"Land Grabbing" by Foreign Investors in Developing Countries: Risks and Opportunities

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One of the lingering effects of the food price crisis of 2007–08 on the world food system is the proliferating acquisition of farmland in developing countries by other countries seeking to ensure their food supplies. Increased pressures on natural resources, water scarcity, export restrictions imposed by major producers when food prices were high, and growing distrust in the functioning of regional and global markets have pushed countries short in land and water to find alternative means of producing food. These land acquisitions have the potential to inject much-needed investment into agriculture and rural areas in poor developing countries, but they also raise concerns about the impacts on poor local people, who risk losing access to and control over land on which they depend. It is crucial to ensure that these land deals, and the environment within which they take place, are designed in ways that will reduce the threats and facilitate the opportunities for all parties involved.

Rising Land Acquisition in Developing Countries

Food-importing countries with land and water constraints but rich in capital, such as the Gulf States, are at the forefront of new investments in farmland abroad. In addition, countries with large populations and food security concerns such as China, South Korea, and India are seeking opportunities to produce food overseas. These investments are targeted toward developing countries where production costs are much lower and where land and water are more abundant. Other factors that influence investments include geographic proximity and climatic conditions for preferred staple crops. In addition to acquiring land for food, many countries are seeking land for the production of biofuel crops.

Many governments, either directly or through state-owned entities and public-private partnerships, are in negotiations for or have already closed deals on arable land leases, concessions, or purchases abroad. The size and terms of contracts differ widely. Some agreements do not involve direct land acquisition, but seek to secure food supplies through contract farming and investment in rural and agricultural infrastructure, including irrigation systems and roads.

In past decades, land acquisition abroad has been driven by the profit-making motives of the private sector in developed countries and has often focused on perennial tropical cash crops rather than basic staples. Yet public investment for securing food supplies is not a completely new phenomenon. Japan, for instance, started to invest in farm plots overseas a century ago, and its overseas holdings are now three times the size of its domestic arable land.[1] China started leasing land for food production in Cuba and Mexico 10 years ago and continues to search for new opportunities to feed its large population.

More recent transnational land deals are partly an effect of the larger changing economic valuation of land and water. Higher agricultural prices generally result in higher land prices, because the expected returns to land increase when profits per unit of land increase. Given that the food price crisis has increased competition for land and water resources for agriculture, it is not surprising that farmland prices have risen throughout the world in recent years. In 2007 alone, farmland prices jumped by 16 percent in Brazil, by 31 percent in Poland, and by 15 percent in the Midwestern United States. In many countries, developed water sources are almost fully utilized, but agricultural demand for water is expected to increase drastically in the future.

Although additional investments in agriculture in developing countries by the private and the public sector should be welcome in principle, the scale, the terms, and the speed of land acquisition have provoked opposition in some target countries. According to news reports, the Philippines blocked a land contract with China because of serious concerns about its terms and legal validity, as well as about its impact on local food security. Mozambicans have resisted the settlement of thousands of Chinese agricultural workers on leased lands—a situation that would limit the involvement of local labor in the new agricultural investments. In Madagascar, negotiations with Daewoo Logistics Corporation to lease 1.3 million hectares for maize and oil palm reportedly played a role in the political conflicts that led to the overthrow of the government in 2009.

News reports have helped shed light on these developments, but details about the status of the deals, the size of land purchased or leased, and the amount invested are often still murky. Well-documented examples are scarce, and some reports are contradictory. This lack of transparency limits the involvement of civil society in negotiating and implementing deals and the ability of local stakeholders to respond to new challenges and opportunities. Table 1 summarizes some

Table 1—Examples of overseas land investments to secure food supplies, 2006–09

Country investor	Country target	Plot size (hectares)	Current status	Source
Bahrain	Philippines	10,000	Deal signed	Bahrain News Agency, February 2009
China (with private entities)	Philippines	1,240,000	Deal blocked	Fair Trade Alliance, March 2008
China	Zimbabwe	101,171	Deal signed	Chinadialogue, June 2008
Libya	Ukraine	250,000	Deal signed	The Guardian, November 2008
Qatar	Kenya	40,000	Deal signed	Daily Nation, January 2009
United Arab Emirates (with private entities)	Pakistan	324,000	Deal signed	Financial Times, May 2008
South Korea (with private entities)	Sudan	690,000	Deal signed	Korea Times, 2008/09
Saudi Arabia	Tanzania	500,000	Requested	Reuters Africa, April 2009
Jordan	Sudan	25,000	Deal signed	Jordan Times, November 2008

Source: Compiled by IFPRI.

Note: A more comprehensive listing of overseas land investments is available on IFPRI's website at www.ifpri.org/pubs/bp/bp013.asp. IFPRI also invites observers to share evidence-based information on land deals by posting a contribution on IFPRI's blog at http://ifpriblog.org/2009/04/24/landgrab.aspx.

typical examples of reports on large land acquisitions by different investor countries.

Threats and Opportunities from Large-Scale Land Acquisitions

Given the changing global economic context, the agricultural sector clearly requires more investment. Because of the urgent need for greater development in rural areas and the fiscal inability of the developing-country governments to provide the necessary infusion of capital, large-scale land acquisitions can be seen as an opportunity for increased investment in agriculture. Proponents of such investments list possible benefits for the rural poor, including the creation of a potentially significant number of farm and off-farm jobs, development of rural infrastructure, and poverty-reducing improvements such as construction of schools and health posts. Other possible positive spillovers include resources for new agricultural technologies and practices as well as future global price stability and increased production of food crops that could supply local and national consumers in addition to overseas consumers.

Others see these opportunities as unwarranted optimism, emphasizing the threats that the land acquisitions present to people's livelihoods and ecological sustainability. Even though some of the land-lease agreements make provisions for investments in rural development, these deals may not be made on equal terms between the investors and local communities. The bargaining power in negotiating these agreements is on the side of the foreign firm, especially when its aspirations are supported by the host state or local elites. Smallholders who are being displaced from their land cannot effectively negotiate terms favorable to them when dealing with such powerful national and international actors, nor can they enforce agreements if the foreign investor fails to provide promised jobs or local facilities. Thus, unequal power relations in the land acquisition deals can put the livelihoods of the poor at risk.

This inequality in bargaining power is exacerbated when the smallholders whose land is being acquired for foreign investment projects have no formal title to the land, but have been using it under customary tenure arrangements. Since the state often formally owns the land, the poor run the risk of being pushed off the plot in favor of the investor, without consultation or compensation. Land is an inherently political issue across the globe, with land reform and land rights issues often leading to violent conflict. The addition of another actor competing for this scarce and contested resource can add to socio-political instability in developing countries.

In some cases, the land leases are justified on the basis that the land being acquired by the foreign investor is "unproductive" or "underutilized." In most instances, however, there is some form of land use, often by the poor for purposes such as grazing animals and gathering fuelwood or medicinal plants. These uses tend to be undervalued in official assessments because they are not marketed, but they can provide valuable livelihood sources to the poor. Large-scale land acquisitions may further jeopardize the welfare of the poor by depriving them of the safety-net function that this type of land and water use fulfills.

Options exist, however, for correcting these power issues. Strong collective action institutions can give smallholders enough clout to effectively voice their concerns and negotiate on favorable terms with the other powerful actors. Research in natural resource management and smallholder marketing has shown that by acting collectively the poor can stimulate a shift in power relations, which in the case of land acquisitions can help preserve livelihood options. These efforts can be even more effective when civil society gets involved on the behalf of the poor.[2]

The benefits to local communities also depend heavily on how investment projects are designed and managed. On one extreme, conversion of land to large-scale farms or plantations operated by foreign labor causes loss of local land rights and generates little employment for local skilled or unskilled labor. Such projects are likely to generate the greatest local opposition. But projects do not need to evict existing farmers. Contract farming and out-grower schemes that involve existing farmers and land users can enable smallholders to benefit from foreign investment while giving the private sector room to invest. Under such arrangements, small farmers are provided with business development services such as inputs, technical assistance, and credit by the private sector actors, which could be domestic or international. In return, these farmers commit to sell their output to these providers, subtracting the cost of the supplied inputs from their total profits. This approach takes into account the threats posed by large-scale land acquisitions to the livelihoods of the poor and capitalizes on the opportunities for smallholders to benefit, creating a win-win scenario for both local communities and foreign investors.

The demand for land with access to water has increased not only across borders, but also within countries. This increased mobilization of the domestic land market can also have adverse effects on equality in contexts where small farm communities lack defined property rights and judicial systems do not have a capacity to protect rights. Little is known so far about domestic "land grabbing" induced by the price changes, which is much less visible. This issue requires more attention through sound monitoring, statistical assessments, and land rights policies.

The ecological sustainability of land and water resources slated for foreign investment is another important issue when considering large-scale foreign investments. Introducing intensive agricultural production can threaten biodiversity, carbon stocks, and land and water resources. Converting forests or rangelands to monocropping reduces diversity in flora, fauna, and agrobiodiversity, as well as aboveground and subsurface carbon stocks. Many tropical soils are unsuited for intensive cultivation (one reason for long-fallow cultivation cycles in many tropical areas that are considered "unused"), or there is insufficient water for intensive cultivation. Although fertilizer use and irrigation can overcome some of these limitations, these activities can lead to long-run sustainability problems such as salinity, waterlogging, or soil erosion if they are inappropriately designed. These problems are most likely to occur if the outside investors focus on short-term profit or lack a sound understanding of the local ecology. Irrigating the landholdings of foreign investors may take water away from other users in the area or from environmental flows, and intensive use of agrochemicals contributes to water-quality problems in groundwater and runoff. Foreign investors with short-term leases may have a short-term perspective on the sustainability of intensive agriculture and less identity with the area than local residents. Thus, it is important to conduct a careful environmental impact assessment that not only looks at effects on the local area, but also considers off-site impacts on soils, water, greenhouse gas emissions, and biodiversity. Land-lease contracts should also include safeguards to ensure that sustainable practices are employed.

Making a Virtue of Necessity: Toward Win-Win Policies

A dual approach can help address the threats and tap the opportunities related to foreign direct investment in agricultural land. First, the threats need to be controlled through a code of conduct for host governments and foreign investors. Second, the opportunities need to be facilitated by appropriate policies in the countries that are the target of these foreign direct investments.

Key elements of a code of conduct for foreign land acquisition include the following:

- **Transparency in negotiations.** Existing local landholders must be informed and involved in negotiations over land deals. Free, prior, and informed consent is the standard to be upheld. Particular efforts are required to protect the rights of indigenous and other marginalized ethnic groups. The media and civil society can play a key role in making information available to the public.
- **Respect for existing land rights, including customary and common property rights.** Those who lose land should be compensated and rehabilitated to an equivalent livelihood. The standards of the World Commission on Dams provide an example of such policies.
- **Sharing of benefits.** The local community should benefit, not lose, from foreign investments in agriculture. Leases are preferable to lump-sum compensation because they provide an ongoing revenue stream when land is taken away for other uses. Contract farming or out-grower schemes are even better because they leave smallholders in control of their land but still deliver output to the outside investor. Explicit measures are needed for enforcement if agreed-upon investment or compensation is not forthcoming.

- **Environmental sustainability.** Careful environmental impact assessment and monitoring are required to ensure sound and sustainable agricultural production practices that guard against depletion of soils, loss of critical biodiversity, increased greenhouse gas emissions, or significant diversion of water from other human or environmental uses.
- **Adherence to national trade policies.** When national food security is at risk (for instance, in case of an acute drought), domestic supplies should have priority. Foreign investors should not have a right to export during an acute national food crisis.

An internationally accepted code of conduct—as outlined above—should not just consist of general statements without consequences, but should have "teeth." The institutional arrangements could be modeled after the international business laws adopted in the past 10 years to prevent corrupt practices in the context of foreign direct investment. Civil society organizations, especially Transparency International, have pushed to make bribes a legal issue in the country where the corporation resides—for instance, in a country of the Organization for Economic Cooperation and Development (OECD)—rather than just in the country where bribes have been paid. Such laws have subsequently been adopted throughout the OECD. Similarly, to be effective, a code of conduct for foreign land acquisition requires international arrangements and laws that apply everywhere—not only in the countries that are targets of investments, which often have insufficiently developed legal institutions and enforcement mechanisms, but also in the countries where the investments originate.

The second element in a dual approach consists of facilitating opportunities in the target countries by strengthening the policy environment and implementation capabilities. These target countries should improve investment climates through rule of law and contract security; pursue evidence-based agricultural policies related to incentives, markets, technologies, and rural infrastructure; facilitate out-grower schemes and contract farming in the smallholder sector; enhance market information systems that can point to opportunities for farming communities; and build extension systems that facilitate access to knowledge and services, including rural banking.

At the root of foreign investments in agricultural land are the food crisis and the volatility in food markets that have undermined trust in trade on the side of importers. The combination of an international code of conduct, on the one hand, and improved domestic agricultural policies, on the other hand, would make a virtue of the investments that investors consider a necessity and facilitate win-win outcomes. Well-designed foreign direct investment could embed transfers of knowledge and institutional strengthening into the investment and related trade flows, thereby improving productivity in the target countries of these investments. In the longer run, a healthy trade relationship could grow out of such investment islands, building trust in trade, at least on a bilateral basis and potentially more broadly, in an increasingly volatile world food system.

Conclusion

Foreign investment can provide key resources for agriculture, including development of needed infrastructure and expansion of livelihood options for local people. If large-scale land acquisitions cause land expropriation or unsustainable use, however, foreign investments in agricultural land can become politically unacceptable. It is therefore in the long-run interest of investors, host governments, and the local people involved to ensure that these arrangements are properly negotiated, practices are sustainable, and benefits are shared. Because of the transnational nature of such arrangements, no single institutional mechanism will ensure this outcome. Rather, a combination of international law, government policies, and the involvement of civil society, the media, and local communities is needed to minimize the threats and realize the benefits.

[1] Li, P., "Hopes and Strains in China's Oversea Farming Plan," *Economic Observer Online*, June 30, 2008, http://www.eeo.com.cn/ens/Industry/2008/07/03/105213.html.

[2] E. Mwangi, H. Markelova, and R. Meinzen-Dick, eds., *Collective Action and Property Rights for Poverty Reduction: Lessons from a Global Research Project* (Washington, DC: International Food Policy Research Institute, 2007).

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