Analysis on the Status Quo of China's Agricultural Foreign Direct Investment

Yinglan Cui

China Continent Property & Casualty Insurance Company Ltd. Shanxi Branch

2990735585@qq.com

Abstract. The scale of China's agricultural foreign direct investment continues to grow, and the enthusiasm of agricultural enterprises for foreign direct investment continues to increase. With the rapid development of China's foreign direct investment activities, the implementation of the "the Belt and Road Initiative" and agricultural "going-out" strategy, the foreign direct investment of Chinese agricultural enterprises has ushered in a wave of development. However, at present, there are problems such as concentrated investment location, single investment method and small scale of investment enterprises in foreign direct investment of agricultural enterprises. Thus, while realizing the sharing of investment information, we should also enhance the endogenous power of enterprises, boost the joint development of enterprises, and accelerate the cultivation of international competitiveness of agricultural enterprises.

Key words: agricultural enterprises; foreign direct investment; investment location.

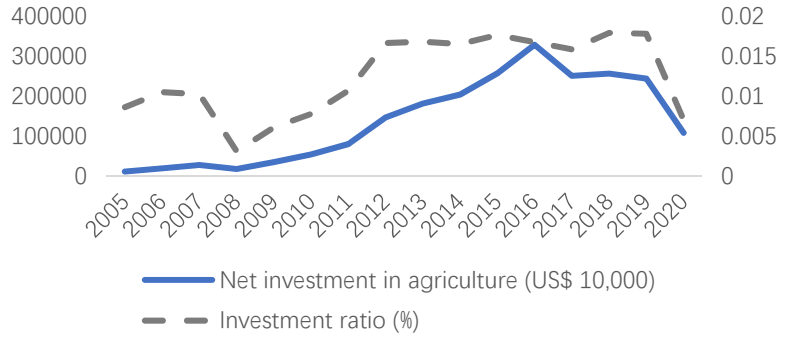
With the rapid development of China's economy and the gradual improvement of people's living standards, China's grain output is not enough to meet people's needs, and grain imports far exceed grain exports. In 2021, the export value of China's agricultural products is 84.35 billion US dollars, and the import value is 219.82 billion US dollars. The import value is more than twice the export value, and China's agricultural deficit is getting bigger and bigger. At the same time, despite the impact of the COVID-19 epidemic, China's foreign direct investment is still developing rapidly. In 2020, China's investment scale accounted for 9.8% of the global share, ranking first, providing an effective way for the development of China's agricultural foreign direct investment. The "going out" strategy of agriculture and "the Belt and Road Initiative" have brought new development to the realization of "two markets and two resources". Chinese agricultural enterprises are growing rapidly, and some enterprises have already possessed the strength of foreign direct investment. They can actively carry out foreign direct investment activities and transform multinational companies through internationalization into international agricultural enterprises, so as to alleviate the shortage of domestic agricultural resources and ensure national food security and to enhance the global competitiveness of China's agriculture, at the same time, it helps to make full use of land resources and alleviate the problems of food shortages caused by world population growth.

1. The status quo of agricultural investment

China's agricultural foreign direct investment has reached a certain scale, and foreign direct investment activities are carried out in many countries and regions.

1.1 A survey of agricultural investment

Although China's net agricultural foreign direct investment has increased, in recent years, the net agricultural investment has decreased, accounting for only a small proportion of the total investment.



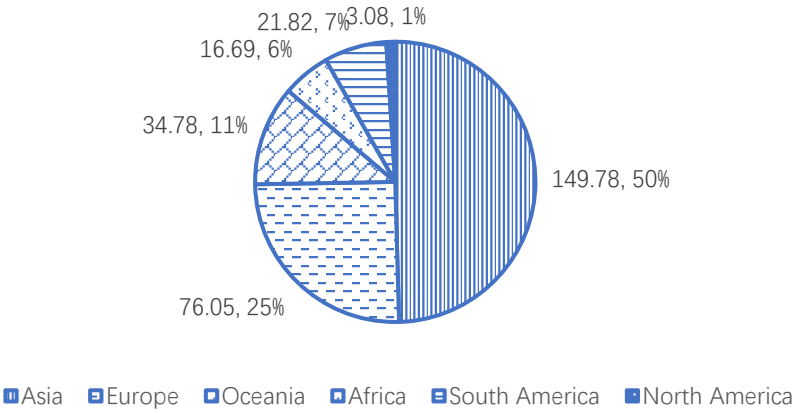
Source: compiled and drawn based on relevant data from the China Statistical Yearbook.

Figure 1. Trend chart of China's agricultural foreign direct investment and investment proportion from 2005 to 2020

As can be seen from Figure 1, the net amount of China's agricultural foreign direct investment has increased rapidly since 2008, and the net investment reached the maximum in 2016. After 2012, the proportion of China's agricultural foreign direct investment in the total net investment reached the largest, but still it is less than 2%. Although China's net foreign direct investment in agriculture has increased, due to the impact of the COVID-19 epidemic in the past two years, the net foreign direct investment in agriculture has actually declined. At the same time, China's net foreign direct investment is still increasing. Compared with other industries, foreign direct investment in agriculture is far from enough, and there is still a lot of room for development.

1.2 investment location

As of 2020, China's foreign direct investment in agriculture has totaled US$30.219 billion, covering six continents and 108 countries and regions, with the highest investment in Asia and Indonesia.



Source: Report of China's agricultural foreign investment cooperation (2021)

Figure 2. Regional distribution of China's agricultural foreign direct investment(2020)

As is shown in Figure 2, as of 2020, China's agricultural foreign direct investment in Asia amount to US$14.978 billion, accounting for 49.56% of the total foreign investment in agriculture; the investment in Europe is US$7.605 billion, accounting for 25.17% of the total investment; the investment in Oceania was US$3.478 billion, accounting for 11.51% of the total investment; the investment in South America was US$2.182 billion, accounting for 7.22% of the investment; the investment in Africa was US$1.669 billion, accounting for 5.52% of the investment; the investment in North America is 308 million US dollars, accounting for only 1.02% of the total investment. A big share of China's foreign direct investment in agriculture goes to Asia and Europe. The investment in the two continents was 22.583 billion, accounting for 74.73% of the total investment.

Table 1. Top 10 countries in China's agricultural OFDI stock (2020)

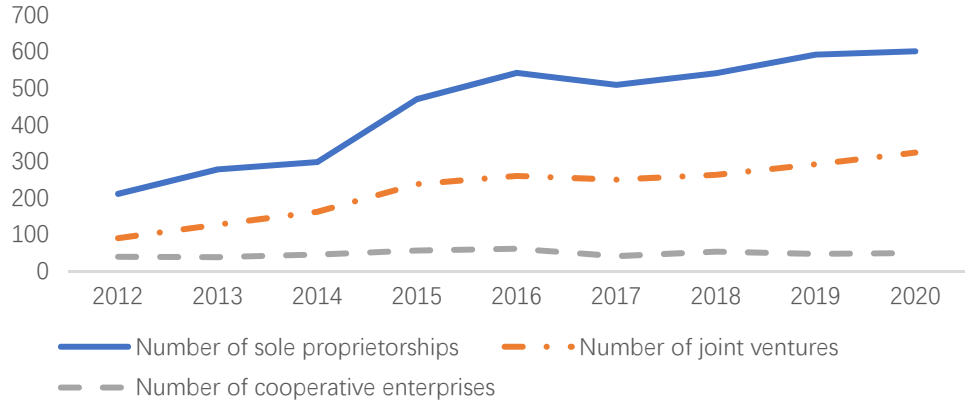
Country	Investment stock (billion US dollars)	Percentage (%)
Indonesia	70.64	23.38
Switzerland	55.16	18.25
Laos	21.51	7.12
Australia	19.45	6.44
Brazil	18.82	6.23
Israel	16.04	5.31
new Zealand	13.55	4.48
Myanmar	8.46	2.80
France	7.89	2.61
Cambodia	6.05	2.00

Source: Report of China's agricultural foreign investment cooperation (2021)

As can be seen from Table 1, as of 2020, the top ten countries of China's agricultural foreign direct investment are: Indonesia, Switzerland, Laos, Australia, Brazil, Israel, New Zealand, Myanmar, France, and Cambodia. The amount of investment in various countries go as follows: the investment in Indonesia is 7.064 billion US dollars, accounting for 23.38% of the total investment; the investment in Switzerland is 5.516 billion US dollars, accounting for 18.25% of the total investment; the investment in Laos is 2.151 billion U.S. dollars, accounting for 7.12%; the investment in other countries ranked the third to the tenth did not exceed 2 billion US dollars, and the proportion of investment is less than 10% of total investment amount. The investment in Cambodia was the smallest, with only 605 million US dollars, accounting for 2% of the total investment. China's agricultural foreign direct investment largely goes to developing countries.

1.3 investment enterprises

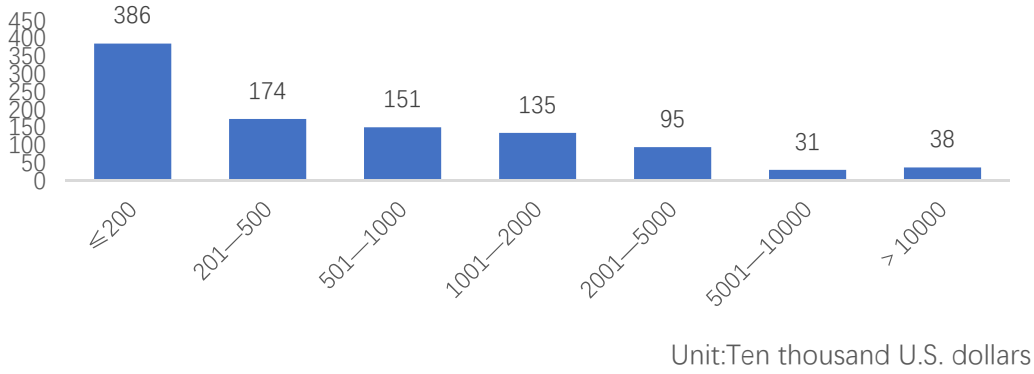
As of 2020, a total of 739 domestic foreign investment enterprises have established 1,010 agricultural branches overseas. The investment type of overseas agricultural enterprises is mainly sole proprietorship enterprises, and most of the enterprises have a scale of less than 2 million US dollars investment.



Source: Report of China's agricultural foreign investment cooperation (2021)
Figure 3. Types of Chinese overseas agricultural enterprises (2020)

From Figure 3, we can see that the number of overseas agricultural enterprises in China is increasing, the number of sole proprietorships and joint ventures has fluctuated but still has an increasing trend, and the number of cooperative enterprises has remained basically unchanged and slightly decreased. In 2020, there were 601 sole proprietorships, accounting for 61.7% of the total number of overseas agricultural enterprises; 324 joint ventures, accounting for 33.3% of the total number of overseas agricultural enterprises, and 49 cooperative enterprises, accounting for 5% of the total number of overseas agricultural enterprises. Chinese agricultural enterprises outside China are

mainly sole proprietorships, and the joint ventures cooperative enterprises makes up only a relatively small proportion.



Source: Report of China's agricultural foreign investment cooperation (2021)

Figure 4. Distribution of investment stock of China's overseas agricultural enterprises

As can be seen from Figure 4, among the 1,010 overseas enterprises, there are 386 companies with an investment stock of less than 2 million US dollars, accounting for 38.22%, and 174 companies with an investment stock of 2.01-5 million US dollars, accounting for 17.23% . There are 151 enterprises with investment stock of 5.01-10 million US dollars, accounting for 14.95%, 135 enterprises with investment stock of 10.01-20 million US dollars, accounting for 13.37%, there are 95 companies with an investment stock of 2001-50 million US dollars, accounting for 9.41%; 31 companies with an investment stock of 50.01-100 million US dollars, accounting for 3.07%, and 38 companies with an investment stock of more than 100 million US dollars, accounting for 3.76%. Most of the assets of China's foreign agricultural investment enterprises are below US$2 million, and the number of overseas agricultural enterprises with more than US$50 million is relatively small.

2. Problems existing in China's agricultural foreign investment

Although the foreign direct investment of Chinese agricultural enterprises is gradually increasing, there are still problems such as the concentration of investment, single investment method of enterprises, and the small scale of investment.

2.1 The concentration of agricultural investment

China's foreign direct investment in agriculture is concentrated in Asia, while the level of mechanization and technology in Asia is relatively low, and it is mainly operated by small farmers. China's foreign direct investment in agriculture mainly uses the land resources of the host country to develop the planting industry. We should make full use of two kinds of resources and two markets to advance the China's agricultural investment based on rich experience. The particularity of the agricultural industry lies with the fact that it is easily affected by factors such as policy changes of the host country and market fluctuations, due to such particularity, the development of agricultural enterprises is at high risk and subject to great uncertainty. It is difficult to form industrial agglomeration advantages and production scale effects in investment areas, resulting in the failure to maximize the investment profit of agricultural enterprises or even losses.

2.2 Single way of business investment

China's investment in agricultural enterprises abroad is mainly by sole proprietorships, and there are a few cases by joint ventures and cooperative enterprises, resulting in the isolation of agricultural enterprises. There are few channels to obtain optimization information, thus most enterprises are vulnerable to business risks, and therefore it is difficult to achieve large-scale economic production and to give full play to the advantages of talents, funds and geographical advantages.

2.3 Small-scale overseas agricultural enterprises

Chinese agricultural enterprises now actively carry out foreign direct investment activities. The foreign direct investment of Chinese agricultural enterprises is mainly private enterprises, with a small proportion of state-owned enterprises. Enterprise investment is mainly carried out by sole proprietorship enterprises, and the total investment stock of overseas enterprises is relatively small. And the investment amount is mainly within 2 million US dollars. China's agricultural enterprises have developed rapidly in recent years, and future trend is optimistic. Agricultural foreign direct investment activities are mainly carried out by private enterprises, largely small and medium-sized enterprises. In summary, there are problems with investment activities such as small scale of enterprises, lack of technological innovation, weak competitiveness, high risks in business operations, poor returns, lack of funds, simple production technology, and low utilization of funds and equipment.

3. Strategies for China's Agricultural Foreign Investment

In order to meet the development of China's agricultural foreign direct investment, a comprehensive agricultural overseas investment platform should be built, agricultural enterprises should broaden their overseas investment methods, and improve their own strength and competitiveness through multiple channels.

3.1 To build a comprehensive agricultural foreign investment platform

Chinese agricultural enterprises tend to invest in developing countries, but developing countries have problems such as major changes in policies, unstable market environment, and poor infrastructure, etc. However, enterprises do not know all kinds of information about the host country when making foreign direct investment and the agricultural investment tends to spend a long span of time collecting information with unpredictable income and high cost, which leads to the result of relatively fixed investment target countries. Therefore, a comprehensive overseas investment platform for agricultural enterprises should be built: Firstly, professional investment risk assessment should be conducted, and the collection and arrangement of information on investment countries should be carried out timely and properly. Agricultural enterprises should be provided with information related to foreign direct investment, such as whether the host country has access to agricultural investment, geographical environment, agricultural industry development and other relevant agricultural investment policies, etc. And information publicity should be strengthened as well so as to keep the enterprises and farmers understand the existing information, make the best use of effective information, make full use of the host country's agricultural development status, problems and investment policies, and reduce investment risks caused by insufficient information to agricultural enterprises. Secondly, the government should build an agribusiness platform.Problems encountered in investment should be collected and shared, the most important factors affecting the foreign direct investment of agricultural enterprises should be summarized and analyzed, and the development of the agricultural industry should be researched, surveyed and complied on this platform, and then the government can summarize the problems and provide suggestions and assistance to the enterprises. The platform can also provide relevant information to agricultural enterprises that are ready to invest, and help enterprises choose the host country, investment method, investment scale according to their own strength, so as to make agricultural enterprise investment more rational, ease the pressure on enterprise funds, diversify the choice of investment location for enterprises and investment methods, and improve the ability of enterprises to deal with risks.

3.2 To broaden the way of foreign investment of agricultural enterprises

Agricultural enterprises should cooperate with other enterprises in the process of foreign direct investment in order to cope with the problems of the host country's management risks and weak competitiveness of enterprises. Agricultural enterprises and other Chinese enterprises jointly carry out foreign direct investment activities. In the process of foreign direct investment, enterprises can

formulate corresponding cooperative investment models according to specific investment conditions to solve the problem of small scale of overseas agricultural enterprises.

3.3 Multi-channel to enhance the company's own strength

Most of China's agricultural foreign direct investment enterprises are private enterprises, and state-owned enterprises invest less. However, due to the special industry characteristics of agriculture, private agricultural enterprises have insufficient investment and the scale of foreign direct investment of enterprises is small. While these problems cannot be completely avoided, agribusinesses can take steps to alleviate their own deficiencies: They should control their business risks. As agricultural enterprises face greater operational risks when investing in foreign direct investment, they should choose a country which supports foreign investment for foreign direct investment with a better political system, and they should choose an appropriate investment method so as to reduce the investment risk of enterprises. The enterprises should promote development and obtain investment returns.

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