes the borrowing and lending of funds.