

UNCTAD Public Symposium 2010  
10 - 11 May, 2010

"Responding to Global Crises: New Development Paths"

## Inputs received

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### Agricultural FDI and the Global Food Crisis

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### Abstract

In an international socio-economic context, severely impaired by the economic and financial crisis, global food security and hunger are retaking prominent places in the global economic agenda and the Millennium Development Goal. In an attempt to identify solutions to food security and hunger, this paper looks at the potential effect of agricultural FDI. This is an investigative plunge into the link subsisting between agricultural FDI and food yields and productivity in developing countries. Using 10 years panel data covering over 60 countries, the study examines the causal effect of agricultural FDI on agricultural yields and productivity in developing countries. Judging from our preliminary findings and previous studies on this subject and related topics, the authors conclude that the future of our global food security lies in a global effort aimed at a well-defined and coordinated approach to FDI in agriculture.

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The world's food crisis is real and is showing no signs of significant improvement. Indeed, it has intensified with the global economic and financial crisis that severely impaired household incomes and government social spending in developing countries (Food and Agriculture Organization & World Food Programme [FAO & WFP, 2009). International media reports and food security conferences are replete with a grim outlook of the situation. The situation is even grimmer in developing countries around the world where foreign direct investment (FDI) in agriculture and food production has been minimally low. Recently, "Ethiopia appealed for 159,410 tons of emergency aid to feed 6.2 million people, 25 years after more than a million perished in the country's notorious famine,"<sup>1</sup> Oxfam International predicts that a "radical shake up" of the aid system is needed to break Ethiopia's "cycle of hunger". But Ethiopia is not alone in the crisis. Her neighbors in the Horn of Africa are also badly affected by the crisis. In Kenya, for example, the number of people needing food aid grew from 2.5 million in 2008 to 3.8 in 2009.<sup>2</sup> The case of Somalia is even worst in the face of the worsening armed conflict in that country. A family of six in 2009 spent about \$171 monthly for the same amount of food that it spent \$92 in 2007. Simply put, from the Horn of Africa to the Gulf of Guinea the story is the same: 265 million people on the continent of Africa are hungry and are desperately in need of food. Elsewhere in Asia, Save the Children, an international organization which offers economic opportunity programs to help families endure the impact of increased costs of basic goods, reports that Nepal and the Philippines are hard-hit by soaring food prices. The Philippines, for example, the world's largest importer of rice, has witnessed a 30 percent increase in the price of rice which is an essential staple. For the past year, fuel prices have also been on the rise along with the cost of power, water, and other basic commodities.<sup>3</sup> Even developed countries have not been immune to the negative consequences of the crisis: rising food prices have added to inflationary or poverty tensions already being felt as a result of rising energy prices and crashes in financial and housing markets (UNCTAD, 2008)

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<sup>1</sup> Crisis Looms in Ethiopia, 6.2M Need Food: Retrieved, October 25, 2009 from [www.npr.org/templates/story/story.php?storyId=114038950](http://www.npr.org/templates/story/story.php?storyId=114038950)

<sup>2</sup> Ethiopia Seeks Urgent Food Aid for 6m: Retrieved, October 25, 2009 from <http://www.npr.org/templates/story/story.php?storyId=114038950>

<sup>3</sup> Child Hunger Crisis: Retrieved, April 5, 2009 from <http://www.savethechildren.org/programs/hunger-malnutrition>

In response to the crisis, policymakers around the world proffered possible remedies beyond emergency aids and humanitarian responses. This includes the reduction of subsidies and tariffs on food imports, improving farm practices, and introducing farming technologies in developing countries (Clapp, 2004, p. 1443; FAO, 2008). Additionally, several international organizations, mainly the World Bank, UNCTAD, FAO, and WFP strongly embrace the idea of boosting agricultural investment to increase yield and reduce food insecurity in the short and long-term (UNCTAD, 2008; FAO & WFP, 2009). Particularly, UNCTAD considers that increased FDI and involvement of transnational corporations could help alleviate the current food crisis and provide a useful response to it, in the appropriate policy environment (UNCTAD, 2008).

Yet, not everyone in the development community is convinced that increasing FDI in agriculture is the most viable means of addressing the current global food crisis. Thus, a heightened debate involving two schools of thought has emerged on this subject. To strengthen their argument against viewing FDI as a primary means of food production, the opponents of huge FDI in agriculture on the one hand, have argued that some capital-endowed, food-and feed-importing countries, such as South Korea, China and Saudi Arabia are already investing in large FDI projects in low-income countries such as Madagascar, Mozambique and Ethiopia. The potential implications of these projects for food security have been controversial in public and policy debates. Some analysts and activists of this school argue that such FDI projects are emerging as a new tool predominantly serving the interest of the investor which may come at the expense of food security of the host country. They have termed this form of FDI as “*land grabbing*”. On the other hand, those in favor of huge FDI in agriculture argue that there is an urgent need for a considerable investment in agriculture and food production in developing countries, especially those in Africa. They further argue that if FDI takes place within a sound and sustainable, social and environmental framework, it could bring enormous benefits to the host country.

In light of this debate, this paper is an investigative plunge into the link subsisting between FDI and agricultural productivity and food production. Using 10 years panel data covering over 60 countries, the study examines the causal effect of agricultural FDI on agricultural yields and productivity in developing countries. Judging from our preliminary findings and previous studies on

this subject and related topics, the author concludes that the future of our global food security lies in a global effort aimed at a well-defined and coordinated approach to FDI in agriculture. Using examples from developing, the paper sheds light on how observed improvements in agricultural productivity in some countries have been closely linked to agricultural FDI and increased spending on research and development (R&D) and better extension services to increase yield.

From our preliminary findings and previous studies on this subject, the authors draw some conclusions that maybe useful for policy consideration by this conference as well as governments and the development community. It was observed that FDI has a positive impact on productivity especially to smallholder farmers who are linked in integrated producer schemes. Henceforth, it is important to rethink of the smallholder institutional setup for increasing productivity and continuous FDI flow to the agricultural sector globally as we see the displacement of millions of people by civil wars in a given year. Sadly, most of these people usually need food, and yet they themselves are no longer capable of producing food.

It is also important to put emphasis on neglected areas such as rain-fed agriculture and on agricultural extension and research for the likelihood of productivity to go up (Mark W. Rosegrant & Peter Hazell, 1999, p. 191)

### **References**

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