Economic Assessment of Rising Global Demand for Farmland

Due to factors such as population growth and changing diets in the developing world as well as increasing demand for bioenergy in the developed world, the demand for agricultural land is on the rise. Since land is more or less fixed, this implies increasing value of land. The effect of increasing demand for agricultural land on land-abundant developing countries is highly debated, and opinions are divided. On the one hand, some propose that it may induce much needed investments in agriculture in these countries, thereby increasing productivity and creating rural employment and higher rural incomes, with poverty reductions and general economic development as the ultimate outcome. On the other hand it could also induce a neo-colonial scramble for land, where politically and economically powerful actors appropriate land at the expense of rural populations, whose livelihoods depend on this land.

To avoid such an outcome of land grabbing by powerful elites, policy recommendations presented in the literature point towards the importance of the ability and potential for rural populations to claim their rights, in an institutional environment characterized by transparency and well-defined property rights. However, such circumstances are rare in many land-abundant developing countries, and there are no good reasons why increasing demand for land should spark such fundamental changes in the political-institutional environment. In addition, a large literature on political economy and natural resources suggests that in countries where institutions are weak, the potential for large gains from natural resources tends to induce conflict and rent seeking. According to this literature, the effect of a natural resource on rent seeking is given by the combination of characteristics of the resource. However, if the value of land changes from low (which has been the assumption so far) to high, the combination of characteristics changes, and no longer applies to the existing analytical framework.

In other words, high-value land is fundamentally different from conventional high-value natural resources such as oil and diamonds, and therefore this thesis develops an analytical framework for the analysis of the effects of high-value land on rent seeking, and hence on the distribution of resource rents from agriculture. This framework enables a systematic analysis of the circumstances that determine whether increasing land values will mainly benefit the rural populations or the political-economic elites. In addition, it takes into account the deeper determinants of the extent to which farmers are able to obtain political power, and thereby claim their rights to a share of the benefits from increased value of land.

Within this framework, a macroeconomic and a microeconomic model is developed to enable the analysis of the effects at both levels. Moreover, a case study and a cross country empirical study is carried out to support the proposed theoretical framework. The findings in this thesis suggest that the interaction between the social diversity of the farmers, the relative size of the group of farmers, the political system and the size of the increase in land value, determines the distribution of resource rents from agriculture. More specifically, farmers tend to obtain larger shares when they are a large and homogeneous group in a country with political competition and stability. However, if the power distribution between the farmers and the political-economic elite is highly equal, this may have negative welfare effects, because the competition for rents will be very high, and hence a large amount of resources will be wasted by both groups on political power. An important implication of this is that in weakly institutionalized countries with a diverse farmer group, introducing more democratic institutions when facing increasing rents from agriculture, may not be the first best solution, because it increases the competition for rents.

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