

The analysis of Inward FDI in China’s modern agriculture sector

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Abstract: The Chinese Government attaches great importance to the use of foreign direct investment (FDI) to promote its economic development, and agriculture is a key industry utilizing FDI. In the context of the continuous optimization of the business environment for foreign investors in China, FDI in the agriculture sector tends to be small scale, from a relatively small number of stable sources, concentrated in the eastern region and focused on specific projects. This article summarizes the current situation and characteristics of foreign direct investment in China’s modern agriculture sector, and provides a reference for foreign investors and relevant policy makers.

Key Words: China; Inward FDI; Modern agriculture sector

Introduction

As the foundation of the national economy, agriculture is a key industry for use of foreign investment. According to data from the Chinese Ministry of Commerce, from 2000 to 2018, FDI utilized by agriculture amounted to USD 24.205 billion. In 2020, influenced by the global economic slowdown, foreign direct investment in China’s agricultural sector experienced slow growth overall. However, in certain regions, there was a counter-trend of increased investment. (Gao Yanan et al., 2020).

1. Overall scale of inward FDI in the agriculture sector

Compare to other sectors, the scale of inward FDI in agriculture is smaller. Figure 1 shows that for the period 2000–2018, the actual amount of inward FDI in China’s primary sector (plantation, forestry, animal husbandry and fisheries) accounts for no more than 2 percent of total FDI actually used in China each year. Because the primary industry has the characteristics of long production cycle and slow return on investment, the proportion of inward FDI in China’s agriculture sector is the lowest at present (Bin, 2015). In recent years the inward FDI is increasingly concentrated in the tertiary sector – i.e. service industries –accounting for an average of 61.4 percent of total FDI. The secondary sector –i.e. manufacturing industries – ranks second with an average of 37.4 percent, while the primary sector accounts for an average of just 1.25 percent of total FDI. In 2018, the inward FDI in China’s primary sector (plantation, forestry, animal husbandry and fisheries) amounted to USD 810 million, accounting for a mere 0.59 percent of total FDI.

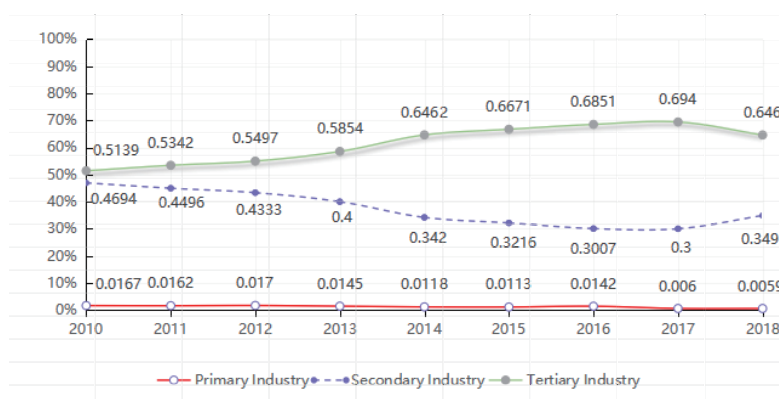


Figure 1 Trends in the proportion of FDI used in the primary, secondary and tertiary sectors, 2010–2018

Sources: MOFCOM, 2020; NBS, 2020.

The overall small scale of inward FDI in China’s agriculture sector is in part explained by the statistical methods adopted. China’s FDI statistics are based on the three sectors: agricultural product processing and food processing statistics are categorized in the secondary sector, while FDI statistics regarding agricultural transportation, agricultural technology and information services are considered part of the tertiary sector. Therefore, the FDI data relative to primary industries, including plantation, forestry, animal husbandry and fisheries, are relatively small.

Furthermore, the small proportion of FDI applied to agriculture is mostly due to the adjustment of China’s industrial structure. Figure 1 shows that the trend of FDI utilization in the primary sector initially increases and later decreases. Likewise, the trend of FDI utilization in the secondary sector also increases before decreasing. The amount of FDI used by service industries increased from 2010, and dropped slightly in 2018. Thus, following the adjustment of China’s industrial structure, with the utilization of FDI also increasingly directed towards the service industry.

2. Sources of FDI in the agriculture sector

According to the Report on Foreign Investment in China 2016, the composition of FDI sources in the agriculture sector is basically

stable, coming mainly from China, Hong Kong SAR, Taiwan Province of China and Singapore. In 2015, China, Hong Kong SAR ranked first in terms of FDI in the agriculture sector of mainland China, with a total of 333 projects (a year-on-year decrease of 25.84 percent); the actual investment was USD 1.008 billion (a year-on-year decrease of 3.58 percent), and accounted for 54.68 percent and 65.72 percent of foreign investment in the sector. Taiwan Province of China ranked second, with a total of 167 projects (a year-on-year increase of 28.46 percent); the actual investment amounted to USD 117 million (a year-on-year increase of 29.86 percent). Singapore ranked third, with investments accounting for 6.24 percent (Table 1).

Table 1 Sources of FDI in the agriculture sector, 2015

Country/Region	Number of FIEs	Share of number of FIEs(%)	FDI amount (100 million USD)	Share of FDI(%)
China, Hong Kong SAR	333	54.68	10.08	65.72
Taiwan Province of China	167	27.42	1.17	7.64
Singapore	10	1.64	0.96	6.24
Sweden	0	0.	0.94	6.15
Luxembourg	1	0.16	0.43	2.78
Total	511	83.9	13.58	88.53

Notes: FIE – foreign invested enterprise; FDI – foreign direct investment; SAR – Special Administrative Region.

Source: MOFCOM, 2020 (2016 Report).

It can be seen that the sources of FDI in China's agriculture sector are relatively concentrated, which is basically consistent with the source structure of China's overall use of FDI. Given their geographical proximity, it is more convenient for companies from Asian countries or regions to invest in China and their management costs are also relatively low.

3. Geographical distribution of FDI in the agriculture sector

FDI in agriculture is concentrated mainly in the eastern region. According to the Report on Foreign Investment in China 2016 (MOFCOM, 2020), in 2015, FDI in the agriculture sector in the eastern region was USD 1.16 billion (a year-on-year increase of 9.38 percent), accounting for 75.62 percent of FDI in the sector; FDI in the agriculture sector in the central region was USD 236 million (a year-on-year decrease of 31.23 percent), accounting for 15.37 percent, while in the western region it was USD 138 million (a year-on-year increase of 16.04 percent), accounting for 9.01 percent (Table 2). In 2016, the actual use of FDI in the agriculture sector in the western region amounted to CNY 4.744 billion (about USD 735 million), representing a marked year-on-year increase of 431.72 percent and accounting for 7.64 percent of the regional share.

Table 2 Geographical distribution of FDI in the agriculture sector, 2015

Area	Number of FIEs	YoY (%)	Actual use of FDI(100 million USD)	YoY (%)
Eastern region ¹	377	-25.49	11.60	9.38
Central region ²	157	7.53	2.36	-31.23
Western region ³	75	11.94	1.38	16.04
Total	609	-15.3	15.34	0.76

Notes: FIE – foreign invested enterprise; YOY – year-on-year; FDI – foreign direct investment.

1 Beijing, Tianjin, Hebei, Liaoning, Shanghai, Jiangsu, Zhejiang, Fujian, Shandong, Guangdong, Hainan.

2 Shanxi, Jilin, Heilongjiang, Anhui, Jiangxi, Henan, Hubei, Hunan.

3 Inner Mongolia, Guangxi, Sichuan, Chongqing, Guizhou, Yunnan, Shaanxi, Gansu, Qinghai, Ningxia, Xinjiang, Tibet.

Source: MOFCOM, 2020 (2016 Report).

The regional disparity in the utilization of foreign direct investment (FDI) in Chinese agriculture sector is due to the fact that the eastern region, compared to the central and western regions, possesses more comparative advantages. The eastern region, in terms of economic development, geographical location, natural resources, labor resources, transportation infrastructure, and industrial concentration, has significant advantages over the central and western regions. Therefore, the economically developed coastal areas in the eastern region attract more FDI.

However, in recent years, there has been a sharp increase in FDI in the agriculture sector in the western region as the development of advantageous industries is encouraged and FDI flow is guided towards agricultural projects in that region.

4. Industry preferences for FDI in the agriculture sector

According to the Deloitte analysis (Deloitte, 2016), which takes into account all agricultural investments in China, investments tend to be concentrated in cereal and vegetable crops, livestock and poultry, afforestation, and cultivation of flowers, fruits and nuts. On the one hand, this is a reflection of private equity/venture capital (PE/VC) investment concentrated in the plantation and livestock farming industries,

which are directly related to people's livelihoods. On the other hand, it is also a reflection of the rise of the middle classes accompanied by the upgrading of their consumption structure, meaning that agricultural products are no longer limited to simply meeting the basic livelihood needs of consumers. Around 2010, the preference structure of the capital market underwent a series of significant changes outlined below:

Steady increase in investment in animal husbandry. The investment share of animal husbandry companies in the capital market has remained stable; in recent years there has been a gradual increase related to the changes of the food consumption structure of Chinese consumers. Given the frequent occurrence of food safety problems related to dairy and meat products, investors choose to help companies obtain high-quality resources and perform quality control directly upstream through upward mergers and acquisitions investment in animal husbandry projects.

Reduced popularity of forestry investment. In terms of transaction volume (see Figure 3), PE/VC interest in forestry companies has gradually decreased. However, sporadic large-scale transactions have also been observed, which may be an indication that forestry is entering the stage of industrial integration.

Increased interest in fisheries investment. Fisheries have gradually attracted capital and become an emerging investment category. This trend is consistent with the rising demand among Chinese consumers for aquatic foods with high protein and low fat content and high nutritional value.

Rise in proportion of investment in non-essential items. The considerable proportion of investment in non-essential agricultural projects (e.g. flowers, fruits, nuts, tea, beverages and Chinese medicinal materials) reflects the expansion of China's agricultural production activities and the range of product values.

Domination of high-end agricultural investors by several companies. The principal companies at the high end of agricultural investment are CITIC International Assets Management, Fidelity Asia Ventures, Martin Currie Ltd, HOPU Investment Management, Temasek, Value Partners, Russia-China Investment Fund and United Capital Investments Group. Investment projects are mostly concentrated in vegetable, fruit and nut cultivation, forest tending management and afforestation. Since 2011, Temasek has gradually increased its layout in agricultural food.

In Conclusion, within the context of the continuous optimization of the business environment for foreign investors in China, FDI in the agriculture sector tends to be small scale, from a relatively small number of stable sources, concentrated in the eastern region and focused on specific projects, such as animal husbandry, aquaculture, vegetable cultivation, fruit and nut cultivation, forest tending management and afforestation projects etc..

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