

Transnational Acquisitions of Land Rights: Implications for African Economies

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Abstract

Recent cross-border acquisitions of farmland have sparked a big controversy to the extent of the many economic opportunities, risks, and challenges they bring. This paper sets out to add to the burgeoning literature on the issue by characterizing the recent trends, analyzing the drivers of these investments, the main motives for host countries, along with the potential risks to both the host and world economies. The paper also provides an analytical framework that helps explain why poor developing countries find themselves in a somewhat weird situation of exporting land assets while most of their population struggles with food shortages and famine, and whether "trading land" would make these countries better off compared to "trading land-intensive products."

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1 Introduction

The recent combination of food, energy and financial crises has once more proved how highly vulnerable and strongly interdependent world economies are. The sharp increases in commodity prices as well as the contraction in many international commodity markets have strongly hit many import-dependent countries. In addition, the near-collapse of the financial markets around the world has made many once-lucrative assets, such as derivatives and other complex financial innovations, less attractive.

This uniquely challenging economic context has led some hard-hit countries, especially in the developed world, to look for ways to reshape their economic and financial structure

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to make them less vulnerable to future shocks. Among the many response strategies is the renewed interest in large-scale transnational land acquisitions. By acquiring foreign lands, country investors can secure a steady supply of food, reducing the potentially devastating effects of foreign supply shortages and world price volatility. In addition, by using the lands to produce biofuels, they reduce their dependence on (foreign) oil, and the shift towards cleaner sources of energy and away from fossil fuels has an additional environmental benefit in terms of reduced pollution. Furthermore, the continuing increase in the world population, with the subsequent rise in world food and energy demand, has made investment in land and agriculture more attractive. As a result, the recent trend in land investments shows some rush to the acquisition of land rights, especially in well-endowed countries, mostly in the poor, developing world.

This fast-evolving phenomenon, although not new, has sparked a heated debate. The controversy comes about because of the many challenges, risks, as well as potential benefits associated with it. While some analyses describe the land acquisitions as foreign direct investment (FDI) from which both investing and recipient countries will definitely gain, provided that the deals are subjected to some “principles for responsible agricultural investments,” others describe this “land grabbing” no less than a new form of “colonialism” and a massive dispossession of poor small-scale farmers from their main source of livelihood, possibly resulting to the “destruction of the world’s peasantry.”

This work sets out to shed some light on the opportunities, challenges, and risks associated with the current “transnational agricultural investments” or “land grabbing.” By so doing, it aims at reviewing and adding to the burgeoning literature on the topic. More specifically, the following questions are considered: What are the trends in large-scale land acquisitions? Is this a new phenomenon? Who are the main players as investors and recipients? What is the role played by governments? What is the extent of the phenomenon in terms of the amount of land involved? What factors drive investors (“probability factors”) and recipient countries to engage into these deals? What are the risks and challenges associated with them? What can international trade theories tell us about these cross-border transactions?

The remainder of the paper is organized as follows. The next section analyzes the trends in large-scale land acquisitions. Section 3 is concerned with the underlying drivers of the phenomenon, from investors and host countries’ perspectives. Section 4 looks at in more details some of the associated opportunities, risks, and challenges from economic, social, and environmental standpoints. Section 5 explores the international trade theories to offer additional ways to approach and analyze the phenomenon. Finally section 6 concludes.

2 Characterizing recent trends

The issue of one country acquiring land from another one is not new in world economic and geopolitical history. In the past centuries and until very recently, one of the most extreme and often brutal forms of land acquisition was colonialism. Under this worldwide conquest, foreign western economic and military powers have seized vast territories around the world, from America (since its discovery by Columbus) to Asia, and from Africa to far-off places

like New Zealand and Australia. This often violent process meant expulsion from lands and dispossession of the main assets and sources of livelihood to indigenous communities such as natives Indians in Northern America, the Maori in New Zealand, or the Zulu in South Africa.

The wave of independence, starting from 1776 in America and culminating in the 1960s in Africa, would not mean the end of the global quest for foreign land rights. In addition to being less tragic and of lesser scope, the renewed interest in foreign land acquisition has some specificities in at least two respects. The media coverage in this globalized world of information technology and communication has led to large public awareness, which in turns has sparked a controversy around this issue and in many cases public outcry and civil unrest.¹ This has somewhat translated into the second specificity which is the secrecy surrounding these land deals. Although some point to the recent food and energy crises as another specificity of the recent rush to foreign lands, similar economic factors were also key motives behind the colonialist adventures. The industrial revolution and the resulting economic boom in Europe were synonymous to larger demand for foreign inputs and secure markets.

The secrecy surrounding the land deals, along with the very scant and burgeoning literature on the issue of international land acquisitions, also mean some difficulties when it comes to documenting the phenomenon. Most of the works very often rely on media reports which relay the scope of these transactions (the dollar amount invested and the size of the lands), the parties involved as investors and recipients, the investment schemes, the intended uses of acquired lands, etc. Among such studies are the fore-runner report by Grain (2008), along with Daniel and Mittal (2009) for The Oakland Institute, and Cotula et al. (2009) for the United Nations Food and Agriculture Organization (FAO), the International Fund for Agricultural Development (IFAD), and the International Institute for Environment and Development (IIED), to name but a few. This section draws mainly from them, unless otherwise indicated.

The main investors are found from both private and public sectors. These entities originate from countries that are heavily dependent on world markets for food and energy for their current and future demand, or in a desperate need for more secure financial returns in the wake of the collapse of the derivative markets in 2008. Such countries are most of the time "resource-poor" and "finance-rich", and are mainly found in Asia (China, South Korea, Japan, India), in the Middle East (Saudi Arabia, Qatar, United Arab Emirates, Bahrein, Kuwait), and even in Africa (Libya, Egypt). Most of the private investors are originated from the developed world. They include financial companies such as U.S.-based Goldman Sachs, Morgan Stanley, BlackRock, the German Deutsche Bank, the Russian Renaissance Capital, the Swedish Black Earth Farming and Alpcot-Agro, the British LandKom. In the wake of the recent financial turmoil, there was an need to turn to more secure and highly profitable investments. The food and energy crises have made land a "fresh magnet" for

¹One interesting case is when the South-Korea-based corporation Daewoo tried (unsuccessfully) to acquire land in Madagascar in 2008. The resulting public outcry is viewed as one of the main causes of the political conflicts that followed in 2009 and which led to the toppling of the government.

investors. The fast-rising global demand for food, the strong appeal of renewable energy, and the subsequent rise in agrifuel production are translated into an increase in the value of any input that enters the production process, in particular land. This expected increase in the economic valuation of land is synonymous to high returns, and as such, these assets offer great and more secure opportunities for investors to grasp.

Beside the finance industry, the food industry is also heavily involved in these land deals. These foreign private investors are trading and processing companies that feel the need to shorten the supply chain by not only accessing the primary source of food production, that is, the actual cultivation of the land, but also by removing the many intermediaries and brokers that often grab significant shares in the final market price. This vertical coordination or concentration would therefore mean more potential gains for the agribusiness investors.

Although less documented, land deals are also a national phenomenon that has been going on for very long. In the face of the increase in land values, domestic investors, both individuals and companies, have also been actively involved in these transactions. It is estimated that this widespread land acquisition by national elites and urban middle class in some African countries accounted for more than half of the land deals. In Ethiopia for instance, private agricultural investments represent 362 thousands hectares (ha), while foreign investments involve 240 thousand ha.

The investment mechanisms take three main forms: lease, concession, or purchase. Through lease or concession, the investors get the rights to exploit the land for a relatively long period of time, often more than ten years (up to 99 years in many cases). Unlike lease or concession, investments that take the form of outright purchases mostly lead to indefinite land right transfers. The frameworks also vary a great deal, with a significant involvement of governments in both recipient and investor countries, even in deals that involve private companies. Among the many forms of States' involvement in these transnational deals are direct land acquisitions by central government agencies (Ministry of Agriculture for instance), Sovereign Wealth Fund (SWF) investments, State-owned enterprises (SOE) and other SWF equity shares; direct support to private sector and host countries; and framework agreements and national policies. Despite the heavy involvement of governments, the majority of the investment in foreign land assets is made by private companies. Government investments through SWF and SOE are nevertheless still significant.

The deals mostly involve very large areas. For instance, in June 2008, the United Arab Emirates bought 324 thousand ha of land in the Punjab and Sindh provinces in Pakistan. At the same time, China acquired 101,171 ha in Zimbabwe. The failed deal between the South Korean Daewoo Logistics Corporation and the government of Madagascar in January 2009 involved 1.3 million ha for maize and palm oil cultivation, for a dollar value of 6 billion. The Sweden-based investment companies Black Earth Farming and Alpcot-Agro together with U.K.-based LandKom acquired close to 600 thousands ha in Russia and Ukraine. The Libya-based Libya Africa Investment Portfolio closed a deal in 2009 with Mali which involved 100 thousands ha. And the list goes on.

The scope of these deals varies however from one country to another depending for instance on the size of the country and its endowment of arable lands. In Madagascar, if

one considers only the deals that involves large areas (more than 1000 ha), it is reported that between 2004 and early 2009, the amount of approved farmland allocations summed up to about 803,414 ha, which represented 2.29 percent of land suitable for rain-fed crops, and for a dollar value of nearly 80 millions. Over the same period, the figures for Ethiopia are 602,760 ha, 1.39 percent, and more than \$78 millions, and for Sudan 2.5 millions ha, 0.46 percent, and almost \$920 millions. For the whole developing world, figures vary from one source to another, but they tell how significant the phenomenon is. It was estimated in that from 2006 to April 2009, 15 to 20 millions ha of farmland have been either sold or leased, or in the process of being so (von Braun and Meinzen-Dick, 2009). The World Bank's figures indicate that since 2006, more than 50 millions ha of land are signed away or in the negation process in Africa, Latin America, and Asia, and the FAO estimated that Africa alone represents 20 millions ha.²

The recipients of these foreign investments are mostly poor, developing countries. The long list stretches from Africa (Sudan, Ethiopia, Madagascar, Mali, Ghana, Tanzania, Kenya, Zimbabwe, Mozambique, etc.), to Asia (Indonesia, Cambodia, Laos, Pakistan, Philippines, Malaysia, Vietnam, etc.), Latin America (Brazil, Argentina, Paraguay, etc.) and part of Eastern Europe (Ukraine). Africa is the most targeted region, with more than half of the land projects. These countries are often seen to be land abundant or at least where land is underutilized. In 2002, it was estimated that Africa and South America combined accounted for some 80 percent of world reserves of agricultural land, and some seven countries from these two regions accounted for about half of the cultivable land worldwide (African countries are Angola, Democratic Republic of Congo, and Sudan). Other estimates suggested that in Africa alone, cultivable land represented 807 million ha in 1996, of which only 197 millions were utilized, representing a mere 25 percent. Although these figures might have decreased since then due to factors like demographic growth and increased competition over land use, and despite data limitations, it is still perceived that "Africa has most of the underutilized fertile land in the world" (Jung-a et al., 2008), and that "land values are very, very inexpensive" (Henriques, 2008), and that "idle" or "marginal" or "abandoned" lands may still be very important.

As for the ultimate uses of allocated lands, food cultivation represents the majority of projects. Of the 389 land deals inventoried by the World Bank in 2009, crop cultivation and livestock top the list of intended uses, and biofuel production comes second.³ Here again, the averages hide some disparities among countries. The figures for Ethiopia is more revealing of the prime motive of food security: 98 percent of the recorded allocated land are used for food production, and a tiny 2 percent for agrifuel production. Strategic crops that are cultivated range from rice to wheat, corn, sugar, green fodders, etc. As for the market outlets, in general, biofuels are for exports, while for agrifood, both local and export market destinations are targeted. Here again, the picture varies across countries. Projects in Madagascar tend to be more export-oriented, those in Mali target both local and regional

²Cited by M. Icamina: "Transnational 'land grabbing' now a global concern", June 13, 2010, accessible at www.farmlandgrab.org.

³Cited by GRAIN, accessible on its website at www.grain.org/articles/?id=64.

markets, while the case of Ethiopia shows a nuanced picture.

3 Underlying drivers

There is a wide range of factors that drive investors to acquire foreign land rights, the most important ones having to do with food, energy, the environment. As for the host countries, their interests in these land deals rely on the many potential benefits associated with these additional foreign direct investments. The general context is often characterized by the strong incentives offered to investors from food-importing countries, as well as large constraints on water and land availability. These incentives are fueled by lower production costs in host countries, the often poor property rights, the perceived land and water abundance, the geographic proximity, and the favorable climatic conditions to the intended uses of the lands. These conditions, coupled with the food and energy crises that hit hard import-dependent countries and the need of foreign investment and its subsequent benefits are the main forces behind the recent surge in transnational land right acquisitions.

3.1 Food security

A historical look at the trend in the prices of food commodities shows until recently a continuous decline. From the peak in the mid-1970s when the average price hit a record high, it went down to a record low in 2006. Using 2007 as a base-year, the real price decreases from 425 to 80, which represented a yearly decline of more than 5 percent (IMF, 2008). A combination of factors affecting both food supply and demand would have adverse effects on world food markets, in terms of price hike and reduced quantity. A rise in the price of oil that started earlier has generated a strong need for alternative sources of energy, especially biofuel. The resulting effect would be an increased pressure on agricultural lands for a conversion from food production to agrifuel production. Unfavorable weather conditions as well as a rise in the cost of food production (oil price increase) would also add to the relative shortage of food in world markets. A common policy response in many export-countries have been to implement trade policies that would favor local demand over foreign demand. In effect, in order to safeguard their food security, no less than 25 countries had imposed bans and other restrictions on exports in 2008 (Demeke et al., 2008). This contributed further to the relative shortages of worldwide food supply.

On the demand side, the picture was quite different. In effect, demand has been on the rise, mostly from emerging countries that enjoyed a stable economic growth. This economic dynamic tends to be more commodity-intensive, which means that larger increase in output was synonymous to larger demand for commodities. These important dynamics were able to offset the slow pace in advanced countries, and this resulted in a strong increase in global demand for agricultural commodities.

In addition, future prospects of the world commodity markets have also triggered some strategic behaviors that contributed to worsen the crisis. Some countries have in effect voluntarily imported more than what their current needs would have dictated, and in many

cases going beyond the World Trade Organization's (WTO) food security guidelines of 18 to 20 percent of total consumption. The national grain reserve systems and bumper harvest are mechanisms that allow countries to stockpile food and release it in the markets to avoid price volatility and supply shortages. China for instance have relatively successfully managed to escape the food crisis by using these schemes. But the fear sparked by global shortages of food and the associated economic consequences have made such mechanisms a general strategy against future food crises, and the larger the extent of the future expectations, the greater the need to hold larger strategic stocks, even if it means going beyond the WTO guidelines, as in countries like Japan and China.⁴

As a consequence of the increase in global demand (current and future consumptions) and the decrease in global supply, prices of major food commodities increased sharply, and because of complex web of complementarity and substitutability among food commodities, the price surge spilled over to other food products as well. The most affected food commodities are grains, edible oil, and protein meals. For instance the prices of rice, vegetable oil and other staple foods doubled between January and May 2008. Since 2008, prices have decreased, but they still remain very high, most of them 30 to 50 percent above their average over the previous decade.

Countries that are dependent on imports to feed their growing population took a hit during the food crisis. The price inflation means an increase in the import bills, and the resulted imported inflation would have some negative ripple effect in the domestic economies. For countries that could not afford the now expensive food commodities, there was a decrease in the amount of available food. These many constraints fuel public unrest in many parts of the world, especially those most hardly affected in poor countries.

The future prospects on global food demand (population increase, urbanization, increased pressure on arable land), along with the many constraints on the supply side, have increased the expectations that food prices in the longer run will be on the rise. In such circumstances, land appears to be a vital asset. For countries that are land-scarce, and for those that are relatively land abundant but cannot produce sufficient amount to feed their population, investing in foreign land is a way of securing a stable source of food, and provides a means to bypass the foreign markets and the national trade policies.

3.2 Energy security

The dynamics in the oil market since the mid-1980 have been characterized by a relatively stable price. Until 2003, the overcapacity on the supply side has offered a smooth response to the steady increase in global demand. But eventually, the continuing increase in the demand ended up stretching the production capacity to its existing capacity, which would then require a significant surge in the investment effort. But the sluggish response meant that demand soon outstripped supply, and in the geopolitical context at that time (war in the Middle East), the price soon started its record journey to historical peaks. In effect, oil

⁴"Responding to High Food and Fuel Prices", G8 Hokkaido-Toyako Summit, July 2, 2008, cited by Demeke et al. (2008).

price went up from \$30 a barrel in early 2003 to \$140 in by the end of June 2008, representing an almost 5-fold increase over that five-year period.

Once again, import-dependent economies were severely hit by this external shock. Since then, the need for alternative energy sources has become more and more acute. In the context of global warming and other environmental concerns, turning away from carbon-emitting fossil-fuels would mean a quest for a clean alternative, and biofuels stood as the appropriate solution. The resulting policy and market incentives lead to large investment in biofuel production. This phenomenon also leads to higher demand for land to turn into agrifuel production, particularly in foreign countries that seemed to be have underutilized land and whose climatic conditions are suitable to growing the specific crops. This process would mean more secure sources of (clean) energy a country can count on to reduce its vulnerability to future shocks.

3.3 Other motives for country investors

Another set of reasons also explain why a country might want to acquire foreign land. Firstly, as part of a broader industrial development strategy, a country may have the need to secure a stable foreign source of agricultural commodities. That is the case when the latter are strategic inputs in the industrial production process. In such circumstances, acquiring land is viewed as way to reduce the country's exposure to the many risks that characterized the factors markets (price volatility, supply shortages, etc.)

Secondly, the global need to tackle the many issues related to climate change and the emerging carbon markets have led to an increasing importance of land. These markets set caps on how much an industry is allowed to pollute, and the individual firms can trade their excesses or deficits of carbon emissions. Under the Kyoto Protocol's "Clean Development Mechanism", a firm may opt to trade its excess emissions against actually acquiring forestry land that can be used for carbon sequestration. Developing countries largely endowed with forest reserves are the naturally designated targets for such investments.

The combination of all the previous motives culminates into higher expectations that land value is more likely to rise in the near future. The demand pressures, both domestic and abroad, along with the upward trend in commodity prices, spell high returns on investment in land assets for the profit-seeking private sector, especially financial institutions, with the help of governments. In addition, the rise in the value of land leads to a rebalancing in the agricultural supply chain, with the corresponding shift of weight away from the downstream segment (processing and distribution) towards the upstream end (land cultivation). As a result of their entering direct production activities, the agribusiness become more integrated, reducing the many margins grabbed by intermediaries and the corresponding risks.

4 Economic opportunities

The land transactions could potentially benefit developing countries that host the foreign agricultural investments, mainly through capital and technology inflows that could spell

significant economic development opportunities. Because each party directly involved into the deals could end up benefiting from them, they therefore appear as "win-win" situations. Other benefits could go beyond host countries if the increased supply of food and energy could help mitigate or even prevent future crises.

4.1 Development opportunities

Given the current economic and social conditions in most of the poor, host countries, the main attraction into these land deals resides in the many potential benefits associated with foreign direct investment. Firstly, there are the prospects of economic growth: inflow of foreign capital is viewed as a critical supplement to often insufficient domestic capital to generate sustainable economic growth. Foreign investment is also viewed as a vehicle of foreign technology that could spill over to the domestic economy. The rise in GDP is also associated with more government revenues, in addition to the proceedings of the land deal itself.

At a more microeconomic level, there is the hope that these deals could contribute to the economic development of rural areas in the host countries. The inflows of capital, and the corresponding technology transfers to the rural agriculture could translate into significant productivity gains and a possibility to sell more both in the domestic markets and the increasingly accessible foreign markets. As a result, living standards can rise and significant parts of rural communities can escape poverty.

These potential benefits associated with the international land deals could turn them into powerful development opportunities for many poor countries. But it should also be recognized that such deals come with many challenges and risks, and accounting for them is a necessary exercise that seeks to determine the net economic, social and environmental outcome they might generate for not only investor and recipient countries, but also for the world as well

4.2 Global economy perspectives

Other benefits that go beyond the parties' national interests are also emphasized. One of the main causes of the recent food crisis is the sluggish response of the supply to cope with the increasing demand. Yet, at the same time, there were what have been perceived as underutilized fertile land in many developing, poor countries. From the world economy as a whole, this situation appears somewhat ironic to some: there are food shortages in a world of abundant, idle or underutilized fertile lands. Such a situation is made possible by national borders. In effect, if there were one country facing a food crisis, any remaining land that could offer a possibility to increase the supply of food would certainly be used. In fact, the context would make the land more valuable than before, which would lead to a rush of farmers and investors, with sometimes the help of the government. But in the world, such a possibility is not as straightforward. The very existence of borders and the sovereignty they represent act as an impediment to the otherwise free mobility of capital and other

inputs. Hence the irony: global shortages of food that coexist with the existence of idle, fertile agricultural lands.

A process that would somewhat go around borders and guarantee the same free movement of agricultural factors has the huge potential of helping to reduce the likelihood of the occurrence of a crisis at the global level, and benefitting both developed and developing countries (e.g. "win-win" scenario). Facilitating the transnational land acquisitions is a way into that direction. Countries facing land and water constraints, but with significant financial wealth, can buy up lands in poor countries. The net outcome would be more food production that would meet the ever-growing demand of the world population.

5 Risks and challenges

As it is the case for major international issue, transnational land acquisitions also entails many risks and challenges, especially from poor host countries perspectives. Once these potential costs are correctly accounted for, only then could one undertake a correct cost-benefit analysis which would tell whether host countries will end up better off. Such an inventory exercise is also important to design policies aiming at achieving net positive outcome.

5.1 Potential costs

Many concerns have been voiced regarding the rush to farmlands in the developing world. Against the irony of food shortages in a world with large unexploited fertile lands, it is opposed another irony: poor, developing countries that have been dealing with famine and food shortages for decades selling their agricultural lands to rich countries. In most of these poor countries, land very often represents the only asset for the poor small-scale farmers in rural communities. It provides food and income, and in many cases constitutes a long-standing heritage to the many. Transferring land rights to others, and the enclosure it entails, are viewed as denying poor communities the very basis of their existence, and are even considered as an act of genocide.

It is not unlikely that with the significant inflows of foreign capital, the economy could face with the well-known Dutch disease. This is the case when as a result of massive influx of foreign exchange earnings by a booming sector, the rest of the economy gets negatively affected by the subsequent rise in the exchange value of the domestic currency. In effect, when buying up lands, foreign investors exchange their currency with domestic currency, which is translated into increased demand for the latter. And for a given supply, the excess demand leads to a nominal appreciation of the currency in the case of a flexible exchange rate regime.⁵ This appreciation is synonymous to a rise in the price of the exports in foreign currency value, thus reducing the foreign competitiveness of domestic goods.

One of the potential benefits that have been criticized is how they might affect employment and income distribution in host countries. At best, dispossessed farmers under the

⁵In the case of fixed exchange regime, the official rate will then appear to undervalue the domestic currency, and the resulting market pressure could eventually lead to an adjustment (reevaluation).

new land ownership could become agricultural workers. The resulting new source of income is often presented as more stable than the one that fluctuates with exogenous factors such as rainfall or other unpredictable weather conditions. Therefore, these deals appear to some as having the potential to raising living standards of rural communities and reducing their vulnerability to poverty. The opposing arguments point to the absorption capacity of the new agribusiness that acquire the lands. It is less likely that all the farmers will get to work on the foreign-owned land, given the highly mechanized agricultural production. As a result of shifting from labor-intensive to capital-intensive agriculture, the deals could instead lead to massive unemployment, with all the associated social consequences, such as migration to already over-crowded urban areas in developing countries.

Even if the investment projects end up generating significant amounts of jobs, there is the other face of the Dutch disease. Often these jobs turn out to be well paid, even at larger rates than domestic ones if the host country manages to include provisions in the land transactions that would guarantee such rates. The rate differential is more likely to drive relatively high skilled workers to the new activity. In the face of such a possibility, domestic activities may have to increase their wage rate, which could have some adverse effect on their overall performance.

Another risk has to do with the attraction to biofuel. With the rush to alternative sources of energy, more and more land once used to produce food are now turned into biofuel production, with the risk of exacerbating the relative shortage of food supply, when at the same time demand is on a significant rise. Therefore, facilitating land deals appears to be an inadequate solution to the problem of food crisis. In fact, it could worsen any future crisis in the food markets.

When the land is used to produce food destined to export markets, this leads to a somewhat weird situation in which a poor country with starving population finds itself exporting to rich countries the very food it needs to feed its hungry. The profit-driven agribusiness may not have any incentives to sell part of its output in the local market, because of the more lucrative opportunities offered by their national or world markets where consumers often enjoy higher purchasing power. And even if the arrangements require selling part of the production in the host country, some negative effects have to be expected. The competition between the large-scale, technologically advanced, and intensive farming and poor peasants will more likely result in the disappearance of the latter, especially if the range of options at their disposal for adjustments is often very narrow.

Small scale farming is often viewed as more sustainable, with little or no use of fertilizers and other chemicals. Its rudimentary production techniques along with the local market orientation make it an extensive rather than an intensive activity. By contrast, large-scale farming, mostly driven by the profit motive, tend to be more productive, and the intensive production process often means significant use of chemicals, water, and other sources of energy in both the production and the processing segments of the food supply chain. The monoagriculture on a large scale is largely responsible for the decline in soil fertility. As a consequence, there will be more need to increase the use of chemicals, with potentially disastrous consequences on the soil, water resources, and even the food. Hence the vicious

circle of environmentally unsustainable agribusiness activities.

Furthermore, in the wake of the recent financial, there reasons to be concerned about large financial institutions' involvement in the land deals, especially when attempts to regulate their risk-taking, speculative behavior have yet to deliver significant results. By acquiring foreign lands which value are expected to rise in the future, they may well engage in speculative bids that the price could rise even further, with the risks of creating a land bubble and the many negative economic and social outcomes that would come about. By turning away from the complex financial instruments that were partly responsible to the financial turmoil, it could be feared that similar schemes could be replicated with underlying land asset value.

In light of the many known and unknown economic, social, and environmental consequences, the "Principles for Responsible Investing in Agriculture" appear to many as "Principles for Responsibly Destroying Agriculture",⁶ and promoting such initiatives that encourage such deals are often viewed as mainly defending the interests of big agribusiness or worrying much about food and energy security or financial returns for rich countries. As such, many opponents to the land grab suggest that these deals be stopped.

As a solution to the combined food and energy crises which require using the idle, fertile lands in poor countries in order to produce more food and energy, and meet the increasing needs of the growing world population, it is basically suggested helping the poor farmers to actually increase their production efficiency instead. This requires firstly a better understanding of the incentives that face poor farmers in the developing world, how often bad and ill-designed agricultural development strategies affect those incentives, and then how to bring the necessary changes into these policy strategies that would help dynamize the agricultural sector. International development agencies would certainly have a significant role to play both financially and technically to assist this development process.

5.2 Ensuring net economic benefits to host countries

In the face of what seems to be a global rush to cross-border land acquisitions, and the potential risks and challenges that often accompany large scale-foreign investments, there has been a need to offer guidelines that would guarantee all the expected positive outcomes while at the same time trying to minimize those risks and associated costs, as well as to circumvent any undesirable social and environmental outcomes. Very recently, some major international development organizations, like the World Bank, FAO, UNCTAD, and IFAD have led the effort to find a framework that would make the parties, especially developing countries, get the most out of these economic opportunities. The framework is articulated around what are known as the (seven) "Principles for Responsible Agricultural Investments", which aim at guaranteeing "respect of rights, livelihoods and the resources" in the host countries.⁷ To achieve such goals, the principles call for:

- Respecting land and resource rights, especially in countries with poor land governance, through a recognition and demarcation of land rights, strictly circumscribing expropria-

⁶www.farmlandgrab.org/13528.

⁷The extended version of the principles is accessible at <http://siteresources.worldbank.org/INTRAD>

tion and guaranteeing prompt and fair compensation, and setting clear and transparent mechanisms through which land rights are transferred;

- Ensuring food security in its different aspects (availability, access, utilization, and stability) to local communities, by identifying the potential groups that could be negatively impacted by the investment projects, and then developing strategies aiming at mitigating any risk;
- Ensuring transparency, good governance, and a proper enabling of the environment, through easily available information to relevant actors, clear and effective incentives for investors, and an appropriate business, legal, and regulatory environment;
- Consultation and participation of all the stakeholders, by embedding large-scale ventures in local development plans, allowing meaningful consultation and representation, meaningful and enforceable agreements;
- Responsible agro-enterprise investing, by means such as an adherence to high standards of business practice and ethical behavior by investors, and cost-effective processes to assess viability and monitor implementation by governments;
- Social sustainability, by guaranteeing fair compensation and through benefit-sharing arrangements; and,
- Environmental sustainability, by measuring the potential effects of the projects and then developing plans to mitigate them.

In addition to these general guidelines, domestic countries, often with the support of these very major development agencies, have embarked in the process of facilitating these deals within the broader framework of encouraging foreign investment. A main tool has been to improve land governance in a way that allows a proper definition and then an efficient transfer of land property rights. Businesses also tried to reduce the potential risks associated with foreign investment by formulating codes and standards that would ensure more net benefits.

Some of these private, voluntary initiatives are the Extractive Industry Transparency Initiatives (EITI), the Equator Principles, and the Santiago Principles. The EITI "sets a global standard for transparency in oil, gas, and mining. It is an effort to make natural resources benefit all; a coalition of governments, companies, and civil society; and a standard for companies to publish what they pay and the governments to disclose what they receive."⁸ The Equator Principles, put forth by financial institutions, seek to ensure that investment projects are "developed in a manner that is socially responsible and reflect sound environmental management principles."⁹ The 12-Point Action Plan of the Santiago Principles published by the International Working Group of Sovereign Wealth Funds in October 2008

⁸<http://eiti.org/eiti>

⁹www.equator-principles.com/principles.shtml.

aims at "identify(ing) a framework of generally accepted principles and practices that properly reflect appropriate governance and accountability arrangements, as well as the conduct of investment practices by Sovereign Wealth Funds on a prudent and sound basis."¹⁰

6 Economic Implications: An analytical framework

If the growing global demand for food and biofuel and the corresponding rise in the value of land in a developing countries offer such opportunities to be seized, why are local farmers or investors not able to grab them? Are land transactions between domestic and foreign economies similar to any other forms of trade in factors of production? Is it better for a country's wellbeing as a whole that its lands be used by foreign investors or by domestic farmers? What can be learned from international trade theories and policies?

One of the main reasons countries trade is differences in production efficiencies, as it stems from one of the oldest trade theories, that is Ricardo's comparative advantages. An economy with higher relative productivity in a given sector or set of sectors tends to specialize and then export the corresponding goods. What is the origin of such differences in countries' productivity? The Hecksher-Olin-Samuleson (HOS) model suggests that differences in countries' endowment in productive factors are the main source of production efficiency and international trade. A country relatively more endowed with a given factor tends to specialize in the production of goods which production is more intensive in that factor.

In this frictionless, free trade HOS world, the relatively very large endowment of land in many developing countries could therefore have made them net exporters of land-intensive products, such as agricultural commodities. But the actual pattern of trade suggests otherwise. Most of these poor countries are net importers of food, and experience recurrent episodes of famine and hunger. A first series of explanatory factors has to do with domestic conditions, such as ineffective agricultural policies, political and civil instability, and in many cases adverse weather conditions. External factors also come into play, and the most important one is agricultural policies pursued in developed countries. The massive agricultural subsidies that these governments pour into the sector have a direct effect of flooding markets with relatively cheap agricultural commodities. The resulting uneven playing field further reduces any prospects for agricultural development in many developing countries. In such circumstances, it is widely expected that many arable land tend to remain either underutilized or idle.

One could be tempted to draw a similar pattern with another factor of production with which many developing countries are hugely endowed, that is, low-skilled, cheap labor. In a perfectly competitive world, this would lead to these countries exporting more of the goods that are low-skilled-labor intensive. Which is the case in many successful developing countries, such as China. But how about countries with similar endowment, but unable to make use of it and gain from trading with the rest of the world? One alternative is instead of local producers using that labor input to make products that are then exported, foreign

¹⁰http://carnegieendowments.org/filesS_Behrendt_IWG_12_Point_Action_Plan-final.pdf.

direct investors enter the domestic market and "lease" this idle, underutilized factors of productions (i.e. labor).

Another analogy which is similar to land purchase with definitive transfer of property rights is international labor migration. The differential in development and various economic opportunities between the rich and poor countries spells strong incentives for "idle" or "underutilized" (skilled or unskilled) labor force in the latter to flow into developed economies where they could be better used. While FDI can be viewed as a way for to "lease" domestic assets, i.e. labor force of human capital, international migration from poor to developed countries can be viewed as foreign companies "purchasing" the same domestic assets. As a result of relatively fully utilizing once idle or underutilized input, production of the corresponding good or service will increase, income will be generated, and the many other economic and social benefits that are associated with them.

Similar schemes could be going on with the large scale international acquisitions of land. Unable to use this relatively abundant productive factor, an economy may actually "lease" or "sell" it to foreign investors. From an economic standpoint, this process is no different from a regular transaction in the labor market where foreign firms are allowed, even encouraged, to enter, nor would it be different from domestic labor force and human capital migrating to foreign economies for higher returns and other economic and social opportunities. The immediate economic result of the land purchases is an inflow of foreign capital and production capacities to complement the insufficient domestic accumulation efforts. The subsequent economic gains would range from economic growth to rise in employment and income, increased supply of food and other agricultural commodities, new technologies, etc. Such outcomes would help improve living conditions, especially among the very poor that live in rural areas.

The core of this economic analysis relies on the voluntary nature of market transactions that should definitely leave all parties better-off and improve the net social gain. But in the case of land transactions, one departure from this analytical framework is that all parties involved are not fully known, especially from the sellers' side. Agricultural land property rights in many of these developing countries are not defined in a way that would formally designate clear owners and allow straightforward transactions. Instead, land assets are more often a property of the whole community, which may inherit them from past generations. Even in the case where a compensation is considered, it could be hard to identify all true stakeholders.

Another difficulty that arises when considering these transactions is related to the pricing of the land. Because no formal market does exist for these poorly-defined land rights, any pricing scheme will have a strong tendency to undervalue them, which is often the case with publicly-owned goods. Even in cases where the actual farmers using the land are identified and rightfully compensated, only part of the total value would be reflected in the price, that is the usage value. That value could also be underestimated, especially if the land has multiple purposes (cultivation, cattle grazing by nomad pastoralism, etc.). Other important elements of the total value of the land which may not be fully reflected in the price are the option value and the existence value. The first refers to the value attached to the land by

actual non-users who might become users in the future, and so they want to have the right to do so when that happens. The second is related to the benefit people receive from knowing that the public resource exists and, in the case of land deals, that they have property rights over it. As it is often the case with "commons", the price may fail to fully reflect all of these values.

Furthermore, a critical issue is whether the rise in GDP associated with these inflows in capital is actually a positive social outcome for the country. If investors are only in to produce food for foreign markets, and if the lands were previously used by indigenous communities to grow their own food, then the social outcome can be negative altogether, all else equal. This is particularly the case when the production output is destined to foreign markets rather than domestic consumption (as in the case of export-oriented biofuel production substituting to domestically oriented food production). In such circumstances, GDP will definitely rise, because foreign producers with more capital, technology and efficiency would replace domestic farmers. But the effect for the society is a loss of income and economic activity for a number of peasants. This is a particular case where GDP rises but GNP actually falls. Although not accurate measures of social wellbeing, the latter is closer to tell how well-off the society is than the former. Even in cases where the land purchased were initially vacant, such scenario still applies if one considers the option and existence values of the lands.

Another issue related to social well-being is how the resulting change in both agricultural price and output would make the nation as whole either better-off or worse-off, in case foreign investors acquire previously cultivated lands. It is more likely that when the agribusiness take over the lands to produce food, production will increase. As such, domestic supply will tend to increase, and price to decrease, which could have a net positive effect on the nation's well being (consumer surplus outweighing the loss of well-being for rural farmers with no more sources of income) and a decrease in the incidence of food vulnerability and other related dramatic issues, such as hunger and famine. But this not the only possible outcome. Because many small producers give way to one or a limited number of very large producers, near perfect competition is replaced by monopoly or other close market structures (e.g. oligopoly or monopolistic competition). The resulting market power concentration is almost always associated with some sort of loss of well-being, especially if the profit-maximizing producers reduce or maintain the same level of supply and increase the price, unless some effective regulatory framework prevents them from behaving that way.

A more fundamental issue though is whether a country is better-off trading directly the factors it is endowed with (e.g. selling off lands) rather than trading indirectly these factors by actually producing and then exporting goods with high content of these factors (e.g. land-intensive products). From any accounts, the latter appears to be less controversial. A sound policy strategy aiming at developing the agricultural sector that is capable of taking advantage of any opportunity offered by the markets would undoubtedly be associated with significantly larger economic and social benefits, such as more food production, employment, increased income, environmental sustainability, and more importantly, the preserving of land rights. The alternative option, that is, land transaction, would have as drawbacks to

send abroad a significant part the generated income (in addition to the output), leaving less resources to finance investment and future production. In addition, the environmental sustainability is rightfully questioned. In effect, foreign investors that acquire land for a finite period of time have all the incentives to take the most out of it, even if it entails totally depleting the soil or destroying other precious natural resources (forest, water, fisheries, etc.) in the process. Such an outcome would reasonably be ruled out in the case of longer time span, like the infinite horizon mental framework in which local producers often operate.

In balance, it could be suggested that more effort be devoted to improving the national development strategies towards agriculture in poor developing countries. The apparent failure that takes the form of food supply shortages in those countries and the inability to grab the many opportunities that come with the recent food crises and energy crises is an indication that the policies so far have not delivered the intended results. International development organizations have a critical role to play in identifying the constraints that face the agricultural sector in the developing world, and in designing policies aiming at making the best use of the large endowment of invaluable lands.

7 Conclusion

International land transactions are an important issue for both the mitigation of future food, energy and environmental crises from the world economy's perspective, and the prospects for economic and social development in many poor countries that are involved in these transnational deals. Despite the critical nature of the renewed interest in land acquisitions and the controversy that surrounds the phenomenon, it is somewhat surprising that to this date very few scientific studies have been undertaken to formally address the many related issues.

One of the issues that have yet to be addressed is whether "exporting land" is a better economic and social option than "exporting land-intensive products", from both foreign and domestic countries' perspectives. Such a study is crucially warranted, especially in the face of what seemed to now be an increasingly unstoppable rush to transnational land right acquisitions.

Even more fundamentally, why are domestic farmers and investors in developing countries not able to exploit the many opportunities associated with the recent crises? This begs the issue of the economic incentives that they face, and how the domestic agricultural policies contribute to shaping them. Understanding the institutional setting in which poor farmers operate is key to making sense of the somewhat weird situation in which poor countries find themselves trading land rather than trading land-intensive commodities.

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