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Land market liberalization, transfer of agricultural technology, and the process of industrialization

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ABSTRACT

Common wisdom suggests that foreign land ownership should facilitate the transfer of agricultural technology from developed to developing countries, attract foreign capital flow to developing countries, and enhance the process of capital accumulation. The goal of this paper is to dispute this claim and describe a particular feedback mechanism through which the foreign land ownership can become a barrier for growth and development. The main result of this paper suggests that a policy proposal to enhance the process of growth and development through foreign land ownership accompanied by the transfer of agricultural technology may not always succeed. It is important to recognize that apart from benefits, foreign land ownership can sometimes become an impediment for growth. As a result, a policy maker with a clear goal to speed up the process of development may end up pushing the country even deeper into an underdevelopment trap due to the policy intervention.

1. Introduction

A significant number of countries and corporations are getting involved in acquisitions of farmland in developing countries. For example, Borras and Franco (2010), Borras et al. (2010, 2011), Deininger and Byerlee (2011), Zoomers (2010), Deininger (2011), De Schutter (2011), and Hall (2011) document a large-scale international land acquisitions through private and governmental actors. Food-importing countries with land and water constraints but rich in oil resources, such as the Gulf States, are at the forefront of those nations making new investments in farmland abroad. In addition, countries with large populations and food security concerns such as China, Japan, India, and South Korea, are seeking opportunities to produce food and biofuel crops overseas. Land acquisitions are occurring mainly in developing countries like Brazil, Cambodia, Indonesia, Laos, Madagascar, Pakistan, Philippines, Uganda, Sudan and others, where production costs are relatively low and where land and water resources are more abundant than in the investor nations. Fig. 1 provides a snapshot of foreign land ownership as of year 2008. The dark circles on the map indicate countries where land has been purchased by sovereign governments and foreign companies, while the light circles indicate countries purchasing land abroad. The map shows that five major investor countries – China, Japan, South Korea, Saudi Arabia, and United Arab Emirates – own foreign land, mainly in Indonesia, Madagascar, Philippines, Laos, Pakistan, Sudan, and Mongolia.

Most public land purchase deals are made in secrecy. This makes it very difficult to accurately estimate the actual size of foreign land ownership in the world. However, according to the estimates of the International Food Policy Research Institute (IFPRI), deals on 15–20 million hectares of farmland (in developing countries) were under negotiation between 2006 and 2009 (see for example, Von Braun and Meinzen-Dick, 2009). According to the estimates of the World Bank Annual Report, 45 million hectares of farmland were under negotiation in 2009 alone, and 70% of all pending deals were in Africa (see for example, Deininger and Byerlee, 2011).[1] The main driving forces behind such rapid change in land ownership are (a) rising prices for agricultural commodities; (b) food security; and (c) plantation of crops for biofuel production (see for example, Schut

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[1] A summary of the media attention on such acquisitions can be found in Braun and Meinzen-Dick (2009). GRAIN, an international non-profit organization headquartered in Barcelona, Spain, sponsors a website that offers the most comprehensive information tool on global land purchase for outsourced food production. The following site, http://farmlandgrab.org, provides an open, up-to-date and easy to search library of over 800 recent articles, interviews, and reports on global land purchase around the world.

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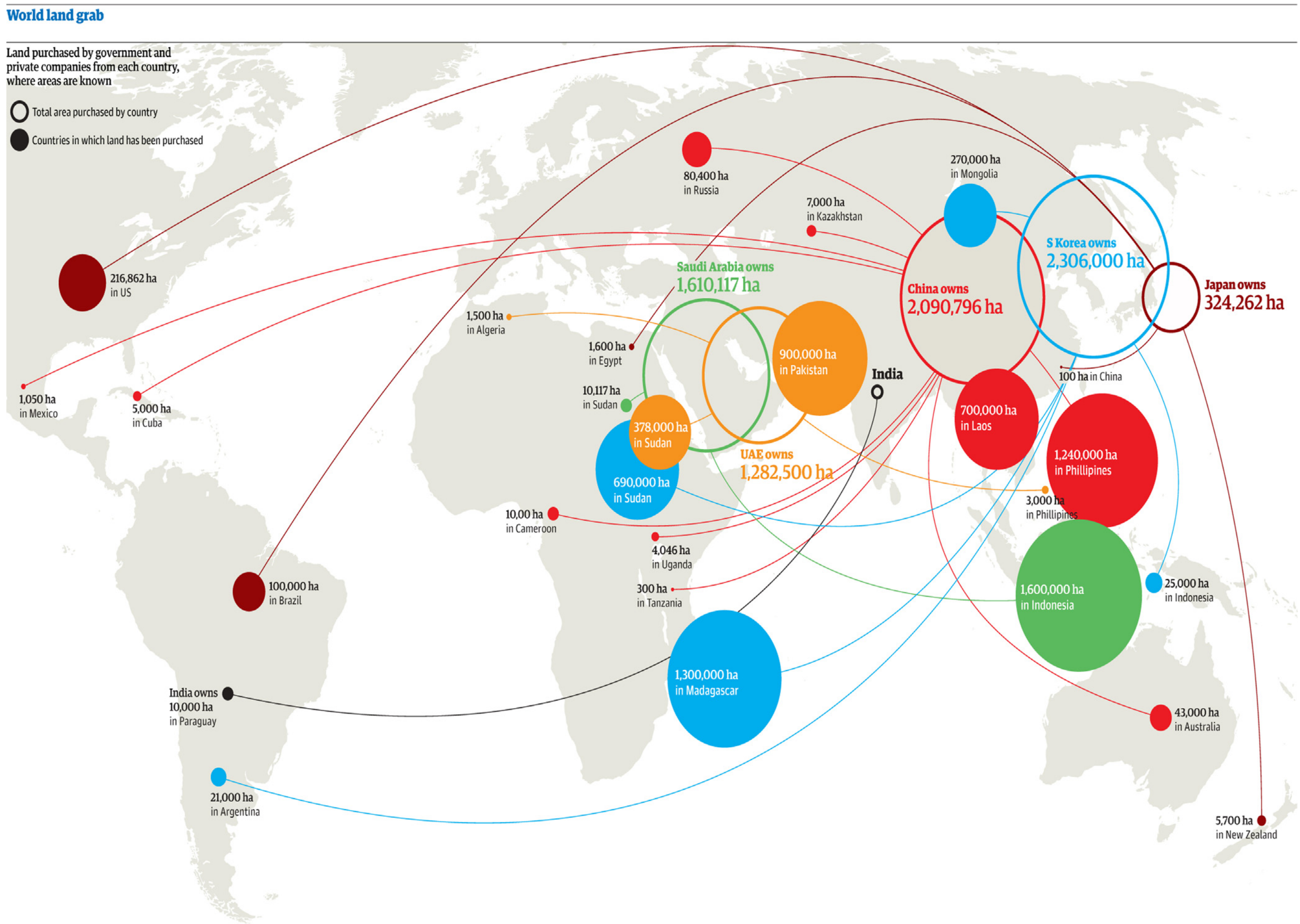

Fig. 1. Foreign land ownership map. The map has been downloaded from the website: http://image.guardian.co.uk/sys-files/Guardian/documents/2008/11/21/LANDGRAB.pdf.

et al., 2010; Bringezu et al., 2012; Harveya and Pilgrim, 2011, and Scheidel and Sorman, 2012, among others).

Given the complexity of the issue, the debate on the impacts of large-scale foreign land acquisitions on growth and development has received growing attention in recent years among researchers and policymakers. On the one hand, supporters of the liberal approach of agrarian reform argue that foreign land acquisition should facilitate the transfer of agricultural technology, increase employment, enhance the development of agricultural and biofuel producing industries, and help the development process. That is why many government leaders in developing countries are welcoming foreign acquisitions of domestic land and arguing that such acquisitions will attract much-needed foreign capital and help the development of rural areas where the agricultural sector is the main source of income. However, supporters for the structualist view on the other hand, raise concerns that foreign land ownership can have a negative impact on the poor local people, who risk losing access to and control over the land on which they depend too much. Unrestricted foreign land ownership could cause a spike in property prices so that citizens of the low and middle class are never able to afford land again.[2] While robust empirical evidence on the impact of foreign land ownership on the process of economic development is lacking, many powerful international institutions (such as The World Bank, the European Bank for Reconstruction and Development, the US Millennium Challenge Corporation) are actively advising foreign governments to change their landownership laws and make it easier for foreign investors to acquire land in their countries. Officials of these institutions argue that such change of landownership laws would enhance the market-mediated redistribution of land, which would facilitate the transfer of agricultural technology and technical know-how from developed to developing countries and improve the overall efficiency in the agricultural sector.

The purpose of this paper is to put the liberal approach of agrarian reform under logical scrutiny and argue that the agricultural productivity growth might not help the process of industrialization after a country allows foreigners to buy and sell domestic land. In other words, foreign land ownership rights might put residents of a relatively poor country in a disadvantageous position because they might not be able to compete against residents of a relatively rich country. An intellectual origin of this view is consistent with the structualist approach. In this paper, I will attempt to make a small step toward unifying liberal and structualist views of agrarian reform. To this end, I analyze a model within which I can investigate the link between land market liberalization and the process of capital accumulation/industrialization. The model is set up in such way that, the liberal approach of agrarian reform yields a positive link between agricultural productivity and the process of industrialization if foreign land ownership is not allowed. The

[2] According to the FNP Institute, an agribusiness consulting firm in Sao Paulo, in 2007 alone, farmland prices jumped by 16% in Brazil, by 31% in Poland, and by 15% in the Midwestern United States.