

**Speaking points for  
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**World Investment Report 2009:  
Transnational Corporations, Agricultural Production and Development**

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*AS PREPARED FOR DELIVERY*

The 2009 World Investment Report charts the impact of the economic crisis on investment and, separately, examines the role of TNCs in addressing critically low levels of agricultural productivity in many developing countries. Poor agricultural production still poses a considerable obstacle to growth and development, and TNC involvement in this sector has historically been limited. The Report's main finding however is that private foreign investment can play a significant role in helping developing countries enhance their agricultural sectors. The launch of the 2009 World Investment Report completes UNCTAD's set of analyses on the impact of the economic crisis this year, and also complements research contained in our other major analytical outputs on agriculture and food security.

**Global trends in FDI in the context of the economic crisis.**

- FDI flows continue to fall, across all regions, from their high of \$2 trillion in 2007 to the likely level this year of less than \$1.2 trillion. A recovery in 2010 and 2011 to nearly \$1.8 trillion is predicted, based on a return to global GDP growth and a continued commitment by all States to refrain from investment protectionism.

- The crisis has completely changed the FDI landscape. In 2008, *developing and transition economies* increased their share in global FDI flows to 43% as investment in, and from, *developed* countries declined. These economies are also very likely to be strong engines for FDI growth in the coming rebound. This perspective is confirmed by UNCTAD's recent World Investment Prospects Survey (WIPS) 2009-2011, which places all four BRIC countries (Brazil, the Russian Federation, India, and China) among the top 5 most favoured destinations for future FDI activities by large TNCs worldwide.
- Not all TNCs have been strongly affected by the crisis: some TNCs in a handful of industries have weathered the storm better than others. Illustrative of this are companies in industries that are less sensitive to the business cycle and experience fairly constant demand (such as agribusiness and some services), as well as those with positive long-term growth prospects (such as pharmaceuticals); such companies have the best FDI prospects and are thus likely to help drive the next period of FDI growth.
- With regard to the mode of investment, cross-border mergers and acquisitions (M&As) have been on a continuous decline since 2008, although they are likely to lead the future recovery. Divestments – which can include sell offs, downsizing or closures - were particularly significant during the crisis, resulting in a net FDI outflow in some cases, for example in Ireland and Iceland.
- 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, and there is growing

evidence of “covert” protectionism. The joint WTO-OECD-UNCTAD report on trade and investment in the G20, published last Monday, describes some of the measures that have been taken.

### **Focus of the 2009 Report: agricultural production**

- **The focus of** this year’s Report brings our attention back to the crucial issues of fighting hunger, food security and sustainable agricultural development as both an engine and pre-requisite of growth. Private foreign investment can play a significant role in helping developing countries enhance their agricultural sectors and this sector is in dire need of private and public investment in many developing countries.
- Between 1990 and 2007, FDI flows in agricultural production tripled from \$1 to 3 billion a year. There were three principle factors driving this growth: first, populous and expanding emerging markets increased their food import needs; second, demand for biofuel products rose; and third, land and water shortages in some developing countries pushed them to seek food production opportunities in other countries.
- Although these flows are quite small in proportion to overall FDI flows, they represent a huge source of finance for many low-income countries where agriculture accounts for a relatively high share of FDI inflows. Such examples include Cambodia, Ecuador and Tanzania. Moreover, FDI in the entire agricultural value chain - from the farm to the supermarket shelf - is much higher, with food and beverages alone accounting for more than \$40 billion in annual flows, from 2005-7.

- However, FDI is only one mode through which foreign investors reach into developing countries. Another is contract farming, whereby TNCs contract small farms to produce according to their needs and specifications. Contract farming is spread worldwide, covering over 110 developing and transition economies, spanning a wide range of commodities, such as soya beans, cotton, sugar and tea. In some cases, contract farming accounts for a high share of output, for example, in Brazil, 75% of poultry production is farmed under contract.

### **The benefits of TNC involvement in agriculture and government policy recommendations**

- TNC participation in agriculture, in the form of FDI and contract farming, can result in the transfer of technology, standards and skills; it can also create employment and facilitate market access, all of which could improve the productivity of the industry and have positive spillovers for the economy as a whole, such as contributing to food security.
- The contribution of TNCs to food security is not just about food supply: TNCs can exploit potential economies of scale which may make food more affordable, and their higher level of conformity with food standards enhances food safety. All of these factors depend, however, on host countries adopting the right policies that will maximize benefits and minimize the costs of TNC participation.
- The Report warns that governments should address, in particular, environmental and social concerns associated with TNC involvement, such as the crowding out of small farmers which might create job losses, land grab, and an over-dependence on TNCs. Governments therefore

need to formulate an integrated strategic policy and regulatory framework for TNC activities in agricultural production. The policy framework also needs to include other vital policy areas such as infrastructure development, competition, R&D, trade and trade facilitation to both attract investment and ensure the maximum development benefits from it.

- We also suggest that governments should actively promote contract farming between TNCs and local farmers to increase or upgrade their productive capacities, and for them to benefit from global value chains. The Report recommends developing model contracts that local farmers can use when negotiating these arrangements with TNCs.
- With regard to export-oriented FDI in staple food production that aims to secure the food supply in the home country, the Report suggests that home and host countries consider negotiating agreements to share the eventual agricultural output, called “output-sharing arrangements”. One concern in this respect however, is the issue of “land grab”. It is important that the international community devise a set of core principles dealing, *inter alia*, with the need for transparency in large-scale land acquisitions, respect for existing land rights, the right to food, protection of indigenous people, and social and environmental sustainability.
- A further tool for boosting productivity is public-private partnerships. 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. Ultimately, these kinds of partnerships can facilitate the start of a green revolution in areas that have yet to benefit fully from seed and fertilizer technology.

## **Conclusion**

- The "real" question for developing countries is not whether to involve TNCs in agriculture and agribusiness value chains, but how to establish a framework and develop national capabilities to best harness them for agricultural development. It is the objective of this year's WIR to provide our member states with a realistic picture about the currently very limited involvement of TNCs in agricultural production, to point out that there is considerable potential for the future, and to offer concrete policy advice with a view to maximizing development benefits and minimizing costs.