

Are Foreign Direct Investments in Food Processing driven by Raw Agricultural Commodities Price Volatility?

Presenter: Mankan M. Koné, PhD Candidate

Co-Authors: Carl Gaigné, French National Institute for Agricultural Research (INRA) Rennes, and Lota D. Tamini, Centre for Research on Economics of Environment, Agri-food, Transports and Energy (CREATE), Laval University

This paper looks at the question of the location pattern of FDI in food processing in the context of an uncertainty on agricultural prices and based on a gravity model on countries bilateral FDI stock in the manufacture of food products, beverages and tobacco from the detailed database of EUROSTAT. It is interesting to address this question due to the location-specificity nature of agricultural production (the fact that some products are produced in particular region of the world). Agricultural commodity prices' volatility matters for processors, in particular for multinationals processors, because they use agricultural products as input in their production process. It will thus have a consequence on their capital accumulation choice and on their capitals located abroad. In fact, agricultural commodity prices' volatility is proving to be one of the biggest challenges facing agricultural value chain besides strong competition/concentration, technological evolution or geographical expansion (Assefa et al., 2015). It is linked to climate fluctuations, farmers' anticipation, supply's short-term rigidity or the seasonal nature of production. Our empirical investigation reveals that the risk in the destination country has a negative significant impact on bilateral FDI stock. Thus, location of the stock of FDI is influenced by the agricultural price volatility of the country the direct investors are contemplating to invest. Also, the volatility of origin country has a positive significant role on bilateral FDI. A greater proportion of FDI is thus located abroad when the agricultural price volatility in the home country increases.

References

- Assefa, T., Lansink, A. G., Meuwissen, M., et al. (2015). Does price volatility matter? an assessment along EU food chains. In *2015 Conference, August 9-14, 2015, Milan, Italy*, number 210965. International Association of Agricultural Economists.
- Kleinert, I. and Toubal, F. (2010). Gravity for FDI. *Review of International Economics*, 18(1):1-13.
- Ramondo, N. and Rappoport, V. (2010). The role of multinational production in a risky environment. *Journal of International Economics*, 81(2):240-252.
- Silva, J. S. and Tenreyro, S. (2006). The log of gravity. *The Review of Economics and statistics*, 88(4):641-658.