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The impact of FDI in land in agriculture in developing countries on host country food security

Grazia D. Santangelo

Department of Political and Social Science, University of Catania, Via Vittorio Emanuele 8, 95131, Catania, Italy

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ABSTRACT

We investigate the influence of FDI in land in agriculture in developing countries, a phenomenon also known as land grabbing, on host country food security, and suggest a differential impact depending on the investor's country of origin. FDI in land by developed-country investors positively influence food security by expanding land used for crop production because of home institutional pressure for human rights respect and responsible farmland conduct, in addition to positive spillovers. Instead, FDI in land by developing-country investors negatively influence food security by decreasing cropland due to home institutional pressure to align to national interests and government policy objectives, in addition to negative spillovers.

1. Introduction

Nearly 800 million people suffer from hunger globally and the vast majority of them live in developing countries (United Nations, 2015). These figures motivate the inclusion of *zero hunger*, defined as the eradication of hunger and the achievement of food security, as a Sustainable Development Goal (SDG) in the United Nations (UN) Sustainable Development Agenda.

Food security is "a situation that exists when all people, at all times, have physical, social and economic access to sufficient, safe and nutritious food that meets their dietary needs and food preferences for an active and healthy life" (FAO, 2015, p. 53). Progresses toward global food security are critically related to agriculture (FAO, 2015) as most of the poor depend on agriculture and related activities for a significant part of their livelihoods (FAO, 2015; Gollin, Parente, & Rogerson, 2007). In this perspective, land is a critical factor of production and its global demand has reflected the rediscovery of such a factor as a natural now sought-after resource (Cotula, Vermeulen, Leonard, & Keeley, 2009; Robertson & Pinstrup-Andersen, 2010; UNCTAD, 2009; World Bank, 2010). International land deals are then a growing global phenomenon (IFRI, 2009; Oxfam, 2011; UNCTAD, 2009; World Bank, 2010), which has been named foreign direct investments (FDI) in land or more critically land grabbing (Cotula et al., 2009; Görgen et al., 2009).

The impact of FDI in land in agriculture on food security has recently gained great attention, and stimulated a controversial debated and inconclusive evidence based on case studies and narratives (Cotula et al., 2009; World Bank, 2010). Yet, the debate has been off the radar of international business scholars, who have traditionally looked at the contribution of FDI to development mainly in terms of FDI impact on host country welfare (a notable exception is Nanus (1971)). Also, this impact has been investigated in terms of spillovers, that is a by-product of foreign investors operations (Oetzel & Doh, 2009), thus ignoring the deliberate action of foreign investors.

To advance international business research on the contribution of FDI to host country development, we address the question *whether FDI in land in agriculture in developing countries impact on host country's food security*. We explicitly bring dimensions of human "well being" into the international business field, and propose that multinationals can take an active role in promoting sustainable development and inclusive growth in the host country (Ghauri & Yamin, 2009; Kolk & van Tulder, 2010; Kolk, 2016; Oetzel & Doh, 2009). In particular, we suggest that the impact of these land investments depends on the country of origin of the foreign investors (Blomström & Kokko, 1998; Fortanier, 2007; Meyer & Sinani, 2009; Sethi & Elango, 2000; Zhang, Li, Li, & Zhou, 2010). We distinguish between developed- and developing-country investors (Cuervo-Cazurra & Genc, 2008). Based on the literature on the role of home country institutional environment on FDI expansion, and research on FDI spillover (Blomström & Kokko, 1998; Kostova & Zaheer, 1999; Luo et al., 2010; Meyer & Sinani, 2009; Meyer & Thein, 2014; Scherer & Palazzo, 2011), we ague that FDI in land by developed-country investors actively contribute to host country food security by increasing the land used for crop production in the host. Instead, FDI in land by investors from developing counties hamper host country food

E-mail address: grsanta@unict.it.

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security by decreasing cropland. We explain this in terms of, in addition to technological and environmental spillovers, different types of pressure each of these foreign investors face in their home institutional context to maximize spillover benefits (or minimize negative spillovers).

To test our arguments, we collect a new dataset of large-scale land deals to 65 countries, which the IMF classifies as emerging and developing (hereafter developing), by developed- and developing-country investors (as per the IMF classification) over the period 2000–2011. We combine these data, among others, with a commonly used measure of food security: daily per capita calorie. Our findings confirm our theoretical expectations.

We contribute to international business research on the impact of FDI on development by conceptually distinguishing the spillovers and development roles of FDI and by shifting attention from the economic to the sustainable development impact of FDI in host developing countries. Also, we add to research on food security by pointing out the relevance of the country of origin of the foreign investors. Finally, we elaborate on a number of research themes our study opens up the way to.

2. Theoretical background

Traditionally, the effects of FDI on the host country sustainable development have been investigated in terms of spillovers of technology and knowledge of developed-country investors into developing host countries (Blomström & Kokko, 1998; Meyer and Sinani, 2009). In virtue of their superior technological capabilities, experience and knowledge, developed-country investors provide knowledge access and learning opportunities to local firms and, as a result, contribute to the development and growth in the host economy (Blomström, Kokko, & Zejan, 1994; Blomström & Persson, 1983; Blomström & Sjöholm, 1999; Kokko, 1994). Lack of direct competition between developed-country investors and local firms in host developing countries facilitates spillovers, which take place through diverse channels such as demonstration effects, backward and foreign linkages with the foreign investors and movement of skilled labor (Blomström & Kokko, 1998; Spencer, 2008). In particular, the large technological gap between developed-country investors and local firms in developing host countries eases conventional demonstration effects and increases spillovers benefits (Findlay, 1978; Meyer & Sinani, 2009; Wang & Blomström, 1992). Yet, evidence is mixed, and a less optimistic perspective suggests a negative impact of FDI from developed countries on the economic welfare of developing host countries drawing on dependency theory (Haddad & Harrison, 1993; Rubinson, 1976). To this view it is opposed that a minimum threshold of absorptive capacity is needed for the host country to be able to benefit from FDI spillovers (Borensztein, De Gregorio, & Lee, 1998).

Based on absorptive capacity arguments, in connection to the recent upsurge of South–South FDI it has been suggested that the smaller technological gap between developing-country investors and local firms in developing host countries (Lecraw, 1977; Lipsey & Sjöholm, 2011; Luo, Zhao, Wang, & Xi, 2011) should make foreign knowledge and capabilities easier to be absorbed and applied locally (Takii, 2005). However, there is little evidence of positive spillovers in connection to South–South FDI at least within the same industry (Buckley, Clegg, Wang, & Cross, 2002; Xu & Sheng, 2012). Positive spillovers of FDI from developing countries seem also to be contingent on the industry of the investment. In natural resource sectors, for instance, developing-country investors hardly develop any linkage with local firms and mainly rely on their parent firms for inputs for their local production facilities (Amendolagine, Boly, Coniglio, Prota, & Seric, 2013; Morrissey, 2012). In addition, they tend to have technologies that are not especially advanced limiting learning opportunities for local firms (Cuervo-Cazurra & Genc, 2008). Along these lines, great emphasis has been traditionally placed on the role of host country governments in attracting and creating most favorable conditions to maximize positive FDI spillovers into the local economy (Oxelheim & Ghauri, 2004). Yet, the findings concerning FDI assisted-growth policies remain controversial (Dunning & Narula, 2003).

Irrespective of the more or less optimistic view on FDI impact, the assumption of this literature is that FDI contribute to host country development through spillovers into the host country, which are a by-product of the operations of the foreign investors. This view overlooks the active role foreign investors can take in the local economic as well as socio-economic development (Oetzel & Doh, 2009). Unlike in the spillovers literature, foreign investors can actively maximize (minimize) positive (negative) spillovers on both the welfare and the well being of the host country.

Our knowledge of the contingenciesthat favor an active role of foreign investors in generating spillovers, and the “non-economic” impact of FDI on the host country, is scant (Kolk, 2016; Oetzel & Doh, 2009). In particular, the impact of FDI on food security, among the UN SDG, still remains unexplored by international business research (a notable exception is Nanus (1971)). Instead, FDI impact on food security has received increasing attention by UNCTAD (2009, 2014), and a small body of work in sociology and international studies. Building on the spillover literature, some of these works find that foreign capital reduces food security (Wimberley & Bello, 1992; Wimberley, 1991), others suggest a possible increase (Firebaugh & Beck, 1994) or no effect (Jenkins & Scanlan, 2001) and more recently, it has been suggested that this conflicting evidence could be solved by accounting for the sector of the FDI (Mihalache-O'keef & Li, 2011). All these studies have investigated FDI as traditionally defined in terms of inflows of foreign capital.

The upsurge in large-scale land deals has attracted attention to this new type of FDI targeting land mainly in developing countries (Cotula et al., 2009; Görgen et al., 2009; UNCTAD, 2009). FDI in land have been defined as investments “in land by a foreign company or state … based on a lasting interest in taking control over land use rights. The transaction includes either rights of land-use or land-ownership. The land-use rights are generally valid for a limited period and can possibly be extended” (Görgen et al., 2009). The bulk of FDI in land is in the broad agricultural sector (Oxfam, 2011), but evidence on the impact of FDI in land in agriculture on food security is limited due to the difficulty of retrieving information about the land deals (Cotula et al., 2009). Two studies reflect the controversial debate on the socio-economic and environmental impact of FDI in land. Cotula et al. (2009) focus on Africa, and based on a qualitative analysis conclude that foreign investors are perceived as land “grabbers” hampering local development and threatening food security because of, among others, large-scale water use, and use of pesticides and fertilizers that favor natural degradation. The 2010 World Bank report offers less clear-cut conclusions drawing attention, on the one hand, on the inability of host country public institutions to safeguard the rights, including the right to food, of the more vulnerable groups, and, on the other, on the improvements in food security FDI in land bring about by expanding rainfed cultivated land.

This debate has so far missed the link between FDI expansion and the home country institutional context, which may support or constrain foreign operations and influence foreign strategies (Cuervo-Cazurra & Genc, 2008; Cuervo-Cazurra, 2011; Kostova & Zaheer, 1999; Luo et al., 2010; Meyer & Thein, 2014). Home country governments may provide political support to foreign operations of domestic firms (Luo et al., 2010; Meyer, Ding, Li, & Zhang, 2014). Home country institutions also impact on the firm image as perceived in the host county, and the presence, absence or underdevelopment of market-supporting institutions at home influence the development of specific adaptive resources and capabilities by domestic firms, which then influence foreign strategies (Cuervo-Cazurra, 2011). In addition, home country institutions exert pressures on domestic firms to align their foreign operations to national interests and government policy objectives as