THE IMPACT OF FDI IN LAND ON A DEVELOPING HOST

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Abstract

This paper discusses the impact of FDI in land on a developing hostcountry.A multitude of direct and indirect effects, both positive and negative which can arise from FDI in land are studied. The paper argues that FDI should have an overall positive effect on economic growth as a result of technology spillovers and physical capital inflows if the proper care is taken by the host. The review analysis finds that FDI in land does not only improve national welfare unequivocally but also mitigates the unemployment problem of all types of labour. It is reviewed on three dimensions which are considered as the most crucial for any country and its residents whether it is developed or developing. The three dimensions are:**Possible economic impacts,Possible socio-cultural impacts and Possible environmental impacts of FDI in land on a developing host nation.** The paper theoretically justifies the desirability of flow of FDI in land in the developing economies.

Keywords: Foreign Direct Investment, Developing host country

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Introduction

No specific official definition for FDI in land exists so far. But in general terms:"FDI in land by a foreign company or state is based on a lasting interest in taking control over land use rights. The transaction includes either rights of land-use or land-ownership. The land-use rights are generally valid for a limited period and can possibly be extended."The surge of interest in foreign investment in agricultural land has arousedsubstantial international concern. Certainly, complex and controversial economic,political, institutional, legal and ethical issues are raised in relation to property rights, food security, poverty reduction, rural development, technology and accessto land and water. On the other hand, lack of investment in agriculture over decades has meant continuing low productivity and stagnant production in many developing countries. Lack of investment has been identified as an underlying cause of the food crisis and the difficulties developing countries encountered in dealing with it. FAO estimates that gross annual investments of USD 209 billion are needed in primary agriculture and downstream services in developing countriesto meet global food needs in 2050. Developing countries' own capacity to fill that gap is limited. The share of public spending on agriculture in developing countries has fallen. Commercial bank lending going to agriculture in developing countries is also small – and are not proved sufficient to agricultural investment needs. Foreign direct investment in developing countriescould make a contribution to bridging the investment gap and realizing the hunger and poverty eradication goals. The question therefore is not whether foreign direct investment should contribute to meeting investment needs but how its impact can be optimized to maximize the benefits and to minimize the inherent risks for all involved. To answer that question we need to understand what is happening in foreign investment and why.Land acquisitions by foreign private investors have taken place on a small scale for decades. However, a changed economic and political environment seems to have accelerated this process in the recent past. The current dramatic increase in sales and leasing of land in developing countries makes clear that land is an increasinglyscarce resource in competition between various land use interests. Continuing population growth, climate change and associated problems such as ongoing soil sealing, erosion, desertification and urbanization are increasing the pressure on land and other natural resources. At the same time, there is growing competition for a limited amount of agricultural land, due to rising demand for food and fodder, as well as biomass for industrial and energy use in national and international markets. Against this background, state actors and private investors from industrialized and emerging countries are using long-term leases or purchase agreements to secure large areas of agricultural land in developing countries in order to grow food or energy plants for export - a process described in international news headlines as “land grab”. At the time of financial crisis, land is also increasingly becoming a speculative asset for investors. The recent upsurge in FDI in land raises the hope to bridge the gap of decades of underinvestment in developing countries’ agricultural sector, but it may also threaten host countries’ food security and increase the vulnerability of the rural population. However, keeping FAO’s estimation in mind, that at least an additional 30 billion US$ are annually required in the agricultural sector in order to half the world’s hungry until 2015, private sector investment is indispensable. Effects of FDI in land strongly depend on their specific institutional setting. This emphasizes the need for action of Development Cooperation to respond to the political demands and come up with sound ideas on how FDI in land should be shaped, what the policies should look like, which can trigger investments and which lead to sustainable and accessible supply of food in the years to come.A coherent policy for improved land management and secure land rights in developing countries can limit the possible risks and also contribute towards better utilization of the possible opportunities ofFDI in land. It aims to broaden the understanding of the complexity of FDI in land in order to provide for better-targeted ways of addressing those investments. Therefore the study presents background information, causes and impact chains as well as recent developments concerning large-scale land acquisition on the basis of three dimensions: Possible economic impacts, Possible socio-cultural impacts and Possible environmental impacts of FDI in land on a developing host nation. Even though exact information on contractual details remains limited, exemplary insights in land use rights and land conflicts, investment climate and legal requirements, current land deals, as well as social and environmental opportunities and risks are given. To initiate developmental benefits from private and/or public sector FDI in land, suggestions are given how to improve the institutional environment and the acceptance of foreign investment in land serving as an overview of the resulting need for action for development cooperation.

Possible economic impacts of FDI in land

In general terms, FDI in land can enhance economic development and contribute to poverty reduction by initiating growth in the local economy. On the other hand it can have a negative impact on local economies by detracting access to a production factor that is of outstanding importance for its development. A multitude of direct and indirect effects can arise from FDI in land.

Direct positive socio-economic effects can be summarized as follows:

• Increasing productivity on agricultural land. This can be achieved if FDI in land is connected to better access to agricultural inputs (e.g. seeds, fertilizer and capital) or by applying technologies that raise yields and reduce post-harvest losses and by educating employees and farmers. Investments in irrigation schemes can lead tomore efficient use of existing resources.

• Valorizing or augmenting of marginal land by melioration measures (i.e. irrigation schemes, dams, terraces, etc.).

• Market access for farmers in rural areas of developing countries.

• Generating income by leasehold.

• Generating tax income by levy land taxes or land transfer tax, the establishment of new firms, by the increase of employment and by raised consumption.

• Improving infrastructure by building roads, or investing in transportation and communication.

• Increasing agricultural exports due to increasing overall productivity and product quality. Some of these potential improvements can also easily go in the other direction and depend strongly on the design of FDI: whether exports really grow is determined by the replacement of former export flows. If land areas were formerlydedicated to export production then simply a displacing occurs. The tax income may be even lower than before if tax breaks are offered to attract investments. Consumption taxes can collapse if income losses appear due to a loss inrural livelihood.Indirect positive impacts affect not only thenarrow production of agricultural raw material. FDI in land can lead to a transfer of know-how and to a better integration of the local economy into added value chains. Additionally, positive effects can occur by spill over impacts for the local economy. On-farm and off-farm business(processing) may offer additional revenues, andthus stimulate economic growth. Increased commodity production for exports generatesforeign currencies and additional taxes and may expand the scope of national governments to invest in projects that improve living conditions.

Negative effects of FDI in land may affect the following areas:

• Reduced food security in the target country when food crops are not available for local consumption (e.g. export or replacement with industrial crops). This is of outstanding importance in light of the human right to food. As a matter of fact, some of the relevant target countries for FDI in land are dependent on food aid e.g. Madagascar, Sudan or Cambodia.

• Biased distribution of benefits in favor of the investor or just some parts of the local population, not alleviating poverty but fueling social conflicts. Additionally, the states' bureaucracy may appear in the bargaining process due to corruption or ineffective governance control mechanisms. This does not only reflect welfare losses, but leads to less acceptance of FDI in land.

• Competition in land use for food, animal feed, and agro-fuels with the poor suffering from high prices for land and water resources.

• Increase of local and regional unemployment when applying labour extensive mechanization. As very often women are involved in crop production, they can be most affected by this development.

Specific problems may occur if water is a scare resource and FDI in land leads to a change in the availability for local farmers. The above mentioned negative effects may be intensified.

It is often argued that FDI in land is related to land that is marginal, "underutilized" or "abandoned"and, therefore, does not negatively affect the local economy.

Marginal land

Marginal lands are lands with very low productivity and difficult to cultivate due to natural and economic conditions (e.g. climate, soil properties, soil degradation, lack of market access). Marginality does not imply that land cannot be used or improved. Marginal lands are often used as pasture, for the production of fuel wood and for some food crops in countries where land is rare.

Underutilized

Underutilized lands are characterized by the fact that its production capacities and its rateof return are not fully exploited.

Abandoned land

Abandoned land is land that was used before and is now abandoned because of market and or political developments.

However, such lands are often important for the livelihoods of poor rural communities. For example, they are used for grazing, livestock transit routes, as well as for collection of fuel wood, biomass, wild fruits and nuts, medicinal plants and natural products. Moreover, they grant access to water sources. Such lands can contribute up to a quarter of the income of poor households, with the poorest households being most dependent on them. The role of this land becomes even more crucial in times or conditions of shock (e.g. crop failure, HIV/AIDS) and for the most vulnerable groups. Furthermore, the tenure status of this land may be very complex, with the state asserting land ownership but exercising little control at local level, and local groups claiming rights based on local customary tenure systems that may lack legally enforceable status. In such a context, demand from outside for land may further undermine the land rights of rural communities.

Possible socio-cultural impacts of FDI in land

Socio-cultural impacts of FDI in land on rural livelihoods and in terms of sustainable development are closely related to the above-mentioned economic effects.

As positive effects, following improvements are possible:

• Improving living conditions and sustainable development by additional income possibilities in rural areas which can be linked to the employment option within the investments project directly or due to an increase in other business options like catering and others. Additionally, living standards may be increased if overallliving infrastructures may be improved e.g. by establishing schools or health care organizations.

• Reactivation of abandoned land and value adding of underutilized land leads to incomegeneration in rural areas.

• An increase in working standards is possible if foreign investors apply their domestic standards to the employees which may be higher than those in target countries.

• Better integration of smallholder/family farmers, who may integrate in associations.

• An increase in civil safety and political stability can be the outcome of improved living conditions and a better integration of local small-size farmers. Depending on the specific design, these abovementioned advantages may not be achieved butinstead turn into a burden for the target country if the following possible negative effects occur:

• A strong competition for remaining land can invoke land conflicts, leading to civil and political instability.

• Reducing access of land and marginalization of small-size land owners has negative effects on any development geared towards the needs of the poor. Reduced access to land can lead to displacement of indigenous people or theexclusion of rural communities and increase rural poverty, especially for women. Access to use of common lands can be restricted (collecting fuel wood, wild fruits, medicinal plants, etc. or grazing livestock). As a consequence, sociocultural cohabitation between different socio-professional groups (e.g. livestock and crop farmers, pastoralists, etc.) can be impeded.

• Emigration of local farmers can increase social tensions and urban poverty. If former landowners lose their livelihood this may induce a migration flow into cities and increase urban burden or poverty. Plus, a loss of inherent cultural habits may occur.

• Immigration of foreign employers can invoke social frictions. Income disparities in local communities may arise from the fact that often highly educated management personnel will be recruited from the investor's countries whereas low-level work will probably be done by local personnel. Especially if the imported employers benefit from better working standards or a firm's better healthcare system, social frictions can increase. Cultural and lingual divergences can also worsen social systems.

Possible environmental impacts of FDI in land

The ecological sustainability in agricultural production is an important subject in the context of large-scale foreign investments. Applying intensive agricultural production has an impacton biodiversity, carbon stocks, and land, soil andwater resources.

Positive effects can be:

• An increase in environmental-friendly production methods can take place if foreign investors import practices which are more sustainable compared to local ones in the target country –due to a higher level of education and better technical capacities. Plus, imported qualitystandards for food production may have a positive influence.

• A reduction of erosion can be invoked by producing on formerly abandoned land.

These positive effects may spread to remaining areas for local producers: Training local farmers in environmentally sound production can strengthen awareness for the underlying problems. In addition, it can have spill-over effects for other farmsand lead as a kick-off for a comprehensive natural resource management.

However, negative impacts may be the following:

• Increase in erosion and worsen climate change by displacing forest areas and other land use changes, which result in high carbon stock releases, especially if fire cleaning takes place.

• A loss in water availability and quality (salinity, water logging) may be invoked by large-scale water use and use of pesticides and fertilizer.

• A loss in soil quality can be caused as well by an unsustainable use of chemicals.

• A reduction of biodiversity may be caused by large-scale monoculture production systems.

• Disruption of the local ecologic systems by introducing plants or species that are not part of the local biodiversity (e.g. eucalyptus, palm trees and rubber in some areas).

Regarding possible impacts of FDI in land, there are a lot of possible positive as well as negative consequences. FDI in land can neither be fully condemned nor supported without restrictions. The actual consequences depend on the design ofthe individual projects and the conditions in the target countries. Economic, societal and environmental consequences cannot be assessed in general and detached from the individual projects. In addition, it seems to be necessary not to assume a single interest in the target country. Rather, it should be differentiated between the interests of different groups within the society. So FDI may bring development to the region but people originally living here may experience a negative impact on their livelihood.

Conclusions

The study gives some evidence of the benefits and threats that FDI in land present to the developingcountries as regards to the domestic economy,people's livelihoods and ecological sustainability.The effects of FDI in land are dependent on thecontractual design and on the opportunities toimplement and enforce the provisions that theparties agree on.We can use a dual approach to addressthe threats and opportunities related to FDI inagricultural land: "First, the threats need to becontrolled through a code of conduct for hostgovernments and foreign investors. Second, theopportunities need to be facilitated by appropriatepolicies in the countries that are the targets ofthese foreign direct investments".It is important to stress - foreign investors and thetarget country can and should contribute tominimize the negative and increase the positiveimpacts. It is the nature of FDI in land thatinterests may differ between these actors.

According to the results of the study, the problems arising with FDI in land are not so much a deficit in the legal environment of the target countries. There seem to be deficits in enforcing the laws and in (the willingness in) controlling that give room for assigning land concessions not in line with the interests of the poor. A lack of a comprehensive cadastral system and the deficit of land titles aggravate transparency and controlling.In order to be able to support their interests, local landholdersmust be granted access to all relevant informationand be involved in negotiations. “Free,prior, and informed consent is the standard to beupheld”. In particular, the rights of indigenouspeople and other marginalized groups are to beprotected. It is the media as well as civil societythat can make information available especially ifthere is no official announcement of negotiations.Obtaining information on large-scale landinvestments is the first step to ensure sustainabilityof FDI in land. However, in the end win-win situations should be possible if the right business model is in place,and if we involve allaffected stakeholders in a transparent manner.Information onthe volume, conditions and possible effects ofFDI in land on a global level as well as on the domestic level in the target countries should be availablebeforehand in order to assess threats andopportunities adequately.

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