The Lure of Brazilian Agriculture

Brazil is well positioned to play an important role in meeting world demand of food amidst shortages and price increases.

BY JERRY HAAR

Recent protests and political tensions in North Africa and the Middle East have been attributed to the public's anger at high levels of unemployment, corruption, and authoritarianism. Less reported has been an important fourth factor—rising food prices, surging 17 percent in Egypt alone.

A field of soybeans at São José do Rio Claro in Brazil. (Photo: Fran Dal´Maso/Agrosoya)

As food prices continue to rise, and food shortages become more frequent, investment in agriculture has also seen an increase. According to the UN Conference on Trade and Development (UNCTAD), FDI flows in agriculture jumped to US$3 billion per year in the 2005-2007 period, up from $600 million during the 1990s.

Countries with large territories such as Canada, China, and the United States are hosts to significant levels of inward FDI in agriculture. South American countries attract FDI in grains, sugar, fruits, soy and livestock while for Central American countries it is mostly fruits and sugar can. In Africa, foreign investors have shown a particular interest in staple crops such as rice, wheat and in oil crops whereas FDI in South Asia has targeted production of rice and wheat. Other Asian regions have concentrated more on cash crops, meat and poultry.

This recent upswing in domestic private and foreign participation in agricultural industries has come about as a result of several factors. First, as the expanding populations of emerging nations experience rapid economic growth, individual incomes have increased and they are spending more on foodstuff. Further, their tastes are shifting to a richer diet including more meat, fish and milk products. In order to satisfy demand, these countries have to import some of these food items thereby creating opportunities for both domestic and foreign investors to invest in agricultural industries in developing host countries. Because arable land is most scarce in developed countries, some of this investment is now happening *across* emerging nations--South-South investment. Another factor is the increase in biofuel initiatives around the world, particularly in Brazil, the United States, and the European Union. These have resulted in an increase in investment in developing nations in crops such as sugarcane, grains and oilseed. Finally, countries such as Saudi Arabia, South Korea and the United Arab Emirates; all lacking arable land and/or insufficient water for irrigation, are buying large plots of land in soil rich developing countries in order to counteract export restrictions.

BRAZIL'S AGRICULTURAL ENVIRONMENT

A snapshot of Brazilian agriculture reveals a nation that is one of the breadbaskets of the world, with food and livestock accounting for nearly one-fourth of the nation's $200 billion in exports 2010.

Nearly 25 percent of global exports comprise raw cane and refined sugar. Brazil is the world leader in soybean exports and is responsible for 80 percent of the planet's orange juice. During the past 20 years, Brazilian agricultural production increased 152 percent while the cultivated area increased only 25 percent during the same period. Technology has dramatically boosted the nation's efficiency of production; and to illustrate, ethanol production is expected to expand 127 percent.

Brazil is clearly an agricultural powerhouse in production and exports. In 2010, Brazilian agricultural exports reached a record $76.4 billion, an 18% increase from the previous year. Further, it is projected that exports will reach $85 billion in 2011. In 2010, China became the largest importer of Brazilian agricultural products. Brazil is the third largest exporter of agricultural products in the world, behind the US and the EU. It is also the largest producer and exporter of sugar, coffee, and orange juice; and one of the leaders in ethanol, tobacco, soy products, and meat.

FOREIGN DIRECT INVESTMENT

Of the emerging countries, Brazil receives a significant amount of FDI at approximately $420.9 million in recent years. For example, in 2006, Japanese company Mitsui invested $76 million in a joint venture with U.S.-based CHS (a diversified energy, grains and food company) to grow different agricultural products, sell fertilizers, export soybeans, and market and export cotton and sugar all in Brazil. In 2008, Mitsui agreed to increase its original investment by $124 million. But, emerging economies are also becoming important players in agricultural investment and major sources of cross-border takeovers, particularly in Latin America. For example, in 2008 Brazil's JBS SA (a meat processing company) acquired majority interest in Inalca (an Italian sausage and meat producer) and Tasman Group Services (a meat packing company in Australia).

With no end in sight for food shortages and food price increases and the human, political and economic costs associated with scarcity, major agricultural countries such as the U.S. Canada, Australia, New Zealand, Argentina, Russia and Brazil are well positioned to play an important role in this scenario. Among emerging markets, Brazil in particular, given its size, production technology, and efficiency is bound for success. The agricultural sector is growing and Brazilian multinationals like JBS and BRF Brasil Foods are expected to reap substantial dividends from both in-country and overseas business.

Jerry Haar is an associate dean and professor in the College of Business Administration at Florida International University.