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IICA-OAS-FOOD SECURITY CONFERENCE

Agriculture for Development and Food Security in the Americas

***“Panel I: Creating an enabling Environment for
Investment in Agriculture”***

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Content

- **Foreign Direct Investment in Latin America & The Caribbean (LAC)**
- **Foreign Direct Investment in Agriculture**
- **Why Investing in Agriculture**
- **Why Investing in Agriculture in LAC**
- **What needs to be done**



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Foreign Direct Investment in LAC (ECLAC, 2008)

- **During 1998 FDI flows to LAC increased by 13%, but**
 - Increased by 23,.9% in South America
 - Decreased by 5,4% in Central America, Mexico & the Caribbean, but
 - Increased by 7,2% en Central America and by 42% in the Caribbean, with large country differences in both cases
 - Decrease by 19,5% in México
- **FDI flows are expected to decrease 35-45% in 2009**
- **Some important dynamics**
 - Services dominate, but resource-related activities (especially oil, gas & metals) have gained importance
 - Natural resources explain 80% of increase in 2008
 - Decline in manufacturing, mainly in C. Am. Mx & Car.
 - Concentrated in a few countries (Argentina, Brazil, Chile, Colombia & Mexico – 80% inflows.)

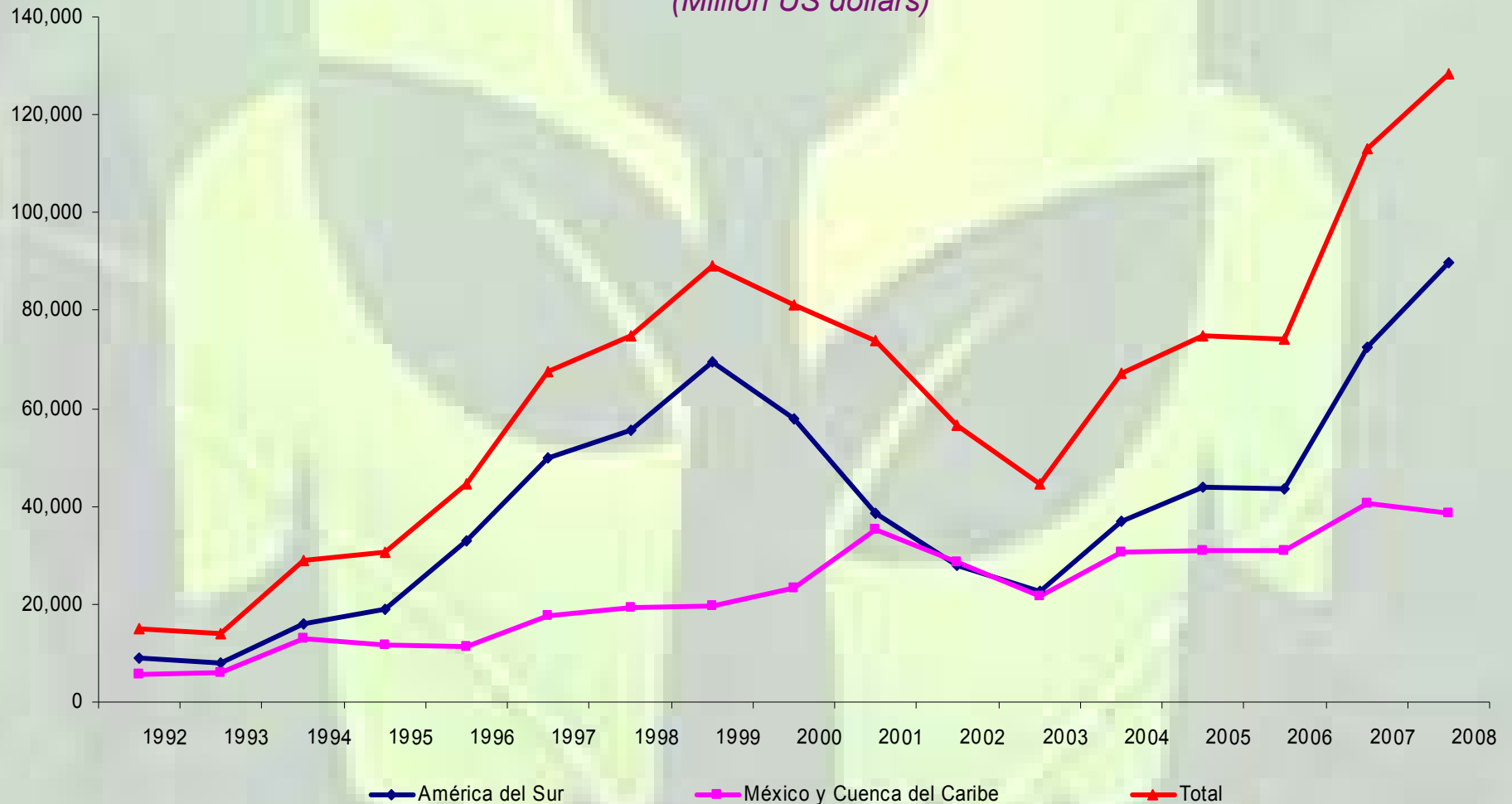


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FDI inflows to LAC reached an historic high record in 2008, but with different regional dynamics

(Million US dollars)



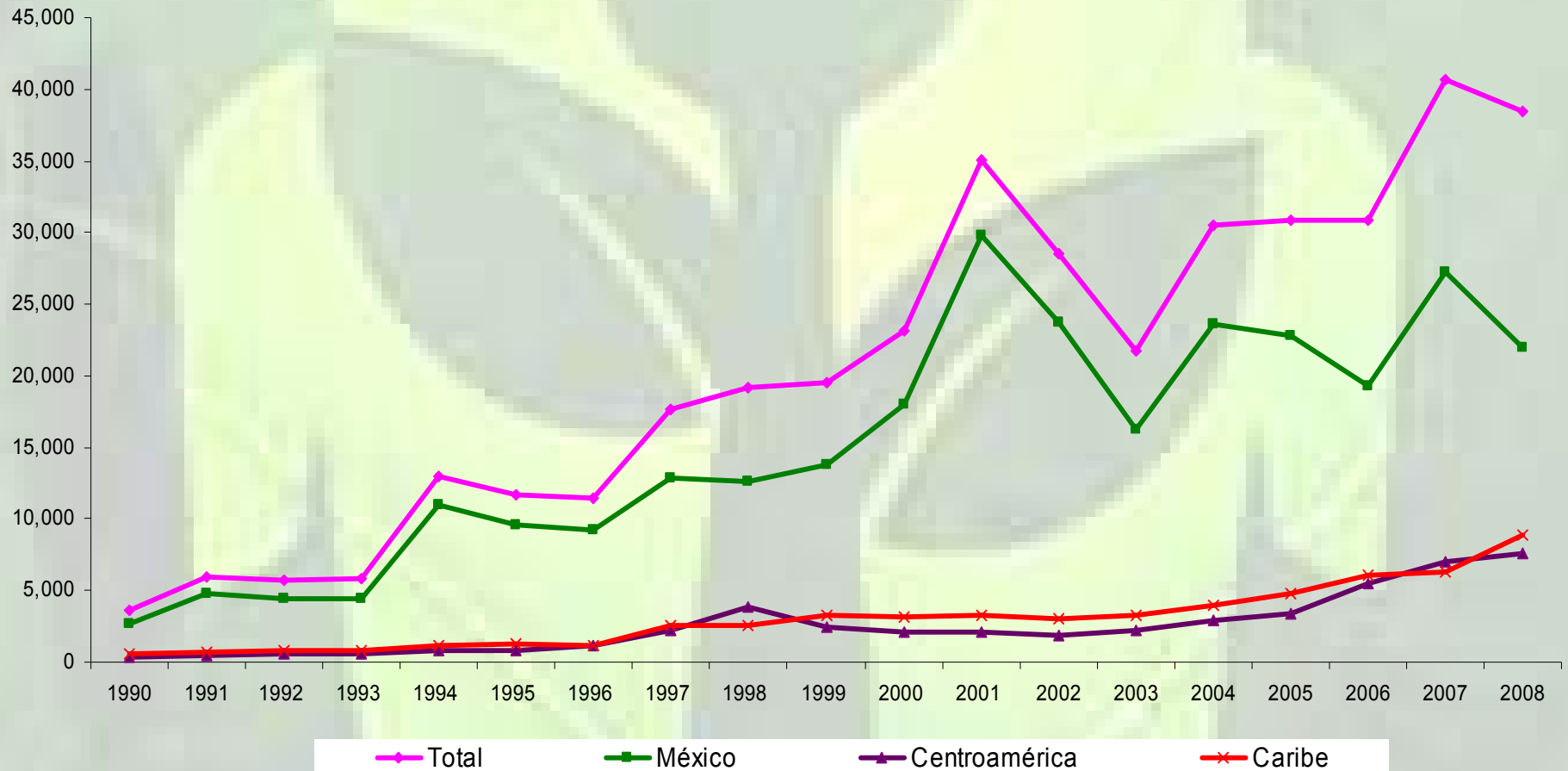
Source: ECLAC (2009)



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The dynamics in the Central American, Mexico and Caribbean region



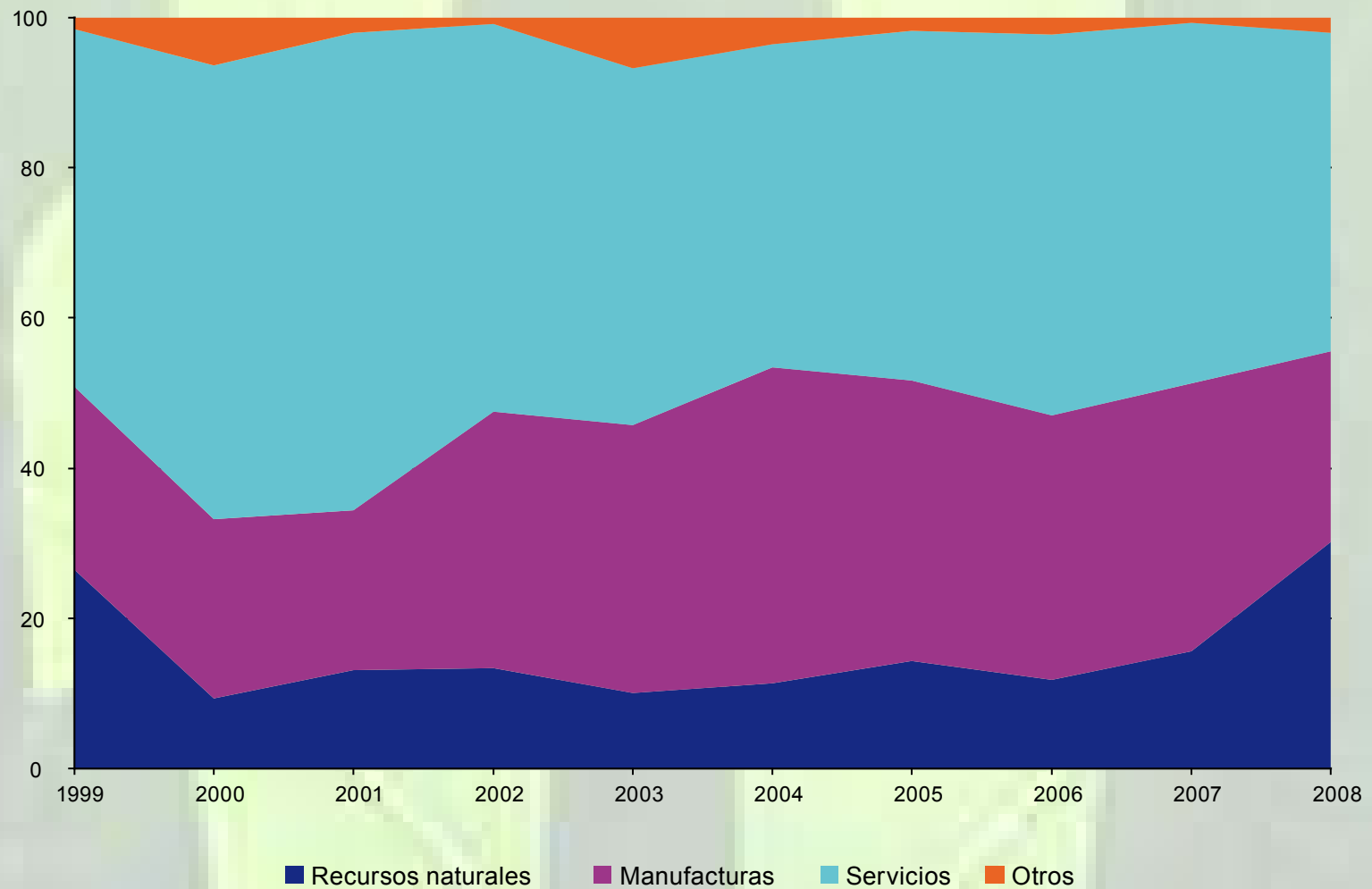
Source: ECLAC (2009)



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FDI flow dynamics: Natural resource-related activities vs. manufacturing



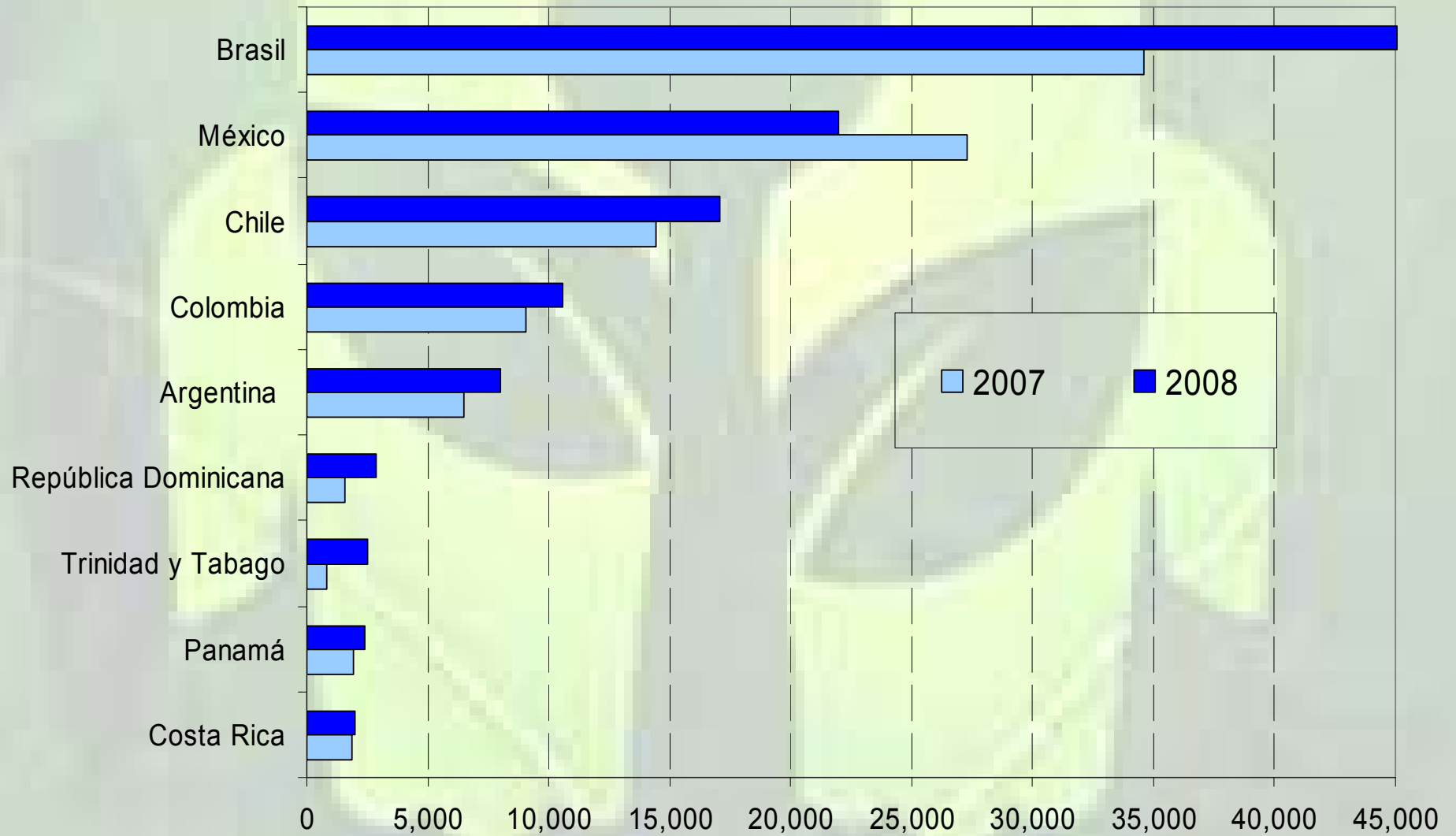
Source: ECLAC (2009)



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FDI flows to major recipients increased, except to Mexico



Source: ECLAC (2009)



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Foreign Direct Investment in Agriculture (UNCTAD, 2009)

- **FDI in agricultural production tripled to US\$ 3 billion annually between 1990 and 2007**
 - Small compared to overall global flows
 - but important in some low-income countries
 - Flows much higher in entire agriculture value chain: US\$ 40 billion in food & beverages
- **Some important characteristics**
 - Developed country TNC dominant in up-stream (suppliers) and downstream (processors, retailers and traders)
 - In agricultural production FDI from south as important as FDI from North
 - Land acquisitions, land leasing & contractual farming
 - Important in cash crops, such as sugarcane, cut flowers & vegetables
 - Difficult to determine impact



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Foreign Direct Investment in Agriculture in LAC (UNCTAD, 2009)

- **In relative terms FDI in agriculture is not significant in LAC, only 0.47% of total between 2005-2007, but**
 - it is over 1% in some countries
 - 6-10% of total – in top 10: Ecuador (4th), Peru (7th) and Honduras (8th)
 - 1-3% of total – in top 20: Chile (15th), Costa Rica (16th) and Brazil (18th)
 - The region is second recipient, after Asia & Oceania
 - In absolute terms Brazil is third recipient worldwide, and Perú, Chile, Honduras, Ecuador and Costa Rica are in top 20.
 - Important for capital formation in agriculture in some countries
 - Attractiveness of the region has increased in recent years
- **Main dynamics in LAC**
 - The main drivers are structure of domestic economy, availability of agricultural lands and national policies
 - In South America significant in cereals, oilseed, sugarcane, fruit, flowers, meat and poultry
 - In Central America and the Caribbean fruits and sugarcane



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Share of agriculture in FDI inflows to selected economies (UNCTAD, 2009)



Source: UNCTAD (2009, Figure III.6, p. 113)



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Why Investing in Agriculture?

- **Characteristics of the sector**
 - Agriculture is less sensitive to the business-cycle fluctuations
 - Contribution to GDP, poverty reduction, rural employment and foreign resources – ***agriculture as engine of growth***
- **Public policy concerns**
 - Neglect of agriculture in public policies in last two decades
 - The need for modernization of agriculture
 - Decrease in the growth of productivity in some crops
- **Long-term structural changes**
 - Increased demand and imports in food crops in some large emerging economies (e.g. China, Brazil, India, South Korea)
 - Land and especially ***water scarcity*** in some regions (eg.) vis-à-vis availability in targeted developing countries
 - Biofuel initiatives – sugarcane, palm and other oilseeds



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Why Investing in Agriculture in LAC?

- **Natural endowments**
 - Along with Africa, region with more land available to the expansion of agriculture
 - Also, good water availability
- **Lagging in R&D investment (Stads & Beintema, 2009)**
 - Slow growth in public R&D vs. growth in Ag. Value Added (0.67% vs. 2,99% cumulative annual average 1991-2006)
 - Low ratios with AgVA (1.14%) vs. OECD (~2,5%) and large national disparities (less than 0,3% El Salvador vs. 2.0% Uruguay)
- **Opportunities with climate change-related investments**
 - Infrastructure and R&D for adaptation
 - Investment to reduce Carbon Footprint of agriculture (green investments)



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What needs to be done

- **Concern about social and environmental consequences**
 - Large land acquisitions and displacement of local populations
 - Environmental impacts, especially from large monoculture
- **Promote investment in neglected tropical food staples**
 - Most R&D from private sector is in commercial crops
 - Public Private Partnerships – R&D for small scale agriculture
- **New opportunities for modernization of agriculture & including farmers in global value added chains**
 - Contract farming – technology transfer & avoid “land grab”
- **Create an enabling investment climate**
 - Investment in infrastructure & public goods
 - R&D, competitiveness, trade promotion policies
 - Protect land right of local and indigenous population
 - Transparent and consistent rules for investors
 - National food security concerns



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References

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- **Stads, G-J & Beintema, N. (2009).** *Investigación agrícola pública en América Latina y el Caribe: tendencias de capacidad e inversión.* Informe de síntesis ASTI. IFPRI-BID, Washington, D.C., marzo.



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Thank you!