

# KEY MESSAGES

## FDI TRENDS, POLICIES AND PROSPECTS

Global FDI flows have been severely affected worldwide by the economic and financial crisis. Inflows are expected to fall from \$1.7 trillion to below \$1.2 trillion in 2009, with a slow recovery in 2010 (to a level up to \$1.4 trillion) and gaining momentum in 2011 (approaching \$1.8 trillion).

The crisis has changed the FDI landscape: investments to developing and transition economies surged, increasing their share in global FDI flows to 43% in 2008. This was partly due to a concurrent large decline in FDI flows to developed countries (29%). In Africa, inflows rose to a record level, with the fastest increase in West Africa (a 63% rise over 2007); inflows to South, East and South-East Asia witnessed a 17% expansion to hit a new high; FDI to West Asia continued to rise for the sixth consecutive year; inflows to Latin America and the Caribbean rose by 13%; and the expansion of FDI inflows to South-East Europe and the CIS rose for the eighth year running. However, in 2009 FDI flows to *all* regions will suffer from a decline.

The agriculture and extractive industries have weathered the crisis relatively well, compared with business-cycle-sensitive industries such as metal manufacturing. In addition, there is a better outlook for FDI in industries such as agribusiness, many services and pharmaceuticals.

With regard to the mode of investment, greenfield investments were initially more resilient to the crisis in 2008, but were hit badly in 2009. On the other hand, cross-border M&As have been on a continuous decline, but are likely to lead the future recovery. Divestments were particularly significant during the crisis.

There was a marked downturn in FDI by private equity funds as access to easy financing dried up. Endowed with sizeable assets, sovereign wealth funds attained a record FDI high in 2008, though they too faced challenges caused by falling export earnings in their home countries.

Overall policy trends during the crisis have so far been mostly favourable to FDI, both nationally and internationally. However, in some countries a more restrictive FDI approach has emerged. There is also growing evidence of “covert” protectionism.

## TNCs IN AGRICULTURAL PRODUCTION AND DEVELOPMENT

Foreign participation can play a significant role in agricultural production in developing countries, which are in dire need of private and public investment, thereby boosting productivity and supporting economic development and modernization.

FDI flows in agricultural production tripled to \$3 billion annually between 1990 and 2007, driven by the food import needs of populous emerging markets, growing demand for biofuel production, and land and water shortages



in some developing home countries. These flows remain small compared to the overall size of world FDI, but in many low-income countries agriculture accounts for a relatively large share of FDI inflows; and the latter are therefore significant in capital formation in the industry. Moreover, FDI in the entire agricultural value chain is much higher, with food and beverages alone representing more than \$40 billion of annual flows.

Contract farming activities by TNCs are spread worldwide, covering over 110 developing and transition economies, spanning a wide range of commodities and, in some cases, accounting for a high share of output.

Developed-country TNCs are dominant in the upstream (suppliers) and downstream (processors, retailers, traders) ends of the agribusiness value chain. In agricultural production, FDI from the South (including South-South flows) is equally significant as FDI from the North.

TNC participation in agriculture in the form of FDI and contract farming may result in the transfer of technology, standards and skills, as well as better access to credit and markets. All of these could improve the productivity of the industry – including the farming of staple foods – and the economy as a whole. Moreover, TNCs' contribution to food security is not just about food supply; it also includes enhanced food safety and affordability. These depend on the right policies for host countries to maximize benefits and minimize the costs of TNC participation.

Governments should formulate an integrated strategic policy and regulatory framework for TNC activities in agricultural production. This should include vital policy areas such as infrastructure development, competition, trade and trade facilitation, and R&D. It is equally important to address social and environmental concerns regarding TNC involvement.

Governments could also promote contract farming between TNCs and local farmers in the direction of enhancing farmers' predictable income, productive capacities and benefits from global value chains. To protect the interests of farmers, governments could develop model contracts for them to use or consider when negotiating with TNCs

To ensure food security in host countries as a result of export-oriented FDI in staple food production by “new investors”, home and host countries could consider output-sharing arrangements.

In order to address the concern about “land grab”, the international community should devise a set of core principles that deal with the need for transparency in large-scale land acquisitions, respect for existing land rights, the right to food, protection of indigenous peoples, and social and environmental sustainability.

Public-private partnerships can be an effective tool for bringing a “new green revolution” to Africa. One initiative in this regard is seed and technology centres that adapt seeds and related farming technologies to local needs and conditions, distribute them to local farmers, and build long-term indigenous capacities.