World Investment Report 2009
Transnational Corporations, Agricultural Production and Development

James. X. Zhan
Division on Investment and Enterprise
UNCTAD

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PART ONE

FDI Trends, Prospects and Policies
The crisis ends the 4 year global FDI boom

- Global FDI declined from $2 trillion in 2007 to $1.7 trillion in 2008.
- FDI flows to developed economies fell by 29%, to $962 billion.
- FDI flows to developing economies rose 17%, to $621 billion.
- Transition economies posted a new record high, with inflows reaching $114 billion, a 26% increase.
The FDI landscape has shifted in favour of developing and transition economies

The share of developing and transition economies in inward FDI accounted for 43% in 2008 (31% in 2007).
Top recipients of FDI inflows

The United States remained the largest recipient country, followed by France, China, the United Kingdom, and the Russian Federation.

The fact that half of the top 20 recipients were emerging economies is symbolic of the changing FDI landscape of 2008.
FDI flows to all developing regions reached a new record level in 2008

FDI inflows, by groups of economies, 2006-2009:Q1
($ billion)

For 2008:
- Africa: $88 billion, 27% increase – record
- LAC: $144 billion, 13% increase – record
- East Asia, South Asia, South-East Asia: $298 billion, 17% increase – record
- West Asia: $90 billion, 16% increase – record
- Least developed countries: $33 billion – record
FDI prospect for 2009

- Preliminary data for 2009 suggest that global FDI inflows have nosedived across all regions:
  - Compared with the same quarter of 2008, FDI inflows fell during the 1st quarter of 2009 by:
    - 46% in developed countries
    - 39% in developing countries
    - 46% in transition economies
Cross-border M&As have declined strongly in wake of the crisis

The value of cross-border M&As declined by 35% in 2008 to $673 billion, and plummeted further by 76% in the 1st half of 2009.
Global FDI prospects, 2009 - 2011

- Global FDI flows are expected to fall further to below $1.2 trillion in 2009, with a slow recovery in 2010 (to a level up to $1.4 trillion);
- Gaining momentum in 2011 (approaching $1.8 trillion).
Overall policy trends have so far been mostly favourable to FDI, both at national and international levels. However, in some countries a more restrictive FDI approach has emerged. There are also signs of increasing “covert” protectionism, in the form of favouring domestic investment and the invocation of “national security” exceptions that stretch the definition of national security.
PART TWO

Transnational Corporations, Agricultural Production and Development
Why have we selected this topic in the middle of the financial crisis?

Over 900 million people are undernourished, and 65 countries are in “serious” or “alarming” danger of food shortages.
TNC participation in agricultural production in host countries can take various forms

FDI and contract farming are the most important ones

- TNC participation
  - TNC relationships
  - Foreign direct investment
    - TNC owns all assets, including land
  - Management contracts, licensing (sale of knowledge)
    - TNC owns all assets, except land (long-term lease of land)
  - Contract farming
    - Short and medium-term contracts (lasting between 2 and 6 years)
    - Long-term contracts (6 years or more)\(^a\)
  - Standards and specifications
  - Arm’s length
  - Trade

\(^a\) Depends on commodity and context.
World FDI flows in agriculture have exceeded $3 billion annually, but constitute less than 1% of total world FDI.

TNCs’ involvement mainly concentrates in the upstream and downstream of the agricultural value-chain.
In some developing economies, the share of agriculture in FDI inflows is relatively high
% of 2005–2007 inflows

<table>
<thead>
<tr>
<th>Country</th>
<th>Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cambodia</td>
<td>15.1</td>
</tr>
<tr>
<td>Lao People's Democratic Republic</td>
<td>12.0</td>
</tr>
<tr>
<td>Malaysia</td>
<td>10.9</td>
</tr>
<tr>
<td>Ecuador</td>
<td>10.0</td>
</tr>
<tr>
<td>United Republic of Tanzania</td>
<td>9.4</td>
</tr>
<tr>
<td>Mozambique</td>
<td>9.4</td>
</tr>
<tr>
<td>Peru</td>
<td>8.7</td>
</tr>
<tr>
<td>Honduras</td>
<td>6.8</td>
</tr>
<tr>
<td>Indonesia</td>
<td>4.8</td>
</tr>
<tr>
<td>Ukraine</td>
<td>4.0</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>4.0</td>
</tr>
<tr>
<td>Viet Nam</td>
<td>3.0</td>
</tr>
<tr>
<td>Vanuatu</td>
<td>2.5</td>
</tr>
<tr>
<td>Fiji</td>
<td>2.3</td>
</tr>
<tr>
<td>Chile</td>
<td>2.3</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>2.2</td>
</tr>
<tr>
<td>Madagascar</td>
<td>1.7</td>
</tr>
<tr>
<td>Brazil</td>
<td>1.6</td>
</tr>
<tr>
<td>Islamic Republic of Iran</td>
<td>1.5</td>
</tr>
<tr>
<td>The FYR of Macedonia</td>
<td>1.3</td>
</tr>
</tbody>
</table>
TNCs from developing economies are key players in agricultural production, while those from developed countries are spreading over other parts of the value-chain (developing-country TNCs in green), 2007*

<table>
<thead>
<tr>
<th>Rank</th>
<th>Agriculture-based Suppliers</th>
<th>Food and beverages</th>
<th>Retail</th>
<th>Privately owned (ranked by agri-food sales)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Sime Darby Bhd. (Malaysia)</td>
<td>BASF AG</td>
<td>Nestlé SA</td>
<td>Wal-Mart Stores Cargill Inc.</td>
</tr>
<tr>
<td>2</td>
<td>DoLe Food Company, Inc.</td>
<td>Bayer AG</td>
<td>Inbev SA</td>
<td>Metro AG Mars Inc.</td>
</tr>
<tr>
<td>3</td>
<td>Fresh Del Monte Produce</td>
<td>Dow Chemical Company</td>
<td>Kraft Foods Inc Carrefour SA Lactalis</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Sochmal SA</td>
<td>Deere &amp; Company</td>
<td>Unilever</td>
<td>Tesco PLC Suntyl Ltd.</td>
</tr>
<tr>
<td>5</td>
<td>Charoen Pokphand Foods Public Company Ltd. (Thailand)</td>
<td>El Du Pont De Nemours</td>
<td>Coca-Cola Company</td>
<td>McDonalds Corp. Dr August Oetker KG</td>
</tr>
<tr>
<td>6</td>
<td>Chiquita Brands International, Inc.</td>
<td>Syngenta AG</td>
<td>SAB Miller</td>
<td>Delhaize Group Louis Dreyfus Group</td>
</tr>
<tr>
<td>7</td>
<td>Kuala Lumpur Kepong Bhd. (Malaysia)</td>
<td>Yara International ASA</td>
<td>Diageo Plc Koninklijke Ahold NV</td>
<td>Barilla Ferrero</td>
</tr>
<tr>
<td>8</td>
<td>KWS Saat AG</td>
<td>Potash Corp. of Saskatchewan</td>
<td>Pernod Ricard SA</td>
<td>Sodexo Keystone Foods LLC</td>
</tr>
<tr>
<td>9</td>
<td>Kulim (Malaysia) Bhd. (Malaysia)</td>
<td>Kubota Corp.</td>
<td>Cadbury PLC Compass Group PLC</td>
<td>China Resources Enterprise Ltd. (Hong Kong, China)</td>
</tr>
<tr>
<td>10</td>
<td>Camellia PLC</td>
<td>Monsanto Company</td>
<td>Bunge Limited</td>
<td>Seven &amp; I Holdings Company Ltd. McCain Foods Ltd</td>
</tr>
<tr>
<td>11</td>
<td>Seaboard Corp.</td>
<td>Agra Corporation</td>
<td>Heineken NV</td>
<td>OSI Group Companies Perdue Farms Inc.</td>
</tr>
<tr>
<td>12</td>
<td>Sipol SA</td>
<td>The Mosaic Company</td>
<td>PepsiCo Inc</td>
<td>Yum! Brands, Inc. Bacardi Ltd.</td>
</tr>
<tr>
<td>13</td>
<td>Anglo-Eastern Plantations PLC</td>
<td>ICL-Israel Chemicals Ltd</td>
<td>Molson Coors Brewing Company</td>
<td>Autogrill Groupe Soufflet</td>
</tr>
<tr>
<td>14</td>
<td>Tyson Foods Inc</td>
<td>Provimi SA</td>
<td>Kiin Holdings Company Limited</td>
<td>Alimentation Couche Tard Inc Groupe Soufflet</td>
</tr>
<tr>
<td>15</td>
<td>PBB Group Bhd. (Malaysia)</td>
<td>Bucher Industries AG</td>
<td>Archer-Daniels-Midland Company</td>
<td>Safeway Incorporated Golden State Foods</td>
</tr>
<tr>
<td>16</td>
<td>Carson's Cumberbatch PLC (Sri Lanka)</td>
<td>Nufam Limited</td>
<td>Associated British Foods PLC</td>
<td>Sonae Sgsp Groupe Castel</td>
</tr>
<tr>
<td>17</td>
<td>TSH Resources Bhd. (Malaysia)</td>
<td>CLAAS KGaA</td>
<td>Carlsberg A/S</td>
<td>George Weston Limited J.R. Simplot</td>
</tr>
<tr>
<td>18</td>
<td>Multi Vest Resources Bhd. (Malaysia)</td>
<td>Sapec SA</td>
<td>HJ Heinz Company</td>
<td>Dairy Farm International Holdings Ltd. (Hong Kong, China) Schreiber Foods</td>
</tr>
<tr>
<td>19</td>
<td>Bakrie &amp; Brothers Terbuka (Indonesia)</td>
<td>Tera Industries Inc</td>
<td>Danone</td>
<td>Jennisimo Martins SA Muller Gruppe</td>
</tr>
<tr>
<td>20</td>
<td>PGI Group PLC</td>
<td>Akteelskabet Schouw &amp; Co. A/S</td>
<td>Arhheuser-Busch Companies Inc</td>
<td>Kuwait Food Company (Americana) (Kuwait) Bel</td>
</tr>
<tr>
<td>21</td>
<td>Firstfarms A/S</td>
<td>Genus PLC</td>
<td>Sara Lee Corp.</td>
<td>Starbucks Corp. Rich Products</td>
</tr>
<tr>
<td>22</td>
<td>New Britain Palm Oil Ltd. (Papua New Guinea)</td>
<td>Scots Miracle-Gro Company</td>
<td>Constellation Brands Inc</td>
<td>Burger King Holdings, Inc. J. M. Smucker</td>
</tr>
<tr>
<td>23</td>
<td>Karuturi Global Ltd. (India)</td>
<td>Kverneland ASA</td>
<td>Fraser &amp; Neave Ltd. (Singapore)</td>
<td>Maruha Nichiro Holdings, Inc. Hanibo</td>
</tr>
<tr>
<td>24</td>
<td>Nrees SA</td>
<td>Sakata Seed Corp.</td>
<td>Danisco A/S</td>
<td>Familymart Company Limited Eckes-Granini</td>
</tr>
<tr>
<td>25</td>
<td>Country Bird Holdings Ltd. (South Africa)</td>
<td>Auriga Industries A/S</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Top 25 TNCs in agribusiness industries (ranked by foreign assets).
Contract farming is a significant component of TNCs’ participation in agricultural production

- **Why contract farming?**
  - Better control over quality than spot markets;
  - Less capital-intensive, less risky and more flexible than FDI

- **Extent of TNCs’ contract farming: over 110 countries across Africa, Asia and Latin America**

- **In some developing countries, share of contract farming in output is high:**
  - *Brazil*: 75% of poultry production and 35% of soya bean;
  - *Viet Nam*: 90% of cotton and fresh milk, 50% of tea and 40% of rice;
  - *Kenya*: 60% of tea and sugar.
Land acquisition is important for new investors

*Investor and target regions/countries, 2006–2009, (48 deals)*

One estimate: foreign investors have acquired or sought some 15-20 million hectares of farmland in poorer countries since 2006.
Overall, TNCs are not the only – and seldom the main – agents driving the commercialization and modernization of agriculture in the developing world, but they play an important role in many countries. TNCs are mostly involved in the production of cash crops, and much less in staple food crop.

TNCs’ involvement in agriculture (through FDI or contract farming) can benefit local farmers:
- Improving access to capital and various inputs;
- Transferring technology, skills and methods of production;
- Providing predictable income;
- Linking farmers up to global value-chains and markets.

Possible negative effects include:
- Crowding out domestic investment;
- Abusing market power;
- Causing social instability and environmental degradation.
TNC participation in agricultural production touches on all four dimensions of food security:

- **Agricultural production** (TNC participation through FDI or contract farming)
- **Agricultural productivity** (Greater in volume, efficiency, and effectiveness, in both local and TNC-run farms and plantations)
- **Development and modernization of economy** (An efficient and dynamic agriculture industry can be a motor for development)
- **Components of Food Security**
  - **Availability of food** (e.g., domestic production, import capacity, food stocks, food aid)
  - **Access to food** (e.g., household incomes, market infrastructure, food distribution systems)
  - **Stability of supply** (e.g., natural disasters, human-induced disasters, diversification of agricultural economy, political and economic conditions)
  - **Food utilization** (e.g., nutritional education, eating habits, food safety and quality, access to clean water, health, and sanitation)

**Domestic value chain** (Entry by agriculture-related TNCs such as manufacturers and supermarkets)

**Spillover effects** (For instance, commercial attitudes in standards and safety, transferable skills)
Policy challenges of TNC participation in agricultural production in developing countries

- The overall challenge is to maximize the development benefits of TNC participation in agriculture, and to minimize the costs.

- Main policy challenges include:
  - Strategizing the agricultural development and defining the role of TNC in supporting the implementation of the strategy.
  - Designing an integrated policy framework, comprising agricultural policies and policies related to infrastructure, competition, trade and R&D.
  - Addressing social and environmental concerns, such as land grab, crowding out of local farmers, protection of indigenous peoples and environmental degradation.
Leveraging TNC participation in agriculture

Policy recommendations for host countries

Promoting linkages between TNCs and local farmers through contract farming:

- Remove obstacles for local farmers to benefit from global value chains;
- Develop model contracts to protect local farmers and to ensure socially and environmentally sustainable farming.

Maximizing the development contribution of FDI:

- Improve regulatory framework for FDI in agriculture, including policies to facilitate FDI and protect small farmers’ interests;
- Conduct environmental and social impact assessment of investment projects; and ensure transparency and public scrutiny.

Promote PPP for diffusing technology and skills to build indigenous capacity (e.g. seed and technology centres).
### Policy recommendations

#### Home countries

- Re-assess national strategies for promoting outward FDI for food security, and to draw lessons.
- Explore alternative approaches, such as:
  - Contract farming
  - Investments in local infrastructure, e.g. trading houses, logistics, infrastructure
  - Outputs sharing

#### International community

- Consider the development of a set of internationally agreed core principles for large-scale land acquisitions by foreign investors to protect public interests;
- Encourage FDI in poor countries by reducing import tariffs, non-tariff barriers and agricultural subsidies in advanced countries;
- Use of ODA for agricultural development strategies involving TNCs.
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