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## Foreign Land Investments in Developing Countries

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Peterson, E. Wesley F., "Foreign Land Investments in Developing Countries" (2012). *Cornhusker Economics*. 564.

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# CORNHUSKER ECONOMICS

UNIVERSITY OF  
**Nebraska**  
Lincoln

January 25, 2012

Institute of Agriculture & Natural Resources  
Department of Agricultural Economics  
<http://agecon.unl.edu/cornhuskereconomics>

University of Nebraska–Lincoln Extension

## Foreign Land Investments in Developing Countries

In 2009, the government of Liberia leased 220,000 hectares (543,4000 acres) of land to a Malaysian company, Sime Darby, which intends to develop the land for palm oil and rubber production. (<http://www.simedarbyplantation.com/SimeDarbyPlantationinLiberia.aspx>). While the company has promised that its operations will create jobs and comply with all environmental standards, local farmers have expressed concerns about environmental degradation and slow payments to workers (Siakor and Knight).

In recent years land deals in low-income countries involving foreign firms and governments have increased substantially. The World Bank estimated that there were large scale land deals to purchase or lease 56 million hectares of land in developing countries in 2009. Note that total cultivated acreage in the United States is about 175 million hectares. Most observers suggest that the rising interest in foreign land investments is linked to recent commodity price increases. Between January 1990 and February 2011 the Food and Agriculture food price index increased 96 percent, before falling back somewhat toward the end of the year. Rising food prices may signal impending food shortages, and firms and governments in countries with limited land resources may be attempting to lock in supplies through foreign land investments.

Over the next 40 to 50 years, world population will increase by some two to three billion people. Will it be possible to feed these extra people? Food output can be augmented by increasing the amount obtained from an acre of land or by increasing the number of acres that are planted. Over the past 200 years food production has grown faster than population as a result of yield-enhancing technological innovations and increases in the number of acres cultivated. To feed the two to three billion additional people who will be living on planet earth in 2040-2050 without destroying the environment, technological

Market Report	Yr Ago	4 Wks Ago	1/20/12
<b><u>Livestock and Products,</u></b>			
<b><u>Weekly Average</u></b>			
Nebraska Slaughter Steers, 35-65% Choice, Live Weight. . . . .	\$106.00	\$125.26	\$125.29
Nebraska Feeder Steers, Med. & Large Frame, 550-600 lb. . . . .	146.00	160.36	181.21
Nebraska Feeder Steers, Med. & Large Frame 750-800 lb. . . . .	126.30	147.35	152.73
Choice Boxed Beef, 600-750 lb. Carcass. . . . .	172.52	191.37	182.54
Western Corn Belt Base Hog Price Carcass, Negotiated. . . . .	74.05	78.91	84.00
Pork Carcass Cutout, 185 lb. Carcass, 51-52% Lean. . . . .	85.52	86.85	85.15
Slaughter Lambs, Ch. & Pr., Heavy, Wooled, South Dakota, Direct. . . . .	159.50	*	148.38
National Carcass Lamb Cutout, FOB. . . . .	344.95	400.62	386.99
<b><u>Crops,</u></b>			
<b><u>Daily Spot Prices</u></b>			
Wheat, No. 1, H.W. Imperial, bu. . . . .	7.41	6.07	6.13
Corn, No. 2, Yellow Omaha, bu. . . . .	6.28	6.16	*
Soybeans, No. 1, Yellow Omaha, bu. . . . .	13.50	11.53	*
Grain Sorghum, No. 2, Yellow Dorchester, cwt. . . . .	10.54	10.45	10.64
Oats, No. 2, Heavy Minneapolis, MN, bu. . . . .	3.86	3.33	3.17
<b><u>Feed</u></b>			
Alfalfa, Large Square Bales, Good to Premium, RFV 160-185 Northeast Nebraska, ton. . . . .	140.00	155.00	155.00
Alfalfa, Large Rounds, Good Platte Valley, ton. . . . .	88.00	132.50	137.50
Grass Hay, Large Rounds, Good Nebraska, ton. . . . .	*	95.00	100.00
Dried Distillers Grains, 10% Moisture, Nebraska Average. . . . .	195.00	221.50	202.50
Wet Distillers Grains, 65-70% Moisture, Nebraska Average. . . . .	66.00	69.50	70.63
<b>*No Market</b>			



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innovation will be indispensable. In addition, agricultural productivity in many parts of the world is well below what is possible, so there is much potential for increased food supplies simply through adopting better cultivation practices in these areas. But there will also be pressure to bring more land into cultivation, and increases in planted acres may be a necessary complement to technological innovations and improved cropping methods.

Real food prices today are actually below the levels reached in the early 1970s. Corrected for inflation, average wheat prices, for example, were 42 percent higher in 1974 than at the end of 2011. High food prices in the early 1970s led to higher land prices, but did not set off the kind of large-scale foreign land purchases being seen today. This suggests that other factors besides rising food prices may be helping to drive these investments. Cotula et al., point to rising demand for agricultural commodities for industrial uses such as biofuels and rubber, and the active solicitation by governments in developing countries for land investments to promote economic growth and development.

World Bank estimates of the amount of land not presently cultivated that might be brought into cultivation in various parts of the world are shown in Table 1 (on next page). Currently, some 1.5 billion hectares (3.7 billion acres) are being cultivated. Although about 1.7 billion hectares not currently cultivated appear to be available for agricultural use, estimates of the available land in areas of low population density may be a more reliable gauge of the amount of land that could actually be added. As shown in Table 1, available land in low density areas amounts to about 446 million hectares, and 73 percent of that total is in Sub-Saharan Africa and Latin America. It is not surprising that most of the land investments reported in the news are being made by firms and governments in Asia, the Middle East and Europe, and that these investments are being made primarily in Africa and Latin America.

An important question about land investments is why firms and governments choose to lease or purchase foreign land instead of simply importing the products from local producers. Liberian farmers have traditionally grown palm oil, for example, and the Malaysian firm could have contracted with these local producers rather than entering into an agreement to lease land and produce the palm oil itself. It is likely that the choice between land investments and trade is related to perceptions about the risk of supply interruptions, changing trade policies and price increases, compared to the risk of expropriation (nationalization) by the host government. These perceptions may vary widely according to the commodity, the parties to the agreement and other factors involved in a particular decision. Cotula et al., observe for example, that China purchases cotton from the world market while buying land in Laos and

Myanmar for use in producing the rubber needed by its growing industries.

There have been many horror stories about local farmers displaced by the sale of their land to foreign investors. Some have even characterized foreign land investments as “land grabs,” a new form of colonialism. But foreign land deals can be beneficial to recipient countries. Cotula et al., point to a project in Kenya in which the government of Qatar has offered the Kenyan government a loan to build a new deep water port in return for the right to lease 40,000 hectares of land in Northern Kenya for agricultural production. Still, many worry that traditional property rights to land will be overrun in this process, and that local farmers will lose out as corrupt government officials collude with multinational firms and foreign governments. The World Bank and others have called for international codes of conduct to govern these land deals so that traditional land rights are respected, the benefits to the host country outweigh the costs and the transactions are open and transparent. Such international codes may be particularly important in countries with weak or contradictory laws on property.

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**Table 1: Land Availability by Region (million hectares; one hectare = 2.47 acres)**

	<b>Population*</b>	<b>Total Land Area</b>	<b>Forested Area</b>	<b>Cultivated Area</b>	<b>Available Land**</b>	<b>Low Pop. Density***</b>
<b>Sub-Saharan Africa</b>	854	2,408.2	509.4	210.1	561.0	201.5
<b>Latin America/Caribbean</b>	583	2,032.4	934.0	162.3	569.9	123.3
<b>East Europe/Central Asia</b>	405	2,469.5	885.5	251.8	240.6	52.4
<b>East and South Asia</b>	3,540	1,932.9	493.8	445.0	76.0	14.3
<b>Middle East/North Africa</b>	331	1,166.1	18.3	74.2	4.3	3.0
<b>United States</b>	309	930.3	298.7	174.5	95.0	8.8
<b>Rest of the World</b>	821	2,338.7	565.5	184.4	177.5	42.3
<b>World Total</b>	<b>6,843</b>	<b>13,328.1</b>	<b>3,704.2</b>	<b>1,502.3</b>	<b>1,724.3</b>	<b>445.6</b>

\*2010 Population in millions.

\*\*Land suitable for cultivation that is non-cropped and non-protected.

\*\*\*Available land with low population density; most likely to be brought into cultivation.

Source: [http://siteresources.worldbank.org/INTARD/Resources/ESW\\_Sept7\\_final\\_final.pdf](http://siteresources.worldbank.org/INTARD/Resources/ESW_Sept7_final_final.pdf)